



Digital Transformation in Financial Services Survey

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Introduction



Digital Transformation in Financial Services Survey

With financial services organisations under pressure to lead the way in serving customers digitally, FStech and OpenText conducted a survey to assess the industry's progress in dealing with digital transformation challenges including legacy IT, tougher data privacy regulation and artificial intelligence (AI) – driven disruption.

The following report provides insights into the key drivers and pain points Financial Services Institutions (FSIs) are encountering as they seek innovative and cost-efficient ways to manage data and meet customer demand for digital interactions.

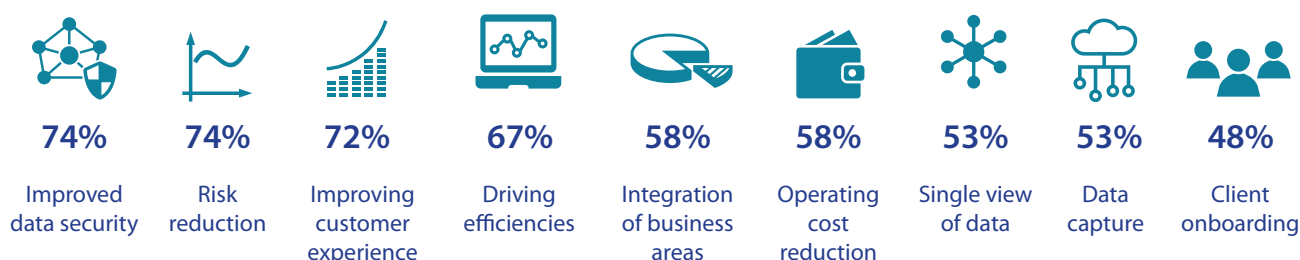
Methodology

The findings of this survey provide a representative snapshot of the key issues, opportunities and challenges for CIOs, and heads of IT and infrastructure from a range financial services organisations as they engage in digital transformation strategies – whether they are just at the start of the process or have been rolling out replacements to legacy technology for years.

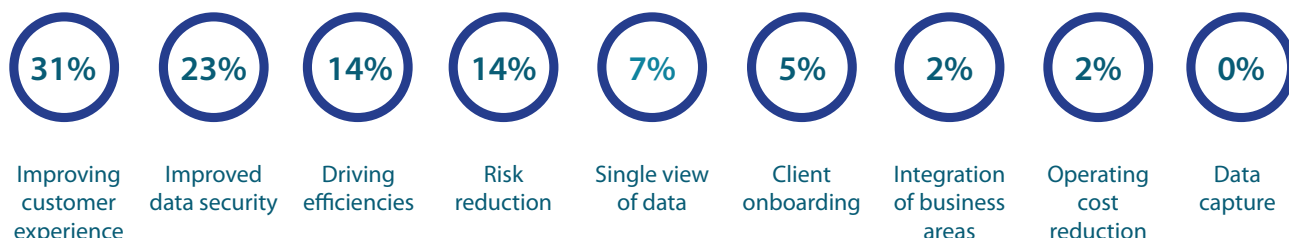
In addition to the overall findings, the data has been broken down into seven sub-sectors of financial services. These are: banking, trading/exchanges, insurance, credit and payments services, wealth or asset management, building societies and professional and financial services firms. The results which underline emerging trends in these sectors have been highlighted and explored in breakout boxes.

All percentages have been rounded up to the nearest 0.5 per cent.

1. As a financial services firm, what are your key drivers for achieving digital transformation?



2. Of the above, which is the highest priority?



FSIs have implemented the General Data Protection Regulation (GDPR) whilst continuing to deliver against MiFID II and adapt to the new world of PSD2 and Open Banking. Accordingly, improved data security was joint top of the list when it came to reasons to accelerate digital transformation. A total of 74 per cent of businesses said they would prioritise improving their compliance functions and protect customer data from threats such as phishing and cyber attacks.

Nearly three quarters (74 per cent) said that upgrading from outdated legacy technology to new digital solutions was a key driver for digital transformation and risk reduction across their business.

This was closely followed by 72 per cent who said that that investing in digital solutions for 'front end' functions – such as banking apps, online services and data sharing via wearables – could benefit customer experience, thus improving engagement and retention. Nearly a third of respondents to Question 2 (31 per cent) rated customer experience as their top priority, indicating that firms are prepared to upgrade to digital to meet rising customer expectations of access to their financial services provider and advice over via apps and chatbots.

However, while improved data security was of clear value to firms in terms of compliance and customer trust – with 23 per cent of all firms ranking this as their highest priority (see Question 2) – many firms are also turning to system modernisation to improve how information is captured, processed and stored; more than half (53 per cent) said this was a clear advantage of greater digitisation.

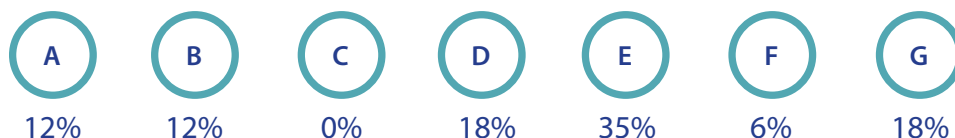
Survey

Banking

Question 1: As a financial services firm what are your key drivers for achieving digital transformation?



Question 2: Of the above which is the highest priority?



On a sector-by-sector basis, a third of respondents in the banking sector said that digital transformation would drive greater integration of business areas across their bank suggesting that these organisations are expecting changes in front, middle and back office functions. The top driver for implementing digital systems was improving customer experience (37 per cent) while other benefits included data security (37 per cent), driving efficiencies (35 per cent) and reducing operating costs (33 per cent).

Question 2 asked banks about their highest priority for digital transformation, with 35 per cent citing improved customer experience, followed by improved data security and risk reduction, on 18 per cent respectively.

Insurance

Question 1: As a financial services firm what are your key drivers for achieving digital transformation?



Question 2: Of the above which is the highest priority?



Perhaps unsurprisingly for an industry built on risk management, the insurance sector highlighted risk reduction as the key driver for upgrading to digital systems and software, with three quarters of respondents identifying risk as an area which stands to benefit from digital transformation.

The highest priority for achieving digital transformation in this sector was improving customer experience, with half of all insurance respondents citing this as the primary reason for modernisation.

3. What stage are you at with the deployment of the following five artificial intelligence technologies within your business? (Stage 1 - not started, to Stage 5 - successfully implemented)

Overall, the results suggest levels of early engagement amongst financial services firms with AI-based software and innovative technologies which drive up efficiencies and automate tasks. However, most have yet to start meaningful or mature roll out of such technology. As customer demand for digital services which are underpinned by these technologies is on the rise, it is clear that firms are taking an active interest in integrating them into their propositions, with many respondents saying they were in the testing or development phases (stages 2, 3 or 4) with successful implementation envisaged in future.

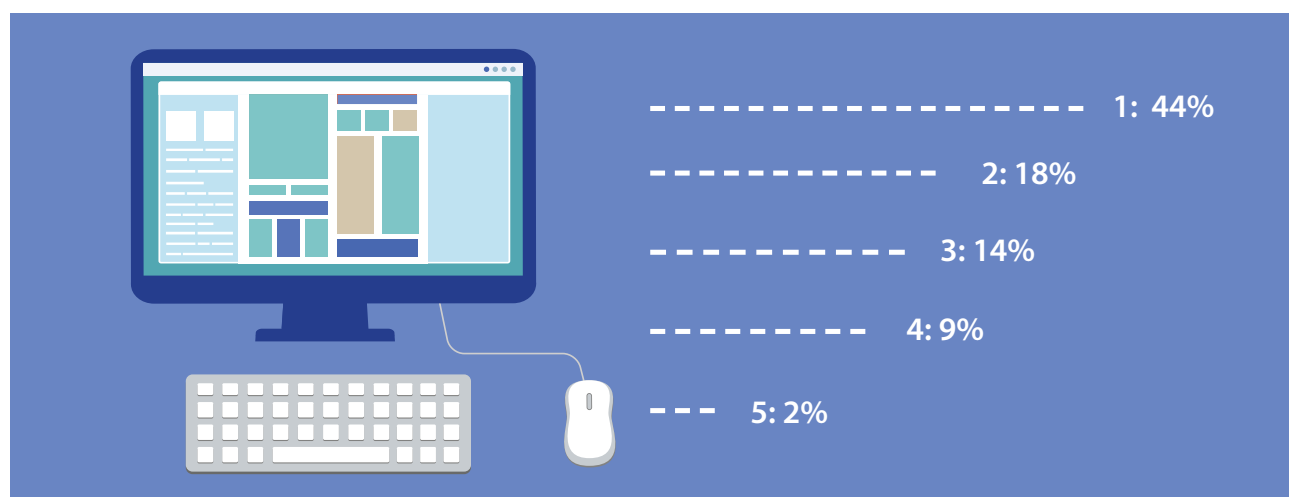
Machine Learning (ML)



Survey

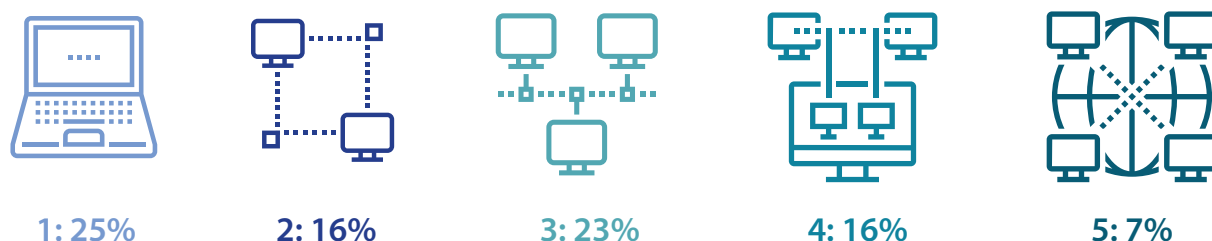
The results showed a mixed picture for adoption of machine learning across the sector, with 40 per cent of respondents saying they had yet to start implementing this form of AI and 30 per cent saying they were mid-way through roll out. Just nine per cent said they had made significant progress and none of the respondents felt that their business' use of ML could be described as 'successfully implemented', suggesting that, despite much hype, financial services firms still have some way to go in this aspect of digital transformation.

Natural Language Processing (NLP)



A similar picture emerged in Natural Language Processing, a more specific form of AI in which computers are programmed to analyse large amounts of human language data such as text from a website or spreadsheet. More than two fifths (44 per cent) of respondents said they have yet to begin exploring this technology, highlighting the fact that this technology is still "coming online" for financial services firms and may be some way off mass deployment.

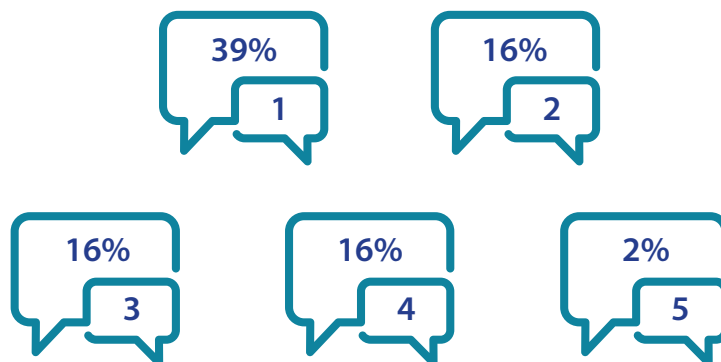
Robotic Process Automation (RPA)



Survey

Robotic Process Automation is a method whereby computers are trained to carry out repetitive and manual tasks, freeing up time for human workers to focus on higher value, judgement-based work. The survey showed that while a quarter of financial services firms have not yet invested in RPA, a larger percentage have begun to use the technology in their business. Nearly the same amount (23 per cent) said they were in the midst of roll out, 16 per cent said they were on the verge of implementation and seven per cent stated that it has already been integrated into their systems, making it one of the most mature AI processes in the survey.

Chatbots



Chatbots, which enable customers to interact with automated advisers or customer service staff for frequently asked questions, are slowly gaining traction in financial services, driven by the switch to app-based methods to access money and financial information. However, while digital challengers are beginning to offer chatbot services as standard, more traditional institutions are racing to catch up with the technology, with 39 per cent of all respondents saying they have not started to explore chatbots, with 16 per cent for each of stages 2, 3 and 4 stating they are either at the development or pilot stage (stage 2 or 3) or near roll out (stage 4).

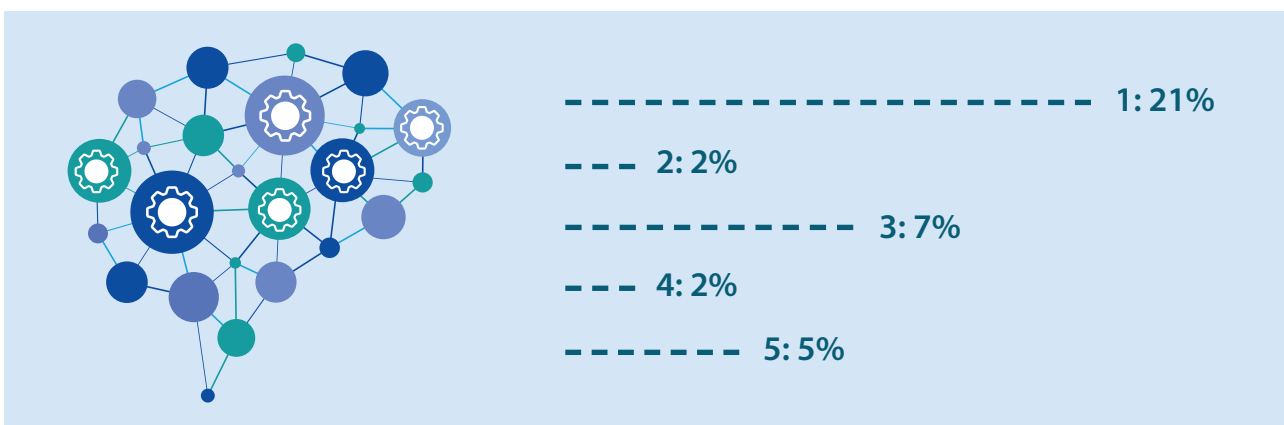
Natural Language Generation (NLG)



Survey

Natural Language Generation differs from Natural Language Processing in that it is able to use AI to transform data into language and analysis which is comprehensible to humans. This software can be used to automate processes such as long-form report writing and content for web or mobile applications, as well as provide the underlying and personalised interactivity required in chatbots. The technology is still in its infancy, which may go to some way to explaining why 60 per cent of financial services firms haven't yet engaged with NLG, while 12 per cent are at the start or mid-way through adoption, and only five per cent were nearing the point of rollout.

Currently not deploying any of these technologies:



A minority (21 per cent) of financial services firms said that they are not currently at the deployment phase for any of the listed AI technologies. Meanwhile, less than 10 per cent would regard themselves as not having made any progress at all in these areas. Just five per cent said there had been no consideration of deploying AI in the future and two per cent said it was a good description of their digital transformation journey.

4. Where do you envisage artificial intelligence having the biggest impact for your business?



Respondents were split on which business areas will be most transformed –or disrupted – by the arrival of AI, with 38 per cent saying that enterprise-level technology and software used in back office functions such as accounting, IT, administration and HR would be the main beneficiaries.

A third said that AI would have the most profound impact on customer experience, with digital technologies transforming the way customers interact with their financial services provider. A further quarter (26 per cent) predicted that AI would be most significant in changing compliance and risk management functions, suggesting that automated screening systems could form a key part of firms' digital transformation efforts.

This clean spread of responses over the key business areas- from front, middle to back office functions- suggests that FSIs believe that AI could have transformational impact across the entire business. None of our respondents foresaw the technology playing a critical role in the creation of new services or products, suggesting that financial services firms consider it to be a route to optimising the performance of existing platforms and channels.

Wealth and asset management

Half of respondents from this sector predicted that AI will have the greatest impact on customer experience, with the rise of robo advisors, while a quarter identified risk management as the business area most likely to be disrupted.

Insurance

Half of respondents in this sector – be they brokers or direct to consumer providers – said that AI would be likely to transform back office functions, while 37 per cent said risk management functions in their business could be significantly changed by AI. A further 13 per cent said AI could improve customer experience through digital quotes and risk assessments.

Banking

The clear frontrunner for AI-driven disruption in this sector was back office functions, with banks rushing to make efficiencies in automated, repetitive and document-based tasks. A total of 41 per cent of banking respondents said back office functions would be impacted by AI, with 29 per cent saying customer experience was liable to change, and 18 per cent saying the same for risk management.

Survey

5. What would you identify as the key barriers to success for your organisation when it comes to digital transformation?



This question yielded stark results: more than half (56 per cent) of respondents said they were facing all six of the key challenges listed. Budget constraints were the top barrier to digital transformation (21 per cent), suggesting that resources throughout the industry are being focussed on short-term projects rather than longer-term strategies.

Siloed processes followed on 19 per cent, including archived data and disconnected ways of working. This trend of sluggish and outdated systems presenting a block to innovation was defined by legacy technology, which was identified by 16 per cent as a barrier to digital transformation.

Another major stumbling block was regulation (19 per cent), with the need to meet the requirements of rules such as GDPR, KYC and AML fuelling anxiety over data protection. This can also become an issue when customer information is re-platformed or moved to the cloud. Ironically, this resistance to end-to-end digital transformation could leave firms with legacy technology at greater risk due to lower security standards, making them ill-equipped to tackle new threats and compliance challenges that digital solutions can help to solve.

Professional and financial services

More than half (57 per cent) of these respondents said they were facing all six challenges in digital transformation. A total of 43 per cent said legacy technology was proving the biggest challenge, followed by 29 per cent who cited regulation and compliance concerns.

Banking

This was the sector most affected by a combination of all six challenges, with 59 per cent saying they were experiencing all of these issues as they executed digital transformation strategies. Nearly a quarter (24 per cent) said that budget restraints were hampering the progress of their projects and 18 per cent cited legacy technology as a block to growth.

Insurance

Half of insurance respondents said they were struggling with all six challenges. However, the same amount (50 per cent) highlighted legacy technology as a roadblock, with 13 per cent identifying security issues such as the transfer of sensitive customer data.

6. What are the challenges for staff working in information governance and data management?



The data explosion in financial services has been matched by an equal rise in regulations governing use, storage and processing of data; with regulators keeping a close eye on compliance.

Perhaps unsurprisingly, legacy systems came out as the most significant challenge experienced by staff working in information governance and data management functions, with 60 per cent identifying outdated software and hardware as an issue for those looking to ensure compliance and efficient data management.

Survey

Lack of visibility of data was a related problem, with 47 per cent saying that the absence of a 360 degree view of data frustrates the process of regulatory reporting, compliance functions and data optimisation.

Banking

A total of 71 per cent of respondents said that legacy IT systems, which often comprise data silos, were complicating the progress of information governance and data management, followed by regulation (53 per cent), lack of visibility of data (41 per cent) and outdated data processing (29 per cent).

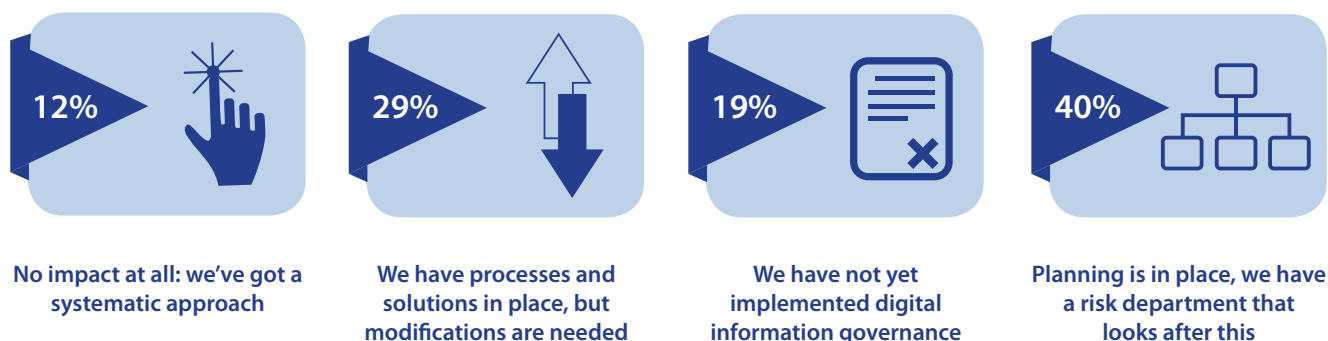
Insurance

In the insurance sector, regulation emerged as the most difficult challenge for 62 per cent of respondents. This was followed by legacy IT (50 per cent), lack of visibility (50 per cent) and outdated data processing (37.5 per cent).

Credit/payment services

All respondents in this sector identified legacy systems as their most pressing challenge for information governance and data management, followed by half citing the related issue of outdated data processing and a further 50 per cent who ticked regulation.

7. When using third party providers, what impact does information governance regulation have on your business?



The rise in data governance regulation such as GDPR has fuelled a major change in attitudes towards data management and compliance reporting among financial services firms, with regulators such as the Information Commissioner's Office ramping up punitive action.

As a result, 40 per cent of respondents said that they already have business units focussed on plans for information governance when it comes to sharing data with third party suppliers. Often, this falls within the remit of risk departments and compliance teams.

However, close to a third (29 per cent) said that although there were plans in place, there were clear modifications that could be made to existing information governance plans to avoid data breaches or non-compliance issues related to external parties.

Perhaps worryingly for consumers, 19 per cent have not yet implemented an official digital information governance regime, pointing towards a significant risk of non-compliance in financial services firms that have been struggling to keep up with the demands of changing regulation. Just 12 per cent said that they were unaffected by information governance regulation thanks to existing systems and processes that were in place to guarantee data security.

Wealth/asset management

Half of respondents in this sector said they had not yet implemented a formal information governance strategy for dealing with third party providers, while a quarter said planning is in place.

Banking

Tough regulatory oversight in this sector has spurred banks into training their risk and compliance teams on third party data sharing and co-working challenges, with 47 per cent saying they already have plans in place.

Professional/ financial services

A total of 43 per cent of respondents in this sector said that planning was in place, while 29 per cent said they were lacking a formal information governance strategy for third party working. A further 14 per cent said solutions were in place, but modifications were needed.

Survey

8. What best describes your organisation's approach to building digital platforms?



While digital challengers are busy exploiting the natural advantage of fully-digitised infrastructure, such as cloud-based platforms and app-based interfaces, nearly all institutions are positioning digital at the forefront of their long-term growth strategies. The survey showed that more than half (51 per cent) of firms were engaged in building platforms to provide a simple digital solution through a variety of channels, such as apps and online services.

However, many incumbents are looking to partner with more nimble challengers to accelerate the development of standalone digital offerings. Open Banking is also enabling companies to share financial data to provide greater personalisation and a wider range of solutions via online marketplaces.

As a result, nearly a third (32 per cent) said they were developing platforms with a view to acting as a digital relationship manager for an ecosystem of partners, as well as their own products and services.

Credit/payments services

Three quarters of respondents in this sector said their digital platform efforts were focussed on delivering a single solution, such as cross-border payments or credit card accounts, through a variety of channels. A quarter said their business was evolving towards becoming an open platform provider, with a range of different digital payment providers able to work together in one place.

Insurance

In a sign of increasing popularity of marketplace solutions in this sector, half of respondents said they were building out platforms designed for digital relationship management, in which the insurance provider also hosts an ecosystem of third parties for related services. A further 38 per cent said their role was more as a provider of a single solution through a number of digital channels, while 13 per cent said they were working towards becoming an open platform provider.

Banking

More than half (59 per cent) said they were engaged in building platforms to deliver their digital banking solutions through a variety of channels. A total of 29 per cent said their priority was digital relationship management with an ecosystem of partners and third parties, while 12 per cent said they were hoping to use their digital platform to create an ecosystem for close co-creation of services between third party providers.

Conclusion

The survey shows that financial services companies are facing a plethora of challenges on the path to digital transformation, with many frustrated that legacy systems, siloed data or a lack of urgency and resource from senior leadership, are leaving them out of date and behind the competition.

It is clear that concerns over data security and compliance are providing firms with significant impetus to engage in a digital transformation journey, with many recognising that the rush to protect their data with digital solutions can also drive cost efficiencies and leverage valuable insights.

However, while regulation and data governance is slowly reaching the top of the boardroom agenda, it is also apparent that growing customer demand for digital services such as Open Banking is leading firms to improve the customer experience as they look to future growth.

Many of those surveyed are building standalone digital platforms and app-based services to keep up with the new generation of FinTechs who have a 'baked in' competitive advantage of digital native infrastructure. This makes product development, data management and time to market a much smoother process.

There is clearly value to be unlocked in breaking down data siloes, but companies are also expecting AI to have a significant impact on other parts of their business, with back office functions, customer experience and risk management all likely to be optimised by increasing automation and developments in machine learning.

The industry is also aware that the digitisation needed for services such as Open Banking requires well-managed enterprise data and integrated systems. The survey has also offered a comprehensive snapshot into the work being done by FSIs to upgrade legacy systems, accelerate digital transformation and offer their customers a range of AI-driven and platform-based financial services.

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