

# The Innovation Equation:

How are new technologies driving digital transformation in financial services?

In conjunction with

**FS**tech

**X**pedition

# Introduction & Methodology

## Introduction

In an era of disruption, financial services firms are working harder than ever to digitise operations and enhance remote ways of working. At the same time, they are under pressure to ensure continued levels of customer engagement, while adapting to an increasingly complex regulatory landscape.

To combat these challenges, many are looking to leverage their data to fuel innovative technologies such as artificial intelligence, automation and cloud-based applications. However, striking a balance between the transformation needed to meet future challenges, and ensuring operational resilience in the present, is the innovation equation many firms are looking to solve.

FStech and Xpedition conducted a survey of financial services decision makers to assess the role of innovative technologies and cloud-based solutions in the digital transformation of financial services.

This report provides a snapshot of current industry trends, along with key challenges and opportunities for organisations as they tackle their own innovation equations.

*“Many are looking to leverage their data to fuel innovative technologies”*

## Methodology

FStech and Xpedition surveyed 148 senior decision makers working for leading banks, insurers and financial services firms in the UK.

# Executive summary

As the industry adapts to the COVID-19 pandemic, offering customers a seamless omnichannel customer experience was a key challenge identified by 50 per cent of financial services firms. Organisations are finding that giving customers access to accounts, advice and customer service across digital channels including online, mobile apps and chatbots is mission critical in the 'new normal'.

Nearly half of respondents said that operational resilience is the biggest barrier they currently face as firms battle to keep systems secure and connected at a time of increased remote working and a changing risk landscape due to COVID-19.

The majority of financial services firms have made changes to their operating models in the wake of the pandemic as staff moved to remote working during the lockdown. While a number of organisations still have work to do to provide the infrastructure for all staff to work remotely, and a number remain office based, most have adapted successfully and report that this mode is now available to employees.

Leveraging insights locked within data and breaking up data silos is also proving a major challenge for financial services firms as they undertake digital transformation programmes against a backdrop of COVID-19 disruption and disconnected legacy systems.

Rigid regulatory reporting requirements as well as KYC procedures are major pain points for financial services as they attempt to stay compliant whilst maintaining day-to-day operations. The need for flexibility to keep up with changes to regulations are also a key challenge for firms as these processes are often held back by legacy systems which are unable to respond to sudden changes in rules.

A need for forecasting and analytics in current sales pipelines is also proving a challenge for firms as they seek to accelerate the sales process, growth and revenue-generating opportunities following the pandemic. For many, attempts to ensure they have the insight needed to automatically identify and track sales opportunities as well as close deals faster are also being impacted by poorly aligned sales and marketing processes.

Businesses are acutely aware of the advantages of flexible cloud-based business applications as a key driver of digital transformation, however there appears to be a disconnect between those that recognise the potential of such solutions and those who have successfully deployed them as part of their innovation equation.

Adoption continues to grow around advanced technologies such as AI and machine learning in the financial services sector, with half already adopting some of these for data-driven and real-time processes. However, when it comes to automating time-consuming manual processes and technology to support forecasting, implementation remains low despite majority of respondents recognising their value.

COVID-19 is having a major impact on plans for digital transformation in financial services, with operational resilience and concerns over resources being diverted from business as usual putting the breaks on attempts to modernise systems and invest in innovative technologies. Cyber security concerns and compliance risk, coupled with a focus amongst senior leadership on short-term challenges, are the major barriers to innovation.

Despite significant roadblocks to innovation identified in this report, long-term confidence in the ability of the industry to weather economic uncertainty remains high, with many believing that current disruption represents an opportunity for their sector to adapt, innovate and 'thrive' in a more digital and data-driven future.

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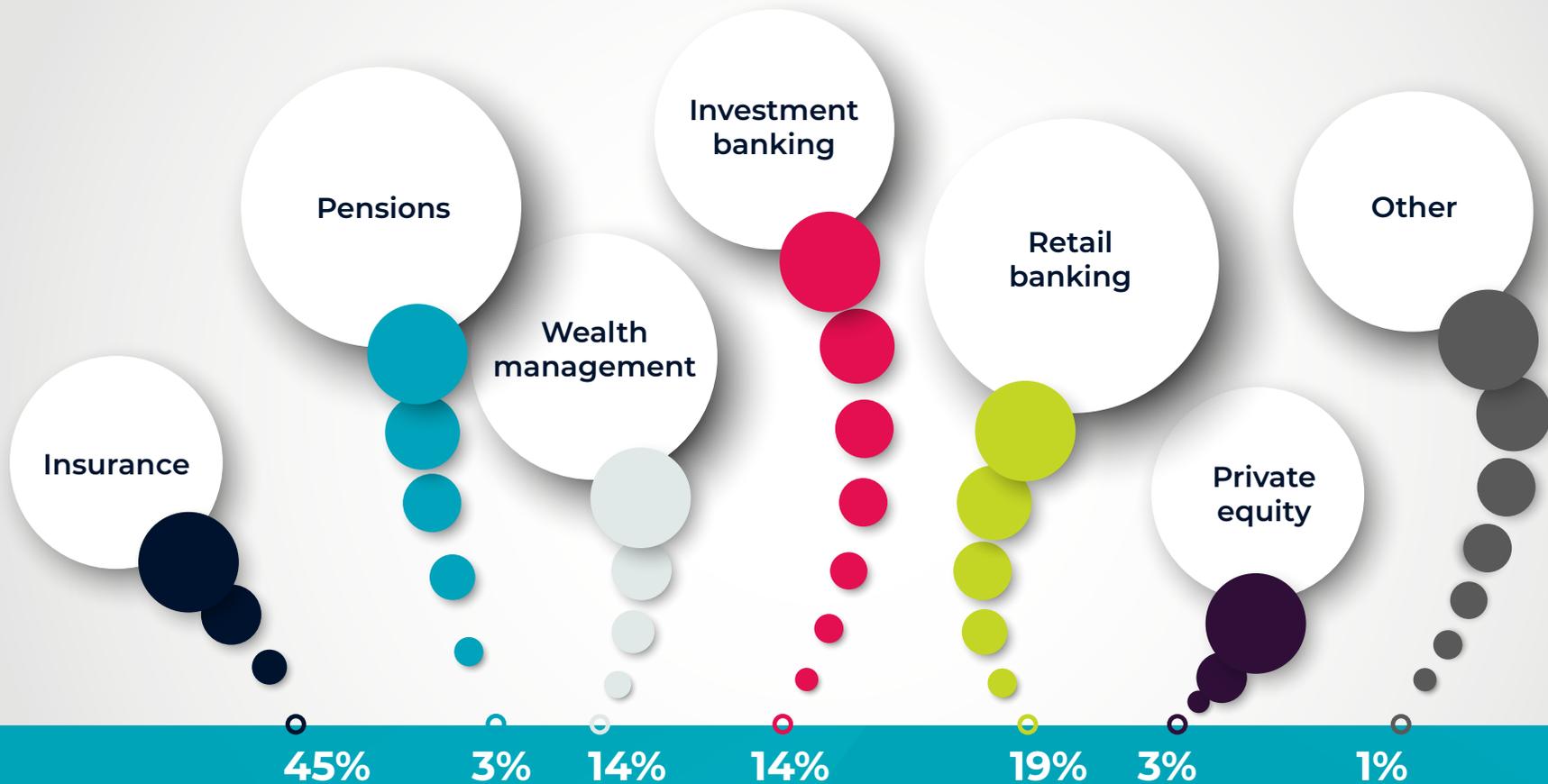
## The Innovation Equation

The innovation equation may appear to be a stark choice between tackling urgent day-to-day challenges in the context of COVID-19 and investment in digital transformation for the long term. However, the survey shows that there is widespread recognition of the potential for cloud-based applications, AI and data-driven technology to transform operations and create real value for employees and customers. By taking advantage of cost-effective modular solutions which operate in the cloud, companies can ensure systems are responsive, secure and efficient in the immediate context while paving the way for more profound digital transformation in the medium to long term. Such an approach creates flexible systems capable of adapting to a rapidly-changing operational, regulatory, economic landscape, and could be the key to balancing the two sides of the innovation equation.

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# 1. Which sector of the financial services industry do you work in?

(Tick one)



The sectors represented in the survey are currently in the midst of wide-ranging transformation, brought on not only by the emergence of disruptive technologies and agile digital challengers in the financial services sector, but also the economic and operational challenges of the COVID-19 pandemic.

Businesses across the industry are experiencing rising demand for a range of digital services, but many are struggling to keep up with innovative and cloud-based technologies required by the rise in app-based and online services. Meanwhile, they are also addressing the challenge of streamlining, consolidating and protecting data as employees work remotely.

## 2. As we emerge from the COVID-19 crisis, what are your key challenges?

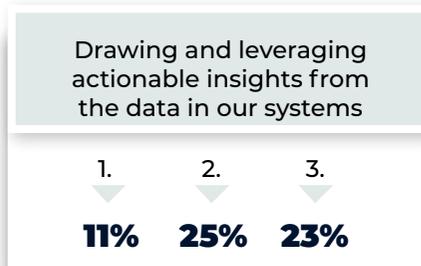
(tick top three and rate in order of importance)



As the industry edges towards a 'new normal' in the COVID-19 pandemic, financial services providers face a range of challenges as they seek new ways to leverage the insights within their data to improve customer experience and modernise business processes.



The survey showed that the top three priorities overall were providing a seamless omnichannel customer experience, improving agility and meeting the latest compliance obligations.



A key priority for these companies is providing a seamless omnichannel experience (50 per cent of respondents rated this as '1' in their order of importance), underlining the growing significance of customer engagement across channels including online, mobile, in-person and through channels such as automated marketing and chatbots. Customers now expect service providers in every sector to make use of their data to deliver personalised services that meet their needs as quickly as possible - if not in real time.

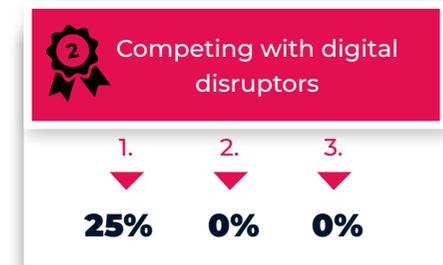


Other priorities included drawing and leveraging actionable insights from the data within systems, highlighting the challenges many financial services providers face in achieving a 360-degree view of their client. Such 360 degree systems can connect and centralise data held in silos and disparate parts of the business. As a result, financial services players are increasingly looking to cloud-based applications as a way of connecting data sources for a 'single source of truth' whilst also integrating with existing IT systems.

Respondents are also having to transform in a rapidly changing context while competing with digital disruptors who are able to develop and scale up applications quickly thanks to agile cloud-based architecture.

Related challenges in the COVID-19 context included improving agility (ranked as a '2' by 34 per cent) and the ongoing responsibilities of meeting regulatory requirements (rated a '2' by 28 per cent). To solve this, many financial services

providers are exploring the potential of automated compliance processes and cloud-based applications to reduce cost and improve the speed and accuracy of regulatory reporting.



### 3. What do you see as the biggest barriers to addressing these challenges? *(Select top 3)*

Nearly half (49 per cent) of respondents said that maintaining operational resilience is a key challenge for their business as they look to help employees and customers weather the disruption of COVID-19 and move operations from the office into remote locations.

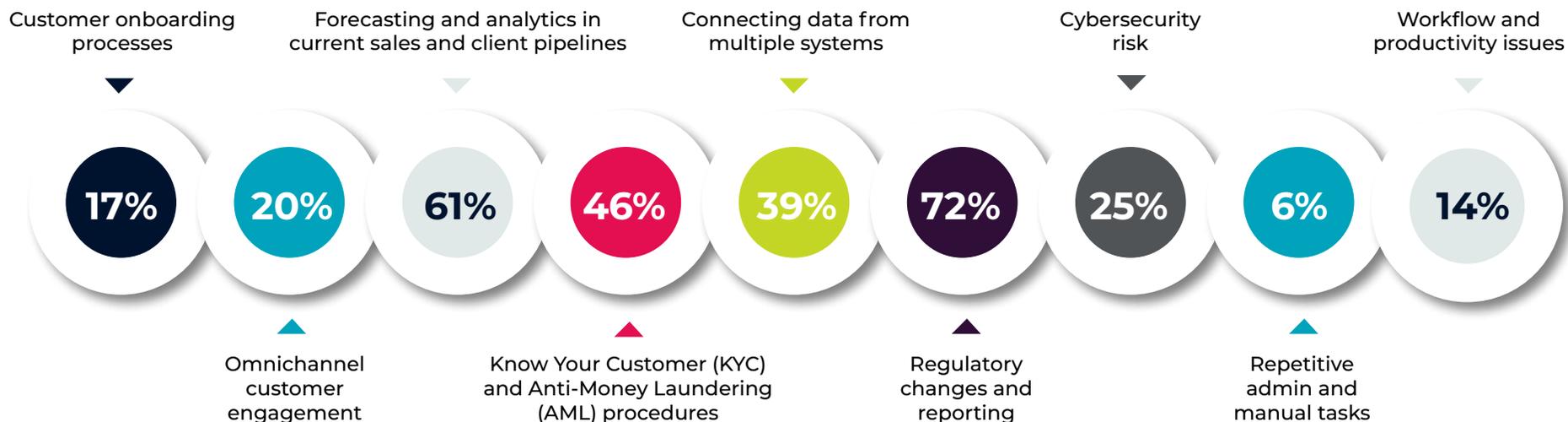
Customer engagement efforts are also being held back at this critical time by a lack of alignment in sales and marketing processes (38 per cent) and low levels of

personalisation and real time customer communication (34 per cent). These issues are in addition to disconnected or siloed data (37 per cent), which slows down the process of leveraging data to create personalised and relevant customer communications and offers. Efforts to reach customers and address their painpoints are also being frustrated by a lack of predictive analytics and AI processes (26 per cent) which can point to emerging trends and allow teams to focus

efforts on potential areas of growth. Companies are also struggling against a growing volume of compliance and regulatory requirements (38 per cent) as well as lacking the flexibility to respond to a rapidly evolving business landscape (33 per cent). There are also conflicting priorities across the organisation (33 per cent) as different business areas compete for resources and senior leaders attempt to provide strategic direction for the short and long term at an uncertain time.



## 4. Which processes present the most challenges for day-to-day business operations? *(Select top 3)*



In a highly regulated industry, ensuring that systems are safe and compliant and data is available for audit and reporting purposes is a key priority for financial services firms, with nearly three quarters (72 per cent) citing this as a challenge, alongside issues related to onboarding processes (17 per cent) including KYC and AML procedures (46 per cent). This suggests that businesses are being held back from giving customers the accelerated onboarding experience they have come to expect.

The rising risk presented by cyber criminals is also a concern for a quarter of respondents (25 per cent). When it comes to ensuring high levels of omnichannel customer engagement and, 20 per cent said they had experienced this as a major painpoint, suggesting that these businesses could benefit from platforms and applications that provide a 360-degree view of the customer.

The challenge of connecting disparate data sources from multiple systems and legacy infrastructure is an ongoing concern for more traditional financial services players, with 39 per cent citing this as one of their most challenging processes. This issue of limited access to data also extends to the process of forecasting and analytics in current sales pipelines (61 per cent), which can have a profound impact on a company's ability to access accurate data and action it to accelerate sales pipelines and close deals faster.



## 5. To what extent has the COVID-19 pandemic accelerated the transition to remote working for your business?

Financial services operating models have been significantly impacted by the arrival of remote working during lockdown, with 20 per cent saying staff were able to work remotely following the lockdown period and 18 per cent saying the situation had 'completely' accelerated the transition to home working.

While some had enabled remote working before the pandemic (14 per cent), others are still facing challenges in transitioning certain roles to the home office environment (15 per cent) while 16 per cent have not accelerated the shift to remote working at all and remain mostly office-based during the pandemic.

*“Operating models have been significantly impacted”*

While industries including retail and media have driven widespread adoption of customer engagement and marketing tools and managing the journey from prospect to paying customer, the financial service industry is catching up by exploring the potential of a range of cloud-based and automated solutions.

The survey shows that cloud-based customer relationship management (CRM) systems are currently used by 61 per cent of organisations surveyed, evidencing a trend towards scalable architecture and remote data access which is being accelerated by the shift to remote working. Meanwhile 15 per cent of businesses are still using an on-premise CRM solution, often because of perceived cyber security risk and internal data control requirements. However, this can slow down workflow as employees struggle to access the data they need from remote locations.

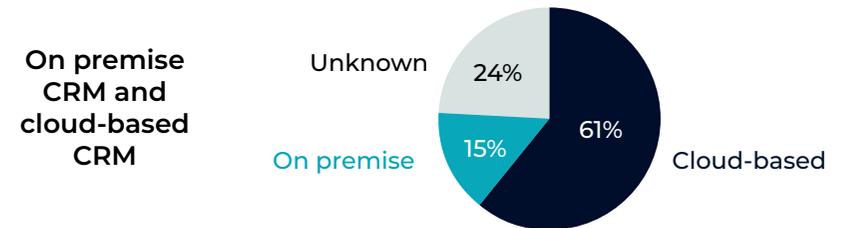
When considering cloud-based business applications, it appears that while appetite for flexible, data driven solutions is high (with 53 per cent saying they would consider this option), adoption remains low, with one per cent saying they had taken advantage of this technology.

When it comes to point solutions, which differ from integrated solutions by focussing on specific challenges and processes within a business, 43 per cent said they are currently using some form of point solution, while a further 47 per cent would be open to exploring this option.

The need to reach customers on the devices and channels they are using has led to a rapid rise in omnichannel communications in recent years, with half of respondents saying they currently use this model, while more than a third are open to considering how it could support their customer engagement strategies. In a similar vein, there is considerable appetite in the sector for personalised and automated marketing (57 per cent said they would consider it), but implementation is relatively low, at four per cent.

More widely used digital channels for customer engagement include chatbots (36 per cent currently use these and 53 per cent would consider) and social media, which is used by 58 per cent to talk to customers with 41 per cent open to considering how social media engagement could play a role in their operations.

## 6. Which of the following technologies do you currently use to optimise customer engagement processes & marketing, and which would you be open to exploring?



### Omnichannel communications

Currently use:	50%
Would consider:	37%
Not of interest:	12%

### Chatbots

Currently use:	36%
Would consider:	53%
Not of interest:	9%

### Cloud-based business applications

Currently use:	1%
Would consider:	53%
Not of interest:	7%

### Social media

Currently use:	58%
Would consider:	41%
Not of interest:	1%

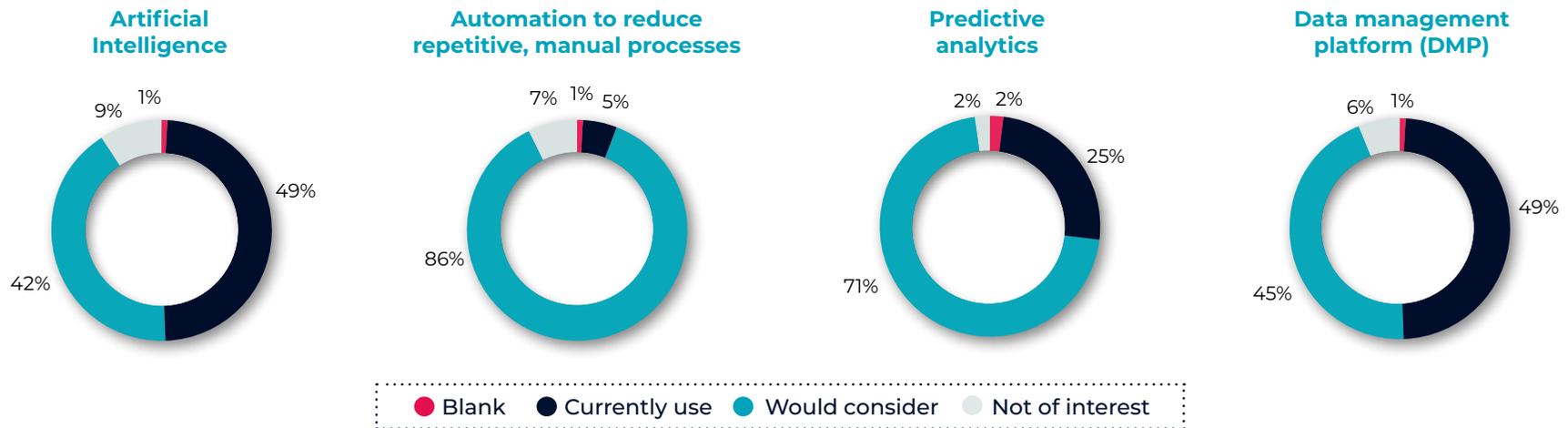
### Point solutions for specific business processes

Currently use:	43%
Would consider:	47%
Not of interest:	7%

### Personalisation and automated marketing

Currently use:	4%
Would consider:	57%
Not of interest:	7%

## 7. With regards to the specific capabilities you look for when deciding which new technologies to invest in, which of the following do you a) currently use and b) which would you be open to exploring?



Artificial Intelligence (AI) and machine learning have experienced rapid adoption in the financial services sector, with data-driven and real-time processes helping to speed up functions across the business from personalised app notifications to algorithmic trading.

The survey shows that nearly half (49 per cent) of respondents are already using some form of AI in their operations, while 42 per cent would consider it. However, while interest in automation to reduce repetitive manual processes is high (86 per cent would consider), current implementation stands at five per cent, suggesting

there remains significant opportunity for companies to adopt technologies that drive efficiencies and can reduce cost in both the short and long term.

A similar pattern emerges for predictive analytics, which can help to leverage data for forecasting and decision-making and which are currently

used by a quarter (25 per cent) of businesses surveyed, but would be considered by 71 per cent.

Data management platforms offer businesses a way of connecting and streamlining data to provide visibility across the business as part of a wider process of digital transformation.

## 7. (Continued) With regards to the specific capabilities you look for when deciding which new technologies to invest in, which of the following do you a) currently use and b) which would you be open to exploring?

These are currently being used by just under half (49 per cent) of respondents while 45 per cent would consider deploying one.  
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Nearly half of respondents said they were currently using applications or platforms in an integrated way with existing

software and solutions such as Outlook or LinkedIn, while 47 per cent said they would consider such technologies to optimise their operations. Workflow management tools were in use by 40 per cent of respondents and of interest to a majority (52 per cent).

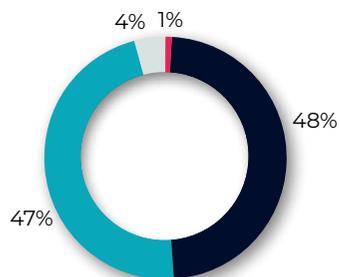
When it comes to regulatory

and cyber security processes, nearly half (49 per cent) are using fraud detection or AML software to highlight suspicious transactions or customer behaviour, while 47 per cent would consider using these. Despite the relatively recent addition of biometric on-boarding and authentication to the

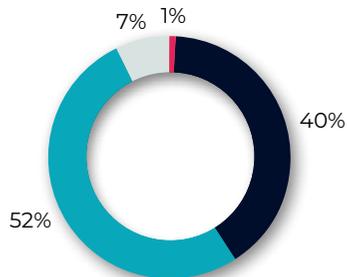
compliance function, around a third (33 per cent) have already integrated it into their systems.

***“Data management platforms offer a way of connecting and streamlining data”***

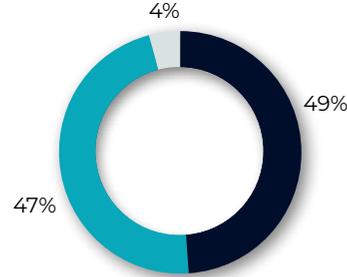
**Seamless integration with existing solutions**  
(e.g. Outlook, LinkedIn)



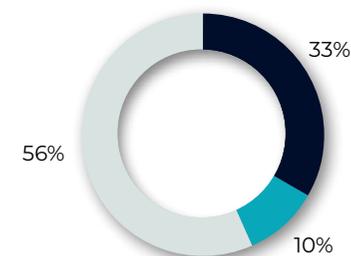
**Workflow management tools**



**Fraud detection/AML software**

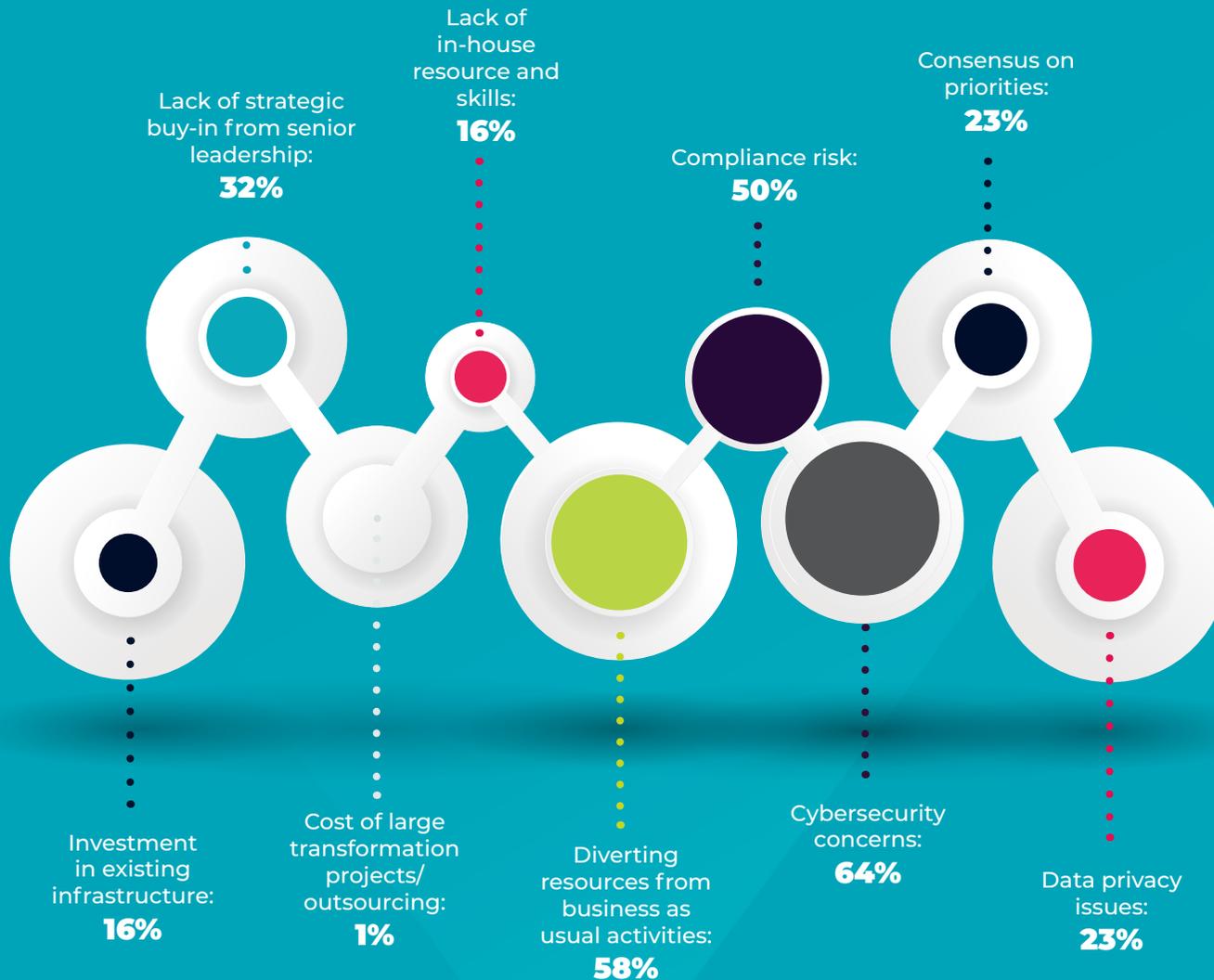


**Biometric on-boarding and authentication**



● Blank ● Currently use ● Would consider ● Not of interest

## 8. What are the main barriers to a digital transformation programme in your business? *(Select all that apply)*



With nearly half (49 per cent) of businesses focussed on operational resilience in the context of COVID-19, more than half of respondents (58 per cent) said that digital transformation programmes are taking a back seat to ensure resources for 'business as usual' activities. Other major blockers to digital transformation include cyber security concerns (64 per cent) and compliance risk (50 per cent).

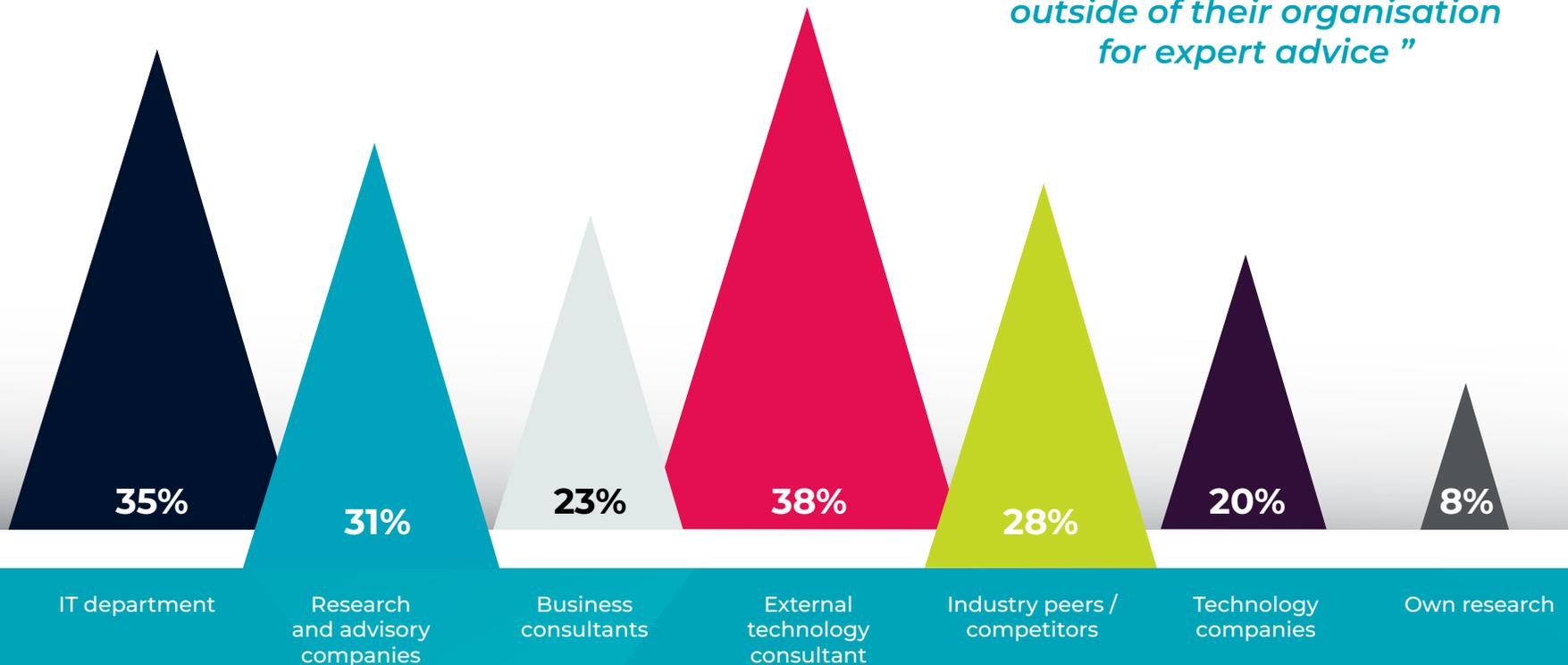
The lack of support for wide ranging transformation programmes at this time could be led by lack of strategic buy-in from senior leadership (32 per cent) while concerns around data privacy (23 per cent), lack of in-house resources and skills (16 per cent) and a lack of consensus on priorities (23 per cent) create a picture of an industry that is fully aware of the urgency of digital transformation, but lacks the scope to implement such long-term programmes given present disruption.

## 9. Which are your main sources of guidance for technology investment? *(Select all that apply)*

The research suggests that financial services firms are more likely to look outside of their organisation for expert advice and guidance when it comes to technology investment than to their own research, with 38 per cent seeking the advice of external consultants, 31 per

cent looking to external research and advisory companies and 28 per cent their industry peers. This compares to 35 per cent who would turn to their IT department (35 per cent) or their own research (8 per cent).

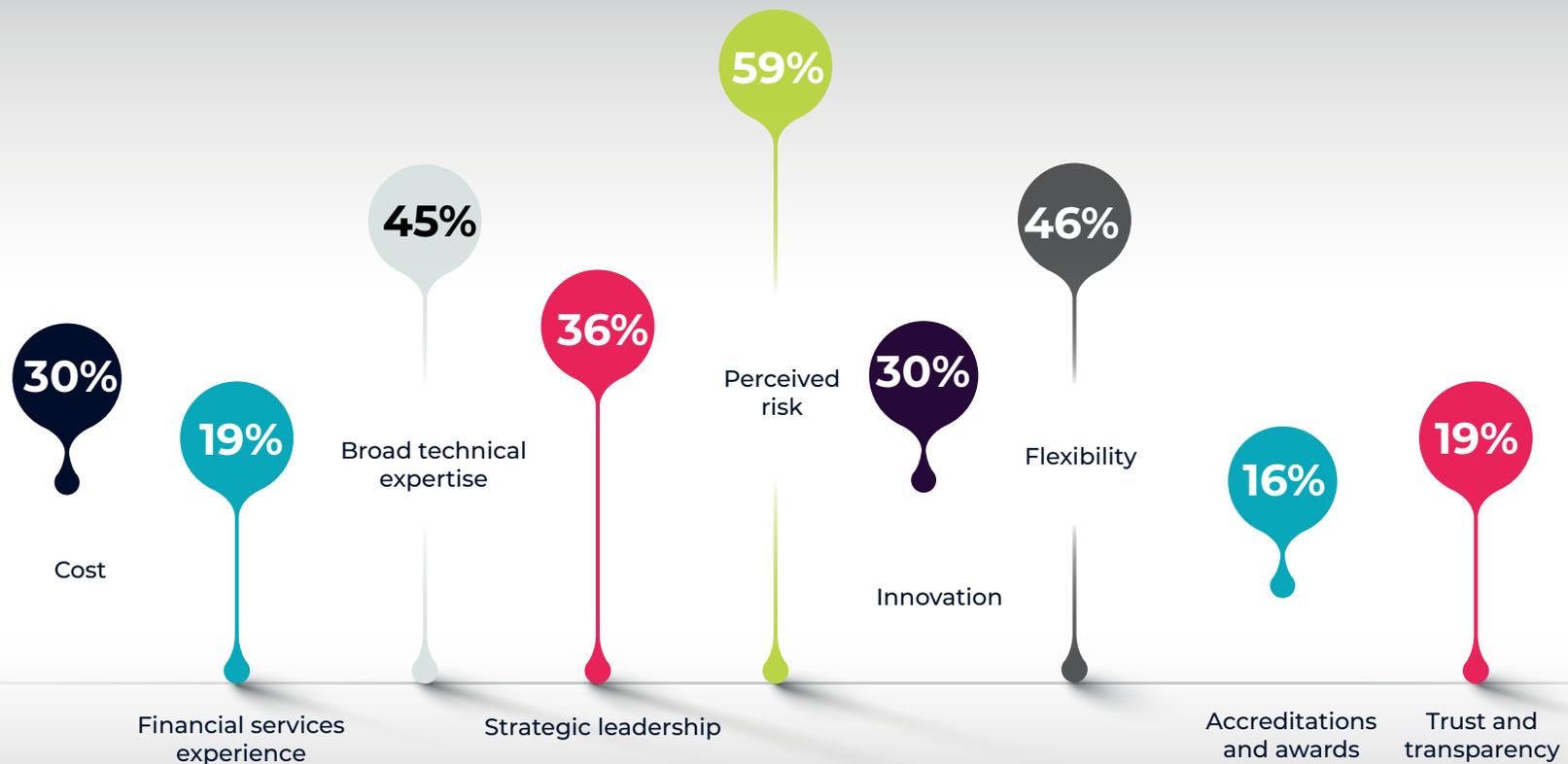
*“Firms are more likely to look outside of their organisation for expert advice ”*



## 10. What are the key priorities when considering a technology implementation partner? *(Select top 3)*

When choosing partners to support the roll out of a new technology, trust, skills and flexibility rank highly, with risk rated by 59 per cent as a key consideration, followed by technical expertise (45 per cent) and flexibility (46 per cent) given the changing demands of a digital transformation programme. This compared to 30 per cent who cited cost, suggesting that key priorities for financial services firms are focussed around risk over cost management.

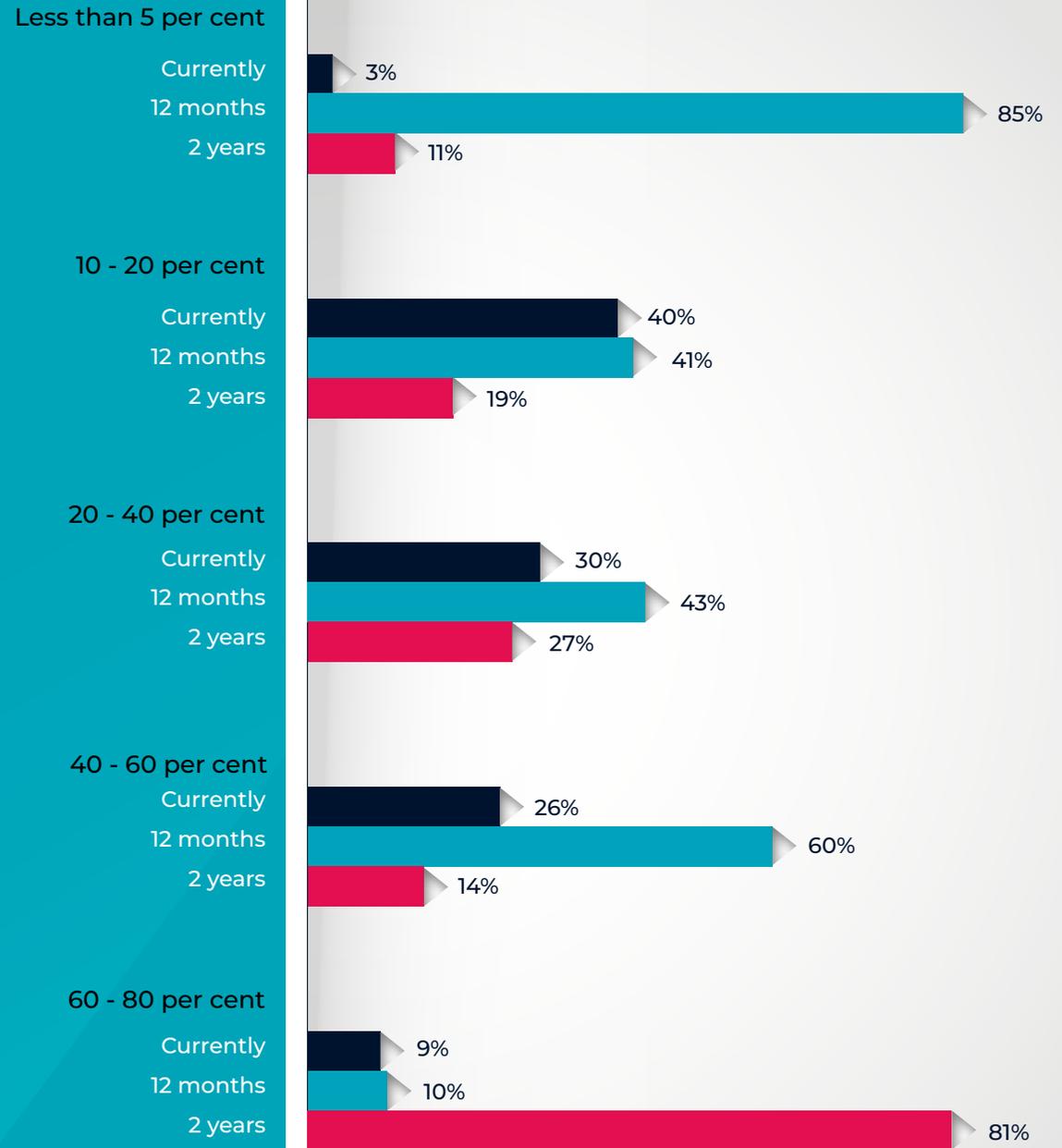
*“Trust, skills and flexibility rank highly”*



## 11. Considering cloud adoption, what percentage of the business has already moved to the cloud and what percentage do you expect will have migrated to the cloud in: the next 12 months; the next 2 years?

At present over a third (40 per cent) of companies have moved a small percentage of their business to cloud-based solutions, however this is expected to increase rapidly in the coming two years, with 81 per cent saying that 60-80 per cent of their business will run on cloud-based solutions within the next 24 months.

Despite present disruption – or perhaps partly driven by it – the financial services industry is witnessing an ongoing shift towards cloud-based services and applications, as cloud storage and remote data access, as well as data-driven AI become central pillars of innovation and digital transformation within companies.



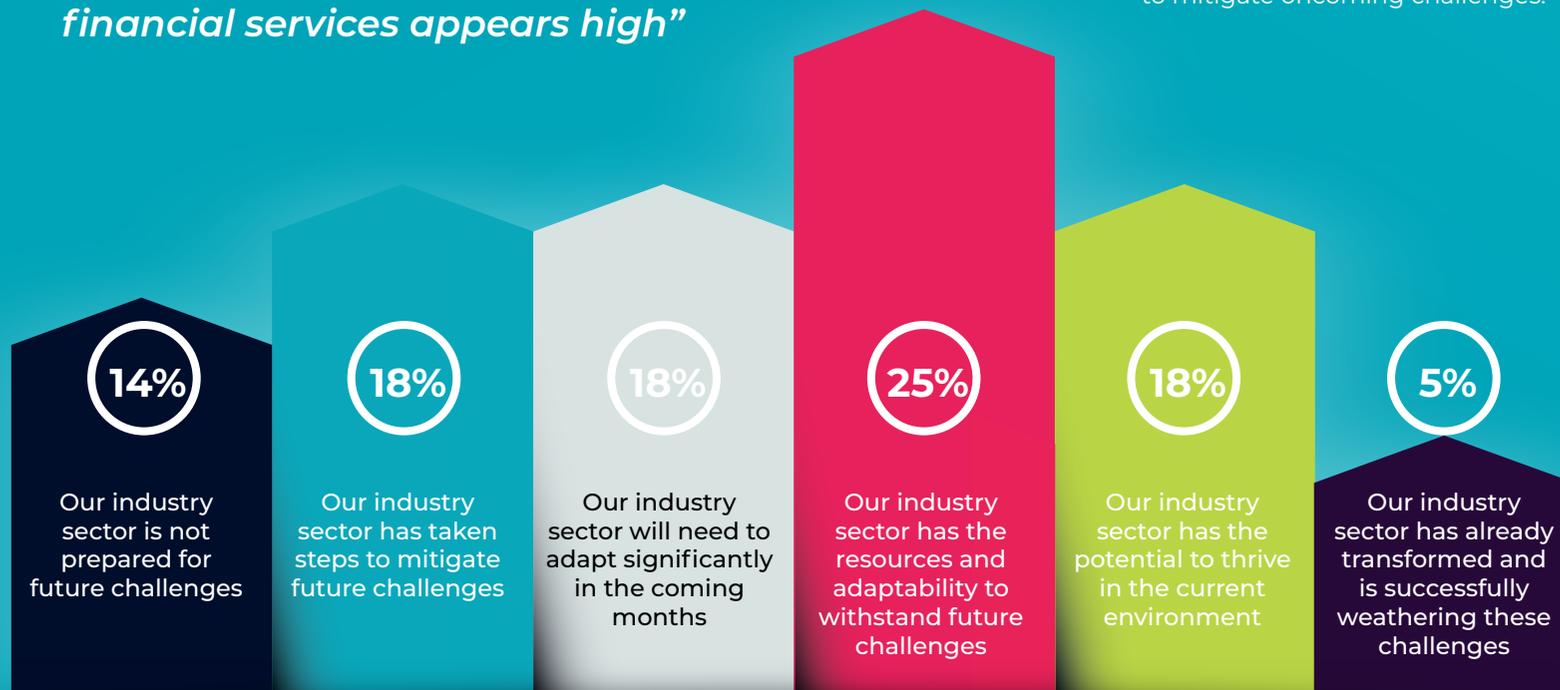
## 12. How is your industry sector prepared for oncoming challenges such as an economic downturn?

Overall, business confidence in the financial services industry appears high, with a quarter of respondents believing their sector has the resources and flexibility it needs to contend with oncoming challenges such as COVID-19 related economic turbulence, while 18 per cent of all respondents believed that they and their peers have the potential to thrive in the current context.

When broken down into sector-specific groups, those working in insurance indicated a mixed picture, with 26 per cent (a quarter) saying their sector has the ability to withstand future challenges, while 17 per cent said they were not prepared for future challenges and a further 17 per cent saying they would need to adapt significantly in the coming months.

Confidence is higher amongst investment banking professionals, with nearly a quarter (24 per cent) saying they have the means to 'thrive' despite current challenges, echoed by 32 per cent in retail banking who believe their sector has the resources and adaptability to withstand future challenges. However, the picture is more mixed for the wealth management sector, with 25 per cent saying they would need to adapt significantly in future, while the same amount said they had already taken steps to mitigate oncoming challenges.

### *“Business confidence in financial services appears high”*



# By industry group:

## Insurance

The 45 per cent of respondents who selected **Insurance** for Q1 went onto select the following from Q12:

- No answer **6%**
- Our industry sector has already transformed and is successfully weathering these challenges **6%**
- Our industry sector has taken steps to mitigate future challenges **13%**
- Our industry sector has the potential to thrive in the current environment **15%**
- Our industry sector has the resources and adaptability to withstand future challenges **26%**
- Our industry sector is not prepared for future challenges **17%**
- Our industry sector will need to adapt significantly in the coming months **17%**

## Investment banking

The 14 per cent of respondents who selected **Investment banking** for Q1 went onto select the following from Q12:

- Our industry sector has already transformed and is successfully weathering these challenges **5%**
- Our industry sector has taken steps to mitigate future challenges **24%**
- Our industry sector has the potential to thrive in the current environment **24%**
- Our industry sector has the resources and adaptability to withstand future challenges **19%**
- Our industry sector is not prepared for future challenges **9%**
- Our industry sector will need to adapt significantly in the coming months **19%**

## Retail banking

The 19 per cent of respondents who selected **Retail banking** for Q1 went onto select the following from Q12:

- Our industry sector has taken steps to mitigate future challenges **14%**
- Our industry sector has the potential to thrive in the current environment **18%**
- Our industry sector has the resources and adaptability to withstand future challenges **32%**
- Our industry sector is not prepared for future challenges **18%**
- Our industry sector will need to adapt significantly in the coming months **18%**

# By industry group:

## Pensions

The 3 per cent of respondents who selected Pensions for Q1 went onto select the following from Q12:

Our industry sector has already transformed and is successfully weathering these challenges

25%

Our industry sector has the resources and adaptability to withstand future challenges

25%

Our industry sector is not prepared for future challenges

25%

Our industry sector will need to adapt significantly in the coming months

25%

## Private equity

The 3 per cent of respondents who selected Private equity for Q1 went onto select the following from Q12:

Our industry sector has already transformed and is successfully weathering these challenges

50%

Our industry sector has taken steps to mitigate future challenges

25%

Our industry sector has the potential to thrive in the current environment

25%

## Wealth management

The 14 per cent of respondents who selected Wealth Management for Q1 went onto select the following from Q12:

No answer

5%

Our industry sector has taken steps to mitigate future challenges

25%

Our industry sector has the potential to thrive in the current environment

20%

Our industry sector has the resources and adaptability to withstand future challenges

20%

Our industry sector is not prepared for future challenges

25%

Our industry sector will need to adapt significantly in the coming months

5%

## Blank

*(Question here over inclusion as sample small, so percentages look large)*

The 3 per cent of respondents who selected NO ANSWER for Q1 went onto select the following from Q12:

Our industry sector has taken steps to mitigate future challenges

40%

Our industry sector has the potential to thrive in the current environment

20%

Our industry sector has the resources and adaptability to withstand future challenges

40%

# Conclusion

As the results of this survey show, the COVID-19 pandemic has brought significant disruption to the financial services sector, with many firms setting aside longer-term plans for digital transformation in order to tackle more urgent day-to-day challenges related to remote working. The most important of these are ensuring systems are secure and compliant at a time of unprecedented uncertainty for staff and customers.

As a result, the innovation equation facing firms is how to strike the right balance between investment of valuable time and resources in operational, regulatory and revenue-generating processes in the present and investment in the longer-term benefits of digital transformation such as a 360 degree customer view, consolidated and streamlined data and more efficient and flexible systems.

While investment in upgrading legacy infrastructure may not be considered a priority at the moment, the present context has shone a spotlight on the urgent need for omnichannel customer communications, as the pandemic drives the shift to digital channels. However,



while this aspect of the innovation equation might seem to require wholesale change of systems and upfront investment, modular cloud-based applications now mean businesses are able to achieve a flexible architecture that can be scaled up to respond to rapidly changing demands.

And as more established companies rush to compete with more agile, digital

challengers in terms of service offerings and omnichannel capabilities, tackling the ongoing regulatory and compliance burden also emerged as a key concern. Here, cloud-based applications could offer companies a route to automating compliance functions in a way that streamlines processes in the short term and prepares the business for the shifting sands of regulation in the longer-term.

## Conclusion *(Continued)*

When it comes to the role of data-driven technologies in helping companies to solve their innovation equation, AI and machine learning have emerged as key trends. However, while more advanced use cases such as automation and predictive analytics have been focused on customer-facing and sales pipeline processes, internal business processes have yet to undergo the same levels of transformation. This suggests that there is significant potential for companies to deploy these technologies across their business to unify data, streamline processes and drive efficiencies to help staff cope with immediate and future challenges.

The survey also reveals that companies are increasingly confident in turning to trusted partners and managed services providers outside of their organisation for advice and technical

expertise on solutions that could help to optimise their operations, with cost considerations coming in behind cyber security risk and operational resilience in the list of priorities.

The solution to the innovation equation is therefore just as complex as the challenges companies are facing in the present context. However, while operational resilience in the now and digital transformation in the future appear to be conflicting priorities, cloud-based solutions, which can be deployed on top of existing infrastructure in a modular, cost-effective fashion, could offer companies a route to more flexible, efficient and responsive operations in the short-term while opening up the path to wider digital transformation in the future.

***“The innovation equation is just as complex as the challenges of the present context”***

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