



Realizing the digital promise
Key enablers for digital transformation
in financial services

A paper from the Institute of International Finance and Deloitte

Summary

- Digital transformation has become essential as a means to future-proofing the business and improving the customer experience, employee capabilities, operational efficiency, and business economics
- Commitment from all levels of the organization is a prerequisite to successful digital transformation
- An early step on the journey is to unlock human potential and create an organization that's open to change, resilient to risk, and fit for the future
- Getting digital transformation right requires the right structure and discipline for the organization's strategy and level of digital maturity
- It also requires looking beyond the firm to proactively engage with key stakeholders—regulators, partners, investors—in the broader business environment
- In this second report, we examine ways financial institutions can overcome the top challenges to digital transformation and find a common path to success

Introduction

Digital transformation is no longer just a “nice to have.” Neither is it entirely about technology. For financial institutions (FIs), digital transformation is also about improving the customer experience, employee experience, and business economics. In other words, it’s become essential.

This point is particularly relevant in light of the COVID-19 crisis and the ability of FIs to respond. As highlighted in an article by the Institute of International Finance (IIF), “Digital Transformation and COVID Adaptation,” the forced experience of adapting to the COVID-19 environment may ultimately result in greater openness to transformational initiatives, both within the business and among its various customers.¹

To understand what digital transformation success can look like in financial services, the IIF and Deloitte have joined forces to gather insights from more than 80 executives and transformation leaders. This group represents executives from banks, insurance carriers, asset managers, regulatory and supervisory authorities, and policymakers around the world.

The result is a three-part series to explore FIs’ approaches to digital transformation and how FIs can realize the promise of digital transformation. The first report, “[Realizing the digital promise: Top nine challenges to digital transformation for financial institutions](#),” highlights common pitfalls along the digital transformation journey.² In this second report, we examine ways financial institutions can overcome the challenges and find a common path to success. These enablers break down along five overlapping themes:



Customer centricity



Organizational foundations



Talent and culture for an innovation mindset



Successful transformation strategy and execution capabilities



External collaboration and proactive engagement

This report unpacks each of these themes and examines how they enable FIs to realize the digital promise.

Digital transformation and COVID-19 adaptation

Amidst this new reality of adjusting to COVID-19, the IIF and Deloitte have gleaned considerable insights on the actualities of working in the current situation.

For some players, investments in digitizing banks' and insurers' businesses over the last decade have helped their response to the COVID-19 crisis as they can draw on a more versatile and resilient platform. Others were caught off-guard. As the crisis unfolds, banks with the technology and culture to quickly adapt, develop, and launch new capabilities and experiences into the market are likely to see significant differentiation from the rest of the pack. These banks are likely to emerge as the winners as the pandemic retreats.

One firm revealed that their new tools, infrastructure, and processes helped them seamlessly transition a digital team of 400 members into the unique remote working environment that COVID-19 has cast upon us.

In addition, innovations in payments are presently providing critical societal functions and facilitating important support for customers. Contactless cards offer a more hygienic form of payment at the point of sale, while the ability to make quick and simple remote payments is increasingly critical in facilitating the home delivery of everyday goods.

The occasional videoconferencing and bandwidth teething issue aside, the technology is working. But humans adapt in different ways, and a key insight from recent conversations has been where vulnerabilities in talent and operating models have surfaced. Some executives describe it as the challenge of leading teams that are working from home – how to 'lead from home'?

The COVID-19 outbreak has had an enormous impact on the FinTech community, including reduced access to funding. In this situation, the startups that are engaged in some form of collaboration or strategic alliance with financially strong FIs are likely to fare better than others. An important outcome of COVID-19³ may well be an acceleration of partnerships with financial institutions that can offer FinTechs urgently needed revenue streams in return for highly sought-after digital solutions.

It will be interesting to watch how firms and teams adapt in their new operational styles, and whether this might help to reshape corporate cultures toward greater agility and adaptivity in the future. But it's safe to say that when considering the question "Who led the digital transformation at your organization?," one of the top answers will be COVID-19.



Customer centricity

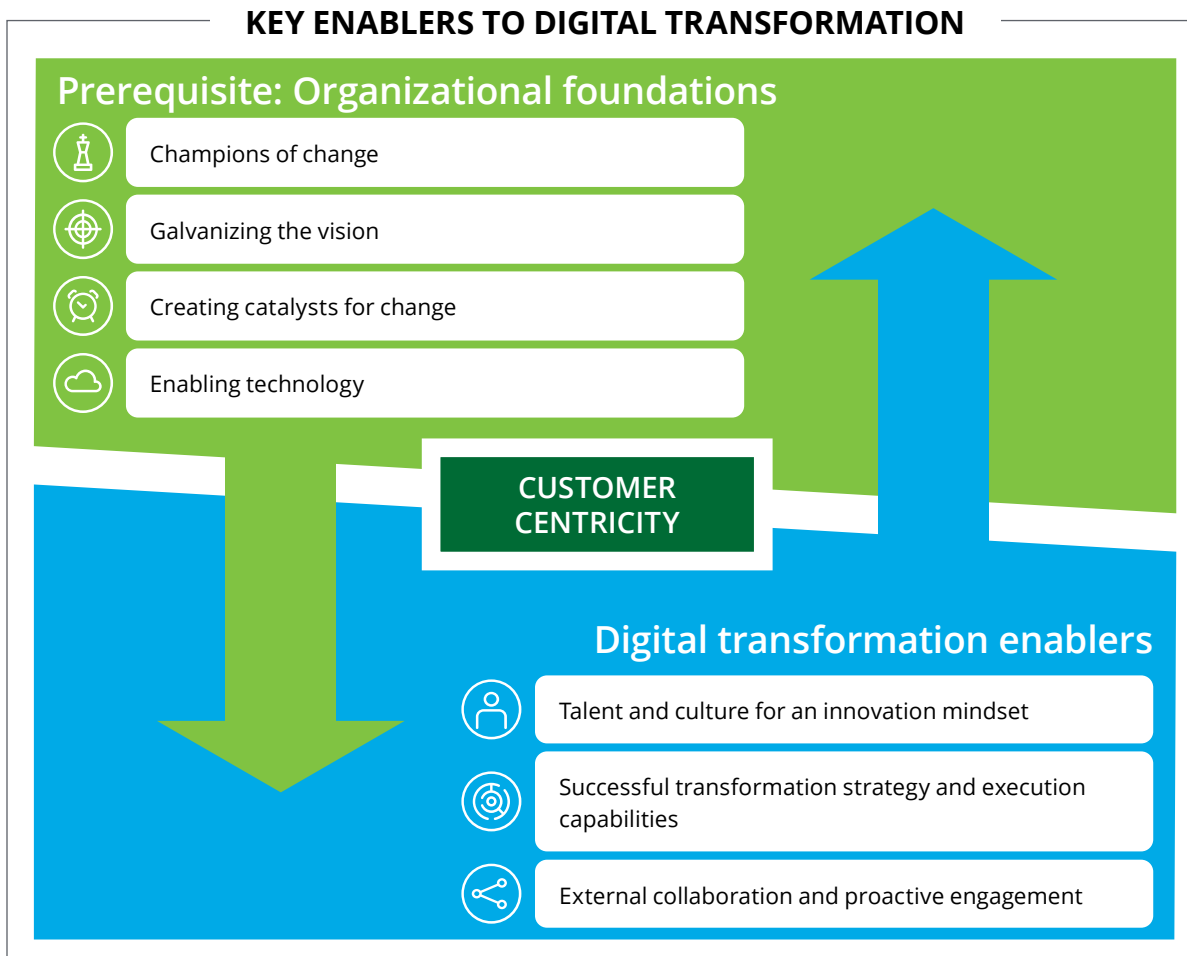
Asked to define what digital transformation means to their firm, nearly all executives we spoke with emphasized the importance of customer centricity. Some see customer centricity as a driver of digital transformation, with digital technology and tools used to create a better, more efficient customer experience. It can be the driving ethos for why some FIs are embarking on a digital transformation agenda. “Technology sits at the core of digital transformation, but impetus needs to come from a customer needs perspective,” as the chief digital officer of a leading bank puts it.

For others, digital transformation is more of an enabler—something that helps firms get the desired value from their transformation agenda rather than running a disconnected transformation program that spins wheels and doesn’t solve the problem. The chief digital officer of a leading insurance carrier sums it up: “As the organization transitions to a more agile culture, evolving the organizational mindset from a product-centric to customer-centric view is another key enabler for success in digital transformation.”

Either way, leaders across the industry agree that digital transformation and customer centricity go hand in hand. But what does it take to be truly customer-centric? The head of strategy for the technology office of a major U.S. bank describes it as:

“Piercing through successive layers of the organization to get rid of manual processes, increasing automation, getting closer to customers in terms of convenience and capabilities to the point where you disappear from view because you embedded your organization into the customer’s day-to-day experience. It’s about driving more engagement and connecting more deeply with customers by reimagining the business model and processes to best serve customer needs.”

In a multichannel world, this requires reimagining the front office (think mobile apps and self-service portals) as well as the middle and back office (e.g., compliance and risk management). It also means extending digital technology across the value chain. This goes for both retail and institutional customers—although the needs and priorities of the two segments can differ, they tend to expect many of the same things from digital transformation.



Source: Deloitte

Customer centrality and the speed of transformation

Does the pace of digital transformation pick up when customer centrality is a driver? The experiences of banks seem to indicate as much.

Compared with insurers, banks appear to be further along their digital journeys. This could be because insurance investors expect steady returns and are more risk averse relative to banking investors. According to one insurance executive we spoke with, “The notion about experimentation, and to be willing to do a lot of experimentation, is not in the DNA of insurance companies.”

However, banks also have customers that require more frequent interaction than insurance customers. That may make digital solutions more top of mind for banking management, leading to faster progress in digital transformation.

“Digital transformation is about reimagining the business model and processes to best serve customer needs.”

Chief Digital Officer, Major U.S. Bank

“Digital transformation is about driving more engagement and connecting more deeply with customers. It is about serving the customer in a more efficient way as customer expectations across insurance and other industries have changed dramatically due to digitization inspired by firms such as Amazon and Uber.”

Chief Digital Officer, Large U.S. Insurer

“I am cautious with leading with the word ‘digital’ – rather, it is about customer transformation. It has to be about the customer, enabled by digital.”

Head of Digital, Leading African Bank

“Digital transformation is about three things: improving the client experience, making it easier and helping clients with insights to run their business; improving employee experience, increasing staff productivity; and improving economics, increasing efficiency for delivering services.”

Chief Digital Officer for Small Business, Major U.S. Bank



Prerequisite: Organizational foundations

For financial institutions, commitment from all levels of the organization is a prerequisite to successful digital transformation. The organization needs a foundation that includes champions of change, a galvanizing vision, change catalysts, and enabling technologies.



Champions of change

Forward-thinking FI leaders believe that digital transformation is about more than just technology—it offers an opportunity to reimagine the entire business model. But digital initiatives can stall without the right support from the top.

Without buy-in and commitment from the top of the house, including the CEO and board, it's extremely difficult to secure the mandate, resources, and senior management attention that are required to deliver a successful business transformation. Therefore, securing leadership commitment should be the number one priority for any individual tasked with leading the digital transformation journey of an organization. "Leadership commitment is essential," notes the chief innovation officer of a European bank. "And if leaders don't believe in transformation, pretending to do so might not work. They need to put the money where their commitment is."

This is in line with the experience of one of our participants, a chief innovation officer who acknowledged that when starting a new position, the CEO advised him to help the whole organization understand digital transformation and get employee buy-in.

It's not only budget that's at stake: Digital innovation requires a fundamentally different set of approaches and metrics to those existing in financial services today, and a grasp of concepts such as design thinking and agile development. As one chief digital officer at a large U.S. bank puts it, "If executives focus on enhancing the current ways of thinking and operating, they will not be in business in 5 to 10 years' time." According to Chris Skinner, a well-known digital transformation thought leader, "The key differentiator successful banks have is that their top leaders (CEO, chairman, etc.) understand digital transformation as a transformation of the entire business and not just a transformation project."⁴

The belief that leadership commitment is critical for success in digital transformation holds true beyond financial services. Participants in healthcare and life sciences—another global, highly regulated sector—agree that leadership commitment is critical to digital transformation success. As one chief digital officer from the healthcare industry states, "Senior support is tremendously important; vital when (for instance) your digital initiative won't give you a return on investment in the short term but will create a new capability."

"[Senior leadership driving digital transformation is a] necessary condition but not sufficient – it really needs to be diffused across the organization and in particular, driven from the middle."

– IT Strategy Head, Large African Bank

"Upskilling the board: their perspectives, experience, skill set, etc. is closely related. They have spent their careers understanding fee income and a traditional set of metrics."

– Chief Digital Officer, Major European Bank

"You have to put whole organization behind digital, not just assign it to some function and delegate it. You cannot delegate the future of the company; you've got to own it."

– Chris Skinner, Best-Selling Author and Commentator on Financial Markets and FinTech

Boards of directors have the responsibility to oversee the company's strategy, yet board members often are more familiar with traditional metrics that may not be truly aligned with digital and innovation. Upskilling board members on digital transformation can be an important step. What's more, according to the chief risk officer of an Australian bank, tech-savvy board members can act as a catalyst in building a strong network of champions.

The upshot is that executives can't do it alone. As one executive warns, "You'll come up against thousands of people—'antibodies'—that will fight back." Champions at all levels of the organization are necessary to support the change and make it stick.



Galvanizing the vision

"Clear vision and communication," says the chief digital officer of a large U.S. insurer, "should cascade through the organization." Instilling a well-articulated vision can keep digital transformation objectives in line with the enterprise strategy. From there, champions can help weave the organizational vision into personal goals.

Firms may accelerate the innovation agenda by appointing a chief digital officer or equivalent—something that 70 percent of companies that are well prepared for digital transformation have done.⁵ A visible, dedicated leader, especially at the early stage of transformation, can drive clear, engaging, and consistent messaging on the overall vision, strategic choices, and execution journey for the digital transformation. Armed with realistic performance metrics and delivery timelines, this leader can foster a sense of urgency and create common goals for the whole organization.

It's important to recognize that FIs may have different aspirations for their digital initiatives. While some aim to drive real change by being digital, others may only wish to appear digital for the sake of press and PR activities. In the eyes of one eminent author in the digital field, the most successful organizations strive to drive real change, building understanding and securing commitment across the entire organization.



Creating catalysts for change

High-profile moments of success can serve as catalysts for further transformation because they show the rest of the organization what digital transformation can do. As the chief digital officer at a large U.S. insurer puts it, "Quickly prove the case for change, and be able to deliver something quickly that demonstrates the benefit of digital."

Organizations can get the most out of such moments by prioritizing initiatives that create significant economic value. "We did some agile work based on external consultants' recommendations," a head of strategy at a major U.S. bank told us. "The costs went down and caught the attention of senior management. The business and the rest of the organization wanted to join in the success."

That said, even initiatives that don't have material economic value can become catalysts simply by showing digital transformation is achievable. That's what happened when a large U.S. bank carried out an initiative that was "the new pet project of the CEO. But by design, the initiative created the internal momentum to show that agile can be done within the right environment," one executive says.

Proof points like these can create a domino effect as business owners begin to take interest. Sometimes, internal competition can play a role. "It doesn't look favorable for traditional units when they're being outperformed by the new FinTech unit. So, they started to poach people from the internal innovation team in order to drive change in other parts of the organization. And so, the change gains momentum," says the head of digital policy at a global bank.

"Even small success gives you the ticket for change. When the traditional units were being outperformed by the new FinTech unit, they started to poach people from the FinTech unit to drive change in other parts of the organization."

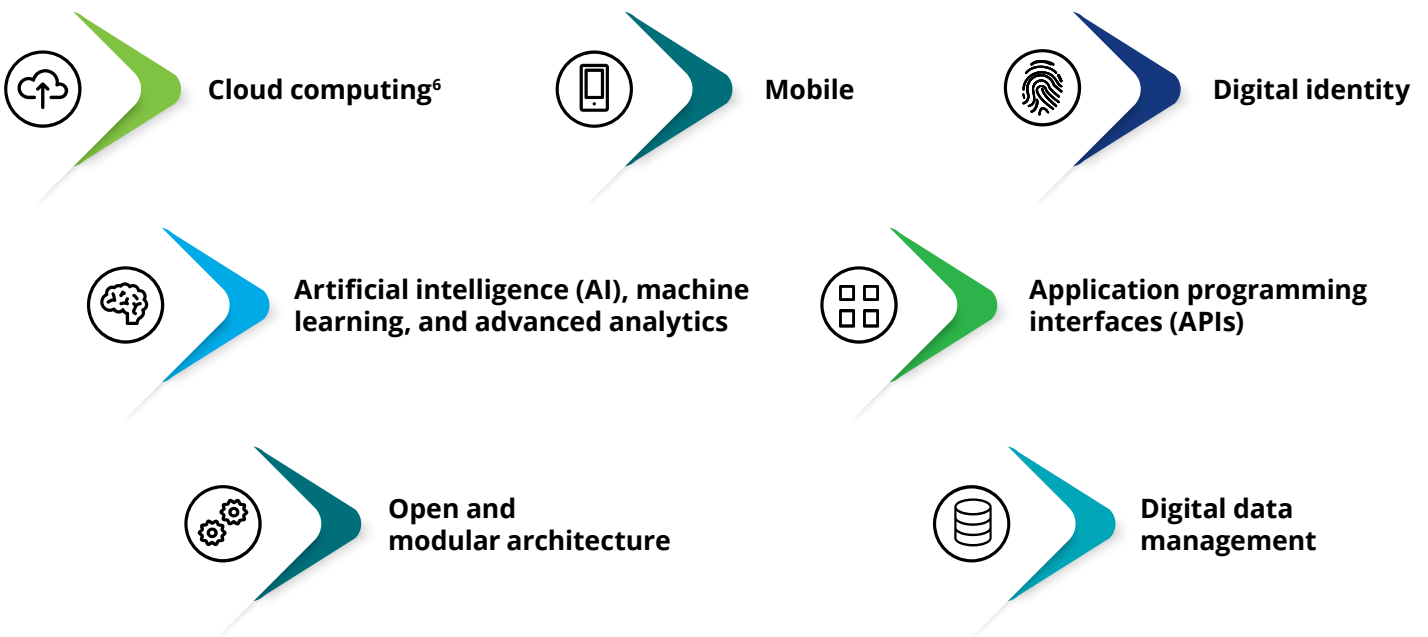
– Head of Digital Policy, Global Universal Bank

Enabling technology

Digital transformation relies on an open, modular infrastructure that allows firms to take advantage of developments in modern technology, and positions them to create new products, new forms of customer engagement, and new ways of working with external partners.

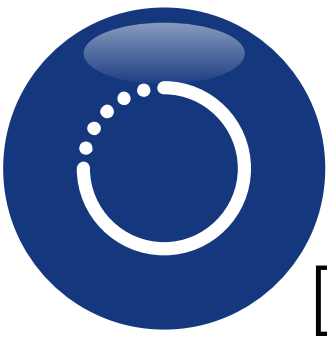
In financial services, however, digital transformation often runs up against legacy IT systems that are based on legacy technology platforms. It may be necessary to replace and/or modernize this infrastructure before FIs can launch their digital journey. Cloud computing in particular is becoming an increasingly critical element of the financial system. The chief digital officer may struggle to lead the organization to digital transformation if the chief information or technology officer hasn't built the foundation for change.

The key technology enablers that comprise a modern technology stack—one that enables digital transformation—include:



FIs should consider transitioning from legacy infrastructure to new, open, and extensible platforms built on these technologies. It can help them continue their digital journey while keeping pace with a digitized economy and rapidly evolving customer base.

“Technology sits at the core of digital transformation, but impetus needs to come from a customer needs perspective.”
– Head of Digital Policy, Global Universal Bank



Digital transformation enablers

With the prerequisite organizational foundations in place, financial institutions can accelerate their digital journey. To boost the odds of success, an early step is to unlock human potential and create an organization that's open to change, resilient to risk, and fit for the future.



Talent and culture for an innovation mindset

Financial institutions aspiring for digital transformation may need to shift away from the culture of universal risk aversion toward a more agile approach that encourages smart risk-taking in the interest of innovation. "Even I needed to change my risk appetite," acknowledges the chief digital officer of an insurance company. "Traditionally, our way to market followed a well-structured project. But getting things to market quicker required a change of approach."

Creating a culture of transformation and change

Sixty-two percent of chief innovation officers believe culture is important for successful digital transformation. At the same time, 46 percent say culture is holding them back.⁷ The type of culture that's friendly to digital transformation is one that can tolerate a certain amount of experimentation and calculated risks.

One way to encourage acceptance of calculated risks in the digital arena is to demonstrate that experimentation needn't be expensive nor labor-intensive. Another way may involve bringing in new leadership talent with no track record in the organization. "Previous decisions—or the lack thereof—often prohibit existing management to take drastic actions which may reflect badly on their historic choices," a study participant observes.

While not always easy, the chief digital officer of a major U.S. bank notes that organizations should not shy away from establishing a culture that encourages self-evaluation and asking hard questions.

Building digital leadership skills and talent pool

The competition for digital talent can take FIs into unfamiliar territory. Some have gone outside the financial services industry to fill executive positions. For instance, ANZ Bank hired a Google executive to head its digital banking group, while Westpac recruited talent from Disney to spearhead the banking group's customer-focused marketing and digital capabilities.^{8,9} Others have formed creative partnerships. For instance, one study participant "partnered with a technology firm—which was a huge tech talent magnet—to attract digital-savvy talent for the InsurTech subsidiary," according to the chief operating officer.

"Changing the historical mindset that experimentation requires lots of people and money to a culture that understands that experimentation can be low-cost; you don't need 100s of people and millions of dollars to do an experiment."

– Head of Innovation, Large Global Insurer

Don't believe there's a single culture for a really large organization, there are lots of sub-cultures, each of which relate to the person leading."

– Chief Information Officer for Digital Channels and Innovation, Major U.S. Bank

FIs aspiring to digital transformation are seeking talent that is well-versed in digital, raising demand for technology-savvy employees with the appropriate mindset. Although financial institutions are lucrative recruiters and attract top talent, competition from technology firms may drive the need for particularly compelling offers for digital recruits—including creative compensation packages with aggressive incentive plans, equity participation, and flexible work schedules. Getting this done, says one chief technology officer, can require “adjusting talent policies for hiring and retention of new talent while adhering to core bank policies.”

“Historically CEOs have an actuarial background, but increasingly we see CEOs come from the sell-side or other different industries such as banking that face the same digital challenges but are further along in their journey.”

– Chief Digital Officer, Major U.S. Insurer

Although compensation is important, it’s not all that matters. FIs must also articulate a clear mission, offer work that has impact, and provide exposure to visionary leadership and top-shelf technology tools. Today’s technology-savvy talent is attracted by challenging and exciting projects, along with opportunities to experiment and work in cross-functional and non-hierarchical environments. For data scientists, the opportunity to work on cutting-edge AI algorithms and interesting datasets is particularly important. One head of analytics at a financial institution acknowledges that retaining data talent is extremely challenging, and firms need to actively rotate talent to new areas and problem sets to keep them interested and engaged.

Amid these efforts, it’s worth remembering that “for lower and middle management, a level of continuity is more important and too much churn can backfire,” as one study participant points out. Another adds that “legacy talent has good understanding of data and risk. It’s a key differentiator against start-ups. What’s required is to selectively infuse new blood into the organization and across the horizontal layer.”



Successful transformation strategy and execution capabilities

Once an organization has the right talent and culture, the next step is to get the “how” of the digital transformation right. For financial institutions, this can mean identifying, prioritizing, and developing different sets of capabilities and approaches to make digital transformation a success per the vision and goals set from the top.

Creating the right organizational structure and operating model

What’s the most effective organizational structure for embedding digital transformation across the enterprise? It depends on the organization’s unique ambitions, its business and technology strategy, and where the organization is in its transformation journey. While some FIs may decide to drive digital transformation from within the organization, others may decide to create ring-fenced teams or units with separate goals and performance metrics. Some firms even go further and create an entirely new entity, such as a subsidiary or division outside the core organization (see sidebar). The ultimate aim with each approach is to embed digital culture, processes, business models, and technology across the organization until they become a way of life.

“Some banks are using a gradual rejuvenation, while some banks choose to build a new bank from the outside.”

– Chief Innovation and Technology Officer, Large European Bank

The first approach, innovating from within, involves experimenting with organizational culture design, reorganizing teams for transformation, and redefining individual roles and responsibilities. This approach lets FIs build on the strengths of their brand and client base, and launch an advanced offering from the beginning. However, one downside is that cultural inertia and entropy can slow down transformation efforts. Another is the challenge of achieving cohesion among teams responsible for transformation of different business areas. This approach is more likely to achieve the desired results as a continuous transformation effort versus a one-time program.

The second approach, bifurcation of transformation teams and day-to-day operations, can catalyze digital transformation efforts by reducing friction within the organization, accelerating the path from ideation to testing, and minimizing impact to business operations. This approach allows FIs to redesign their internal processes and create separate teams and experiment around their operating model. It also tends to be more efficient in enabling the organization to scan the market for digital opportunities and exchange digital-related ideas between business units. A leading insurer took this route, says its chief digital officer, when it “created a separate group of five people just focused on hatching innovation, while staying connected to the area where we were driving innovation.” Integration, however, can be a challenge as gaps appear between the digital and more traditional parts of the business.

Ring-fenced startups within financial institutions

Some financial institutions have established distinct new entities, separate from the core business entity, so their digital units can focus on innovation. Such ring-fenced businesses are unencumbered by complex legacy IT infrastructures and, if adequately sheltered from traditional KPIs, are able to invest in longer-horizon opportunities and alternative, more disruptive business models.

The chief digital officer at a large global bank says that the dedicated FinTech unit at his firm was the key enabler for digital transformation. The chief operating officer of a leading insurer agrees: “Having a digital entity outside the legacy business was the most significant enabler for us, as it did not get sucked into the bureaucracy of the parent firm and we got a clean slate to start with minimal distractions.”

Successful migration of customers to the new platform depends on both product complexity and the business model. According to the chief innovation officer of a leading bank, “While a simple savings account may be easy to migrate, it can get much harder if FIs try to add more complex products such as mortgages or fee generating business.” The hard part is getting clients on board with the migration in a way that suits the board’s risk appetite.

Other drivers can also dictate the validity of each approach. For instance, Marcus by Goldman Sachs was established as a digital platform to expand the firm’s consumer deposits without the cost burden of branch and back-office infrastructure¹⁰. On the other hand, a firm which has most of its existing technology stack or infrastructure on the cloud might choose to transform from within rather than create a startup outside the organization.

No digital transformation approach guarantees success on its own. It’s extremely important for firms to have clarity on which approach they want to pursue based on their organizational strategy, business model, market conditions, stage of transformation, and other drivers. Each of these can play a critical role in choosing a particular transformation structure.

The power of embedded teams

While the right approach to digital transformation is important for fostering innovation, almost all participants agree that integrated, cross-functional teams are key to making innovation stick. In true agile fashion, technology, business, and operations teams work together toward a single goal in order to instill innovation efforts across the organization. One example of this concept is “two in a box,” where financial institutions match every business lead with a technology lead to drive digital initiatives.

Embedded teams can help FIs extract more out of their digital transformation efforts by providing fresh perspectives, increasing transparency, and facilitating integration. An effective embedded team has individual roles and responsibilities that align with the transformation’s goals and specific needs of the organization. Embedded teams aim to promote continuous collaboration among cross-functional team members and other, similar teams in the organization.

However, challenges can arise when people of different mindsets and backgrounds start working together. The chief operating officer of a major insurer notes that blending diverse groups is difficult and often takes time. Friction among team members can arise from pay disparities between new digitally savvy talent and longtime employees, as well as when existing employees feel digital transformation is superseding their skillset. When people with different backgrounds and skillsets are clear about their role in the team and are ready to collaborate toward a common goal, the full benefits of embedded teams become that much easier to achieve.

Empowering and equipping employees to think digitally

Although the appropriate talent mix is essential, tools and processes that empower and equip transformation agents can accelerate the pace of digital initiatives. Executives in our study acknowledge that empowering employees to take calculated risks and delegating decision-making authority are key enablers to digital transformation. For some firms, this can mean moving from a hierarchical to an empowering management style. When employees have a say on what digital initiatives to pursue and where, they’re more likely to report success. Empowerment also involves giving employees the right tools to learn, grow, and control their autonomy in their transformation efforts.

Organizations also may need to help employees develop the right skills to keep up with a fast-paced and dynamic business environment. Hiring for mindset over skillset is particularly relevant given the speed at which job requirements are changing. Moreover, participants in our study recognize a strong need to teach employees to be innovative and experiment methodically. This includes embracing a test-and-learn mindset and piloting new concepts with a willingness to walk away. For organizations, this implies a willingness to sacrifice short-term profit or productivity for success and innovation over the longer term.

Creating the headspace to explore

Some FIs have taken the creative approach of letting employees operate at flexible or reduced capacity to carve out the spare time and headspace to innovate. This reflects Google’s well-documented policy of encouraging employees to spend 20 percent of their time working on side projects with greatest benefit to the company¹¹.

In a similar vein, one chief innovation officer cites legendary athletics coach Bud Winter, whose book *Relax and Win* encourages athletes to train at 85 percent capacity¹². The slack can give people time to breathe and shift their thinking in order to foster innovation.

To be effective, however, this mandate needs to be clearly established from the top. If employees are engaged at full capacity, they may simply keep on doing business as usual without stopping to consider bigger opportunities, thereby leaving the organization vulnerable to disruptive market forces.



External collaboration and proactive engagement

Study participants acknowledge multiple challenges can arise from other parts of the ecosystem (e.g., regulators, partners, investors), prompting financial institutions to explore steps to tackle these challenges. Globally, a common theme is the need for FIs to proactively engage with external entities to increase awareness of the benefits of digital transformation to the industry, and to collaborate effectively to overcome some of these challenges.

Engaging with regulators

Most regulators have exhibited a collaborative mindset and the IIF's impression, when sharing insights on industry developments, has overwhelmingly been that regulators are anxious to learn more. Regulators are increasingly recognizing the benefits of digital transformation in modernizing financial institutions' infrastructure and customer relevance, and in improving these firms' ongoing stability and viability. Lithuanian central bank board member Marius Jurgilas observes that regulators historically have been disinclined to support risky experimentation—but this is changing, and regulators' focus now is on enabling safe innovation.¹³

“We really need to take our subject matter experts to see the regulator directly. Those are the people that can help the regulator to understand, in a way that our compliance or policy people can't.”

– Chief Innovation Officer, Major European Bank

Even so, regulators often are trying to catch up and “anything we can share with them is helpful, especially in showing how we're working to ensure we protect the client,” one major U.S. bank innovator highlights. While many FIs echo this view, some report that the collaboration process can still be unduly formal or protracted. Engagement can also be limited by circumstance, such as when innovators meet with officials that are not the decision makers or where certain dynamics may disincline a firm from being fully open with regulators. As the chief innovation officer of one bank observes, “It becomes difficult to collaborate with someone looking over your shoulder and trying to catch you.”

Nevertheless, mutual openness—as well as greater speed and agility—can certainly be beneficial, and collaboration between FIs and their regulators is an important ingredient for success. To this end, financial institutions can do their part to proactively engage with their regulators and supervisors.

According to FI innovation leads, connecting subject matter experts with regulators early on is critically important because FIs' interpretation of regulation can be a bigger barrier than the regulation itself. FIs often rely on regulatory affairs specialists who might be several arms' length from the factual matter, blurring interpretations and reinforcing the natural conservatism within the organization. A bank chief digital officer says that most FIs interpret regulations as “preventing the use of data, but I don't think that's what regulators mean. Regulation can be an asset for us, but we need to get our risk team and compliance partners to align on ways to resolve this.”

FinTech and RegTech associations have been instrumental in some jurisdictions, helping to upskill supervisors on new technologies and applications. From the official sector, the European Commission has convened expert groups to help identify regulatory obstacles to financial innovation.¹⁴ And the world-leading Monetary Authority of Singapore has embraced direct collaboration with the financial industry, such as with its Veritas framework to promote the responsible adoption of AI and data analytics.¹⁵

Collaborating with external partner ecosystem

FinTech collaborations present FIs with challenges beyond those associated with new digital services. For instance, many FIs find themselves having to educate FinTechs on what it means to work with a regulated institution while trying not to impose unnecessary security and other procedures. According to the chief digital officer of a leading banking institution, “Partnering with FinTechs is an issue because of risk and regulatory burdens. It’s extremely onerous to inherently agile FinTech firms when we hold them to every standard we have.”

Another key challenge is overcoming inherent philosophical differences between established institutions and FinTechs. To mitigate this, FIs can engage early and accelerate their dialogue with FinTech partners, recognizing the strengths and weaknesses in their respective models.

Other steps can help FIs improve the way they interact with FinTech partners while maintaining operational risk standards. A senior vice president at a financial services firm suggests that FIs identify a key internal stakeholder who can help FinTechs navigate the organization and provide the right information and more transparency during partnership discussions. A strong business anchor—champion or sponsor—also can help FIs work with FinTechs more effectively. At a leading African bank, “small multidisciplinary teams (including risk and compliance) were involved in a FinTech partner project,” according to the bank’s head of digital.

Some executives told us that upskilling their employees, and providing them with advanced technology training, can better position their organizations for collaboration with FinTechs. One leading U.S. bank is taking an innovative approach by helping startups prepare for how they present their proposition to the bank, spending time with the founders and reviewing pitch materials. Another participant in our study suggests that diligently understanding the startup’s proposition, and being intelligent about where to start, can be extremely helpful as well.

Finally, an alternative to partnering with start-ups is investing in FinTech instead. Although this approach may miss out on scale, it can strongly align interests and change FIs’ understanding of FinTech issues.

Convincing investors

One of the key challenges for FIs is managing investors’ expectations around digital transformation initiatives. While investors in FIs are generally focused on stable returns, especially for insurance carriers, digital transformations have longer timeframes and demand large investments. Participants in our study acknowledge that it’s hard for investors to commit to a significant three to five-year transformation, and management teams often find themselves caught between short-term profitability and long-term transformation efforts. Moreover, investors in global financial businesses remain skeptical that industry leaders can deliver the kind of returns seen in the technology sector, and this same skepticism extends to digital transformation programs. A large majority of investors feel that FIs can do more to articulate a clear and credible transformation agenda with respect to costs, benefits, and timelines.

Still, convincing investors that digital transformation is indispensable to surviving and sustaining competitive positioning in the future is something few FIs can avoid, as there are significant costs and risks to doing nothing. The first and most important step is to help investors understand the risk of disruption from changing customer preferences and technological advancements. FIs can educate investors on the long-term benefits and strategic imperative for the transformation, as well as the roadmap and organizational ability to execute on such a transformation.

Aligning investors on the economic and non-economic benefits for the firm also can build support for the transformation effort, say study participants. Although it can be difficult to get investors onboard, proactive communications on the digital transformation and strategic plans can help prevent market overreactions and undue pressure on management during this transition. The flip side to transparency, however, is the expectation to build trust and consistently deliver concrete results, which can be difficult depending on time horizons and investor motivations.

The most effective ways to gain investor trust are to showcase even the smallest digital transformation success stories and deliver results in the short term (parallel with longer-term goals). Such efforts can brand the financial institution as innovative and build investor confidence along with a sense of pride. Underscoring the point, the chief digital officer of a leading bank points out that creating a lot of noise around digital transformation initiatives—plus sharing those success stories to press, media, and investors—can help garner investor support. Another study participant recounts stumbling upon a small digital initiative in which the organization partnered with a leading tech company, creating a lot of buzz. This initiative positioned the company as an innovative bank and turned out to be the key catalyst in setting up a FinTech unit and enabling digital transformation on a broader scale.

Gaining investors' buy-in is a continuous journey, and financial institutions need to constantly seed the ground through press releases, thought pieces, and validation from industry leaders to make the case for digital transformation.



Conclusion

No one-size-fits-all playbook can ensure successful digital transformation. Still, in the course of our study, we heard that doing “the right things the right way” can boost any organization’s efforts along their transformation journey. When discussing key enablers to digital transformation, most of the global leaders we interviewed touched on five overlapping themes:



Customer centricity



Organizational foundations



Talent and culture for an innovation mindset



Successful transformation strategy and execution capabilities



External collaboration and proactive engagement

For each of these themes, we outlined multiple levers that FIs can pull to achieve the desired results with their digital transformation efforts.

We also heard from our participants that some things lie beyond their control. These include actions of regulators and policymakers, along with the emergence of non-finance players, FinTechs, and more. Although FIs can affect their business environment, real control is restricted to what they can achieve internally.

In the third report of our series, we’ll discuss the external ecosystem and how it can help FIs in their digital transformation journeys. As part of this, we’ll investigate what influence the external ecosystem will have on FIs in overcoming some of the challenges associated with the digital transformation outlined in our first report.

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