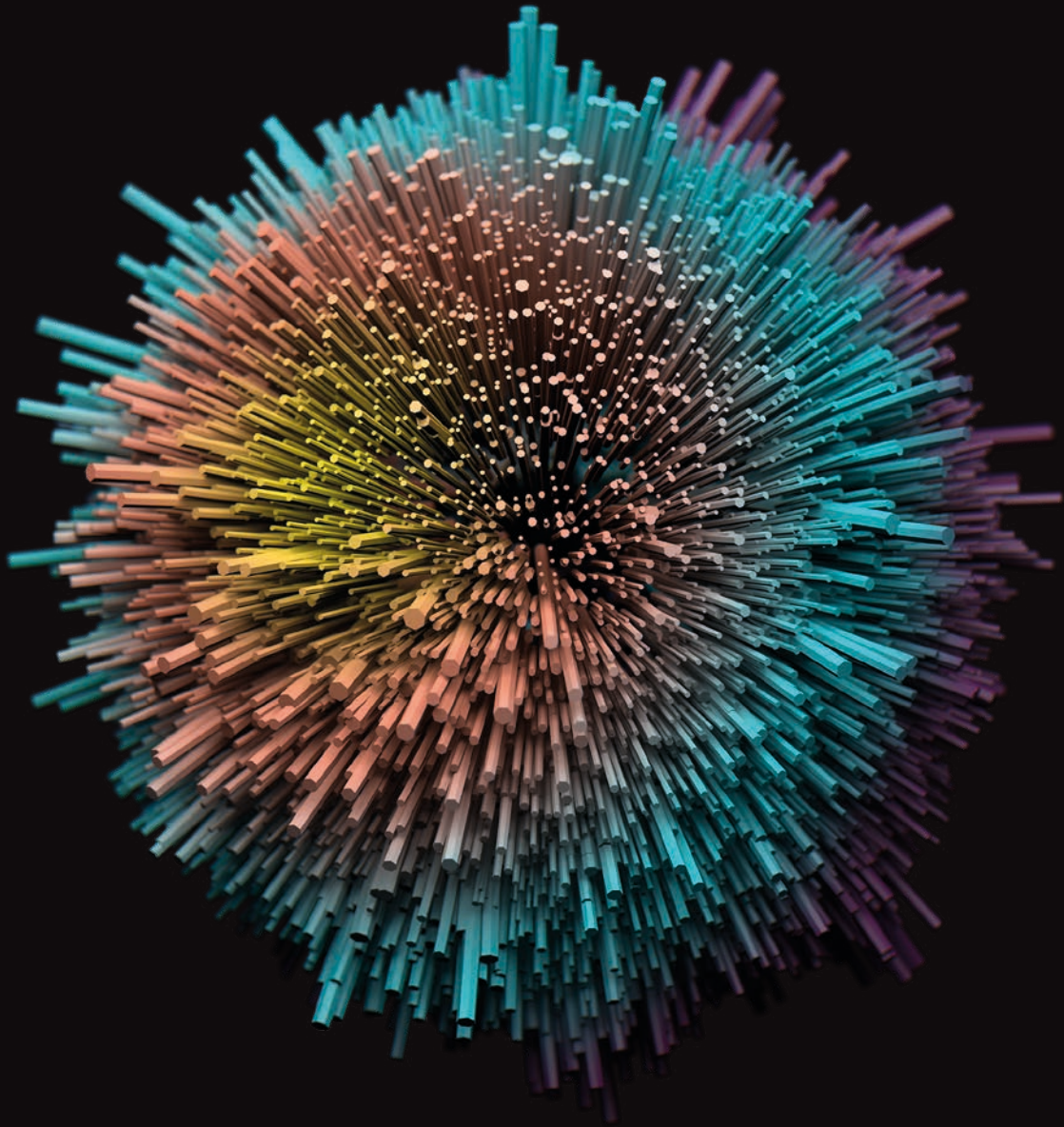


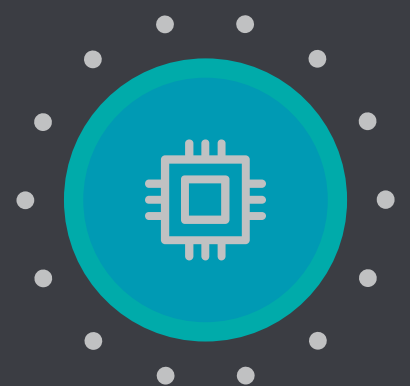
Deloitte.



Shapeshifters

The changing role of the CIO in financial services

Information technology (IT) in financial services has traditionally been viewed as an operational detail that takes a backseat to business strategy. But in today's technology-driven world, strategy and IT are inextricably linked. In fact, more often than not IT is now the primary catalyst for competitive advantage and strategic disruption in financial services. Every company is a technology company at its core. This is especially true in financial services, creating the need for a new kind of Chief Information Officer (CIO).



Contents

The stretch and squeeze affecting financial services	2
Expanding the role of the CIO	3
The shape of things to come: Four new roles for future CIOs	4
Rising to the challenge	8
Contacts	9



The stretch and squeeze affecting financial services

This is a remarkable era of industry transformations, with financial services at the forefront of the squeeze and stretch of many seismic market shifts. This evolving landscape presents the CIO with the opportunity to expand their role and advance opportunities to elevate their company as it's primary agent for change – but there's a lot of ground to cover.

The squeeze is coming from today's consumers. Technology-driven innovations have raised customer expectations and transformed the competitive landscape for financial services.

Established financial institutions face omnipresent pressures to innovate and modernize their technical frameworks in the face of disruptive challenges from new sources of financial services, such as PayPal and Betterment. At the same time, customers have come to expect ever-increasing levels of reliability and personalization. Financial services companies today aren't just competing against other financial services companies; they are competing against the expectations established by the best digital companies in every industry, including Amazon and Facebook. These innovative companies are steadily raising the bar for all businesses by conditioning the public to expect superior customer experiences that are constantly improving and expanding.

This shift in consumer behavior has fundamentally impacted the industry's regulatory landscape, as global data regulations undergo a period of evolutionary change to protect and empower citizens, opening financial services to new markets in the process.

The stretch is coming from new technology. A confluence of technologies, which were previously referred to in the market as "emerging," are now becoming mainstream, and quickly moving toward "required" to compete in today's marketplace.

The potential for technology to drive massive structural change and disruption in financial services is most clearly demonstrated by the FinTech revolution. Global FinTech investment nearly tripled in 2014 to US\$12.2 billion, with thousands of FinTech companies now churning out a continuous stream of breakthrough innovations to improve payment processes, reduce fraud, promote financial planning, and save users money.¹

These fast-moving companies often operate at the edge of the marketplace where they are relatively unencumbered by regulation and the status quo, enabling them to focus on customer needs and push the financial services industry forward at an unprecedented pace.

Underlying this competitive landscape is the new currency for competitive advantage: data. Established financial institutions have a wealth of data to garner insights and advantage from, but face lagging behind if they cannot access this rich information from legacy systems.

Although this rapidly evolving landscape poses a threat to existing products and business models, it also opens the door to tremendous new growth opportunities for institutions with the leadership and drive to capitalize on them.



¹ <http://www.technologyrecord.com/Article/investments-in-financial-technology-almost-tripled-in-the-us-in-2014-46782>

Expanding the role of the CIO

Traditionally, a CIO's primary role has been to oversee and manage an organization's IT systems, resources, and investments: responding to requests from the business for new systems and capabilities; overseeing internal IT development, operations, compliance, and maintenance; and perhaps most important, ensuring the organization's systems are always up-and-running and ready to support the business.

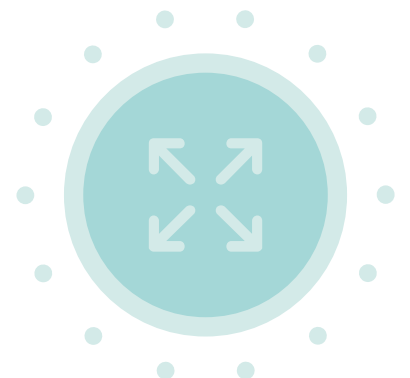
However, with the continual adoption and immediacy of digital tools generating more data and insights about consumers and organizations than ever before, coupled with the shift from internal to external IT resources, the traditional role of the CIO is rapidly expanding.

As the synergy between digital and data technologies power much of the future business strategy, the CIO must become ever more fluent and influential in the business issues.

According to Deloitte's 2018 global CIO survey of more than 1,400 IT professionals, more than half of CIOs serve as "trusted operators," with a focus on IT efficiency, reliability and cost containment. However, less than 10 percent of today's CIOs are digital vanguards – leaders who align their business and digital strategies.²

In this rapidly shifting business environment, financial services institutions need visionary technology leadership, particularly in the emerging technology areas that may ultimately determine which companies win or lose.

This is an immense opportunity for CIOs to elevate their business value and strategic impact; however, it also presents significant challenges. In order to meet their companies' needs, they must play a very different role and provide value in very different ways.



² Deloitte Insights article, "Manifesting legacy: Looking beyond the digital era" – 2018 global CIO survey, preface and chapter 1.

The shape of things to come: Four new roles for future CIOs

To help companies successfully operate and compete in a financial services marketplace driven by technology, CIOs need to adapt their capabilities and elevate their responsibilities in four key areas.

Strategist and visionary

The CIO's role in shaping strategy has been expanding for years. However, in a world increasingly driven by technological innovations, having a seat at the strategy table is no longer enough.

CIOs must now play a lead role in developing their companies' business strategy by having a stronger voice in key decision-making bodies and work closely with leaders across the enterprise to educate and envision how new technologies can enable new products, and business strategies to deliver end-consumer value. To help move the organization up the maturity curve, CIOs should be seen as respected leaders who generate creative solutions and drive shareholder value.

To do this, CIOs need to stay abreast of new and emerging technologies – such as Cloud, AI, Blockchain, and Quantum Computing – as well as emerging businesses and market opportunities that are enabled by those technologies.

This will require organizations to establish their own advanced “sensing engines” – small teams tasked with helping decision-makers stay abreast of innovations and disruptive threats by identifying and assessing emerging technologies, trends, and alliance partners so they can understand the potential impact, and separate hype from reality. Businesses that rely solely on analysts and the media are at a greater risk of being left behind.

A deep knowledge of the financial services business and marketplace, as well as keeping abreast of the customers' evolving needs and expectations, and how new and emerging technologies align with their business priorities to drive transformational innovation is key to the successful development of these teams.

New frameworks will also mean reshaping how IT is organized and delivered to adopt new operating and delivery models that balance risk and agility to drive IT at the right speed.

In addition to these new roles, CIOs of the future will still have many of the same responsibilities they had in the past, particularly fiscal and operational responsibility. Winning the war for top technical talent will be more important than ever as the impact of technology in financial services continues to rise, and organizations should focus on their existing talent through developing a culture of continuous learning.



Bridging the gap between the past and future

The recent World Economic Forum report, “Understanding how artificial intelligence is transforming the financial ecosystem,” found that 75-80 percent of bank IT spend is on maintaining existing core banking systems, and is expected to continue to hinder profitability.³

Unlike start-ups, incumbent institutions have extensive IT infrastructures and legacy systems that enable them to run their existing businesses. CIOs have often been left with core legacy technology that now constricts their organization’s technology adoption, data mining and speed to market. When moving into the future, these existing assets can be a disadvantage or an advantage depending on the company’s technology strategy.

So, which established systems can be modernized, adapted and leveraged? Which systems are impediments that need to be replaced or scrapped?

No one is better positioned than the CIO to answer such questions, and to figure out how to harness existing IT assets and capabilities in conjunction with new technologies and ecosystems to meet the company’s current needs, while positioning it for the future.

This will require the ability to operate at two different speeds: partnering with, innovating and developing cutting-edge technologies at start-up speed, while at the same time continuing to carefully and efficiently manage their core legacy assets.

Even in a cost-efficient technology-driven marketplace, CIOs can expect to face continued budget constraints and will need to keep making smart decisions about which technologies to invest in, and leverage data beyond the line-of-business P&Ls to holistically grow the whole enterprise, rather than chasing after every shiny new object.

Another major switch in the mindset of leadership is the increasing adoption of both customer-first and market-first business strategies. As organizations start to look from a perspective of “what is it that the consumer wants to do?” they must also consider how that customer experience is going to be delivered from front to back. Technology delivery principles such as Agile and Spiral, familiar terms to the CIO, become useful tools that can be used holistically by the business, so educating their C-Suite colleagues on these methodologies is an important step toward developing a technology-fluent business culture.

CIOs will likely need to implement a strategy that defines the roadmap around their core IT footprint with the mutually reinforcing interactions of a new technological framework to balance business needs, technical realities, and priorities. Failing to do so could not only limit the returns on the company’s most entrenched assets but could lead to reactionary tactical movements from business implementing IT functions or allowing vendors to dictate investment priorities.



³ <https://www2.deloitte.com/global/en/pages/financial-services/articles/artificial-intelligence-transforming-financial-ecosystem-deloitte-fsi.html>

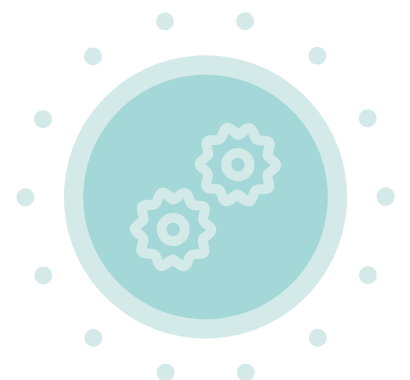
Ecosystem orchestrator

Now that IT services can be obtained in so many different ways – including Cloud platforms, established technology vendors, start-ups, external service providers and developers, alliances, acquisitions, and open source communities – a CIO's job can no longer revolve around managing and overseeing internal IT activities and resources. This new plug-and-play infrastructure requires an additional focus on both vendor procurement management, and the ability to recognize the intersection between the different parts of the technology ecosystem.

What's more, CIOs now need the ability to communicate and collaborate across organizational boundaries – not just with business unit leaders and traditional C-Suite, but also with new leaders such as Chief Digital Officers, Chief Innovation Officers, Chief Data Officers, and Chief Customer Officers – as well as with leaders of external organizations and third-party service providers. And as financial services offerings become increasingly intertwined with other sectors such as retail, public sector, and healthcare, CIOs may also need to help their companies understand and manage connections to new business partners in other industries.

Finally, as more and more leading-edge technologies become available for use, such as AI, Quantum Computing, and Blockchain, the CIO must also act as the "hype-filter."

The balance lies in ensuring that the technology adopted meets the business' core objectives and how aggressive they wish to be seen in terms of adoption. As interesting and cutting edge a new technology may be, it must fit its role in the organization – to help the business meet its goals.



Start-up leader

To keep pace with technology-driven start-ups that are fast, nimble, and innovative, financial services CIOs need the ability to operate their own organizations in a similar fashion. That means developing innovative new systems and capabilities at start-up speed, without being impeded by organizational culture and inertia, politics and bureaucracy, legacy systems, and the status quo. Agile software development methods can help by promoting adaptive planning, flexible development, rapid delivery, and continuous improvement. However, in an ecosystem-oriented environment it is just as important to know when and how to acquire IT services and capabilities externally by buying, renting, or partnering, rather than building everything from scratch. Internal development should generally be reserved for systems and capabilities that are truly differentiated and strategic.

To get things started more quickly and efficiently, more and more financial institutions are strategically partnering with world-class incubators and accelerators both to accelerate their own pace of technology adoption and to identify potential acquisitions.

In addition, some institutions are creating their own FinTech accelerators and investment funds. Others are creating separate start-up “challenger” businesses that can freely pursue revolutionary digital innovations, even as they continue to improve their established “champion” businesses through a more evolutionary approach, leveraging the challengers’ revolutionary innovations once they have been proven. The key is to have a portfolio of innovations to tap into as the market unfolds, rather than being locked into a single course of action.

To ensure these deliveries are successful, the business should look to build cross-functional teams made up of change, business, and technology assets, all working collaboratively. The teams should deliver in small, testable chunks, to allow the customer and market to respond warmly to the change. By incrementing business transformation in this way, the business can adapt according to both internal and external changes.



Rising to the challenge

The financial services marketplace is experiencing unprecedented change and technology is the driving force. To compete effectively, companies need visionary technology leaders who can steer them into the future. This is an exciting and challenging time for financial services CIOs.

Their expanding new roles provide tremendous opportunities for increased business value and strategic impact; however, they will likely involve taking on new responsibilities and demonstrating new capabilities that may be very different from before and requires an amplified and strategic leadership approach.

Striking a balance between operator, innovator, and integrator is the true challenge for leadership roles in financial services today. Are CIOs ready to meet the challenge?



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