

Where are banks and insurers on their **digital mastery** journey?

Status Check



Global Digital Mastery Research Series:

Financial Services



Introduction

The financial services industry is in the epicenter of a perfect digital storm. It faces rising customer expectations, increasing regulations, ever-growing competition from digital-native firms and FinTech startups, and relevancy challenges in a world of connected services and sharing economies. How organizations battle the storm – and their ability to deliver their digital strategies – are critical.

Our 2018 global research study, *Understanding Digital Mastery Today*, took a deep dive into digital transformation, drawing on the views of more than 1,300 executives from over 750 organizations around the world. Building on what we learned from that cross-sector program, our latest study focuses on financial services (FS). We surveyed over 360 executives in 213 organizations that represented approximately \$1.67 trillion in combined 2017 revenue. Participants from both banking (200 respondents in 125 organizations) and insurance (169 respondents in 88 organizations) were surveyed.

This report focuses on three key areas:

1. How financial services firms stack up against other sectors in terms of digital and leadership capabilities
2. How the two sectors – banking and insurance – measure up against each other in both digital and leadership capabilities and the challenges that stand in the way of them achieving their ambitions
3. The practices that separate financial services digital masters from the rank and file as well as recommendations for how to build digital mastery.

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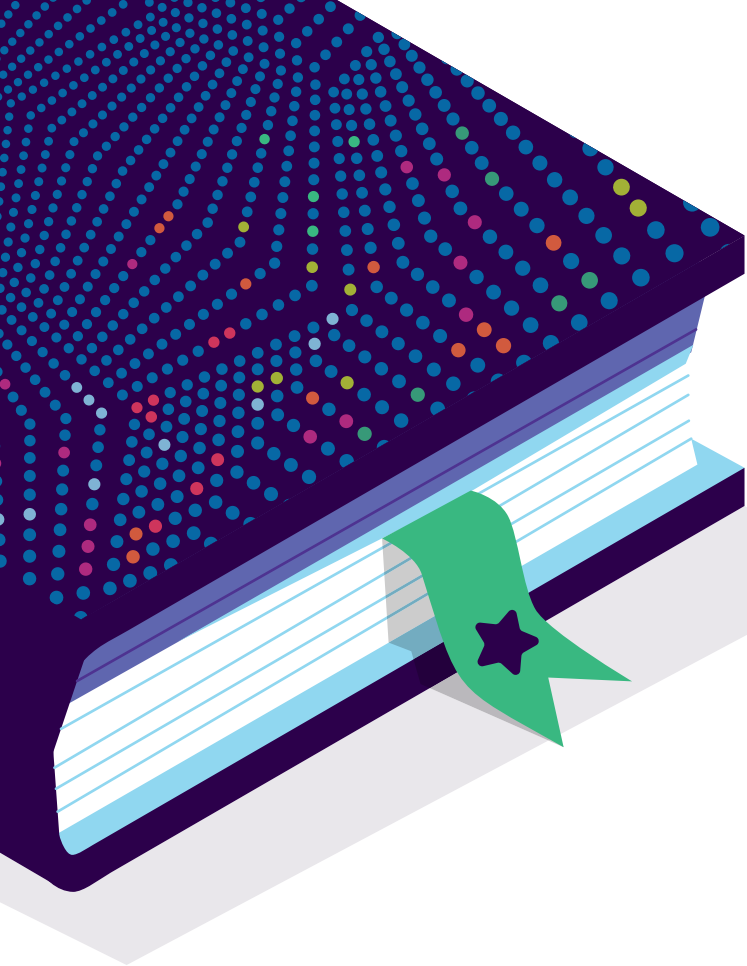
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The scale of change in this new, open world is huge. It's not just a minor tweak – the change is fundamental. To be disruptive, you must produce something new and creative. We're looking for things that can be delivered into the hands of our customers at scale. That's our goal.”

Kevin Hanley,
Head of Innovation, Royal Bank of Scotland.

Executive Summary – Key Takeaways



Digital and leadership capabilities have not kept pace since 2012

- In our 2012 research, 41% of financial services firms said they had the digital capabilities they needed. But six years on, our 2018 research shows that rather than progress and gains, fewer now believe they have the required capabilities. Sentiment has dropped to 37% as organizations comprehend the complexities of the journey and the challenges of successful digital transformation.
- In 2012, 51% of the sector's organizations said they had the leadership capabilities required for transforming successfully. However, this fell to 41% in 2018.



The transformation imperative takes center stage in banking, while insurance plays catch-up

- Although banks' digital transformation journeys are underway, the industry has reached a crossroads as it attempts to meet the rising digital expectations of customers, manage cost pressures, and compete with technology upstarts. Fewer than half of banks (38%) say they have the necessary digital and leadership capabilities required for transformation.
- Insurance is catching up with its banking peers. Only 30% claim to have the digital capabilities required and 28% the leadership capabilities necessary.



The practices that differentiate digital masters and the road to digital mastery

Drawing on our research, we identified a group of high-performing organizations, which we call our “financial services digital masters”. We examined what they do differently in terms of digital capabilities and leadership capabilities. We found that they:

Align capabilities on the customer journey and invest in customer intelligence

- **Banks:** Focus on aligning cross-functional teams around customer journeys to deliver with agility
 - We found that banks are leading other sectors in terms of their customer experience capabilities, but there is still ample opportunity to improve the customer journey. Sixty-four percent of the banking sector’s digital masters have “created personae and journey maps to identify and serve customers better.”
- **Insurance:** Invest in customer intelligence to shift to customer-centric models
 - The insurance sector’s digital masters are focused on extracting real-time and actionable insights to optimize products and customer engagement, with 79% of insurance digital masters pushing customized offers that closely meet the wants and needs of consumers. Open APIs will also help the insurance sector to integrate broader and deeper customer data from sources such as social media, retailers, smart devices, and even competitors.

Adopt the operating models of tomorrow – collaborative, innovative, and agile

- **Banks:** Embrace ecosystem thinking and drive an API strategy
 - Banking digital masters focus on collaborative models with third-party players and support open APIs to offer customers new services. We found that 64% of banks actively work with a wide ecosystem of partners – such as startups, incubators, technology firms, and even competitors – to co-develop solutions.
- **Insurance:** Cultivate agility, speed, and scale to design and create next-generation capabilities
 - The insurance sector’s digital masters focus on agile business models, and are quick to test ideas, fail fast, and learn faster. Sixty-three percent of insurance digital masters said that they test promising ideas quickly as a proof of concept (PoC) or a minimum viable product (MVP).

Develop a culture that is balanced between both customer and employee centricity and build an effective governance structure

- **Banks:** Focus on nurturing a culture based on bottom-up innovation and experimentation
 - To remove innovation obstacles, the banking sector’s digital masters are working to simplify funding procedures, implement digital tools and technology platforms that enable rapid development, and provide a platform for employees to execute those ideas. Banking digital masters are constantly evolving organizations which embrace a culture of test, learn and evaluate what works, and if this does not work, they move ahead.
- **Insurance:** Establish collaborative governance frameworks
 - Digital governance is a balancing act – to allow for flexibility, organizations need to define guardrails rather than strict rules. We found that that 58% of the insurance sector’s digital masters have a digital unit and 67% say they have adjusted role descriptions and KPIs to align with their digital transformation objectives.

Digital and leadership capabilities have not kept pace since 2012

“We believe that a successful digital transformation means a complete digital reimagination of all essential business verticals.” —Mrutyunjay Mahapatra, managing director and CEO of India’s Syndicate Bank and former chief digital officer of the State Bank of India.¹

We established our digital mastery framework in 2012 based on two dimensions – digital and leadership capabilities:

- **Digital capabilities** cover the use of technology to change how a company interacts with customers, operates internal processes, or defines its business model.
- **Leadership capabilities** are about creating conditions required to drive transformation. In 2012, they included the transformation vision, a governance model to lead the journey, necessary information technology and business relationships to produce results, and employee engagement throughout the journey.

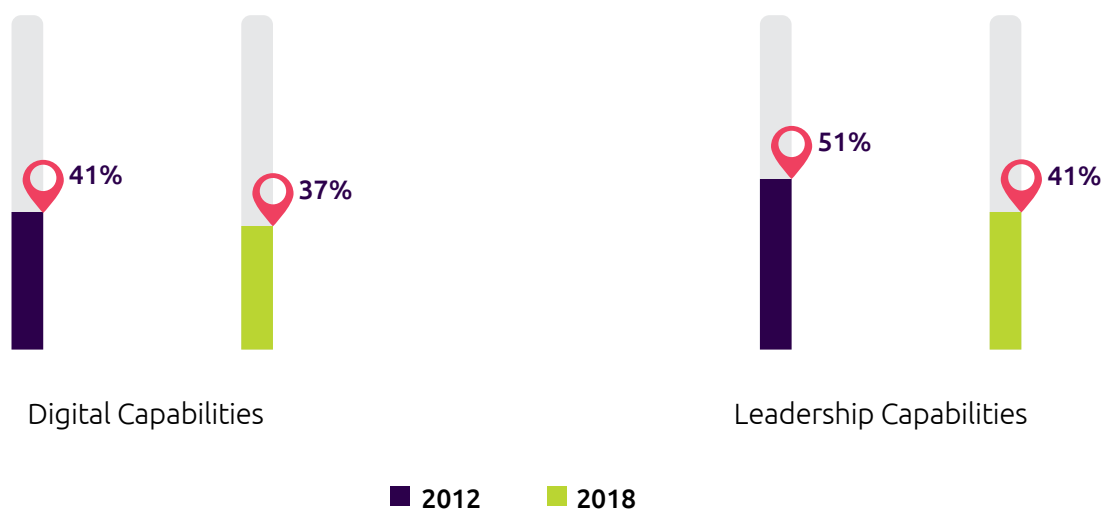
In this section, we examine an apples-to-apples comparison between our 2012 and 2018 research so that we can gauge what progress has been made. What we have found is that firms have, in fact, taken a reality check on the capabilities required for success:

- In 2012, as Figure 1 shows, 41% said they had the digital capabilities they needed.
- In 2018, this dropped to 37% as they reach a deeper comprehension of the complexities of the journey and the challenges that stand in the way of successful digital transformation.

This reality check reflects a number of pressures on the industry: the rapid pace of technology innovation, the ever-growing expectations of markets, employees, and customers, the relentless drive to attract the right talent, and the emergence of disruptive business models and value chains.

Figure 1: Financial services organizations that believe they have the digital and leadership capabilities needed: 2012 versus 2018

Percentage of financial services organizations believing they have the required capabilities



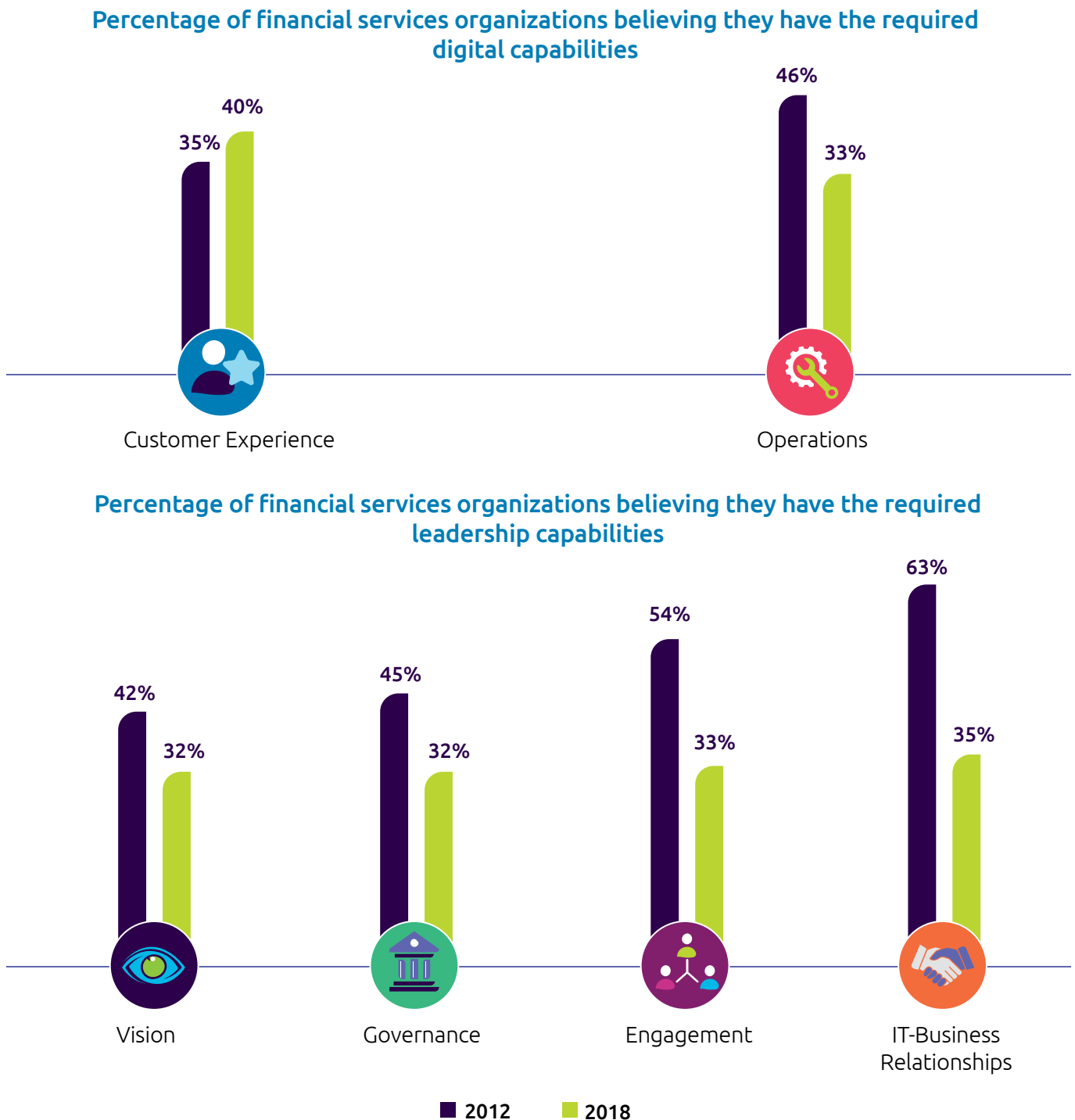
Source: Capgemini Research Institute, Digital Mastery Survey, April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=369 financial services respondents, N=213 financial services organizations; Capgemini Consulting and the MIT Center for Digital Business, “The Digital Advantage: How digital leaders outperform their peers in every industry,” 2012, N=391 all-sector organizations, N=59 financial services organizations.

*Questions used in this analysis are the same in 2012 and 2018.

Capability building has improved in some areas. For instance, 40% say they have the customer experience capabilities in place, up from 35% in 2012, but only 33% said they have the necessary operations capabilities (down from 46% in 2012).

As Figure 2 shows, we also found that mastery of the required leadership capabilities has also fallen in a range of areas, from vision to governance.

Figure 2: Financial services organizations that believe they have the digital and leadership capabilities in place: 2012 versus 2018



Source: Capgemini Research Institute, Digital Mastery Survey, April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=369 financial services respondents, N=213 financial services organizations; Capgemini Consulting and the MIT Center for Digital Business, “The Digital Advantage: How digital leaders outperform their peers in every industry,” 2012, N=391 all-sector organizations, N=59 financial services organizations.

* Questions used in this analysis are the same in 2012 and 2018.

Our digital mastery framework categorizes industries and organizations according to their relative digital mastery

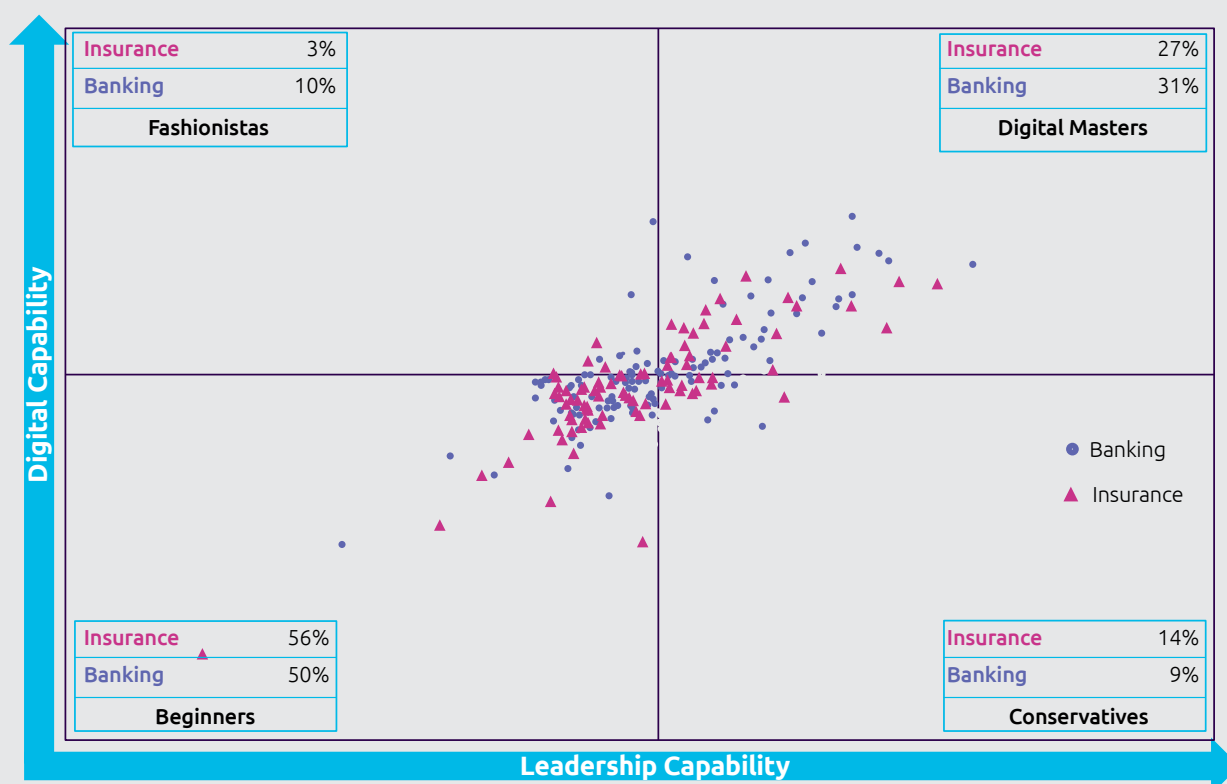
- Beginners – low mastery of both digital and leadership capabilities
- Conservatives – mastery of leadership but not digital capabilities
- Fashionistas – mastery of digital but not leadership capabilities
- Digital masters – mastery of both digital and leadership capabilities.

Of the industries we surveyed in 2018, insurance had the highest percentage of digital beginners (56%) and the lowest percentage of digital masters (27%) compared with all other sectors (see Figure 3).

Digital mastery in insurance varies widely by product line and distribution model. Property and casualty transformation is more advanced than life insurance, and many agent-heavy firms are laggards in exploring digital opportunities.²

Figure 3: Less than a third of financial services organizations are digital masters

Distribution of banking and insurance organizations by the four groups of digital mastery



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations; George Westerman, Didier Bonnet and Andrew McAfee, "Leading Digital: Turning Technology into Business Transformation," Harvard Business Press, 2014.

Thirty-one percent of banking organizations are considered digital masters. However, banks are embracing digital transformation at different speeds, with around 50% of banking organizations falling within the beginner category.

Many banking executives still think of digital as touchpoints or technologies rather than thinking strategically about how they can create and exploit digital assets to deliver new sources of customer value, improve customer experience across touch points and increase operational agility.³

The transformation imperative takes center stage in banking, while insurance plays catch-up

In our 2018 research, we evolved the original 2012 model in both the digital and leadership dimensions. This was to reflect the latest advances in technology, the employee experience, and culture and talent (refer to Figure 13 in the appendix for more details).

Today, many banks are embarked on their digital transformation journeys as they attempt to meet the rising digital expectations of customers and manage cost pressures. Royal Bank of Scotland's head of innovation, Kevin Hanley says, "The scale of change in this new, open world is huge. It's not just a minor tweak – the change is fundamental. To be disruptive, you must produce something new and creative. We're looking for things that can be delivered into the hands of our customers at scale. That's our goal."⁴

An older demographic, underwriting expertise, and regulatory requirements have somewhat shielded the insurance industry from disruption.⁵ However, the industry has now reached an inflection point. Tech-savvy consumers are demanding seamless access to personalized services via a range of

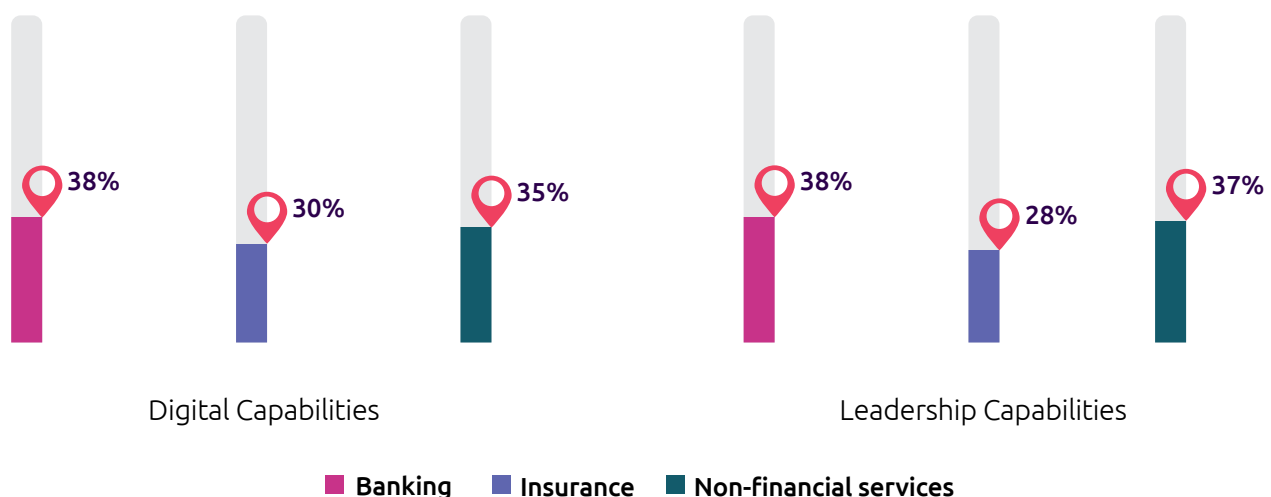
channels, a host of InsurTech upstarts are ready to fill the digital gap, emerging technologies (e.g., blockchain, artificial intelligence, internet of things) and the sharing economy are posing new risks to the sector, and core business margin pressures are rising.

"The insurance market itself is also going through some fundamental changes. The way we interact with big broker communities is changing from being very paper-based to being much more API-based," says Ian Penny, Group CIO at Hiscox, a Bermuda-based insurer listed on the London Stock Exchange.⁶

Figure 4 compares the capabilities of these sectors against the non-financial services average. In banking, 38% say they have the necessary digital capabilities and 38% also say they have the required leadership capabilities, which exceeds the non-financial services average. However, only 30% of insurance organizations claim to have the digital capabilities they need and 28% the leadership capabilities. This means that the industry not only falls below banking it also lags the non-financial services average.

Figure 4: The banking sector advanced its transformational capabilities while insurance fell behind

Percentage of organizations believing they have the required capabilities in 2018



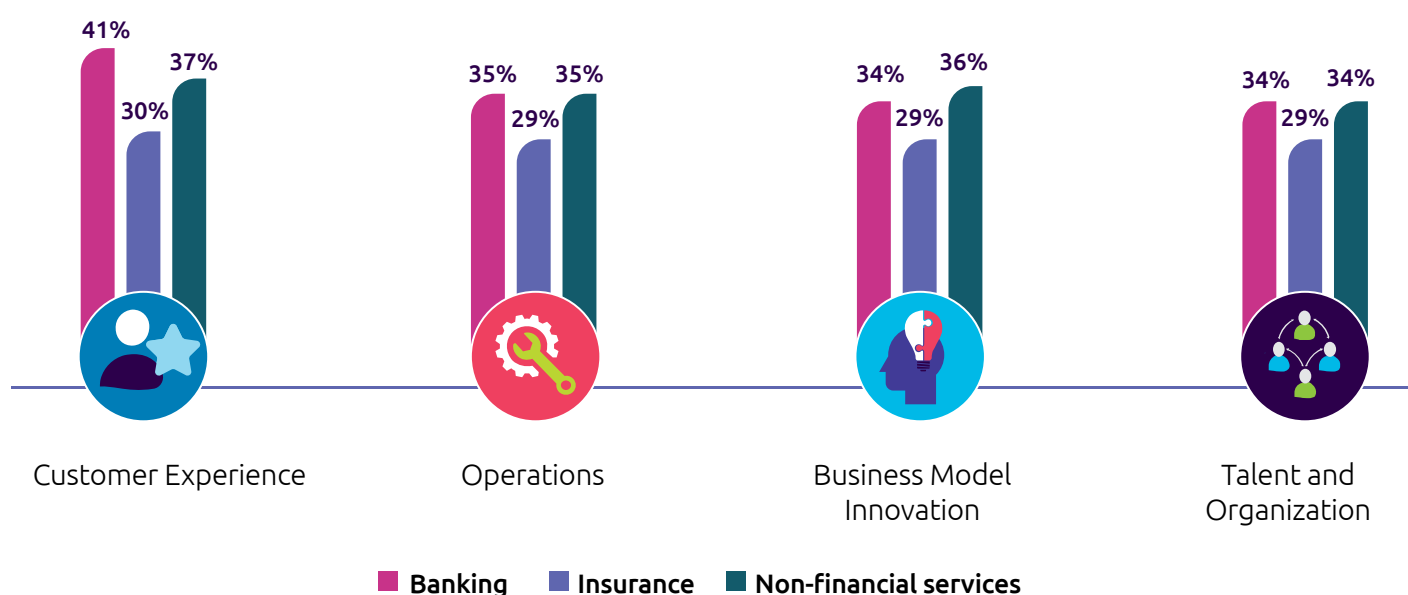
Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations.

Dimension One: Digital Capabilities

We found banks to be outpacing or at level with other sectors in most aspects of digital capabilities, whereas insurance trails the non-financial services average (see Figure 5).

Figure 5: Banks lead insurance across the board in capabilities

Percentage of organizations believing they have the required digital capabilities in 2018



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations.

Below, we look in more detail at the four capability areas:

- Customer experience
- Operations
- Business model innovation
- Talent and organization

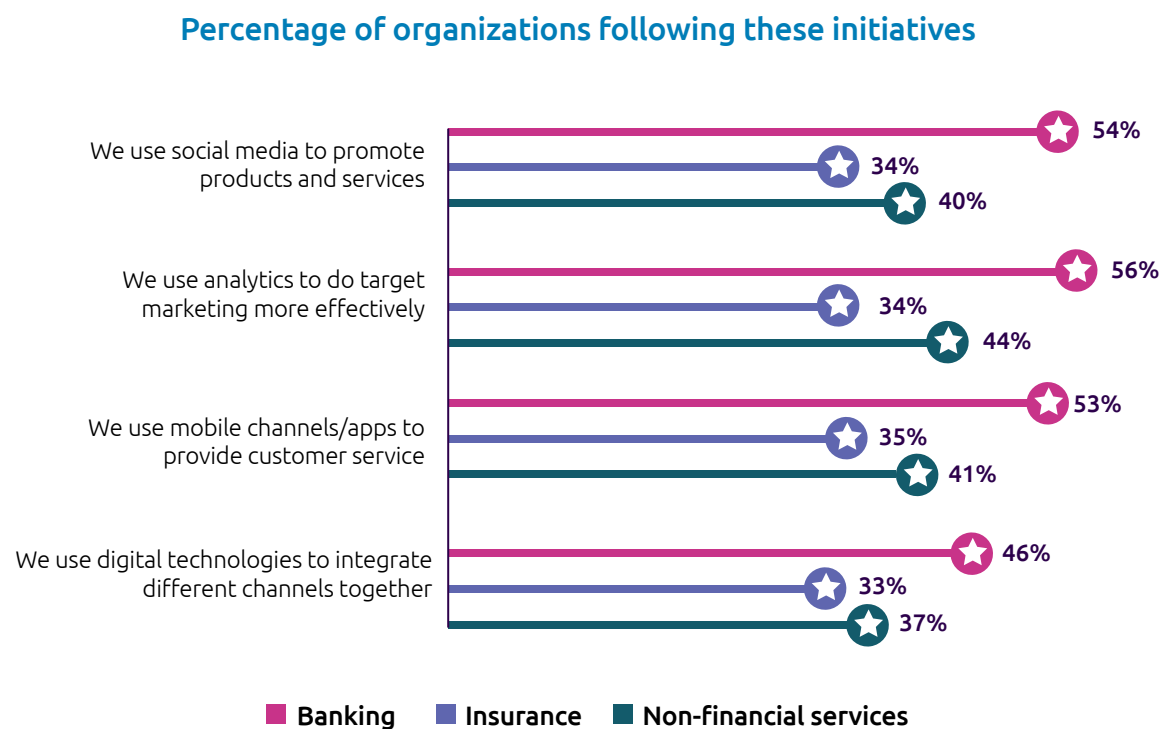
Customer experience

With services increasingly becoming commoditized, the financial services industry has become less about the transaction and more about customer experience, based on personalized interactions and simplified friction-free transactions. Previous Capgemini research placed the banking sector second after consumer products and retail when it came to a superior customer experience⁷. For example, the digital customer experience is at the heart of Singapore-based DBS bank's transformation, and this is delivering significant value. DBS now generates twice as much income from digital channels as it earns from traditional channels.⁸ Owing to the

digital initiatives, BBVA Compass increased its net promoter score (NPS) among commercial clients by 11 points year on year in 2018.⁹

Insurance, on the other hand, is playing catch-up. As digital blurs borders between industries, customers are benchmarking the digital experience of one industry against another. "Customers feel insurance companies should deliver a better experience, on the lines of digital platforms such as Amazon, Uber, and Zomato. That's the challenge we have taken up," says Ravi Vishwanath, Executive Director and CEO of India based Reliance Health Insurance.¹⁰ Insurance firms

Figure 6: Banks are better at integrating digital in various channels and leveraging data capabilities to improve the customer experience



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations.

must focus on experiences which are digitally enhanced, contextually aware, and personalized.

The insurance sector lags behind banking and non-financial services average in a range of areas, including customer analytics, use of mobile channels and channel integration (see Figure 6). For example, we found that 56% of banking firms said they utilize analytics for more effective target marketing, while only 34% of insurance firms say the same. Japan’s Resona Bank is building a next-generation, AI-based marketing engine to analyze the data of each customer and provide specific information and proposals based on the individual’s data anytime and anywhere.¹¹

To stay relevant and deliver innovative and personalized services, insurance firms need to leverage real-time insights through advanced analytics. “Analytics is becoming both a method to help us transform to keep up with social, economic and competitive changes, as well as one of the things that’s causing us to transform our business,” says Jim Korcykoski, senior vice president and chief technology and information

security officer at Nationwide, a US-based insurance and financial services company.¹² Our research shows that:

- 53% of banks provide customer service through mobile channels or apps, but this drops to 35% for insurance organizations. Customers are increasingly conducting their banking or insurance transactions on mobile phones. A recent survey revealed that mobile banking was one of the top three most-used apps in the United States in 2018.¹³
- 46% of banks use digital technologies to integrate different channels, but this drops to 33% in insurance. Chicago-based BMO Harris Bank combines interactive technology and human advice through its smart branch that includes video tellers to interact with customers through screens, smart ATMs and on-demand video.¹⁴ Banks are also utilizing IoT technologies to personalize in-branch advisory services. Australia’s St. George Bank installed beacons to detect iPhone-owning customers in branches and displays a welcome message and service information on digital signage; the customer can choose to respond to the information or cancel the interaction.¹⁵

Operations

Digitizing operations and back-end processes is as crucial today as digitizing the front office. Digital operational excellence now goes beyond technology and involves connected processes, systems, and workforce augmentation to enable fully-digitized operations.

Jes Staley, Group CEO at Barclays, highlighted the importance of operational digitization when he said, “We are working hard to modernize our technology architecture. This is a crucial competitive advantage for any bank hoping to prosper today. That does mean some upfront investment as we increase automation, ramp up the use of the cloud, simplify the platforms for data, improve resilience and security for customers and clients, and deploy innovative technologies. What it leads to are structurally reduced costs over time and permanent efficiency gains across all businesses and functions.”¹⁶

Data analytics in financial services organizations can help to identify bottlenecks in processes and disconnected systems. Our research shows that 33% of banks use data analytics for making better operational decisions, which is on-par with the non-financial services average (33%) and exceeding insurance (just 20%).

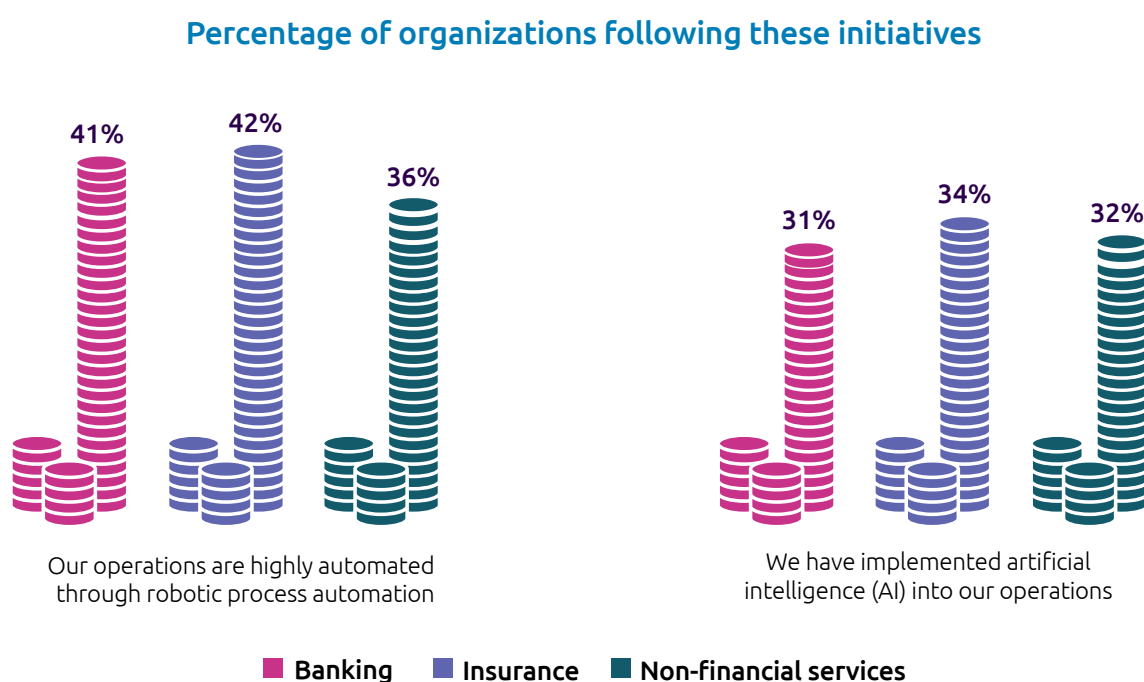
As financial services firms seek more productivity improvement and operational excellence, the use of robotic process automation (RPA) and artificial intelligence (AI) is expected to increase in back-end processes such as anti-money laundering (AML), claims processing, and regulatory reporting – areas in which insurance firms perform strongly. Our previous research indicates that 63% of insurers rank RPA and 69% rank AI among the top four emerging technology priorities for their sector.¹⁷

As Figure 7 indicates, 42% of participating insurers said their operations are highly automated, just exceeding banking (41%) and higher than the non-financial services average (36%).

Best-practice automation practices are emerging across the financial services industry. A multinational European insurance firm used RPA to automate claims reporting and managed to bring down process time from two hours to 15 minutes.¹⁸ In the UK, Zurich Insurance uses cognitive technology to speed up medical document review in personal injury claims, saving an estimated \$5 million annually.¹⁹

Banks and insurers should also focus on data availability and data management strategy to reap the benefits of automation and analytics. Our previous research reveals that 46% of financial services leaders agree that the lack of an adequate data management strategy hampers the progress of automation initiatives.²⁰

Figure 7: Insurance leads in the implementation of operational automation technologies



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations.

*Artificial Intelligence (AI) includes technologies such as natural language processing (chat bots, voice bots, speech recognition etc.), computer vision and biometric intelligence, swarm intelligence, machine learning and deep learning.

Business model innovation

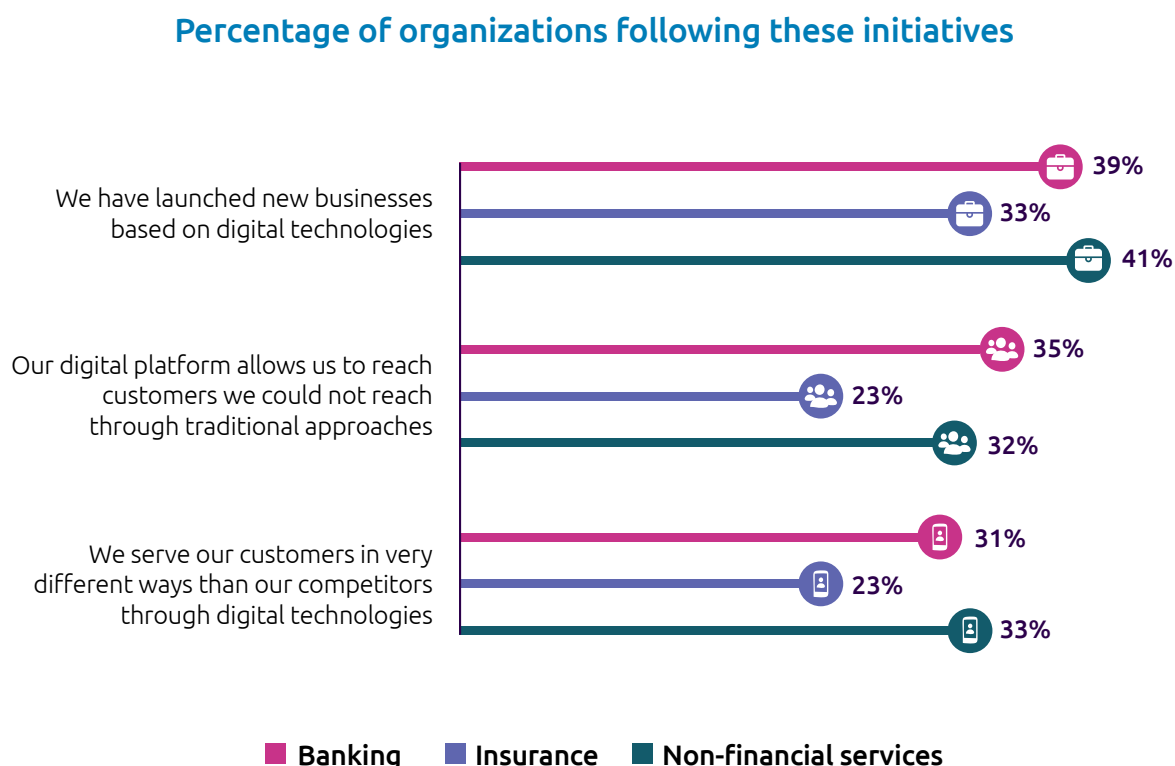
Advanced technology creates opportunities for new insurance business models based on evolving customer needs – such as usage-based, on-demand, and peer-to-peer insurance.

Dr. Alexander Bockelmann, CEO at UNIQA Insurance Group, highlighted the importance of reinventing business models, saying: “[The traditional insurance sector] needs to transform from a pure product provider to a holistic services provider that solves the needs of the customer and is relevant on a high-frequency basis. Insurance companies are now under pressure to provide the same customer relevancy as sectors like retail and approaching the insurance company should not seem like going to the dentist. It needs to be something enjoyable and useful, and that is where insurance companies definitely need to change their business model and the way they serve customers.”²¹

As Figure 8 shows, only 33% of insurance organizations have launched new businesses based on digital technologies versus 39% in banking and 41% in non-financial services organizations. The Spanish banking giant Santander plans to launch a standalone digital bank in the UK focused on small businesses. The digital entity will provide services beyond traditional lending such as advice on pensions and payrolls. The move is expected to improve Santander’s online presence as well as help them compete with FinTech platforms.²²

Only 23% of insurance organizations have digital platforms that allow them to reach customers they could not reach through traditional approaches, as compared with 35% in banking. Goldman Sachs’ online consumer savings and lending platform Marcus has helped the company acquire 1.5 million customers since its launch in 2016.²³

Figure 8: Insurance organizations struggle in business model innovation, whereas banking just meets the non-financial services average



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations.

Intensifying competition from InsurTech firms that offer innovative services and products based on new business models means incumbents must explore digital products and services. Chris Smith, EVP and head of Global Operations at MetLife, says, “Historically, insurance companies have

been product siloed as opposed to customer focused. Our imperative is to shift the model and drive a customer-focused business.”²⁴

Talent and organization

Digitization also demands more flexible and collaborative ways of working to promote innovation, but both banking and insurance still have a long way to go. We found that 39% of banking and 40% of non-financial services organizations said their employees had the tools and processes to collaborate digitally, but this dropped to 23% in insurance.

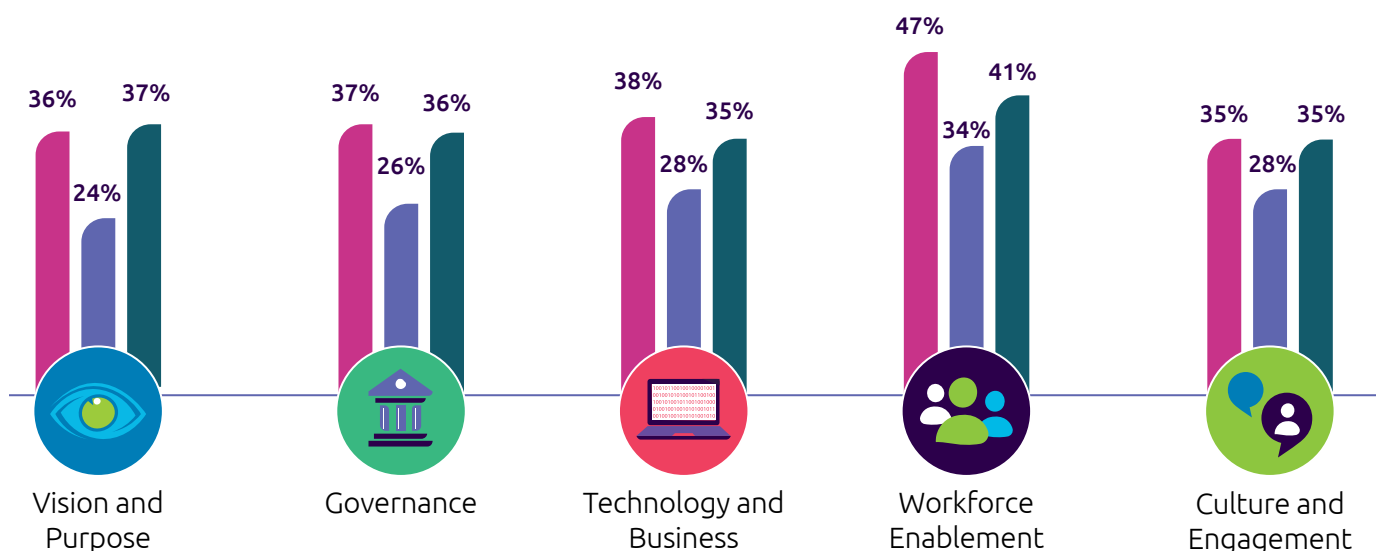
Leading organizations are now focusing on collaborative technology solutions to generate and share knowledge. One of India's largest private-sector firms, Yes Bank, uses enterprise collaboration solutions, such as Facebook Workplace, to encourage communication across 17,000 employees in different business units.²⁵

Dimension Two: Leadership Capabilities

Leadership capabilities are about creating the necessary conditions required to drive the transformation. Our research finds that although banking is ahead of the non-financial services norm, on leadership, insurance struggles on all dimensions (see Figure 9).

Figure 9: Insurance trails in all aspects of leadership capabilities

Percentage of organizations believing they have the required leadership capabilities in 2018



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations

Below, we look at the five capability areas in more detail:

- Vision and purpose
- Governance
- Technology and business alignment
- Workforce enablement
- Culture and engagement

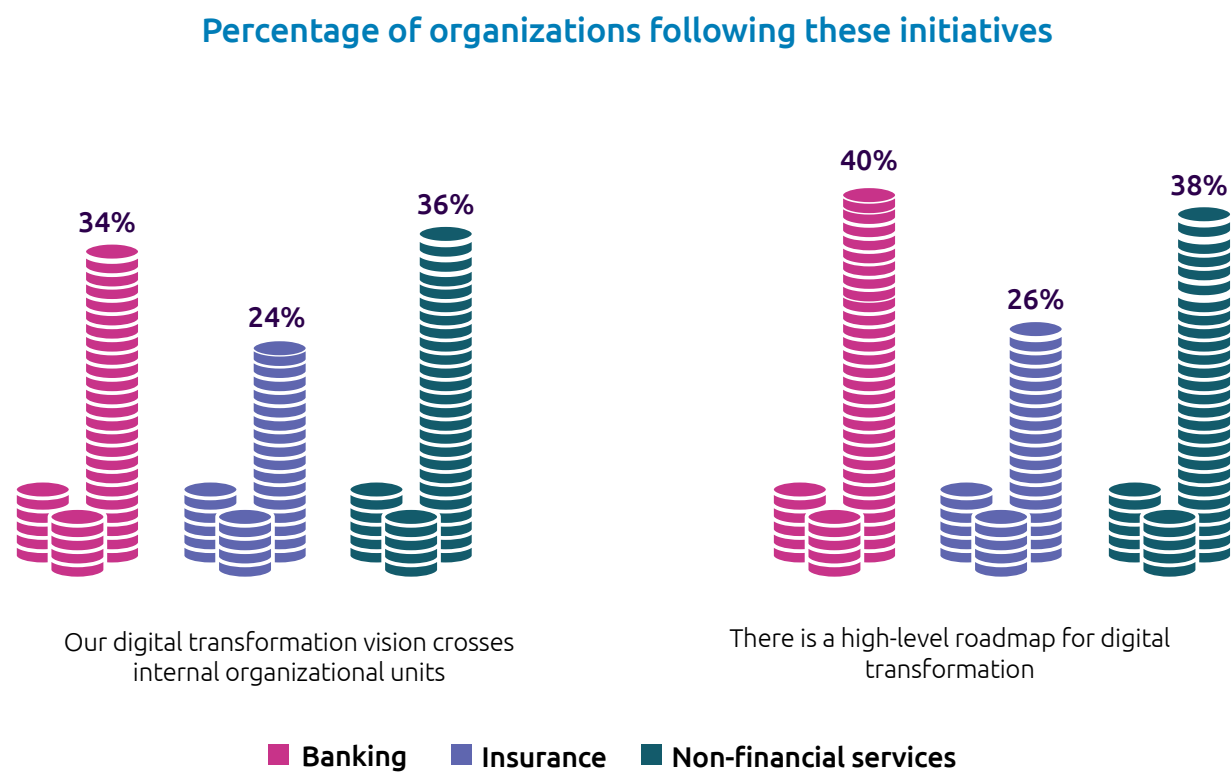
Vision and purpose

The first digital journey step is to create a North Star – a common vision around which the entire organization aligns.

Nitin Chugh, Country Head of digital banking at HDFC bank in India says, “Our digital vision is the same as the philosophy with which we run our business. We aim to be a completely customer-centric organization with an objective to provide services, interfaces, and products in such a way that the customer can interchangeably consume them on any of the digital channels — such as online banking, smartphones, and social media.”²⁶

Our study found both banking and insurance struggling to define a digital vision that encompasses the entire organization. While banking is in line with the non-financial services average, only around a third of banks had a digital vision that crossed organizational units. Insurance lags even further behind, with just around a quarter (24%) having an all-encompassing vision. Furthermore, only 26% of insurers said they had a high-level digital transformation roadmap, compared with 40% of banks (see Figure 10).

Figure 10: Insurance organizations struggle in aligning to a common vision



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations

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Nitin Chugh, Country Head of digital banking at HDFC bank in India

Governance

A strong governance structure can help translate vision into action. However, only 22% of insurance organizations said they coordinate digital initiatives across silos, compared with 37% in banking and 38% in non-financial services. ING Bank in the Netherlands transformed its organizational structure and merged the IT, business, and operations of the retail bank into one agile organization of more than 2,000 employees to bring innovations to customers faster.

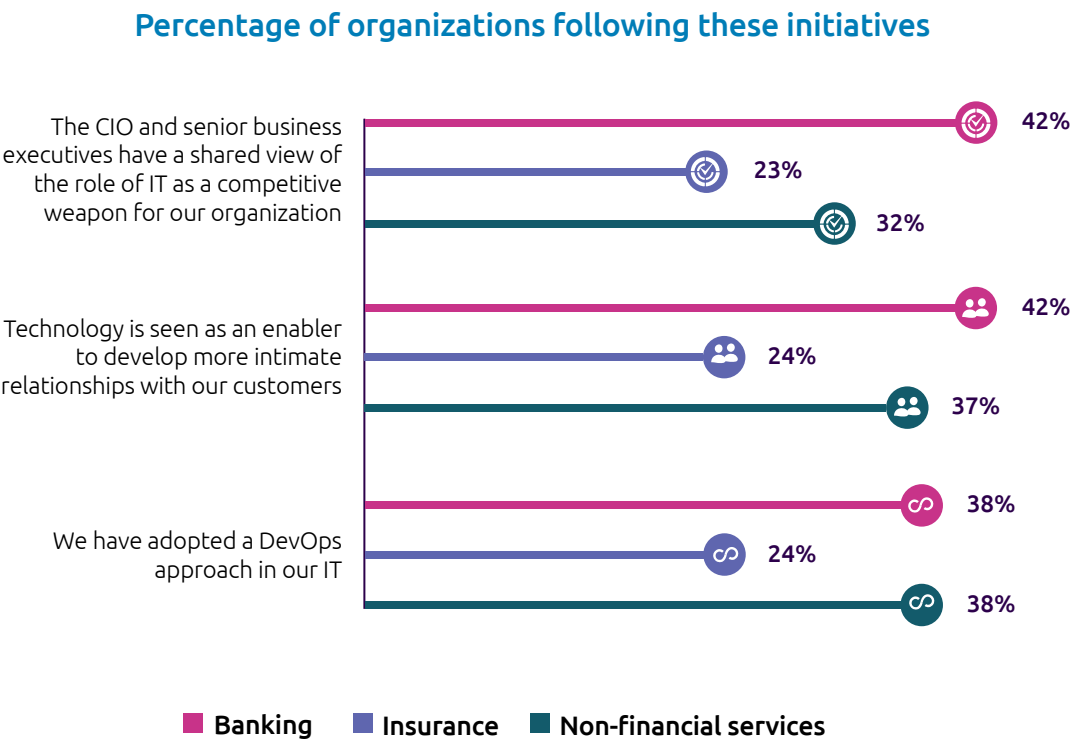
Stephen Mitchell, head of digital customer experience at British insurer Aviva says, “The future is making technology, digital product and design, UX experts, and designers come together and work in an agile manner: People with different backgrounds coming together and delivering.”²⁸

Effective digital governance is critical for success, and roles and responsibilities need to be clearly defined to enable effective decision making. However, our research shows that only 32% of banking and 22% of insurance organizations have clearly defined roles and responsibilities for digital initiatives, as compared to 34% in non-financial services organizations.

Technology and business alignment

A connected and agile operating model is central to digital progress. Leaders from the technology side of the organization need to be aligned with their business peers on this common goal. However, we found that only 23% of insurance firms believe that CIOs and business executives have a shared view on the role of IT as a competitive weapon, as opposed to 42% in banking (see Figure 11).

Figure 11: IT and business relationships have not kept pace with need in insurance



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations

Five years ago, Spanish banking group BBVA embarked on a journey to agility, utilizing cross-functional teams from technology, the business and customer experience. “We started off slowly, bit by bit, building cross-functional teams in Spain, Mexico, and South America; teams that represented business, technology, and marketing. These multi-disciplinary

teams (called scrums) were exclusively dedicated to one project and they worked together in the same physical space,” says Ricardo Forcano, BBVA’s Global Head of Engineering and Organization.²⁹

Like BBVA, Dubai-based Emirates NBD bank also co-located business and technology functions to encourage collaboration. The bank started an open seating plan where the multichannel and CRM team (including the online, mobile, CRM, self-service, call center and innovation) and IT digital teams sit on the same floor and regularly share initiatives.³⁰

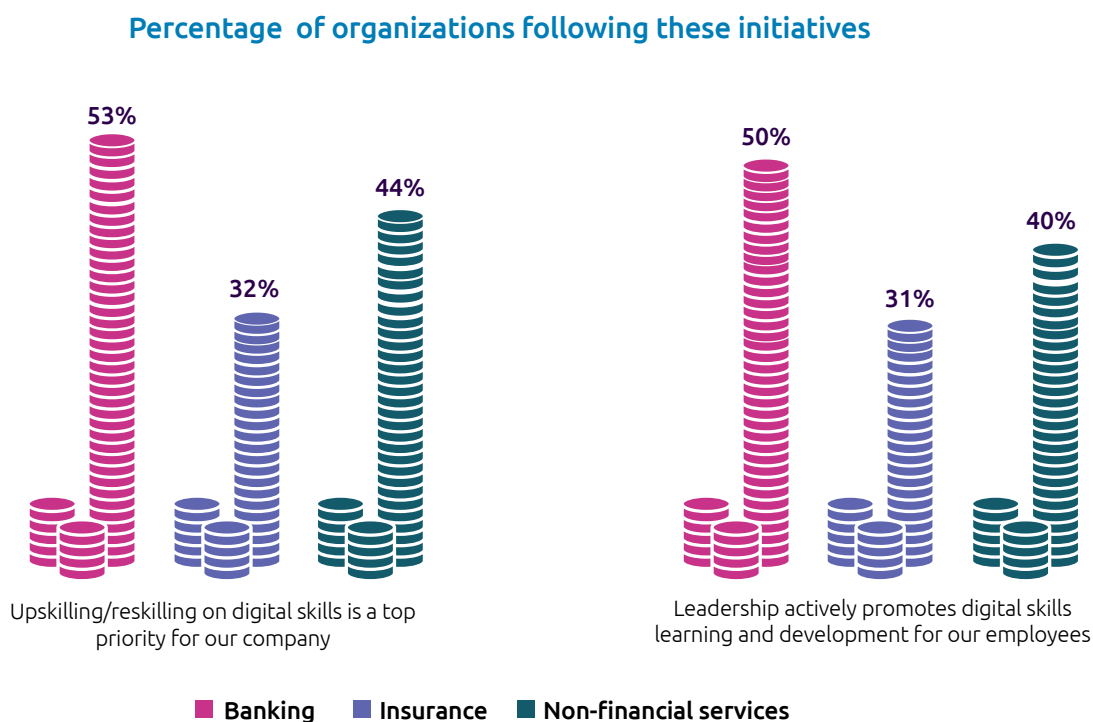
Workforce enablement

Nurturing talent by investing in digital skills training is crucial to the success of digital transformation. Our research shows that banking firms do better in this regard. As Figure 12 shows, more than half of banking organizations say that upskilling and reskilling on digital skills is a top priority for them (53% for insurance). The National Australia Bank (NAB) is partnering with Amazon Web Services (AWS) to deliver a three-to-five day cloud training to more than 2000 employees. The training focuses on areas of architecture, security, developers, operations, and big data, and will be tailored to different competency levels.³¹

Lloyds Group Chief Executive Antonio Horta-Osorio highlighted the importance of talent, saying, “The success of our transformation will depend on our people. We will, therefore, significantly increase our investment and developing in-house capabilities and increase training hours by over 50% compared to the previous plan, focusing on key skills our workforce will need for the future.”³²

Additionally, 50% of banking organizations also say that their leadership actively promotes digital skills (31% in insurance). In 2017, Singapore-based DBS Bank announced it would invest SGD 20 million over five years to upskill its 10,000 employees in digital banking and emerging technologies, enabling them to thrive in the digital economy and adapt to the future of work.³³

Figure 12: More than half of banking firms enable their workforce with digital skills required for transformation



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations

Culture and engagement

Our previous research found that 62% of organizations believed that cultural issues were significant roadblocks to digital transformation,³⁴ With culture playing an important role in fostering innovation, our research shows that only 31% of banking and 24% of insurance organizations say their organizations are free of bureaucracy when it comes to employees submitting ideas, as compared to 36% in non-financial services organizations.

Leading French insurance firm AXA focuses on bottom-up innovation and employees' innovation initiatives through its "Start-In" competition. This internal innovation program lets any employee suggest a solution to one of AXA's business challenges, identified twice a year by senior executives.³⁵

Organizations need to encourage new ways of working that allows for failure and experimentation and facilitate

commercialization of original innovative ideas. Ran Gavriel Zivan, head of innovation and digital investments at Israel's oldest banking corporation, Bank Leumi, outlines the importance of involving the entire organization in innovation, saying: "Involving just innovation leaders is not enough, and in my opinion, that is where many organizations fail when it comes to innovation. We understood early on that we needed to touch the entire 'fabric' of the bank. For innovation to take place, the organization needs to support innovation at all levels, starting in the field."³⁶

Employees also need to see their leaders as role models – showing an openness to change and adopting new behaviors. According to our research, however, only 33% of banking and 25% of insurance organizations thought their leaders were adopting new behaviors required for transformation, as compared with 37% in non-financial services organizations.

Only 31% of banking and 24% of insurance organizations say their organizations are free of bureaucracy when it comes to employees submitting ideas

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The practices that differentiate digital masters and the road to digital mastery

In a disrupted world of advanced technologies, intense competition, connected consumers, and relatively slow growth, digital innovations are crucial for success in financial services. From our survey, we identified a group of high-performing organizations – which we call the “financial services digital masters” – which represents 30% of our sample and includes both banking (39) and insurance organizations (24). Taking that high-performing group, we examined what they do differently in terms of their digital and leadership capabilities. In this section, we examine the three best-practice areas that emerged and their implications for both banks and insurers. The three areas are:

- Aligning capabilities on the customer journey and investing in customer intelligence
- Adopting the operating models of tomorrow – collaborative, innovative, and agile
- Developing a culture that is balanced between both customer and employee-centricity and building an effective governance structure.

Align capabilities on the customer journey and invest in customer intelligence

Banks: Focus on aligning cross-functional teams around customer journeys to deliver with agility

As we saw earlier, 41% of banking organizations have the required customer experience capabilities versus 37% of the non-financial services sample. However, there is still ample opportunity to improve the customer journey. In Capgemini's World Retail Banking Report 2018, only half of surveyed customers said their overall experience across different bank channels was positive.³⁷

We found that our banking digital masters are taking active steps with the customer experience: 64% have “created personae and journey maps to identify and serve customers better” (in non-financial services industries, the average is just 34%). Lloyds Banking Group organized cross-functional labs focused on 10 customer journeys. As a result, it has launched new digital offerings, increased positive customer feedback by 78%, increased employee capacity for more value-added activities by 40%, streamlined paths to purchase, and shortened the time from idea to live product by a factor greater than three.³⁸ Italian bank, Intesa Sanpaolo, combines quantitative and qualitative data to analyze customer behaviors and motivations across touchpoints, predict behavior, and optimize customer journeys.³⁹

Insurance: Invest in customer intelligence to shift to customer-centric models

A recent survey from Capgemini reveals that 60% of financial services consumers are willing to share personal data with banks and insurance organizations in return for personalized and targeted offerings.⁴⁰ And this latest research shows that the sector's digital masters are focused on extracting real-time

and actionable insights to optimize products and customer engagement. Seventy-nine percent of the insurance digital masters push customized offers that meet the wants and needs of consumers, comfortably exceeding the 41% average in non-financial services organizations.

Manik Nangia, chief digital officer and director of marketing at India-based Max Life Insurance says, “We are utilizing the power of user behavior analytics to create further differentiation and enable cross-sell/up-sell and targeted marketing. We have implemented real-time monitoring by leveraging user behaviour data from Google Analytics for marketing and driving campaigns. Currently we are also working on enabling our call centres with tools and technology to nudge the customer and increase the conversation.”⁴¹

Open APIs will also help the insurance sector to integrate broader and deeper customer data from sources such as social media, retailers, smart devices, and even competitors. Expanded data sources create immense opportunities to gain a holistic view of customers to provide more targeted and personalized insights. Liberty Mutual recently launched a developers' portal to create new driving apps. This initiative uses the company's proprietary insurance data – as well as public data on auto theft, parking citations and crashes – to provide customers with recommendations about the safest driving routes and places to park in major US cities.⁴² The success of digital transformation will also depend on the quality of data and the data management strategies adopted by financial services, hence continual investment in data management and awareness of shifting demands in the data ecosystem is required to become an agile, data-driven organization.

Adopt the operating models of tomorrow –collaborative, innovative, and agile

Banks: Embrace ecosystem thinking and drive an API strategy

The banking sector is not just under margin, regulatory, and customer pressure. New competitors are posing a threat to traditional operating and business models, including major technology players, FinTechs, and other cross-sector disruptors. Our recent research found that 32% of customers would be willing to buy at least one financial product from a BigTech firm if such offerings were available.⁴³ UK-based FinTech Revolut, launched in 2015 with just a simple multi-currency prepaid card, had amassed 1.5 million customers and a valuation of \$1.7 billion by Q1 2018. It has expanded its portfolio to offer personal and business multi-currency accounts, short-term peer-to-peer loans, mobile phone and travel insurance, cryptocurrency trading, and a savings facility, with further plans for wealth management.⁴⁴ In 2017, French telecom operator Orange Group launched mobile-only Orange bank.⁴⁵

The successful banking model of the future will feature a platform that flexibly engages with the customer's dynamic ecosystem of services. However, this model will mean that banks must be able to nimbly "plug and play" new services and components to meet changing customer demands and the new skills and mindsets required.⁴⁶ Changing regulations also magnify the force of disruption in the banking sector and make regulators part of this ecosystem – the European Union's Payment services Directive (PSD2) obliges banks to open up customer data to third-party companies. Our research shows that the sector is actively embracing ecosystem thinking:

- 38% of banks see FinTech firms as a key contributor to the banking ecosystem.⁴⁷
- 64% of banking digital masters actively work with a wide ecosystem of partners – such as startups, incubators, technology firms, and even competitors – to co-develop solutions (39% average in non-financial services).

Banking digital masters are particularly focused on value chain innovation: 69% say they constantly identify innovations in their value chain compared to a norm of 36% in non-financial services. We also found that they are focused on collaborative models with third-party players and support open APIs that offer customers new services. ING Group partnered with Scalable Capital, an EU online wealth manager and robo-advice firm, to offer a fully digital investment solution to ING's retail customers, beginning in Germany.⁴⁸ As the cross-industry influence exponentially increases in financial services, it is important for banks and insurers to look out for other industry segments for transformation best practices or to co-develop new propositions for their consumers.

Insurance: Cultivate agility, speed, and scale to design and create next-generation capabilities

Our research shows the insurance sector's digital masters focus on agile business models. They are quick to test ideas, fail fast, and learn faster. Sixty-three percent of insurance digital masters said they test promising ideas quickly as a proof of concept (PoC) or a minimum viable product (MVP).

Jacob Abboud, CIO, Allianz UK says, "Innovation and emerging technologies, that's a really important item on my agenda. I see myself as the champion to bring in new, emerging technologies, to test and learn whether they're the right things for our organization, and if they are, then bring them into the mainstream and scale them up."⁴⁹

As design thinking has taken hold in insurance, agile development approaches are changing how leaders choose digital innovations and how those innovations get implemented. Innovative firms are adapting to the connected ecosystem of IoT-enabled devices, cars, health monitors, and more. For example, San Francisco-based car insurer Metromile says it has pioneered a pay-per-mile car insurance model where usage is tracked using a device plugged into the OBD-II port using telematics.⁵¹

This does mean that firms need a more agile operating model. Most insurance firms are saddled with business-critical legacy systems that are complex and slow. Digital executives must collaborate with their organization's technology teams to transform the way they design, develop, and deliver technology innovation by adopting approaches such as agile development and DevOps. Fifty-eight percent of the insurance sector's digital masters had migrated their legacy IT systems to cloud-based applications, compared to the 35% average in non-financial services organizations.

64% of banking digital masters actively work with a wide ecosystem of partners – such as startups, incubators, technology firms, and even competitors – to co-develop solutions

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Develop a culture that is balanced between both customer and employee centricity and build an effective governance structure

Banks: Focus on nurturing a culture based on bottom-up innovation and experimentation

As customer expectations continue to change and rise, banking firms need customer-centric cultures. However, a strong focus on employee centricity is also important. Leading firms are nurturing ideas by empowering bottom-up innovation.

“At DBS Bank, we strive to build a culture of innovation, where we function like a 24,000-person start-up. Adopting this culture boosts the morale of employees, where they believe that they can achieve and innovate. We are focusing on innovation to solve customer problems,” says Neal Cross, Chief Innovation Officer at DBS Bank.⁵²

To remove innovation obstacles, the banking sector’s digital masters are working to simplify funding procedures, implement digital tools and technology platforms that enable rapid development, and provide a platform for employees to collaborate and execute those ideas. Ruchir Rodrigues, senior managing director, Digital Banking, Barclays says, *“You need to mix it up. We experimented with the mortgage space to test new digital projects. You need a mix of colleagues for innovation to happen in the space. The question is, are we able to fail fast, test and learn with quick experiments?”*⁵³ Sixty-two percent of the sector’s digital masters said employees take ownership of the operational implementation of new and innovative ideas, versus a 36% average for non-financial services respondents. Moreover, 59% have implemented core HR processes to meet digital needs, such as eliminating hierarchies, implementing a team-oriented approach to compensation, and introducing new feedback mechanisms. This drops to an average of 32% in non-financial services organizations.

Insurance: Establish collaborative governance frameworks

Effective governance is critical for digital teams to succeed. Digital governance helps to steer the company’s digital activities in the right direction and turns the diverse energy of employees throughout the organization into a coherent engine that drives digital transformation forward.⁵⁴ As we saw earlier, only 26% of insurance organizations say that they have the necessary governance for digital transformation, compared to 37% in banking and 36% in non-financial services organizations. Digital governance is a balancing act – to allow for flexibility, organizations need to define guardrails rather than strict rules.⁵⁵ We found that 58% of the sector’s digital masters have a digital unit (35% average in non-financial services sector) and 67% say they have adjusted role descriptions and KPIs to align with their digital transformation objectives (34% in non-financial services sectors).





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We believe that a successful digital transformation means a complete digital reimagination of all essential business verticals.”

Mrutyunjay Mahapatra,
former chief digital officer of
the State Bank of India

Conclusion

The financial services industry is at a critical juncture. As consumers become more and more connected, regulations intensify, new rivals emerge, and borders between industries blur, it will be critical for traditional financial services players to develop competitive new value propositions.

Although banking is making significant progress in the digital and leadership capabilities required, there are still significant improvements to be made. This gap between masters and also-rans is pronounced in insurance, where mastery of both digital and leadership capabilities is even more rare. We found insurance to be struggling on the road to digital mastery.

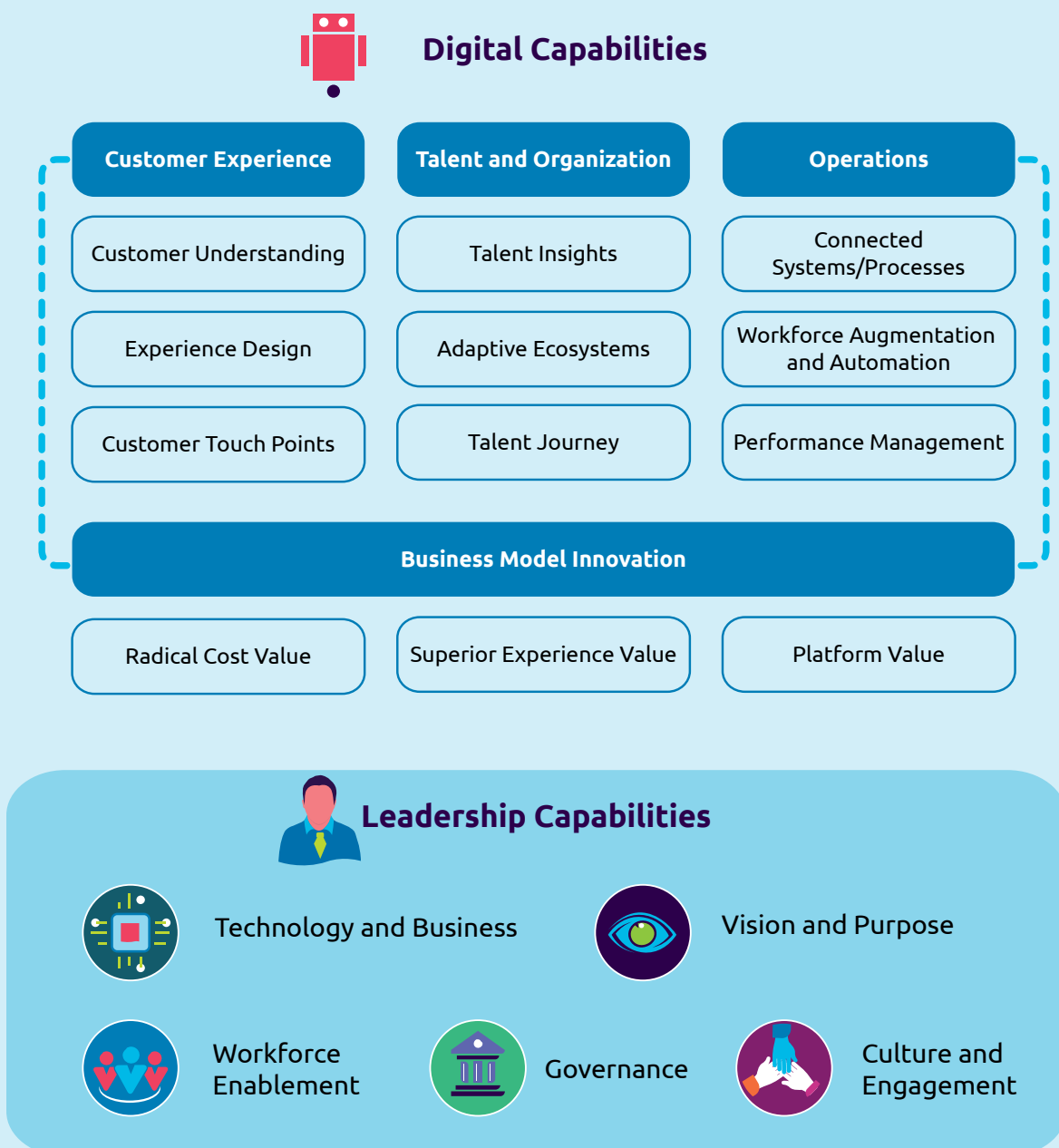
To move forward, the sector needs to accelerate a number of priorities: organize around customer journeys, invest in customer intelligence, and build silo-free cultures that are collaborative, flexible, and innovative. While industry disruption has already been intense, there is more around the corner, and building digital mastery will drive frontrunner success.

Appendix

What is the digital mastery framework?

We established our digital mastery framework in 2012 in partnership with the MIT Center for Digital Business. In our 2018 research, we evolved the 2012 model in both the digital and leadership dimensions (see Figure 13). Digital capabilities are the use of technology to change how a company interacts with customers, structures its organization and people, operates internal processes, or defines its business model. Leadership capabilities consist of creating the necessary conditions to drive digital transformation in the organization.

Figure 13: The building blocks of digital transformation



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018.

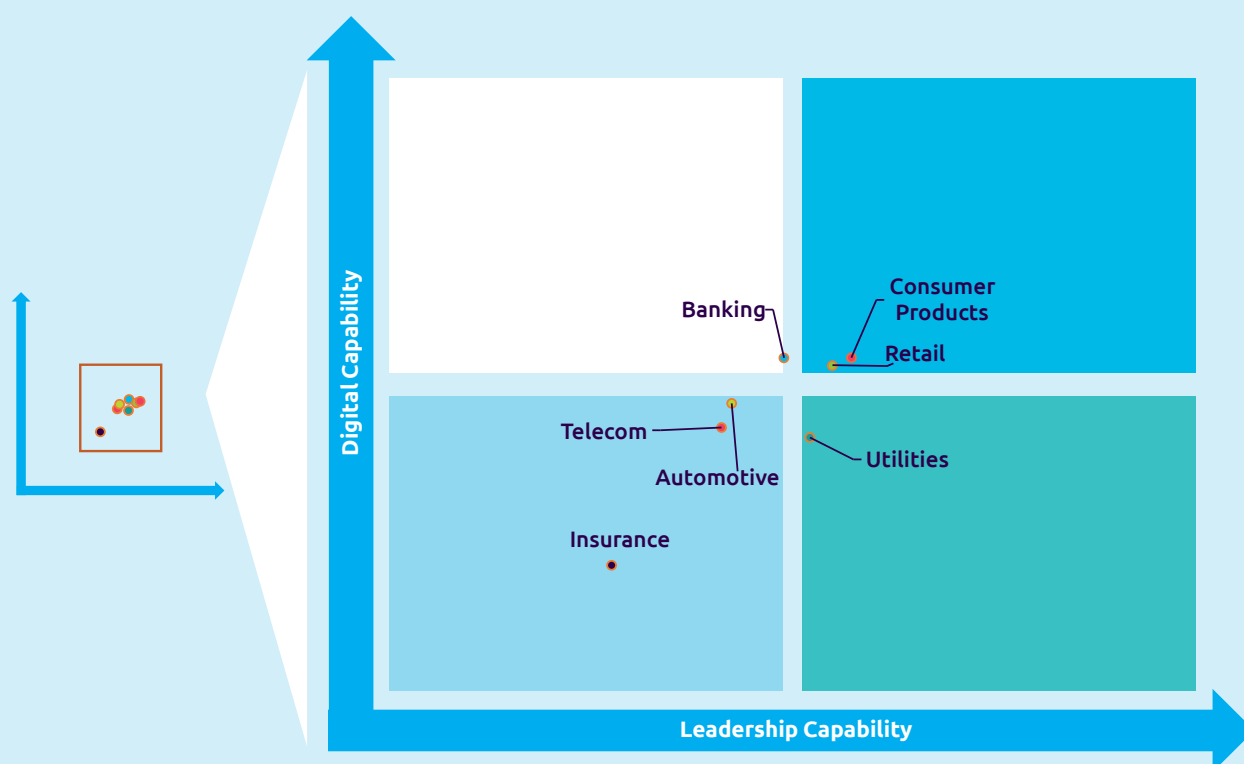
Where is the financial services sector positioned?

Based on our unique digital mastery framework, we can categorize industries and organizations according to their relative digital mastery, with this report looking at the four groups:

1. **Beginners** – low mastery of both digital and leadership capabilities
2. **Conservatives** – mastery of leadership but not digital capabilities
3. **Fashionistas** – mastery of digital but not leadership capabilities
4. **Digital masters** – mastery of both digital and leadership capabilities.

Figure 14 shows the placement of industries on the digital mastery matrix.

Figure 14: Digital mastery of industries*

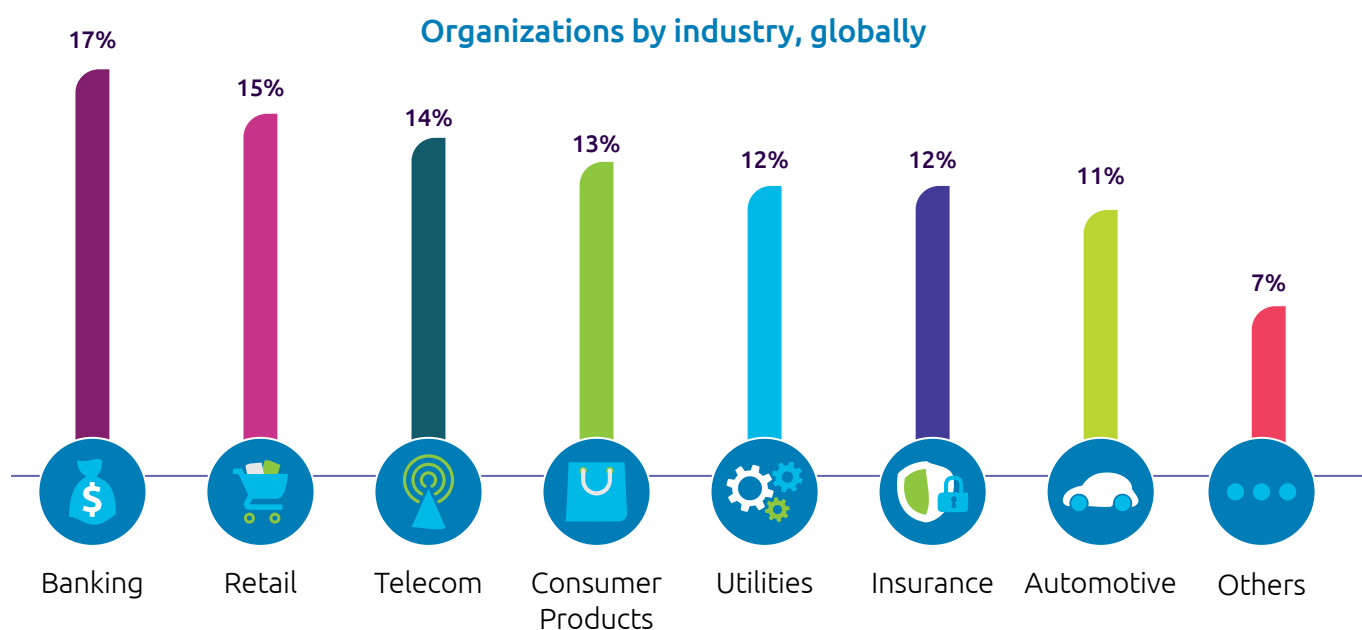


Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,279 respondents, 705 organizations; George Westerman, Didier Bonnet and Andrew McAfee, “Leading Digital: Turning Technology into Business Transformation,” Harvard Business Press, 2014.

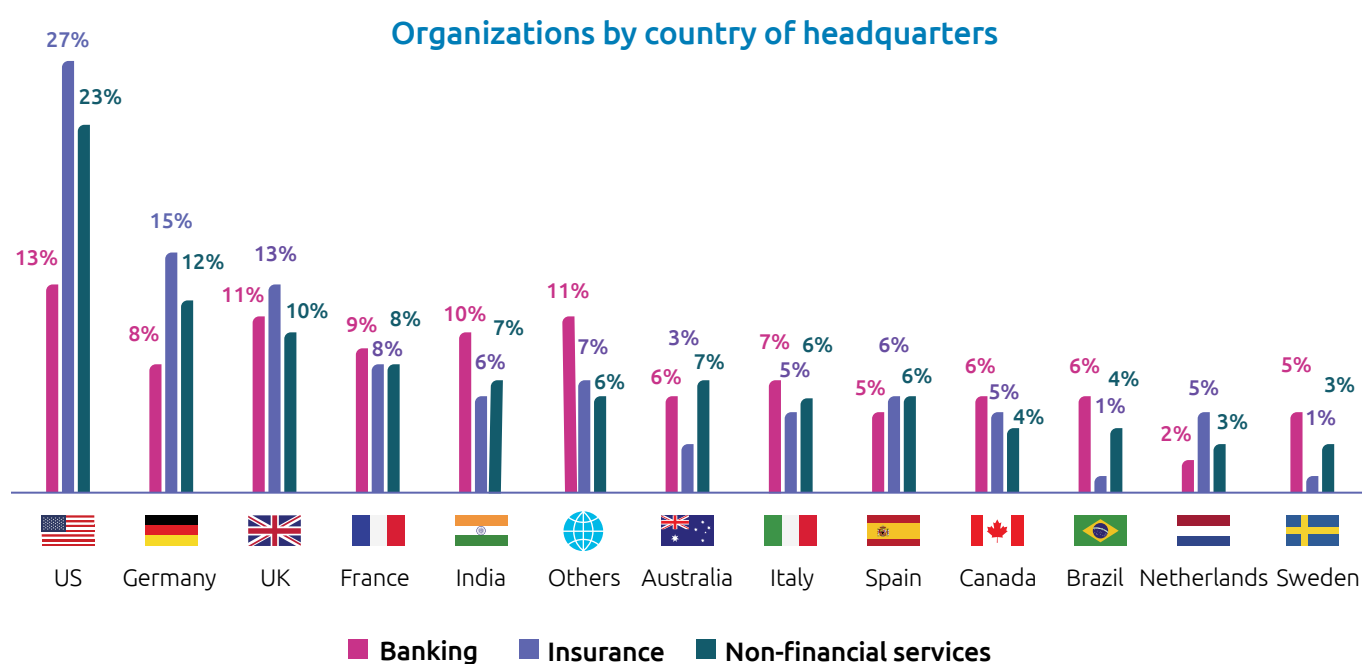
* Industries were included in this analysis if they had 85 or more organizations.

Research Methodology

We surveyed 1,338 business leaders at the manager level or above at 757 organizations. Seventy-one percent of organizations reported revenue of more than \$1 billion in FY 2017. Within the financial services sector, we surveyed 369 business leaders at the manager level or above at 213 financial services organizations. Out of this, the banking sector represents 200 respondents in 125 organizations and insurance includes 169 respondents in 88 organizations.

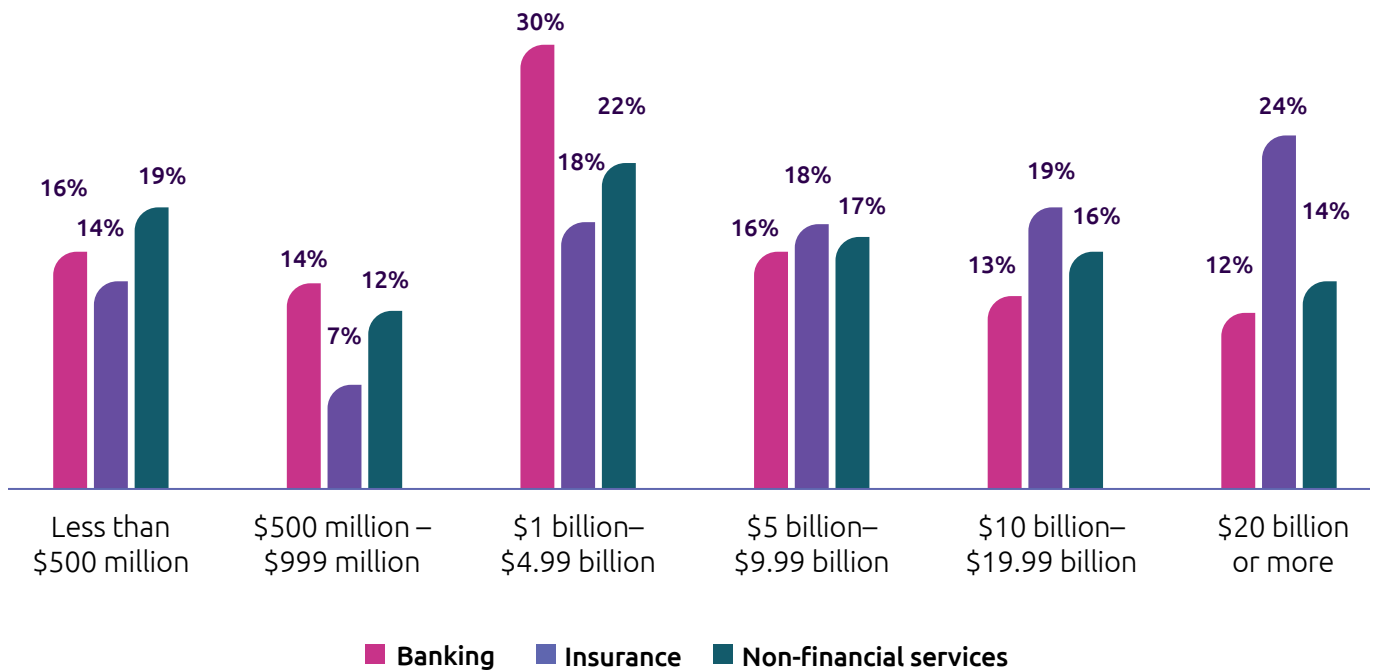


Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations



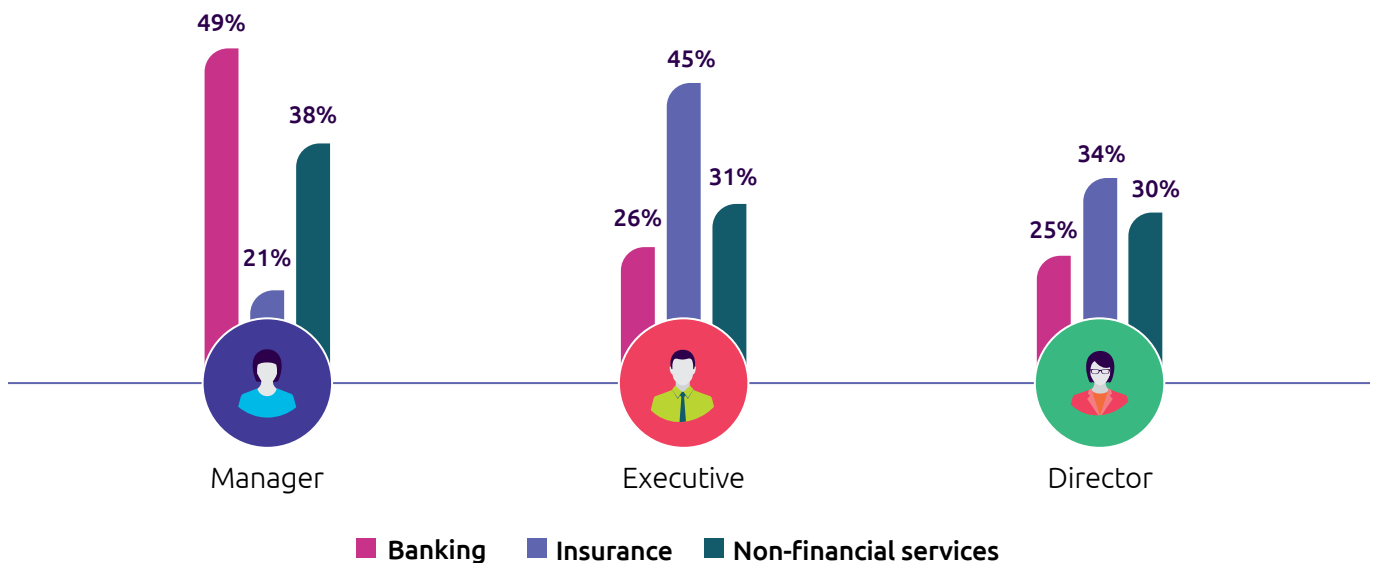
Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations

Organizations by revenue



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations

Respondents by designation



Source: Capgemini Research Institute, Digital Mastery Survey; April–May 2018, N=1,338 all-sector respondents, N=757 all-sector organizations, N=200 banking respondents, N=125 banking organizations, N=169 insurance respondents, N=88 insurance organizations, N=969 non-financial services respondents, N=544 non-financial services organizations.

We also leveraged insights and lessons from our other research on the financial services sector listed below. In addition, we conducted extensive secondary research to identify trends in the banking and insurance sectors.

- Capgemini, "World Retail Banking Report 2018"
- Capgemini, "World Insurance Report 2018"
- Capgemini, "The digital culture challenge: Closing the employee-leadership gap," 2017
- Capgemini, "The currency of trust: Why banks and insurers must make customer data safer and more secure," 2017
- Capgemini, "Growth in the machine: How financial services can move intelligent automation from a cost play to a growth strategy," 2018
- Capgemini Digital Transformation Review, Twelfth Edition, "Taking digital transformation to the next level: Lessons from the leaders," 2019.

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Involving just innovation leaders is not enough, and in my opinion, that is where many organizations fail when it comes to innovation. We understood early on that we needed to touch the entire ‘fabric’ of the bank. For innovation to take place, the organization needs to support innovation at all levels, starting in the field.”

Ran Gavriel Zivan,
head of innovation and digital investments
at Israel’s oldest banking corporation,
Bank Leumi

Partner with Capgemini

Open Banking Platform enabled by APIs

Open banking gives financial services organizations access to new business models. New types of collaborations are allowing revenue exchange by accessing each other's data. Thoughtfully conceived API strategies are transforming once tightly-closed banking systems into openly connected institutions that allow banks to offer capabilities beyond banking, leveraging a universe of innovative FinTech solutions. Banks recognize the opportunities open banking provides to digitally transform, drive innovation and unleash new business models to power growth. However, to take full advantage of those opportunities banks need to assess this new landscape and identify the strategic considerations every organization must make for open banking, without exposing themselves to undue risk and costs.

Capgemini can help you determine whether your organization will remain a provider of traditional financial products and services, or actively engage as a digital-first provider of solutions — or create some common ground in between. Our readiness assessment tools enable you to test and iterate the program until the approach fits your business agenda.

Capgemini provides a complete end-to-end solution to bring together all the elements necessary to implement an Open Banking platform, featuring APIs.

- Jump start your journey through our proven and tested API planning and mobilization engagement process, which helps to define your API-as-a-product operating model.
- Enable new revenue streams through a network of alliance APIs for new customer acquisition, and enable new non-financial services offerings to be deployed through a network of partners. This is enabled by implementing a fully-integrated API platform on the cloud and include API analytics to evaluate the success of APIs.
- Accelerate delivery for compliance (for EU and UK) through Capgemini's API platform
 - Competition Law by Competition and Markets Authority
 - Revised Payment Services Directive.
- Experiment before you launch. We provide an API Sandbox Environment for you to experiment with identified API monetization opportunities until they become large enough to get into the mainstream revenue growth opportunity.

As a financial services digital transformation leader, our assessment frameworks and API value-creation models are backed by more than 30 years of banking and financial services experience and extensive industry research. Capgemini's Open Banking Innovation Hub, using our API platform, allows financial consolidation, transaction analysis, execution only advice, a digital marketplace for new digital services through Capgemini's alliance and partner network.

To learn more about our services, visit www.capgemini.com/bcm or write to us at banking@capgemini.com.

Cognitive Document Processing for Insurance

Accelerate your business with improved document processing

Insurance companies worldwide across Property & Casualty, Health, Life, Commercial, Professional Liability and Reinsurance process millions of documents daily. These documents are in both paper and digital form and span across the entire customer journey – from onboarding to servicing to claims and offboarding. Several critical functions in the insurance value chain are still managed through paper, including policy submission with proof of eligibility, benefits enrollment, claims and updates to policy for changes in coverage. These documents are unstructured and can be machine-printed, handwritten or have signatures and come with different compliance needs to capture and validate information.

Processing these documents takes significant time and effort, which delays the availability of this information for performing high value activities such as underwriting, claims adjudication and policy onboarding.

With customers demanding a near real-time response on every request, it is very important for insurers to quickly process and make swift decisions with utmost accuracy.

Capgemini has created an end-to-end Cognitive Document Processing (CDP) as-a-service solution that automates

and accelerates the ingestion, organization and evaluation of paper forms or electronic images of paper documents, securely and at reduced cost. Using a mix of machine learning, deep learning and intelligent automation, CDP's Optical Character Recognition (OCR) and Intelligent Character Recognition (ICR) engines classify and extract pertinent information. The key data points are validated (with any exceptions handled by Capgemini BPO) and exported. APIs and Robotic Process Automation (RPA) are then used to feed the data into downstream core systems such as Policy Administration, Claims and Billing to enable straight through processing.

Digital FNOL (First Notice of Loss) Utility

Helping Insurers Stay Ahead of Changing Customer Expectations around Claims

Claims intake is one of the most important customer touchpoints for an insurance provider. Customers who have had an auto accident or illness requiring a trip to the Emergency Room are already under significant stress. Claimants look for convenient ways to report the claim or an empathetic voice when they file the claim.

The First Notice of Loss (FNOL), the first step in claims processing, is usually a call center-based service which requires extensive questions and data gathering. For many auto and small commercial carriers, this is mostly done manually, which increases a carrier's operational costs.

Capgemini has built a transformative FNOL solution for the Personal Auto and Small Commercial segments that brings industry leading customer experience, technology advancement and operational efficiency for insurers.

Digital FNOL Utility helps carriers empower customers and agents alike. Our solution, hosted on a cloud-based platform, provides an end-to-end digital omnichannel claims experience, with self-service capabilities for customers and a modern interaction management platform for carrier and call center agents.

Digital FNOL seamlessly integrates with your business process with the objective to conveniently gather as much information as possible out of the touchpoint . We commit to deliver

complete and high-quality claims data to substantially reduce the adjudication cycle times and drive customer satisfaction. Our solution increases agility and efficiency by leveraging emerging technologies such as Artificial Intelligence (AI), Machine Learning (ML) and Robotic Process Automation (RPA), as well as bring in capabilities of key InsurTech partners

To learn more about our services, visit www.capgemini.com/insurance or write to us at insurance@capgemini.com



The future is making technology, digital product and design, UX experts, and designers come together and work in an agile manner: People with different backgrounds coming together and delivering"

Stephen Mitchell, head of digital customer experience, Aviva.

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About the Capgemini Research Institute

The Capgemini Research Institute is Capgemini's in-house think tank on all things digital. The Institute publishes research on the impact of digital technologies on large traditional businesses. The team draws on the worldwide network of Capgemini specialists and works closely with academic and technology partners. The Institute has dedicated research centers in India, the United Kingdom, and the United States. It was recently ranked Number 1 in the world for the quality of its research by independent analysts.

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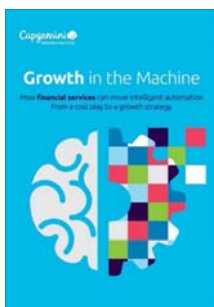
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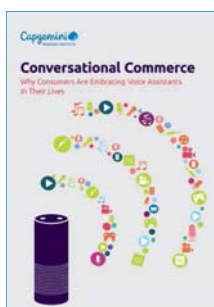
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