



IDC Digital Transformation Capability

ASSESSMENT REPORT

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INTRODUCTION

Thank you for completing the Financial Services Digital Transformation Capability Assessment, with research and analysis by IDC.

According to IDC, digital transformation (DX) means transforming decision making with technology. Transforming is using new sources of innovation and creativity to enhance experiences and improve financial performance, which is beyond simply modernizing the technology underpinning existing systems. Decision making is using information to create an evidence-based culture. The Financial Services DX Capability Assessment tool enables FSIs to assess their DX capability, and benchmark their performance against their peers.

This interactive self-assessment tool is backed up by independent end-user research and IDC's in depth understanding of the financial services industry. The research draws upon input from decision makers from 1050 FSIs from different regions across the globe to understand how advanced and successful they are in their DX journey.

IDC has built an assessment framework in which individual responses from the FSI decision maker survey are scored to group organizations into 3 levels of DX capability, as follows:

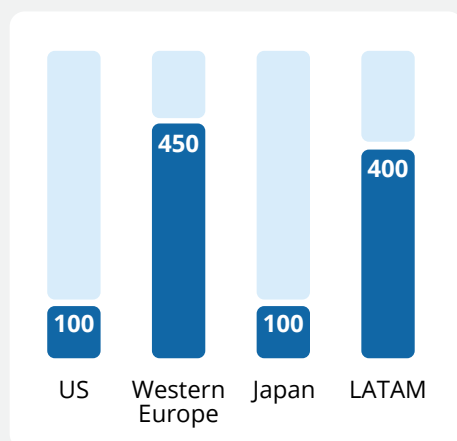
- **Follower / DX Digiphobe**
- **Mainstream / DX Conformist**
- **Leader / DX Trailblazer**

Based on your responses, this report provides you with a benchmark of your organization's DX capability and provides you with essential and tailored guidance to help you advance in your digital journey to cater to the needs of an ever-evolving, increasingly open and connected financial services landscape.

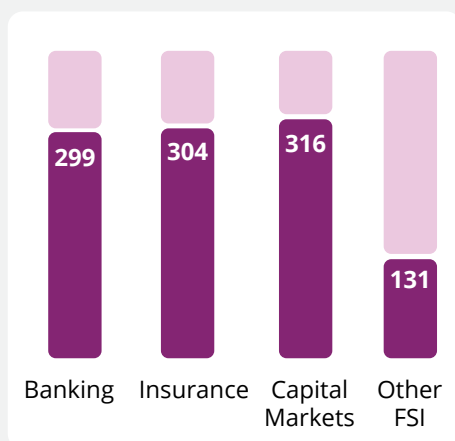
IDC DECISION-MAKER SURVEY - DEMOGRAPHICS AND KEY TOPIC AREAS

In June 2018, IDC undertook a primary research with 1050 FSIs in the United States, Western Europe, Japan and Latin America (LATAM). The research covered small, medium and large sized organizations in the Capital Markets, Banking, Insurance, Wealth and Pensions sectors.

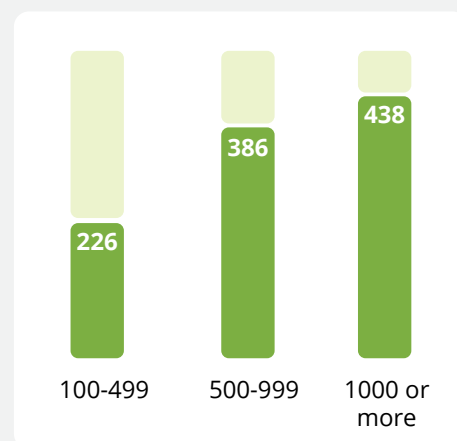
Region



FSI Type



Company Size



The research looked in to the following key areas in detail:

- The impact of digital systems or initiatives in driving organizational growth
- Digital technology investment priorities
- Perceived state of advancement in DX initiatives
- The organization's approach to DX
- Revenues generated from DX initiatives
- Perception of IT's role in transforming business
- Investments to enable connected financial services
- Approach for risk management in connected financial services
- Strategy to build ecosystem experiences
- Strategy to apply data, analytics and AI for DX

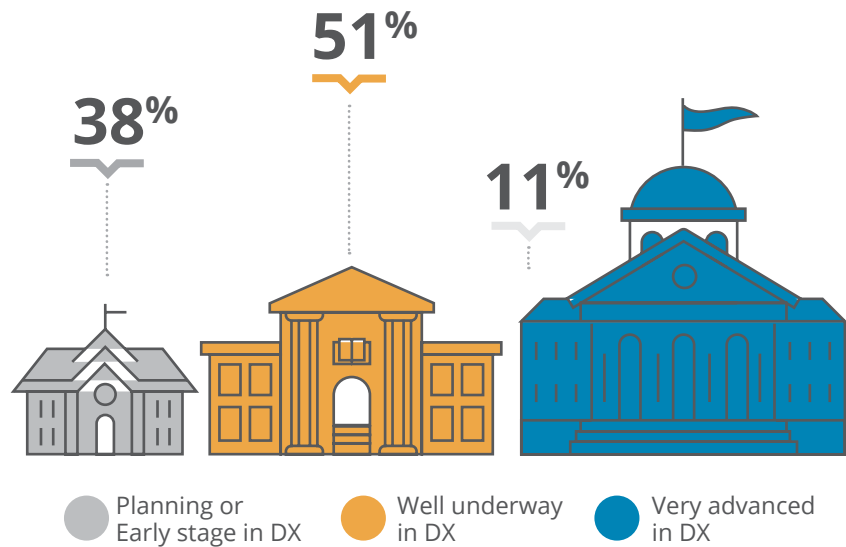
The topic areas were designed to help build a "state of the market" view to give an idea of where the FSIs are currently in their transformation journey and where they need to get to for them to successfully serve customers in the coming years. Following the completion of the interviews, IDC undertook a detailed analysis of the findings in the context of our wider research in to the financial services sector.

The study revealed important traits of the FSIs that are most advanced in DX.

DECISION-MAKER SURVEY FINDING 1

Digital Transformation Progress of Financial Services Institutions

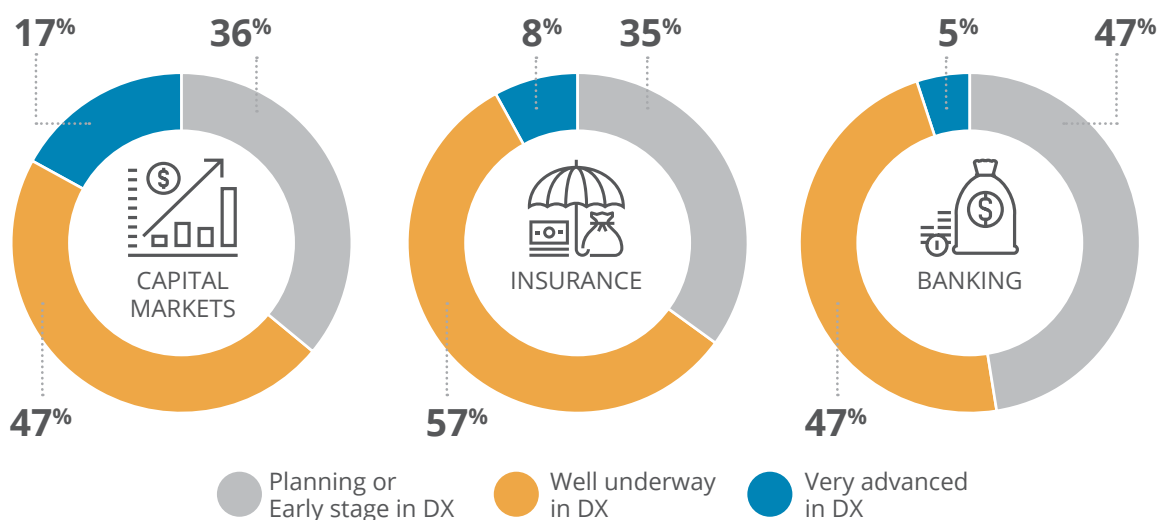
More than half of the financial services organizations are well underway in their DX but only a few (**11%**) consider themselves well advanced in their journey.



Sub-industry variations in DX progress

Capital Markets: Having faced considerable regulatory scrutiny and competition from new digital players, leading investment banks focused on driving data analytics, architectural modernization and connectivity to the digital ecosystem. These steps helped more organizations in the sector to be very advanced in DX.

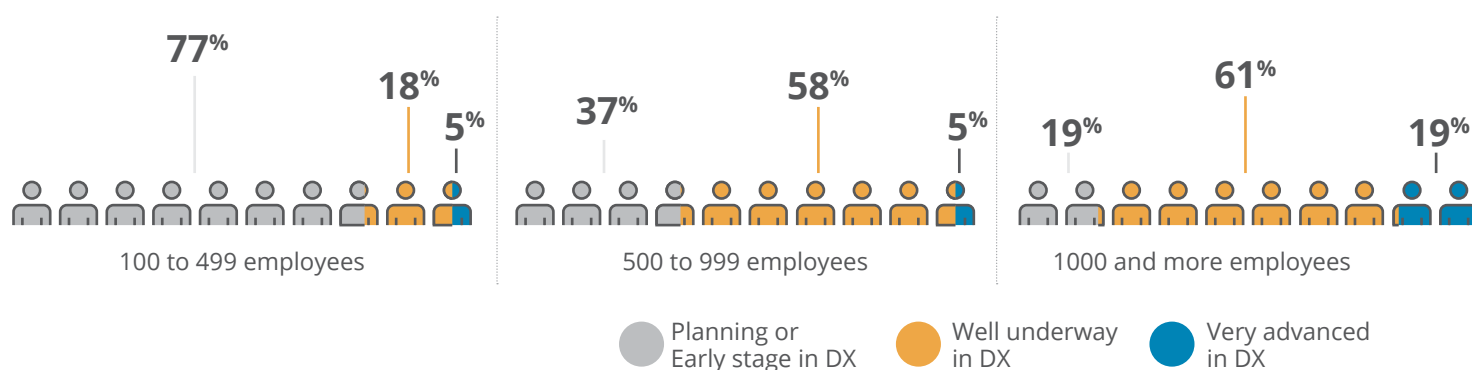
Retail/Corporate Banks: The banking industry has been the slowest of all the financial services sectors to embrace digital. Stringent regulations, legacy baggage and organizational resistance to change have contributed to this. The sector needs to catch up in their DX efforts urgently to avoid customer frustration and stay relevant.



Variations in DX progress by size of FSIs

According to the survey, FSIs across regions and industries believe that the impact of DX on organizational growth is high. However, the responses indicate that smaller the organization, the less advanced it is in its DX journey. Many have not fully bought in on the impact of DX on their business. Small FSIs are more conservative possibly linked to a lack of expert teams dedicated to digital transformation initiatives. The study shows an urgent need for small and medium sized financial institutions to invest more in digital technology or risk falling behind in a challenging market place.

DX Advancements by Size of FSI

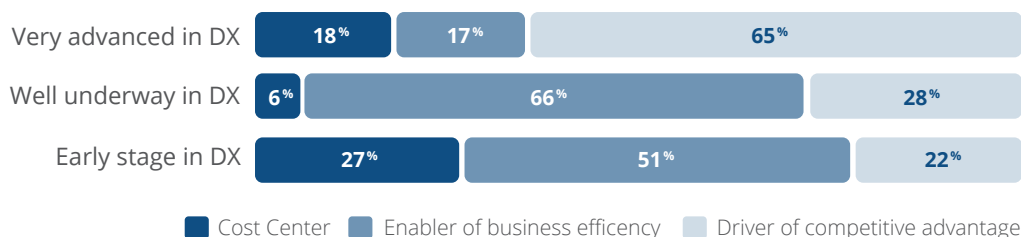


DECISION-MAKER SURVEY FINDING 2

IT's role in Digital Transformation

FSIs that are advanced in their DX journey perceive IT as a driver of competitive advantage. They follow an enterprise wide approach to DX and are more open to outsource new initiatives to third party technology partners.

IT's role in DX

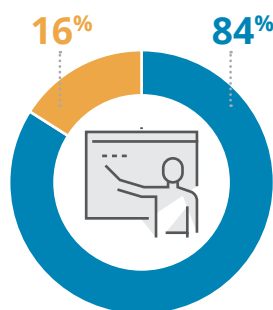


A fundamental problem in DX is that there are many digital strategies taking place in one organization. Organizations either runs digital initiatives as stand alone or runs multiple digital strategies depending on the line of business. Many FSIs run digital strategies that are focused on short term outcomes. Such an approach makes it difficult to accomplish a major transformation when one's efforts are divided.

Digital savvy FSIs follow an integrated strategy. They develop and implement a plan to integrate DX initiatives and programs into the existing culture — inside and out — including organizational changes, new digital roles, funding, talent management, operations, and information requirements. They restructure the "people" parts of the business — process, structure, skill sets, incentives, roles, and communications — to optimize its ability to improve in DX. The strategy would include steps to incorporate next-generation changes/threats and developments in DX.

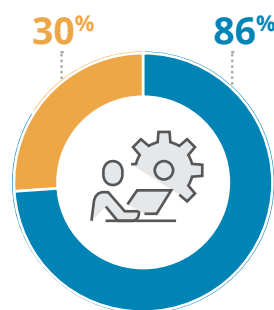
FSI's most advanced in DX

Current or planned approach to DX



- Enterprise wide approach
- Initiatives driven by individual stakeholders

DX Implimentation



- New initiatives outsourced to third party technology partners
- Through operational centers of excellence

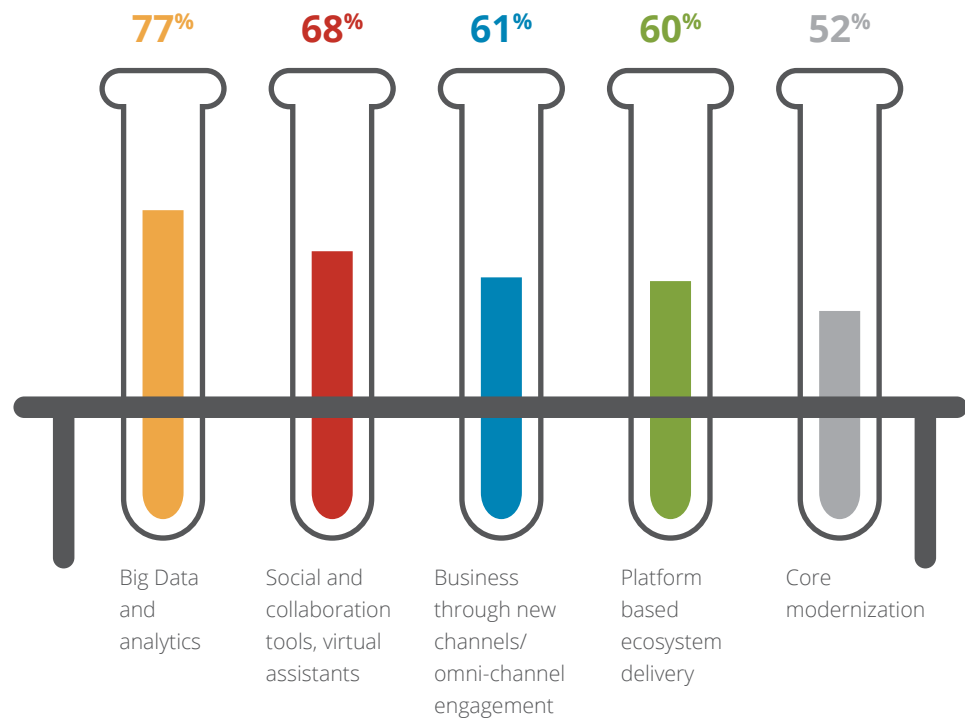
DECISION-MAKER SURVEY FINDING 3

Technology Investment Priorities of Digital Savvy Financial Services Organizations

The study found that digital savvy financial institutions are prioritizing investment in big data and analytics. Recognizing the market change in communication preferences, they are also investing significantly in social and collaboration tools, omni-channel and platform based ecosystems while ensuring continued integration of the back end through core modernization spend.

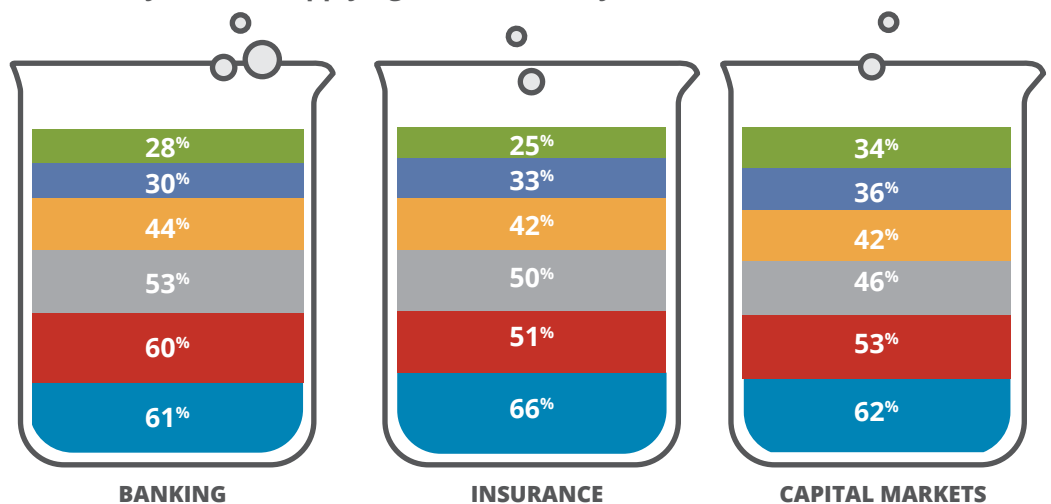
These FSIs are also very advanced in the extend to which they incorporate AI/analytics to identify opportunities for monetization. These enterprises treat data and information as they would any valued asset. Information is the highest value DX differentiator in these organizations. Information is not only used to make better decisions and optimize operations and products, but it is also monetized in the form of products and services.

Technology investment priorities that are most advanced in DX



Subvertical wise, capital markets firms are more advanced in their use of data and analytics to drive their digital agendas. The most digitally advanced financial service sector – capital markets – is using data to understand and target customers whilst placing a much higher emphasis on use of data to combat fraud than are banks and insurance companies

TOP 3 Ways FSIs are applying Data and Analytics



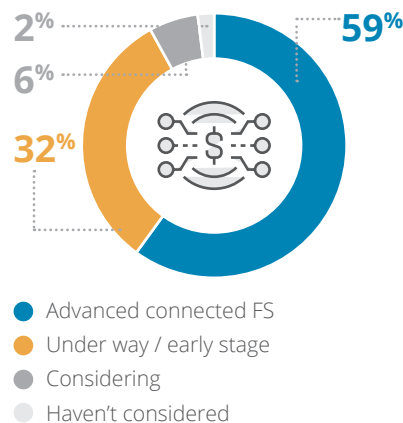
- To understand and target customers
- To support Internet of Things (IoT) initiatives
- Proactive risk management
- To detect fraud, waste and abuse
- To understand and optimize business processes
- To improve security

DECISION-MAKER SURVEY FINDING 4

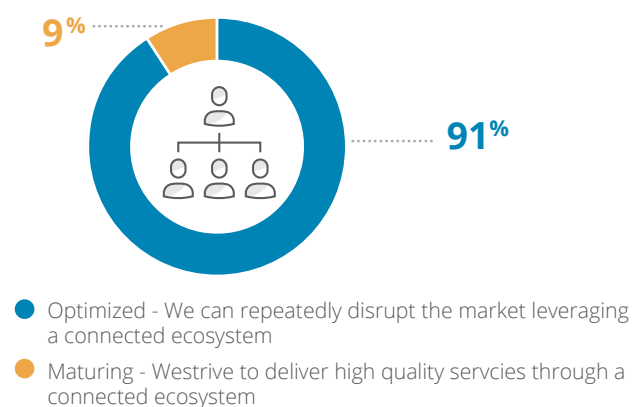
Connected Financial Services and Ecosystem Experiences

Traditionally, FSIs produce and distribute their own products through its own channels to its own customers. The business model is FSI centric and product centric, not customer centric. Onboarding new customers is costly and time consuming. Bundled products are often not targeted to the specific customers' needs. Conditions and pricing are not transparent.

Stage in delivering connected financial services



Current state in building ecosystem in collaboration with different external partners



An open and connected financial services ecosystem will give customers control over how they engage with the FSI and what services they want to consume (unbundling). Products/services marketplaces for credit, deposits, and investments will increase reach but also competition. Third-party applications will allow full financial management across multiple financial services accounts. New business models around data access, data analytics, security, and identity will emerge.

A connected financial services business encompasses omni-experience engagement, next-generation payment networks, modernized core, increased efficiency and agility, digital trust and delivery of value-oriented and personalized offerings to customers through an ecosystem approach. It represents an agile, efficient, collaborative way of working in partnership with different ecosystem players both internal and external to the organization.

For those FSIs in the advanced stages of DX - their attitude towards IT's role in DX and the resulting investment focus help them achieve an optimized state in building ecosystem experiences. Majority of these organizations are advanced in delivering a connected financial services business. The situation enables these FSIs to repeatedly disrupt the market leveraging a connected ecosystem and offers a perfect platform to face an increasingly open and connected world (open banking, insurance business enabled by open APIs etc.) driven by customer demand and regulatory pressures.