



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:

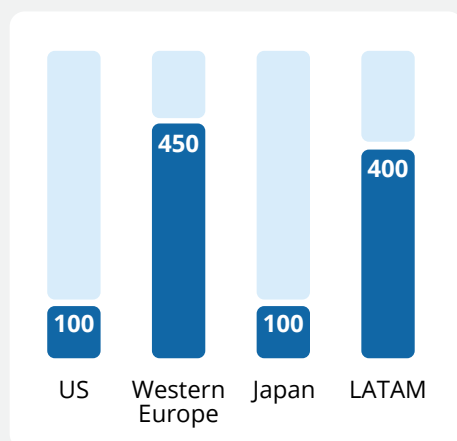
- **Follower / DX Digiphobe**
- **Mainstream / DX Conformist**
- **Leader / DX Trailblazer**

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.

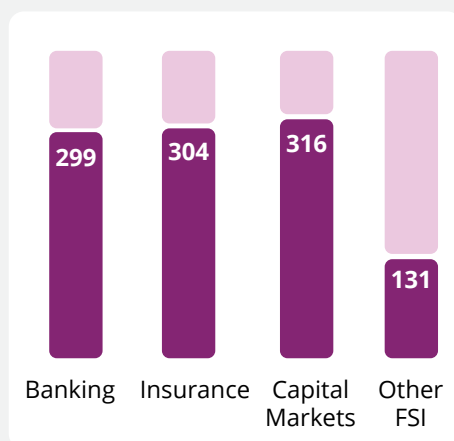
## IDC DECISION-MAKER SURVEY - DEMOGRAPHICS AND KEY TOPIC AREAS

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.

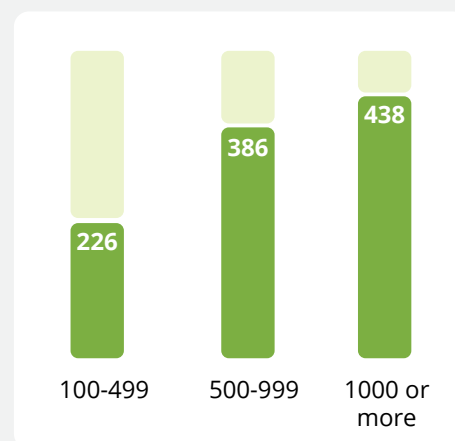
### Region



### 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

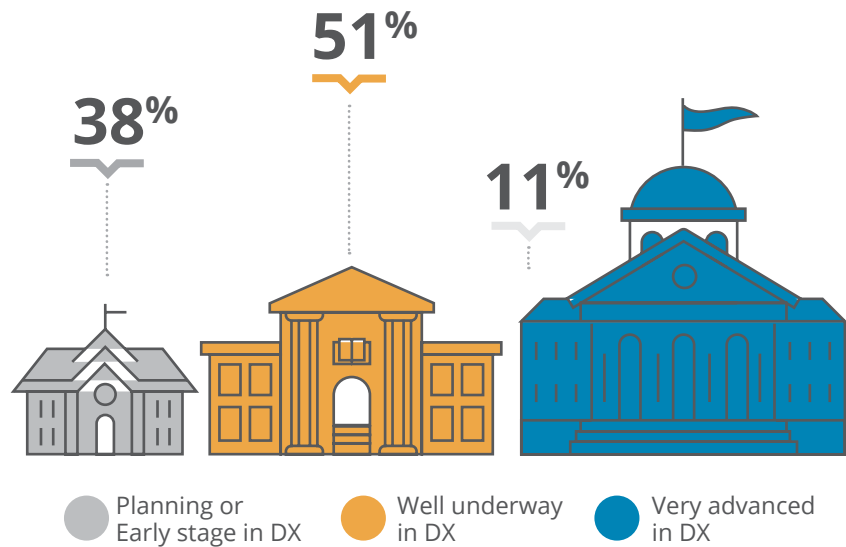
The topic areas were designed to help build a "state of the market" view to give an idea of where the FSIs are currently in their transformation journey and where they need to get to for them to successfully serve customers in the coming years. Following the completion of the interviews, IDC undertook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

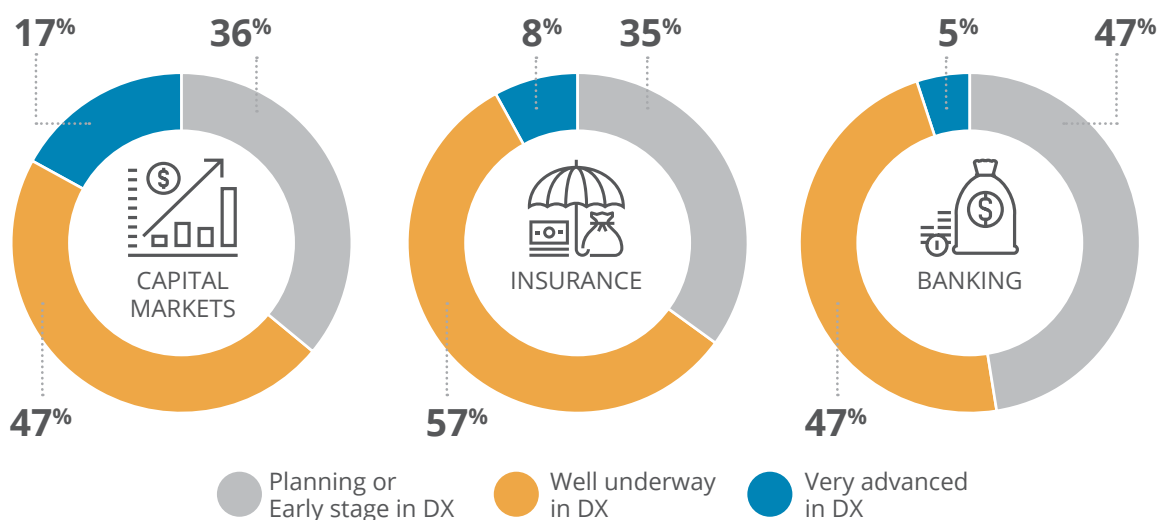
More than half of the financial services organizations are well underway in their DX but only a few (**11%**) consider themselves well advanced in their journey.



#### 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.

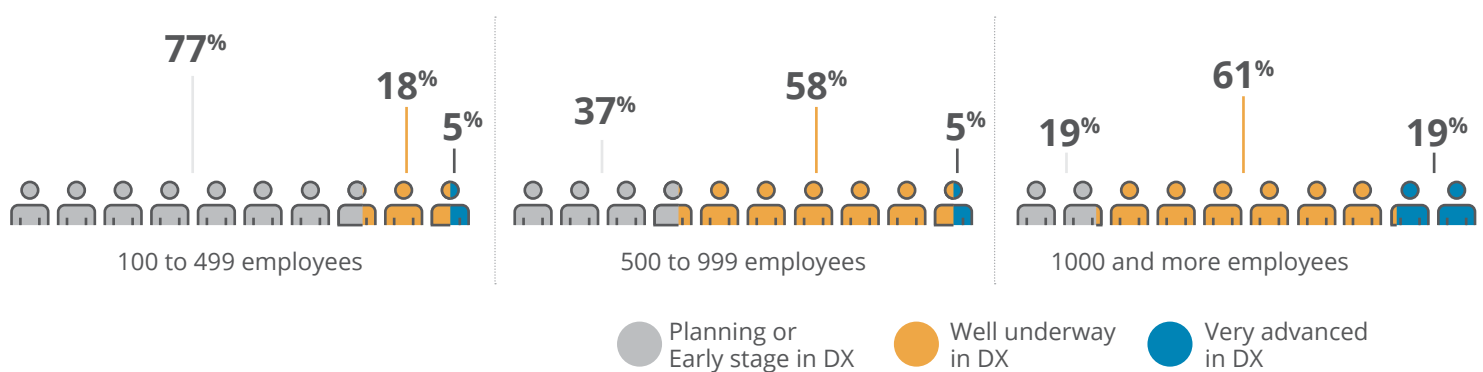
**Retail/Corporate Banks:** The banking industry has been the slowest of all the financial services sectors to embrace digital. Stringent regulations, legacy baggage and organizational resistance to change have contributed to this. The sector needs to catch up in their DX efforts urgently to avoid customer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

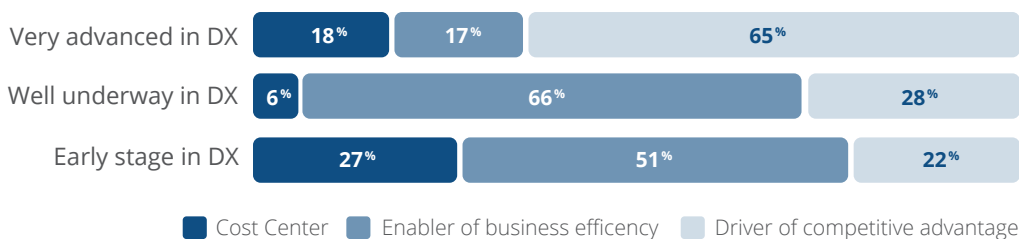


### DECISION-MAKER SURVEY FINDING 2

#### 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

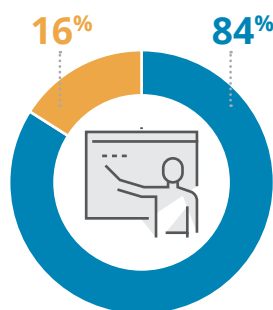


A fundamental problem in DX is that there are many digital strategies taking place in one organization. Organizations either runs digital initiatives as stand alone or runs multiple digital strategies depending on the line of business. Many FSIs run digital strategies that are focused on short term outcomes. 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.

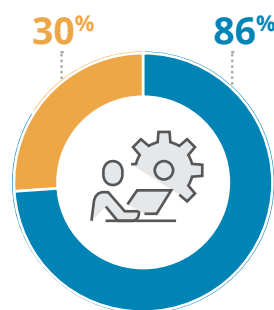
### FSI's most advanced in DX

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

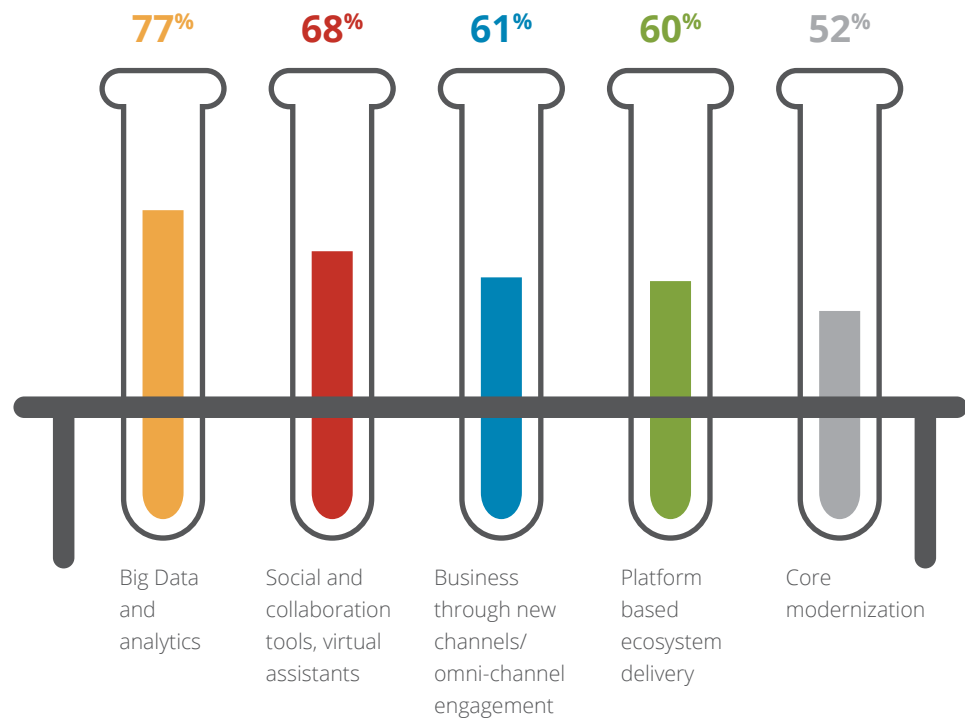
### DECISION-MAKER SURVEY FINDING 3

#### 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.

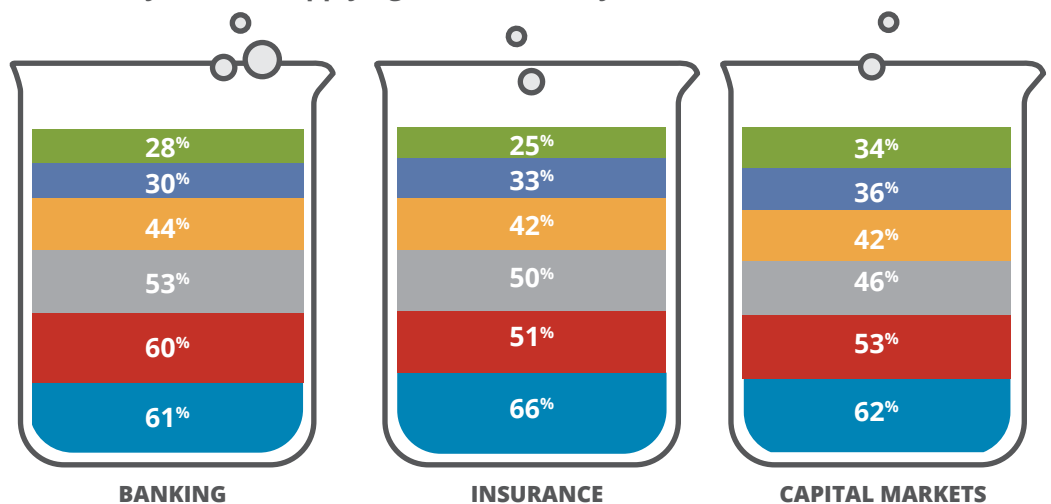
These FSIs are also very advanced in the extend to which they incorporate AI/analytics to identify opportunities for monetization. These enterprises treat data and information as they would any valued asset. Information is the highest value DX differentiator in these organizations. Information is not 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



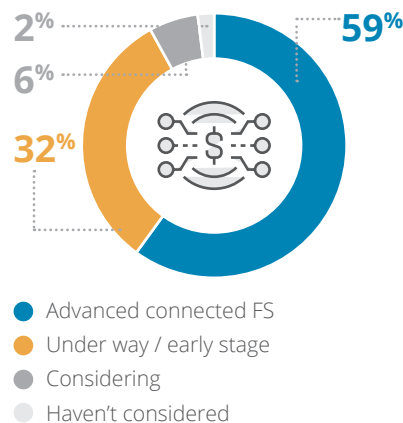
- To understand and target customers
- To support Internet of Things (IoT) initiatives
- Proactive risk management
- To detect fraud, waste and abuse
- To understand and optimize business processes
- To improve security

## DECISION-MAKER SURVEY FINDING 4

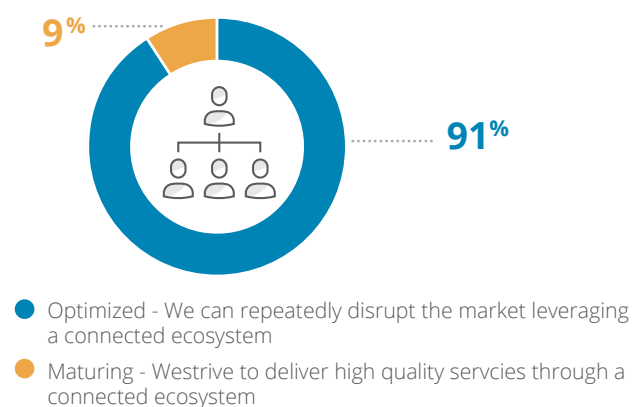
### Connected Financial Services and Ecosystem Experiences

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.

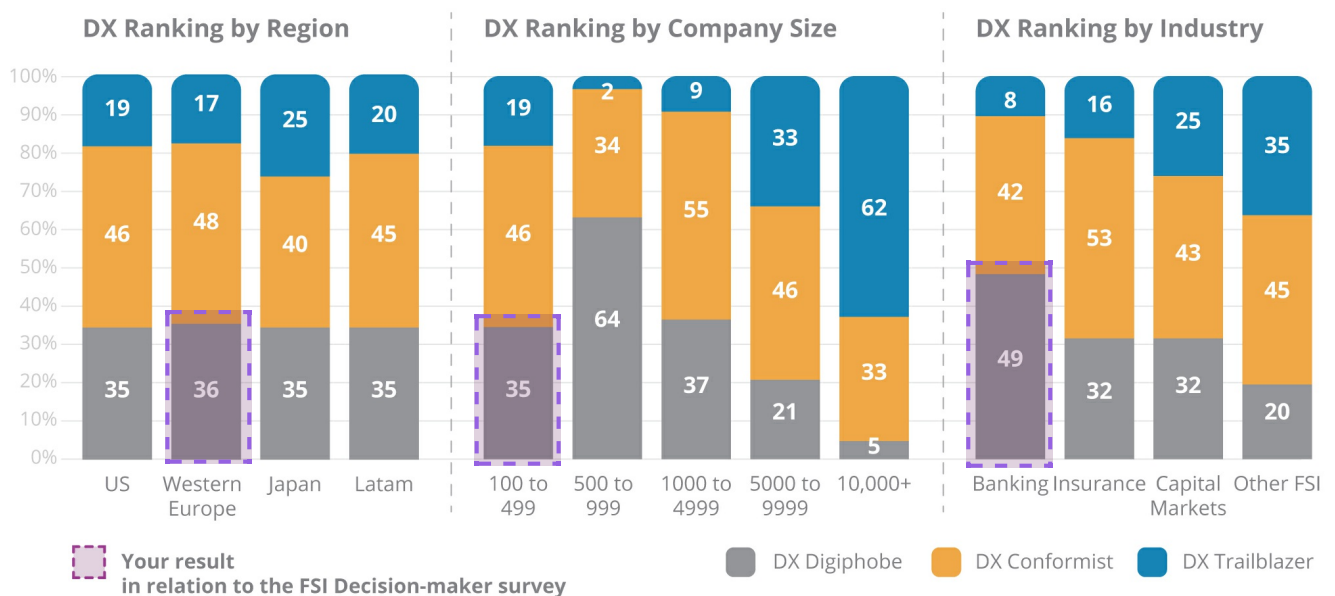
For those FSIs in the advanced stages of DX - their attitude towards IT's role in DX and the resulting investment focus help them achieve an optimized state in building ecosystem experiences. Majority of these organizations are advanced in delivering a connected financial services business. The situation 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.



## YOUR RESULTS

Organizations can only reap the full benefits of digital transformation if it is truly embedded within their culture, processes and technology. IDC has created the Financial Services Digital Transformation Capability Assessment Tool to help FSIs assess their readiness for their digital future. It scores FSIs on their approach to becoming digital by looking at three core elements - how far advanced you are along the DX journey, how successful your DX initiatives have been, and the steps you have taken to becoming a Connected FSI. Based on a global survey of 1,050 FSI institutions across banking, insurance and capital markets among other, we class organizations into three levels of Digital Transformation capability: DX Digiphobes, DX Conformists and DX Trailblazers.

## OVERALL PERFORMANCE: Stage 1 - DX Digiphobe



This result might hurt a bit, but based on your responses to IDC's Financial Services DX Capability Assessment Tool, your organization has been rated at the earliest level of DX capability - Digital Transformation Digiphobe. This means you are struggling with moving to a Digital Future compared to the rest of the industry and there is much to do to be where you need to be. While it may seem an unattainable goal at this point, you must look to incremental improvements and seek outside assistance where possible to to accelerate your move to a digital future.

Your results indicate that there is plenty to do to get on the level with DX. This report will give you advice on areas to give priority to as you look to progress to the next stage of DX capability, so let's turn to the next page and dig into what you can do.

## DX ADOPTION PERFORMANCE

This section of the report assesses the stage of your organization's DX journey based on your attitude to investing in digital technologies, how advanced you are in transforming your digital channels and business's perception of IT's role in DX.

Your overall score for this section indicates that you are in line with your DX Digiphobe peers with respect to the progress you have made so far. You have a long way to go so you must take steps to accelerate the journey now. You could look in to individual assessment areas within this section to understand what changes you could potentially make to your overall approach and DX strategy.

### Q1: On a scale of 1 to 5, how transformed are the following areas, in your organization?

Based on your response, you are in the process of transforming your digital channels to improve customer engagement and attract new revenues. This means that you are ahead of your DX Digiphobe peers in transforming engagement. You are heading in the right direction but to advance in the DX journey, you need to consider transforming all your current points of engagement with the customer and invest in new channels to improve outreach.

### Q2: What is IT's role (as viewed by business) in transforming business through digital technologies in your organization?

Our research shows that FSIs that are advanced in DX view IT as an integral part of their transformation strategy. IT is considered a driver of competitive advantage in such forward looking organizations.

Your company views IT as a driver of efficiency rather than a cost to be cut. This is good and you are more advanced in this than others in your DX digiphobe peer group - but the ideal is to see IT as a platform for new services and a driver of competitive advantage. A shift in perception would need IT to demonstrate how the investments in digital technologies are contributing to the larger transformation objectives.

### Q3: Which of the bands below best represent the proportion of your IT budget spend on the following areas?

Progress in digital transformation has a direct correlation to significant investments in the DX services. FSIs that are advanced in DX typically have focused DX investments. They also balance this very well with their investments in traditional IT services.

Your investment bands indicate that you are well ahead of your DX Digiphobe peers as far as your IT services investments are concerned. You are in great position as this is an important criteria for DX progress.

### Q4: Will you spend more, less, or the same in 2018 than in the previous year for the following areas?

According to our research, FSIs that are advanced in their DX journey have solid plans to increase their DX investments in the next couple of years to keep up the momentum. With agile delivery models and automation becoming norm to address evolving requirements and speed to market, they plan to reduce investments in traditional business and IT consulting. Investments in BPO services are also expected to decline in the next couple of years.

Your investment bands indicate that you are ahead of your DX Digiphobe peers with respect to your investments in traditional IT and Business Consulting and Outsourcing services. You must revisit your traditional IT outsourcing priorities and continue to explore opportunities to allocate budget for cognitive enabled automation and other digital initiatives to move ahead in your DX journey.

## SUCCESS IN DX

This section analyzes how successful you are in your digital initiatives by looking at your approach to DX, the way you measure success in DX as well as your specific digital technology investment priorities.

Overall, you have scored like your DX Digiphobe peers in this section that assesses your DX success. You need to work hard to move to the next level by considering your approach to DX and which digital technology investments will give you the much needed boost to succeed in your transformation effort.

### Q5: What is the typical balance in your company for digital transformation initiatives?

An important ingredient for success in digital transformation is an organization's approach to implement digital projects.

In your company, there is a balance of individual business unit DX initiatives and strategic enterprise wide initiatives which means you are ahead of your peers in the DX Digiphobes category when it comes to your approach to succeed in DX initiatives. You will benefit further from adopting a holistic integrated strategy and this will help you accelerate your efforts to achieve DX success.

### Q6: How successful are you in your digital initiatives?

To measure the success of digital initiatives, FSIs need to define new digital KPIs such as customer advocacy scores, return on data-related investments, business's ability to transform and automate processes etc. Digitally advanced organizations use their KPIs for quarterly performance reviews, strategic planning, monthly ops reviews, directing weekly activities and also for presenting them to investors.

Based on your response, you are in the right direction in terms of measuring the success of your digital initiatives compared to your peers in the Digiphobe category. You can refine your KPIs or consider new KPIs as you move forward to provide you direction and focus for future investments.

### Q7: At what stage is your organization today in the deployment of each of the following digital technologies or initiatives to transform your business in response to the changing customer and market needs?

Our research in financial services shows that investments in Big Data and analytics, Social and collaboration tools, business through new channels and platform based ecosystem delivery provide an advantage to the FSIs that are advanced in their DX journey.

Your investment bands indicate that you are ahead of your DX Digiphobe peers with respect to your investments in DX services and IT services. You are in a good position as far as this important criteria for DX success is concerned so keep it up!

## CONNECTED FINANCIAL SERVICES

Connected financial services bring together businesses and products with the help of a digital platform where diverse stakeholders (both internal and external) collaborate to deliver value-oriented and personalized offerings to customers through a partnership network approach. In this section, we look in to the progress you made in establishing a connected financial services business and your overall approach to risk management while doing so as this is vital to build loyalty and trust among your customers and partners.

Your cumulative score in this section shows that you are much ahead of your DX Digiphobe peers in this area. Well done on your forward looking approach to establish a connected financial services business to align with customer and market needs. You must now look at other aspects that will help you advance in your DX journey and also measure and manage DX success.

### Q8: Which statement best describes how advanced you are in delivering a connected financial service?

Digital savvy organizations aspire to become connected financial services establishments for competitive advantage.

Based on your response, you are in line with some of your peers in the Digiphobe category with respect to your position in delivering connected financial services. You need to start kicking off projects to deliver a connected financial services business in order to meet the ever-evolving expectations of your customers and partners in the digital world.

### Q9: In delivering a connected financial services business, to what extent have you implemented each of the following to assess risk and ensure the right levels of security?

Financial services organizations should employ robust methods to assess risk and ensure that the right levels of security are in place in a connected financial services model with measures such as identity management, fraud detection, cyberthreat detection, investments in next gen security etc.

Your score indicates that you have employed some of these measures currently. This means you are well ahead of your DX Digiphobe peers. Keep it up!