

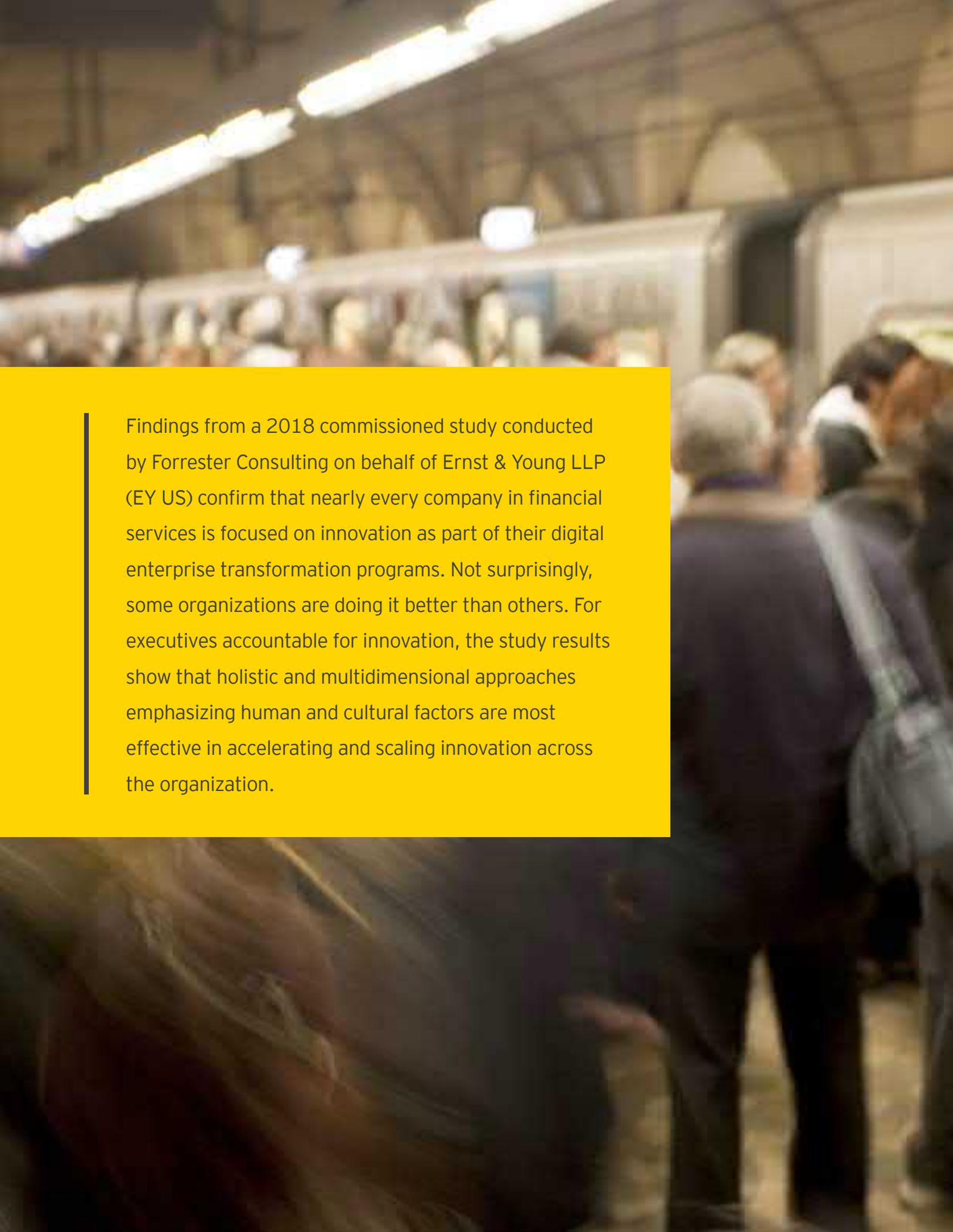


**Digital enterprise
transformation in banking:
customer focus pays off and
points the way forward**

A commissioned 2018 study
conducted by Forrester Consulting
on behalf of Ernst & Young LLP



Building a better
working world



Findings from a 2018 commissioned study conducted by Forrester Consulting on behalf of Ernst & Young LLP (EY US) confirm that nearly every company in financial services is focused on innovation as part of their digital enterprise transformation programs. Not surprisingly, some organizations are doing it better than others. For executives accountable for innovation, the study results show that holistic and multidimensional approaches emphasizing human and cultural factors are most effective in accelerating and scaling innovation across the organization.

Table of contents

About the survey	3
Key findings	5
Recommended actions.....	11
Bottom line	13
Contacts	13
Survey methodology.....	14



This banking-focused report is one of a series based on a 2018 commissioned study conducted by Forrester Consulting on behalf of EY US. The overview report highlights the unique interconnectedness of digital enterprise transformation, innovation, business model evolution, customer expectations and other critical factors in banking, insurance, and wealth and asset management. It also rates the digital maturity of firms in terms of strategy, structure, culture, technology and security.

**Download the
overview report** 

Focusing on customers drives results from digital enterprise transformation

Digital transformation has been a common undertaking in banking in recent years, with most efforts and investments centered on meeting customer needs, increasing operational agility and securing the organization. However, despite the significant resources invested to date, only 30% of banks can be considered to have reached a state of high digital maturity, according to the findings of a commissioned study conducted by Forrester Consulting on behalf of EY US. In contrast, 41% of banks are considered low maturity in terms of their digital capabilities.

The survey results reveal that banks trail insurers, but lead wealth and asset managers, in terms of digital maturity. For example, 44% of insurers have reached high digital maturity and only 29% are considered low maturity. For wealth and asset managers, those numbers are 20% and 36%, respectively. The context is worth noting: the most advanced banks are every bit as advanced as their peers in other sectors; however, the 70% of banks with low or average digital capabilities have ample room for improvement.

A few historical factors help explain where banks are relative to their financial services peers. During the last 15 to 20 years, banks modernized their core systems and many customer-facing touchpoints, including digital channels. These investments and efforts placed them ahead of other financial services firms.

However, since 2008, regulatory requirements dominated the agenda at many banks, which deployed significant new infrastructure to achieve compliance. Now, they are focused on integrating that infrastructure to reduce costs and increase efficiency. Banks have long recognized the need for advanced digital capabilities to engage customers, but regulatory matters simply took priority for the last decade.

At the same time, insurers, which were in a badly lagging position relative to digital capabilities, invested heavily to catch up. If they were to meet rising consumer expectations for high-quality digital experiences, insurers had no choice but to improve dramatically. The survey results confirm they have done just that.

About the survey

The research consisted of online surveys with 240 senior-level executives (more than half of whom hold C-level positions) and additional phone interviews with select participants. Respondents represent banks, insurers, wealth and asset managers, and private equity and capital markets firms based in the US and Canada with operations around the globe. (Private equity and capital markets firms are grouped with wealth and asset managers and are referred to as such throughout this report.) See page 14 for more information on survey participants and methodology.

The relatively small number of digitally mature firms in wealth and asset management reflects the sector's traditional emphasis on "high-touch" relationships, which has slowed its embrace of digital transformation. However, rising customer expectations and competitive pressure from FinTechs have forced wealth and asset managers to expand and accelerate their investments in digital enterprise transformation.

To be clear, banks have made steady progress in becoming more "digital," as the survey results suggest. But, much work remains to satisfy ever-rising customer expectations, stay ahead of increasing competition (including that from FinTechs) and reduce the risk of technological disruption.

Looking forward, banks are largely prepared for further technology and infrastructure advancements. And they can apply the strategies and tactics successfully adopted by their peers to accelerate their digital transformation and improve their positioning with consumers in these rapidly evolving markets.

Specifically, the findings illustrate how digital leaders prioritize customer needs and expectations, along with innovation and revenue, in their transformation efforts. To a large extent, they are meeting their goals in that they have generated value in the form of more satisfied customers, more innovation and increased revenue. This tangible return on investment (ROI) is evidence that customer centricity pays off for the business.

A strong case can be made that digital leaders deliver greater value as a result of their intense customer focus. But, despite the emphasis on customer experience, the banking industry is still at risk, according to the survey results.

Consider that:

- ▶ 73% of banks do not feel fully prepared for disruptive market entrants that are aggressively pursuing banks' current customers.
- ▶ 64% do not feel fully prepared for drastic marketplace shifts that have profound impacts on customer relationships.
- ▶ 59% do not feel fully prepared for changing customer expectations, which are being shaped by generational differences and the standard set by digital leaders in transportation, retail and other sectors.

Banks must prepare themselves against these threats and vulnerabilities. Customers should be the focal point for all bank strategic initiatives, from the refining of product portfolios, servicing strategies and organizational models, to shaping competitive responses and seeking external partnerships and collaborations.

Again, customer centricity has long been a focus for banks. Today, the emphasis is on enhancing customer experiences and delivering more value based on new capabilities, more powerful tools and better data. Banks must also think and organize differently to unlock the full value of their data and technology.

As they move forward, banks must:

1. Know their customers better
2. Organize customer-centrally
3. Drive innovation at scale

These efforts will also help banks advance their digital capabilities and realize fuller returns on transformation investments.

Key findings: customer focus sets leaders apart from laggards

High-maturity firms prioritize meeting changing customer expectations as a key transformation goal (second only to increased revenue) and measure their success against customer-oriented metrics.

See figures 1-2

Most banks understand the need to stay focused on customers: 76% are tracking customer satisfaction as a key performance indicator for transformation goals, close to the level of high-maturity firms and their industry-leading insurance peers (81%).

Our survey indicates that these investments are translating to large positive impacts on customer satisfaction.

Looking forward, 65% of respondents rated improving customer experiences as a top three priority for innovation in the coming 12 to 24 months, trailing only improving productivity and efficiency at 68%. As they seek to advance their transformation agenda, banks are keeping their eyes on the customer.

Executive insights:

“As things go digital, if you don’t stay in pace, you run the risk of being disrupted and you’re actually going to lose customers.”

Chief operations and technology officer, large US bank

Figure 1

What key performance indicators (KPIs) are you tracking to ensure you reach those digital enterprise transformation goals?

Customer satisfaction

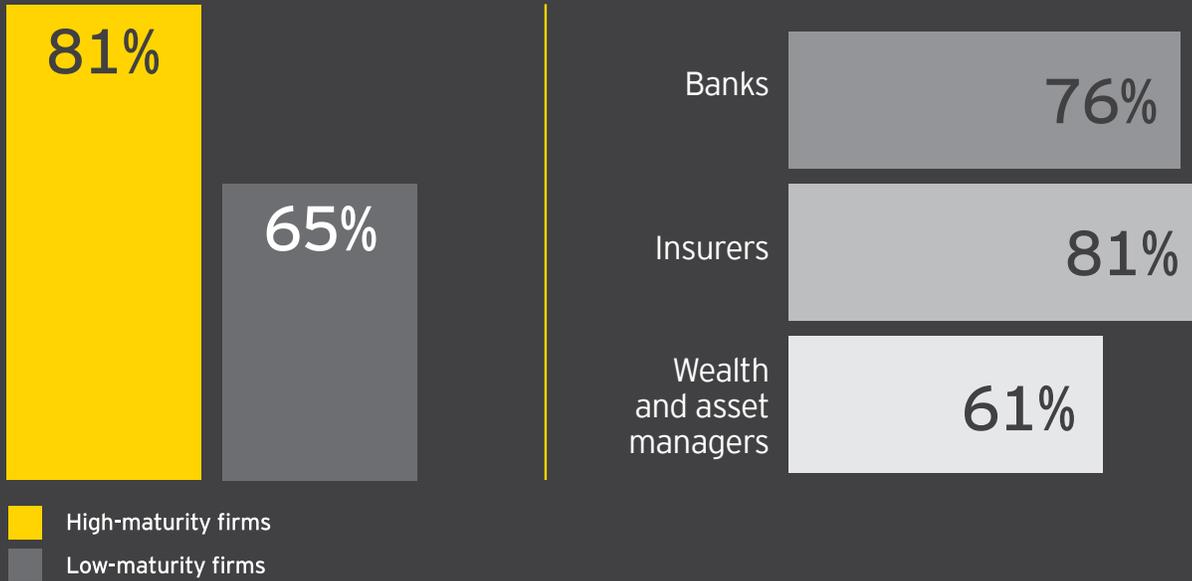
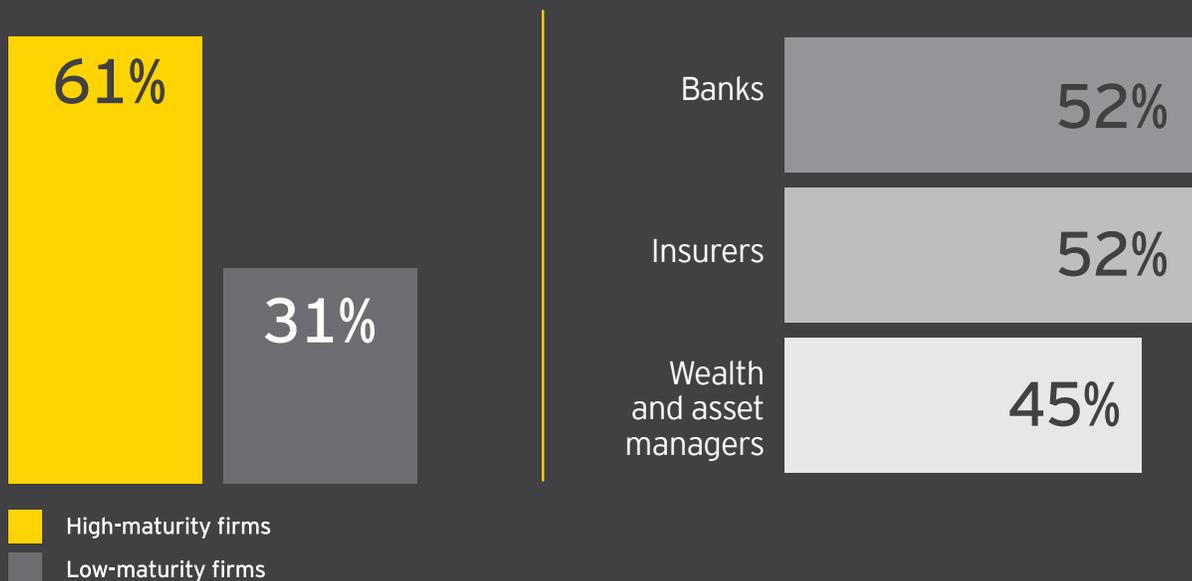


Figure 2

Of the KPIs that you are tracking, what impact have you seen from your digital transformation efforts?

Customer satisfaction: large positive impact



Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms, including 80 decision-makers at banks
Source: a commissioned study conducted by Forrester Consulting on behalf of EY US, April 2018

Key findings: leaders engage the organization to promote transformation and innovation, while banks struggle with silos

The how of transformation is as important as the why and what. Leaders use a federated model that connects and drives collaboration across innovation teams throughout the organization. Federated models appear to be most effective in “operationalizing” and scaling innovation. They balance clear guidance from top leaders with deep integration into operational units and place decision-making authority at the right place in the organization.

In contrast, a decentralized approach offers too little command and control, while overly centralized models limit ownership and input across operational groups, thereby restricting the scale and pace of innovation. Fewer than half of banks organize innovation in federated models. *See figures 3-4*

The prevalence of centralized and decentralized models reflects both the generally lower digital maturity status of banks and their historical challenges related to organizational silos.

Indeed, such silos present a real obstacle for banks in driving transformation. In fact, 24% of banks cited such silos as a key challenge in digital transformation, compared to only 11% of wealth and asset managers. The common practice of structuring organizational charts around business and product lines (rather than customer needs) has made these silos a fixture at many banks. The survey results show that high-maturity firms have organized to bridge these silos through federated models that help to scale innovation programs.

Executive insights:

“Innovation is top on everyone’s mind. Especially right now, it’s the key.”

VP and information security officer, large US bank

Figure 3

How is innovation structured at your organization? (Banks only)

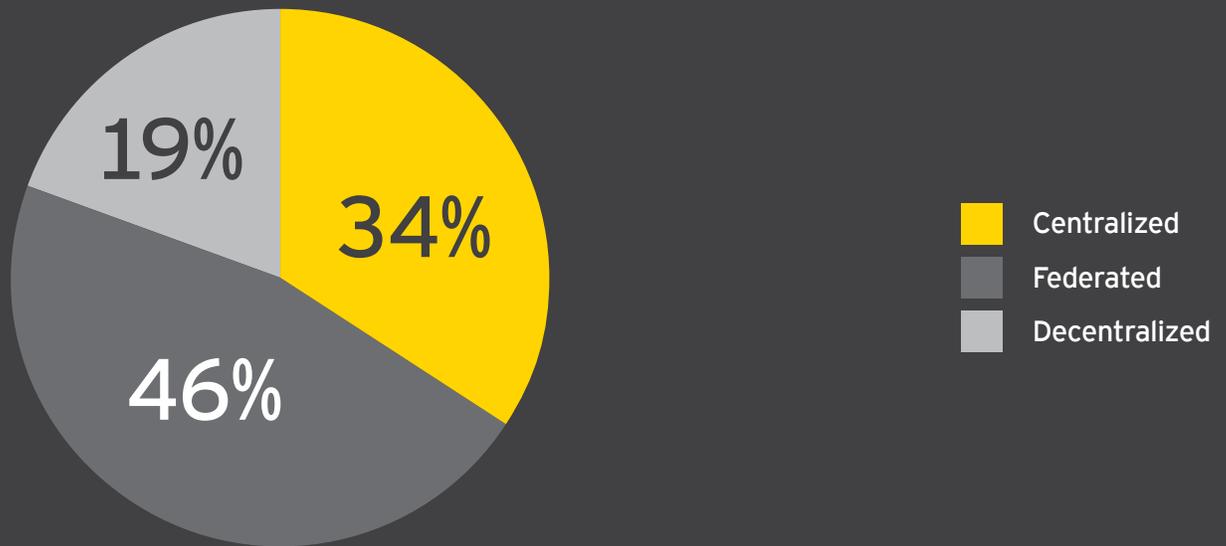
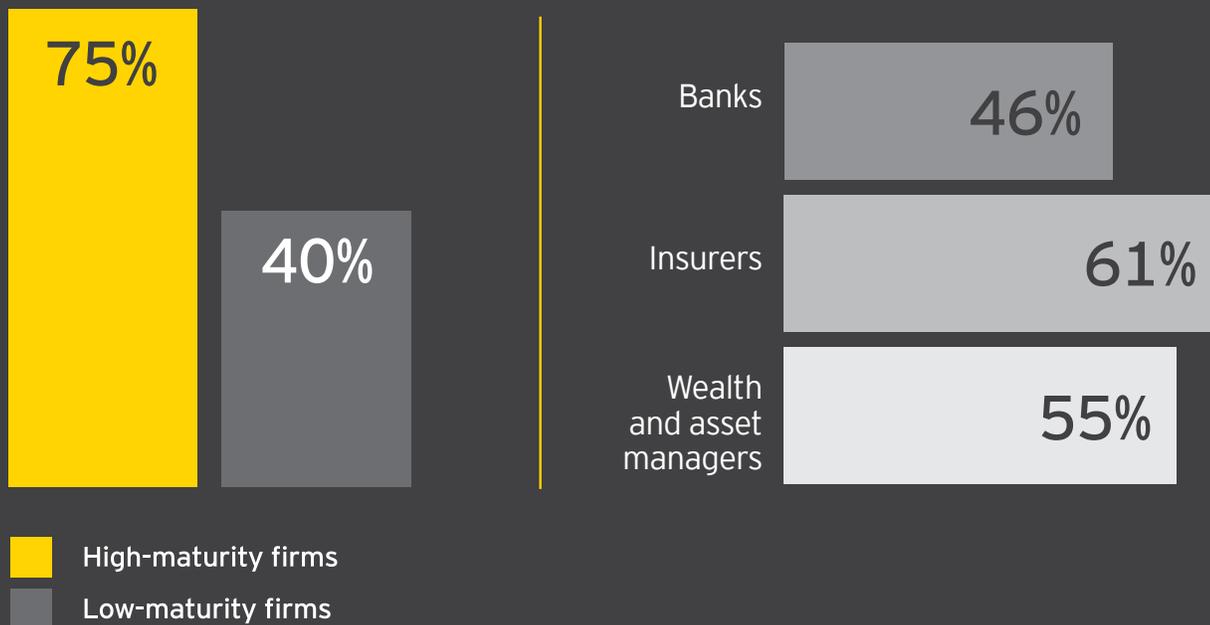


Figure 4

Use of federated model for innovation: central team coordinates across innovation teams



Note: due to rounding, totals may not equal 100.

Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms, including 80 decision-makers at banks

Source: a commissioned study conducted by Forrester Consulting on behalf of EY US, April 2018

Key findings: transformation investments provide clear returns

Banking executives may be wary of the hype that is sometimes associated with the phrase “digital enterprise transformation.” But, our research confirms that it delivers value in areas that matter. In short, digital transformation leads to happier customers, more sales and more innovation. A majority of banking respondents cited increased revenue (59%), better customer experiences (56%) and increased innovation (56%) as benefits from transformation. See *figure 5* These numbers lag slightly when compared to those of all respondents, who reported increased revenue (63%), better customer experiences (62%) and increased innovation (60%).

By increasing revenue and driving more innovation, banks have made progress in meeting the goals of their transformation programs. But, they are far from done. Customer expectations continue to change and increase. They are constantly reshaped by digital interactions across a broad range of industries. Plus, banks trail digital leaders and their peers in financial services when it comes to specific, customer-oriented benefits, such as better experiences.

Thus, banks must consider themselves on a never-ending journey to keep customers engaged and satisfied. They must also recognize that ROI in digital investments is a constantly moving target. By adjusting how they organize for transformation and refining operational models for increased customer centricity, more banks will likely realize a fuller range of benefits.

Figure 5

What business benefits have you experienced from digital transformation at your firm? (Banks only)



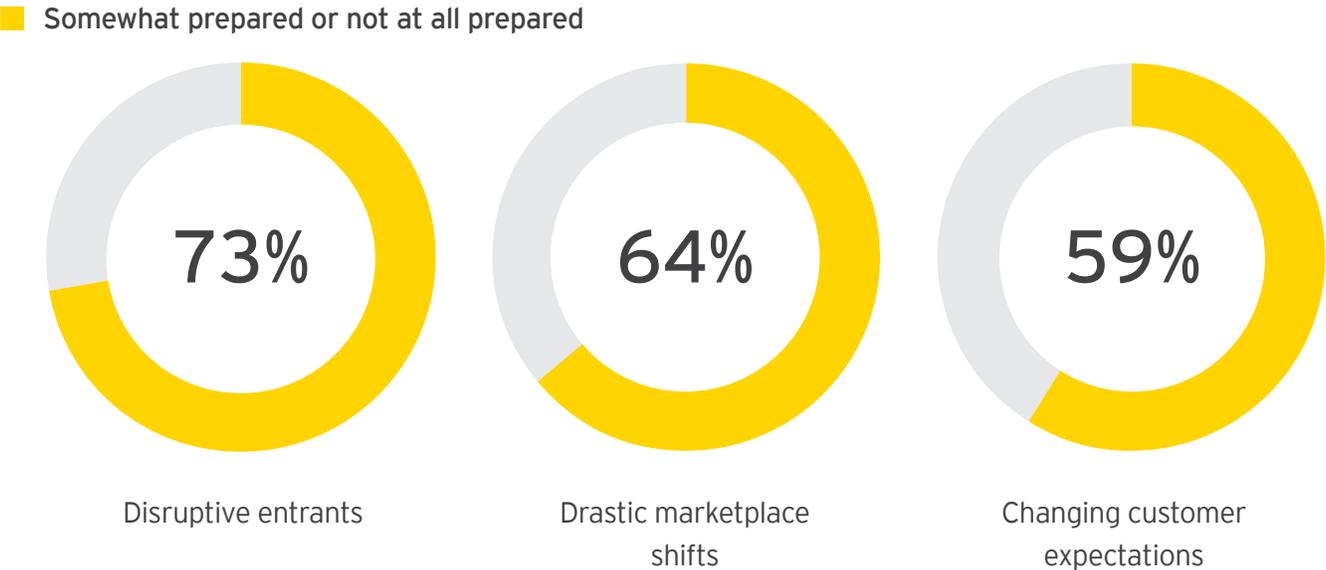
Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms, including 80 decision-makers at banks
Source: a commissioned study conducted by Forrester Consulting on behalf of EY US, April 2018

Key findings: customer focus prepares leaders for competitive and market threats, but banks remain vulnerable

As a result of their transformations, digital leaders are vastly more prepared to deal with competitive threats represented by new technology and the potential obsolescence of their business models. Given the amount of change and turbulence in banking, managing these risks is a top agenda item for senior executives. This is especially important for the three-quarters of banks that don't feel prepared to deal with disruptive entrants. See figure 6

Within banking, it all comes back to customers. Incumbents find themselves in a war for customers. New market entrants – including FinTech startups, technology giants and players from other industries – are positioning themselves to own the overall customer relationship. For banks to stop their relevance from slipping, they must make themselves essential to their customers' lives and move beyond merely servicing transactions. Banks cannot allow themselves to be sidelined by more consumer-oriented brands that know how to deliver consistent, intuitive and personalized experiences to the most demanding customers.

Figure 6
As a result of your digital transformation efforts, how prepared is your firm to deal with the following threats? (Banks only)



Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms, including 80 decision-makers at banks
Source: a commissioned study conducted by Forrester Consulting on behalf of EY US, April 2018

Recommended actions for banks

Given where banks are today, those organizations that want to increase their digital maturity should focus on a few key areas.

Know your customers better

The good news is that banks are prioritizing customer needs when designing strategy, products and services in order to deliver specific customer outcomes. But, further steps are necessary. Banks must leverage years of investments in regulatory compliance to extend their 360-degree customer initiatives. It's worth pointing out that "know your customer" requirements offer obvious upsides beyond mere regulatory compliance: companies that deeply understand their customers will be better positioned to deliver what they want, when they want it and how they want it.

To achieve such deep and detailed understanding, banks must take advantage of their data assets. Integrating disparate data sets (which often reflect those organizational silos) from the full range of customer interactions is the first step. The second involves deeper analysis, which may lead to more precise customer segmentation and targeting. Such capabilities lay the foundation for more personalized offerings and stronger engagement.

Organize customer-centrally

To mature their digital capabilities, banks must overcome the barriers imposed by their own organizational silos. The goal should be to anchor all transformational activities to business-driven and customer-centric frameworks. Breaking down silos is the only way to achieve full, 360-degree views of customers, some of whom will have multiple products, each with its own unique set of touchpoints.

A critical step is to develop end-to-end customer journey maps. Every contact and interaction, regardless of product line or internal business function, should be included. To instill customer centricity across functional barriers and organizational boundaries, banks should map operations to individual steps in the customer journey. They may also consider defining profits and losses around customer needs and activities. Such models will help increase organizational understanding – even in those functions farthest back in the back office – of how workflows and processes impact customer relationships or help fulfill customer needs.

Metrics also matter in orienting organizations around customers. Many metrics used to track the value of innovation are customer-centric. For instance, Net Promoter Scores are used by 61% of surveyed companies and 60% of banks. Customer adoption of new products and services generated through innovation is another popular metric, cited by 59% of respondents and 54% of banks.

Drive innovation at scale

Innovation is inextricably linked to digital enterprise transformation for banks. Innovation is both a driver and an outcome of digital transformation programs – a cause and an effect. In some cases, strong innovation teams drive transformation. In others, successful transformation leads to increased innovation – both in terms of outputs (like new products or business models) and organizational capabilities (e.g., increased agility and process resiliency).

Today, digital leaders seek to accelerate and scale their innovation capabilities. To realize that ambitious vision, organizations will need to change their cultures, implement agile development, experiment with emerging technologies and manage a portfolio of innovation investments. Such an approach includes initiatives that aim to extend and enhance existing operations in the near term and others that represent bigger and longer-term bets on more disruptive shifts in the business models. Some ROI targets should be 10% and others 10x.

The benefits of innovation at scale – primarily increased customer satisfaction, higher retention rates and increased revenue – are currently being realized by only the most digitally advanced banks. Industrializing innovation in this way starts with organizational commitment. Among the key enablers:

- ▶ The involvement and leadership of senior executives
- ▶ The identification of clear metrics
- ▶ Innovation approaches that transcend organizational constraints
- ▶ A willingness to embrace new ways of working, including agile and “test-and-learn” models

Those organizations that follow this strategic course forward can also generate such value, especially in the realm of customer centricity. Again, the survey results highlight what leaders do well – and what banks seeking innovation at scale should do:

- ▶ Break down silos to organize around customer needs
- ▶ Instill customer-centric thinking deeply in the company culture
- ▶ Federate innovation teams to deliver what customers want – and deliver it faster
- ▶ Clarify key customer-focused metrics and measure outcomes and outputs with discipline

They will also be poised for sustainable growth and ongoing innovation, thanks to increased organizational agility, speed and appetite for change. Those most successful will create a virtuous cycle of satisfied employees committed to continuous innovation in serving satisfied customers.

Bottom line: keeping an eye on customers

Like their peers in insurance and wealth and asset management, banks have made considerable progress in their digital journeys during the last five to ten years. There is still more work to do, however, if they are to achieve digital maturity. That is especially true in the realm of customer centricity. Again, it's critical to recognize that the bar only rises when it comes to meeting and exceeding customer expectations. Customers eternally want more (richer experiences, additional features, increased personalization and higher value) even as they demand less (lower costs, fewer fees and faster time to complete service requests). That's why satisfying them is a game without end for banks and all types of companies.

The good news is that after an era dominated by regulatory and compliance matters, more banking executives understand the need to orient all operations around customers. That is the right first step. With deeper understanding, banks can design and manage experiences to satisfy and delight customers. For banks, a focus on customer experience is a focus on growth.

Contacts

Gregg Bellows

Executive Director
Financial Services
Ernst & Young LLP
gregg.bellows@ey.com
+1 212 773 5177

Nikhil Lele

Principal, Banking &
Capital Markets
Financial Services Advisory
Ernst & Young LLP
nikhil.lele@ey.com
+1 212 773 1996

Mike Schank

Executive Director
Financial Services
Ernst & Young LLP
mike.schank@ey.com
+1 704 338 0490

Survey methodology: the digital maturity model

The study evaluated respondents on 27 measures of digital enterprise transformation maturity. Survey respondents were prompted to place themselves on a five-point scale for each maturity measure across five categories:

- ▶ Strategy
- ▶ Structure
- ▶ Culture
- ▶ Technology
- ▶ Security

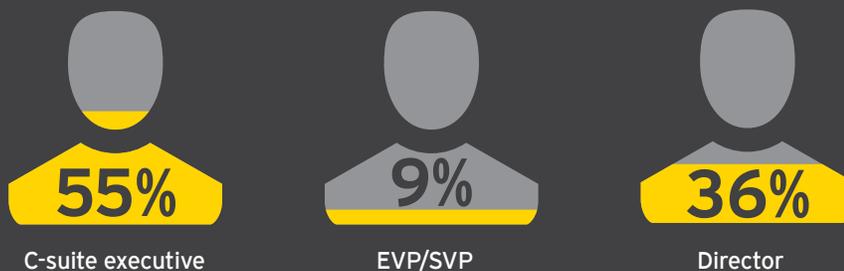
The overall maturity score was based on an aggregate score across these 27 measures. Respondents were then placed within one of three maturity groups – low, medium or high – depending on where their score fell along the distribution curve. The maturity assessment is an accurate predictor of where the average firm stands in relation to digital transformation excellence.

High-maturity firms, referenced as digital transformation leaders throughout this report, are those with advanced capabilities, strong track records and robust metrics in the areas listed above. They are also notable for focusing transformation efforts and investments on innovation and customer needs.

A middle cohort, referred to as mid-maturity firms, straddles the line between conventional practices and digital excellence. However, a significant number of these firms are likely to emerge as future leaders as they advance along their digital transformation journeys.

Low-maturity firms, referred to as digital transformation laggards, are typically focused on – even obsessed with – cost reductions.

Position:



Offices to which respondents belong or report:



About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

EY is a leader in serving the financial services industry

We understand the importance of asking great questions. It's how you innovate, transform and achieve a better working world. One that benefits our clients, our people and our communities. Finance fuels our lives. No other sector can touch so many people or shape so many futures. That's why globally we employ 26,000 people who focus on financial services and nothing else. Our connected financial services teams are dedicated to providing assurance, tax, transaction and advisory services to the banking and capital markets, insurance, and wealth and asset management sectors. It's our global connectivity and local knowledge that ensures we deliver the insights and quality services to help build trust and confidence in the capital markets and in economies the world over. By connecting people with the right mix of knowledge and insight, we are able to ask great questions. The better the question. The better the answer. The better the world works.

© 2019 Ernst & Young LLP.
All Rights Reserved.

EYG no. 07094-191US
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com