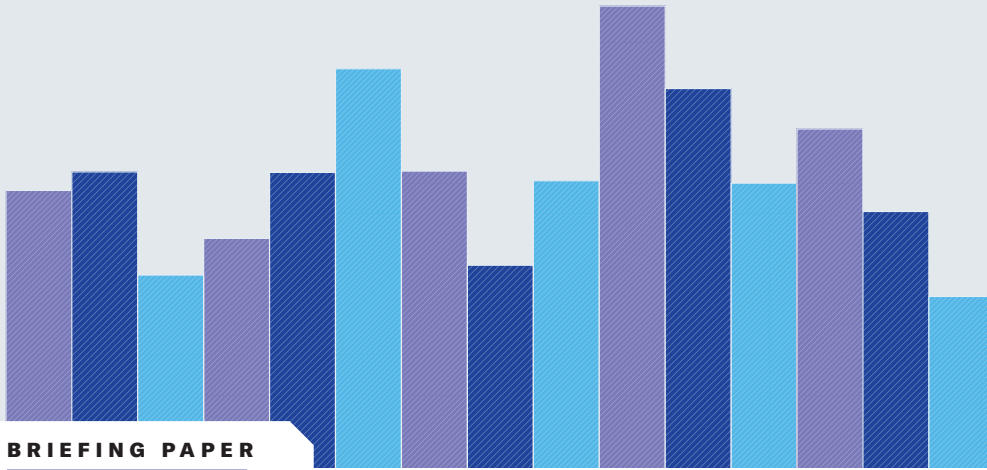




**Harvard
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Review**

ANALYTIC SERVICES



Evolving Opportunities for Digital Leaders in Financial Services



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Everyday experiences continue to be fundamentally reshaped by the digital technology around us. It has created new value streams, blurred traditional industry boundaries, and led to significant economic growth around the globe. These changes have been profound, and they continue to unfold as digital ecosystems evolve.

We sponsored this research by Harvard Business Review Analytic Services to survey executives from across the financial services sector as they seek to reshape their organization to better meet the digital needs of their customers. This report compares responses with those from last year and illustrates the evolving opportunities for digital leaders.

The financial services sector has digitized many of its processes over the past decade as it sought to close the experience gap with digital natives. While there has been solid progress, 46% of respondents struggle to make deeper changes inside the organization. For those organizations, digital remains a veneer, without the more profound changes to the customer journeys to reflect the expectations of its customers. There are nagging challenges when it comes to talent acquisition and resource allocation along with strategic alignment across the organization that are hampering progress.

It's not all doom and gloom. The pace of change has accelerated over the past 12 months. Digital has proven to create top-line growth, better return on equity, and overall business success. Those that are making the difficult organizational, operational, and technology changes are being rewarded.

Advancements in cloud technology are removing friction in getting the digital services your customers crave in their hands more quickly. Cloud platforms provide the essential capabilities to securely operate and scale your digital business with less cost and effort. The combination of open source, cloud, and digital has given rise to new digital infrastructures that are helping organizations thrive against their competition.

As we look to the future, we once again see that digital is opening up new opportunities as organizations embrace platform-based business models and lean into embedded finance with their products and services. Digital, like innovation, is not an end state to be acquired but rather has capabilities that need to be nurtured for continued growth.

We hope you enjoy the report and find it useful as you continue to evolve your digital strategy.



Hector Arias
Banking Sector Global Lead
Red Hat



Eric Marts
Banking Sector Global Principal
Red Hat

Evolving Opportunities for Digital Leaders in Financial Services

The financial services sector has undergone significant digital transformation over the past two years, quickly pivoting technology and processes to keep operations afloat and maintain competitiveness. Yet while organizations—banks, insurers, and asset managers, for example—have experienced tremendous growth and digital transformation success in recent years, the sector is still on a journey to modernize its technology and cultural mindset.

“The pandemic was the kick in the pants that most organizations needed to go digital because they had no other choice,” says Chris Skinner, financial markets and fintech commentator and author of *Doing Digital*. “Most [companies] that had been prevaricating about moving to cloud-based services finally made the decision to move. What they didn’t do, however, is change their business structure, their products, their services, their mentality, or their thinking to deal with customers in a digital way. They’ve progressed but still have a ways to go.”

A survey by Harvard Business Review Analytic Services of 117 executives in the financial services sector finds that people and culture challenges are prevalent. While 85% of respondents agree that having the right culture in place is important to the successful digital transformation efforts of their organization, just 34% rate their organization’s performance in modernizing workplace cultures as effective over the past 12 months. Furthermore, embracing digital transformation across the entire organization was cited by 46% of respondents as a top challenge that organizations are facing today.

“[Financial services organizations] have been spending trillions of dollars on digital transformation, and there’s a lot that’s gone to waste,” Skinner

HIGHLIGHTS

88% of the financial services executives surveyed say that **having the right technology in place is important to the successful digital transformation efforts** of their organization, but only 32% say their organization’s performance in modernizing IT has been effective.

85% agree that having the right culture in place is important to the successful digital transformation efforts of their organization, but just 34% rate their organization’s performance in modernizing workplace cultures as effective over the past 12 months.

46% cite **embracing digital transformation across the organization as a top challenge** they are facing today.

says. “They’re viewing it as a project within a function that has a designated person to lead it rather than something that everyone in the organization needs to passionately communicate as a cultural change.”

As organizations look to the year ahead, tackling the cultural challenges tied to digital transformation will be paramount. But it won’t be the only thing on the agenda for these companies. They will also need to reconsider their services and offerings with a renewed vision of the customer experience and their processes, and then formulate a plan to hurdle technology roadblocks standing in the way of progress.

This report will explore where the financial services sector is today in its digital transformation efforts. It will examine the challenges that the organizations are currently experiencing, what leading organizations are doing differently to progress in their digital transformation, and steps these organizations can take to identify and address key areas in their technology journeys in the year ahead.

Shifting Goals and Challenges

Many financial services organizations have seen a marked improvement in the success of their digital efforts over the past two years. One-third (33%) say their company’s efforts were effective in 2021, compared to just 21% in 2020, the survey finds. While that growth is promising, there is still ample room for improvement.

Jerry Silva, vice president of financial insights for Needham, Mass.-based research company IDC, says a main focus of improvement in financial services organizations today is the customer experience. “Overall, as an industry, we just didn’t do right by the customer during the pandemic,” he says.

Indeed, enhancing customer satisfaction (39%) is the primary digital transformation business goal for financial services organizations in 2022, the survey finds. Increasing productivity/efficiency (33%), boosting agility associated with operations and business workflows (33%), growing the customer base (32%), and maintaining or increasing profitability (29%) round out the top five goals. **FIGURE 1**

The data also reveals that firms are slowly turning a page toward growth. Growing the customer base, for example, moved up the list of goals by 12 percentage points, while maintaining or increasing profitability and creating new business applications designed to quicken innovation both increased 9 percentage points year over year.

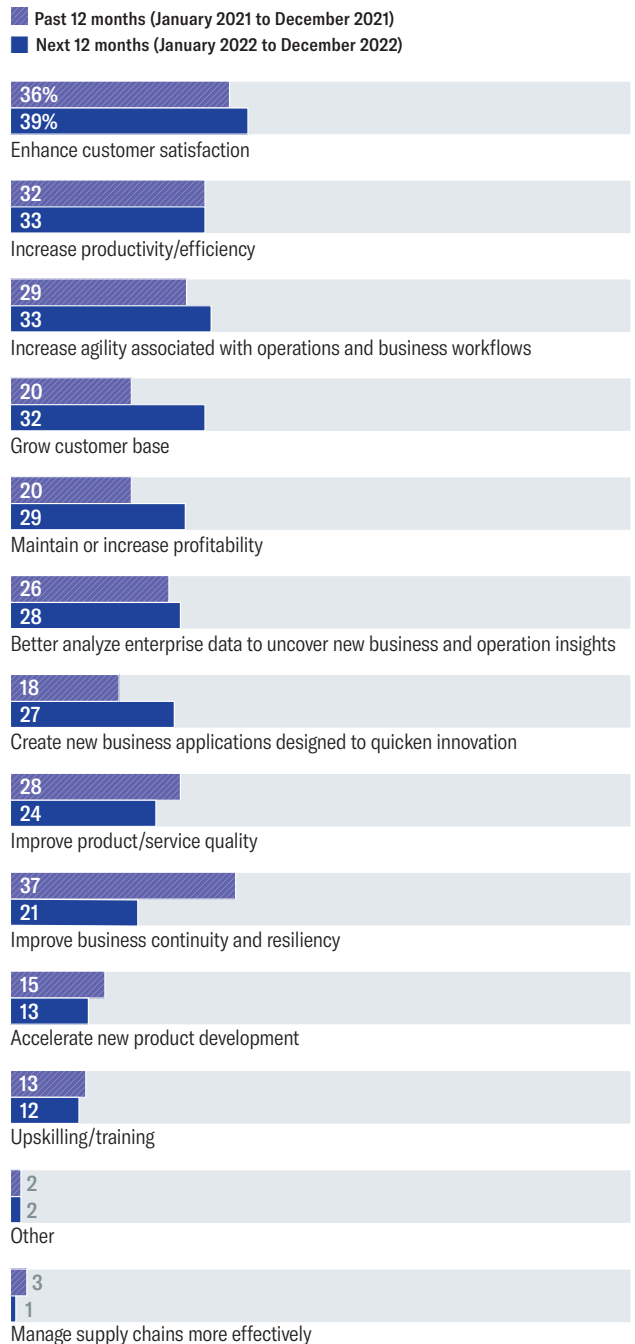
“[They have] pushed profits and revenue to one side while trying to fix things,” Silva says. “There’s some blocking and tackling that still needs to be done before they start focusing on revenues and profitability again, but there’s absolutely been an acceleration in terms of not only getting back to where they were pre-pandemic, but getting better.”

FIGURE 1

Shifting Business Goals for Digital Transformation

The top aspiration is enhancing customer satisfaction.

What were the primary business goals for your organization’s digital transformation efforts over the past 12 months? And what are the primary business goals over the next 12 months? [SELECT UP TO 3 IN EACH COLUMN]



Source: Harvard Business Review Analytic Services survey, January 2022

Standing in the way of reaching these goals, however, are the challenges they currently face, the survey finds. These obstacles include effectively allocating resources to the right transformation areas (48%), embracing digital transformation across the entire organization (46%), creating/supporting a culture of continuous learning (45%), and aligning digital transformation with business objectives/key performance indicators (44%). **FIGURE 2**

To support continued digital transformation success, organizations will need to address the root causes of these top



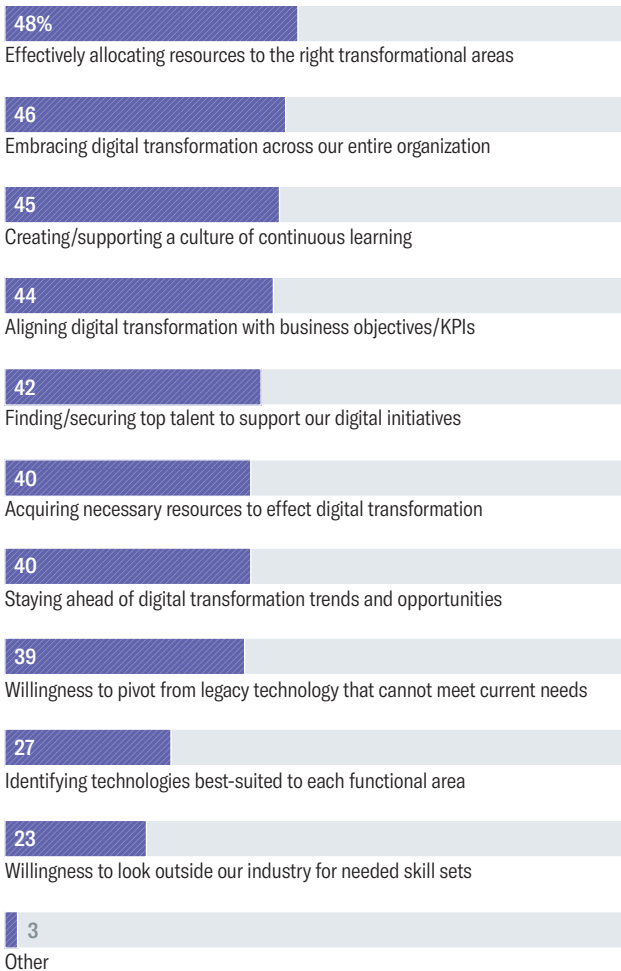
“Post-pandemic, everyone realized that digital transformation is necessary—not only to survive the next disruption but to actually succeed,” says Jerry Silva, vice president of financial insights at IDC.

FIGURE 2

Top Digital Transformation Challenges

Financial services organizations stumble in allocating resources and embracing digital transformation.

What are the biggest digital transformation challenges that your organization is facing today? [SELECT ALL THAT APPLY]



Source: Harvard Business Review Analytic Services survey, January 2022

challenges. Organizational silos, for example, are fueling the top challenge of effectively allocating resources to the right transformational areas, says Dan Latimore, chief research officer at Boston-based Celent, a technology and finance research and advisory firm.

“In a bank, you might have [divisions] with different priorities, and while some have dedicated technical resources assigned to them, they also have to draw on the shared pool,” he says. “And so, without resource allocation direction from the very top, the IT and other support areas are left to sort out these priorities and determine where they’re going to devote those resources. It can also be a case where [IT has] two or three dozen potential action items or areas of investment, and sorting through those is really tough. It’s not a question of apples to apples—or even apples to oranges. Sometimes it’s apples to cinderblocks, and trying to judge those by the same criteria is really difficult.”

Organizations must also work to improve cultural transformation—in particular, gaining buy-in on the digital transformation vision from the greater organization—and reconcile new technology acquisitions and business process changes with talent capable of supporting and managing them.

“Post-pandemic, everyone realized that digital transformation is necessary—not only to survive the next disruption but to actually succeed,” IDC’s Silva says. “Organizations today are moving a lot faster now with that recognition.”

Leadership and the Persistent Culture Problem

Financial services organizations understand that having the right culture and skills in place is important to the success of digital transformation efforts, but they’re still struggling to make improvements in this area. Today, just 34% rate their company’s performance in modernizing workplace



“Organizations need to understand that the executive leadership team is a critical part of the cultural transformation in order to truly be digital. Digital transformation isn’t something that you can delegate to one function or one person,” says Chris Skinner, financial markets and fintech commentator and author of *Doing Digital*.

cultures as effective over the past 12 months. Skinner says a few factors are impacting organizations’ ability to embrace digital transformation—one of which is the prevalence of organizational silos.

“One problem I’ve seen happen for a long time is when the call center has long queues and people are on hold for a half-hour. The obvious solution from a technology perspective is to shift some of those phone calls to the branch network if they’re not busy,” he says. “The problem is that the person who heads up the branch and the person who heads up the contact center are being compensated for different things. The head of the branch says, ‘Why should I take phone calls I’m not being paid for?’” In these siloed organizations, leadership hasn’t made the goals of digital transformation clear and teams are not working together, Skinner adds.

Fear is another reason why companies are struggling to embrace digital transformation, Silva says. Because these organizations are highly regulated by state and federal authorities, many institutions are risk averse. When considering a move to a public cloud, for example, organizations generally acknowledge that cloud providers can support better security—but fear still holds them back from committing, he says.

“They’re afraid that if there’s a breach of their customer data on a public cloud that regulators don’t go after the cloud provider—they go after the bank,” he says. “The bank is already spending 35% to 40% of their entire IT budget on compliance, risk, and security. They don’t want to spend another 3% to 5% on some brand-new regulation that comes out because of the breach. So, every time they talk to me about the cloud not being secure, they’re not actually talking about security—they’re talking about the liability should something happen.”

That fear is often deeply embedded in organizational culture, Silva says. Moving past it—and ultimately gaining buy-in on digital transformation—is often a matter of influence. “It really does come down to that one person who convinces the rest of the executive suite that something is absolutely critical to the health of the institution going forward,” he says.

As a result, leadership plays a big role in preventing organizations from embracing digital transformation, Skinner says. He points to the fact that many senior executives don’t

have a strong enough understanding of technology. “It’s clear that many executive leadership teams mostly understand risk, compliance, regulation, and finance,” he says. “They don’t understand technology and digital transformation, and therefore they delegate it. If you’re going to be a digital bank, you need to have a leadership team that understands those concepts and can share passion behind them and bring the organization into the future. It’s so rare that a bank has that team.”

However, more financial services organizations are committed to addressing these cultural challenges in 2022 than in 2021. Slightly more than half (53%) say their commitment to addressing cultural change is higher compared to the previous 12 months. To enable digital transformation in the organization, companies are primarily focused on collaboration (64%)—ensuring there is support for sharing work, initiating projects in group settings, and effectively connecting with additional project groups to form cross-functional teams. These changes, however, must start at the top.

“Organizations need to understand that the executive leadership team is a critical part of the cultural transformation in order to truly be digital. Digital transformation isn’t something that you can delegate to one function or one person,” Skinner says. “And the people need to understand that [digital transformation] is important. They need a vision of where they have to go and how they can contribute to where we want to be. They need to be assured that technology will not take away their jobs—rather, it will offer them opportunities to learn and participate in the change.”

Technology Priorities and Challenges

Over the next year, financial services institutions will continue to invest in technologies that streamline processes and deliver more business value. The top technology investments remain the same year over year, the survey finds. In 2022, these investment targets include business process automation (61%), artificial intelligence (AI) and machine learning technology (48%), digital assistants/bots (39%), and digital automation for managing IT operations (33%). In 2021,

planned technology investments included business process automation (61%), AI/machine learning technology (49%), digital assistants/bots (48%), and digital automation for maintaining and managing IT operations (36%).

These are key technologies aimed at resolving the customer experience missteps many financial services organizations made during the pandemic, Silva says. “Because of the pandemic and all the projects that were put on hold, there’s been an acceleration of investments in technology in order to solve a lot of the problems they saw,” he says. “Many of those [investments] are for the sake of the customer experience, whether it’s moving to the cloud to be faster, more scalable, and more resilient, or using AI for analytics to understand the customer needs better.”

While 88% of respondents say that having the right technology in place is important to the successful digital transformation efforts of their organization, just under a third (32%) say their organization’s performance in modernizing IT has been effective.

One factor challenging organizations’ progress with technology modernization is finding qualified talent to manage new infrastructure, Silva says. “The Bank of Americas, the Wells Fargos, the JP Morgan Chases—they’ve all got the right people and the right training in place,” he says. “But the rest of the industry is having a really difficult time finding the right people to deploy, develop, and manage these new platforms.” Nevertheless, employee education isn’t a top priority, according to the survey. Just 12% of respondents say that upskilling/training is a primary business goal for their organization’s digital transformation efforts, ranking second to last.

Organizations are also grappling with how to manage and monitor their systems with multiple service providers, Silva adds. “As an institution moves from everything being within their own data center to applications running on different infrastructure providers, the services suddenly expand beyond the walls of the data center,” he says. “How do we manage that? How do we monitor it if we start getting phone calls from the customers saying that the mobile banking app just crashed? Do we know where the problem is without spending hours and hundreds of operational staff trying to figure it out, and then can we remediate it afterward?”

The differences between leading organizations and laggards in their approach and ability to manage and monitor systems can be stark, Silva says. He recounts a recent panel discussion he participated in during which a large payments provider revealed that it monitors every application and can pinpoint problems within seconds when they arise. It can automate the resolution to the extent that it can remediate the problem, and if not, it knows whom to send it to for human intervention. A regional bank, on the other hand, conceded that if it received calls from its customers complaining about response time, it



As financial services organizations move into the next year, they will need to continue to ensure that their digital transformation is aligned with their business objectives and KPIs.

would take hours and hundreds of resources just to identify where the problem was.

“Before [financial services institutions] get too far into creating that infrastructure that provides all those great benefits and resiliency, scalability, innovation, and customer satisfaction, we need to catch up on the management aspects of that infrastructure,” Silva says. “Otherwise, the very thing that we’re building to be resilient is going to be extremely fragile.”

Measuring Digital Transformation Progress

Financial services organizations are relying on the same metrics in 2022 to measure their digital transformation as they did in 2021, with slight variations. The survey shows that the top key performance indicator (KPI) used by organizations today is operational efficiency (59%), which ranked second in 2021. Growth/revenue generation (56%), in the top spot in 2021, is now runner-up. Third is customer retention/loyalty (47%), which formerly ranked fourth, and fourth is profitability (45%), which formerly ranked third. **FIGURE 3**

As financial services organizations move into the next year, they will need to continue to ensure that their digital transformation is aligned with their business objectives and KPIs. Forty-four percent ranked aligning digital transformation with business objectives as a top challenge that organizations are facing today.

While Silva says that the top KPIs are in line with what he sees in the market, he does expect some movement among the rankings in the near future. For example, operational efficiency will continue to rise in share as organizations overcome resiliency and scalability issues, he says.

Another KPI that likely will see movement is customer retention/loyalty, Skinner says. “When you focus on the customer experience, operational efficiency and cost reduction are the byproduct,” he says. “Unfortunately,



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traditional banks focus on operational efficiency and cost reduction and don't believe in the customer experience enhancement." Among KPI responses, customer retention/loyalty showed the most significant increase, climbing 9 percentage points year over year.

Measuring employee satisfaction—which tied as the fifth KPI with market position versus competitors (36%)—is another KPI expected to grow in importance, Celent's Latimore says. "[Organizations] have made an immense amount of progress—not just on the customer-facing side but also on the employee experience and on realizing efficiencies in the middle and back office," he says. "And while customers don't necessarily see the middle and the back office, it does affect their overall experience."

Priorities Ahead

To continue progressing in their transformations and to overcome the obstacles standing in the way of greater success, Latimore, Skinner, and Silva suggest that companies focus on the following in the year ahead:

Revisit technology, alignment, and strategy from the customer perspective.

Companies need to organize around customer structures, behaviors, and journeys, Skinner says. "You just can't build from the organizational view and experience and try to force the customer to adhere to how your structures behave," he asserts.

Tackle culture change.

"Digital transformation is something that has to be delivered as a cultural change and not as a technology change," Skinner says. This cultural emphasis begins at the top with leadership, which must communicate the vision, the benefits, and the roadmap for getting there.

Gauge resiliency and scalability.

Consider how well you can withstand a failure and other disruptions, Silva suggests, and how well your organization is poised to scale. "One of the things we saw in 2020 was the number of applications for small-business loans, where a lot of institutions went from hundreds a month to thousands a month. Their systems just couldn't keep up," he says. "To serve your customer, you need to be able to scale."

Get comfortable experimenting.

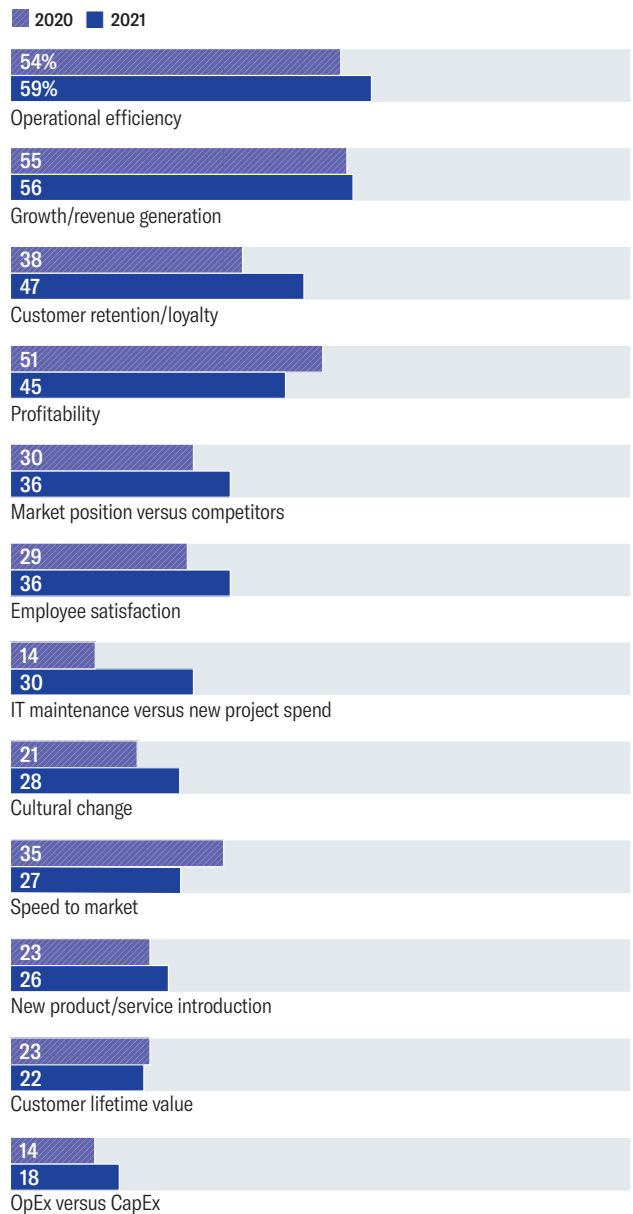
Industry leaders are constantly on the cutting edge of technology and thinking about how they could use it to differentiate themselves, Latimore says. Senior managers of financial services companies need to reframe their sentiments on failure: "Think about it as an experiment. You form a

FIGURE 3

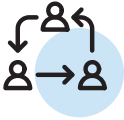
Little Change in Leading Key Performance Indicators

Organizations rely on the same business and performance metrics one year to the next.

Which of the following key performance indicators does your organization use to measure the success of your digital transformation efforts?
[SELECT ALL THAT APPLY]



Source: Harvard Business Review Analytic Services survey, January 2022



“Digital transformation is something that has to be delivered as a cultural change and not as a technology change,” says author Chris Skinner.

hypothesis, you test it, and either your hypothesis is verified or you learn why the hypothesis is false,” he says. “That’s not failure; that’s just science. As [organizational psychologist] Adam Grant says, “Think more like a scientist.”

Solidify your cloud strategy.

The financial services industry is seeing more movement to public cloud services rather than hybrid and private clouds, according to Latimore. Organizations should consider the applications and processes they want to move over to the cloud, as well as pricing models, their governance function, and strategies for controlling risks and costs, he says.

“Change is hard, and financial services firms by their very nature are conservative—as they should be because they’re entrusted with people’s money,” Latimore says. “But they’re getting there. A lot of their progress hinges on good old-fashioned change management—strong executive leadership, consistent communication, and celebration of wins. The execution and grinding out of those things are hard, but it’s still worth it.”

Conclusion

Financial services organizations recognize the importance of digital transformation—89% of respondents say it’s poised to become more important to their business success, and two-thirds (67%) say they are moving faster in their digital transformation efforts compared to the previous 12 months.

As companies continue on their digital transformation journey, addressing the top challenges preventing them from achieving more success should be a priority. This approach includes addressing cultural challenges at all levels of the organization to ensure that digital transformation projects are successful and embraced and are driven by the customer experience. Organizations should tackle technology modernization roadblocks, including finding talent adept at managing new technologies, and should also consider upcoming KPIs best suited for measuring digital transformation success.



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