Transformation of Financial Services by Digitalization and Automation
Challenges and Perspectives

Thomas Zink, Research Director – IDC Financial Insights
15th June 2021
The Future of Financial Services in the 2020s

<table>
<thead>
<tr>
<th>Digital Finance</th>
<th>Virtual Finance</th>
<th>Data-driven Finance</th>
<th>Green Finance</th>
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<tbody>
<tr>
<td>The COVID-19 pandemic and following recession as well as the rise of digital ecosystems will boost the proliferation of digital in financial services. Financial institutions will need to re-invent their digital proposition, as traditional business models and products will become less relevant.</td>
<td>A bank is not technology company. Its primary product is trust, where financial services are delivered conveniently and securely. This axiom dictates that the bank’s role in IT is in the selection of the appropriate technology, regardless of the physical deployment, in a virtual IT environment.</td>
<td>Data is not the new oil, it’s the new water. Every aspect of transformed financial services will rely on not only better use of data already housed in the institution, but on the ability of the bank to bring in data from external partners and use it to add value to its customers.</td>
<td>The green movement will continue to gain momentum as public pressure on policy makers and business leaders increases. Financial institutions will not only need to look at their own environmental impact, but increasingly also consider the footprint of their customers.</td>
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FSI COVID response - Successful navigation of troubled waters

Phase 1: Improvise
- Re-imagining the customer service model & staff working model
- Enhancing security (cyberthreats)
- Easing credit repayment pressure
- Issuing Government backed COVID-19 loans

Phase 2: Adapt
- Focusing on productivity & cost efficiency
- Enhancing business intelligence & performance,
- Accelerating digital capabilities,
- Adapting to new ways of working (employee health)

Phase 3: Overcome
- Updating business continuity plans
- Preparing for extended volatility
- Returning staff to offices & adapting to a hybrid working model
- Building business model innovation, diversification & infrastructure resilience
Key Success Factors and Continuing Priorities

- Being at the customers' side and showing support
- Special loan conditions/avoid denied claims
- Resilient customer service model

Further improvement of **digital capabilities** for a fully digital product- and operating cycle

Credit risk strategy re-assessment – are we preparing for the next credit crisis?

Further **cost-optimization and efficiency** - future of branch/staff

**Innovative capabilities** sourcing (internal/external)

Infrastructure resilience and sustainability
Digitalization & Automation – A Perfect Storm

Challenging environments need new responses

- Stalled Digital Transformations
  - Only 18% of EMEA FSI have increased speed to market through execution efficiencies

- Decision making not fit for purpose
  - 65% of European FSI report that pandemic-related economic disturbance exposed gaps or shortcomings in their decision models

- Customer expectations still very demanding
  - 34% FSI cite customer service transformation as their #1 digital transformation priority

- More dynamic, uncertain workplaces & workforces
  - In 2020, the proportion of people working from home in European FSI grew to 60%; but from 2022 leaders expect that more than 90% will go back to the office.

- Rigid, fragile foundations
  - 56% said that a lack of flexibility in incorporating contextual and human intelligence was a key challenge; 46% highlighted models too reliant on rigid rules

- Lack of integration between automated systems and human intelligence

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Stalled Digital Transformations

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Rigid, fragile foundations

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Lack of integration between automated systems and human intelligence
Key Challenges in FSI Automation

- Lack of end to end process automation vision
- Replicability, reliability
- Can not happen in isolation – process standardization is key

- Separation of IT and business departments
- Lack of IT support
- Strategic prioritization of where to start

- Legacy systems
- Integration
- Too much choice
- Can 1000s of bots turn a bank into digital player
- Vendors overpromise

30% Processes
21% Technology
30% Governance
10% Talent

% of FSI respondents

Source: IDC EMEA, FERS Survey Europe, WAVE 1, 1 -15 February 2021
IPA Software Segment Definitions

Labor-centric automation
• Incorporating intelligent document processing, process-centric application platforms, and robotic process automation (RPA)

System-centric automation
• Incorporating event-driven middleware, integration platforms, and API management software

Decision-centric automation
• Incorporating business rules management systems and event-based decision streaming

Automation planning
• Incorporating process mining and task mining software and modeling and architecture tools
# IDC's Intelligent Process Automation Framework

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<th>Automation Technologies</th>
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<td>API management</td>
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<td>Application integration</td>
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<td>Workflow software</td>
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<tr>
<td>Event-driven middleware</td>
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<td>Intelligent Document Processing</td>
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<td>Robotic process automation</td>
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<td>Predictive analytics</td>
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### Key Automation Priorities by Lines of Business

#### Banking
- **Data ingestion and integration**
  - Channel data integration
  - Error detection & resolution
  - Document digitalization

- **Middle/back office automation**
  - Onboarding/ Account opening
  - Loan origination
  - Account maintenance

- **Channel automation**
  - Digital customer self-service
  - Transactional alerts
  - Contact center and incoming traffic

#### Wealth Management
- **Compliance**
  - Customer due diligence
  - MIFID II (e.g. interaction tracking)
  - Client suitability

- **Advisor empowerment**
  - Automated communication
  - Client reporting/ Regulatory reviews
  - Document generator/ tracker

- **Self-service advisory**
  - Robo advisor
  - Account maintenance
  - Customer profiling

#### Insurance
- **Claims Management**
  - Adjudication
  - Claims notification
  - Claims payouts

- **Policy Issuance & Underwriting**
  - Customer onboarding
  - Customer qualification
  - Customer risk verification

- **Policy Servicing**
  - Fraud detection
  - Customer service
  - Customer lifecycle support

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Note: Operational risk and compliance are receiving most attention and offer most potential overall, but have not been included here, as they go across LOBs.
Recommendations

1. Take a minute to decide what you want to achieve and then work towards a consistent strategy. There are too many options, technologies and benefits/disadvantages for individual automation approaches. The technology must fit the purpose and vision.

2. Across most use cases, straightforward work automation is not possible or desirable. To maximize your opportunities, show how you can add value by bringing automation and intelligence technologies to augment work and the employee experience.

3. Intelligent business execution demands a focus beyond cost reduction — consider value in the context of employee and customer experience, business scalability and resilience, and more.
For Additional Information

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