FStech [roundtable]

Digital inside out

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The latest FStech roundtable, held in association with Fujitsu, examined the continuing drive towards end-to-end digitisation in financial services, and what it means for businesses in the sector, their customers and their employees

Britain is moving to become a 'digital first' nation, and recent research from Fujitsu showed that digital Britain is very much on the march, with the country's growing love of technology helping to turn the UK into a hotbed of digital development. From smartphone apps to in-branch tablets, these services are reshaping everything in the financial sector. The study found that more than a quarter of Britons used digital services over other forms of communication, and FI employees felt that their company's financial performance hinged on the ability to deploy new technology effectively. Seemingly, there's never been a more crucial time to keep up with technological advances, especially with the increasing challenge of ensuring that employees are level-pegged with their customers.

To explore this topic further, FStech held a strategic debate to discover how senior-level financial executives are responding to the demands of their employees and customers, and to examine the future trends in digitisation within the financial services sector.

Attendees

Chair:
Simon Barrows, Director, Archioptiryx

Panellists:
Muhammad Butt, VP Audit, JP Morgan
Sandeep Chugh, FX IT Development Manager, Credit Agricole CIB
Fleur Copping, Business Development Lead, Fujitsu
Halldor Fosså, IT Services Manager CRM, RBS
Gemma Hallat, Business Analyst, Barclaycard
Harish Khatri, Head of Operations and CTO, Axis Bank UK
Mike Levy, Business Development Director, Compeer
Anne MacRae, Head of Financial Services, Fujitsu
Richard Norris, Head of IT and Business Change, Reliance Mutual
Lucy Puddick, Business Analyst, Barclays
Krishan Tiwari, Quantitative Risk, Investec Bank
Jamie Tolentino, Marketing Associate, Investec Asset Management

Simon Barrows: Everything is digital nowadays – it's a simple word that used to mean 'not analogue', but now it's used all the time. What do you all take the term 'digital' to mean in the context of financial services?

Mike Levy: I would assume it means talking about data that can be manipulated, rather than a picture of data that you can't do anything with except look at.

Harish Khatri: I think it relates to capturing information, retaining information, duplicating information and re-using information. That is one part of it, and the second part is the mechanisms in place that give more value to each process – whether that be to deliver better product features or an improved customer experience. Digital is about moving the manual processes to automatic processes.

SB: Yes, that's a key part of it isn't it? What do others think?

Krishan Tiwari: Coming from an engineering background, digital used to simply take the form of 'one and zero'. Now that has evolved, I would say the word digital just means technology.

Gemma Hallat: I would agree with that. But also I think there's a distinction between digitisation and datafication, although they are very complementary. For example, you can digitise a book

to get a photo of a page, but you need the data side to be able to search through the words on that page. Those two things together make the technology.

Fleur Copping: I think the whole digital experience as a user is changing – either as an employee, a consumer or someone running a business day-to-day. Originally, going digital meant you took a paper form and effectively put that paper form online, and it looked exactly the same. The first mobile banking was based around taking the processes that you did in the branch and taking them online. Now things are moving on, and the customer experience is starting to define some of those back-end processes, rather than the other way around.

SB: From a banking point of view, what are the key drivers that are incentivising companies to go digital?

Muhammad Butt: A lot of it is to do with competitive advantage over others. Be it an ATM, online banking or trading, digitisation can mean gaining a competitive advantage, which means generating more revenue.

Sandeep Chugh: I think being digital means making more business. For example, traders traditionally operated by picking up the phone and taking an order, but being digital means they can instantly book the trade, and instead of doing two trades in 10 minutes, now they can do 100 trades in 10 minutes.

KT: Pricing is one element of that, but there are also hundreds of risk measures that you can now calculate. At any moment in time a trader can run a scenario on their book to see what the effect would be if another crash or financial crisis happened. Having that at your fingertips makes it so quick and easy to price and risk manage – it's a huge advantage for institutions who have that technology.

Halldor Fosså: Technology is ubiquitous, and it's driving business change and regulation. But how do businesses respond to technological changes with their digital strategy? Ten years ago, a digital strategy meant 'how do I put my paper forms online?' Increasingly now, it is 'how do I let my customers access my business processes or my interaction points through their mobile phone, or even smart watches?' Intermediaries in the financial services industry are going to be progressively cut into by small, nimble operators who can use technology cleverly.

Lucy Puddick: Technology may be driving businesses, but more and more it is actually customers that are driving technology, particularly the younger generations. So companies should be looking to understand their customers and how they can develop technology for them, rather than simply being led by it.

FC: Picking up on the regulation point, I would say that across the whole of the sector now, regulation is becoming more and more onerous. In the past, it may have taken hours to go through the paperwork or voice recordings to get to the information you needed, but now, with digital, that information is easier to get hold of. However, it also means that regulators are asking for more. So it's a double-edged sword I think.

Jamie Tolentino: I don't believe that the regulators are up to date with the intricacies of how digital technology operates. Social media channels and websites are dynamic and constantly changing, so it's very hard to do an audit of everything over a six-year period, for example. Providing cached copies of every single page, for every hour of the day, is incredibly expensive and a technically complex task for a business to do.

ML: I get the impression there's quite a lot of people in the wealth management, private banking sector that would say it's not technology that's driving the industry, rather compliance with regulations. I spoke to a CEO recently who said that whenever he looks at a potential acquisition, the first thing he considers is how many countries and regimes that firm is subject to in terms of compliance, rather than the company's business strategy.

Anne MacRae: Isn't that one of the problems that legacy institutes face? There is the threat from new players, who may not be subject to the same type of regulation, and want to take a piece of what the incumbents do.

SB: Turning to you Richard, what are your views from an insurer's perspective?

Richard Norris: It's certainly having an impact on us, and has completely changed the market in terms of the way we can distribute our product. Nearly everybody in the industry is going through a Solvency II project at the moment just to keep the doors of the business open, because we have to run through regulatory reporting next year. That's a lever the regulator's pulling and is actually forcing the smaller businesses in the marketplace to strain, which will lead to some consolidation in the sector.

In terms of distribution, there is a challenge there as more people move into the digital market space. Putting the sale of an insurance product out on a website is something that customers just expect these days; they want to buy and consume those services digitally. Several companies are also using different types of media to assist in the claims process, and looking at apps, wearables and sensors. There is the opportunity for these things to allow for dynamic risk ratings in the future, and running algorithms based on real-time claims information.

> "Technology is ubiquitous, and it's driving business change and regulation"

SB: That illustrates that digital is not 'just a department' now, in terms of setting budgets.

AM: Yes, financial services firms are generally moving on from that thinking now, and implementing digital in order to drive better business outcomes and to embrace new products, rather than looking at it as just a slice of 'IT's budget'. And the fact of the matter is, anything new and innovative needs to be delivered to the customer in a new and innovative way. So if you're considering any new technology, the default has to be looking at how it can be done in a cloud-based, digital way.

ML: But what do you do if your client base doesn't want that? We did some research last year, surveying hundreds of a wealth management firm's clients, and the majority of them said 'no' to digitisation.

HF: We have also seen some problems around cloud security [in other industries] recently, where personal information has entered the public domain. But to a lot of bank customers, if they can access a service more quickly and conveniently, and it works well, it makes no difference to them if that service is hosted in the cloud rather the bank's private IT estate. But investors in pension funds and high net worth individuals will be a little bit more conservative, possibly because of cultural reasons and because they have a lot of their worth invested. So security's a higher priority for them.

SB: One of the angles that we haven't yet explored is what digital means for an employee in financial services. Does moving to digital attract more recruits and boost morale, or does it affect whether people are suited to their job anymore?

GH: I think a lot of companies are on a journey at the moment of making digital part of their DNA. Some employees may find parts of that frustrating, for example if they feel that digital compliance is creating a lot of challenges. But many employees see digital as a great opportunity, and are excited to be part of the transition and the innovation process.

"The whole digital experience as a user is changing"

RN: Because of reforms in the pensions industry we are in the process of taking everybody on that journey of transforming our business and making us agile and collaborative. No one has been used to such a dramatic rate of change, and a few people have struggled to engage with it. But we have been enthusing people into new methods of working and there is a lot of energy and innovation going on, with people tackling legacy and working on digitisation, the new brand and new products.

HK: Whatever department employees are in – not just digital or IT – I feel there is a sort of filtering process. Some people will be

enthusiastic about accepting technology, whereas people without that altitude might ultimately leave the organisation.

SB: The cultural aspect was mentioned there, and for me that's a key thing. If you've got the right culture and mindset from the top down, and you've got the right people, then you can make things happen.

AM: Culture change is often really difficult for some firms. What organisations can do, however, is process change. That can in itself bring the cultural change with it over time. We have one client in the public sector who has implemented a very modern hybrid IT solution using cloud, with all sorts of data analytics sitting above it. And that organisation has moved from a situation where it took months to roll out any new capacity, to being able to do so very quickly. However, although the new platform is fast, the organisation still uses the slow approval processes that they had for their old infrastructure. And that really has to be something that businesses address when they're looking to embrace new technology.

HF: Let's also not forget that banking and insurance are examples of people businesses. They're not manufacturing anything, they're creating relationships of trust with people. People skills will still be important when all financial services become much more technologised in 20 or 50 years' time. We will just have more digital tools and ways to interact with our customers, in a future that is far more collaborative, dynamic, interactive and global.

FC: At the moment I think there is a digital divide though – a gap that's starting and could potentially widen between what people see at the front-end of a business and what employees have to work with in the back-end of the business. There are examples where someone will come into a bank saying they are interested in a mortgage at a rate they've just seen online, but the employee in-branch is looking at a different system to the customer and can't find it. Suddenly you're in the situation where customers are almost more informed than the employees, as they get the new systems last because the money's gone on compliance or front-end technology.

HF: One of our key objectives at RBS is to be channel neutral in terms of our consumer proposition, so now our credit card rates and mortgage rates, etc, are the same across all channels. It can be a challenge for legacy players, who have so much infrastructure that they may speak with inconsistent voices across different channels; but that is something that is being recognised and addressed now.

SB: And I think that is a good point to conclude on. When digitising processes, it is important to make sure that it's done end-to-end, otherwise you are only going to be as good as the weakest link in the chain.

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