Digital Roadmap

Towards Digital Maturity

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Foreword

In our 2012 *'Destination Digital'* report[1], we highlighted the unprecedented competitive threats facing financial services organisations. One year on and those threats show no sign of retreating as capital, compliance and competition continue to hamper the sector's response to the digital challenge. Our new report, *Digital Roadmap: Towards Digital Maturity,* provides a timely snapshot of the sector's digital readiness and maps the best route to its digital maturity.

This snapshot shows that, despite encouraging progress over the past year, there are significant gaps between where financial organisations need to be in terms of the TCS Digital Maturity Index, and where they actually are. This cuts both ways with some responding unnecessarily, while others are lagging behind the market and competition.

Many financial services organisations are struggling to drive through the business and service transformation required to stay competitive in the Digital Age. For others, current initiatives show promise but are fragmented and piecemeal 'point solutions', often duplicative and unfocussed. Legacy flaws are recognised but capital constraints block progress. Boards consistently back digital but have failed to articulate an holistic digital strategic framework.

Financial services organisations are just beginning to grasp the concepts of digital maturity and are struggling to understand their implications. Amongst other things, digital developments mean they must work smarter. They must harness the power of Big Data analytics to better understand risk and predict customer needs, and they must embed digital outcomes for the whole organisation's future. They must also embrace cloud-based IT solutions to deliver flexible and scalable processing power without massive upfront capital costs. The capital constraints mean cloud computing cannot be ignored and reluctance to use it could prove fatal.

Our conclusion chimes with the message of our last report: digital survival of the fittest is at work in financial services and organisations must understand what digital means for them, and then adapt and innovate appropriately and quickly. The alternative is bleak.

MIKE MATHIAS
EUROPEAN HEAD, GLOBAL CONSULTING PRACTICE
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[1] *Destination Digital: The Future of Retail Financial Services, an operational perspective,* TCS/Marketforce 2012

A Note from the Editor

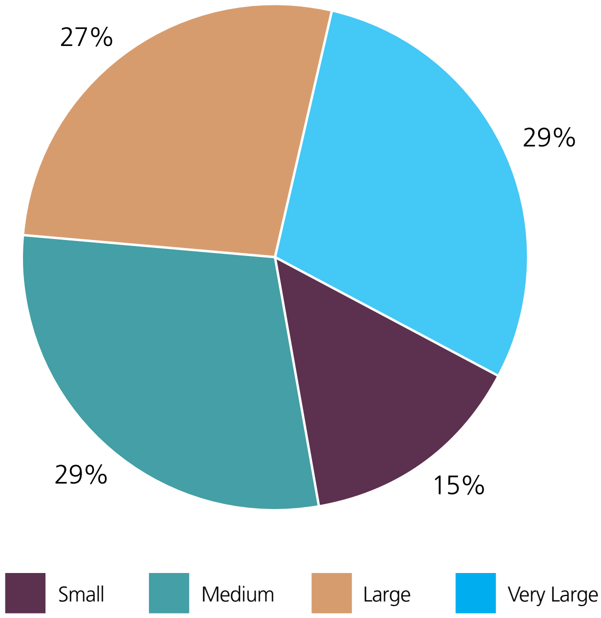
Our aim in this report is to:

- Examine the current level of digital maturity in financial services organisations relative to cutting-edge digital practices among both their peers and digital front-runners in other sectors
- Assess where the digital maturity gaps are widest
- Identify the impediments to digital progress
- Explore the actions financial services organisations should take to keep pace

We surveyed over 300 senior executives in Europe across the whole spectrum of banking, insurance and investment.

We found a sector that clearly recognises the digital opportunity and is encouraging digital innovation. However, few organisations are making the kind of comprehensive and coordinated effort and investment required to even approach full digital maturity.

What size of organisation do you work in?



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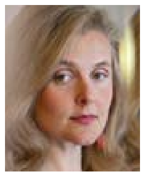


1. Executive Summary

We live in the Digital Age. The spending patterns, brand interactions and service expectations of today's consumer have been transformed by digital pacesetters, companies such as Google and Amazon. These organisations have forever redefined how we shop, how we bank and how we communicate. The result is a Darwinian environment and less adept organisations that cannot engage the digitally-native customer – the Generation Y and Generation Z consumers of the future – risk obsolescence or perhaps oblivion. Even today there are digital casualties such as Bebo and MySpace.

Financial services organisations do recognise this challenge. Many have made early gains, or matched competitors' moves through a flurry of digital experimentation – albeit not always coordinated.

Now they need to consolidate and conserve energy by focusing on those initiatives that will deliver a robust digital solution with staying power – one that generates value for the organisation and its customers.

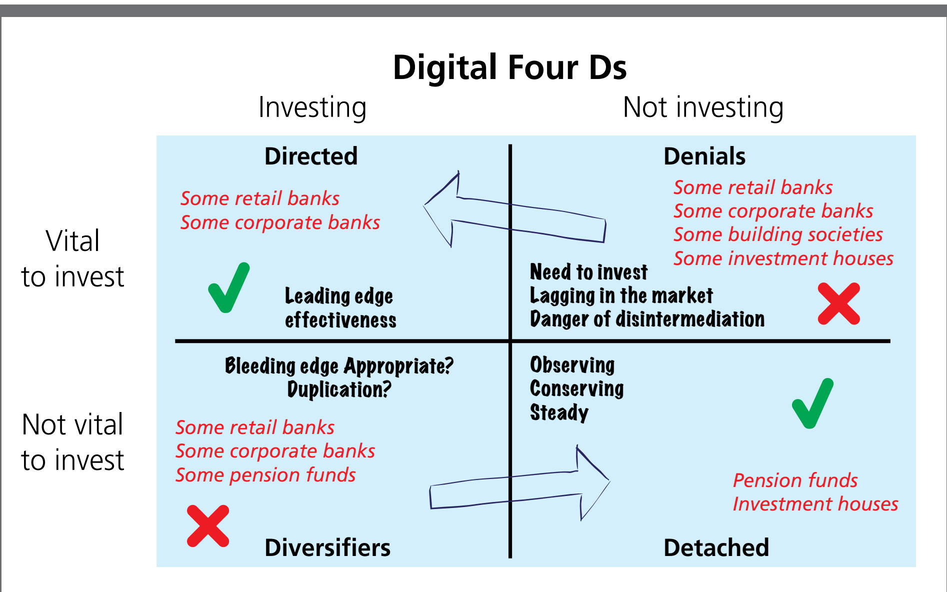
What will this 'future-proofed' solution look like? It will be customer-centric, delivering an enriched customer experience through best-in-class mobile and omnichannel services while Big Data insights, cloud-based scaleability and digitally-empowered staff drive operational efficiencies and optimise revenue generation.

Financial institutions must develop future-proofed strategies to stop running into digital dead-ends.

Given intense pressures on resources and capital from both competition and regulation, achieving these outcomes will require a seismic shift in how organisations prioritise and manage initiatives, so that investment is not wasted on digital dead-ends but is instead part of an holistic digital strategy.

The often piecemeal approach to digital initiatives identified in *Digital Roadmap* carries risks that key components of the digital strategy will be duplicated, inadequate or missed altogether, forcing expensive 'sticking plaster' catch-ups that fail to justify their cost and cannot hope to deliver the operational performance and seamless service that will define sustainable success in the Digital Age.

Organisations cannot afford to ignore the constraints of existing systems that inhibit efficiency and innovation but nor, it seems, can they afford a multi-year legacy system rebuild. The solution to this dilemma may well take organisations outside their technological comfort zone in order to deliver a smart, scalable operational infrastructure – one that not only supports a customer-centric digital offering but also optimises business processes and delivers a commercially viable level of return.



TCS VIEWPOINT

The Directed, the Denials, the Detached and the Diversifiers

Each organisation needs to understand its digital maturity in comparison to where it needs to be and not where it thinks it should be. By contrasting the need to invest with the propensity to invest, organisational responses can be categorised. Perhaps the organisation is a 'Directed' in terms of digital maturity, focusing on exactly what it wants to get out of its digital projects. Perhaps it is one of the 'Denials', missing opportunities and opening itself up to disintermediation by nimble competitors

Key Findings

Our last report, *Destination Digital,* found many banks and insurers lacked the operational infrastructure and capital resources to capture the customer service, business intelligence and risk management benefits afforded by the disruptive technologies of Big Data, predictive analytics, mobile and cloud computing.

One year on from *Destination Digital,* we find a sector with clear digital ambitions and a willingness to engage in digital experimentation:

- More than two-thirds of organisations encourage experimental digital projects to some extent and, perhaps more importantly, have a framework to support this work: 77 per cent make budget available; 72 per cent devolve decision-making; 75 per cent have a structured process to guide such projects; and 87 per cent have active board support
- Over half (55 per cent) claim to have a clear and well-defined digital strategy
- Three-quarters believe that their organisation is keeping pace with digital developments

95 per cent have yet to progress beyond the pilot stage on all of the key markers of digital maturity.

because it simply doesn't believe investment in digital projects is necessary. Or is it a 'Detached' that has decided to minimise digital investment in favour of what it has carefully evaluated as being higher priorities? Or could it be a 'Diversifier', spending broadly on a wide range of experimental digital projects just hoping that something will stick that works?

It is important for every organisation to:

- assess its digital maturity relative to where it needs to be;
- develop a strategy to get to where it ought to be along the maturity spectrum; and
- embed a process for ensuring that its digital strategy stays current and that momentum is maintained.

Yet, despite these positive signs, there are also indications of lack of direction and stalled progress:

- On any given marker of digital maturity identified in the TCS Digital Maturity Index – such as providing predictive analytics output to all customer facing staff or using sophisticated mobile services to provide location-based rewards – typically 36 per cent do not undertake the activity and a further 18 per cent are stuck at pilot stage
- Sector wide, just 4.6 per cent have progressed beyond the pilot stage on all of the key markers of digital maturity and no one is undertaking all of them extensively

Legacy system issues have still not been addressed and remain a barrier to digital success, with the potential of Big Data and predictive analytics to improve the customer experience and risk management remaining largely untapped:

- Almost 80 per cent say they are losing opportunities to improve the customer journey in real time due to failings in their existing systems and processes
- 77 per cent agree they have access to a far greater volume and variety of data than their systems allow them to analyse
- Over 50 per cent have either not started or not moved beyond the pilot stage when it comes to using predictive analysis of social media, unstructured text, M2M and location data

While organisations are investing to improve their digital capability, a worrying majority are severely constrained by lack of budget:

- Three-quarters (75 per cent) agree that replacing legacy systems requires a level of investment that most organisations in their sector cannot justify in the current economic and regulatory climate
- 85 per cent think that inadequate budgets would be a primary reason for the failure of some financial services players in the digital world
- Over half think their organisation will make no or only a modest financial investment to achieve a more digitally mature organisation in the next 12 months. More than 40 per cent do not see this changing in the next three years

2. Understanding Digital Maturity

Digital maturity matters because it makes money. There are clear front-runners in the digital world, companies that are not only early adopters but also have a clear vision of how digital innovation will add value to the business. According to one study, these digitally-mature companies generate on average 9 per cent more revenues through their existing physical and human assets, outperform their peers by 26 per cent in terms of profitability and achieve 12 per cent higher market valuations[2].

As financial institutions battle budgetary constraints, digital pace-setters are stealing a march

Financial services organisations cannot afford to fall further behind these digital pacesetters or to be complacent when it comes to digital developments and their impact on the customer experience. In *Destination Digital,* three quarters of respondents agreed that inferior data management and customer service could make it difficult to compete with an Apple or a Google should they move into financial services (the launch of Google Wallet indicates the digital frontrunners have clear ambitions in this sector).

But the financial services industry is under pressure and resources to close the digital maturity gap are scarce. Financial services organisations may identify the customer experience as their highest strategic priority but the front-line reality is that regulatory compliance is absorbing the most operational resources: in *Destination Digital,* 68 per cent complained that compliance prevented improvements to the customer experience.
This diversion of resources presents a potential extinction threat to already weakened market incumbents. A series of reputational blows, from policy mis-selling to LIBOR rigging, means the sector is more vulnerable than ever to the competitive threat of potential new entrants.

51 per cent of banking customers may move in the next six months

According to one recent global survey, 10 per cent of retail banking customers are likely to leave their bank in the next six months while an additional 41 per cent are unsure whether to stay or go[3]. A staggering half of banking customers are, therefore, at very real risk. Insurers fare no better, with an average of only 30 per cent of customers reporting positive customer experiences[4]. Our report, *Destination Digital,* supports these conclusions and found that 71 per cent expect banks and 62 per cent expect insurers to lose customers to mobile or telecom operators within five years. With pressures on margins, this erosion of the customer base could spell doom.

62 per cent expect mobile and telecom companies to win market share from traditional insurance players

Generation Y expectations

Against this backdrop, financial services organisations must match the service expectations of customers, who are used to blending on and offline experiences to find best value and service[5]. Even delivering seamless customer service across multiple channels consistently, with a single customer view and at low cost, is fast-becoming a hygiene factor and a basic requirement just to stay in the game, as 81 per cent of *Destination Digital* respondents agreed.

Mobile is the channel of the future. Customer adoption of smartphone technology is driving, rather than following, innovations in communication, payments and service. Studies suggest 60 per cent of the UK population now owns a smartphone[6]. And customers love their smartphones – particularly the all-important customers of the future.

[2] *The Digital Advantage: how digital leaders outperform their peer in every industry,* Capgemini/MIT, November 2012
[3] *World Retail Banking Report 2013,* Capgemini and Efma, April 2013
[4] *World Insurance Report 2013,* Capgemini and Efma, April 2013

According to one survey[7], Generation Y consumers now make up over 50 per cent of mobile banking users, with a third owning a tablet device, more than any other generation. This is a key indicator of where and how they expect to interact with financial services providers. Few ever visit a bank branch.

> 40 per cent of financial transactions will be generated by Generation Y households in the next two years

Within the next two years it is predicted that 40 per cent of financial transactions will be generated by a Generation Y households and progressively, as the inevitable demographic march continues, over the next 20 years these digitally-savvy consumers will be the main buyers of financial services.

Financial services organisations that are serious about digital maturity, therefore, need to put mobile and channel consistency at the heart of their customer proposition.

As we highlighted last year in *Destination Digital,* flawless customer service across multiple channels will be imperative in the digital world, but the digital interface will increasingly become the key differentiator: six out of ten (61 per cent) said they believed that, within a ten year time frame, optimising the digital interface would be more important than maintaining human interaction. With the accelerating pace of technological and customer-driven change, that time frame now looks set to be compressed to five years, or less.

Digital maturity in financial services - the state of play

Financial services companies may recognise the importance of a customer-centric digital strategy but our findings show they have yet to devise one, much less implement it.

> Fewer than 5 per cent can demonstrate holistic digital maturity

Three-quarters believe their organisation is keeping pace with digital developments. However, this belief appears ill founded. When assessed against the TCS Index of Digital Maturity – a framework of eight key criteria which, when viewed holistically, indicate an organisation's digital maturity, fewer than 5 per cent organisations were fully digitally mature.

On any given marker of digital maturity, typically only 8 per cent undertake the activity extensively, while 18 per cent are stuck at pilot stage and 36 per cent do not do it at all.

The TCS Index of Digital Maturity – 8 key markers

1. Targeting customers based on a market of one
2. Consistency of customer communication across all channels, including social media and mobile
3. Using sophisticated mobile services to provide location-based rewards or alerts
4. Using crowd-sourcing to drive proposition design and development
5. Digitally-empowered staff who can perform their role from their own device
6. A culture of digital engagement and collaboration, both internally and with partners
7. Systems and processes that enable real-time, data-driven adjustments to improve the customer journey
8. Enabling access to predictive analytics of Big Data for all customer-facing staff

[5]A survey by IBM, May 2013, estimated the cost of failing to meet the needs of today's so-called "omni-channel shoppers" - who frequent both online and in-store channels - is US$83 billion in lost sales in the US each year due to poor and inconsistent customer experiences.
[6]EdigitalResearch and IMRG, 2013
[7]Fiserv Consumer Trends Survey 2011

Every company has its unique digital blueprint based on an understanding of its strengths, its customer base and its competition but, when measured against the TCS framework, it is clear that financial services organisations are still very much in their digital infancy:

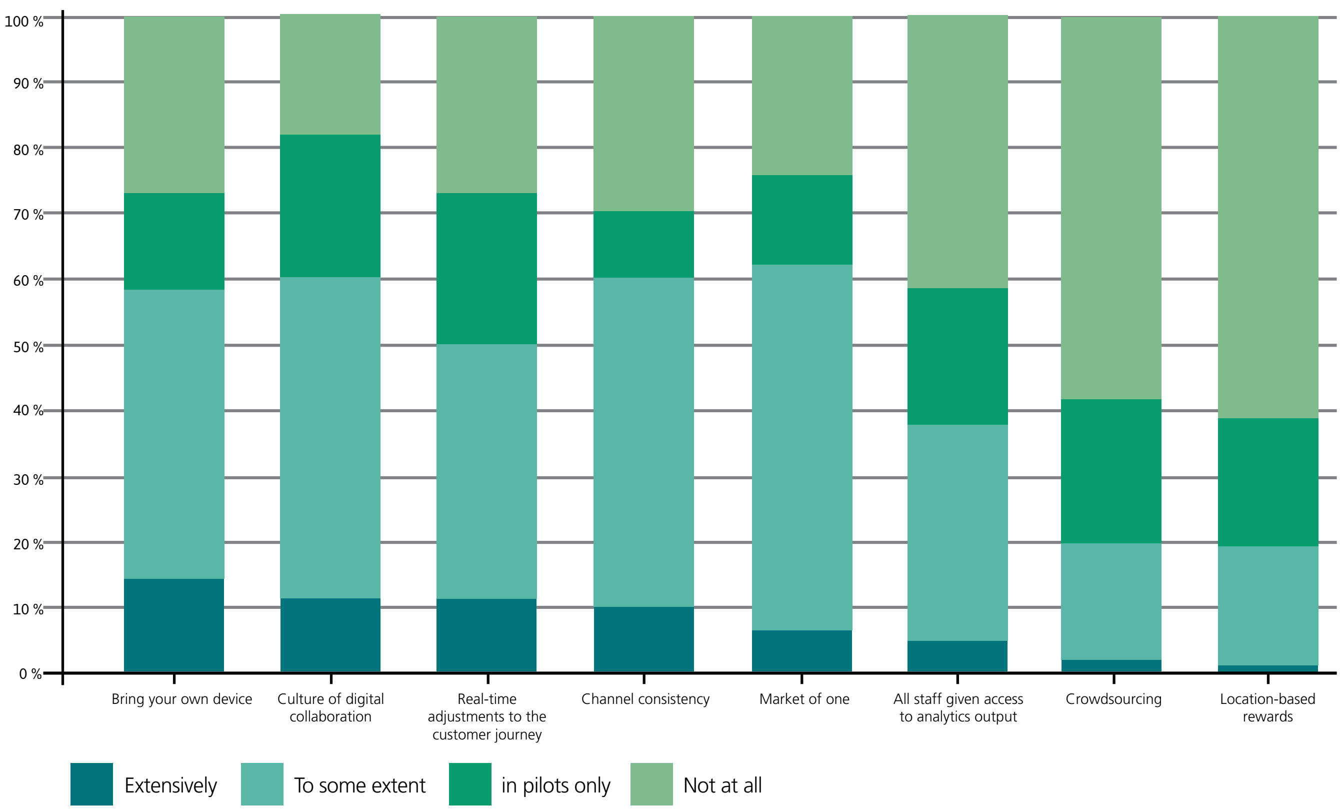
- 61 per cent are *not* using sophisticated mobile services to provide location-based rewards or alerts (only just over 1 per cent use mobile services extensively for this purpose)
- 58 per cent are *not* using crowd-sourcing to drive proposition design/development (just 2 per cent use crowd-sourcing extensively for this purpose)
- 42 per cent are *not* providing the output from predictive analysis of Big Data to all staff involved in customer interaction (just 5 per cent use Big Data extensively in this way)

Additionally, too many (at least one in five) are stuck at pilot stage on key markers:

- The use of mobile services to provide location based rewards/alerts (20 per cent)
- The use of crowd-sourcing in proposition design (22 per cent)
- A culture of digital engagement and collaboration (21 per cent)
- Systems and processes to allow real-time data-driven adjustments (23 per cent)
- Sharing the output of predictive analysis with all customer-facing staff (20 per cent)

Sector wide, only 23 per cent have progressed beyond the pilot stage on even one of the key markers of digital maturity.

Key markers of digital maturity - what do organisations do?



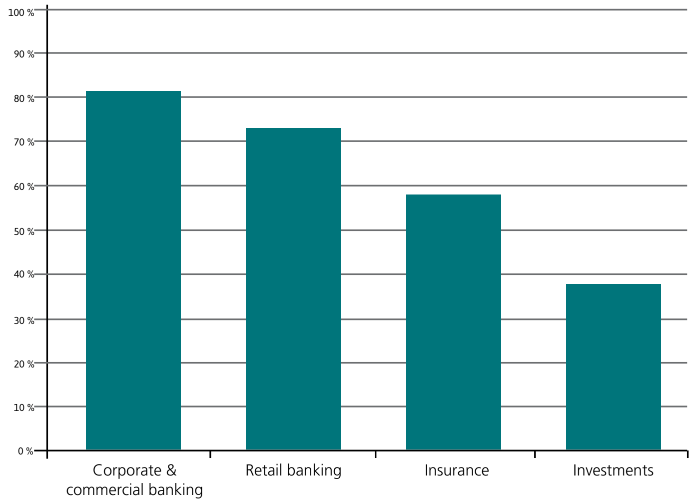
Variations within Financial Services

Corporate and commercial banks not only think that they are keeping pace with digital developments but consistently come out on top when marked against the TCS Index of Digital Maturity. This is a reflection of their having embraced digital approaches early due to their involvement in areas such as electronic cash management, in which digital straight-through processing has been an industry norm for some time.

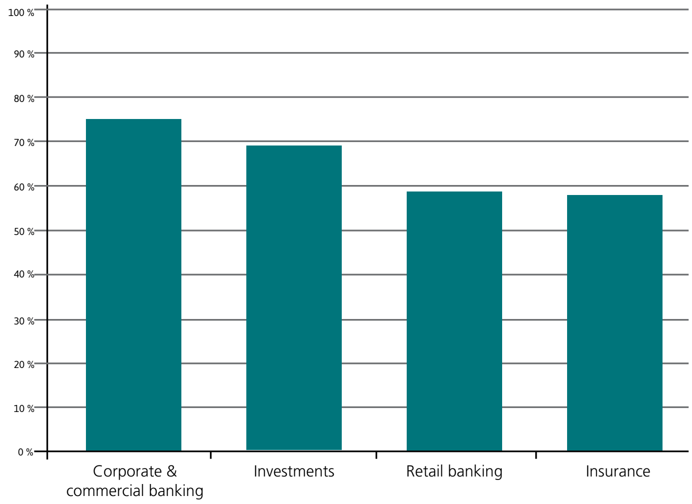
Investment firms, which operate in an industry where personal relationships and reputation underpin business relationships, score highly on fostering a culture of digital collaboration and engagement among employees and on consistency in customer communications across all potential channels.

Retail banks and insurers lag the field, with neither sector strong in any areas of digital maturity, possibly reflecting the wider regulatory and competitive threats these organisations face. Yet these are the very reasons why retail banks and insurers need to seize the opportunity of disruptive technologies. They provide the means to drive through operational efficiencies and optimise returns from high-volume, low-value transaction businesses at the same time as capturing higher margin customers – critical objectives in the face of such intense pressures weighing on both top and bottom lines.

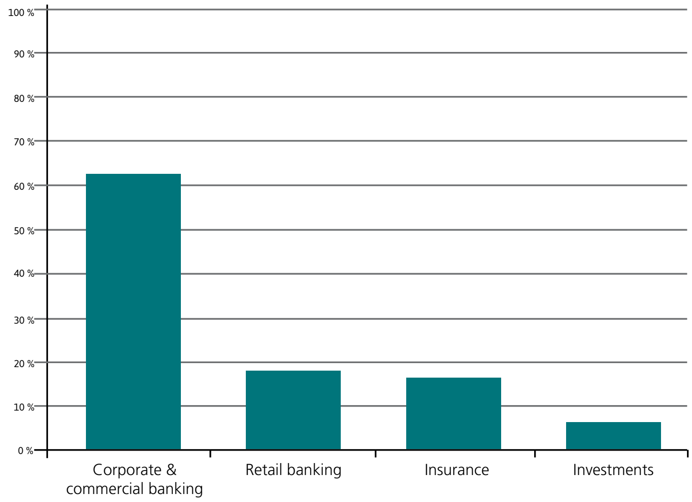
Actively target customers based on a market of one



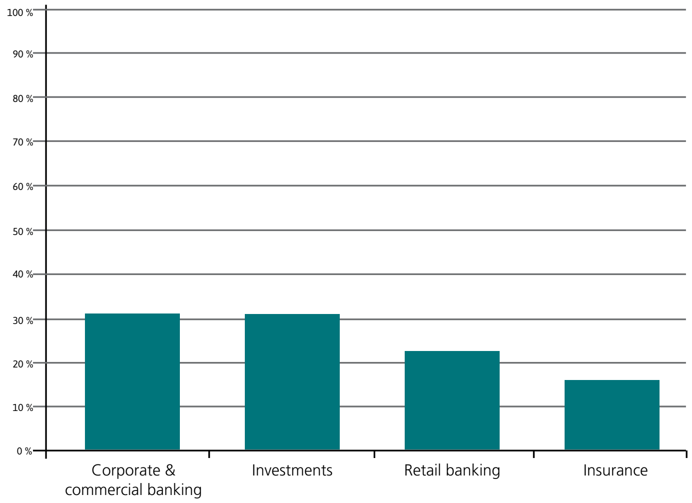
Have total consistency in customer communication across all touch points (including social media and mobile)



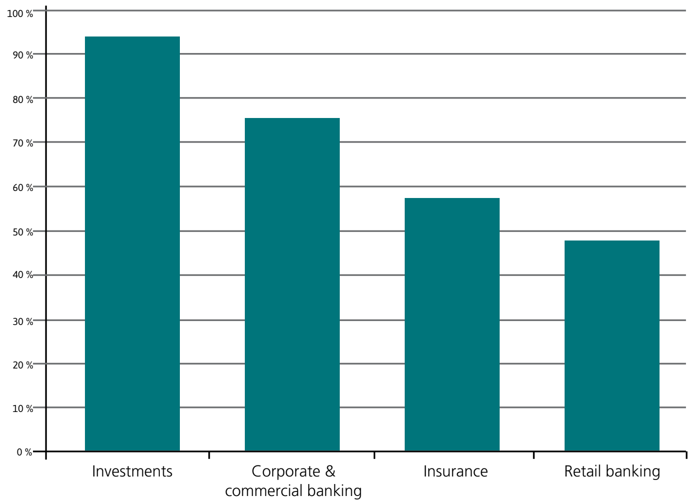
Use sophisticated mobile services to provide location-based rewards or alerts



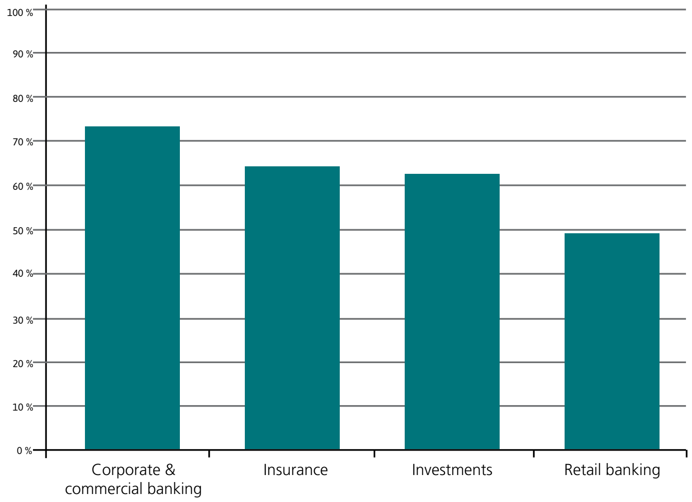
Use crowdsourcing to drive proposition design/development



Give staff access to information and content they may need to perform their role from their own device



Have a culture of digital engagement and collaboration both internally and with partners



TCS VIEWPOINT

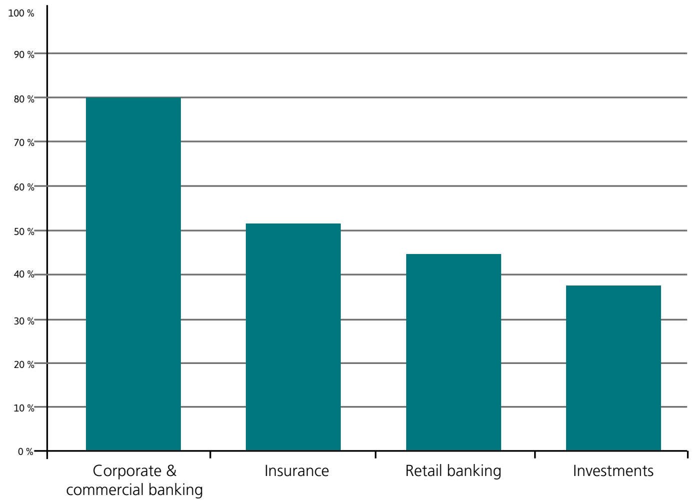
The peril of complacency
Complacency in becoming a 'digital enterprise', is complacency about accepting or understanding the way customers are changing. The fast pace of life and the adoption of digital technology by us all as customers is the greatest risk facing not only financial services organisations but all industries. Digital technology must be implemented across organisations with clear purpose in order to align to fast-changing customer expectations and improve customer experience.

The predominant view among financial services organisations that they are keeping pace with digital developments may ring true when compared to their peers or the also-rans in other sectors, but keeping pace is an outdated way of evolving your business. Today, you have new entrants with radically different business models using social community models where customers serve customers, hosted in the cloud and accessed from mobile devices, using social data to experiment and identify customer behaviours that we may not previously have thought possible. The risk to traditional financial services organisations is that they will be left behind, as the new entrants continue to evolve and demonstrate success in providing engaging experiential products and services that align with customer expectations.

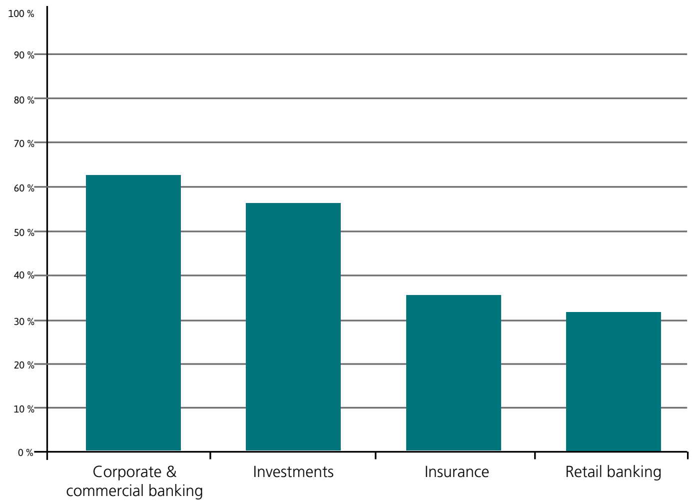
The processing and analysis of information at the core of every financial services organisation was once its advantage. However, digitisation has heralded a transformation in the availability and analysis of data. This opens new opportunities but it also creates new challenges. The information advantage once held by financial services organisations can equally be captured by digitally-savvy new entrants, who are not only more agile and able to improve services more quickly but are already defining the next innovation in how digital technology can be harnessed.

Financial services organisations must ask hard questions about not only their current digital readiness but also their ability to change and continually innovate. Once they took their customers for granted and invested little in understanding them. They controlled how, what, when and from whom customers could get information and service. Today the digital customer is becoming increasingly powerful due to the increasing levels of engagement between one customer and another, which has eroded that control. This means that organisations need not only to integrate digital into their omnichannel offering, but also devise strategies to engage and influence in ways that will enable them to play new roles moving forward.

Have systems and processes that enable real-time, data driven adjustments to improve the customer journey



Provide output from predictive analysis of Big Data to all staff involved with customer interaction



Big Data, baby steps

Financial services organisations are struggling in particular to harness the potential of Big Data:

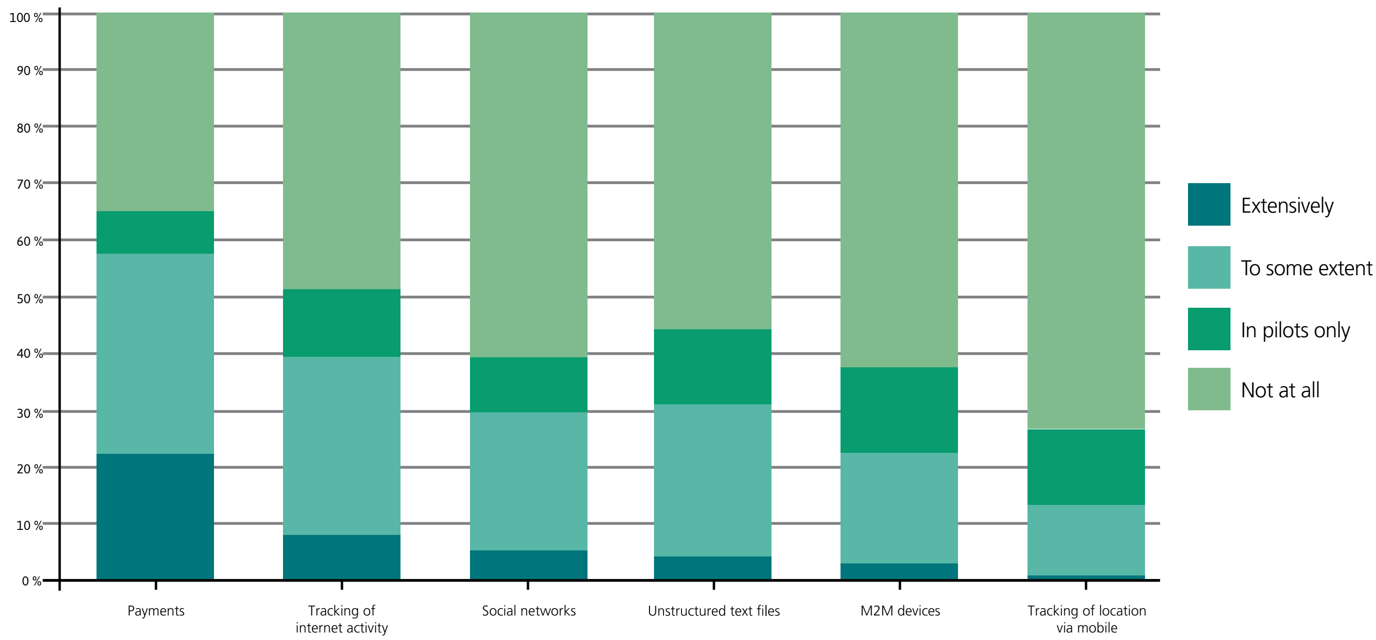
- 77 per cent of respondents agreed they have access to a far greater volume and variety of data than their systems currently allow them to analyse
- Fewer than 10 per cent of organisations use predictive analysis to improve customer experience and even fewer use it for risk management
- Fewer than half of organisations use social media, unstructured text, machine-to-machine (M2M) data and location data for either purpose beyond the pilot stage
- Respondents are most comfortable with more structured data sources, such as payment transactions and web-based tracking information
- Despite the potential of telematics to transform risk management and pricing, fewer than one in five insurers are using M2M data

On this evidence, financial services organisations clearly remain immature in their use of Big Data and predictive analysis. Yet other research shows the banking and insurance sectors are positioned to capture as much as 9 per cent of the $14.4 trillion in bottom-line value that will be created over the next decade by innovations relating to the 'Internet of Everything'[8] – the network of data, devices, people and processes that, by making connections, creates new capabilities and opportunities.

The crucial question is whether the substantial benefits Big Data can deliver will go to incumbents or to new market entrants.

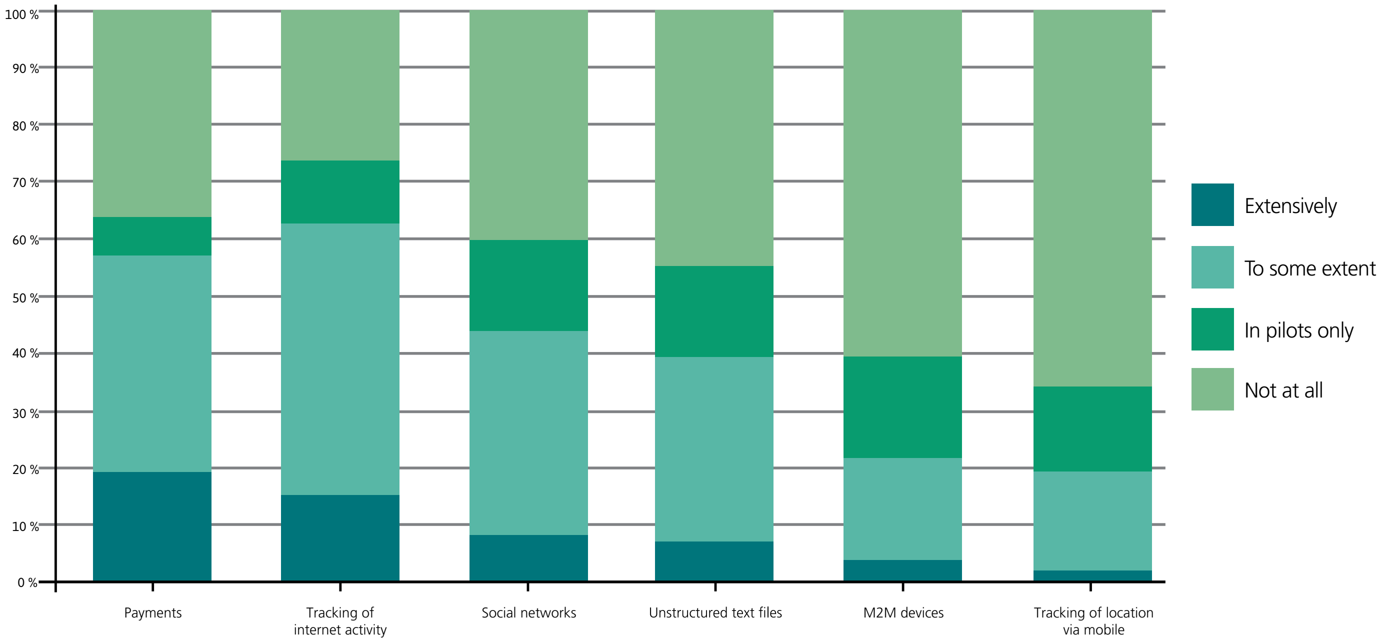
77 per cent have access to far more data than their systems allow them to analyse

Does your organisation undertake predictive analysis of data from the following sources to improve risk management?



[8]Cisco White paper, *Embracing the Internet of Everything*. The US$14.4 trillion is broken down into $2.5 trillion in better asset utilisation, $2.5 trillion in employee productivity, $2.7 in supply chain logistics, $3.7 trillion in better customer experience, $3 trillion in enabling new innovations.

Does your organisation undertake predictive analysis of data from the following sources to improve the customer experience?



TCS VIEWPOINT

Big Data, big issue
The potential benefits of Big Data are vast but so too is the gulf between the Big Data sophisticates and the rest. Research by TCS shows that those companies with the biggest projected returns on Big Data – those with an ROI of more than 50 per cent – use it differently from those with the lowest ROI.

The Big Data business winners deploy Big Data insights to:
- Monitor and improve the customer experiences
- Market to customers based on their physical location
- Understand competitors' moves
- Gain insight into their most valuable customers, especially those about to defect
- Track customer and market perceptions of the brand
- Find new geographic markets

In addition, Big Data winners are confident handling and analysing the kind of external and unstructured data that remains untapped by so many financial services organisations. They also redesign processes to be prescriptive in presenting optimum next steps in real time to customers, employees and partners alike.

As digitalisation continues to connect ever more devices, people and things, those organisations that cannot make sense of the growing volumes of data will have deficient models and make poorer decisions. They will be the Big Data losers.

On the evidence from our survey, although financial services companies are taking digital seriously, the overwhelming majority have a very long way to go before they can be considered digitally mature. TCS assesses that on a digital maturity scale of 1-5, the sector is currently transitioning from 1 to 2 and is thus still very much in its digital infancy.

3. Growing Pains: The Barriers to Digital Maturity

Respondents were clear about the obstacles facing their organisations on the road to digital maturity – which are severe:

- Problems with the integration of data (95 per cent)
- Fragmented and inconsistent business processes (90 per cent)
- Insufficient time to devote to major systems change (87 per cent)
- Restrictions on capital for new projects (85 per cent)
- Skills shortages (85 per cent)
- Culture of conservatism (80 per cent)

87 per cent have insufficient time to devote to major systems change

Different sectors face different problems.

Retail banks were the most concerned about restrictions on investment, which is unsurprising given the problems in the sector and new regulatory strictures on capital requirements.

Corporate and commercial banks cited skills shortages as the greatest obstacle, possibly a reflection of their more developed digital maturity.

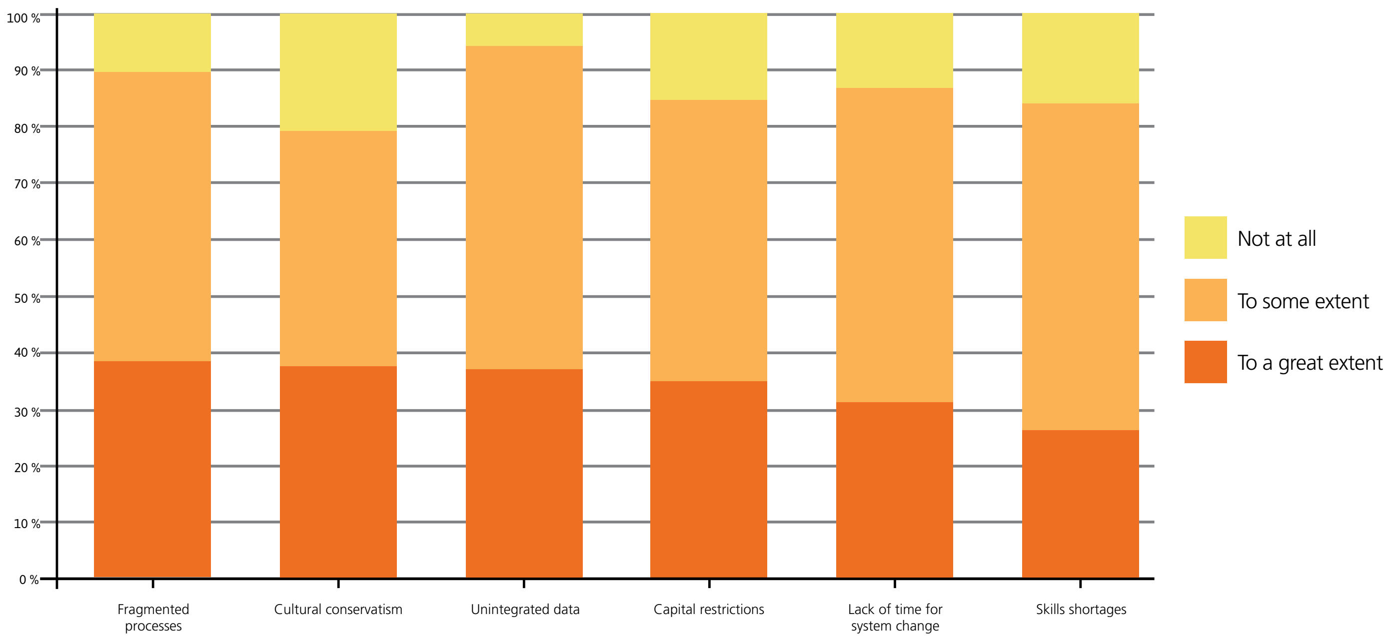
Investment firms felt inhibited by a culture of conservatism.

Insurers highlighted fragmented processes as the main barrier to achieving digital maturity, which suggests this industry may need to consider serious investment to deliver a fit-for-purpose digital operating model and architecture.

Overall, the challenges break down into three broad categories:

- Budget
- Systems
- People

To what extent do the following present an obstacle to reaching digital maturity for your organisation?



Budget: under pressure

Financial services organisations are under unprecedented pressure as economic contraction erodes consumer spending, compliance costs continue to rise and the increasing cost of capital is compounded by much tighter capital requirements under Solvency II and Basel III. This squeeze is being felt on the digital front line:

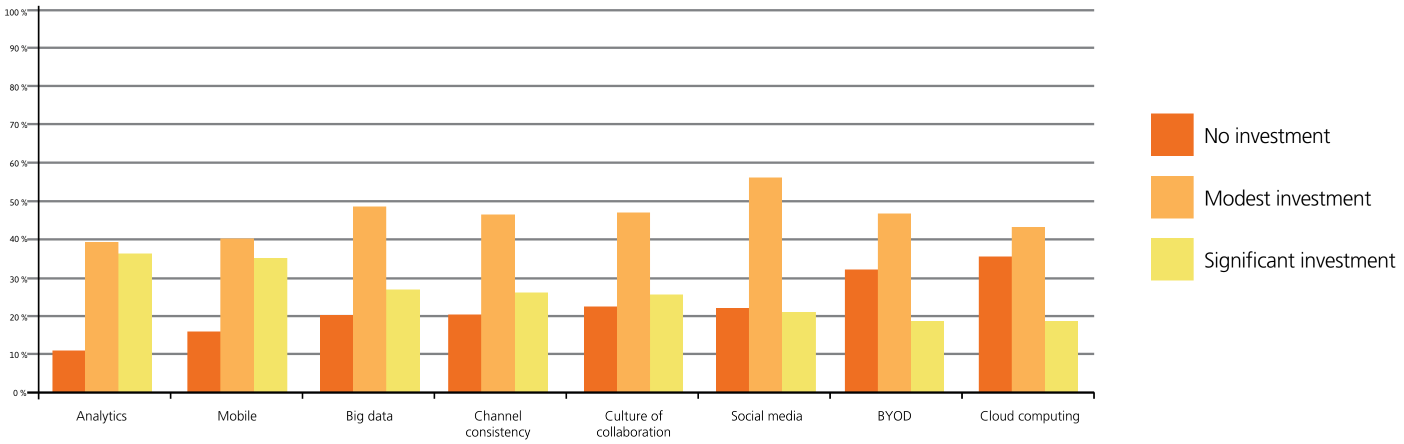
- 85 per cent agree that inadequate budgets for digital projects will be a primary reason for the failure of some financial services companies in the digital world
- More than 50 per cent think their organisation will make no or merely a modest investment in achieving digital maturity in the next 12 months, and even three years out more than 40 per cent think there will be no or only modest investment

50 per cent expect to make no or only modest investment in digital maturity in the next year

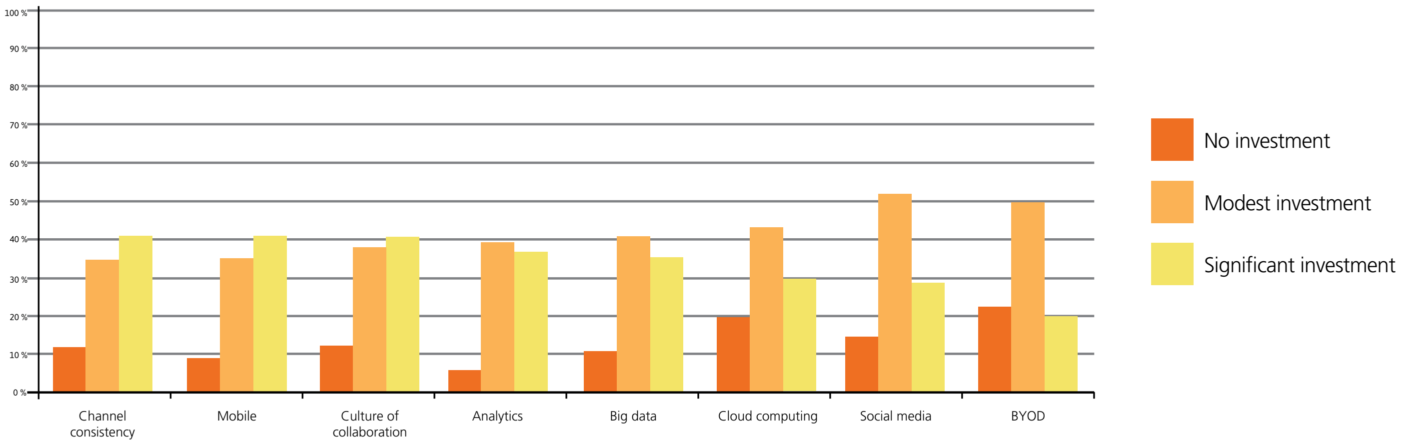
While investment is rightly being targeted at those activities that are most obviously customer-centric, such as Big Data analytics and mobile, more internally-focussed elements of digital maturity, such as fostering staff collaboration and giving employees access to systems on their own devices ('BYOD' – bring your own device), are being neglected.

This could see innovation in working practices float dangerously adrift of customer-focused innovations, damaging employee engagement by opening a credibility gap between corporate ambition and visible action. More internally-focussed elements of digital maturity are expected to attract more investment over a three-year time frame, but, given the pace and scale of change, this may be too late.

What level of financial investment do you expect your organisation to make in each of the following within the next 12 months?



What level of financial investment do you expect your organisation to make in each of the following within the next 3 years?



TCS VIEWPOINT

Leveraging digital benefits from compliance-driven change

The compliance challenge facing the financial services sector is largely of its own making – a regulatory reaction to the mis-selling and charging scandals that have blighted its reputation over the past decade. Compliance deals a double whammy to balance sheets as capital requirements are tightened and resources are diverted to ensure systems and processes are compliant. Inevitably this means there is less money to invest in digital innovation.

The compliance spend is not discretionary. But nor should it be seen as a box ticking exercise with no business benefit. TCS believes this is an opportunity to undertake a fundamental review of the organisation's current working practices and processes and assess how regulatory-driven change programmes can deliver a double win: a system that is not only compliant but also more digitally advanced.

80 per cent are missing opportunities to improve the customer experience in real time due to failings in the existing systems and processes

Systems: a barrier to innovation

Existing systems and processes are the most widely identified barrier to digital maturity: 80 per cent of respondents said they were losing opportunities to improve the customer journey in real time due to failings with their existing systems and processes while 92 per cent agreed that those organisations with systems that do not provide processing scalability will struggle to keep pace with digital developments.

In *Destination Digital*, 73 per cent predicted that many organisations will need to replace their core systems in the next five years. This year a similar proportion, 75 per cent, said budgetary constraints ruled out the replacement of legacy systems – the very systems they know to be holding back their digital capability.

As evidenced by last year's high profile systems outages, which attracted regulatory attention on both sides of the Atlantic, existing systems are struggling to cope with business-as-usual. The business of the future, requiring agility, scalability and mobility, will render them obsolete.

TCS VIEWPOINT

Clouded thinking

Legacy system infrastructures, with all their idiosyncrasies and disparate parts, are like a time capsule of a corporation's history, reflecting previous strategic challenges and past mergers.

The reason these uncoordinated and unsatisfactory systems survive is simple: until now, customer experience has not been high enough among anyone's priorities to justify the cost and disruption necessary to change them. With the prospect of that cost and disruption comes fear: fear of getting it wrong when technologies change so fast. There is, sadly, a litany of failed and vastly wasteful IT projects that suggest such fear is well founded. Fear makes for poor decisions and the result is a sticking plaster approach to cover gaps in functionality, adding again to the complexity and inefficiency.

The current economic climate does not favour major legacy rebuilds. One solution is to invest in a quick-fix 'point solution' but, inevitably, this is another bolt-on that fails to address the underlying problem of a disjointed legacy system. The alternative and, TCS would argue, superior solution is to embrace cloud computing, thereby circumventing the need for major upfront capital expenditure whilst delivering the functionality and scalability required of a digitally mature organisation.

Yet our survey shows that financial services organisations view cloud computing as a low investment priority in the next three years. This reluctance to embrace the Cloud could prove costly.

People: under-empowered, under-powered

People factors are widely seen as inhibitors to digital progress.

In a digitally mature organisation, staff must be empowered to digitally engage and collaborate with other departments and external partners to deliver ground-up digital innovation and efficiencies. When asked to anticipate primary reasons for the failure of some financial services companies in the digital world, 79 per cent cited insufficient devolvement of decision-making and 85 per cent cited a failure to properly align with partners and intermediaries.

> 79 per cent believe insufficient devolvement of decision making will lead to failure in the Digital Age

While 70 per cent said their organisation had made some headway in creating a culture of digital engagement both internally and with partners, only 12 per cent of respondents felt this had been achieved to a significant extent and 80 per cent felt a culture of conservatism was an obstacle to their organisation reaching digital maturity.

In a cost-conscious climate, addressing cultural issues may require relatively modest investment but could yield significant business wins. Encouragingly 78 per cent expect to invest in fostering a culture of digital collaboration in the next 12 months.

Skills shortages were identified as a further barrier to digital maturity by 85 per cent of respondents, with four out of ten predicting they will result in their organisation having to put digital projects on hold in the next two years.

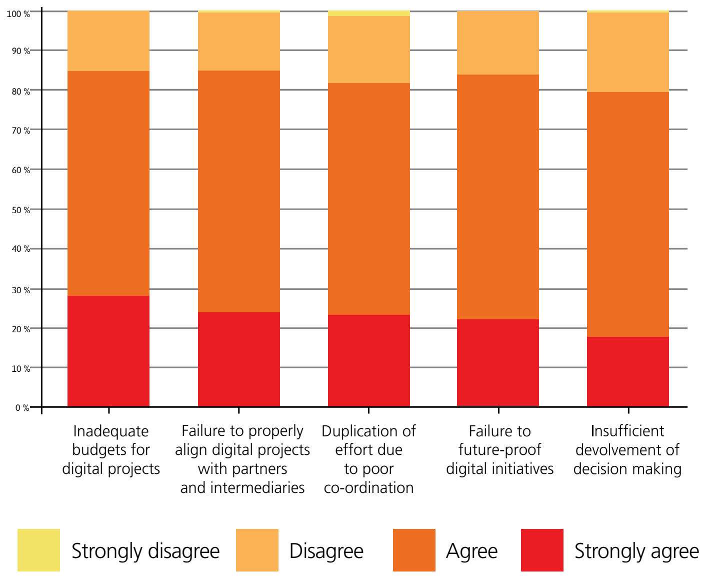
TCS VIEWPOINT

Digital teams – just another silo?
Financial services firms appear hamstrung by organisational silos and are failing to create the kind of 'pan ecosystem' collaboration between employees and external partners that digital success requires. Whilst the separate digital teams created in many organisations can be effective in driving digital innovation in the short term, such an approach can stand in the way of embedding a corporate-wide and collaborative digital ethos in the longer term.

The key to creating this ethos is ensuring that your digital initiatives enhance and bring innovation to every value chain within the organisation. For this, clear purpose and focus is essential.

One of the best ways to achieve such focus is through governance of the customer experience. This can provide an overarching focus for improving each and every value chain and aspect of the operating model that affects the customer, many of which may be addressed through digital enablers. Customer Experience Managers can be given ownership of all aspects of the customer experience, irrespective of where it sits in the organisation, thus enabling them to cut through the silos that hinder the collaboration necessary to be a customer-centric and digitally mature organisation.

To what extent do you agree that each of the following will be a primary reason for the failure of some financial services companies in the digital world?



4. Maintaining the Momentum, Keeping Pace

As digital take-up accelerates, the competitive threats will escalate. Digitalisation creates opportunities for both incumbents and new entrants, be it competing on existing activities or still-emerging products and services. Already last year's predictions of heightened competition look conservative.

Customers are not passive consumers of this competition; they are helping to drive it. New regulations to speed account switching mean it is easier than ever to change bank account, eroding the inertia that was once a guarantee of custom, regardless of service levels. This opens the door to new entrants with flawless service records. This loss of inertia, aided by the ease of online interactions, will only hasten the kind of promiscuity already prevalent in general insurance as digitally-savvy consumers increasingly cherry pick and unbundle services whenever they can see a better value proposition being offered by another provider.

Digitally-savvy customers are driving change, and it's the incumbents that stand to lose the most

New providers are already making inroads into territory normally the preserve of the big financial services incumbents. New and innovative digital players have already arrived in areas such as P2P lending, digital payments and insurance telematics. Retailers, too, continue to build share in financial services, with e-tailers particularly well placed to pick up market share by leveraging their expertise in customer analytics. Innovations being pioneered overseas could also soon enter new country markets and ultimately go global as barriers to entry are reduced.

The threat to incumbents is real and is advancing on multiple fronts, yet, as our research shows, many financial services players are far from ready to mount an effective defence of existing market share, much less take a proactive approach to win new digital customers.

TCS VIEWPOINT

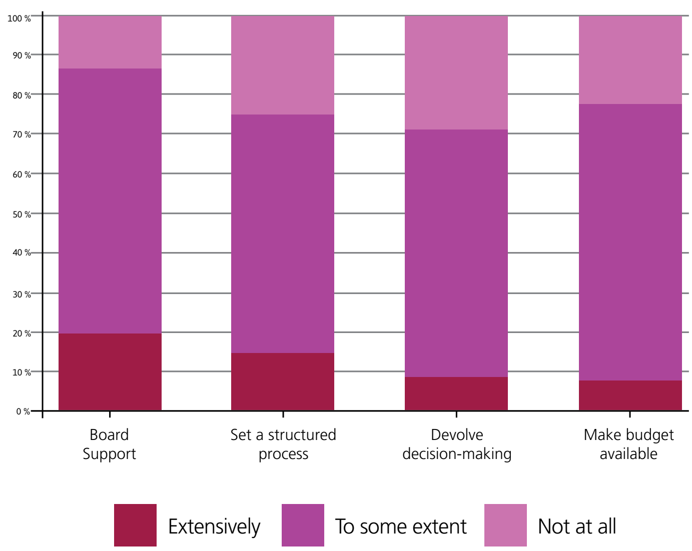
Coping with shorter time frames

As digital take-up accelerates and 'go to market' time-lines shrink, once ambitious strategic horizons look increasingly pedestrian. Financial services providers need to find ways of working faster and smarter just to stay still. There is no room for pilot stage inertia: successful projects need to quickly progress to full development while those that fail to meet key performance or strategic goals must be aborted. As favoured 'waterfall' project management techniques prove incompatible with digital's demanding deadlines, project managers must adopt a more iterative and agile approach. In the Digital Age, time really is money.

Encouragingly, most organisations do have the foundations to support innovative and experimental digital projects:

- 77 per cent make budget available
- 72 per cent devolve decision-making
- 75 per cent have a structured process to guide such projects
- 87 per cent have active board support

To what extent does your organisation do the following to encourage experimental digital projects?



Yet above these foundations, the digital structure of most financial services organisations looks shaky. Very few have an all-encompassing digital framework that can support the development of customer-centric digital services and channels. Most do not even have a clear picture of the digital work already underway across their organisation: more than a quarter (26 per cent) do not think their organisation has an holistic view of all its digital projects and 27 per cent simply do not know. Of those organisations that do have an holistic view, 65 per cent do not make it available to all departments.

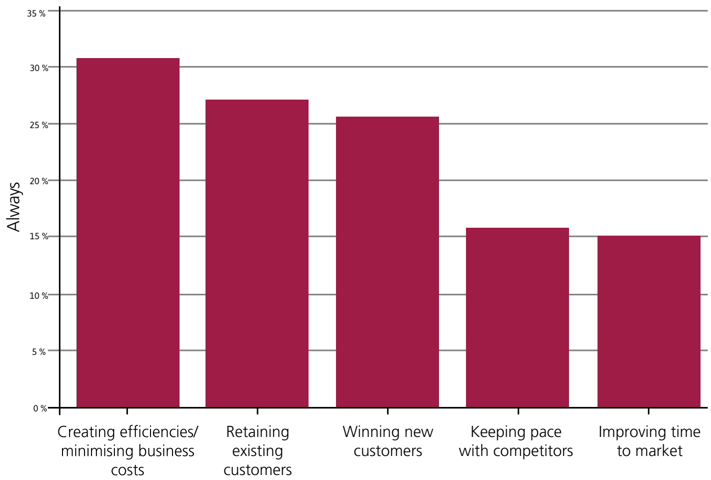
> 26 per cent say their organisation doesn't have an holistic view of digital projects, and a further 27 per cent don't know

This inability to keep track of digital projects results in duplication of effort, which organisations can ill-afford: 81 per cent of respondents believe that such duplication would be a primary reason for failure in the digital world.

Organisations also invariably fail to consider the full range of their business objectives when evaluating digital investments:

- Only 15 per cent always consider the need to improve time to market
- Only 16 per cent always consider the need to keep pace with competitors
- Only 26 per cent always consider the need to win new customers
- Only 27 per cent always consider the need to retain existing customers
- Only 30 per cent always consider the need to create efficiencies and minimise business costs

Does your organisation always consider the following factors in justifying investment in digital projects?



And 45 per cent of our survey respondents said their organisation did not have a clear and well-defined digital strategy. This, in itself, is a clear marker of the sector's digital immaturity.

TCS VIEWPOINT

Time to reign in the digital outliers

It is positive that organisations are encouraging experimentation and are willing to take risks in order to capture the best digital solutions. Yet, untutored by an overarching digital strategy, this enthusiastic digital experimentation has created a pilot stage bottleneck: there are too many initiatives in flight, not enough are landing, and the noise of this crowded airspace threatens to obscure what really matters to the organisation.

It is, therefore, time to reign in the digital outliers. The approach of allowing disparate teams to drive digital experimentation – inevitably some successfully, others less so – now needs to be coupled with a more structured approach. Investment must be targeted at those initiatives that have the staying power and potential ROI to make the transition from pilot to full development, and deliver value to the organisation as a whole.

This next step, the transition from pilot to full development, requires a strategic view of the company's digital objectives based on customer expectation. Only then can a company build a digital business with staying power.

5. Conclusion

Given the competitive landscape that lies ahead, financial services organisations must be ambitious and bold in their digital thinking. The terrain is already littered with digital has-beens as the pace of change and the scale of digital take-up has shown most forecasts to be conservative. Our research shows many financial services organisations, beset by regulatory costs and encumbered by legacy systems, are already struggling to keep pace.

So, who will succeed in the new Digital Age?

Successful financial services organisations will look across different sectors and borrow best-in-class practices and technologies. They will ask hard questions of their existing business and not shy away from difficult answers. The inadequacies of legacy systems will not be tolerated, with budget found for major renewal or new cloud-enabled systems embraced. Regulatory compliance is non-negotiable but successful organisations will ensure compliance comes with business benefits.

Digital winners will find new ways of guiding innovation to ensure initiatives yield customer, business and ROI benefits. They will make smart decisions, quickly, based on high level predictive analytics and will be quick to not only anticipate but also respond to new competitive, technological or regulatory threats. An holistic digital strategy will be embedded in the corporate DNA. The customer experience will be prime.

Successful organisations will, quite simply, look very different from today's financial services organisation.

This is an ambitious charter for change. It will require organisations to step outside their technological, organisational and managerial comfort zones and commit to new thinking, new horizons and new investment.

Few financial services organisations display an appetite for change on this scale and at this pace.

Yet they have no alternative but to change. The current business climate demands no less.

TCS VIEWPOINT

Strategy and structure

As digital technology, and the new services and competitors to which it has given rise, start to mature, it is time for business leaders to step back and take stock of digital developments – to think about what works, what doesn't, and what's next. This cannot be a leisurely exercise but nor should it be rushed; the outcomes are too important.

Customer adoption of digital technology has increased the complexity of customer journeys, introducing new channels, roles and types of data available. A focus on the customer experience provides purpose and frames the digital agenda, being dependent on both intangible and tangible factors across the operating model.

In order to help organisations to think differently about redefining their operating models, it is important to think about the characteristics that define the organisation. Is it:

- Engaging?
- Agile?
- Insight-driven?
- Innovative?
- Collaborative?

In attempting to display and own these characteristics and deliver the associated customer experience, initiatives will be identified that require the use of digital enablers across the enterprise operating model and beyond.

Indeed, in the future, successful organisations will have adopted digital technology to enable new ways of working throughout their organisation. They will have focused on customer-centricity and it will remain in constant focus. Digital initiatives as enablers of customer centricity will simply become the norm.

About TCS

Tata Consultancy Services (TCS) provides world-class IT services, business solutions and outsourcing, and is among the top 10 technology firms in the world.

TCS works with clients to help them first understand what the future holds and then formulate strategies and develop joint, innovative solutions to enable them to reach their goals.

Digital customer experience is a key focus area for many TCS clients and TCS is increasingly advising them on: digital marketing strategies; channel integration of social media and Big Data; mobile solution development; streamlining back office IT and operations to improve customer management processes and drive down operational costs.

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