



managementors

creating sustainable business advantage

White paper

What not to forget when going digital in Financial Services

This white paper explores the age of digital within the Financial Services industry and how sustainable performance improvement is about more than chasing trends.



About Managementors

As a results-based consultancy, we help service industry organisations generate true performance improvements that translate into tangible margin growth.

We've proved this time and time again for many leading-edge blue chip organisations, including Aviva, Fujitsu, BNP Paribas and Barclays.

Our expertise has helped many service and support organisations achieve lasting change. By introducing effective performance management into their operations, they have reaped the rewards of significant and sustained productivity improvements – over 30% in some cases. At the same time, they have achieved enhanced customer service levels and increased retention rates.

The default position today of many senior management teams to achieve their performance improvement goals has increasingly included a recommendation to invest in the latest technology, often at a high cost. Over the last 20 years, Managementors has consistently achieved results without recommending any spend on new technology.

Managementors draws on its deep experience across many industries to help financial service operations find ways to optimise processes, reduce operational costs, manage risks, drive customer service, and help maintain market status for real business advantage. Instead of technology, the emphasis is on the implementation of a Management Operating System (MOS) that enables organisations to get the best out of what is already available, alongside providing a focus on culture and behavioural change.

This white paper takes a look at the challenges the financial services industry is up against and how digital transformation is not the only answer to moving with the times to remain competitive and drive market share. With a new generation of customers with more demanding needs, the key question remains: how can firms be successful in digital transformation?



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Introduction

Millions of people rely on the financial services industry, whether that be for their homes, livelihood, retirement or savings. The sector provides thousands of businesses and millions of customers the opportunity to save, borrow and purchase products and services. Equally the industry is crucial to the functioning of the economy, with the sector contributing £132 billion to the UK economy in 2018, making up 6.9% of the total economic output.¹

Ensuring the system works flawlessly remains one of the greatest challenges the industry faces in the coming years. Potential threats have grown in recent years with increasing examples of digital attacks, cybercrime and failing infrastructure due to legacy IT systems. In addition, exposure to unpredictable events, such as extreme weather and national disasters, in conjunction with an increase in regulations, are all having an impact on the capability of the industry to provide critical business services. Maintaining a fore fronted position with an efficient operation is challenging at the best of times but the next few years are likely to be one of the most demanding times for the financial services sector.

Digital transformation is likely to be on the agenda for some time, with those adopting new methods and systems effectively stepping up and winning customers over. Those without a focus on their digital agenda are likely to lose customers to their sophisticated competitors. Nevertheless, only those who acknowledge that technology alone won't solve the problem are likely to be true successors. Digital transformation involves much more in order to be truly successful. Providing employees with the correct tools, training and culture will ensure transformations can be truly effective. We are privy to many transformation projects where legacy culture and behaviours hold businesses back and prevent true value from being realised. In order to make any transformation a success, employees need the support to manage differently and fundamentally provide a different service to clients. Digitalisation requires behaviour change amongst both employees and customers, which is often underinvested in and underestimated. With digital transformation, the discipline of managing change is just as significant.



Sources

¹ www.parliament.uk/commons-library | intranet.parliament.uk/commons-library

Challenges Financial Services face

1. FinTechs and Customer Loyalty

Globally the financial services sector is an innovate leader with banks, insurers, asset and wealth managers increasingly automating front-to-back processes, often using advanced analytics to interact more effectively with their clients and customers. The development of new generation payment and account related services means new types of companies are leading a revolution in the development of the ecosystem of thousands of companies across the globe. These FinTechs are creating more competition for traditional financial institutions, with a survey carried out by PWC indicating 83% of traditional financial institutions believe part of their business is at risk of being lost to a standalone FinTech company.² According to the survey, two thirds of the companies ranked pressure on margins as the top Fintech related threat, with innovation of FinTechs providing them an improvement in operating costs and allowing them to compete on margin and ultimately win more business. Therefore, in order to remain competitive and reduce the chance of losing customers, the need for traditional financial companies to be streamlined and reduce their operating costs is vital.

As businesses and customers flock to digital marketplaces, there is a risk of losing control of the customer interface and losing customer loyalty through a decline in one-on-one contact. With chat bots and online switching, customer loyalty is slipping in the financial services. The rise of digital platforms has made switching easier for customers and less expensive for competitors to acquire new customers. Insurers acquire most of their new customers through switching and in auto-insurance an average of 11% of customers switched carriers in the last year.³ Millennials, particularly in developed markets, make up 37% of the working population and, compared to older

customers, they are more likely to switch providers. Being able to successfully target and retain millennials can refresh the financial sector's customer base and help fuel organic growth. Millennials use apps to arrange their daily lives, track their steps, heart rate, how many hours they sleep, how safe their car is to drive and the ambiance of their homes. Living their lives by their smartphones and being 'always on' is a trend to which the financial services is connecting. However, these tech-savvy customers can be fickle and compared to their older counterparts are more likely to switch providers with their loyalty needing to be won. Businesses are forced to compete on price or find alternative solutions to differentiate themselves and lock in customer loyalty.

But how can you maintain customer loyalty whilst keeping ahead of the curve? Ensuring the customer is at the heart of the organisation and that the process is customer-centric is something some FinTechs have broken the mould and done well. Monzo, for instance, is breaking the banking culture by really understanding its customers' needs and designing its process around that. For instance, Monzo pays its customers a day earlier than expected by challenging the status quo and eliminating barriers that have previously been the banking norm. Redesigning processes to put the customer at the heart of the organisation is how customer loyalty can be gained. Challenging long held views, culture, opinions and processes is something our clients appreciate an external outlook on. Often challenging ingrained behaviours to be truly customer focused can be difficult, as established opinions stand strong. However, once pushed outside their comfort zone, with processes redesigned to eliminate waste and be customer focused, we find organisations discover true and often unexpected levels of customer retention.

Sources

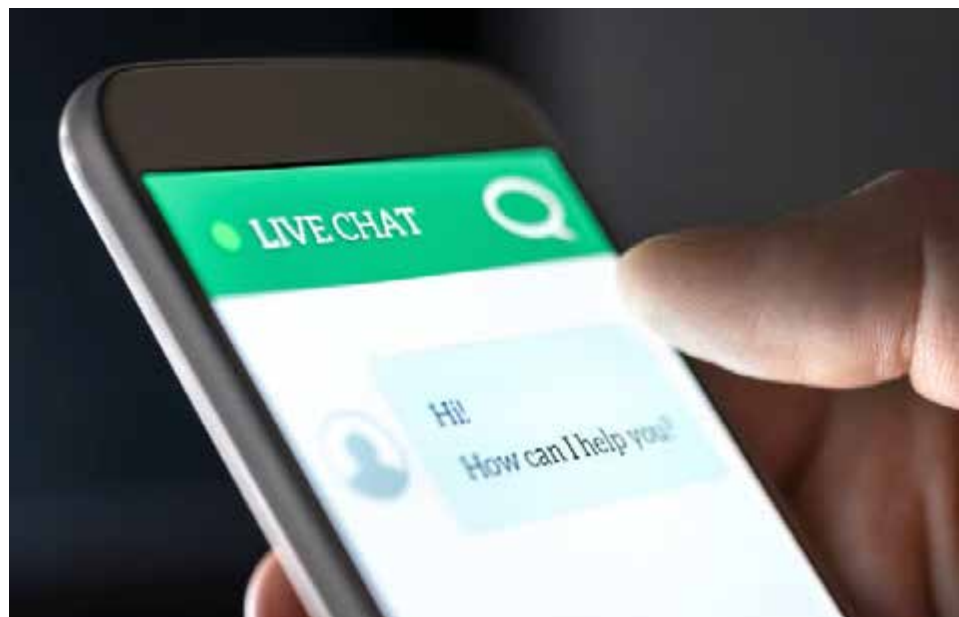
² www.pwc.com/gx/en/advisory-services/FinTech/pwc-fintech-global-report.pdf

³ www.bain.com/insights/insurers_how_to_lead_in_the_new_era_of_connectivity/

2. Chatbots

Chatbots are designed to understand, learn and converse like humans to be able to answer ad-hoc queries in real time. With this there are concerns of a decline in the need for physical customer facing operations. Just like with the rise of the computer, there is a fear it will take jobs away, however the computer ended up making more jobs than it took away, with manufacturing workers needing to be retrained to work with new machines.⁴ In a similar aspect, there is always going to be a need for human interaction, just the skill and way people are used may change. Organisations that have an effective method for resource forecasting to match requirements and skills-to-work volumes are those which will be in a better situation to accommodate tech change and effectively redeploy resources or re-skill as necessary. Chatbots in the financial services are often well suited to helpdesk and customer service environments.⁵ Cases where the responses are often similar and high in volume create the argument for automation of responses to free up human agents to deal with the more complex

issues. When it comes to dealing with complex and emotional cases, consumers are more likely to want to speak to a human agent. Therefore, the cases that agents are typically going to be dealing with are likely to be difficult and require support to ensure issues are resolved and cases are proactively managed to agreed deadlines and customer service levels. Our most successful clients value the importance of active supervision within their organisations, enabling their first line managers to work with their teams and eliminate their issues by getting to the root cause. Chatbots are likely to remove some of the simple and repeatable workload within the financial services, however this is only going to lead to human agents requiring skill development and additional support to deal with the outstanding complex cases to resolve them efficiently. Therefore, failing to recognise, forecast and plan for the change which chatbots will bring to an operation risks service deteriorating. Often the first response to missed SLAs is to throw resource at the problem, which is the crux of the problem the chatbot has been designed to resolve.



Sources

4 Mims, 2013

5 www.accenture.com/t00010101t000000__w_/br-pt/_acnmedia/pdf-45/accenture-chatbots-customer-service.pdf

3. AI and Data

The cloud, artificial intelligence (AI), robotics and block chain were only developed a few years ago, but now these applications and robotic processes are helping firms streamline their operations. AI is allowing meaningful insights into data to create predictions without any human intervention. In the financial industry, AI is being used to save time and money through the use of algorithms to generate insights, provide customer service and make predictions about sales performance and churn. Using complex algorithms, AI driven bots can calculate a range of information including the best opportunities, the best loan providers and fraudulent activity. Having access to this intelligence can be invaluable to truly understand the customer.

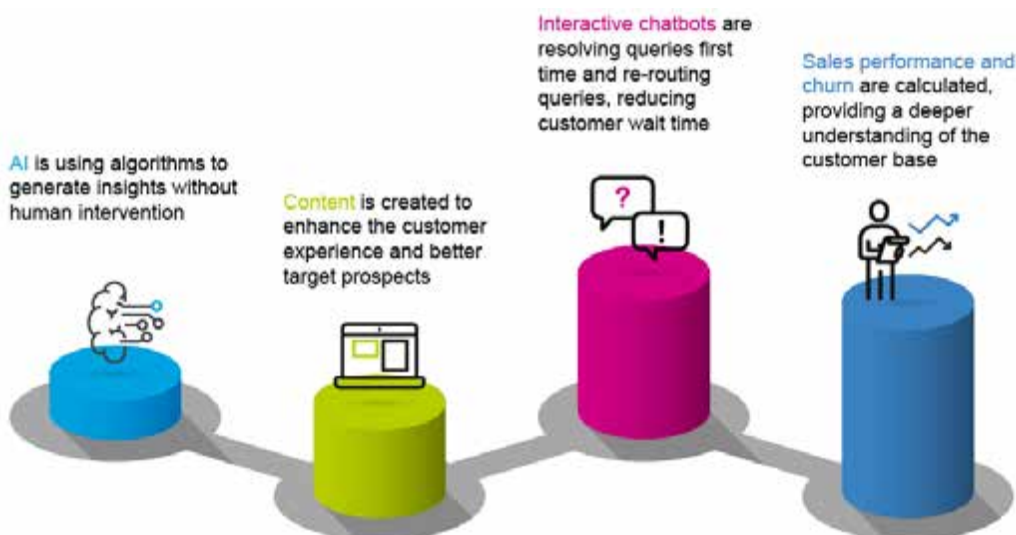
Often businesses think they know their customer value but with individualised data analytics they can unlock true customer data to really give them what they want. Using this data in an insightful way can be complex. Inaccurate data is frequently an issue for organisations but being able to plug automated information into their operating system and analyse it can truly be beneficial for forecasting, planning and customer insights with data and performance working hand-in-hand.

Technology is relatively easy, but what our clients will frequently tell us is that it's people that are complex. Gallup Research has shown that companies that apply the principles of behavioural economics outperform their peers by 85% in sales growth and more than 25% in gross margin.⁶

But many organisations still take a tech-first approach. It's easy to get caught up in all the apps, AI and data, that businesses forget the reasoning behind it all. We often meet leaders of large organisations who have all the data they could dream of, yet they are still struggling to create sustainable change and get the results they really want. They have fallen into the trap of throwing more digital tools at the problem in the hope it will go away.

We would argue any business initiative should ultimately increase productivity of the people and enable people to be their best selves at work. For most organisations this means change, not just changing data insights or technology, but changing behaviour, which is entirely different. Data and dashboards are critical for success and giving people visibility of what they are working towards can help boost performance. But the data needs to combine analytics with an understanding of human psychology in the workplace to really take improvements to the next level.

Knowing how to move people in the right direction isn't easy and involves more than just giving them new dashboards, excessive amounts of data or processes. Enabling managers to be coaches rather than bosses is important, as well as maintaining a culture that doesn't accept issues and continues to support first line management.



Sources

6 <https://deloitte.wsj.com/cio/2018/04/05/the-human-side-of-tech-driving-behavioral-change/>

Conclusion

With a strong focus on digitalisation it can be easy to forget the 'business as usual' fundamentals. The financial service industry currently has a strong focus on digital transformation which can bring many advantages. Nevertheless, to ensure sustainable business change, people, processes and operating systems should not be overlooked. Organisations that plan and prepare for a digital transformation invest in developing a robust Management Operating System (MOS) to complement performance improvement and ensure a sustainable step change in productivity. Providing a method for continuous improvement, the MOS is designed around a forecast, plan, short interval control report and review model. It provides a common focus on the main operational drivers of the organisation, ensuring that management at all levels have the visibility of accurate data to help drive and make business critical decisions. The MOS ensures first line supervisors and management can use data and translate it into meaningful information to use at the front line and drive performance.

Similarly adding new or upgraded technology into the same world is likely to yield the same results without

updated processes and culture change. Technology can simply automate or enhance weak processes and does not influence or change management behaviours. New or improved processes are needed to keep up-to-date and ensure the industry remains customer focused, therefore ensuring retention is secured. Alongside processes, digitalisation often requires radical behaviour and culture change which cannot be impacted by technology. In all change programmes, without the buy-in of those involved, the change will not be sustainable. Ensuring people are skilled and supported through digital agenda is essential.

To conclude, a firm which can display to its shareholders, clients and customers that it can maintain core services safely and efficiently through, or despite, digital disruption will gain market advantage, and be more sustainable over the long term. Those which cannot, may not last very long.

Investing in emerging technology is about more than chasing trends. Financial services executives expect their investments to help build their business, improve customer loyalty, create new revenue streams and increase market

share – all key components in improving overall competitiveness. Done right, digitalisation can yield customer loyalty and leading market position. However, technology alone isn't the answer. Many of our clients use us alongside their technology implementation to take their performance initiatives to the next level by fully realising the value of their investments.

The combination of a strong operating model, culture and behavioural management, alongside a streamlined efficient process, is why our clients choose to work with us time and time again. Over 20 years of consulting experience across many different industries has consistently delivered sustainable business change. Managementors' projects are designed to encompass the three elements outlined above, with a focus on operational managers to give them the skills and ability to take forward the company vision, with a culture of continuous improvement embedded at all levels to ensure sustained benefits.

Why will digital transformation not work alone?



Training

Training will need to be embedded within BAU to utilise 'digital' and add value in staff's new augmented roles



Openness to change

A supportive change culture will be required for continuous improvement



Fundamental MOS principles and robust business processes

Without the basic principles of forecasting through to reporting, digital transformation will remain a superficial enhancement



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