Digital Transformation in Financial Industry

The transformation in the technology landscape in the last few years has been phenomenal across industries and the financial sector is no different. However, in the last three years, the transformation has taken a bigger leap due to the virtual world created by the pandemic. For a sector that predominantly thrived mostly on in-person transactions had to rely completely on digital medium. Whether pandemic or not, transformation was always in the radar at the boardrooms, just that the pace of it was accelerated.

Financial institutions, just like any other business, aim to deliver best-in-class services to the customers. With customers being the focal point, the differentiator that any bank would bring in is the quality of service and efficacy of it. Quality encompasses not just delivery of a product or a service but also the personalization of delivery mechanism resulting in customer delight. This is a significant aspect, especially in a crowded competitive market where new forms of banks & other financial institutions are emerging, and the lines are blurred in terms of their offering.

To be competitive and to stay relevant, it is imperative that financial institutions continue to reinvent themselves to deliver an impeccable service to their customers. Key considerations for these institutions to transform are:

1. **Demographics & the needs:** The largest consumer of the services has been the demographic age group of 18 – 65 years, where nearly 65% of the populace is placed, whose needs are ever-changing with even more customization needs.

2. **Rapid technological changes:** Technology having an aging span of two to three years is bringing in tremendous impact to consumerism with a faster pace. When inter-related sectors make rapid technological strides, it is inevitable for the financial sector to adapt.

3. **Regulatory framework:** Due to the dynamic economic-political landscape in a networked world, new regulations continue to emerge that apply newer guidelines and mandatory expectations for the financial sector.

Beyond being competitiveness and staying on top in the market, Digital transformation brings with it a slew of benefits for not only an enterprise but also from an end-user's perspective:

1. **Operational efficiency:** Efficiency of the transactions is palpable from anywhere between 0 – 70% automation. Latest technological trends in the domains of Cloud transformation, AI, Blockchain & Quantum computing could push the envelope much further. The time-to-market increases helping the users achieve the business goals faster and with more precision.

2. **Cost reduction:** Efficiency and cost reduction goes hand-in-hand. There are significant cost savings that one can achieve through appropriate investments in digital transformation space. Enterprises are keener to derive value for the money invested. Hence, it is important that any digital transformation initiative undertaken has a definitive Return-On-Investment. What firms need to be cautious is not to fall into the trap of 'me-too' bandwagon without a clear articulation of ROI.

3. **User Experience:** Gone are the days of monolith apps. The days of 'any-time, any-where, any-device' are here. With emerging technologies, a piece of software can not only be developed in a record span of time, but also be deployed very quickly with less hassles for end-users. There has been a large scale adoption of digital assistants powered by Artificial Intelligence, almost in every industry – banks, healthcare, retail, Internet Service providers etc, which have enhanced customer experience greatly.

4. **DIY apps:** One of the notable trends we see in the market today is the emergence of low-code/no-code platforms which promotes development of Do-It-Yourself apps. By way of these, the dependency on IT team is lessened, citizen developers are promoted and more importantly, cost of IT is reduced while delivery similar user-experience or even better.

5. **Cloud adoption:** Most of the enterprise software vendors are moving onto the cloud, offering SAAS based solutions. For large enterprises, Cloud adoption in one of the strategic transformation goals. There are many reasons for it – first: maintainability of physical infrastructure is absent implying that the need for huge data centers is minimized. This has a direct bearing on the reduced spend and thereby the need to invest in the operational resiliency reduces. Second: there is a significant reduction in the IT budgets as the consumption of resources on Cloud is as per demand. Third: it promotes reusability of software components extensively, thereby bringing down the effort to build large-scale software.

6. **Cybersecurity:** As many new digital stacks emerge, there is a heightened pace in the evolution of cybersecurity. With more distributed, on-cloud apps, data security becomes a key aspect both from a customer and business data confidentiality aspect. There have been newer security models adapting to new digital waves.

7. **AI-powered apps for daily usage:** A quick tour of app stores will reveal the surge in the number of apps that are powered by AI. Conversational bots based on deep learning models, apps that can create movies, music, resume-maker, photo-enhancers, and even those that create human-like simulations - are aplenty. The need to invest time to create anything is tending to be negligible.

Even though digital transformation is key to survival and makes a prominent mark in the vision statements and strategy papers of CxOs, financial institutions are not bereft of challenges. The key challenges to look at are:

1. **<u>Strategy at the highest level:</u>** It is natural for every institution to get onto the transformation bandwagon to stay competitive. However, if the strategy is not well thought through and made relevant to the enterprise's identity, me too syndrome is bound to fail. Transformation strategy must be conceptualized and driven at the highest level with a solid return-on-investment. For a big conglomerate, if the strategy is drawn regionally and departmentally without being in harmony with the strategy defined at the firm level, then the transformation will be piecemeal and inefficient with the repercussions of overheads.

2. **<u>Budgetary allocation:</u>** Allocation of budgets both short-term and long-term, to drive digital transformation, is key. Due to the dynamism in the operating environment, priorities of the firm become equally dynamic. While adaptability would be the need of the hour, the vision of digital transformation must not be lost or put into cold storage unless pushed to the wall.

3. **<u>Structural homogeneity:</u>** Internal structures must be in harmony with the digital transformation ambition. This includes people, processes, and systems. More often, in large enterprises driving change management could pose a challenge if there is no alignment amongst all the three elements.

4. **<u>Baggage of legacy:</u>** Legacy systems continue to run critical processes in most of the financial institutions. Replacing legacy systems is desirable, however all-at-once is impossible due to limited resources. When those facing technological obsolescence are the ones to be tackled first, advanced digital systems coming in their place must seamlessly integrate with its ecosystem. Otherwise, it will be an operational nightmare.

5. **<u>Scalability & reliability:</u>** Digital systems that are implemented must be scalable and reliable. Many new-age technologies are in beta phase of usage and need to be validated thoroughly before employing them. Without a perfect up-time, the firm is susceptible to operational losses and reputational damage.

6. **<u>Security:</u>** Data and system security is paramount for any financial institution. Any digital system rolled out must ensure that all firm's security principles are applied diligently. Failure to do so results in data leakage, regulatory investigation and severe damage to firm's brand identity.

7. **Skilled workforce:** The workforce engaged in digital transformation initiatives must be adequately skilled to take up transformation programs. Lack of skills or experience will not deliver optimum results. If the skills are niche, it creates a lot of dependency on the workforce, their availability and therefore problems in the system's maintainability. Also, workforce skilling must keep up pace with the changing technology landscape.

8. **Ethical practices:** With new technological strides, the question which keeps coming up for debates is around usage of technology ethically. The lines of ethical versus non-ethical usage get blurred if there is inadequate level of consciousness. In such cases, it is important to get back to the fundamentals of reviewing the purpose of using such technology.

9. **"Hammer to kill an ant" syndrome:** One doesn't need an hammer to kill an ant. The adage applies to the digital journey of many enterprises. If the enterprises are not mindful of the strategy, then very soon managers and CxOs will be carried away to invest heavily in digital solutions when business problems that they intend to solve could have existing solutions firm-wide. And more importantly, solutions could be simple ones that could be applied in a quick timeframe and does not necessitate usage of a complex and a more-advanced solution.

10. **Training of AI models:** As AI becomes integral part of any digital transformation program, it is important that AI models are trained with appropriate data sets. There is also a possibility of biases creeping into the models, which can disrupt the function for which they are built for.

11. **Legal framework:** The pace of the legal framework across the world is unable to match the pace of technology transformation. This disparity creates situations where application of a country's legal framework is not straight-forward and leaves room for many interpretations of applicable laws.

ABOUT THE AUTHOR

Yatish Shivaprasad
Managing Director & Head of Corporate Functions Technology,
Societe Generale Global Solution Center (GSC)

Yatish Shivaprasad is the Managing Director & Head of Corporate Functions Technology at Societe Generale Global Solution Center (GSC). In his role, he heads the IT teams in India & Romania delivering IT for all the corporate functions of the group such as Finance, Risk, HR, Compliance, Legal, Audit, Communications & Sourcing domains with traditional to latest technology stacks.

He also leads the IT community within GSC and is a co-lead to drive gender diversity initiative. He has been a global co-sponsor of Innovation, software engineering practices and several optimization initiatives at group level.

He has more than two decades of experience in the IT industry and had earlier stints with Infosys Technologies, HCL Technologies & Siemens. He is an Electronics & Communications Engineering graduate from NITK, Surathkal and holds a management degree from IIM Calcutta.