



## **The evolution of financial services podcast series: Five actions major institutions face**

### **Transcript**

**Greg:** Welcome to The Evolution of Financial Services, a podcast series from Deloitte about just that—the evolution of financial services and how to harness the disruption. Here we'll address how operating environments for insurers, banks, and other financial services firms are undergoing dramatic change—from shifting regulations to new entrants that disrupt traditional service models and everything in between. Each episode we'll meet with a leader from Deloitte's Consulting practice to discuss these changes in the industry and what your company should do. Today we are talking with Sachin Sondhi, principal, and Steve Mahoney, senior manager, with Deloitte Consulting LLP.

There's an old saying that anybody who's really successful in anything in life does not look at a problem as a problem, but they look at a problem as an opportunity. With that in mind, I'd like to say hi to Steve and to Sachin. And thank you guys for taking the time to talk with us today about the opportunity, as we've just mentioned, for financial institutions to capitalize on disruptive technologies. Steve, can you tell us why these disruptors present an opportunity for financial services firms?

**Steve:** That's a great question, Greg. What we're seeing in the market is this concern about the disruption and how to respond to it. However, very often, the conversation is focused on the threat rather than the opportunity. We think of it as a two-sided coin, where the same innovation that is causing concern can be exploited for gain. Specifically, these new technologies and financial technology (fintech) players present an opportunity to lower the cost of transformative change and to fund rapid iterative modernization within established firms.

**Greg:** Now Steve, while that makes a whole lot of sense, how can an established financial services institution, which may find a lot of reasons to hesitate, find the impetus to start walking down that path?

**Steve:** Well, the cost of some legacy infrastructure is so high it's an obvious target for optimization. So you tend to focus on them, maybe overly so. Fintechs

that offer real-time, digital, highly automated business models offer the opportunity to truly vaporize that burden. In some of Deloitte's recent efforts, we've actually been able to migrate certain highly inefficient business operations to fintechs, earning savings of 50 to 60 percent.

**Greg:** Sachin, I'm sure you have something to add here as far as how to meet these difficulties.

**Sachin:** Certainly. One of the biggest pain points is the cost of regulatory compliance. The fintechs and the new technologies offer a tremendous opportunity to go at the cost of regulatory change. After almost a decade of truly unprecedented spending, many firms have gone about responding to regulatory compliance through point solutions that have in fact added to cost and complexity. The new technologies present a tremendous opportunity to rethink and re-architect how regulatory change is implemented into the businesses by using more agility, cloud, robotics, and the like.

**Greg:** So it sounds like we're not just talking about fintechs here. There are a lot of opportunities out there for bigger players. Is that right, Steve?

**Steve:** Sure. In, in fact, what we see today is financial institutions individually running these massive utilities, many of which are not core to their businesses. In these situations, it may be appropriate to mutualize with other players. Some of the most obvious opportunities here are around cloud, analytics, and more recently, blockchain. In fact, truly intelligent, real-time utilities could provide efficiency improvements of 15 to 20 percent.

**Greg:** Well, that's fine. That's a fairly large number, 15 to 20 percent. If we look at the balance sheets, Sachin, there are a couple of larger costs there. Are there opportunities in less-visible places?

**Sachin:** Exactly, there are. The majority of the effort and the tendency is to look at the structural costs, the big costs, the 15 to 20 percent that can be taken out. But there are a lot of costs on the edges. These are the friction costs. And these opportunities can also be tackled. As an example, a number of institutions have gone about digitizing their entire platform. And what you find is that at the edges, there is a lot of inefficiency, whether it's paper-based work, whether it's simply automation, unstructured data, and the like. These inefficiencies are typically descoped and as a result, they are left hidden and not truly fully capitalized on.

**Greg:** Okay, we talked a lot about the firm side, how they're going to change what they're going to see. But Steve, are there any visible changes that the customer side will be able to see?

**Steve:** Definitely. As customer expectations shift, financial institutions are realizing the need for a better digital experience for them. Unfortunately, that sudden push has resulted in quick, low-budget, client-facing portals. Think of it as the same old process with a new skin on it. A truly innovative digital capability should be implemented end to end, allowing for greater process transparency and offering self-service capabilities for clients.

**Greg:** I got it. Sachin, tell me this. With any type of change, there are roadblocks. Sometimes it can look like a maze. Is there anything that the firms should specifically look at as they embrace these changes?

**Sachin:** This change is different. It requires a different approach and mind-set, and you could, fundamentally say that the institutions need to look at themselves as technology companies and offer sort of three competencies that are core to embracing and executing this change. One is organizational agility. The second is sort of accountability to drive this change. Someone has to take ownership, take the risk, and move forward. And lastly, I would say it's more about the toolkit. It needs to have a very services-based approach that taps the network of ecosystem partners to bring about all the necessary change.

**Greg:** Steve, are there legacy companies out there that you know, in your heart, would embrace the change but perhaps they're so entrenched in the way they've always done things that they are not necessarily willing to do it, they just have to have a little push to move forward?

**Steve:** I think there are, without naming any clients. I think it's the courage to start. And more often, companies like that are looking at what they've got running and what it takes to run and maintain, and it's a daunting task. What we're talking about here is, when we use the term vaporization, is look to these new players and new technology and just imagine a world where you just do it from the beginning, leveraging this, and that old stuff gets vaporized, meaning it no longer has a place. So instead of maintaining and updating and modernizing, it just goes away and is replaced.

**Greg:** Sachin, let me ask you, how deep would a legacy company have to dive? How long before they might actually notice some return on investment?

**Sachin:** That's an excellent question, because one of the biggest pushbacks is the return on what is viewed as a long tail of activity. And this goes to using technology in a way that, around the edges, as we talked about earlier, where you can actually see returns in very short order. And that is what the beauty of technologies like automation, like analytics, provide, that it isn't a massive overhaul of the legacy. You can transform outside the core and get to see the benefit, and then weave it back into the core. And that's really an approach that we are seeing some of the leaders endorse.

**Greg:** Okay let's see if we can put this all in one little package that the listener can take away and mull over as they consider their own actions. To wrap it up, in other words, Steve, can you give us that takeaway?

**Steve:** Sure. While there's always been talk of transformation, financial firms are often hesitant to embrace the daunting task of true innovation. Today, we've covered a few ways that digital innovations have removed that hurdle.

**Greg:** And Sachin?

**Sachin:** I'd say the potential for destruction is actually an opportunity, much more than a threat, and the firms should think about how to seize the destructive advantage.

**Greg:** I'm Greg Jarret and thanks for listening to The Evolution of Financial Services brought to you by Deloitte Consulting. If you liked this episode, you can subscribe wherever you get your podcasts. And to receive more information on Deloitte's service offerings, visit [www.deloitte.com/us/FS-MA-evolution](http://www.deloitte.com/us/FS-MA-evolution). Until next time.