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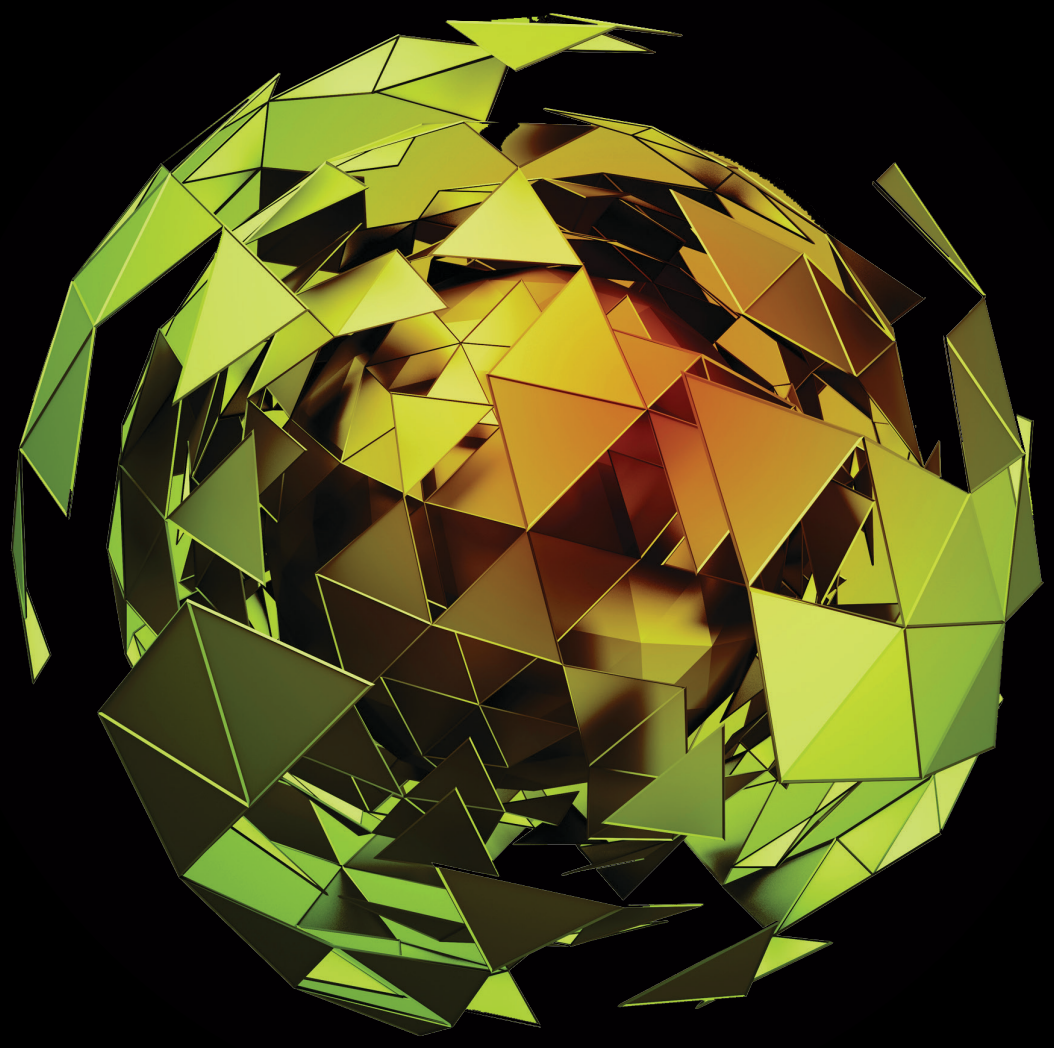

5 Actions Major Financial Institutions Face

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Banks, insurers, and asset managers are struggling to keep their balance as they tackle three major fronts at once – simplifying the business, complying with regulations and modernizing / differentiating themselves.

Over the last decade, regulatory expenditure has stifled spending on efficiency improvement and growth initiatives. The result is a downward spiral in which financial institutions are failing to invest in strategic capabilities on one hand, while increasing operational complexity on the other. The situation will likely become worse in the near future, as nimble fintech players increasingly disintermediate traditional financial service providers and their products, non-financial institutions start provisioning financial services and regulatory barriers are lowered, allowing competition in core areas from efficient startups.

Capitalizing on disruptive technologies themselves can help the big players gain back their advantage. Innovation that is causing turmoil can also be exploited by financial firms to lower the cost of transformative change and to fund rapid, iterative modernization. Some are taking "baby steps" in that direction today.

There are five things that financial services firms can do in order to harness disruption.

Attack the Most Unwieldy Costs.
Real-time, digital and highly automated business models offer the opportunity for wholesale "vaporization" of high cost legacy infrastructures. In Deloitte's recent efforts, financial institutions surgically decimated highly inefficient business operations and earned savings of more than 50 to 60 percent by migrating processing to fintechs. There is significant potential to expand the scope and size of vaporization efforts, and this is a bandwagon not to be missed since valuable resources and budgets are freed up to pursue other efficiency improvement efforts.

Regulatory compliance costs in particular deserve a fresh look as candidates for selective vaporization. After almost a decade of unprecedented spending in response to the Dodd-Frank mandates and more, firms are saddled with point solutions that are hastily cobbled together and inefficient. Rethinking regulatory compliance in a business as usual context and re-architecting with agile, cloud and robotics may likely release much needed funds for modernization and growth.

Mutualize. Financial institutions are individually running massive utilities, which are non-core to their businesses and could very easily be consolidated. Firms should up the ante around mutualizing capabilities and associated costs with other players. While the number of effective industry initiatives in developing common reference data and processing utilities is on the rise, there is massive untapped potential especially given cloud, analytics and blockchain technologies. Intelligent, real-time utilities could readily provide efficiency improvements of 15 to 20 percent (if not more), while providing a high level of customization for participants that was not attainable before.

Taking this to another level, a related concept rapidly taking shape in the marketplace "collaborating ecosystems," in which firms – even competitors – integrate capabilities towards industry macro-processes. Ecosystems provide opportunity for streamlining the supply chain, achieving transaction volumes at scale and broader reach, along with greater cost mutualization. Financial institutions need to web enable their capabilities in order to participate in this "API economy" as well as develop an ecosystem strategy to determine where and how to play.

Harness Disruptors for the Last Mile. Top-down enterprise transformation initiatives like business process reengineering, business process management, workflow and data analytics help focus on optimizing core business functions, but this leaves large gaps in coverage at end-points and in tactical processes. There are significant opportunities to improve efficiency that have been left on the table even with large enterprise investments.

For example, a large financial services firm reengineered and digitized its Private Wealth business processes that yielded several strategic benefits. However, due to high demand for enterprise digital resources, about 5% of the processes that involved legacy, paper-based trusts were de-scoped. With an estimated 20M+ of paper trust documents, these processes remained a huge invisible contributor to inefficiency.

There is a slew of mature digital technologies – automation, cognitive analytics, robotics, visualization – that can be rapidly deployed at the end-user level to provide a significant boost in productivity at end-points. Unlike end-user technologies of the past, these tools allow for centralized governance and eliminate the risk for what is commonly known as "Shadow IT." In the example above, a cognitive OCR analytics solution is being developed to vaporize the inefficiency associated with paper records.

Extend Digital All the Way. Evolved client digital expectation is driving efforts around interactive electronic interactions with clients. Time and budget pressures often lead to the tactical trap of creating workarounds in the back-end to build client-facing portals. Building truly end-to-end digital capabilities through streamlining the supply chain, creating process transparency and self service capabilities in conjunction with digital client portals could provide huge cost efficiency and better customer responsiveness.

Manage the Organizational Transition. Financial services firms are in the midst of a historic disruption driven by digital concepts that have already changed the landscape in retail and manufacturing industries. Getting to this future state will require disruptive reinvention, agility, and the need to run the financial services firm like a technology company. The building blocks will be the new workforce and a services-based, networked organization with distinct accountability.

Despite the great appetite for transformation, financial firms seem to have continued to opt for tactical measures over the past decade since the case for change normally appeared prohibitive. Digital innovation has changed this equation, and firms should seize the disruptive advantage for themselves.

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