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Digital transformation for financial services

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Digital transformation
for financial services

As financial services enter this new decade, the pace of change isn't letting up. Digital transformation, technological innovation and the fear of competition from start-ups – minor concerns for business leaders ten years ago – are now high on executive agendas.

We have seen huge leaps in technology – from smart-phone integration through to cloud computing. The regulatory frameworks underpinning the industry are also ever changing – with MiFID, GDPR and PSD2 to name but a few.
All of this has a huge impact on the way financial services companies run their businesses and win and retain their customers.

These developments have revitalised some companies. They have grasped the new and exciting opportunities. For others though, a reluctance to change has meant starting a new decade playing catch up. Nimble newcomers are at their heels.

The stakes are high. The financial services industry is pivotal to the UK. According to Global Legal Insights it employs around 1.1 million people and delivers around 7 per cent of UK GDP.

It needs to be flexible and quickwitted to compete in increasingly competitive global markets.

We can define much of the change we saw in the latter half of the 2010s as "digital transformation". This phrase has been in use since the 1970s, but today it has new significance.

This report will explain what digital transformation actually is. It will examine how far the financial services industry has come in the process and look in depth at some of the key challenges it brings.

We consider some of the main concerns around digital transformation and its impact on companies, and share best practice and examples.

At the same time we look to an exciting future, asking how financial services companies can ensure their technology infrastructure, skills and plans are fit not only for the challenges and opportunities of this new decade, but also for the next. Those companies that succeed in digital transformation will reap the rewards.
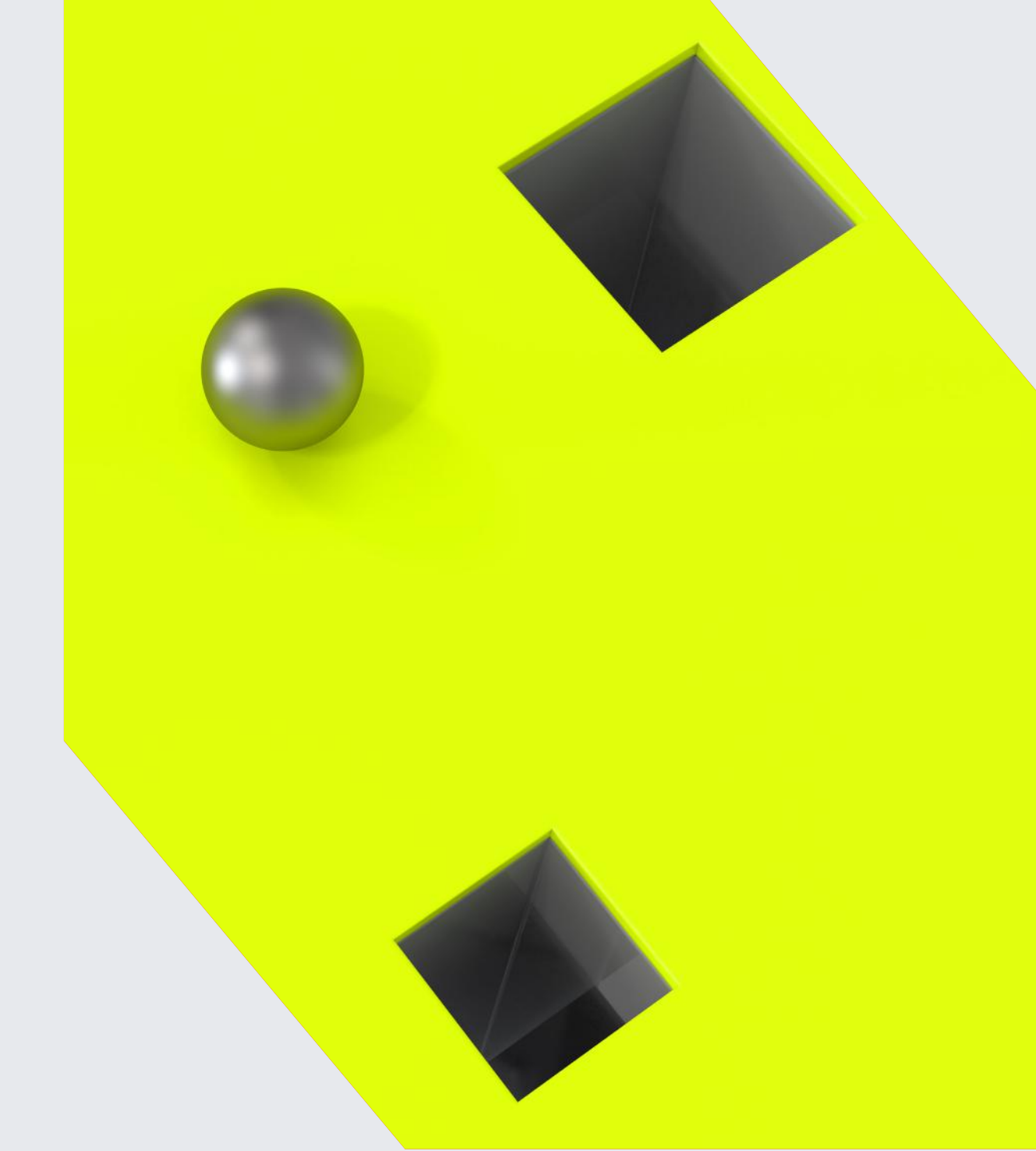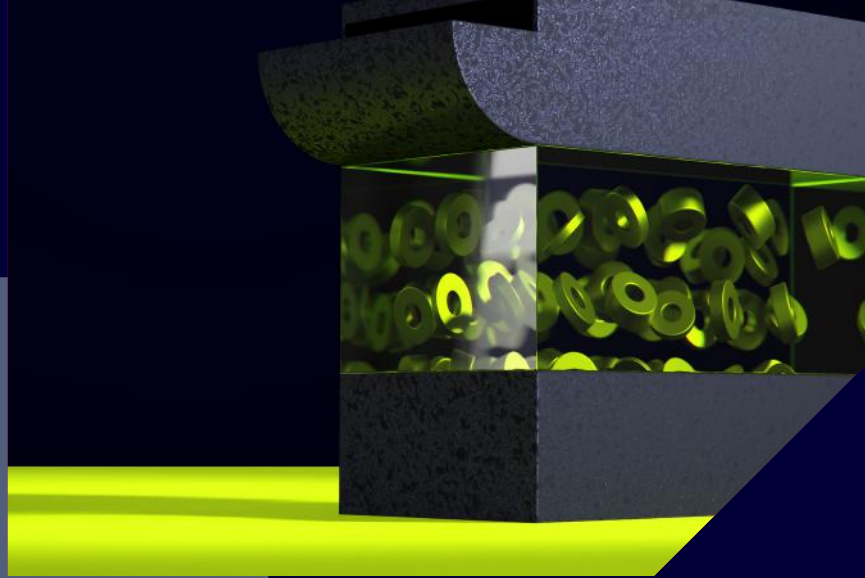
What is digital transformation?

At its heart, digital transformation is the use of new, fast and frequently changing digital technology to solve business problems. Invariably the starting point is the replacement of legacy IT infrastructure by more nimble and effective solutions.
It involves strategy discussions which in turn spark debate about software and hardware solutions. This leads to the implementation of the solutions, from the research and testing to the final roll out and ultimately the education of the workforce.

If done properly, digital transformation has many benefits. It can increase productivity by allowing companies to ditch time-consuming processes. It can hugely increase workforce flexibility, enabling employees to work in different ways, with which they feel more comfortable.

Customer relationships also benefit. The process delivers new and ever more accessible ways of enabling and improving customer/business conversation. One measure of how successful digital transformation has been is that the customer is almost unaware it is happening.

It is happening everywhere, too. According to IDG's yearly State of the CIO report, in 2019, 40% of technology spend was earmarked for digital transformation. The pandemic accelerated this, with the 2021 report showing that 82% of CIOs had implemented new technologies, IT strategies and/or methodologies as a result.

What impact has cloud computing had on digital transformation

Much of the original discussion about digital transformation focused on the role of cloud computing and how companies accessing services such as Microsoft Azure or Amazon Web Services (AWS) could be revitalised by the flexibility and reliability on offer.

As Ryan Langley, chief technology officer at Atech explains: "Microsoft and AWS took a big increase in financial service businesses around 2016 when the Financial Conduct Authority (FCA) released guidelines around compliance in the cloud and supporting adoption to public cloud services such as AWS.

"This was the catalyst for a lot of development within the finance sector. We saw a lot of smaller digital-only banks starting to grow and indeed to change the way that people use banks. How often do people go into banks these days? Not very often." Now though, many chief information officers (CIO) see that digital transformation also entails integrating tools – some of them powered by Artificial Intelligence (AI) – as well as keeping a watching brief on emerging technologies such as blockchain and 5G.

# Does digital transformation **differ according to industry sector?**

Arguably there isn't a huge gulf between the trajectories of digital transformation in different sectors. So, for example, digital transformation in a financial services company has much in common with the comparable process in a media company. The challenges and pain points are shared – from technical problems which could disrupt day-to-day business, to achieving buy in from the staff. As too, most probably, is the creation of a new set of datadriven opportunities.

If there is one key way the experience differs for the financial services industry, it is regulation – a subject we will explore further in this report. Financial services are more heavily regulated than most. To undertake digital transformation, companies need to be fully aware of whether their innovations will comply with industry privacy and data management regulations.

This is clearly an exciting time to be working in the financial services industry; yet it is also a challenging one. Digital transformation can touch every area of a business, impacting skills, technology, business opportunities, processes and working practices.

What are the benefits of digital transformation?
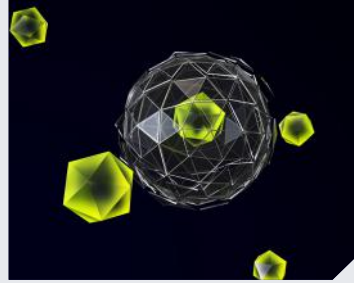
Digital transformation can deliver significant competitive advantages on many fronts. It can simplify office structures, enable companies to adopt efficient and intuitive software and deliver innovative and effective customer service systems.

A recent report from the MIT Center for Digital Business concluded that companies that have embraced digital transformation are 26 per cent more profitable than their average industry competitors, enjoying a 12 per cent higher market valuation.

Digital transformation creates new opportunities for companies. It can propel companies into new areas, enabling new revenue sources and, in some instances, new structures for their businesses.

Companies that don't undertake a digital transformation run the risk of being left behind. So why aren't all companies embarking on this journey? Reticence may stem from companies not believing that their businesses are under threat.

Last year Dayne Turbitt, senior vice president UK and Ireland at Dell EMC UK, declared that UK businesses have their "heads in the sand" when it comes to digital transformation. He backed up his view with statistics from Dell's second annual "digital transformation index". This showed that only 27 per cent of UK respondents believed they would be disrupted and only 22 per cent believed their business would become obsolete within five years.

Digital transformation is often highly customer centric. In the financial services sector it might, for example, build the ability to design and digitise customer journeys, enabling the creation of web services and apps. The easier access to data can give customers faster and more detailed figures on which to make their financial decisions. At Atech we have seen digital transformation deliver significant competitive advantages for our clients.

Case study: Bravo Investment House

Bravo Investment House is an integrated property investment, development and management company, offering investment advice, finance sourcing and management for more than one million sq ft of residential, commercial and hospitality assets.

It is an innovative company, always seeking new markets, trends and ways to add value, for example by turning around distressed assets or applying forward-thinking financing solutions.

The company sometimes found its ambition thwarted by regular performance issues in its on-site legacy infrastructure.

Bravo chose Atech because of its experience in cloud migration and its Microsoft Gold Partner accreditation. The resulting proposal combined the technical plan with a business case ensuring there would be return on investment.

The key innovation was to introduce an intelligent cloud platform, in this instance via Microsoft Azure.

This was allied to the available features in Microsoft 365. Files and folders were migrated to SharePoint and OneDrive with governance and security implemented through Enterprise Mobility + Security and Windows 10.

This meant that tools and applications were made more useful and flexible but were already familiar to staff, thus easing the process.

Migration to the Microsoft Cloud has significantly enhanced Bravo's technical capabilities and expansion. It now boasts a single, business-wide platform supporting multiple offices throughout the UK and enabling efficient collaboration and the sharing of resource costs.

Roy Eden, chief operations officer at Bravo Investments, says: "Bravo partners with Atech to help us achieve our vision and business goals. What impressed me the most about Atech was the service they delivered. They're experts within Microsoft cloud technology and they always deliver on time and on budget."

What staff and skills do you need to

undertake digital transformation?

To implement a successful digital transformation programme, companies need a highly focused leadership team that can carry the rest of the company with them – from the board to the employees.

Some companies have the skillsets and expertise to deliver digital transformation without either tweaking management structure or working with partners. They are the minority though.

In particular, digital transformation has tended to significantly expand the brief of the company CIO. Traditionally, this role would have been focused on issues such as infrastructure maintenance and compliance. More recently it has become increasingly aligned with business issues. A CIO must now look at his or her company holistically, asking how technology can be used to improve business outcomes.

This process may even go so far as to transform the company itself into a technology player. CIOs have become a conduit between the technology, management and the workforce.

Digital transformation can also create new C suite positions. An increased role for technology has security implications. Some enterprises are responding to this by creating roles for chief security officers (CSO).

There are other new roles, too. "In most instances digital transformation also entails the digitisation of a large volume of data," says Langley. "This has led some companies to create a management role for chief data officers (CDO), with responsibility for managing data warehouses and lakes, as well as working with the CIO on new business opportunities."

What role can virtual executives and workforces play in digital transformation?

Digital transformation doesn't only create opportunities in the management team. It can also be used to restructure the way technology is managed.

Talented CIOs with a high level of knowledge and experience are highly sought after – and expensive. The result is the emergence of the virtual CIO. This sees either a contractor, or more likely a partner company, effectively taking on the role of the CIO.

A virtual version does the same job as a permanent in house counterpart, delivering strategic consulting services and cost analyses regarding information technology and cloud infrastructure.

Virtual CIOs can also play an important role in business restructuring, particularly in small to medium-sized firms with limited IT expertise. The advantages of partner companies are not limited to the role of CIO though. In recent years working with consultant-based external DevOps teams has become an increasingly popular way to build, test, and release software more quickly and more reliably. Such teams combine software development with management of IT operations and can fill a skills/expertise gap that is missing in a business.

To maximise the benefits of such arrangements there is groundwork to be done, which for many organisations was accelerated by the pandemic. Companies needed to adopt flexible working processes quickly, to enable specialist staff to work remotely. This may have been done at the expense of security practices and IT spend, both of which are currently in the spotlight.

Here, too, we see that one aspect of digitalisation is identifying the most effective, secure and intuitive tools that company employees or contractors can use to communicate. Recent years have seen the growth of messaging tools such as Slack, which make it simple for groups to keep in contact, as well as task management tools like Trello, Asana and Basecamp which enable group leaders to monitor and manage large numbers of team members.

What is the impact of start-ups on digital transformation?

Some companies choose to speed the process of digital transformation by working with, or even acquiring a start-up. Digital transformation is an intrinsic part of most start-ups. They are constantly looking for ways to be faster, more agile and more competitive.

They have had a profound impact on established companies. In financial services for example, the new breed of challenger banks such as Monzo and Revolut has embraced the customer centric approach. Through innovative mobile-based interfaces (chatbots, voice messaging and social media messaging) they have taken on Open Banking and made both data and insight easily accessible to their customers. These innovators are showing bigger enterprises how to harness digital technology to create lower friction customer services.

Working with start-ups is now common practice for the financial services industry, as long-established organisations such as banks seek to harness the technological innovation of more nimble challenger companies.

Many UK banks have worked with start-ups on an informal basis and several have accelerator programmes, such as Barclays Accelerator and NatWest Entrepreneur Accelerator, which nurture start-ups. Integrating the culture of a start-up into an existing company always brings challenges though. And both CIOs and human resources managers must work together to lead the way and find the right solutions in such partnerships.

How do you build successful partnerships?

For companies undertaking digital transformation by working with technological partners such as Atech, the key lies in building a symbiotic relationship between the two parties.

Suppliers want to be a partner to the firms that they are working with. This means understanding their business, understanding their requirements and highlighting the technologies that can help them to digitally transform.

As Langley explains: "It always works best when we are a true partner. Then there's no hiding, no giving only half the picture."

For both parties, he says, confidence is key. "You need to really trust your partner and make sure they understand what you're trying to achieve. Make sure they know you're aligned in what you're trying to deliver."

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What cultural issues might digital transformation cause?

One key challenge that companies face in executing digital transformation is that it often requires them to look again at their culture and people. This means that younger staff often play a significant role in the process.

It would be gross simplification to state that one demographic works in one way and a different demographic in another. Yet it is fair to say that Gen X (those born between the early 1960s and late 1970s) has grown up with technology that was often a challenge. On a basic level, having grappled with tricky-to-use software, not always helped by unreliable plug-ins, those of Gen X are often culturally inclined to find a way of working and want to stick with it.

Conversely millennials, who will soon make up 50 per cent of the workforce, have largely been blessed with technology that has worked consistently and effectively. They expect and reach for tools and applications that enhance their life. They naturally look for the same level of accessibility and ease of use from technology in the workplace. For them reading and understanding data is second nature.

Clearly there can be real tension if digital transformation is not thought through and executed sensitively and correctly. If the plan isn't effectively communicated to both senior management and the workforce in general, it will fail to have the desired impact.

This is where real commitment from a far sighted management team can pay dividends. If the CEO, CTO and CIO are all visibly engaged in the process of digital transformation, engaging the wider business in initiatives and projects, it is easier for the next tier of management to reinforce that message. This ultimately encourages the rest of the workforce to get on board.

"Digital transformation needs to be led from the top and visibly supported from the top," argues Langley, "but also frontline workers need to be empowered to have their say because that's how you start to change the culture within the business, to make it more receptive to innovation."

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How does digital transformation impact on **questions of compliance and security?**

Compliance and security are a key element of the journey to digital transformation. Companies must ensure that whoever they work with in this process understands the framework in which they operate.

In 2016 the Financial Conduct Authority (FCA) gave approval for companies to start using public clouds as an option for data storage. This was one of the key steps on the path to digital transformation in the financial services sector.

Yet with this development came a set of new regulations to which companies must adhere. Both the tech companies providing hosting services and the third parties advising companies on digital transfor-mation are able to offer advice on compliance.

Atech is a gold Microsoft partner. As Langley explains, "We are therefore able to offer detailed guidance around how to become fully FCA compliant within the Microsoft ecosystem. We are constantly looking at the FCA framework and risk assessing the services we offer."

There are, in fact, many frameworks that companies can use to handle security. Atech uses a risk-based one. "Whichever option a company chooses must be as robust and up to date as possible," says Langley. "This might include two factor authentication, advanced threat detection, mail protection and firewall generation. The process is about making sure that companies have measures in place to ensure that security is taken seriously."

Security is an everchanging landscape. It is unpredictable. No one knows with certainty what the next attack will involve. Of course, tech firms and financial services companies must watch the space obsessively.

A recent Microsoft security intelligence report highlighted that phishing detections rose 250 per cent between January and December 2018. It noted that attempts to access accounts via password change request emails and highly plausible-looking messages asking for the transfer of cash are both on the rise. Mostly, though, it is the role of technology service providers and partners to stay abreast of threats and landscape changes and to advise clients on the most suitable forms of action. These organisations can identify and respond to threats at a much faster pace and in a more informed way than their clients.

Yet technology is only part of the story. As Langley explains: "Employees company-wide need to understand potential security threats and to be trained in how to respond to them. The cloud space has notably had to react – and has done so robustly – to a spate of phishing attacks. Staff must know the processes so that if they become aware of threats they can report to the appropriate person.

"They also need to be aware of how to spot phishing emails. One sign is that they often ask you to do things quickly, such as 'make this payment today'. Staff need to hover over links too so that they can understand where they are going."
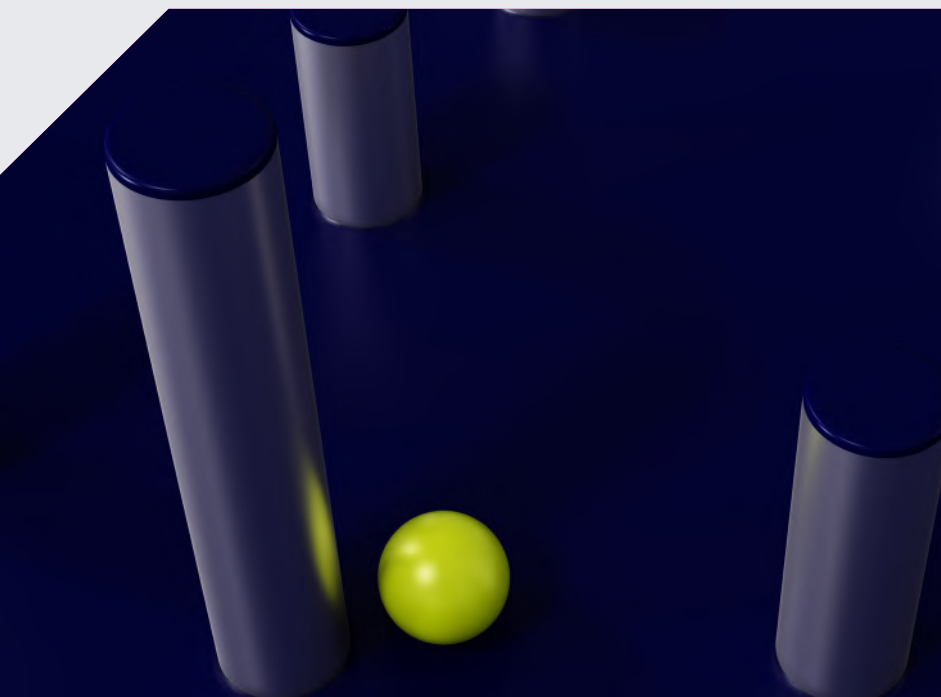
Case study:
Octopus Investments

Octopus Investments is an 800 strong organisation with a market leading position in tax efficient investment, smaller company financing, renewable energy, and healthcare.

Despite its success, the company's data centre provision didn't match the needs of a rapidly expanding and diversifying, yet highly regulated financial services business. Data management was becoming a significant problem. The legacy technology wasn't sufficiently flexible to meet emerging challenges and opportunities.

The company enlisted Atech to work with its in house tech team on a solution.

Ryan Langley, CEO at Atech explains the process: "We worked as a trusted adviser with Octopus, determining its longterm data centre strategy while making recommendations as to the providers with which it should work."

Atech's considerable experience informed the shortlist of providers reflecting the range, capability and options in the marketplace.

"Our extensive knowledge of the financial services industry coupled with practical insight into Octopus's business objectives made the process efficient, effective and mindful of the wider requirements of the business strategy," says Langley.

Tcha Wilson, CIO of Octopus Investments adds: "Atech allows us to focus on our bigger IT issues and strategy, rather than getting tangled up in and frustrated by the day- to-day problem solving of user needs and issues."

"Working in partnership with Atech has has revolutionised Octopus's data centres and leaves us flexible and ready to meet any new business or regulatory requirements."

What are the key innovations that will drive digital transformation in the future?

There has sometimes been a rather naive view of digital transformation as a process with a beginning and an end. This patently isn't the case. As new technologies emerge, with the potential to give businesses an edge, they too must be incorporated into systems.

In many organisations discussion around digital transformation was fuelled by the possibilities of harnessing cloud-based systems. This often remains the primary driver of digital transformation but it isn't the only one.

New tools are constantly being developed by both existing enterprises and by start-ups, which can rationalise processes and save businesses time and money. In some instances they leverage AI to collect and crunch data and to deliver easy-to-understand results, often replacing hours of mundane work for individuals. AI is already playing a crucial role for some companies in middle-office functions, detecting and preventing payments fraud and enhancing anti-money laundering (AML) and know-your-customer (KYC) regulatory check processes.

AI has also led to the creation of what has become known as "conversational banking", as both established banks and start-ups adopt innovative customer focused chatbots and voice assistants to simplify customer service, meet the expectation of tech-savvy millennials and develop deeper relationships with customers.

The stream of AI innovation is likely to turn into a flood in the coming years, given the huge investment in AI. This was expected to total $35.8 billion in 2019, according to IDC, a 44 per cent leap from 2018. Meanwhile, 31 per cent of companies have invested in AI in an effort to get ahead of the competition, reports Accenture.

Yet choosing the tools that are right for a business, introducing them to a workforce which may be tired of changing processes and managing them effectively requires real vision and diligence on the part of the CIO.

On the horizon is a bundle of new technologies which may force CIOs, and indeed entire company boards, to reconsider the role of technology in their organisations anew.

Then, a few more years down the line, Quantum Computing could take the AI-based tools that have emerged in recent years to completely new levels, adding layers of intelligence and potentially creating new revenue sources.

For many companies ongoing digital transformation is driven by a partner relationship. Partners such as Atech will be able to advise, educate and help to move their clients for-ward. Changes to company culture, driven by digital transformation, may see insights shared from different parts of the business.

Through digital transformation, companies will also unlock their data. This may well have a profound, and sometimes surprising, impact on the business. There is already a growing list of companies that have harnessed data to take their business in new directions. From Volkswagen's new car sharing service to Lego's expansion into content, many innovations and emerging business models have begun with digital transformation.

In conclusion: A continuous journey
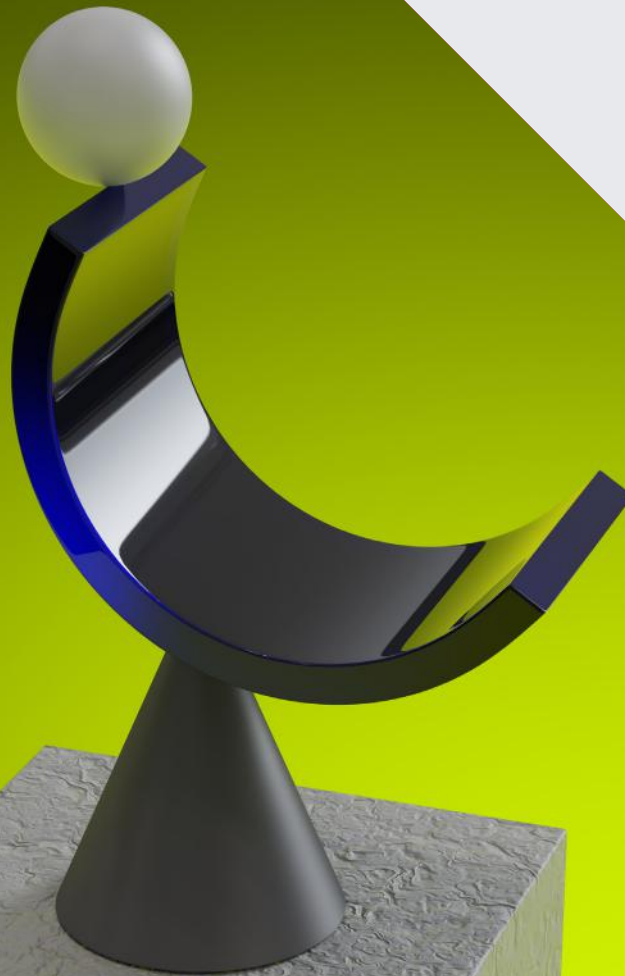
The rapidly changing nature of technology has created significant opportunities for far-sighted companies – from increased productivity and workforce flexibility to improved customer communication and new revenue streams.

Yet, at the same time, if businesses don't keep up with the innovation they run the risk of being left behind or succumbing to ambitious, disruptive start-ups.

Digital transformation is a permanent journey. Financial services companies cannot stand still. Understanding the challenges of and the reasons for digital transformation is key to success.

There are clearly risks in embracing digital transformation. But the biggest risk of all is not to do it.

Would you like to create the next version of your business?

Atech is on a mission: to deliver great service throughout your entire IT journey. Our strategists will help you identify the right technology for your needs, while our expert engineers will implement it for you with the minimum of fuss. And our service addicts are there for you every step of the way, taking your calls, addressing your problems, and generally making sure it all runs without a hitch.

Our Approach
At Atech it's all about you. We'll work hard to understand your business goals, then deliver and support the IT systems to get you there. We're not tied to any particular ven-dor or methodology; we're just here to help you get the technology you need…

A Partner That's Always There

With Atech Support, you'll get a bespoke service throughout your technology journey from the ground up. From the first day we sit down together to understand your goals, to the time and care we put into supporting your systems long-term – Atech is your trusted partner.

We make it our business to enhance your business using five simple steps:

Understanding
We know technology moves fast. The IT solutions that worked for you in the past may not meet your needs today – let alone in the future. It could be time for a digital transformation. We'll take time and care to understand your business, how you operate today and where you need to get to.

Advice
Once we have that insight, we'll put all our effort into devising and proposing a cloud solution that supports your business – and your people – to achieve your goals. There's a lot of choice out there so we'll simplify your technology options and work with you to get the right fit.

Implementation
When we've agreed an approach, our engineers will implement the solution with maximum speed and minimal fuss. If it involves procuring the correct kit, we can take care of that too. Our clients often comment on our efficiency, speed and attention to detail.

Support
Our work doesn't stop once your new systems are up and running. We'll agree a bespoke support Service Level Agreement (SLA) based on your requirements and our Service Addicted support team will always be there for you when you need them.

Repetition
Business never stays still, and nor does technology. We'll continue to support you through periods of growth, change and expansion – becoming your long-term IT and technology partner. Let's partner up.

What impact do regulation changes have?
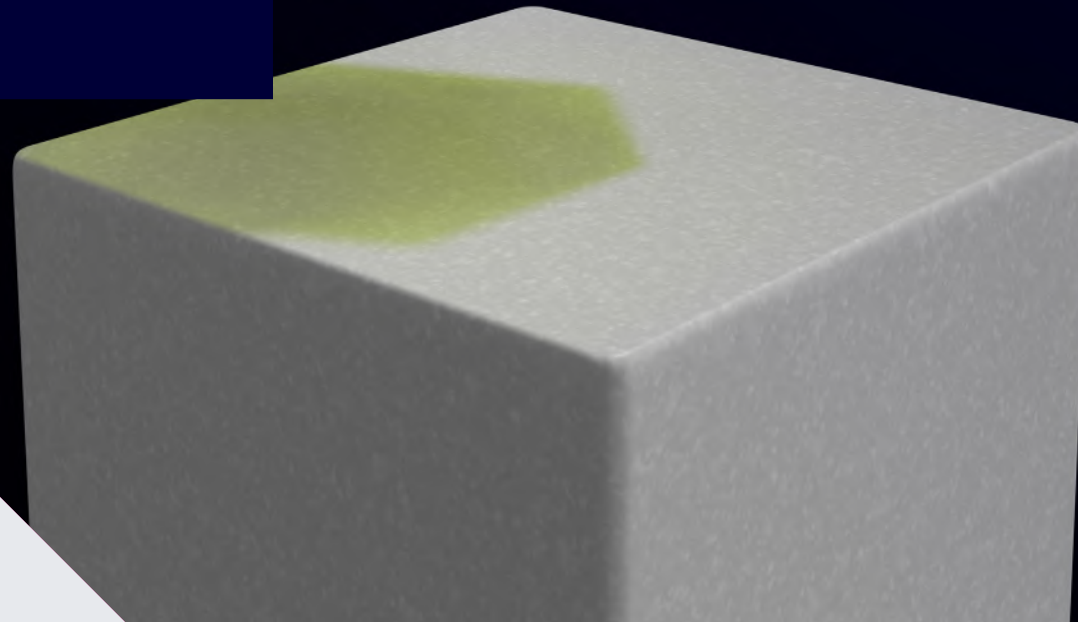
Partners can also help their clients navigate regulation. A good example is privacy an issue that has driven lawmakers in recent years. We are now seeing how GDPR has taken effect in Europe and how its influence is seeing other countries and regions across the world considering similar frameworks.

In the UK the situation has, of course, been further complicated by Brexit. It is not yet clear whether regulations driven by the EU will remain unchanged in the UK, or whether the country will adopt different measures.

These types of regulation have a significant impact on how businesses behave and on the kinds of initiatives they put in place.

The evolving regulatory landscape often plays a key role in the way that Atech works with its clients.

" Employees company-wide need to understand potential security threats and to be trained in how to respond to them. The cloud space has notably had to react and has done so robustly to a spate of phishing attacks."

Atech

Get direct access to
one of our consultants

Explore how to drive security performance and value
from your technology investment.

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