A REPORT ON THE SAP FINANCIAL SERVICES FORUM 2017

FROM FINEXTRA AND SAP

SEPTEMBER 2017

WINNING IN THE DIGITAL MOMENT

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01

FOREWORD

WINNING IN THE DIGITAL MOMENT: CUSTOMER CENTRICITY IN FINANCIAL SERVICES

By Laurence Leyden, General Manager, Financial Services, EMEA, SAP

We all understand the financial services industry is undergoing unprecedented change but many participants are unaware of the fundamental nature of what's unfolding and of the stark impact on organisations, people and customer relationships. The wave of digitalisation and changing balance of power in favour of the customer that has swept many other industries is now breaking on our shores. Many are unprepared for the magnitude of the impact. Digitalisation represents a fundamental shift for the industry: much of the technology, products and services that are now being discussed simply didn't exist three years ago, and what's to come has even more implications for business models and cost of operations. Responding to this shift by remaining in a fixed mindset of 'we don't do things that way' is not an option for the financial institutions that want to survive and remain relevant.

Will the industry be fit for purpose in this rapidly changing digital world and win in the 'digital moment'? The answer is 'it depends', but success will not be merely about automating and smartening existing processes. Rather, success will require a fundamental change in the relationship with customers, a change of business models and a full understanding of the connected nature of business and technology. Digitalisation puts power in the hands of customers, giving them access to everything they need at the point and time they want to consume it. Digitalisation also gives financial institutions the ability to predict what people need as well as self-regulate and remain secure; this is the true meaning of customer centricity. Most of us in this industry are nowhere near achieving this and in many cases are nowhere near understanding how banks and insurers must be reconfigured in the future. This is the case both as it relates to the value chain within financial services organisations and even more so with regard to connecting to the value chains of their customers.

Financial services institutions must transform into digital, customer-centric businesses. The journey needs to include relevant and executable strategies to:

- Understand the importance of the human element in digital transformation
- Rethink and rewire business models
- Enable innovation and collaboration at speed
- Embrace disruptive technologies such as Artificial Intelligence (AI), Machine Learning (ML), Internet of Things (IoT) and Blockchain

People – both customers and members of staff – will be the success factor in the digital world. Successful organisations will fully empower their own people and will understand the importance of orchestrating and transforming their businesses into true digital customer enterprises. At the top, senior management must understand what digital transformation can deliver, and more importantly, drive this message throughout the organisation. As the power shifts to the customer, financial services firms must not just execute transactions, but must integrate their offerings into their customers' value chains, enabling and enriching their lives and their businesses.

With the right technologies and the right people, financial institutions can develop new revenues and business models that are not just an update of existing practices. Increasingly, collaboration between financial institutions and fintechs or players outside our industry will become the norm as organisations recognise each other's strengths, embracing cooperation to provide the required level of service and stewardship in the provision of relevant and ethical financial services.

Given the rapid pace of change, innovation must be based on delivering agility and speed in operations, enhancing customer service and driving down overall costs. These are characteristics that are not usually associated with our institutions, but more commonly with fintechs or competitive industries.

Technologies including AI, blockchain, natural language processing, advanced data analytics, open APIs and the cloud are disrupting the financial services world. These technologies are now available for financial services institutions to experiment with and apply and will be imperative in delivering the scale of change needed to reconfigure our world.

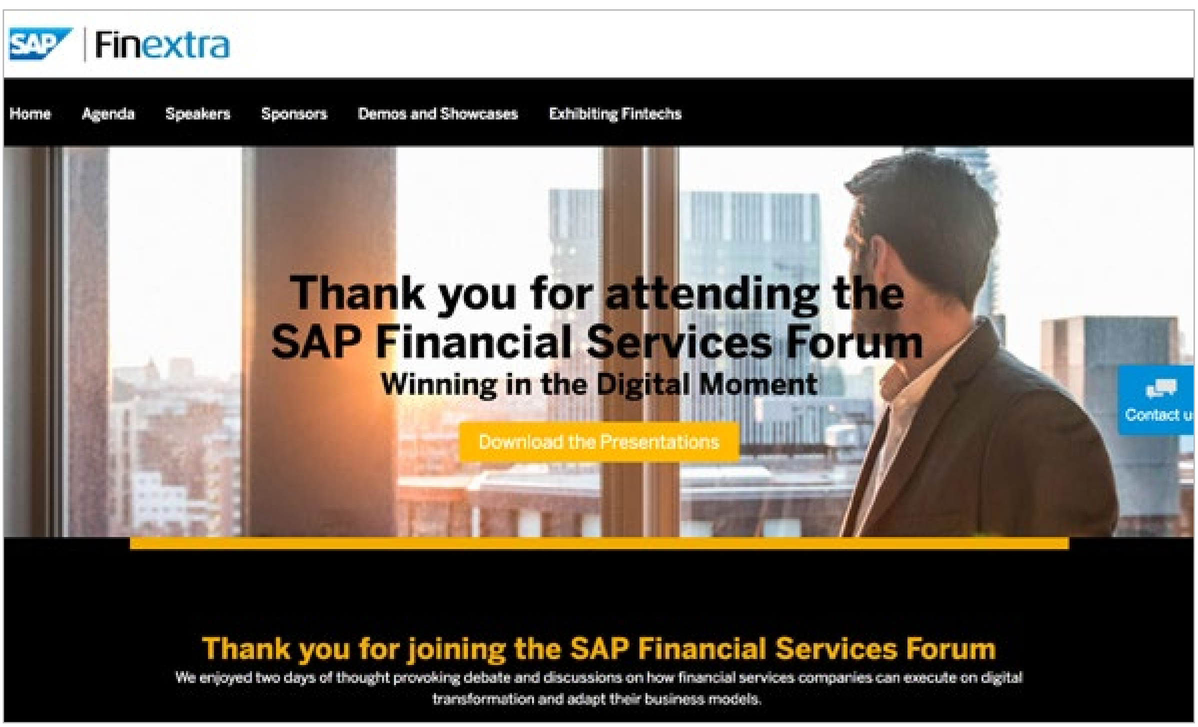
I challenge everyone to question whether we really are delivering the future our customers deserve – and increasingly demand – or are we just automating the sins of the past?

It's time to execute on your distinct digital vision and let your imaginations run, understanding that, perhaps, these are the new ways things should be done. Let's innovate for the future together. It's time to win in the digital moment.

02

SAP FINANCIAL SERVICES FORUM BRINGS THE DIGITAL VISION TO LIFE

In July 2017, SAP held its sixth SAP Financial Services Forum, bringing together more than 500 banking and insurance executives as well as our partners, analysts, journalists and industry luminaries to discuss how to best execute on the vision of digital transformation. Below is a distillation of the key themes and talking points. To view the presentations and recordings please visit here.



03

POWER TO THE PEOPLE: THE HUMAN ELEMENT OF DIGITAL TRANSFORMATION

To digitally transform, financial institutions must engage their workforces as well as their customers. To truly understand the needs of the burgeoning millennial segment, they should ensure they tap into this pool of digital-native talent, recruiting millennials across the organisation.

"Building a digital channel requires a different mindset," says Mark Adams, Head of Human Resources, HSBC UK. "It is no longer enough to recruit traditional retail banking people. We have to ensure that we find new pools of talent and build technology teams that can drive digital activity and create innovative ways to work through problems."

Banks and insurance companies are targeting millennials as a key pool of talent. Ashok Vaswani, CEO of Barclays UK, believes the key to recruiting millennials is to ensure the bank is solving societal problems, such as the need for a home or to live a comfortable retirement. Of the many banks that exist worldwide, the ones that should survive in the future will be those that solve a societal problem, that help people to move on in their lives. Increasingly, the millennial generation is attracted to such organisations as employers. Joe Van Niekerk, CIO at Discovery Vitality, agrees: companies that act in a socially responsible way will do well, he says. Customers are often prepared to pay more for services from socially responsible companies.

Not only has HSBC recognised the need to change the type of people it recruits, but it is also changing the way its staff are trained. At the board level, executives have been taken "back to school" to learn about the threats and opportunities of the digital revolution.

Underpinning HSBC's new approach will be a digital global HR platform. The development of the platform is a significant undertaking that involves 35,000 line-managers and 230,000 staff in 71 countries. "This project is enabling us to reset the relationship between HR, managers and employees," says Georgina Jarratt, Managing Director, Head of Transformation, HSBC. With consistent technology across the globe, the bank is creating a platform that is more efficient and "will enable us to do things differently".

"In a digital world, the biggest differentiator for banks will be the analogue channel. When customers come into a branch, banks must ensure they get great service. We are looking to combine high tech with high touch banking."

Suvo Sarkar, Senior Vice President and Group Head,
Retail Banking and Wealth Management, Emirates NBD

A culture of digitisation must start at the top of a bank to win the hearts and minds of staff and then customers, says Suvo Sarkar, Senior Vice President and Group Head, Retail Banking & Wealth Management at Emirates NBD. The bank deploys two 'digital ambassadors' at each of its branches, who encourage customers to use digital channels. More than 50% of the bank's customers are digitally active, and 92% of transactions are conducted outside of branches.

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MARK ADAMS, HEAD OF HUMAN RESOURCES, HSBC UK

04

COMBINING HIGH TECH AND HIGH TOUCH TO PERSONALISE BANKING

When it comes to bank customers, Barclays believes the future lies in personalised services. However, this will mean different things to different people.

By monitoring and measuring social media, transaction history and external information, financial services companies can anticipate customer needs in real time. Key success factors are:

- Evaluation and analysis of structured and unstructured customer data in real time
- Anticipating and offering products and services to match the exact customer needs.

A strong customer focus doesn't only reward the customer. By developing rewards-based programs to incentivise behavioural change, Discovery has created longer-lasting relationships with clients and lowered risky behaviour. In healthcare and motor insurance, the nature of risk is behavioural and therefore any approach that can change this behaviour will result in lower risks for the company.

Discovery has created a link between behaviour and outcomes for customers, rewarding customers for good behaviour. In its wellness business, it offers wearables such as Fitbit to track and reward behavioural change, such as increased exercise levels. In motor insurance, telematics assess driving behaviour. The company benefitted from the behavioural change, processing fewer accident claims. Also, customer churn was reduced as the rewards program created a personal resonance with members, which the company hopes will create long-lasting relationships.

"Artificial intelligence and machine learning will have a big role to play in improving customer interaction and experience, particularly in helping to supplement human decision making."

Arnab Chakraboty, Global Managing Director, Accenture

To engage the unengaged customer, says Moritz Zimmermann, Co-Founder Hybris and Senior Vice President, Pre-Sales at SAP Hybris, financial institutions should "work outside in", starting with the customer. This redefines the way institutions think about products. Millennials are becoming the largest customer segment for financial institutions, but as Zimmermann points out, their behaviour is very different from other customer segments. "Social networks are becoming the hubs of financial decision making. Financial institutions need to create wow moments in millennials' digital interactions."

Developing CRM systems that contain only names, addresses and account numbers are no longer enough. Other "soft factors", says Zimmermann, should include social media interactions. By integrating these interactions with machine learning, financial institutions can better personalise experiences and get intimate with their customers.

Arnab Chakraboty, Global Managing Director at Accenture, advises financial institutions to keep people at the centre of developments. Banks must be flexible in developing technology and IT architectures. People should be trained and reskilled to operate in the new environment that will be empowered by technologies such as artificial intelligence. "Technology should always amplify the skills of people."

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05

WHY BUSINESS MODELS MUST CHANGE

The pace of change – both of technology and of customer behaviour – is now so rapid that existing business models cannot keep up. Digitalisation has radically transformed other industries – in fact, 50% of Fortune 500 companies have disappeared since 2000.

The disappearance of what in many cases were once household names should "scare" banks, says Michael Leadbetter, Adjunct Faculty at Silicon Valley-based Singular University. "Financial institutions should be worried because other entities are coming for their business and they are thinking bigger." Financial services companies should not be solely motivated by the desire to avoid risk and regulation won't stop companies like Amazon getting into financial services.

Leadbetter advises that financial institutions should not just keep iterating a business model, but rather should make a fundamental shift and partner with, invest in, or acquire innovative companies.

Discovery Vitality changed its business model by transforming insurance – often described as a 'grudge' purchase – into a lifestyle scheme that is self-selecting, based on rewards and gamification technology. In developing products and services, the company has implemented "tough" deadlines, with products and services constructed around customer journeys.

"The insurance industry has also undergone radical change, as every step on the financial services value chain is under attack from new technologies, says Gerhard Lohmann, CFO at Swiss RE. Technologies such as drones can change the way companies underwrite, enabling the level of risk to be assessed remotely. Blockchain could create a 'land registry' for insurance risk, enabling companies to access data when they need it, changing the nature of risk transfer."

"As a bank, RBS is looking to combine our assets and technologies with those of other organisations such as fintechs to create new and unique services that are valued and trusted by our customers."

Kevin Hanley, Director of Innovation, RBS

Regulators are also a driving force in business model change. Kevin Hanley, Director of Innovation at RBS, says of the trend towards open banking: "Customers are demanding it, technology is enabling it, and regulators are enforcing it." Financial services will become more collaborative, open, competitive and customer-focused, and offerings will be unbundled and re-bundled. RBS recognises that it must be technically able and culturally willing. "Technically means better connected; culturally means in everything we do we have to be a radically different organisation than we have been historically."

The insurance industry has also undergone radical change, as every step on the financial services value chain is under attack from new technologies, says Gerhard Lohmann, CFO at Swiss RE. Technologies such as drones can change the way companies underwrite, enabling the level of risk to be assessed remotely. Blockchain could create a 'land registry' for insurance risk, enabling companies to access data when they need it, changing the nature of risk transfer.

Lohmann suggests three scenarios for financial services of the future:

- Version 1.1 – Risk taking will remain largely the same and distribution will still be driven by human interaction, but product development will change as more data becomes available
- Version 2.0 – Technology will drive fundamental change as products are adapted to digital disruption, while risk taking will largely remain as is
- Version 3.0 – distribution is fully digital and customised, products become highly adaptive and risk markets become decentralised.

The future, he adds, may lie somewhere between versions 2.0 and 3.0.

Collaboration as a new business model

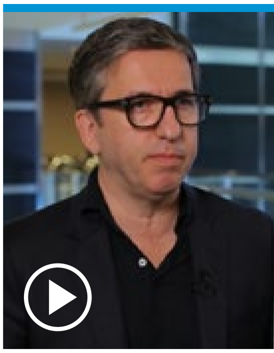
The future of financial services will lie in collaboration, rather than in competition. Leadbetter says financial institutions should be working with fintechs: "If you don't, they will chisel away at your business." Lareina Wang, Head of Innovation and Partnerships, HSBC UK RBWM, says banks have only one option in the digital world and that is to open up in technical terms what was traditionally hidden away – the bank's data. "We also have to open our minds to how we work with others."

Financial institutions are beginning to recognise the importance of working with fintechs, says Stephen Lemon, Co-Founder and Vice President, Business Development at Currencycloud, "but collaboration between the two groups is not as prevalent as it could be". Currencycloud has collaborated with challenger banks, but incumbents are much slower to recognise the value of partnership.

To deliver the right products at the right time to customers, banks must identify their core competencies and collaborate when they need to. Bhavesh Vaghela, Digital Product Owner, TSB, says there is no reason why his bank couldn't provide Barclays' car insurance products. For him, collaboration might involve "piggy-backing" off the products of fintechs or of other banks. The business models in a digital world will depend on the purpose and core competence of individual institutions.

Leading banks will differentiate themselves by combining their own bank services with services from other banks and third parties, including non-industry players, to provide outcome-oriented, customer-centric products and services. Open banking and APIs will further accelerate that by offering easier ways to connect with partners and customers.

> "Jarkko Turunen, Head of Open Banking at Nordea, says open banking is not solely about technology, but is also about culture. "This means we have to work outside our financial services walls and incorporate different cultures. I see technology as the 'easy' part of open banking."



“Fintechs can act as an innovation lab for banks, but collaboration will not be easy because of the different cultures. In the future, banks must organise themselves more like software houses. Banks must take aggressive steps to work with solutions providers to find the best solutions and applications going forward.”

Spiros Margaris, Advisor and Founder, Margaris Advisory

The key to success will be to participate in the value chain of customers. Jarkko Turunen, Head of Open Banking at Nordea, says open banking is not solely about technology, but is also about culture. “This means we have to work outside our financial services walls and incorporate different cultures. I see technology as the ‘easy’ part of open banking.”

Hanley agrees, adding that the winners in the future will be better-connected banks that transform from being traditional providers into end-to-end services aggregators of other entities’ offerings. This will also involve having the courage to leverage the distribution capabilities of others. “Financial services in an increasingly networked world will be a much broader proposition.”

06
INNOVATING FOR SPEED AND AGILITY

Much of the focus for financial institutions is innovating at scale and at high speed to remain competitive. Rob Hetherington, Global General Manager, Financial Services Industries at SAP, says the main reason innovation has become a focus is the complexity of financial institutions' 30-year old architectures. "Many people in the industry are spending most of their time just keeping the lights on. Much of the investment isn't in innovation, but in managing the day to day aspects of existing technologies."

This is where fintechs have an advantage, unburdened by legacy technology they have demonstrated a much better grip on the concepts of agility and speed than have financial institutions. Therefore, collaboration makes sense: fintechs have an established record of innovation, speed and agility while financial institutions have significant customer bases and the ability to scale.

Van Niekerk suggests that constant innovation and agility are necessary to stay ahead of the competition. Along with the software element of designing customer-centric offerings, there are also clinical, behavioural and commercial elements. The company ensures there is a common dialogue for people involved in any innovation so that they understand their priorities and responsibilities and can work towards a common goal. Aggregation of device data gives the company the agility it needs to respond to changing customer behaviour.

At Nordea, working in an agile manger includes speaking directly with customers, to verify product ideas. This enables the bank to create more targeted services. Nordea launched an open banking pilot program that attracted 300 companies, including start-ups, established fintechs and ERP vendors, in the first 72 hours. The bank saw the pilot as an opportunity to boost innovation, rather than relying solely on traditional inhouse development models. This is enabling it to be agile and to reduce time to market.

A practical example of the difference innovation can make is demonstrated in the creation by EY of an IFRS 17 solution for one of its insurance industry clients. EY implemented SAP for the finance function, including a new subledger, S/4HANA for the general ledger and new implementations of SAP solutions in reporting and analytics, and the consolidation system. Data technologies were used to accelerate the closing process of the firm, says Michele Ferrari, Partner at the firm. The company has moved from a two-day data processing cycle to one of 15 minutes. “Innovation in technology allowed this company to make a difference in its closing process. By using new technologies, the company has the ability to process much faster and achieve real-time reporting.”

“Many people in the industry are spending most of their time just keeping the lights on. Much of the investment isn’t in innovation, but in managing the day to day aspects of existing technologies.”

ROB HETHERINGTON, GLOBAL GENERAL MANAGER, FINANCIAL SERVICES INDUSTRIES, SAP

07
REIMAGINING TECHNOLOGY – TAKING ADVANTAGE OF DISRUPTION

Disruptive technologies such as AI, ML and IoT are now available, proven and cost effective. Financial institutions need to explore and unlock the power of these technologies, using them to rewire their business models and processes, rather than merely applying each of these technologies to an existing function or process. Large software companies are taking to market innovation platforms that include next-generation technology, which enable financial services institutions to innovate fast and at scale.

“AI is now the single biggest technology revolution,” says Accenture’s Chakraboty. “The technology is improving and the cost of computing and storage is also coming down. This has made AI real, scalable and robust.”

Since 2006, patents based on AI have increased fivefold and $14.9 billion has been raised in equity funding for AI projects since 2012. Much of the focus of development in AI is on services and how to engage customers, says Chakraboty. Firms are looking to build intelligent solutions to drive better customer care, fight fraud and lower risk. There is tremendous opportunity in financial services for intelligent automation, which augments human labour, he adds.

In financial services, some firms have introduced AI-based online mortgage advisers. The advantage of AI is that it can sense and comprehend different signals, translating them into rapid action. AI systems learn and thus keep improving. Specialised skill sets – such as mortgage or investment advice – can be transformed by augmented intelligence, providing solutions that are completely powered by AI. A customer will not always be aware that the online ‘adviser’ is an AI system, which can take the customer’s information and make recommendations. If the customer’s queries cannot be met by the AI adviser, the conversation will be transferred to a human advisor.

Distributed ledger technology and the blockchain also have potential to significantly disrupt financial services. In digital identity, for example, blockchain could provide an alternative to paper- or plastic-based means of identity.

"Banks have always been early adopters of new technology; the idea of experimenting with and embracing new technologies is something they do naturally. Every major software company now offers a set of tools and platforms that can be applied and adopted easily and cost effectively to help banks to adopt advanced technologies and move quickly to scale."

Rob Hetherington, Global General Manager Financial Services, SAP

Margaret Doyle, Head of Financial Services Research, Deloitte North West Europe, says using blockchain to create a 'smart identity' for individuals will mean that only the element of identity required for verification needs to be revealed. There are also applications in capital markets, such as smart contracts and in clearing and settlement, where many inefficiencies still exist, she adds.

"We think that clearly there are opportunities across financial services for fintechs, perhaps most profoundly over time in insurance, but most immediately in banking."

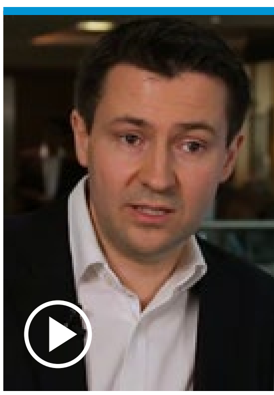
Margaret Doyle, Head of Financial Services Research, Deloitte North West Europe

A technology that has much more tangible prospects is machine learning. Hetherington says several banks and insurers have developed and used robotics-based systems for customer engagement during the past two years. This is now being extended into scale ML projects across a wide range of functions, including customer engagement. A relatively simple technology, ML drives cost reduction by automating processes and reducing costly manual overlays and processes. While many of the applications of ML are focused on process automation, some firms are applying the technology to sales and marketing, driving greater customer insights by better understanding patterns of customer behaviour.

In the PSD2 world, according to Michael Says, Chief Executive at a challenger bank about to launch in the UK, successful banks will be those that embrace the use of data. “In PSD2, banks will reinvent themselves to a certain extent. They should be worried about companies such as Alipay, Amazon and Apple, which control a large percentage of the financial transactions going on in the world. Financial institutions should leverage the data they have; that will be key to competing with these companies.” By leveraging data, banks can better know their customers and in turn build better customer outcomes. In the past, some customers have felt that large banks have tried to “trip them up”, through the imposition of penalty fees, for example. By using data, banks can help customers to avoid this, alerting them to when they are spending too much. “Customer service is all about timing. The incumbents have this data, but they don’t use it. Data analytics will help financial institutions to reach their customers with a product they need at the right time.”

Gerald Grattoni, Head of EMEA Financial Services Solutions at Intel, says advanced analytics give financial institutions the tools to meet challenges they face in compliance and regulation, customer engagement and cybersecurity. Analytics will help to drive efficiencies in compliance, improve customer engagement and enable early detection of internal and external cybersecurity threats.

The integration of open APIs into financial platforms will be the “biggest change in financial services in a generation”, says Currencycloud’s Lemon. “APIs can enable an Einstein moment for some banks, which will transform to become platform providers.” By implementing open APIs, these platforms will consume many banking services in a marketplace-type ecosystem. Such an ecosystem will make it easier for fintechs to build applications on top. Banks can embrace this and benefit from it, but if they try to resist this model, they will struggle to stay relevant.



“In customer engagement, advanced analytics will provide an amazing experience for customers, enabling institutions to get much closer to them and become true trusted advisers.”

Gerald Grattoni, Head of EMEA Financial Services Solutions, Intel

Cloud as the platform for the future

Cloud computing is rapidly becoming the default IT strategy for firms; analysts Gartner predict that the worldwide public cloud services market will grow by 18% between 2017 and 2020 to a market size of $246.8 billion. The attraction of cloud technology lies in its ability to give access to data, applications and services over the internet. It eliminates the need for costly hardware, and servers and gives users the ability to work from anywhere.

In building the insurance company Troo, Ageas became one of the first companies in the world to build an end-to-end cloud environment. The Troo IT architecture has a basic layer at the bottom and an end-to-end cloud-based solution (SAP S4i on Hanna). The second layer is an e-commerce platform (SAP Hybris). On top of this is a customer-facing communication layer, with everything from the internet, mobile, the branch, contact centre, ATM, SMS, social media, email, printing and broker applications, for example.

“Cloud technology has provided us with a platform for the future,” says Hans Van Wuijckhuijse, Regional Director, Business Development at Ageas. “This gives us access to any of the data we gather as a company, which will enable us to fully use all of the capabilities of the devices, such as smart phones, that our customers use.” By being cloud based, the company can integrate with everything, gather data and use machine learning to make more relevant pitches to customers.

Another insurance company, Munich Re, has also used cloud technology to improve customer outcomes. Marcus Winter, Head of Reinsurance Development, Munich Re, says the company is looking at cloud to enable it to work on different models and use technology flexibly to connect with other players.

08
WINNING IN THE DIGITAL MOMENT

The financial services industry is being rapidly transformed by new technologies and financial regulators. To survive – and thrive – financial services institutions must:

- participate in their clients' value chains with a focus on high quality customer experience
- fundamentally rethink their business models
- digitalise the front and back office by embracing emerging technologies including AI, ML and blockchain.

09 ABOUT

Finextra

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