DIGITAL ACCELERATION IN BANKING, FINANCIAL INSTITUTIONS, AND INSURANCE FIRMS

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Overview

Banks and financial institutions have weathered the storm of the pandemic, but they now must focus on modernizing outdated processes if they want to accelerate their journeys toward becoming digital enterprises. Insurance organizations have also survived but are facing major operational challenges due to the pandemic and natural disasters. Both financial institutions and insurance organizations are feeling the effects of the recent unfavorable economic conditions driven by low interest rates and the economic downturn. Not only has this affected profitability, but it has increased the need to retrain and upgrade their workforce to adapt to a digital culture. This report examines the financial services landscape in detail and highlights the steps that banks, financial institutions, and insurers need to take to digitally transform their organizations.

The Aberdeen maturity class framework is comprised of three groups of survey respondents. This data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

- Best-in-Class: Top 20% of respondents based on performance
- Industry Average: Middle 50% of respondents based on performance
- Laggard: Bottom 30% of respondents based on performance

Sometimes we refer to a fourth category, All Others, which is Industry Average. Average A Laggard combined.

Economic Uncertainty Breeds New Business Challenges

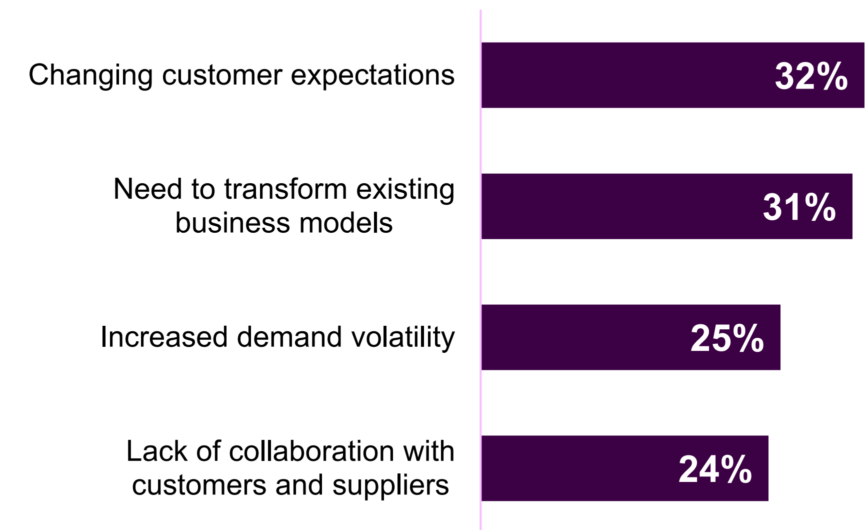
The economic conditions affecting banks and financial institutions today stem from low-lending margins and rising loan defaults caused by the shutdowns, and continue to affect organizations as they strive to regain their profitability and map a path forward through the aftermath. For insurance firms, low interest rates, equity market fluctuations, and new regulatory requirements have created challenges for employee retention and recruiting. Financial institutions need to meet these challenges by updating their technology infrastructure through the cloud and investing in advanced analytics to put the necessary tools in the hands of their employees. Infrastructure, cloud technology, and talent upgrades are several common areas affecting all financial service companies. These concerns need to be addressed so they can accelerate their digital acumen at the risk of being left behind as companies are preparing for the future.

Business Pressures Across All Financial Services

Beyond the obvious pressures of further disruption, the business-level pressures that companies are facing post-economic downturns are shown in Figure 1. Changing customer needs continues to be a factor across all businesses since everyone has been impacted in some way on the customer, supplier, or even partner side of their business. The nature of the changing expectations and the landscape of customer uncertainty also precipitates the issue of not knowing exactly how their business model might change going forward as companies move beyond recovery and prepare for growth.

These uncertainty factors significantly increase the level of volatility, as markets vacillate toward a new level of stability. Exacerbating the issue is the inability to interact with customers and suppliers, which has been limited to phone, messaging, and on-line video meetings for much of the past year. In-person meetings with customers and their management teams have been limited due to shutdown restrictions, and the same is true for the customer's customer communication.

Figure 1: Top Business Pressures that Today's Financial Services Companies Face Post-Economic Downturn



Source: Aberdeen 2021

The new stability level will become apparent as businesses and countries completely open, but that level is still somewhat of an unknown for most companies at this point. Even companies who have shown great resiliency may find that to prepare for growth they may also need to invest to adapt further to prepare for the future.

Lack of alignment between departmental budgets and company goals creates false priorities at the department level of the organization which are costly as well as inefficient.

Existing Financial Challenges for Financial Services Companies

Beyond the obvious pressures of further disruption there are fundamental areas of concern for financial processes as shown in Figure 2. Lengthy and resource-intensive processes slow down the time-to-decision, are inefficient, and hinder the timely flow of information. Lack of alignment between departmental budgets and company goals creates false priorities at the department level of the organization, which are costly as well as inefficient. This lack of alignment then makes it difficult to tie success to business process because there is misalignment in place to start with. Analytics are needed to show cause and effect analysis. Otherwise, the organization is flying blind, and potentially focusing on departmental priorities that might be at odds with company objectives.

Figure 2: Key Financial Challenges

Rankings based on % of financial services companies who indicated each statement as a top challenge

Source: Aberdeen 2021

Difficulty in completing the budget cycle is a function of too many manual processes and lack of integration and automation. It also indicates that the organization can't get to the proper analyses of their issues because of the all-consuming effort to just produce the numbers to create a budget. Having a lack of time and inefficient processes create a crunch to finish a budget, leaving no time to properly check and audit the results. This leads to errors and inaccuracies in budgets and forecasts. Inaccuracies create a lack of confidence in the data and the results. Decision-making is at risk and reworking the numbers is a common result.

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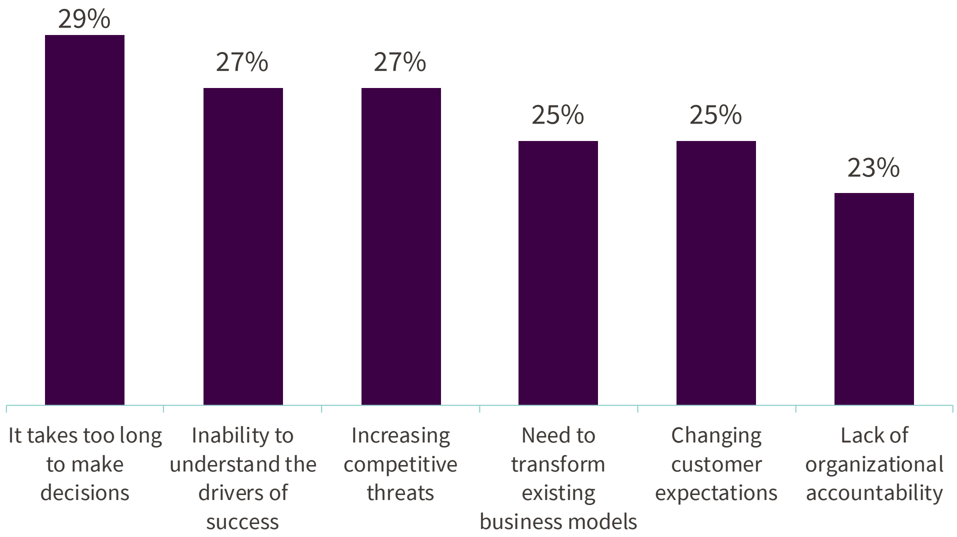
Banks, Financial Services, and Insurance Companies are Focusing on Financial Improvement Initiatives

Given the challenges that banks, financial services, and insurance companies face in fundamental back-office processes, it's no surprise that their performance in critical business outcomes lags behind. Figure 3 indicates the drivers behind the need to focus on financial improvement initiatives. The first – and one of the most devastating – reason is that it takes too long to make decisions, which is a function of lengthy manual processes, and lack of integration and automation.

Figure 3: Top Drivers for Financial Improvement Initiatives



Source: Aberdeen 2021

Unable to tie success to business processes indicates poor or no cause-and-effect analysis and lack of a cohesive budgeting model from top to bottom to provide visibility to business results, so a drill-down on results can occur. There is always competition, but when organizations fall behind on their ability to properly serve their customers and run their businesses, they become more vulnerable by comparison. Doing nothing to improve is not a viable strategy, while competitors are likely continuing their push toward digital transformation. Companies become more vulnerable by their passivity in not taking action. Speed and accuracy are the competitive tools needed to win. These tools can transform business models to address the "how" of all essential processes and assess the effectiveness of variable processes, while identifying and eliminating all waste as part of their review.

Dealing with changing customer expectations demands **agility** and **speed** for organizations to make decisions to compete with the competition. Lack of accountability is a symptom of too much manual manipulation to get the information as opposed to speed of information that creates more time for analysis and proper evaluation of cause and effect.

Digital Acceleration: Financial Technology Solutions

Technology adoption, cloud-based SaaS deployment, an intelligent data foundation, an active and continuous planning process, and a decision-ready organization create the framework for digital acceleration.

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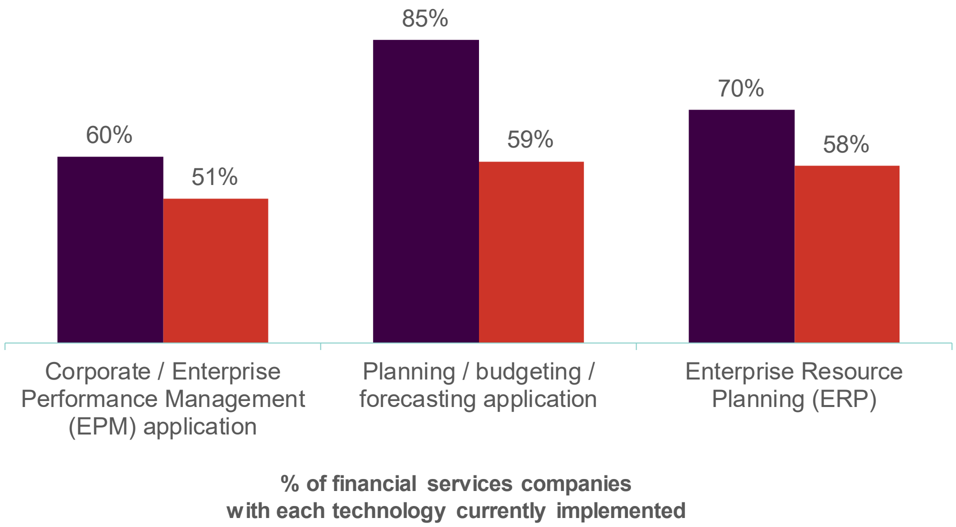
Figure 4 shows the technology adoption for enterprise level financial solutions. Best-in-Class companies have a healthy advantage over All Others in terms of their adoption levels. Most have an ERP system as a baseline transaction system, but the Best-in-Class are 17% more likely to have an EPM (enterprise performance management) solution in place and 44% more likely to have invested in planning and budgeting software.

Figure 4: Best-in-Class Technology Enablers



Source: Aberdeen 2021

The investment in these three solutions provides a strong competitive advantage in accelerating the digital presence and addressing the shortcomings that banks, financial institutions, and insurance companies are dealing with in their financial processes.

Digital Acceleration: Cloud Deployment for CPM/EPM Solutions

From an infrastructure perspective, to support digital acceleration, Best-in-Class companies lead the way in cloud-based SaaS deployments with 85% adoption compared to 59% for All Others, which further simplifies and accelerates their digital transformation through integrated solutions and standardized processes along with the latest technology updates that cloud enables. The sidebar on CPM/EPM adoption levels at the top of the following page provides the percent adoption levels for the Best-in-Class compared to the competition for cloud-based SaaS solutions.

Performance Maturity Index

Average percent improvement in productivity over the past two years:

- Best-in-Class: 42%
- All Others: - 5%

Average percent improvement in operating margins over the past two years:

- Best-in-Class: 37%
- All Others: – 10%

Average percent improvement in revenue growth over the past two years:

- Best-in-Class: 35%
- All Others: -10%

Improvement in time-to-decision over the past two years:

- Best-in-Class: 36%
- All Others: 5%

Digital Acceleration: Intelligent Data Foundation and Management Capabilities

Beyond the infrastructure of technology adoption and cloud deployment, Best-in-Class companies also focus on three key pillars for digital acceleration, the first of which is an intelligent data foundation. The first capability is the ability to consolidate data across multiple entities which provides an aggregate view quickly. Manipulating data quickly to the proper level for visibility is a significant advantage for the Best-in-Class at 45% adoption levels versus only 28% for All Others.

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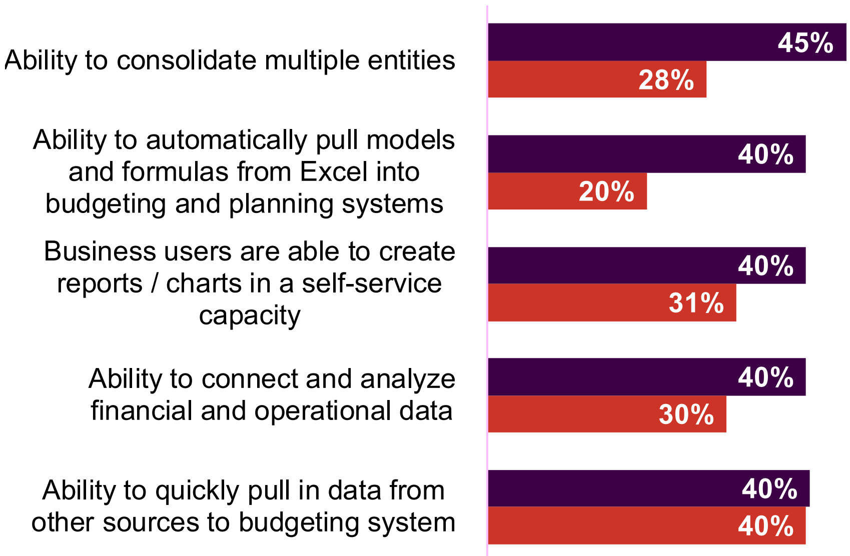
Figure 5: Best-in-Class Intelligent Data Management Capabilities



Source: Aberdeen 2021

The ability to automatically pull models and formulas from excel into budgeting and planning systems is a significant productivity booster by leveraging existing models created by users and pulling them in to the EPM solution. This minimizes duplicate entries and facilitates quick handoffs to a common solution which improves productivity and eliminates errors.

Another access feature is the ability for end users to create reports in a self-service capacity that eliminates bottlenecks that might restrict access or require additional approval levels. The goal in this capability is to quickly put the access to data in the hands of the business decision-makers with the least delay possible. A strong data foundation also relies on the access and ability to connect and analyze financial and operational data. Having both components provides the source information from operations that drive financial results as well as the financial information. The ability to quickly pull in data from other sources can create the complete picture efficiently and with a minimum of delay.

Digital Acceleration: Active and Continuous Financial Planning Capabilities

The second major pillar is having an active and continuous planning capability and supporting processes. *Active* and *continuous* are descriptive of an always up-to-date plan. Figure 6 provides key capabilities for active and continuous planning for the Best-in-Class compared to All Others. Integrating and aligning sales projections with actual revenue and updated forecast data, helps to establish a plan based on the latest feedback and updates on actual results, which keeps plan up to date on a continuous basis.

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Figure 6: Best-in-Class Active Planning Capabilities

Source: Aberdeen 2021

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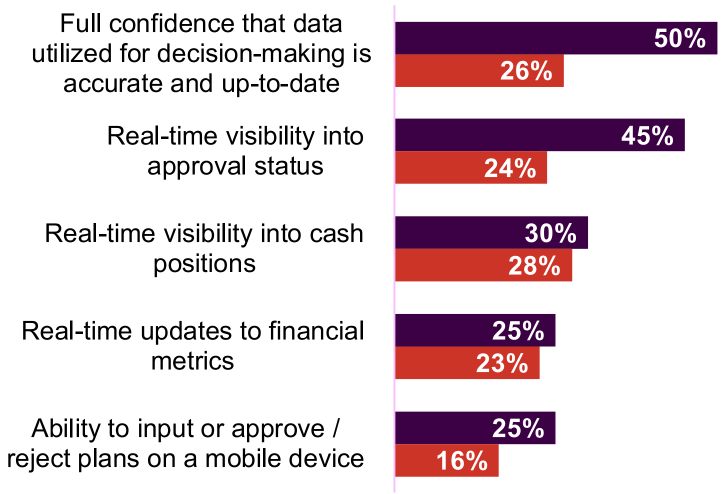
Automated event-driven planning triggers an update based on some external change that happens immediately following the event. This could be the forecast itself that changes as new information is incorporated, which is the event that triggers an update to the plan. Including risk as part of the process could also be another source of the trigger as new intelligence on the risk profile would be another form of an event that would necessitate an update to the plan. Risk inclusion protects the plan because it necessitates an analysis once a change is noted. This is also part of the continuous planning.

"What-If" scenario analysis is also a critical component of continuous planning which evaluates the *potential* events that might occur and provides projections based on the impact of these potential changes. Scenario-based analysis typically looks at the upside and downside limits of a plan as well as *likely* scenarios that might occur, such as customer projections, supplier impacts, promotions, price changes, and new product introductions, all of which can be modeled, so that a proposed impact can be generated, and contingency plans can be established beforehand to address the changes as they materialize. Having a *prepared* organization driven by *active* and *continuous* planning function is critical to an organization's *agility* and *flexibility* as a result of their preparation.

Digital Acceleration: Decision-Ready Organization

Figure 7 identifies key capabilities that a decision-ready organization should have in place. Having full confidence in the data accuracy and timeliness of the data for decision-making is the ultimate goal for having a data-driven decision-making process. Best-in-Class companies are nearly twice as likely to have this in place compared to the competition. **Decision-ready** means having real-time visibility into information and the status of approvals at all times, and again the Best-in-Class are nearly twice as likely to have this capability in place.

Figure 7: Best-in-Class Decision Process Capabilities



Source: Aberdeen 2021

The visibility and speed of information is critical. Real-time visibility into cashflow means no delay on the financial position and status for the organization. It may not always be a factor in a decision, but if the cash position for the company is a factor, the information is always a real-time view of where the company stands.

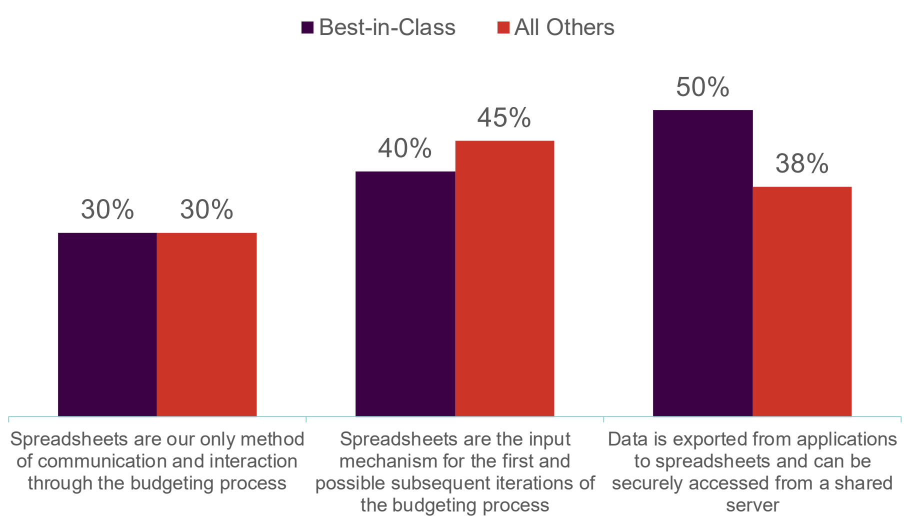
Depending on the decision at-hand there are numerous factors that may be in play, so having real-time updates to financial metrics is reassuring that there is not a last-minute scramble to get find out where the company stands on a particular metric that is part of the normal reporting information – the data is always there and in the right form for reference. Decision-ready means being prepared at all levels with all relevant data. Adding to the readiness capability is the inclusion of approval and rejection capabilities on a mobile device so there is no delay in the decision workflow, another significant advantage for the Best-in-Class

Best-in-Class Moving Away from Spreadsheets

Spreadsheets are still part of the total process – even for the Best-in-Class – however, there is no doubt that they'll be used less and less as companies continue to digitally transform. Nevertheless, until that time comes, they are still part of the overall technology landscape as we see it today.

What has changed is how they are being used. Rather than trying to eliminate the format of a spreadsheet, most EPM/CPM solutions now use them as a means of both input to and output from the EPM application.

Figure 8: Spreadsheet Usage in Financial Services



Source: Aberdeen 2021

As Figure 8 above indicates, 40% of the Best-in-Class use spreadsheets as the mechanism for the first iteration and sometimes subsequent iterations, and 50% of them export data to spreadsheets that can be securely accessed. All Others are a little more likely to use the input mechanism and a little less likely to use the output mechanism.

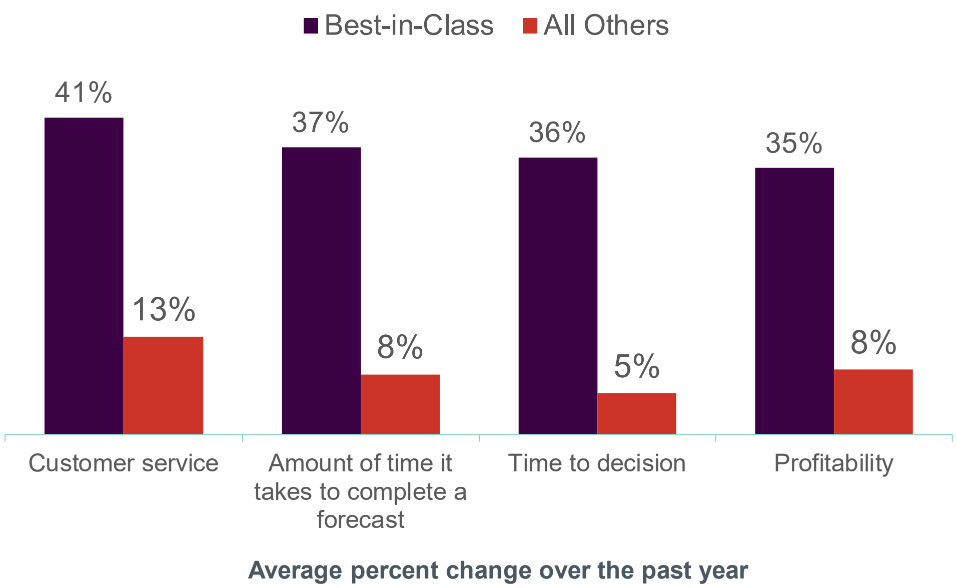
The one area that still indicates a strong dependency is that 30% of both the Best-in-Class and All Others report that spreadsheets are their *only method of communication and interaction* throughout the budgeting process. That does not mean that they rely on spreadsheets to run their business, but for the budgeting process, spreadsheets are still a popular mechanism of communication.

Time-to-decision, which is one of the overarching pressures for all finance teams, shows a 7.2x improvement for the Best-in-Class versus All Others.

Positive Business Outcomes: Critical KPIs

Figure 9 highlights additional KPI benefits that Best-in-Class enjoy in stark contrast to the competition. Customer service is important to all business and the Best-in-Class have improved 3.2x over the last 2 years in comparison to All Others. Improvement in time to create a forecast is also a strong advantage for the Best-in-Class who have improved 4.6x that of All Others. Time-to-decision, which is one of the overarching pressures for all finance teams, shows a 7.2x improvement for the Best-in-Class versus All Others and profitability improvement shows 4.4x improvement for the Best-in-Class in comparison to All Others.

Figure 9: Business Impact of Best Practices



Source: Aberdeen 2021

Summary and Key Takeaways

Banks, financial services organizations, and Insurance companies must improve their *Digital Acceleration* to remain competitive. The entire Financial Services industry has been impacted by the pandemic economically beyond the economic downturns themselves. Lower interest rates have affected profitability and product offerings going forward. Back-office pressures indicate lengthy and inefficient processes. Concerns over retraining and recruiting to upgrade talent for digital transformation are the most widespread challenge across the industry. In addition to the technology framework, digital acceleration for Financial Services requires:

- Intelligent Data Foundation and Management
- Active and Continuous Financial Planning
- Decision-Ready Organization

Aberdeen recommends following the lead of the Best-in-Class companies who demonstrate superior business results and enhanced critical KPIs for improved business outcomes.

Related Research

- *Financial Services: Take Control of Financial Planning and Be Ready for What's Next;* **September 2020**
- *Building Business Resilience: Merging Finance and Operations Planning;* **June 2020**
- *Enterprise Performance Management: Get the Most Out of Your Existing Investment;* **March 2020**
- *Why Now is the Time to Elevate Your Business with an EPM Cloud Suite*; **December 2019**

About Aberdeen Group

Since 1988, Aberdeen Group has published research that helps businesses worldwide to improve their performance. Our analysts derive fact-based, vendor-neutral insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategies. Aberdeen Group is headquartered in Waltham, Massachusetts, USA.

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