

# THE DIGITAL EVOLUTION

AS TECHNOLOGY  
TRANSFORMS  
FINANCIAL  
SERVICES, WHO  
WILL TRIUMPH?

“INTELLIGENCE IS THE  
ABILITY TO ADAPT  
TO CHANGE,”

**STEPHEN HAWKING**

**SAP**  
®



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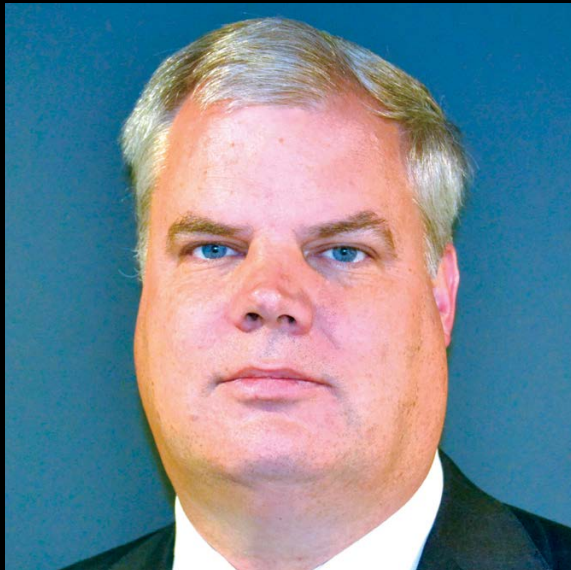
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# FOREWORD



**ROB HETHERINGTON**  
**GENERAL MANAGER EMEA**  
**FINANCIAL SERVICES, SAP**

Many new, transformational technologies have been introduced in the financial services industry in the last five years and the pace of change over the next five years will be unrelenting. The question is:



**WHICH INSTITUTIONS WILL EMBRACE THE CHANGES SUCCESSFULLY AND EMERGE AS WINNERS IN THE INDUSTRY?**

The SAP Financial Services Forum in London provided an opportunity for banks, insurance companies, financial technology providers, challenger banks and aggregators to debate, support and challenge different views on the wave of digital transformation enveloping the industry. This e-book highlights some of the discussions on the future of financial services organisations and addresses the challenges of providing the right customer experiences, products and services.

SAP Financial Services Forum, Platinum Sponsors:



## MEET THE AUTHOR, DAN BARNES



**DAN BARNES**

Dan Barnes is an award-winning, freelance, finance and capital markets journalist. In a 15-year career he has worked at The Banker, The TRADE, and Banking Technology magazines.

The following two articles by Dan summarise the choices and challenges facing financial services organisations as they strive to meet the needs of customers now and into the future.





# **FINANCIAL SERVICES FIRMS MUST DRAW ON THEIR NETWORKS OF PROVIDERS, CUSTOMERS, AND PARTNERS IN ORDER TO EVOLVE INTO 21ST CENTURY SERVICE ORGANISATIONS.**

## **THE WIDENING DIGITAL DIVIDE**

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# GLOBAL INFORMATION IS EVERYWHERE

In 2015, on any smartphone or laptop one can find free Wi-Fi video calls to anywhere in the world, free instant global publishing for up to 140 characters, a market to buy or sell anything by postal delivery, and free self-updating directories of friends and business contacts with instant messaging.

This is an easy-to-use, largely free, global information environment that simply did not exist when banks first went online in the early 2000s.

Customers, technologies and regulations are rapidly changing, yet many financial services firms are not.

Having evolved in the 20th century, businesses need to adapt to the 21st century or face irrelevance. Keeping a cultural fit with customers as well as delivering a flawless and compliant service is essential.



# DIGITAL IS THE DISRUPTOR OF THE FUTURE

The 24x7 demand for real-time information from customers reflects a revolution in the consumer digital space led by digital service providers – from search engines to markets and social media. For millennials, banking is seen as a requirement for employment and education rather than a service to be desired.



The alternatives that customers look at may not be banks at all. SAP has identified three dynamics that will each disrupt the future of financial services:

- 1** Financial technology (fintech) providers, changing financial services through new delivery and consumption models driven by innovation
- 2** The Internet of Things (IoT), impacting the insurance and banking – space
- 3** The rise of digital technology, redefining the power of the business network

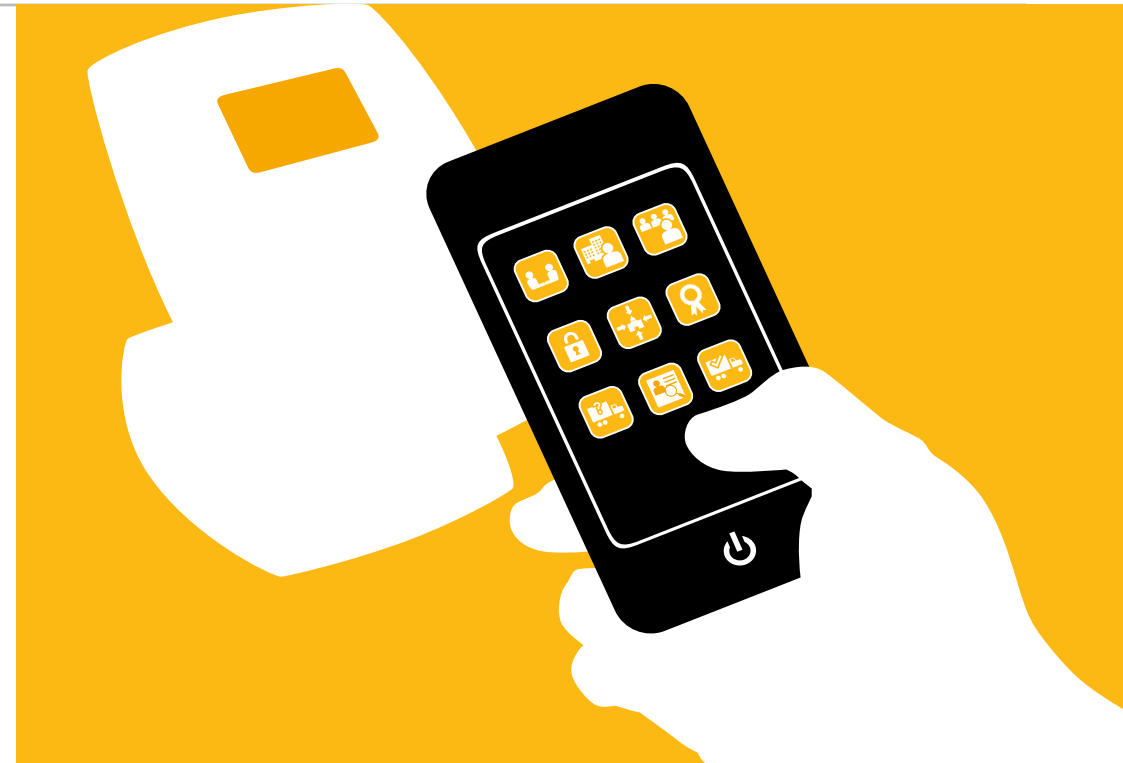
Collectively, these will redefine how financial services players interact with customers.

# DISRUPTOR 1: FINTECH BRINGS THE CHANGES

Fintech firms reflect the flexibility of digital technologies to ignite great change.

For example, start-up Ripple Labs, which provides a distributed ledger model for financial services, believes capital provision could become an on-demand service. Market makers on a distributed ledger payment network could provide a constant pool of capital liquidity, increasing efficiency and improving payment speed.

Banks' corporate customers see the potential in such an efficient model of capital sourcing. Disk drive manufacturer, Seagate, processes around US\$12 billion in payments every year and has invested in Ripple to reduce its cost of capital funding. Having acquired a share in the technology, the corporation is working with its investment bank to implement a funding network.



As a rule of thumb, for every 10 days you can reduce payment time to vendors, a corporation is able to negotiate about 50 basis points out of supply chain costs.

**PATRICK GRIFFIN, EVP OF BUSINESS  
DEVELOPMENT, RIPPLE LABS**



# DISRUPTOR 2: THE INTERNET POWERS NEW INSIGHT

Digital natives are more willing to sacrifice privacy for service. The second disruptor reflects the use of the Internet as a communication device to pass data between automated systems, enabling new insights and increasing the real-time feed of information.

At a physical level, the IoT will turn the Web into a viable medium for control and feedback. Insurers are already exploiting that capacity by employing telemetry to track activity that impacts risk profiling.

As feedback data becomes increasingly common, other financial services firms will see information from customer devices that can create a picture of client behaviour that was previously invisible.

“

Traditionally insurers rely on hypothetical risk modelling. As such, a company's differentiation largely depends on the accuracy and cleverness of its actuaries. But imagine a world where the IoT will generate data in real time from devices and sensors and use predictive analytics to measure the risk of a prospective client.

**ROSS WAINWRIGHT, GLOBAL HEAD  
OF FINANCIAL SERVICES AT SAP**

”



# DISRUPTOR 3:

## THE BUSINESS NETWORK IS GROWING

At every level, customers are changing how they operate. The business network will be crucial in supporting financial institutions' collaboration with peers and learning from customers.

The smart banks are leveraging their networks to ensure the wind of change is pushing them forward. Curtis Stange, Chief Strategy & Operations Officer at ATB Financial said, "We listen to our clients who tell us that they want to bank with us 24/7, anywhere and everywhere. We listen to our customers and our competitors, non-traditional and traditional. We are investing with partners like SAP. And we are focusing primarily on mobile movement on money and payments as well as ease of use – ease of use in digital channels is absolutely critical."

It is this interaction with partners that will allow financial services players to internalise innovation, reducing the speed of change. Firms must ask: How do I embrace these emerging technologies? Who is in my ecosystem and how do I engage with them?



**VIEW THE FINEXTRA VIDEO WITH CURTIS STANGE, CHIEF STRATEGY & OPERATIONS OFFICER AT ATB FINANCIAL**

# THE DIGITAL BANK IS MORE THAN DIGITAL BANKING. IT REQUIRES THE INTERNALISATION OF DIGITAL MODELS AND TECHNOLOGY.

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# CUSTOMERS DEMAND

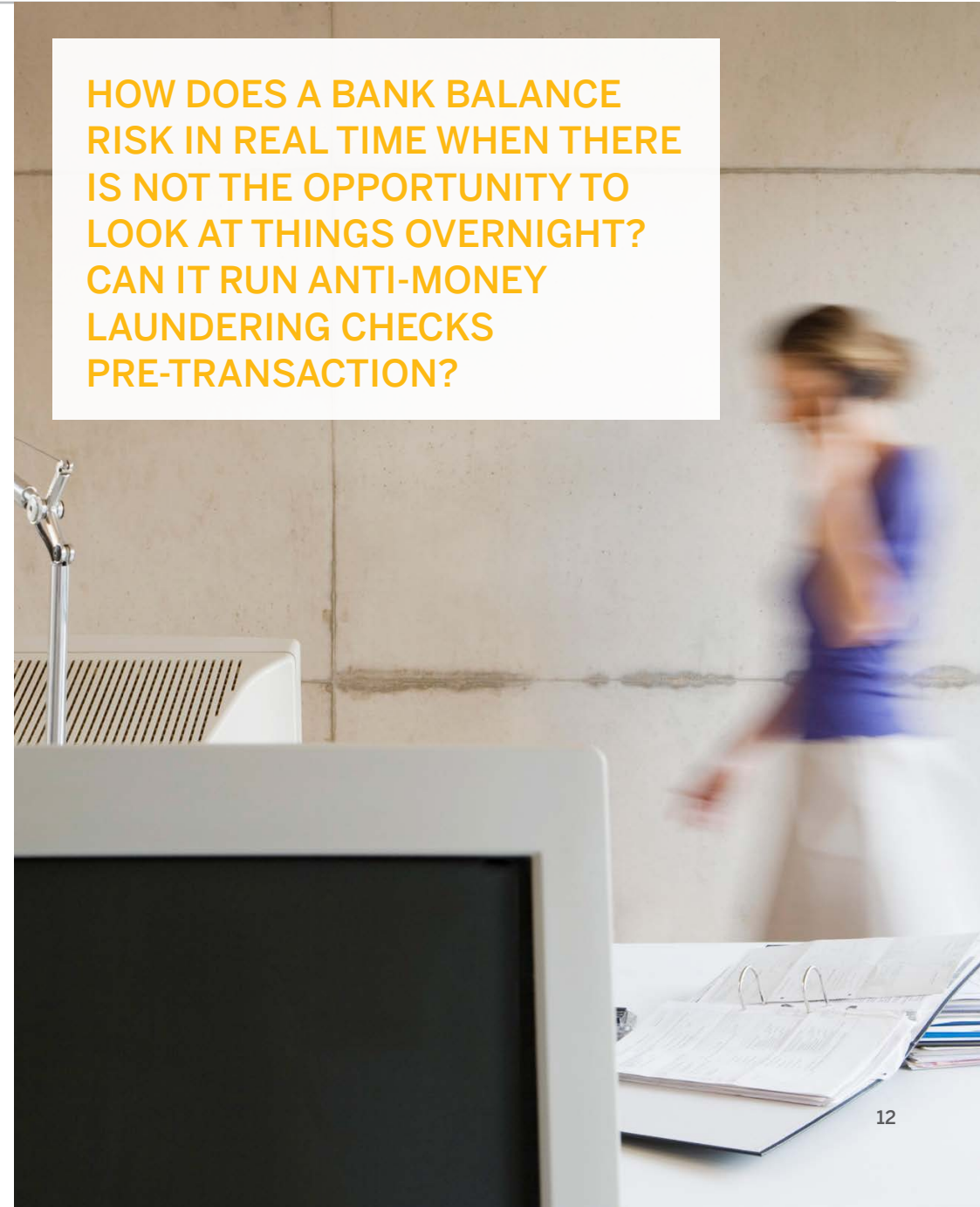
## REAL-TIME SERVICE

ATMs required banks to build an entirely new payments network to reflect real-time withdrawals.

Yet branches continued to process payments in overnight batches, because that was the way core banking platforms operated. As digital channels have expanded, a layer of middleware has built up between those channels and the old core, putting an ever-greater strain on payment functions. The drive from customers is for a real-time service. Can banks swallow the digital pill?

There are serious advantages. A bank can meet the moment of truth for the customer and offer a fluid link from running out of money to being offered a loan. But that delay is currently used as a safety net.

HOW DOES A BANK BALANCE RISK IN REAL TIME WHEN THERE IS NOT THE OPPORTUNITY TO LOOK AT THINGS OVERNIGHT? CAN IT RUN ANTI-MONEY LAUNDERING CHECKS PRE-TRANSACTION?



# FIRMS MUST FACE THE DIGITAL DIVIDE IN TECHNOLOGY ARCHITECTURE

The siloed product set is underpinned by the capacity to reconcile through batches. Understanding a customer's full position can be stitched together in the interim. In real time that luxury is missing.

Mike Laven, CEO of start-up Currency Cloud, has identified four reasons for inaction in large financial institutions.

He warns that change will occur regardless. "Either your institution will figure out a way to get around those reasons by streamlining processes, or through a technology accelerator, or a fund, or if not then somebody else will."

In other words, the digital divide exists not only between the front office and the customer, but between the whole technology architecture and the performance level expected.



**1** The regulators will not permit an action.



**2** The bank is divided into silos, each with a separate decision-making process.



**3** It would compromise the data security of customers.



**4** The bank has an old-core banking system and changing it creates too much risk to be considered.

# MOBILITY AND AGILITY IS THE NEW NORM

For consumers on the go, mobile banking and transacting is the norm, which poses a serious challenge for the non-digital technology infrastructure.

Speaking at the SAP Financial Services Forum 2015, Kevin Hanley, Director of Design at RBS, said that banks faced being removed from the most valuable parts of business lines, with payments being key, as new firms stepped in where banks would not.

“We estimate that around 4 billion mobile transactions will take place this year with non-bank service providers, which is about 15% of the total market share,” he said. “That is up from around 4% three years ago.”



# A TRUE OMNICHANNEL STRATEGY CAN YIELD BIG RESULTS

There are financial institutions stepping into the digital world with their technology.

Rahul Modi, Managing Director at Adarsh Credit Co-Operative Society, said that his society's core technology transformation created value to the organisation internally by centralising processing and data. It increased insight into the society's position and reduced the need for reconciliation between systems.

"We have seen a reduction in costs of some 30–40% as an operational measure," he explains.

However, the refresh also crucially offered considerable external advantages to the society's customers: It enables the development of a mobile platform that supports the front office and will enable a member-to-member payments platform, further facilitating financial inclusion.



## 30–40%

reduction in costs as an operational measure.



The use of mobility with a truly omnichannel strategy means that our advisors can offer a full range of financial services while they are on location. This saves on a lot of manual intervention and physical branches.

**RAHUL MODI, MANAGING DIRECTOR AT ADARSH  
CREDIT CO-OPERATIVE SOCIETY**



# DEVELOPED MARKETS CAN LEARN FROM DIGITAL TRENDSETTERS

Developing market institutions are not as shackled to old - core systems as developed market banks. Standard Bank in South Africa currently opens 7,000 new accounts daily with the SAP Mobile Platform, taking an average of only 10 minutes to open each new mobile account – a 64% reduction in time. Developed markets can learn a lesson from these digital trendsetters.



**7000**

new accounts daily with the SAP mobile platform



**64%**

reduction in time

STANDARD BANK, SOUTH AFRICA



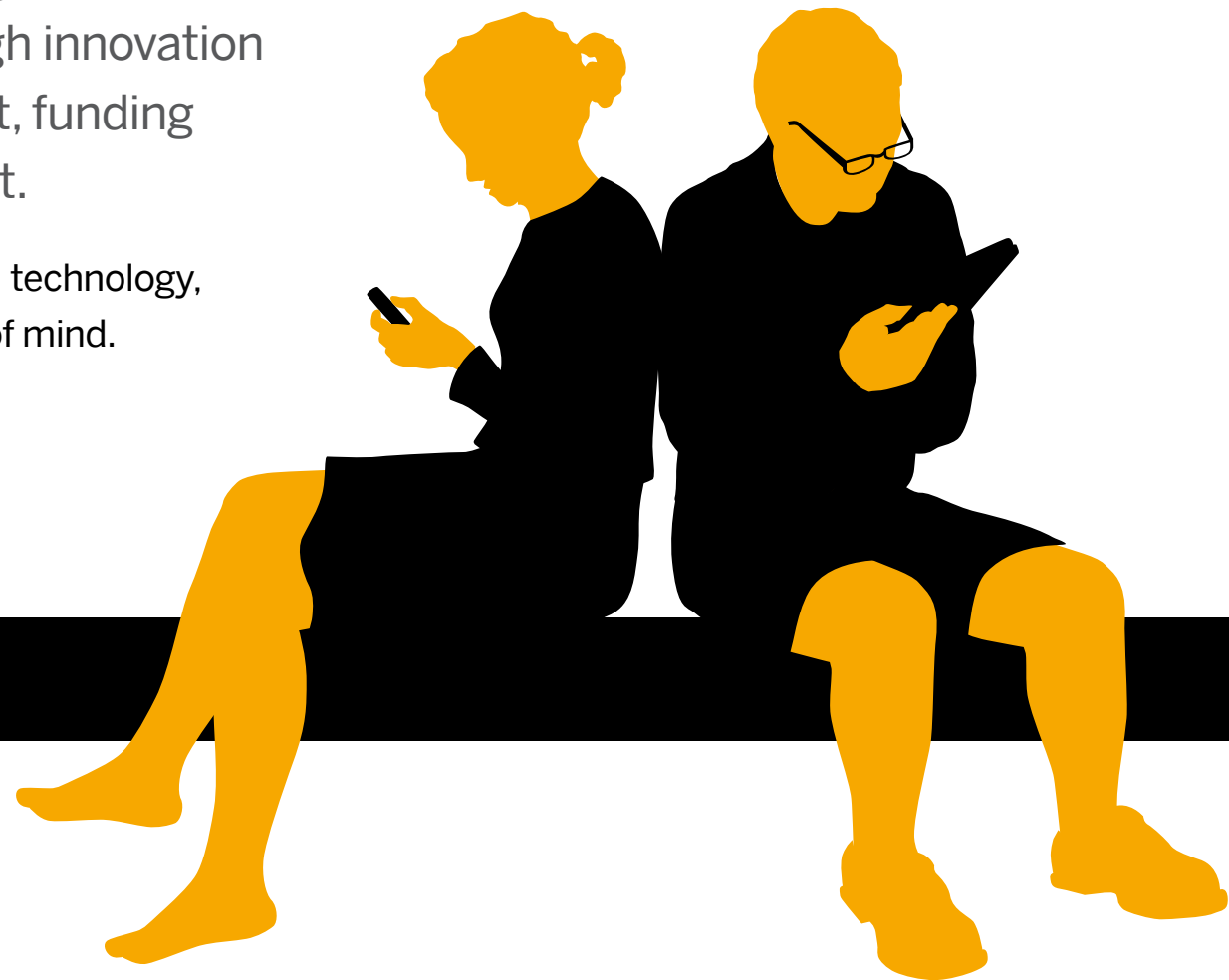
**VIEW THE FINEXTRA VIDEO WITH DAVID GLEDHILL, GROUP EXECUTIVE, MANAGING DIRECTOR & HEAD OF GROUP TECHNOLOGY & OPERATIONS AT DBS BANK**

David Gledhill, Group Executive, Managing Director & Head of Group Technology & Operations at DBS Bank in Singapore, said, “To transform digitally, we have to transform the DNA of every employee in the company. Part of that is creating innovation labs within the company, but also reaching out to start-ups.”

# DEVELOPED MARKETS CAN LEARN FROM DIGITAL TRENDSETTERS

Banks need to find ways to engage with these innovators, whether through innovation labs, investing off a balance sheet, funding an incubator, or direct investment.

This is not only to take advantage of digital technology, but to absorb and reflect the digital state of mind.



# RELATED LINKS

## MEASURING THE BENEFIT OF INNOVATION

Patrick Mang, Head of Innovation Strategy at HSBC explains how innovation success lies in becoming a trusted partner to the business, listening and understanding the problems encountered by the business and then trying to find innovative solutions in the market that meet those needs.

## SUPPORTING FRONT-END AMBITIONS

Rahul Modi, Managing Director of Adarsh Credit Co-operative Society Ltd lays out methods to optimize a business through transformation of data, so as to reduce fixed costs and expenditures, and aggressively increase revenues.

## HOW BANKS CAN INNOVATE

Robin Jeffery, Head of Transformation at Nationwide Building Society talks about the need for firms to overcome complacency by harvesting innovation and new ideas internally and through their customers.

## MBANK: PROVIDING A PERSONALIZED BANKING EXPERIENCE FOR 4.5 MILLION CUSTOMERS



Responding to customer needs in the shortest possible time is one of the key goals for mBank, Poland's largest online and 4th largest retail bank. To anticipate future demand of its 4.5 million customers, optimize marketing campaigns and provide most relevant offers to specific customer groups, the company relies on SAP Predictive Analytics.

# RELATED LINKS

## HELPING BANKS AND INSURERS RUN SIMPLE

Ross Wainwright, Global Head of Financial Services Industries at SAP talks about how financial institutions struggle to meet customer expectations due to the complexities that surround a more switched-on consumer, something that can hold traditional banks back.

## MOBILE IS CRITICAL FOR DIGITAL BANKING STRATEGIES

Falk Rieker, Global Vice President, Global IBU Head for Banking at SAP explains how mobile adoption and customer ability to consume new solutions via the cloud will be a key advantage for banks to accelerate the transformation process.

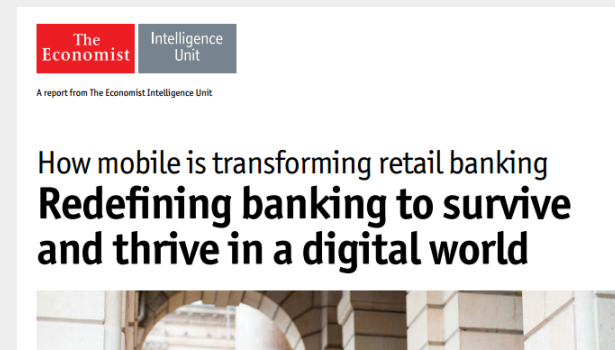
## BUILDING FOUNDATIONS FOR DIGITAL CHANGE

Laurence Leyden, VP & Global Head of Pre-Sales FSI at SAP expands on the elements of digital change, including; social, mobile, back office integration, and even predictive analytics, with the challenge of now having to put this social data to use to tailor products to the specifications of customers.

## PRESENTATIONS FROM THE SAP FSI FORUM

View and listen to wide-ranging keynote presentations from the SAP FSI Forum – from re-imagined financial services for the next generation, to how RBS is investing in innovation to drive digital change.

## REDEFINING BANKING TO SURVIVE AND THRIVE IN A DIGITAL WORLD - HOW MOBILE IS TRANSFORMING RETAIL BANKING



The Economist Intelligence Unit conducted two global surveys on mobile banking, sponsored by SAP: one of 111 banking executives and the other of 1,827 consumers. While the rise of mobile computing will not eliminate web, physical and other paths to customers, people around the world are clearly embracing mobile – and banks need to do so as well.



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