

Banking and Financial Markets Incumbents Strike Back

Global C-suite Study
19th edition

IBM Institute for
Business Value



Which way to the future?

The signals are utterly bewildering. As digital technologies transform the world, monopolies are winning big-time. Yet collaborative systems are also flourishing, and even in industries where the competition is shrinking there's still plenty of creativity. Little wonder top executives are puzzled.

CxOs in Banking and Financial Markets are no exception. They're divided as to whether the focus will be on new or established markets (43 percent versus 40 percent). And where, previously, they thought that open innovation would predominate, a growing number now anticipate more internal innovation. But there are two points on which they broadly agree: a full 72 percent of CxOs in Banking and Financial Markets expect more emphasis on customer experiences than products over the next few years. Similarly, 66 percent think most organizations will continue to partner more extensively.

CxOs in Banking and Financial Markets also note that the business landscape remains very challenging. They say macro-economic factors, technological advances and market pressures will be the three biggest external influences on their industry over the next few years, with low returns on equity, sluggish growth and tight cost controls likely to persist. However, talent comes high on their agendas, too, as digital technologies radically reshape the financial services sector, creating a shortage of people with the skills to dynamically manage new markets, new business models and new ways of engaging with customers and partners.

The IBM Institute for Business Value, in cooperation with Oxford Economics, interviewed 1,618 CxOs from the Banking and Financial Markets industry. These conversations included both quantitative and qualitative responses. The analytical basis for this Banking and Financial Services industry report uses 1,564 valid responses from the total data sample collected.

More than 12,800 CxOs, representing six C-suite roles, 20 industries and 112 countries, contributed to our latest research. We used the IBM Watson Natural Language Classifier to analyze their contextual responses and ascertain overarching themes. We also used various statistical methods, including cluster analysis and discriminant analysis, to scrutinize the millions of data points we collected.

Reinventors race ahead

In the course of our research, we identified three distinct organizational “archetypes,” each at a different stage on the road to Digital Reinvention™ (see Figure 1).

Reinventors focus on developing breakthrough products, services and business models; excel at extracting value from their ecosystems; and actively experiment. Their IT strategies are aligned with their commercial goals, and they’re superb at managing change — all of which helps them stand out both financially and as innovators.

Practitioners are ambitious but haven’t yet acquired the capabilities required to realize their ambitions. They’re neither as focused nor as agile as Reinventors.

Aspirationals have even further to travel. They still need to devise a clear strategy, put the right processes and resources in place, and develop the agility to seize new opportunities.

Reading the road signs

So what’s actually going on? Four topics stand out from our conversations with CxOs and our work with academics:

Dancing with disruption

The path to personalization

The pull of platform models

Innovation in motion.

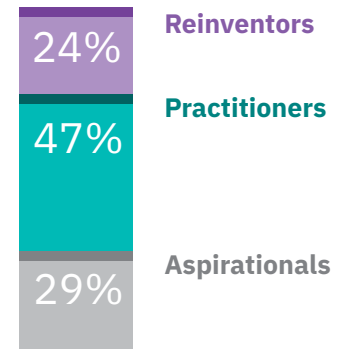
“We’re both a disruptor and a stabilizing force. We’re focusing on leveraging fintechs to build on our existing capabilities and reduce our operating costs.”

CIO, Banking and Financial Markets, India

Figure 1

Banking and
Financial Markets
split

Industry archetypes
have distinct characteristics
that lead to differing
vantage points



Dancing with disruption

Two years ago, CxOs told us they were deeply worried about digital giants and ankle-biters from other industries invading their territory. Now, it's not outsiders they're most concerned about; the *real* disruption, they say, is coming from innovative industry incumbents. CxOs in Banking and Financial Markets concur. Forty percent report that their sector is experiencing huge upheavals, and 71 percent attribute much of the turmoil to once unwieldy financial institutions that have reinvented themselves to thrive in the digital age.

But CxOs in Banking and Financial Markets also fret about new entrants encroaching on their patch: 72 percent expect fintechs to have a major impact on their companies over the next few years, as venture capitalists continue to pour cash into startups revolutionizing the way customers manage their money. And 55 percent of respondents fear being disintermediated as a result. So it's astonishing that only 29 percent say they urgently need to transform their enterprises to deal with the turbulence.

The Reinventors in our sample lead the way. They're more likely to be investing in emerging technologies such as blockchain, artificial intelligence (AI) and the Internet of Things (IoT) than other CxOs in Banking and Financial Markets. They're also more adept at leveraging their ecosystems to acquire new skills — although the industry as a whole is more cautious about what it shares, and with whom it collaborates, than is the case in many other sectors.

The path to personalization

Connecting with the customer on a personal level is essential these days, but designing compelling personalized experiences takes a profound understanding of what makes different people tick. CxOs in Banking and Financial Markets appear to be over-confident: 89 percent claim their enterprises are now reasonably effective at creating personalized customer experiences. Yet earlier IBM research suggests that few customers share this view.¹

That said, Banking and Financial Markets Reinventors have mastered one of the core skills required to create personalized experiences. They're more effective than Practitioners or Aspirationalists at using analytics to discover unmet customer needs (see Figure 2).

“Every customer journey will be digitized in the future, and interaction with customers will be personalized, using chatbots, augmented reality and video chats with agents.”

CIO, Banking and Financial Markets, Belgium

The pull of platform business models

One of the most exciting recent trends is the emergence of the platform business model, which connects producers directly with consumers, enabling organizations to grow faster and generate higher profits. CxOs in Banking and Financial Markets have been quick to spot its potential. While only 8 percent of respondents already have platforms, 28 percent are experimenting with the concept and 21 percent plan to reallocate capital for this purpose. Moreover, the percentage of capital they're setting aside for platforms is greater than in any other industry except IT and Professional Services.

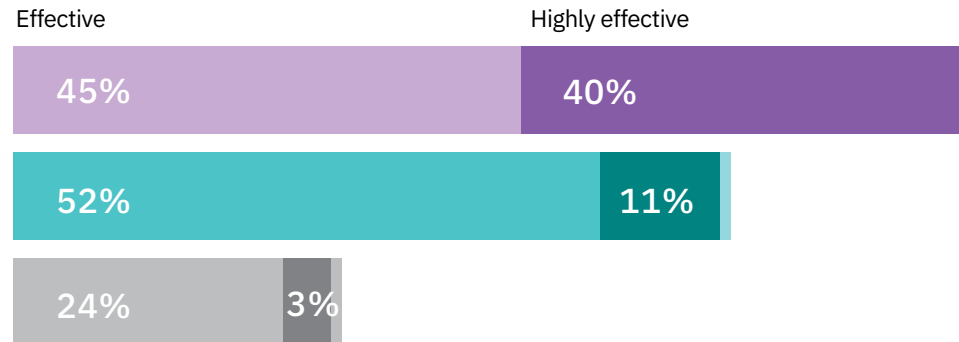
The Reinventors are, once again, in the vanguard: 19 percent currently operate platforms and 43 percent are building platforms, compared with just 10 percent and 34 percent of Aspirationalists, respectively. That's probably because Reinventors are much more confident of their ability to manage change. They're also more effective at partnering to create value and capitalizing on data – two of the key features required to construct a platform. The CxOs who head these companies are making a bold attempt to push ahead, given the rapid and ubiquitous emergence of the “platform economy.”

Figure 2

Know now

Reinventors excel at using data to understand their customers' unmet needs

Reinventors
Practitioners
Aspirationalists



Q: How effective is your enterprise at using data to identify undefined and unmet customer needs?

Innovation in motion

The organization of work is altering dramatically as enterprises collaborate to innovate, and ecosystems replace go-it-alone entities. The smartest C-suites are preparing for the future by creating teams that learn on the fly. Four-fifths of Banking and Financial Markets Reinventors already solicit input from employees to develop new approaches. But many of them are going much further: 71 percent are embracing fluid, cross-functional teams to stimulate continuous learning (versus just 47 percent of Practitioners and 29 percent of Aspirationalists). Reinventors are also much better at delegating and empowering employees to act on their own initiative (see Figure 3). The CxOs who run these companies lead through trust.

“Using distributed blockchain and ledger technology has helped us expand our business platform and make it more secure.”

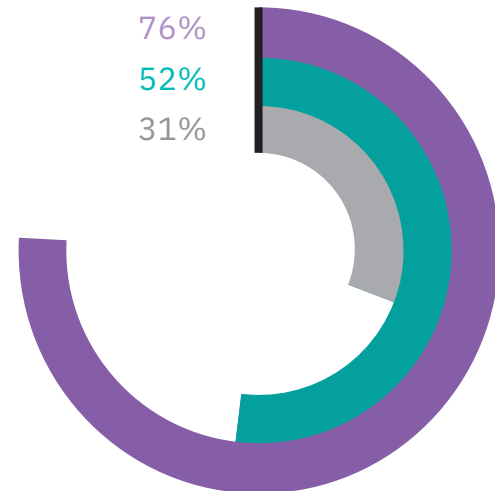
CIO, Banking and Financial Markets, United Kingdom

Figure 3

Reinventors
Practitioners
Aspirationalists

Autonomous teams

Reinventors empower their teams to decide on the best course of action



Q: To what extent does your enterprise empower teams to decide on the best course of action? “(Percentage of respondents choosing “to a large extent.”)

There's more. Reinventor C-suites have a far stronger grasp of how the financial services industry is evolving than those in less nimble enterprises. They're also much better at articulating a clear corporate strategy, fostering collaboration and encouraging employees to provide input. Lastly, they're more proficient at building the right networks of partners, and they're investing more heavily in the development of new skills to help their enterprises stay competitive. In short, they combine a dynamic vision with an open culture and agile operations—and these, as our research shows, are the three stepping stones to organizational dexterity.

Strengthening advantage: Actions to take now

Know your customer; know your business. Build out and participate in emerging ecosystems and platforms with true functional and cost differentiation. Are you a distributor, manufacturer or both?

Go modular, not monolithic. Reinvent your operations to create an E2E business. Use cognitive automation and open APIs and services to become more flexible and reduce costs. Transform and migrate your legacy infrastructure and applications to hybrid clouds.

Make your organization into a security immune system. Put security and risk-management excellence at the core of your culture. Deploy cognitive technologies and advanced analytics to identify risks and convert them into opportunities.

Comply for competitive advantage. Utilize cognitive tools to improve the effectiveness and efficiency of your regulatory compliance activities (e.g., regulatory change management, KYC, AML, conduct surveillance). Are you creating new value from compliance?

Related IBM IBV C-suite Program executive reports

To read the full report, “Incumbents Strike Back,” please go to ibm.com/globalcsuitestudy. You can also find copies of our monthly insights and four related C-suite executive reports on IoT, AI, blockchain and the experience revolution at the same location.

For more information

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Notes and sources

- 1 Brill, Jim, Nicholas Drury, Anthony Lipp, Anthony Marshall and Likhit Wagle. "Banking redefined Disruption, transformation and the next-generation bank." IBM Institute for Business Value. October 2015. <http://www.ibm.com/services/us/gbs/thoughtleadership/bankingredefined/>

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