

CanadianCIO

THE ROAD TO DIGITAL TRANSFORMATION IN
CANADA'S FINANCIAL SERVICES AND INSURANCE
SECTORS: **ASSESSING DIGITAL SHOCKWAVES**

opentext™

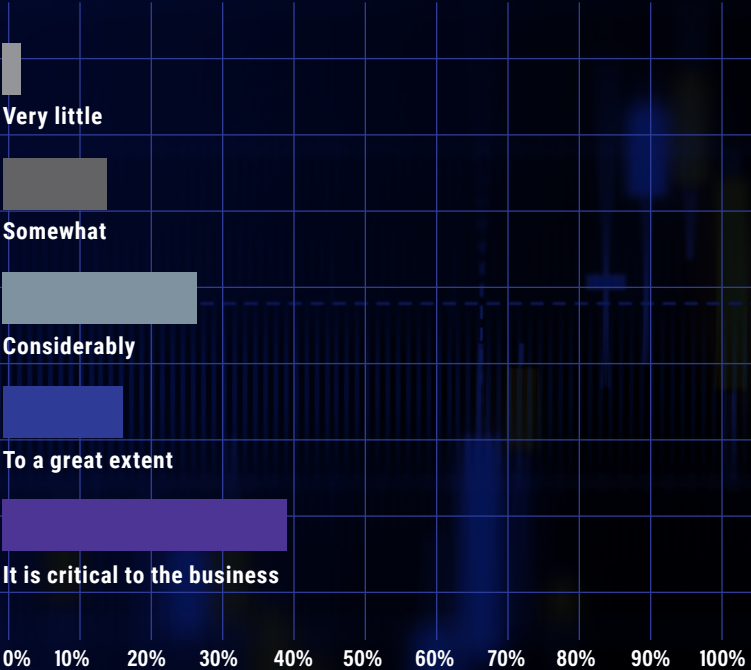
Customer expectations, regulatory pressures, and new competitors are fast creating the perfect storm for Canada's financial services and insurance sectors. Rather than manning the lifeboats, some organizations have set their sights on disruptive new financial technologies (fintech). The barriers to widespread adoption include siloed processes, legacy technology, lack of direction, budget constraints, compliance concerns, and inertia on the part of leaders and senior management.

These are the key findings in Digital Shockwaves, a recent survey of businesses in Canada's financial services and insurance sectors. Responses to questions concerning the current state of digital transformation and expectations for the future reveal that organizations of all sizes are bracing for a dramatic shake up of existing business models.

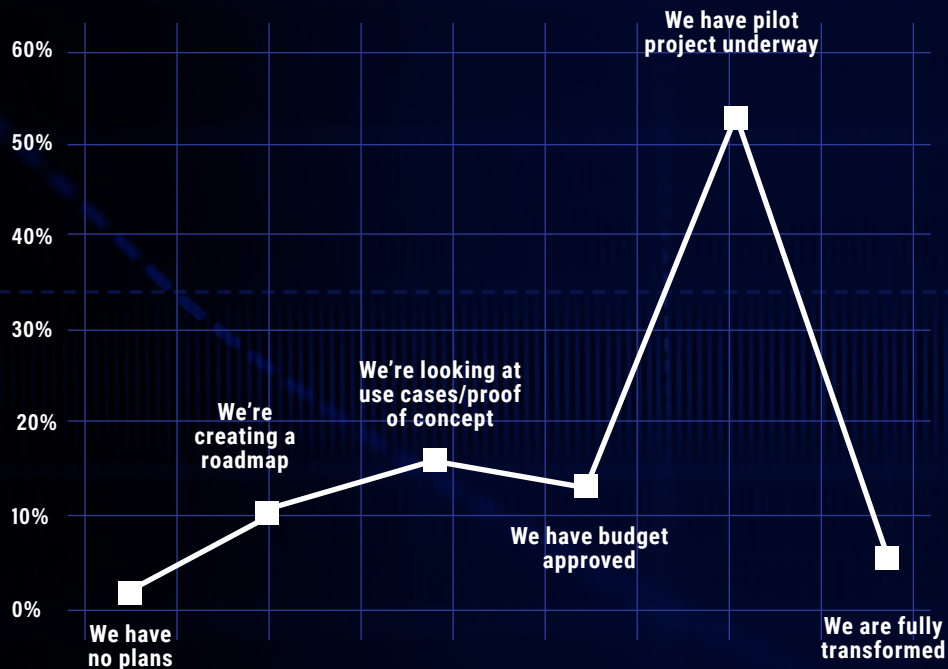
Digital transformation is no longer one option. It's now the only option.

More than half of those polled in the Digital Shockwaves survey reported annual revenues of more than \$500 million for their organizations, a number that reflects the presence of major players in today's banking and insurance sectors. As part of the survey, respondents were asked to what extent their organizations have been impacted by digital transformation. Responses funneled into five distinct groups, ranging from "very little" to "critical", with 39% of the respondents indicating that DX is critical to their business. Almost 60% indicated that DX impacts their organizations somewhat, considerably, or to a great extent. Less than 2% indicated that DX has very little impact.

To what extent has your organization been impacted by the DX of its processes?



Where are you on your Digital Transformation journey?



Still Early Days in the Journey

The major influencers in digital transformation are not the big banks and major insurance companies. Instead, startups and tech giants are the source of the greatest degree of inventiveness and innovation.

“We are not yet seeing a huge impact from new technology on digital adoption rates in Canada,” says Sue Britton, CEO and founder of FinTech Growth Syndicate, a business accelerator that helps fintech companies amplify growth and enables incumbents to innovate new business techniques. “The market here is dominated by a few major players who are slowing things down while they try to plan their response. Even so, Canada is very hot for outside investors and new entrants. It’s also a leading market for artificial intelligence (AI).”

The survey asked respondents to pinpoint their organization's path on the DX journey, with multiple choice responses that included everything from no plans to embrace DX to full transformation. Intermediate stages included creating a roadmap for DX, looking at use cases, waiting for budget approval, and piloting a project. Almost everyone (96%) surveyed reported a presence on the road to DX, with pilot projects currently in progress at just over half of the organizations (52%). Only a very small number of survey participants (6%) believed their organizations are fully transformed.

These numbers imply an across-the-board readiness to embrace technology, yet according to Patrick Vice, founding partner of Insurance-Canada.ca, Inc., the insurance sector is only about 20 steps into a long journey to DX. "We're moving at roughly the same pace as the United States, with larger carriers doing most of the experimentation, but we're far behind China, for example," says Vice. "Millennials and GenX employees are pushing the industry to consider InsurTech methods, but on the distribution side, customer transformation (CX) has yet to gain traction."

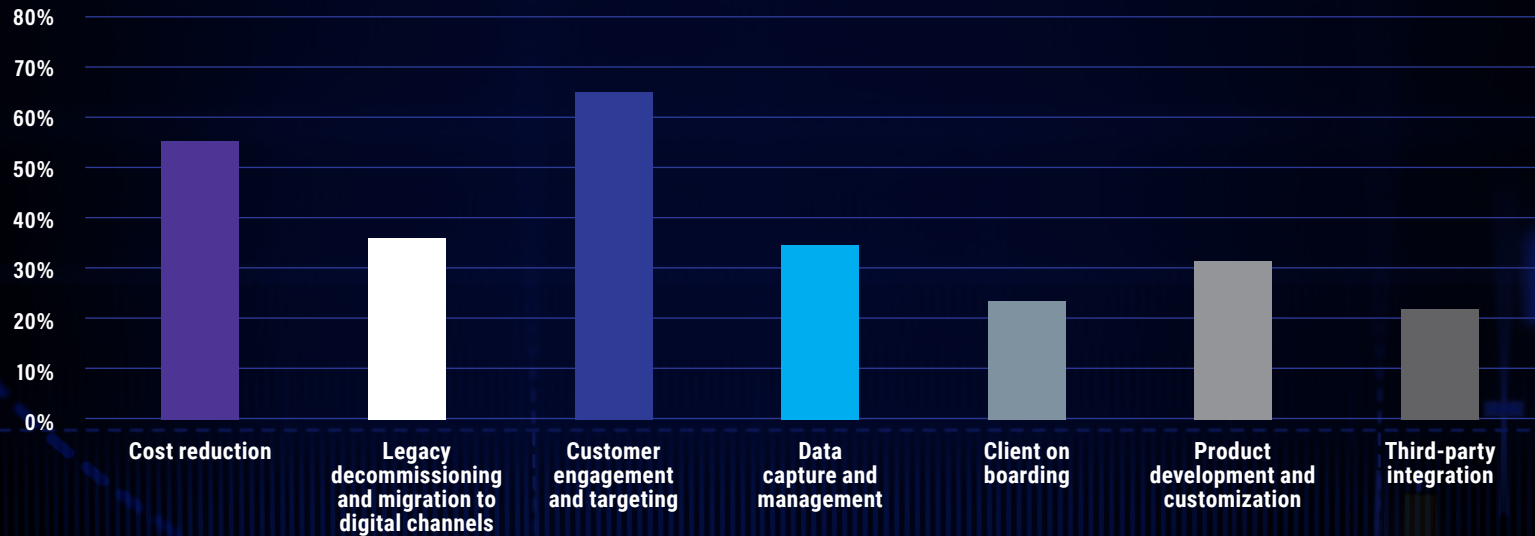
Marie Mullally, President & CEO of Credit Union Atlantic, tells a similar story about the digital maturity of Canada's approximately 280 credit unions. "The sector is, overall, still in its infancy," she says. "The degree of digital transformation varies according to products provided

and area served, but generally speaking, credit unions are challenged to remain competitive and relevant in this space, from online banking and business analytics to AI and virtual assistants. We punch above our weight, but I don't think we have the same scale and financial capacity to match our competitors' investment in digital technology."

It's All About the Customer

When identifying the most important drivers for DX, 65% of survey participants prioritized customer engagement and targeting. Findings were similar in a recent global study conducted by Forrester Consulting on behalf of EY, with one senior-level executive saying that the customer is the main driver for going digital. "Financial services institutions and insurers are competing for customers like never before as price and product become second to customer experience," says Albert Tay, Director of Financial Services for OpenText™. "Whether you are a wealth management company, a retail bank, or a credit union, the continued pressure to create more meaningful relationships with customers places new emphasis on using digital technologies to orchestrate contextually relevant experiences."

Which items are most important to your DX implementation?



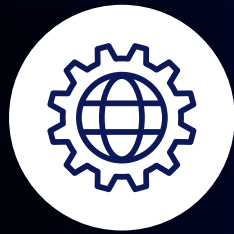
Other key reasons to digitize systems, according to the Digital Shockwaves survey, include cost reduction (57%), legacy decommissioning and migration to digital channels (37%), and data capture and management (35%). Additional factors motivating digital transformation were third party integration (22%), client on boarding (24%), and product development and customization (31%).

Both financial services institutions and insurers looked at the possible impact of DX in specific areas of their businesses.

Banks and credit unions reported the highest expected impact on customer service, client on boarding, marketing, compliance, and lending.

For those in the insurance sector, the greatest potential impact from DX was almost equally distributed among claims processing, underwriting, marketing, digital marketing, agents, and customer communications. The customer/agent experience received a slightly higher ranking.

Which business area is driving your DX strategy?



IT
34%



Compliance
4%



**Marketing Digital
change team**
34%

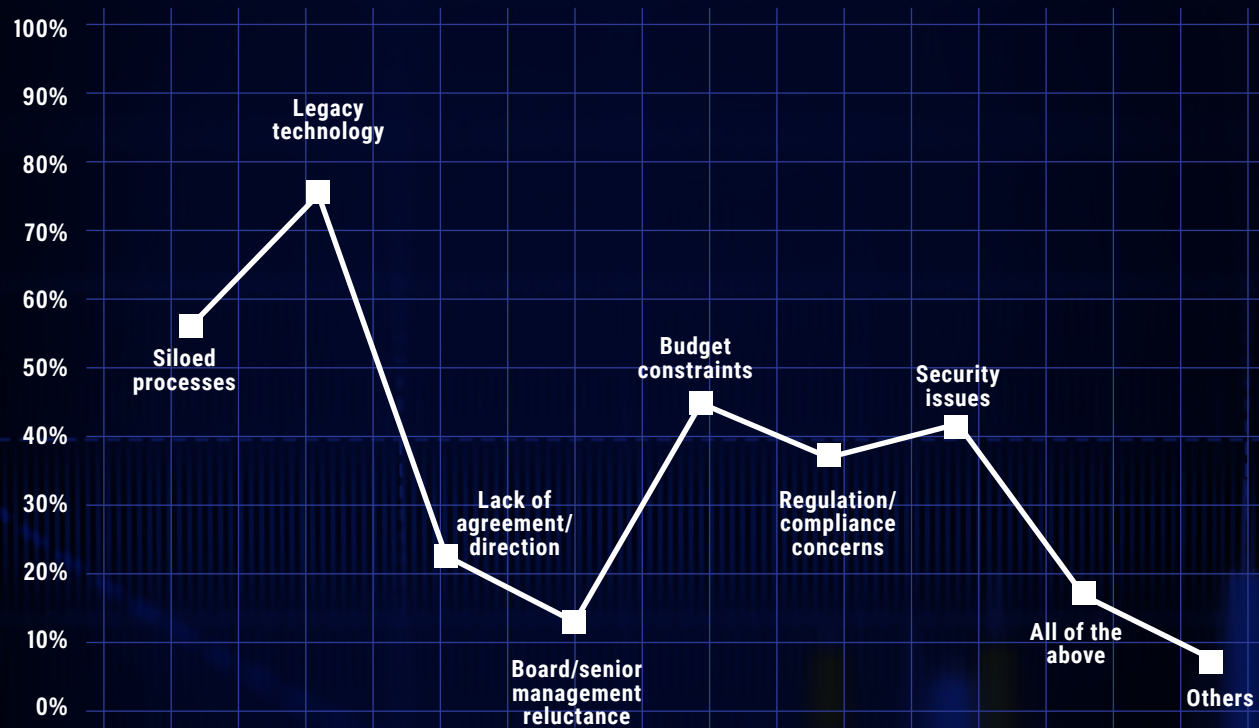


The board
34%

Most of those surveyed for Digital Shockwaves identified the IT team as one of the prime movers in advancing a CX strategy. “Things have certainly changed in the past decade,” notes Patrick Vice. “Only about 10 years ago, a number of IT leaders were not regarded in the same way as leaders in the C-Suite. Today, there is broad recognition that the role of the IT leader is critical to lead digital transformation.”

Compliance is often cited as a rationale for adopting next generation technology, yet only 4% of those surveyed in Digital Shockwaves felt it was significant in advancing their organization on the road to DX. In a related survey question, compliance and regulatory concerns figured large in respondents’ identification of the barriers to achieving DX, with 38% indicating concern.

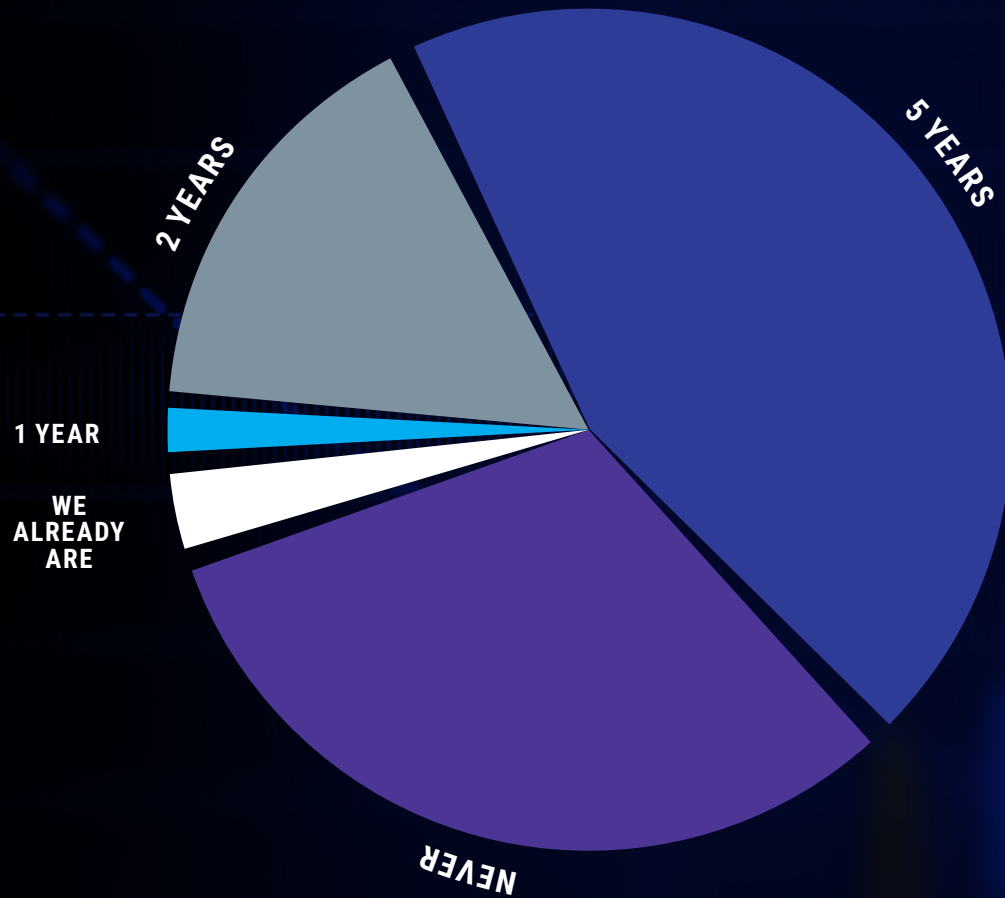
What are the barriers to success?



“Canada is a patchwork of regulations and they’re different for each segment of the fintech sector,” explains Britton, “but regulators and policy makers aren’t holding us back. In fact, many senior representatives want innovation and

increased competition. Our complexity and bureaucracy make it incredibly complicated to navigate. We need a mandate for competition in Canada.”

How long do you think it will take for your company to become completely digital (i.e., paperless, no filing cabinets)?

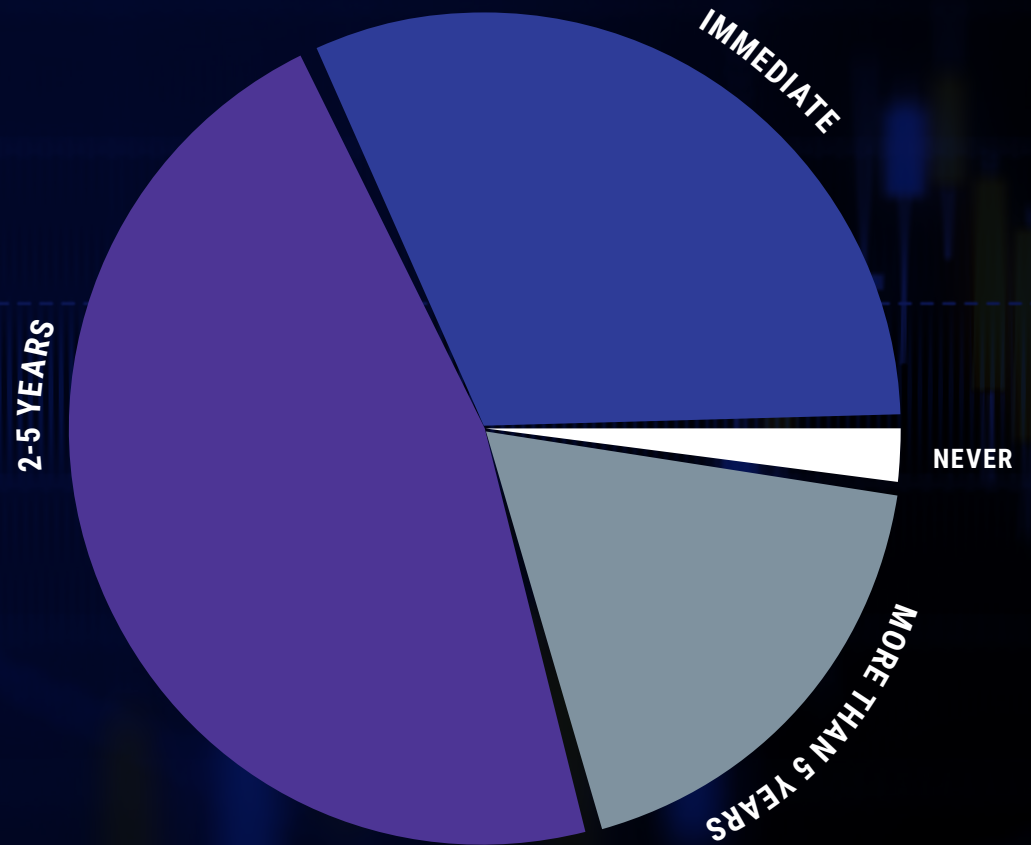


Don't Discard Those Filing Cabinets

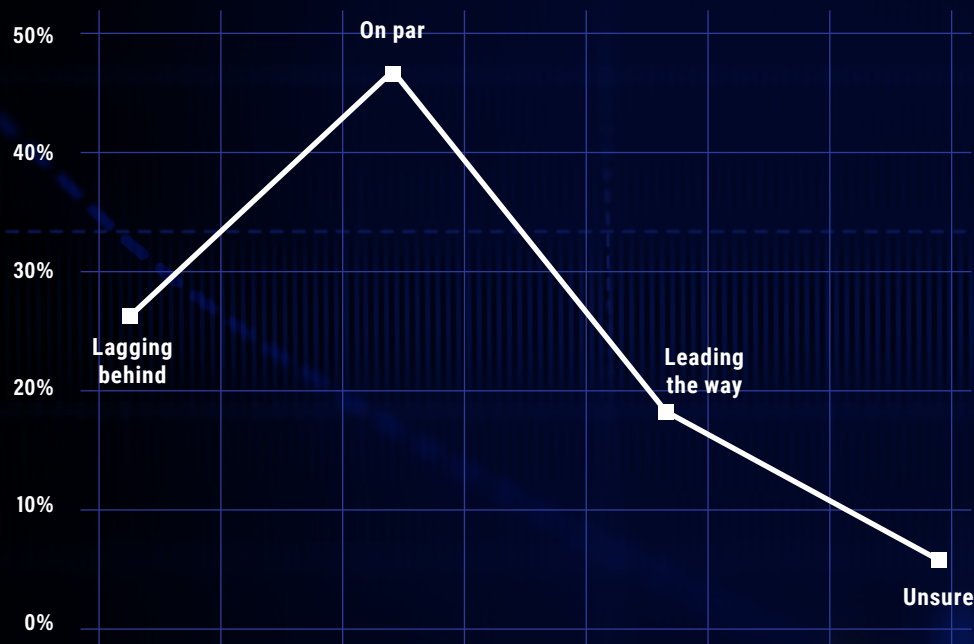
Despite the potential of digital transformation, and enthusiastic predictions for a completely digital workplace, 43% of survey respondents predicted that it would take as long as five years, and some said never (35%) for their organizations to be completely paperless. Only two organizations reported being paperless already.

The implementation of automated processing or RPA (robotic process automation) is picking up speed, with widespread plans to use software and robots for processing transactions, manipulating data, triggering responses, and communicating with other digital systems. The outlook for artificial intelligence (AI) is even more optimistic. About 34% of survey participants plan to use AI immediately. Roughly half expect to use it in the next two to five years, and 13% plan to use it eventually. Only 3% of respondents claim there would never be a place for AI in their organizations.

When do you see the use for Artificial Intelligence in your business?



How does your organization compare with its industry peers in terms of its DX progress?



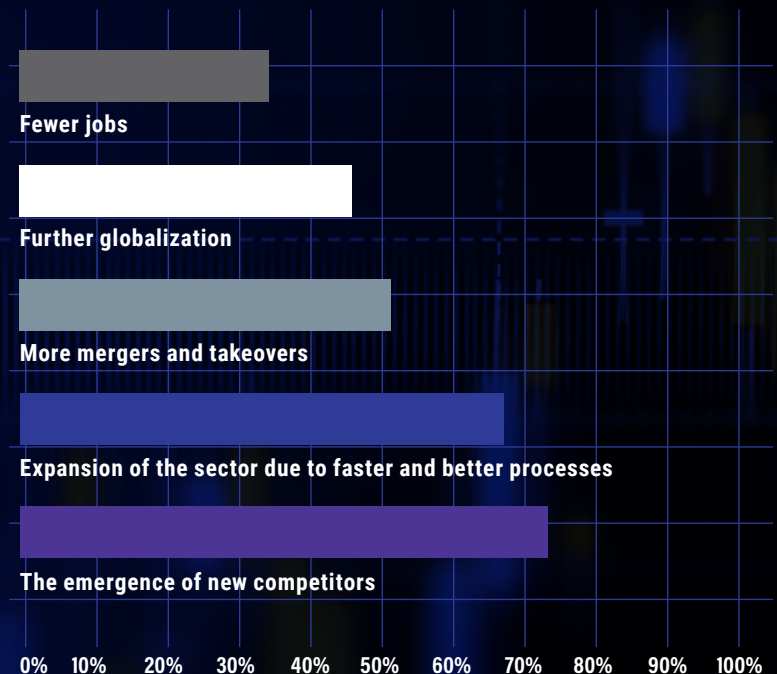
When asked whether their CRM systems are fully integrated with other business systems, 55% pointed to full integration in the areas of customer acquisition. An even higher number (63%) said that reports are fully integrated with other business systems. Other applicable systems seeing full integration included regulatory documentation (40%) and proposals (38%), with pitch books ranking low at only 8%. Most respondents described their organizations as either comparing with their peers or surpassing them on the road to DX. Only 20% thought their organizations were leading the way.

Estimating the Future Impact of Digital Transformation

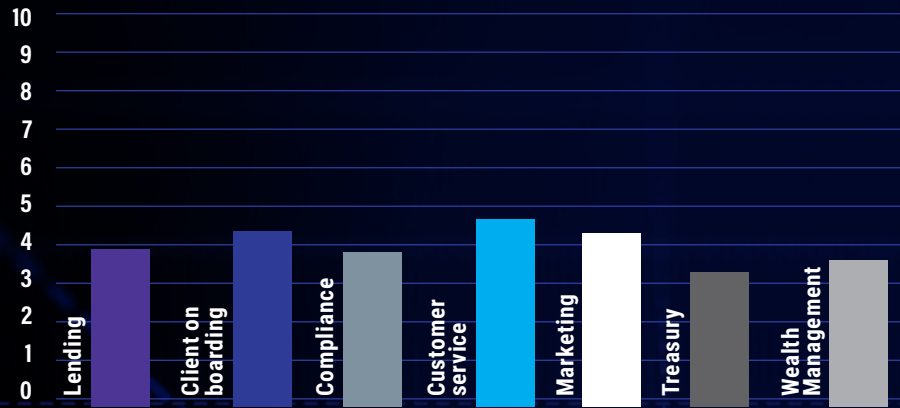
The Digital Shockwaves survey concluded by asking respondents to describe the future impact of DX on the financial services sector as a whole. The less desirable possibilities included increased job loss and the continued emergence of non-traditional competitors. Positive comments focused on an improved customer experience, further globalization, and expansion due to faster and better processes.

Britton points to inclusivity as another important aspect of DX. “New fintechs and other alternatives to incumbent financial institutions make it easier for everyone to access services, which creates opportunities by eliminating barriers” she says. “The benefits range from new Canadians being able to find the supports they need, and tourists using payment tech, such as Alipay and We Chat Pay, to startups and small businesses being able to find financing for promising ventures.”

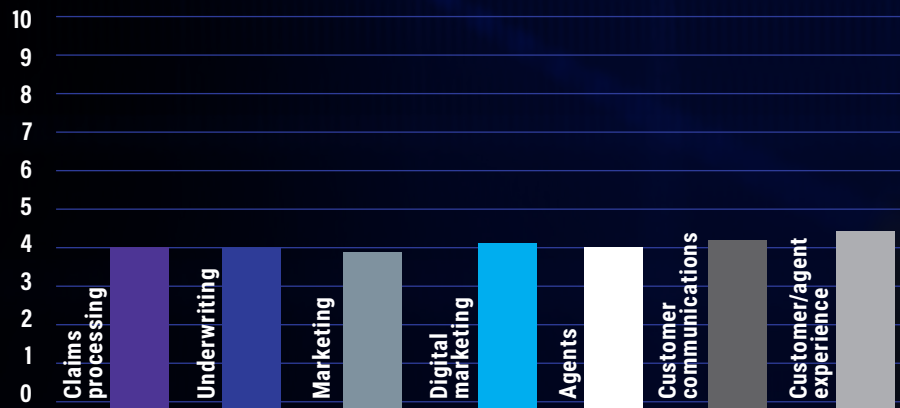
What is the likely future impact of DX on the financial services sector?



If you are a bank how significant will the impact of DX be on the following areas of your business?



If you are an insurer, how significant will the impact of DX be on the following areas of your business?



In the report *Fintech and innovation: past and future*, George Osborne, Head of Alternative Finance and Director of Innovation for Barclays Bank PLC reflects on the rapid adoption of next generation payment technologies such as contactless payments, converged mobile wallets, wearable payment solutions, and the integration of digital currencies. “The biggest opportunities in 2018 will be the use of blockchain technologies and digital identity management,” he says. “Blockchain will become part of the strategy of many businesses, leveraging the cost savings and transparency that a distributed ledger can provide.”

With IDC predicting that worldwide spending on digital transformation technologies will reach \$2.1 trillion by 2020, almost doubling from \$1.1 trillion in 2017, there’s clearly no room for complacency. “Digital transformation is no longer an option. It’s now the only option,” says OpenText’s Albert Tay. “The future is filled with technology-based innovation and disruption. To cope and compete, CIOs must learn to develop an appropriate pace for digital change.”

Four influential fintech themes emerge in a recent report from McKinsey: advanced analytics and AI, distributed ledger technology, the application of automation and robotics, and greater efficiencies through technologies such as cloud and quantum computing. According to this report, capital market infrastructure providers (CMIPs) recognize the potential impact of fintech, yet don't know how to go about adopting new technologies.

“Successful CEOs realize that DX and the creation of new business models are a must if a company is to succeed,” says Britton. “The onus is on leadership to have a clear vision of where they must go, and the fortitude and persistence to take risks with their boards, shareholders, and executive team. We also need innovation in government and a new push by higher education to offer programs and retraining to those who are poised to be replaced by automated processes. Too many employers are not telling their people what's coming.”

Any long journey requires a map, and digital transformation is no exception. Weathering the storm along the way brings its own requirements for innovative strategies, creative structures and long-term direction. Barclays Bank PLC,

for example, has responded to the ever-shifting financial services landscape with a digital transformation agenda aimed at trading their 18 on-premise datacenters for services available through the public cloud. On the AI front, digital assistants, such as Bank of Montreal's Bolt, are relieving banking employees of routinized tasks, saving billions of customer service hours, and improving the response time on phone and social channels.

Digital Transformation may lead to disruption, but it's disruption that results in a greater return on investment. “A necessary part of keeping pace is controlling our fear of the path ahead,” says Tay. “For the insurance and financial services industry, understanding cognitive systems, big data analytics, and machine learning technologies and knowing how to leverage them will be critical for survival. In the short term, these technologies will give organizations faster access to sophisticated insights, empowering them to make better decisions and act with agility to outpace their competitors.”

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