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DIGITAL TRANSFORMATION: THE NEW DAWN BELONGS TO DATA

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INTRODUCTION
DIGITAL TRANSFORMATION: THE NEW DAWN BELONGS TO DATA

Digital transformation has become today's imperative for survival. So how do firms do it well?

The charge for digital transformation means challenging the way businesses have been run for decades. To achieve that requires real vision. And a clear idea of what good looks like.

The secret is to be clear where a constellation of technologies is best used, determine where technology is simply part of the kit bag and where one type of technology is not part of the answer for that particular phase.

So where should firms start? With so many options, a digital transformation imperative, and a market littered with false starts, the best route is not always apparent.

With the industry heavily focusing on decreasing 'run-the-bank' budgets by increasing productivity and reducing cost, the temptation is to have processes as the primary focus. This has been a long-standing go-to. However, using technologies to replicate bad processes just locks in more problems.

Those in the know understand that data is the new dawn and it is just around the corner.

02
INTELLIGENT AUTOMATION

Financial institutions already understand the need to 'change the business' to survive. Survival means taking back control of processes and driving out costs to become more responsive to the needs of clients. The challenge is how and where to start. Or, if having learnt from earlier false starts, how to leap ahead. With data holding the key to important insights into the business and clients, the initial technology-led forays into digital transformation have proven technology is not the ideal starting point. A primary focus on technology has hindered firms achieving their digital transformation objectives.

OFTEN, FAILURE IS BAKED IN FROM THE START: FIRMS BEGIN WITH AN END GOAL IN MIND, RATHER THAN PREPARING THE BUSINESS AS A WHOLE FOR DIGITAL TRANSFORMATION AND INNOVATION

Digital transformation means significant change and that comes with its own challenges. McKinsey tells us that 70% of change programmes fail to achieve their goals "largely due to employee resistance and lack of management support". However, if a firm is truly invested in change, McKinsey says a programme is 30% more likely to succeed.

"While companies have been obsessing about how to use digital to improve their customer-facing businesses, the application of digital tools to promote and accelerate internal change has received far less scrutiny," the company states. "Applying new digital tools can make change more meaningful—and durable—both for the individuals who are experiencing it and for those who are implementing it."

Increasingly, organisations that once enjoyed the luxury of time to test and roll out new initiatives must now do so in a compressed period while competing with tens or hundreds of existing (and often incomplete) initiatives, says McKinsey. In this dynamic and fast-paced environment, competitive advantage will accrue to companies with the ability to set new priorities and implement new processes faster than their rivals.

So why the false starts? A significant amount of initial digital transformation initiatives focussed on labour arbitrage. Where firms once looked to offshore middle and back office operations to reduce cost, now they were looking to improve productivity by automating certain offshore processes.

So, what are robots best suited to? Gartner describes Robotic Process Automation (RPA) as the proverbial low hanging fruit of digital transformation, as a gateway technology. RPAs are best for mimicking simple tasks with structured data rather than complex end-to-end processes. Indeed, with processes being made up of multiple tasks, RPAs are probably applicable to less than 30% of a firm's portfolio of tasks.

Processes, such as KYC, are easily made up of hundreds of tasks, so it is important to identify the simple tasks that are applicable, rather than considering robots for an end-to-end process.

03

THE DIGITAL TRANSFORMATION IMPERATIVE– THE RIGHT PREPARATION IS KEY

The high rate of failure of change programmes is sobering. Often, failure is baked in from the start: firms begin with an end goal in mind, rather than preparing the business as a whole for digital transformation and innovation.

Virginie O'Shea, research director at Aite Group, says firms can best prepare for digital transformation projects by ensuring their current processes are well-documented and understood by the transformation team (either internal, external or both).

"Also, mapping and understanding taxonomies for key data items and location of those data assets is an essential part of the process. If you don't understand current state, there's no way you can hope to map a route to future state."

O'Shea says best practice in data management and strategies for digital transformation involve establishing foundational data standards and taxonomies that are consistent across the business "or enterprise, if you are very ambitious." This is a best practice that is often overlooked, she adds. "Next generation technologies are only usefully implemented when the data you feed into them is actually fit for purpose – technology is no 'fix all' for a firm's broken processes."

Digital transformation means different things to different organisations; it is an all-encompassing approach that can speed the development of new products and services and improve management decisions. But at the same time, it can disrupt traditional business models. It needs to be considered more as a business transformation than a technology transformation.

Digital transformation is the integration of digital technology into all areas of a business, resulting in fundamental changes to how businesses operate and how they deliver value. It also means cultural change that requires staff to experiment and challenge the status quo. This often means abandoning long-standing business processes in favour of new practices.

In financial services, digital transformation is being applied to long-standing manual processes in the front, middle and back offices. Financial institutions are focusing their efforts on automating processes across multiple functions. These include managing data (capture, cleansing, validation), matching and reconciliation, document production, workflow tools, process monitoring and reporting.

04 THE DIGITAL TRANSFORMATION CHALLENGE

Early failures in financial services have led to disappointment and debate around digitisation upside. When this happens, senior management can withdraw sponsorship of such programmes and the wider advantages that could be achieved with a broader and deeper toolkit of disruptive technologies will be lost. Building a business case and achieving senior sponsorship will also become harder in the future.

MASTERY OVER DATA GIVES FINANCIAL INSTITUTIONS THE ABILITY TO SHRINK AND CHANGE PROCESSES AND IMPLEMENT NEW TECHNOLOGIES ON DATA THAT THEY CAN TRUST

To succeed digital transformation requires a radical change in focus. Rather than replicating processes that in many cases may be sub-optimal, processes need to be overhauled and optimised. Data needs to be put at the heart of the transformation, so the right data can be intelligently connected in the right format at the right time. The goals need to be ambitious to generate the business change and return needed. For this to happen, firms need to be able to automate end-to-end complex processes containing structured, semi-structured and unstructured data.

Only being able to digitise simple tasks or processes is unlikely to generate the returns or change being sought. Understanding the challenge from the outset will enable higher value and more complex processes to be digitised thereby generating real change and real returns.

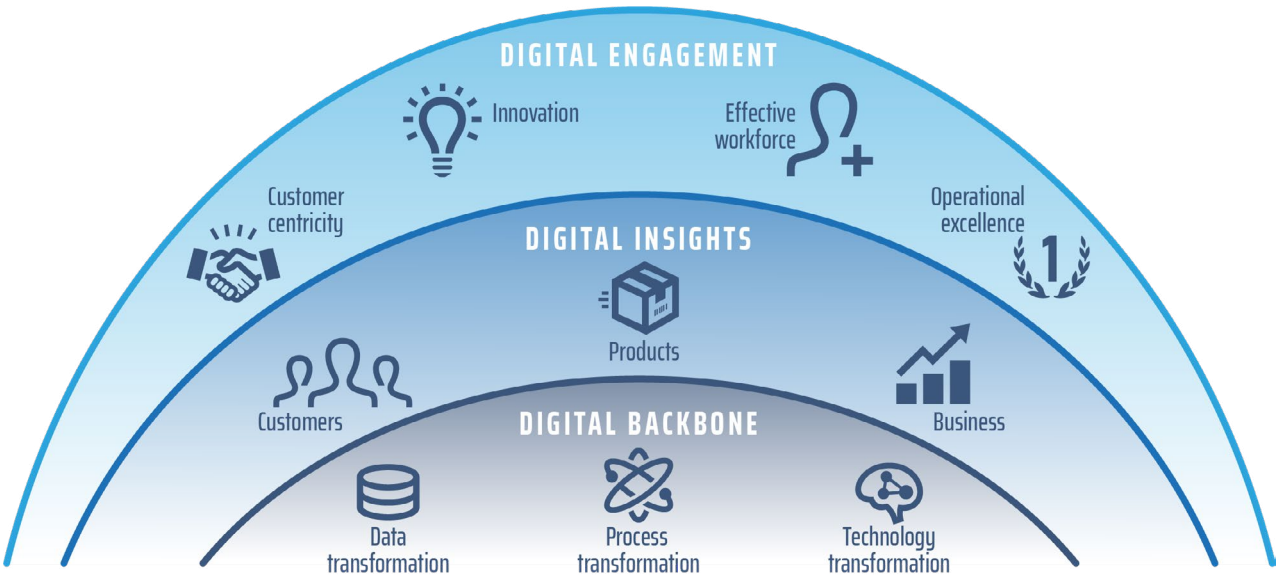
05

THE NEW BEGINNING: THE DIGITAL BACKBONE

Digital transformation represents real change that encompasses customer centricity, operational excellence, new business models, and effective employees. These need technically agile data strategies to be able to create those all-important value-add services. So where should you start?

WITH AROUND 80% OF DATA BEING UNSTRUCTURED, IT IS ESSENTIAL THAT IT IS HARNESSED EFFECTIVELY

Something as significant as digital transformation requires a solid basis that can ensure projects are successful. This is the digital backbone. The digital backbone consists of three areas of transformation: data, process, and technology.



Of the three, it is crucial to start the process with data. Mastery over data gives financial institutions the ability to shrink and change processes and implement new technologies on data that they can trust. By looking at challenges through a data lens, they will be able to generate those all-important insights into customers, products, and their businesses, informing where and how to change.

In too many companies, the benefits of data remain undefined. And with around 80% of data being unstructured, it essential that it is harnessed effectively.

Banks need to generate analytics-based insights quickly, so they need a coordinated data transformation programme that explicitly involves the business and can be deployed across multiple functions and business units.

Looking at processes through a data-first lens enables firms to reimagine those processes. Those reimagined processes also enable banks to learn critical lessons about workflows and where automation is possible, and where human intervention is needed and wanted.

Then it is possible to assess, from an ecosystem of automation technologies, which ones are best applied where in order to achieve full, partial or lean manual automation.

06

BUILDING ON THE DIGITAL BACKBONE: DIGITAL INSIGHTS AND DIGITAL ENGAGEMENT

Once a firm has a digital backbone in place and has transformed its data, processes, and technology, it can move on to gaining digital insights into its customers, products, and business.

Such insights will give firms a better view of these areas, enabling them to tailor products for customers to achieve best execution, for example. Moreover, other benefits of gaining greater insight could include cost effectiveness such as minimising collateral requirements or identifying unprofitable trades or clients.

DIGITALISATION OF TRADE AND CLIENT LIFECYCLES WILL ONLY GENERATE EVEN MORE DATA, SO IT IS VITAL THAT FIRMS START WITH DATA

The more insight a firm has into its data, the better. Digital insight should enable firms to drive down their operating costs, while gaining better insights into their customers.

A digital backbone enables firms to gain customer, product and business insights based on trusted data. This in turn supports the creation of new business models that are customer-centric, enables firms to make more strategic use of staff, and develop future-proof business models.

The pinnacle of the digital transformation process is digital engagement, which enables four key elements to complete a transformation exercise:

– Customer centricity
– Innovation
– Effective Employees
– Operational Excellence

These four elements are closely interlinked. By transforming digitally, firms can ensure that data is accessible, no matter where in the organisation it sits or in what form. High quality, reliable, and trusted data can be used and reused, including for purposes not yet thought of. This initial focus on data ensures that firms are able to derive the best value from their data. This is essential to build a business that will survive and thrive.

07

THE DIGITAL BACKBONE IN PRACTICE- CASE STUDIES

DATA TRANSFORMATION FOR RPA ADOPTION

PROBLEM

PLAN TO AUTOMATE 6,000 BACK-OFFICE PROCESSES

A bank had identified 6,000 non-strategic back-office processes that it considered suitable for robotic process automation (RPA). In common with many other institutions, the bank planned to replace a good proportion of existing offshore jobs with robots to save money and help transform its business.

CHALLENGE

BOTS COULD NOT ACCESS DATA FOR ALL PROCESSES

While the bank had identified the right kinds of processes – labour-intensive ones requiring many employees that involved repetitive, rules-driven work – the bots were only able to access the data in around 1,000 processes. The RPA worked best when handling structured data and simple tasks.

OUTCOME

ANY TYPE OF DATA IN ANY FORMAT — EASILY CAPTURED

All data in the 6,000 processes is now accessible to produce real-time consolidated reports, exception work queues and dashboards. These are automatically distributed to users. Data transformation enabled the capture of both internal and external data, including from the robots. The data transformation also meant a proportion of the 6,000 processes no longer needed to be processed by bots and instead remain with Xceptor.

CONNECTING INDIGESTIBLE DATA AND CREATING INVALUABLE INSIGHTS

PROBLEM

COMPLEX, MANUAL PROCESSES

Our client had multiple systems and repetitive, manual processes to manage 400-page invoices. Volumes of processes were also high. Complex fee data could not be interrogated or validated due to the complexity of the process. An inability to do proper due diligence meant invoices were typically being paid if within 5% of the previous month's invoices.

CHALLENGE

INABILITY TO CAPTURE DATA, INTRICATE PROCESSES

Faced with complex and indigestible data in hundreds of invoices in various formats (pdf, word, email etc), the client needed to ensure invoices were paid in a timely manner. The client needed to capture the data in each invoice and transform it so it could be validated against internal records of multiple fee structures. They wanted to eliminate the risk of paying the wrong amounts and have controls in place to capture any large changes from month-to-month.

OUTCOME

CONNECTED DATA, SIMPLIFIED PROCESSES

Invoice data is captured across all formats and channels. All fee structures are connected and can now be interrogated. Automated processes ensure line by line reconciliations. Intelligent data insights also enable the firm to identify high cost agents, high exposure to certain markets or agents, and any high cost trading activity.

INTELLIGENT AUTOMATION FOR CUSTOMER ONBOARDING

PROBLEM

REPEAT REQUESTS, REPETITIVE TASKS

New clients are subjected to lots of repetitive, time consuming requests which results in a negative customer experience. Handling of the onboarding is largely done through manual paper-based processes that carry a high risk of data error.

CHALLENGE

CONNECTING MULTIPLE DATA POINTS ACROSS MULTIPLE TEAMS

Onboarding requires lots of data points, in multiple formats. Data needs change according to the type of accounts being opened. It also involved multiple team, disparate systems across the entire business. Each of these teams holds the data in different ways and in different formats.

OUTCOME

CONNECTING THE RIGHT DATA, IN THE RIGHT FORMAT, AT THE RIGHT TIME

Data is automatically captured and transformed, and processes have been overhauled and optimised. Reference data now determines workflow of the onboarding process as well as what documents are required. Intelligent automation means inline data validation provides immediate feedback to clients on any issues.

08
CONCLUSION

FOCUS ON CHANGE-THE-BANK

Operational complexities mean many banks are struggling to make the requisite, major changes needed in their operating models to embrace the full potential benefit of emerging technologies.

At the same time, post-crisis regulatory frameworks have been settling into place, and financial institutions have been adjusting their business models accordingly. This has left limited time and budget to focus on 'change-the-bank' initiatives.

With a backdrop of operational and regulatory complexity and cost pressure, intelligent automation has become today's imperative. The lack of a single comprehensive view of trades or common integration layer of platforms across regions and products has led to inefficient post-trade processes, wasted resources and costly exception processing and fails management.

Firms have been slow to address this issue, largely because it requires a fundamental change to the way data is handled, but there is increasing recognition that a new approach, which leverages intelligent automation to regain control over the flow of data, is necessary.

DIGITAL TRANSFORMATION: KEYS TO SUCCESS

Three keys to success sit at the core of any digital transformation project:

- Consider data as the core strategic asset – all data, all formats, all channels, and scope projects through a data lens so it can be transformed to meet multiple needs
- Re-imagine processes to enhance them, create optimal workflows and deploy an automated reconciliation process to ensure no information is lost
- Build a strategic ecosystem of automation technology partners to deploy them to the tasks and processes that fit best

To survive, banks need to start, or reboot, their digital transformation journeys with intelligent automation to adopt a leaner and adaptive approach.

Digitalisation of trade and client lifecycles will only generate even more data, so it is vital that firms start with data. Data is the key to an evolutionary and flexible approach for future transformation.

By starting with data to overhaul and optimise processes, firms will find that they can also re-imagine the technologies they need. Because they can trust the data that is being used, they will also be able to automate higher value and complex processes. This will enable them to gain higher ROI and buy-in across the business.

Intelligent automation is a journey. As firms' progress, the impact will be greater and greater for the business.

09 ABOUT

Finextra

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ABOUT

Xceptor

Xceptor puts data at the heart of intelligent automation. We capture and transform data; overhaul and optimise processes. We automate the complex. Simply.

As part of the ecosystem of technologies, we intelligently connect the right data, in the right format, at the right time.

With over 40 clients including HSBC, J.P. Morgan, Standard Chartered, BNY Mellon and Deutsche Bank, Xceptor is helping to change the rules of what's possible in today's operations.

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