

**THE FINTECH REVOLUTION:
DIGITAL INNOVATION AND
TRANSFORMATION IN
FINANCIAL SERVICES**

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Introduction

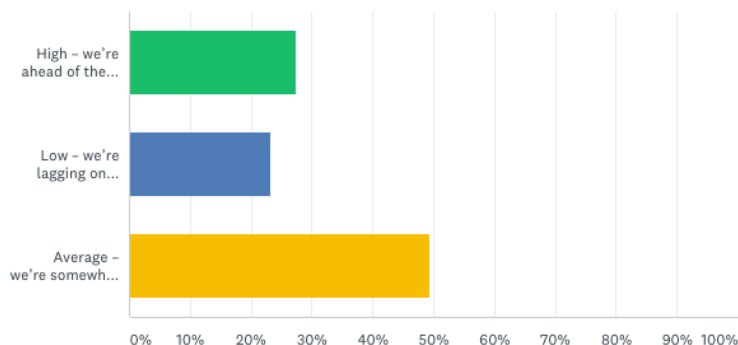
Digital transformation, the change associated with applying digital technologies to all aspects of a business, is beginning to impact financial services organizations in a big way. Following years of dominance by large institutions, the industry is undergoing incredible disruption in the form of nimble, tech-savvy startups. Well-established financial services companies are increasingly finding themselves confronted with fast-moving fintech disruption.

We surveyed 95 middle- and senior-level managers in the financial services industry to learn about their organizations' attitudes and progress when it comes to digital transformation. The findings reveal changing mindsets, but also many opportunities for improvement as organizations embrace the shift to fintech.

Realistic Assessments of Progress, but Undersized Expectations for Innovation

How would you rate your company's digital transformation initiatives compared to others in your industry?

Answered: 95 Skipped: 0



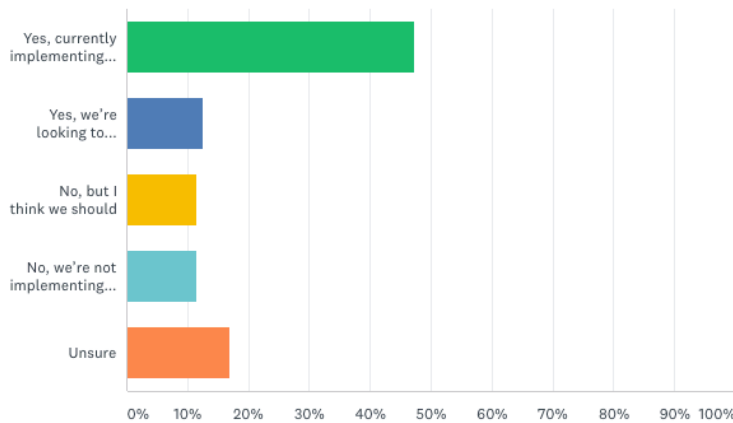
23%
SAY THEIR
COMPANY IS
BEHIND THE
DIGITAL CURVE.

ANSWER CHOICES	RESPONSES	
High - we're ahead of the curve	27.37%	26
Low - we're lagging on digital	23.16%	22
Average - we're somewhere in the middle	49.47%	47
TOTAL		95

Unlike their counterparts in other industries, financial services companies seem to take a very realistic view of where they stand when it comes to implementing new technologies. When asked to rate their companies' digital transformation initiatives compared to others in the industry, almost exactly half of respondents (49.5%) say they're average, with the remaining respondents evenly split between saying they're ahead (27.4%) or behind (23.2%) on the digital curve.

Is your organization currently working to implement new digital technologies?

Answered: 95 Skipped: 0



47%

ARE WORKING TO
IMPLEMENT NEW
TECHNOLOGIES.

ANSWER CHOICES	RESPONSES	
Yes, currently implementing new technologies	47.37%	45
Yes, we're looking to implement new technologies, but haven't started yet	12.63%	12
No, but I think we should	11.58%	11
No, we're not implementing new technologies	11.58%	11
Unsure	16.84%	16
TOTAL		95

Even with a seemingly solid understanding of their positioning in the technology continuum, however, the organizations that participated in our survey reveal some potentially damaging attitudes towards innovation. Some 47.4% of respondents say they're currently working to implement new technologies, and an additional 12.6% are looking to do so, but haven't gotten started yet. That's a total of just 60% of organizations looking to innovate through technology.

In an innovate-or-die world, this should come as a shock. It's no secret that consumers want more, better, faster. As financial organizations find themselves competing with digitally-native counterparts—online services such as Circle, Mint, PayPal, and Venmo, as well as a plethora of smaller emerging firms—innovation through technology is a vital component to staying competitive. In fact, consumers today expect the agility of smaller fintech companies from longer-running financial institutions, who they perceive to have more room to experiment and evolve.

Confronted by fresh challengers, financial services organizations must modernize their digital strategy to remain (or become) market leaders. Yet only an additional 11.6% of respondents took a stand to say that their organizations were not currently working to implement new digital technologies, but that they think they should.

Also significant is the alarming 16.8% of respondents that were unsure of whether their organization is looking to

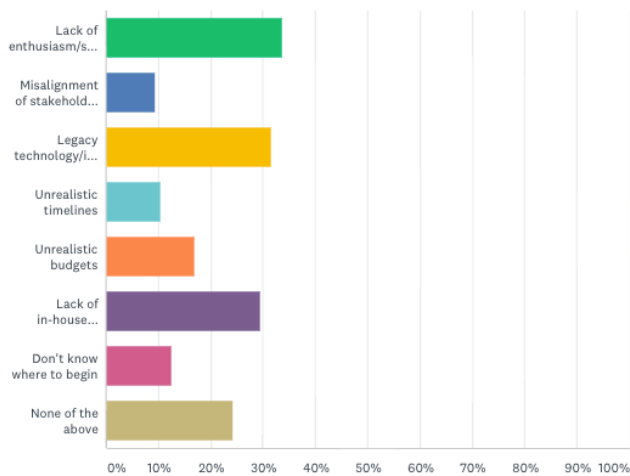
implement new digital technologies. Digital transformation is a company-wide effort that should involve every facet of the business, so having upper-level managers that are unaware of digital efforts is a major problem.

Before any digital transformation can start, a culture of innovation is vital. For financial services organizations, which often default to risk-aversion, the uncertainty that comes with experimentation and innovation can paralyze digital efforts to the point of inaction. It can feel like the safer road forward is the right path, but in reality, it's the riskiest long-term strategy a business can take. Making the decision to move forward with innovation and digital transformation is a first step towards finding stability and success.

What is Holding Digital Transformation Back?

What challenges/roadblocks have you or your organization encountered when looking to implement new technologies? (select all that apply)

Answered: 95 Skipped: 0



34%

SAY LACK OF SUPPORT FOR CHANGE IS A BIG CHALLENGE.

ANSWER CHOICES	RESPONSES
Lack of enthusiasm/support for change	33.68% 32
Misalignment of stakeholder expectations	9.47% 9
Legacy technology/infrastructure	31.58% 30
Unrealistic timelines	10.53% 10
Unrealistic budgets	16.84% 16
Lack of in-house technical skill	29.47% 28
Don't know where to begin	12.63% 12
None of the above	24.21% 23
Total Respondents: 95	

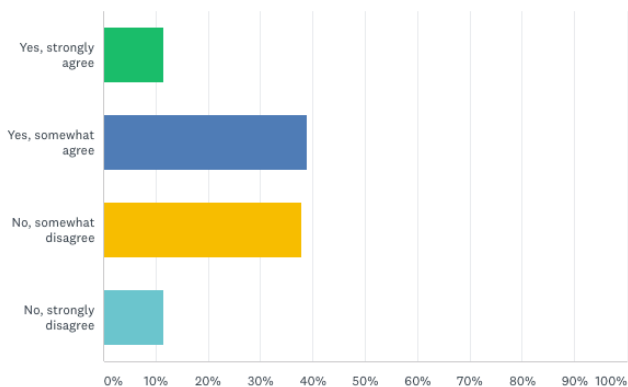
When looking to implement new technologies, legacy technology and infrastructure (31.6%), a lack of enthusiasm and support for change (33.7%) and a lack of in-house technical skill (29.5%) top respondents' lists as the biggest challenges or roadblocks they've encountered.

Having worked on digital transformation projects with leading global brands over many years, these obstacles are all too familiar. Fortunately, with greater understanding of the problem, there are steps organizations can take to overcome these challenges.

Challenge #1: Legacy Technology and Infrastructure

Do you believe your company's existing technology deployments are holding it back from new innovations?

Answered: 95 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes, strongly agree	11.58%	11
Yes, somewhat agree	38.95%	37
No, somewhat disagree	37.89%	36
No, strongly disagree	11.58%	11
TOTAL		95

51%

BELIEVE THEIR EXISTING TECHNOLOGY IS HOLDING THEM BACK.

Once digital transformational projects get underway, contending with legacy technologies and infrastructure is one of the biggest obstacles we see everyday. More than half (50.5%) of respondents agreed, saying that they believe their company's existing technology deployments are holding it back from new innovations.

This is a problem particularly poignant in well-established financial services companies that may have been architecting piecemeal on the back-end for years. Building a new, ideal solution from scratch is not a practical option from a fiscal or timeline standpoint. Most companies have existing hardware and software deployments and dependencies that they need to figure out how to work with, or phase out with a realistic approach, timeline, and budget—and without disrupting the customer experience.

Anyone that has addressed this issue with a programmer will also tell you that legacy development work can be just as problematic as legacy technology. This issue is known as technical debt—extra development work that piles up

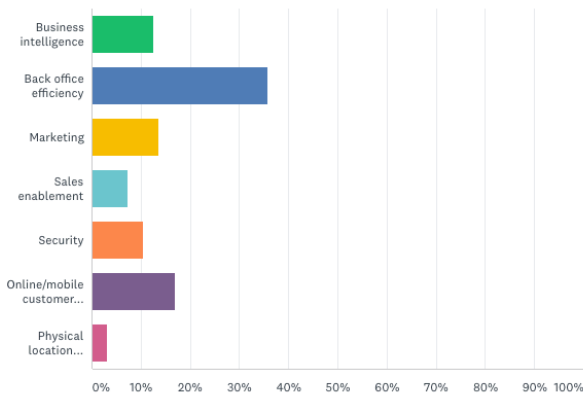
because teams use workarounds that are faster or easier to implement in the short run, instead of taking extra time to apply the best overall solution.

In financial services, this often happens because established players are rapidly bringing in new technologies through acquisitions or mergers, creating an architecture that's a Frankenstein project of smaller pieces. It's not sustainable, and it doesn't scale well. On top of that, a revolving door of executives and tech talent over time creates complexity that few to zero people understand. Digging out of technical debt isn't exciting. People want to create something new, not pay for problems that are already there. However, it is very necessary for building a robust digital business that will survive long-term.

Challenge #2: Lack of Enthusiasm and Support for Change

Where do you see the greatest opportunity for digital transformation at your organization?

Answered: 95 Skipped: 0



36%
SEE BACK OFFICE EFFICIENCY AS ONE OF THE BIGGEST OPPORTUNITIES.

ANSWER CHOICES	RESPONSES
Business intelligence	12.63% 12
Back office efficiency	35.79% 34
Marketing	13.68% 13
Sales enablement	7.37% 7
Security	10.53% 10
Online/mobile customer experience	16.84% 16
Physical location customer experience	3.16% 3
TOTAL	95

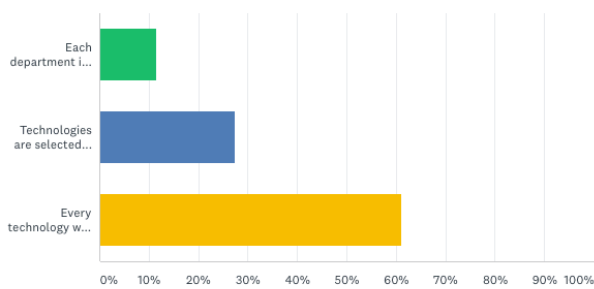
Even without harkening back to the undersized expectations for innovation outlined previously, digital transformation has an image problem. As this survey uncovered, more than a third (35.8%) of respondents saw the greatest opportunity for digital transformation at their organization in improving back office efficiency, with an additional 12.6% identifying business intelligence as the greatest prospect. While these may hold the most promise, they are decidedly unsexy when pitted against projects like deploying AI to skyrocket sales or investigating a block

chain approach to better secure transactions. Still, financial service organizations must rally the troops around the projects that will move the needle for the business.

Another third (33.7%) of respondents see the greatest opportunity for digital transformation at their organization in marketing online and physical customer experience. While these customer-facing initiatives can be more exciting than those on the back end, they are also largely driven by marketing budget, which can mean more limited financial support behind them.

When implementing new technologies, what approach does your organization take to deployment?

Answered: 95 Skipped: 0



39%
SAY TECHNOLOGIES
ARE DEPLOYED
BY DIFFERENT
DEPARTMENTS.

ANSWER CHOICES	RESPONSES
Each department is in charge of selecting and implementing its own technologies	11.58% 11
Technologies are selected and deployed independently by each line of business	27.37% 26
Every technology we deploy is a company-wide initiative	61.05% 58
TOTAL	95

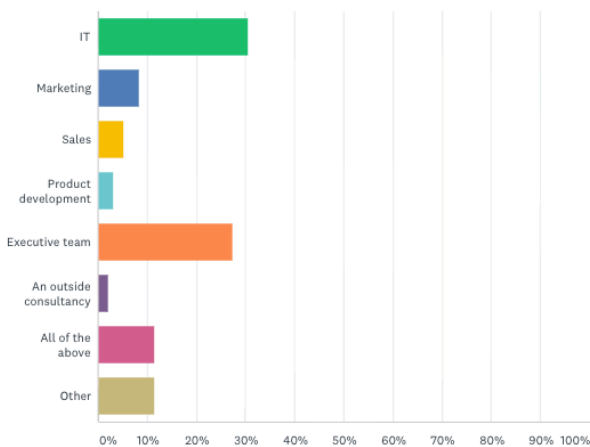
One interesting finding from the survey is that most organizations report every technology they deploy is a company-wide initiative. More than a third (38.9%), however, say that technologies are selected and deployed independently by different departments or lines of business.

This lack of alignment can lead to conflicts down the road. Contrary to common belief, digital transformation is not just about technology, it’s also about business process and organizational changes. Organizations that want to be successful with their digital transformations need to start by aligning stakeholders from across all facets of the organization behind the company’s innovation efforts. Having the team working off of the same playbook and finding ways to build on technologies being deployed throughout the organization, is vital.

It may come as no surprise that IT (30.5%) and the executive team (27.4%) are the two business functions that most often lead new technology initiatives (see page 9). While these two groups typically work hand-in-hand when it comes to digital transformation, their approaches to the business can often be at odds. While members of the

If your organization wanted to implement a new technology today, what business function leads the process?

Answered: 95 Skipped: 0



ANSWER CHOICES	RESPONSES	
IT	30.53%	29
Marketing	8.42%	8
Sales	5.26%	5
Product development	3.16%	3
Executive team	27.37%	26
An outside consultancy	2.11%	2
All of the above	11.58%	11
Other	11.58%	11
TOTAL		95

31%

OF DIGITAL INITIATIVES ARE LEAD BY THE IT TEAM

27%

OF DIGITAL INITIATIVES ARE LEAD BY THE EXEC TEAM.

executive team may have a picture in mind of what they want the business to look like, they need the help of IT to find the right path to achieve those goals. While IT has a deep understanding of the challenges that may cause an initiative to fail, they may have a hard time conveying those realities to an executive team that doesn't understand the complex dependencies and technical debt that exist within their organization.

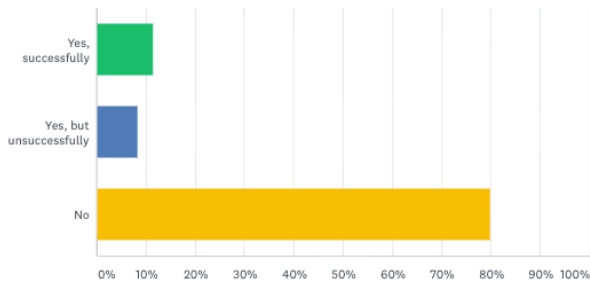
It can be a vicious cycle. Most financial services companies have likely tried and failed at digital transformation at least once. When that happens, a new executive will come in with a fresh start and new excitement, but then delays and miscommunicated expectations can quash those projects. Major setbacks will often cause the executive to leave, which starts the cycle all over again.

A more surprising finding is that, for more than 1 in 10 organizations (11.6%), all roles—IT, marketing, sales, product development, the executive team and outside consultancies—will lead new technology initiatives. Digital transformation projects need both enthusiasm and support to succeed, and one of the best ways to foster both of these is by involving every facet of the business. But keeping visions, budgets and timelines aligned—especially when so many cooks are in the kitchen—is the underlying thread that will ultimately decide an initiative's success or failure.

Challenge #3: Lack of In-house Technical Skill

Have you worked with a large consultancy (Deloitte, IBM, KPMG, Accenture, etc.) to implement new technologies within your organization?

Answered: 95 Skipped: 0



42%
OF THOSE
WHO WORKED
WITH A LARGE
CONSULTANCY,
SAY THEIR
PROJECTS FAILED.

ANSWER CHOICES	RESPONSES
Yes, successfully	11.58% 11
Yes, but unsuccessfully	8.42% 8
No	80.00% 76
TOTAL	95

For the most part, financial services organizations know which technologies they want to use. The disconnect often emerges in the brass tacks—making transformation projects work on a realistic timeline and budget that all stakeholders can agree on. Organizations may also lack the people or skill sets to adapt to modern technologies successfully.

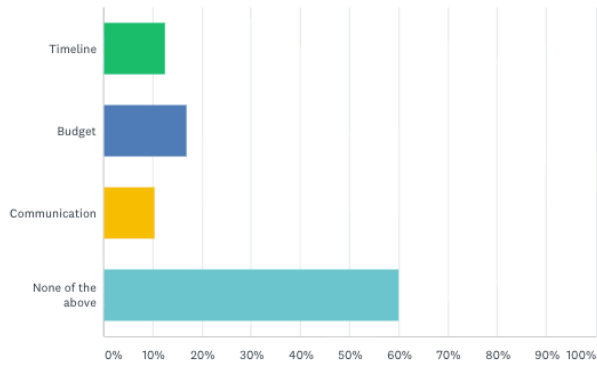
In these instances, it's common for businesses to enlist the help of an outside consultancy. Unfortunately, although few respondents reported having worked with a large consultancy like Deloitte, IBM, KPMG or Accenture to implement new technologies within their organizations, those that have done so reported that their projects still ended in failure 42.1% of the time.

Those that have encountered problems when working with large consultancies on their digital transformation projects cited budget (42.1%), timeline (31.6%), and communication (26.3%) as the biggest issues they ran into (see page 11).

In a way, these problems are all interconnected. When internal teams and their consultancies don't communicate well, they can easily fall out of alignment at any phase in their digital transformation. Once that happens, any hiccup in the timeline—whether it's IT uncovering an unplanned dependency, or a project stakeholder asking for a tweak that sets developers back by a couple of days—can throw off the project, and therefore the budget, altogether. These small diversions can, and often do, snowball into a larger and more threatening issue.

Did you encounter problems with any of the following when working a large consultancy on your digital transformation project(s)?

Answered: 95 Skipped: 0



ANSWER CHOICES	RESPONSES	
Timeline	12.63%	12
Budget	16.84%	16
Communication	10.53%	10
None of the above	60.00%	57
TOTAL		95

42%

OF THOSE WHO WORKED WITH A LARGE CONSULTANCY, CITED FAILURE DUE TO GOING OVER BUDGET.

Finding the Right Path Forward

The results of this survey paint a picture of an organization that lacks enthusiasm for change, is hampered by existing technology, and acknowledges a lack of talent to change—all while simultaneously staving off disruption by smaller, more nimble firms.

We at Janeiro Digital encounter financial services organizations struggling with one or all of these three challenges on a daily basis. Our experiences in helping those businesses beat the odds and succeed in their digital transformations is what led us to develop the [Rapid Alignment, Design and Development](#) (RADD) methodology, a whole new approach to digital transformation.

Assumptions and vagaries can put even the best developers off track. Nearly every project that ends poorly has come back to miscommunication between stakeholders, managers, and developers before or during the process. Having a strategy for getting everyone on the same page and setting realistic expectations is crucial.

Our Rapid Alignment approach carefully considers an organization’s existing technology architecture and subsequent development needs, creating tangible documentation that becomes the blueprint for product strategy, user experience, and technical design. This detailed timeline clearly articulates the project goals, existing dependencies, budget, and deadlines, but also helps ensure all stakeholders are being realistic about the project

requirements and scope. Once the project starts, this timeline also makes it easier to see if any pieces are falling behind or going over budget, catching potential derailments before they spiral out of control. The Design and Development phase of RADD is where the team executes on that plan and makes it a reality.

Building Sustainable Innovation

While being successful with a single digital transformation project can feel like the most important goal in the moment, radical change can't be expected to happen as the result of a single project. True transformation begins with building blocks that culminate over time.

To that end, organizations must build towards their ultimate digital vision while salvaging value from legacy systems, and without creating any more drag that could hold the business back down the road. For example, components such as hardware or cloud deployments are necessary investments today, but are also low on the value chain. We know these technologies and vendors will evolve, so it's important to avoid too much investment in that arena, which could result in infrastructure or vendor lock-in down the line.

Developing strategies for legacy modernization and integration means looking higher on the digital transformation value chain and architecting for sustainable innovation. Financial services organizations should be creating a platform that can serve as the core or "spine" of their digital enterprise. Building new solutions based on a flexible enterprise architecture will help the business dig out of technical debt, while creating building blocks that can be swapped out more easily down the road as your business evolves.

Janeiro Digital's solution, for example, is using a flexible microservices architecture platform called [XFORM](#), which enables the most common and useful foundational components for a solution to be brought up quickly and efficiently, forming the basis for the work to come. Using XFORM, financial services companies can innovate with a shortened foundational building period, and rapidly connect new solutions to business-critical legacy systems. This translates into mitigated development risk and the enablement of future innovation.

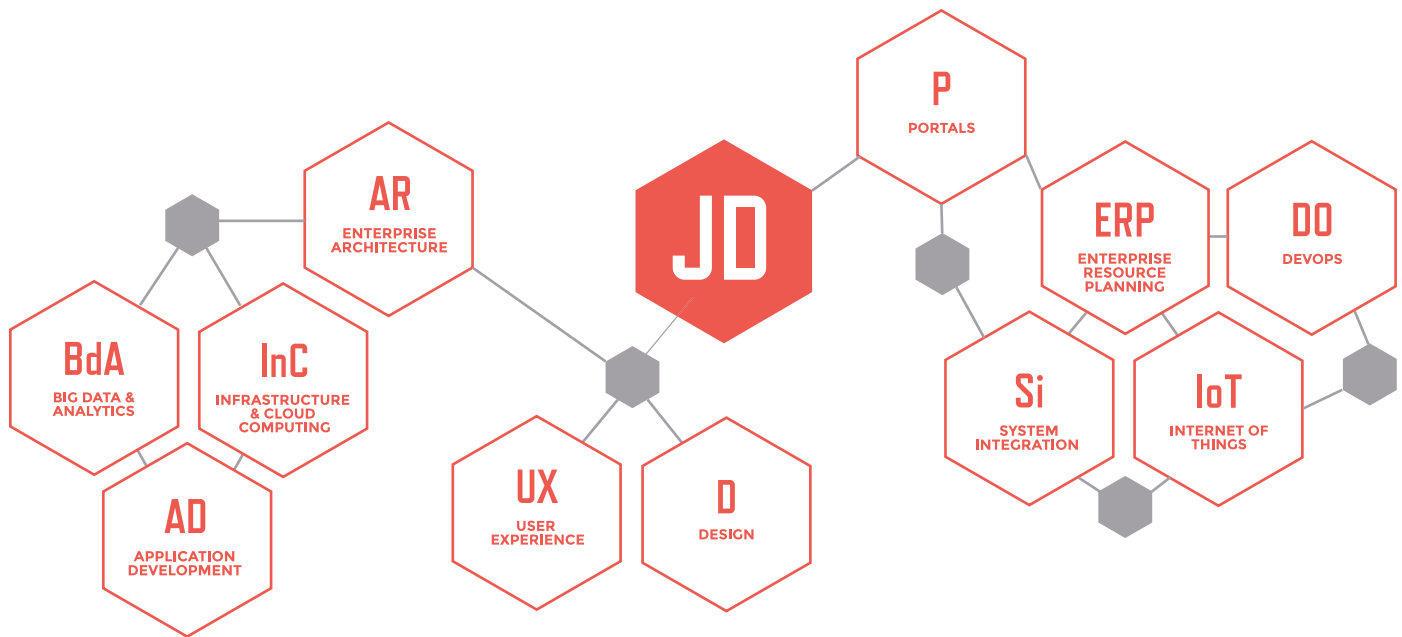
It's undeniable that the fintech revolution is underway, and we're currently at a tipping point. In the years to come, we'll begin to see those that embrace innovation and digital transformation survive and thrive, and those that lag will fade away. Taking action and approaching technology in a practical and sustainable way will make heroes out of forward-thinking organizations and the individuals that help them navigate the choppy digital waters.

ABOUT **JANEIRO DIGITAL**

Janeiro Digital is a digital business consulting services company. We design and build enterprise technology that fosters innovation and drives business outcomes. Utilizing technology to enable and address key digital business objectives, we don't just fix problems—we provide sustainable solutions that optimize our client's performance to better serve their customers.

Learn more at www.janeirodigital.com.

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