



## **Digital Transformation and COVID Adaptation**

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The last couple of weeks have seen North Americans and Europeans moving en masse to new ‘working from home’ arrangements, following the earlier lead of many of our peers in Asia, protecting themselves and seeking to slow the rate of COVID-19 transmission throughout their communities.

Amidst this new reality, the IIF and Deloitte have continued researching our *Realizing The Digital Promise* three-part series, interviewing various Chief Digital Officers and Heads of Innovation, increasingly speaking from the comfort of our and their homes. The insights we have gleaned are once again considerable, both on the enduring issues with effecting digital transformation in financial institutions, and also on the actualities of working in the current situation.

Interestingly, there are some striking parallels between the two. Firstly, there are some notable success stories with the deployment of new technological solutions. But equally, there are challenges, and for some the case of adapting to work effectively in the current predicament is perhaps presenting a microcosm of the digital transformation journey. And thirdly, there is a common emphasis on customer-centricity.

Accordingly, this article is a brief supplement to the IIF-Deloitte series, observing these parallels, and identifying potential implications for the known cultural challenges.

### **The Digital Promise**

[Part 1 of our \*Realizing The Digital Promise\* series](#) was published last month, identifying the Top Nine challenges that financial institutions face, both internal and external in nature. Several of the nine challenges were inter-related, and culture and human capital featured prominently.

A key theme to emerge has been that the banks and insurers can often implement transformational technologies successfully in the technical sense, but that there is a much greater challenge in getting the human side of change management right. This is central to fostering an innovation culture and encouraging experimentation, but also in being able to attract and retain the new talent needed, effectively partner with new FinTech firms, and bring supervisors along.

Indeed, one of the key takeaways we observed from discussions with leading industry figures in preparing Part 1 was that when bankers and insurers talk about the challenges with digital transformation, technology is seldom mentioned. It is this human side where much still needs to be done, and where the opportunity remains to unlock the value of the very substantial technological investments made.

Part 2 of our series will expand on the key enablers for and realizing the full potential of digital transformation. This report will also explore the duality of customer-centricity. For some firms, the customer focus is the driving impetus for embarking upon a digital transformation agenda, in keeping pace with customers’ expectations. For some other firms, customer-centricity is the key enabler, in

ensuring that they transform themselves in the right way and get maximum value from the transformation program.

### **Operating in a COVID World**

While we are still in the early stages of adjusting for COVID-19, our discussions have yielded similar observations: that the technical implementations of new solutions have shown some important successes, accompanied by a similar human challenge.

Firstly, some key investments in digitizing banks' and insurers' businesses over the last decade have helped ensure that they have a more versatile and resilient platform in place. In particular, cloud computing has enabled greater flexibility of work locations, and the ability to link multiple data centers together from across multiple sites provides a much stronger way to mitigate risk, as opposed to a reliance on one particular venue that could be affected in a coronavirus 'hotspot'.

*One firm identified that their new tools, infrastructure and processes have enabled them to transition seamlessly a digital team of 400 members into the unique remote working environment that COVID has cast upon us.*

Institutions' view of their risk data is also far superior to a decade ago. As noted in our Part 1 paper, several banks found that the risk aggregation remedial work triggered by BCBS239 formed the basis for new capabilities that have been leveraged successfully across the business for better and more timely analytics.<sup>1</sup>

*For example, a Canadian firm cited that their increased frequency in operational updates has directly enabled more timely, data-driven decisions in times of crisis and quickly changing situations.*

Innovations in payments are also providing critical societal functions at present, and facilitating important support for customers. Contactless card payments have offered a more hygienic form at the point of sale, while the ability to make remote payments is increasingly critical every day in facilitating home delivered goods – vital tools for helping many customers, but particularly those with at-risk relatives or young children to care for at home. New analytics are also crucial in banks' ability to support small and medium enterprise clients as they navigate supply-chain disruptions (the [2019 IIF Machine Learning survey](#) was headlined by dramatic expansion in that segment).

*As one Chief Technology Officer observed, "we can now support customers through this event in a way that we couldn't have three years ago."*

While these technology investments are bearing fruit, we are concurrently hearing of the operational-level challenges that are more culturally-centered. The occasional video-conferencing and bandwidth teething issue aside, the technology is working, but humans adapt in different ways, and a key insight from conversations over the last week has been where vulnerabilities in talent and operating models have surfaced.

*Some executives described it to us as the leadership challenge associated with teams that are 'working from home', or the issue of how you can "lead from home."*

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<sup>1</sup> BCBS239: Basel Committee on Banking Supervision, *Principles for Effective Risk Data Aggregation and Risk Reporting*, January 2013, <https://www.bis.org/publ/bcbs239.pdf>

For some leaders who have learned to effectively “manage by walking the floor” in a physical environment, the challenge now is to find new ways to achieve the same using remote means, to keep everyone contributing. It is perhaps also the strategic prioritization question: you have the technical capabilities in place for your people to work from home effectively for an extended period, but will you have them necessarily working on the right thing(s)? And can you understand customer needs and creatively brainstorm in remote environments?

This also gets to the crux of the top internal challenge identified in our first report: retaining the new talented data scientists and analytical experts. As well as seeking a sense of corporate purpose and opportunities to work with the latest technical tools, the new talented workers are often very comfortable with working from remote locations, more so than a traditional corporate culture and leadership might expect.

### **What Next?**

It is too early to confidently predict how the post-COVID world will look, and it certainly feels extremely premature to start celebrating any silver linings that may be heralded. We have a difficult and uncertain journey ahead, and one that the financial industry and broader FinTech ecosystem needs to approach with empathy and support.

But one interesting longer-term factor to watch will be how firms and teams adapt in their new operational styles, and whether that might help to re-shape corporate cultures to show greater agility and adaptivity in the future.

When addressing the IIF Future Leaders Group in New York in 2015, ANZ’s then-CEO Mike Smith linked the critical need for diversity of thought as a necessary prerequisite for being able to drive cultural change and implement new ideas. The forced experience of adapting to the COVID-19 environment may ultimately provide a cultural catalyst, and promote greater openness to transformational initiatives.

While that remains to be seen, more immediately, the IIF and Deloitte will deliver the second and third reports in our *Realizing The Digital Promise* series, respectively exploring the key enablers for transformation and the proactive actions that financial institutions can take with their external partners, and the necessary public policy settings.

We welcome all further comment and feedback, both on the broader topic of digital transformation and the specific COVID-19 observations described here. Please join that conversation with us [via LinkedIn](#).