

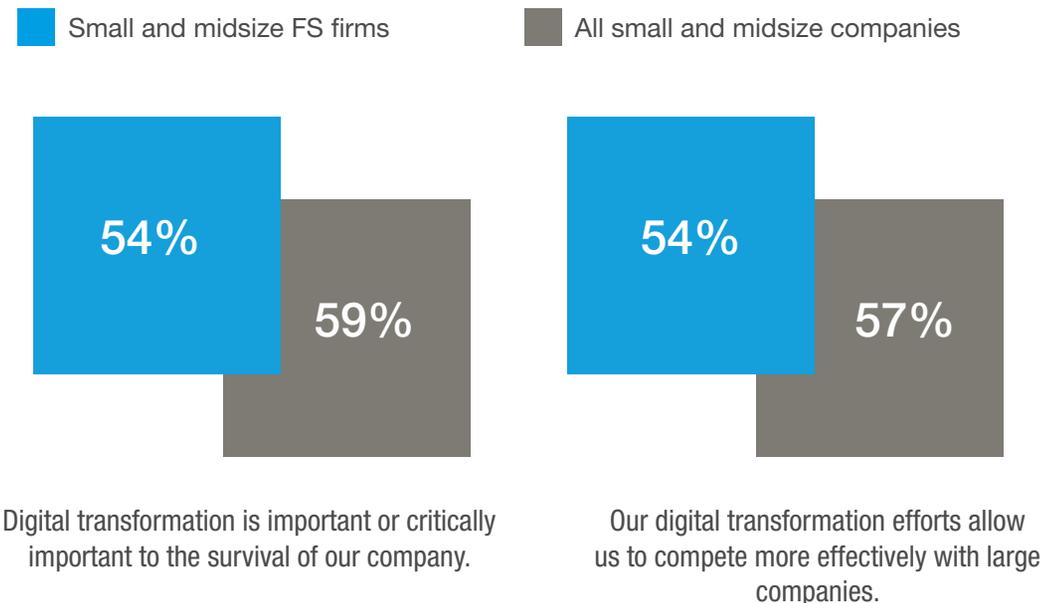
## The Transformation Imperative for Small and Midsize Financial Services Firms

Technology is transforming the way small and midsize companies do business. Our global, cross-industry survey shows that financial services firms with less than \$1 billion in revenue are committed to digital transformation and optimistic about the payoffs they will see from their efforts in the next two years.

Banks and insurers must execute on digital strategies to thrive in an era of new competitive opportunities and challenges. For retail bankers, improving customer service is an imperative as technology-based startups and rivals from other industries crowd into the marketplace; cost control, regulatory compliance, and collaboration platforms are other critical needs. Insurance companies also face disruptive competitors, and are focused on harnessing data to create innovative offerings and mitigate risk.

Financial service firms are roughly on par with other small and midsize businesses in most aspects of digital transformation: they are investing heavily in foundational technologies such as mobile and Big Data, and are seeing payoffs in many of the same areas. As emerging technologies—such as blockchain, machine learning, artificial intelligence, and voice-controlled user interfaces, along with 3D printing, augmented reality, and robotics—change the way business is done, financial services firms are focusing on the tools most critical for their industry.

While these companies have work to do to prepare their workforces for sweeping organizational changes, their growing investment in emerging technologies and digital strategy show their commitment to making digital transformation a reality.



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## Financial services firms are increasingly focused on blockchain

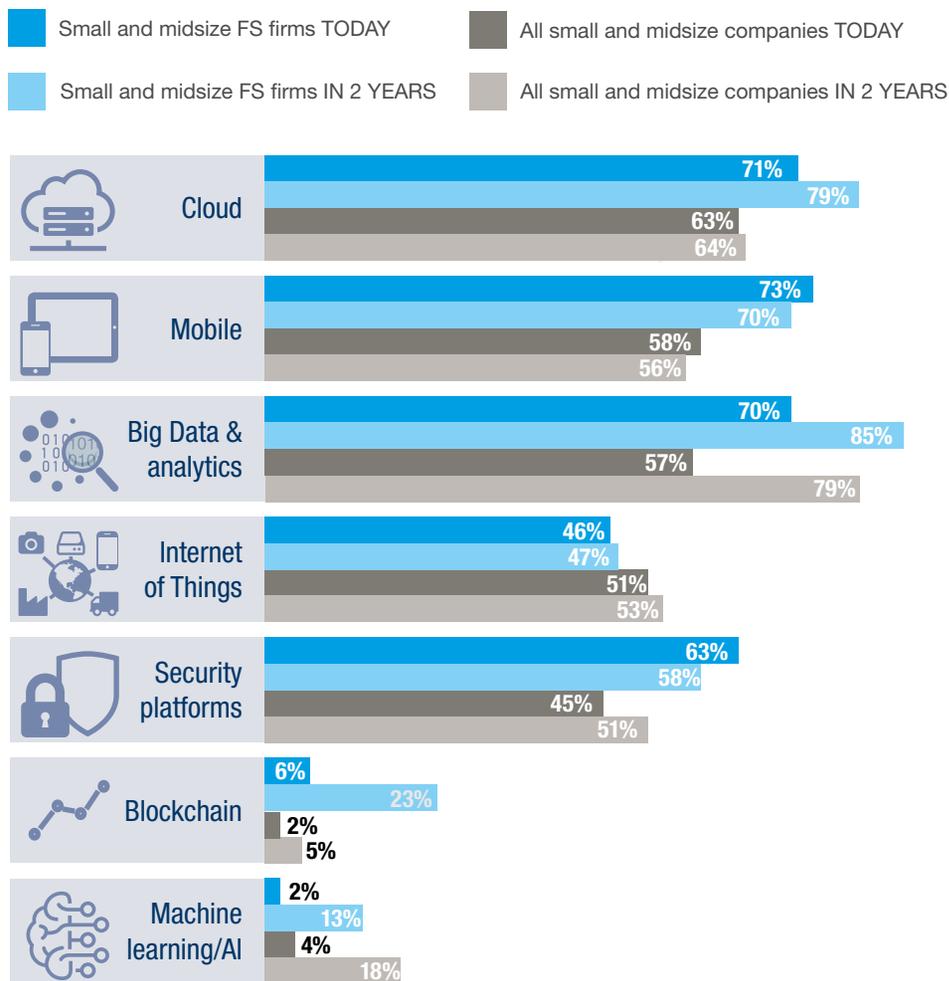
Digital transformation revolves around investment in emerging technologies—and banks and insurers, beset by competitive pressure, are more likely than small and midsize companies across industries to say up-to-date technology is critical to their success (56%, vs. 43% overall). For the most part, small and midsize banks and insurers are directing IT budgets toward foundational tools such as mobile, cloud, and Big Data; these technologies have dramatically changed business processes—from back-office operations to customer interactions—that reflect the priorities of financial services firms in a fast-changing marketplace. And critically, banks and insurers are also investing heavily in security platforms (63%, vs. 45% overall).

Big Data, mobile, cloud, and security platforms will continue to account for a large share of IT budgets in two years' time, but investments will expand to other next-generation tools, like blockchain. Nearly one-quarter (23%) of small and midsize banks and insurers say they will invest in digital ledgers over the next two years, compared with 45% overall. Such investments are becoming increasingly important for financial institutions as innovations ranging from open banking to cryptocurrencies threaten to disrupt existing business models.

More than half (54%) of small and midsize banks and insurers say digital transformation is critical to their organization's survival today, and 84% say it will be in five years' time. Yet many still have not prioritized transformation as a strategic plan. Smaller financial services firms are less likely than larger enterprises to say digital transformation is a core business goal (47%, vs. 56% of all small and midsize companies and 81% of larger banks and insurers).

**Q: Which technologies are you investing in most heavily, today and in two years?**

Respondents could select all that apply.



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## Technology investment will support core business goals

Technology investments are expected to yield dividends in the next two years. Small and midsize financial services companies anticipate the greatest value in terms of customer satisfaction and engagement (67% say so, vs. 63% overall)—critical factors to an industry facing potentially destabilizing competition from start-ups as well as retail and technology giants. The smallest firms are less optimistic about the future value of technology investments than their larger peers, perhaps because they have fewer resources to commit.

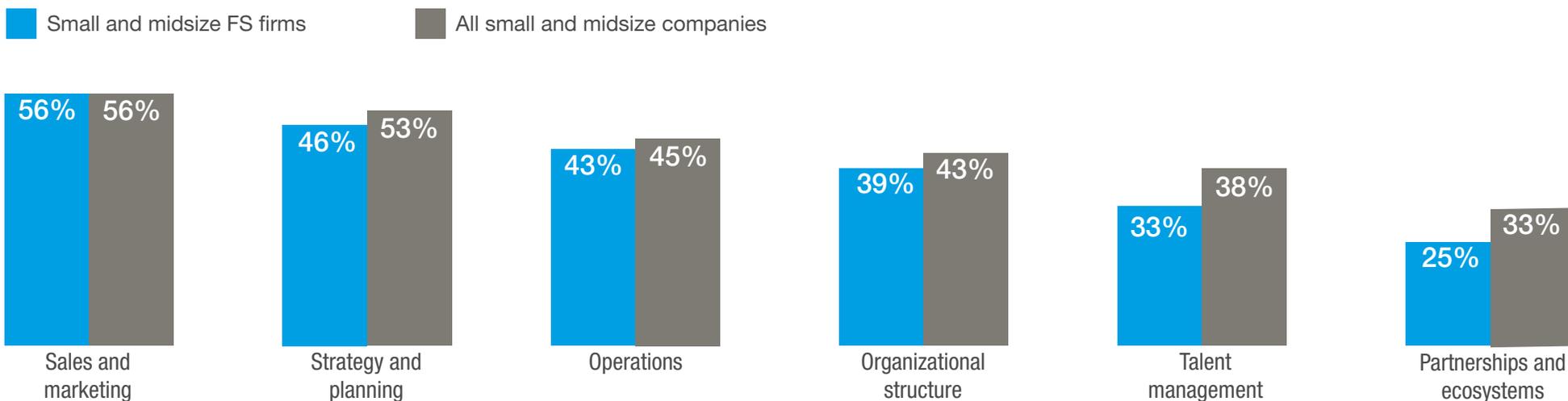
Broader digital transformation efforts—involving the processes and business goals that surround technology investments—also will affect business performance. Most small and midsize banks and insurers have not yet seen transformative change from their digital efforts. Less than one-quarter report dramatic improvements to sales and marketing (20% say digitization has led to substantial or transformative change), strategy and planning (16%), operations (11%), and other business functions.

But change is on the way. Well over half of small and midsize financial services firms expect digitization to improve functions ranging from sales and marketing (56%, vs. 57% overall) to strategy and planning (46% vs. 53%). Yet they are much less likely than larger banks and insurers (with more than \$1 billion in revenue) to expect value in these areas.

As banks and insurers ramp up investments in emerging technologies, the value may accrue to other areas as well. For example, risk management—seen as a top revenue and profitability driver for the small and midsize financial services firms in our survey, and a critical focus for insurers—will likely be supported by advances in both digital ledger technology and machine learning, which can automate complex decision-making. These operational improvements will allow banks and insurers to innovate at a faster clip and better navigate security challenges.

**Q:** To what extent do you expect digitization to change the following areas of your organization?

“Substantially” and “It will be transformative” responses combined are shown here.



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## Talent troubles stall digital transformation

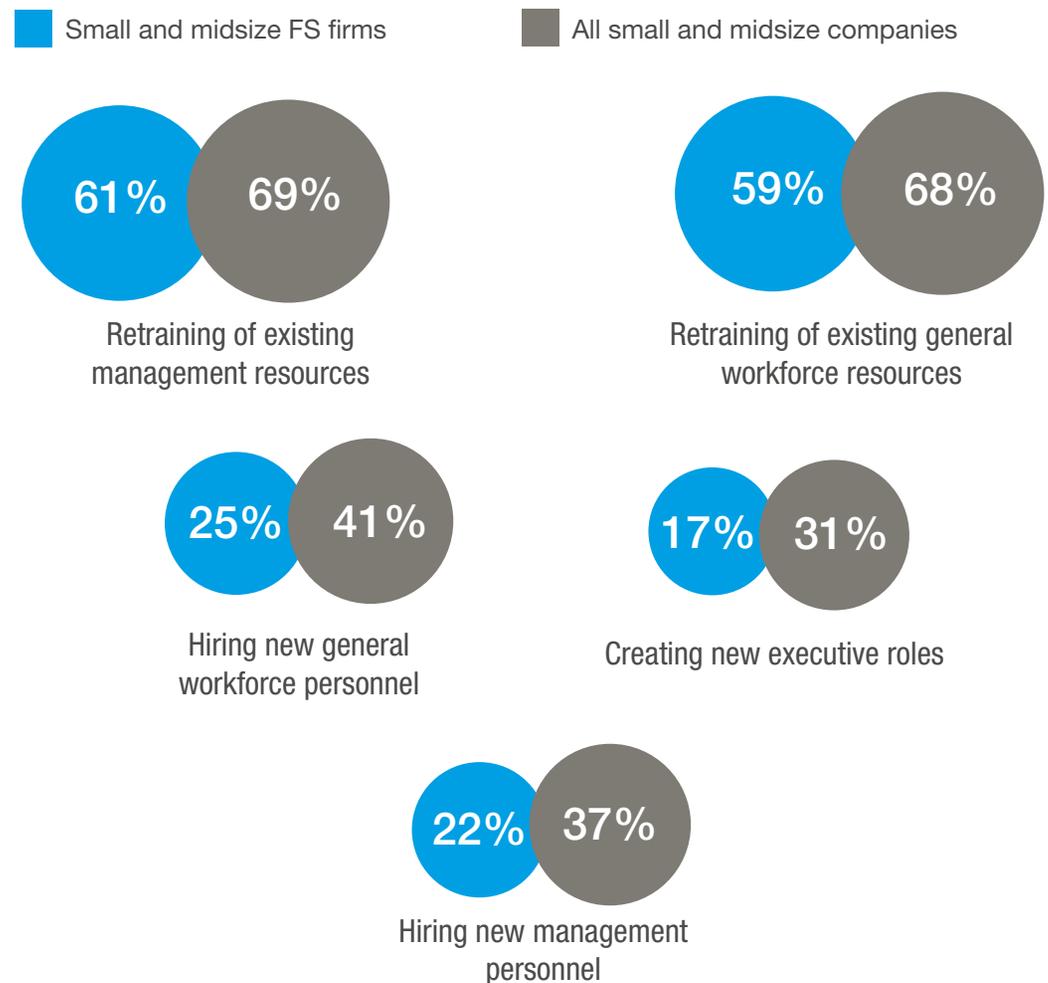
To get digital transformation right, small and midsize companies must leverage their inherent strengths, including agility and the ability to build a strong and collaborative culture. Small and midsize banks and insurers, like their peers from other sectors, have work to do to prepare their organizations for the digital era.

Changes must begin at the employee level. Financial services firms cite lack of leadership and workforce skills as the top barriers to their digital-transformation initiatives (44% and 37% rank these as top-three challenges, respectively)—even ahead of lack of mature technology or budget issues. Technology investments are expected to affect retraining of general workforce resources, yet most are slow to address talent issues; just 10% report well-developed strategies for employee engagement (compared with 15% overall, and 31% of larger banks and insurers). Furthermore, many may be underestimating the impact of new technology investments on their workforce: just 59% expect to retrain existing talent resources, vs. 68% overall.

But banks and insurers are well-positioned for digital transformation in other aspects of organizational culture. Like small and midsize companies from other industries, financial services firms say strong relationships among employees and managers give them an edge in the digital economy (76% vs. 75% overall); they also report advantages from simpler decision-making (74% vs. 72%) and less bureaucracy (65% vs. 64%).

**Q:** Thinking about the technologies you are investing in, to what extent do you expect them to affect your human capital and HR strategy?

“Minimal increase” and “substantial increase” responses combined are shown here.



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## Conclusion

Digital transformation is understood as a survival-level issue for small and midsize banks and insurers, which are already feeling meaningful competitive pressure to improve customer experiences and upgrade operations. Leadership at financial services firms must continue to focus technology investments on the tools that will be most valuable to their business models (including blockchain, artificial intelligence, and security platforms) over the next two years. They also must develop processes and strategies around the application of these technologies, and build a workforce that can adapt to these changes—and the changes that follow them.

Get the complete story in our [executive summary on small and midsize companies](#).

### About the research

Oxford Economics was commissioned by the SAP Center for Business Insight to conduct and analyze a survey of over 3,100 executives around the world about the opportunities and challenges facing companies as they attempt digital transformation.

Our sample includes nearly 2,600 companies with revenues of less than \$1 billion; 289 of these small and midsize companies are from the financial services sector. This paper includes our analysis of the financial services survey results.

Fieldwork took place in 2017 by computer-assisted telephone interviewing. Respondents come from 17 countries or regional groupings, with a significant sample of small, midsize, and large enterprises within each area. Geographies covered were Brazil, Mexico, Australia/New Zealand, Japan, Southeast Asia, India, Greater China, Canada, the US, Germany, Switzerland, Russia/Ukraine, France, the Nordics, the Netherlands, the UK, and the Middle East/North Africa.

Companies surveyed represent a range of industries: financial services, consumer products, professional services, manufacturing, retail, healthcare, technology, public sector, and wholesale distribution.

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