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How Leading Financial Services Firms Manage Technology Investments

Financial Services Business Leader
Research Team

As retail banking leaders respond to the COVID-19 crisis, building the digital bank of the future has become more urgent. Learn how leading firms are managing their technology investments for maximum impact on digital transformation.

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Overview

Key findings

- Leading financial services firms, defined as organizations in the process of scaling and refining digital investments, report being more focused on the goal of technology optimization versus transformation, compared to lagging firms. These leading firms also report stronger digital business outcomes.
- While both leading and lagging financial services firms' top investment priorities are AI and back-end capacity and infrastructure support like public and private cloud services, leaders outpace laggards in deployment and adoption of these technologies. Leaders also have increased their level of investments faster, while laggards are spreading investment money over a variety of technologies.
- Leading digital firms prioritize both profit measurements, and holistic digital metrics, when it comes to assessing the success of digital business initiatives.
- Leading digital firms include more senior leadership in strategic technology planning, compared to lagging firms.

Introduction

Digitalization has been a strategic imperative for financial services leaders for several years, but the onset of the COVID-19 pandemic accelerated both the necessity and value of technology in financial services. Since the crisis began, customers have migrated to remote channels en masse as branches closed, and in-person contact has been sharply limited. In turn, this has increased stress on digital infrastructure amid skyrocketing demand for digital replacements of in-person activities, such as signing documents or applying for business loans. These changes, paired with ongoing efforts to modernize core infrastructure and digitize services, signal that the investments made in technology now will very likely separate the winners and losers of the post-COVID-19 world. At the same time, COVID-19 and the subsequent recession have stressed budgets, making it imperative that every dollar spent in financial services maximizes return on investment.

As part of the 2019 Gartner Financial Services Technology Survey, financial services firms were analyzed on the maturity of digital initiatives compared to how these firms allocated technology budgets, and made decisions about investments. By examining firms with the most digital maturity, other senior business executives in banking and wealth management can learn how best to:

- Earn the highest return for their technology investment dollars.
- Make sound strategic technology plans.
- Set themselves up for success in a post-COVID-19 world.

The Leaders and the Laggards

The 2019 Gartner Financial Services Technology Survey includes responses from 1,100 global technology decision makers at financial services firms. These decision makers were asked about the types of technologies they were investing in, how they are budgeting for technology and how their firms are making technology decisions. Based on these responses, Gartner can sort financial services firms into three broad categories. These categories measure how far along firms are in their digital business initiatives, defined by Gartner as the process of exploiting digital technologies and supporting capabilities to create a robust new digital business model:

Leaders: Leader firms are in the late stages of digital transformation. Leaders at the firm have designed and delivered digital initiatives, and are either in the process of scaling them across their entire organizations, or have already done so and are refining them in response to continuous feedback.

Fast followers: These firms are in the process of delivering and scaling digital initiatives, and are realizing business outcomes in the medium to near term. Fast followers have already scoped and designed digital business initiatives, and are either rolling them out or building on those already deployed.

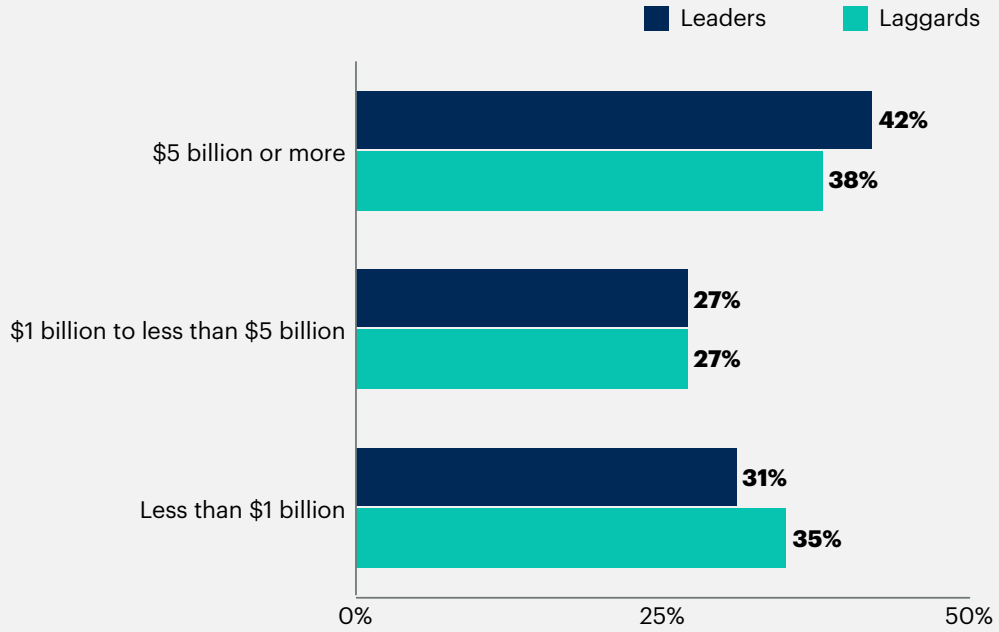
Laggards: Early in their digital transformations, laggards are looking to design and deliver early-stage technology initiatives. These firms will not see significant business outcomes from digital investments until the medium term, or more (one to three years or three-plus years).

For the purposes of this analysis, leading firms will be compared to laggards. Fast followers fall between the two poles in nearly all cases.

One potential confounding factor with this model is that it could be that leaders are simply the biggest firms with the most resources to throw at digital business initiatives. However, that is not borne out in the data. Figure 1 shows the percentage of laggards and leaders who fall into a given revenue bucket.

Each group breaks down relatively evenly across revenue bands, with laggards being similarly likely to be a firm with less than $5 billion in revenue as more than $5 billion. Nearly a third of leaders are those with revenue less than $1 billion a year. Hence, being a technology leader is not a function of having the most resources to throw at the problem, but rather other characteristics related to technology adoption, goals and metrics, and the structure of decision making.

Figure 1: Leaders and Laggards Break Down Along Similar Revenue Lines

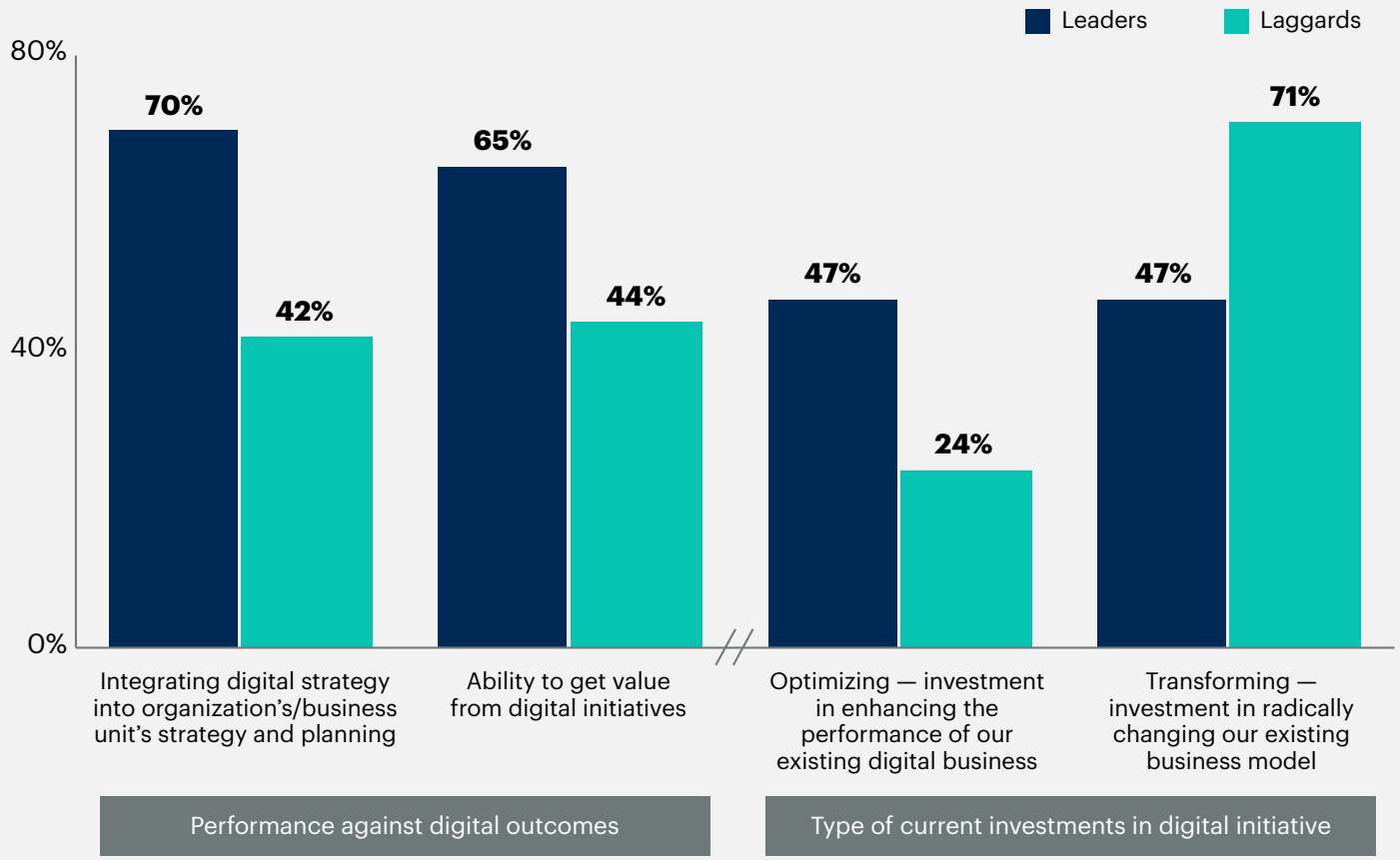


n = 882
Source: 2019 Gartner Financial Services Technology Survey

Similar technology investments, different outcomes

In analyzing the stated goals and technology adoption of leaders versus laggards, stark differences quickly emerge. As outlined in Figure 2, technology decision makers were asked to categorize their technology investments as either transforming (investing in radically changing the existing business model), or optimizing (enhancing the performance of their existing digital business). Laggards indicated that they were transforming as opposed to optimizing their businesses by a nearly 3-1 margin, while leaders were evenly split between the two. Half were investing to transform the business; the other half were seeking optimization of the current business. Despite a more optimizing posture, leaders are far more likely than laggards to get value from their digital initiatives, and integrate digital strategy into business unit strategy and planning. In contrast, laggards indicate much greater ambition when it comes to their digital business initiatives, but those ambitions have not yet translated into results.

Figure 2: Leaders Are Better at Driving Digital Outcomes



n = 201 Leaders; 237 Laggards
Source: 2019 Gartner Financial Services Technology Survey
Note: Percentage of technology executives selecting "ahead" or "far ahead" of competitors in insurance

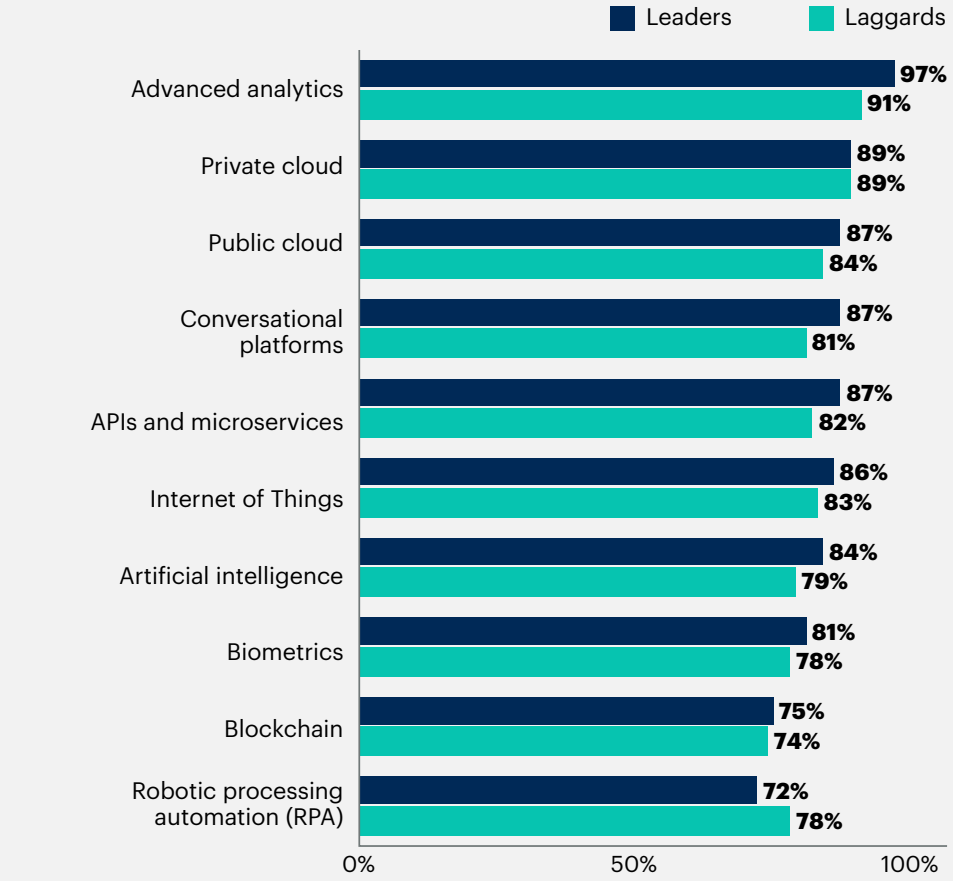
To learn exactly how leaders are excelling while their peers fall short, the survey analyzed the stage of adoption that firms were at for a number of technologies. Almost no difference was found in type of technology adoption between leaders and laggards when looking at firms, at least considering a specific technology in their strategic plans — that is, those that had leaders who indicated that a specific technology was in medium- to long-term strategic planning, short-term planning and experimentation, or had already been invested in and deployed (see Figure 3).

What this data shows is that leading in digital business initiatives is not a matter of selecting the right technologies to prioritize. Both leaders and laggards agree about which technologies are most important, priorities that do not change even as a firm matures digitally. Both leaders and laggards prioritize the same three technologies:

- **Advanced analytics** — High-level data science methods and tools that predict future events, trends, and behaviors to improve firm business decision making
- **Private cloud** — A form of cloud computing defined by infrastructure isolation, either on-premises or managed by a third party, where all cloud computing resources are devoted to a single organization or user
- **Public cloud** — The delivery of computing services over the internet, whose hardware, software and other infrastructure are owned and managed by a third-party provider

Figure 3: Leaders and Laggards Are Similar When It Comes to Considering Technologies

Percentage who are at least considering a technology



n = 882

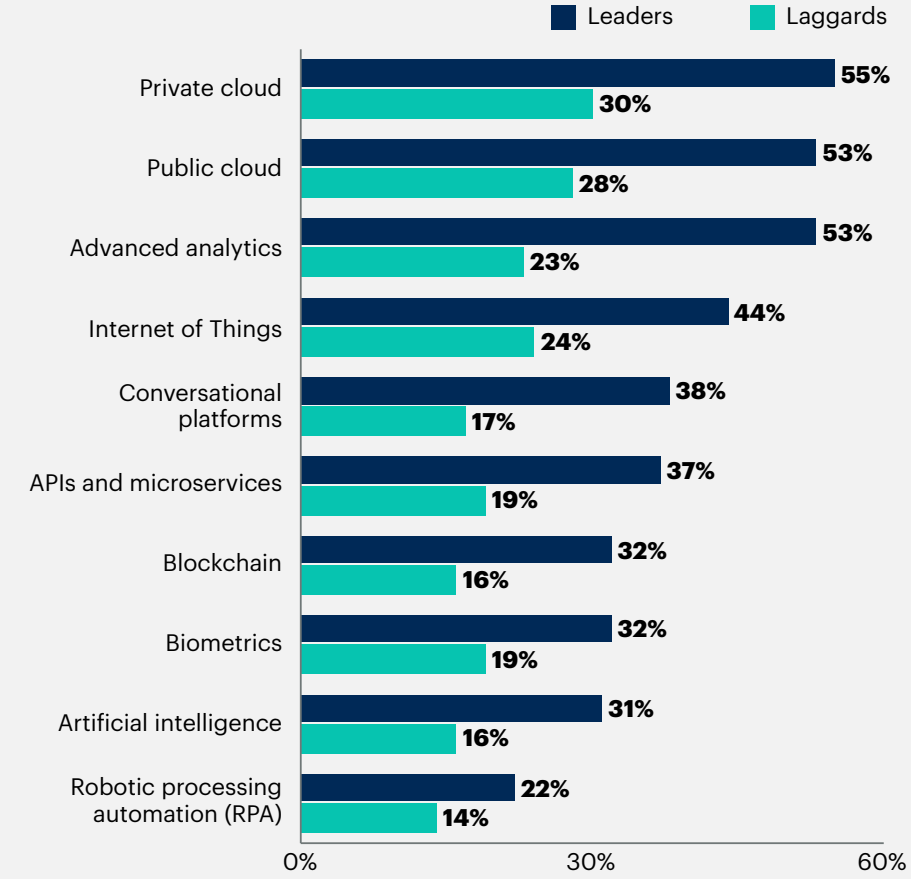
Source: 2019 Gartner Financial Services Technology Survey

Cloud, both public and private, is a critical piece of back-end infrastructure that is supporting nearly every digital business initiative a financial services firm could launch.

Where firms differ is their ability to deploy these technologies. Figure 4 shows the percentage of leading and lagging firms who have already deployed the given technology. Unsurprisingly, leaders are outpacing laggards in deployment for every surveyed technology. More interesting however, is that the largest gaps in deployment between leaders and laggards occur on the three most-considered technologies:

- Advanced analytics — 30-point gap (53% of leaders vs. 23% of laggards)
- Private cloud — 25-point gap (55% vs. 30%)
- Public cloud — 25-point gap (53% vs. 28%)

Figure 4: Leaders Outpace Laggards at Deploying New Technologies
Percentage who have fully deployed a given technology



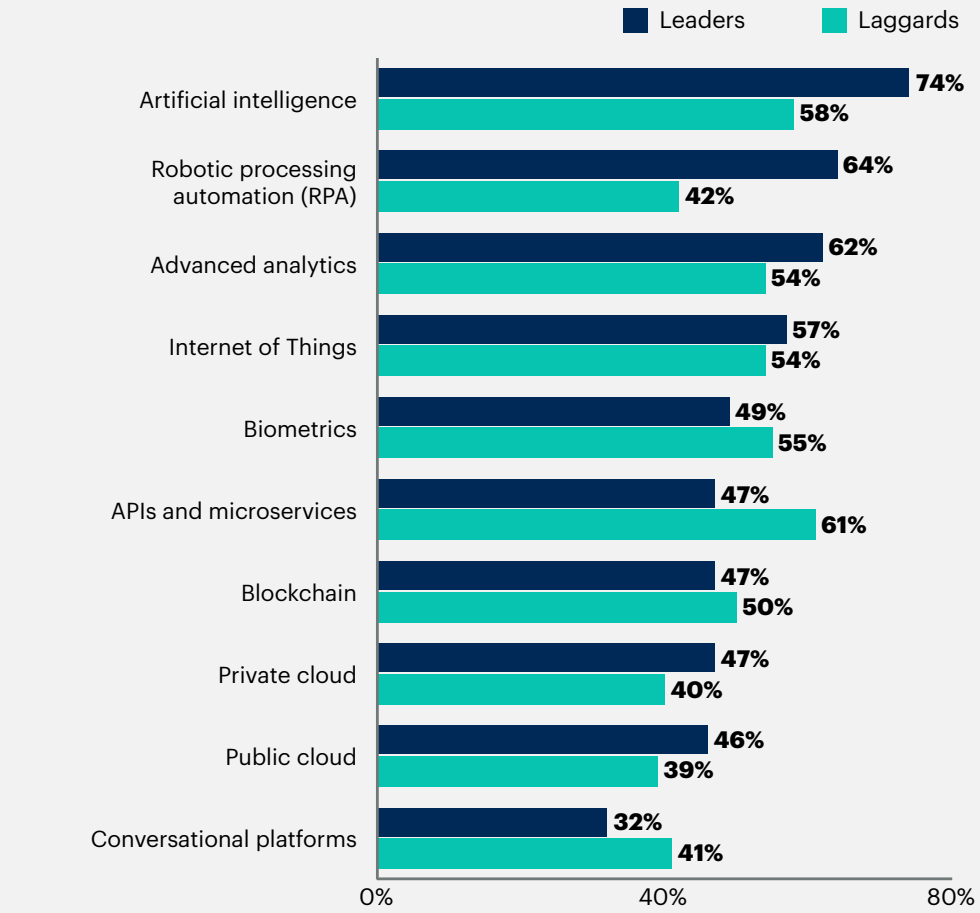
n = 882
Source: 2019 Gartner Financial Services Technology Survey

Thus, while leading and lagging firms are in agreement about which technologies are most important, leaders are outpacing their laggard peers by the largest margins on those same technologies. This pattern is reinforced by budget allocation decisions. Survey respondents were asked to indicate what their future level of investment would be in two years for each given technology. Figure 5 shows the percentage of respondents at leading and lagging firms who report that they will be increasing investment in a given technology over the next two years.

Surprisingly, more leading firms indicate that they would be increasing investment in advanced analytics and cloud capabilities than lagging firms, despite those being the technologies where leaders already report higher adoption levels, compared to laggards. If leaders were transitioning into an optimizing posture after a period of transformation, one may expect that laggards would outpace leaders in spending on core technologies as they race to catch up. One implication of this trend is that lagging firms should be concerned about the possibility of leading firms breaking away when it comes to core infrastructure adoption and performance.

Curiously, more laggards than leaders also indicate that they plan to increase spending on more cutting-edge technologies, such as biometrics, APIs and microservices, blockchain and conversational platforms. This is in line with their heavier emphasis on “transformation” versus “optimization” as a goal for technology investment (see Figure 2). Leaders are relentlessly focused on building AI and cloud — critical infrastructure — while laggards are spreading the investment money on a variety of technologies.

Figure 5: Leaders Plan to Continue Increasing Tech Investments



n = 882

Source: 2019 Gartner Financial Services Technology Survey

Leaders Focus on Holistic Transformation Metrics and Senior-Level Strategic Planning

While differences in technology adoption and investment can provide signals on what separates leaders from laggards, it is also important to focus on how decisions are made and success gets measured. And once again, there are several differences. Successful digital business initiatives are not just the product of choosing the right technologies, but the fruit of robust and efficient decision making and measurement related to digital and technology initiatives.

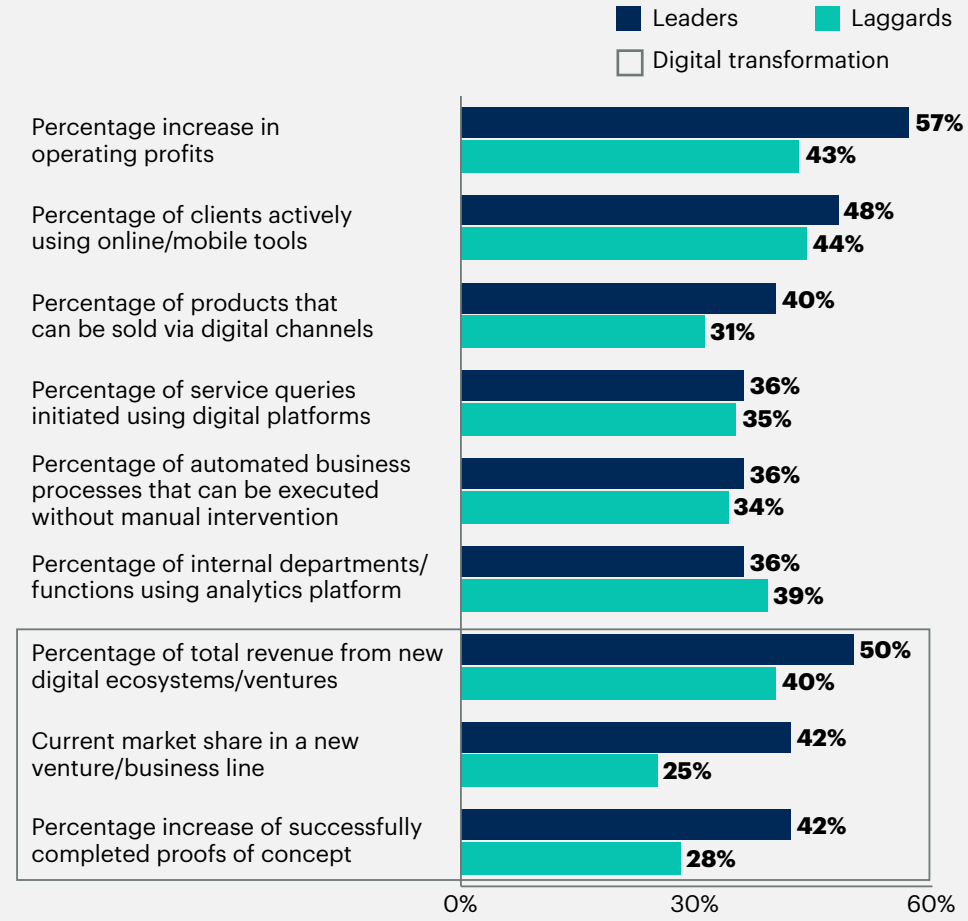
Figure 6 shows the percentage of respondents who indicate that they use a given metric to assess the impact of digital business investments. What is clear is the lack of consensus on any given metric. Leaders only reach 50% agreement on two metrics — percentage increase in operating profits, and percentage of revenue from new digital ecosystems/ventures. Among laggards there is no winning metric that reaches this threshold.

Leaders are significantly more likely to use what Gartner has classed as "digital transformation metrics," including:

- Percentage of total revenue from digital ecosystems/ventures
- Current market share in a new venture/business line
- Percentage of successfully completed proofs of concept

Figure 6: Leaders Emphasize Transformation and Profitability Metrics

Metrics used to assess the impact of digital business investments



n = 143 leaders; 135 laggards

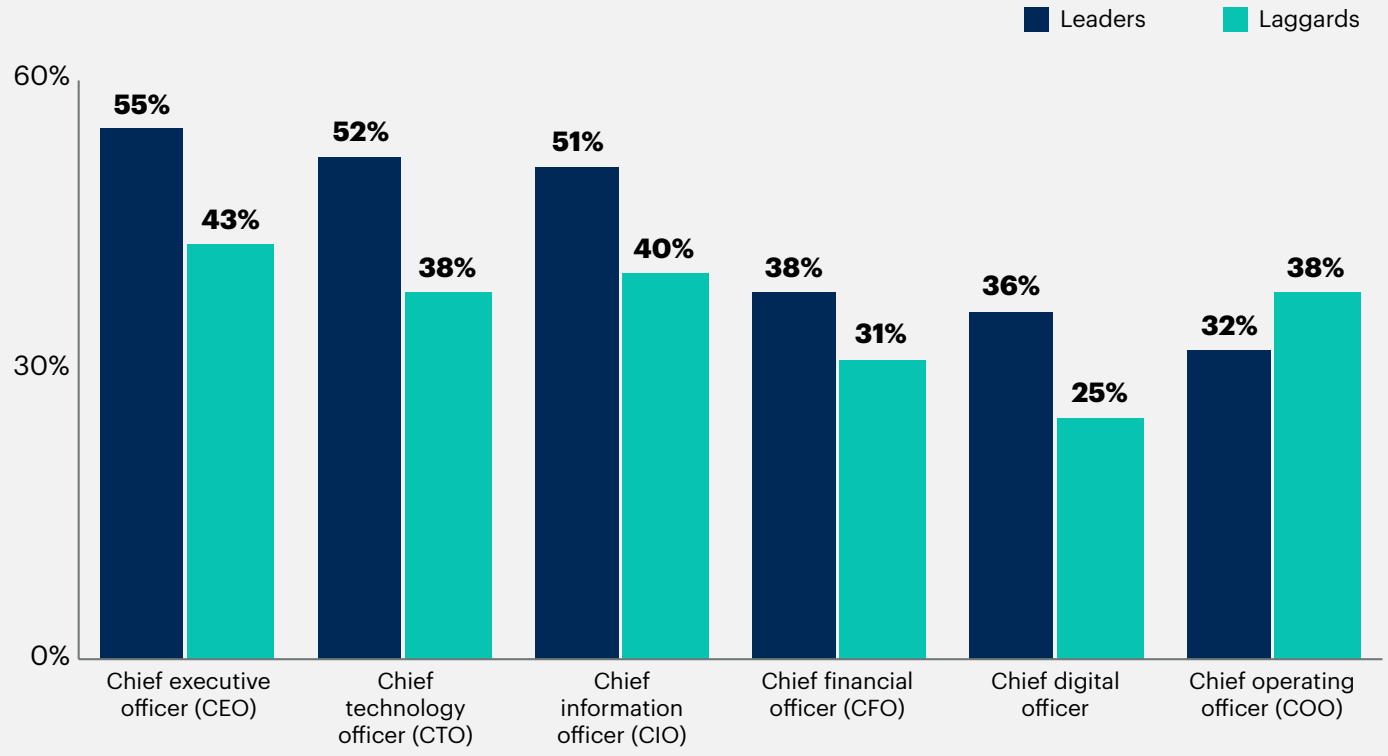
Source: 2019 Gartner Financial Services Technology Survey

These metrics benchmark the holistic success of digital business initiatives. Additionally, leaders are significantly more likely to use an increase in operating profit to measure success. Taken together, these metrics run against conventional wisdom that a digital business venture can either make money upfront or grow quickly by holistic metrics. Financial services leaders prove otherwise: They focus on the holistic growth of initiatives while at the same time remaining profit-minded.

Financial services digital business leaders are also much more likely to include senior leadership in technology decisions. Compared to laggards, leaders are significantly more likely to include the CEO, CIO and CTO in their strategic planning for technology initiatives (see Figure 7). Leaders also include more senior decision makers (3.3) on average than laggards (2.6).

Figure 7: Leaders Include More Senior Decision Makers in Tech Decisions

Roles involved in strategic plan for digital business initiatives



n = 201 Leaders; 237 Laggards

Source: 2019 Gartner Financial Services Technology Survey

Conclusion

Today's digital financial services leaders may break away from competitors in this period of change and upheaval. With every dollar precious during COVID-19, and a rapidly digitizing customer base, financial services executives need to ensure that they are getting the maximum return on their technology investments. Leading digital firms prioritize the deployment of critical back-end infrastructure such as advanced analytics and cloud computing, and also use more advanced metrics to assess the success of digital ventures. These firms also involve more senior leaders in decision making. Banks and wealth management firms should look to these leaders as a model of strong technology decision making.

About This Research

This research is based on the 2019 Gartner Financial Services Technology Survey of more than 1,100 technology decision makers working in financial services across the world.

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