Financial Services Leadership Network

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VIEWPOINTS

Advancing the digital transformation of financial services

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Technology has always moved quickly, but recent advances in artificial intelligence (AI) and cloud further underscore the need for financial institutions to *"react and change at the pace with which the world is changing."*[1] Leaders of large banks and insurance companies continue to invest billions of dollars to implement modern, cloud-based technologies, automate manual processes, and create better customer experiences, all while ensuring robust operational resilience and controls. Financial institutions are among the most voracious users of technology: a tech company executive noted, *"The largest investments we have made in terms of resources and dollars is in serving financial services and capital markets."*

On September 27 (New York) and November 8–9 (London), participants from across banking and insurance met with executives and subject matter experts from Google, EY, Microsoft, Snowflake, and other organizations to discuss the ongoing tech transformation of financial services, the prospects for emerging artificial intelligence applications, and the continuing evolution of the financial services ecosystem. This *ViewPoints* synthesizes key themes emerging from the discussions on tech transformation. A companion *ViewPoints* synthesizes the discussions on advances in AI applications and their implications for financial services and is available here.

For a list of participants, please see Appendix 1 (page 9).

This *ViewPoints*[1] highlights the following key themes that emerged from these meetings:

EY Building a better working world

Taking a strategic approach to technology transformation

"The companies doing it well are putting digital at the center of the business model."

— Director

Recent advances in cloud, data services, and AI underscore the increasingly strategic importance of technology. Yet some participants still see financial institutions taking an ad hoc approach to technology investments—whether chasing trends (like blockchain), leaving business units to make technology decisions independently, or acknowledging they need to do something (like migrate to the cloud), but without explicit links to strategic, quantifiable objectives. As financial services firms seek to update core systems, improve data management, and tailor products and services, participants discussed the importance of ensuring that the firm's strategy is driving technology investments. A director said, *"The companies doing it well are putting digital at the center of the business model. We are fully convinced that we have to do our business differently, and digital is the way of doing that … There are huge benefits when you do so."* Participants discussed ways to focus and align their technology investments:

- **Start with core business objectives.** As they contemplate where to focus technology investment, financial institution leaders should start by clearly defining their desired outcomes and identifying the steps to achieve them. Then they must commit the resources required. A director asserted, *"It is about putting digital at the center of your strategy, not treating it as an add-on. That is an opportunity and a strategic change."* An executive reported, *"What we have learned is that in order to really exploit the value and benefits of new technology and cloud, you have to make the decision that you are going to do this. You don't just start to experiment. You do it in a thoughtful manner*." Another participant advised, *"It is less about 'we should go use cloud,' and more about, Why? Are you enriching customer service or understanding risk better?"*
- **Focus on the customer.** To guide decision making, boards and management teams need to *"come back to what they are trying to do for customers and society, and if the technology is suited to those goals, it's a good choice."* Transforming the customer experience is essential. *"If my kids buy insurance the same way I did, we've failed,"* said one participant. Unfortunately, historic approaches to products and services have created technology siloes that impede transformation efforts. *"We have to remember how we got here: individual businesses and products were brought*

into financial institutions over time, and the technology supporting them was siloed on the way in. It is hard to break down silos, but that is what customers are expecting," said one executive. A shift in mindset and culture is as important as a shift in technology: *"The digital piece has to be there, but organizations need to shift to being customer-centric as well. We all say we do it, but we deal with customers in siloes around products rather than as a customer first."* A director agreed: *"The proliferation of products complicates the picture without adding a lot of value. When moving to different platforms, it has always been the product managers that were the biggest obstacle. Product management is more important than data engineers in driving innovation."*

"Product management is more important than data engineers in driving innovation."

— Director

- **Identify where partnering can supplement technology investments.** Financial institutions need to continually assess the new capabilities emerging in the broader tech ecosystem and identify where partnerships are the best way to achieve objectives. An executive said, *"In the past, banks would bring in engineers to build capabilities from scratch, but so many fintechs can do it 10 times faster or 10 times better. So, now it is how do you use the Lego bricks to build what you need? That requires a different set of skills."* But technology providers need guidance: *"The challenge is to match innovative capabilities in the ecosystem to actual real-world needs of the firm. We need to communicate what we need our technology partners to do and what problems we are looking to solve,"* observed one executive.
- **Build in the capacity to remain flexible.** An executive stated, *"Transformation is an overused term. It suggests it is something you do once, that there is a destination … When I think about laggards compared to leaders, I think it is a question of who has given themselves optionality. Can you react and change at the pace with which the world is changing?"*
- **Focus on driving growth, not reducing costs.** While technology investments can drive efficiencies and reduce costs, the value from investments in core systems upgrades is largely derived from building competitive advantage through generating better insights, improving customer service, developing new products, or gaining access to new customer segments. A participant highlighted opportunities for insurers: *"Some believe with more data, you will price better, which could allow you to serve new customers and produce a smaller protection gap."*

"Can you react and change at the pace with which the world is changing?"

— Executive

Core systems upgrades are complicated, but are becoming more economical

In a prior discussion on major systems upgrades, a participant noted how speculation about core systems upgrades was becoming reality: *"These things can be a long time coming, and then they tip pretty quickly."* Financial institutions are taking steps to upgrade core legacy systems but remain cautious about major transitions.

When legacy systems remain functional, it can be challenging to put the financial institution through the pain and risk of a major migration. One participant observed, *"It feels like we are flying a 747 with all of our important clients while trying to rewire the plane's navigation system. Whatever we have to do to address this large spaghetti of systems, we have to do in parallel with running the business, and it's very expensive and very difficult."* Another participant noted, *"In many cases these old platforms aren't broken. They will keep going and going. So, the question is, Do we exit entirely? Is it worth the cost of upgrade?"* A director pointed out, *"It isn't so much the cost of the new systems and solutions; it's the exit strategy out of the old systems, which are not documented."* But participants acknowledge that the talent to support aging legacy systems is also becoming scarce, and the promise and capabilities of modern cloud-native architectures is too great to defer upgrades for long. An executive asked, *"Do you get to a point where you just have to bite the bullet and say, 'Are we getting to that inflection point where we are going to have to invest and get rid of the spaghetti?' And that means cloud native."* And a technology executive insisted, "*We shouldn't be shy about making those step changes to the core. Now is the time. The capital outlays and cost structures have changed. The cost of failure is dramatically lower. The cost and risk has dramatically changed."*

"It feels like we are flying a 747 with all of our important clients while trying to rewire the plane's navigation system."

— Participant

"We shouldn't be shy about making those step changes to the core. Now is the time."

— Executive

Defining and measuring value from technology investments is essential

Many technology projects, particularly major system upgrades, end up being longer, more complex, and more expensive than projected. Financial institutions and their boards need to be clear-eyed about the scale of investment in money, time, and resources required to achieve technology objectives, but they should also establish metrics to define success. One participant described a major migration from a legacy system that *"took three to four years of sustained investment and* *commitment."* But financial institutions may find it difficult to take the long view. *"Banks struggle with anything that takes more than 18 months, and all these projects are multiyear projects that don't help with quarterly profits,"* admitted another participant.

Part of the challenge is that the work of digital transformation is a continuous process. One participant observed, *"This is a journey that will never be over … You're constantly transforming, optimizing, and making things better."* It is the board's responsibility to identify the milestones and benchmarks needed to measure progress on this continuous journey. A participant suggested asking questions like *"How do we compare to peers? How do we compare across geographies?"* Describing how his team must demonstrate value, one executive said, *"We have a lot of freedom to innovate, but I have a [profit-and-loss statement], and every idea must have a value canvas associated with it. Every decision has to make money or fail very quickly. When in charge of a P&L, it's real. When we come up with an idea, we inject it right away into distribution channels."*

Managing migration to the cloud

While financial services leaders agree that widespread cloud adoption is inevitable, institutions remain in relatively early stages. Participants discussed several important considerations and challenges around cloud migration:

- **Realizing value will require greater commitment to the cloud.** Financial institutions have been slower to migrate to the cloud than predicted. One executive said, *"I think the frustration from the cloud providers is that all of us larger players have moved a lot slower. We're just using it a lot less than they thought we would. They want us to be spending hundreds of millions a year on those platforms, and we're spending single-digit millions."* Another executive observed, *"Financial institutions haven't fully realized the value of cloud. If you are only using it for storage and computing, you are not getting the most value out of it. The overall return on investment is much higher if you are really using capabilities it is meant for."* Firms can now utilize cloud with AI to facilitate advanced data analytics and high-performance computing such as risk calculations, but accessing those benefits requires migrating more data and systems.

"Financial Institutions haven't fully realized the value of cloud. If you are only using it for storage and computing, you are not getting the most value out of it."

— Executive

- **The real value of the cloud lies in adding capabilities rather than controlling costs.** While cloud adoption has sometimes been framed as a cost-saving move, financial institutions may need to reframe cloud migration from a cost-reduction move to a continuing investment that enables new capabilities, especially as AI becomes increasingly important. One participant observed, *"Talking about the cost of cloud consumption is a partial conversation. For example, utilizing a cloud computing service to perform underwriting computations is expensive, but underwriters are three times more productive and able to understand risk in a more sophisticated way. So, think about cloud consumption in terms of what that enables. Talk about cost, but also the value that unlocks."* Another participant stated, *"There will be a peak in cost in early adoption, but it will turn into value creation."*

"Utilizing a cloud computing service to perform underwriting computations is expensive, but underwriters are three times more productive."

— Participant

- **Successful migration requires a data strategy.** *"The biggest challenge,"* said one participant, *"is data conversion. Getting off the old system is not that hard, but lots of time is spent on migrating and converting data. This is a major concern in an era in which data is so crucial to the future of the industry."* Participants discussed the importance of achieving "data liquidity," that is, easy movement and access. One participant commented, *"The technology may be great, but if you haven't sorted your data, then you're nowhere, because data drives everything."* An executive stated, *"Those financial institutions that are successful are those who think about decoupling product and pricing, decoupling products and services in a way that allows for hyper personalization. That is all about having data accessible to the right people, in the right place, in the right way."*

  There are now ways to make it easier to migrate, use, and share data. An executive described the ability to *"bring in unstructured data, de-silo, enrich it with third-party data, and run all applications at scale across all your data. And it can be multicloud, allowing for sharing data without any physical movement of data internally and externally with partners."*

- **Cloud providers may need to modify their business models to align with industry needs.** According to one participant, *"Cloud providers did not understand the complexity of the world that financial institutions operate in."* Given increasing demands for cloud usage, providers may need to adjust their business models *"to get away from charging for everything and [instead] to charge for the outcomes financial institutions want to have. They owe it to* *customers to come up with innovative ways to achieve those outcomes."* One participant observed, *"The purpose of the cloud is supposed to be that it is flexible, can adapt as you need it, and be available when you need it."* Some participants see an opportunity for technology providers and financial institutions to collaborate more closely to address the obstacles around cloud adoption. *"The words I am going to use are 'shared accountability,'"* said one participant, adding, *"Cloud providers need to meet banks and insurers halfway and come to the table with solutions."* One approach could be to move away from long-term commitments toward more flexible arrangements.

- **Regulatory and risk concerns are also slowing cloud adoption.** Many firms have concerns about regulatory and policy developments, including regarding data sovereignty and on the movement of data, as well as concerns about privacy, security, and resiliency, despite assurances from the cloud providers. Concentration risk and so-called vendor lock, whereby firms become dependent on a single provider, are also concerns. One executive said, *"All the cloud providers are going to have to play nicer together because you're not going to be single cloud. No regulatory body will allow that concentration risk. It will be important for cloud providers to make public and private technologies, determine how to provide an exit strategy, and partner with open source."* Participants also noted differences in cloud adoption rates across geographies that are largely driven by differences in local regulatory policies. One participant remarked, *"Cloud service providers are disappointed in the pace of adoption, but … they are all big American firms. It's more straightforward in the United States compared to Europe, the Middle East, and Africa or Asia-Pacific, where it's a patchwork quilt of regulations. It is a lot harder, and the pace of client adoption is slower than in the United States due to a lot of complexity."*

"All the cloud providers are going to have to play nicer together because you're not going to be single cloud."

— Executive

Developing organizational capacity to drive transformation

Competition for tech talent remains fierce, particularly in fast-growing areas like AI, and participants agreed that their institutions must do what is necessary to attract and retain talent and update organizational structures and processes.[2] An executive asserted, *"The problem is not legacy tech; that is a symptom of bad decisions over years about the operating model. It evolved organically, without standardization, with different systems created for the same function in each business. It is the result of bad organic decisions over time. It is rewiring the way you operate. Unless you attack that, you can do tech upgrades, but you don't really tackle the underlying problems. So, we have to stop, take a deep breath, and try to build something new."*

"The problem is not legacy tech; that is a symptom of bad decisions over years about the operating model."

— Executive

One executive described the importance of breaking down organizational siloes: "*We had multiple digital strategies, and we needed to bring them together into a single company digital team, so we brought all the teams together into one unit and make them work together in cross-functional teams. This has transformed how we underwrite and operate day-to-day. We had to align our objectives and approaches, and now the functional teams are all working and talking together and cross-skilling. This has been powerful in growing the business."* A cross-functional approach can improve communication and coordination between the businesses and technology teams: *"When you have business people and tech people together, we can be precise about what we want to build and in what way to get value out of it."* But this cross-skilling and knowledge sharing requires a supportive culture. One participant noted, *"Organizations need a deliberate learning culture."*

"When you have business people and tech people together, we can be precise about what we want to build and in what way to get value out of it."

— Participant

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Technologists and commentators on financial technology have been predicting a tipping point when financial institutions would modernize their core platforms, move to the cloud, and adopt more advanced approaches to data and analytics. While progress may have been slower than anticipated, financial institutions are now accelerating investments in key areas as costs come down, competitive and earnings pressures increase, and opportunities to leverage emerging technologies like generative AI expand. A participant observed, *"The world is getting smaller and more interactive. We need to build our ability to interact at a far faster clip. We need to focus on improving our data platforms … There are pockets of brilliance, but we have to be obsessed with constantly getting better."*

Appendix 1: Participants

The following individuals participated in these discussions:

Participants

Joud Abdel Majeid, Senior Managing Director, Global Head of Investment Stewardship, BlackRock

Jeremy Anderson, Senior Independent Director, Prudential plc and UBS

Giles Andrews, Transformation Oversight Committee Chair, Bank of Ireland

Nathan Attrell, Head of Financial Services EMEA, Snowflake

Nora Aufreiter, Human Capital and Compensation Committee Chair, Scotiabank

Alastair Barbour, Chair of the Board, Phoenix Group Holdings

Rohit Bhat, Director, Capital Markets, Digital Assets, and Exchanges, Google Cloud

Paul Bishop, Audit Committee Chair, AXA XL and Zurich Assurance, Chair of the Board MetLife UK

Amanda Blanc, Group Chief Executive Officer, Aviva

Sally Bridgeland, With Profits Committee Chair, Royal London; Risk Committee Chair, Pension Insurance Corporation

Craig Broderick, Risk Review Committee Chair, BMO Financial Group

Nanci Caldwell, Corporate Governance Committee Chair, CIBC

Jan Carendi, Non-Executive Director, Lombard International Assurance

Bill Coen, Non-Executive Director, China Construction Bank

James Cole, Nominating and Corporate Governance Committee Chair, AIG

Michael Cole-Fontayn, Non-Executive Director, JPMorgan Securities

Martha Cummings, Nomination and Governance Committee Chair, Marqeta

Pierre-Olivier Desaulle, Non-Executive Director, Beazley

John Dugan, Chair of the Board, Citigroup

Mike Eberhardt, Managing Director, BlackRock

Harriet Edelman, Information Technology Committee Chair, Assurant, Inc.

Theresa Fallon, Founder and Director, Centre for Russia Europe Asia Studies

Alessia Falsarone, Non-Executive Director, Assicurazioni Generali

Ian Fantozzi, Chief Executive Officer, Beazley Digital

Shyam Gidumal, Non-Executive Director, Renaissance Reinsurance

Jill Goodman, Non-Executive Director, Genworth Financial

Tobias Guldimann, Risk Committee Chair, Edmond de Rothschild

Ashok Gupta, Risk Committee Chair, Sun Life Financial

Sheila Hooda, Nominating and Corporate Governance Committee Chair, Enact Holdings

Joe Hurd, Non-Executive Director, Lloyd's of London

Leslie Ireland, Non-Executive Director, Citigroup

Arlene Isaacs-lowe, Non-Executive Director, Equitable Holdings

Shonaid Jemmett-Page, Senior Independent Director, ClearBank, Customer and Sustainability Committee Chair, Aviva

Phil Kenworthy, Non-Executive Director, ClearBank

Devika Kornbacher, Technology Law Partner and Co-Head of Tech Group, Clifford Chance

Joan Lamm Tennant, Chair of the Board, Equitable Holdings and AllianceBernstein

Christine Larsen, Non-Executive Director, CIBC

Derek Leatherdale, Founder and Managing Director, GRI Strategies

Nick Lee, Head of Regulatory and Government Affairs, OakNorth

John Lister, Actuarial Committee and Risk Committee Chair, Old Mutual; Risk Committee Chair, Phoenix Life

John Liver, Non-Executive Director, Barclays UK

Andrew Lowe, EMEA Head of Business Development for Technology, Bank of America

Ben Luckett, Chief Innovation Officer, Aviva

Michel Madelain, Non-Executive Director, China Construction Bank

Jason Mallinder, Client Partner, EMEA, Istari

Roger Marshall, Senior Independent Director and Audit Committee Chair, Pension Insurance Corporation

Marcus Martinez, Worldwide Financial Services, EMEA, Microsoft Industry and Partner Sales, Microsoft

Tom Mildenhall, Managing Director, Global Head of Technology Partnership Development, Bank of America

Liz Mitchell, Non-Executive Director, Principal Financial

Barbara Novick, Non-Executive Director, New York Life

Sally Orton, Non-Executive Director, Nationwide Building Society

Andy Ozment, Executive Vice President, Chief Technology Risk Officer, Capital One

Doina Palici-Chehab, Non-Executive Director, AXA (several entities)

Bill Parker, Non-Executive Director, Synchrony Financial

Marty Pfinsgraff, Risk Committee Chair, PNC Financial

Tomi Poutanen, Co-Founder, Radical Ventures

John Reizenstein, Audit Committee Chair, Beazley

John Rhea, Non-Executive Director, State Street

David Roberts, Chair of Court, Bank of England

Sabahat Salahuddin, Director, Investment Stewardship, BlackRock

Mohit Sarvaiya, International Chief Information Officer, BNY Mellon

Agnes Bundy Scanlan, Nominating and Governance Committee Chair, Truist

David Sidwell, Nominating and Governance Committee Chair, Chubb

Nick Silitch, Former Chief Risk Officer, Prudential Financial

Kate Stevenson, Chair of the Board, CIBC

Scott Stoll, Audit Committee Chair, Farmers Group and Farmers New World Life Insurance Company

Pia Tischhauser, Non-Executive Director, Swiss Re

Tim Tookey, Audit Committee Chair, Royal London

Cathy Turner, Senior Independent Director and Remuneration Committee Chair, Lloyds Banking Group

Cathy Wallace, Senior Vice President and Chief Risk Officer, State Farm

Nigel Walsh, Managing Director, Insurance, Google Cloud

EY

Omar Ali, EMEIA Financial Services Regional Managing Partner

Jan Bellens, Global Banking and Capital Markets Leader

Alok Bhargava, Principal, Financial Services, Data and Analytics

Ed Majkowski, Americas Insurance Sector and Consulting Leader

Peter Manchester, EMEIA Insurance Leader and Global Insurance Consulting Leader

Preetham Peddanagari, EMEIA Digital Insurance Leader; UK Financial Services Technology Consulting Leader

Isabelle Santenac, Global Insurance Leader

Phil Vermeulen, Global Client Service Partner

John Walsh, Americas Banking and Capital Markets Leader

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About this document

The Financial Services Leadership Network (FSLN) is a group of financial services board members, executives, and stakeholders, together with other subject matter experts, with the goal of addressing pressing problems and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

About Tapestry Networks

Since 2004, Tapestry has been the premier firm for building collaboration platforms with leaders of the world's foremost organizations. Tapestry Networks brings senior leaders together to learn and to shape solutions to today's most pressing challenges. We are a trusted convener of board directors, executives, policymakers, and other stakeholders, connecting them with information, insight, and each other. Top experts join our discussions to learn from the leaders we convene and to share their knowledge. Our platforms help educate the market, identify good practices, and develop shared solutions. We call this the power of connected thinking.

About EY

EY is a global leader in assurance, tax, transaction, and advisory services to the financial services industry. The insights and quality services it delivers help build trust and confidence in the capital markets and in economies the world over. EY develops outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, EY plays a critical role in building a better working world for its people, for its clients, and for its communities. EY supports the networks as part of its continuing commitment to board effectiveness and good governance in the financial services sector.

Endnotes

1 *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby comments are not attributed to individuals or corporations. Quotations in italics are drawn from conversations with participants in connection with the meeting.

2 William Shaw, "Wall Street Banks are Poaching Rival AI Talent," *Bloomberg,* November 28, 2023.