



Is the financial sector ready for digital disruption?

## Co-creation in the age of disruption for banking and insurance

shaping tomorrow with you

**FUJITSU**



# Can established financial services organisations take on digital disruption alone?

Traditionally, the financial sector has led the way when it comes to innovative technology and customer needs. In fact, the history of innovation in banking has been quite remarkable.

## Just look back at the past 50 years.

The rise of the ATM in the 1970s gave customers the option to withdraw their cash without setting foot in a building. The “big bang” of 1986 saw the arrival of electronic trading. Banks abandoned physical trading floors. And the process of buying and selling shares became as easy as pressing a button. Then, online banking arrived in the 1990s. This meant customers could manage their money from the comfort of their home computer.

But the pace of change is relentless. Now there are fresh players in the market that want to disrupt the big names. Many new fintech and insurtech companies offer customers faster, more convenient services. With today’s demands for instant responses, that’s an attractive proposition.

Thanks to mobile payment services like Apple Pay, people don’t need debit and credit cards to pay for things anymore. They can simply wave their phone over a terminal. And insurtech start-ups like Lemonade are using artificial intelligence to pay out claims in a matter of seconds.

These services are still young. They won’t be toppling the established names in banking and insurance right away. But the innovation they present could cause serious disruption further down the line. The big players can’t afford to be complacent. They have to act now. Are they prepared enough to take on the challenge of digital alone?

In late 2016, Fujitsu surveyed 1,200 C-Suite decision makers from different sectors around the world. The survey aimed to gauge how ready they were for an era of digital disruption. 357 of these decision makers were from the financial services sector.

Are these financial service leaders ready for disruption? Are they worried? Excited? And what is the best way to make the most of new opportunities that digital solutions present?



**We hope you enjoy the read.**

**Paul Patterson**

Senior Vice President & Head of Industries,  
EMEIA, Fujitsu



## The impact of digital disruption

Our findings show that financial service leaders are very much aware of how digital disruption is shaking things up. 88% said they believe that the financial sector has already felt its impact. Almost all (98%) said that digital disruption had affected their own organisation.

**We asked them what they felt digital disruption was doing to their industry. They highlighted three key areas: increased competition, more innovation and a faster pace of change. Many appear anxious to keep up with the speed of innovation. 86% admitted their organisation needs to evolve to thrive in a digital world; whilst 63% said their organisation needs to move faster to do this.**

They also don't expect this disruption to go away any time soon. The vast majority (89%) anticipate more digital disruption for their sector in the future. Even more (91%) think that digital disruption will impact their own organisation.

They're expecting the change to be big. And they're expecting it soon. 72% believe their sector will have completely changed by 2021. And 61% said their organisation simply won't exist in its current form in four years' time.

However, being aware of digital disruption and being ready for it are very different things. These stats show that financial leaders know that change is happening and will continue to happen. But only 9% said they were leading digital disruption. That's the lowest of any sector we surveyed.

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**98%** of financial services business leaders said digital disruption had already affected their company.



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**Only 9%** said they were leading digital disruption in the financial sector.





## Digital disruption: a challenge and an opportunity

Our findings suggest that many financial leaders feel digital disruption is happening to them, not because of them. So, it's understandable that there are some anxieties about the new digital world. 56% said it was the biggest challenge they face as a business. Just under half (47%) said digital disruption made it harder to make long-term business decisions. By contrast, only 26% of leaders in the public sector had the same concern.

**In fact, our findings show that finance was one of the most insecure sectors when it comes to digital disruption. 64% of financial leaders are worrying about what it means for the future of their organisation. 40% wished it wasn't happening to them. These percentages are higher than any other sector surveyed.**

### So why the worry?

For one thing, security risks are a big concern. In early 2018, banks will have to follow open banking standards. This means they have to share customer data with third parties through a set of application programming interfaces (APIs). The change brings concerns around accountability, and who would be liable in the case of a cyber-attack. To add to the worry, the General Data Protection Regulation (GDPR) is coming in early 2018. This means bigger penalties for anyone that fails to protect customer data.

Then there's the upstarts threatening a sector that has been traditionally dominated by a few big players. Aggregators have already made the insurance sector more competitive. Now open banking lets start-ups show their APIs to third parties, helping them to reach new customers.

And there are cultural implications to think about too. Staff may resist change and digital transformation, if they struggle to adapt to new systems and business models.

But it's not all doom and gloom. The findings might show that there is anxiety around digital disruption. But there is quite a bit of excitement around it too. 65% of financial leaders said they were "enthusiastic/excited" about digital disruption. 68% felt it is presenting exciting business opportunities. For those ready to embrace it, disruption is a great chance to improve customer service, grow profits, enhance operations and bolster security.

However, there are obstacles on the path to digital transformation. The financial service leaders we surveyed said the top three issues around responding to digital disruption were:

- Ageing technology and infrastructure
- Internal culture/fear of change
- Lack of investment in innovation

Many felt that they didn't have the in-house digital expertise to overcome these hurdles and thrive in a digital world.

This is where co-creating with a technology partner can help.

# 68%



believed that digital disruption presented exciting business opportunities.



## Working better together with co-creation

Co-creation is about sharing knowledge, ideas and resources with technology partners. It means companies can deliver better, more competitive digital strategies. Many financial leaders already understand why co-creation is so important. 72% felt that technology is key to their business thriving. And 65% said collaborating with technology experts will be vital for success.

So, what does co-creation look like in practice?

### Streamlining insurance claims with digital technology

**The insurance industry is struggling to retain customers. It's also facing the high cost of insurance fraud, (over £1bn every year). At the same time, new insurtechs can now pay out claims in a matter of seconds with no paperwork. So, to stay competitive, the big companies need to get closer to their customers and offer them a better experience.**

Fujitsu have been co-creating with the insurance sector to meet these challenges. The solution? Smart Claims technology. Smart Claims speeds up the claims process. And it's no less secure.

Traditionally, making a claim has meant filling out paper or electronic forms. But with Smart Claims, insurers can talk directly to customers at the time of the accident through a two-way video link. A live claims handler can give immediate support. Once they know the customer is safe, they can assess the incident and gather everything they need from the scene. With this technology, insurers can process claims faster. They offer a better customer experience. And they can stop claims from being manipulated.

### Improving customer services with a virtual assistant

With Spanish bank Bankia, Fujitsu have co-created a virtual assistant "bot" called Laura. The "bot" can identify a customer's voice, listen to questions and give advice. "The innovation is about collaboration", said Ignacio Cea, Bankia's chief strategy and innovation officer. "We are starting to carry out tests now and creating very basic uses". Laura will be piloted in branches and eventually launched in the market.





## Making application processes simpler with biometrics

It can be difficult to convert applications into sales. Long, complex application processes tend to lose customers. But make them too simple and banks risk exposing themselves to fraud.

What's the solution?

Fujitsu Smart Origination uses biometrics to make the process easier and more secure. Using phone cameras, Smart Origination scans in information from documents, such as passports and driving licences. It then uses this information to pre-populate forms. This means applying for something like a credit card can take only a matter of moments.

But this doesn't sacrifice security. If it picks up on something suspicious, applicants will have to provide more documents or come in store to carry on the application.

### Speeding up innovation with digital platforms

With the onset of open banking, established financial services organisations must be prepared to innovate rapidly. But many don't have the platform they need to quickly roll out new digital services. And that means they risk falling behind the pace of change.

That's why Fujitsu has developed Finplex.

Finplex is a digital business platform that offers a range of financial applications and APIs. These help companies innovate and take control of digitisation. With Finplex, they can easily commercialise advanced technology, such as AI and blockchain. The platform is co-created with organisations to provide exactly what their businesses require.

### Making transaction histories tamper-proof with blockchain technology

Processing cross-border securities transactions is complex. It can take several days. A lot of time is spent checking settlement instructions and transaction content for errors. If the counterparty goes bankrupt in this time, the asset manager involved could be exposed to price fluctuations.

By co-creating with Fujitsu and using blockchain technology, Mizuho Bank Ltd. have reduced the time it takes to carry out this process from three days to just one. Mizuho had the expertise in post-trade processes. Fujitsu had the payment system design knowhow. Together, we made transactions almost impossible to tamper with. This has turned a long, complicated process into a highly convenient financial system. One that lowers the risks around cross-border security transactions.

# 65%

said that collaborating with technology experts will be vital for thriving in a digital world.





## Thrive through collaboration

Our report clearly shows that financial leaders aren't blind to digital disruption. They're feeling it throughout the sector and within their own organisations. And they're worried about getting left behind. But they are also excited.

### Digital gives great opportunities to:

- **enhance the customer experience by using automation and biometrics for faster services**
- **deliver operational excellence by transforming branches, bringing old systems up-to-date and using cloud technology**
- **drive profitable growth by reducing costs associated with expensive legacy systems**
- **use data to create a customer experience that improves customer loyalty and acquisition rates**
- **tighten cyber security and data loss prevention methods to make sure they are safe and compliant**

And this is just the tip of the iceberg. But digital disruption is happening at a breakneck pace. If finance firms want to be leading disruption as they have done in the past, rather than running to keep up with it, they need to learn fast, act quickly, and scale rapidly. At Fujitsu, we believe that the best way to do this is to work together.

» I think that the idea of co-creation is one that is really important to innovation. In my opinion, if you're trying to create something genuinely new, something ground-breaking, it isn't possible to do that on your own. Looking for new approaches, new points of view, new partners – that's how you help your business improve. «

IGNACIO CEA, CHIEF STRATEGY AND INNOVATION OFFICER, BANKIA

### Making ideas reality with XpressWay

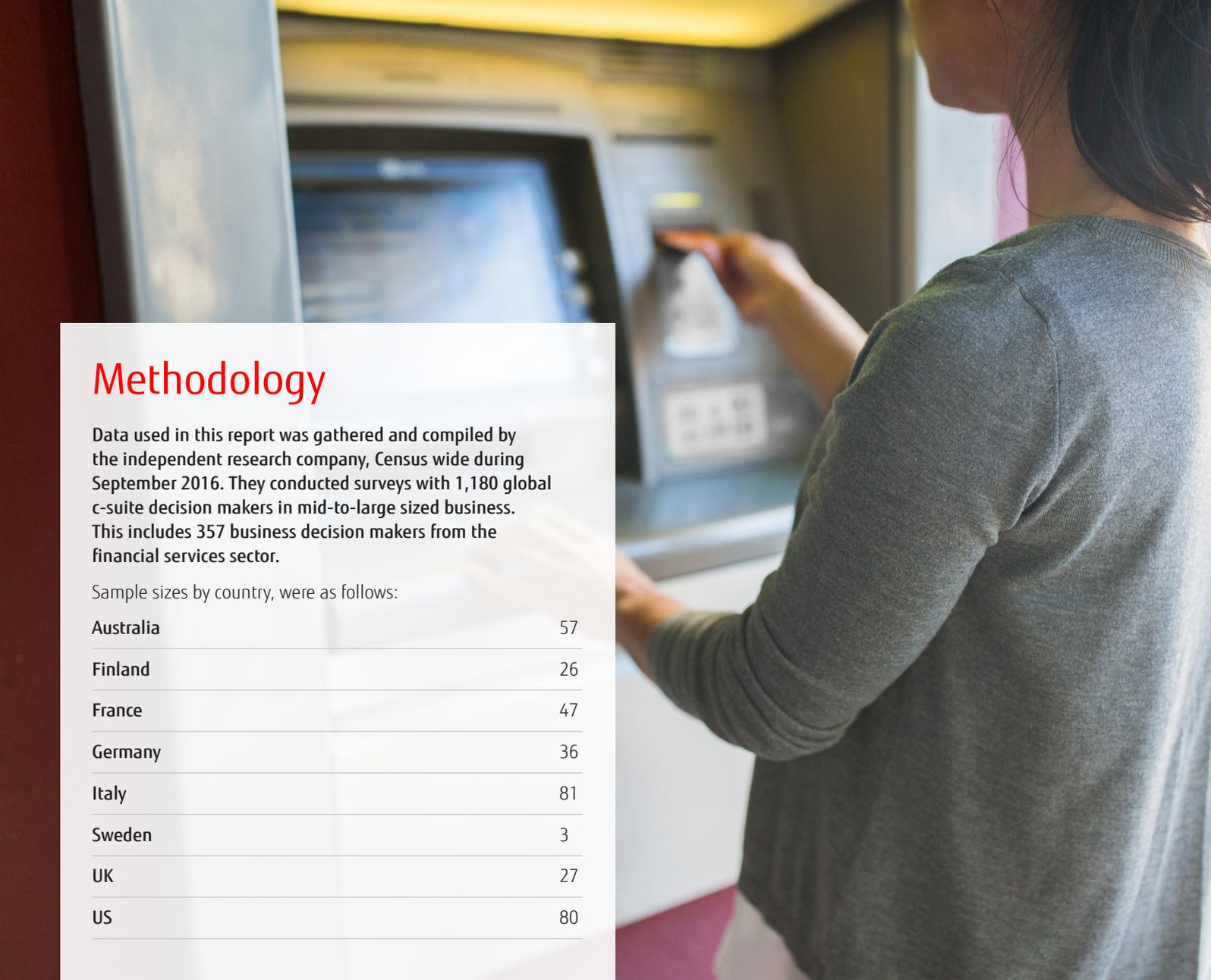
With Fujitsu, there's a way to find out if you can get more from your IT. It's XpressWay. Our experts will work with you to pinpoint exactly what your business needs and help you overcome your digital challenges. Xpressway marks the start of your co-creation journey, which is a four-stage process:



We have co-created with many retail banks to help them overcome the hurdles to digital transformation. For instance, we worked with a bank whose customers were no longer visiting its branches. And because opening an account online was taking too long, they were simply going elsewhere. So, we came up with a solution that sped up the end-to-end account opening process. The customer didn't need to fill out any paperwork or visit the branch. The result? More (and happier) customers, and a better digital image for the bank.

**To find out how we can co-create with you to help you achieve your business aims, contact our experts:**

[banking@ts.fujitsu.com](mailto:banking@ts.fujitsu.com)



## Methodology

Data used in this report was gathered and compiled by the independent research company, Census wide during September 2016. They conducted surveys with 1,180 global c-suite decision makers in mid-to-large sized business. This includes 357 business decision makers from the financial services sector.

Sample sizes by country, were as follows:

Australia	57
Finland	26
France	47
Germany	36
Italy	81
Sweden	3
UK	27
US	80

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