

The Finnish financial sector responds to digitalisation by developing new services

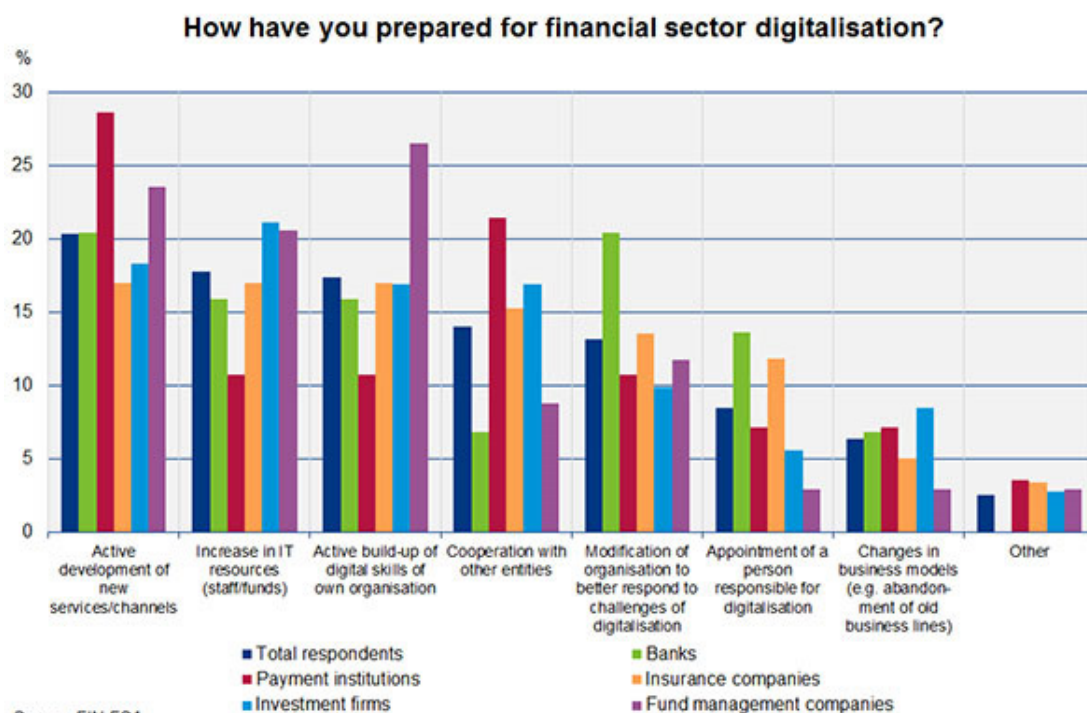
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The rise of digitalisation and financial technology (FinTech) companies is one of the hottest trends in the financial markets. Lower prices for computers, an increase in mobile equipment and the improved availability of applications have in recent years shaped the behaviour of customers and the operating environment of the financial sector. The exploitation of digitalisation and its impacts have thus been in the spotlight. Even though the cost efficiencies provided by information technology are in the longer term clearly observable, the actual impacts of digitalisation and new technology in the financial sector are still somewhat unclear.

The FIN-FSA performed a survey to examine changes in the operations of its supervised entities, particularly from the perspective of digitalisation.¹ The FIN-FSA survey also looked into how supervised entities have prepared for changes in the operating environment, the risks the sector is exposed to and the sector's views on digitalisation. The survey was targeted at the entities supervised by the FIN-FSA, i.e. banks, insurance companies, investment firms, fund management companies and payment institutions.

Fund management companies and payment institutions most active in the development of new services

The results of the survey show that the respondents have already taken some steps to prepare for the digitalisation of the financial sector. By far the most popular ways of preparing for digitalisation are active development of new services and/or service channels, increase of IT resources and the building up of digital skills within the companies' own organisation. In contrast, only some 6% of respondents had made changes in their business models, e.g. by abandoning old business activities. The results thus indicate that respondents are wary of making radical changes and are focused rather on improving their current practices.

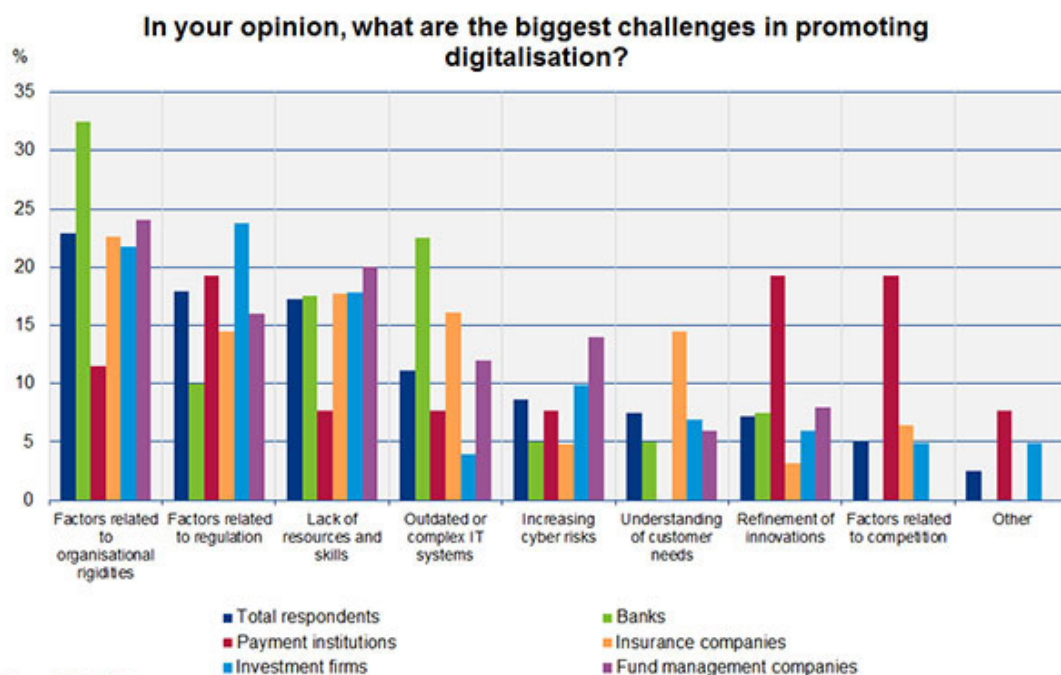


There are, however, some differences between respondent groups. Of these, fund management companies and payment institutions have been most active in developing new services and service channels. Management companies have also put a major effort into building up the digital skills of their organisations. By contrast, the biggest increase in IT resources was witnessed in investment firms.

Banks, in turn, seem to focus particularly on modifying their organisation. They also report more often than other respondent companies that they have appointed a person specifically responsible for digitalisation. It is, however, interesting that banks seem to cooperate with other entities considerably less than other companies. The results suggest that insurance companies are the most versatile in preparing for the changes caused by digitalisation, because their responses are quite evenly distributed between the various alternatives.

Organisational rigidities slow the digital leap

According to the respondents, the main factors slowing the promotion of digitalisation relate to the rigidities of their own organisation. Some 23% considered that change is slowed particularly by rigid and slow development models, organisational silos, and by the fact that other issues have a higher priority in the organisation. Some respondents also reported resistance to change in their own organisation and insufficient commitment on the part of management. In addition to organisational factors, the respondents mentioned as challenges regulation (17.9%) as well as scarcity of resources and lack of skills (17.2%). As for regulation, both national and EU regulation were considered a hindrance to digitalisation. In the field of resources and skills, challenges were caused by a lack of current and available resources.



Outdated or complex IT systems were considered to be only the fourth biggest challenge (11.1% of respondents). The increase in IT resources reported in the previous question may be reflected in that this area is not considered such a big obstacle. For all respondent groups, the smallest factor(s) slowing digitalisation were those related to competition. In this category, respondents most often mentioned foreign competition and competition by large technology and social media companies. Domestic competition within and from outside the financial sector were mentioned only rarely.

As for individual respondent groups, the biggest challenges for banks and insurance companies were factors related to the rigidity of their own organisation, outdated or complex IT systems and lack of resources and skills. Banks and insurance companies reported most often the rigid and slow development models within their organisation as well as the challenges caused by organisational silos. Organisational rigidities as well as lack of resources and skills are also slowing digitalisation in investment firms and fund management companies.

Investment firms consider that regulation-related issues are also a factor slowing digitalisation. In contrast, the challenges faced by payment institutions seem to differ from those of the other respondent groups. For them, the biggest challenges are caused not only by regulation but also by competition-related factors, the refinement of innovations and the productisation of new products and services.

Companies prepare for digitalisation primarily by introducing innovations and enhancing operations – rather than by cooperating

Our results show that companies respond to digitalisation primarily by innovation or by increasing the efficiency of current operations. Over a quarter of companies respond to the challenges of digitalisation by increasing development of new services. Companies also focus on increasing development of new business models (22% of respondents) and on doing the same as before, but better (20.3%). According to our results, the strategy of fund management companies, in particular, is to focus on streamlining and increasing the efficiency of current operations and processes.



Instead, cooperation with other financial sector entities and FinTech companies was only the fourth of fifth most popular way of responding to digitalisation. Of all respondents, 14.7% reported that they cooperate with FinTech companies, while 13% cooperate with other financial sector entities. Overall, it seems that companies focus primarily on developing their organisation by themselves and only secondarily seek partners for cooperation. However, responses differ according to companies' line of business. The share of cooperation with FinTech companies was highest among banks, insurance companies and payment institutions. By contrast, banks' and fund management companies' cooperation with other financial sector entities was limited, whereas for payment institutions this form of cooperation is an important part of preparing for the challenges of digitalisation.

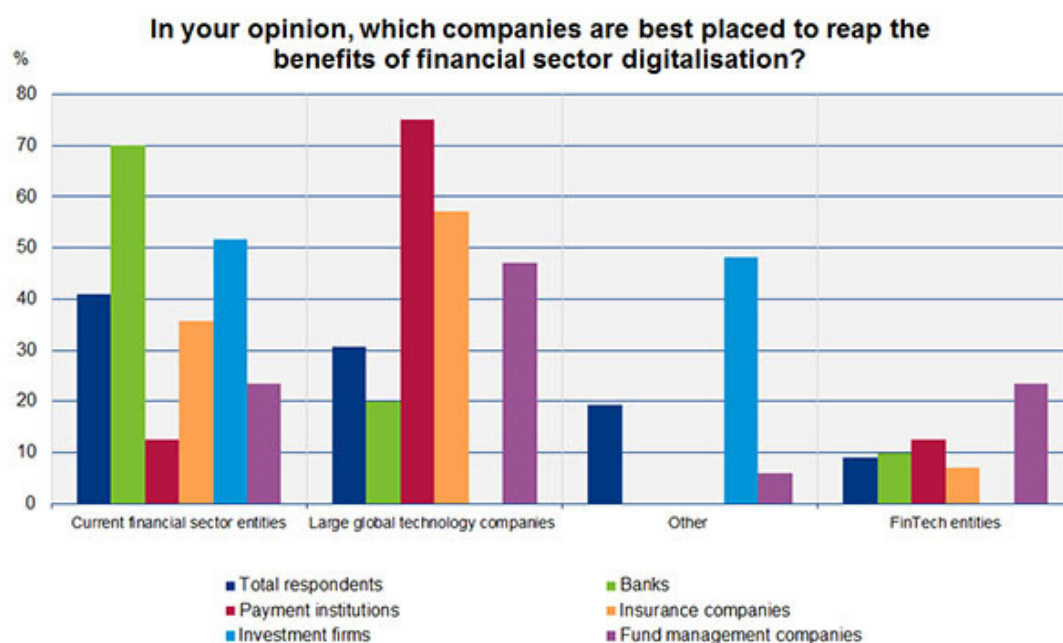
Respondents expect improvements in operating conditions and earnings

Respondents were also asked how, in their opinion, digitalisation will affect companies' operating conditions and earnings growth in the next three years. Nearly two-thirds of respondents considered that digitalisation will improve their operating conditions. A quarter considered that their operating conditions will remain unchanged, and approximately 6% expected a deterioration in operating conditions. The majority of respondents (80%) estimated that their earnings will grow by 0–25% as a result of digitalisation. Some 17% expected earnings to grow by 25–100%.

These results did not differ much between respondent groups. Only insurance companies expected a larger-than-average deterioration in operating conditions.

Financial sector entities and global technology companies in a strong position

According to respondents, current financial sector entities and large global technology companies (e.g. Apple, Facebook, Google and Alibaba) are best placed to reap the benefits of digitalisation in the financial sector. A surprisingly small share (approx. 9%) of respondents considered that FinTech companies are best placed. Banks and investment firms considered current financial sector entities to be in a strong position, whereas insurance companies, fund management companies and payment institutions believed in the superiority of large technology companies. The views of investment firms differed slightly from those of other financial sector entities. Their responses mentioned, for example, global entities such as Vanguard and Blackrock, as well as small start-ups. However, the responses do not clearly show in which cases the term 'start-ups' referred to FinTech companies.



Source: FIN-FSA.


Survey overview

The response rate for the survey, conducted in late summer, was 55%. Respondents were asked to identify their main line of business, based on which they were classified. Of the respondents, 39% were investment firms, 22% fund management companies, 17% insurance companies, 12% banks and 10% payment institutions. In the analysis above, the results are presented as aggregate figures or broken down by respondent group. The percentages for total responses are proportionate to all responses given in the survey. The percentages for the individual respondent groups are proportionate to the responses in the group in question. The survey consisted of the following questions. In questions 2–4, respondents were allowed to choose several alternatives.

1. What is your main line of business, i.e. is your company a.... ?
2. How have you prepared for financial sector digitalisation?
3. In your opinion, what are the biggest challenges in promoting digitalisation?
4. How is your company responding to the challenges of digitalisation?
5. In your opinion, how will your operating conditions change due to digitalisation in the next 3 years?
6. In your opinion, to what extent will digitalisation of your own processes, functions and services affect your earnings growth in the next 3 years?
7. In your opinion, which companies hold the best opportunities for reaping the benefits of financial sector digitalisation?

¹ Digitalisation referred particularly to all electronic procedures and products related to new business models and service concepts.

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