Reclaiming Interest

A Transformation Playbook for the Insurance Industry

by Saurabh Wahi and Davis Ward

PROPHET

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Achieve Uncommon Growth in Uncommon Times

While insurance companies have made much progress in reinventing themselves for today's customers, the results are clear: There's still some way to go.

Insurers must speed up digital transformation efforts and customer experience initiatives. That means it's time to pull different levers to accelerate organizational change and better connect with customers in this fast-moving environment.

That was true even at the beginning of 2020. But a changing world is rocketing consumers forward in their demand for technology-driven experiences. And digital natives have charged in, changing expectations faster than industry leaders can say "Lemonade."

Certainly, some companies shine, already far along in the journey to digital maturity. USAA and State Farm deliver experiences that delight customers. And AXA, one of Asia's largest insurers, has turned its virtual assistant Emma into a customer-experience star.

But all companies—even digital natives and market leaders—can move faster and travel further. This playbook offers many steps to accelerate, with two broad imperatives that address both larger and smaller bets:

1. Enrich every customer experience with deeper insights

Customers — both consumers and B2B — bring elevated expectations to every transaction. They want to track claims as efficiently as their Amazon orders and buy annuities as quickly as they trade on Robinhood. Agents, now unable to meet with prospects in person, demand virtual sales support few companies can provide. A truly customer-centric strategy — and one that measures what really matters — can only come from a better understanding of all these needs.

2. Become a more responsive organization by sharpening the internal focus

Companies need to change from the inside out. For many, the 'we've always done it this way' mentality is a grinding gear. It's time to address infrastructure issues that for too long have been hamstrung by outdated operating models. Leaders must unify all departments around a common purpose and strategic priorities. And new talent models must address future growth.

It's time to hit the gas. When traditional companies pull the right levers, we believe they can out-innovate newcomers, win back customers and find exceptional growth.

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Section One

Transforming From The Inside Out

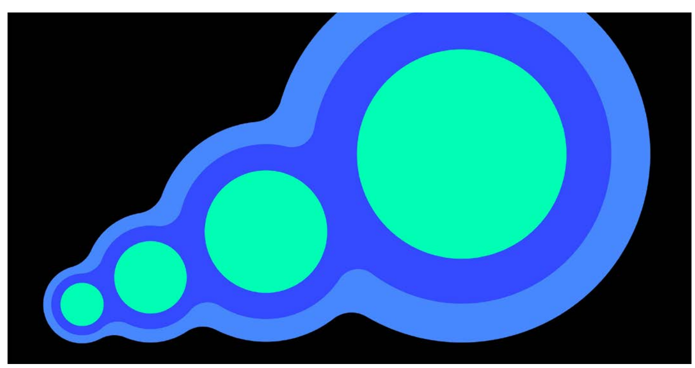
How to Effect Culture Change in Financial Services

Financial services companies have been pursuing transformation for years, but the events of 2020 have only underscored the need for FS firms to rapidly evolve. In a few months, the world has achieved years of digital progress, shining an unflattering light on the many companies that lag. Many legacy financial services organizations, hierarchical and slow-moving, stand to lose as much as 35% of banking revenues to more tech-savvy rivals. That's on top of an estimated $1 trillion in losses the sector may give up as a result of COVID-19.

Legacy companies are difficult to change by design. They were built for capital longevity and regulatory compliance, not agility and innovation. But they can't afford to stand still. The ones that are making the most progress are moving forward at two speeds. First, they're executing multiple plans at lightning pace to get teams and market positions back to "normal."

But they're also operating at a second speed, radically reimagining their future. They know that to survive, they have to innovate. And they have to create change throughout the entire organization—to transform, in the truest sense of the word. Prophet's Catalysts in Action: Applying the Cultural Levers of Transformation report analyzes how companies around the world are achieving that transformation, identifying four essential pathways of change:

- **Defining the Transformation**
- **Directing the Transformation**
- **Enabling the Transformation**
- **Motivating the Transformation**



Defining the Transformation: Driving clarity

This step establishes a unifying ambition that is powerful and actionable, and that appeals to all levels of leadership.

We recently ran research with hundreds of leaders to study the cultural levers of transformation, including 100+ from FS companies, who were more likely than average to say that their initial transformational efforts are proving effective.

But there are still roadblocks. Financial services companies often stumble when developing a transformation mission that is clear and actionable throughout the organization. It's essential for leaders to get key stakeholders throughout the enterprise on board with the transformation plan in order for it to succeed.

Capital One, for example, has achieved its extraordinary success by committing to a clear technology mandate. With a rallying cry of ingenuity, simplicity and humanity, the mission makes as much sense to thousands of software engineers and cloud executives as it does to customer-service representatives. Not only does Capital One excel among its peers, but its recruiting clout is on par with the best tech firms.

Directing the Transformation: Adapting the operating model

Financial companies, with their complex hierarchies and sprawling brand portfolios, often find that changing their operating model to support these ambitions is daunting. It involves overhauling governance, processes, roles, systems and tools. But these changes are essential: All parts of the organization need to line up with this leaner, faster thinking.

American Express offers an example of successfully directing the transformation. When it decided to shift its operating model away from relying on merchant fees to increasing card use, it re-engineered itself so that all functions could support the company's new goals. That means decisions can be made quickly and laterally, without hierarchical delays.

But others struggle, in part because once a plan is prepared, executives are reluctant to share those roadmaps throughout the business. Our research finds that financial services companies tend to restrict these blueprints to the C-Suite—only 34% make it visible to the broader organization. That guarded attitude impedes financial-services companies from successfully adapting their operating models. Everyone needs to know where the company is headed in order to direct the transformation.

Financial-services companies do have some advantages, though. Compared to other industries, they are more likely to update their roadmaps often, with 42% evaluating progress on a weekly basis compared to 31% in other industries. They're also better at developing key performance indicators—78% believe KPIs were well executed and measured transformation progress well.

Enabling the Transformation: Building a new talent model

None of these changes can take hold if the right people with the right skills aren't in place. That requires shaking up methods of finding new talent and developing skills and competencies among current employees.

This includes hiring a diverse workforce and learning to listen to what they say. Leaders "who are inherently inclusive and collaborative and encourage good ideas to surface from wherever" are critical, says Mary Ann Villanueva, head of brand culture and engagement at **Citi**.

Our research finds that financial services companies are somewhat more willing to train and upskill employees than other sectors. One recent homerun comes from JP Morgan's $11 billion annual investment in tech, including an army of 50,000 technologists. That powered it to record results before the pandemic and continues to fuel the company's exceptionally resilient performance so far this year.

Did your organization develop training(s) to upskill/reskill existing talent as part of your recent transformation?

	Financial Services (N=100)	Other Industries (N=362)
Yes	94%	84%
No	6%	15%

Motivating the Transformation: Inspiring the change

This aspect of change requires leaders throughout the organization to bring the transformation plan to life. In companies that are successfully transforming, executives don't just talk about change—they exemplify it in ways that inspire employees to become evangelists for the new ways of working. Above all, they cultivate a tolerance for failure. Missteps are inevitable and failure is where an organization finds opportunity. When teams fear failure, they seek broad consensus, which slows decision-making.

"We're trying to enable employees to fail on small things, such as experiments in the innovation lab, to achieve success on the big targets," Trung Vu Thanh, head of digital banking for **MB Bank Vietnam**, tells our research team. "We're trying to push to the limit and use innovation, as more ideas will help."

Which of the following best characterizes the way your organization addressed the potential for initiatives to fail during your recent transformation?

	Financial Services (N=100)	Other Industries (N=362)
Failure was accepted (a fail fast and learn approach)	51%	39%

“We’re trying to enable employees to fail on small things, such as experiments in the innovation lab, to achieve success on the big targets."

Trung Vu Thanh,
Head of Digital Banking
MB Bank Vietnam

USAA®

It’s hard to find a better example than **USAA** in this realm. USAA is best known for an intense focus on families and pride in military service. But its commitment to customer-centricity is so deeply engrained into the test-and-learn culture that employees submit more than 10,000 customer-experience improvement ideas each year. Almost 900 are so good they’re patented. (And 25 of them came from a security guard, who—like all employees—is also a customer.) It’s an organization that draws its strength and energy from trying to find new ways to excel.

Taken together, these four pathways—harnessing curiosity, agility, inclusivity and empathy—can help financial-services companies navigate their transformation. They build deep cross-functional engagement and collaboration. When combined with a shared sense of purpose, they can follow the transformative path to uncommon growth.

Get Prophet’s 2020 Global Research Report **Catalysts in Action: Applying the Cultural Levers of Transformation**

Talent Strategy Fundamentals: Equip Your Business with the Right Capabilities for 2021

There are three fundamentals for getting your talent strategy right in the new normal. It's hard now, but can you remember February of 2020? Things were a little different. In just a few months, the world has changed irrevocably. Frontline workers all wear PPE; our most personal interactions happen over Zoom; and consumer transactions via digital are at an all-time high. Around the globe, organizations have had to adapt quickly—e.g. implementing safety protocols, rolling out mobile ordering and curbside pickups and launching entirely new products and services to keep their value proposition relevant.

That's just what we can see above the waterline. The current health crisis and associated economic impact is also forcing organizations to rethink back-of-the-house business processes as well. Take workforce planning. Faced with rapidly declining revenues, many businesses have furloughed workers or implemented reduced hours to help manage labor costs. Companies have been forced to be as efficient as possible, looking to get the greatest productivity bang for their labor cost buck. The same quest for efficiency has also challenged established business processes with many 10-step approval processes becoming 3-step processes almost overnight. And the crisis has only escalated the need for talent that was already in scarce supply. As organizations shift to products and services that can be delivered or augmented via digital, demand for product owners and digital experience design professionals has gone from "high" to "astronomical."

If there were ever a time to be strategic about investments in talent, it's now.

Strategic workforce planning must start from a good foundation

1

Start with a clear vision of the future

If the past few months have taught us anything, it's that the future is unlikely to look like the recent past. It's looking increasingly likely that the "next normal" will look very different from the pre-COVID world. And business planning needs to account for that. Where organizations have not already started to conduct strategic workforce planning in earnest, a common practice is to allocate headcount investments according to last year's plan, e.g. "IT got an eight percent increase last year, and all those projects are still in-flight, so eight percent sounds about right this year." While easy to administer, a backward-looking approach is far from strategic.

Forward-looking strategic planning needs to have a clear vision of the company's business strategy over multiple horizons—say six, 12 and 24 months. While no one has a crystal ball into what 2021 will hold, even a directional view of the organization's near, mid and long-term needs will provide a solid foundation for making strategic investments in talent.

2

Focus on capabilities

New people and skills will be a critical part of delivering on that strategic vision. But they're only part of the equation. Responding to the crisis has forced companies to reimagine business processes (bye-bye, 10-step approvals), adopt new technology like mobile ordering or robotic process automation (RPA) and adapt to distributed teams and ways of working. What the crisis has really done is accelerated digital transformation for most organizations. For many organizations, workforce planning is focused solely on headcount—e.g. "how many new reqs should Marketing get this year?" But any strategy that thinks only about talent in terms of headcount is missing the bigger strategic picture of what the enterprise really needs.

Strategic workforce planning should first be anchored in the capabilities that will be critical to the company's strategy. That means considering the talent needed to support those capabilities, but also the processes and tools to deliver them. Thinking holistically about capabilities also allows an explicit discussion on how best to acquire or develop them. For example, if digital service design is an urgent business need, with limited available talent in the market, does it make more sense to hire, partner or outsource for it?

3

Adopt an enterprise mindset

Some of the above capabilities may be tightly coupled to individual functions in the organization. For example — managing technology infrastructure normally resides in the IT department. Managing campaigns is usually the remit of marketing. And that's fine. But how might we decide which is more important to the company's enterprise strategy? If it came down to investing headcount in one or the other, how might we choose? In some organizations, this kind of negotiation devolves into horse-trading allocated headcount. Or worse, those tradeoffs are never even discussed.

To navigate these questions effectively, leaders across the organization need to take off their "day job" hat as leaders of a function and focus on the strategic goals of the entire enterprise. Adopting an enterprise mindset will help identify capabilities that will best serve the enterprise as a whole and avoid creating the usual inefficiencies that result from duplicative capabilities scattered across functions. For example, if your company needs to embed more data-driven decision-making in the organization, it might be more efficient and effective to incubate an advanced analytics group serving the enterprise, rather than hire data and analytics talent in each function. But that means leaders having to leave their pride and perceived functional priorities at the door.

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2021 is just around the corner

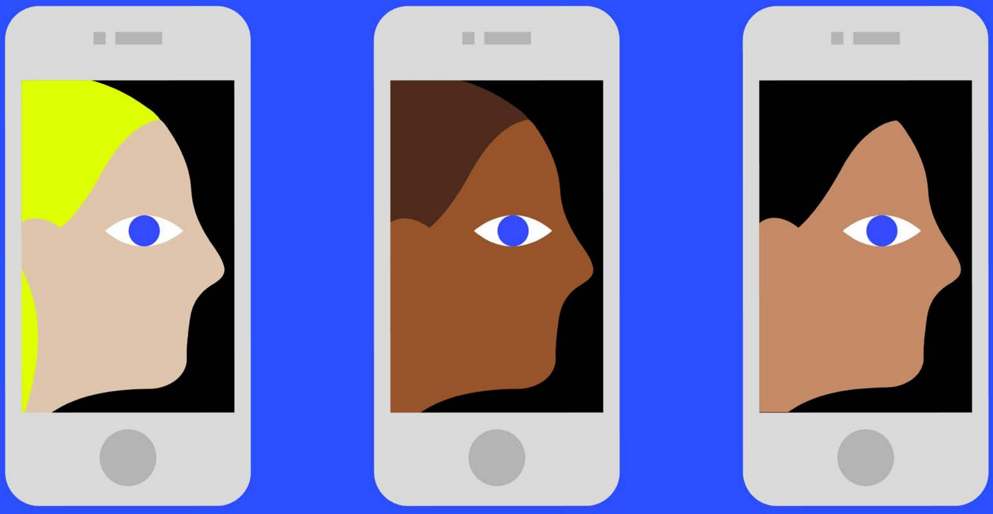
With so much uncertainty about the future, it can feel hard to be strategic about anything these days. It may even feel like planning for next month counts as “long-term.” But 2021 planning processes are in full swing in many organizations. As the global pandemic continues to unfold, it seems unlikely that businesses will want to roll-back the many successful business innovations they have pioneered and go back to the way things were in 2019. More likely, our path to the next normal will be an iterative process. Hiring freezes may thaw briefly, only to refreeze again as businesses seek to maintain their gains. Navigating this environment and enabling your employees to thrive will take a thoughtful approach.

If your organization isn’t yet taking a strategic approach to workforce planning, consider starting with a solid foundation around these three principles. You may find that reimaging back-of-the-house planning processes with the same passion and innovation as customer-facing aspects of business doesn’t just prepare your organization for the next normal; it may help ensure you have the right talent to weather the next disruption.

If you’ve had to reset your workforce assumptions and want to learn how to capture competitive advantage from new talent scenarios then **get in touch today.**

Section Two

Transforming The Customer Experience



Customer-Centricity: Closing the Gap Between Digital & Human

The past few months have made it more apparent than ever that shifting to more virtual offerings and seamless interfaces are now the main way for businesses to survive and thrive in our online post-COVID world. These changes—accelerated but not triggered by the pandemic—have fundamentally validated one of Prophet's core convictions: customer-centricity shouldn't be determined by what companies think is technically feasible. It has to start with us human beings, putting the real needs of people at the center of every decision. It is clearly digitally driven, but at the core, customer-centricity is always a deeply human endeavor.

For too many companies for too long, the strategy has followed what is technically feasible instead of the other way around. But for the few that have been focused on a people-first approach, having their strategy informed from what humans need first before shifting to what is possible on the back end, the success is apparent.

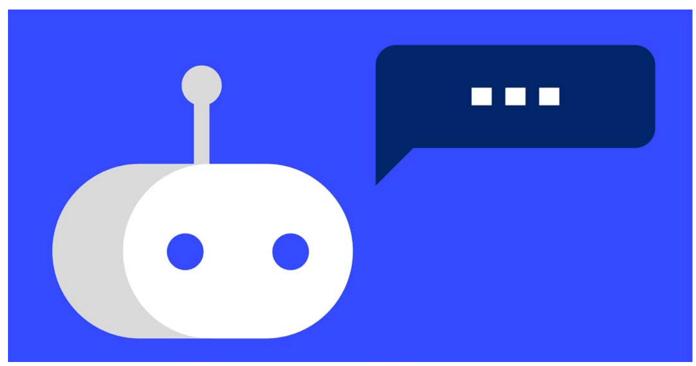
Companies like Amazon or Netflix —two highly relevant brands and businesses everyone would agreeare heralded as paragons of the digital age—but these brands have become the powerhouses they are because they are human-focused. While there are billions of dollars of tech investments behind each, their unwavering focus on their customer and delivering an experience for them that is fast, simple and incredibly gratifying drives what they do and their bottom line.

The past few months have made it more apparent than ever that shifting to more virtual offerings and seamless interfaces are now the main way for businesses to survive

Of course, for companies in manufacturing, life sciences or financial services, reinventing themselves as digital entities is more complicated than for say a company with a digitally native business model and their failures often show a similar pattern—namely that their strategies demonstrate a lack of clear thinking from the customer's standpoint. They're preoccupied with their products, their sales and their success. But now it's time to look at everything through the lens of the customer, this is where it should start. Success starts with knowing the buyer. What is then required is a holistic view of the digital landscape with technical feasibilities assessed early on. That is how you bridge the often missed gap between a customer-centric digital strategy and a human-focused one.

Faux humans: The rise of bots

The reason we have opened our doors in such large numbers to tools like Siri and Alexa comes down to convenience, ease of use and the fact you speak to them as you would a human. They are customizable, often adapt to your preferences and deliver an experience you can consistently count on. And companies are eager to take advantage.



One of our favorite examples of the successful use of artificial-intelligence-driven empathy comes from the global insurance company, **AXA**. To help it successfully grow its business in Asia, AXA had the desire to develop a new digital customer engagement proposition, one that humanized the experience and provided a consistent customer journey and brand experience across the region. Emma was born—AXA's first humanized user interface, which has become the core of the brand's new digital customer experience, handling everything from claims to servicing, health content to symptom checks and helping individuals find the solutions and content most relevant to their needs.

She's not just efficient and accurate. She's a friendly embodiment of a brand committed to assisting people as they strive for financial wellness, whilst successfully bridging the gap between digital engagement and financial advisor partners.

And recognizing the massive gap in helping people deal with the mental-health challenges posed by the pandemic, AXA expanded Emma's skills to deftly field calls about mental-health questions. That's a high-risk undertaking, but initial tests show customers don't just appreciate the effort, they're using the service extensively.

Challenge definitions: What does it mean to be human?

It's easy to make assumptions, and companies often mistakenly believe they know everything there is to know about their customers. That's seldom true, especially in a period of such massive upheaval. It's critical that companies take this time to go deep as they gather insights, with an entirely rededicated sense of empathy and rigorous analytics. For us, that typically means finding out which drivers are the most essential, right now, for customers and prospects. What makes one brand relevant to them and another forgettable? Are they looking for inspiration or efficiency? Do they feel the brand is available to them when and where they need it? Do they sense it meshes with their own values?

With each new wave of technological development, the digital age shifts shapes and speeds up. And it's vital that leaders focus on the potential of emerging technology. It's critical that companies do not let themselves fall behind in efforts to continue to be as connected, nimble and data-driven as can be. They need to continually ask: What tools do we have? How digital is our go-to-market approach? How automated is our production?

But too often, we have seen companies spend tens of millions—and sometimes hundreds of millions—in tech investments before understanding how these initiatives might help customers and eventually drive growth. The critical decisions must always balance both: What do your customers need most right now and what is your company capable of providing?

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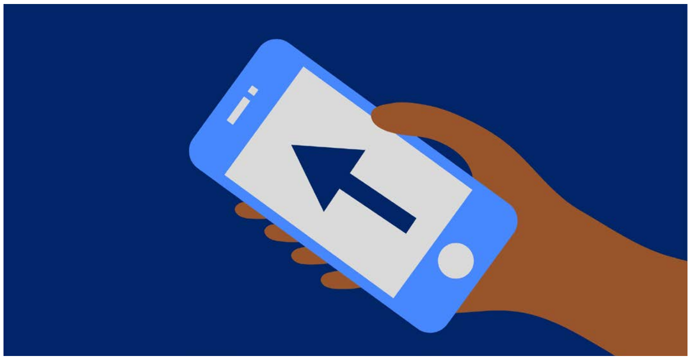
The bottom line

Digital investments, like any other use of capital, should only be made when companies are clear on how they will serve the largest purpose. Addressing just the digital possibilities in a siloed view is a surefire way for a business to fall short in today's reality. It is the combination of instilling a human-focused process with digital capabilities and prowess that sets up a business for customer-centric success.



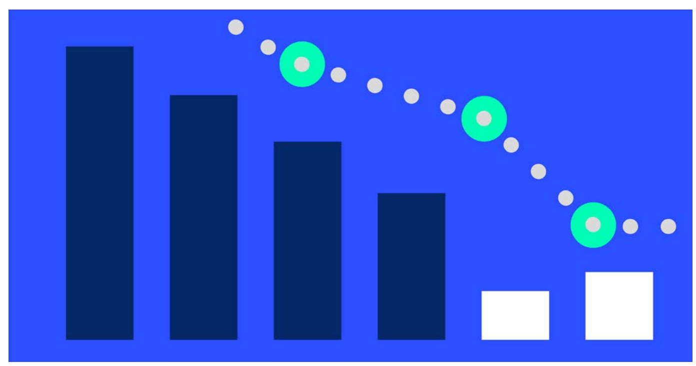
Learn more about how a customer-centric strategy can improve the growth of your business. **Reach out today**

How to Measure Customer Experience in Financial Services

As customer experience (CX) becomes a central battleground for financial services companies, a number of new questions have been hounding experience leaders, product owners, marketers and operations heads:

- **How do I measure what truly matters across the experience?**
- **How might I align a mix of functions, business units and regions behind a unified view of what matters?**
- **How might I motivate these groups to coordinate in delivering a superior experience where it matters most?**

We have worked with clients across a broad spectrum of measurement sophistication. On the one end, some have spent millions on sophisticated measurement software, only to then struggle with translating their firehose of data into actionable insights. And on the other end, some still rely on a mix of CSV files and manually-generated reports across disparate systems—and struggle with finding meaning across the disjointed, hard-to-compare data.



We have found that there are five key tenets that can help companies measure CX in ways that provide clarity, improve decision making, and ultimately drive business impact:

1

Start With What Matters Most To Customers

Leaders at large organizations will know all too well that it's tempting to only measure interactions and transactions that sit within their domain. Yet, this common mindset produces an incomplete view of what truly matters to customers across their entire journey.

For a large financial institution in North America, we discerned what was meaningful to measure by starting with a customer-led view of what truly mattered to them across their end-to-end experience journey. We used qualitative techniques such as in-depth interviews and ethnographies to reveal pivotal moments across the experience. We then used quantitative research to sharpen our understanding of customer behavior at key moments and clarify how these influenced specific business outcomes.

2

Define a Unified Framework Across Levels and Functions

Most large organizations have multiple CX measurement frameworks, techniques, KPIs, and reporting mechanisms. While each of these might serve the purpose of distinct management levels and functions, they also create multiple and different versions of 'what truly matters.' This makes it particularly difficult for cross-functional teams to translate insights into action.

In our work, we have sought to make measurement more actionable by defining a unified CX measurement framework. Such a framework can typically span different management levels and functions while also identifying relationships across key measures that allow a more cohesive view.

With such a framework in place, senior executives, managers and front-line operators are all able to form a shared narrative about the firm's CX performance, issues and opportunities. Executives can use high-level KPIs to measure the overall company CX priorities. Managers can use more detailed KPIs to define actionable milestones in service of the overall priority and allocate investments. Front-line operators can leverage a highly detailed subset of metrics to mobilize plans, establish service-level targets and track progress.

3

Build a Better Model with Leading and Lagging Indicators

The process of developing a unified CX measurement framework requires a sharp eye toward identifying the right measures that accurately describe customer impact and eventually business impact. Getting this part right often falls on ensuring we consider a broad range of data (ideally, data related to operational measures, customer sentiment / perception, customer behavioral response, and business outcome) as well as robust econometric models and analytics that connect CX measurement explicitly to financial value.

For example, in developing a model that derived relationships across different CX metrics for a large U.S. financial services firm, our data and analytics team made sure to:

- **Account for time dynamics where observations in one time-period are linked to observations in different time-periods**
- **Capture interaction and endogeneity by allowing variables that are jointly determined to ensure estimates account for simultaneity and interaction of variables**
- **Measure non-linear relationships and account for diminishing returns to ensure true influence is isolated**
- **Control and capture influence of macro-economic changes and shocks that influence the business (e.g., shifts in interest rates or regulatory changes**
- **Account for uncertainty based on probability — identifying expected outcome, what's possible, and likelihood through Monte Carlo simulation**

Our analytics team was also able to parse out what leading indicators managers should frequently look at (such as engagement, digital activity) and how these eventually predicted lagging indicators (such as customer acquisition, retention, advocacy) and ultimately financial performance. Most importantly perhaps, the model was translated into a what-if simulator that allowed our client to assess the likely financial impact from a variety of potential CX improvements.

4

Look Within, and Beyond, Your Industry for Comparisons

Competitive benchmarks are useful when trying to understand the areas of the experience to invest in. However, we believe it's a mistake these days to compare your CX to just your competitors alone.. Your customers are certainly going well beyond and comparing it with leaders across multiple categories — and this is especially true in sectors where satisfaction is systemically low.

For example, for a large global insurance provider, our research revealed that their CX scores within a key market in Asia were higher than most of their competitors — especially in parts of the journey that mattered most. However, a closer look also revealed that industry-wide scores in this market were significantly lower than other comparable markets, reflecting a more systemic, sector-wide level of customer dissatisfaction.

Despite temptations of proclaiming that they were providing a "leading experience," managers at this insurer quickly agreed that they had no appetite for being "the best of the worst." Instead, they recognized this as a clear opportunity to leap-frog their competitors and newer disruptors by doubling-down on their relative strength in CX.

5

Invest Disproportionately in Defining and Developing a Measurement Governance Model

The most sophisticated of measurement strategies can end up failing if they are not accompanied by a governance model to deploy, maintain and ultimately act upon insights that evolve or transform the CX. In our experience, a successful governance model typically solves for three key questions:

What people across what organization / functions will deploy, maintain and act on experience measurement reporting and insights?

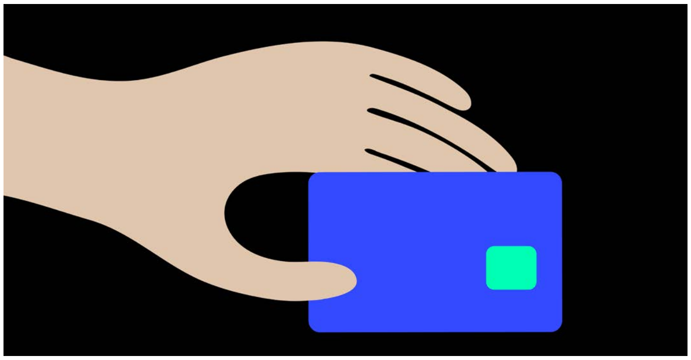
What management processes will be required to drive systematic deployment, maintenance and actionable CX improvements?

What data, technology and interactive tools will be required to acquire, store and provision KPIs at the various levels of fidelity required across the organization?

Final Thoughts

Ultimately, we believe that in the battle for winning on experience, firms that are able to combine a cogent experience measurement strategy with a robust governance model have a significant leg up. Such firms can see their end-to-end experience through the eyes of their customers. They can spot customer needs and opportunities in areas that matter most.

They can empower the right teams and executives with this insight quickly so they can act in real-time. And when they act, they can use customer insight to go beyond fixing what's broken and deliver experiences that surprise and delight customers — and may even self-disrupt their model with a more transformative innovation.



Need help figuring out what path to take now, in the next 6-8 months, or beyond? Our Financial Services practice can help. **Reach out today.**

Section 3

The State of Transformation in the Industry Today

Digital Transformation for Financial Services: Three Reasons to Hit the Gas

While the financial services industry is undergoing almost constant transformation, fintech startups drive most of it. As these rising stars continuously find new ways to introduce customer-centric innovation, incumbent financial institutions are struggling to keep up. "The 2020 State of Digital Transformation," a new report from Altimeter, a Prophet company, finds that even as these tech-savvy newcomers surge to record valuations, 68% of traditional financial services companies report that they are only in the early stages of digital transformation. And they say that COVID-19 has slowed their progress even further.

While validating the obstacles many legacy companies face as they navigate their way forward, this research makes clear that this is no time to slow down. The sooner companies lean in and accelerate digital efforts, the more revenue and market share they can reclaim from newcomers.

Fending off the fintech onslaught

There's no doubt that capital markets are favoring these fintech startups. In 2019, KPMG reports that investment hit $135 billion. These companies are growing in scale and revenue, with 68 achieving "unicorns" status, a valuation of at least $1 billion, as of this past September, according to CB Insights. And while they span consumer banking, payment solutions, insurance technology and trading, they have plenty in common: They're disruptive, customer-centric and digital to their core.

Chime, a neobank startup offering digital cash management services and debit cards, is one of our favorite examples. It has tripled its transaction volume and revenue this year, achieving a $14.5 billion valuation.

And **Robinhood**, a commission-free brokerage platform, saw daily average revenue trades skyrocket to 4.3 million in June, surpassing all traditional brokerage firms. Among the household names left in the dust: TD Ameritrade, with 3.84 million, Charles Schwab at 1.8 million and E-Trade at 1.1 million.

But some traditional banking institutions, such as Marcus, **Goldman Sachs**' consumer banking platform, have also seen rapid growth during the pandemic. It's grown to more than $27 billion in savings from 500,000 customers, indicating that even legacy companies can successfully transform into digitally-powered institutions.

How legacy companies can catch up on digital transformation for financial services

Altimeter's report delves into how incumbents are trying to catch up. Based on an in-depth survey of 600 executives, including 137 in financial services, three clear imperatives emerge.

1) Move faster. The majority of financial services firms are still early in their digital transformation journey.

Altimeter's research measures digital transformation through a five-stage model. First, companies make their case for investing in digital. Next, they develop foundations for more comprehensive investment, seeking to understand customer journeys and improve employees' digital skills. From there, they build operations, digitizing them at scale. Fourth, they integrate these platforms to use data more strategically, and finally, optimize for growth, leveraging data and AI for great customer experiences.

Only 25% of the companies in our study have moved beyond this to the final two phases. Financial-services execs say they are moving even more slowly. Some 68% say their companies are still in the first two years of their transformation journey, and only 38% say they've reached the third phase (building operations.) That compares to more than 50% of healthcare, tech and retail companies.

And that's far too slow for consumers. The latest banking satisfaction research from J.D. Power, for example, shows that the more digital the customer, the more significant the satisfaction gap. And dissatisfaction is highest among Gen Z customers, a fast-growing demographic.

Source: The 2020 State of Digital Transformation

2) Make new ways to reach customers a higher priority

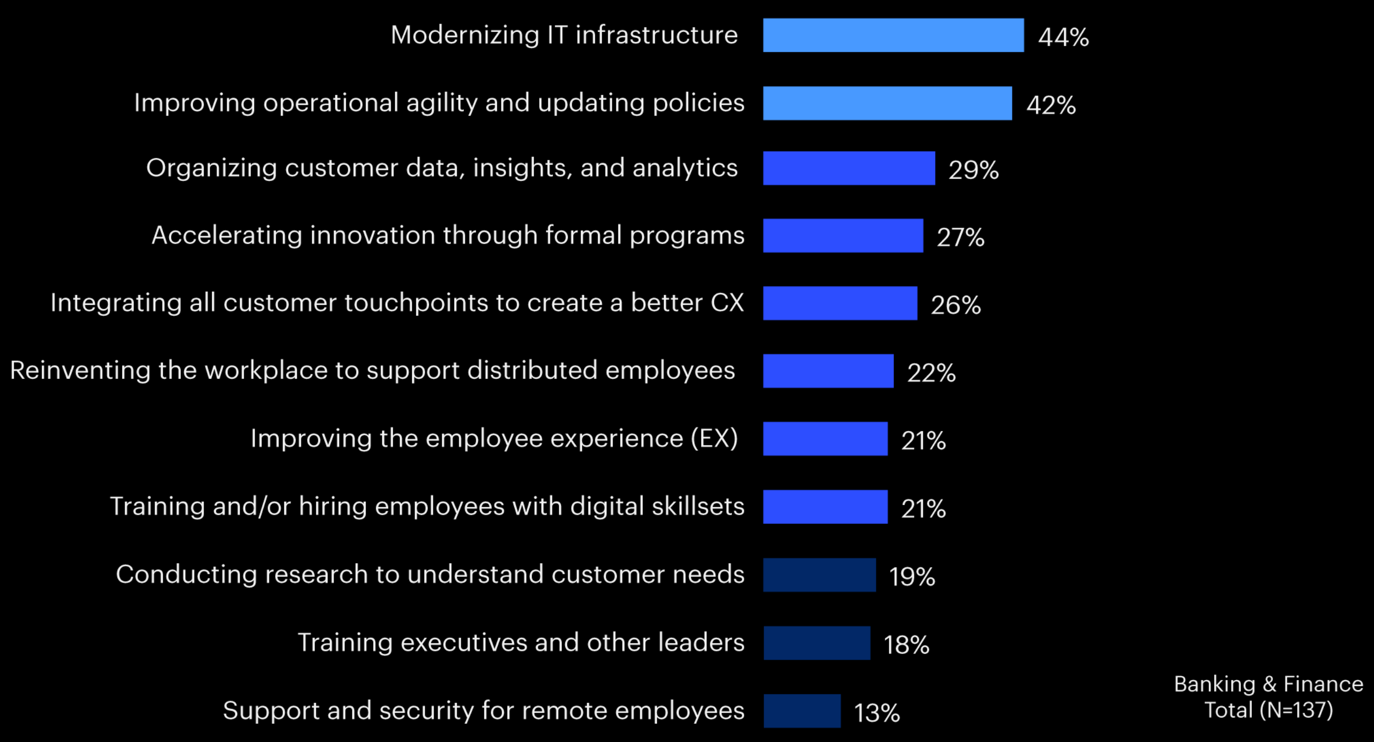
Optimizing internal processes is a compelling reason to, named by 40% of respondents and 33% name responding to COVID-19. And to create the resilience to navigate the current economic and health crisis, financial service executives recognize that their digital transformation should focus on improving operations and enable them to operate in a more agile and flexible way.

But our data suggest that these companies should give more weight to the many ways digital transformation could provide firms with opportunities to reach customers through new digital channels, particularly as more consumers look to engage primarily online.

As the market continues to change, and consumer preferences and tendencies evolve significantly due to COVID-19, financial services brands are picking up on the need to leverage advanced technology and data to become more flexible and agile.

Financial service executives recognize that their digital transformation should focus on improving operations and enable them to operate in a more agile and flexible way.

Which initiatives are most important to your digital transformation efforts?



Source: The 2020 State of Digital Transformation

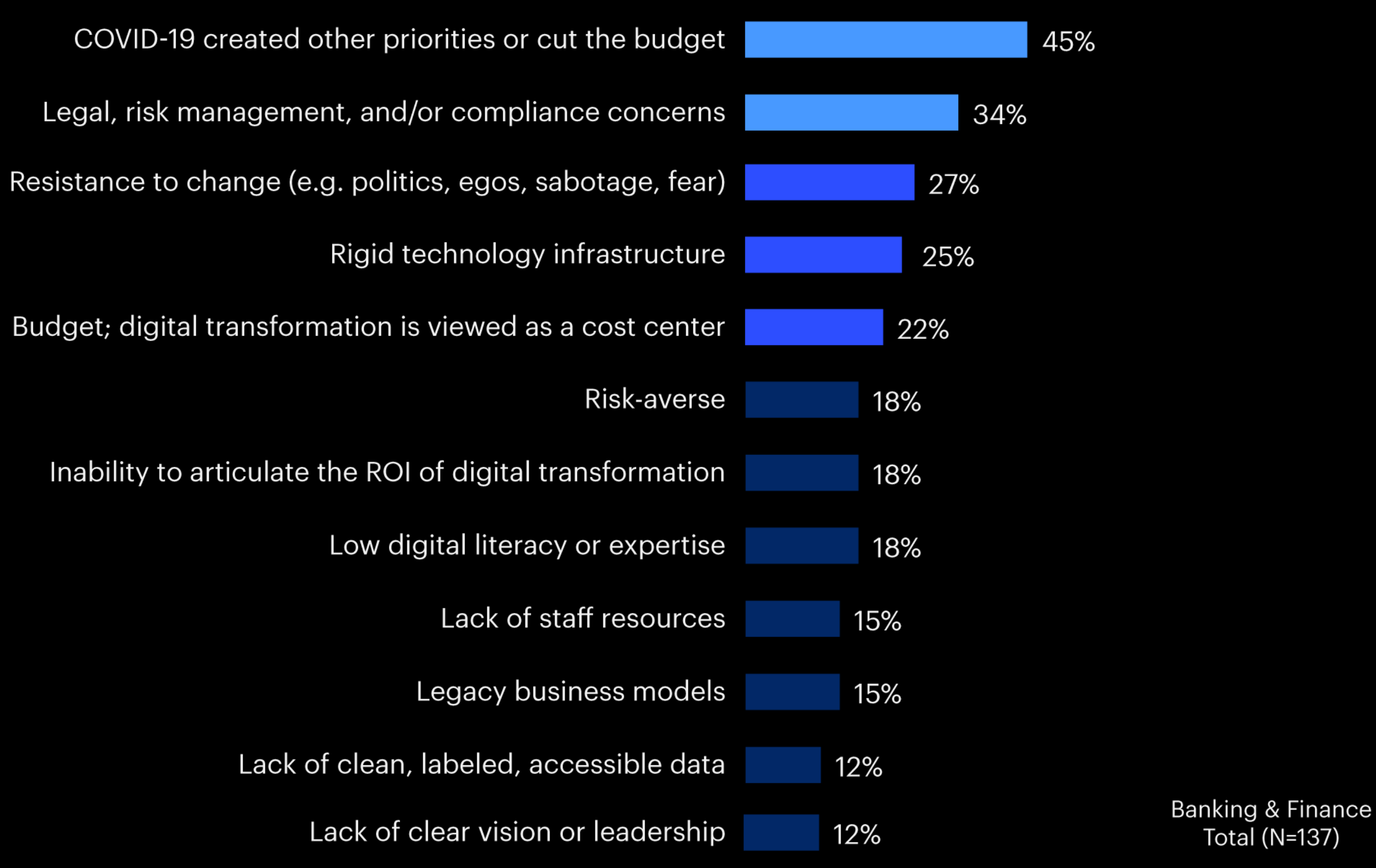
3) Acknowledge new barriers

Transformation has not been easy, given legal hurdles and inherent resistance to change. And COVID-19 is creating new challenges. With urgent demands for supporting remote work and developing digital marketing and selling tools, the pandemic has hijacked many corporate priorities. In fact, 45% of our respondents say pandemic response and related budget considerations are the most significant challenge they face. And of course, traditional obstacles like risk management, resistance to change or rigid structures haven't gone away.

45%

of our respondents say pandemic response and related budget considerations are the most significant challenges they face.

What are the most difficult challenges your organization faces in digital transformation efforts?



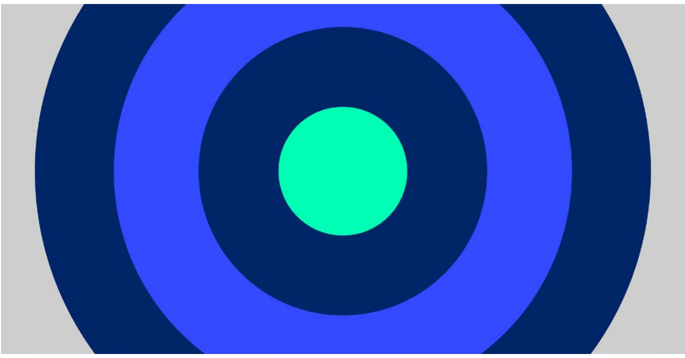
Final Thoughts

The global economic and health crisis has impacted the way think about digital transformation. This research underscores questions leaders within these companies should ask, to accelerate the transformation and achieve growth.

1. **How has your organization accelerated or reprioritized its digital transformation initiatives in response to the current environment?**

2. **What obstacles are you encountering as part of that acceleration?**

3. **Is your agenda building greater operational resilience for your business?**



Prophet's financial services practice has been partnering with many clients in accelerating their digital transformation journey. **Please contact us to learn more.**

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