



Industry Research Report: Financial Services

A tale of two industries: banks and insurers adopt different approaches to transformation

Ready by Design



#ReadyByDesign

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Banks and insurers are competing in markets characterized by disruption, strong challengers and quickly changing market dynamics.

They are also burdened with legacy systems and applications that restrict their growth, increase time to market and limit their ability to compete effectively. If they are to respond to rapidly changing technologies and customer demands, they need to adopt an approach to transformation that is ready by design.

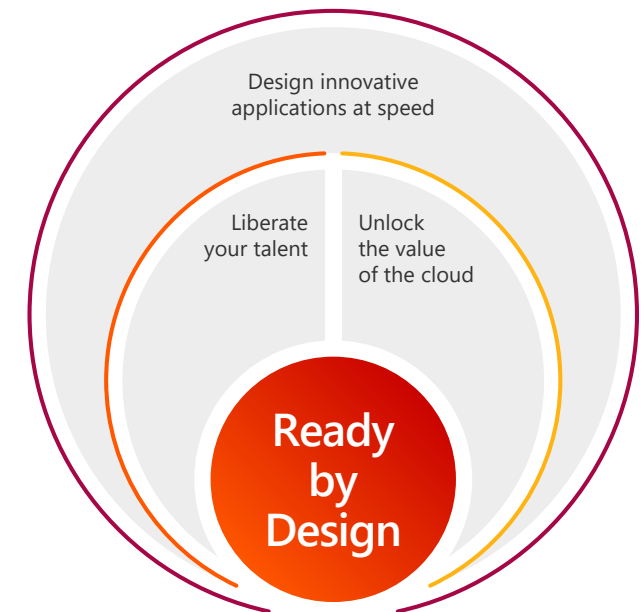
Ready by design is a holistic approach to modernization that allows you to:

- Create new business models by designing innovative applications at speed
- Increase business agility by leveraging legacy investments and unlocking the value of the cloud
- Use agile and DevOps approaches to liberate your staff and get to market faster

How are banks and insurers doing? While there are features common to both industries, there are two different tales to tell:

- Banks express confidence when it comes to the future, with greater cloud adoption and lower legacy spend. They are currently scaling up usage of AI and automation across the business. However, this is balanced by a lack of in-house DevOps skills and concerns over security.
- Insurers are struggling to modernize their businesses. Whether it's areas such as cloud adoption, use of AI and automation, legacy spend or agile and DevOps approaches, insurers are behind the curve.

This report outlines the key findings from our research¹, explores the challenges of becoming ready by design and identifies the key priorities for banking and insurance executives.



Design innovative human-centered applications at speed

Liberate your talent to use proven agile and DevOps approaches for software product engineering

Leverage historical investments and securely unlock the value of the Microsoft cloud

¹140 senior banking and insurance executives across the Americas (US, Canada, Brazil), Europe (UK, France, Germany, Italy, Spain, Netherlands and Nordics) and Asia-Pacific (Japan, Singapore and Australia).

Tale #1

Banks: Rosy future or wishful thinking?

Banks are still grappling with the legacy of “silos and spaghetti”, despite talk of transformation. There is confidence when it comes to the future, with greater cloud adoption and expected lower legacy spend. Banks are currently scaling up AI and automation across the business. However, this is balanced by a serious lack of in-house DevOps skills and significant concerns over security.

Optimism around legacy and cloud, but not security

When it comes to sorting out legacy issues, banks in our study believe microservices (78%) and APIs (69%) are key strategies for unlocking value in the business and for core banking renewal. However, they are struggling: 43% see legacy IT and the costs of integration as a major obstacle to an agile approach to disruption. And they think legacy is a significant hindrance to retaining staff (39%) and innovation (30%).

But banks are optimistic about lowering their spend in this area. Many respondents (43%) said they currently spend between 10% and 30% of their IT budget on legacy issues; but in three years' time, a third (31%) say they will spend only 5% to 10%.

There's a similar level of optimism around cloud adoption. Among respondents 17% think their organization is currently 'optimized' (the highest of five categories, including – in descending order – measurable, systematic, opportunistic and initial) and a third (33%) said they will be in that category in three years' time.

However, a third (35%) still expect to be in the initial and opportunistic phases at that time. Just over a third (36%) still experience security issues around the cloud.

In fact, security was a major reason for a delayed response to market disruption in general – almost half of all banks cited this as a factor (46%). Over a third (39%) said the biggest challenge to IT modernization was security risks around legacy systems.

So there's plenty of ambition. But the debate is over how quickly legacy will be addressed and cloud benefits delivered. In addition, security issues will still need to be resolved.

Lack of DevOps skills is a major obstacle

Half of the banking respondents felt they lacked in-house skills for handling market disruption. Specifically, acquiring DevOps skills is the biggest obstacle (53%) and banking was the top sector (we covered 21 in total) when it came to this issue. This was a theme we also saw in our earlier [IT modernization research](#).

Significantly, almost half of banks (47%) reckon they can free up 25% to 50% more time for other activities when they use modern software engineering approaches, such as DevOps. So the logic for increased investment is strong, but it appears that the business case has yet to be made, given the lack of skills in this area.

Banks are using AI and automation at scale

Banks are using AI at scale to modernize IT (53%), improve employee experience (EX) (41%) and optimize customer experience (CX) (50%). This compares to pilots around IT modernization (19%), improving EX (34%) and optimizing CX (25%).

The trend is even stronger for automation. Banks are using automation at scale in the same three areas: modernize IT (66%), improve EX (44%) and optimize CX (53%), compared to pilots (22%, 38% and 38% respectively), although EX and CX are still high for the pilot stage. This resonates with our [research around digital transformation](#) which shows that automation and integration are the top banking priorities over the next five years.

Banks are not ready by design

There are a number of areas where banks can focus:

- **Banks need to unlock value from legacy systems and applications.** Core banking renewal is not an option nor something that can be pushed into the future. Banks should be seriously considering how to use microservices and APIs in order to “digitally decouple” and become more agile. This will drive the lower spend on legacy they desire.
- **Moving to a cloud environment needs serious assessment.** Banks are keen to optimize the way they use cloud in their business. But they still need to work out what cloud platforms are most appropriate for their business and how they will manage their service providers. Getting this right will provide banks with the agility they need to adapt to shifting market dynamics.
- **Security is a major area for focus.** Banks should review cloud security, given the recent need for remote working. They need to also review the security capabilities of their partners, especially given the ecosystems developed around Open Banking.
- **Invest in DevOps skills.** The benefits of such investment are clear in terms of improved productivity. This should be the basis for the business case.
- **Evaluate the work required to scale up AI and automation.** Be realistic about the level of activity required to move from a pilot to a fully integrated position. Work out how cloud can support this transition. Do not underestimate the time required to develop “clean” data.

While banks would prefer a rosy future, there are still plenty of challenges to be resolved before they are ready by design.

Tale #2

Insurers: Make transformation a priority

Insurers are also struggling to modernize their businesses. Whether it's in areas such as cloud maturity, their use of AI and automation, legacy spend or DevOps approaches, insurers need to focus on transformation as a priority.

Ripe for disruption

In our research, insurers admitted they have a strong cultural aversion to change (**41%**). This was the highest score in all 21 sectors we covered. One of the biggest challenges to modernization for insurers is their back-end systems (**42%**) – again, the highest score in all sectors.

Unsurprisingly, [Accenture finds that insurance is one of the sectors ripe for disruption](#), based on factors such as a high operating base, weak brand recognition and loyalty and only modest R&D investment compared with other industries.

IT respondents agreed that business executives don't fully understand how complex IT transformation initiatives can help them realize value (**80%**) and struggle to develop business cases to justify such activity. Interestingly, banks made similar comments three years ago in a study we undertook around IT modernization. By way of contrast, business executives think that IT could be better at creating business cases and showing outcomes (**80%**). Unsurprisingly, 65% say that the two sides aren't working well together to create business cases!

Immature cloud adoption and legacy spending on the rise

Insurers are still immature when it comes to cloud adoption. Almost two-thirds were in the initial or opportunistic phases (rather than systematic, measurable and optimized phases). By comparison, almost two-thirds of banks were in the top three categories. In three years, the picture is relatively unchanged: Six out of 10 insurers expect to still be in the initial or opportunistic phases. Interestingly, almost **48%** also had security concerns around cloud, which could account for the low adoption rate.

Insurers are still planning to spend more on maintaining and supporting legacy systems and applications over the next three years. By way of contrast, banks are moving in the opposite direction. Today, almost two-thirds of insurers are spending up to **20%** of their IT budget on legacy. In three years, almost half will be spending **20% to 40%**, in contrast to a third of banks that expect to spend only **5% to 10%**. Almost nine out of 10 insurers (**88%**) thought legacy was hindering their innovation initiatives.

DevOps investment required

Insurers strongly agreed that they were keen to use modern software engineering practices, such as agile and DevOps (**47%**). In fact, insurance came out on top of all sectors included in the research. This may be because they have yet to use them in a consistent, scalable manner across the business. The biggest obstacle to adopting such practices was lack of investment. But the business case seems clear: **59%** of insurers agreed that **10% to 25%** of time was freed up by using DevOps and agile; **35%** said it was as high as **25% to 50%**.

AI and automation: Pilot mode

When it comes to adopting AI to modernize IT, improve EX and optimize CX, insurers are firmly in "pilot" mode (**48%**, **41%** and **54%**, respectively) rather than looking to scale across the business. Looking at the use of automation in the same three categories, insurers are scaling up to some extent in modernizing IT, improving EX and optimizing CX (**35%**, **33%** and **43%**) – but less so than banks (**66%**, **44%** and **53%**).

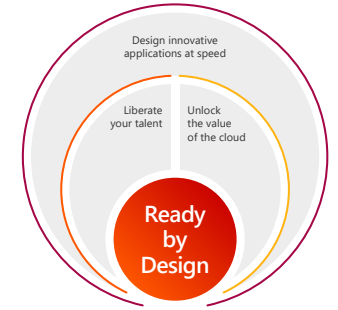
Behind the curve?

Insurers have a number of areas that need attention:

- **Assessing legacy should be a priority.** Legacy systems and applications need to be reviewed as a priority: policy administration, claims and billing systems are the key areas. At the very least, an applications portfolio assessment, based on their value to the business, would be a good start. This is critical as legacy is constraining growth in other parts of the business, such as innovation, including the use of AI and automation.
- **Scale up automation and AI.** Insurers should start creating roadmaps to scale up the use of AI and automation across their business. The benefits of such approaches, in terms of reduced operational cost, faster time to market and reduced risk, will justify such investment. But a more mature cloud approach is the driver behind making this happen (see next point).
- **Accelerate cloud adoption.** Cloud adoption is still at the initial or opportunistic phase – and looks unlikely to change over the next three years. Insurers need to accelerate their plans to move to the cloud, including the development of cloud-native applications.
- **Apply DevOps and agile.** DevOps and agile approaches are not being used widely, despite a strong desire to do so. Insurers should make the business case, based around productivity and efficiency improvements.

It would appear that insurers are not experiencing the benefits of being ready by design. Rather they need to seriously consider how to modernize their business.

Ready by Design: Where it works



Design innovative applications at speed

For a major Spanish bank, the goal was to increase customer numbers by delivering mobile solutions with greater flexibility and faster time to market. The bank collaborated with Accenture, Avanade and Microsoft to develop its digital strategy and help increase satisfaction and experience for its millions of customers.

We built agile mobility expertise, introduced a new service fabric architecture to replatform current back-end operations to Azure and automated test-and-deploy processes. We kept on developing DevOps maturity, introducing new processes to help the team test and deploy in the most efficient way. This reduced the number of customer issues by **50%**, time-to-market accelerated by **15%**, there was **86%** mobile application take-up after the launch of the new version and customer feedback was 4.5/5 and rising.

Securely unlock the value of the cloud

Because of numerous acquisitions, [Towergate](#), one of Europe's largest independently owned insurance brokers, had developed hundreds of different systems, applications and processes. Avanade, Accenture and Microsoft worked together on one of the most comprehensive IT transformation and cloud migration projects seen in the financial services industry. This transformation took just 12 months. By modernizing, Towergate began to see immediate, tangible results with **30%** annual cost savings (approximately \$5 million per year). COO Adrian Brown commented: "I thought this would take two years. I nearly fell off my chair when they said one year."

The program has provided Towergate a solid IT foundation that not only accommodates new acquisitions, but also enables digital and business transformations that will aid the growth of the business. As CIO Gordon Walters explained: "Our operating model is completely different now. By transforming to the cloud, we now have service-on-demand, as well as collaboration across all our businesses. They can all see the same customers. They have access to real-time information that allows them to understand what we as an organization are doing."

Liberate your talent by using proven agile and DevOps approaches

For a major European bank, working with Accenture and Microsoft, we developed algorithm-based liquidity (cash flow) forecasting for the bank's small and medium-sized businesses using a customer-centric, agile approach. This iterative approach included direct customer feedback throughout the development lifecycle.

The bank particularly valued our knowledge of algorithms and experience in agile development. Decisions were made faster due to co-location of business and IT teams. Small development cycles meant customer feedback could be incorporated into the project in weekly releases into the cloud (Microsoft Azure). The client commented: "The people joining us from Accenture and Avanade were experts in agile project management. This meant [the project] was much faster and could adapt to changes much more easily."

Transform your business and become Ready by Design

Avanade helps you create new digital business models, achieve faster time to market and increase business agility. We do this by designing innovative applications at speed, liberating your talent and securely unlocking the value of the Microsoft cloud.

Find out more about our approach to business transformation, Ready by Design, a holistic approach to applications that includes cloud-native architecture and modern software engineering techniques. Ready by Design helps banks and insurers adapt quickly to changing market dynamics and ensures they are effectively prepared for disruption, in whatever form it comes.

Wherever you are, we're ready.

Visit us www.avanade.com/readybydesign

North America
Seattle
Phone +1 206 239 5600
America@avanade.com

South America
Sao Paulo
AvanadeBrasil@avanade.com

Asia-Pacific
Australia
Phone +61 2 9005 5900
AsiaPac@avanade.com

Europe
London
Phone +44 0 20 7025 1000
Europe@avanade.com

About Avanade

Avanade is the leading provider of innovative digital and cloud services, business solutions and design-led experiences on the Microsoft ecosystem. With 38,000 professionals in 25 countries, we are the power behind the Accenture Microsoft Business Group, helping companies to engage customers, empower employees, optimize operations and transform products, leveraging the Microsoft platform. Majority owned by Accenture, Avanade was founded in 2000 by Accenture LLP and Microsoft Corporation. Learn more at www.avanade.com.

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Why salmon are Ready by Design

Salmon are a kind of “super fish” that can live in both freshwater and saltwater and might travel hundreds or even thousands of miles over a lifetime. Salmon are born in freshwater, and most live their adult lives in the ocean. Then they make an incredible upstream journey to spawn (lay eggs) in the same places that they were hatched.

For salmon, the trip upriver to spawn is filled with threats that range from predation, competition and disrupted habitat. Despite the many challenges, the fish manage to complete their journey. They are **ready by design**.

The fish expend nearly every ounce of energy they have fighting currents, leaping up waterfalls, and dodging predators. Their bodies change—they absorb parts of their skeleton and parts of their skull, using the calcium to fuel the trip.

Sources:
<https://www.hakaimagazine.com/news/the-salmon-that-were-born-to-survive/>
<http://www.streamexplorers.org/fish-facts/salmon-life-cycle>

