Reimagining finance for the digital age

Financial Services sector

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Introduction—the automation imperative

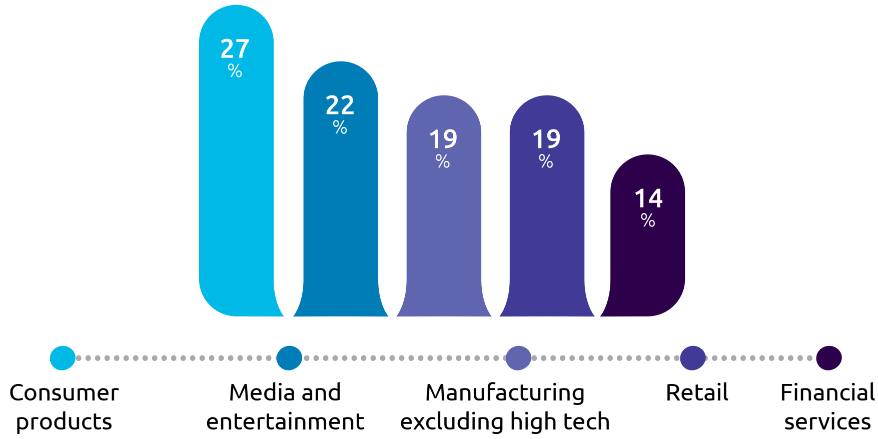
As businesses reorientate themselves to the era of digital transformation, the finance function will have a key role to play. But to become a strategic partner to the business it must not only carry out its traditional capabilities more efficiently than ever before, but also provide new actionable insight in near real-time.

That means automation, using intelligent technologies such as robotic process automation (RPA), artificial intelligence (AI), and machine learning. For the finance function in the financial services sector, sitting at the center of data-driven organizations, these tools are the key to providing faster and higher-quality services to the rest of the business.

Yet Capgemini research[1] suggests that financial services companies have so far been slower than those in other sectors to explore finance automation in finance. Just 23% of financial services executives say that a transformation strategy for automation has been agreed for the finance function at their firm—a smaller proportion than in any other sector surveyed.

And financial services businesses are less likely to be found among the group of "Masters" identified in the research. These are the firms that have fully or partly automated all 18 finance processes covered in the research. Companies from the sector represent 20% of the total sample, but account for just 14% of Masters (see Figure 1). Read our report, *Reimagining finance for the digital age*, for a detailed discussion of this group.

Figure 1: Breakdown of finance automation Masters by sector



The sector needs to accelerate the pace of its automation. Financial services companies say their strategic priorities include improving business intelligence, with 19% citing this as a one of their top two priorities, while 18% are targeting improvements to existing products and services. Automation can provide crucial advantages in areas where the sector's leaders are determined to press ahead.

[1] The survey of 500 senior finance executives, conducted in January and February 2018 by Capgemini and Longitude, included 100 executives working in the financial sector (51 in Europe and 49 in North America). The conclusions from that wider research are presented in Reimagining finance for the digital age.

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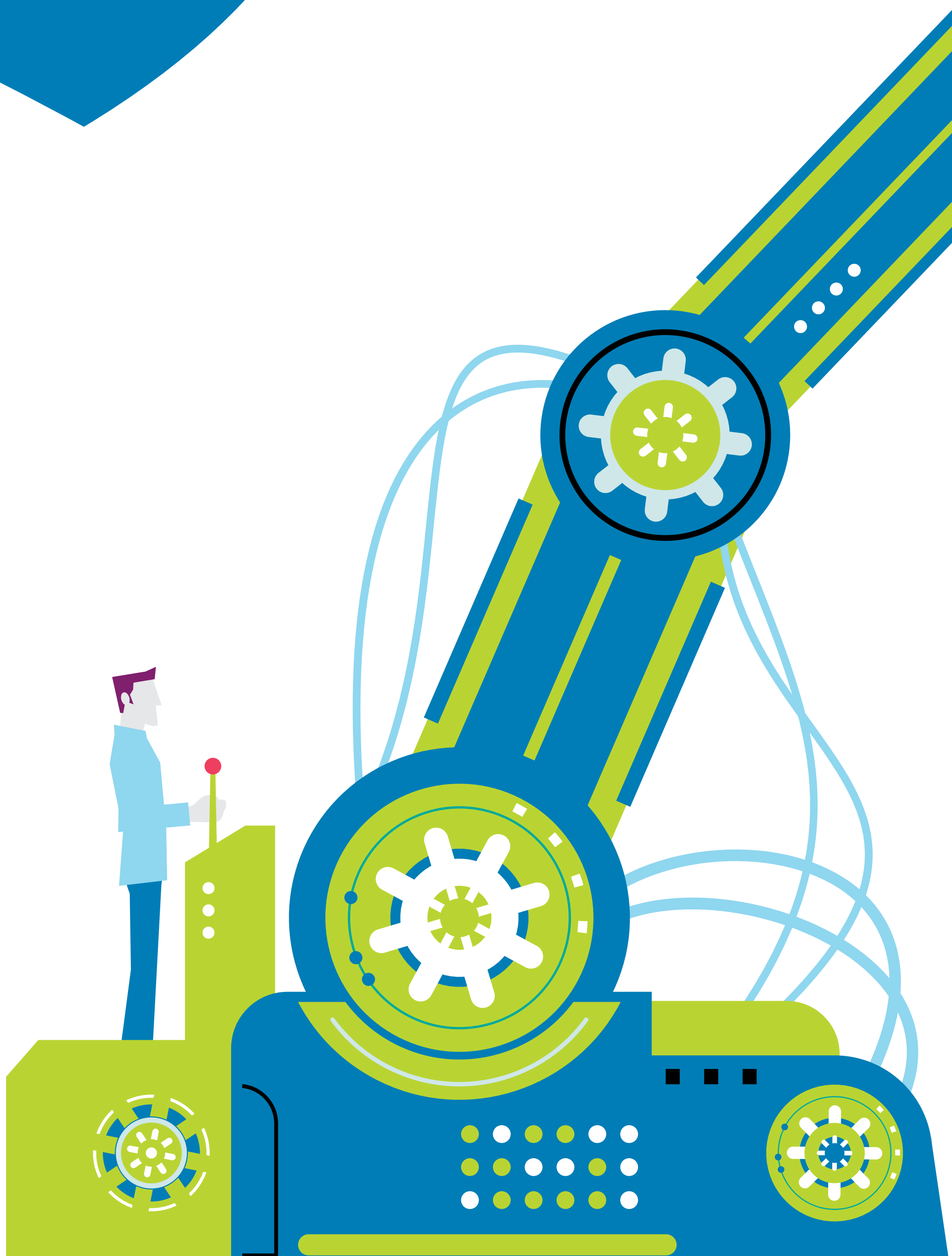
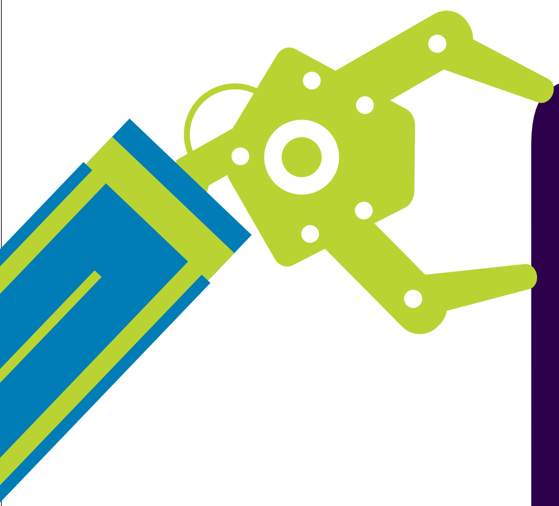




Defining automation

For the purposes of this study, automation is defined as the application of technologies such as RPA, AI, ML, and chatbots. Within the finance function, automation lends itself to numerous processes, such as invoicing, order management, payments, journal entry, and many more. In this context, the term "robot" typically denotes a software program that drives the automated execution of a process.

About the research

The analysis in this report draws on *an online survey of 500 senior finance executives* conducted in January and February 2018 by Capgemini and Longitude.

Seven in 10 survey respondents are finance directors (39%) or finance operations directors (31%), with the balance consisting mainly of finance transformation directors or managers, chief financial officers (CFOs), and controllers. Quotas were set on the sample to deliver an even split between five industries: consumer products, retail, financial services, manufacturing, and media and entertainment.

We also set quotas on geography, with half of the respondents based in North America and the other half in Europe (mainly in the UK, Germany, and France). All work in large organizations that have an annual revenue of €2 billion or more.

We also obtained in-depth insights from interviews conducted with the following individuals:

- Daniel Borges, Senior Vice President, Chief Account Officer, Iron Mountain
- Violet Desilets, Vice President, Financial Services and Systems, Staples
- Katja Hinojosa, Finance Transformation Director, Tetra Pak
- Bob Kurpershoek, Director of Financial Operations, NBCUniversal
- James Merrick-Potter, Head, Robotic Automation Unit, UK Cabinet Office
- Thomas Newman, Director, Solutions Development, General Mills
- Thomas Peyton, Vice President, Service Excellence, Wolters Kluwer
- Nick Prangnell, Global Head, Finance Shared Services, Iron Mountain
- Wayne Walker, Director, Financial Operations, Global Business Services, General Mills
- Brian Warnert, Director of Operations, Global Business Solutions, General Mills

Finance automation maturity

Progress in finance automation is patchy. For example, 56% of financial services firms say they have fully or nearly fully automated payments, and 51% have got that far with invoice processing. By contrast, only 37% have reached that level of progress with journal entry and processes around the close (see Figure 2).

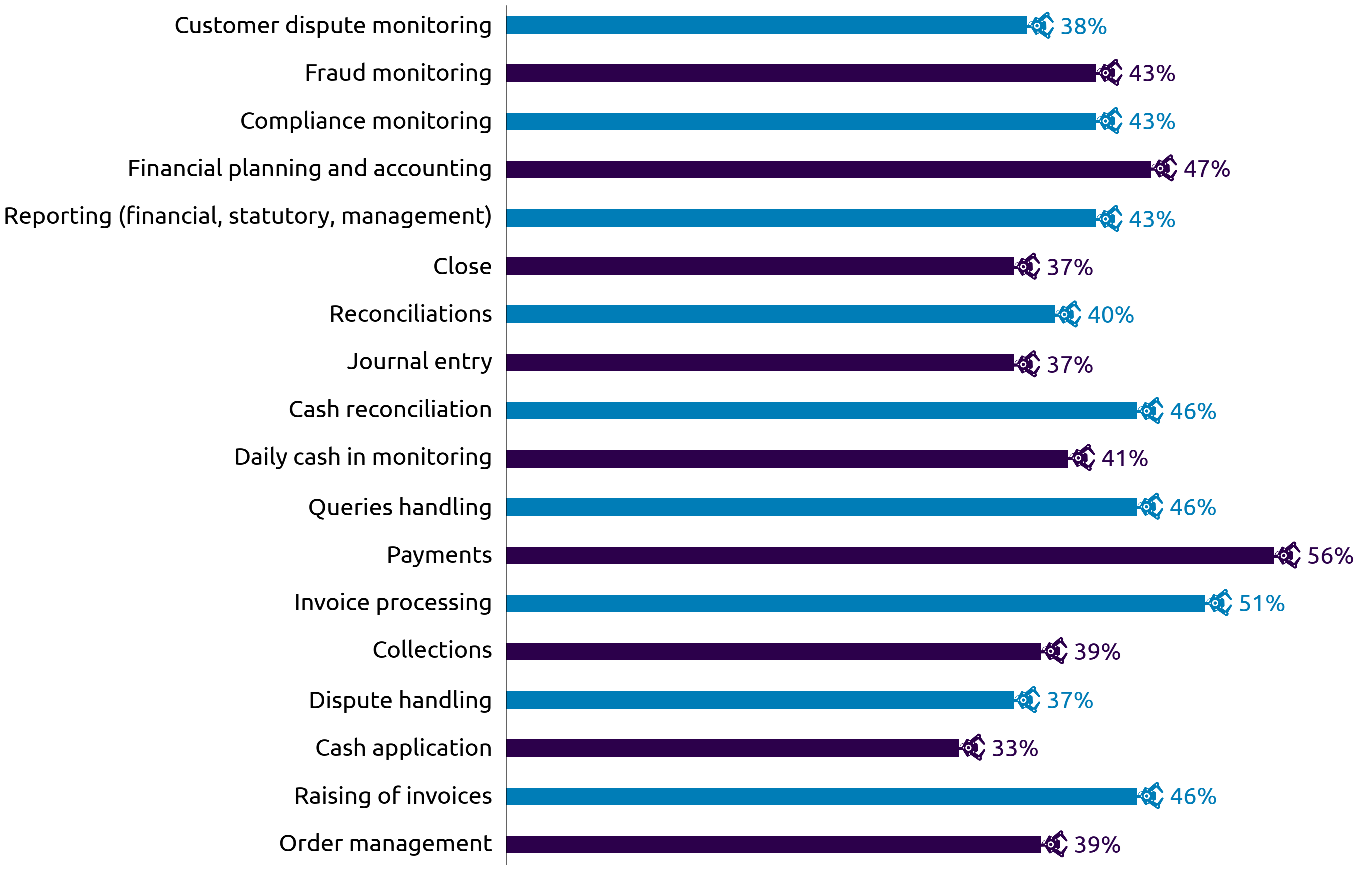
In almost all the processes covered in the research, financial services firms have made less progress than the other sectors surveyed. In the worst cases, such as journal entry, reconciliations or cash application, the sector lags behind the leading industry for automation in that area by between 15% and 20%.

The good news for financial services companies? The pace of automation implementation is set to increase. Within three years, at least a quarter of financial services firms not currently at near or full automation expect to have reached that level for almost all their finance function processes.

Firms in the sector also expect less progress and impact from automation than companies in other sectors. There is a relative lack of confidence about realizing the benefits of automation: just 35% of firms in financial services think they will have fully realized process efficiencies from automation in three years' time, and only 32% expect to be fully exploiting the opportunity to unlock new business insights. Both figures are lower than those recorded by any other sector. Meanwhile just 54% of financial services companies expect automation to have a high impact on the finance function's workloads and jobs profile; only retailers have lower expectations.

Yet many financial services firms do recognize the case for greater automation: 42% of firms in the sector strongly agree that automation is a strategic priority for their finance function. For now, however, the prevailing mood is one of caution: only 38% of financial services respondents believe that, the rewards of finance automation outweigh the risks.

Figure 2: Share of financial services organizations that have fully or nearly fully automated the following finance processes



Building the business case

Why have financial services companies been slower to embrace finance automation than those in other sectors? One important answer appears to be that for many, automation is viewed as a functional tool instead of a strategic lever. Just 32% strongly agree that automation, if used effectively, has the potential to transform the finance function from scorekeeper to strategic business partner. By contrast, 61% of retail respondents feel this way.

Many financial services companies report excellent progress in finance automation in areas that are priorities for their organizations—including improving compliance and regulatory performance, reducing cost, and securing greater process efficiency (see Figure 3).

To build the business case for investment in finance automation, finance leaders will have to map initiatives even more closely to these priorities. Meeting compliance and regulatory targets, for example, is a clear focus for financial services companies in this research, but only 44% think automation will deliver fundamental improvements here—they see many other benefits as more likely to accrue first. That needs to change in order for companies to embrace finance automation and accelerate their transformation.

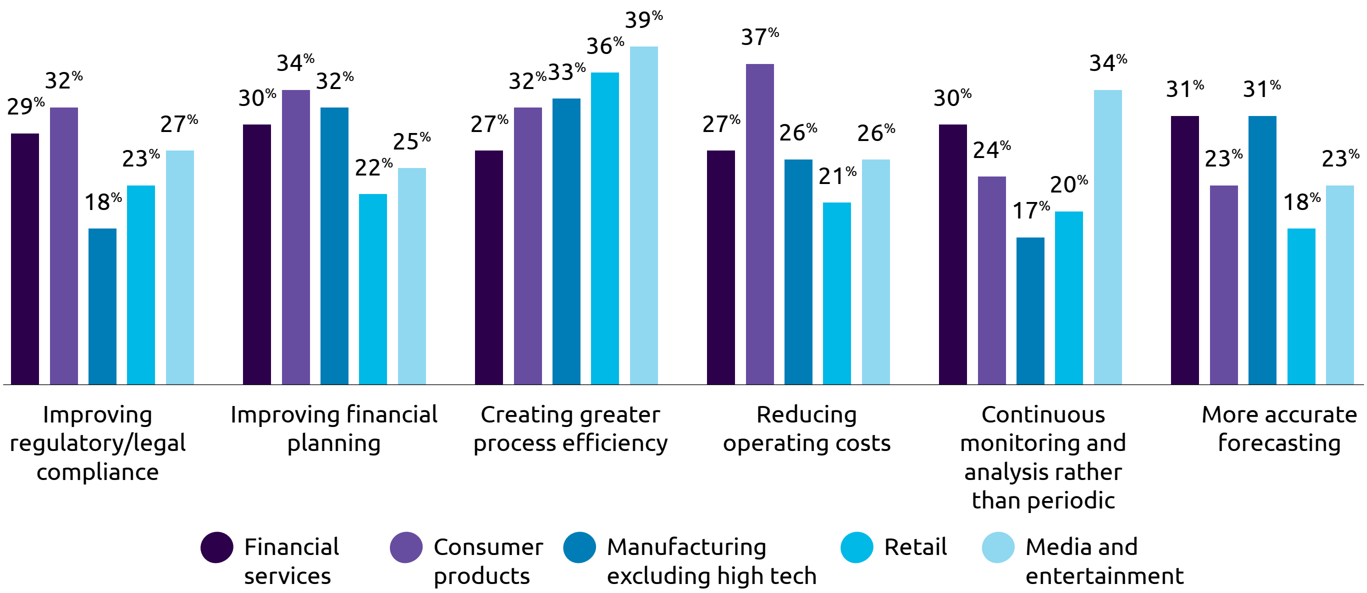
James Merrick-Potter head of the Robotic Automation Unit at the UK Cabinet Office suggests that this is a problem for all organizations—people simply don't realize what automation tools such as RPA are capable of. "I think the technologists and digital specialists are often sceptical about RPA, seeing it as more of a tactical, short-term solution," he says. "At heart, it's a fairly simple technology that probably gets lost in the context of big digital transformation. Bridging the divide between that scepticism and the operational benefits is crucial."

Still, it is on more transformative gains that the case for substantive investment in finance automation rests, as enterprises look to weigh the benefits of initiatives against the perceived risks. And financial services firms are already starting to lock in some of those benefits—particularly around more accurate forecasting and continuous monitoring and analysis.

These gains will help build a stronger foundation for future automation initiatives, as finance starts to provide the rest of the business with more actionable insight in real or near real-time. And that is when the proportion of financial services companies that see automation as a way for the finance function to play a more strategic partnership role will increase.

Many financial services companies are now moving in this direction. At an organizational level, 53% expect automation to free up resources for higher-value activities—which will be necessary for finance to play a more strategic role—while 54% and 55% respectively expect fundamental improvements in business-insight generation and informed decision-making.

Figure 3: Share of respondents who say that the benefits of finance automation have already been fully realized



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> **James Merrick-Potter**
>
> Head, Robotic Automation Unit, UK Cabinet Office

Driving change through strategic leadership

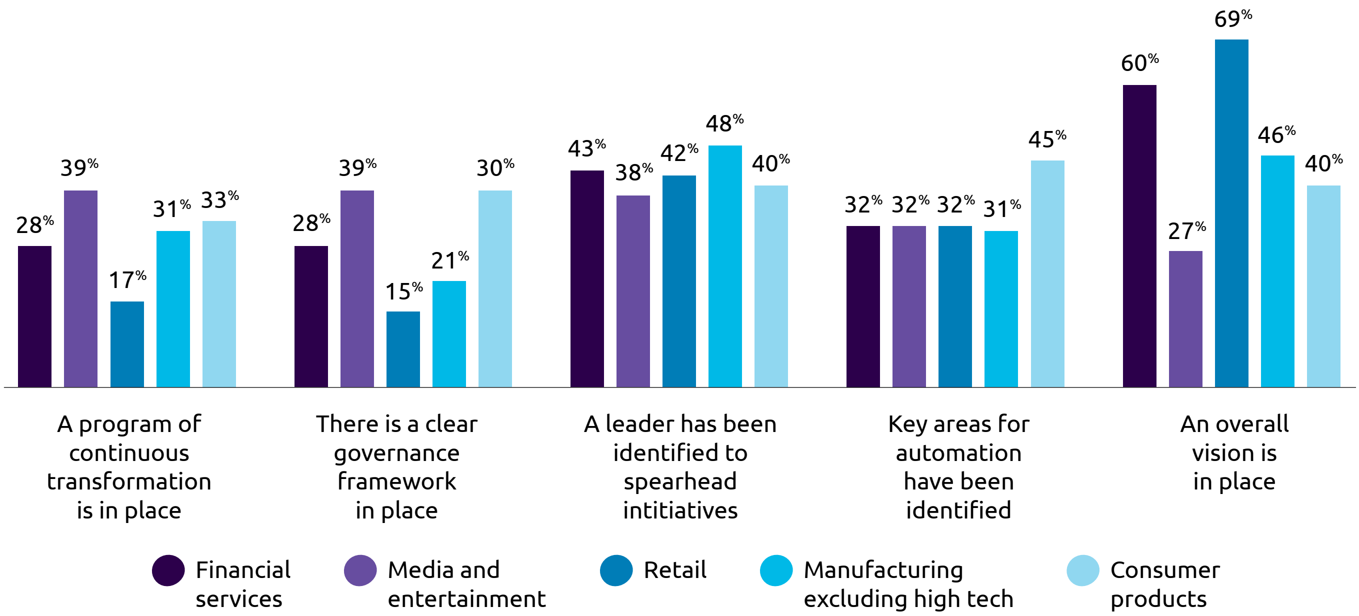
There are reasons to be optimistic that financial services companies can close the gap on those in other sectors and increase automation in the finance function. Above all, their leaders are increasingly buying in to the case for automation and setting a clear course of direction for the enterprise.

This comes from the top of the organization. Financial services businesses in our research are significantly less likely than those from some other sectors to worry that their senior managers lack awareness of automation. And some 60% of businesses in the sector—more than in any others except retail—have an overall vision in place for transformation strategy for finance automation, while 43% have appointed a leader to spearhead this strategy (see Figure 4).

This bodes well, but there is more work to do. For example, only 23% of financial services companies say they have a clear roadmap for implementing automation in finance—below most other sectors. This is part of the explanation for the industry's relative lack of automation maturity. Another key factor is resourcing: just 23% of financial services businesses have assigned budget to the automation strategy.

Intentions are good: 68% of financial services respondents agree that finance needs to play a leading role in driving automation throughout the business, and 72% say that finance is ahead of other functions on this issue. Leaders must now follow through on that commitment.

Figure 4: Share of those respondents with a clear strategy for finance automation or are developing one, who have the following elements in place



Moving past the barriers

With the leadership of financial services companies largely behind the move toward strategic automation of the finance function, and becoming more so, the next step is to overcome the barriers to implementation. Many enterprises in the sector identify significant risks and practical hurdles.

In terms of risks, the most significant risk factor of finance automation for financial services companies—and for several other sectors—is the possibility of a cybersecurity breach. Fear of a cyber attack is holding back 69% of firms in the sector from implementation.

There are other risks, too. For example, 60% of firms in the sector point to the culture of fear around job losses that is often caused by automation, and 57% worry that implementation of new technologies will cause disruption and delay.

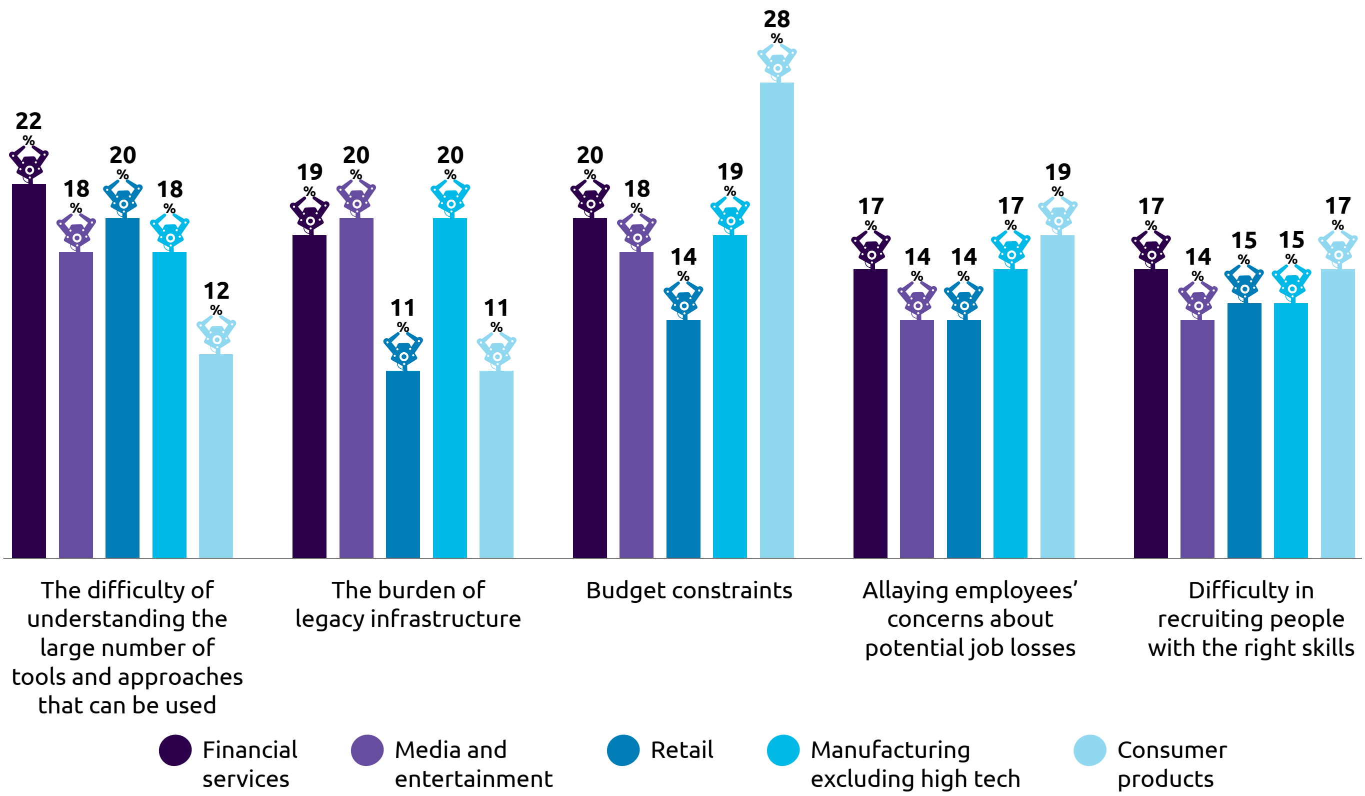
As for practical challenges, the biggest technical barrier for financial services companies considering finance automation is the need to understand the broad range of tools and approaches, which 22% of respondents rank as their first or second biggest challenge (see figure 5).

Other issues include budget constraints and skills shortages, and the burden of legacy infrastructure also causes problems for many financial services companies in a sector where years of M&A have often left enterprises with IT that has been stitched together and supported with workarounds.

It isn't possible to overcome these challenges overnight. However, the potential returns on investment from greater automation in finance—based on the benefits cited by respondents in this research—gives a clear justification for greater investment. What's more, automation may be the key to simplifying many companies' complex IT arrangements.

Financial services companies are beginning to accept these arguments. Just 54% of companies in the sector say that the difficulty of proving returns on investment is a barrier to adoption and implementation—the lowest score of any of the sectors in the research.

Figure 5: Key challenges for the finance function in adopting automation technologies (share of respondents ranking challenge 1 or 2)



The good news for financial services companies?

The pace of automation implementation is set to increase. Within three years, at least a quarter of financial services firms not currently at near or full automation expect to have reached that level for almost all their finance function processes.

Conclusion— moving along the maturity curve

What does the research results tell us about how financial services businesses are handling the shift to finance automation?

- **Aligning automation investment with strategic priorities will give them a way to overcome risk concerns—**financial services companies are more likely than those in other sectors to worry that the perceived risks of finance automation outweigh the potential rewards. Yet they are also more likely to find it straightforward to prove the returns on investment. Focusing on the automation initiatives most closely connected to the company's priorities will reconcile this apparent contradiction.

- **Their vision for automation must be strategic as well as operational—** automation can help firms to achieve cost reduction, process efficiency, and regulatory and compliance performance, but the transformative long-term gains it enables will come from elsewhere. Financial services firms may understand the potential to generate more insight, free up staff for value-added activities, and support real-time monitoring, but they do not regard automation as a strategic lever.

- **They will have to address skills shortages—**many financial services companies say that the recruitment of staff with automation knowledge is a potential barrier to finance automation. Combine this with respondents' concerns about the lack of in-house expertise, and skills are a significant obstacle to automation. Businesses will need to invest in skills, but they should also consider more innovative approaches to closing the gap.

- **Leaders must seize the initiative—**despite their relative lack of automation maturity, financial services companies say that their senior leaders have a good understanding of the business case for transformation. They also say that they have a vision for what might be achieved through automation strategies. So far, however, leaders have been unable to translate vision into reality.

About Capgemini

A global leader in consulting, technology services and digital transformation, Capgemini is at the forefront of innovation to address the entire breadth of clients' opportunities in the evolving world of cloud, digital and platforms. Building on its strong 50-year heritage and deep industry-specific expertise, Capgemini enables organizations to realize their business ambitions through an array of services from strategy to operations. Capgemini is driven by the conviction that the business value of technology comes from and through people. It is a multicultural company of 200,000 team members in over 40 countries. The Group reported 2017 global revenues of EUR 12.8 billion.

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