Moving beyond cash - How are legacy players keeping up with the new digital-first disruptors in the financial services industry?

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Digital transformation has had a profound impact on almost all industries, fundamentally altering how customers experience the organisations they deal with on a daily basis. The financial services space is no exception, with legacy players having to keep up with new, digital-first disruptors in order to remain relevant.

This is especially true in emerging markets, where digital transformation can play a massive enabling role. Not only does it improve operations and efficiency - correctly implemented, it also has a profound impact on customer experience. That, in turn, results in improved customer loyalty and can ultimately see increased revenues.

Despite this, many financial services companies aren't taking full advantage of what digital transformation can do. According to research by Forrester, just 26% acknowledge that transformation is never-ending, 19% are still considering what to do, and 14% mistakenly think they're done.

Knowing that, it's critical that financial services companies in emerging markets understand the benefits of digital transformation and how to best ensure they go about achieving it.

The digital transformation imperative

While there are a number of forces driving digital transformation in the financial services space, a significant driver is a high demand for digital products and services from younger people. There are people currently entering the workforce (and therefore in need of financial services) who have never known life without a smartphone. Many will never even have owned any form of mobile device that wasn't a smartphone.

In emerging markets, those young people make up a much larger percentage of the population than in developed countries.

In Africa, for example, 60% of the population is under 25. When you factor in the continent's already high mobile penetration rates (smartphone penetration has surpassed 90% in South Africa) are converging with increasing levels of connectivity, it becomes obvious that companies will be under even greater pressure to provide great digital experiences.

Despite that, it's clear that there's a long way to go when it comes to digital transformation. A report from BCG shows considerable lag between the continent and the rest of the world. Companies across Africa have an average digital maturity score on BCG's index of 29 (out of a possible 100), compared with 55 for Asia, 51 for Europe, and 49 for the Americas combined. While there is obviously a great deal of variability between, and within countries (the highest-scoring companies on the continent show digital transformation levels on par with leading companies in other parts of the world), the overall picture is one of major room for improvement. While companies in the financial services space do a little better than most, there is undoubtedly still room for improvement.

Among the factors cited for such low levels of digital transformation are low internet penetration and a lack of digital skills at the macro level. Within organisations, management's inability to narrow digital priorities and employee cultural resistance are also major factors.

While the overall situation may seem bleak, it also illustrates how big the opportunity is for organisations which do embrace digital transformation. Because there's so much room for growth, the dividends of digital transformation are much higher in Africa than in other regions.

It's also worth noting that the continent's already high mobile penetration rates (smartphone penetration has surpassed 90% in South Africa) are converging with increasing levels of connectivity. This means that more and more African consumers are being exposed to the great digital experiences provided by international companies and will come to expect the same from the local companies they deal with.

The companies that can provide them with these experiences now, particularly on mobile, will be well-positioned to succeed going forward.

A customer-centric approach, personalisation, and a preference for mobile are consequently the key components that enable digital transformation in financial services. Large financial service companies that have developed their own IT platforms are lagging in the current, dynamic competitive environment, as their systems are built using legacy solutions. It's hardly surprising then that alliances and partnerships with fintechs are becoming more prevalent.

Moving beyond cash

Another major driver of digital transformation is the need to move beyond cash, something which will empower both consumers and merchants. In Africa especially, this is a major imperative. As powerful as mobile money and payments have been in some African countries, cash is still king in most places.

That's understandable. Cash is easy to understand. You hand over a set amount and get the item or service you desire. It's also so culturally entrenched that it doesn't require learning new behaviours. As much as cash is real now and trusted, it does, however, mean that merchants and consumers are excluded from formal financial tools and services. Cash and other consumer push payments are not predictable and cannot be used to deepen a financial relationship in the way a bank can with a merchant payment that is tied to one particular bank.

From a consumer point of view, when you talk about inclusion, you have the unbanked or the unbanked. With both types of people, you have to offer products that are relevant to their needs. What that then means is that financial institutions need to have platforms that are flexible, that are customisable, that can allow them to develop, to provide these products very rapidly, and to cater to a full spectrum from the ultra-rich down to the guy who hides his money under his mattress. Through that level of inclusion, you open up a whole host of financial products and services, such as home and student loans, to people who wouldn't otherwise have access to them.

Digital transformation and a Digital Experience Platform (DXP) in particular is crucial to providing that level of service. Put simply, a DXP is a digital integration platform, designed to simplify the digital transformation process for organisations and improve the overall customer experience. The platform allows businesses to digitise business operations, deliver a consistent customer experience across all channels, and gather insights on customers.

Ultimately, the goal of a DXP is to help companies provide the best possible digital experience to its customers, employees, partners and other stakeholders. It does this by simplifying the integration of digital tools, enhancing self-service capabilities, and improving collaboration and knowledge sharing.

A good DXP can also help a financial services company pull together all of its systems, and then be able to roll out different products to different segments very quickly. And organisations that have these types of platforms in place are going to be able to respond to the need and desire quicker than their competitors who don’t.

Digital transformation can also have a powerful impact on smaller merchants who are vital to growing economies and creating employment.

Digital transparency of cash flow, coupled with track record data suppliers and other sources can be used to build a profile of risk and create effective demand for more enriched financial services such as insurance, savings, transactional banking, and lifestyle-related financial services. The more support can be provided to an SMME, the greater the opportunity to grow the business and contribute to wealth creation, jobs and a mutually beneficial relationship between the enterprise and formal finance.

More than that, digital financial service products enable merchants to do business from anywhere, be that via an app or the web. That, in turn, means that they can focus on the business of doing business and are also more likely to adopt other products that may be useful to them.

Covid-19 acceleration

One of the few positives of the ongoing Covid-19 pandemic is that it might accelerate digital transformation among African financial service companies. First, as the pandemic spread, people became wary of handling cash, forcing merchants to adopt other payment methods or risk going under in an already tough economic environment.

Secondly, with lockdowns and restrictions in place, it’s become more difficult for financial services companies to interact with customers’ in-person as they may have previously. That means they have had to adapt to communicating with their customers digitally. Reaching those customers shouldn’t be a problem especially in markets with mobile penetration as high as those throughout most of Africa. As long as the messaging is clear and consistent and reaches the right customers, at the right time, on the right channel, the organisation should be well set.

More challenging is getting customers to adapt to communicating with the organisation digitally. Internally, that means ensuring that every digital communication channel -- from self-service portals to AI chatbots -- is set up to properly deliver a clear and consistent experience. In emerging markets, where mobile phone ownership is typically much higher than PC ownership, it’s critical that those channels are optimised for mobile.

Here again, DXPs can be helpful, especially when it comes to breaking down silos between different departments in the organisation. Additionally, creating a cross-departmental digital team and promoting a flexible culture are essential when preparing for operational change.

With all that in place, it’s important that organisations put a concerted effort into educating their customers about these digital communication channels. While the majority of a financial service company’s customers might be young and willing to engage with technology, taking a “build it and they will come” approach won’t work. Even when circumstances mean customers can’t interact with the organisation in the way they usually do, they still need to be informed about what other options are available.

Making a real difference

More than just meeting customer demand and changing needs however, embracing digital transformation can bring tangible benefits too. By digitally transforming, organisations can wean themselves off inefficient paper-based administration and billing systems. Doing so can improve efficiency and create better value for their partners and customers. This is especially true if the organisation is able to redirect some of its budget for brick and mortar locations into creating a better overall customer experience.

Of course, there are still obstacles that financial service organisations will have to overcome when it comes to digital transformation. These include lacking a central repository for customer information, or a problematic volume of unstructured data, and being unable to contextualise customers and their needs because of disorganised data).

That said, the rewards for overcoming these obstacles are massive. McKinsey estimates that digital transformation and a focus on customer experience can generate a 20-30% increase in customer satisfaction and economic gains of 20-50%. In emerging market countries with high-growth economies, those gains could be even higher.

Simplifying digital transformation

For many organisations in the financial services space, the trepidation around digital transformation may be brought down to perceptions of it being a complex undertaking. The thing is, it doesn’t have to be.

With the right digital transformation partner and the correct use of technology, the process can be made a great deal simpler. A Digital Experience Platform (DXP), for example, can aid businesses by allowing them to digitise business operations, deliver a consistent customer experience across all channels, and gather insights on customers.

Additionally, the data insights provided by a DXP make it easier to ensure that a company’s customers get the right message, at the right time, through the right channel. These insights not only ensure that customers are more likely to make a purchase, but also that they’ll remain loyal to the company and advocate for it among their peers.

Embracing opportunity

There is no reason, then, for financial services companies in emerging markets not to embrace digital transformation. In doing so, they can build great digital experiences which foster customer loyalty. Perhaps more importantly, though, they can cater to the demands of a growing, upwardly mobile, young population who’ll need their services.

Transformation requires vision. And vision requires strategy. In emerging markets in particular, there’s never been a greater incentive for financial services companies to embrace that vision and strategy. The problem is, however, culture eats strategy for breakfast. So perhaps to truly enable digitalisation, a shift in culture may be the answer?

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