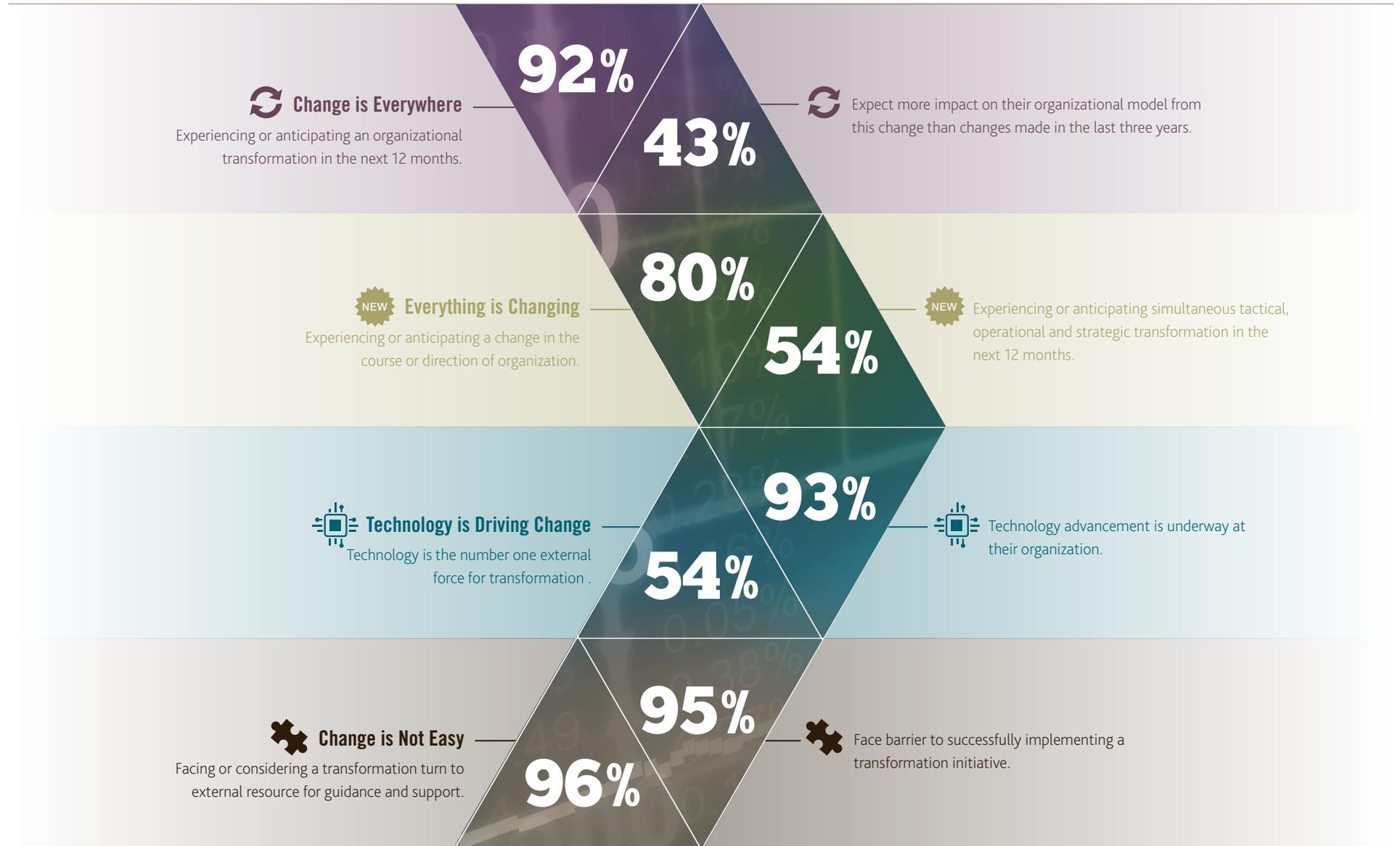




TRANSFORMATION AND TECHNOLOGY SURVEY

THE TRANSFORMATION WAVE: Change and Technology in Financial and Professional Services

Key Findings - Financial and Professional Services Sector





“Financial and professional services companies are keenly aware of the changes and disruptions that have already begun resulting from the emergence of fintechs, cryptocurrencies and blockchain. What isn’t clear is how best to respond to each of these unique challenges and convert them to opportunities, so they are exploring or undertaking multiple avenues of transformation. Effective transformation starts with the client or customer in mind. It requires leadership recognizing that the services currently offered and the way they are delivered needs to change to meet evolving client expectations. If change or transformation isn’t a corporate priority, the competition, which will act and is acting in a nimble customer-driven fashion, will take market share.”

— Steven Luckie
Financial Services Institutions Leader, MNP

MNP is helping financial services companies understand, and ultimately prosper from, the current wave of transformation occurring across Canada and around the world. To that end, we have recently surveyed Canadian business leaders across multiple industries regarding the challenges they face in keeping pace with change. Our intent is also to provide clarity, insights and perspectives on a potential path forward. The full report from this effort, *Capturing the Change Wave*, is available to download at [MNP.ca/transformation](https://www.mnp.ca/transformation). In this supplemental report we further drill into the financial services industry to highlight important and unique findings within the sector that are worthy of further discussion and exploration.

In late 2017, MNP engaged Ipsos to conduct a quantitative online survey of 1,200 Canadian business decision-makers on the topic of business transformation. Within the sample were 122 respondents representing the Financial and Professional Services sector.

For the purposes of defining the scale and type of change to respondents, three categories of transformation were surveyed:

Tactical - Doing what you are currently doing better, faster, or cheaper

Operational – Doing what you are currently doing but in a fundamentally different way

Strategic – Changing the course or direction of company

The precision of Ipsos online surveys are calculated via a credibility interval. In this case, the total sample is considered accurate to within +/- 3.2 percentage points, 19 times out of 20, had all Canadian business decision-makers been surveyed. Subset credibility intervals for the Financial and Professional Sector sample is +/- 10.0 percentage points.



SECTION 1: The Transformation Tsunami in the Financial Services Sector

The rapid evolution and availability of digital technologies has accelerated the demands of consumers, created more choices in banking services and forced industry participants to evaluate investments in digital technologies and the impact to the current business model. The breadth and pace of change taking place cannot be overstated.

Our survey findings indicate a massive wave of transformation is on the verge of hitting nearly all Canadian businesses and industries. However, when we analyse the results from the financial services industry, the results indicate an even higher degree of change. Our survey respondents suggest the industry is in a state of near constant disruption, with many companies already in the process of reinventing themselves to adapt to changing market demands and evolving customer preferences.

Life on the Bleeding Edge

“Due to the speed and disruption of the industry, 80 percent of financial services companies are looking to change the course or direction of the company. This is a powerful statement, as traditional models and smaller tactical and operational changes may not be enough to stay relevant.”

– Annette Bester, National Leader Credit Unions, MNP

Financial services companies recognize the value of being ahead of change and the competitive advantage in harnessing it. Our survey found that 92 percent of financial and professional services organizations indicate that they are either undergoing or anticipate a business transformation in the next 12 months — higher than the national industry average of 84 percent.

CHANGE TO EVERYONE

Q: Is your business currently experiencing or anticipating ANY of these [tactical, operational, strategic] business transformations over the next 12 months?

■ Financial and Professional Services ■ All Industries

92% **84%** **YES**

8% **16%** **NO**

CHANGE TO EVERYTHING

Q: Is your business currently experiencing or anticipating ALL of these [tactical, operational, strategic] business transformations over the next 12 months?

■ Financial and Professional Services ■ All Industries

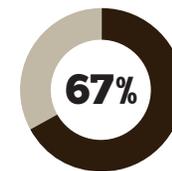
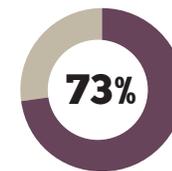
54% **44%** **YES**

46% **56%** **NO**

CHANGE IN EVERY WAY

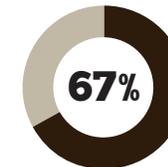
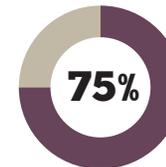
Q: Is your business currently experiencing or anticipating business transformations over the next 12 months? YES

■ Financial and Professional Services ■ All Industries



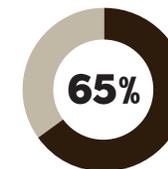
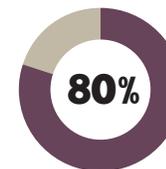
Tactical

Doing what you are currently doing, better, faster or cheaper



Strategic

Changing the course or direction of company



Operational

Doing what you are currently doing but in a fundamentally different way

The Transformation Tsunami in the Financial Services Sector Cont'd

Financial services companies recognize the value of being ahead of change and the competitive advantage in harnessing it. Our survey found that 92 percent of financial and professional services organizations indicate that they are either undergoing or anticipate a business transformation in the next 12 months — higher than the national industry average of 84 percent

Financial services companies are also *more likely* to indicate they are facing a significant change rather than a small one. This is unique among industries in Canada. There are more financial and professional services companies engaged in or contemplating strategic-type changes in the course or direction of the company (80 percent) as opposed to smaller operational (75 percent) and tactical (73 percent) changes.

“The financial services industry is going through a great deal of change, and disruption” says Eric Dillon, CEO of Conexus. *“People want real-time information about their money and they want very sophisticated technology tools that give them convenient access to their money, 24/7, 365 days of the year. Our members are demanding this evolution of real-time information about their money, and the choices they are making with their money and how the choices they are making fit into their family plans. We are doing our very best to transform our organization to keep up with their expectations”*.

Transformation is also a dominant trend in the sector – change is pervasive within the financial services sector. More than half of financial and professional services companies (54 percent) report their businesses are undergoing or anticipating simultaneous tactical, operational and strategic transformations in the next 12 months – 10 percentage points higher than the national industry average.

“All financial services companies need to be aware of the trends impacting their markets and the risks of delaying change” says Kathy Parker, Human Capital Consulting partner with MNP. *Customer needs are shifting and, regardless of your tolerance for change, the time is now. “Among the major risks in undertaking multiple transformations are people getting distracted and doing a lot of things sub-optimally versus focusing on key priorities and getting it right; and change fatigue, as people find it difficult to find the time to continue their day-to-day work and are preoccupied with change projects”* says Parker.



Impact on the Business Model

In addition to highlighting the significant amount of industry change they are seeing or foreseeing, financial and professional services decision makers also suggest that the current or upcoming change initiatives will be more impactful than in the past. Ninety-four percent of respondents engaged in or contemplating a transformation anticipate the impact to their business model to be at least as significant as any other changes made in the last three years. Financial and professional services organizations are seven times more likely to think the current change will be more impactful than less impactful.

“While the escalation and increased speed of change is real and daunting, it is helpful to remember that change is not a new concept for financial services. Most of us can remember in our lifetime when ATM’s became a reality, telephone and internet banking became possible and chip and PIN technology was adopted. There have always been changes that streamline processes, make banking more accessible and enhance security. The difference this time is that technology is available to escalate the speed of change and the frequency of disruption, allowing new entrants in the financial services space to capitalize on opportunities more quickly than ever before” says Annette Bester, National Leader Credit Unions, at MNP.

The Nature of Transformation

The most commonly cited area of transformation being contemplated by the financial and professional services sectors relates to changes to the service delivery model. One quarter of respondents indicate that this is the focus of their business transformation efforts. Combined with the respondents considering new product offerings (19 percent), these two strategic, client-oriented changes represent nearly half of the transformation agenda in the financial and professional services sectors.

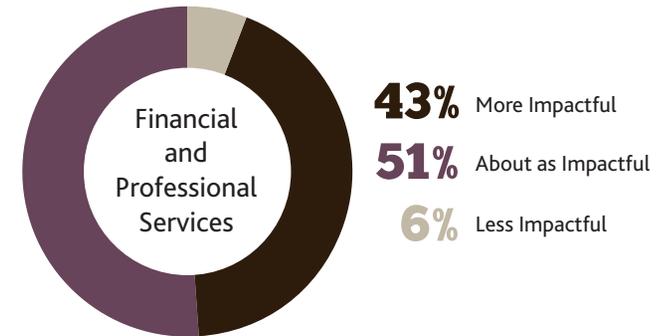
The other main areas of change in the sector are internally focused. Four in ten financial and professional service organizations are transforming their organizational structures, to either internally reorganize their business (20 percent) or expand or contract (20 percent).

On balance, these data indicate that about half of financial and professional service organizations are looking to transform their respective services to meet changing customer needs and half are seeking to optimize their organizational and operational models for enhanced efficiency and profitability.



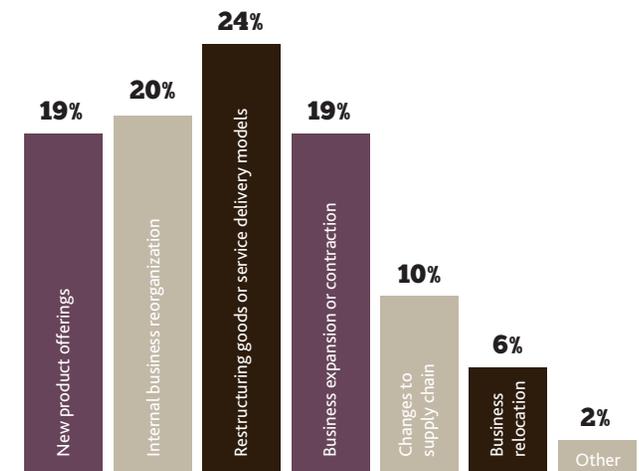
CHANGE IS DIFFERENT

Q: How significant do you anticipate the impact of this change will be to your business model, as compared to other changes you’ve made in the previous three years?



RETHINKING SERVICE DELIVERY IN FINANCIAL SERVICES

Q: What is the primary nature of the business transformation [Financial and Professional Services]?





"The financial services business is highly regulated, which can be a significant barrier to transformational change. Our industry is highly risk managed, the changes that you see most often are those that have the lowest risk potential – and therefore also likely the lowest incremental return, or level of transformation to our business.

At Conexus, we are actively trying to counter that thinking and force ourselves to use a horizon model for innovation. We continue to invest in the low-risk, low-return activities we know will be successful, but at the same time also force ourselves to take some swings at things that might be more transformational."

- Eric Dillon, CEO, Conexus

Drivers of Transformation in the Financial Services Sector

The digital revolution and ongoing technological advancements are the biggest external drivers behind business transformation efforts, as cited by 54 percent of total financial and professional services respondents.

Financial services companies can also face additional drivers of transformation that are outside their control, such as regulatory requirements which are a catalyst for change for a quarter of the survey respondents. When regulations change, financial service organizations have no choice but to comply, or face sometimes significant consequences.

While regulation can be a driver of transformation, regulatory requirements can also inhibit transformation due to their often restrictive nature. As we noted in our recent [video](#), regulation is a fact of life in the financial services sector. A myriad of provincial and federal regulators, standards bodies and accounting standards exist to ensure consumers are informed and protected and that institutions are accountable. A properly regulated financial services sector helps instill investor confidence and ensures stability and soundness of the financial system.

Overall, our survey findings for financial services companies reflects that the drivers for change are primarily about harnessing available technology to meet current and evolving consumer needs to address the companies' profitability goals.

Top-Down Vision

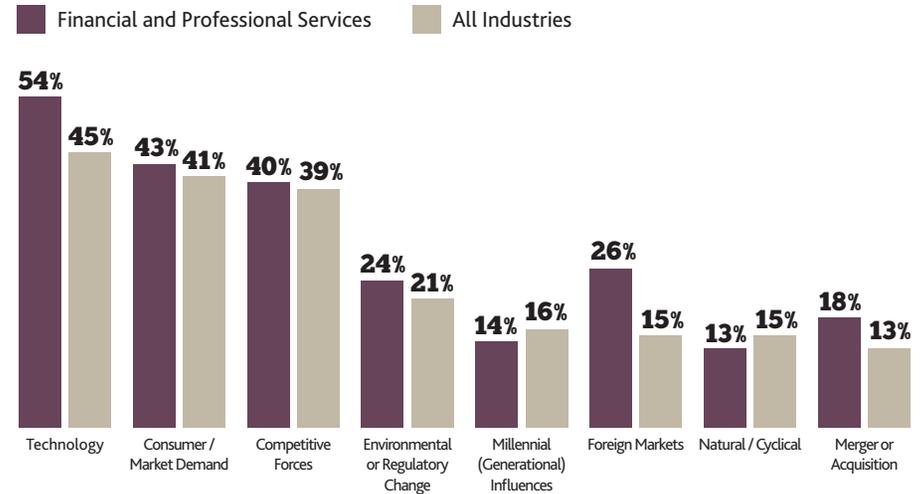
"At Prospera, we view innovation and advancement in technology as a way to develop new opportunities for engagement with our business and personal members. We have an ongoing technology agenda and continuously look at incorporating services and functionalities that add value for our members."

The success of Prospera's early-adapter mode comes from our commitment to innovation from the credit union's senior leadership, management and employees. Through this approach, we find it creates employee engagement and a relevance, as well as excitement, that we are making a difference in the work that we do. But in addition to this, there is a lasting positive impact in our community as we are investing in services that provide another layer of convenience, in alternative ways for our members to do their banking."

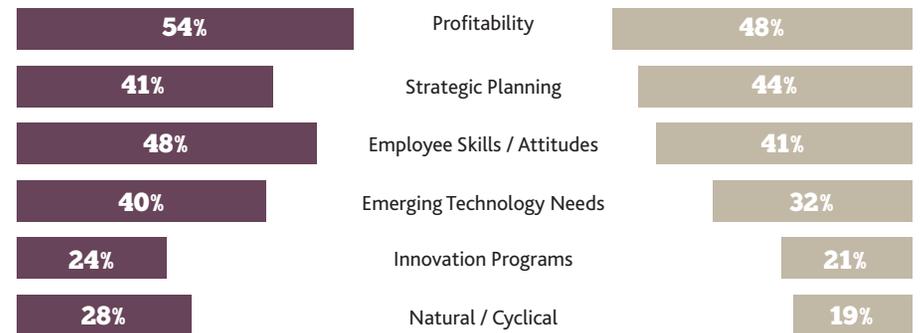
- Serge Léger, VP Marketing and Member Innovation, Prospera Credit Union

DRIVERS OF TRANSFORMATION IN FINANCIAL SERVICES SECTOR

What are the primary external forces behind the business transformation change? (select all)



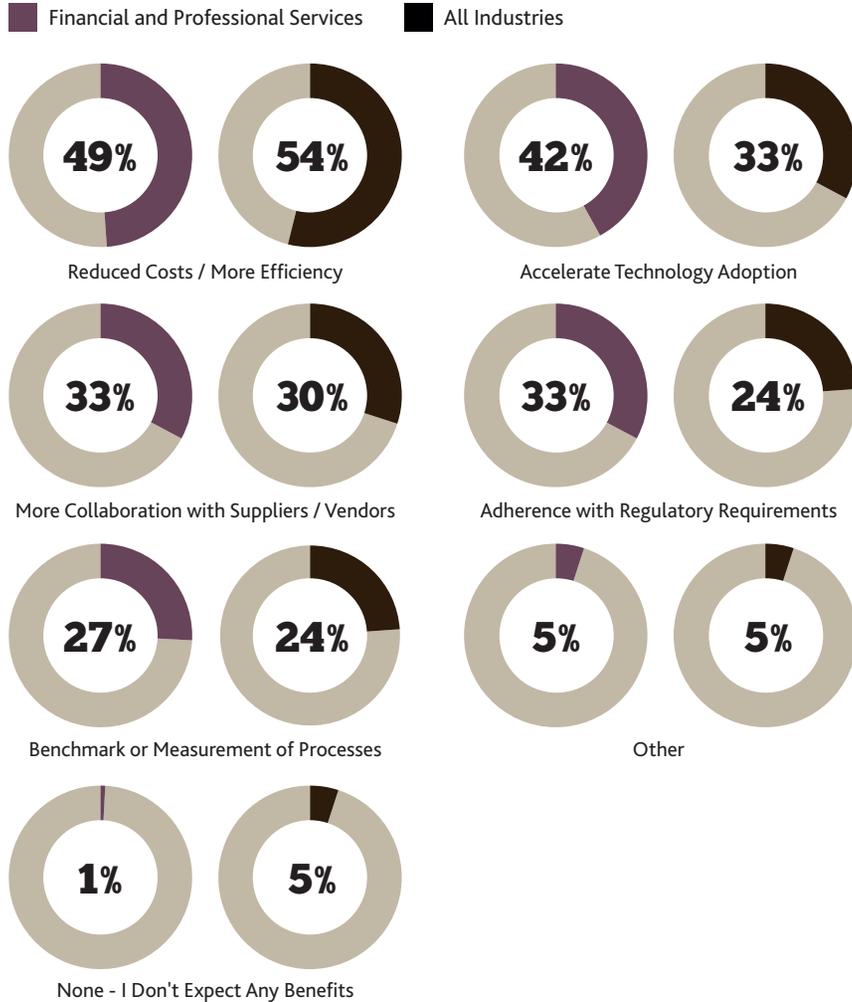
What are the primary internal motivations behind the business transformation change? (select all)



Expected Outcomes from the Current Wave of Transformations

WHY CHANGE?

What additional benefits, if any, do you expect as an outcome of the transformation? (select all)



Technology is first and foremost seen as a tactic to reduce costs and achieve operational efficiencies — as reported by half of those financial and professional services organizations surveyed. Accelerating the adoption of technology, in particular, stands out as a benefit at 42 percent for financial and professional services compared to only 33 percent among other industries. These data suggest an urgent need to leverage technology in the financial services sector to provide an accelerated path to enhance the client experience, to increase sales and to either maintain or grow market share.

The financial services sector's unique industry dynamics appear to strongly influence the outcomes of transformation. Financial institutions contend with regulatory restrictions on the use of capital, which is more prevalent than in most other industries. This restricted use of capital, combined with the competitive environment, as well as simply finding the internal capacity to execute on a change agenda, makes it a challenge to transform.

MNP's role as an advisor is often to assist financial services companies overcome barriers and leverage new and emerging technologies so they can compete, acquire new customers and grow. This occasionally has translated into making investments in, or creating partnerships with fintech disruptors that can help advance the transformation process.



SECTION 2: The Transformation Challenge

Ninety five percent of financial and professional services businesses surveyed report they face some form of barriers that inhibit their ability to successfully transform as planned.

The most commonly reported barrier for financial and professional services companies is the cost of change, as reported by one third of respondents, followed closely by government regulation (31 percent) and market complexity (27 percent). While financial services leadership may appreciate the need for change and how this will translate into the achievement of goals, a lack of resources as well as regulatory obstacles remain significant barriers.

"Transformation success in financial services ultimately comes down to how you structure and fund the team driving the transformation and ensuring you are focusing on the right areas to change," says Doug Macdonald, Credit Union Consulting Leader, MNP. The challenge is exacerbated by difficulties in assembling focused and dedicated resources to lead and manage the process amidst other day-to-day responsibilities."

Overcoming Change Barriers

Canada's financial services decision makers are heavily reliant on external support to help overcome barriers and achieve their transformation goals.

Our survey found that essentially all – 99 percent – of financial and professional services organizations undergoing a transformation used external services to anticipate or implement change. Defined across five specific areas of technology through to specialized tax support, eight in ten used at least three of the five types of external services and one third used all five types of services.

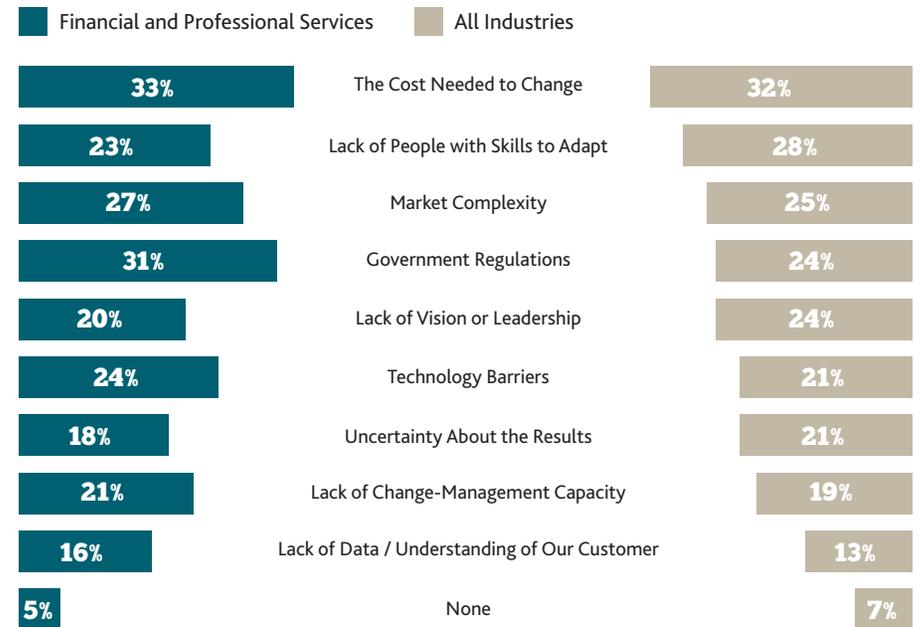
In financial and professional services companies, there is a significant use of technology support (81 percent). Similarly, there is heavy reliance on external parties for business analytics and data analysis (78 percent). Based on MNP's observations, for smaller companies in particular, this is often due to a lack of technical skills in a highly specialized area, or the inability to recruit those skills. In larger companies, the use of external support, is frequently a function of a need for capacity which is essential in driving transformation. MNP is often asked to help meet these challenges, by providing access to experienced professionals who have been at the forefront of change in their respective industries and functions.

"Since first opening our doors, WealthOne has recognized the need for engaging strong partners to assist us in growing and transforming our business. MNP has been there to support us at every step of the journey, whether it was through the review of our business plan, assisting us to prepare for OSFI requirements, or helping to set up our internal audit program and acting as our chief internal auditor. We know that the competitive financial services market will continue to transform and we feel well-positioned to stay ahead of the changes with the model that we have built and the support we have through MNP."

- John Guido, VP Operations, Wealth One Bank of Canada

FINANCIAL SERVICES CHANGE BARRIERS

What barriers exist that may hinder the success of your business transformation? (select all)



FINANCIAL SERVICES FREQUENT USE OF EXTERNAL SUPPORT

Have you used [...] external services to anticipate or react to transformative forces [Financial and Professional Services]?



SECTION 3: How Technology is Transforming Financial Services

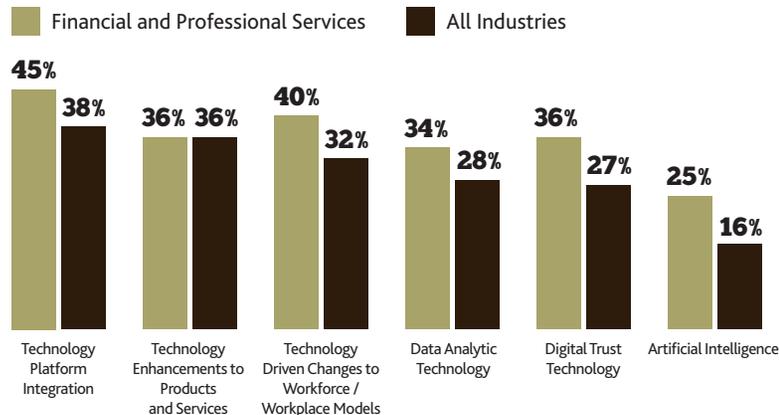
The digital transformation wave is well established in the financial and professional services sector. Nearly all (93 percent) financial services and professional services respondents report they are currently involved in a technology-based transformation — 10 percentage points above the national industry average. The financial and professional sector exceeded the national industry average in virtually all facets of technology change. And, in one area – the use of artificial intelligence – the sector activity is 1.5 times the national industry average. Technology is the cornerstone of transformation.

Platform Integration Dominates the Technology Change Agenda

The most prominent form of change, as reported by 45 percent of the financial and professional services sector involves platform integration such as software that integrates different applications and services, and cloud service suites. Nearly half of financial and professional service businesses report they are currently involved in some platform integration efforts predominantly cloud-based services, with 81 percent of those engaging in platform integration using a cloud-based service.

FINANCIAL SERVICES TECHNOLOGY CHANGE AGENDA

Which of the following technology advancements are underway in your organization?



Platform integration produces a number of transformative effects on organizations. Changes reported by those in the financial and professional services sector include:

- Enhancement / efficiency of the value chain, reported by 42 percent
- Impact on hiring pool / skill levels, reported by 36 percent
- Fewer external partners, larger partner/vendor relationship, reported by 35 percent
- Fewer in-house solutions with a reliance on external tools, reported by 32 percent

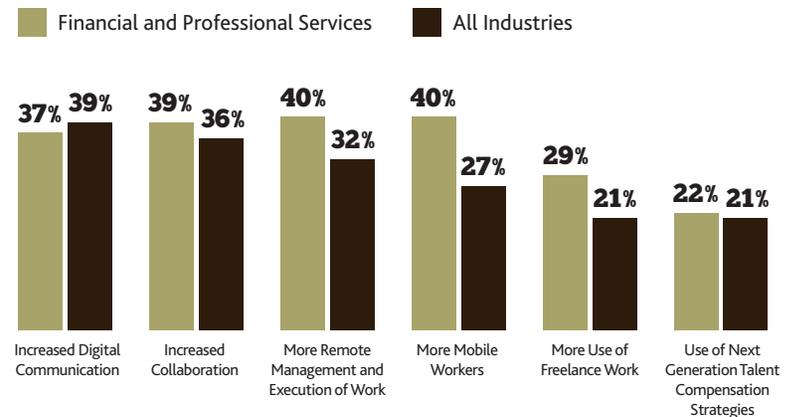
Technology Changes to Workplace / Workforce are Changing how Work is Done

Technology advancements to the nature of work and workplace, such as online skills marketplaces like Upwork and the use of productivity tools like Skype and go-to-meeting are gaining popularity across survey respondents' respective organizations. Four in ten financial and professional services organizations report technology advancements underway in this area, well above the national industry average of 32 percent.

In particular, it is notable that financial and professional service organizations are well above the national average in their use of technology to facilitate remote management and execution of work, more mobile workers, and more freelance work. These workforce changes fit the picture of cost reduction, optimizing organizational structures and client service delivery, all of which are strong themes across all the survey data for the financial services sector.

HIGHER DEGREE OF REMOTE AND MOBILE WORK IN FINANCIAL SERVICES

In what ways is technology driven change to workplace / workforce models transforming your organization?



How Technology is Transforming Financial Services cont'd

Delivering Digital Products and Services that Meet Consumers' Needs

In financial services, much like other sectors, the customer experience is paramount. It is logical therefore to deliver digital products and services that will enhance the customer experience. This technology also allows financial services companies to now have more information about clients, with more complete cross-platform access, thereby enhancing knowledge of the customer and, allowing for improved customer service.

Digital enhancements to products and services such as these are underway in just over one-third of financial and professional businesses. Four in ten of these organizations are using technology to launch new products or tweak existing products to generate more revenue, one third are using technology to enhance customer loyalty and one third are making major changes to the way they deliver products and services altogether.

As MNP's Steven Luckie states *"It is part of delivering products and services that meet customer needs and it elevates the financial services company to the level of trusted advisor, which can open up the door for additional services"*.

Protecting and Securing Data

Trust is the foundation for the relationship customers have with their respective financial services providers. And the limits of that trust are being tested regularly with never-ending stories of data breaches, hacking of internal systems and even theft of sensitive customer information. As a result, digital trust technologies continue to grow in importance for financial services and practically every sector. More than one third of financial and professional services organizations indicate they are in the process of using or advancing their digital trust technologies despite already being leaders in this area.

For financial and professional services organizations, the top three security initiatives underway are: real time monitoring and analysis (36 percent), security threat intelligence (33 percent) and the use of cloud services (31 percent). Significantly, of those financial and professional services businesses advancing their digital trust technology, two thirds are considering Blockchain as a possible solution to their needs.

"Blockchain is on the verge of becoming a mainstream topic. In six months to a year, people won't even have to describe it anymore – everyone will have at least a rudimentary understanding of it. It will simply become a part of everyday understanding of the basis of the security for financial transactions. Blockchain's potential to drive out inefficiencies and reduce costs will fuel its rate of adoption across the financial services sector."

- Brian Beveridge, Partner, Technology Solutions, MNP

MORE REVENUE THROUGH TECHNOLOGY ENHANCED SERVICES

In what ways is digital technology and technology enhancements in products and services transforming in your organization? (select all)



DIVERSITY OF DIGITAL TRUST INITIATIVES

In what ways is focus on digital trust transforming in your organization? (select all)



How Technology is Transforming Financial Services cont'd

Data Analytic Decision Making

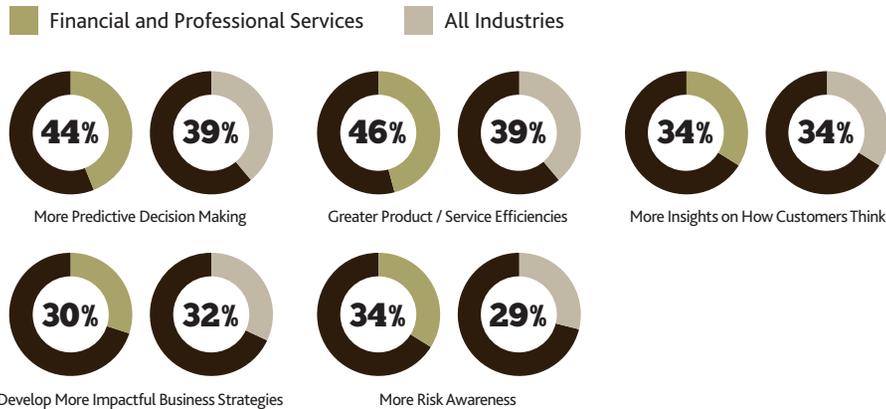
Our survey found that a little more than one third of financial and professional service businesses are currently using data analytics and business intelligence technologies to further their business goals. Data analytics are being used by the sector to increase product and services efficiencies (46 percent) and predictive decision making (44 percent) — both at a higher rate than the national industry averages.

Those organizations using data to drive decisions have a clear competitive advantage. Amazon has achieved a dominant market position through its use of customer behavioral data and could just as easily disrupt the financial services industry as it understands how to extract insights from data. Its recent expansion into grocery is a prime example of how it has already disrupted a traditional sector and how it will continue to disrupt as it maintains its focus on insights derived from its customers' data.

For financial and professional services companies, the challenge is one of maintaining and growing market share in a highly competitive environment where customer relationships are critical. *"On the one hand, financial services, core products, such as deposit accounts and credit cards, are becoming commodities. On the other hand, non-financial/professional services players such as Google, Apple, Facebook and Amazon know more about a financial institution's customers and what they need than the financial institution does,"* says Doug Macdonald. *"If financial and professional services companies don't get smarter about data to better service their customers, then lower-cost providers and non-bank competitors with better insights will take your customers."*

DATA ANALYTICS CREATE SERVICE EFFICIENCIES

In what ways is data analytic technology transforming in your organization? (select all)



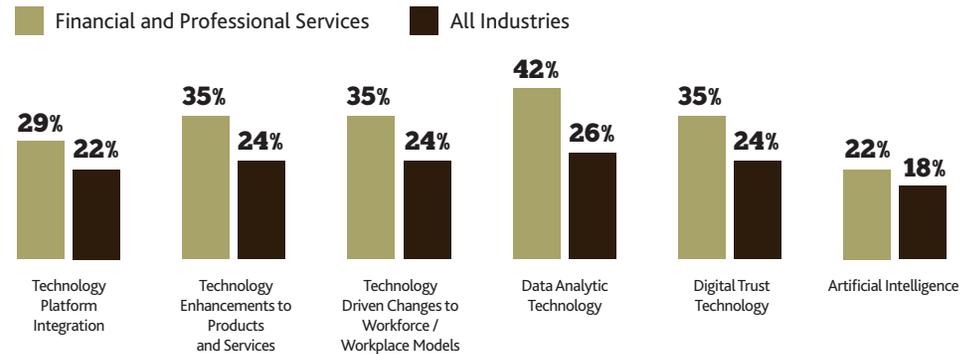
Artificial Intelligence is an Area of Potential Differentiation

While only 16 percent of Canadian businesses report a current level of activity in the development of artificial intelligence technology, the financial services industry shows a significantly higher level of early adopter activity — one quarter of financial and professional services report that AI is currently a strategic lever in transforming the organization.

Although AI lacks the visibility and profile of other technology transformations, it is already embedded in one form or another in many mainstream technology solutions. In banking, AI is being used in customer support and to automate routine transactions (e.g. robocalling). For those financial services businesses that are engaged in AI, the standout benefits they report include a more efficient process and a more customized experience.

THE NEXT CHANGE WAVE: FUTURE TECHNOLOGY INTENTIONS

Do you have plans to [SIGNIFICANTLY] increase investment in the following over the next 12 months?



The pattern of aggressive investment in technology by financial and professional services companies is expected to continue. Respondents have indicated their plans to significantly increase investment in multiple technology areas, all at a level well above national industry averages. These investments are in addition to current technology spending that, as noted earlier, represents a significant portion of the change agenda.

"The old adage that the only constant in life is change continues to be as applicable in financial services today as it ever has been," says Steven Luckie. *"The quickening pace of technology innovations, the evolving demands of consumers and the changing expectations of businesses, requires that financial services providers develop new ways of thinking and working, new and more flexible technology to support change and a constant stream of innovation to address these increasing demands. Fortunately, the Canadian financial services community, with its wealth of talent and diversity of thought and ideas, is well-suited to innovate, to adapt and to take on the challenges of the new world of business."*

Contact Us

To speak with to an MNP advisor about transformation and your business, contact:



Steven Luckie
Financial Services Institutions Leader, MNP
T: 416.515.3837
E: steven.luckie@mnp.ca



Annette Bester, CPA, CA
National Leader Credit Unions, MNP
T : 306.664.8327
E : annette.bester@mnp.ca



Doug Macdonald, MBA, PMP
Credit Union Consulting Leader, MNP
T : 416.515.5087
E : doug.macdonald@mnp.ca



Kathy Parker
Partner, Human Capital Consulting, MNP
T: 416.263.7074
E: kathy.parker@mnp.ca



Brian Beveridge, CMC
Partner, Technology Solutions, MNP
T: 204.924.7502
E: brian.beveridge@mnp.ca



ABOUT MNP

MNP is a leading national accounting, tax and business consulting firm in Canada. We proudly serve and respond to the needs of our clients in the public, private and not-for-profit sectors. Through partner-led engagements, we provide a collaborative, cost-effective approach to doing business and personalized strategies to help organizations succeed across the country and around the world.