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Trust is what traditional institutions bring to the digitising financial services table

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While it's true that the digital era will completely reshape the financial services industry over the next five years, there is still one thing the industry has that is irreplaceable: the relationship of trust.

That relationship should allow traditional institutions to largely retain market share by assuring their stakeholders of financial certainty and governance. It's the trump card. But it's a card that will have to be played astutely, albeit in an altogether new game, with new rules and players. To be part of the game, financial services institutions have no choice but to change not just the way they operate, but the way they perceive their role in society.

What's the urgency?

According to americansecuritytoday.com, four of the top ten retail banks will be displaced by digital disruption within the next three years.¹ McKinsey research indicates that digital laggards will see up to 35% of their net profit eroded. By contrast, institutions that embrace digital are expected to see a profit upside of some 40%.²

However, only 27% of banks are taking proactive steps to survive the digital revolution by disrupting themselves.¹

Part of the reason for hesitation is funding. Research by NTT Data has found that 35% of banks' IT budgets is spent on maintaining their legacy core deposit systems.³ That doesn't leave much for the move to digital.

In addition, some 75% of bankers feel that their processes are incapable of adapting quickly enough to change.³ These processes are not purely technical. The financial services industry may in fact be mired in a thousand-year legacy system, rather than just a three-decade technology bind.

The gatekeeping habit

From their primitive origins to their sleek modern incarnations, banks and insurance companies have held a special relationship of trust with the public. They have been the visible institutions handling and managing peoples' and organisations' wealth. Over time, various intermediaries have been added to the ecosystem, but the banks' position as secondary or opaque participants has never changed. People and companies continue to entrust their money to the large financial services brands. Even in times of economic crisis, such as the one triggered by banks themselves in 2008, there has been no large-scale public rejection of the established brands.

It's not on the balance sheet, but this implied trust is a critical asset.

