

IDC Presents

Catalyzing Digital Transformation in the Romanian Banking Industry

IDC OPINION

At the start of the third millennium, a general shift toward using technology to augment everyday life began. While the finance sector has always been a fast adopter of various technologies and has always sustained — either directly or indirectly — the advancements of the human society, the ***potential for significant disruption to arise from any source***, characterizes the current global environment. On top of this prevalent threat to the status quo, the world is becoming more interconnected, and the constant movement of ideas and more compact implementation cycles result in ***actions having a shorter time to completion***.

With the rise of new competitors and new banking models, banks that are not willing to reshape their portfolios and improve their brand awareness using the instruments already at their disposal are going to find themselves stripped of their customer bases faster than seemed possible 10 years ago. However, since Romanian banking leaders never seem to have the opportunity or budget to embark on digital transformation (DX) journeys, partly due to their challenges in setting priorities, how can they ***use available offerings to quickly initiate and reap the benefits from new DX projects?***

This IDC White Paper explores ways in which the new generations of Romanian banking leaders can empower their organizations by analyzing the **security** and **openness** trends in the market. Indeed, such an analysis can help leaders determine how to move forward with their DX journeys today and create a meaningful impact on their organizational processes.

From an internal standpoint, decision makers in Romania can ***free up budgets to make incremental improvements to existing systems or carry out experimental projects*** by addressing evolving customer requirements and meeting the demands of regulatory agencies. By doing so, they can slowly align their organizations to DX and distinguish themselves as determined leaders in the market.

An IDC White Paper

Sponsored by: Telekom
Romania

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SITUATION OVERVIEW

The Interconnection of Banks and Society

Banks have been deeply intertwined with humanity's ascent, and have played a major role in the rise and fall of civilizations. From the natural exchanges of the Paleolithic era to the merchant banking of the Renaissance period and the dynamic financial institutions of the digital age, society has been fundamentally shaped by banks.

Consequently, banks are impacted either directly or indirectly by the major events affecting people's lives. Moreover, local, regional, or global developments can create ripples in a bank's day-to-day activities. For example, Switzerland's decision in 2015 to cease capping the value of the Swiss franc against the euro caused effects that are still being felt in the banking industry today.

Furthermore, the ebb and flow of corporate entities across industries is a dynamic that will likely become more frequent due to advances in automation. This continuous motion will also affect specific equities in the market (i.e., the investments that banks have made in one or more industries), which may in turn impact the sustainability of every financial institution in the long run.

There are also numerous examples from outside the financial world that demonstrate how new technology use is disrupting the banking domain. In urban areas, Near Field Communications (NFC)-based payments have been adopted at a massive scale in retail and other consumer-related markets, while current mobile banking offerings must now match the ease of use of alternative products developed by telecommunications operators. It seems that industries are rushing to penetrate new markets beyond their traditional areas, and the banking domain is no exception.

The rupturing force that is displacing all aspects of society is generically referred to as DX. IDC defines DX as a *"continuous process by which enterprises adapt to or drive disruptive changes in their markets by leveraging digital competencies to create new business models, products, and services."*

Due to its widespread availability and ease of use, technology furnishes any person or organization with the means to become more competitive and disrupt the market. Indeed, countries are using technology to bridge the economic gaps between them. Furthermore, all companies now have the necessary digital instruments and the potential global reach to massively improve or develop new areas of business.

Banks are impacted by the significant events in people's lives, which are now occurring at an ever-rising pace.

The continuous process of technological adoption and disruption has created a world full of possibilities – one that could eventually lead to the disappearance of the commercial banking system we know today.

IDC predicts that, by 2020, one-third of the top 20 vendors in every industry will be affected by new competitors.

However, organizations pursuing DX need to understand that, ultimately, **DX is a process that will need to be imbued in the very fabric of organizational models, competencies, and culture.** By simply labeling disparate initiatives as "DX," no real progress can be made toward leveraging the internal and the external organizational environment to its fullest potential.

The Turbulent Force Sweeping the World

The global economic crisis that began in 2008 proved that the consequences of a particular event can rapidly spread across the world, fueled by the unrestrained global flow of information. Moreover, the interval between an event and its consequences is shrinking, which means that mitigating actions need to be taken and appraised faster than ever before.

As a recent example, the General Data Protection Regulation (GDPR) was adopted by the European Union (EU) on April 27, 2016, and will come into force on May 25, 2018¹. This relatively short implementation timeline means that companies must act quickly if they are to be in full compliance by the set date. In contrast, the previous Data Protection Directive (which was initially adopted in October 1995 and later superseded by the GDPR) had an additional year for implementation. It was also less punitive in cases where companies did not comply with its stipulations.

In other words, if companies do not react to an event immediately (non-doers), the gap between them and other competitors (doers) will expand, reducing the chances for them to catch up. Indeed, in the modern environment, the effects of non-action are foreseeable in less than a single year.

Consequently, if the effects of the continuous cycle of technological change are being felt faster across society, what does the future hold for the banking industry? While there is no simple answer, it is evident that banks need to continuously adjust their offerings and prepare for the future due to the profound connections they have with the global economy. However, even though banking is dynamic and greatly integrated with society, it is an industry that, in respect to regulations and processes, is simultaneously rigid and risk averse. As such, banking has many more challenges than other industries, which are facing disruption on a smaller, localized scale. **If banks are to thrive, not merely survive, these challenges must be met in the face of even larger competitive pressures.**

¹ <http://www.eugdpr.org/>

Across the world, the interval between an event and its consequences is shrinking.

Tides Affecting the Banking Industry

Banks have a strong heritage of being quick adopters of technology. However, from a historical standpoint, they have focused on reducing costs and efficiently transforming operations through staff changes. Nevertheless, new DX technologies are promising to change the banking model itself, replace existing financial infrastructure, and put an end to the implementation of disparate IT projects that served niche purposes.

The undertaking of a DX initiative has a huge investment cost for banks. This is especially true in Romania, where local banks that have been acquired by global institutions must supplement their convoluted mix of legacy banking systems with the systems of their parent organizations.

The following section explores four different aspects of the Romanian banking industry and highlights their respective challenges.

Regulation is Putting More Pressure on Banks

Regulation places an unprecedented burden on financial institutions and the pace of transformation. According to IDC's 2016 Central and Eastern Europe (CEE) Bank CIO survey, "meeting compliance requirements" was cited as the number one reason for investing in technology². Banks are thus making massive investments in infrastructure, actively training personnel, and creating new departments that can handle all the necessary financial reporting requirements stipulated by central banks (such as the National Bank of Romania) and other regulatory bodies.

The European Commission (EC) is also attempting to protect the consumers of services through the GDPR, which will have major impact on all companies that handle EU citizens' data. However, as banks are the largest stewards of consumer information, it will undoubtedly prove difficult for any financial institution to track and protect personal data across the entire organizational scope.

Through the Payment Services Directive II (PSD2)³, the EC is also seeking to develop a unified payment services sector that enhances competition, innovation, and security. The PSD2 will bring about changes in the IT landscape that will not only improve security but also allow for heretofore unseen levels of collaboration between banks and third-party providers.

² IDC CEE Security Summit Survey, Prague, 2016

³ https://ec.europa.eu/info/law/payment-services-psd-2-directive-eu-2015-2366_en

Financial institutions must continuously balance between implementing new cutting-edge technologies – and thereby improving customer experience – and capitalizing on their previous investments as solid financial practices demand, all while keeping risks and other security-related issues at their lowest point in history due to rising privacy concerns.

New Initiatives are Crippled by a Lack of Consumer Education

In Romania and elsewhere, there is a new generation of customers that now demands straightforward payment methods and easier to use services. These customers of all ages have had their expectations molded by their personal interactions with smart devices.

However, in Romania, the lack of adequate financial and technical education on the part of consumers has resulted in a heavily cash-based economy. eBanking initiatives are further hindered by security concerns and mistakes that could impact the hard-earned savings of individuals.

Nevertheless, as more and more Romanians get access to smartphones and become more acquainted with global trends, there will soon be a rise in the number of virtual banks in the local market. Physical borders will also diminish in importance, allowing local individuals to select any provider or institution for any service. Accordingly, the ability of banks to leverage IT to introduce new products and business lines is tremendous. [For example, companies that made 65% of their business applications available to mobile users reduced the time to market for new products by 58%.⁴](#)

The Rising Interest in Technology is Not Properly Managed

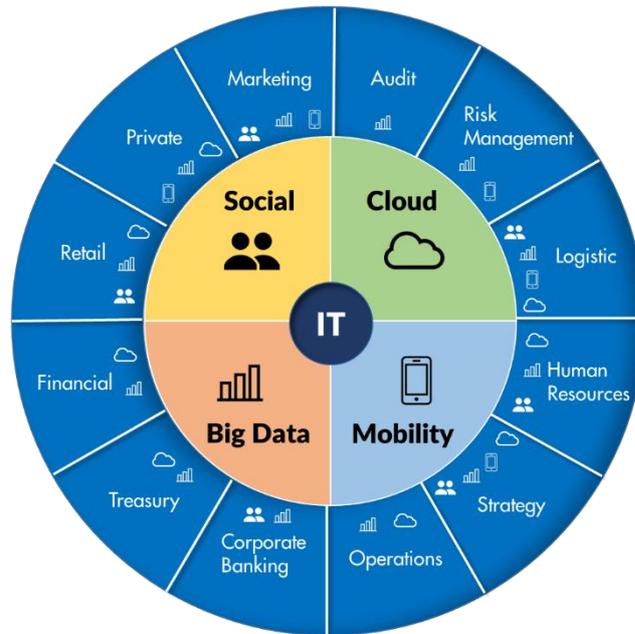
From an internal business perspective, decision makers are not relying on technology to shape their organizational priorities, even if IDC estimates that, [for the current year, 6.5% of revenue growth will be driven by IT initiatives.⁵](#)

Nevertheless, the reliance on technology is accelerating, as the proportion of revenue that is dependent on IT has more than tripled over the last two years. IT is now more than a mere support department for banking operations. When looked at realistically, there are currently no departments inside an organization that are not being shaped by at least one of the pillars of the 3rd Platform.

⁴ Business Value Impact of Digital Transformation: Understanding How Digital Transformation Is Already Here and What It Means for Your Sales and Marketing Strategy, IDC 2017

⁵ Business Value Impact of Digital Transformation: Understanding How Digital Transformation Is Already Here and What It Means for Your Sales and Marketing Strategy, IDC 2017

There are currently no departments inside a financial institution that are not being shaped by at least one of the 3rd Platform pillars.



The financial market is driven by two seemingly opposing forces — openness and security.

Pervading Openness and Security

As previously mentioned, the financial market is driven by two seemingly opposing forces. On one hand, there is the need to become **open** — regulations, customers, and employees are demanding it. On the other hand, the need for **security** is paramount, as the potential consequences of a security-related incident can bankrupt any organization.

These trends are corroborated by IDC data. Per a 2016 IDC survey of bank CIOs, the top two areas for IT investments in the next 6 to 12 months are IT security (50% of respondents) and mobile applications (45% of respondents). These results correlate with the trends seen in the previous two years; [in another IDC survey, 38% of respondents indicated their largest technological programs were driven by IT security, and the same percentage cited IT/business alignment.](#)⁶

LEADERSHIP APPROACH

The continuous process of DX as described by IDC should be applied to five intrinsic domains of an organization, as depicted below:⁷

⁶ IDC CIO Summit Survey, Vienna, 2016

⁷ IDC CIO Summit Survey, Vienna, 2016



Naturally, the first domain is leadership, as the new digital era requires decision makers who can drive their organization forward while dealing with inconsistent approaches to technology. ***The new breed of bank executives will need to embrace change as their modus operandi.*** Inspiring business models are directly correlated with changes in fundamental leadership practices. Indeed, alongside the pervasive advent of technology, there is a constant organizational search for personalities with the power to address human needs with the right digital mechanisms.

Leaders will need to use the excessive amounts of context-sensitive data to make informed decisions that shed light on the company vision and express the way forward. Information-based decisions that are adapted to the current context are more important than ever and are demanded at an ever-faster pace.

[Leadership DX requires bank executives to become more sophisticated in their knowledge of the enterprise ecosystem and more able to anticipate and develop product and operational innovations that extend market share and increase revenue.](#)⁸

Change is a permanent attribute of the technological ecosystem. However, change, especially the kind needed to thrive in turbulent years, does not happen at the switch of a button. ***A positive approach to change can permeate the whole organization, from the operating model to omni-experience – but such a shift in mentality must be properly tackled, and kept top of mind by the organization's leadership.***

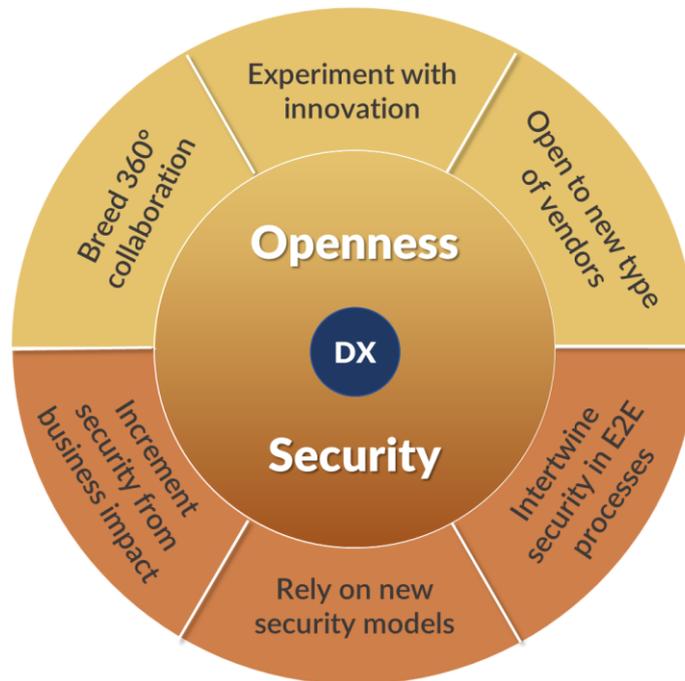
Banking executives have already started capitalizing on changing circumstances for the benefit of their whole organizations, internally through their employees and externally with their customers. These executives have recognized that enormous business opportunities can be exploited by realigning their portfolios and adopting broad initiatives that do not solely focus on technological aspects.

⁸ IDC MaturityScape: Leadership Digital Transformation 1.0

We all know that the human touch is what matters, particularly as trust is the key word in any relationship, especially banking relationships. Therefore, more than quality high-tech solutions, we count on the involvement of more than 2,000 “digital experts” – a community of tech-savvy employees who are passionate about all digital topics in and outside the bank and voluntarily act as our digital ambassadors in front of customers.

Marian Ignat, Digital Banking Executive Director, BCR Romania

Even as IT becomes ever more important, a shift needs to happen in other areas if technology is to be ingrained into strategy and planning functions. For example, retail and commercial banking vice presidents, upcoming data protection officers, digital officers, or even branch managers will be the key roles that have the right budgets and autonomy to marshal new models for achieving success, depending on their will and ability to understand what the best starting point is for their specific priorities. **Individuals in these positions can move the technological tide in their favor, and propel the correct mindset into their projects and teams.**



In the short term, executives can strive to catalyze the DX process in their local organizations. As there is no recipe for success in the unpredictable

external environment, banking decision makers should take the prevailing conditions into account and realize how their actions in terms of openness and security can drive their business in the digital age.

Openness: In light of recent regulatory demands and evolving customer requirements, an understanding of how to leverage the more open ecosystem around projects and initiatives will be central in carrying out DX in the banking arena. Customer experience means more than ensuring superior interactions between clients and marketing, sales, or support departments; it also means achieving end-to-end service orchestration and carefully guiding end-user journeys through internal organizational complexities.

When taking openness into consideration while planning DX projects for their organizations, bank executives should:

- » Strive to build new business models, potentially with experimental partners (including those that have rich cross-industry experience).
- » Dare to experiment with and pilot procedures that can achieve results and minimize the risk of failure, especially in the omni-channel and branch transformation domains, where the customers have direct perceptions about bank branding and value. For example, decisions about mobility will no longer reside in the IT department, because mobile technologies are one of the major pillars accelerating organizational change.⁹ Mobility is so important to business that it has become a company-wide issue that goes beyond technology requirements. Mobility considerations should start from services and business process expertise.
- » Propagate a constant feel of collaboration inside the organization and across the entire ecosystem of partners and vendors. According to a recent IDC Research DX Survey, 26% of respondents (a plurality of the survey) stated that the formal collaboration mechanisms that exist in their own organizations are largely passive, indicating that there is a need for enhanced methods of information exchange.¹⁰
- » Develop new ways of offering basic digital services to customers and employees, especially to individuals who are digitally-savvy and can educate their peers. For example, while the bring your own device (BYOD) approach has been a constant challenge for organizations, IDC estimates that choose your own device (CYOD) models are now more common than BYOD.¹¹

⁹ European Enterprise Mobility Life-Cycle Services 2016 Top 10 Predictions

¹⁰ IDC EMEA, MaturityScape Benchmark-Digital Transformation, February 2017

¹¹ European Enterprise Mobility Life-Cycle Services 2016 Top 10 Predictions

Security: End users (who are historically considered to be the weakest link in IT security) will become an important factor in all security approaches and initiatives in general.¹² As such, the initial investment in educating customers will have a massive impact in the immediate future. Taking PSD2 and GDPR into consideration, banks should adopt new security approaches by:

- » Fitting security into business activities and functions by understanding its impact on current operations, starting with internally collected data and analytics. Per IDC research, 50% of enterprise cybersecurity environments will use cognitive/AI technologies to assist humans in dealing with the vastly increasing scale and complexity of cyberthreats by 2018.¹³
- » Intertwining technology and new security models with end-to-end processes to build robust architectures According to IDC research, a new wave of innovative security solutions from CEE-based players will bring enhanced security to the broader market in 2017.¹⁴ This research demonstrates that CEE security capabilities are at par with the new wave of players that have emerged globally.

12 IDC FutureScape: Worldwide Security Products and Services 2017 Predictions – CEE Implications

13 IDC FutureScape: Worldwide Security 2017 Predictions – Implications for CEE

14 Central and Eastern Europe Software Market 2017 Top 10 Predictions

CONCLUSIONS

Telekom Offerings for Banking Digital Transformation

Telekom Romania, part of Deutsche Telekom Group (DTG), is one of the largest telecommunications and ICT providers in Romania.

Telekom Romania can leverage the experience of DTG and utilize its own internal and external experience to support local businesses and develop cross-border solutions across Central and Eastern Europe and South East Europe (CEE/SEE).

The company's broad ICT solutions portfolio, which covers a wide range of products, functionalities, and services, as well as its massive network and datacenter infrastructure (58 datacenters across Europe and over 55,000 square meters of customer space), can be used to roll out new banking services across Romania with agility in mind.

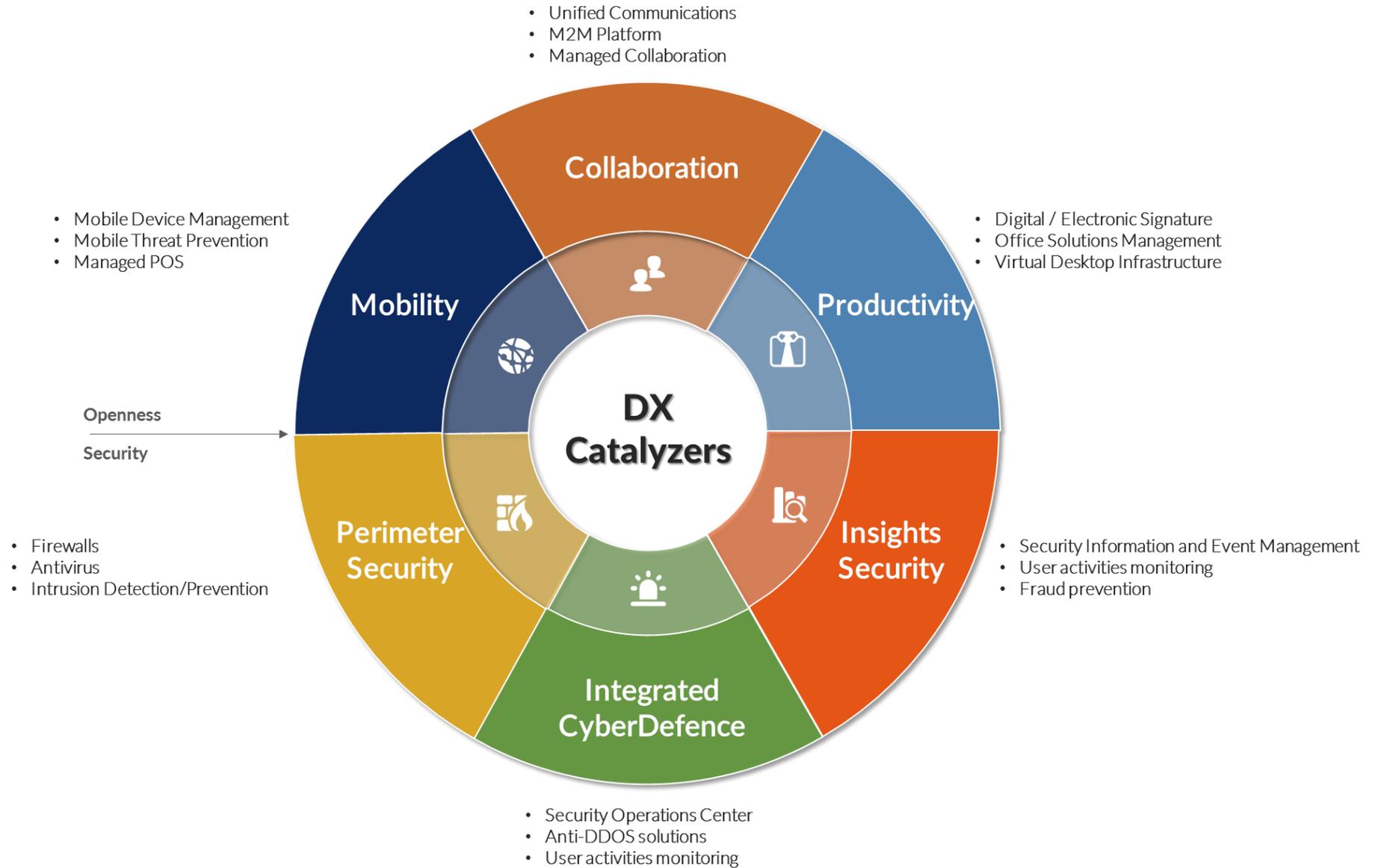
Based on its experience as a large telecommunications provider in the Romanian market – a market that is, in fact, also affected by DX trends and EU regulations – Telekom can use its IT capabilities to align the local banking industry with real-life necessities.

While Telekom can provide banks with multiple ICT managed services or professional services on top of its traditional telecom offerings, which would make it one of few convergent technology providers in the country, this White Paper presents six business-aware domains that can facilitate DX transformation in the context of the openness and security drivers described above

In addition, end-to-end service-level agreements (SLAs) can guarantee the delivery of high quality services and reliable processes for all DX functionalities, reducing the unnecessary burden of managing multiple contracts, suppliers, and SLAs.

The domains explored for **openness** – mobility, collaboration, and productivity – are in line with branch transformation or omni-channel Interaction approaches, and can be used in diverse ways to improve customer experience and the brand perception of a particular bank.

The presented **security** areas – perimeter security, integrated cyberdefense, and insights security – come from proven vendors on the global market, and can be used to respond to immediate needs or for security-related operational effectiveness initiatives.



About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

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