

The Innovation Imperative

How to drive a culture of innovation in Financial Services





BACKGROUND AND CONTEXT

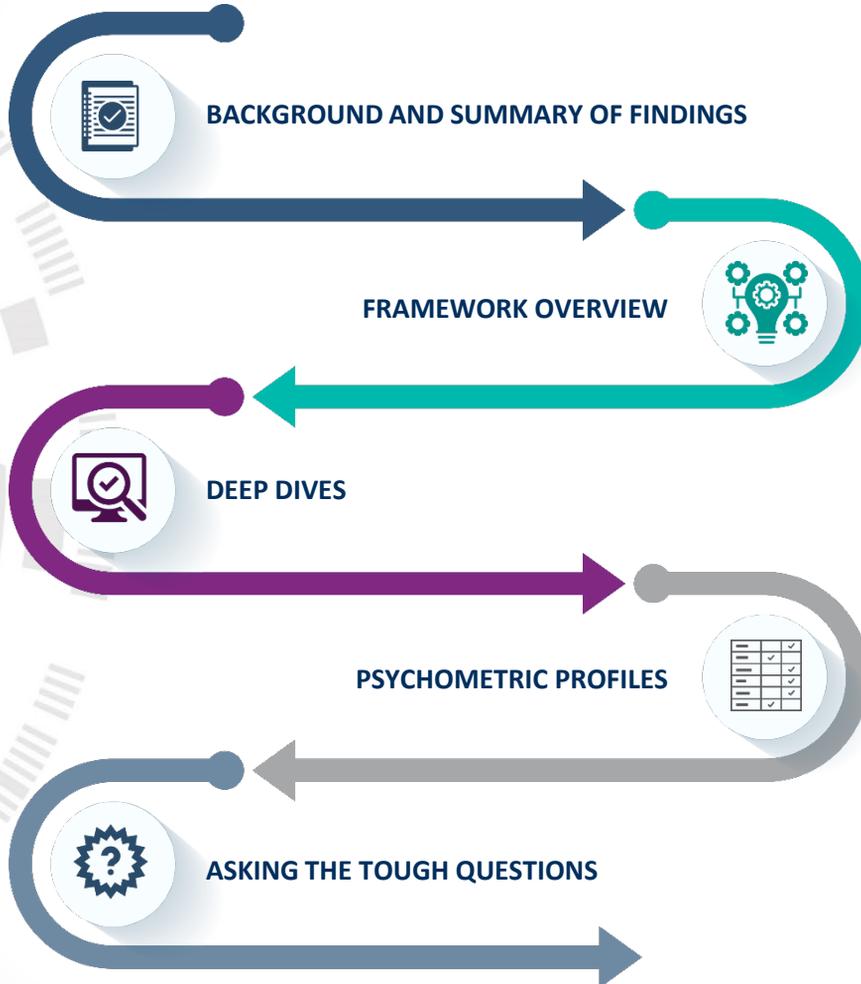
In the face of unprecedented technological growth, the need to embed innovation into company cultures has never been greater

The scale and growth of technology in financial services is unprecedented. Innovation in every industry is creating new winners. The set of the five largest companies by market cap globally has changed dramatically over the years. Companies that have failed to innovate have lost relevance; in the last 15 years, 52 percent of S&P 500 companies have left the index.

Our industry research reveals that while building and acquiring technology is relatively easy to replicate over time, building innovation into the culture is more challenging: getting the technology part of the equation right is important but, fundamentally, competing in the technology 'arms race' is fairly straightforward. Creating a culture of innovation, however, is much more difficult to achieve, but is ultimately what creates sustainable competitive advantage.

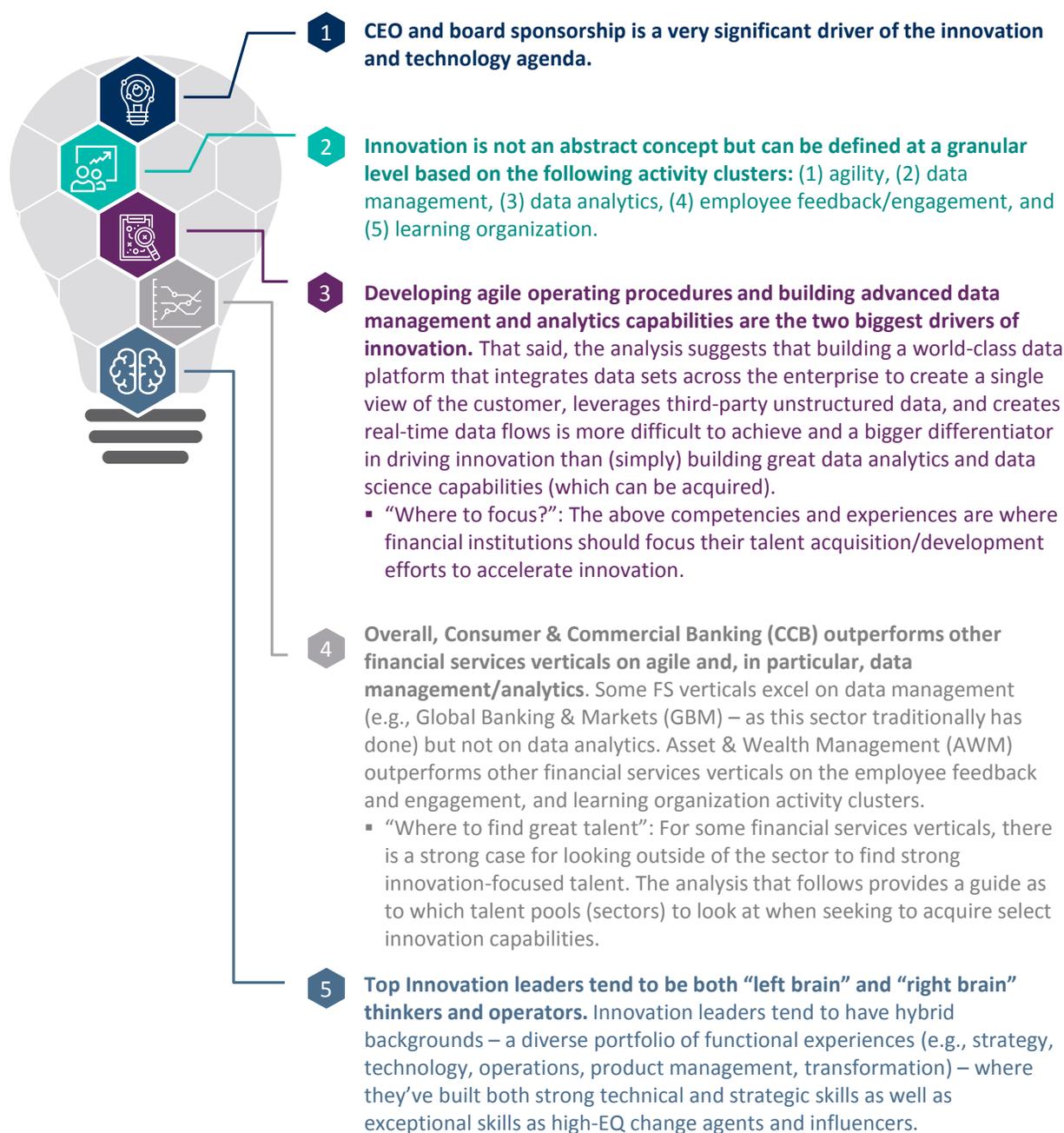
Many of our clients are asking us how to create a culture of innovation. To answer this, Russell Reynolds Associates conducted a global survey* and carried out extensive statistical analyses on the results to determine how to drive innovation and create a culture of innovation in financial services. This whitepaper presents an overview of the results of this study.

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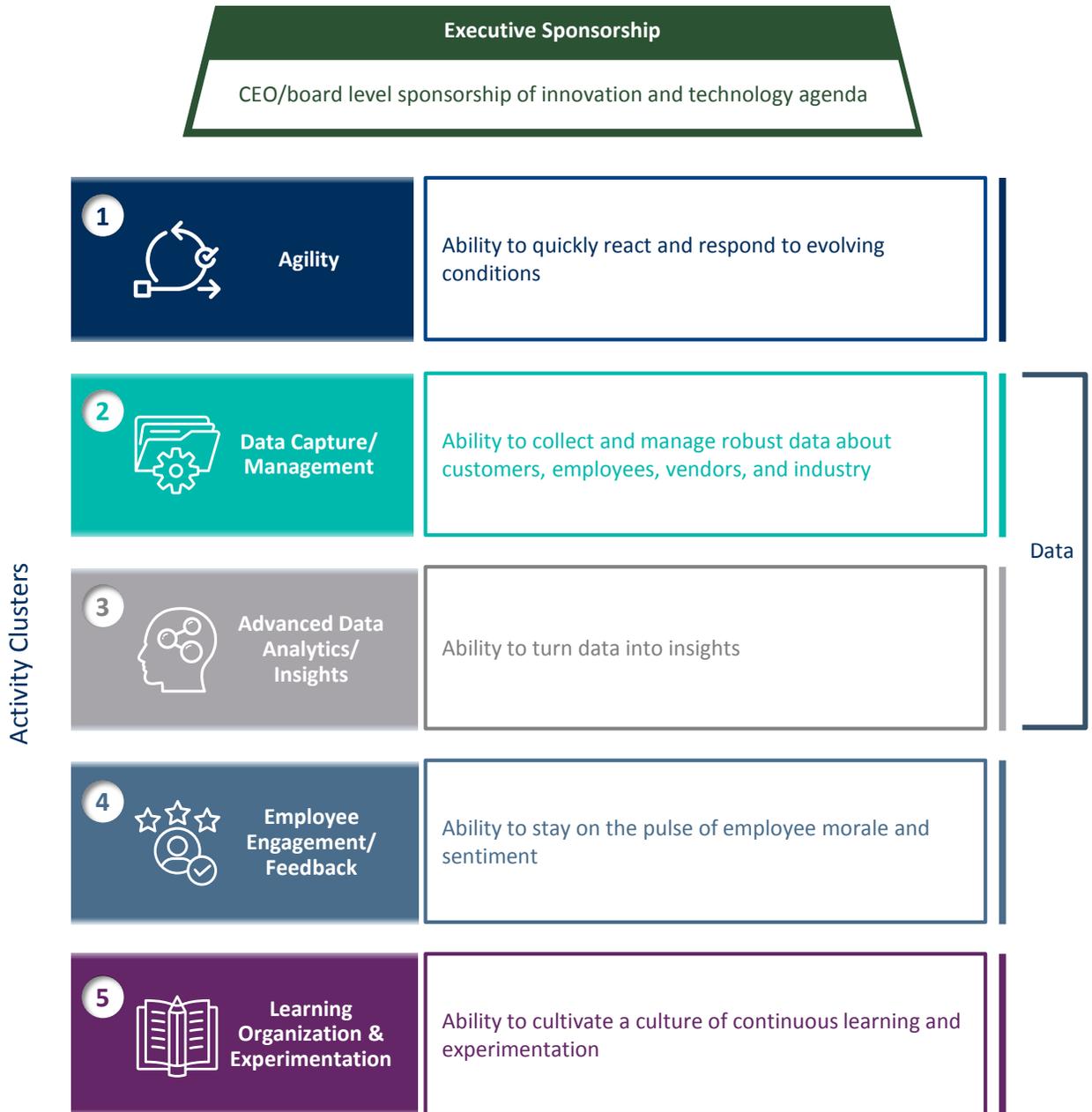
Our research resulted in five key learnings



* RRA Digital Pulse Study, 2019; n=273; all respondents (approximately equal division across Financial Services sectors and verticals, with broad coverage across geographies and market capitalization bandings) were Financial Services executives who were digitally informed about their own organization and the market generally.



Effective Executive Sponsorship and five Activity Clusters form the building blocks of effective delivery against innovation objectives

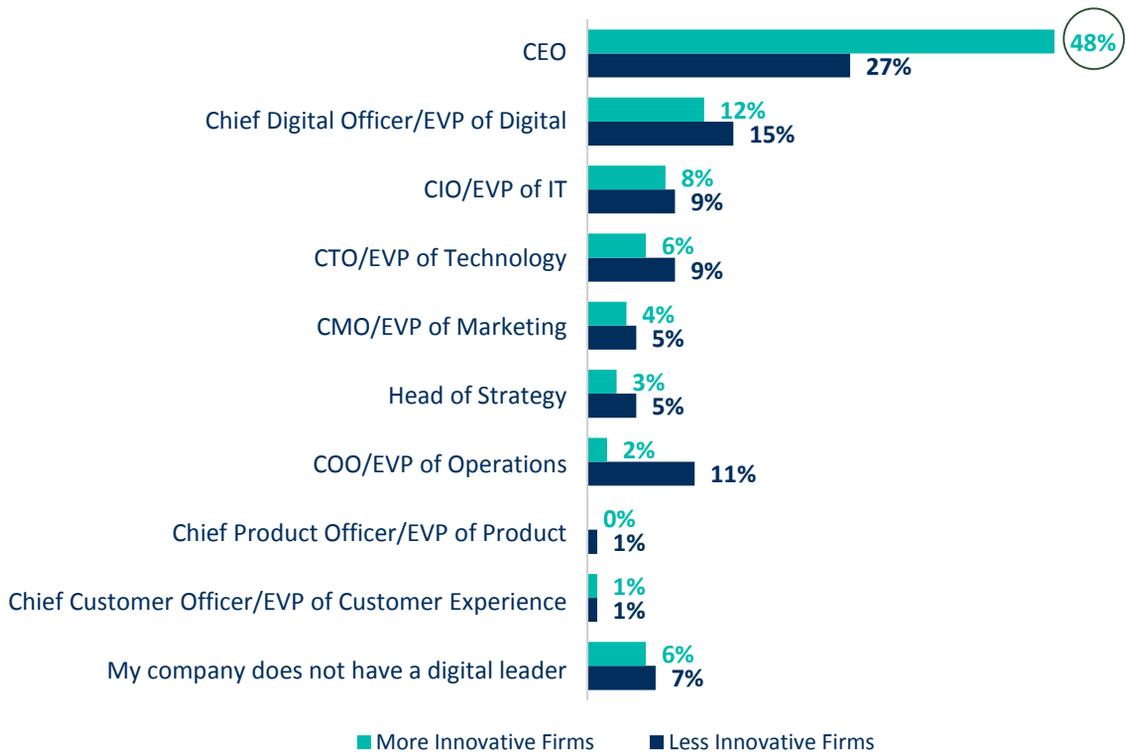




Executive Sponsorship is a key driver of innovation – our research identified how the most effective innovators lead innovation within their organization

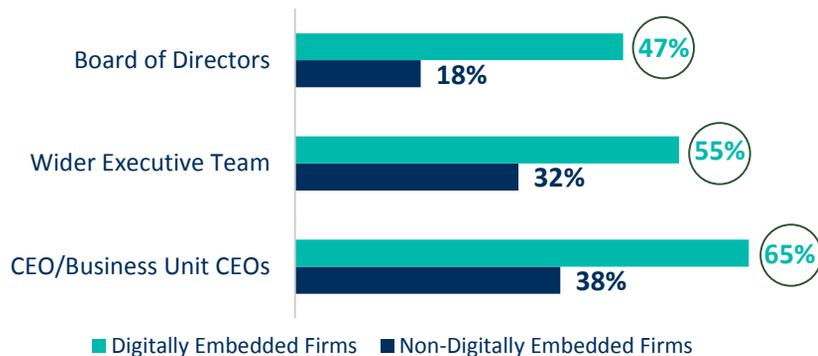
Innovative* FS companies are much more likely to have their CEO “own” the digital strategy

Who is responsible for setting digital strategy at your company?



Digitally embedded* FS companies are much more likely to have tech-knowledgeable CEOs, C-suites, and board leaders

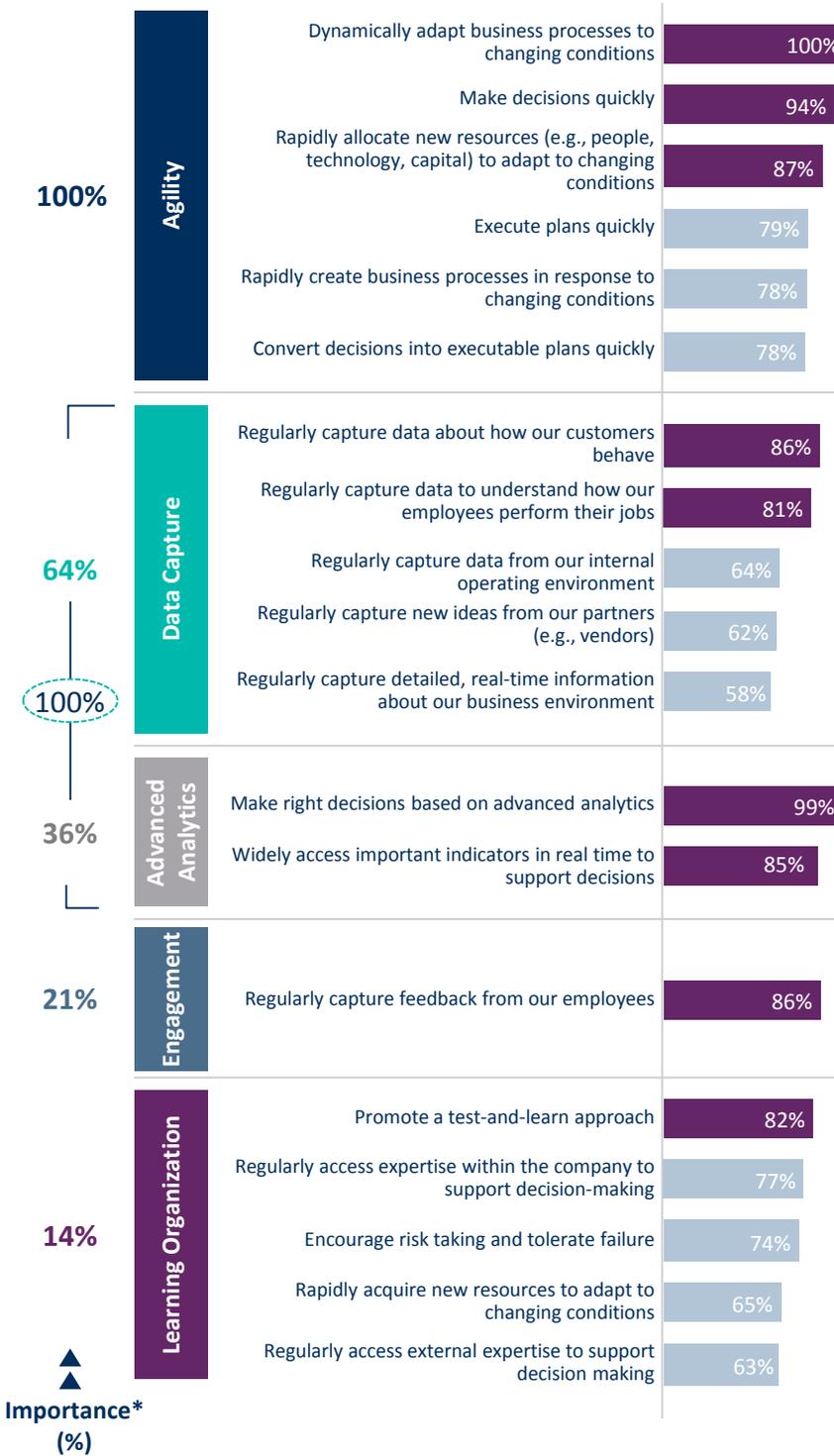
The following senior leaders in my company are highly knowledgeable about technology



* Innovativeness, digital embeddedness, and effectiveness are based on self-reported data. Source: Russell Reynolds Digital Pulse Survey, 2019.



Our analysis also identified the relative importance of each activity cluster and its constituent parts in driving effective innovation



Agility extends beyond technology development; it is about **quickly adapting business processes/resources** to changing conditions and **making decisions quickly**.

In aggregate, the various **aspects of data management** (e.g., data on customers from the operating environment, related to employee performance management, from vendors, etc.) are **more differentiating in driving innovation than data analytics capabilities specifically**. This is likely because (i) it is more difficult to build a robust data infrastructure than it is to build/acquire data science/analytics capabilities, and (ii) best-in-class data insights generation first requires data that is rich, clean, and real-time.

In addition, cultivating an employee **feedback culture** is key for creating a continuous improvement mindset.

While “learning organization” is less impactful than other activities, embedding **test-and-learn capabilities/procedures** is a critical driver of innovation.

Finally, while embedding risk management disciplines is important (e.g., for compliance reasons), if not managed carefully, **unbridled risk management can stifle innovation**.

* Importance in driving innovation (by activity cluster) based on factor analysis, regression of factors yielded corrected p-value of 0.01 at 95% confidence level; percentages denote relative explanatory power (% of variance in reported innovation), indexed to 100.

Source: Russell Reynolds Digital Pulse Survey, 2019.





When looking at Agility across four Financial Services verticals, CCB consistently outperforms, and AWM underperforms.

Financial Services Innovation Performance Scoreboard –
Agility by Vertical

		FS Industry Verticals				
My company performs very well on the following...		FS Industry Average	Asset & Wealth Management	Global Banking & Markets	Insurance	Consumer & Commercial Banking
Agility	Dynamically adapt business processes to changing conditions	31%	32%	28%	33%	31%
	Make decisions quickly	44%	43%	42%	44%	47%
	Rapidly allocate new resources (people, tech, capital) to adapt to changing conditions	37%	32%	36%	38%	41%
	Execute plans quickly	36%	38%	35%	35%	36%
	Rapidly create business processes in response to changing conditions	31%	23%	33%	33%	31%
	Convert decisions into executable plans quickly	39%	43%	42%	32%	40%

Outperforms FS industry average (>3%) Underperforms FS industry average (>3%)

Source: Russell Reynolds Digital Pulse Survey, 2019.

- Consumer & Commercial Banks tend to excel at making decisions quickly and allocating resources to adapt to changing conditions— activities which are most critical to agility.
- Asset & Wealth Management is not highly adaptive overall, i.e., it underperforms on rapidly allocating resources and creating new business processes in response to changing conditions.



CCB outperforms on most data capture and advanced analytics capabilities; GBM excels on data capture but not analytics

Financial Services Innovation Performance Scoreboard –
Data Capture and Advanced Analytics by Vertical

My company performs very well on the following...		FS Industry Verticals				
		FS Industry Average	Asset & Wealth Management	Global Banking & Markets	Insurance	Consumer & Commercial Banking
Data Capture	Regularly capture data about how our customers behave	41%	36%	39%	35%	53%
	Regularly capture data to understand how our employees perform their jobs	32%	30%	33%	32%	33%
	Regularly capture data from our internal operating environment	43%	32%	48%	40%	50%
	Regularly capture new ideas from our partners (e.g., vendors)	42%	36%	51%	42%	40%
	Regularly capture detailed, real-time information about our business environment	39%	36%	41%	33%	46%
Advanced Analytics	Make right decisions based on advanced analytics	36%	38%	35%	28%	46%
	Widely access important indicators in real-time to support decisions	31%	27%	32%	28%	36%

■ Outperforms FS industry average (>3%)
 ■ Underperforms FS industry average (>3%)

Source: Russell Reynolds Digital Pulse Survey, 2019.

- Consumer & Commercial Banking outperforms other financial services verticals on data capture and advanced analytics. Key strengths include -
 1. Regular data capture on:
 - Customer behavior
 - The business/market environment
 - The company’s internal operating environment
 2. Data analytics used to:
 - Make the right business decisions
 - Provide real-time intelligence to support decisions
- Interestingly, Global Banking & Markets excels on aspects of data capture (which has traditionally been the case) but does not perform strongly on data analytics.
- Asset & Wealth Management and Insurance underperform on both data capture and advanced analytics.



AWM performs strongly in both employee engagement and learning organization activities

Financial Services Innovation Performance Scoreboard –
Engagement and Learning Organization by Vertical

		FS Industry Verticals				
My company performs very well on the following...		FS Industry Average	Asset & Wealth Management	Global Banking & Markets	Insurance	Consumer & Commercial Banking
Engage-ment	Regularly capture feedback from our employees	44%	48%	41%	46%	40%
Learning Organization	Promote a test-and-learn approach	37%	36%	35%	40%	37%
	Regularly access expertise within the company to support decision-making	46%	50%	42%	41%	51%
	Encourage risk taking and tolerate failure	35%	39%	32%	35%	36%
	Rapidly acquire new resources to adapt to changing conditions	32%	36%	36%	27%	31%
	Regularly access external expertise to support decision-making	44%	36%	46%	38%	54%

Outperforms FS industry average (>3%)
 Underperforms FS industry average (>3%)

Source: Russell Reynolds Digital Pulse Survey, 2019.

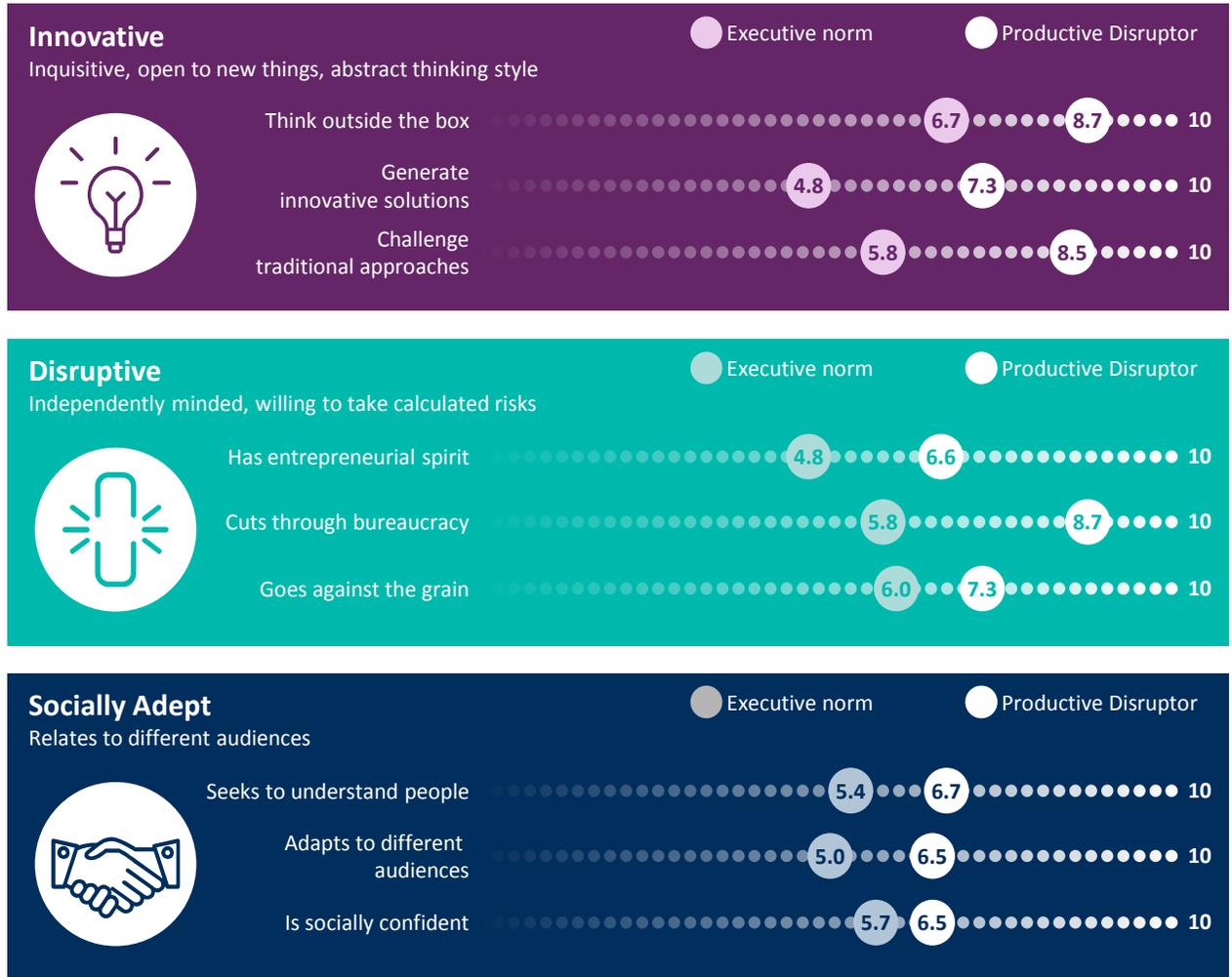
- Asset & Wealth Management excels at employee engagement, as well as most learning organization activities.
- Global Banking & Markets and Consumer & Commercial Banking underperform on employee engagement.
- Insurance also underperforms on most learning organization activities.



PSYCHOMETRIC PROFILES

At the individual executive level, top innovative leaders are “productive disruptors”—dynamic left and right brain operators

Psychometric profile of innovation-focused productive disruptors versus the executive norm (by attribute)



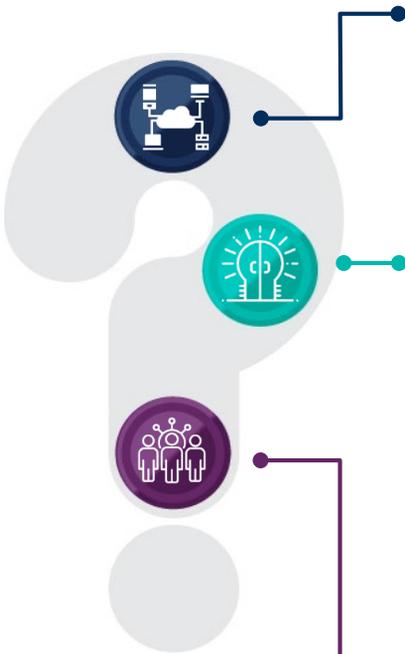
Source: RRA proprietary psychometric database.

Top innovation leaders spike on a few key psychometric attributes (at a 95% confidence level of statistical significance)

- They are **more out-of-the-box, ideas-driven, and skilled at challenging convention.**
- They are more **entrepreneurial** by nature, able to **cut through bureaucracy**, and are **not afraid to go against the grain.**
- They are **emotionally intelligent and socially adept** – empathetic, adaptive to different audiences, and socially confident.



In light of these findings, there are several key questions companies can ask themselves as a starting point to building a culture of innovation



Burning platform for innovation

- ❓ How important is innovation at your company vis-à-vis other strategic priorities?
- ❓ How organizationally aware is your company of the threat of disruption? Is there an opportunity to raise your organization's awareness level to build a hunger for innovation?
- ❓ Does your organization have sufficient executive sponsorship (i.e., leadership from CEO/C-suite, board) to drive innovation?

Opportunities for driving Innovation

- ❓ How does your company perform on the key drivers of innovation, in particular, agility, data management/analytics, and experimentation? What are the gaps?
- ❓ What are the opportunities to address these cluster gaps? Is your organization investing in the right areas to move the needle on innovation?
- ❓ Has your company struck the right balance between risk management, on the one hand, and creating a culture of risk taking, experimentation and innovation, on the other?

Leadership and talent actions

- ❓ What is your organization doing from a talent/leadership standpoint to drive innovation? What leadership DNA gaps exist?
- ❓ How open is your organization to acquiring new types of talent, e.g., from other sectors (including outside financial services)? How do you absorb new types of talent into your organization and avoid "tissue rejection"?
- ❓ How do you test for strong left and right brain leaders with strong technical skills as well as exceptional influencing skills and emotional intelligence?

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