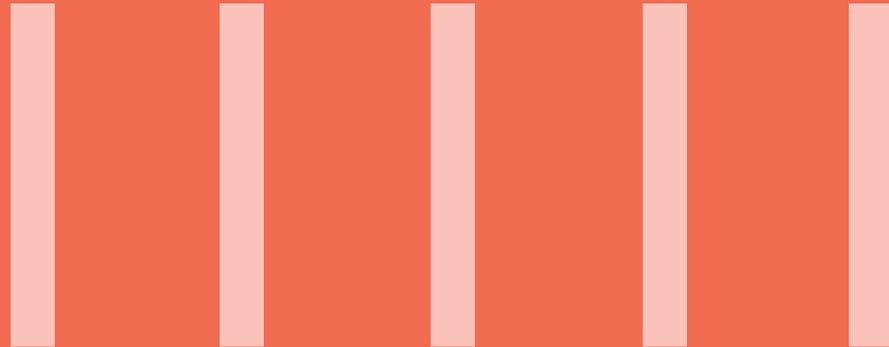




next in financial services

# ACCELERATING DIGITAL TRANSFORMATION FOR RETIREMENT PROVIDERS IN THE POST-PANDEMIC ERA





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# INTRODUCTION

## The retirement industry today is barely recognizable when it is compared to the one that existed just a few decades ago.

Pensions were once the gold standard for retirees, but traditional defined benefit plans are rare now for new hires in the private sector. In their place, workers are increasingly dependent on individual retirement savings accounts — namely, defined contribution (DC) plans — to achieve their retirement savings goals. While the savings gap for the world's workers continues to widen, retirement service providers are faced with the need to reinvent themselves once again. Changing demographics, rising customer expectations, regulatory complexity, and cybersecurity concerns are exacerbated by aging, legacy technologies.

Digitization is often seen as an answer to all the industry's troubles. In our recent World Economic Forum article, we noted that digitization can help improve financial literacy, coach contributors, integrate data, and modernize systems. Yet this push to digitize is not without headwinds, even for firms that have committed to radical digital transformation. In March 2021, Infosys surveyed 293 respondents from retirement services providers to better understand their firm's digital transformation and the impacts of various technologies and initiatives on their firm's strategic objectives. Three-quarters of respondents reported that the complexity of their IT infrastructure is a significant challenge to digital transformation. Nearly as many (74%) reported that they have insufficient budgets to proceed. As a result, technology can be both a solution and a hindrance for many companies.

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**In March 2021, Infosys surveyed 293 respondents from retirement services providers to better understand their firm's digital transformation and the impacts of various technologies and initiatives on their firm's strategic objectives.**

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Retirement providers focus on initiatives that improve workforce agility and productivity and help the workplace nurture creativity and innovation. Technologies that make retirement plans transparent, easily trackable, and accessible for workers and help providers modernize traditional processes while keeping their data secure will be pivotal over the next few years.



**293**

respondents surveyed  
from retirement services  
providers



**3/4**

reported that the complexity  
of their IT infrastructure is  
a significant challenge to  
digital transformation



**74%**

reported that they  
have insufficient budgets  
to proceed

# KEY FINDINGS

## The pace of digital transformation has accelerated considerably as a result of the pandemic.

To remain operational, many companies have been forced to embrace and enhance the digitization of their businesses, and do so faster and more comprehensively than ever before. The results of Infosys' global survey of retirement providers found that this technological sprint offered benefits beyond mere survival. Our survey data shows that the faster the firms'

digital transformation, the better their business outcomes. These trends hold true across all financial services segments, not just retirement services. While firms remain confident that their investments in digital transformation will pay off, the complexity of internal IT infrastructure and budgetary limitations could impede progress.

Let's take a close look at our **four key findings**:

### 01

#### Retirement providers accelerated digital transformation

**98% of respondents** claim that their firms have at least doubled their pace of digital transformation. This includes the 20% that more than quadrupled their pace during the past 12 months.

### 02

#### Core modernization and growing revenue are primary focus areas

**95% of respondents** reported that modernizing their record-keeping and administrative systems is important.

### 03

#### Confidence is high in the ability to navigate technologies and initiatives

**Nearly 90% of respondents** said they are positive about the industry's ability to transform and meet customer needs. More than half (54%) said they are extremely confident.

**More than 86% of respondents** see their firms spending on digital initiatives and technologies. Yet **74%** reported that they have insufficient budgets to proceed.

**Almost 95% of respondents from retirement providers** believe they are well equipped to cater to changing customer and industry demands.

### 04

#### Challenges and barriers remain the same

**Just under three-quarters (70%)** of respondents from retirement providers said the complexity of their IT infrastructure is a significant challenge to digital transformation.

# SURVEY METHODOLOGY

In March 2021, Infosys surveyed retirement services providers to better understand their digital transformation efforts and the impacts of various technologies and initiatives on their strategic objectives.

The survey also looked at how those strategic objectives are expected to change in a post-COVID-19 era.

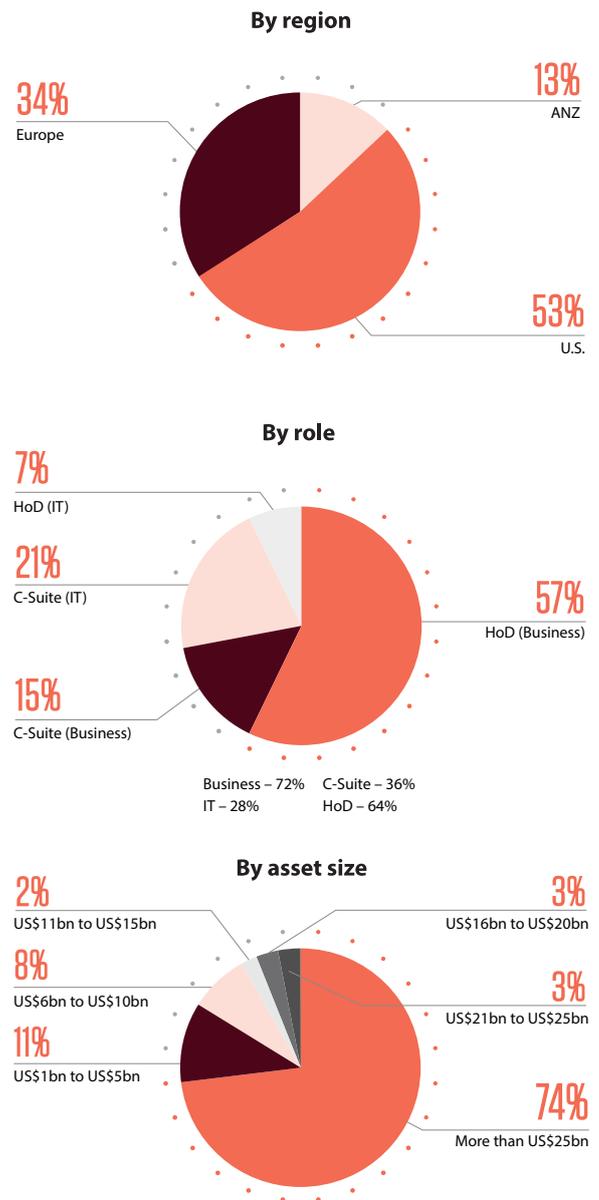
The data was collected from a global survey of 1,000 executives in the financial services industry.

A smaller segment – 293 – represent retirement providers. They include the C-suite and the heads of functions and technologies.

The companies surveyed each have assets of at least US\$1 billion and are based in the U.S., U.K., Germany, France, Ireland, the Nordics, Australia, and New Zealand (See Figure 1).

The Infosys survey report aims to identify the retirement providers' largest digital challenges, examine where executives plan to invest in their organizations, and understand when those investments might mature. The report also provides benchmarks for providers on their strategic digital initiatives.

Figure 1. Infosys survey of 293 respondents from retirement providers



# KEY FINDING 1

## RETIREMENT PROVIDERS ACCELERATED DIGITAL TRANSFORMATION

The pandemic led to a surge in digital transformation initiatives among retirement providers.

88%

Have doubled their pace of digital transformation acceleration

1/6

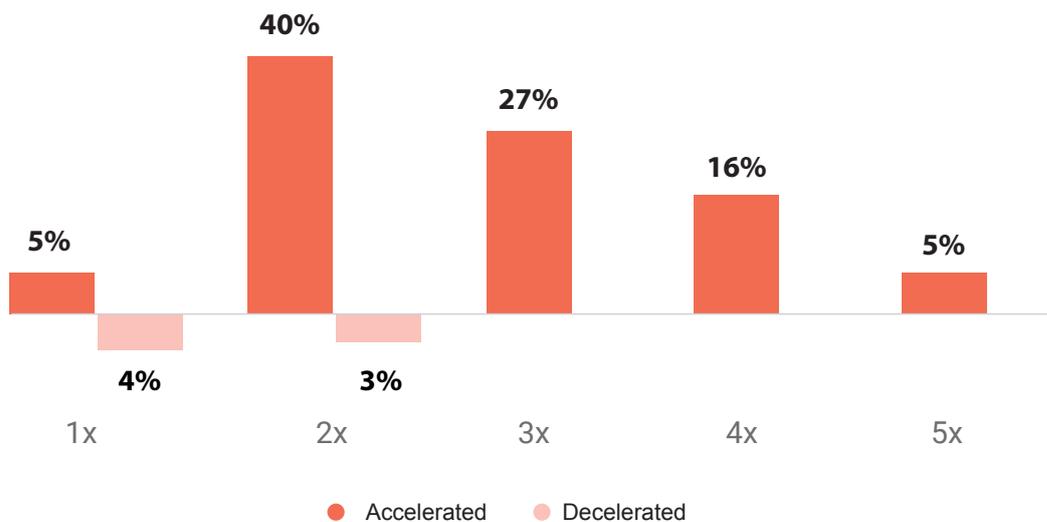
Of retirement providers have more than quadrupled their pace of digital transformation acceleration



Figure 2. Digital transformation surges for respondents from retirement providers

Q.

During the past 12 months, did your digital transformation journey accelerate or decelerate?



Nearly 88% of respondents said their firms have at least doubled their pace of digital transformation over the past 12 months. Nearly one-sixth have more than quadrupled their pace. Only 7% decelerated their transformation over the past 12 months.

Our survey results suggest that there is a link between investment in digital transformation and a respondent's view of their firm's profitability. Most (54%) of our retirement services respondents said their firm's profits increased in the past 12 months.

In fact, those respondents who claimed having accelerated their digital transformation by five times their previous pace also cited on-average profit increases of 3.34 percentage points, while firms that slowed their digital transformation twofold cited profitability dropping by 3.59 percentage points against the average. Correlation is not causation; while survey findings cannot tell us whether transformation leads to profits or profits lead to transformations, we do detect a positive link in the minds of executives between the two.

# KEY FINDING 1

When asked about investments in digital initiatives and technologies, most respondents reported that they are looking to increase investments across the board, with an emphasis on design thinking principles and agile practices.

However, nearly a fifth of retirement providers say they plan to reduce spending on efforts to transform the workplace and work environment. Investments in innovation hubs and talent transformation also seem to be slowing down, perhaps indicating that organizations have already achieved or will achieve projected returns on investment (ROI) within a year.

**Our survey data shows that retirement services executives have a broad interest in a variety of technologies while not relying too heavily on any single one.**

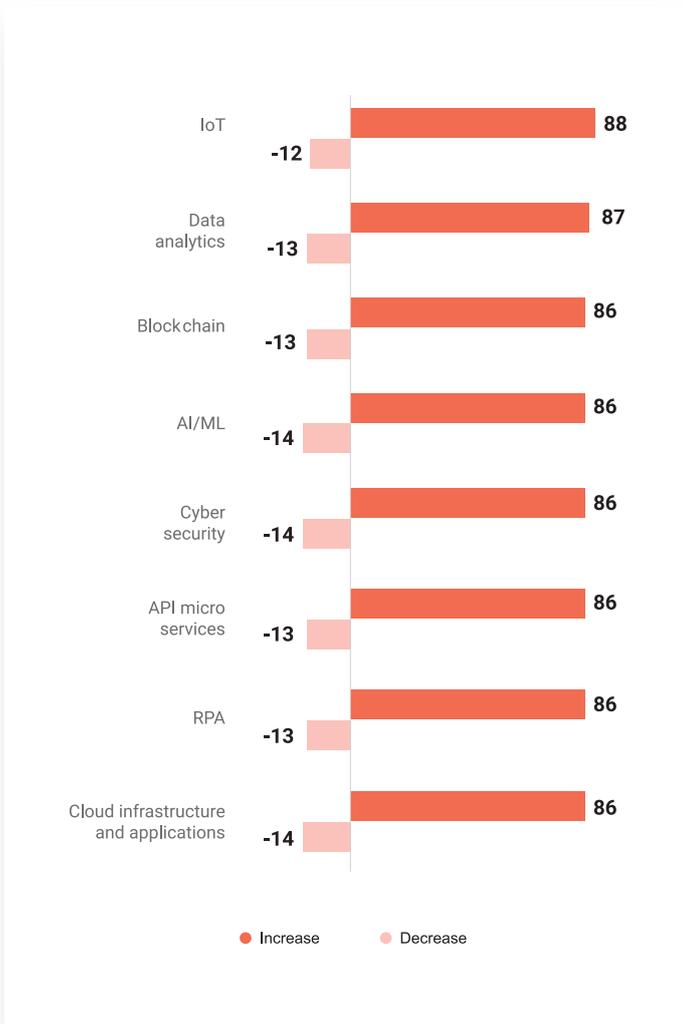
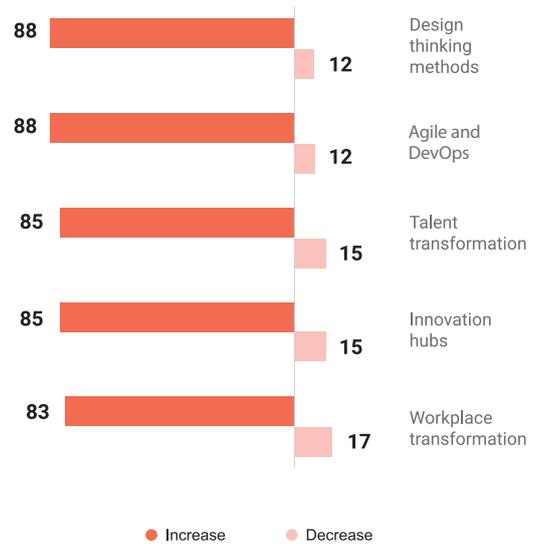


Figure 3. Investments in digital technologies and initiatives



Nearly 90% of these respondents indicated they are investing in IoT and blockchain — although the sizes of these investments were not part of the survey.

## KEY FINDING 2

# CORE MODERNIZATION AND GROWING REVENUE ARE PRIMARY FOCUS AREAS

The retirement industry has changed in recent decades to keep pace with shifting demographics and evolving customer preferences and expectations.



Figure 4. The need to modernize core record keeping

Q.

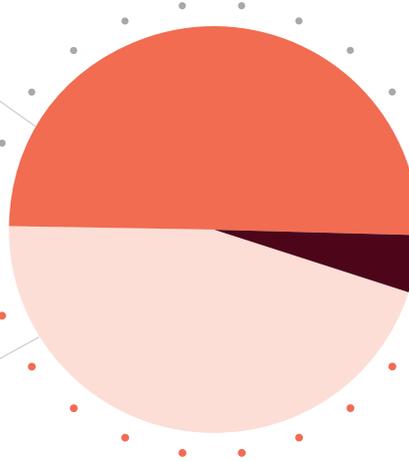
How important is modernizing your core record keeping and administration systems?

50%

Extremely important

45%

Very important



5%

Important

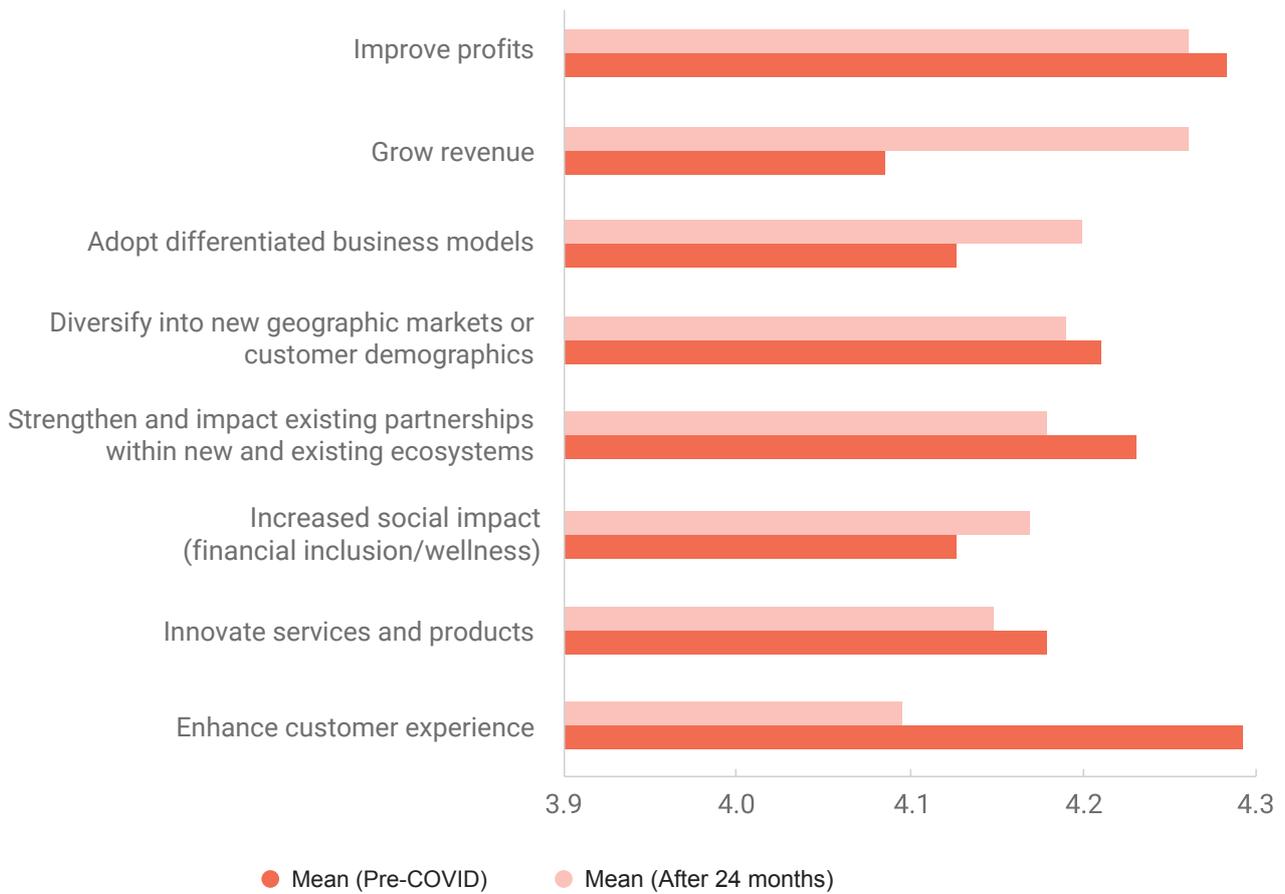
Yet the industry's underlying technology hasn't modernized much. This aging, legacy technology has exacerbated issues related to cybersecurity and regulatory complexity. Retirement providers are operating with technology that impacts their ability to take out costs, improve customer experience, and create new partnerships.

Respondents from our survey report that modernizing their record-keeping and administrative systems is critically important. These act as a company's beating heart but are no longer as effective as they once were. A flexible, efficient, cloud-based solution can allow

retirement providers and contributors to stay updated and enable personalized services.

When asked whether strategic priorities have shifted, respondents reported a renewed focus on shoring up finances coming out of the pandemic. A pre-COVID-19 prioritization of enhanced customer experience, expanded partnerships, and greater innovation has shifted to the more concrete revenue growth. This creates a paradox for providers who recognize the need for investment in innovation to meet the continuously rising bar of stakeholder expectations.

Figure 5. Strategic priorities of retirement providers changed post COVID-19



Retirement providers are also emphasizing agility and adopting differentiated business models. Given the underlying tough times, retirement providers are increasingly interested in increasing their social impact and advancing inclusion and financial wellness. However it is likely that strengthening and expanding partnerships within ecosystems will become less important over the next two years.

Interestingly, when breaking down responses between business and IT leaders, there is a disconnect over strategic priorities. Business respondents believe strengthening partnerships to be among the most important objectives during the next 24 months. The IT respondents consider it to be among the least critical. The opposite was true of efforts to diversify into new regions and demographics, where IT respondents are more bullish.

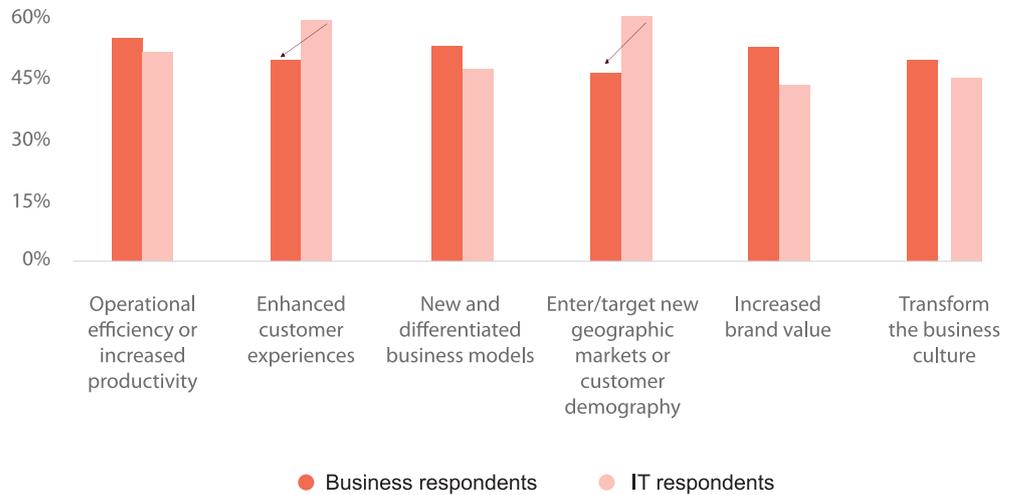
When looking into key business drivers behind digital transformation programs, our survey found that building operational efficiencies, increasing productivity, and enhancing customer experience are the most important. While IT counterparts believe digital transformation is driven by market diversification, business respondents believe it is led by improving brand value. There was also a surprising difference in how business respondents and IT respondents rank enhancing customer experience. Typically, the expectation is that business executives will value customer experience and targeting new customer demographics highly. However, in our survey, this was much more of a priority for IT executives.

# KEY FINDING 2

Q.

What are the major business objectives behind your digital transformation initiatives?

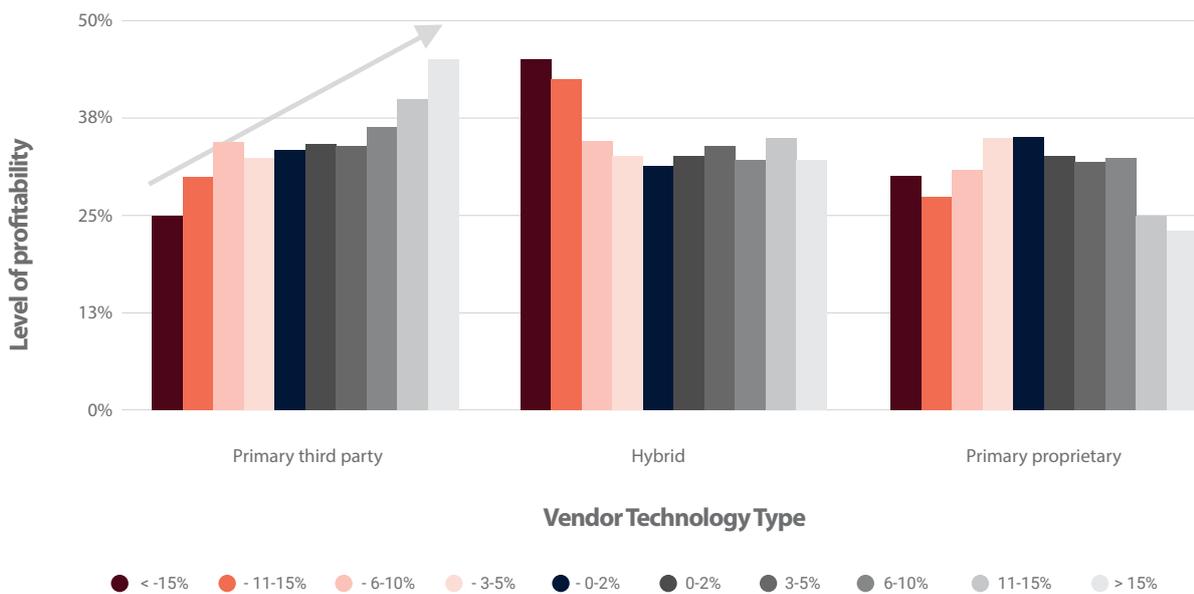
Figure 6. IT respondents are more focused on customer experience



When analyzing our survey responses further, we found evidence that respondents who cited increasing profits also claimed having a higher proportion of their core record keeping supplied primarily

by third-party vendors and a smaller proportion that is hybrid or proprietary. Although further analysis would be required to understand this connection, the trend in the data was noted.

Figure 7. Respondents using third parties to maintain core record keeping claimed higher profits



## KEY FINDING 3

# CONFIDENCE IS HIGH IN THE ABILITY TO NAVIGATE TECHNOLOGIES AND INITIATIVES

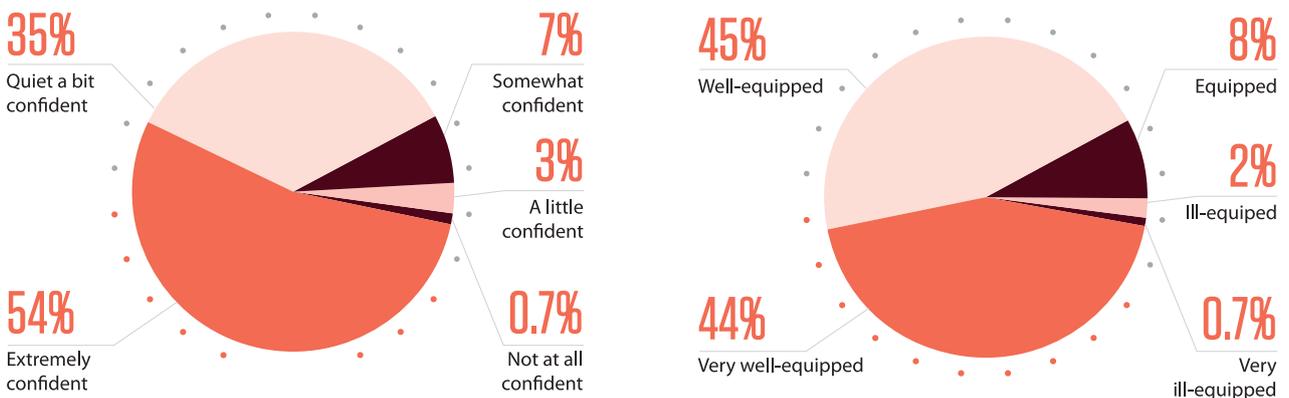
Even with the global economy not fully recovered, confidence in the ability to meet customer needs is high among retirement providers.



Q. How confident do you feel about the future of your industry to transform and meet customer needs?

Q. How well equipped do you feel your business is to meet the changing demands of your customers and the industry?

Figure 8. Confidence is high amongst retirement providers in meeting changing customer needs



Even with the global economy not fully recovered, confidence in the ability to meet customer needs is high among retirement providers. Nearly 90% of respondents said they are positive about the industry's ability to transform and meet customer needs. What's more, nearly half of respondents believe they are very well-equipped to cater to changing customer and industry demands, and about 90% feel their business is well equipped for

the future. This high confidence level suggests a disconnection from industry profitability — just under half (46%) of respondents claimed that their firms were not profitable in the past 12 months. This suggests that with the cited post-COVID-19 push for revenue growth, investment in transformation must also continue to keep pace with evolving customer needs.

# KEY FINDING 3

## When asked about the importance of digital initiatives it seems that all initiatives ranked high, whether it is workplace transformation, agile processes or talent considerations.

However, as can be seen in Figure 9, it is process and design considerations that rank higher than that of talent. Once again this may have been an effect of the pandemic, and perhaps the focus on people will return as a top priority as vaccination rates increase and organizations fine-tune their hybrid work environments. Respondents also noted interest in several modern technologies — namely blockchain, cloud, and cybersecurity — as important for their business strategy. In addition to digital initiatives, our report identifies the technologies that retirement providers say are the most important for meeting their strategic objectives. Blockchain is

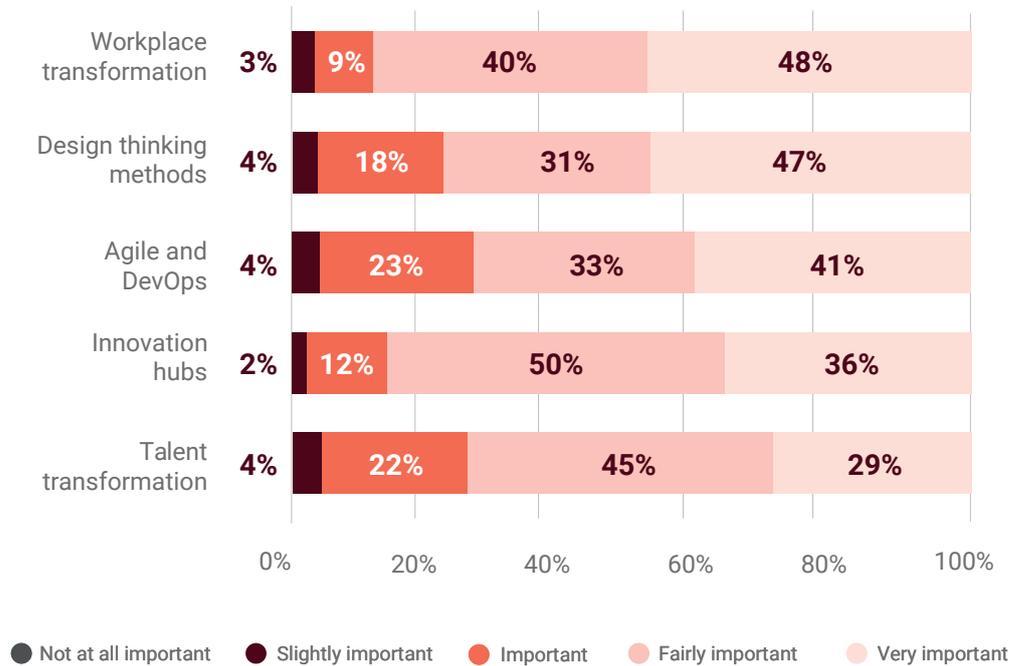
considered one of the most important on the list, followed by cloud, cybersecurity, and API microservices.

Blockchain has broad relevance to retirement providers. With an estimated \$2 trillion in assets potentially left behind by employees who change jobs, blockchain could play an important role in the portability of retirement assets over a saver's working lifetime by bringing all stakeholders together on a similar, secure, and transparent way.

Q.

How important will each of these digital-oriented initiatives be to your strategic objectives?

Figure 9. The importance of digital initiatives to strategic objectives

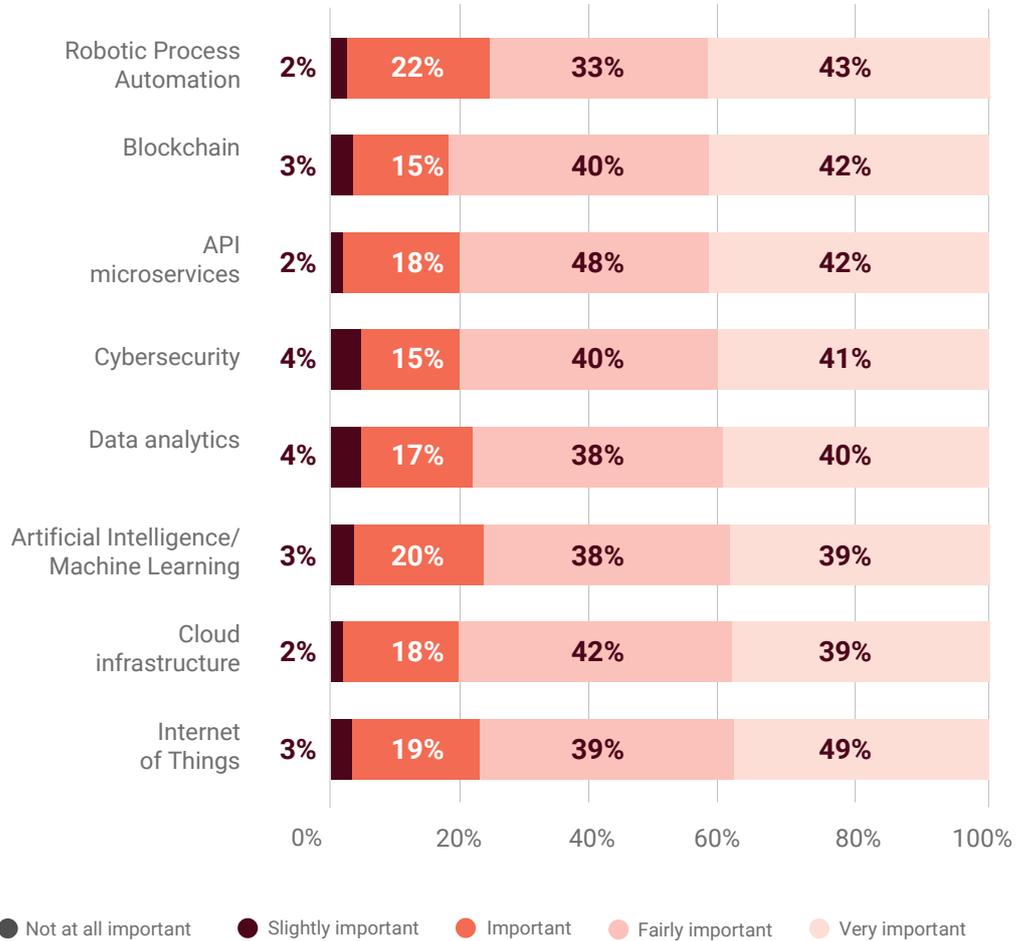


# KEY FINDING 3

Q.

**How important will each of these digital-oriented technologies be to your strategic objectives?**

Figure 10. The importance of digital technologies to strategic objectives



Retirement providers can also benefit from cloud technology through its security, scalability, and reliability. According to a recent Infosys study of 554 financial institutions, cloud will be primarily used to:

- Revolutionize traditional processes and reporting requirements through digitization and automation.
- Connect to open banking systems with alternative payment options.
- Expand threat detection and fraud prevention efforts.

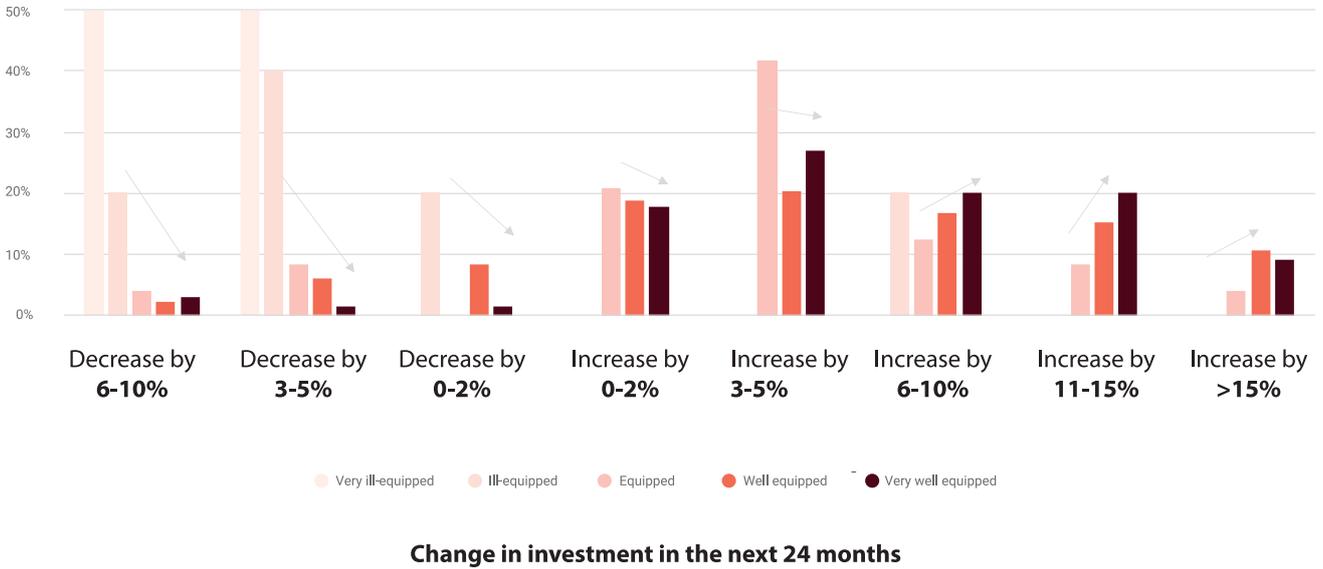
Cyberattacks are a particular concern for financial institutions due to the inherent value of information they possess. A recent Infosys and Interbrand study showed that the cumulative value at risk due to a cybersecurity breach can be as high as US\$2.6 billion.

**As companies adopt these new technologies and digital initiatives, not all are confident in their ability to execute.**

Our survey respondents who feel ill-equipped to meet consumer demands also more often cited decreased investments in digital transformation initiatives and all types of technologies. Meanwhile, those who claimed that their organizations are likely to be equipped to meet changing consumer demands also plan an increase in digital investments. This raises the question of whether some companies are experiencing positive feedback loops regarding readiness and technology investments, and whether others are caught in a negative loop.

# KEY FINDING 3

Figure 11. Distribution of API and microservices investments



**While the chart above shows API technology, our analysis found that this trend generally holds across all other investment areas (technologies and initiatives), including blockchain, cybersecurity, and innovation hubs.**

This suggests that respondents and firms investing in digital transformation could be more likely to remain competitive relative to those underinvesting in digitization.

These findings show a potentially widening gap, particularly when we move into a post-COVID-19 era and the economy is firing on all cylinders. The businesses that are investing in digital technology and initiatives now will perhaps become the industry visionaries of the near future — and difficult for competitors to catch.

# KEY FINDING 4

## CHALLENGES AND BARRIERS STILL NEED TO BE OVERCOME

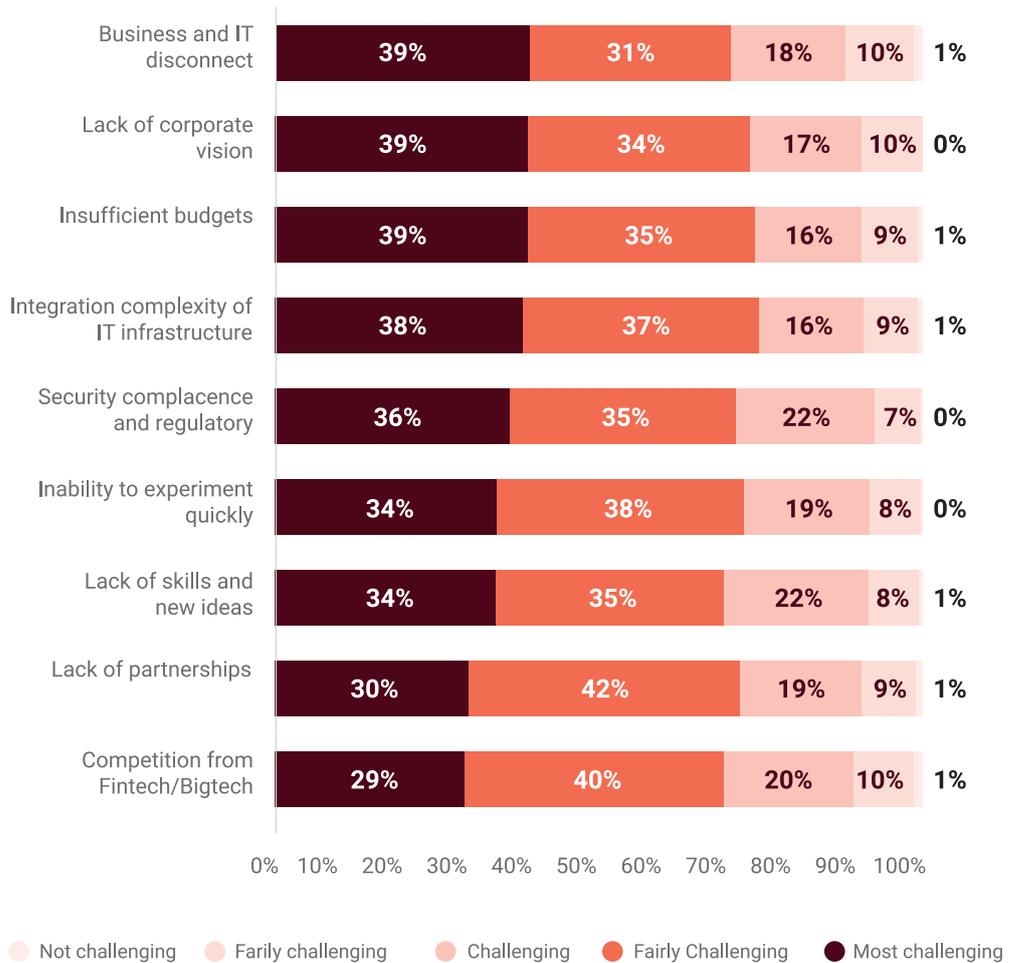
The retirement industry still faces internal barriers to its ongoing digital transformation efforts.



Figure 12. Challenges in advancing digital transformation

Q.

Please rate the challenges you face in progressing digital transformation within your business.



# KEY FINDING 4

**Business and IT leaders don't always agree on which challenges are the most pressing. IT respondents reported siloed work environments between business and IT as the biggest challenge, while business respondents reported a lack of a proper vision and a strategic road map.**

Amongst business executives there was another difference while business C-suite respondents did not view budgets as a problem area, heads of departments consider it the top challenge to digital transformation. All of this hints at a possible disconnect on strategic focus, but also perhaps a communication breakdown between IT and business, and within the different levels of executives. When combining data points between "most challenging" and "fairly challenging," our survey shows that the complexity of IT infrastructure is considered to be the biggest challenge for retirement providers. This perhaps relates to the aging, legacy systems that are evident across the industry. IT respondents consider it the top challenge; however, business respondents did not view it as one of the most important issues. Furthermore, our survey shows that retirement providers view competition from FinTech and BigTech or the need for partnerships as lesser challenges to their digital transformation efforts.

**When asked about changing core record keeping and administration systems, respondents report that a lack of talent and skill is the primary challenge.**

When asked about changing core record keeping and administration systems, Our survey also found that C-suite respondents from retirement providers reported that a lack of talent and skill is the primary challenge. Heads of departments voiced concern about commitment from senior leaders as one of their primary challenges after client response. Relatively speaking, costs are not considered to be a major barrier by the respondents.



**What are the largest barriers you see to changing your core record keeping and administration systems?**

Figure 13. Barriers to changing core record keeping and administration systems



# THE MOST COMPETITIVE FIRMS ARE LEANING INTO DIGITAL TRANSFORMATION

Infosys' survey has shown that the accelerated shift toward digital transformation is well underway and that it is connected to profitability. Although retirement providers are highly confident as much of the global economy recovers, there are still many challenges to overcome.

These range from legacy system complexity to an absence of strategic vision that could stifle progress. Most incumbents were born in the pre-cloud era and are still hampered by legacy processes, operating models, and infrastructure. They must compete with digital natives that are much nimbler, more agile, and more responsive. Now, however, retirement providers need to continuously evolve and learn, and in effect, become what we call a Live Enterprise.

Much more work is needed to align investments with outcomes and enable quicker digitization. Yet, if these firms don't have a clear strategic road map, governance, rigor, and the right drivers along the way, this could lead to elevated costs.

To help overcome these challenges, retirement providers should focus their strategies on platforms. These are the keys to simplifying and modernizing core record keeping technology; digitized systems enable flexibility, scalability, and efficiency. These platforms or shared digital infrastructure can increase organizational velocity to help develop new ideas and innovations, and to rapidly take them to market. A "digital runway" is more than just a functional platform. Its evolving architecture energizes product-based teams to unbundle, rebundle, and build solutions specific to the needs of

their external or internal customers. Digital architecture is flexible as well as robust, so future platforms, features, and functions can be developed and integrated while maintaining business continuity.

The digital shift will allow companies to study financial behavior, better engage with customers, and still meet regulatory requirements. Technology can help individuals enroll, select funds, and nudge them toward long-term financial planning. At the same time, platform-based record keeping can allow retirement providers to deliver better outcomes, hasten new product delivery, and lower the cost of meeting future customer demands.

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**The pandemic accelerated much-needed digital transformation efforts among retirement providers. But not all are ready to take on a complete transformational journey.**

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The next 24 months — as the post-pandemic era begins — will determine the new wave of industry leaders and those that will be forced to the back of the line.



**Martha King**

Chief Client Officer, Executive  
Vice President and Head of  
Retirement Services Center of  
Excellence, Infosys

These days, it's hard to talk about anything without acknowledging the impact of the global pandemic, but it's not all bad. The past few months have brought about rapid change in almost every industry — necessary change, change long procrastinated, or change suddenly made immediately imperative.

When we think about what we've seen from our clients here at Infosys, digital agility has enabled incredibly fast adaptation to an unprecedented business environment, including everything from adjusting to working from home to quickly pivoting to new products, services, or business models. Resilience, creativity, and flexibility have led to a tremendous number of innovative solutions that are yielding surprisingly quick results for many. Those firms that were already digitally mature have been able to adapt and flex to the current environment, and those unprepared have needed to accelerate their efforts to avoid unfavorable results.

The speed of this progress has been astounding. We've essentially seen as much advancement in 10 to 12 months as we have in the past 10 to 12 years, and we don't think it will slow down, and neither, it seems, will the retirement industry. The survey findings echo what we're seeing among our clients today, which is that while the need for digital transformation existed prior to the COVID-19 crisis, the crisis has elevated — and expedited — the urgency to adapt. In all facets of our lives, we're interacting differently than we were one year ago, and we don't yet know how we'll prefer to

interact one year from now. Preferences and the environment will simply keep evolving. This has led to shifts toward flexible and secure engagement models, prioritization of the user experience, and approaches for adaptable plug-and-play enhancements over time.

Also consistent with our client base, this report suggests that while no firm has been spared the impacts of the pandemic, those already invested in modernization are best positioned to flex in 2021 and believe they'll continue to be well positioned to drive growth, gain market reach, and reduce costs as they come out on the other side of the global pandemic.

At Infosys, we've been able to help our clients in retirement services turn momentum from immediate COVID-19-inspired needs into creative, large-scale digital transformation strategies and solutions that will yield exponential post-COVID-19 benefits. We bring together a unique combination of domain expertise and technology capabilities to help our clients navigate their way to lower costs, enhanced experiences, and better outcomes for both their business and their clients.

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