



Digital Horizons

A series of reports exploring CEE's digital future

**Closing the gap – CEE's digital infrastructure
and business ambition**

2020

Data highlights



CEE – infrastructure to support ambition?

Digital infrastructure provides the bedrock for technology to operate at its optimum. The CEE region, which has achieved near convergence with the rest of the EU in manufacturing, is aiming for the same parity to be realised through the development of infrastructure which supports new digital technologies. The impetus to catch up rests with governments across the region by facilitating a digital transformation of the public and private sectors.

Although a gap persists, it is beginning to close, as Markus Fleischer, who is responsible for Corporate Development at A1 Digital, explains: ***'CEE is catching up in the digital transformation journey. The leading players in each country are starting to get more engaged in topics like the cloud and IoT (The Internet of Things), but the scale and size of projects in CEE is still smaller than in markets like Germany. It's important to note that in CEE a competitive pricing strategy and local market know-how, often in liaison with partners, is crucial to win.'***

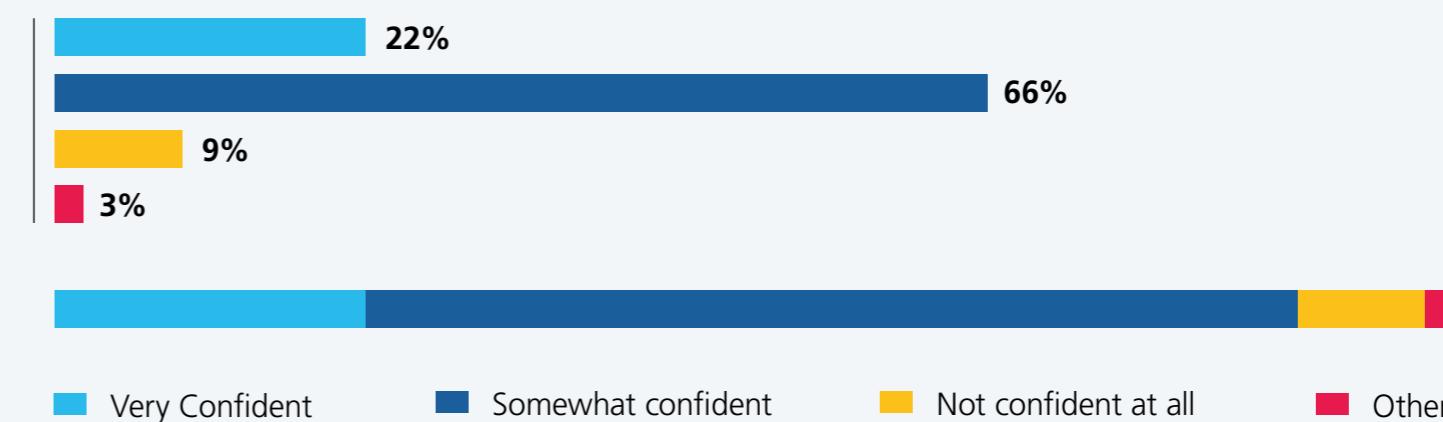
In the drive to bolster CEE's digital competitiveness, levels of internet access, high speed broadband, e-commerce and 4G usage are already high. According to the EU's Digital and Economy Index, Poland, Hungary and Romania score above the EU average in connectivity, while the FT reported that Bulgaria's IT sector attracted record tech investment last year of USD 3.2bn, according to the International Data Corporation (IDC). This year, Bulgaria also announced a RegTech Sandbox.

Future digitalisation will offer a route to further and faster convergence: better connectivity through the continued rollout of 5G networks, more widespread use of AI technologies across multiple sectors, and much greater use of digital services by the private and public sectors alike.

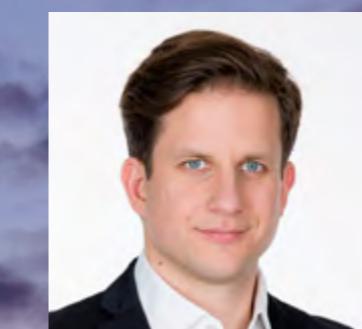
Moving forward, CEE businesses seem set to increase their adoption of digital tools and take advantage of digital solutions to expand beyond their, often small, domestic markets. Collaboration between CEE countries, such as the V4 group (Czech Republic, Hungary, Poland and Slovakia) may also assist. Underpinning this, many CEE countries benefit from an educated, skilled workforce with high levels of technology expertise and a glut of STEM graduates.

88% are confident that EU/regional and local digital infrastructure strategies will meet their business ambitions in 3-5 years

How confident are you that EU/regional and local digital infrastructure strategies will meet your business ambitions in 3-5 years' time?



"CEE is catching up in the digital transformation journey"



Markus Fleischer,
Corporate Development, A1 Digital



5G launching across CEE



"It's crucial that as much new CEE investment as possible goes into forward-looking and future-proof communications technologies rather than patching and upgrading older technologies with a limited lifespan. "



Chris Watson

Partner, Global Head of TMC, CMS

"There will be a lot of work with 5G – a big network building project is needed"



Gergely Barczy

General Counsel, T-Systems Hungary,
an affiliate of Magyar Telekom

Among those sectors where digitalisation matters most are telecoms, financial services and manufacturing. Gergely Barczy, general counsel at T-Systems Hungary, an affiliate of Magyar Telekom, says: *'The Hungarian mobile networks are some of the best in the world, but if you look at how administrative procedures are digitalised in Hungary some other CEE countries are better. We have been talking about digitalisation for years and some steps are now being taken.'*

Following an auction by the Hungarian regulator in April, Magyar Telekom, a unit of Deutsche Telekom, jointly launched commercial 5G in Hungary, together with Ericsson. The Hungarian units of Vodafone and Telenor ASA's were also awarded 5G frequencies in the tender. For his legal department, Barczy says, 'there will be a lot of work with 5G. A big network building project is needed to utilise the frequency, requiring a lot of cell towers.'

The same applies in Poland, which launched its first commercial 5G service in June, reaching nearly 900,000 people in seven cities, including Warsaw, Lodz, Poznan, and Wroclaw. Meanwhile, Bucharest recently became the first city in Romania to offer 5G connectivity to every inhabitant through the Orange mobile network.

At Europe's largest industrial manufacturing company, Richard Bacek, Siemens General Counsel, Czech Republic, Romania and Slovakia, outlines their recent digital changes in CEE:

Explore more on 5G:

'We want to work more digitally. Pre-Covid, people were hesitant to accept electronic or digital forms when signing, negotiating and communicating about contracts and documents. Now, they are much more willing to do so. We are seeing an increased demand from customers as well as from suppliers who use electronic versions of documents and e-signatures.'

He believes that this will result in *'their sustained long-term use, even between external parties.'*

Bacek is also seeing digital progress among public authorities, including regulators. *'Electronic or digital communications are accepted more than before,'* he says. *'It's still slow, that's what you expect from governments. But even in the Czech Republic, you have to communicate electronically in certain cases with public authorities. There's no other option.'*

Chris Watson, Partner and Global Head of TMC at CMS, adds: *"It's crucial that as much new CEE investment as possible goes into forward-looking and future-proof communications technologies rather than patching and upgrading older technologies with a limited lifespan. That will ensure that lack of capacity doesn't hold back rollout of currently available and near-term future services, but also that even newer and higher bandwidth services are able to be dreamed-of, created and brought to market without comms capacity being a limiting factor."*

Banks pioneers of the digitalisation agenda

This increased use of technology solutions in the public sector acts as a key driver to the overall digitalisation agenda. Across CEE, financial services are leading the way in the private sector.

'With the development of mobile technology, we made a strong bet, investing a significant amount as part of a vision for a digital future, to develop a platform named George,' says Ara Abrahamyan, Chief Digital Transformation Officer at the Erste Group. *'It's the first group wide product that offers our digital face to customers, our first cornerstone of digitalisation. It's been rolled out over years: Austria, Czech Republic, Slovakia, Romania, and we're now in the final stages in Croatia and Hungary.'*

András Fischer leads OTP LAB, the innovation hub of OTP Banking Group. He explains that OTP 'started to delve' into digital transformation in 2015, followed by a large-scale programme. The goal was to enable products and services over digital channels, while digitising internal processes as well. *'This brought faster digital solutions to the market, which our customers needed,'* he says. *'There weren't any major products or processes that required digitalisation because of COVID - that had already been done.'*

OTP's digitalisation projects included: new mobile and internet banking applications, end-to-end online loans and products, digital account opening, chatbots, cash-in cash-out intelligent ATMs, and a digital signing pad in every branch. *'Most common documents or tasks have now been digitised,'* adds Fischer. *'The programme was in Hungary, and there are similar programmes ongoing or completed in other OTP countries too.'*

"There weren't any major products or processes that required digitalisation because of COVID - that had already been done."



András Fischer
Head of Innovation,
OTP Bank

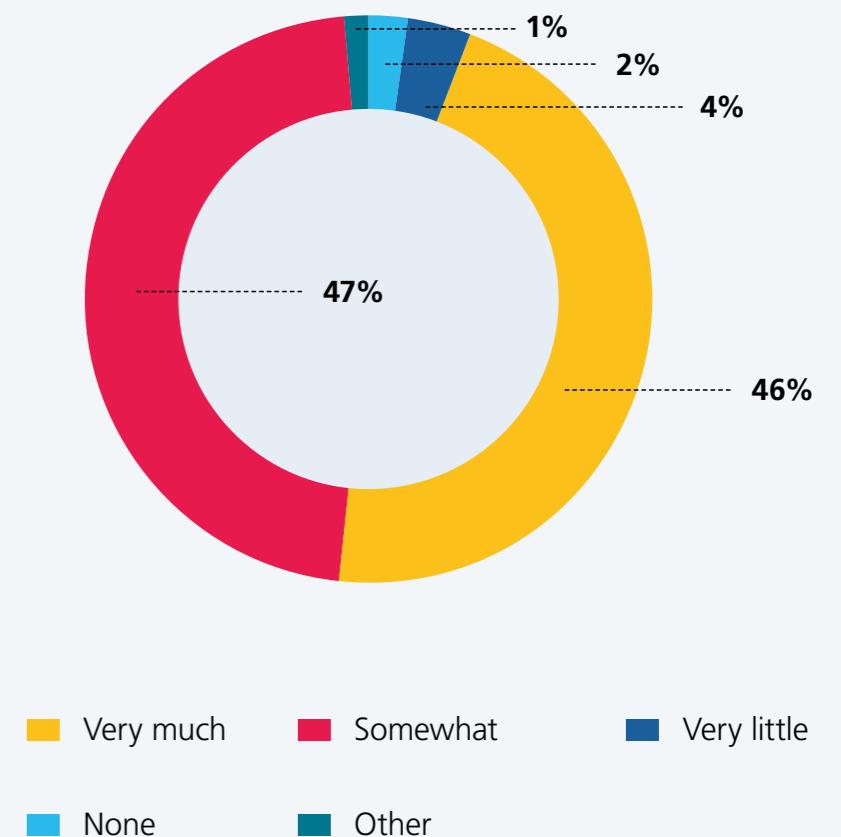


"Banks in CEE will have to keep up a rapid pace of digital delivery and digital innovation to capitalise on the momentum of growing demand accelerated by the current pandemic."



Eva Talmacsí
Partner, Co-Head of TMT in CEE, CMS

How much do you think the pandemic will accelerate digital change in your business?



Lessons learned

In the process, many lessons were learned. **'Everyone was really optimistic, but after 12 months, several projects reached the implementation phase around the same time. We realised there was no way that we could execute 30+ projects in parallel with the personnel we then had. That was a big challenge to solve. Since then, we have embraced an agile transformation, which enables higher efficiency and faster time to market.'** adds Fischer.

UniCredit also completed its CEE strategic digital plan in 2019. **'The overall aim was to invest heavily in technology and digital in order to have a material shift of the business towards remote channels,'** says Marco Iannaccone, the bank's Vice-Chairman in the Czech Republic and Slovakia. **'The logic was to create remote channels, especially mobile, and attract as many people as possible to use them.'**

Over the next two years, UniCredit will be growing omni-channels in CEE. **'It will be one process across channels, creating a digital end-to-end process with no manual intervention in-between,'** says Iannaccone. **'In the branch, at home, you will see the same screen, the same approach. It will be a bit of a revolution in retail banking.'**

The problem, he explains, is that **'you can't digitalize everything: you need to be selective and try to be very successful in fewer things. If you try to digitalize too much, it will cost too much and most probably, become unmanageable. Sometimes, you simply can't digitalize something because it's too complicated and you need to find a solution how to handle. You only discover when you try.'**

The experiences of CEE banks show how challenging digital transformation can be, particularly when it is being executed for the first time. But the rewards can be significant too. As diverse CEE businesses follow in their digital footsteps, they too will face their own set of challenges. When the region's digital infrastructure is finally completed, it will help to cement CEE's position as an increasingly attractive place to invest.



Stress-test: digital infrastructure in focus



Ensure that future projects comply with regulatory requirements: engage with regulators and seek legal assistance.

Collaborating with competitors? Regulatory compliance plus solid project documentation are a must.

Follow regulatory changes, practice network sharing, carry out self-assessment, and mitigate potential risks.

Adopt clear policies, teach regulatory/legal requirements, and implement reporting procedures.

Disaster recovery: make contingency plans for data breaches, cyberattacks & infrastructure malfunctions. Follow rules and protocols.

Talk through your digital strategy with us

If you would like to consult on or stress-test your business' digital strategy with your local CMS experts, please do get in touch with us.

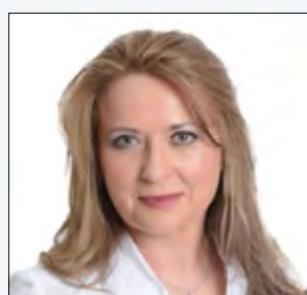
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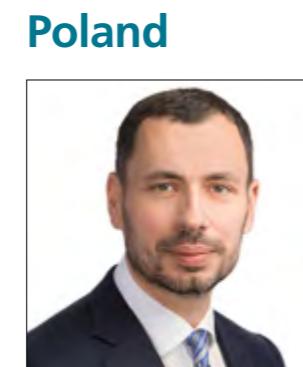


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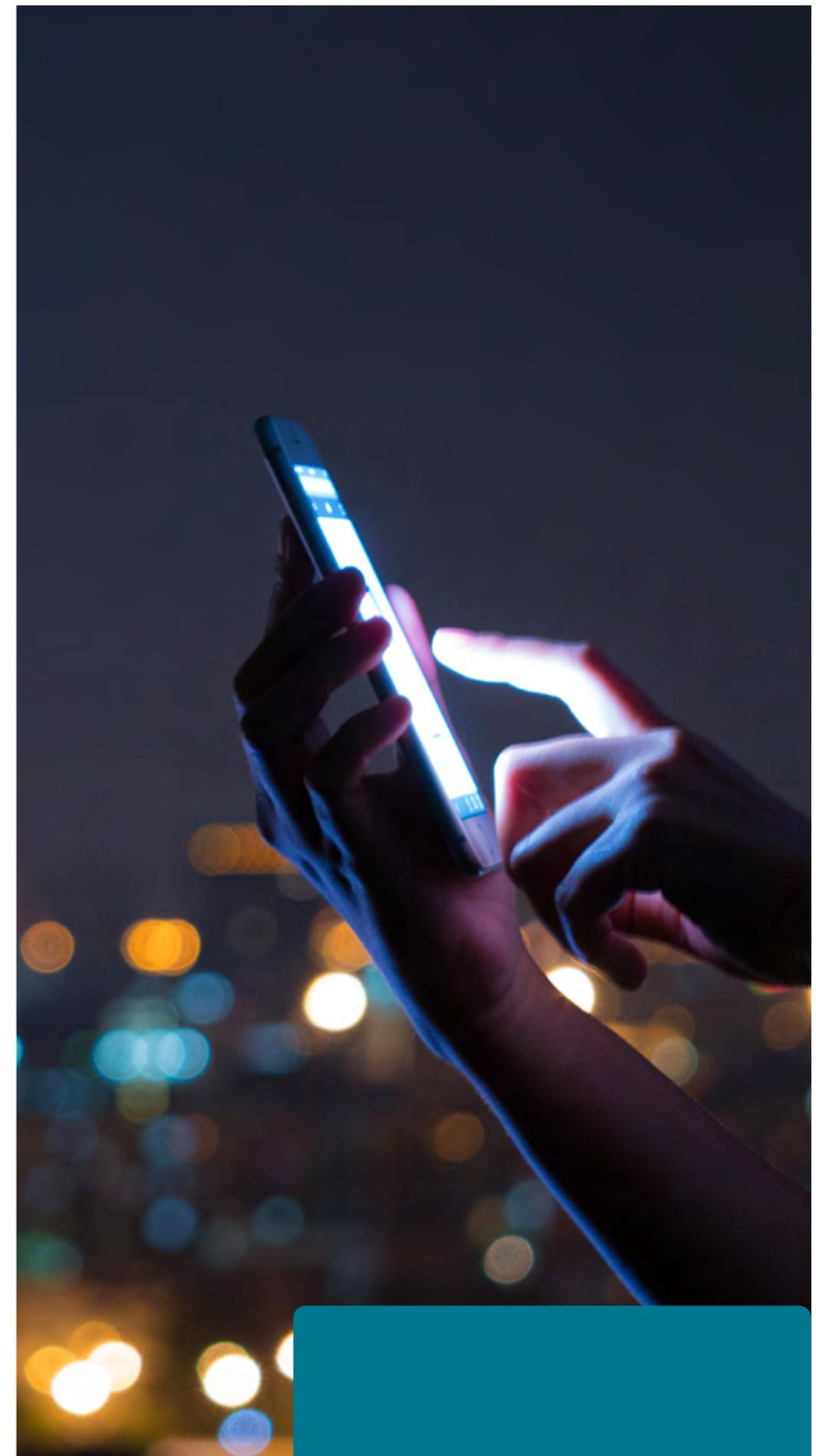


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Introduction: CEE's digital ambitions fuelling future economic growth?



Closing the gap – CEE's digital infrastructure and business ambition

Data and ethics – what does the future hold for CEE?

Innovation vs regulation – can AI redefine CEE's economic future?

Technology transforming industries in CEE – what's next?

Stress-test: is your business' digital strategy future-ready?

Data Centres – Scaling up in CEE





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