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DIGITAL BANKING TRANSFORMATION: REDEFINE THE BANKING CORE

This paper explores the core principles to usher banks into the digital era, the challenges they face in their digital transformation and how to address them while ensuring minimal disruption.

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Digital banking transformation: redefine the banking core

The banking industry has witnessed tremendous change over the past two decades with rapid transformations following three large waves.

Ushering in the digital transformation era

The first wave, consumerism, began in the late nineties following globalization, with the integration of markets, and brought new business ideas for banking. The second wave involved the dot-com boom of web-based banking — the concepts of anywhere and anytime banking gained popularity while branch banking began to take a back seat. The third wave comprised the 2008 financial meltdown, where certain bank lending and fund management practices came under the scrutiny of regulators. In the new normal economy, banking now embraces the concept of need-based and goal-based banking where the outcome matters to the banking customer, with extreme personalization of products and services offered by the bank.

This wave brought in new-age banks with higher prudence levels and paperless transactions with traceability of digital metrics. However, this also allowed the emergence of fintechs, which capitalize on and monetize the inefficiencies of banks. Are banks geared up for this digital transformation to keep pace with fintechs? Can banks make a shift from facilitating the process to owning the outcome? Will they shift from providing only financial support to providing solutions to fulfill the needs of their customers?

Get the digital basics right

While the layman believes that digital is about a "touch" experience, this is not necessarily true.

Digital is all about culture – a perspective from the front, middle, and back office of how a bank operates.

According to senior executives, digital means doing things right, quickly and without error while simultaneously enriching the customer experience and maintaining operational cost.

The banking transformation imperative

Banks have gone through multiple transformations, having invested and evolved over time to adopt new technologies to deliver faster services and a better experience. While they are challenged every day by changing regulations and cross-border geopolitical issues, banks have certainly come a long way. Yet more is required, and digital transformation is a necessity for the following reasons:

1. Changing consumer behavior patterns

Today's consumers are tech-savvy and expect banks to enrich the customer experience, as other sectors have done. Consumers are not interested in banks facilitating only the financial process, but want banks to completely understand their needs.

According to a 2019 Infosys Knowledge Institute survey[1], nearly 80 percent of respondents consider the bank of the future as a marketplace to cater to all financial needs.

For example, consumers may want to understand whether a bank can help them own a house — not just qualify for a loan. This is a radical shift where banks now have to collaborate with real estate agencies and home-décor service providers to ensure an enriched experience when a customer buys a home.

2. The emergence of fintechs

While no single fintech currently threatens the incumbent banking business, the banking industry is worried about its shrinking market share — specifically for required services, speed, and simplicity. This is exacerbated by venture capitalists whose investments in fintechs grew by 120 percent year-over-year to $40 billion in 2018, to enable them to grab market share from incumbents.[2] Consequently, it becomes a necessity for banks to be better organized, more agile and efficient in order to survive.

Nearly 60 percent of survey[1] respondents indicated that they will likely switch to a fintech for an omnichannel customer experience.

3. Legacy IT systems

Consumers expect instant access to products and services. Banks have also realized that their IT assets are no longer sufficient to support the fast-paced changes happening at the front end of their business. Therefore, banks need to organize their IT landscape and processes to manage risk and build an IT landscape that can respond to the new service landscape.

"Instant and real-time are becoming the buzzwords in the banking industry," explains Dr. Ashok Hegde, the Domain Consulting practice leader at Infosys.

Journey to transform — a four-phase approach

1. Eliminate redundant processes

Understanding process depth and breadth is essential. However, an Infosys survey revealed that while each bank service line is aware of process importance, enterprise documentation for processes, control systems, execution principles and exception resolution are either missing or outdated. For example, banks employ the "four-eyes" principle, where each lending process is vetted twice and dual validation occurs.

Processes can be implemented to overcome the interoperability issues between systems and departments. Determine whether the processes add value to the customer landscape, whether they mitigate risk or whether they support asset classes. Introduce more robust process management systems and validate each process.

2. Simplify application management

The average large bank has 4,000 to 5,000 active applications. Today's technology, with multilayered computational capability, can reduce those applications to a manageable number. A governance structure can be set up to assess the compatibility of applications for each process — where the data resides, how it is extracted, and how it is put into a data transformation. This enables banks to have a clearer picture of what can be removed from their processes and IT application inventory. Considering that there are a limited number of data attributes at the source, simplifying the process of data enrichment can yield a significant benefit to banking operations.

3. Reevaluate business infrastructure

Determine whether the IT applications can support the business volume, technology trends, and customer behavior over the next decade. Retire those applications that cannot lead the bank toward its vision.

4. Execute without disturbing the business

Any planned execution must be done without destabilizing the bank's business. A big bang approach will not work; a clear mandate about what is required will. An ideal transformation in three years will enable banks to mitigate risk and change the IT landscape to deliver better and faster services to customers.

Evaluate the transformation process

Banks can evaluate their processes internally or bring in an expert evaluator who understands the best practices and analyzes whether there is an opportunity to improve.

Benchmarking processes, asset classes, and services against the best in class (such as fintechs) provide a fair idea of where banks stand. This helps banks understand why fintechs operate at higher efficiency, while their risk-return ratios outperform banks.[3] While meeting the best in class will not give banks an advantage, beating the best in class will.

Essentially, banks need to move from being explorers to visionaries, which is a Herculean task, as discussed in our recent survey.[4]

Digital outcomes

Digital transformation helps banks on the following fronts:

1. Increase in market share

Banks can service customers better, faster, and at a lower cost. They can own the customer need rather than the processes to fulfill the need. This shift in mindset from supporting processes to owning the end goal ensures customer loyalty. According to a 2018 banking survey[5], 70 percent of respondents will invest in technology to increase their market share.

2. Rise in profitability

As digital transformation leads to cost cutting, an added advantage is the improvement in the bottom line and the return on equity. More important, it brings down transaction costs, increasing the entry barrier for fintechs.

3. Cultural shift

A bank can build a culture that is cost-conscious, customer-conscious, and efficiency-conscious.

This is an uphill task, however, because many systems, processes, and people have grown with the bank. A Boston Consulting Group assessment revealed that among companies that underwent a digital transformation, the number of profitable enterprises was five times higher when they focused on a cultural shift compared to those that ignored it.[6] A bank can be an industry leader in keeping costs low, though, without compromising the quality of services. Our analysis of the top 50 banks suggests that the most efficient bank is also the one with a high degree of customer satisfaction.

Encounter hurdles on the journey

The most important hurdles that banks need to overcome when they embark on their digital transformation journey include:

1. Fear of failure

Transformation is a large initiative and cuts across stakeholders and multiple years. However, budgeting happens on a year-over-year basis only. The risk of a change in stakeholders and management always leads to apprehension — fear of not getting funded and not getting a commitment from senior management.

According to a 2018 Infosys survey[4], insufficient budgets is one of the highest barriers to digital transformation.

2. Cocoon syndrome

Some banks are comfortable with their status quo and are reluctant to change. This mindset acts as a hindrance and can impede potential performance progress.

3. Lack of execution capabilities

According to a 2018 Infosys survey[4], 36 percent of respondents feel that lack of talent is a barrier to digital transformation. There are cultural and management aspects, beyond capacity constraints and program management issues. Investing in their workforce makes good business sense and will help banks in their efforts to future-proof themselves.

Overcome the hurdles

1. Validate the team's strengths

Evaluate whether the current talent pool can succeed in an ambiguous environment while keeping an eye on the objectives and the broader vision. If not, hire from the market or acquire those capabilities through strategic transactions.

2. Open candid communication channels

Communicate openly with multiple employee layers, from the CEO downwards, so everyone understands why the bank needs a transformation and their role in it. Evangelize the concept, including the need to transform and align with the digital vision and the industry changes.

3. Compare your bank with others

Studies indicate that only 10 percent of all large enterprises reach a 50-year life span. While it may be a slightly larger percentage for banks, only a few of them celebrate their centenary and become industry hallmarks. Cross-industry benchmarking brings in new ideas and fresh thinking.

4. Ensure commitment from the top down

Ensure senior stakeholder commitment toward the support and funding in clear terms to avoid funding issues at a later point in time.

Change quickly, but with caution

Banks need to quickly accelerate their digital transformation journey to stay relevant to consumers in the race against fintechs. At the same time, banks need to implement necessary systems that mitigate the risk of careless lending.

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