# Your Core Banking Digital Transformation Report
*Practitioner*

## Your Starting Point

You are making positive steps along your path to digital transformation. As you prepare for the dramatic changes that will characterize the coming decade, you are designing your bank of the future and executing on some key initiatives.

○ Your customers have a consistent experience across some, but not all, touchpoints (from mobile banking to internet banking to ATMs and retail branches) as well as across lines of business (the experience of transacting on deposit accounts could be very different from that of loans, while mortgages could be an entirely different story).

○ You are moving toward a 360-degree view of your consumer. You have partial capabilities to achieve a holistic view of banking activity for certain types of customers and within certain lines of business.

○ Most of your transactions are almost real time, and you're able to give a semblance of real-time reporting using memo post debits, which show pending reductions in the cash balance of accounts.

○ When you are considering integrating and launching a service involving a third party, you can use application programming interfaces (APIs) in some cases. But for the most part, integration requests must enter into a queue for the IT department to address.

○ When you launch a new product or service, you have to undertake complex development, extensive testing and reviews involving many departments, and the process can typically take several months or even years.

○ When your bank launches its own new product or service, you still have to undertake fairly complex development, with the time to establishing value usually 6-18 months.

○ Your work processes are becoming more agile and some units are experimenting with DevOps.

○ As your cloud strategy has evolved, you now have 20% to 40% of your workload on the cloud.

○ When addressing mandatory processes such as your anti-money laundering strategy or mechanisms for understanding your customer needs, you have centralized standards for compliance. But each unit still selects the tools and processes it prefers.

## The Landscape

As banks evolve to anticipate future opportunities, they must rethink the positioning of their banking services in the new value chain, as well as in relation to the experiences demanded by consumers and clients. Going forward, banks will increasingly grapple with several fundamental questions. Not only must they figure out how to stay relevant as people's lives and relationships with money change, but banks must reassess which markets to address and which customer segments to serve. When it comes to new products, they must discern what products to offer as well as the most effective channels to target.

Consumers expect innovative experiences from every brand looking to develop a relationship with them, which means banks must carefully navigate the emerging technology landscape to meet and exceed consumer expectations. AI, for example, has the capacity to humanize and automate consumer-facing workflows and to make back-office operations more adaptive and continuously self-improving. Blockchain technologies, meanwhile, can trace the provenance and lineage of data in robust and reliable detail, building consumer and client trust. Moreover, enterprise cloud strategies – which often support 50% to 60% of a company's workload – are evolving to a hybrid cloud model that enables businesses to integrate and process greater volumes of data to better serve and anticipate a wider swath of customer needs.

Ultimately, enterprises are recognizing the power of building their own holistic, proprietary platforms that combine their unique data sets, workflows and expertise with the full range of emerging technologies and consumer platforms (Amazon, Alibaba, etc.) to generate the most personalized and actionable insights about their customers.
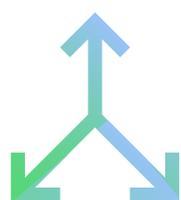
## What's Next?

You will continue to develop omnichannel capabilities and are providing your customer a uniform experience across digital and physical touchpoints, as well as the ability to initiate a transaction in one channel and then continue or complete it in another channel. You are moving toward having a 360-degree view of the customer, allowing your customer-facing employees to see a consistent view of their customers' banking-relevant information in one place. You are also making progress in enabling truer real-time transactions as end-to-end real-time capability is a defining feature of a digitally mature bank.

As you develop your digital core, you will evolve your API strategy to include more APIs so that, ultimately, you will offer a comprehensive set of external APIs that enable integration in just a few days. This will decrease the time it takes to launch a new product or service, because when the innovation team identifies a fintech company with the right solution, the actual integration can be done quickly as you will have standardized APIs that connect to your legacy system.

In time, your work practices will become even more agile and you will continuously improve, or update and then deploy, new versions of your legacy systems and business applications. Your cloud strategy will continue to evolve and you will move more than 40% of your workload to the cloud. Soon, processes subject to regulatory requirements will be centrally monitored so that they can benefit from a standard list of approved tools that leverage AI-based automation.

## Your Action Plan

- **Expand your digital offerings:** Continue to look for ways to interact with customers digitally, including helping current customers open new accounts or onboarding entirely new customers. As more customer interactions become digital, creating a consistent and frictionless experience will become an increasingly critical point of differentiation.

- **Evolve your cloud strategy:** While your system of record may still be a legacy, move your systems of engagement and integration to the cloud. Try to align with an architecture in which most of the systems and workloads across your enterprise are cloud enabled.

- **Modernize applications at scale:** Build upon pilot projects you have completed that helped you identify specific process areas that would yield immediate business benefits from automation. Create a timeline for application modernization at scale and consider automating most, if not all, of your processes.

- **Refine your data strategy:** Since you already have a mature data lake or data warehouse, you are ready to supplement your data strategy by incorporating additional data elements like AI into your ecosystem. As you develop a clear AI and emerging technology strategy, look for customer-facing and back-end processes where AI can save time or money.

- **Monetize open banking:** With several key functions and data now exposed through APIs and communicating with one another, you have laid the groundwork for monetizing open banking and participating fully in the banking ecosystem.

## Challenges

- **Dramatic changes in customer behaviors and expectations:** When it comes to elegant, intuitive experiences, customer expectations are high, especially since new competitors continue to raise the bar with easy-to-use self-service options and unbundled products that improve choice. The next generation of customer journeys must include banking and non-banking services that offer unified, streamlined experiences that anticipate customer desires and reflect real concerns.

- **Burden of regulatory compliance:** The sheer volume and growth of compliance requirements combined with significant costs of noncompliance and rising security and fraud risks make this an area of growing focus. Regulators are driving the change as the European Digital Single Market, which includes PSD2 (Payment Services Directive 2) and GDPR (the

General Data Protection Regulation), forces banks to reinvent their business models and their roles in the digital economy. PSD2 regulation means banks must be prepared to expose their services to third-party providers.

○ **Digital disruptors – competitors or partners?** Fintech is proving that it's the product, not the industry, that is ripe for disruption. Fintech and digital banks are considering wider data sets that include information like social media data to make credit-related decision making more holistic and expand into underbanked populations.

Growing collaboration between banks and fintechs is starting to allow incumbent banks to accelerate innovation plans while enabling fintechs to benefit from bigger banks' customer bases, regulatory expertise and trusted advisor reputations. Tech giants like Google, Apple, Facebook and Amazon are also making big plays in banking. For example, in 2018, Google launched a new payments platform, Google Pay, while Facebook runs a peer-to-peer payment system via Messenger and recently announced plans to create its own cryptocurrency, called Libra. Apple meanwhile announced it will roll out a new Apple Card, a fully functional credit card in collaboration with Goldman Sachs.

## Bringing It to Life: Case Studies

1) Using blockchain to make cross-border transactions more efficient, secure and accessible

**Problem:** Banks have traditionally been the facilitators of trade deals; however, they have not evolved their trade finance practices as international trade has changed over the past years. Now trade finance is either not scalable for banks or too complicated and costly for the majority of companies. Additionally, the legal processes involved in international trade deals are often lengthy and cumbersome, preventing companies from doing business in an agile way.

**Solution:** Created in 2017, Trade International is a joint venture between 12 leading European banks developed to facilitate trade finance. With IBM, Trade International developed a blockchain trading platform on the IBM Cloud that uses smart contracts and distributed ledger technology to make cross-border transactions more efficient, secure and transparent.

Now 70% of small- and mid-sized businesses can access trade finance.

2) Using AI to convert more home loan applicants into customers

**Problem:** To complete a home loan application on Bank USA, consumers initially had to answer questions on more than 40 core topics. Bank USA wanted to explore a platform as a service (PaaS) cloud development model to operate more efficiently, foster greater innovation and accelerate its ability to go to market with new features and products.

**Solution:** With an IBM Cloud environment that included an AI-powered virtual assistant that supports the bank's online home application, Bank USA was able to launch several new initiatives. After implementing the AI assistant, Bank USA increased its conversion rate by 15% and achieved an 80% customer satisfaction rate.

3) Using DevOps to improve code quality, reduce user downtime and make employees more productive

**Problem:** Facing changing market requirements and regulations, New Insurance Inc. recognized a need to accelerate its ability to bring new products and services to market and support new channels of customer interaction.

**Solution:** New Insurance worked with IBM to enable an IBM DevOps approach to application development and delivery across its distributed and mainframe environments. New Insurance has used IBM's DevOps approach and improved code quality by 50% over three years, reduced user downtime by 70% and moved 58% of its teams to the top quartile in key productivity measures.

○ While 65% of retail bankers believe they deliver excellent customer experience, only 35% of consumers perceive their experience as excellent.

○ The financial services sector experienced 65% more cyberattacks than the average organization across all industries.

○ About 80% of the world's data is tucked behind the firewalls of organizations.

*Source*: The Cognitive Bank enabled by Hybrid Cloud: An IBM point of view, 2019.