Your Core Banking Digital Transformation Report
Reinventor

Your Starting Point

You are well on the way to digital transformation. Your preparations for the dramatic changes that will characterize the coming decade are advanced as you design your bank of the future.

○ Your customers benefit from a consistent experience across all touchpoints (from mobile banking to internet banking to ATMs and retail branches), as well as across business lines (for example, the experiences while transacting on deposit accounts, mortgages and loans are similar).

○ You have a 360-degree view of your customers, allowing you to see all of their business with your bank.

○ You have standardized application programming interfaces (APIs) that connect to your legacy systems, so when the innovation team identifies a fintech company with the right solution, the actual integration can be done in days.

○ Your agile IT/DevOps strategy is mature and you continuously improve, or update and then deploy, new versions of your legacy systems and your business applications.

○ Your cloud strategy and adoption are mature, with more than 40% of your workload on the cloud.

○ Mandatory processes, such as your anti-money laundering strategy and mechanisms for understanding your customer needs, are fully centralized.

○ Processes subject to regulatory requirements are centrally monitored and benefit from a standardized list of approved tools that leverage artificial intelligence or AI-based automation.

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.
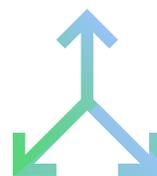
What's Next?

You continue to look for areas in which to expand omnichannel capabilities and provide your customer with 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. With a 360-degree view of the customer, you can proactively find new opportunities to provide your customers with what they want. All of your transactions will become real time, as end-to-end real-time capability is a defining feature of a digitally mature bank.

You will continue evolving your API strategy so that your architecture is as flexible as possible, enabling you to offer new features and services in a matter of days or less. You are creating a culture of agile innovation that embraces new skills, workforces and ways of working. You will have widespread cognitively enabled workflows for front- and back-office processes and decision making, supported by open, hybrid and secure multicloud infrastructures.

Your Action Plan

○ **Personalize at the customer level:** With a 360-degree view of your customers and their preferred touchpoints for banking, you have the opportunity to personalize new products and services to each customer, creating the potential for a new wave of brand evangelists.

○ **Embrace complete automation:** Move to complete automation of all processes with close to zero manual interventions throughout your bank. Incorporating robotic process automation (RPA) throughout your organization is key.

○ **Build a blockchain strategy:** Your implementation of artificial intelligence throughout your organization is pervasive, which puts you in a good position to consider adding additional emerging technologies like blockchain, which will make the full spectrum of transactions more secure and seamless.

○ **Move all applications to the cloud:** Now that you have completely modernized your applications and made them cloud ready, you are able to move everything to a public, private or hybrid cloud structure.

○ **Develop enterprise agility:** Create agile teams that span organizational boundaries – and aren't confined to tech departments. Consider teams that extend between both business and IT or between change functions and the day-to-day operations of the business. It can also be valuable to create teams that cross internal and external organizational boundaries as part of established ecosystem relationships. DevOps can extend agile principles to the delivered service in its entirety, prescribing close collaboration with the customer, product management, developers and quality assurance to rapidly iterate toward a better product.

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 consumer 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.