

Accelerating Banking Transformation – An Assessment of Key Milestone

Digital transformation has impacted every industry, from manufacturing to retail, and now banking. For a while, transformation in the banking sector was hindered by compliance issues, regulatory challenges, and the massive scale of operations riddled by dependencies. However, the emergence of digitally native banking providers or “FinTechs” on one side, and rising customer expectations (shaped by digital experiences in retail, lifestyle, and tourism) has compelled a change. Today, in order to succeed, banks must leverage digital as among the key avenues for customer acquisition, explore digital products/services, and strengthen backend functionalities by modernizing operations. This point-of-view paper discusses the various aspects of digital banking, the milestones to cross when accelerating transformation, and best practices for banks in this dynamic environment

Assessing Maturity and Understanding Action Points

According to research, digital transformation is a top priority for banks across the globe – despite this, nearly half of the banking sector doesn’t even have a digital strategy in place, to start with. In retail banking, the trend has gained more popularity while corporate banking lags woefully behind. This is compounded by the fact that 45% of corporate banking divisions show declining profits; digital transformation is a way for incumbent players to reinforce these traditional systems and maximize value.

Today, both personal finance and business customers are rapidly embracing digital channels in every sphere of operation. Natural

persons are bringing expectations derived from their interactions with e-commerce, to their banking provider. Corporate clients are also going digital and they expect to conduct transactions with banking providers accordingly. A plethora of new tools such as Robotic Process Automation (RPA), Artificial Intelligence (AI), Big Data, and Blockchain offer immense improvements to a bank’s revenues. However, only those with a solid digital infrastructure will be able to take advantage of these advancements. Finally, the digital wave has created its own momentum and with the rise of digitally native players, banks cannot afford to hold onto legacy systems.

In this dynamic environment, it is important to accurately estimate where an organization stands on the digital maturity curve. Only 43% have a clear digital strategy, but over half of corporate banks are actively exploring partnership models with FinTechs in a bid to accelerate transformation. Interestingly, research also reveals that complex technology infrastructure is a roadblock for 86% of banks, highlighting what we believe is the biggest pain point in this regard. Banks must first take stock of current scenarios, assessing environments against the industry benchmark, locating gaps/dependencies and arrive at innovative models to address these.

Equipped with a detailed view of digital readiness, banks can then move on to these critical action points:

- Rewiring of the customer experience - Frictionless experiences is the hallmark of successful digital transformation in every sector. E-commerce majors such as Amazon are probably the most obvious example of how digital can completely transform customer experiences, garner a wider audience, and shorten the exploration-to-purchase pathway. Naturally, when these users communicate with banks, they expect the same level of seamlessness and transparency - not to mention the sheer convenience of it all. In contrast, branch-based banking is a highly cumbersome process asking customers to shuffle between multiple touchpoints without clarity and at overlong timelines. Banking providers need to zero-in on the most important touchpoints on the customer journey, and strategically apply technology; for example, onboarding can be made web-based and support services can be disseminated through chatbots.

- The power of data for personalization and informed decision-making - Banks have always relied on market information to shape their products and services. Now with the emergence of Big Data, Data Lakes, and advanced analytics, it is possible to scan vast data volumes at lightning speed. Infrastructural needs are also lower compared to relational databases, allowing banks to make the most of available resources and gain deeper insights. In the digital era, data will have specific relevance for customer journey personalization, predicting their every move and recommending the best product. This opens immense opportunities for retail banks to cross-sell/upsell their services. In the long term, these frameworks for strategic decision-making such as new market penetration and even mergers and acquisitions.
- Digitized operations for a better bottom line - On the operational level, technology will prove key to improving efficiency and resource utilization. For instance, automation will take over a majority of iterative tasks, reducing the need for human effort and leaving executives free to explore newer ideas. However, digitization won't just be limited to applying technologies for simplifying existing tasks - it will also introduce "Digital" as a new business function altogether with clearly defined ownership and contribution to the organization. Progressive institutions can even launch their digital arms as a separate brand/entity, connecting with a younger audience group. Just last year Goldman Sachs rolled out their online-only retail bank called Marcus in the UK, offering easy access and a fixed interest rate on savings .

By paying attention to these three threads of the digital conversation, banks can reinvent themselves as digitally-driven organizations, reducing costs, engaging with customers and pushing revenues. To do this, banks must relook at their digital transformation strategies, and find new ways to accelerate the pathway.

Five Milestones when Going Digital: A Quick Checklist for Banks

Despite clear demand from users and a push from within the industry, several areas of concern have to be addressed before doubling down on digital transformation efforts. For example, over half of customers cite data security as a key criterion for deciding to use mobile banking apps. UI design, integrations, and functional features are also areas of concern. To make the move to digital faster and risk-free, banks must look out for these five milestones:

1. Make security a priority for any transformation project

When embarking on innovation, security and compliance often take a backseat to user experience, and product delivery capabilities. For banks, this must be avoided at all costs, given the highly sensitive nature of information being stored and exchanged. Poor security or any instance of a breach being reported about the enterprise, will measurably dent acceptance rates, and thereby take away from digital transformation success. Also, security has to be proactive in nature; if banks are continually combating attacks/fraudulent behavior, precious resources will be redirected to course correction only, instead of genuinely adding value.

2. Convert traditionalists with the lure of convenience and efficiency

Remember, traditionalists exist both within and outside the banking organization and are often a deterrent to digital transformation. While a certain amount of this hesitation can be attributed to an “attitudinal challenge”, a lot of it has to do with the lack of awareness. Instead of simply rolling out the product, expecting it to resonate with audiences, banks

should undertake extensive campaigns around the value of digital. Internally, traditionalists must be converted through change management practices and training, which will ease digital transformation and minimize any disruptive impact on daily business.

3. Simplify the move from web-based to mobile

Online banking customers and mobile app users often present two distinct categories, despite preferring digital as their primary means of interaction. Now, mobile is a vital milestone for any digital transformation journey. Online customers may refrain from using mobile apps due to lack of functionalities, high load times, and the afore-mentioned security apprehensions. Banks must invest in making mobile applications more intuitive, UX-friendly, and secure, clearly outlining the benefit of using these tools to end-users. While converting pure traditionalists to a mobile-first ecosystem will be extremely difficult, the online demographic is easier to address. By reaching out to this segment and increasing/amplifying digital adoption, banks can significantly speed up their change curve.

4. Maximize the full potential of mobile banking

Unlike digitally native contenders, large banks often shy away from utilizing the true power of mobile technology and limit applications to only transactional usage. This constrains impact and makes digital transformation projects short-sighted. In reality, mobile applications offer a rich playground for innovation and new ideas via integrated services, third-party APIs, and real-time alerts. Beyond transactional use like bill payment or balance checks, mobile banking applications can be used for e-commerce purchases, new product advice, or even directly connecting to representatives telephonically. Functionalities like these will only attract new users and drive greater retention among the existing base.

5. Break-through the many silos

Digital transformation cannot occur in isolation. This implies that even if a mobile app enjoys thousands of downloads, and has a stable active user base, it does not indicate holistic digital transformation success unless backed by equivalent numbers across all channels. Sooner or later, a siloed ecosystem like this will start to stagnate as users seek but fail to discover any new features. That is why it is important to link the different touchpoints (both physical and digital) across branches, ATMs, websites, mobile apps, and contact centers – this could even be extended to digital/virtual assistants like Siri and Alexa. Together, this will go a long way in providing frictionless banking experiences and accelerate the path to transformation.

Conclusion

It should be noted that these principles will be shaped according to target demographics, size of business, and geography of operations. However, we believe there is a singular connecting thread: banks that can establish an emotional connect with customers and offer a clear value add will stand to gain substantially from digital transformation. As the profits start flowing in, they can be redirected into future initiatives so that transformation isn't just accelerated – but a steady stream of innovation. Technology partners bringing expertise around specialized fields such as security, customer experience, and digital integration will help banks on this journey. We can look forward to a world where FinTechs, digital-only players, and modernized banks pursue transformation in a “co-opetition” climate.



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