



# The evolution of financial services podcast series



## The bank of the future

### Transcript

**Greg:** Welcome to The Evolution of Financial Services, a podcast series from Deloitte about just that - the evolution of financial services and how to harness the disruption. Here we'll address how operating environments for insurers, banks, and other financial services firms are undergoing dramatic change - from shifting regulations to new entrants that disrupt traditional service models, and everything in between. Each episode we'll meet with a leader from Deloitte's Consulting practice to discuss these changes in the industry and what your company should do. Today the subject is banks, banks that face a difficult challenge in building a new digital organization centered on the human experience, given that their current model is ill equipped to effectively engage with demanding tech savvy customers - the customer of now. Banks need to modernize legacy services, delivery processes to improve customer satisfaction and financial results, but how can banks tackle this challenge?

Today we are talking with Gys Hyman and Kevin Laughridge, both principals within Deloitte Consulting LLP,

about how banks can rebuild their business to deliver a digital first experience or their customers. Gentlemen - Gys, Kevin - thanks for taking the time with us to discuss, just how to build the bank of the future - or maybe we should call it the bank of now, and create a digital service model. Before jumping into the opportunity, Gys why don't you give us some background on where the challenge is coming from in the first place?

**Gys:** Yeah, thanks Greg and the way we see it banks are in an untenable position today and on the one hand the customers are increasingly demanding and you know, tech savvy, and they want the exit to financial services to be intuitive and streamlined, and on the other end, you know, when it comes to the back-end infrastructure and the processes in the banks the banks are overburdened by outdated and overloaded systems and architecture, and as a result we see a substantial challenge for banks to build a new digital organization, that can really efficiently provide human centered services. In a recent poll we conducted, just 10% of the respondents said their banks were in a state of being digital, with another 22% only becoming digital.

**Greg:** Now this brings up maybe a 1000 other questions, but Kevin, I'm gonna ask you to follow on here. With only a third of banks on their way to actually becoming digital, how should they start to think about a digital transformation? Is it a technology problem, is it a business problem, is it a people problem?

**Kevin:** Thanks Greg. Logically when we see clients thinking about anything digital the starting point is often assumed to be an IT or system wide approach. Our view is that building a digital bank is not about simplifying or digitizing, existing processes. But banks need to start by re-imagining the way that services are delivered to improve custom experiences and drive down cost. For this to happen, the vision for a digital centric organization needs to be defined and championed by the business unit itself.

**Greg:** And Gys, what have you got to add to that?

**Gys:** Greg, maybe to expand on that, what it really comes down to is that form needs to follow function. Leaders from the business and IT need to come together to sort of define the bank's strategic ambition. And there's no right or wrong for those ambitions and what they should be, but some might wish to digitize their existing banking products and others might create new business divisions and tap into new customer segments with these new digital products, or others might pursue a bold vision of creating a net-new digital first bank. And whatever the case, the goal needs to

be clearly articulated and should put the business and technology on the same path towards success.

**Greg:** This is fascinating, Gys, it seems like the starting point is to figure out what the customers want, and then you have to figure out how to deliver on that. What should banks be doing to understand the customer's journey and to set themselves up for any kind of success in this?

**Gys:** Yes, the first thing is to do, we believe is to put yourself in the customer's shoes and really figure out very basic questions like, "How does money flow through the customer's lives," and, you know, "Where does it go?" and "How is it used?" and, "What problems outside of the traditional banking can we help to solve for our customers?" And to get an answer to these questions, bank leaders might want to consider getting more sophisticated insights using design-syncing or even new technology. What we found is ethnographically research and in home observations are powerful tools to get deeper insights than focus groups services alone can provide. And likewise, on the IT side, CIOs can provide CRN systems with new segmentation tools, start using predictive analytics and even machine learning to get better at identifying and anticipating what those customer needs are and what sort of the customer next best action is gonna be or should be ...

**Kevin:** If I could add to that, what it really comes down to is identifying the pain points for the customers. Where are there frictions today, and how could those frictions be removed. One of the big challenges for banks and spotting these frictions is just how compartmentalized and siloed financial products and services have become within each of these banks. For instance, mortgage, card, and lending are commonly run as separate businesses today at most banks, and as a result, banks often have lost the sight of how the customer thinks about their finances and how to actually go about achieving their needs. Breaking down these barriers and putting that - putting the customer back in the center help banks to reimagine how to deliver their services that maximize customer value across, not only within, products and services.

The second thing I would add here is that banks don't need to start at square one. They can look to emulate innovations and other sectors like retail and high-tech. The simple example is the way that technologies are offering application programming interfaces, or APIs, for developers to seamlessly embed functionality into their apps. Banks need to have the ability to do something similar for point of sale payment processing, which could support migrating away from proprietary hardware, and provide access to

valuable data that overall improves their customer experience.

**Greg:** Hardware, data, Gys we've really started getting into the tech side of building a digital bank. What else do you see that banks should be doing to build a backbone that can deliver the customer experience that we've been discussing here?

**Gys:** From our research, we see that developing and integrating a solution platform is the most important priority for bank leaders for digital banking transformation, and there's no really easy answer as to what the banks should be doing, but there are a core set of design principles that are needed to build this successful digital foundation for execution, and the first of those design principles is creating a flexible and nimble architecture. IT leaders can minimize duplication by designing components so new functions can be easily added or existing functions can be easily augmented or improved or enhanced, and the second to that is scalability to support high throughput. Each component should easily scale to support growth and rising demand, especially if we look at these new digital business models and how quickly they can scale and the digital uptake. Process digitization is obviously a key design principle - automating processes for reducing turnaround time and delivery times ... you know that will help you to lower cost and improve customer experience and consistency across the different channels, you know, whether that's an existing channel or a new digital channel that you decide to implement.

And the fourth of those design principles are really creating a simpler and speedy development. Lots have been said about Agile development but Agile can deliver, you know, capabilities and components incrementally by SIT business or even IT priorities. And then, uh, I think the first one high secured banks are thought to be the biggest target for cyber criminals and the center of data needs to be segregated and encrypted. And the last that we've identified as the sixth one is customer centric data, consistent customer data across products and services that now banks can deliver personalized service and gain a holistic view of the financial value of their customer.

**Greg:** Okay, Kevin, we've covered a whole range of components for a digital platform. How should banks think about putting this in place, and how should they figure their measurement of progress in all of this?

**Kevin:** Obviously a program this large would take some time to put in place. We see a key to realizing it is to setting place a well-defined roadmap and timeline that can serve as the "North Star" if you will for an overall digital paying program.

The roadmap should focus on dynamic targets on a quarterly or even shorter basis that allow banks to make measurable, quantifiable value, and course correct where needed. Obviously you want to start this process with a bit of an Agile focus, and it's okay to fail ... just know that you need to fail quickly and then redirect so then you succeed quickly.

Goals should be defined and measured across two domains. Financial goals, such as cost savings realized, or customer satisfaction goals such as adoption, usage and overall satisfaction. Finally we connect back to the points made at the beginning of our conversation, all parties should be aligned in the vision so that everyone understands the changes and the need to support with sufficient input to make this a success.

**Greg:** Let me ask you both this next question – let me start with you Kevin. We've talked a lot about being nimble, we've talked about being agile, we've talked about the cost of all this. So how important is the size of an organization whether it be large or small when it comes to number 1 affording this capital expenditure and number 2, being agile enough to implement something like this in a rapidly changing environment?

**Kevin:** I say, Greg, that the potential benefit of these digital banks and going digital is really about rethinking about your products and focusing on simplicity. Customers today don't want, or we don't perceive that they want, hugely complex structured products. They're looking for an easy way to do their finances and looking for insights. And so, to me what that means is that banks of all size can make great progress by starting simply in moving towards a digital, either a basic savings, a basic transaction action, a basic unsecured retail type loan, those things allow banks of all sizes to move relatively quickly down a digital atmosphere, and don't have to go take away anything that they currently have. These things can be additive. So, I say that that is a really a great path forward for banks, small and large, to make great progress in the digital area.

**Greg:** Gys, do you agree with that?

**Gys:** Yes, definitely. I think that if you look at agile delivery methods and if you look at how products in the fintech area are now released, you can define a minimum viable product which has really got a very light footprint and a light impact on your, sort of, end to end digital architecture, and you can define "How do we deliver that quickly, but then also how do we fail fast on that and not spend large amounts of money only to figure that it does not only have the right customer adoption in the market before we discover that."

**Greg:** Gentlemen I appreciate you sharing your insight and perspective on this. Gys and Kevin, we've covered a lot in our discussion. Let me start with you, Gys, and ask this question. Is there anything that the listeners should take away from all this?

**Gys:** Yeah, not all banks can evolve from the same mold, but all that are successful will need the same core principles at the forefront. The first is clear goals and ambitions and the second to that is the investment in the platform need to deliver those goals and ambitions and then thirdly, an effective change management process to ensure successful adoption.

**Greg:** And Kevin?

**Kevin:** Building a bank that serves customers digitally is really about re-imagining the way those services are provided. Banks need to break down their existing barriers and they really need to go back to putting that customer back in the center.

**Greg:** I'm Greg Jarret and thanks for listening to The Evolution of Financial Services brought to you by Deloitte Consulting LLP. If you liked this episode, you can subscribe wherever you get your podcasts. And to receive more information on Deloitte's service offerings, visit [www.deloitte.com/us/FS-MA-evolution](http://www.deloitte.com/us/FS-MA-evolution). Until next time.