To win over tomorrow’s most demanding customers, some banks are transforming not only their inadequate IT environments, but also their fundamental value propositions.
Many banks find themselves in an untenable position today. Their reliance on outdated and overloaded legacy systems and architecture is compromising their ability to develop and sell appealing products and services to increasingly demanding, tech-savvy customers.

The challenge they face—to build a new, digital organization centered on the human experience—is substantial. Just 10 percent of business leaders polled during a recent Deloitte Dbrief webcast on the topic said their banks were in the state of “being digital,” while another 22 percent said they were “becoming digital.”

Adopting a more flexible, efficient, scalable, automated, and secure IT environment is a start. And banks have the new technology options for doing so. But IT restructuring is mere table stakes, necessary but not sufficient for the digital business transformation banks strive to undertake. The bank of the future will abandon its traditional focus on siloed products and services and completely refocus on the customer experience with a next-generation technology foundation.

Making the drastic shift necessary to deliver smarter, more transparent, seamless, and connected digital experiences requires a well-thought-out digital business strategy that addresses changing customer needs, a new, flexible architecture that enables the organization to respond to changing customer expectations rapidly, and an effective change management program to make it stick.

Banking on a New Business Strategy

Digital transformation is not just about technology. Organizations must first fundamentally rethink their business strategies. Form must follow function.

The digital banking transformation begins with IT and business leaders coming together to define the organization’s strategic ambitions. They can find inspiration beyond their own organizations and outside of their industry, in emerging technologies and among competitors and innovative leaders in other industries.

Any bank’s strategy will also be informed by the degree of change it can realistically achieve. For some organizations, that may mean simply digitizing what they do today. Others may want to create a new business division to attract a new customer segment. Still others will pursue the bold vision of creating an entirely new bank. There’s no right or wrong goal. But it is critical that IT and business leaders clarify their organizations’ strategic goals and align initiatives accordingly.
Banks that win over millennials deliver customized services and unique experiences, create smart products that self-optimize around customer goals, offer services that anticipate future needs, and deliver higher levels of security and trust.

Around one-third of respondents (34 percent) to the Deloitte Dbrief poll have a very strong focus on the customer experience. Using methods rooted in design thinking, IT and business leaders can better understand shifting customer expectations. Focus groups and surveys only go so far; banking leaders eager to transform their organizations may want to get more sophisticated insights by taking a human-centered design approach—going out into the world to walk in their customers’ shoes. Ethnographic research and in-home observations, for example, help uncover unmet needs and find answers to more nuanced questions such as: How does money flow through consumers’ lives? Where does money go and how is it used? What problems outside the traditional banking experience can we help solve for our customers?

To build on research insights like these, CIOs can also implement new software to go beyond the basic customer data spit out by a CRM system. New segmentation tools, predictive analytics, and machine learning can help banks anticipate customer needs, get smarter about them over time, and drive decision-making.

The new business strategy will directly link to the value proposition the bank wants to offer its customers, while supporting customers’ expectations. This means thinking about human interactions, emotions, and encounters as part of a more holistic understanding of the customer experience. It’s not enough to make transactions more seamless, transparent, and integrated; consumers are also looking to be surprised and delighted.

One population many banks may seek to reach through their transformations are millennials. This group, 80 million strong, spends $600 billion annually; by 2020, they will be spending $1.4 trillion. Their expectations aren’t shaped by traditional banking experiences, and they are changing the expectations of other consumers.

Millennials expect every company with which they do business, including financial institutions, to provide the seamless experiences they have with Amazon or Uber. They’re more comfortable than other generations with sharing personal information, if they receive some benefit or incentive in return. They demand intuitive, easy, and elegant digital experiences. They’re not just looking for a bank—they’re looking for support in navigating their lives.
Once banks have a digital business strategy and an understanding of the experiences they want to deliver, CIOs and their teams can build the technology platforms to underpin their transformation. The monolithic legacy systems currently in place make it difficult for banks to respond to shifting customer expectations.

The bank of the future will be built on a next-generation architecture that offers vastly greater capabilities for much lower cost. A core set of technical design principles will guide the development of this platform, including:

**Flexible and nimble architecture.** IT leaders can minimize duplication by componentizing common functions and improve responsiveness to new business demands by designing components so new functions can be added to the IT landscape without affecting the customer or the organization.

**Efficient scalability to support high throughput.** Architecture should scale easily by component. CIOs can ensure this by continually evaluating components against business enablers and architectural principles.

**Automated and digitized processes.** Simplifying an automation process reduces turnaround and delivery times, lowers delivery costs, and improves customer service delivery and consistency across channels.

**Simpler and speedier development.** IT leaders can employ Agile development to deliver capabilities incrementally by priority, reviewing and updating application architecture along the way to accommodate new capabilities. They can also leverage out-of-the-box functionality and limit customization.

**Highly secure systems.** Banks remain cybercriminals’ biggest target. IT leaders can limit their ability to hack and harvest data by segregating sensitive data and leveraging leading-class encryption technology.

**Customer-centric data.** By building and leveraging a consistent version of customer data, IT leaders can enable their banks to deliver highly personalized service, real-time recommendations, and a holistic view of the financial value of a customer.

The goal is an integrated platform delivered as a service—at once data-rich and capital-light. Respondents to the Deloitte Dbrief poll cite such an integrated solution platform as the most important priority for digital banking transformation, followed by a superior user experience.

Not surprisingly, building that engagement platform will take time. CIOs can create a five- to 10-year vision to guide the digital bank as it makes the radical shift from selling individual products and services to connecting people and money in new ways.

Public cloud technologies will enable IT leaders to scale up and down and shift costs from fixed to variable. They can also take advantage of the latest best-of-breed financial technology solutions, aggregating those into an end-to-end system to deliver a differentiated customer experience. Interoperability will be key. A microservices approach and open API platform can enable banks to quickly and easily weave components in and out of the value chain. With intelligent analytics operating in the background, banks will be able to anticipate and adapt to changing needs, providing greater value over time.
The Science of Organizational Transformation

Banks face many change management challenges as they evolve their strategies, systems, and processes. Chief among them, according to the Dbrief poll, are creating an effective vision and aligning everyone around it (17 percent); clarifying the effects so everyone understands the changes (17 percent); engaging and involving enough stakeholders to obtain sufficient input and broad support (13 percent); and preparing people with sufficient instructions, training, and leadership messages to drive adoption when systems go live (13 percent).

The problem with most change management programs is that they focus on adoption resistance at the time a new system is rolled out. Given the challenges associated with bank transformation, it might be better to begin at a much earlier point, aligning key executives and engaging the right individuals in the effort.

The good news is that change management itself is evolving from art to science. The challenge for banks is to bring their diverse stakeholders on board with the transformation journey.

It’s a mistake to take a broad-brush approach to change management—appealing to everyone in the same way leaves many people behind. Instead, banks can take a page from other industries that have managed broad demographic groups effectively.

CIOs can take a leadership role by harnessing tools and data to guide the change management effort. By implementing adoption analytics, IT leaders can focus on continually assessing stakeholder perceptions and risks throughout the process, enabling targeted messaging and training based on that data. CIOs can even build adoption scorecards around key stakeholder requirements to assess organizational readiness to move forward.

Not all banks will remake themselves in the same mold. One bank of the future may not resemble another. But the banks that succeed at long-term transformation will be clear about the ambitions and experiences they’re pursuing, invest in the engagement platforms required to deliver them, and employ ongoing, data-driven change management to ensure organizationwide adoption.
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