

Digital Games Banks Got To Play...

Today, most banks want to be digital leaders because that is where the customers are! This has brought in a change in the attitude of a lot many traditional banks. Digital disruptors are attacking the banking industry, redefining customer expectations and reshaping industry boundaries, or blurring them forever. All these developments are happening outside the core of banking, and this is what is shaking up the industry. Leading bankers across the world see the industry boundaries dramatically being redrawn as platforms reshape industries into interconnected ecosystems. Most of them plan to engage new digital partners within their industry for digital initiatives, with traditional business partners or vendors dropping to second place, a situation, hitherto unthinkable as these vendors sat pretty, dictated and consumed banks' IT budgets.

Programs to innovate and integrate applications and collaborate with existing and new business partners are on the rise. Experimenting with Platform as a Service (PaaS) solutions or applying PaaS to large strategic initiatives to enable faster deployment and integration of disparate systems see an uptrend. Lean IT, outsourcing, cloud technologies, app-focused front end, smart middleware, a robust core, et al are bringing an evolution within the IT organisation itself. Added to

this, are the challenges with the transformation of organisations.

A flexible organisation will adapt to the changing times within a short time by ramping up growth options presented by disruption outside the core and a transformation to the core itself. We find digital strategies in place in banks of all hues across the World! How far have they gone and how do they plan to complete this journey? Some aspects that are considered sacrosanct in a bank's digital roadmap are discussed here.

Simple things unsettle big players...mobiles and smart phones

Changes outside the banking world have forced rewriting of rules. Banking leaders wanting to lead in a digital economy need to make fundamental changes to how they operate. Some pointers to the changes are –

- Mobile Banking and smart phones have been constantly changing the banking world ever since their display screens have grown in size and bandwidths have improved. Currently more than 50% of the mobile devices sold are smart phones and is bound to be exceeding 80% by 2020. Many believe that mobile phones will play important role in a bank's digital strategy as it will grow to be the first touch point for customers. A fact that mobile banking channel has outgrown all other channels is a testimony to this.

- Digital means that you are hooked on to the connected world, all the time. Continuously staying connected is the rule here. A bank will have to get connected with the customer and forge an emotional, intelligent and relevant relationship.
- Just like foot falls in a branch determines the sales, mobile traffic will now be a key determinant - more traffic here is building audience to the bank. New rules are already playing here!
- Keeping pace with innovation is the key, like the new Apple Pay feature eyeing potential banks.

A disruption that is not put down but followed and adopted...agile models to handle disruption

Banks must respond by disrupting themselves and creating new options for growth outside of their core business. These could be launching a digital wallet, in-app commerce and digital ecosystems, providing integrated financial or nonfinancial solutions to serve life needs, such as staying healthy or data monetization in using big data.

The growth option around technology disruption is akin to the rapid shark-fin model. As disruptive growth options are being considered, what is certainly needed is transformation to the core simultaneously. Core transformation typically follows the traditional bell curve

approach, a structured approach, to open up the platform for any possible integration with applications that matter today and in the future. This will start with an approach to handle customers, then at an organisation level how the architecture fits into the overall digital strategy.

Banking in the new digital world means, taking a plunge with clear customer engagement, operations and enterprise-wide strategies. A peek into these broad aspects –

- Customer Strategies – will focus on how to engage customers across digital channels. This calls for establishing a true omni-channel customer experience with digital channels, new digital products and remote advisory services which in turn changes the roles of the branches and staffing, in the very few branches that would be operational.
- Operations Strategies – with IT at the heart of banking, banks will have to open up their IT platforms to create efficiencies now and enable future growth through new business models. A digital IT blueprint enables the evolution of business models through new digital ecosystems - powered by open architecture and fully able to integrate with third party applications - providing a unique framework, including different architecture models running at different speeds.

- Enterprise Strategies – focus mainly on creating end to end digital enterprise, process digitization; smart working and digital collaboration tools and adopting a digital culture.

Banks approaching digitization as a business or strategy will demonstrate future trends in banking. These banks demonstrate the state of an *attractor state*. An industry attractor state describes how the industry should work in the light of technological changes and the follow up demands. Having a clear view about an industry's attractor state helps one ride the wave of change more gracefully. The mindset is customer first and understanding of efficient investments in IT at the right stages. Not just the developed markets, the emerging markets are catching up on this blitzkrieg.

Bank shakes on the menu! Get the entrepreneur mojo going!

Banking has been in existence in different forms over thousands of years. The formal bank, with its set rules, still has the basic principles intact. And shall stay that way for long. This business is now on the cusp of an overhaul unimagined even a few years back.

Engaging customers' expectations, changing role play of bankers and bank branches require fresh thinking on the branch based business models. In a digital bank, the bank's IT is naked to the customer's needs. Branches will be centres with high levels of expertise and integrated with omni

channels. With rapid rate of disruption, growing number of start-ups, innovations are inevitable. Fintechs are the way forward for early adoption.

This disruption also ushers in a more flexible organisation, both business and IT architecture. New technology and faster T-T-M calls for an agile IT architecture that is open to integration and playing with other applications. There will be severe stress on the front end and this flows on to the core as well. Introduction of smart middleware is required and mainly stacked outside the bank, i.e., outsourced! Use of API (application programming interfaces) will be more common to achieve this.

Social, mobile, analytics, cloud and the Internet of Things present both disruption (think payments providers PayPal and Google Wallet) and opportunities (think collaboration and wearable devices that enable fast, self serve employee interactions and training).

Entrepreneurial zeal has to come to the fore for banks to cope with uncertainty, apart from having a clear digital strategy in place. Different vehicles, like a venture funded entity, an R&D unit, a subsidiary or an incubator for that Fintech touché that will go long way into the distant horizon. Banks have installed apps from many companies, invested in start-ups and have held hackathons. Test and learn, failures and feedback processes will redraw the end-to-end digital entity. With all these, there lies a tougher task of changing the mindsets of the banking staff to embrace the changes dawning upon them.

People engagement

This digital-all environment will throw a considerable challenge to managements to bring the employees to learn and like working in such an environment. Banks' digital leadership should see through the challenges banks will face through the 2020s and beyond.

There will be a complete cultural shift; the CEO is now the Chief Cultural Transformation Officer! She will also play the transformation manager role, bridging the gap between the new generation and traditional bankers, among IT, business, operations and compliance, and more critically, the traditional and neo IT units.

Innovation, new governance – IT transformation and digital penetration, and more interaction amongst cross functional teams have to be encouraged.

Digital skill sets will be critical and this will see a new and different set of skilled people with jobs in a bank, sitting alongside traditional bankers.

More focus will be on employee training on digital models, simulated software, test and learn approach, changing over to a new mindset, effective communication and continuous feedback of the digital roadmap and employee openness to understand digital models.

All put together, these will play a key role in shaping up a great digital bank. And last but

not the least, a new role of a digital ambassador!

The growth of smart phones and rapid tech evolution will force the digital leadership to be nimble footed by focusing on technology disruptions and at the same time keep the traditional banking business intact.

The torch bearers are there already!

The first steps have been taken a while ago. Tech savvy banks have already made considerable investments and progress by having distinct strategies in place. Some of the best names in the business have shown the way.

ANZ has realized the huge positive impact a strong digital leadership role could have, and is on the verge of creating a new post, which will be an executive position. As head of the digital banking, the group executive will lead the bank's charge over the next critical phase.

Over the past five years, BofA has spent close to \$700 million on mobile technology. With a much larger amount likely to be invested in the digital model, BofA has staffed its branches with Digital Ambassadors. They are bankers trained to field questions on the expanding banking business on mobile and the web. About 3800 such ambassadors are deployed across the US.

South Africa's Rand Merchant Insurance Holdings and Rand Merchant Bank Holdings, have come together to set up, Alphacode, a fintech hub in Johannesburg,

to identify strategic key investments in the financial services industry and lead the fintech development in Africa.

India's premier bank, HDFC Bank, has launched the WatchBanking for the Apple watch, allowing access to banking services from customers' watch. This is a pioneering effort in the wearable gadget category in the region. This is apart from the initiatives to launch paperless 10 seconds personal loans or the disbursement of loans through ATMs.

The Governments of some countries like Netherlands has taken a cue of rapid disruption, and in a move to consolidate the country's banks' share in the market, is mooted an ambassador for Fintech. Israel banks have regularly partnered with fintech start ups and allowed their platforms for running banking apps.

Fintech accelerators are springing up, focusing on the innovation hubs, viz., Silicon Valley, Europe, Israel and New York. Fiserv and Bank Innovation has kick started one such initiative.

Large populations in the emerging markets are still outside the banking network. To make banking accessible in some these vast countries, traditional banking models might prove to be too cumbersome. These countries have drawn up ambitious inclusive banking agenda and the only hope to achieve this challenge is through digital banking. India, for example, has already made good progress for crediting money into beneficiaries' accounts. The country's unique identity card is tagged to beneficiary

bank accounts and all payments are tracked.

Legacy and fast changing times...

Banks will be cautious while being swayed towards a digital overkill without any due diligence. Without a doubt, digital route for banks is a certainty for survival and gaining market shares. Most of the fintechs are small players, a reason good enough to tread carefully. A new 'thing' in the market may not last for too long and for it to gain acceptance, the proponents will have to be relentless in showcasing the benefits, to both internal and external customers. Also fintech outfits may not be experienced, and has not seen a complete business cycle. And, last but not the least, do fintechs make sense with the relevant banking regulations?

The structural issues for the financial services industry are well known - poor returns, hardening stress tests driving increased capital and liquidity requirements, inflexible core software, aggressive competition and a general talent drain. They will look to re-engineer outdated and old systems and processes to reduce cost, use data in a far better way to demonstrate risks more accurately with associated capital and liquidity impacts. And with a hawk's eye on the cyber risks all along.

The difference this time is that the speed of adoption is much faster and the ability of new entrants to seize a strong market position much enhanced. In very simple terms, the new digital bank requires long

term vision with short term execution.
Return on equity should be intact.

The digital end game, has just started, and the end is not near anywhere. Banks are up against yet another challenge. Having weathered many a storm, successful digital leadership will take them to safe shores. Loan growth, deposit accumulation, efficiency ratios and net interest margins are still as critical as ever. With the harshest of the digital revolution hitting, banks still continue to be banks. And this is no end game for them.



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