



How do you become a bank of the future? Stop thinking like a bank

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2020 has been a difficult year for us all. This year's challenges have pushed countries and communities to the breaking point; entire industries have had to shut shop, the global economy is in a state of uncertainty not seen in decades, and businesses have had to completely rethink how they connect and deliver services to their customers.

For Australian banks, in particular, 2020 has exposed the lack of success of many digital transformation initiatives. Systems and processes that were, in theory, farther along, or purportedly in use, have been revealed to be at best lacking and at worst, completely unworkable. All the years of buzzword-throwing have failed to deliver a truly pragmatic, durable, digital transformation for banks, and our current predicament has shone a spotlight on the institutionalised workarounds banks have put in place to not have to digitise properly.

Disruption is, of course, much bigger than just our banks: it's enveloping our entire world. If banks start to recognise that disruption is a gigantic red teaming exercise no one could have predicted – but everyone should have been better prepared to handle – there still might be hope for the industry.

A new hope

How do we move forward? First, banks need to have an honest conversation about what is and isn't working for their business during this incredibly stressful time. Second, they need to truly commit to transforming and recognise that buzzwords in name only are useless. They need to understand that agility, innovation, and digitisation only bring value if they are conceived, planned, and implemented properly. Digital transformation in name only is meaningless.

The banks of the future look less and less like the banks of today

Most banks realise they have to adapt to survive and the answer lies in innovative new products, non-traditional services, and new channels. They know that the answer is digital. They also know this isn't limited to their customers. The way people work is changing, and just as banks are providing non-traditional services and channels to their customers, so too is there a need for that to be replicated internally.

The endgame is clear: banks need to be fully functioning omnichannel businesses, inside and out.

Digital transformation is not delivering value

It has become increasingly evident that the massive investment placed in digital transformation has produced little to no tangible result on the bottom line. Up until now, the benefits have not materialised: not for customers, not for the bank, and not for its shareholders.

Even before recent events brought this all to the fore, in the **State of the Financial Services Industry 2020**, published annually for the Davos World Economic Forum, Oliver Wyman noted widespread shareholder unease at the failure of many large-scale transformation initiatives yet to show improvements in profitability. Wyman went on to explain that while most shareholders believed benefits would arise, it would be due to cost-savings, and not the promised revenue increases and higher customer value.

Google

This tech titan is launching a **customer checking account in partnership with Citigroup**. Its primary motivation is customer data and better understanding a consumer's purchasing behaviour. At this point, they're just offering checking accounts, but what's in store in the future? Quite frankly, whatever they want. Banks need to be prepared.

Amazon

Amazon has been offering loans since 2011, and its strategy is focused on creating a commercial partnership with young consumers and those without banking services. Last year, **Amazon launched an aggressive recruitment campaign in Singapore** to mine the country for the finest banking technology experts. With Amazon eating up all the talent, how will banks continue to deliver compelling employee value propositions and attract top tech talent?

Facebook

First, Facebook jumped onto the cryptocurrency trend by releasing its coin, Facebook Libra. Now it seems Facebook is forging ahead into the payment products space with **Facebook Pay**; a seamless, secure way to pay using apps customers are already conditioned to love and use almost daily.

FinTechs

Closer to home, Aussie-grown FinTechs are taking the fight to the banks head-on. Australian FinTechs are doing this so well that last year KPMG and H2 Ventures named seven of them among **the world's top FinTech innovators**. Important to note is that it's not just retail banking at stake. **Judo Bank**, for one, focuses on small and medium-sized enterprise lending, offering a range of financial options for businesses, with products enabled by new technology and backed by traditional relationship banking.

The suspicion is that while banks may know a lot about money, they don't know much about tech.

Who does know about tech? Google. Amazon. Facebook.

These titans are already dipping their toes in the tempting waters of financial services and are soon set to immerse themselves fully. For the banks who have competed solely with each other for decades, this is a wake-up call. Now there are some new kids in town, and banks need to benchmark their products and services against them, not the banks of yesteryear. Of course, it's not just the titans of tech banks have to worry about - there's also the rapid rise of the FinTechs. There's a battle brewing on multiple fronts and banks need to ensure they're at least one step ahead.

Agility is key, but what does it mean?

We return to the question of digital transformation. We return to the promise of bringing agility and innovation into the world of banking.

As is hopefully clear, the answer isn't to haphazardly put together a Digital Transformation team, call yourselves an agile organisation, and hope that customers and employees alike come flocking. It's not simply about tearing up legacy systems and racing headlong to the cloud. It's much deeper than that. There must be a vision and a culture that goes with the digital journey. **As ANZ Chairman, Gerard Florian calls it**, "As far as transformation, a lot of people want to focus on agile specifically, but really, for us, it's a way of working, and that is a cultural transformation." For ANZ, transformation is not a one-off initiative with a beginning, middle, and end; it is a continual process that is as much about the hearts and minds of the workforce as it is about tech.

Technology only solves half the problem. Internal business planning, staff motivation, and a clear understanding of customer needs should be the driver of technological change. As we move into an increasingly distributed work environment, liberating staff from their desks, encouraging agile thinking, and releasing creativity is just as important as the acquisition of new hardware and platforms. Multiple channels of operation are now more important than ever and must feed into a bank's business continuity planning. This new thinking needs to extend throughout the organisation, from the boardroom down.

Think like a Fintech

How can the banks challenge the challengers? The rise of the FinTechs, who have customer experience embedded in their DNA, could mean that established banks are seen simply as utility providers. They risk becoming increasingly irrelevant to people's lives.

Like the FinTechs, banks have the opportunity to reinvent themselves, not just as service providers but as lifestyle brands - inside and out. Digital transformation can facilitate this transition. As banks begin to embed innovation and security into their everyday operations, they will be in a far stronger position to both embrace FinTech capabilities and compete directly with them.

Direct competition may not always be the way forward. One result could be that the banks stop seeing FinTech as the enemy and start partnering with them to deliver better services and products to their customers.

In the United Kingdom, Lloyds Commercial Banking has already seen the **value collaborating with FinTechs** can bring and adapted its approach to improve how they collaborate with potential partners. A recent example includes successful collaboration with Xelixa – a platform that uses machine learning to enhance validation and decision-making processes within a business’s accounts payable.

Reinventing the bank

It’s time for the banks to take a deep breath, take a fresh look at their digital transformation journey, and take stock of the tangible business benefits they actually are – or are not – driving. As recent upending events have shown, banks need to be prepared for anything, and the way to prepare is to be digitally-ready. Gradually implementing agile methods will result in a more productive strategy than simply rushing to be seen as being first and throwing tech-trendy buzzwords around as if they alone could solve the problem. The key is not just to win, but to know what winning looks like.

For the Australian FSI sector, these are challenging times, and the survival of the banks will depend on their ability to reinvent themselves. Reinvention and continuous renewal are what the tech titans and FinTechs are good at. In the new normal of the financial services landscape, it is also where banks must compete.

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