



Three Steps to Digital Transformation

Next Gen Digital Banking Platforms Can Help
Mid-Tier Banks Pivot Quickly Into The Digital Age

As the world recovers from recent crises, new behaviors are beginning to emerge. Now that even the most reluctant customers have been forced into digital banking channels by stay-at-home orders and business closures, industry leaders are seeing that most customers will stay in those lanes after things reopen.

As a result, the digital transformation that has been slowly taking shape over the past few years has quickly become an industry imperative. Organizations of every size will need to provide digital options to customers and employees, alike, to compete in this new marketplace.

To pivot quickly into the digital age, mid-tier banks may have to rethink their value propositions and consider implementing modern banking platforms that enable them to ramp up new digital products and services fast; and that offer a level of flexibility that enables them to adjust to changing customer journeys easily allowing differentiation. A modern banking platform can also help mid-tier banks expand their systems, connecting to other financial technology (fintech) firms and third-party providers.

ONLINE VS. DIGITAL BANKING

The financial services industry has changed dramatically over the last 20 years, yet the IT infrastructure at many banks hasn't kept up with the digital revolution. Entrenched legacy systems have slowed banks' ability to respond to technological advances, leading to inefficiencies and operational risk. At the same time, banks have had to absorb a steady increase in technology costs every time they try to add new services and features. As a result, digital maturity in retail banking is still very low.

"The State of Digital Banking Transformation" from the Digital Banking Report found that only 12% of firms surveyed in 2019 considered themselves to be digital "leaders." Further, fewer than half of the firms surveyed said that they were prepared for competitive threats, customer expectations or technology advancements.

That's because many banks still haven't bridged the gap between online banking and a true digital transformation. Too often, bank leadership believes that having an online portal and a mobile app are enough.

They're not. As long as banks spend their time and resources simply delivering the same products through different channels, they'll continue to lose business to new fintech entrants. To compete, banks need to differentiate themselves by giving unique offerings to unique customers, according to PwC's Global Fintech 2019 report.

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Digital Banking Report

ARE SAAS VENDORS PART OF THE SOLUTION?

To close their technology gaps, banks increasingly depend on vendors to provide digital products that can be delivered across a bank's existing platform. The problem with that strategy, though, is that layering vendor products on top of a traditional banking infrastructure creates a self-limiting environment.

First, the vendors are dictating which services banks can deliver, not the customer. How can a bank differentiate itself in the marketplace if the vendor offers the same solution to every institution? Consider some of the increasingly popular direct payment apps. They're a great choice for customers that only need to make person-to-person, or P2P, payments. But what about business-to-business or customer-to-business, or even business-to-customer payments? What if a customer wants a split-payment option?

Managing multiple direct-payment platforms from different vendors to meet a variety of customer needs would be a herculean task.

Second, what happens when customer habits or their preferred technologies change? Can the banks afford to wait in line until the vendor can come up with the solution? For example, only five years after Amazon launched Alexa, digital assistants had taken up residence in more than 20% of U.S. households.

Change is a constant, and the rate of change is constantly accelerating. The only way banks can keep up is by implementing a digital platform that is smart enough to anticipate change and flexible enough to adapt with it. Here's how

STEP 1—PEOPLE FIRST

Research shows that the most successful digital transformations start at the top, with the CEO and board of directors. "The State of Digital Banking" found a "very strong correlation between innovation leadership and digital transformation leadership in retail banking." That study also found that the most successful digital transformation efforts were led by CEOs or the Chief Digital Officer.

That's because, while most digital initiatives focus primarily on information technology (IT) functions, every facet of the institution needs to be transformed to create a comprehensive digital banking ecosystem. Global bank BBVA's digital transformation is a case in point.

In 2015, former BBVA Chairman and CEO Francisco González announced that BBVA was no longer going to operate as a bank. It was transforming itself into a software company. With one sentence, González erased the entire organization's legacy playbook and established a new set of operational goals and standards.

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Of course, pushing that cultural change through the global company has taken years, but it has provided a model that other organizations can learn from. For example, early in its digital evolution, one of BBVA's subsidiaries introduced a digital loan product that was incredibly successful.

It was so successful that in-country branch managers revolted. They couldn't compete with their parent company on a playing field that they couldn't even enter. BBVA had to pull the product off the market and rethink the entire organization's incentives programs to align them with its new identity as a tech company.

The lesson here was that to drive cultural change, banks first need internal alignment. A 2020 report from Galileo, "Digital Banking in Latin America," found that 76% of the financial service executives surveyed said that the lack of a digital culture is still the main barrier to digital transformation. Top management will need to find new ways to incentivize their workforce and give them new tools to work with.

Banks also need to reconsider the types of skills that the workforce of the future will need. PwC's "Banking and capital markets trends 2019" found that 80% of the CEOs surveyed saw skills shortages as a threat to their growth prospects, and most believed that this skills gap was undermining their organizations ability to innovate. "People—not systems—drive innovation and help realize its full commercial potential," PwC noted.

STEP 2—RETHINK THE CUSTOMER JOURNEY

Research by Salesforce found that 80% of customers say that the experience a company provides is as important as its products or services. And banks are no exception. In its Global Fintech 2019 Report, PwC stated that the ability to deliver a premium experience will probably help determine the winners and losers in the digital banking arena. To deliver premium experience, though, banks need to reinvent the customer journey.

Instead of focusing on the transactional relationship with customers, focus on the personal side, BCG suggested in its "Banking 2018: Unlocking Success Through Digital."

"Banks need to rethink processes from a client perspective to deliver an outstanding digital experience across the entire customer journey," BCG observed. "They need to put customers at the center of all design decisions."

Deloitte has identified more than 820 functionalities that cover the entire digital customer banking journey: from information gathering, to conducting day-to-day banking functions, to the end of a customer relationship. The challenge for banks is to figure out how to leverage each of those functions in support of the overall customer experience.

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STEP 3—FIND DIGITAL PLATFORMS OFFERING STRUCTURAL FLEXIBILITY

Tearing out existing systems and rebuilding your IT infrastructure from the ground up is a daunting—and expensive—undertaking. A better option for most banks might be to implement a modern, API-centric, cloud-based platform. By combining the cloud's easy access with an open application programming interface (API), banks can tear down the silos built around legacy products and lines of business, opening up new business opportunities and revenue streams. Flexibility is key to differentiating.

For example, one mid-tier bank used Galileo's API-centric Cyberbank core and digital banking platform to create a totally customizable product that connects payments with checking and savings accounts. While some big banks have let users round up debit card purchases and stash their change in a savings account for years, this card lets each user decide how much they want to put aside with every purchase. They can round up to the nearest dollar, the nearest \$10 or even higher.

Then users can set parameters around when they can see or access those savings. Maybe they don't want to know how much they've saved for holiday shopping until December 1. Or they can set an alert that lets them know when their savings hit \$15,000 so they can buy that new car.

This level of differentiation was enabled by structural flexibility and would have been impossible on a traditional banking platform. Today, though, this smaller bank is now effectively competing with multinational institutions for a share of customers' wallets.

BCG estimated that by delivering more personal experiences, banks can "conservatively" boost revenue by 10%. "We also expect personalized banking to drive material competitive advantage for first movers that embrace it over the next five years," BCG added.

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Structural Flexibility is Based on Three Pillars:



ECOSYSTEM CREATION THROUGH DYNAMIC APIS:

In order to successfully create an ecosystem banks require an API-based banking platform. Where all the components expose REST-based APIs, and include state-of-the-art security capabilities like OAuth2 provider, token management and secure encrypted communications, among others. Mid-tier banks should look for a platform that has all these capabilities embedded in its API technology. They should also look for a platform that offers a framework that provides extensive flexibility to define internal (closed) and external (open) API endpoints that allow the bank to share (or not) the required information with authorized partners in the ecosystem.



AN ACCELERATION FRAMEWORK KICKSTART

Digital accelerators allow reuse of components already developed and implemented to serve millions of users, helping to speed up processes, reduce costs and cut the time required to develop and implement a digital strategy.



CLOUD-BASED ACCESS TO CUSTOMER DATA

A cloud-based platform with elastic provisioning delivers highly scalable and flexible infrastructure management. And because cloud prices levels are public, and not locked into the vendor's business model, a cloud-based platform could also reduce costs.

This type of platform can also provide the 360-degree view of each customer that banks will need to create more personalized customer experiences. By combining all of the data currently locked inside separate business units, and leveraging that insight with artificial intelligence (AI), banks are better positioned to anticipate customers' needs, allowing them to deliver the right offer at the right time to the right person.

Cloud access to advanced analytics can also help banks identify new markets and design new products to meet changing economic conditions. By becoming more agile, banks can accelerate speed to market and boost revenue growth.

Another advantage is that cloud-based platforms make it easier for firms to harness new technologies as they evolve, while providing greater security and scalability than traditional office-based systems.

Benefits of digital accelerators are:

- Continuous and consistent experiences on all devices, allowing customer segmentation (retail, business banking, corporate banking, private banking, and payments) according to the definition of user profiles.
- Standard APIs that allow the generation of new business models through open banking.
- Differentiation through Innovation. As an example, digital wallets and virtual cards implemented in recent times are becoming an effective way to interact with customers and partners, and they can be implemented in a matter of weeks. By leveraging a platform that is designed around the concept of structural flexibility and runs on a customer-first environment, banks can:
 - Gain a competitive edge with a flexible system that drives dynamic product and service innovations.
- Create and launch new products at market speed.
- Improve customer service by providing multi-channel financial services with a seamless interface across multiple platforms.
- Gain an integrated customer view across all points of contact, with a client-tailored data repository that combines customers' information, products and transactions at a multi-dimensional level.
- Minimize operational risk by implementing a system designed around industry compliance standards.
- Use monitoring, control and corporate governance tools to trace and resolve transactional issues.
- Keep systems updated on regulatory changes with intuitive rule management tools.
- Align the technology with business needs, making it easier to introduce new services and operations with a minimal impact on IT resources.

No one knows for sure what the next “trend” is going to look like. What we do know, though, is that consumer banking habits have changed forever and will continue to evolve. The question is no longer whether digital will transform financial services. The question now is how banks and financial firms will use modern banking platforms effectively to differentiate themselves and emerge as leaders.

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