Industry Perspective

Banking's Digital Future: Accelerating Transformation

A Joint Point of View with PwC and Workday

Digital banking is the future—and that doesn't end with the customer experience.

Banks are emerging from the pandemic strongly positioned to make strategic investments for the future and see digital transformation as a key factor in their ability to remain competitive. As the overall economic conditions continue to influence the sector's growth projections, leaders are focusing on diversifying revenue, streamlining operations, and finding innovative ways to build resilience while managing risk.

These leaders understand that while customer-centric business models are necessary for future success, meeting stakeholder expectations must remain a primary motivator. In this vein, visionary banks are making investments that will make their operations faster, fitter, and more agile.

That's where the cloud comes in. From predictive planning to back-office automation, cloud-based applications help banks get more value from the oceans of data at their disposal. These applications also enable the remote access, intelligent workflows, and real-time decision-making that is so crucial to creating a sustainable advantage.

Transforming legacy systems gives finance teams in particular a broader view of the business. Enabling technologies such as machine learning can free finance from its transactional focus, ushering in a new era of efficiency. By prioritizing tasks that truly need their attention rather than wasting hours on mundane manual tasks, finance teams can provide smarter, more actionable strategic guidance for the future.

As organizations across the sector accelerate digital transformation, small and medium-size banks are also feeling the crunch to find efficiencies. Cloud-based tools and platforms offer smaller institutions the benefits of focused innovation, helping them compete with the biggest bank's efficiency of scale and the most agile fintech's speed to market.

With the landscape shifting every day, banks are investing in technology to help them become more responsive, identifying and increasingly capitalizing on opportunities as they arise. Quickly assessing which resources the bank has at its disposal—and running accurate predictive models—are crucial capabilities for an uncertain future.

"You need to have a view on where you can compete so you can set the strategy," says Peter Pollini, Banking and Capital Markets leader at PwC. "Because it's changing all the time."

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The changing banking sector.

The pace of change in banking is breathtaking. While disruption is coming from many directions, senior executives in financial services are focused on three top change priorities, according to PwC: client and customer satisfaction (90 percent), regulatory compliance (85 percent), and operational resilience (82 percent).

Banks need to be ready to deliver the digital experiences customers demand—because consumers aren't willing to wait. Mobile banking has already overtaken all other banking channels in popularity, according to the American Bankers Association. Roughly 1 in 4 bank customers now say mobile apps are their top choice for conducting banking activities.

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But the sector's strict regulatory environment can be a roadblock for digital acceleration. To navigate continually evolving compliance rules, banks are turning to cloud-based platforms with flexible reporting capabilities that can adapt as requirements shift.

"Gone are the days when you've got a new accounting regulation and you have to build the logic into an interface," says Angela Borth, senior director of Product Strategy for financial services at Workday.

For instance, Workday Accounting Center makes it possible for banks to react to regulatory changes on the front end, Borth says. Having access to a richer set of data also helps banks comply with changing compliance rules—and respond quickly and efficiently to audit requests.

"Our banks expect significant savings in audit costs with the data lineage available in Workday Accounting Center," Borth adds.

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> Senior Director of Product Strategy for Financial Services, Workday

When it comes to increasing operational resilience, the banking sector is focused on pursuing new business opportunities while also managing evolving risks. Having a comprehensive and effective environmental, social, and governance (ESG) approach is a necessary piece of this equation as banks work to navigate the volatility created by health and humanitarian crises, social inequality, and climate risk.

Banks need to set clear goals around environmental impact, diversity, equity, and inclusion, and transparency to meet rising expectations around the role financial institutions should play in society. Measuring—and communicating about—progress around these goals is key to creating sustained outcomes and demonstrating the organization's sincere commitment to these issues. That requires in-depth reporting capabilities that provide easy access to operational and HR data, and can show how key metrics have changed over time. This, in turn, demonstrates accountability and builds trust.

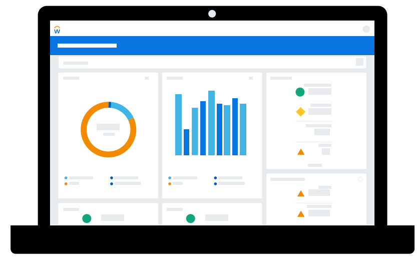
In this environment, banks are also adopting technology that can help them analyze the landscape and predict possible outcomes with predictive analytics. Looking at credit in particular, banks are using predictive models to inform lending decisions in areas facing increased climate risk, such as California and the Gulf coast.

"There's this interesting complexity out there around alignment of models that are already taking into account historical frequency and severity of climate-specific changes," says Pollini. "The challenge is forecasting the incremental impact of climate change."

Workforce upskilling is another top priority for banking leaders. In fact, 98 percent of financial services organizations rank technological proficiency or the ability to adapt to new technologies as the top skill they need to develop over the next five years, according to PwC.

That makes sense, since all this technology is only as good as the people operating it. Banks need people with the right skills to reconfigure the business for a digital future, as the sector moves toward platform- and ecosystem-based business models that will allow them to respond faster to change. And more often, banks are partnering with large technology firms to get there faster than the competition.

"Speed matters here," says Pollini. "If you can create an advantage with your migration to the cloud, for example, that could lead to a lower cost of managing your business."



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What will set future leaders apart?

To set themselves up for success in an era of uncertainty, banking leaders need to stay ahead of the changes that are already underway—and prepare to pivot during the next wave of disruption.

"This business gets more complicated every day because the definition of banking changes every day," says Pollini.

As digital transformation accelerates in banking, five key capabilities are poised to set future leaders apart.

1. New ways of working.

COVID-19 required banks to build the capabilities to support a remote workforce—and the value of this investment will stretch far into the future. It gives banks the flexibility to offshore more work or rethink their talent and real estate strategy entirely.

But the equation goes both ways. To attract and retain top talent in an increasingly global job market, banks are looking to give their employees the tools that will make it easier to do their jobs—and the flexibility that enables greater work-life balance.

"Every institution needs to think more about their people strategy and their people experience," says Pollini.

Enterprise cloud management systems such as Workday give banks the ability to better manage individual employee schedules while also meeting the needs of the business. "You can't really manage on a spreadsheet that someone wants to work four hours in the morning and four hours in the evening because they have childcare commitments throughout the middle part of the day," says Pollini.

Workforce tracking and analysis tools can also help leaders understand employee needs, allocate resources more effectively, and deliver training as needed. A combination of data, AI, and automation can inform decisions that improve productivity and help banks make better use of their workforce.

But banks need integrated finance and HR data to gain insights into how operational costs impact their profitability. And this isn't possible when finance operates on a legacy system, even if HR has already moved to the cloud.

"The downward pressure on interest rates and profitability is forcing banks to look at their cost base and their efficiency ratios," says Borth. "Many banks out there are still on legacy mainframe or on-premise platforms for finance. But they're turning their attention to finance transformation and digitizing the middle and back office."

2. Smarter resource management and talent development.

Banking leaders need reliable data to make strategic workforce management decisions that will drive productivity and profitability.

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And the more contextual data is, the more valuable it becomes. Enriching HR data with information about employees' past projects, skills, productivity metrics, customer satisfaction scores, or other relevant intel can help leaders turn raw data into meaningful insights that help leaders run the business more effectively.

These insights can also help banks attract and retain top talent more effectively. As more and more workers migrate toward mission-driven jobs, financial services companies need to show they can offer targeted skills and career development opportunities to compete.

But research shows many financial organizations still lag in collecting non-financial data, such as productivity metrics. Cloud-based enterprise resource management systems can help banks fill this gap and develop more holistic people management strategies.

"Combining the data and having a data strategy will be much more important in the future," Pollini says.

3. Holistic approach to digital transformation.

It can be tempting for companies to invest in niche solutions that promise to solve a specific problem—but using different systems in different departments often ends up increasing cost and complexity.

An informed, holistic approach to digital transformation allows banks to concurrently evolve operations across all business units. This is more efficient and effective than addressing each function independently, as it helps banks break down the silos that impede transformation. This means no teams or critical operations are left behind, and it helps banks build operational resilience for the future. The end result is a bank that can adapt to any change in the business model quickly and comprehensively.

Unifying digital transformation also promotes growth by giving employees a more complete view of customer behavior. When data is connected across silos, sales teams can discover unmet customer needs and capitalize on opportunities to deepen their relationship with the bank.

"Banks on their own today are incredibly complex ecosystems," says Pollini. "But they need to do a better job of connecting customer experiences between channels. That remains the holy grail of banking."

For example, if a customer makes credit card payments with a competitor each month, the credit card team could invite the customer to switch. But they won't see this opportunity without access to the data owned by the deposit team. Workday helps banks make these valuable connections across lines of business with its intelligent data foundation.

"There's no limit to the granularity of operational data you can bring into Workday," says Borth. "The data is all in one place and it doesn't need to be summarized, extracted, and transported to be used across operations."

4. Investments in data and analytics to drive innovation.

As digital transformation continues to accelerate across the sector, banks will require more advanced digital capabilities to compete. The majority of firms are already responding to disruption by employing new technologies within their business (85 percent) or offering new products/services to customers (70 percent), according to PwC.

Partnering with technology and non-financial services companies can help banks innovate at the speed the market demands. For example, embedded finance—also called embedded banking—is disrupting the traditional lending landscape.

These services, which allow consumers to purchase insurance or access financing at the point-of-purchase, are expected to expand rapidly over the next three years. Across consumer lending, insurance, and payments, embedded finance is expected to generate $230 billion in revenue by 2025, a 10-fold increase from $22.5 billion in 2020.

To remain competitive as the market rapidly evolves, banks need a strong technology foundation that stretches across the organization. Enterprise cloud management systems give financial services that foundation, making it easier to partner with technology experts and innovate at speed.

A holistic approach to digital transformation also helps banks make better use of their data. Analytics is a primary area of focus, with banking leaders looking for opportunities to combine information from across the organization, looking at areas where customer behavior, employee activity, and financial performance overlap. This unified view allows banks to gain more valuable insights from the data they already own.

"I think what's on the minds of most CEOs is, 'If I can access my data more efficiently across the institution, how will I use it to actually create demand?'" says Pollini. "They don't want to go out and buy leads to grow their business. They have the information they need."

Putting a dollar amount on data in terms of revenue and growth is only one part of the innovation equation. It also helps banks identify potential problems, design more competitive products, and even become disruptors in the field.

5. Real-time strategic planning.

Disruption has become a constant. In this environment, shortening the horizon for strategic planning is no longer enough. In the new normal, banks need real-time data and an agile approach to strategy development. Digital tools such as Workday Adaptive Planning give leaders the ability to assess different responses to change—and shift their plan accordingly.

"Workday Adaptive Planning comes into the picture and completes it by helping customers model the future and make more informed decisions," Borth says.

For example, Workday created a robust retail branch planning model specifically geared toward lending institutions that combines workforce planning, revenue, and expense data. This lets banks model out the expansion, closure, and refurbishment of branches to see how certain decisions will impact the business.

Having a single, reliable source of truth also builds confidence in the data being reported. That means leaders can spend less time questioning whether they trust the data and focus on making faster, more informed decisions.

"With the current interest rate environment, deposit surge, and daily liquidity needs, banks need a streamlined dynamic approach to closing daily, as well as doing more continuous balance sheet and margin planning," Borth says. "Our new adaptive models allow FPA controllers and line of business analysts to gain new insights and plan with more precision and speed."

Steps to a successful transformation.

Not all financial services organizations that set out with the goal of digital transformation end up delivering the desired results. Many organizations struggle to invest in the solutions that will do the most to streamline their operations and enable strategic growth. Poor implementation of tech and a lack of a coordinated strategy are two primary blockers for digital transformation, according to PwC.

Change management is key to overcoming these obstacles. Banks must provide training on new systems and tools, and upskill employees to ensure they know how to use, manage, and protect data. Amidst rapid innovation, employees must also understand the basics of control and governance, which helps ensure that changes are tracked and approved in a standardized way.

Strong cybersecurity practices are another critical part of a successful transformation. "Data is probably my biggest asset if I'm the CEO of any large financial services company," says Pollini. "And the real question is, how do I protect it? Because there's nothing that slows growth like a regulatory matter."

As the threat landscape becomes more complex, banks are responding with new security investments. In fact, more than half of financial services organizations (53 percent) expect to invest more in cybersecurity over the next 12 months, according to PwC.

Many banks are turning to the experts to help protect their private data, leveraging the security capabilities built into cloud-based platforms. Because these platforms deploy security updates at scale, they are able to address new cyber risks as they are identified.

Banks should also look to embrace the platform economy as they invest in the infrastructure they need to provide a better experience for customers and employees. And partnering with a technology leader will allow financial services companies to transform faster—and get those experiences to market faster than the competition.

"If you're a bank and you want to be seen as an ecosystem company, there are short-term advantages to partnering with a company that already has a really well-known and very well-respected brand and ecosystem," Pollini says.

A new view of resilience.

Successful banks of the future are building innovative and inclusive ecosystems today. In this environment, platforms will enable greater connectivity, more intricate interactions, and better products and services.

What's more, cloud-based platform ecosystems give banks the technical foundation they need to weather future storms. Beyond providing the real-time information leaders need to react, they offer predictive capabilities that will allow banks to increase their resilience in an era of unprecedented change.

"Typically, clients and companies have evaluated their resiliency with how well they react to unexpected events," Pollini says. "Now companies are starting to think of resilience as a preventative strategy rather than a reactive strategy."

With the right foundation in place, future banking leaders won't need to work so hard to gain meaningful insights from their data. Intelligent, automated analysis will be a given, freeing leaders to do what they do best: think big.

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We've unleashed a new wave of creativity, with a platform that was built with business users in mind.

Angela Borth
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