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Selecting the Right Platform: Reinventing Banking for Long-Term Success in the Digital Age

White Paper

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Banking - 2021 and beyond

In 2020, banks faced one of their worst nightmares globally, with the closure of physical offices, and the move to complete remote orchestration of banking. While this has led to high-impact transformation and rapid adoption of new technologies, the core functionality of banks remains the same - managing risk, matching capital demand and supply efficiently, and deeply perforating their customers' lives and institutions' operations. Most banks fast-tracked rapid fixes and undertook new transformation initiatives - and are now ready to explore what future-readiness means and how digital will help them achieve it. How can banks do this right in the digital age, and what will it entail? More importantly, what's the best and most cost-effective way for banks to sharpen their focus on business transformation with nimble, yet cutting-edge technologies?

Before banks were forced to go online in 2020, most were serving static products through physical offices, and the banking product remained an unchanging block that could be replicated to earn money for the bank. Front and back offices remained people-intensive, and most relied on legacy technology to aid workflows, in silos. Such banks were characterized by slow turnaround times, inefficient operations, and few managed to achieve moderate levels of customer satisfaction.

But this will not be the case anymore. Banking success, post-2020, will be defined by the following factors: transparency, intelligence, security, seamlessness, and real-time. In other words, banks must do away with most things that happen at their branches, eliminate repetitions from their workforces' to-do lists and bring 100% focus onto the customer - all the while, running background processes to meet the specific needs of the customer clicking the Register Now button on their websites. How can this be achieved?

Transforming the core

According to McKinsey, operations, IT, and business support form over 50-55% of the banking budget today. With low growth, low inflation, near-zero interest rates, and contraction of revenues owing to several factors, banks must build profitability by transforming their core into a tech-enabled core will be the key to building both resilience and profitability in the long run. However, tech is not bankers' business, and this is where the biggest impediment lies for those looking to move from legacy banking products to solutions tailored for the digital age.

A federated buy approach

Shifting to a solid tech-enabled foundation that can shoulder banking products requires banks to act as digital powerhouses. While large banks like JP Morgan Chase, Goldman Sachs, and Bank of America have undertaken such transformations along highly coordinated and well-defined roadmaps at scale, most mid and small scale banks either run on shallower pockets or find such elaborate transformations unsustainable. After all, running a digital powerhouse calls for experience with digital operations and a new talent profile to run, maintain, and sell on new systems. In such a scenario, partnering with tech leaders seems like the preferred survival strategy that enables banks to focus on their core businesses and differentiate via experiences that delight their customers.

More and more bankers want to steer clear of the longer build route due to the need for change now and also the obvious investments of time, cost, and labor, and probability of success. Instead, they prefer to take on a nimble and accelerated approach to attain a transformed state using 'Federated Buy' - a transformative approach that allows for the usage of best-of-breed (niche) fintech solutions with open banking principles driving seamless integration. Some of the guiding principles will include leveraging cloud as-a-service option and defined handling of data for both security and analytics usage, amongst other things.

A defined target state

The primary building block for a federated buy approach is a defined target state. While value-building cases will be based along the modern pillars of customer-centricity, having a predefined target state that brings flexibility with accountability and leverages lessons from well-charted transformations will be critical. In other words, the target state must be linch pinned on the metrics of a digitally transformed process.

For example, the CIO of a bank might want to introduce a digital onboarding solution that also automates KYC approval - in such a scenario, the target state can be defined by phased or upfront implementation of a seamless, omnichannel experience powered by a user-centric frontend, OCR technology for document intake and verification, an automated KYC procedure, and an architecture that combines data points from across channels, while it must be measured by the number of cases where human attention is needed, to facilitate the end-to-end process. Moreover, the target state can also envision the extensibility of such a capability or set of capabilities implemented across multiple workflows - which multiplies the RoI and saves costs in building scalability by developing once and deploying anytime, anywhere.

Adopt to Adapt

As banking goes digital, the tools and platforms that facilitate bankers to modernize their exchanges with the customers and the internal processes that support them are also evolving to provide high levels of efficiency, along pathways that differ from traditional approaches. Adopting these solutions will be critical for those who are looking to reinvent their core along with the best practices that the product is capable of injecting into their operations. Banks with unique value propositions and offerings might also be forced to adapt a product to fit their operations. Infact, some banking products have explicitly talked about the value of avoiding hardcoding and instead, adapting to a renewed way of organizing enterprise resources along the digital banking value chain.

To summarize, banks need to first adopt industry solution(s) for core functions and then leverage peripheral innovations and integrations to adapt and scale them for their suitable needs. The role of a mature system integration partner (Internal IT and external vendor) becomes critical in such a transformation. While in this paper we focus on helping banks choose the right products to adapt, in a follow-up article we will talk about the implementation of the target solution.

ZenEval Framework for selecting the right product

From a strategic perspective, selecting the right product for digitizing the core will entail a comprehensive analysis of the target markets, competitor landscape, the strategic imperatives, and overall digital maturity levels - following which, the product evaluation roadmap will define the banker's balance sheets for years to come.

Zensar offers a proprietary ZenEval framework to help banks make the right platform choices. This framework is the outcome of our deep experience and expertise and focuses on key pillars of target state, business functionality, technology and architecture, product vendor maturity, commercial constructions and certain qualitative aspects as outline below. The framework also gets adapted to client-specific needs. Listed below are relevant details for the key considerations:

1. Business functionality

While banking in the coming decade will not look significantly different from some of the unique business models that have been in the news until now, the insides of the bank will. Naturally, the product that sits at the heart of these operations must align with the business imperatives of the company. For example, SaaS offerings from most vendors allow easy MVP-based quick launch and transition to cloud-based operations before transforming into a digital-only model. Similarly, country model bank offerings as part of the core from vendors like Temenos allow bankers to quickly expand to global markets while ensuring compliance.

From the purview of business functionality, such products need to be evaluated on the following three dimensions:

1. What business functions and process flows does the product support, out of the box? Will you require technical expertise to deploy some or all of the features? How flexible is the product, and will it cause tectonic shifts in your talent and operations configuration before a successful rollout?

2. Does the product internalize the modern paradigms of banking success - for example, does it help your teams deliver a seamless omnichannel experience, or leverage automation to help you cut back on high-expertise talent wastage or allow for easy standard third party integration like credit bureaus, payment gateways, etc.?

3. Does the product come with built-in mechanisms for compliance reporting and risk visibility, and does it show awareness of the regulatory landscape across targeted geographies and markets?

2. Technology and architecture readiness

Digital will be at the center of a future-ready bank. Leveraging technologies like AI, big data, and intelligent automation is already carving out leadership in banking - from commercial to retail and even capital markets. The next-generation operating model will bleed cutting-edge tech at the core. At the same time, the definition of cutting-edge in tech remains in constant flux. How will the CIOs and CDOs determine the right product from a technology readiness perspective, and especially one that delivers value in the long run?

Here's how:

1. Cloud readiness: Cloud can help bankers bring new benchmarks of efficiency to their risk and compliance processes, and at the same time, enable fully remote operations and engagements. Will it cost you extra to take your operations to the cloud, or does the product enable you to go cloud native within a short implementation timeline? More importantly, how will it affect your overall operational expenditures post-implementation and in the long run?

2. Open banking: Open banking is not just about partnerships but also about technological compatibility. While some products are based on modular API-based architectures, they provision limited plug-n-play integration capabilities. Will the product allow you to inject a new capability or functionality, or does it come as a black-box solution with little scope for integration? How does the product fit into the extended digital banking ecosystem? Can you deliver new value propositions through 3rd parties within your product?

Moreover, containerization through microservices has helped top digital players to drastically reduce their rollout times and operational costs while introducing added agility and flexibility to digital change - the trend has made inroads into digital banking operations too. Does the product leverage microservices architecture, or does it take the traditional server-client approach?

DevSecOps: As the cost of compliance workflows and securing application architectures increases in addition to stricter regulations like the GDPR and CCPA, building security paradigms into the banking product from the get-go is becoming a major avenue of cost savings, and building advantage in terms of cost of delivery and rollout times for new features and services.

3. Product vendor maturity

Some products carve a niche of their own within an industry, while others fade out over time. When selecting a product to enable core transformation, evaluating the vendor's commitment for continuous improvement, R&D and

support is crucial - since your business model might suffer from the vendor's limitations and the product's shortcomings, in the long run.

Here are three aspects to pay attention to:

1. Vertical integration: Beyond support for digital operations and risk management functions, the product must also demonstrate a vertical integration of this core across the value chain - from customer experience to analytics. This can bring a multiplier effect to the transformation journey, break down the silos and inject transparency across functions. How does the product rank on digital maturity in comparison to the current industry benchmarks?

2. Marketplace: Does the vendor facilitate developers to accessorize new functionalities, and can new customers purchase these functionalities through a dedicated marketplace? For example, in the automation niche, SAP RPA delivers up-to-date bot automation content for process flows through a dedicated marketplace. Such mechanisms enable products to stay relevant beyond their life and generate long-term value for their customers.

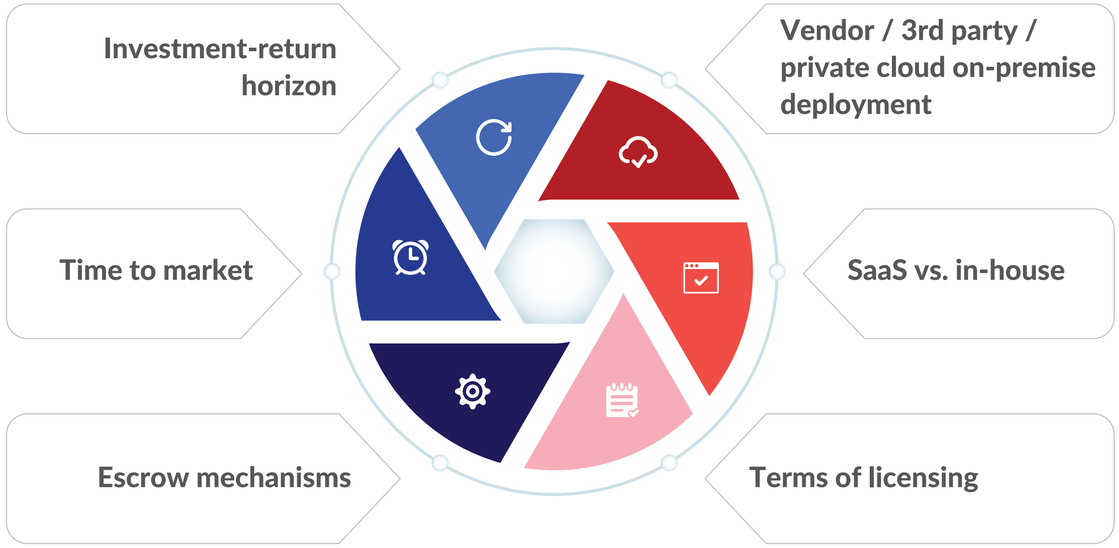
3. Scale and presence: Does the vendor cite some recognized names in the industry as their clients? If the product supports clients in global markets, understand its geographical footprint, compare it with your own, and check for its alignment to your long-term expansion strategy. If the vendor claims that the product can take you globally, understand their commitment to helping you meet the regulatory requirements and other hygiene standards - does the product ship with pre-configured data privacy and digital operation standards across jurisdictions, or will you need external expertise to expand to a new geography?

Senior management must also explore other factors that can make or break their target outcomes. For example, does the vendor boast of reputed partners and systems integrators that can help you make the leap to your defined target state? Often, enterprises find themselves struggling to shift to a new operating model in a sweep - can you take a staggered approach as you roll out your digital offerings, and does the product enable you to conduct small proof of concepts for evaluating a larger business case?

4. Commercial Constructs

The Commercial considerations or cost of delivery is also a critical aspect to evaluate. The idea is to look at what offers the most value, is cost-competitive, and not simply the cheapest.

There are several considerations to decide on the right elements to decide the cost/value of delivery:



5. Qualitative Aspects

Lastly, senior management must evaluate the solution in terms of the leadership teams, their approach to building diversity and inclusivity in the organization, the overarching vision that they bring to the product - and how it germinates in the overall product strategy. Also, understanding the organization's commitment to sustainability and green initiatives and user-level messaging across channels can help determine and forecast long-term suitability and alignment with your organization's core values.

Conclusion

Ultimately, going digital will not be an option but a prerequisite for banks that aspire to make it beyond this decade - because with digital, comes cost sustainability and new avenues for creating competitive advantage. Also, the need for agility to be able to quickly adapt to a disruptive event like the Covid-19 pandemic.

While large-scale banks are crafting a niche for themselves with a strong digital-first strategy in reinventing core banking for the coming decade, smaller players must avoid falling into the trap of building a digital powerhouse of their own.

For a leading US-based banker, it took over 6000+ additional tech experts, a shift to agile, and a solid talent retention strategy to craft a product that sold. Not many will succeed by following their footsteps, and few will be able to afford them. But, banks must stay true to their core, and focus on what best they can do. Selecting the right product that supports a digital core will go a long way in breathing life into legacy products and building new ones that are founded on the principles of modern banking.

At Zensar, we are happy to partner with you on your platform selection journey to help you choose the right platform that promises scalability, responsiveness and future-readiness.

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An RPG Company

We conceptualize, build, and manage digital products through experience design, data engineering, and advanced analytics for over 200 leading companies. Our solutions leverage industry-leading platforms, and help clients be competitive, agile, and disruptive as they navigate transformational changes with velocity.

With headquarters in Pune, India, our 10,000+ associates work across 33 locations, including San Jose, Seattle, Princeton, Cape Town, London, Singapore, and Mexico City.

For more information please contact: **marketing@zensar.com | www.zensar.com**