Cashing in on Digital Disruption:

How to keep up in the banking sector

Executive Summary

Introduction

The disrupted banking landscape threatens the existence of banks. That's the overarching message from 280 senior IT and digital decision makers from retail or commercial banking organizations across numerous countries.

Avanade commissioned independent technology market research specialist Vanson Bourne to investigate the changing landscape of the banking industry. The research further explores the challenges and priorities for the IT decision makers.

The banking sector faces an existential threat with the rise of digital. Almost nine in ten (87%) senior IT and digital decision makers believe that traditional methods of banking are being overtaken by disruptive competition, driven by dynamic changes in technology.

Technology: Strategic objectives are changing for banks and technology innovation becomes key. Over the next 12 months, around half (48%) of decision maker respondents state that embracing new technologies is their organization's key strategic priority – ahead of increasing profitability (41%) and improving security (34%).

Key strategic priorities –
next 12 months

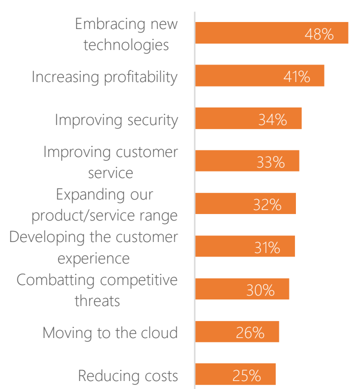

Figure 1: 'What are your organization's key strategic priorities over the next 12 months?', combination of responses ranked first, second and third, asked to all respondents (280)

Competition: Close to nine in ten (86%) respondents agree that emerging financial start-ups are growing fast and attracting customers at a faster pace than ever before and in turn, most (90%) admit that customer behaviors and expectations are changing, rendering traditional banking services somewhat obsolete.

Customer expectations: Six in ten (60%) respondents report that customers now expect a more innovative and personalized digital experience, while around half (48%) observe greater competition from FinTech start-ups and digital competitors with a non-financial services background.

What's more, almost eight in ten (79%) see big brands, such as Google, Amazon and Apple entering the banking space and threatening traditional banks' market share and profitability.

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The disappearance of the retail branch: To equip themselves to compete over the next ten years, the traditional physical branch is on the way out. The most common (47%) digital plans focus on investing in digital technologies that can be linked up with online services.
The disappearance of human interaction: One in five (20%) have plans to close many physical branches and just over one in ten (12%) plan to close all physical branches and go fully digital. With new digital technology playing an ever more central role in the sector, the majority (61%) believe that human interaction will not be necessary in retail banking in the next 10 years.

Key Findings:
1) Modernizing legacy IT systems drives revenue and cost savings

Legacy IT systems must go: So where should banks start? As a priority, focus must land upon legacy IT systems. For many, a large proportion of investment remains tied up in maintaining such systems - on average, 19% of the IT budget each year, according to respondents. And worryingly, in comparison to the industry, over half (55%) of respondents believe that their organization spends more on legacy than other traditional banks do, rising to almost two thirds (65%) when respondents compare against disruptive competition such as FinTech start-ups.

Topline and bottom-line will improve: The clear majority (94%) of respondents believe that modernizing their organization's IT systems to keep pace with digital requirements will increase annual global revenue on average, by 14%, or in money terms: $409m per year. Approaching nine in ten (86%) also believe modernization can decrease business operating costs, by a similar degree of 13%, on average.

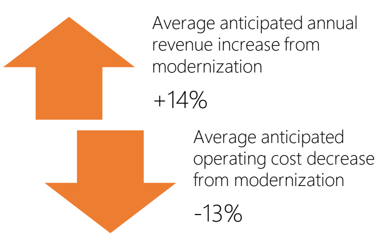

Figure 2: Analysis of the average potential impact on annual revenue and business operating costs from modernized IT systems, based on respondents who agree that modernized IT systems can increase annual revenue (262)/decrease business operating costs (241)

IT faces multiple demands: IT and digital decision makers report facing more and more demands from their business stakeholders. Among the most commonly heard include a need to reduce downtime (70%) or a belief that embedding innovation could be easier (62%). Many (65%) also report that stakeholders want to move to the cloud quicker.

Infrastructure and applications need to evolve: However, fundamental challenges do remain – specifically in infrastructure and applications. Just under half (47%) say that legacy technologies cost too much to maintain and two-fifths (40%) believe that their IT department is too focused on maintenance. With skills, resources and legacy maintenance hurdles commonplace, on average most respondents report that the bulk (69%) of their organization's infrastructure remains on premise, in data centers. Only a minority is deployed to private (19%) or public (12%) cloud at present.

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A similar story emerges when looking at application portfolios. The clear majority (97%) of respondents report difficulties in regards to its management. Again, cloud challenges emerge – just over half (52%) say that the move towards the cloud has caused difficulties. Many also admit struggles with the sheer volume of data they hold for each application (55%), keeping applications up to date, secure and reliable (54%) or ensuring application compliance with regulations (33%). And yet, with three in ten (30%) having difficulties ensuring applications can cope with changes in demand, the agility and scalability benefits of cloud deployment are where organizations could find clear benefit.

Key Findings:
2) Optimizing operations drives efficiency and productivity

In addition to the speed, ease and reliability stakeholder demands we have already seen, even more frequently heard are the need to create operational efficiency (81%) and to improve productivity (79%).

Investing in cloud is key: With the aim to optimize operations, cloud (68%) is the most common new technology that respondents' organizations are investing in. Beyond that, half or more are investing across the business in modern computer hardware (58%) and analytics (55%). In the future, attention will increasingly shift to more complex, artificial intelligence driven capabilities such as cognitive automation (66%), machine learning (61%) and robotic process automation (60%). All (100%) respondents envisage benefits from these technology investments; however, the most common is improved workplace efficiency leading to increased productivity (53%).

Third-party services are a must: With legacy maintenance barriers and a lack of skills and resources to deliver real change, organizations need to be able to walk before they can run. Almost all (99%) respondents believe that there are advantages to using third party service providers for support when implementing and utilizing new technologies. Most believe that they can deliver improved flexibility (58%) or that operations can be optimized (57%). Addressing their common skills and maintenance challenges, many feel that third parties can bring greater levels of expertise (50%) and in turn, that innovation can be prioritized (50%).

Modernizing legacy IT, optimizing operations and investing in new technology and expertise are all vital components in the broader journey to address the evolving requirements of the organization's key stakeholder – the customer. In a banking market traditionally built on foundations of trust and reputation, times are changing and there is a need for many to revolutionize their approach.

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Key Findings:
3) Reimagining the customer experience will help fend off the competition

Security, mobility, and personalization are expected: Whether a bank can offer a full range of services and products remains the most common (55%) factor influencing customer satisfaction according to respondents. However, looking beyond that, technology increasingly enters the fray. Around four in ten (43%) respondents view the ability to utilize the latest technologies to keep customer personal details safe as a top three influence on satisfaction. A similar proportion believe the same for engaging digital interfaces (39%) and the performance of various communications channels when interacting (38%). Just over a third (34%) believe that whether the customer experience is personalized is a main factor.

Over half (51%) place providing a seamless and personalized experience across multiple channels in their key elements for attention. As a support to this goal, a similar proportion are looking to focus on improving the performance of applications (49%) and gaining a better understanding of what customers want through the use of analytics (47%).

However, the need for greater personalization and harmonization should be the focus: Almost nine in ten (89%) believe that their organization could improve at personalizing the customer experience and around seven in ten (71%) concede that providing a seamless experience is something that their organization really struggles with.

Customer experience focus areas

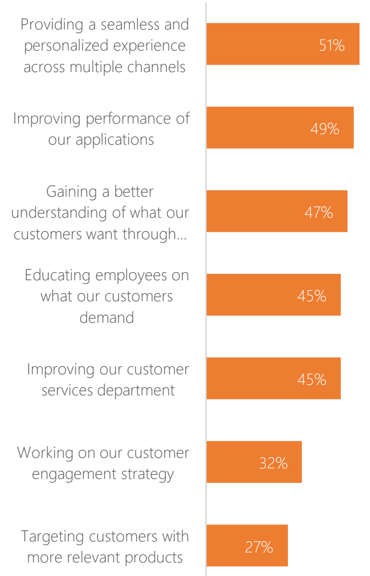

Figure 3: 'What are the main areas that your organization needs to focus on in order to improve its customer experience?', combination of responses ranked first, second and third, asked to all respondents (280)

Another frequently heard demand from stakeholders reported by respondents is the need to streamline processes through greater task automation (78%), and almost all (99%) respondents are in agreement about the benefits of automation across the business.

FinTech perception pushes banks to act: So having looked at where organizations can improve internally and where they need more support, competition - both new and old – remains a major threat. Most (70%) respondents believe that their organization's customer experience is superior to that of other traditional banking organizations, however far fewer (55%) feel confident in saying the same against disruptive competition. This lack of confidence emerges from the wider business too, with seven in ten (70%) respondents frequently hearing the complaint from stakeholders that competitors are delivering better customer experiences.

In order to compete, the clear majority (91%) of respondents believe that their organization will need to increase spending on the customer experience. On average, only 15% of the annual IT budget goes towards enhancing this area in comparison to the 19% that we have already observed being spent on maintaining legacy infrastructure. For most organizations, there is a need to adjust this balance of spending. It is not all bad news however.

About Avanade
Avanade is the leading provider of innovative digital and cloud-enabling services, business solutions and design-led experiences, delivered through the power of people and the Microsoft ecosystem. Majority owned by Accenture, Avanade was founded in 2000 by Accenture LLP and Microsoft Corporation and has 30,000 professionals in 24 countries. Visit us at www.avanade.com

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