



Digital Rotation in Banks – The Next Frontier

Lessons learned from Wells Fargo, Bank of America, Citibank, and JP Morgan & Chase and the way forward for large U.S. banks

Jimit Arora, Partner

Ronak Doshi, Practice Director

Priyakansha Paul, Analyst

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Summary

As part of our ongoing BFSI IT research, Everest Group conducted a deep dive study into the digital rotation journeys of the top U.S. banks such as Bank of America, JP Morgan & Chase, U.S. Bank, Citibank, and Wells Fargo, among others. In this viewpoint, we outline the road ahead for banks and Everest Group's five digital catalyst themes that will help banks in this journey:

- Breaking down data silos to develop a single view of customers
- Transitioning from a process-driven to a data-driven approach of digitalization
- Investing in building modern IT infrastructure
- Organizing agile teams around customer journeys
- Identifying open banking as the way forward

In numbers – Rotation to digital for large U.S. banks

Banks moving towards a digital-first model

Over the past 18 months, adoption of digital channels by bank customers for banking services has increased tremendously. The quarterly results of the top three U.S. banks show a 13-14% YOY increase in active mobile customers. The mobile-first strategy is gaining strength, as the top three U.S. banks now have 67% of their total active digital customers as active mobile users.

EXHIBIT 1

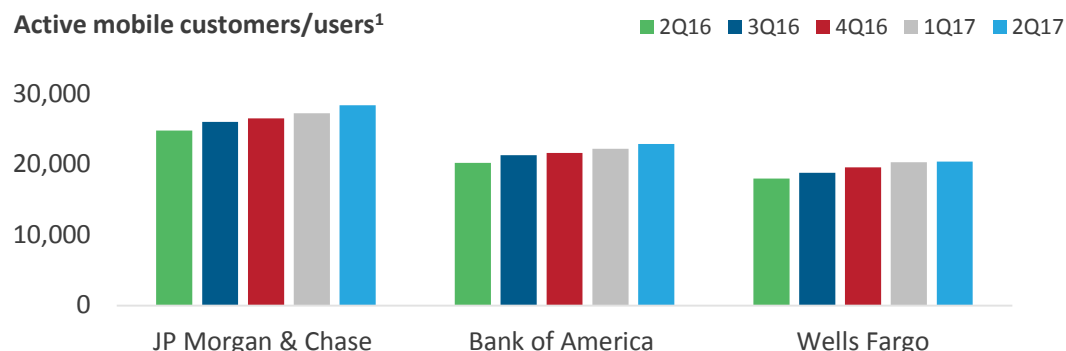
Active mobile customers/users for last five quarters

Source: Everest Group; Quarterly results of Bank of America, JP Morgan, and Wells Fargo

“I would tell you that as our clients increasingly become digital, there is a storyline that suggests that on a digital basis, we are national today and those markets become relevant to us on a retail basis through digital, but not in the traditional retail sense.”

–Bill Demchak, CEO of PNC Financial Services Group on how digital banking allows regional banks to operate at a national level

Active mobile customers/users¹



While strengthening their digital channels, banks are reducing their branch network, promoting self service branches, and revamping branches into more advisory-based centers to derive more value from banking relationships. This is seen specifically in the case of Bank of America (BAC), Wells Fargo, and JP Morgan & Chase, as they have been reducing the number of branches to increase their bottom line. Over the past five years, BAC has reported a decline in the number of bank visits from seven to five million. Wells Fargo aims to shut down 400 branches by 2018 to improve efficiency. JP Morgan & Chase reported that the cost of transaction in a branch was US\$0.65, per ATM transaction was US\$0.08, and a cost of handling a mobile deposit was just US\$0.03.

Banks are investing heavily in Artificial Intelligence (AI), machine learning, and advanced analytics to develop innovative digital offerings such as Bank of America's (BAC) Erica, a voice and text chatbot. Digital budgets of traditional banks are increasing. JP Morgan & Chase spent US\$600 million out of a total technology budget of US\$9.5 billion on FinTech deals in 2016.

In the past four years, the digital rotation journey for banks has been centered on creating and enhancing digital channels for improving customer experience at banking touchpoints. Significant customer adoption of digital channels allows banks such as PNC, that have regional branch presence, to compete nationally.

Rotation to digital has significant potential for the banking and financial services firms to create significant business impact. The traditional approach of banks to look at digital transformation from product- or process-based silos needs to change if banks want to capture maximum business impact from this wave of digital disruption.

In this viewpoint, we outline the five digital catalyst themes that will help banks in their journey of digital rotation.

¹ Chase and Wells Fargo figures are “customer” counts; Bank of America is a “users” count

Building true digital experiences – The road ahead

Digital rotation of banks – the journey till date

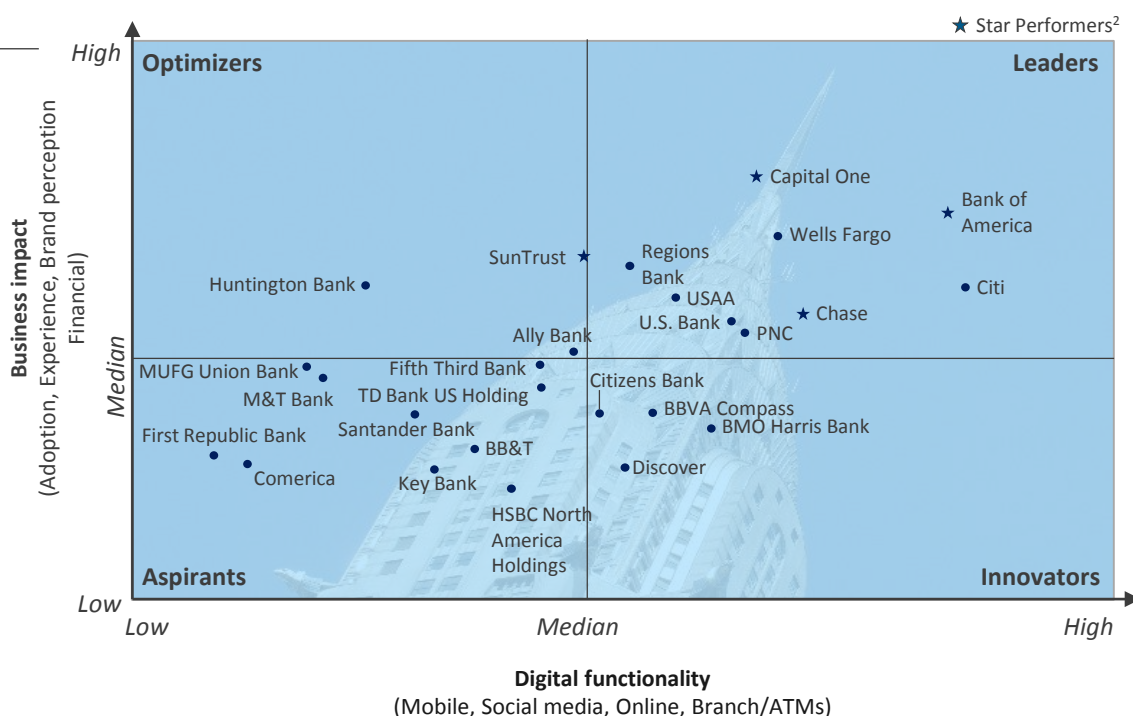
Most banks have begun their journey to build digital experiences for their customers and are at varying degrees of maturity as evident from our assessment of digital effectiveness of retail banks in the United States. Refer to our reports [Digital Effectiveness in U.S. Retail Banking – APEX Matrix™ Assessment to Identify the Digital Banking Leaders](#) and [Digital Effectiveness in European Retail Banking – APEX Matrix™ Assessment to Identify the Digital Banking Leaders](#) to read more on banks' digital journey till date.

EXHIBIT 2

Everest Group's APEX Matrix for Digital Effectiveness in the U.S. Retail Banking 2016

Source: Everest Group (2017)

Everest Group's Ability | Performance | Experience (APEX) Matrix for Digital Effectiveness in U.S. Retail Banking¹



Apart from offering a superior customer experience and stronger customer engagement, Leaders on the APEX Matrix are well ahead of their competition in conducting investments across more forward-looking technologies (such as IoT, automation, beacon technology, blockchain, biometric authentication, and augmented reality) and piloting use cases, to consistently upgrade their products/services portfolio and differentiate their positioning in the market.

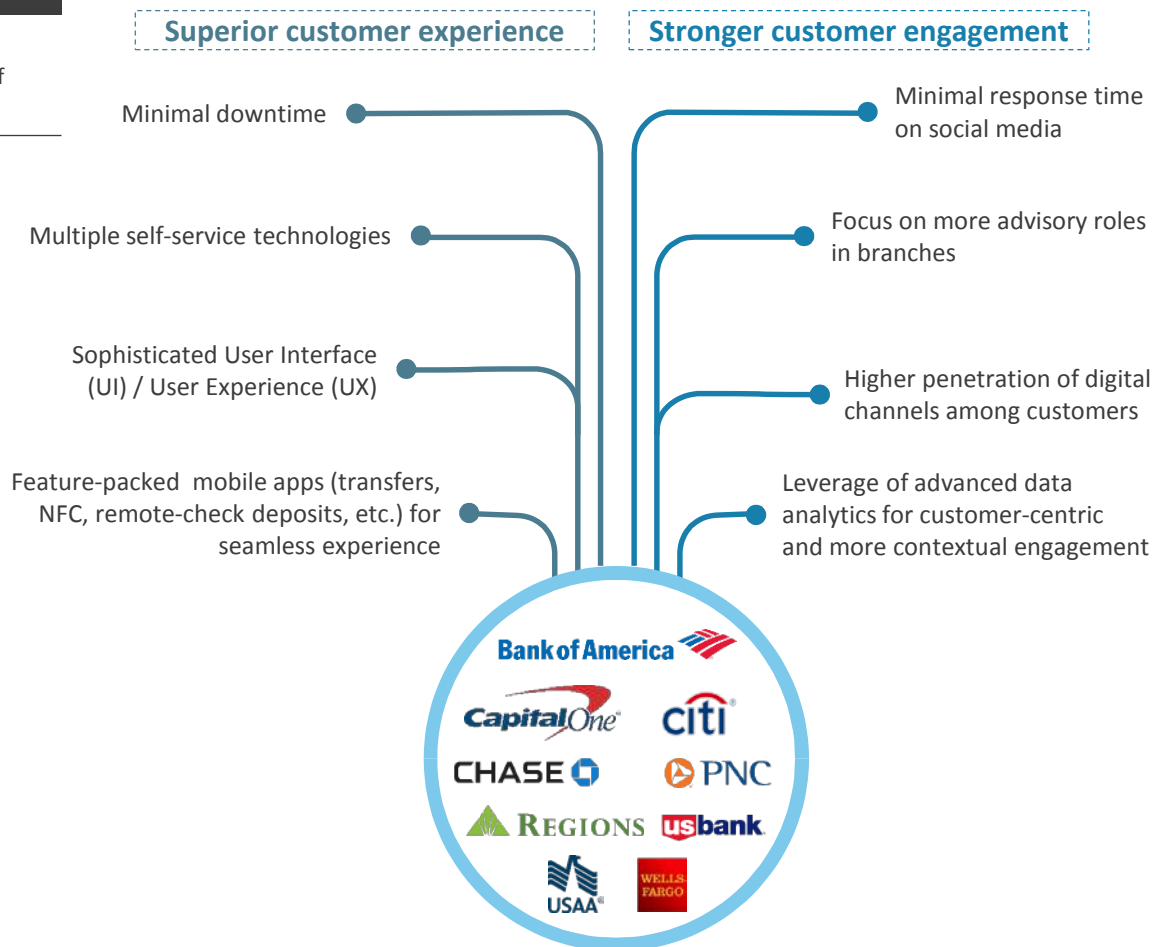
¹ Only publicly-available information (i.e., information from a consumers' lens) has been used for the entire analysis

² Star Performer analysis is done on a set of 14 banks that were also assessed last year on the APEX Matrix

EXHIBIT 3

Characteristics of APEX
Matrix - Key attributes of
Leaders

Source: Everest Group (2017)



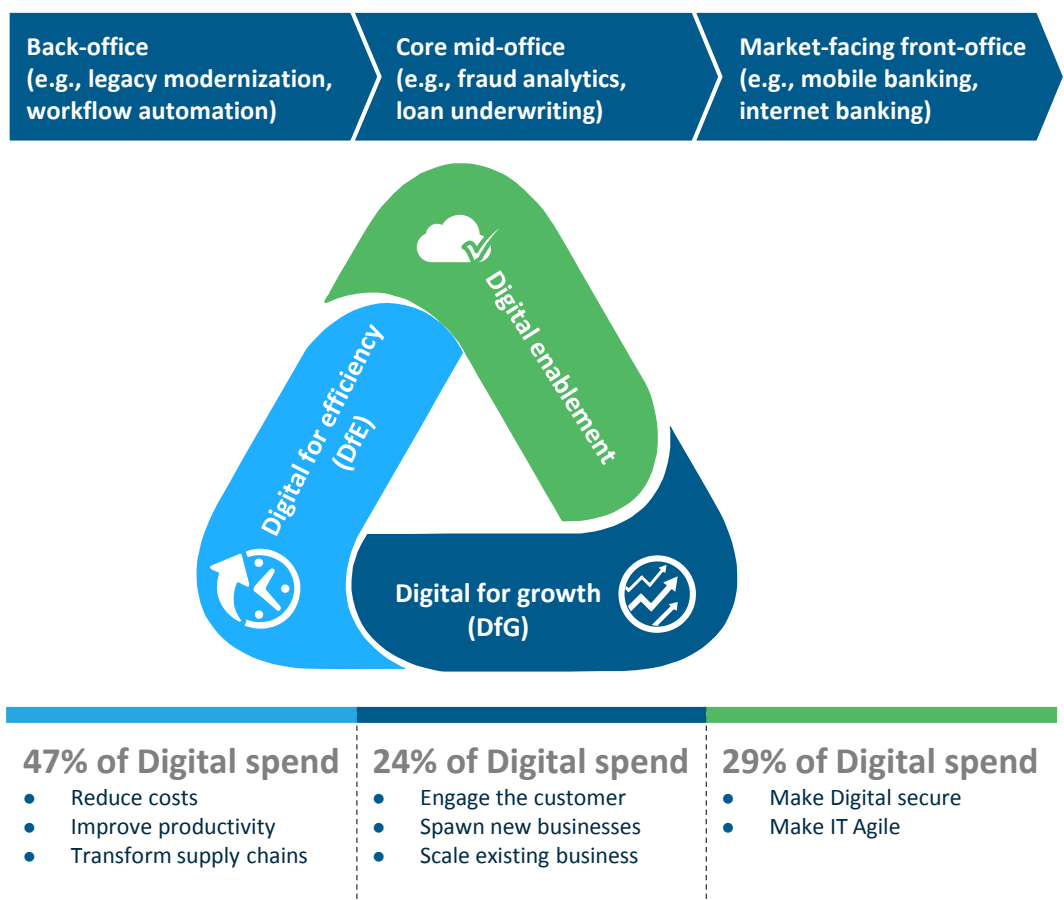
Digital rotation of banks – the road ahead

Digital has the potential to disrupt traditional business models and create breakthrough business impact. It will reshape the role of technology in banking into not just an enabler of business efficiency, but a true partner to business. To achieve significant growth and business value, banks must focus on end-to-end digital transformation. To deliver superior front-office experience, banks must reimagine and invest in digital catalysts for back- and mid-office operations. A case in point is the result of Everest Group's Digital Adoption Survey (2017) that shows that banks are investing 71% of the digital budget in back- and mid-office transformations and 29% in front-office. We believe that investments in back- and mid-office transformations will maximize business growth while delivering cost efficiencies as a by-product. Digital for Effectiveness (DfE) will bring about Digital for Growth (DfG).

EXHIBIT 4

Everest Group's Digital Adoption Survey (2017)

Source: Everest Group (2017)

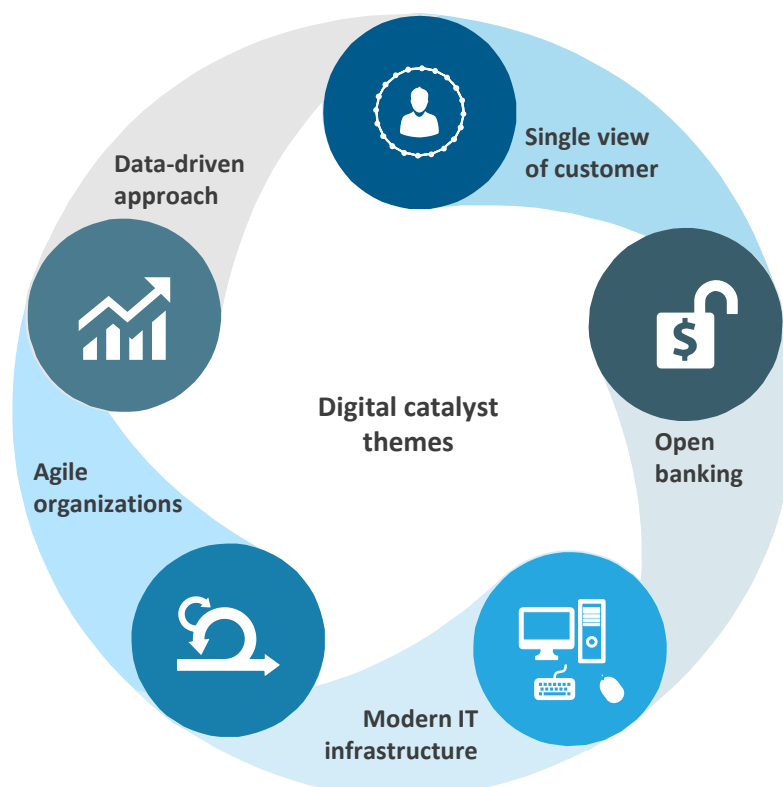


Following are the five digital catalyst themes for banks as they progress further on their journey to rotate to digital:

EXHIBIT 5

Digital catalysts themes

Source: Everest Group (2017)



“So often I think banks when they think about digital, they think I’ve got to go build apps, we’ve got to get customer-facing or associate-facing apps. Most of the leverage is really is in infrastructure in terms of things like rationalized and simplified core infrastructure, increasingly we’re focusing on cloud computing and building the underlying capabilities such that product development will be faster and faster and more effective over time.”

—Richard Fairbank, CEO of Capital One

Breaking down data silos to develop a single view of customers

As banks move from a product-centric approach to a customer-centric approach, they are challenged by siloed, incomplete, and incorrect customer data. Banks with a fragmented view of the customer face business challenges such as lower rate of revenue growth, higher operational risk & exposure, higher operating costs, and below-par customer service. With a single view of the customer, banks will be able to derive revenue & growth, and reduce operational costs. Banks need to build an integrated enterprise data architecture that breaks down the traditional siloed approach to data to build superior digital experiences.

- In 2009, U.S. Bank discarded several legacy systems and integrated Salesforce Cloud applications to provide its front-office staff with a single view of customer. In July 2017, the bank announced that it would deploy enhanced solutions by Salesforce that use AI and machine learning to deliver data-driven insights about customer lifecycle

Transition from a process-driven to a data-driven approach of digitalization

Currently, banks are investing in enhancing the efficiency of processes through automation and process reengineering. This approach brings incremental value. To create disruptive impact, banks will need to collapse processes and adopt a data-driven approach to digital transformation. This approach will allow banks to become more customer-centric as all efforts would be focused on understanding a customer from data that an enterprise can capture and analyze. In a data-driven world, enterprises can rethink businesses, develop new value propositions and differentiators, and deliver products faster to meet employee needs and expectations in a competitive market.

Invest in building modern IT infrastructure

Banks need to invest in modern IT infrastructure as the foundation, in order to enable digital experiences. Investments in AI, cloud infrastructure, and analytics enable banks to drive operational and system efficiencies, provide innovative services & experiences, accelerate innovation, and stay relevant in a changing business and regulatory environment. Large banks in the U.S. have invested heavily in cloud technology, forging partnerships with cloud service providers such as Amazon Web Services, Salesforce, and Google Cloud platform, among others. A recent study conducted by Everest Group on digital adoption suggests that 86% of the enterprises consider cloud a key cog in their digital journey. Following are some key initiatives taken by banks to reimagine their IT infrastructure:

- Citibank has built an internal private cloud using IBM cloudburst technology and Tivoli software solutions, enabling self-service requests and automated provisioning, while enhancing the utilization rates. The implementation helped reduce the provisioning time of servers from 45 days to just 20 minutes
- In 2017, Deutsche Bank opened an innovation lab to partner with the FinTech community on emerging technology themes such as cloud, AI, and cyber security
- Wells Fargo has closed more than 100 data centers in the past seven years in an effort to consolidate its IT infrastructure through virtualization and become secure, and cost-efficient. It has already virtualized 58% of the total mainframes and distributed servers

Organize agile teams around customer journeys

In their journey of digital transformation, banks will need to move away from selling products to becoming ecosystem orchestrators that help fulfill customer needs. Banks will need to adopt agile philosophy to improve time-to-value. As banks move from a product-centric approach to a customer-centric approach, they should build agile teams around customer's lifecycle. Hence, rather than selling mortgages, banks will help customer buy a house. The emphasis is now on helping customers achieve their goals rather than sell products. Digital channels provide vast amounts of customer data and banks use advanced analytics, AI, and machine learning to provide data-driven, personalized customer services. As a result, the conversations become more personal, and less of a 'hard-sell'.

- In 2015, Barclays initiated an 18-month plan to adopt agile working practices in all areas of its business. Implementing agile methodologies, Barclays has recorded shorter deployment cycles, increase in average stories done per month per app, i.e., throughput, higher content levels among employees, and reduced code complexity. Agile has helped Barclays to reduce time-to-market and iterate quickly based on customer feedback

Open banking is the way forward

Technology is becoming extensively pervasive and is moving to a state of "omnipresence". Industry is witnessing multiple examples of ambient financial services such as voice-controlled devices with in-built intelligence to deliver banking services to customers. Emergence of disruptive business models, such as asset sharing, peer-to-peer, and pay per use, are reshaping consumer preferences across all industries. Such disruptive business models have changed the consumption behavior of customers specific to financial services. Mini/micro ecosystems, such as smart homes, connected cars, and smart cities, are getting integrated to form a global connected ecosystem. Consumers are not only demanding omnichannel experiences but ability to consume financial services across multiple mini/micro ecosystems. In this stage, the financial network becomes an underlying connecting fabric of the global connected system, which banks need to build and orchestrate. Banks need to extend their investments in APIs to expose functionalities and data to third parties as well as partner with data sharing providers to build an open banking platform. Open banking is a concept that allows banks to become a platform to allow third parties to build digital experiences for their customers by sharing customer data as well as essential banking services with these third parties or applications in an easy and secure manner. Some banks have been taking significant steps towards open banking:

- In November 2016, Citibank developed an API Developer Hub to enable developers to build innovative solutions faster. Within the first five months of its launch, the portal recorded 4000+ registrations. This demonstrates the growing collaboration between developers, startups, and banks
- Over the last six months, each of the top three American banks, i.e., Wells Fargo, BAC, and JP Morgan & Chase have signed data-sharing agreements with data aggregators such as Intuit, Xerox, and Finicity. These agreements help banks stay relevant in the changing business environment
- In May 2017, BBVA, a Spanish bank, made eight of its APIs commercially available to companies, FinTechs, and developers worldwide, enabling the integration of customer banking data with third party products and services. FinTechs and developers will be able to use APIs to develop value-added services, delivering better customer satisfaction

Conclusion

“You can come and work at TD (Bank) and make a difference. We’re being very aggressive in acquiring that talent and leveraging those skills.”

–Jeff Henderson, Chief Information Officer (CIO) of TD Bank on the Bank’s plans to hire 1000 technology graduates including 65% from Silicon valley and college campuses

It’s the “frozen middle” of an organization where people with outdated skillsets rule the roost that leaders must confront if they hope to transform their companies to suit the 21st century customer.

–Maile Carnegie, Group Executive- Digital Banking of ANZ

In order to achieve maximum business value, banks will need to invest not just in front-office digital initiatives, but also in digital enablers that brings true digital transformation across back-, mid-, and front-office. Banks must focus on an end-to-end business transformation to achieve higher business impact from their digital investments. Without the end-to-end approach, banks would only be able to achieve partial incremental results such as cost reduction and efficiency. To compete effectively in the future financial services landscape, banks will need to develop sustainable competitive advantage by moving away from a product-centric to a customer-centric approach that collapses processes to bring a true data-driven digital transformation.

Rotation to digital will transform business from being process- to data-driven. Being data-driven allows a business to reimagine its offerings and deliver a customer-centric experience in a faster and more personalized way. Going forward, banks will need to reimagine assumptions, develop customer-focused services, and go to market faster to thrive in this competitive landscape.

As banks build and execute a strategy to implement the five digital-enabling themes to move on further in their digital transformation journey, changing the culture of the organization is going to be one of the key challenges for banks. They need to internalize digital rotation not as a technology change but rather as a change of the ethos of a bank.

A rotation to digital requires a dramatic shift in the culture of banks. Engaging employees, middle, and senior management in the transformation process is critical to the success of the transformation. Change management becomes critical as employees view technology as a threat to their job security. To effectively reimagine front-and back office transformation, banks need to proactively train employees to be agile, customer- centric change agents. Looking ahead, banks must hire the right people and promote a culture of innovation to drive this change.

About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empowers clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

For more information about Everest Group, please contact:



+1-214-451-3000



info@everestgrp.com

For more information about this topic please contact the author(s):



Jimit Arora, Partner

Jimit.arora@everestgrp.com



Ronak Doshi, Practice Director

Ronak.doshi@everestgrp.com



Priyakansha Paul, Analyst

Priyakansha.paul@everestgrp.com