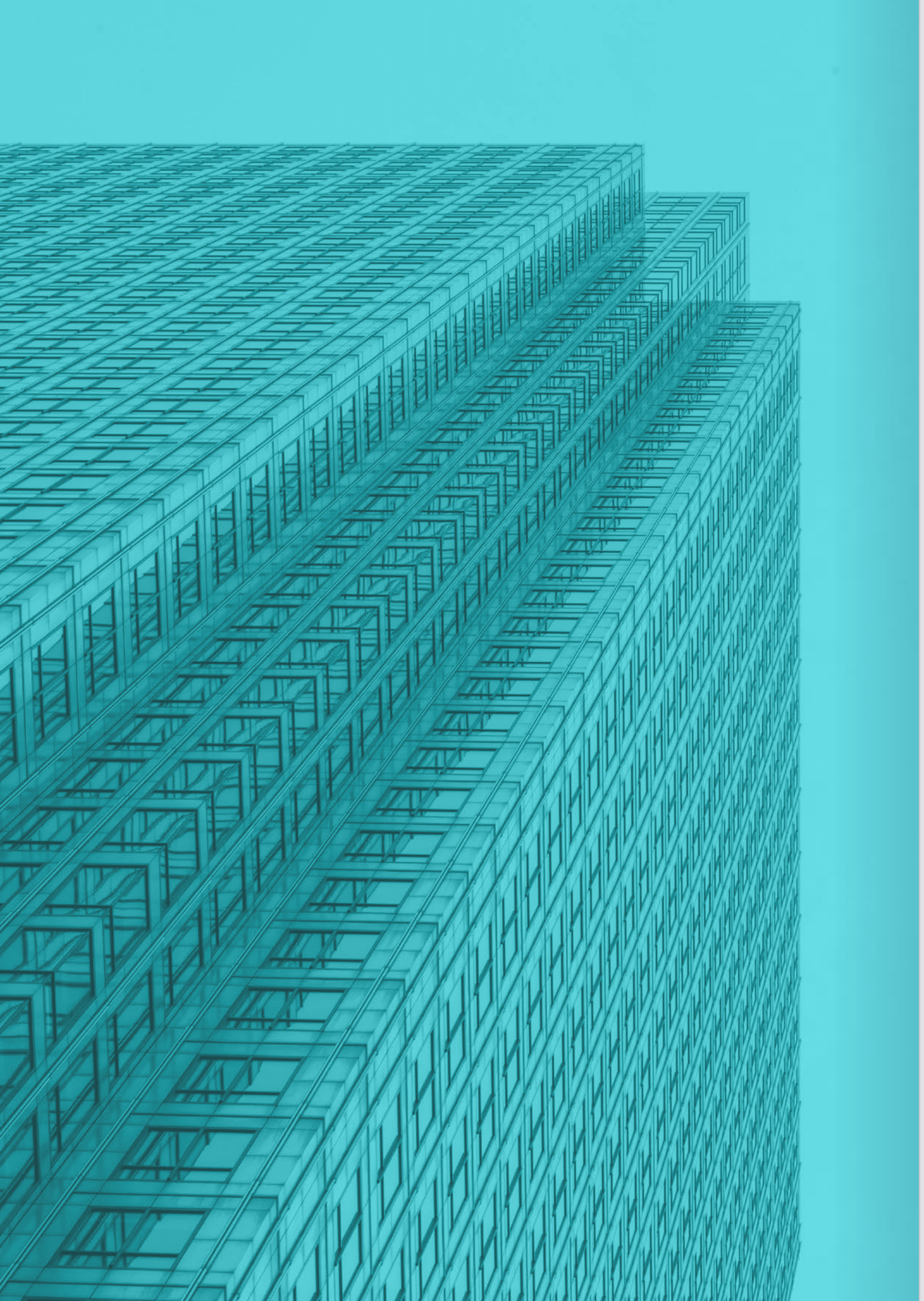
Navigating the digital shift

The essential move towards technology-centric solutions to meet the demands of the modern economy.



Introduction

The banking landscape continues to evolve. The last few years have brought a clear shift to digital solutions as banks embrace new technologies. And customer expectations have been changing too, with the pandemic acting as a catalyst for people of all ages to embrace digital channels at an unprecedented speed.

More than ever, banks are having to work to remain relevant, acquire and retain new customers, speed up time to market and gain a competitive edge. Banks must not only embrace new technologies and cloud-native solutions, but also adjust the cultures and skillsets within their own organisations – all of which needs a clear digital transformation roadmap. And it's important to remember that success is not guaranteed: according to McKinsey, only 30% of banks[1] fully succeed in achieving their digital transformation goals.

[1] www.mckinsey.com/capabilities/mckinsey-digital/our-insights/tech-forward/why-most-digital-banking-transformations-fail-and-how-to-flip-the-odds

The imperative for digital transformation

It's no secret that the banking landscape is being transformed by a digital shift that is seeing banks rethink their strategies and harness digital technology to improve their propositions. So what's driving this shift?

The arrival of the Covid-19 pandemic in 2020 certainly played a role in prompting people of all ages to adopt different habits. Almost overnight people turned to digital channels to shop, order groceries and communicate with friends, family and work colleagues. And as face to face engagement was disrupted, small business too had to quickly adapt to the digital shift in order to survive and continuing serving their communities. But while the pandemic may have accelerated these changes in behaviours, the digital shift was already underway well before 2020.

SPEED IS OF THE ESSENCE

When embarking on a transformation, banks with unwieldy legacy systems may struggle to deliver new services quickly, as changing multiple interconnected systems takes time and effort. One of the key challenges they face is managing a well-controlled smooth transition for any major transformation or introduction of new products or services. Customers face a rocky transition period beset with issues when they can easily transfer to another bank. Giving small businesses and customers the services and digital tools they need is not always straightforward, particularly when it comes to more complex financial products.

Even services that already offer a digital interface may not provide straight-through processing and the ability to message and communicate with customers. The technology transformation needed to enable these changes is therefore vital.

> **Digitising small businesses is something that the industry as a whole has had to come together around. When the pandemic took hold, banks needed to achieve a lot almost overnight. Service providers that have been able to step into that space to enable small businesses certainly made a difference.**
>
> Mehret Habteab, SVP,
> Products and Solutions, Visa Europe

Embracing the digital shift

Banks are approaching their digital transformations in different ways. In some cases, they are doing so by creating technology-driven offshoots from their existing brands. Others are investing significantly in multi-year transition periods in order to transform different areas of their back offices safely and efficiently over a period of time, without adversely impacting the customer experience.

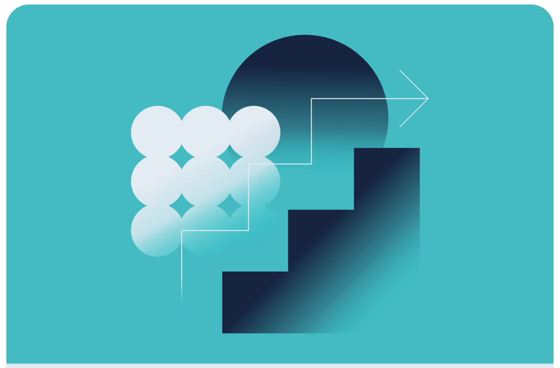
Either way, it is essential that banks maintain their reputations while transitioning to platforms that will give them more functionality in the future.

JOINED-UP APPROACH

As well as adopting new technology, banks may need to organise themselves differently. Many of the world's major digital organisations, including fintechs and neobanks, are successful because they have organised their businesses in a customer-centric way, to provide customers with a joined-up experience.

Traditional financial institutions, however, are not often organised in this way. The customer experiences across different products e.g., credit, savings and mortgages, can be disparate even when a customer has multiple holdings with the same bank. In order to create compelling customer-first propositions, banks will need to bring together an interconnected seamless and personalised customer centric experience, driven by customer data and insights.

> **We continue to see an ever-increasing demand for digital engagement solutions that deliver relevant services and put control in the palm of a consumer.**
>
> Mehret Habteab, SVP,
> Products and Solutions, Visa Europe



BUILDING A DIGITAL MIGRATION ROADMAP

1. Create a detailed roadmap outlining key milestones
2. Prioritise migrating components that present the maximum benefits with the least disruption
3. Ensure a smooth transition and minimise risk by adopting a phased approach
4. Allocate suitable resources
5. Establish key performance indicators (KPIs) to measure success

Leveraging cloud technology

Cloud technology has a key role in speeding up digital transformations, achieving operational excellence, and the creation of customer-centric services. Cloud solutions can help banks achieve their goals in a number of ways:

SCALABILITY:

Cloud and cloud-native technologies can provide the scalability and reliability that banks need to augment their services.

RESILIENCE:

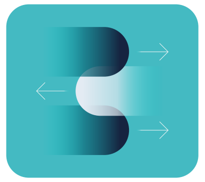
Technology can quickly become out-of-date, and updating and maintaining in-house technology requires significant costs and effort. Leveraging cloud providers that can enable greater resilience and agility.

CYBER SECURITY:

Keeping ahead of sophisticated cyber criminals places a huge burden on banks, requiring the ability to change rapidly and close any points of failure that could be exploited by fraudsters.

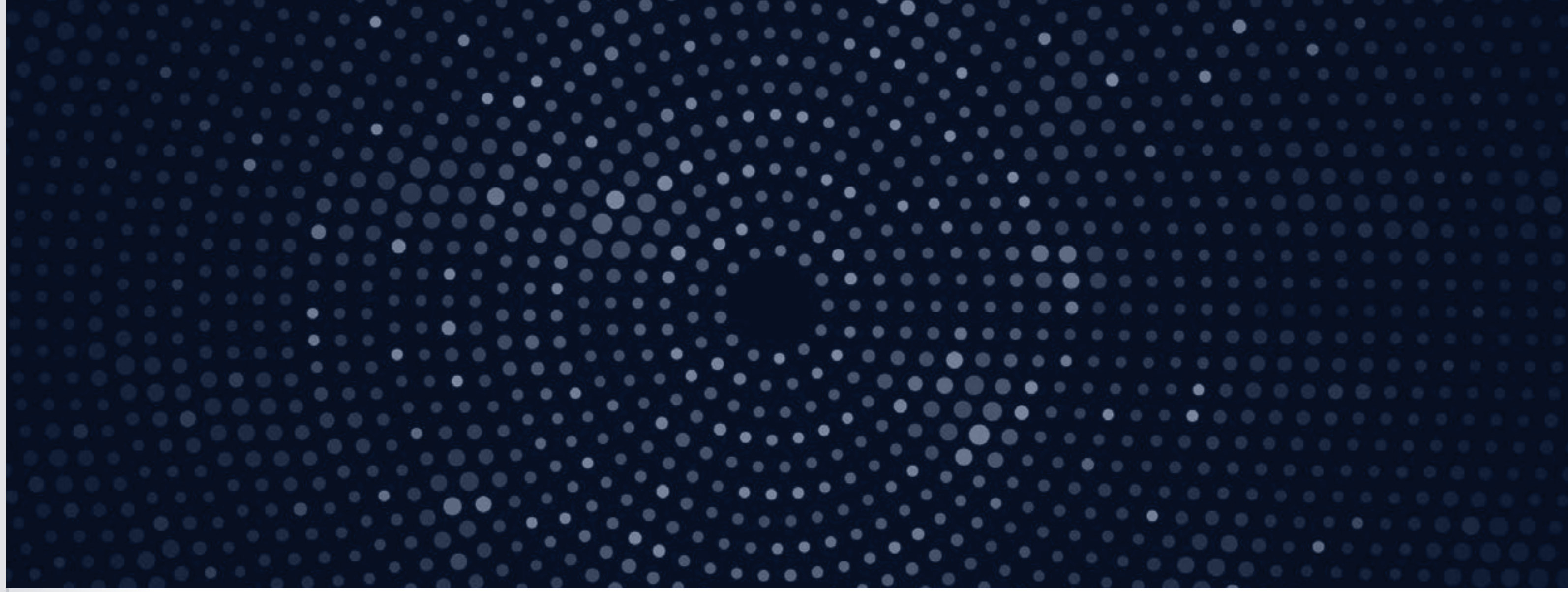
SPEED OF CHANGE:

With legacy technology, adapting services in response to customer needs can take months to achieve. Cloud technology enables banks to rapidly test and deliver the new features customers are looking for, thereby remaining competitive while meeting their obligations to stakeholders.



ADAPTABILITY:

As well as providing scalability and reliability, cloud-native technologies can also be wrapped in API interfaces that allow banks to connect to new technologies in different ways, and use them in different environments.



Building resilience with cloud solutions

Cloud solutions can help banks to not only improve their customer propositions, but also increase their resilience, both by minimising the risk of any outages and by ensuring that issues can be resolved quickly with minimal service interruption. This is particularly important given banks' standing in society as a trusted manager of people's money and payments.

BENEFITS OF A MULTI-CLOUD APPROACH

As cloud adoption continues, banks are looking at how they can diversify their service providers to achieve a multi-cloud/cloud-agnostic position. Relying on a single cloud platform can mean that banks are locked into a specific provider – and it also leaves banks at risk of a service interruption if their vendor suffers an outage.

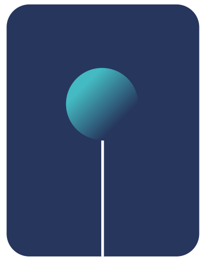
As well as supporting greater interoperability, a multicloud model provides greater resilience in the event of any issues, and can also help banks navigate regulatory challenges.

A research report published in 2023 by Finextra Research in association with Form3, From Cloud to Multicloud: a Pathway to Resilience [Read here], found that resilience was seen as the biggest benefit of a multicloud environment. Meanwhile, the drivers of implementing a multicloud infrastructure included regulatory demands and refining the customer offering through improved services.

The term "multicloud" has various interpretations, each offering different levels of resilience and reliability for bank payment platforms. Financial institutions may believe they have implemented a true multicloud model, but discrepancies in definitions can lead to confusion.

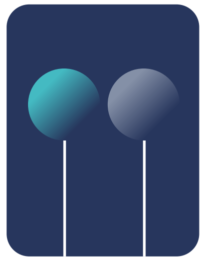
From cloud to multicloud

This summary compares four cloud approaches—Single Cloud, Multi-cloud (procurement), Multi-cloud - Active/Passive, and Multi-cloud - Active/Active—to clarify the differences and determine the most resilient and reliable options for financial institutions in their journey to the cloud:



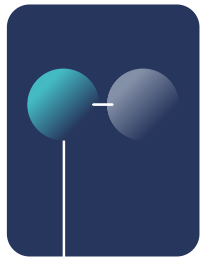
Single Cloud

A single cloud provider offers benefits over traditional data centres, such as running applications across multiple Availability Zones and regions. However, managing a single platform across regions is challenging due to data consistency and latency concerns. Sole reliance on one provider also poses a risk of vendor lock-in.



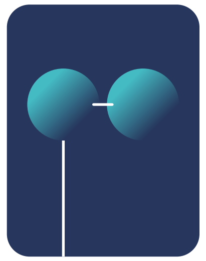
Multi-cloud (procurement)

This approach allows teams to select the best-priced or technically suited infrastructure from multiple cloud providers. However, interfacing services built in different clouds can be difficult, potentially leading to a complex architecture and reduced resilience if issues arise in any of the cloud providers.



Multi-cloud - Active/Passive

The Active/Passive model involves a standby platform in an alternative cloud, which can result in longer recovery times and increased downtime during failures. The idle nature of the passive environment can be inefficient and risky, as it may not function as expected during a disaster. Data consistency and application configuration across providers can also be challenging.



Multi-cloud - Active/Active

An Active/Active model deploys services in a single cluster across cloud providers, ensuring consistent operation. Customers can load balance requests at all times, eliminating uncertainty around infrastructure state. The platform can withstand the loss of a full cloud region or provider, with failed requests automatically re-sent to an alternative cloud. Real-time data consistency is maintained across providers, ensuring data state remains unaffected by cloud disruptions.

The Active/Active Multi-cloud approach is the most resilient option for financial institutions, offering robust data consistency and the ability to withstand cloud provider or region loss.

USING DATA EFFECTIVELY

It's important to remember that the cloud is not, in itself, enough to help banks create truly customer-centric services. Banks also need to think carefully about how they can use data whether that means working with cloud native and SaaS providers, or building their own capabilities.

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What we're seeing in the market is that organisations who are setting themselves up to extract, connect and assess consumer data are gaining an advantage in terms of being able to offer new propositions.

Eimear O'Connor,
Chief Product Officer, Form3

Streamlining payments for the digital age

The world of payments is seeing the indisputable rise of real-time and instant payments, with significant investment into real-time systems in the UK, Europe and the US. This is very much in line with customers' expectations for a real-time experience.

WHY TRANSFORM PAYMENTS?

The way in which banks process payments makes a difference to merchants and customers. In many cases, the legacy technology used by banks doesn't work in the best way possible for all possible use cases, merchants and consumers.

Being able to transform payments processing not only benefits banks from a revenue generation point of view; it also helps to keep consumers happy. It keeps the credentials that the consumer has with the bank top of wallet for merchants – and that, in turn, ensures that consumers are satisfied with the services they receive from their banks.

ADAPTING TO NEW PROPOSITIONS

This is an area that is evolving rapidly: banks need to keep up with new propositions that involve payments, from environments such as gaming to tapping into different asset classes or investments. When banks continue to use legacy systems, it can be both challenging and costly to make the changes needed to process payments for these different use cases.

> **A bank's reputation for being able to process payments on a fully 24/7/365 basis is part of the relationship it has with its customers – particularly in a digital world, where the bank and its operational ability is completely visible to customers.**
>
> Eimear O'Connor,
> Chief Product Officer, Form3

Lightening the load

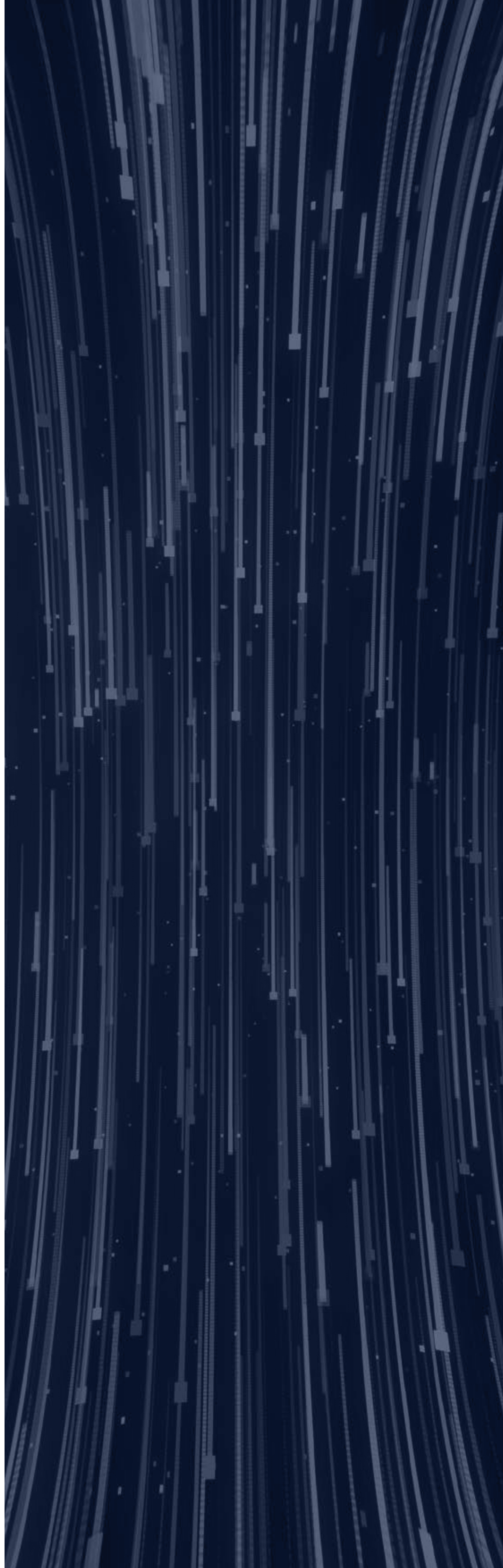
As such, it is important that banks transform their legacy payment processing platforms. This may involve using third parties, such as card payment processors or real-time payment processors, that can help banks adopt a modern infrastructure in a streamlined way and reduce the burden associated with transforming legacy platforms.

UNLOCKING VALUE

Once banks have access to a central infrastructure that can process real-time payments, the next step is to use that capability to provide products and services that offer real value and differentiate banks from their competitors. This is key when it comes to unlocking significant value in services in a digitalised way.

The flexible technology now available presents a significant opportunity for banks to make their propositions as attractive as possible to segments of their customer base. The data they can derive from individuals' interactions with them also allows banks to create a rich and personalised experience.

> **Third party payment processors can help banks with the modern infrastructure they need to support new use cases, stay current with the rules that are needed to protect consumers, and continually innovate.**
>
> Mehret Habteab,
> SVP, Products and Solutions, Visa Europe



Embracing emerging technologies

As the digital shift continues, technologies such as machine learning (ML) and artificial intelligence (AI) are set to play an increasingly important role in helping banks stay current.

Many banks have already started to think about how they can use AI to enhance their customer support and customer servicing capabilities. For example, they are looking at how AI can help them gain a better understanding of their customers' financial health, or to identify where they are on their customer journeys.

UNDERSTANDING CUSTOMER BEHAVIOUR

By analysing the products and services that customers use, and understanding how consumers interact with their bank, banks can gain a clearer understanding of behaviour patterns. This, in turn, can help banks work more effectively with their customers – whether that means helping people who are in financial stress, or offering products and services that are aligned to their customers' needs at a particular moment in time.

PROVIDING A PERSONALISED EXPERIENCE

Consumers increasingly expect their banks to understand who they are and what they are looking for, so that they can provide a personalised experience and suggest relevant offers. AI and data have an important role to play in helping banks fulfil this expectation in a safe and secure way, with their customers' consent.

While digital-first firms will be better placed to tap into the benefits of AI, traditional banks may need to work with technology providers to harness the opportunities that AI presents.

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Think about the way that we interact with news agencies and retailers, with products and services positioned to us based on our previous behaviour. The data is there for banks to interact with their customers in that way.

Eimear O'Connor,
Chief Product Officer, Form3

MANAGING FRAUD RISK

The growing digitalisation of products and real-time interactions presents additional risks. Real-time payments, in particular, see a heightened fraud risk because the opportunity to identify fraudulent transactions is significantly truncated.

Nevertheless, an ever-growing range of tools is available to banks in the ongoing battle against fraud. Developments such as the arrival of Confirmation of Payee in the UK are helping to combat fraud risk. At the same time, the digitalisation of products also provides greater visibility over fraudulent activity.

Banks and payment providers will be expected to protect their customers from the risks, leading to a greater focus on helping customers manage their identities and reduce the risk of fraud. Notable initiatives include Form3's recently announced partnership with Visa, which aims to reduce fraud in real-time account-to-account payments. As a result of the partnership, banks and financial institutions can harness the ability of AI and real-time risk scoring to identify and highlight potentially fraudulent patterns.

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Agile technology infrastructure is critical to staying secure. It's about being able to change rapidly and close new points of failure that are continuously exploited by fraudsters. And that's where cloud players that cater to the needs of financial institutions can really make a difference.

Mehret Habteab,
SVP, Products and Solutions, Visa Europe

Conclusion

As the digital shift continues, it is imperative that banks adapt to their customers' changing behaviour patterns and expectations for real-time information, flexibility and ease of access. In order to remain relevant, banks first need to transform their legacy platforms and processes – and they need to do so while maintaining a smooth customer experience and avoiding any disruption that could adversely affect their customer relationships.

Digital transformation demands cloud-native technologies that provide resilience and scalability, the effective use of data, and a customer-centric approach. While a major transformation can be a challenging prospect, third party providers can play a crucial role in helping banks accelerate their modernisation programmes and access emerging technologies, while increasing their resilience. Last but not least, a well-thought-through digital transformation roadmap is paramount in helping banks define their desired outcomes and achieve their goals.

This paper has been written by Form3 in collaboration with Visa

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