

## MARKET COMMENTARY

# The New Back Office, Moving Cores to The Cloud, and Where to Invest In 2020: What Community Banks and Credit Unions Should Expect in 2020

As another year comes to a close, we have to take a moment to look back in order to look forward. Technology is continuing to transform the way people bank, but also transforming the way financial institutions operate. Community banks and credit unions need to be thinking now about branch transformation, the new back office, moving cores to the cloud, and where to invest in 2020.

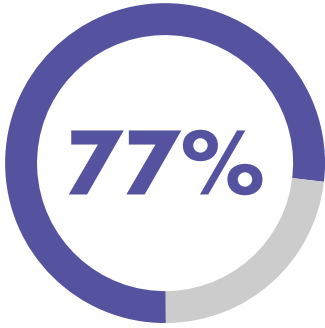


**John Weinkowitz,**  
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### **How will Technology Transform the Branch to Build a Better Account Holder Journey?**

We're moving in the direction of a new kind of branch. New technologies are lightening the staffing load and reducing the need for a lot of square footage, but financial institutions still need retail locations to serve the 77 percent of members and account holders who prefer to do business face-to-face. Some branches will close, but others will open — and some will have different formats than the traditional branch. For instance, Capital One is experimenting with Capital One Cafés, which combine a retail banking location with a brand-name coffee shop, free wi-fi, and free financial coaching.

We're not likely to see many credit unions and community banks adding espresso machines this year, but we will see them using digital technologies to craft seamless end-to-end journeys for their members and account holders. The focus will be on eliminating friction between the online and the branch experiences, and that oftentimes that will mean incorporating digital tools into the branch. It will become more common for an account holder to interact with a personal banker through a tablet, whether that tablet is in the bank lobby or the person's house, instead of waiting in line at the branch. The personal banker may be the same person at the branch who they usually deal with, or someone else located miles away in the company headquarters. Using technology this way satisfies account holders' need for personal attention and human interaction while still enabling the community bank or credit union to operate in a streamlined, agile manner. That's branch transformation.



account holders who prefer to do business face-to-face. — Business Wire



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### How will Front-end Digital Advances Affect Back Office Operations?

Historically, the back office tends to trail the front office in terms of innovation, probably because everyone understands the account holder experience but not everyone understands the business user experience. Likewise, experiences tend to focus on single account holders rather than small businesses. This will start to change in the coming year as financial institutions become more open to purchasing fully-integrated experiences that transform the back office as well as the front office, freeing staff to engage in servicing account holders and doing other work that brings more value to the financial institution than entering data or manipulating spreadsheets.

Building connected experiences across channels for consumers, business, and employees is growing in importance for financial institutions as they embrace cloud, open finance, front-end digitization, and back office automation.

As artificial intelligence gains adoption in financial services, it's moving beyond call center extension and into sales funnel conversion, increased pull through rate of loans. As we digitize the front office, remove friction from digital experiences and leverage AI to generate end-to-end efficiencies, we should expect to see efficiency gains in the back office.

There's a culture shift in the making that's going to take a few years to play out. The differentiator for all banks, including community banks and credit unions, will no longer be personal service, it will be relevance. This is a big cultural change within financial institutions in that the industry prides itself on relationship management. So as we transform the branch, digitize the front end, and automate the back office there will be a renewed freedom to serve in new ways; by taking banking into the community, engaging with account holders in new channels, and proactively being a more trusted advisor.

Smaller financial institutions that don't leverage technology properly will be challenged. We already see that in the numbers. But while the number of institutions shrinks, the number of accounts and transactions continues to grow. The opportunity is there for credit unions and community banks that have the organizational will to compete, and the technology is no longer out of reach, even for financial institutions that have just one or two branches.



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### **In what Areas will Core Technology Evolve in 2020 and Beyond? What will Make it Exciting?**

Community banks and credit unions are known for the quality of their service. However, these financial institutions sometimes think about their service as one thing and their technology as another. That mindset is changing among forward-thinking credit unions and community banks, who understand that the technology that is never seen by their account holders and members is the engine for the high-touch personalization that account holders expect today.

We see need for core providers to become more open to help community financial institutions to remain relevant by providing innovative solutions that meets consumer’s needs.

Community banks and credit unions take pride in the personal, relevant relationships they build with their customers or members. However, branch traffic is down year-over-year and digital transformation is changing the way consumers expect to be served. Digital channels have become the most important touchpoints. To provide account holder service excellence, digital channels need a core platform which is open, flexible and easy to integrate with, and most importantly, can grow with the ever-evolving world of technology.

To deliver service that satisfies these modern account holders, embracing new technologies such as cloud is a necessity. We see some reluctance among credit unions and community banks to make this move, which is understandable — moving a core is an intimidating and expensive project. Plus, no financial institution just moves the core, they have to move everything that is integrated with it as well.

However, the move is inevitable. In a few years, all financial institutions will be operating in the cloud, and those that get started now are setting themselves up for a better total cost of ownership (TCO). From a strategic point of view, a cloud-based core enables agility in a practical manner: adding an innovative product or service, enabling digital payments, or even implementing debt finance origination can be accomplished rapidly, at low cost, and relatively easily. No one can predict the future, but cloud-based operations make it possible to pivot as the future unfolds.

In 2020, also expect to see a greater focus on open banking. Right now, it’s hard to work with third-party providers who are not in the core system, but exiting the core system is punitive. Yet account holders and members don’t care about that — they just want to use Mint and Venmo. From a financial institution’s point of view, open banking doesn’t just please account holders and members, it also strengthens anti-fraud measures, streamlines lending, and automates back office tasks. The push toward open banking reinforces the need to move to the cloud, because the cloud is the fundamental technology of open banking.



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### **Where should Financial Institutions Invest in the Short and Long-terms?**

Focus on investing in core transformation. Core is still central to a financial institution's operations. It's the primary system of record and the master customer file, so it's critical that financial institutions, small and large, think long and hard about what they want their core transformation journey to look like. Transforming the core into the cloud makes sense for any financial institution that wants to leverage synergistic capabilities and products.

The biggest question around core transformation isn't, Should we? The answer is yes. A better question is, Where will we go? The options are to stay with the incumbent, switch to a Big 4 provider, or go with a disrupter. When deciding, think about the tools that are embedded within the core platform, the ability to integrate with third parties, and the ability to scale up or down with speed and ease.

Lastly, think beyond technology. Even though automation will handle a lot of banking tasks, there will still be people behind all those screens, so try to understand the employee of tomorrow. There's a big difference between the ways Boomers, Gen Xers, Millennials, and now Gen Z view banks. It's important to onboard that next-gen talent to help all your account holders and members in their journeys.

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Through our open, secure and reliable solutions, customers are empowered to accelerate growth, optimize cost, mitigate risk and continually evolve to meet the changing needs of their customers. 90 of the world's top 100 banks use Finastra technology.

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