Market Commentary

Next Generation Banking Automation: The Fork in the Road for Financial Institution

When workflows aren't enough, AI-driven automation makes good business sense from operational and financial aspects.

"The ability to basically flick a switch and change up processes is a powerful business advantage."

Community banks and credit unions have been flooded in recent years with technological changes. While many financial institutions are still on the first steps of their digital transformation journeys, innovators have been marching on, releasing one advancement after another to improve the way banks and other businesses share data, execute processes, and exceed customer or member expectations.

The first wave of digital transformation focused on connecting applications and services so data could be in the right place at the right time to best serve customers or members and to save steps in the back office.

Now that those connections are in place, the next evolution of digital transformation is emerging, and it is focused on a blend of artificial intelligence and automation. This is next generation banking automation.

Next generation banking automation enables banks to use sophisticated workflows to execute their complex processes. A single module within the core system can save hundreds of thousands of dollars and hundreds of man-hours while improving customer or member service by orders of magnitude.

Next Gen Banking Automation successes

582
Saving in man-days/yr

2.7K
Workflow execution/month

$326K
Cost savings

77%
Savings with top 3 workflows

Data provided by CoreFirst Bank & Trust, based on quantified metrics from using the workflow in Fusion Phoenix.

Lessons Learned: PPP loans and the need for speed

But cost savings aren't the only story. Next generation banking automation also frees subject matter experts to focus on driving business, improves the account holder experience by providing consistency across channels and branches, and satisfies auditors because every activity is consistent, documented, and retrievable.

Finastra believes that next generation banking automation is particularly worthwhile for community banks and credit unions, who must do more with less in order to remain competitive. "Today, community banks and credit unions are up against large banks and non-bank entities that are entering their space and others that are taking away the loan business.

While this is happening, community banks and credit unions need to drive down their business strategy," said Milind Pathak, Finastra's Senior Director of Product Management, Core Banking Platforms and Integration. "The ability to leverage next generation banking automation can be a pivotal factor in the success of a community bank or credit union."

When the Paycheck Protection Program (PPP) was launched, community banks and credit unions were eager to help their customers and members get these much-needed loans. But many found themselves unable to perform that service, disappointing their account holders and losing potential revenue for their own businesses.

"Many community banks and credit unions missed out because they lacked the ability to process PPP loans quickly," said Pathak. "Their reliance on spreadsheets and manual processes and the need to get the right people on board, train them, and equip them prevented these financial institutions from being able to respond to the volume of loans in a timely way. By the time they were ready, the funding was gone."

It all comes down to speed to market, said Pathak. "If you're not delivering when the need is fresh, somebody is going to take that business away from you. That's why we have 18 percent fewer community banks and credit unions today than we had in 2013."

85 Secs

PPP loan onboarding time

Data provided by Consumers Credit Union, based on quantified metrics from using the workflow in Fusion Phoenix.

However, community banks and credit unions that had already implemented next generation banking automation were able to respond to PPP loan applications rapidly without any major overhauls.

"We didn't have to make a single core change, no software changes, and our customers were able to book PPP loans with no assistance," said Pathak. "Many used next generation banking automation workflows to enhance their processes and complete loans much faster than the traditional way."

Next generation banking automation enabled community banks and credit unions to respond to other COVID-related banking needs as well. "A lot of account holders called asking for new payment schedules on existing loans or asked for deferments of months," said Pathak. Next generation banking automation users were able to create workflows that let all customer service representatives simply enter an ID number to create pay pauses. "Nobody had to know how to reschedule a loan payment or make other changes," said Pathak. "It didn't matter if they were in a branch or a call center — they were all performing the same task in the same way with no training or expert intervention."

While nobody knows if or when there will be another disruption as severe as COVID, the need to get new products and services to market at "pandemic-speed" is here to stay.

That need cannot be served by legacy technology that is often constrained by vendors who are committed to closed systems or technologies that are not up to the demands of today's fluid environment. Community banks and credit unions that want build greater resiliency and agility into their processes will need to embrace modern technologies, particularly next generation banking automation.

"The ability to basically flick a switch and change up processes is a powerful business advantage," said Pathak. "Community banks and credit unions that don't have huge budgets or battalions of technical staff should be looking for technology that captures business logic and places customers or members into automated workflows so that the financial institution can pivot whenever a new need comes up."

True ROI on demand and the liberation of the subject matter expert

The New Era of the Banker-Technologist

Banking is now a technology business. There's no way around it: financial institutions that are still adhering to spreadsheets and manual processes are on the road to extinction. Next generation banking automation will speed the demise of technophobic community banks and credit unions because they won't be able to compete against businesses that are able to provide the experiences customers and members desire or to offer new products and services as the market demands.

They also won't be able to realize the efficiencies that are so critical in an environment where community banks and credit unions are under pressure to reduce costs while improving service.

As next generation banking automation gains a greater foothold, bank leaders need to change the way they think about their roles. "Lots of bank leaders see technology as a utility that they must grapple with," said Nick Perfido, Finastra's National Sales Director, Core Banking Solutions, "but it's not their focus because they view themselves as bankers, not technologists."

"We talk to hundreds of banks and credit unions each year, and the most successful are already looking at their financial institutions through the lens of a tech company that delivers financial services," Perfido said. "Of course, bankers shouldn't abandon their knowledge of banking, but they should become comfortable enough with technology to understand what's possible and what to look for in a technology solution."

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>
> **Nick Perfido**
> Finastra

Transformation Requires Imagination

Many banks, especially community banks, struggle in one area or another. Some do well in lending and less well in deposits, and some do the opposite. This is especially true for community banks and credit unions, which may be constrained by their smaller headcount and streamlined structure.

But today's community banks and credit unions can't afford to be specialists, not when many of their larger competitors and non-bank entities are able to offer consumers one-stop shopping for all their banking needs through fast, convenient mobile apps.

Finastra strongly believes community banks and credit unions need to transform the way they operate.

To accomplish this, they need a distinct vision of where they are going. "When bank leaders don't have a specific idea of where their financial institutions should be in five years," said Perfido, "that sets off alarm bells. If you don't know where you're going, you're not planning — you're just crossing your fingers and hoping for the best."

The way community banks and credit unions implement next generation banking automation is an evolution, not a revolution. There are some functions that are part of the solution on the day it's launched, but as the community bank or credit union begins to understand more, it can take off on its own and add whatever workflows make sense for its business.

Perfido described one customer that's been using next generation banking automation for several years. "They've designed more than 60 custom processes, and they can track the usage to a granular degree.

They know how long their processes took before automation, how long they take with automation in place, how many workflows they used, how often each workflow was used, and so on." What's important is that they can calculate their own ROI. "This customer tells us they're saving $300K per year on man-hour costs.

Efficiency ratios with and without next gen banking automation

80%

Onboarding a loan with 6 people and 5 days ($0.80 spent on operations to earn $1)

50%

Onboarding a loan with 2 people and 10 minutes ($0.50 spent on operations to earn $1)

Does that mean they've removed that much labor? No," said Perfido. "But it means they're not spending that labor on those tasks. They're moving them to more valuable work."

"Every community bank and credit union has employees who are subject matter experts in particular bank products and their associated processes," said Pathak. "These experts are frequently asked to document processes, train others, and complete steps in the process that other employees don't know how to handle, so they spend a lot of time on the same activities each day."

As a result, an expert who should be focused on driving product strategy is instead taking calls and answering questions for customers or members.

With next generation banking automation, the subject matter expert is removed from the daily functioning of the process. Instead, that person uses their expertise and business logic to create an automated workflow. Then, an account holder who requests a product or service is put into the workflow and the automation does all the work.

That workflow is used by every employee in every branch. There is no human error, and no subjectivity or bias: the workflow is always the same and is always decided by the rules set up by the subject matter expert. If anyone tries to deviate from the rules, the deviation is documented.

When employees have questions, the answer is programmed into the next generation banking automation, so there is no need to call the subject matter expert to intervene.

For example, when an account holder asks for an explanation of a fee, the answer is in the standard workflow for fee waivers. The workflow has decided on the fee by analyzing the customer or member's history with the financial institution, the product's exemptions, and any other relevant factors. If a bank employee chooses to override the workflow, that decision is recorded and a supervisor has visibility.

Although the experts are removed from the execution of the process, they can still pull statistics to see if everyone is following the process, which tasks are coming due, and to whom they are assigned.

If someone is over-tasked or out of the office, their tasks can be automatically directed to an appropriate person instead of landing in the subject matter expert's inbox. Now, with next generation banking automation, the expert's job is not to execute repetitive processes. It is to drive the bank's business strategy forward.

Efficiency Moves the Needle on Profitability

"Profitability is in the margins," said Perfido. "It's not what you can do, but how you do it. That's where you wring the efficiency out of the system."

When deciding whether to invest in next generation banking automation, Perfido suggests financial institutions look at their efficiency ratios. An efficiency ratio shows an organization's expenses as a percentage of revenue. An efficiency ratio of 80 percent shows that an organization is spending $0.80 on operations to earn $1.

"That's not good," said Perfido. "Good is 60 percent. Great is 50 percent. How do you get there? You can board a loan the old way using six people in five days, or you can board a loan with next generation banking automation using two people in ten minutes. Which is going to give you a better efficiency ratio? Which is going to cost less?"

Most costs are static, such as electricity, leases, insurance, etc. But headcount is flexible, not only in the number of staff but in the way staff is deployed. Perfido emphasized, "Finastra never suggests decreasing headcount. We want community banks and credit unions to focus on moving their people off mundane tasks and into work that grows their business." That is a key benefit next generation banking automation provides. When the subject matter expert who used to spend hours each day answering calls can instead focus on improving the product, the financial institution is stronger.

Another common inefficiency that can be corrected with next generation banking automation is the way data is entered into systems. Currently, many community banks and credit unions re-key data into multiple systems.

That introduces huge compliance risks as errors are made. Some financial institutions even hire checkers to check that keyed information, but human checkers are, well, human, and in addition to driving up costs, they won't catch every mistake.

"The problem is that a lot of community banks and credit unions don't see this as a problem," said Perfido. "They don't know there's another way."

Next generation banking automation only requires one input. Then it moves the data where it needs to go, in accordance with the pre-defined business rules — and if an error is made, it can be quickly corrected through a single interface.

Next generation banking automation also makes the replication of processes infallible. Today, community banks and credit unions attempt to make processes replicable by using training manuals, but that means that every time a new employee joins the financial institution, they must go through training. "First, you're paying them to get trained. Maybe you're paying somebody to train them, too.

Then, when the new person leaves, the cycle starts again," said Perfido. "And maybe a new person interprets the manual incorrectly or gets sub-par training. Maybe that person even trains someone else with the wrong information or incomplete information.

Then a whole new generation of errors are injected into the system." Next generation banking enables community banks and credit unions to take their policy manuals and embed them directly into their automation.

Instead of going to a manual to look up "IRA distribution calculation," for example, an employee can click a button that initiates the steps to necessary to complete the calculation.

Every employee performs the calculation in the same way, every IRA holder is treated the same way, and there is no way to make a mistake. This is the efficiency that next generation banking automation provides.

For moreinformation visit finastra.com

Find out more at
finastra.com/leave-the-legacy

Next Generation Banking Automaton and the Future of Financial Institutions

Automation is no longer limited to clicks and keystrokes. Next generation banking automation is driven by data and ruled by business logic that can be as complex or simple as a financial institution needs it to be.

And while it's true that next generation business automation reduces operational costs, savings should be considered a by-product. The greater value is in its ability to drive business forward.

"If you think of next generation banking automation as a commodity," said Perfido, "it's not a good fit for you. You can get less expensive legacy technology that will run your financial institution just the way it's been running it for years.

Financial institutions that take that road may pat themselves on the back for spending less upfront, but they're missing the big picture — that efficiency ratio. They're burning through nickels and dimes on performing repetitive tasks, fixing human errors, and wasting the time of their expert employees.

Those little inefficiencies catch up with you over the course of a month or quarter or a year. It's like driving on a tire with a slow leak. Eventually, you're out of commission on the side of the road and everybody else is passing you by."

"But for community banks and credit unions that get it, that are watching what's going on in the financial services space and the API economy and understand how technology is changing their business," said Perfido, "the future is very bright."

About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at **finastra.com**

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