FINASTRA

Market Commentary

Next generation banking automation: The self-operating financial institution

Meet changing demands without changing infrastructure, adding headcount, or layering on more processes

"Financial institutions are good at capturing data, but they struggle with the next step: efficiently feeding that data into the systems where it will return the greatest value."

Pressure can crush a business or it can propel it forward. Today's community banks and credit unions are being squeezed from all sides by outside forces like new competitors, COVID, and changing customer and member expectations, and inside forces like manual processes, outdated legacy systems, and remote work.

Last year, FDIC Chair Jelena McWilliams expressed doubt about the continued viability of community financial institutions that don't invest in technology, fearing that the gap between community and larger banks could be "unbridgeable." Those same worries would apply to credit unions.

Finastra believes that the technology gap is indeed worthy of attention, but we are far more optimistic about the future of community banks and credit unions. We talk to financial institution leaders every day who have the foresight and vision to imagine a new future for their financial institution.

Next generation banking automation is an important force in the evolution of community banks and credit unions. This technology enables financial institutions to meet changing demands without changing their infrastructure to deliver excellent account holder experiences without adding headcount or layering on more processes, and – of course – delighting their customers or members.

Benefits leaders seek from process automation

38%
Seamless account holder experience

21%
Cost savings

21%
Reduced risk

10%
Generating investment money from cost savings

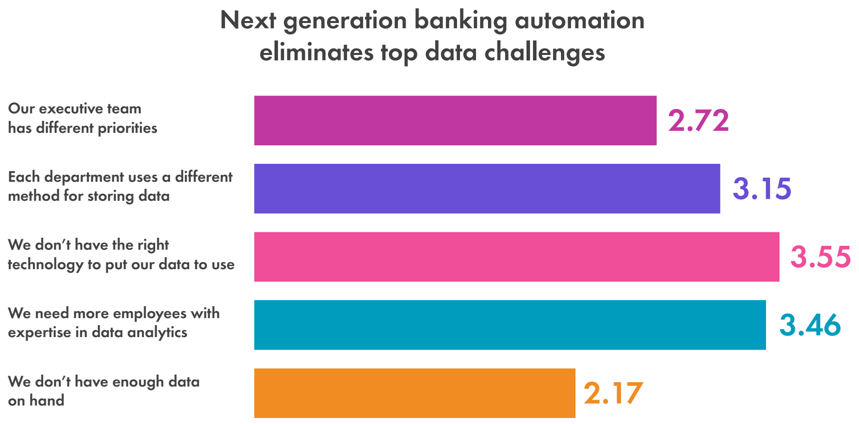
6%
Service level efficiency

3%
Competition

1%
Free FTE for other productive area

Source: The Financial Brand

Driving factors for next generation banking automation adoption



Source: The Financial Brand. 2020.

Digital transformation: Enter once, use everywhere

Digital transformation is driven by data. That's the theory. The reality is that financial institutions are good at capturing data, but they struggle with the next step: efficiently feeding that data into the systems where it will return the greatest value.

Unlike traditional automation, which only handles simple tasks, next generation banking automation eliminates many of the challenges around activating data.

> *"Compliance is a costly thorn in the side of community banks and credit unions, who don't benefit from the economies of scale that their larger competitors enjoy."*

Compliance: Built-in consistency and always audit-ready

Today, more than 75% of financial institutions are spending up to 20% of their budgets on regulatory compliance[1]. Compliance is a costly thorn in the side of community banks and credit unions, who don't benefit from the economies of scale that their larger competitors enjoy. And bank and credit union leaders are bracing themselves for a tougher regulatory landscape going forward: McKinsey notes that changing regulations around cybersecurity, including data management, could challenge community banks and credit unions for years to come.

Next generation banking automation supports compliance by eliminating the human error that arises from manual processes, executing processes the exact same way every time, removing subjectivity from the decision-making process, capturing and storing data in a consistent manner, and making logs available for audits from a single console. In addition, a next generation banking automation solution that enables intent-based changes to business rules can easily be modified to support a revised regulation without the need to retool IT systems or conduct new back-office training.

How next generation banking automation fuels digital transformation

Next generation banking automation can access data no matter where it's stored. Data is entered one time in a single system and shared with back-office systems, analytics platforms, etc., as needed. The data is normalized, so it can be merged with other data to provide comprehensive intelligence. Artificial intelligence performs much of the analytics and hands it off to employees to make final decisions.

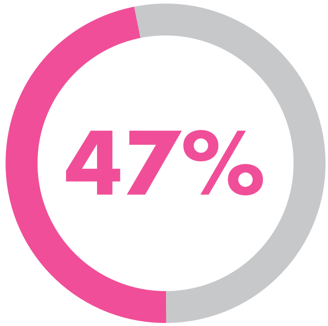
Growth: Efficiencies everywhere
Next generation banking automaton aligns data and processes throughout the financial institution.

Just two examples of how this impacts a financial institution are onboarding and loan decisioning, but the efficiencies illustrated here are similar in all other business processes as well.

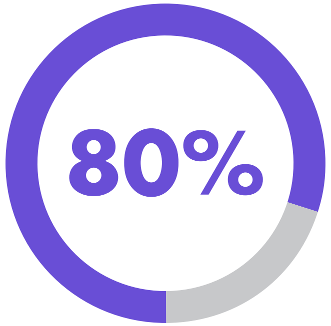
No mistakes, no missed opportunities
When a person opens a new account, the financial institution has a 60-day window to win more of their business. Next generation banking automation handles the entire onboarding process, ensuring no steps are missed. It can notice if an customer or member isn't using their debit card and take action, such as enrolling the person in a rewards program.

No bias, no delays
Next generation banking automation can use historical data, artificial intelligence, and intent-based rules to approve or deny a loan within minutes. A loan officer would take hours to do the same and may, wittingly or unwittingly, apply bias to the decision. Not only is the loan decision made faster, it is made in compliance with regulations and business ethics.

If community banks and credit unions invested in next generation automation at the same rate as top-performing companies, they could boost revenues by 34 percent and raise employment levels 14 percent by 2022[2].



of bankers identify compliance as their top challenge[3]



of financial institutions do not have a well-defined strategy to automate compliance in the next two years[4]

How next generation banking automation improves data compliance

The banking industry is responding to data compliance challenges by centralizing data activities, enhancing the control environment, and appropriately prioritizing data remediation[5]. Next generation banking automation supports these practices by:

- Minimizing human error
- Enabling corrections through one interface instead of many
- Eliminating duplicate records
- Normalizing data so it can be viewed in context with the entire data body
- Providing accessibility so data can be pulled easily and fed into integrated applications
- Logging all activity in one location for easier audits

of financial institution managers and employees favor increased technology spending to support customer and member relationships[6]

Productivity: People living their best lives

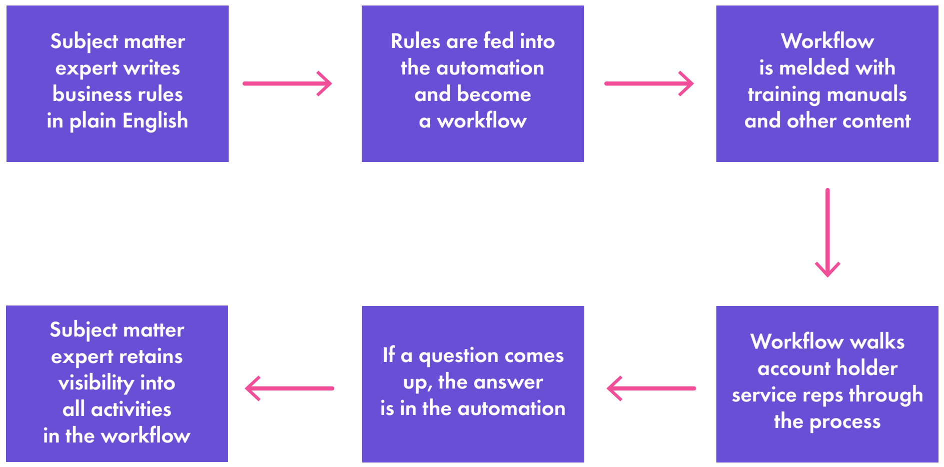
Despite early fears that robots would take their jobs, financial institution employees and managers have come down strongly on the side of technology. Their own experience has taught them that automation and artificial intelligence lighten their workload, taking over tedious tasks so they can focus on more interesting and valuable work. Now they want machines to handle the rest of their repetitive work as well.

But next generation banking automation handles more than simple tasks. It frees up subject matter experts by using artificial intelligence to load their expertise directly into the process. The result is that community banks and credit unions can spend more time focusing on the future and put their human capital to work where it will do the most good: moving the business forward.

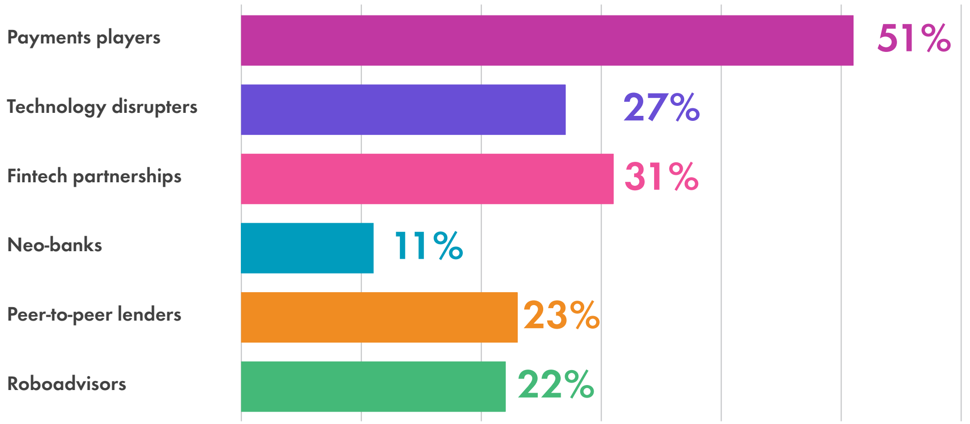
Competitiveness: Your machines are just as good as their machines

Today, community banks and credit unions are competing against large banks and non-bank entities that are entering their space. Lacking the deep pockets of larger competitors or the born-digital bones of new entrants into the fray, community banks and credit unions need to get the biggest bang for the buck from their technology.

Next generation banking automation should be a prioritized investment because it delivers cost efficiencies, operational streamlining, and data consistency across the organization.



Who do you think your competitors are?



Source: The Financial Brand. 2020[7].

A case in resilience

How community banks and credit unions used next generation banking automation to turn a crisis into an opportunity

In the very recent past, many community banks and credit unions accepted technology as a business driver but weren't aware of its full potential impact. Then COVID hit.

Suddenly, the advantages of being able to offer a personal experience at a neighborhood branch evaporated and a sub-optimal digital experience became a serious threat to business. New processes were rolled out but there wasn't time for training. When borrowers called to ask for new payment schedules, account holder service reps were stymied.

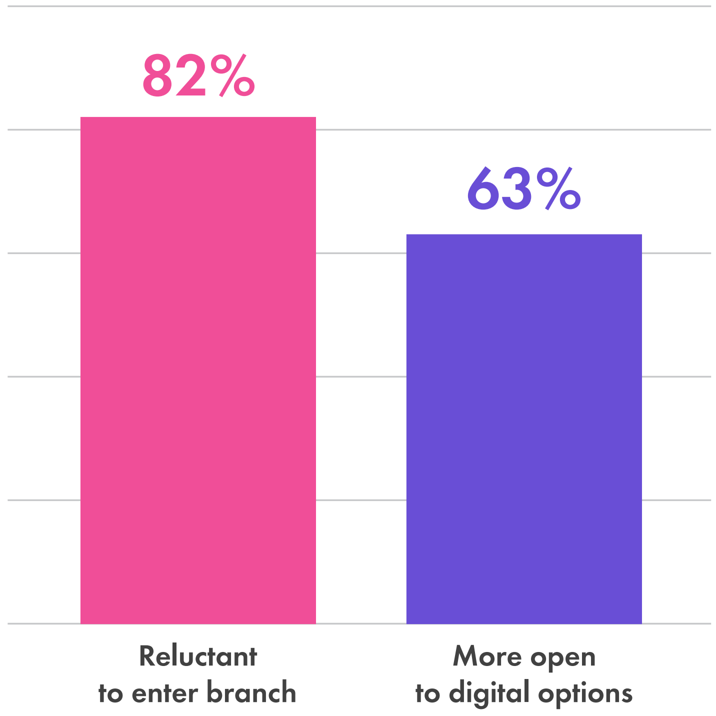
Then the Paycheck Protection Program was launched and the nail was driven deeper. Financial institutions that still relied on manual processes were unable to revise them fast enough or train their staff on changes. By the time they got up to speed, the funding was gone.

Community banks and credit unions that had already invested in next generation banking automation were able to make PPP loans with no core changes, no software changes, and no consultants. Subject matter experts created new workflows and business continued without missing a beat. No one had to learn how to create a pay pause or approve a deferral: those tasks were automated in the workflow.

Financial institutions that already had next generation banking automation in their technology stacks during the crisis learned two valuable lessons:

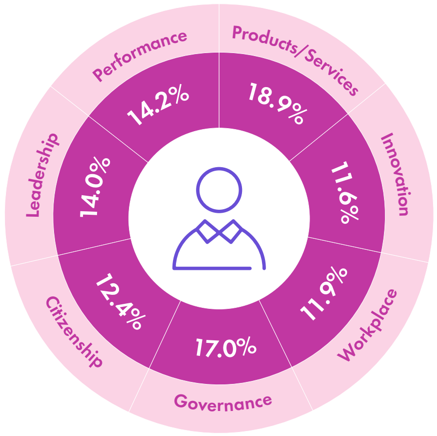
1. Pivoting not painful or disruptive if the right technology is in place
2. They're now experienced innovators and they can adapt to even the most unexpected pressures in the future.

Post-COVID consumer attitudes



Source: Western Union. 2020.

5 out of 7 reputation drivers can be improved with next generation banking automation



SOURCE: American Banker. 2020[8].

Reputation and brand: Consistency is the foundation of trust

The four pillars of an account holder-centric banking experience are:

- Consistent answers and processes
- Accurate data
- Timely responses
- Personalized service

Each of these capabilities is built directly into next generation banking automation. Once a process is defined, it is the same for everyone, no matter which branch is using it or who the customer or member is. Once data is entered, it is stable, accessible, and integrated with other systems to provide a complete record.

Finastra's Guidance for Growth

Finastra strongly believes that 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. Otherwise, they will constantly be playing a game of catch-up with their technological efforts and business initiatives, and will be unable to realize ROI or take the lead in their markets.

The role of automation is key to transformation. Next generation banking automation clears the way for a new agile community bank or credit union, one where employees are devoted to growing the business while machines do the digital equivalent of paper-pushing and penny-wrapping.

But not all financial institutions are prepared to participate in modern banking practices. They're not held back by a lack of resources or access to technology – they simply haven't wrapped their minds around the possibilities. When we propose next generation banking automation as a solution to a problem, financial institution leaders sometimes respond, "I didn't know it could do that."

Only 12 percent[9] of bankers think other business units need to be involved in an automation implementation. This shows a lack of understanding about the future of the industry. Banking and technology are inextricably entwined today, and that's not going to change.

A community bank or credit union doesn't have to dive into the deep end with automation. It's okay to start with smaller pilots. However, those pilots will be a waste of time and effort if they aren't part of an overarching strategy. Have a 5-year plan for your financial institution – and not just in projected revenue or total deposits, but in who you serve and how quickly you can roll out new products to serve new needs and markets. With next generation banking automation, pushing out a process to deliver a new product can happen in a day or two.

Are there opportunities that your community bank or credit union is missing because they're just too hard? Get over that hurdle by aligning data and processes with market demands through the use of next generation banking automation.

The Road to Extinction

- Only 20% of financial institutions have embraced digital banking and digital growth[10].
- Only 38% of credit unions view digital transformation as extremely important, the lowest percentage among bank types[11].
- 28% believe they spend too much on digital initiatives[12].
- 8% are decreasing their digital investments over the next 12 months[13].

Takeaway:

Financial institutions that turn their backs on technology leave opportunities on the table. Innovative community banks and credit unions are prepared to pick them up.

For more information
visit finastra.com

Contact us at
bdr@finastra.com

Telephone
+1 800 989 9009

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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**

US 3263 / 0820

North American Headquarters
744 Primera Boulevard
Suite 2000
Lake Mary, FL 32746
United States
T: +1 800 989 9009

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