



## Market Commentary

# The new banking imperative: Modernize the system landscape before it's too late

As financial institutions face the future, modernizing the system landscape is the key to future-proof the organization for the emerging ecosystem environment that lies ahead

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***Lower costs, stronger revenues, increased customer acquisition and retention—that's what financial institutions will gain by modernizing the system landscape."***

Financial institutions faced a known and growing trend during the COVID-19 pandemic: the need for digital capabilities. But even as the pandemic begins to fade and the viral threat diminishes, there is one thing that isn't going away. Consumers still want digital banking, and the trend toward online and app usage is escalating in ways that call for modernization of the system landscape.

### **Following the consumer trends**

In 2020, S&P reported a record number of retail banking branch closings.<sup>i</sup> A global pandemic was sending consumers to digital channels in record numbers, and it seemed that face-to-face was coming to an end.

Even now, forty-five percent of consumers plan to visit bank and credit union branches less frequently, and a surprising thirty percent want to completely eliminate face-to-face interactions.<sup>ii</sup> If you're wondering why, it's time to review some of today's consumer preferences.

Eighty-two percent of consumers are now firmly entrenched in the use of digital tools and channels for banking.<sup>iii</sup> In fact, half interact with their bank through a mobile app on a weekly basis compared to only thirty-two percent in 2018.<sup>iv</sup>

## About the author



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Louise is responsible for making Finastra's customers successful in their use of our Lending, Mortgage and Core Banking solutions – elevating their businesses with innovative technology. Prior to Finastra, she spent 13 years leading global professional services teams for one of the largest software providers in the asset management space.

She is a firm believer in creating meaningful relationships that foster a collaborative culture between customers and business partners in sales and product development. Louise is passionate about bridging finance with the technical world of software, and thrives in helping customers get the most value of their technology.

## How consumers use digital channels is another big indicator as to why adoption is accelerating

Ninety-four percent check account balances online while more than half use digital channels to transfer funds. The use of mobile deposits (forty-eight percent) and paying bills (forty-seven percent) have also seen consistent traction, indicating that consumers are using websites and apps to simplify financial management.

As consumer usage of digital channels continues to evolve, keeping pace with trends takes on new importance. Many analysts forecast low profitability over the next decade for financial institutions.<sup>vi</sup> However, according to EY's assessment, banks and credit unions can turn the tide with a customer-centric focus.

As new entrants take the stage and consumer adoption of emerging non-banks continues to rise, EY encourages financial institutions to concentrate on the "brilliant basics" – providing customers with a positive experience that meets their needs from start to finish, beginning with digitized origination and carrying through to the digital product and service offerings that consumers want to use.<sup>vii</sup>

### **To compete, financial institutions must modernize the system landscape**

On the surface, the answer seems simple. If forty-seven percent of consumers prefer to open accounts through a mobile app or website,<sup>viii</sup> then financial institutions should add online origination. Since more than ninety percent of consumers want greater diversity in accounts, then adding more offerings based on customer or member needs should do the trick.

Only, financial institutions know it isn't easy to add products and services with legacy system landscapes or to support the type of integrated digital environment that consumers expect. Currently, creating digital functionality requires banks and credit unions to build connections between core systems and front-end products often in the form of a digital layer. As a result, the individual technology applications live in siloes, resulting in an inconsistent customer experience across channels.

Just as critical, many solutions fail to deliver the time and money saving features that can transform banking operations. The ability to automate processes is one of the key components of today's digital environment. Automation makes it possible to serve customers digitally in real time while making the banking environment far more efficient for both consumer and financial institution.

McKinsey estimates that forty-two percent of banking processes could be fully automated and another 19 percent partially automated, leading to enhancements in both productivity and processing time.<sup>ix</sup>

By modernizing the system landscape, banks and credit unions are creating a more integrated and efficient environment, one that is capable of keeping pace with 21st century operations and expectations. It's just what the consumer—and the financial institution—ordered.



### **Why top FI executives won't wait to modernize**

Lower costs, stronger revenues and increased customer acquisition and retention—that's what financial institutions will gain by modernizing the system landscape.

Unfortunately, many banks and credit unions wait too long to take up modernization efforts, supporting current systems with a patchwork of updates and ad hoc offerings until they have failed or can no longer support the customer-centric environment necessary to remain competitive. This became particularly evident during the COVID-19 pandemic when eighty percent of financial institutions uncovered holes and failures in their technology that negatively impacted the consumer experience.<sup>x</sup>

Waiting to modernize the system landscape presents a number of challenges. First, it puts the financial institution behind the curve of consumer adoption. A financial institution that can't support the modern customer experience is destined to trail the competition.

Second, failure to update system landscapes inhibits the organization's ability to prepare for the future. Nearly half of consumers now expect their financial institution to proactively personalize their experience.<sup>xi</sup> Not only does this require extensive data and analytics capabilities, but also the products and services the customer needs to complete their own microcosm of financial management. These expectations commonly extend beyond traditional banking services to digital-powered products such as apps that automate savings or budgeting and forecasting, for example.

To remain competitive, financial institutions will need to not only evolve their product and service offerings; they will need to create an integrated environment where the customer can seamlessly access their world of banking. Legacy systems lack the visibility between channels and products necessary to support this interplay, leading to more patches, fixes and ad hoc products to simulate the experience consumers want to have. In the end, the financial institution opens itself to greater risk of failure and data compromise.

***As financial institutions face the future, modernizing the system landscape is the key to financial institution profitability and the only way to future-proof the organization for the emerging ecosystem environment that lies ahead.***



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