

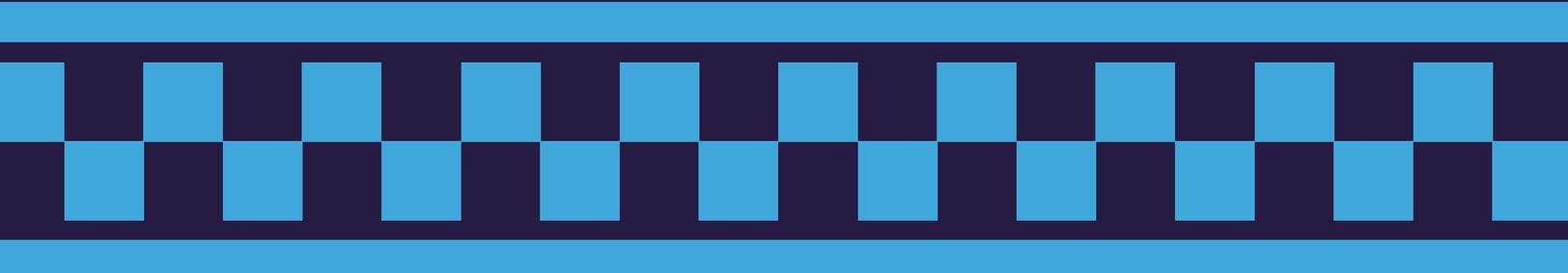


Fintech Americas

# Digital Transformation and the Race to the Future



RAY RUGA  
CO-FOUNDER  
FINTECH AMERICAS  
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# THE RACE IS ON!

Banks around the world are on notice that the tradition-bound business-as-usual approaches to banking are a doomed recipe for obsolescence and that the only path to survival and growth is through digital transformation. This means retooling operations, products and people that leverage speed, a dynamic user experience (UX) and smart data to create an agile banking operation that feels like you are ordering an Uber ride or making a purchase on Amazon.com.

In its report, *Retail Banking 2020: The Future of the Retail Banking Industry*, PwC states: "Banks will need to be on the cutting edge of technology and see that emerging customer needs and lifestyle demands are engrained in every offering. They need to understand what's possible, where the latest technology innovations are, what systems can deliver them, and what should be pursued."

"Traditional companies are facing a scenario of greater complexity and speed of change," says Emiliano Porciani, Gerente de Digital of Banco Galicia in Argentina.

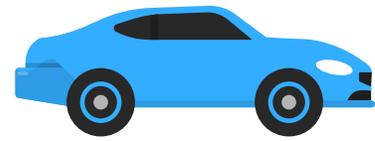
||| "The appearance of new technologies and the changes of habits in people begin to challenge the traditional paradigms of business. Competitive scenarios are increasingly complex and challenging with new players that may appear from unexpected places. In this sense, digital transformation does not only appear as a change of technologies or digitalization of processes to achieve greater efficiency. These are the basics."

This is the ultimate reality: Banks are in a race, whether they like it or not, to compete for consumers who move very fast and they cannot afford to keep doing the same things they have in the past and expect to be competitive in the Fintech age. In order to ensure future success, banks must transform their "vehicle" from a reliable, if somewhat commoditized, stock car into an agile, high performance racer that can move, change and adapt to operate in a whole new set of environments.

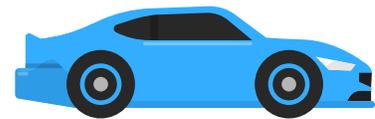
# FOUR KEY FACTORS TO BUILDING A RACING TEAM

Like racing, being a competitive bank in the Fintech age is a team effort involving multiple parties operating with a clear vision and strategy, acting together to leverage people and technology to maximize the organization's capabilities. Just as no race car driver is an island, and success is based on the assembly of a talented team utilizing multiple components working together in a fast paced, high stakes and pressure setting, financial institutions looking to compete in the race to digital need to address four key aspects of their "Race Team."

**1** It starts with culture and leadership driving change—**the sponsors.**



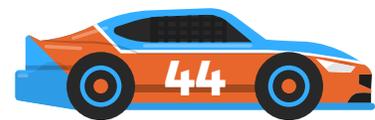
**2** These changes manifest in the transformation of the technology powering the institution—**the car.**



**3** On the ground, LOB (Line of Business) heads and product teams make sure everything works smoothly—**the pit crew.**



**4** And finally, transformation needs to be underpinned by a strong organizational strategy to ensure success—**the driver.**



# THE SPONSORS: CULTURE AND LEADERSHIP

In order for an institution to successfully undertake a digital transformation to compete in an industry in full disruption, top management must be committed to leading and supporting a change in the operational culture and structure of the organization while providing the investment support required to acquire the technological components necessary to compete — not only against other banks but also against credit unions, FinTechs, and a growing list of nonbanks, such as PayPal, Square, SoFi, and Amazon.

Returning to our racing analogy, the bank's leadership, including corporate officers and board members, representing the car's "sponsors," are charged with putting together the best "Racing Team" they can assemble and then providing them with room to maneuver as they undertake the necessary steps in the transformation process, understanding that navigating this change is fraught with risk and uncertainty. They must stand ready to support a cultural, strategic and procedural transformation to a perfectly serviceable, yet increasingly uncompetitive vehicle, in order to convert the institution into a fast, nimble racer with a clear vision of its strengths, weaknesses, opportunities and challenges. Today, too many bank boards are still devoid of members who fully understand the technology sector and the trends and dynamics driving the industry's Fintech disruption.

Dario Okrent, Head of Digital Innovation at Banco Azteca in Mexico says that "Fintech is one of the clearest ways for the banking ecosystem to evolve much faster and having a greater impact on customers. It is also a way to offer innovative and different solutions."

Once a winning culture of innovation is established and the racing team is assembled, they must put together a coherent business and technology strategy that gives them the best chance to compete and win. The fact that they must accomplish this difficult and complex feat while overseeing ongoing, day-to-day operations of their highly regulated business, makes the reality industry players are facing all the more daunting.

# THE CAR: THE DIGITAL COMPONENTS & TECHNOLOGY STACK

For banks globally, 2018 could be a pivotal year in accelerating the transformation into more strategically focused, technologically modern, and operationally agile institutions, so that they may remain dominant in a rapidly evolving ecosystem."

So concludes Deloitte's report, *2018 Banking Outlook: Accelerating the Transformation*, which continues:

"This metamorphosis is far from easy as most banks grapple with multiple challenges: complex and diverging regulations, legacy systems, disruptive models and technologies, new competitors, and, last but not least, an often restive customer base with ever-higher expectations. . .In the end, banks have to contend not only with *running the bank, but also transforming the bank* to grow in a sustainable manner. Banks will likely have no choice but to balance these goals against the exigencies of the day. And those that are able to achieve this balance could be amply rewarded."

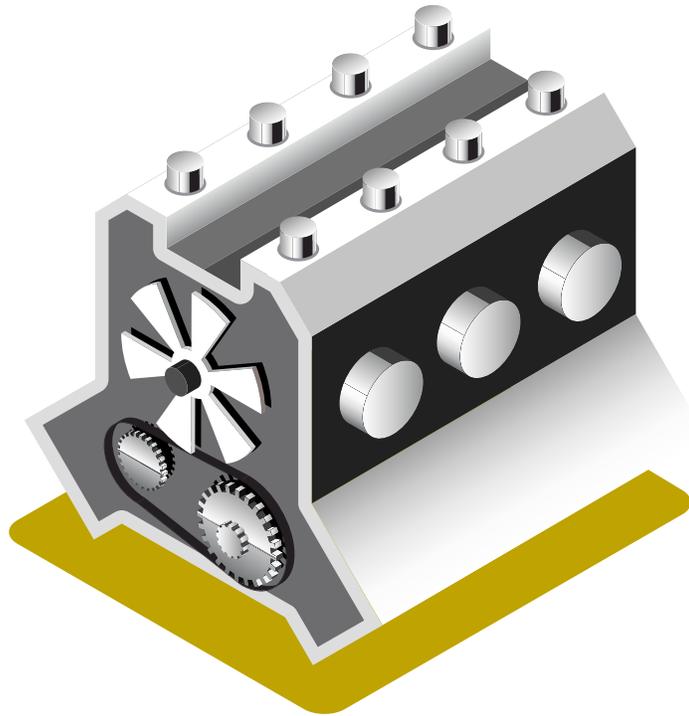
The new paradigm for transformation in the age of Fintech disruption includes contemplating and integrating a whole new set of components for the creation of a competitive digital institution. Where once the strategy relied on brick-and-mortar, encompassing the all-important branch network, the strategy is now focused on the development of an omnichannel digital platform that serve customers anywhere, at any time and on any device.

Juan Fonseca, Senior VP Technology, Innovation and Processes at Banco GyT Continental says that "2019 will be a year in which we will begin to see the results of the collaborative efforts between the banks and the fintechs. This will only be the beginning of a series of new companies and services that will redefine the industry in the coming years."



This process begins by understanding the first and most basic technological and infrastructural components of digital transformation — the Race Car itself. It is important to note that creating an agile technology stack to allow for a seamless banking experience and operation will require these components to be installed in a holistic fashion. Failure to holistically assemble the pieces would be akin to installing a race engine in a stock car without updating its transmission and other relevant components. The end result will be a car that not only doesn't go as fast as the engine can, but one that cannot move at all because its systems are bottlenecked with incompatible components. The following are basic components that we believe constitute the initial elements of a first-degree transformation effort:

- 1** Digital Onboarding: Automated account opening and lending
- 2** Data analytics and Digital marketing
- 3** Automating regulation and compliance requirements (RegTech)
- 4** Cloud-based infrastructure for document management and storage
- 5** An enhanced, user-friendly Customer Experience (CX)



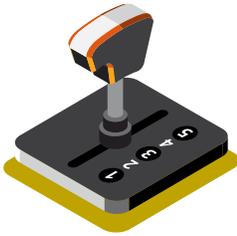
## The Engine – Digital Onboarding

One of the first areas banks must overhaul in a digital transformation effort are the processes for opening new checking or credit accounts or making loans. Banks must become responsive to consumer demands for faster, easier access to their bank accounts and banking products and services by limiting the need for any paper to be processed by anybody. While digital channel adoption is growing and accelerating at a strong clip, most bank sales still happen in the branch with a bank employee helping the customer navigate stacks of paper forms, creating a slow and inefficient process. Fintech players like neobanks, alternative lenders, PFM (Personal Financial Management) providers, and others have stepped in to meet the demands of consumers by providing fast, seamless and easy experiences in this fundamental part of the banking business.

Whereas banks often take days or even weeks to open an account or process and approve a loan, efforts that leave long paper trails, Fintech companies do it online in a matter of minutes. They leverage new data sources to strengthen underwriting and make it faster. The irony of this competitive paradigm is that banks can actually provide better rates – as their cost of capital is much lower than that of non-bank Fintechs – but lose the business because customers rather pay more if they are getting the type of service they want, how they want it and when they want it. Banks cannot afford to continue losing existing customers to these FinTechs; even more important, they cannot afford to lose potential customers, especially Millennials and Generation Z, digital natives that only know, and accept, digital approaches to the products and services they purchase.

The good news is that more and more banks understand this and are exploring build vs. buy options for onboarding and lending solutions, which has been one of the more active areas of investment in the fintech space. By accepting and pursuing digital onboarding and lending solutions, it allows banks to not only retain existing customers, but to compete for new ones all while enjoying the virtuous side-effects of streamlining their operation, reducing costs, and, ultimately, opening new revenue-producing opportunities.

## The Transmission – Data Analytics and Digital Marketing



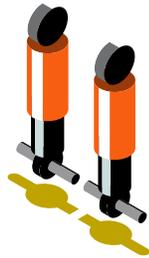
Once digital onboarding is in place, the bank is theoretically capable of increasing its account opening and loan processing production. However, just because the banks build it, it does not mean the customers will magically come. As noted above, this new digital onboarding engine will need a new transmission to make it go. This is where data analytics and digital marketing capabilities will need to be utilized in order to identify and engage new customers. This requires moving away from traditional marketing options, such as print advertising, to more effective and dynamic digital marketing capabilities that allow for tailored, pinpoint customer engagement. One of the most valuable, and mostly untapped, resources banks have at their disposal is the data they have accumulated in their servers. Effectively tapping this resource can provide banks with a vast trove of information on the needs of existing customers, allowing for the upsell of products and services, while giving insights on what new prospects may want and need.

This new data-driven, digital marketing approach is a must-have for banks to compete in the digital age. Unfortunately, as Jennifer Brooks, chief marketing officer for Stellar Strategic Group, LLC, points out in her paper, *Future Insights: 2018 Marketing Predictions For The Banking Industry*,

“... we still see many of those institutions behind the curve when it comes to their online presence, digital advertising and social media marketing”; she goes on to stress that community-based financial institutions can compete against the big banks and other nonbanks by simply “being smarter in their local markets when it comes to digital advertising.”

The key to smarter marketing will be the data underpinning these insights. Banks must find a way to leverage the enormous amounts of data at their fingertips amid the extraction complexities that comes from legacy infrastructure. However, agile digital marketing coupled with better data management strategies can open up opportunities for things like customer segmentation and smart campaign analytics.

## The Suspension – Automating Regulation and Compliance Requirements



So you have the engine and transmission ready and in sync. But what about the suspension (RegTech)? Just as a race car must have a strong and dynamic suspension that keeps the vehicle aligned and flowing with the road, so too must banks have a regulatory and compliance process that keeps the institution aligned with the requirements of their market. The industry’s regulatory reality is such that every account and loan must be reviewed, approved and monitored for compliance. As most banks have Compliance Officers undertaking these reviews, increasing the number of loans will either require more investment in human resources or slow the process, both of which defeat the speed and efficiency goals of the transformation effort.

This is where the burgeoning RegTech industry comes into play. CB Insights defines RegTech as:

“Any technology and/or software created to address regulatory challenges and help companies understand regulatory requirements and stay compliant. The technology ranges from software to automate workflow to advanced technology like machine learning, natural language processing (NLP), and blockchain to replace old policies and procedures.”

With the rapid advance of technology, RegTech solutions have become requisite for a successful transformation. Managing a complex, ever-changing regulatory environment is one of banking's biggest pain points. As adoption of digital onboarding, lending and marketing solutions increases, the bank's regulatory processes will be stretched and tested to their limits, creating a potentially paralyzing bottleneck or worse, a lessening of its standards. However, the advances being seen in the RegTech space portend to a very promising future in addressing this existential requirement in a fast and efficient manner.

The Institute of Financial Performance, for example, has written in its report, *RegTech in Financial Services: Solutions for Compliance and Reporting*, that applying RegTech “could make an important contribution to increasing the profitability and efficiency of financial institutions, while improving their effective compliance with financial regulations.” Yet, according to CB Insights, less than 17 percent of firms they surveyed have implemented a RegTech solution — a statistic that will undoubtedly change as banks transform to compete in the increasingly fast digital banking race.

## The Chassis – Cloud-based Infrastructure for Document Management and Storage

Just as a stock car is transformed through the addition of racing components, it is soon apparent that the chassis must be augmented in order to both lighten its weight and strengthen its capacity, banks that implement the previously described components in their transformation process, quickly realize the need to both lighten and strengthen their infrastructure. While cloud-based document management and storage solutions have proven to be a great equalizer in the technology race, banks have been slow to adopt it. The reasons vary from regulatory uncertainty to a lack of knowledge on what and how to integrate.

Even today, banks are hesitant about moving to the cloud. Concludes the Netwrix, a data security company, in its **2018 Cloud Security Report**: “When it comes to the complete migration of the IT infrastructure to the cloud, an astounding 31% of participants claimed they were ready to do so in the next five years . . . while another 6% of IT pros have already done it. The rest (63%) are either cautious, unsure or definitely not ready for the big move.” Banks cannot wait another five years. Rather, they need to realize that cloud solutions for data management and storage can deliver scalability, manageability, and cost savings; leverage new revenue-producing opportunities; and offer data security.

## The Console – An Enhanced, User-Friendly Customer Experience (CX)

The final component in a bank's transformation into a competitive race car is the bevy of essential gauges that monitor the overall performance and allow its driver to efficiently manage the vehicles output. In this analogy, these gauges represent the customer experience (CX) – the all-important customer interaction with bank and its financial services. This requires, first and foremost, the transition to a customer-centric approach. Only by understanding the needs, and the demands, of customers and potential customers will banks be able to make the right decisions going forward on what to offer and how to offer it. Adds Claes Fornall, chairman and founder of the American Customer Satisfaction Index (ACSI) Financial and Insurance report, "As for the future of banking, firms that best match technology with customer needs will be big winners; those that don't will face existential threats."

The Boston Financial Group, in its report titled "Customer Centricity in Retail Banking," defines customer centricity as "a way of banking based on trust and fairness that uses knowledge of customers to meet their needs and achieve sustainable, valuable, long-term relationships." Although this seems to be the obvious approach, many banks still adhere to the concept of launching services first, then hope customers use them; rather than listening and studying customers, then developing services they want, or even demand.

Juan Fonseca also commented that "2019 will be a year in which we will begin to see the results of the collaborative efforts between the banks and the fintechs. This will only be the beginning of a series of new companies and services that will redefine the industry in the coming years."

Creating a customer-centric approach that enhances the users experience is one of the most critical objectives that banks will need to achieve in order to not only attract future Millennial and Generation Z customers, but to keep existing ones.



# THE PIT CREW: TRANSFORMATION TEAM

A successful race driver with a great car is nothing without a smart, fast and efficient pit crew. Similarly, institutions will need to assemble and attract the right personnel to guide digital transformation efforts. Because banking platforms are complex systems, managing the integration of new technologies and innovative business processes is one of the biggest hurdles banks will face in their transformation efforts. Without the right team, the best ideas and technologies will simply sit idly on the shelf and be useless to the organization.

As the banking industry braces itself for a steady and rapidly escalating transformation to the digital era, everyone will need to be part of the team. Mary Beth Sullivan, managing partner of Capital Performance Group, captures the moment with this comment: "2018 will see a radical change in how traditional financial institutions approach digital transformation. . . Digital management, much like risk management in recent years, will become everyone's job. This will launch a wave of transformation, especially in traditional banking."



# THE DRIVER: ESTABLISHING A VALUE PROPOSITION

Once your newly transformed racer is ready, the next crucial piece is ensuring the driver has a clear strategy on where to go and how to effectively use the newly transformed vehicle to enhance its strengths and minimize its weaknesses. Defining a winning business model and strategy is the culmination of a long-term transformation effort where a variety of disparate people, processes and technologies have come together to compete in a very fast race. Just as every racetrack requires a different approach, so too does every bank. Each institution must be clear on where they are strong and where they are weak and look for ways to focus their energies in the right places.

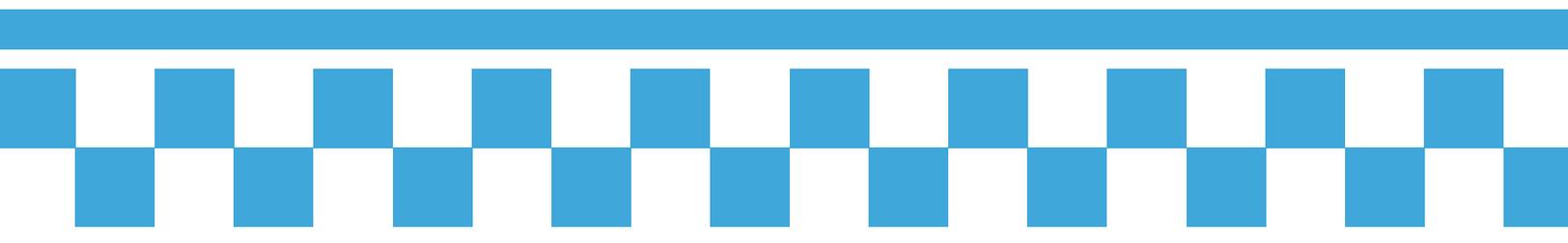
We believe that success means picking a lane which reflects your strengths and offers the best opportunity to win. That lane is your market niche. No institution can be all things for their customers and, in this race, banks must build their strategy around the areas of business where they excel. Just as some cars are built for burst and others for top-end speed, so too must banks understand their core value proposition.



## Path Forward

The banking industry is built to be safe and steady, however, this has translated into it being slow to change. As technology has accelerated in both speed and reach, banks are challenged to meet emerging demands of an industry in full disruption.

The reality that must be accepted is that the pace of change and disruption will only continue to gain speed as an ever-expanding number of FinTech startups introduce new technologies and leading vendors to the banking industry incorporate FinTech innovation into their products and services. Whether it's called stagnation or stalling on the rack track, banks cannot afford to sit back and watch as business-model and technology innovation moves more progressive financial institutions further down the speedway. Banks must be willing to undergo drastic cultural transformations that position and attract the right people and invest in the latest solutions to serve their customers' always changing needs in order to remain competitive. It is important to note that undertaking the recommendations in this white paper is only a start and will require much more investment of time and resources in an ever evolving process. So, as long as the race continues, we hope to be a partner throughout the stages of your bank's innovation and transformation efforts.



## About the Author

Ray Ruga is an innovative media and marketing entrepreneur and the Co-Founder of Fintech Americas Latin America and the Caribbean's premier Banking Transformation and Innovation Conference for C-Suite Leaders seeking actionable strategies, insights into the latest trends and emerging innovations.

Ray has over 25 years of international political, governmental and corporate experience, having worked for The White House, The Pentagon, a U.S. development agency, two Fortune 10 companies and five U.S. Presidential elections.

Ray received both his Bachelor's degree in International Business and his MBA in Finance from George Washington University.



**RAY RUGA**  
*Co-Founder*  
Fintech Americas

## About Fintech Americas

A few years after the 2008 financial crisis, we saw the large "Fintech" wave brewing in New York and London (and its accompanying pool of VC capital) aimed at disrupting banking and banks. As this was unfolding, our experience and insights told us that the challenges of scaling financial service solutions and the industry's regulatory reality was going to be difficult for fintechs. On the flip side, we saw that banks, with their inherent advantages in cost of capital and having an established customer base, could, with the right teams, strategies and solutions, seize the innovation initiative and transform themselves into more agile, knowledge driven organizations that compete and collaborate in a dynamic and thriving Fintech ecosystem.

In 2014 we started a conference to bring together industry leaders to provide insights into the latest trends, ideas, strategies and solutions to help banks confront the wave of digital disruption that was changing the way consumers accessed financial services. We have sought to learn, identify and promote the best strategies and solutions, always seeking to work with brands that are looking to innovate the banking and financial services industry in the Americas.

Today, Fintech Americas is a growing banking innovation and transformation business media brand in Latin America and the Caribbean, with a unique focus on promoting the digital modernization of the region's banking and financial services system. Created for, by and about progressive banking leaders, we want Fintech Americas to inspire its community to think beyond traditional boundaries, lead conversations, and create the future of the Industry in the Americas.

