

Future-ready banking

How to drive growth in the digital climate of tomorrow



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Is your bank ready?

It's decision time for small and midsize banks.

As customers move to online and mobile banking services, commerce becomes digitized — and large banks are grabbing market share in an arms race of digital solutions. To compete in the fast-changing climate of tomorrow, most small and midsize banks need to evolve their business and operating models.

“The majority of deposit, loan and fee growth are flowing to large banks that have scale, brand, extensive networks, and digital distribution and servicing,” said Grant Thornton Operations Transformation Managing Director Chris Acevedo. Plus, new competitors have arrived. “There is an ecosystem of nonbank providers that offer services which weren't possible only a few years ago,” said Grant Thornton National Banking Sector Leader and Principal Graham Tasman.

With growing competition from both ends of the sector, small and midsize banks need to reconsider where they fit in the market, including their theory of the business and how it can succeed.

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To choose the right approach, banks must understand the challenges:

Customers are mobile

The majority of consumer interactions have shifted, from in-person to online and now to mobile. The banks with the best apps will not win every customer, though. Banks still need to differentiate their full scope of offerings in a way that meets their target market's needs, but mobile banking, open banking, intelligent agents, self-service and real-time payments are now a solid part of that equation. "Your services must be focused on customer needs – with the understanding that these needs will change," said Grant Thornton Regulatory & Compliance Managing Director Olly Dennison.

Competitors are digital

All banks are facing fierce and diverse competition from large and small technology companies, nonbank platform providers and national competitors powered by their brand, scale, and digital investments. Banks of all sizes are looking at a broader ecosystem of partners to help them drive innovation and growth. Acevedo said banks need to ask: "In order to differentiate ourselves, maintain independence and act with agility, do we need competencies that we haven't had before?" If so, banks need a strategy to acquire, contract or partner for those competencies.

Agility and differentiation are essential

The legacy strategy for smaller banks looking to insulate themselves from competitive threats has been to increase scale by using strategic mergers and acquisitions that grow their geography, customers and deposits. As competitors go digital and customers go mobile, that strategy isn't enough. Banks must offer differentiated products with agility, efficiency, processes and technologies all aligned to drive strategic outcomes. That sort of alignment is hard to achieve amid the risk of disconnects and redundancies in mergers and acquisitions. "Just doing the M&A alone doesn't have the effect it used to have," Tasman said. "You still have to consider the product mix, but now you have to lead with the customer strategy. It can't just be about acquiring nominal scale."

Small and midsize banks can retain a strong value proposition, but it needs to shift from a traditional do-it-all model to a new model that meets emerging challenges with targeted customer-facing offerings that make them distinct from competitors.

To be **future-ready**, banks need to reassess where they fit within the emerging market, in terms of their customers, platform, product portfolio and business network. "The idea of being future-ready doesn't necessarily mean a technology play, a geography play or a customer play — it's frankly all the above," Tasman said. "That's why banks need a framework to help them think through this potentially unwieldy question of how to optimize their strategy. The framework takes away the mystery of what it means to talk about 'digital transformation,'" Tasman said.

While there is no "one right way" for everyone, there is one right way for you. You can find it by establishing your starting point, planning your future state and then defining a roadmap that drives execution and leverages practical performance-oriented frameworks and constructs for growth and efficiency.

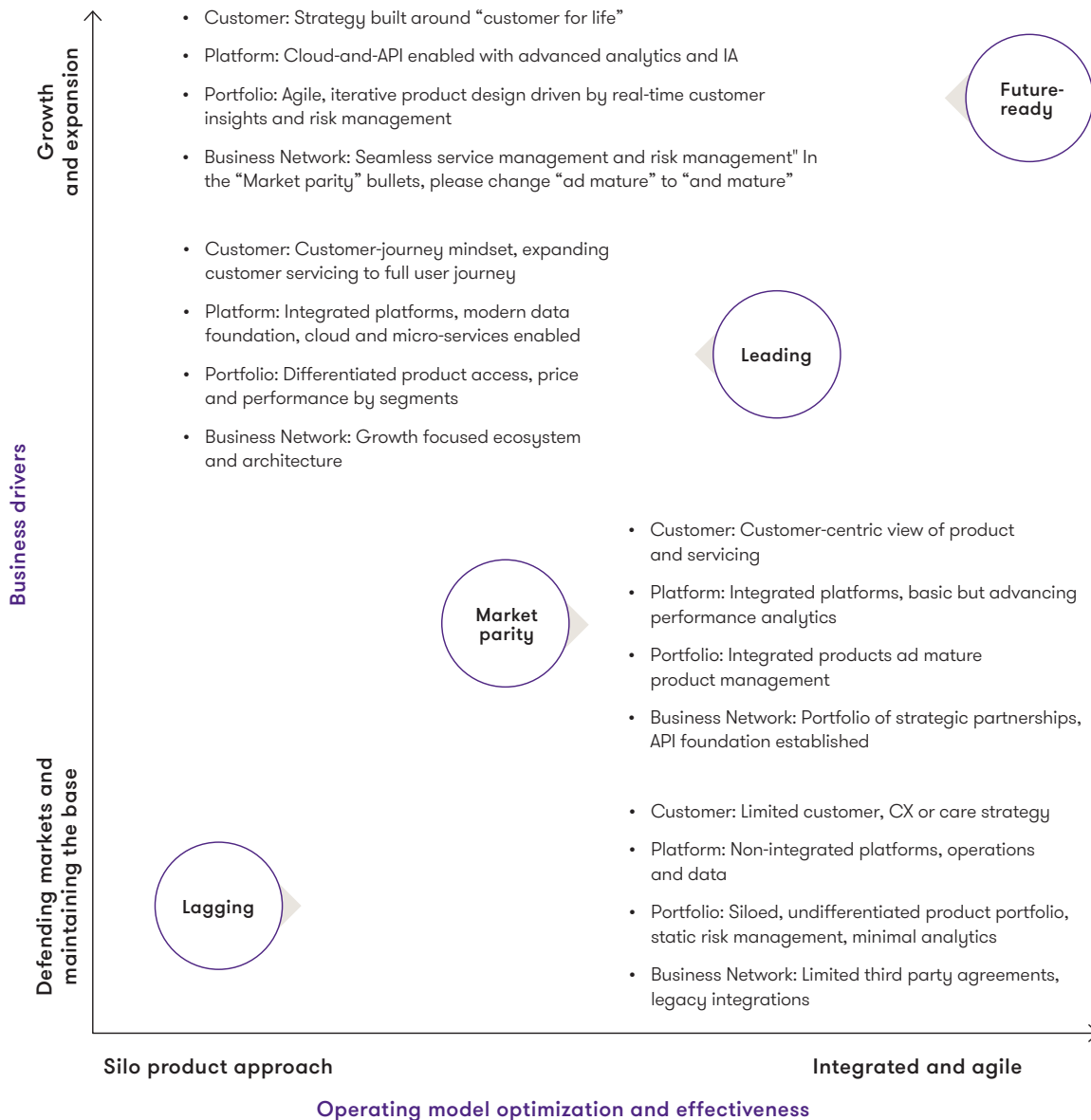
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Find your starting point

Banks should begin their future state journey by identifying their current state on a maturity map. Find your bank's starting point within these four levels of maturity:

Future-ready maturity map



Draw your future-ready blueprint

Your blueprint: To successfully make your bank future ready, you need to blueprint your customer, platform, product portfolio and business network – defining the bank that you want to become.

Customer

A bank's future state blueprint begins with its future customers – define your future customer base and how you will serve them. "I feel strongly that, at the end of the day, the customer experience is the biggest differentiator out there for any banking institution," said Grant Thornton Strategy Managing Director Tony Hill. Blueprint your future:

- Customer segments
- Customer experience
- Customer offerings

Platform

Banks need to think about their system infrastructure in a new way – it's not just a variety of software solutions that support their branches and operations. It's a platform to create, expand and deliver products and services quickly and consistently. To quickly move to digital offerings, banks need to know when to standardize and when to stand out. "Embrace utility offerings for elements that are not market differentiators," Dennison said. "It is not a bad thing to run with the pack – standardize where possible, to help with resourcing, data management, partnership opportunities and more." Banks need to blueprint their future:

- Platform scalability
- Platform extensibility
- Platform integration
- Platform regulation



Product portfolio

With a clear understanding of your target customers and a dynamic platform, you can blueprint the complete product and service portfolio that will be most effective at helping you reach your customers and achieve your goals. “The objective is to create superior performance. It’s not enough anymore to simply update core technology – that will fail to differentiate you or your performance from the crowd,” Acevedo said. Banks need to blueprint their future in terms of:

- Market opportunity
- Customer value
- Product performance
- Financial performance
- Access and delivery
- Regulatory Compliance and Cyber Risk

Business network

Future-ready banks must be intentional about curating their business network and using strategic partnerships, alliances and open banking strategies to expand the field of play as an alternative to adding capabilities in-house or through acquisition. Tasman suggested, “Think of your business network as an asset, to help you answer ‘How do we deal with disintermediating entities? How do we deal with fintechs? How do we expand our market access to new customers and business opportunities? How do we expand our capabilities network to keep from having to do everything ourselves?’” Banks need to blueprint their future in terms of:

- Ecosystem strategy
- Target operating model
- Partner strategy
- Service Integration and Security
- Targeted investment and M&A

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Tony Hill, Grant Thornton Strategy Managing Director



Once banks know what they need to offer, they need to consider the **strategy, process, people** and **technology** that they will need. Here are some samples of the actions to take:

Future-ready blueprint

	Strategy	Process	People	Technology
Customer	Establish your customer segmentation, journey and desired experience	Achieve a 360-degree view of the customer, profitability and potential new products	Identify the new models, talent and skills for customer sales, relationships and support	Plan digital acquisition, insights and seamless customer experiences
Platform	Focus on customer-centric core systems, cloud-first scalability and strategic partners	Centralize and optimize cloud-based analytics, document management and compliance	Diversify and integrate talent to innovate at the intersection of data, people, process, technology and risk	Unify on a 360-degree customer view, intelligent processes and digital services and support
Risk and portfolio management	Create an agile future-ready environment for rapid product and service delivery, with a strategy centered around managing emerging risks	Use process automation to build real-time responsiveness for future-ready customer and portfolio risk management	Focus roles on predictive diligence and control, using real-time forecasts and insights to manage risks	Ensure risk management keeps pace with the enhanced technical and service capabilities of the customer portfolios
Business network	Build an agile platform and ecosystem strategy to power growth and customer experience	Establish a data foundation for intelligent process management, risk management and service orchestration in the network	Develop a talent strategy that combines agile practices, business model design, data science, interactive marketing and dynamic change management	Move to your desired operating models, network, strategies and a digital integration, service, risk and orchestration fabric

Form your roadmap for successful execution

Once an organization finds its starting point on a maturity map and articulates a clear future-state blueprint, it needs to connect the two with an execution roadmap to ensure future success.

Organizing the future-ready roadmap

It's important that the customer journey drives process and platform requirements, operating model design, resourcing and related investment across products and business ecosystems.

Practical real-world constraints on the business will force progress differently across the different transformation dimensions for each organization. So, it's best to view the transformation roadmap along a continuum, recognizing banks may need time to overcome challenges related to resources, skills, varied leadership strengths across the organization and first-mover opportunities that arise.

“The best approach is to create a roadmap that achieves all of the transformation's customer, platform, digital and other objectives by organizing the individual projects into work streams, with strong business leaders over each,” said Digital Transformation & Management Principal Rich Sittema. “Even if specific objectives aren't solved in the early days, they're on the roadmap with a governance structure around them. Then, the bank has a complete plan that works to its unique strengths and characteristics.”

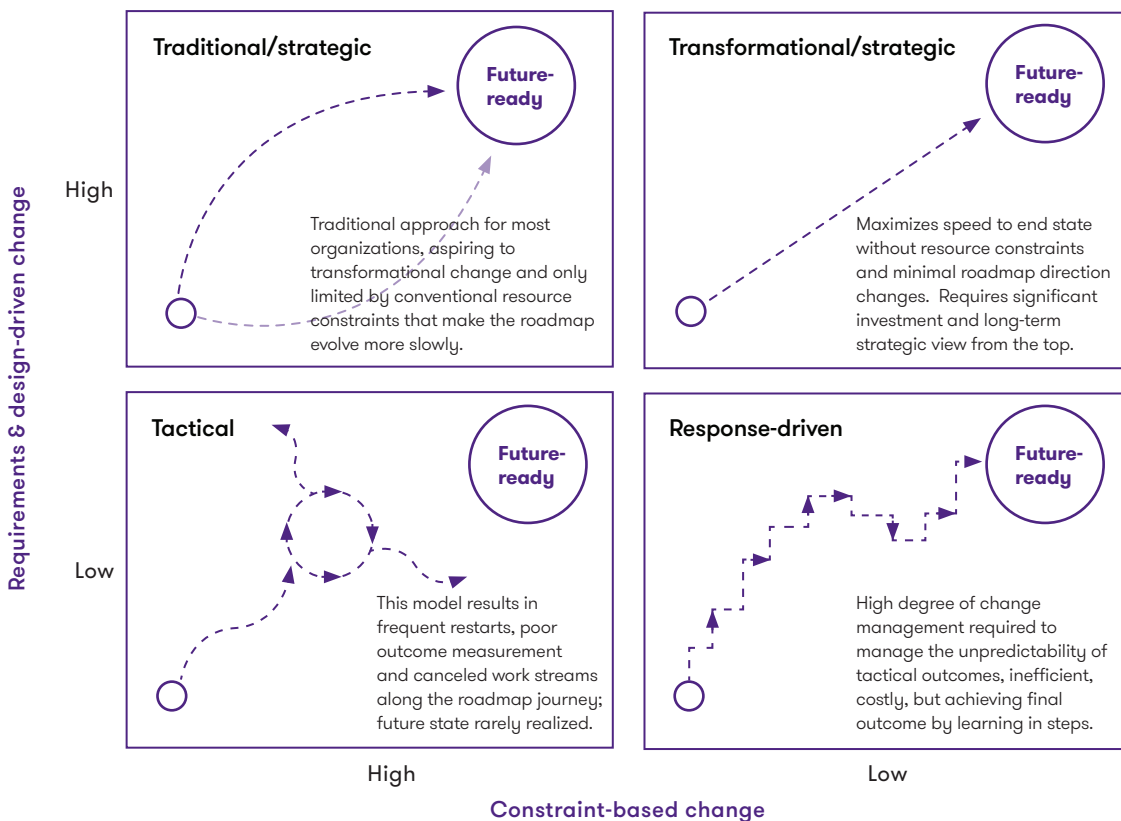
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Rich Sittema, Grant Thornton Digital Transformation & Management Principal

Future-ready roadmap

The best map for future-ready:

1. **Transformational/Strategic** – Streamlined, transformational roadmap, driven by customer requirements and journey maps
2. **Traditional/Strategic** – Transformational change moving at the pace of organizational constraints on budgets, resources, and external circumstances (e.g. M&A)
3. **Response-driven** – Reactive changes, sensing and responding to step-wise progress
4. **Tactical** – Roadmap built on assumed outcomes and aspirations, not tailored to requirements and facing numerous organizational constraints



With your direction set, determine an execution path that best brings your transformation journey to life:

A case in point: In October 2018, a large US bank began a \$100 million technology transformation. The bank was lagging because it did not have true visibility into customer and product profitability and its platform wasn't scalable. With guidance from Grant Thornton, the bank became future ready by transforming its technology along with processes and operations throughout the business. For instance, the transformation team identified over \$20M in performance improvements and conducted a competitive study that revealed more than \$5M million in potential bank fee revenue.

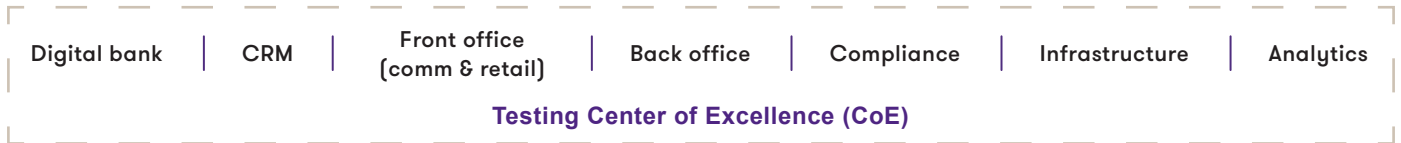
Ensuring successful roadmap execution

With your future-ready roadmap defined, you can now begin building your transformation execution program. The model below has examples of the work streams and the specific projects within them – your roadmap may differ, but the three key success factors will not change.

The first success factor is a performance improvement program focused on delivering the ROI that stakeholders will demand. The second factor is organizational change management to drive user and business adoption of new ways of working. The third factor is customer experience, to ensure that all the program business outcomes are aligned with the bank's customer strategy.

Future-ready execution program

Technology-enabled project work streams



Transformation-enabling program work streams

Performance improvement	Org. change management	Customer experience
Identify challenges to achieving strategy	Understanding the Change	LOB gap assessments: people, process, technology
Identify highest ROI transformation opportunities	Stakeholder and Business Readiness Planning and Programs	Competitive maturity spectrum analysis
Validate, quantify, develop options	Risk Mitigation Strategy	CX needs assessment
Implement transformation opportunities	Communication Strategy	LOB CX improvement roadmaps
Embed performance management	Adoption Strategy	

“We know from our own experience with forward-thinking clients that there is tremendous opportunity to optimize the way a bank works using analytics, technology, process modernization and a serious approach to change management” Acevedo said. “Analytics and data can give them a tremendously improved capacity to understand the customer, sales and profitability dynamics of their franchise.”

“There used to be the view that new technology will define the process, and the process will define our performance,” Acevedo said. But future-ready banks need to consider – and offer – new possibilities. “You need to think about how to create sustainable customer, financial and business value. To do that, you have to be open to new ways of working – and cutting through siloes that inhibit innovation.”

Once you consider the possibilities, you can identify whether your bank is future-ready, and form the best approach to transforming into the bank that you envision and your customers demand.

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