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Thought Leadership Perspective by Frost & Sullivan

Driving Faster Innovation

The Evolution of Digital Banking and How It Is Using Emerging Technologies to Be Future-ready

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Introduction

No industry has escaped the accelerated shift in operational demands emerging from 2020 and 2021. Financial services companies in particular have had to take steps to quickly address their customers' needs. New competitors, new technology, and new customer expectations are impacting the banking industry faster and to a more significant degree than ever before. The friction caused by legacy systems and processes combined with an increased focus on improving the entire consumer journey have delayed innovation implementation.

The reality is that banks need the newest and best ways to adjust their portfolio of products and services to meet customers where they are right now—and be prepared for where they will be in the future. The question is not whether the industry will be transformed, but how fast can it happen?

Tried-and-tested approaches to facilitate a bank's transformation include a digital banking platform that is cloud-native and provides the necessary speed and agility to quickly design and launch digital offerings specific to the bank and the customer. Cloud-native architectures and containerised workloads create an environment that can be rapidly updated and is more resilient to component failure. Organisations that embrace this approach have a more agile and scalable IT environment and are able to lower the total cost of ownership and improve service levels.

“ The reality is that banks need the newest and best ways to adjust their portfolio of products and services to meet customers where they are right now—and be prepared for where they will be in the future. ”



The Strategic Goals of Banks

Digital innovation is changing how companies engage their customers in every interaction, particularly how they deliver information, as well as products and services.

Frost & Sullivan research has consistently shown that the customer experience (CX) is the top priority for investment across sectors. As part of the experience, companies are investing in CX self-serve, digital marketing, and digital commerce. In the financial services sector, the top priorities to improve CX are managing the entire customer journey and ensuring customer trust. Research also shows that improving customer care is the number one driver for investment in the technologies that help them reach the goal of improving CX.¹

An effective digital transformation is not about adopting specific technologies or solutions, but implementing a flexible foundational infrastructure, platform tools, and processes that will support an ever-changing flood of technologies and solutions. For many critical business applications, financial firms are choosing public cloud infrastructure as a service (IaaS), a multitenant option that offers cost-effective, on-demand availability and automated scalability. Adoption has remained steady at around 50% over the past few years. Where more consistent app performance or security is required, firms are choosing single-tenant hosted private cloud services. Adoption of these services grew by 10% in 2020.²

In a digital business, achievement of strategic business goals relies on purchasing, configuring, and implementing the right technologies—not just applications, but also the underlying infrastructure and platforms. Increasingly, purchase decisions are shared by all stakeholders from IT and the business who evaluate infrastructure options based on app requirements.³



1 Frost & Sullivan, 2021 Predictions – COVID-19 Accelerates CX Investments: Growth Opportunities Revealed by End Customers, 2021.

2 Frost & Sullivan, Cloud Drives Digital Transformation in Financial Services, 2021

3 Frost & Sullivan, Cloud Drives Digital Transformation in Financial Services, 2021

The Cloud in Use

Many global banks have a strategic goal to move part if not all of their workloads to the public cloud. One of the purposes is to free up the IT team to concentrate on strategic concerns. Moving to the cloud is considered a business decision, not just an infrastructure technology decision. In the case of global banks, the challenge can be the infrastructure. There can be a few data centers in different areas around the world, but the cloud provides options and possibilities to be present everywhere.

COVID-19 accelerated the digital transformation journey, and we aren't going back

It has been a common theme that digitalisation was more significantly adopted during the COVID-19 pandemic, especially in banking. However in many countries, the presence of local branches was critical. Consumers got much more used to mobile banking, and web-based connectivity got stronger. The way customers interact with their banks will only continue to move forward with technology; we are not going backward.

In the United States, some banks are nearly 100% on the public cloud, enabling digital connectivity for customers. The US has one federal regulator, and they have shown movement towards open banking and all-digital banking. With their large footprint, global banks must work with numerous regulators, adding to the complexity of cloud adoption. The number of product offerings also makes adoption more complex, with different customers and needs.

Getting product offerings to market faster

Some companies are ahead of the United States in digital adoption. China, for example, is a faster adopter of new business models.

Technology can have limitations. With cloud, banks will make the ideation-to-service timeline much shorter. Ultimately, while banks are able to get many quality products and services out in a timely manner, a significant amount remains in the pipeline.

Agility in business-critical application delivery

The pandemic altered many banks' style of working. It changed how they build their stacks across delivery teams and their methods of refinement. What is most important in this new way of working is being more empowered to make decisions faster and in order of priority. This means agility in all business lines and functions such as risk and compliance, operations, and business development.

Working with strategic partners like Dell Technologies to move functions to the cloud is crucial because they can spread their risk and regulatory requirements across clouds. This increases the foundational customer service levels significantly.

Market expansion

The specific products and services that will be offered in different regions must be considered when expanding into multiple markets. IT teams must determine how quickly they can configure infrastructure to align with a country's banking regulations. For countries within Africa, for instance, which are often far ahead of many other mature countries with digital adoption, infrastructure must be able to provide scale elasticity to meet new demands.

Meeting Banks Where They Are Now

Cloud is a set of design principles that allow banks to quickly release new products at scale. When deciding on a cloud strategy, banks are identifying the attributes they require and choosing the right cloud platform(s) based on the requisite capabilities and principles. For example, edge as an addition to public cloud is different from moving to multi-cloud.

Dell Technologies has helped banks with their digital transformation processes and cloud migration. A cloud-native digital banking platform gives banks the critical speed and agility to respond to ever-changing customer needs. Dell can quickly design and launch future-proof digital solutions that combine the best off-the-shelf and bespoke capabilities.

To begin this journey, Wayne Filin Matthews, the chief enterprise architect at Dell Technologies, proposes that banks consider the following:

- **Organisational change approach:** If customer centricity is the goal—and it usually is—then decide what needs to happen to release features quickly. Banks have enabled digital capability, but often different banks have different definitions of digital. Some consider any customer journey starting online (e.g., opening a bank account or checking a balance) as digital. Where banks may struggle is closing that loop; for example, mortgage applications started online will often have to be finalised in a branch for approval and signature. Banks are working to align digital platforms and restructure the technology decisions to support that full customer journey.
- **Competitive threats:** the increase in the number of digital banks and better digital banking from large players because of lowered barriers to entry.
- **Geographical implications:** Residents of some countries use digital exclusively for banking and payments. Larger, global and traditional banks may lose customers in these countries if they don't keep up with customer preferences.

“Cloud is not a destination; it is a set of design principles that allow banks to have the velocity and feature release at scale for their customers.”

—Wayne Filin Matthews

Drivers of change for banks

In addition to customer centricity, determining the right use cases and technological capabilities is imperative. Analytics at the edge—close to the point of sale and value—results in more personalised service than use of a data lake.

With the increase in online traffic comes an increase in security threats. When digital journeys have had to increase in speed because of more people working and banking online, there is a counter threat that emerges. Large security solution providers have expedited and expanded their offerings to satisfy the demand. Cybersecurity must be addressed on a continuous basis by banks and in the broader economy, and is an important part of working with the right cloud provider.

Establishing a Future-ready Model

Banks need to be realistic. Many are using a hybrid cloud because legacy systems are still in place. The transition will be defined by software, not hardware.

The Internet of Things and edge computing are increasing the precision of contextual banking. Banks are following in the footsteps of big tech companies, but with the challenge of strict regulations. New payment options and devices and personalised ads and offerings are some of the things that are coming. Payments will be purpose driven rather than process driven. The payment method and process—card, phone, swipe, tap—will be eliminated from the journey, making it frictionless but with the same level of security and protection customers expect.

Dell Technologies can guide financial service companies on their digital economy transformation journey with the architectural building blocks and agile solutions that deliver the capabilities they need.

Macro drivers of change

- 1 Open banking:** Europe's open banking regulation will alter the landscape. It requires banks to open their application programming interfaces (API) to third parties (customers and business-to-business end providers). Being future-ready means banks have to be prepared to lose their own applications to competitors and partners that leverage the information from their banking systems.
- 2 Convergence of industries:** Telecommunications providers are becoming digital banks. For example, SingTel, Singapore's largest telecommunications provider, recently applied for a digital banking license. Amazon provides an online pharmacy and business insurance. Matthews put it plainly "If a bank or financial service organisation isn't ready to embrace convergence and address it as a competitive threat, then it's at risk."

“The pandemic has forced a focus on cybersecurity.”

—Wayne Filin Matthews,
chief enterprise architect,
Dell Technologies

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