

From Spaghetti to Lasagna: The Future of Banking is Now

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Banking competition has never been more fierce, as traditional banks compete with each other to poach or maintain customers.

Let us qualify that competition, however. It is important to note that traditional banks continue to dominate their markets with majority market share – a trend that will continue for the foreseeable future. As challenger banks, technology giants, and fintech startups enter the playing field, consumers and businesses will start to consider them as legitimate alternatives for specific banking services. But that is all: Even the alternative fintech companies will need banks. It is also highly unlikely that consumers are going to take out a mortgage with Google in the near future. To this end, 'banking competition' is being overcooked in the industry at the moment, as banks will always remain in a privileged, trusted position overall, with new players sitting on the sidelines.

Grappling with aging infrastructure

Needless to say, IT outages are increasingly causing reputational damage for banks across the globe and customers are airing their dissatisfaction. If familiarity and legacy are the key reasons customers stick to traditional banks, then faults in this system are likely to cause them to take their custom elsewhere – even if it is just to another incumbent bank. This means all banks should visit new infrastructure approaches, turning to the wider banking community for support in fixing these

re-occurring issues.

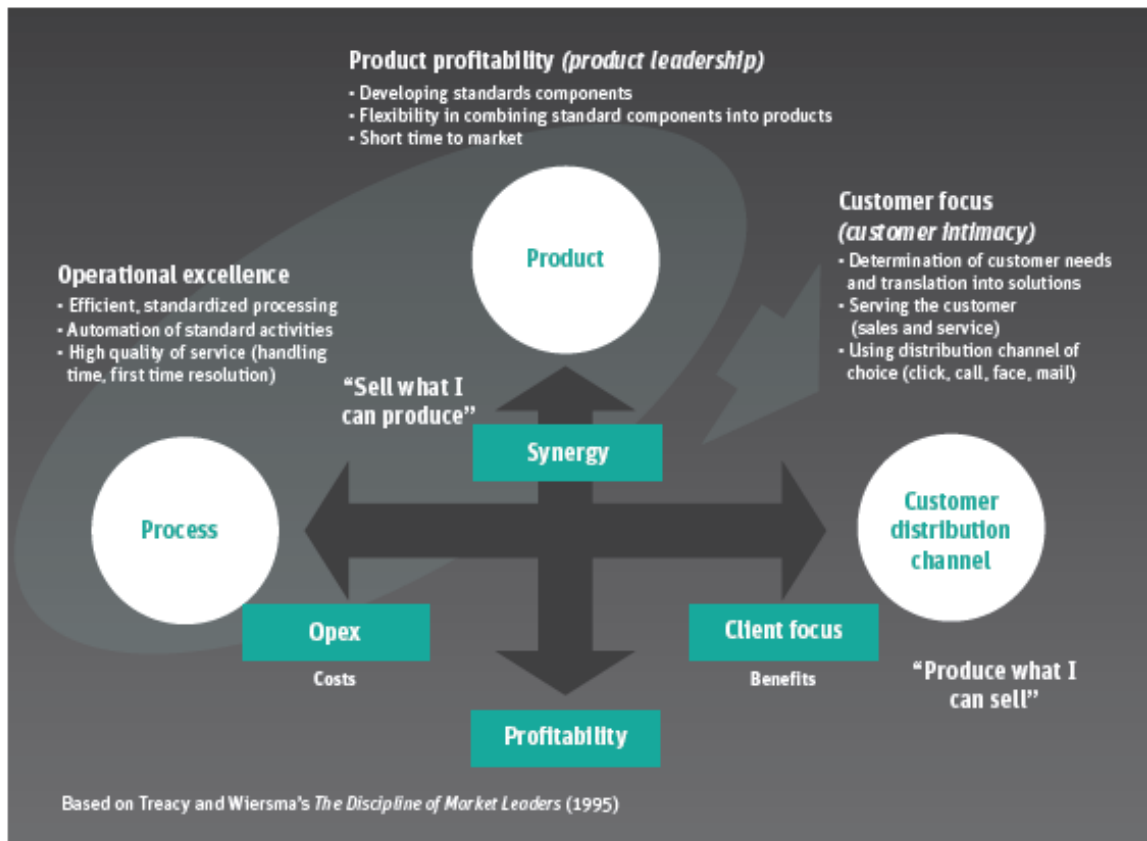
Technology is the driver of innovation in the finance industry. New market entrants are able to build IT systems specifically designed to deal with niche banking challenges in the financial value chain, as well as have the skill and flexibility to both adapt to the inevitable banking changes of the future. In contrast, traditional banks are relying on age-old IT infrastructure that was developed in an era far removed from the banking landscape of today.

To overcome changing IT demands, banks are currently making isolated updates to systems as and when required; however, if we consider the underlying issue of old-fashioned core banking systems, this approach simply works to complicate the overall system further. Moreover, banks struggle with updates, as it is often unclear who has ultimate responsibility for individual functions and systems within the bank, or who oversees the entire IT landscape.

Competition: Are we asking the right question?

This takes us to the issue of "overcooking" where banking competition truly resides. While it is essential for banks to be competitive, they should not worry about competing on their underlying administrative systems. This should be standardized across banks, so that banks can concentrate competitive efforts on the areas that matter, such as offering aggressive interest rates on savings compared to their peers.

Figure 1: Key tenets of operational excellence, product leadership and customer centricity



Newer market entrants are certainly creating a lot of noise for different specialties, but realistically, they will not gain the consumer support needed to be a ‘jack of all trades’ like the big banks. If we cast our minds back to the launch of Google Wallet, how successful has this really been on the issuing side globally? In my opinion, it has not. There is a distinct lack of merchant buy-in and consumer trust, which is inevitably slowing everything down.

To this end, banks do not fully value the privileged position they are in. Long legacies and heritage may suggest to customers that they are the experts in the field, so they now need to re-visit their antiquated legacy systems to ensure they do not let customers down on the things that matter.

Outsourcing what makes sense

If banks can gain a full understanding of their business functions, they can grasp which parts can be managed – at less expense – by a third party. In the future, banks should outsource

some of their core banking functionalities to those who do it better and cheaper, enabling them to focus on their most profitable areas. By outsourcing certain functions, banks would be able to compete in the true areas where it makes a difference to customers – such as their mortgage or loan offerings.

For example, the majority of banks run on enormously complex IT systems. This is not new information – much has been said of the challenges facing banks as these archaic systems struggle to answer the pressures of a modern banking industry. After all, most banking platforms were developed in the 1960s and 1970s. Consider how consumer technology has evolved in this time and it seems inconceivable that our banks would still be using such outdated technology. This cumbersome technology, combined with decades of merger and acquisition activity has created a tangled IT system rife with huge inefficiencies.

Let us take the situation as described above

as the starting point for a Bank to move forward to state of the art customer centricity, operational excellence and (profitable) product leadership.

From spaghetti to lasagna

Most banks are succeeding rather well in achieving a more mature form of customer intimacy by putting fancy-looking – almost completely detached from the back office – web-based interfaces in front of their customers. We see apps, Internet banking and all sorts of self-service banking facilities on offer. But as we all know, this is a very superficial façade to hide the fragile interfaces that still represent the majority of the bank's internal interactions between back- and front-office systems.

The operational expenditure, or 'opex' component becomes more difficult. The IT landscape of the majority of banks can be best described as 'spaghetti'; everything is connected to everything in more than one way. To make this efficient and easy to use, we need to move to a more layered approach; in other words, we need to move from spaghetti to lasagna. This transformation will be long and costly, and if not done with the right approach, it will also be very risky – not only for IT, but for the bank as a whole. What is needed is a holistic approach, taking into account more modern approaches to IT infrastructure.

A gradual migration, using a well-defined standard Service Oriented Architecture (SOA) and supported by a strong and empowered enterprise architecture function, seems the best recipe for lasagna. If we are successful in this journey (and it is most certainly a journey), the operational cost will decrease dramatically and either strengthen the bank's balance sheet or lower the prices for their customers – and by doing so, increase the bank's market share.

Product leadership 3.0

In the past, product leadership used to be a combination of price and offering. Too often we see an overemphasis on short-term considerations, such as market share

or profitability. The long-term view is quickly out of sight when the short-term targets are achieved. But what if you could combine a lasting and fair relationship with your customers and still be extremely profitable?

The answer lies in Product and Pricing Lifecycle Management (PPLM), a holistic framework with which to transform the way the bank manages products, pricing, loyalty and billing. If you are able to provide your customers with the correct pricing online and in real-time as agreed in the customer agreement, it will benefit both the bank (if the price is too low) and the customer (if the price is too high). PPLM gives both banks and consumers a whole new opportunity to get the most out of their relationship. PPLM also helps improve the bank's profitability by mitigating revenue leakage, while customers will benefit because they are always paying the right price at the right time and are awarded for their loyalty. I call this 'Product Leadership 3.0'.

With the hurdles high and the stakes even higher, the situation demands extraordinary leadership to start this journey.

"It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change."

–Charles Darwin (1809-1882)

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