The transformation continues: Digitizing the back office

February 2021
The goings-on in the back office at many a bank can be likened to the backstage work for a Broadway play: while the audience takes in a highly polished and practiced performance, it’s what they don’t see—the less glamorous heavy lifting and scurrying about behind the scenes—that keeps the show on track.

But as banking becomes ever more digital, driven in no small measure by COVID-19, the curtain is rising to reveal stubborn inefficiencies that remain part of the back office, from outdated technology to heavily manual processes.

The competitive pressures to keep customers in a permanent state of delight ensure that banks will make their digital tools ever faster and more powerful. Keeping pace with these advances represents a major challenge for back-office teams, which at many institutions have long been resource-starved, relative to those facing the public.

In this month’s Executive Report, we look at why financial services providers should consider spending more on back-office upgrades and where some institutions are finding success in their efforts to create an end-to-end digital solution.

Our lead story by contributing writer Dawn Wotapka digs into the pandemic’s outsized influence over the future of banking. A consultant she interviewed put it plainly: “COVID has essentially been a catalyst to change the way banks need to rethink their business models and an accelerator on what will be a war for fit-for-purpose technology and people.”

Part of that rethinking is a sharper focus on efficiency, given concerns that 2021 could be more painful for banks and customers as the effects of massive government stimulus measures wear off. Many financial services providers are looking to automate more of their back-office functions to save both time and money.

Even small banks and credit unions are facing up to the idea that relying on delivering person-to-person services—the historical foundation of their businesses—may be less of a loyalty driver in the future as customers adopt a preference for digital.

As financial services firms pursue digitalization, gaining greater control over their vast repositories of data and using that data more effectively will be key to the transition. Keith Pearson, once a banker and now a Toronto-based consultant, also has direct experience overseeing technology and operations strategy at Lloyds Banking Group. In his conversation with contributing writer Edmund Lawler, he discusses the customer experience shortcomings that can occur when back-office technology capabilities fail to match up with ambitious, customer-facing digital offerings.

He agrees that the pandemic-fueled rush to digital revealed the risks that banks and credit unions have been carrying for years by underfunding the back office. But, he says, in addressing that risk, the biggest challenge is the entrenched view at many institutions that the operations side is a cost center. This makes it hard for them to see the top-line benefits of going digital end to end; he says.

There is, however, growing momentum in some quarters to take on those back-office upgrades so long deferred, writes BAI contributor Craig Guillot. In his article, he quotes one market player in that space predicting that “2021 is going to be the year banks really dive in.”

He cites a report that states small and mid-sized banks and credit unions can see rapid efficiency improvements by trading out largely manual processes for more streamlined workflows featuring robotic process automation, low-code strategies and other improvements that can be integrated into legacy technology.

Even without the pandemic, most banks and credit unions would have eventually had to modernize their back office—COVID-19 just accelerated the timeline. In the near term, this creates pressure to change, but on the upside, the benefits start accruing sooner.

“Every financial services organization that aspires to digitally transform must first gain control of its data technology,” Pearson writes. It took three years for Lloyds to get that control, but in doing so, the bank cut costs, boosted productivity and improved its regulatory compliance.

His advice to others embarking on a similar journey? Concentrate on the business benefits, make sure the solution works for employees as well as customers and keep the technology subordinate to business needs.

Kunal Chopra, once a banker and now a Toronto-based consultant, also has direct experience with digitally transforming the operational side. In his conversation with contributing writer Edmund Lawler, he discusses the customer experience shortcomings that can occur when back-office technology capabilities fail to match up with ambitious, customer-facing digital offerings.

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Process upgrades take on new urgency

‘Operational efficiency,’ once code language for cost-cutting, has a more high-tech focus as banks seek end-to-end digital solutions.

BY DAWN WOTAPKA
When it comes to operational efficiency, banks and credit unions have long focused on the front office, where the revamped lobbies with pods wow customers, and the middle office, where the colorful and easy-to-use apps are created.

The back office, meanwhile, remained an unloved black hole—process heavy and inefficient. It has “never been considered a dynamic part of the organization,” says Alex Kwiatkowski, a principal industry consultant in the global banking practice at SAS. Now, however, things are changing. “Banks have long recognized the back office must be overhauled,” he says. “Now that spotlight is getting a bit brighter.”

Several factors are at play. Competition from nimble startups free of legacy costs continues heating up, and interest rates remain at rock bottom, weighing on the industry’s profitability.

Even more nerve-wracking: While the industry was able to escape 2020 relatively unscathed, concerns are mounting that 2021 could be harder as the pandemic’s financial toll becomes more of a burden for consumers and their lenders. “COVID has essentially been a catalyst to change the way banks need to rethink their business models and an accelerator on what will be a war for fit-for-purpose technology and people,” says Soneel Raj, head of global banking, strategy and solutions at Cognizant.

According to a recent Deloitte report, the crisis is driving many companies to pursue cost reduction. Globally, the percentage of respondents pursuing cost reduction targets topping 10 percent soared by 61 percent compared to pre-pandemic levels.

Hiway Credit Union, a Minnesota-based financial cooperative with more than 79,000 members and assets topping $1.5 billion, knows part of its survival depends on it offering the same services and offerings as the nimble upstarts.

“For a mid-sized credit union like ours, we have to stay at the forefront of all those things. We have to have the same digital experience, the same capabilities as these competitors,” says Dave Boden, Hiway’s president and CEO. “We have to do all of that in a cost-effective manner. We just can’t afford to throw money at it. We have to be very careful in our spending decisions and make sure the investment is worthwhile, in either an improved process or better customer experience for our members.”

That has led him and some peers to take another look at the back office, surgically scrutinizing their processes for tools and techniques that can trim costs by doing more with fewer resources, cutting out unnecessary steps and finding ways to automate or outsource tasks.
Automation is meant to be a time and money saver, not to replace jobs, but to allow staff to spend more time on customer service.

Jorge Sun, LendingFront

Experts have several suggestions on how to improve the customer experience and help an organization become fully digital.

A logical place to start is to rethink how and when you interact with a customer, with a focus on the steps involved for the back office. “Small banks have historically relied upon relationships and in-person services. While that may have been preferable years ago, today that model is less appealing as society has become increasingly contactless and more customers are demanding the convenience of digital,” says Jorge Sun, CEO of LendingFront, a fintech operating system that powers small business credit for community banks, credit unions and others.

Another area is to increase the use of digital tools. Digitization frees up staff to “focus on more high-touch, complex problems and leave more of the mundane work to technology,” Sun explained.

Anything that can be digitized will add value—and even small, incremental changes really add up, Kwiatkowski says. “I don’t think the paperless concept is fully realized,” he says. “When is the last time you wrote a check? Yet banks still have employees dedicated to check processing. You can’t just assume things have been modernized.”

Hiway increased its use of digital tools this year as its employees began working from home. The company invested in physical monitors for the staff and remote access tools with videoconferencing to help facilitate workflows. But it also used training to teach employees how to offer consumers virtual customer service, as well as how to get a digital document to the back office.

The pandemic has “accelerated our move to even more leading-edge digital technology,” Boden says. “Video banking and those types of concepts can definitely increase efficiency.”

Next up is automation, which doesn’t mean casting aside employees. “Automation is meant to be a time and money saver, not to replace jobs, but to allow staff to spend more time on customer service, complex tasks and processes, as well as face-to-face communications,” Sun says.

According to Deloitte, automation is the top transformation action to come out of the current pandemic, and roughly two out of three companies expect to pursue the process.

This will undoubtedly lead to a shift in the mix of skills employees need, Cognizant’s Raj says. Post-COVID, skills such as change management, people journey management, data and inspiring people leadership will be as important—or even more important than—agile, UI, and data and analytics. “This will require a rethink on culture, new ways to work, and new operating models in the bank’s context,” he says.

There is no time to waste, but be sure to be thoughtful in the process. “You could do it slowly, but then you would put yourself at a disadvantage,” Kwiatkowski says. “Never go so fast that you don’t know where you’re going, and never so slowly that you negate the reason you went in the first place.”

Meanwhile, know that this is a process that never ends. “Operational efficiency is always at the forefront of planning,” Boden says, “no matter what your situation is.”

Dawn Wotapka is a communicator who lives for a great story, no matter how it is told. She previously covered the housing crash and public companies for the Wall Street Journal.
Why banks need stronger digital foundations

Financial services organizations that aspire to transform must first gain control of their data technology.

BY KEITH PEARSON
Eighty-eight percent of financial services executives say that controlling, replacing and upgrading legacy IT systems is one of their top three priorities.

BDO AMERICAS SURVEY

The challenges we overcame along the way made Lloyds smarter, with better control and stronger operational resilience. The COVID-19 crisis, in which the bank has had to relocate more than 100,000 people to work from home, has demonstrated the power and scalability of the platform.

Here are a few lessons from my journey at Lloyds:

Focus on business outcomes. When managing digital transformation, discussion can quickly move away from the business to technology outcomes. Making a

When I joined Lloyds Banking Group to lead digital transformation programs in 2012, a major simplification effort was underway to make it easier to do business with the bank’s 40 million-plus global customers. Developing end-to-end customer journeys became the focus of the rapidly evolving digital bank.

Today, 250-year-old Lloyds is one of the world’s most digitally enabled banks, accelerating its ability to respond to customer needs. Putting customers first while helping Britain prosper has been the driving message behind Lloyds’ strategy under CEO António Horta-Osório. It’s an approach that seems more important than ever today.

While the outcomes of Lloyds’ digital journey have been transformational, one key aspect of technology management was clearly missing back in 2017, when the bank’s then-CIO asked me to review the way we managed a complex technology ecosystem that supported more than 4,000 IT applications.

The biggest issue was that Lloyds, like many financial services companies, lacked the ability to coherently and consistently manage IT data. Multiple systems of record worked in data silos and with disconnected reporting. That made it impossible to create a single view of service, architecture, cost, resilience, project portfolio and other core capabilities. Effective software and hardware asset management was missing, and introducing machine learning and big data solutions to that kind of environment was pointless.

Of course, Lloyds wasn’t alone. Eighty-eight percent of financial services executives say that controlling, replacing and upgrading legacy IT systems is one of their top three priorities, according to a 2020 BDO Americas survey. Many banks maintain highly complex applications running on top of aging on-premises IT infrastructure. Moving to the cloud can help, but without visibility and control, cloud migration quickly becomes a complicated and expensive task.

That’s why every financial services organization that aspires to digitally transform must first gain control of its data technology. At Lloyds, that process took three years, but with a back-to-basics strategy, we finally solved the data fragmentation problem and became a bank with absolute control over its IT environment.

That doesn’t mean things don’t break. But by implementing a single technology-management platform for the enterprise, Lloyds now has a powerful view of critical business processes and tech infrastructure that supports them. That has led to significant improvements in control, cost reduction and regulatory compliance, and has given Lloyds a foundation for continuous improvement. Even more interesting has been the dramatic improvement in the work experience at Lloyds. Productivity has replaced frustration; people at all levels of the organization benefit from a single reliable, real-time view of critical business processes and the technology estate.

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Compelling argument with business executives and the CIO and securing the investment funding you need only comes if you can articulate your outcomes in business terms. When highlighting the benefits solutions can deliver, I would often refer to the six Cs: cost, control, compliance, customer, colleague and continuous improvement.

Breaking down delivery silos. In many IT organizations that employ thousands of employees, delivery silos, architectural complexity and costs all tend to expand at the expense of control and compliance. Technology solutions must be designed to integrate with the employee and customer view. Their role is to integrate work and allow it to flow between existing systems, driving effective organizational outcomes without having to discard previous investment.

Correcting the culture. Technologists are a protective bunch and, in the financial services industry, they have a tendency to hire their own, which makes cultural change challenging. Many have been steeped in a “blame IT” mindset that often characterizes the industry, so they are understandably cautious about collaborating. As a transformational leader, offering win-win outcomes for IT and the business helps to increase trust and foster a collaborative rather than an adversarial mindset.

The human factor. Technology should exist in the service of humans and be an enabler to effective business outcomes. We have a tendency to overcomplicate our technology environment, and to allow politics and personal agendas to interfere with what is best for our organizations, our colleagues and our customers. Being transparent and addressing poor behaviors in a collaborative way is critical if organizations are to unlock the potential of digital transformation.

Starting with a common understanding of what you are managing and need to change can help reduce complexity and costs—but only if you are willing to share what you understand with everyone in the organization.

Keith Pearson is global head of financial services go to market at ServiceNow. He joined the company in April 2020 after eight years at Lloyds Banking Group.

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Getting better results behind the walls

A banker-turned-consultant offers his insights on digitally transforming the operational side of financial services.
M any banks and credit unions present a technologically savvy face to the customer, but behind the walls, they are inefficient and still “pushing around paper,” which inhibits their ability to deliver on customer-service promises.

Banker-turned-consultant Kunal Chopra says an advanced front-end system paired with a rickety back-office operation amounts to little more than window dressing because it only creates a disjointed digital customer experience.

Chopra began his banking career as a teller for TD Bank in Toronto before going on to hold managerial positions in operations, process management and engagement for three of Canada’s largest banks: Royal Bank of Canada (RBC), Bank of Montreal (BMO) and Canadian Imperial Bank of Commerce (CIBC).

After earning an MBA from Queen’s University, he became a senior consultant on strategy and operations for Deloitte and later a principal for consulting firm Optimus SBR. In 2018, he founded his own consulting firm, Chopra & Co, which focuses on strategic, operational and technological innovation for financial services organizations. Over the course of his career, his expertise with end-to-end optimization and transformation has delivered more than $100 million in tangible business benefits for his customers and clients.

Q: Have the customer-facing elements of digital banking advanced more rapidly than the behind-the-scenes operational side amid the pandemic? If so, why?

A: The COVID-19 pandemic has not made the disconnect between the front line and back-office operations any worse, but it has underscored how underinvested certain units are within operations. It has revealed shortcomings in operational readiness and effectiveness. This has been a trend for over a decade now, if not longer. Front-end systems have long been the focus for banks as they are seen as a platform to enable clients to transact at their convenience. They are also seen as a potential driver of reduced branch traffic, therefore potentially reducing cost.

The pandemic increased focus on operational flexibility, readiness and continuity. Organizations are now acutely aware that not being ready for the unexpected is no longer an option. They must be able to deliver sales and service via digital means. Underinvestment in operations has left most organizations challenged to meet client expectations. Yes, you can have a digital experience and complete a mortgage application online or via an app. But then operations will call you 10 times to obtain information or ask you to mail in information or visit a branch. The overall customer experience is neither seamless nor convenient, and excessive manual operations increase operating expenses.

Q: What is the inherent challenge in closing the gap between the operational side and the customer-facing side?

A: The biggest challenge is culture and strategy. Culturally, banks view operations as a cost center, not as a source of innovation and growth. The overall customer experience is neither seamless nor convenient, and excessive manual operations increase operating expenses.

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Use your data to measure key operational drivers of effort and experience. Data should be your voice of truth. It should clearly point you to where your investments are required.

KUNAL CHOPRA, CHOPRA & CO.

Edmund Lawler has worked as an editor and reporter at Crain Communications, Santa Barbara News-Press, Indianapolis News and The Associated Press. He is a regular BAI Banking Strategies contributing writer based in New Buffalo, Michigan.
Moving the back office to the front seat

Consumer-facing digitalization efforts steal the spotlight, but momentum is growing for operational-side automation.

BY CRAIG GUILLOT
Nearly 40 percent of surveyed bank COOs say the cost of modernizing legacy systems is the most significant obstacle to adopting new technologies. ACCENTURE REPORT

Most banks are now eager to invest in a corresponding digital transformation in operations, but a full “rip and replace” of legacy IT systems is impractical, costly and unsustainable in this time of rapid change, according to an Accenture report. Nearly 40 percent of bank COOs surveyed by the consultancy say the cost of modernizing legacy systems is the most significant obstacle to adopting new technologies.

Yet, last year’s forced shift to remote work has led many banks to quickly adopt new technologies and revisit old processes, says Mark Fischer, head of intelligent automation for financial services at Capgemini Business Services. “COVID has really sparked a desire to look at automating a lot more, but 2021 is going to be the year banks really dive in,” Fischer says. “They’re looking for opportunities wherever they can find them.”

In response to rising consumer expectations and growing competition from fintechs, banks have made big leaps in recent years to digitize the customer experience through introducing mobile apps and omnichannel capabilities. Yet, behind the fancy interfaces, many banks remain constrained by legacy systems and have yet to fully optimize their back-office operations.

As the pandemic pushed the industry toward remote work in 2020, many financial institutions analyzed their back-office operations in search of greater efficiency. By revisiting antiquated processes and using advanced techniques, including robotic process automation and low-code development, financial institutions can save time and money, and better serve their customers.

MAKING THE BACK OFFICE A PRIORITY

For years, major legacy system upgrades have taken a backseat to customer-facing functionality like online account management, online loan processing and apps. Many Capgemini clients are now looking to new workflows, robotic process automation (RPA), optical character recognition (OCR), and no-code and low-code strategies that can support unstructured data.

These no-code and low-code approaches allow banks to make better use of legacy systems faster, at a lower cost and with less risk. A 2019 Forrester Research report commissioned by Appian found that 84 percent of surveyed organizations were using low-code to reduce strain on IT resources, increase speed-to-market and involve the business in digital asset development.

Other banks are starting by automating reconciliations, Know Your Customer processes, fraud detection, and even chargebacks, says Jason Osborne, global head of consumer banking for Genpact. Cloud-based solutions that utilize APIs, microservices and other technologies can now handle many of these tasks more effectively and quickly with human oversight.
Before immediately jumping to new solutions or technology, banks should assess the efficiency of their processes, Osborne says. Many banks are operating with processes and handoffs that may no longer be relevant. Osborne noted one bank was able to use a process-mining solution to clean up, standardize and simplify processes. By refining processes, some banks have taken corporate client onboarding from weeks down to less than a day.

“It’s dramatic. You really have to take a look at some of the processes,” says Osborne. “The first step is to simplify and standardize. You then automate whatever is left over.”

Banks should also clearly identify and set specific goals they’d like to achieve through automation, Fischer says. For example, a bank may set a goal to reduce specific operations costs by 20 percent or reduce efficiency and handling time of loans by 50 percent. From there, banks should look for easy wins that can provide a quick return on investment.

“We’ll go in and look for some low-hanging fruit for you, something that’s going to give you five or 10 people’s worth of handling time or process, and you save all that money,” Fischer says. “Start with good governance and target operating models.”

Trying to enable a digital customer experience without back-end capabilities is like trying to connect your iPad to an old refrigerator.

JASON OSBORNE, GENPACT

For example, things like a simple address change that would have had a 48-hour turnaround time with manual validations cannot be automated and instantly completed with zero human interaction. Small- and mid-size banks that still operate with manual systems can quickly experience big improvements in efficiency, he says.

Pre-pandemic, many banks had systems that were locked down and could only be accessed on-site, some with processes that hadn’t changed in decades. By removing many long-standing roadblocks, institutions’ responses to the pandemic have taken lower-priority initiatives and put them front and center, says Vincent Hui, managing director at Cornerstone Advisors. While many of the digitalization initiatives made in 2020 were undertaken in survival mode, those who seize this opportunity to improve their efficiency and effectiveness could find a competitive advantage in the process, he says.

“There remains a lot of friction and handoffs between the front- and back-office workflow, and there’s a big opportunity for banks that reduce it,” Hui says.

REDUCING HANDOFFS AND SIMPLIFYING PROCESSES

A Genpact report noted that retail banks are among the most significant potential beneficiaries of digital transformation due to the inherently digital nature of their services. As banks continue to roll out new customer experiences, upgrading back-office systems will be even more important.

“Banks have finally woken up to that fact and are really thinking about how to digitize these mainframes and processors,” says Osborne. Trying to enable a digital customer experience without back-end capabilities, he says, “is like trying to connect your iPad to an old refrigerator.”

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Craig Guillot is a business writer who specializes in retail and finance. His work has appeared in such publications as the Wall Street Journal, CNBC.com, Bankrate.com and Better Investing.
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