Innovation in Retail Banking

NOVEMBER 2020

DIGITAL BANKING REPORT

COVID-19 has had a lasting impact on consumer needs and behaviors, changing business models and creating significant new opportunities. More than ever, innovation is the foundation for digital transformation and must be prioritized to unlock the potential for post-crisis growth.

— Jim Marous

Owner and CEO
Digital Banking Report

Preface

Efma and Infosys Finacle are proud to present the 12th annual 'Innovation in Retail Banking' report, authored by Jim Marous, Owner/CEO of the Digital Banking Report. This report highlights the top digital trends in the industry that are transforming the way banks operate and how they are innovating to engage with customers.

As in years past, this year's edition clearly shows the emphasis on digital transformations. 75% of respondents listed ***digital banking transformation*** as a top three focus area. While banks had been making efforts to become truly digital enterprises entering 2020, the pandemic-induced disruption to business and society this year has only further stressed the importance of digital agenda, for employees and customers alike.

These digital transformations are being made with one primary goal in mind: improving customer experience and engagement. 87% of respondents said customer engagement was at the core of their transformation plans, followed closely by improving use of data, AI, and analytics. Banks have unprecedented amounts of data available to them. Now, it is a question of how they put it to use in delivering elevated customer experiences.

Customers are using and experiencing their banks in increasingly digital ways, meaning banks have to evolve their delivery to keep pace with digital lifestyles. Respondents believe that a lot of innovation will take place in product delivery and channels in the coming years. Further development of omnichannel delivery is done with a view to maintaining or becoming a universal player that has a digital relationship with all customer segments, according to 60% of respondents.

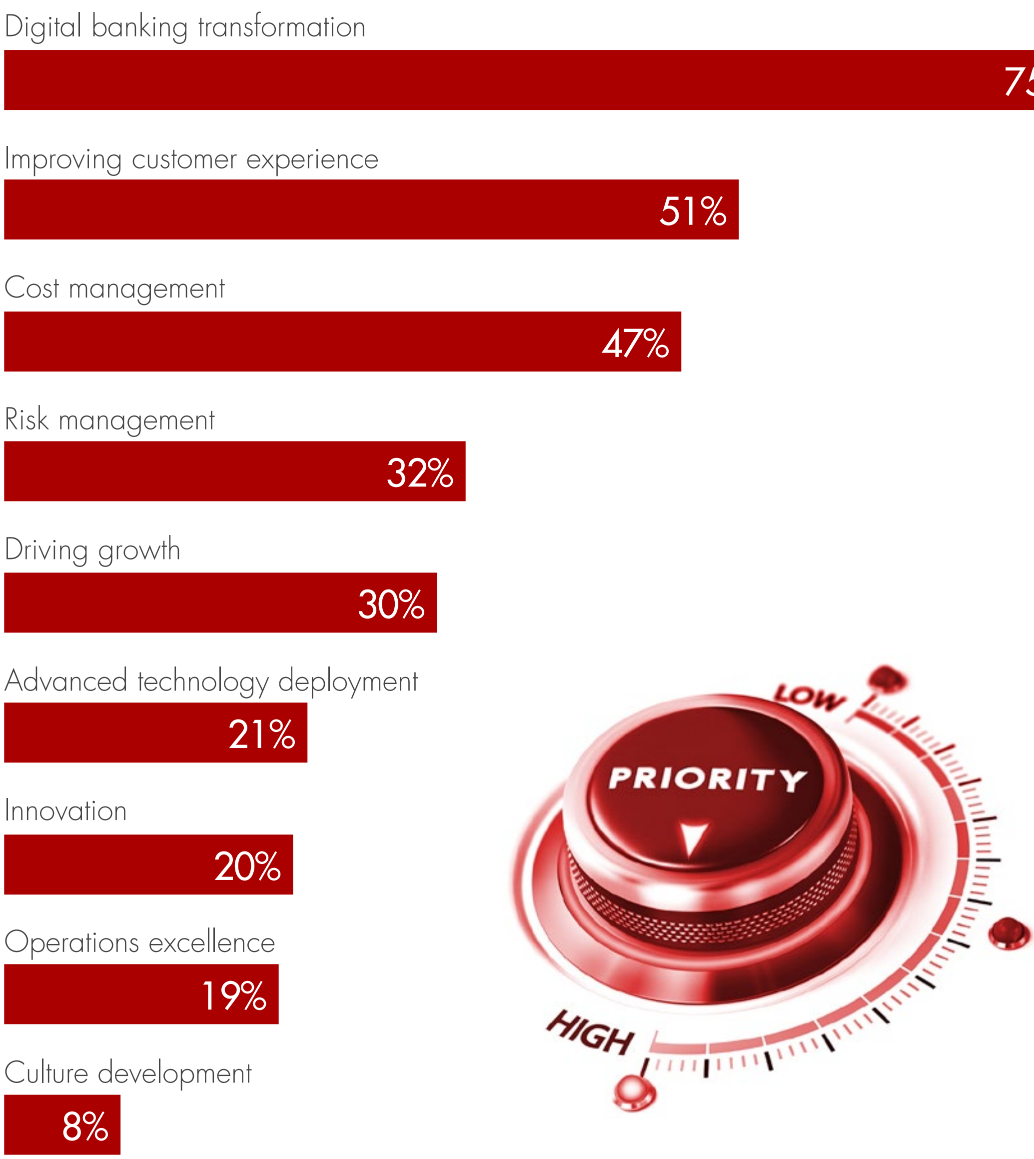
A majority of respondents said it is highly likely that innovation in the banking industry will be led by non-traditional players, notably leading consumer technology companies such as Google and Apple or digital commerce giants like Amazon and Alibaba. Those companies, along with fintechs, have crowded into the financial services space with impressive new offerings, with data, digital, and simplicity at their core.

The pressure from external tech giants and upstart fintechs means financial institutions have little time to waste. Competition for people's wallets and attention is fierce. Banks must adapt and provide the suite of services that younger, more tech-savvy consumers have come to expect. But using data to create exciting and intuitive ways to bank digitally can't be done by simply bolting digital tools on to outdated business models. The study underscores the importance of reimagining the organization culture and business model in today's environment as opposed to merely using digital tools and technologies to support digital innovation.

Chart 1:

Top Priorities Through 2021

Many organizations have adjusted their corporate priorities as a result of the pandemic. Which are your top 3 areas of focus for the rest of 2020 and into 2021?



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Preface (continued)

We hope that readers of this report will find the insight from all banks and credit unions that participated both informative and inspiring as they accelerate their digital transformation journeys and adapt to our new reality.

John Berry
Chief Executive Officer
Efma

Sanat Rao
Chief Business Officer and Global Head
Infosys Finacle

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Letter from Jim Marous

Jim Marous

The pandemic ignited the fires within financial services, creating an innovative spirit that many organizations only dreamed of before COVID-19. Even in a remote work environment, banks and credit unions moved faster and took greater risks out of necessity, as consumers needed ways to conduct financial activities without branches.

As opposed to creating solutions that were completely new, many innovations simply accelerated the digital transformation activities that were already underway … but moving at a snail's pace. For instance, many organizations created the digital new account opening and digital loan application processes that consumers desired – leveraging outside tools that were readily available before the pandemic.

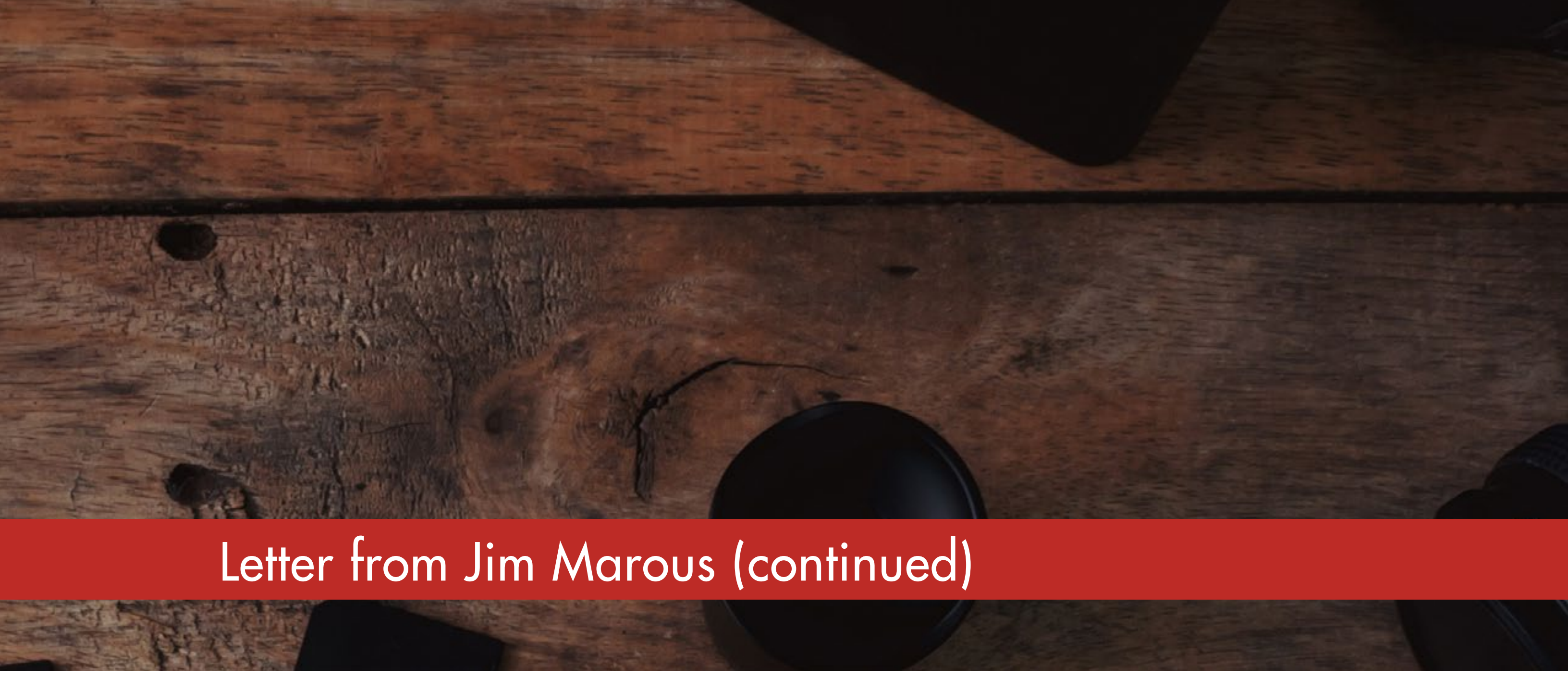
Despite this focus on innovation during the crisis, our research found that organizations rated themselves lower in innovation and digital transformation maturity than in 2019. This was most likely because other industries moved even faster to meet the expectations of the digital consumer.

Chart 2:

Change in Banking Industry as a Result of COVID-19

In context of COVID-19, how do you expect the banking industry to change in 2021? Select one.

Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'



Letter from Jim Marous (continued)

The question remains as to whether legacy financial institutions can avoid reverting to the outdated policies and risk-averse culture that inhibited innovation and digital transformation in the past. The challenge is made greater because the majority of bankers believe the industry will experience an economic downturn as a result of COVID.

Whether there is a significant economic impact to the banking industry is yet to be seen, but to succeed in the digital transformation journey, innovation needs to be part of the overarching culture within an organization. Not relegated to an 'innovation lab' or one or two product groups, innovation must be encouraged across product lines, with the desires of the consumer taking center stage. More importantly, existing back-office processes must be rethought to avoid simply 'faking digital'.

This year's Innovation in Retail Banking report is again sponsored by Infosys Finacle in cooperation with Efma. This is the 12th year of this report, and it is arguably the most important edition, because of the significant changes brought on by COVID.

As opposed to being a threat to the industry, the pandemic should be viewed as a once-in-a-lifetime opportunity that innovation leaders are best positioned to take advantage of. By exploiting the innovative spirit, focus and teamwork unearthed at the beginning of the crisis, banks and credit unions should continue to give their best people the power to innovate at will, positioning organizations to be more competitive with the fintech and big tech firms that continue to encroach on traditional lines of business.

Those organizations that can maintain the innovative momentum will be in the best position to meet the needs of the digital consumer and thrive in a world forever changed by COVID.

Jim Marous

Owner and CEO, Digital Banking Report
Author, Innovation in Retail Banking 2020

DIGITAL
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Message from Infosys Finacle

It is my privilege to present the findings of the Infosys Finacle - Efma 'Innovation in Retail Banking' report 2020, authored by Jim Marous. This year's research was conducted under the cloud of a pandemic that has tested the banking industry to the limit and enforced changes that are likely to stay.

Ensuring employee safety, fulfilling remote delivery and extending credit lines to help business clients are consuming banks' attention. At the same time, they also need to allay shareholders' concerns about declining growth, profitability and valuations. The latter will be especially challenging given the grim conditions: only 16 percent of survey respondents were hopeful that 2021 would bring significant growth opportunities.

The only way to balance these competing priorities is digitization at speed and scale in areas ranging from customer engagement and cost management to business model innovation and people empowerment. The pandemic seems to have driven home this message; we think it is no coincidence that banks named digital transformation, customer experience improvement and cost management as their top 3 focus areas.

However, banks still have miles to go on the implementation front. Asked to describe the state of their organization's transformation initiatives, only 7 percent said they had been deployed at scale and were delivering to expectations, while another 49 percent confirmed they were partially deployed and delivering as desired.

The industry continues to be plagued by old, familiar challenges, such as time and cost of implementation, system integration issues and a legacy technology landscape, which are hampering the execution of the latest technology solutions to meet long and short term needs.

Thanks to the pandemic, the focus on digital has gone up exponentially. While results from digital initiatives are still early-stage, the technology options have expanded in the last couple of years to put forth a number of viable use cases. When it came to technology itself, respondents rated cloud, APIs and AI as the most impactful. They also seemed to understand these technologies better now. For instance, 37 percent said that business agility (and not cost saving) was the primary reason for adopting cloud in their organization.

Message from Infosys Finacle (continued)

The survey revealed mixed feelings on innovation. Many banks, particularly those with few capital resources, felt that innovation was a discretionary investment. Self-perception dipped even further this year, with only 9 percent of banks saying they were innovation pioneers, compared to 14 percent last year. Just 19 percent of respondents felt their organizations were very successful in corporate banking innovation. Overwhelmingly, the view was that other players, such as technology giants, digital commerce platforms and Fintech firms, would lead innovation in the next 5 years.

This is concerning because innovation is the primary source of differentiation and sustainability in a business that is becoming more competitive by the day. We believe banks should be looking at innovating not just products and services but the business model itself. Unfortunately, the majority of banks – 59 percent – believed that they would continue to follow the universal banking model even in 2025. Barely 1 in 6 respondents or fewer said they would switch to some type of platform model by that time.

Now, more than ever, customer-centric innovation needs to be an important element in the banking industry's balancing act, besides customer experience, cost management, and shareholder expectations. Going beyond survival in the current crisis, we believe it will be important for banks to have a transformational response to be enabled to capture short windows of opportunities that will be presented in 2021 and beyond. We hope the insights from this research will be useful in striking the perfect balance for your respective organizations.

Sanat Rao

Chief Business Officer and Global Head
Infosys Finacle

Key Research Questions and Takeaways

KEY RESEARCH QUESTIONS:

How has the level of innovation maturity changed as a result of COVID?

- What is the status of digital transformation at financial institutions?
- What part of banking is being impacted the most by innovation?
- What are the keys to digital transformation?
- What are the biggest digital transformation challenges?
- What technologies will have the greatest impact to the banking industry?
- What competition is the greatest threat in the near future?
- What are the biggest differences between 'innovation pioneers' and organizations less dedicated to innovation?

KEY RESEARCH TAKEAWAYS:

- Despite significant focus on innovation prompted by COVID-related needs, financial firms rated themselves lower this year on innovation maturity.
- While there is an understanding of the importance of digital transformation, most firms rate their efforts as insufficient.
- Much of the innovation in 2020 has taken place in credit and payments.
- There are 7 keys to digital transformation, with the most important components being leadership/culture, data and analytics and CX.
- The biggest challenge for firms undertaking digital transformation is moving from a legacy to a digital banking culture.
- Mobile technology has had the biggest impact on banking, with cloud computing and back-office systems being the areas of greatest importance in the future.
- While big tech firms will not have an interest in 'being a bank', they pose the greatest threat to legacy banking organizations.
- Innovation leaders consistently have progressive leaders and an innovative culture which supports efforts throughout the organization.

Executive Summary

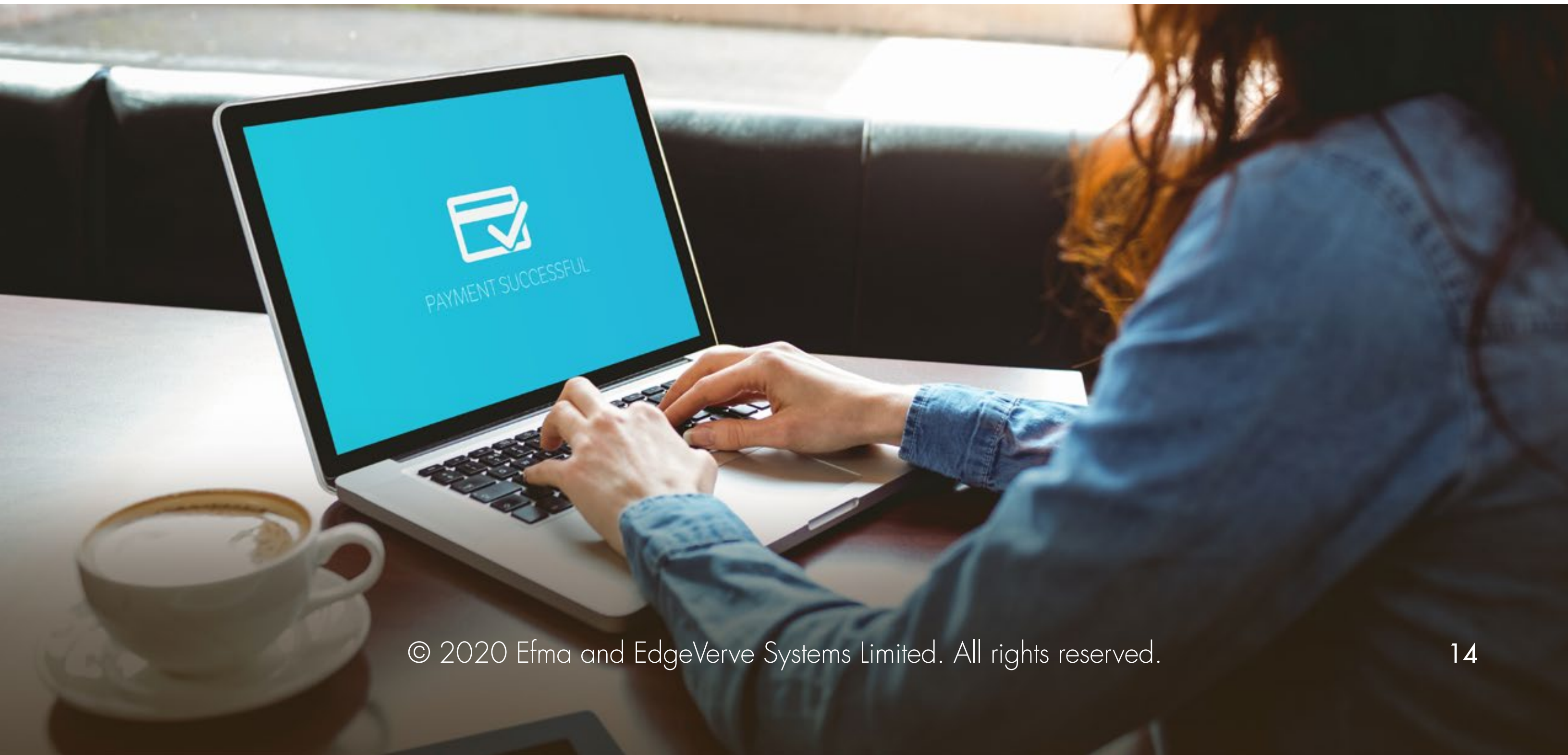
Innovation and the Digital Transformation Process

Innovation is one of the key components of the overall digital transformation journey at financial institutions. To achieve digital transformation success, organizations will need to have a seismic shift in leadership focus and organizational culture. In a post-pandemic world, each organization must prioritize transformation efforts based on their own business objectives.

Digital banking transformation involves the integration of data, advanced analytics, innovation and digital technology into all areas of a financial institution, changing the way work is done, priorities set and services delivered. More than just a technological upgrade, digital transformation requires a cultural change that challenges legacy processes, encourages innovation, and rethinks all aspects of risk and reward.

The objective of an organization's digital transformation might be to improve the customer experience, reduce costs, streamline operations, reduce friction, become more agile or increase profitability … or any combination of these objectives. In any case, digital banking transformation will disrupt business models that have been the foundation of the organization for decades. This is why true digital banking transformation is so difficult to achieve – it's more than simply delivering the same product on a new app.

Before COVID-19, every banking organization was talking about digital transformation. In fact, every organization in other industries were doing so as well. But, in the wake of the pandemic, there is a need to go beyond the "talk" of digital transformation and innovation. As consumer expectations changed, competition increased. Thus the need to adapt quickly became the norm.



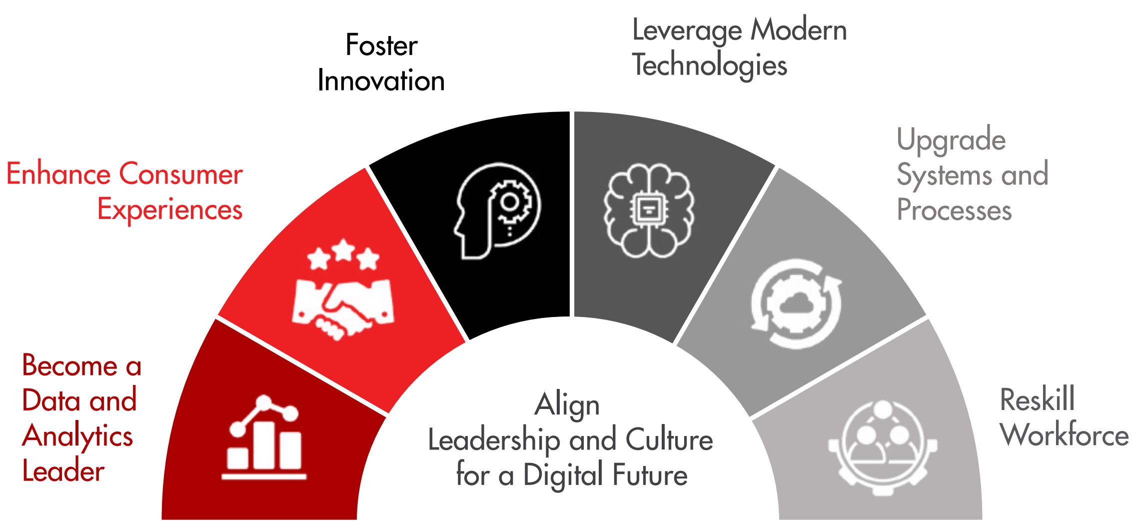
Innovation and digital transformation has become a matter of survival.

McKinsey data shows that the accelerated shift towards digital channels in banking is likely to stick, and potentially continue to increase. This not only changes the way traditional financial institutions engage with customers, but also the scope of banking options the consumer is likely to consider. This is because both fintech and big tech organizations are creating new solutions geared to the growing digital banking public.

Digital transformation efforts will vary widely based on an organization's business objectives, target audience, current digital maturity, organization structure and existing culture. That said, the key components of digital bank transformation success are:

1. Become a Data and Analytics Leader
2. Enhance Consumer Experiences
3. Foster Innovation
4. Leverage Modern Technologies
5. Upgrade Systems and Processes
6. Reskill Your Workforce
7. Align Leadership and Culture for Digital Future

Chart 3:
The 7 Essential Components of Digital Transformation Success



Source: Digital Banking Report © Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

1. Become a Data and Analytics Leader

Unlocking the full potential of digital banking transformation and innovation requires the use of data, analytics and artificial intelligence to deliver an exceptional customer experience. Beyond providing the ability to personalize engagement and improve security and privacy, it has been found that organizations that inject big data and analytics into their operations outperform their peers in both productivity and in profitability.

Consumers have come to expect organizations to use their personal information to create custom solutions. Especially during the pandemic, consumers have become accustomed to the benefits of Netflix and Spotify using machine learning for entertainment recommendations, Zoom using just a couple clicks to create video engagement, and Google Home or Amazon Alexa using voice for everything from answering inquiries to simplifying shopping. These same consumers expect their bank or credit union to use their relationship date, behaviors and preferences the same way … or better.

But, advanced analytics and AI should not be a goal in and of itself. These tools should be used to support broader strategies. According to **Wharton**, "Instead of exhaustively looking for all the areas AI could fit in, a better approach would be for companies to analyze existing goals and challenges with a close eye for the problems that AI is uniquely equipped to solve." Some solutions include fraud detection, supporting innovation efforts and facilitating predictive solution recommendations for customers.

Now more than ever, AI needs to be used to deliver human-like intelligence across the entire organization. At the same time, machine learning needs to be used to improve data interpretation – as part of the advanced analytics process. The challenge that was found in research by the Digital Banking Report is that, while financial institutions understand the importance of data and advanced analytics, 75% of institutions don't consider themselves adept at using these capabilities. In fact, for most mid-sized and large financial institutions, data and analytics is a major challenge.

Success in the use of advanced analytics, AI and machine learning will be when it is deployed beyond security and risk and to reduce costs, improve efficiency, and foster innovation. It will be when organizations use these tools throughout their system to create new products and services and enhance customer experiences.

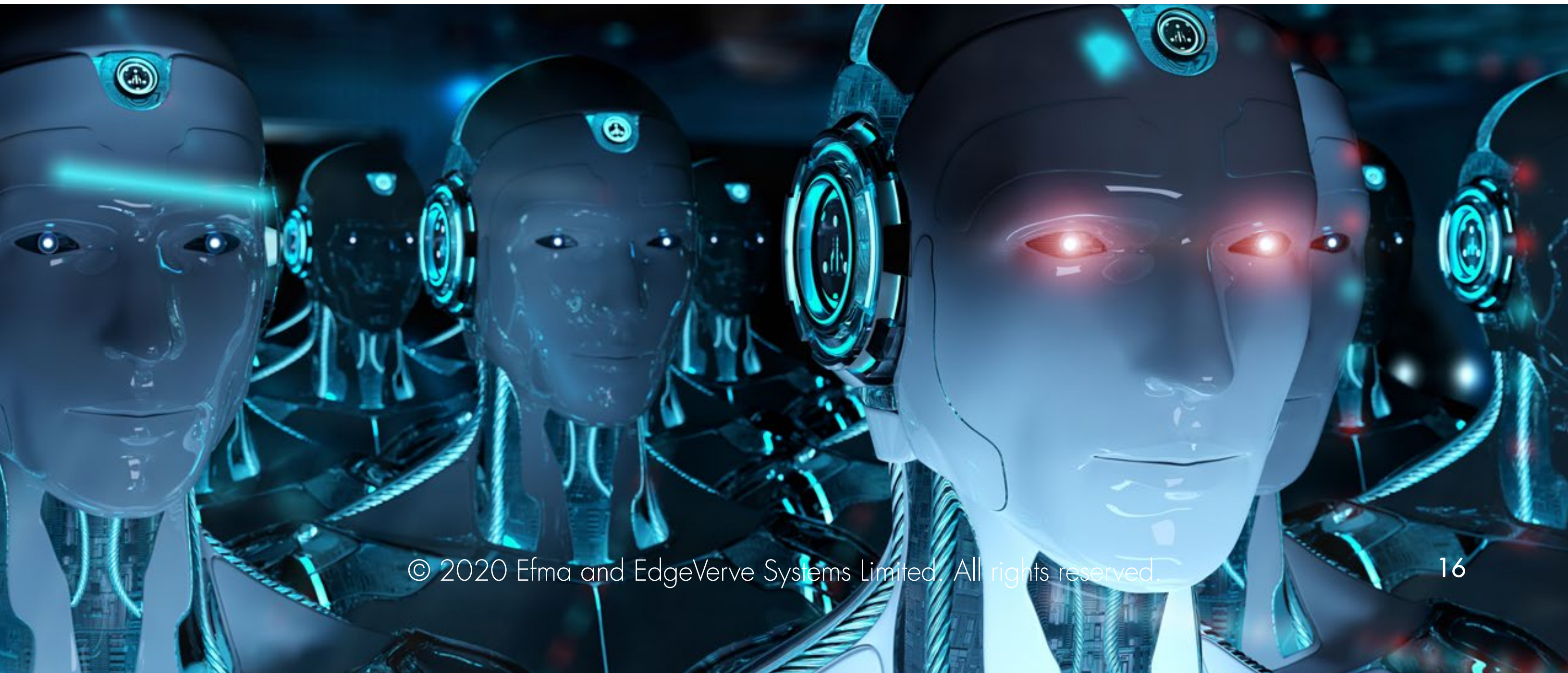


Chart 4:

Digital Maturity of Using AI for the Next Best Action (By Assets)

How adept is your organization in using AI to recommend next best actions for marketing to your customers or prospects?

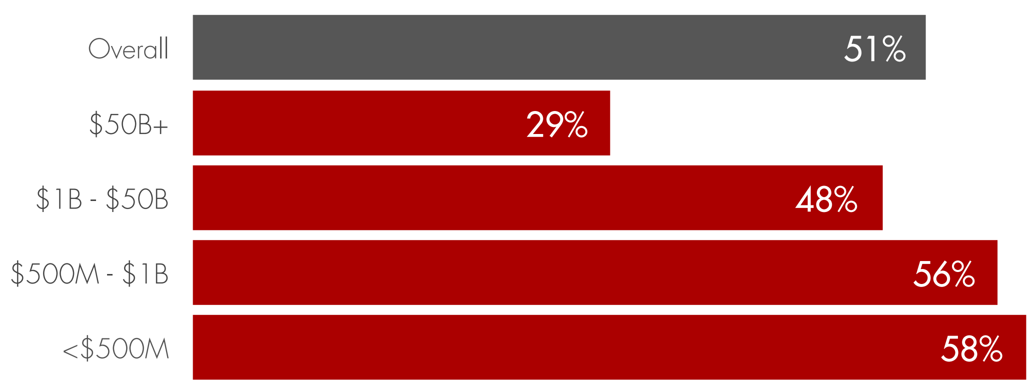
	Assets				
	Overall	$50B+	$1B - $50B	$500M - $1B	<$500M
ADEPT	4%	21%	2%	3%	1%
MODERATELY ADEPT	21%	57%	24%	19%	15%
NOT ADEPT	75%	21%	74%	78%	84%

Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Chart 5:

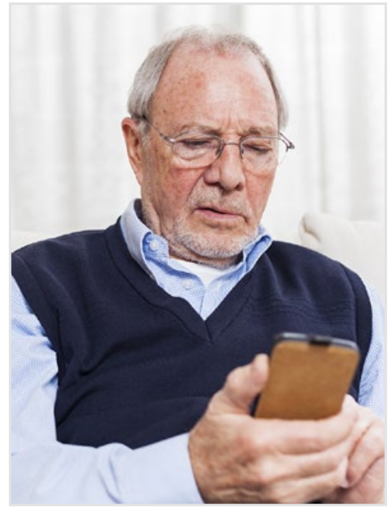
Organizations Considering Data Analytics as a Major Challenge

By Asset Size



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

2. Enhance Consumer Experiences



COVID-19 shifted consumers' use of digital technology in an instant, creating more awareness of the potential of digital apps and creating new digital habits. The integration of new technologies, improved use of data and analytics, the ubiquity of mobile devices, and new digital apps have enabled consumers to get what they want almost exactly at the moment they want it.

This has impacted the way consumers bank and the expectations consumers have around digital solutions and digital engagement. According to McKinsey, not only have consumers moved away from traditional physical facilities to digital options in increasing numbers as a result of the pandemic, but age is no longer a differentiator for digital preferences.

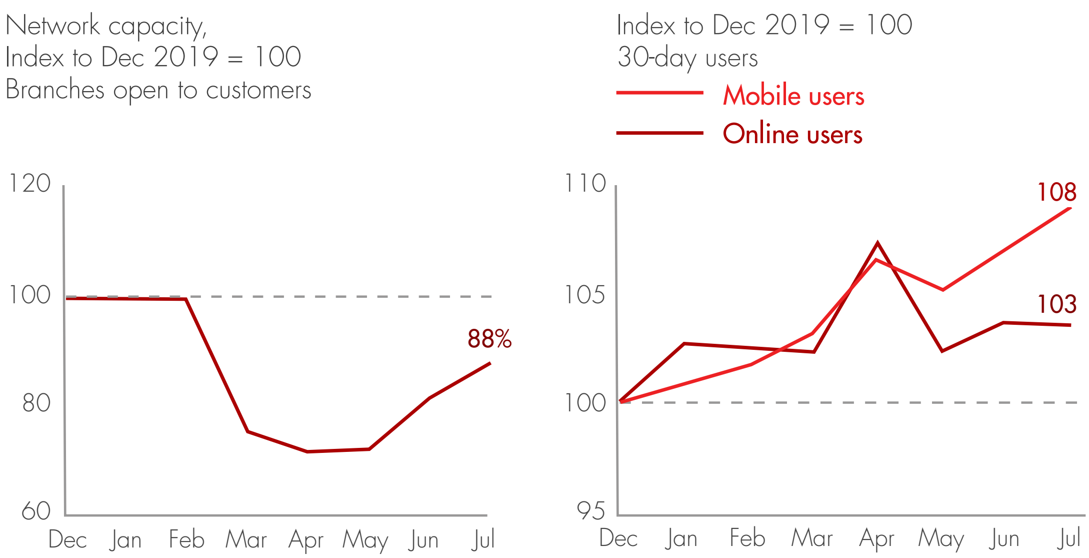
In other words, digital isn't just for the young anymore.

Chart 6:

Use of Banking Channels Shifted During COVID-19

US branch capacity is down roughly 12% since December 2019.

Mobile and online activity continues to increase, with spikes in April.



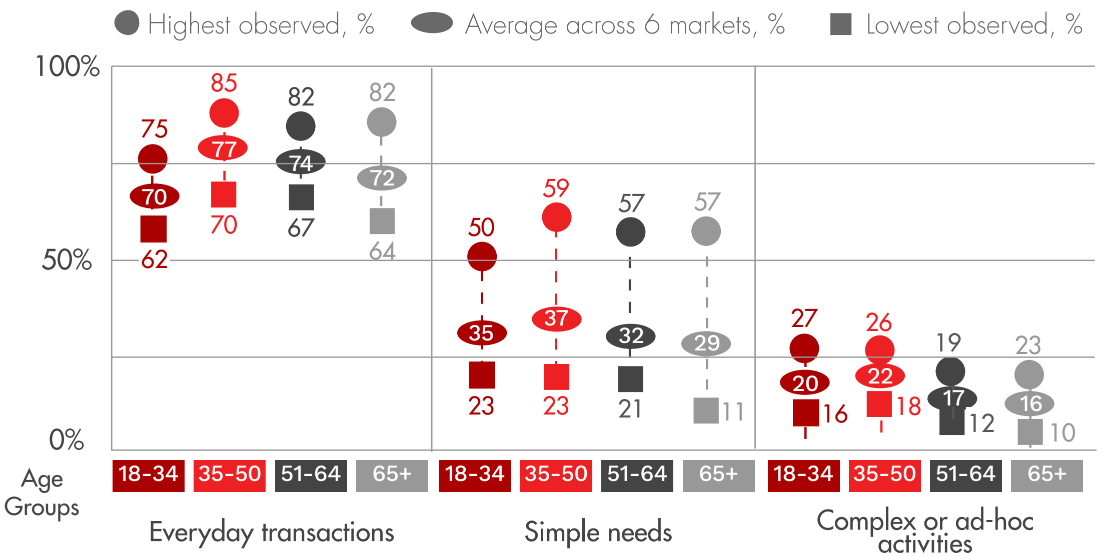
Customers are using distribution channels differently through the crisis; as branches have closed, use of content center, mobile, and online channels has increased.

Source: McKinsey © Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Chart 7:

Age is No Longer a Differentiator for Channel Preferences in Banking

Internet/mobile banking preference by activity across age groups,
% of respondents by market



Source: McKinsey © Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Today's consumers expect organizations to know their personal preferences, leverage their relationship insights, and use data from outside sources to provide real-time, contextual recommendations. According to **Accenture**, 75% of customers admit being more likely to buy from a company that recognizes them by their name, knows their purchase history, and recommends products based on their past purchases. In research done by the **Digital Banking Report**, most consumers want their financial institution to use their data, yet 94% of financial institutions can't deliver on the "personalization promise."

To meet the needs of a changing consumer, **McKinsey** believes financial institutions need to reassess the function and future of branch networks. This includes 1) optimizing the branch footprint given the move to digital, 2) changing branch personnel roles to align with new consumer behaviors, 3) building a new omnichannel sales and service model, 4) understanding customer journeys, and 5) improving cross-channel marketing communications.

3. Foster Innovation

Digital transformation cannot be achieved without a culture of innovation. As we have interviewed dozens of founders of disruptive fintech firms and leaders of exciting new digital units of legacy banks for the **Banking Transformed podcast**, the first thing they mention is the importance of an innovation culture.

Innovation and digital transformation are interlinked and correlated. The organizations furthest along in the digital transformation journey are also those that are innovation leaders. As was found during the early stages of lockdown with COVID-19, there is an opportunity when financial institutions can use digital to drive innovation and reset the paradigm for both the present and the future. The threat for those organizations not fostering innovation as part of the digital transformation process is that traditional and non-traditional competition is changing the banking ecosystem by embracing innovation as part of their business model.

When looking at the financial services industry, we need to remember that technology is available to all institutions equally, therefore technology, in and of itself, affords no distinct competitive advantage. Instead, it is the leadership, culture and human component behind the technology and innovation process that sets firms apart. In other words, digital technologies provide the opportunity for efficiency improvements and improved customer experiences. But, if the people within the organization lack the innovation mindset to change current processes and solutions, the technology will simply magnify flaws within the organization.

When looking at innovation initiatives, banks and credit unions must start with consumer needs. In other words, any effort must be preceded by a diagnostic phase with in-depth input from consumers around what they expect – knowing that these expectations are shifting rapidly. And, as opposed to trying to hit the center of the target in a single major change, most organizations have found that the best way to improve a customer experience is to make smaller-scale changes to different components of the engagement that can be implemented more easily with rapid iterations over time.

Remember, as with digital transformation, innovation is not a destination, but a journey that involves evolution over time.

4. Leverage Modern Technologies

Research discussed in the book *The Technology Fallacy: How People Are the Real Key to Digital Transformation* reveals that the human and organizational aspects of digital transformation are often more important than the technological ones. That said, modern technology is still required to digitally transform an organization.

In other words, banks and credit unions must deploy new technologies into all areas of the business, changing the way organizations operate and deliver value to customers. It also requires an ongoing challenge to the status quo, with experimentation and an increasing comfort with failure. The reason for embracing new technologies is because the playing field in banking has changed because of new competitors and a greater awareness by consumers of what is possible as they order meals from a voice device, engage with others with video, hail a cab with their phone, and get a home loan in minutes.

Some of the technologies that enable digital transformation in banking include:

- **Mobile apps.** One of the fundamental changes in the banking industry is the movement from branch delivery to web and online applications to mobile apps. In fact, many organizations are foregoing the development of online capabilities, using mobile upgrades to be the forerunner to online improvements. The most progressive organizations are making incremental upgrades more frequently than ever, focusing on speed, simplicity and user experience.

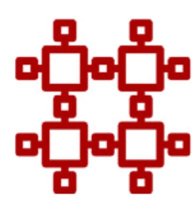
- **Cloud computing.** Cloud computing has democratized data collection and increased the capacity and security of information processing, allowing financial institutions of any size to upgrade legacy systems piecemeal or all at once. By moving most services to the cloud, banks and credit unions can move quicker and better manage scale.

- **Automation and AI.** More and more functions within banks and credit unions are being automated and improved with robotics and artificial intelligence. One of the most common uses of automation and AI is in customer service, where firms use data, analytics and automated systems to respond to basic inquiries from consumers. This not only saves money, but improves the standardization of solutions, allowing humans to be used for more important tasks.

- **Voice technologies.** While still in the formative stage (at many organizations) the ability to perform inquiries and transactions using voice is quickly becoming a differentiator as consumers become accustomed to the functionality of Siri, Alexa, etc. Bank of America's Erica solution is a leader in financial services.

- **Internet of Things (IoT).** From smart watches to sensors throughout the home, the potential for embedded finance is becoming more commonplace. As organizations are looking for ways to make banking easier, more and more will be done using interconnected devices that talk to each other for payments, loans, savings and investments.

- **Blockchain**. Distributed ledger technology has moved quickly beyond cryptocurrency and has been used by the financial services industry for everything from smart contracts to the simplification of loan applications. A consortium of banks in Canada have even used the technology to give people more power over the data collected by financial institutions.



- 5G. As digital transformation hits full-speed, the speed of data processing and customer engagement become more important. Fifth generation wireless (5G) technology will enable exponentially faster data transmission and uninterrupted connectivity, opening doors for solutions previously impossible with 4G technology.

5. Upgrade Systems and Processes

The prevalence of legacy systems still hinders most financial institution's ability to successfully embark on a digital banking transformation strategy. In research done by the Digital Banking Report, legacy systems are considered a primary barrier to transformation. If an organization is spending 75% of their IT budget on supporting legacy systems, there is a limit to what is available for modernization.

The good news is that there are many solution providers that can upgrade systems incrementally, allowing organizations to focus on areas of greatest need. For banks and credit unions to keep pace with the rapid marketplace changes, many firms are also moving to cloud computing and adopting agile principles, which allow for the processing of massive amounts of data and insights in real times and at a greatly reduced cost.

Legacy systems modernization doesn't happen in an instant. It is an incremental process that differs for each organization based on institution objectives and anticipated business needs. For most financial institutions, it will involve the integration of cloud computing, mobile technologies, advanced analytics, cybersecurity, etc. The goal is to build a flexible infrastructure that can support existing needs and future innovations.

Just as important as changing legacy technology, financial institutions must completely rethink existing back-office processes that were created decades ago. These processes transcend the roles of product development, delivery, sales, marketing, and customer service. It goes beyond simply using a digital channel to deliver legacy solutions. Digital transformation must begin and end with the customer experience and therefore be built from the inside-out.

All existing processes must be rethought from the perspective of digital delivery, which requires the removal of friction, the contextuality of engagement, and a focus on speed, ease of use, and user experience.

6. Re-skill Workforce

The skills needed for embarking on a digital transformation journey most likely do not exist in sufficient numbers in most financial institutions, making talent management and employee reskilling particularly important. While some of the new skills required can be solved through hiring, banks and credit unions must consider a long-term approach to growing their talent base using training and cross-functional deployment.

Beyond the hard skills required for digital transformation, organizations also must consider the adjustment of legacy mindsets that will be required, especially as back-office processes and procedures are rethought. For instance, how does a tenured product manager expand their thinking around how a digital deposit account needs to be built or a digital loan application process needs to be simplified?

Unfortunately, most financial institutions are continuing to under-invest in training in a sector where the skills shortage is particularly acute. In a relatively short period of time as many as two-thirds of current employees will need to be skilled to become “digital workers” and “digital makers.”

We also need to realize that the pace of change has created a reality where the majority of children in primary school today will work in jobs which do not even exist today. In other words, for existing workers or those not yet in the workforce, there will be a need to continually reskill and embrace lifelong learning to be relevant in the marketplace.

7. Align Leadership and Culture for Digital Future

As mentioned often, digital transformation requires more than just updating technology or building new digital applications. Failure to align the efforts, values and behaviors of leadership and employees can create friction and risks within an organization.

Alternatively, when leadership embraces the changes that are needed, and supports a comprehensive and collaborative effort to advance digital transformation, all efforts to “become digital” will have a greater chance of success. Part of any successful digital transformation effort is having the communication and actions support the efforts at the top of the organization. It also requires support and buy-in by those in other levels of the organization, including the same middle management that has been doing things the same way for decades.

In addition to making the goals of the digital transformation clear, and how the process will positively impact corporate objectives and strategies, top management and boards must focus on communicating the cultural aspects that will help efforts succeed, including transparency, accountability, and a willingness to experiment and even fail.

Despite the uncertainty about the course of the pandemic, the time to act is now. Those institutions that do so will emerge more prepared to compete in a ever-changing banking ecosystem, with a stronger value proposition, greater efficiency, and higher profitability.

1
Innovation Trends

Innovation Trends

Genuine digital transformation of banking means reimagining, not just putting technology lipstick on a legacy pig. This means building an innovation culture that can move a financial institution from 'business as usual' to a competitive force in the marketplace. When such innovation gains support from top management, customer experiences improve, employee satisfaction increases and revenues rise.

As the banking industry continues to deal with the disruptions resulting from COVID-19, most financial services executives say that innovation is now a prerequisite for them to respond quickly to market challenges and opportunities. In fact, in new research from the Digital Banking Report, innovation leaders in both the legacy banking and the fintech space agree that innovation must have a cultural and leadership underpinning for digital transformation efforts to succeed.

With an innovation culture, financial institutions of all sizes were in a better position as consumer behavior changed in an instant and where employees were forced to work remotely. In all cases, those organizations that considered themselves to have the highest level of innovation maturity thought they were in the best position to recover from the impact of the pandemic financially, structurally and competitively. This is critical at a time when the banking industry may be under new financial pressures.

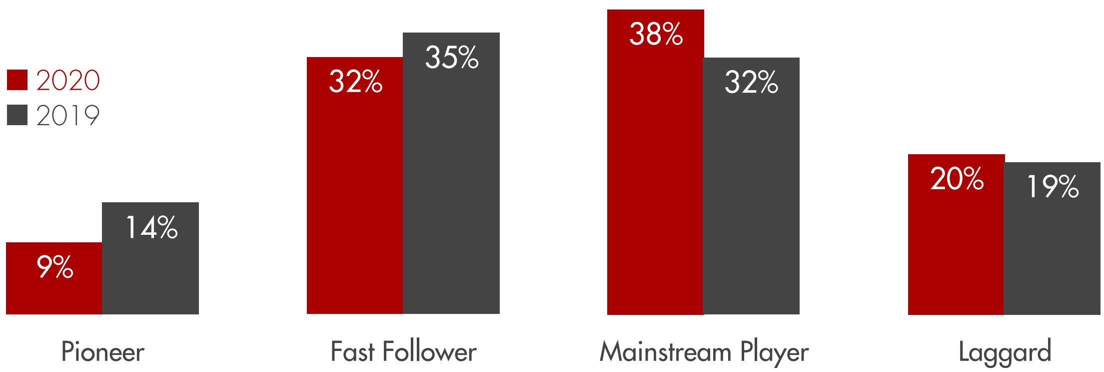
In assessing the culture of innovation/maturity framework, we asked financial institutions globally how they viewed their innovation maturity in the areas of data, technology, talent, processes and measurement. As in 2019, the four stages of innovation maturity included **1) pioneer, 2) fast follower, 3) mainstream player and 4) laggard.**

Our research found that over the past year, despite investing and focusing more on innovation, organizations perceived themselves to have become less mature in the culture of innovation, with a drop of more than a third in the pioneer stage and even a drop in the fast follower stage. This reflects that innovation may be more difficult for some organizations during a crisis or that there was an inability to keep pace with consumer expectations.

Chart 8:

Level of Innovation Maturity

How would you describe your organization's innovation maturity?
(Choose one)



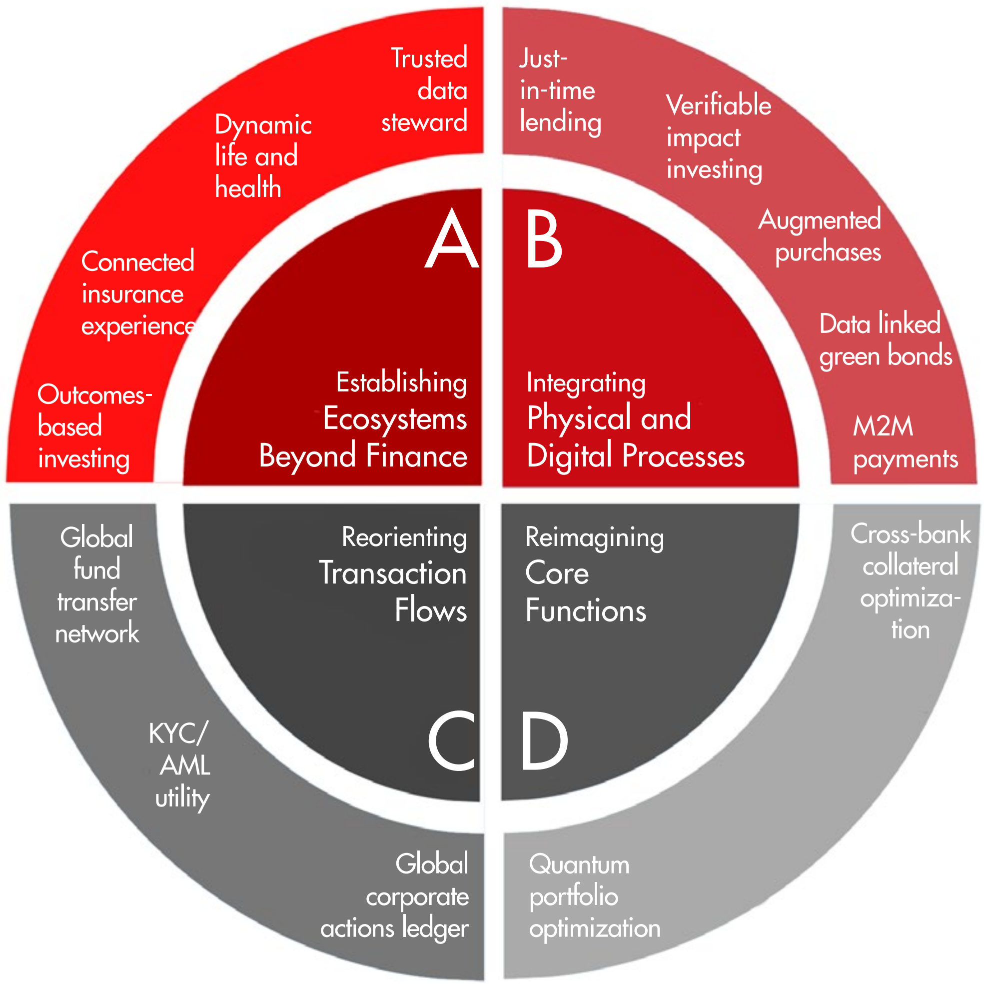
Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

As was discussed in the article, *"Digital Transformation Success Elusive For Financial Institutions,"* while the majority of institutions understand the importance of being positioned to launch new products, change internal processes, adapt to changing consumer needs and leverage data and advanced analytics, most are lagging the fast pace of digitization and innovation of fintech and big tech organizations.

As stated in last year's report on innovation, it is very important that organizations do not use size and structure of organization as an excuse for not moving forward with digital innovation or transformation. With the emergence of fintech collaboration and digital solution platforms, the cost and disruptive nature of innovation is less than it has ever been. In fact, some of the most progressive organizations are smaller organizations that are agile and flexible in the innovation efforts.

Our Digital Banking Report research found that organizations with the highest innovation maturity are completely rethinking their business models, leveraging advanced technologies, understanding their customers and members more fully, investing in upskilling and reskilling and achieving higher rates of growth. As stated in a report by the **World Economic Forum**, illustrated below, organizations are focusing on four major paths to success.

Chart 9: Innovation Pathways for Financial Services



Source: World Economic Forum © Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Innovation Culture Begins at the Top

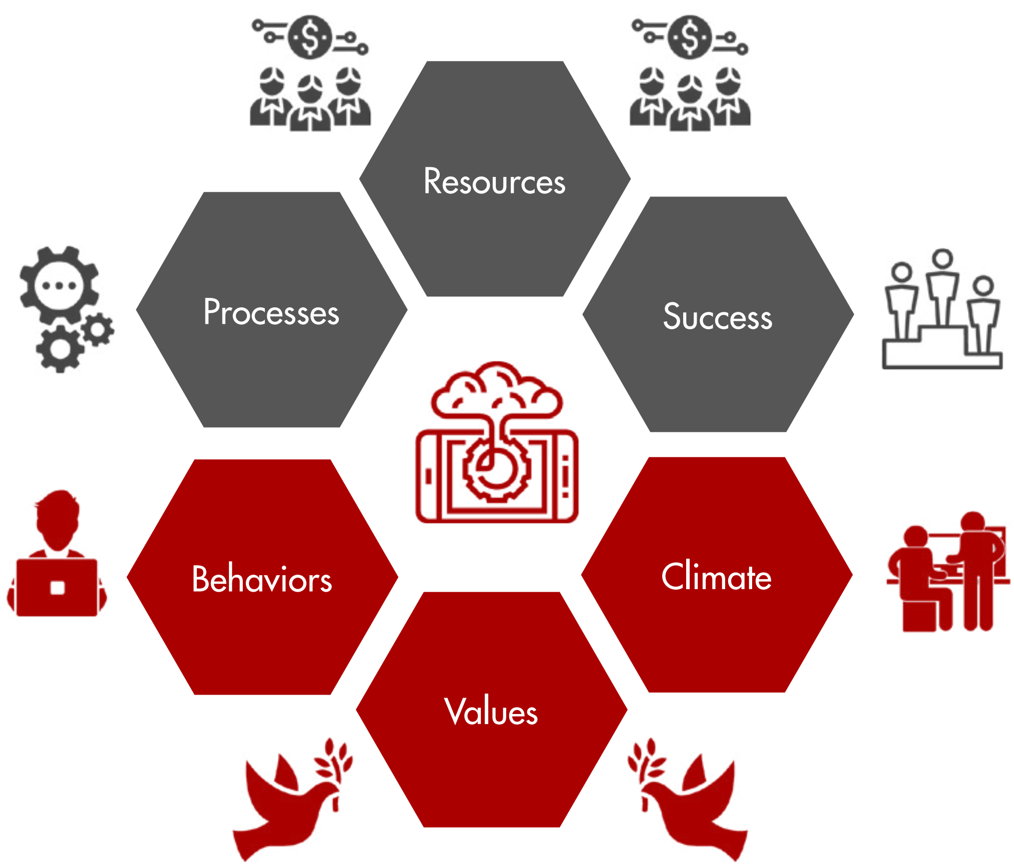
All financial institution executives want their companies to be more innovative. They watch comparatively young fintech firms and huge tech giants create and market financial products and services that steal market share and revenues by leveraging data, analytics and new technology. Research done over the past five years by the Digital Banking Report finds that corporate culture is much more important than the size of the company, level of investment, geographic location or even regulatory environment.

The question becomes: How can leaders build and reinforce an innovation culture within their organization? According to research by Jay Rao and Joseph Weintraub, professors at Babson College and published in the *MIT Sloan Management Review*, an innovative culture rests on a foundation of six building blocks. These include resources, processes, values, behavior, climate and success. Each of these building blocks are dynamically linked.

The research by the professors is aligned with insights found recently by the Digital Banking Report which shows that increasing investment, changing processes and measuring success is imperative … but not enough. Organizations must also focus on the overarching company values, the actions of people within the organization (behaviors), and the internal environment (climate). These are much less tangible and harder to measure and manage, but just as important to the success of innovation and the ability to create a sustained competitive advantage.

Chart 10:

Building Blocks of an Innovation Culture



Source: MIT Sloan Management Review © Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Even the best organizations don't excel in every area, but innovative companies always have at least one or two of the building blocks solidly in place.

- **Processes.** This represents the flow that innovations take to move from concept to reality. To succeed, organizations need a process to evaluate, prioritize and fund ideas. Obviously, the more defined and agile, the better.
- **Resources.** Beyond funding, resources include the technology and people needed to bring ideas to fruition. Not surprisingly, having innovation champions is the most important.
- **Success.** Measurable on many levels (externally and internally), success is a building block because success funds future innovations. Success also reinforces values, behaviors and processes.
- **Behaviors.** For both leaders and employees, behavior becomes important when needing to decide between competing innovations and when needing to overcome challenges. During times of crisis, the behavior of leaders and employees differentiate organizations.
- **Values.** The values of a company are leaders do/and invest, in more than what they say to investors. Innovative firms invest more on entrepreneurship, promote creativity and encourage ongoing learning.
- **Climate.** Referencing the internal work atmosphere — where there is enthusiasm around innovation. Management challenges people to take risks and encourages collaboration as well as independent thinking.

When evaluating how an organization is doing with their innovation maturity, it is important to ask people at all levels of the organization since more senior executives tend to rate their organization more positively than people 'in the trenches'. There is also evidence that larger organizations are more resistant to change. While the very largest banks and credit unions have shown the ability to spend their way beyond this resistance, mid-sized organizations are tremendously hampered with the combination of legacy thinking and lack of funding to support other building blocks.

COVID-19 Impact on Innovation Strategies

The banking industry was already under pressure to transform their organizations with data, analytics and new technologies in order to better compete with nimble fintech players and well-funded big tech firms. When the pandemic hit, digital banking use escalated, requiring many firms to build solutions that were not previously prioritized. "Banks had planned for years for disaster recovery if their technology failed, but never planned for disaster recovery if their buildings closed," stated Chris Skinner, author, speaker and CEO of **The Finanser Ltd.**

According to the seventh annual global banking survey conducted by **The Economist Intelligence Unit** in March, 45% of respondents said their strategic response to the COVID crisis was to build a "true digital ecosystem." This objective of digital transformation was the top response, increasing from 41% of respondents in 2019. This percentage surely went up as the COVID crisis continued into autumn.

For the second year in a row, the key driver for change is considered to be new technologies (66%, up from 42% in 2019), such as artificial intelligence, machine learning, blockchain, the Internet of Things (IoT) and other technologies underpinned by data and advanced analytics. This highlights the importance of these new tools in addressing the competitive threat posed by fintech firms and big tech corporations. It also is in response to what consumers are increasingly expecting from their financial institution. The increased importance of regulations is in response to the rise in security issues as more banks and credit unions increase digital offerings.

Awareness of Innovation Need No Guarantee of Success

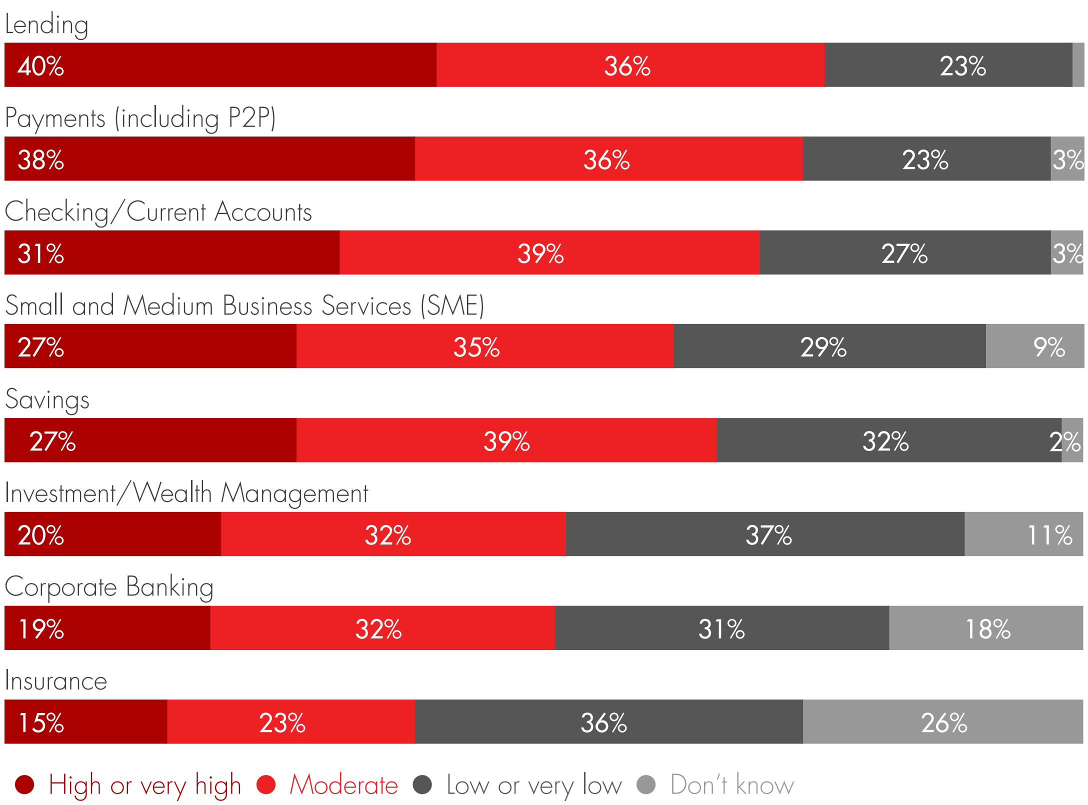
While most organizations believe they are open to respond to identified consumer needs or explore new opportunities, many don't provide their teams with the guidance or resources to adequately pursue these opportunities. This challenge became even more acute when teams had to work remotely … building new solutions in crisis mode.

The reality is that many leaders want innovation, but they don't want to alter underlying processes or policies. The result: teams that are handcuffed by legacy processes with a fear of taking risks or disrupting status quo. This is why many solutions simply replicate what was done previously — on a different channel.

As shown below, the level of success event with traditional products is relatively low. Potentially impacted positively by competitive pressures, the highest levels of innovation success were seen in the lending, payments and check (current) account product lines. Still, most organizations did not give themselves high marks in any product area.

Chart 11: Level of Success with Innovation Strategies

Rate your level of success with innovation in the following areas in 2020 on a scale of 1 to 5 (where 1 is very low and 5 is very high), based on their level of importance.



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Becoming an Innovative Organization

First of all, becoming an "innovative organization" does not require the development of a large number of "made from scratch" products that don't already exist. In the vast majority of cases, supporting an innovation culture is more about improving current solutions (digitize, simplify, support across channels) and adopting ideas that are already in the marketplace. In other words, a strong iteration may be better than disruption of what exists.

Secondly, instead of focusing on areas that are not strong, it is usually best to build on your organization's strengths. For instance, your organization may already have a number of people who have an innovative spirit and can lead the innovation process. By providing them the needed resources to support the organization's digital transformation vision, innovation can occur.

Finally, it is usually better to focus on a few things and leverage their successes into a broader transformation over time. Cultures change very slowly. If innovation has not been supported adequately in the past, people may show resistance to this new focus. For best results, leaders should aim for small victories — at least at first. According to Jay Rao and Joseph Weintraub, "Small successes will usually trigger a widening circle of improvement. Measurable results are more powerful than arguments, campaigns and mandates: People change when they see their peers becoming more productive, engaged and successful."

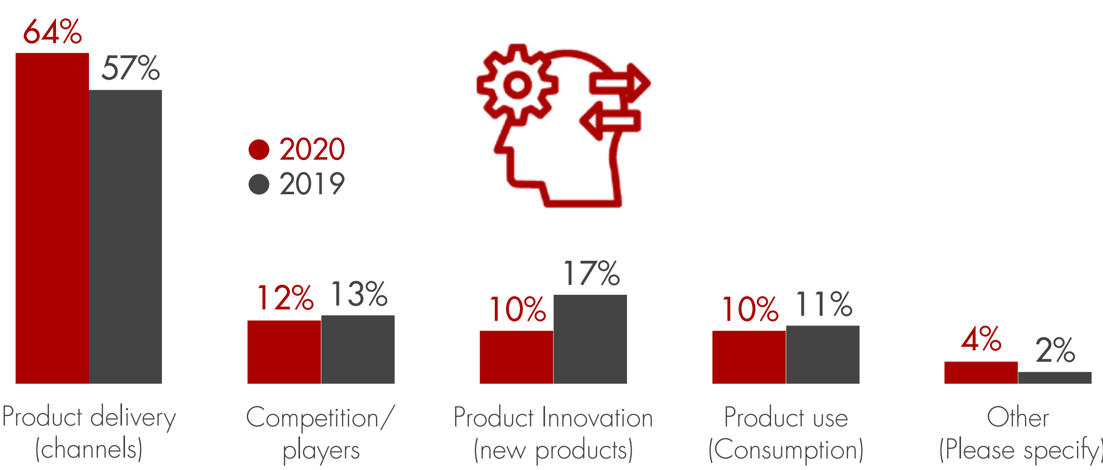
Areas of Innovation

When the Digital Banking Report asked financial services executives globally the areas where the most innovation would occur over the next five years, the delivery of products (channels) was by far the most popular answer (64%) with product innovation, product use and competition having much lower responses.

Chart 12:

Area of Banking to See Most Innovation in Next 5 Years 2020 vs 2019

In what area of banking do you see the most innovation taking place over the next five years?



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

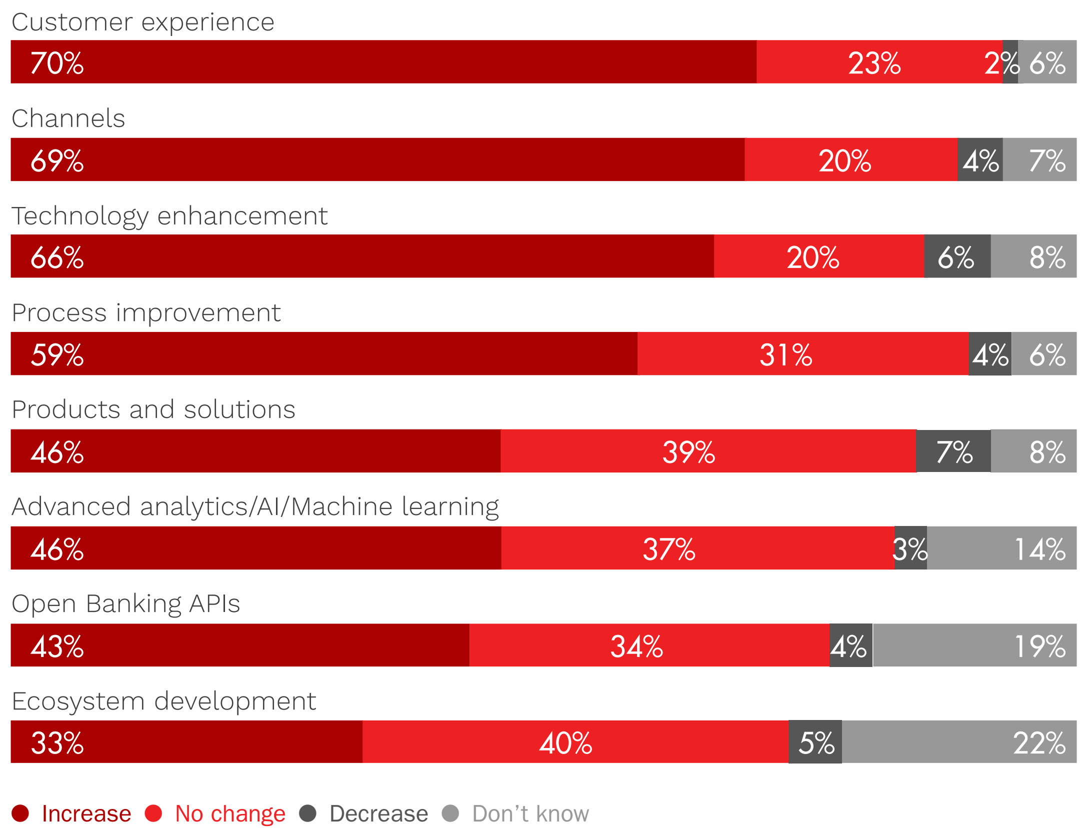
Investment in Digital Transformation Strategies

When we asked organizations to provide the key strategy areas that will receive investment focus, 70% of organizations stated that they will be increasing their investment in customer experience initiatives, followed by channels (69%), technology (66%) and process improvement (59%).

It should be noted, as with much of the research done by the Digital Banking Report, that while most organizations understand the importance of data and analytics, the investment in these efforts is not reflective of the importance. This will create a challenge going forward.

Chart 13: Change in Strategy Investment in 2021

Does your financial institution plan to increase or decrease the level of investment in the following in 2021?



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

How Organizations Will Drive Innovation

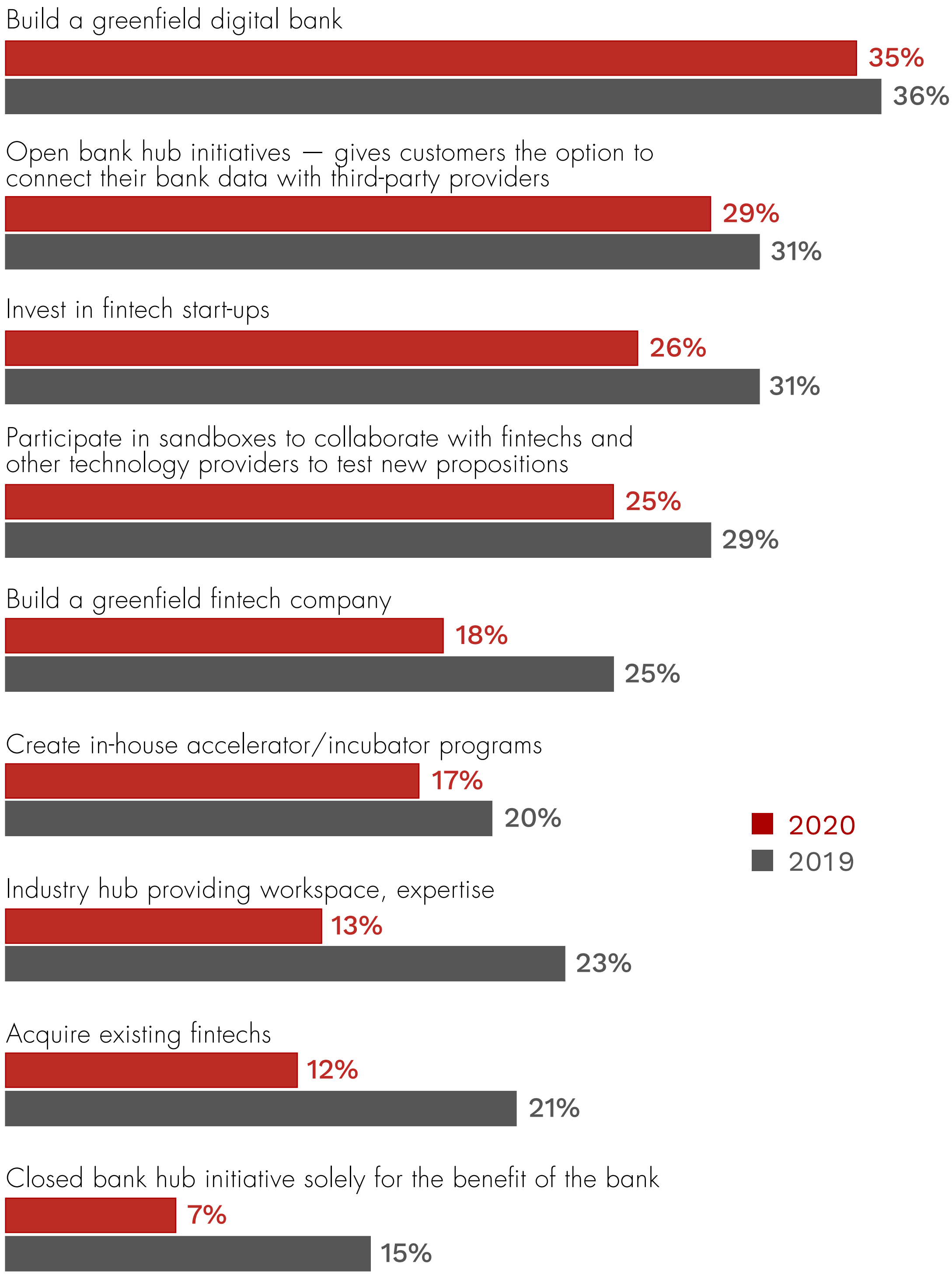
While organizations indicated a vast variety of ways they will drive innovation over the next 12 months, the prioritization of how organizations will build, buy or collaborate was exactly the same as in 2019.

Interestingly, the 'commitment' to any of the strategies dropped from 2019 to 2020, potentially indicating doubt in which strategy may be the best course in a post-pandemic world.

Chart 14:

Current Banking Innovation Strategy 2020 vs 2019

What is the most referred innovation strategy for your bank currently?



Source: The Economist Intelligence Unit © Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

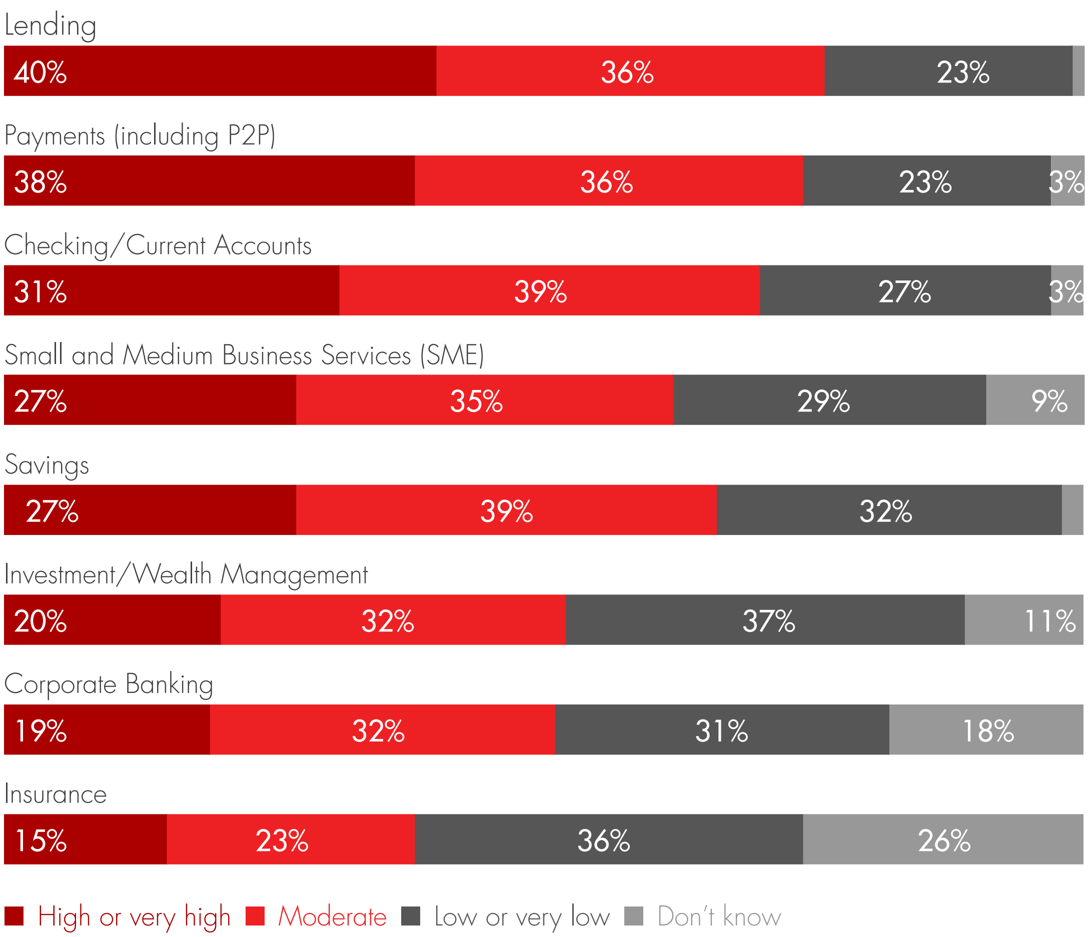
Level of Innovation Success

When we asked organizations to rate their level of innovation success, it was interesting to see that organizations were not more bullish in their assessment of innovation across product lines. That said, these ratings were in alignment with the overall rating of innovation maturity and digital transformation maturity that we measured.

After the pandemic set in, many organizations reset their assessments not against other financial institutions as much as against consumer expectations and other industries. In other words, the self-assessment of innovation took into account the major rise in the tide of innovation across industries. With PPP small business loan activities, it was not surprising that lending led all product categories for innovation success, followed by payments.

Chart 15: Level of Success with Innovation Strategies

Rate your level of success with innovation in the following areas in 2020 on a scale of 1 to 5 (where 1 is very low and 5 is very high), based on their level of importance.



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

2
Digital Transformation Trends

Digital Transformation Trends

COVID-19 has been a defining moment for digital transformation. Financial institutions that invested in digital over the past several years were more prepared to respond to the crisis. For those organizations that had not invested in digital transformation, the crisis exposed gaps in capabilities. New research calls into question how successful these institutions may be in making the necessary changes.

Over the past several years, the financial services industry began understanding the importance of digital transformation, as consumer expectations around digital engagement changed, competition from new digital-first organizations increased and the use of modern technologies became more commonplace. Despite knowing the need to move forward as more digitally adept organizations, most financial institutions still hesitated to invest in improved data management, analytics, modern technology, innovation and updated systems.

As COVID-19 took hold, comfort levels and willingness to engage digitally increased across all consumer segments and within all industries. The urgency for improved digital solutions forced organizations of all sizes to quickly implement digital transformation initiatives.

In research recently conducted by the Digital Banking Report, it was found that success with digital transformation initiatives has been hard to achieve. While organizations have moved forward with many strategies to improve digital engagement, most believe they have fallen further behind what the marketplace expects.

Importance High for Majority of Digital Transformation Strategies

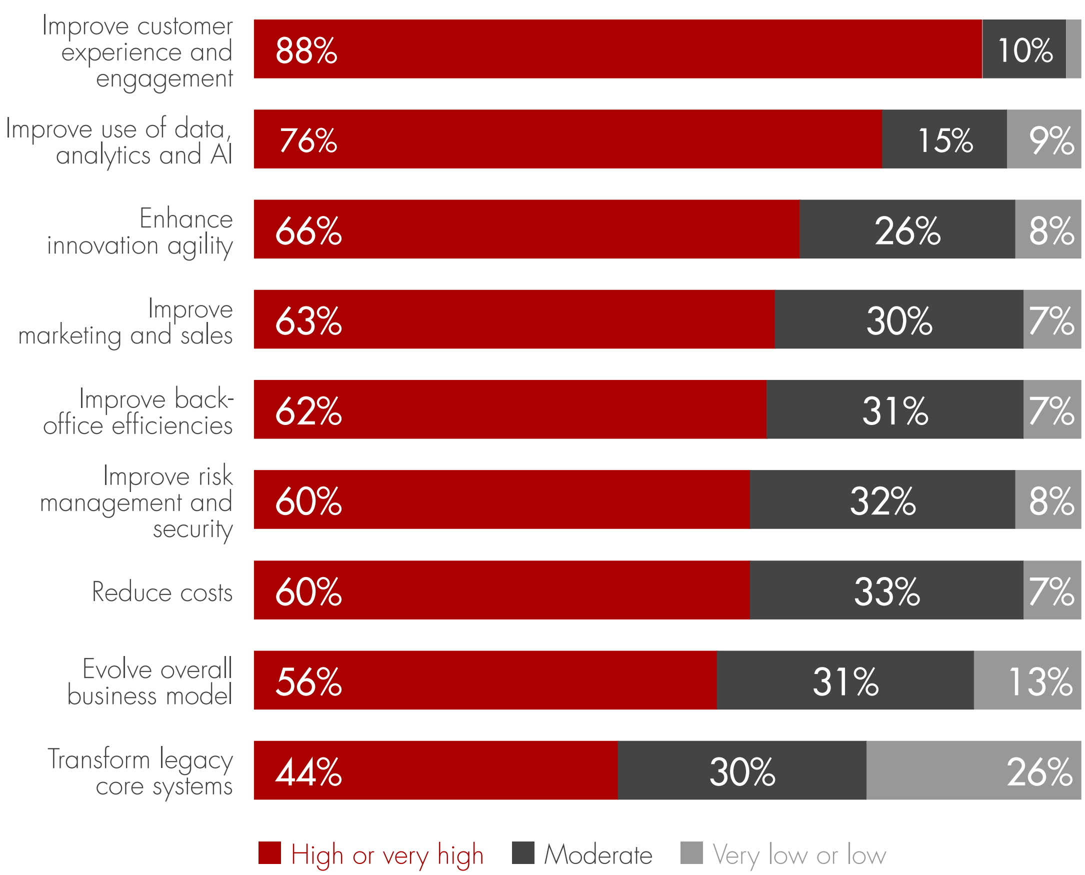
When financial institution executives were asked about the importance of alternative digital transformation strategies, improving the overall customer experience was considered to be of high or very high importance by 88% of organizations. The importance of improving the customer experience was followed closely by the need to improve the use of data, AI and advanced analytics (76% rated high or very high).

Illustrating the perceived broad scope of digital transformation initiatives at most financial institutions, the majority of the other possible digital transformation strategies were each rated almost identically by financial institution executives in the Digital Banking Report research. Innovation agility, improving marketing and sales, improved efficiency, improved risk management and reducing costs were each rated high or very high by roughly six in ten executives.

It is a bit concerning that the need to change the existing business model and transforming legacy core systems were considered the least important strategies despite research that indicates these strategies are of significant importance for transformation success.

Chart 16: Importance of Alternative Digital Transformation Strategies

On a scale of 1-5 (where 1 is very low and 5 is very high), how IMPORTANT are these digital transformation strategies to your organization in 2021?



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Progress Seen in Deployment of Digital Transformation

When asked about the progress of digital transformation efforts, only 17% of organizations surveyed indicated that the transformation was 'deployed at scale', which was the same level as in the 2019 research done by the Digital Banking Report. The good news is that 62% of organizations surveyed indicated that digital transformation was 'partially deployed' compared to only 41% last year. An additional 20% indicated that their efforts either had 'limited deployment' (12%) or were in the design phase (8%) compared to 27% and 11% respectively in 2019.

As was the case in 2019, the research found that there is a very strong correlation between 'innovation pioneers' and those firms where transformation was 'deployed at scale'. This finding underscores that organizations where innovation is a priority are further ahead of peers in the desire to become a 'digital bank'. These leader organizations also had top management support, were more committed to investing in the customer experience and advanced analytics, and were more likely to measure results of their efforts. Not surprisingly, these firms had more positive financial results than firms where digital transformation was only partially deployed.

Chart 17: Stage of Digital Transformation Achievement

Which of the following options best describes the stage of your organization's digital transformation journey?

ANSWER CHOICES	RESPONSES
Deployed at scale and delivering as desired	7%
Deployed at scale and **not** delivering as desired	10%
Partially deployed and delivering as expected	49%
Partially deployed and **not** delivering as expected	13%
Limited deployment, results unknown	12%
Still in design phase	8%
No digital transformation strategy currently	2%

Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Success of Digital Transformation Still Lacking

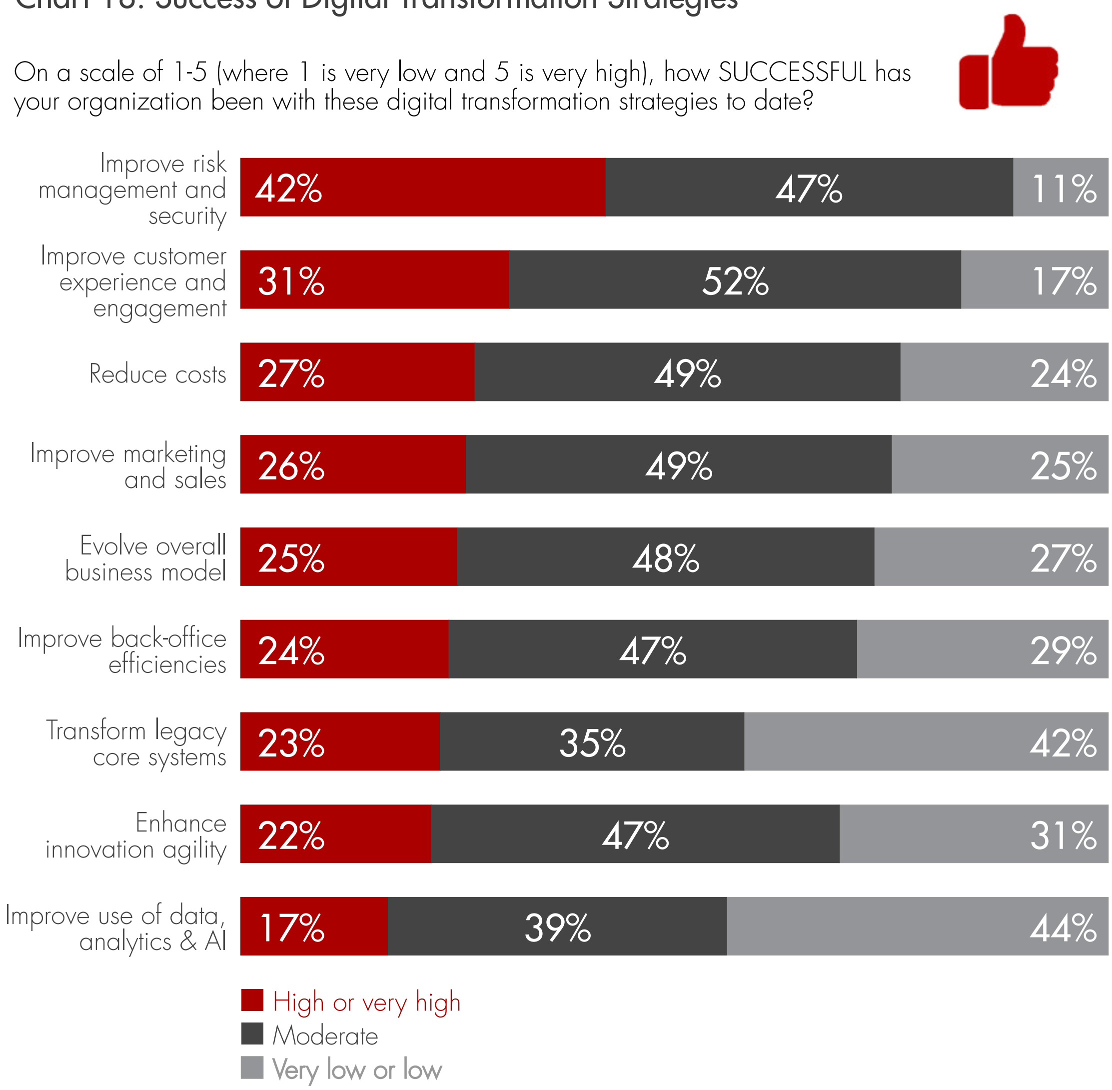
It is clear that financial institutions understand the important components of successful digital banking transformation. From improving the customer experience to using data and advanced analytics for improved personalization, organizations are not lacking in the knowledge needed to know where to focus their efforts.

Unfortunately, when organizations were asked about the success of their digital transformation strategies in meeting key objectives, results were far from encouraging. As shown below, less than half of organizations survey had any digital transformation strategy with high or very high success. Even then, the highest rated strategy was in risk and security – important, yet not consumer facing. These results reinforce the reality that more than 6 in 10 institutions surveyed indicated that digital transformation efforts were only partially deployed.

Of significant concern should be the finding that the lowest levels of success were found in the strategies of transforming legacy systems (23% high or very high success rating), enhancing innovation (22% high or very high rating), and improving the use of data and advanced analytics (17% high or very high rating). In fact, 44% of institutions stated that success in using data and analytics was low or very low.

Chart 18: Success of Digital Transformation Strategies

On a scale of 1-5 (where 1 is very low and 5 is very high), how SUCCESSFUL has your organization been with these digital transformation strategies to date?



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Top Digital Transformation Challenges

The top three challenges that banks and credit unions face in their digital banking transformation journeys are the time and cost of implementation (71%), systems integration (66%) and legacy technology (62%). These overarching issues were the top three challenges mentioned in the 2019 research by the Digital Banking Report, with legacy technology and systems integration both dropping by 10% in the number of organizations stating these were significant challenges.

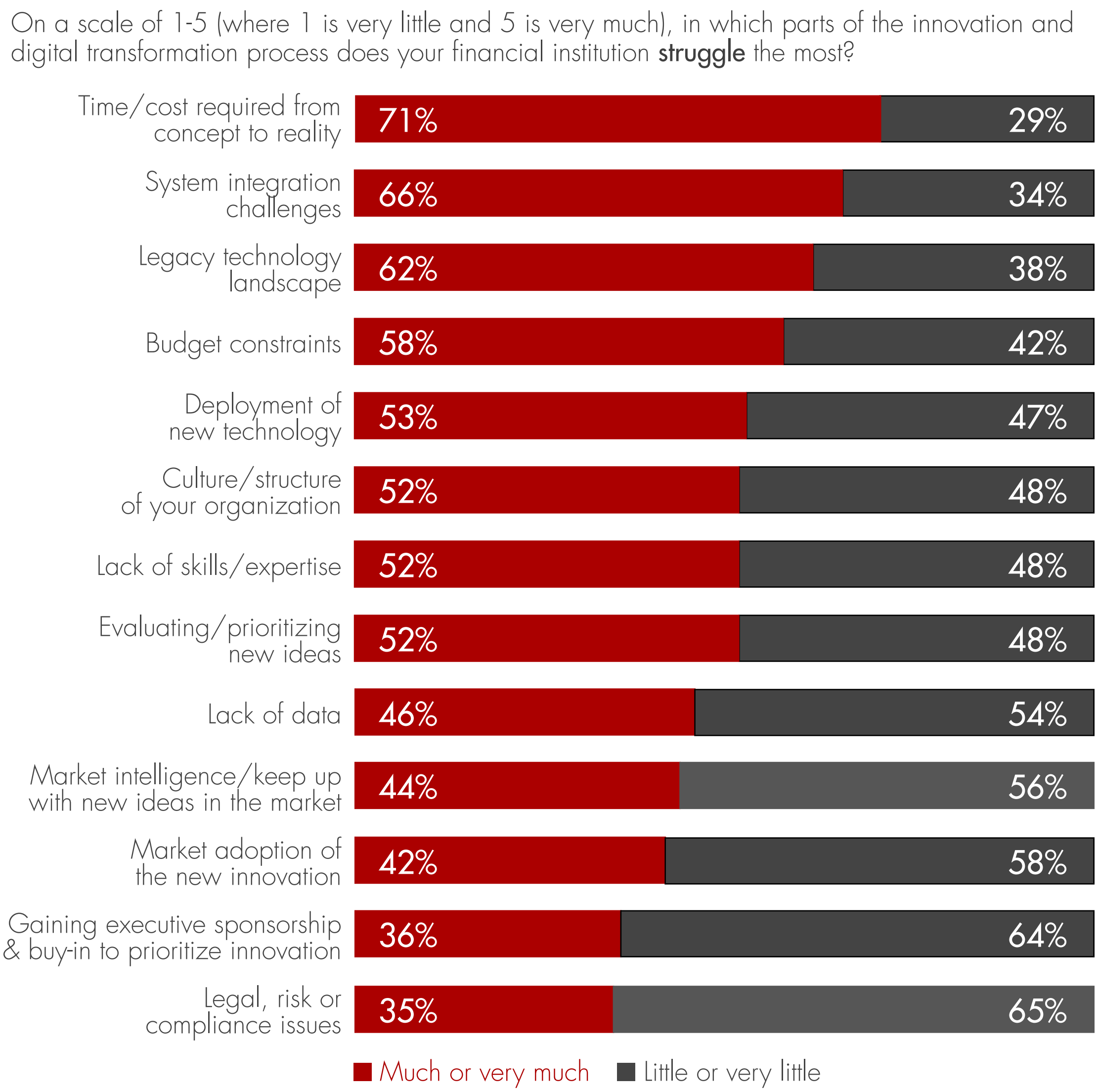
The fourth most-cited challenge was budget constraints this year (58%) which was a similar level in 2019. The majority of the rest of the challenges had lower levels compared to 2019, with the challenges of culture and skills each dropping the most compared to last year (11% and 8% respectively) .

While this is encouraging, other research by the Digital Banking Report indicates that legacy cultures still must undergo a significant evolution to facilitate the digital transformation underway. While budgets are still very much in a state of flux for next year, the funding of digital transformation efforts must keep pace with needs. This is illustrated by the fact that budget constraints were mentioned by close to six out of ten organizations.

While progress seems to be occurring with the development of talent and skills throughout the organization, this is still a major challenge to digital transformation. This relates not just to specific capabilities, but also to the need for leaders who better understand how to integrate new digital methods and processes into existing ways of working. It is expected that this challenge will only get greater in the future due to the lack of experience in the marketplace.

As organizations take stock in the challenges faced with digital transformation, this list can provide guidance as to where emphasis should be placed.

Chart 19: Challenges to Implementing Digital Transformation



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Will COVID Inhibit or Enhance Digital Transformation?

The impact of COVID-19 could easily stall digital transformation if budgets are cut or skilled individuals are laid off due to financial challenges. However, the pandemic could also unlock hidden potential if commitment from top management is increased due to the realization that digital transformation is a competitive advantage to reach customers and maintain operational resilience.

The pandemic has also unlocked the potential to accelerate partnership discussions with fintech firms and other ecosystem players. This can significantly speed up the digitalization of processes.

The questions will be whether organizations can maintain the focus and momentum that the pandemic put on digital transformation and whether the changes made will be permanent once the urgency of the current health crisis subsides.

Get Digital or Die Tryin'

Article by: Boris Plantier
Content Strategy Manager at Efma

2020 was without doubt the year of Covid-19. A year of immense disruption, with people forced to stay home, conduct business and life remotely, and wear a mask everywhere they go. Did all of this disruption have an impact on innovation in retail banking? That doesn't appear to be the case. The result of this study shows that the big trends remain the same. Banks kept on moving in the same direction. But now it appears they are moving faster, as if they are now more certain of their destination.

No Room for Gadget and Innovation Showrooms

The 2010s were years of innovation showrooms and labs launched by big banks to show their customers how innovative they are. But as flashy as a showroom may be, were these banks really all that innovative? The answer isn't so clear. While banks can welcome their customers with robots and a virtual reality headset in a breathtaking space, that is a lot of money and energy for what amounts to very little tangible improvements for the customer. You need to fulfill your customers' needs, not just satisfy your ego.

Get Digital or Die

The first need of your customer is to be able to make all service requests digitally. Going digital or, more specifically, mobile is a matter of survival for banks in a world where branches are closing. Each bank must be digital, which means offering their customers fully remote services, from customer onboarding to product sales to customer service. In other words, each bank should be a digital bank in the world we live in. And most Efma members have reached this stage now.

Nevertheless, there is still room for improvement in customer experience and customer service. Even with the emphasis on digital, the human touch is still essential. In Asia, we used to say that the consumer is king. That's barely the case in the rest of the world. Most customers don't expect to be treated as kings but maybe as friends. Emotional elements, such as trust and personal connection with an advisor or advisory service, account for 40% of investors' perceived value of financial advice, according to 2020 Vanguard research.

No doubt it's the same for a retail banking customer. This means investing in technology like AI and data in order to better know your customer and offer him what he is waiting for at the moment he needs it. But beyond digital investments, there also needs to be investment in people. A motivated, informed employee who is always available with the best solution for your finances should remain a key element of any strategy. Even the biggest neobanks, with-

Get Digital or Die Tryin' (continued)

Article by: Boris Plantier
Content Strategy Manager at Efma

out any branches to speak of, recognize the important of customer service. They have representatives available around the clock, via chat, and in multiple languages. The way customer service is delivered has changed. But its importance has not.

Offer the Customers the Tools They Really Need

Products will also make the difference in helping customers improve their financial health. In each country, banks are selling more or less the same financial products and the prices are similar. No differentiation. Nevertheless, some banks excel in offering the right products. Products that make the difference because they are built to help the customer. One good example is **Commonwealth Bank in Australia**. In 2019, they launched Benefits Finder. The aim of this product is to help connect customers with their share in billions of dollars' worth of unclaimed government rebates and benefits.

CommonwealthBank

"We are determined to help our customers claim as many benefits and rebates as possible to free up money for essential expenses and reduce their financial stress," said Angus Sullivan, Group Executive, Retail Banking Services, CBA. Doesn't he sound like a friend ready to help you? And in 2020, the bank launched Bill Sense, a new CommBank app feature that predicts future bills to help customers, especially those new to budgeting, to stay on top of their finances. That's brilliant. And couponing and discounts fit very well in this category too.

Bradesco

Bradesco did it well in Brazil through a partnership with Cuponeria, a local startup, delivering incredible discounts to their customers right in the banking app. These kinds of tools are flourishing and open banking allows you to integrate them rapidly in your banking platform and offer them to your customers and show them you are the right partner to help them save money.

Bank and Big Techs: Banks are not Only Banks

Neobanks such as N26, Revolut, Klarna and ZELF are changing the way customers bank with their exciting apps and brands. And many tech players are entering the banking competition, especially in Asia with brands like LINE, Grab, or more recently Razer. Banks understand the need to change in order to stay ahead of the game. More and more are launching their own challenger banks similar to the likes of N26 and Revolut with amazing customer experience and design, young and trendy branding, and services that go beyond financial services.

The new version of imagin by CaixaBank is a good example of what a bank of the 2020s should look like. Same for Emirates NBD's Liv. Or the Tinkoff super app and ecosystem. This Swedish app was so much beyond banking that Yandex, the tech giant in Russia, decided to buy it for what is the first purchase of a bank by a big tech company.

Again, in Russia Sberbank became Sber, a tech company and a brand uniting a universe of services. That's disruptive. A first step in the concept of invisible banking. It is a whole new environment: Banks are becoming big techs, big techs are buying banks, and sometimes banks and big techs collaborate. That's what happening in the U.S. with BBVA USA working with Google to offer consumers a digital bank account through Google Pay. Banks are not only banks. Deposits are not the only aim. This transformation opens the door to a new source of revenues but also to impressive potential customers' data portfolio.

Times have changed. The major disruption of 2020 has only accelerated trends that were already present in the financial services industry. As the industry continues its evolution, the most innovative players that bring true value (which is nowadays primarily digital) to their customers will be the winners in the years to come.

Boris Plantier

Boris Plantier manages the content on the Efma website, including interviews, articles, videos and awards. Plantier also manages the Efma/Accenture Distribution and Marketing Innovation portal for Efma members and coordinates the content for banking and insurance awards programs.

3
Trends in Advanced Technologies

Trends in Advanced Technology

Banks and credit unions have been warned for years that becoming a 'digital bank' was essential for future success. Most understood what was needed – and why – but few moved aggressively to digitally transform their organizations. COVID-19 has placed the need for the deployment of advanced technology in the spotlight. Is the banking industry ready?

During the early stages of the coronavirus crisis, financial institutions of all sizes were in a crisis mode, reacting to the immediate shift to digital banking as consumers could no longer access closed branches or were unwilling to visit those still open. Branch traffic fell by more than 30% in April and May compared to the same period last year, according to financial services research firm **Novantas**. In addition, up to 40% of consumers expect to visit branches less in the future.

Improving online and mobile banking capabilities is only the tip of the iceberg, however, as most banks and credit unions reassess their entire technology infrastructure in light of COVID-19. After years of relative complacency, financial institutions are being forced beyond their comfort zones, knowing that advanced technology must be embraced across the organization to meet performance objectives in the future.

Banking Industry Facing Financial Uncertainty

While it is impossible to determine what the "new normal" in banking will look like, it will undoubtedly be far different than the past. It is still unknown how the negative financial impact of the pandemic on consumers will impact future banking behavior. While we have seen a spike in digital transactions and in the amount of savings set aside by consumers, it is too early to develop reliable trend lines going forward.

There is little doubt that the banking industry will face a stretch of economic pressure created by delayed loan payments, lower fees, narrow margins and increased risk from credit losses. While government stimulus packages may help, there will still be capital and liquidity challenges.

These financial challenges create a very clear call to action for financial institutions used to doing business the way it has been done for decades. Banks and credit unions must reimagine legacy business models and the technology used to serve the marketplace. Speed of change will determine winners as much as the changes themselves. Being a "fast follower" will no longer be acceptable.

Advanced Technologies: Now More Than Ever

Most financial institutions are aware of the benefits of modern technology as the foundation for digital transformation. Unfortunately, most institutions have embarked on this journey only tentatively up till now for a variety of reasons (funding, culture, talent availability, etc.).

COVID-19 has highlighted that the use of modern technology will be needed more than ever to combine efficiency with effectiveness. The customer experience will need to be improved far beyond what has been done to date, replicating the experiences delivered by technology leaders in other industries.

Sales and service models will also need to be revamped at the same time that employees will need to be retrained for a digital world. Finally, organizations will need to improve detection and intervention in the areas of credit risk and cybercrime. In other words, digital transformation has only just begun.

The pace of change in financial service technology implementation has never been faster – and will never be this slow again. Firms must accelerate their digital banking transformation by becoming digital to the core – operating more like a tech company than a traditional financial institution. In some instances, this will require a change in leadership at the board and C-level.

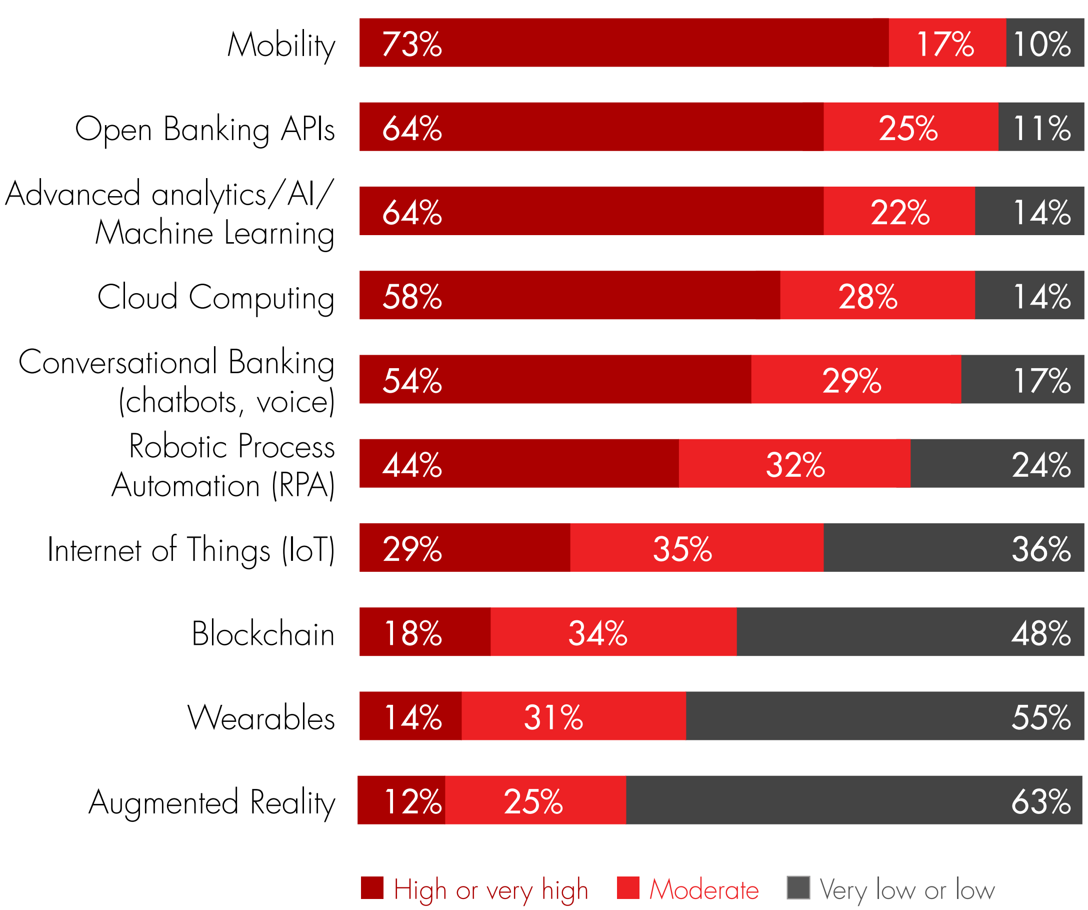
According to **research from the Economist Intelligence Unit** (EIU) conducted in February and March of this year, a large majority of financial institutions globally (66%) believe modern technologies such as artificial intelligence (AI), machine learning, blockchain and the Internet of Things (IoT) will have a significant impact on the banking sector (this is up from 42% last year). It can be safely assumed that this trend has only increased as a result of the recent pandemic.

Not surprisingly, regulation around privacy and data protection and capital requirements were seen as major trends (42% of respondents mentioned), while the impact of changing consumer demands had shown an ongoing drop for the third consecutive year (24% in 2020).

When the Digital Banking Report asked a similar question in August of this year regarding the most important technologies for the next 12 months, mobility, Open Banking APIs, advanced analytics and cloud computing topped the list. Each of these reflects the impact of the pandemic and the need to support more advanced digital capabilities.

Chart 20: Most Important Technologies for Next 12 Months

Please indicate the impact the following technologies will have on banking business in the next year (Scale of 1 to 5, where 1 is very low and 5 is very high)



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Success Deploying Most Important Technologies Still Lagging

Similar to what we found with the success of digital transformation, the success financial institutions have had deploying the most important modern technologies falls far below what would be expected. Some of this failure can be explained by the concern financial institutions have as they view the advances in other industries and by big tech firms.

Of gravest concern is the continual shortfall in capabilities around data and advanced analytics. While 64% ranked the importance of AI and Machine learning at the highest levels, less than 20% of organizations considered themselves adept in using data and AI.

The primary competitive differentiator in the future — and the foundation of any brand's overall growth — will be the experience delivered to the consumer. The foundation of experience, in turn, will be how well a bank or credit union can use data and insights to customize and personalize engagements.

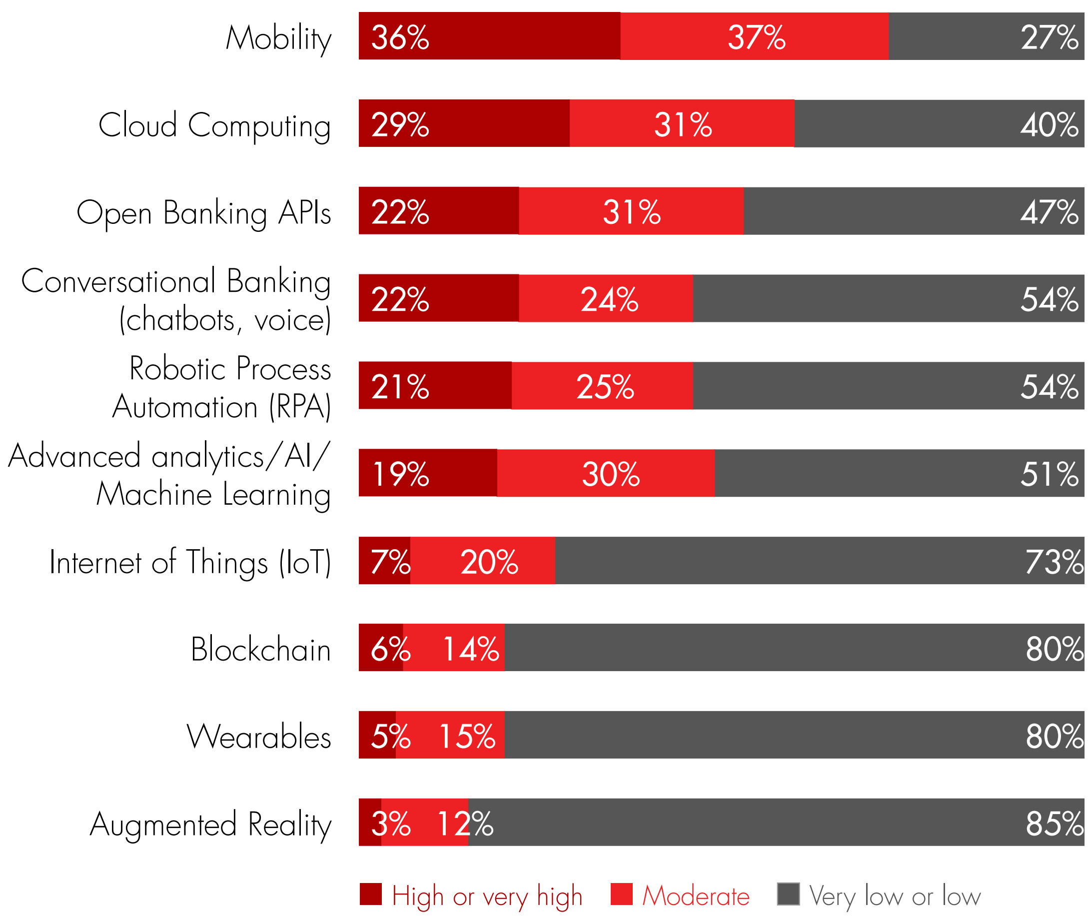
Artificial intelligence (AI) and advanced analytics can be deployed to deliver a seamless and intelligent customer experience at any point of the customer journey, resulting in greater satisfaction, increased relationship value and competitive differentiation in an increasingly crowded marketplace.

The key will be the ability to create personalization at scale and in real time. Customer engagement leaders know that the key to a strong customer experience is to behave like a financial relationship management "concierge," proactively providing insight to the consumer based on real-time financial opportunities or threats.

The entire process must run seamlessly, with minimal consumer intervention required. Over time, consumers should believe in the decisions being made on their behalf, in much the same way that they would feel being handled by a financial advisor who treats them as the largest relationship in their portfolio.

Chart 21: Success in Deploying Advanced Technologies

Please indicate the level of success of your organization to leverage these technologies to deliver expected business outcomes (Scale of 1 to 5, where 1 is very low and 5 is very high)



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

From Public and Private Cloud to Distributed Cloud

It seems like just yesterday that banks and credit unions began to rely on cloud computing to handle increasing loads of data. Formerly a technology trend to watch, cloud computing has become mainstream, with major players AWS (Amazon Web Services), Microsoft, Google Cloud and IBM dominating the market.

The adoption of cloud computing is still growing, as more financial institutions migrate to a cloud solution. But it's no longer the emerging technology. By 2022, 75% of enterprise data will be created and processed outside the centralized data center or cloud, according to **Gartner**. This represents an increase from less than 10% generated today.

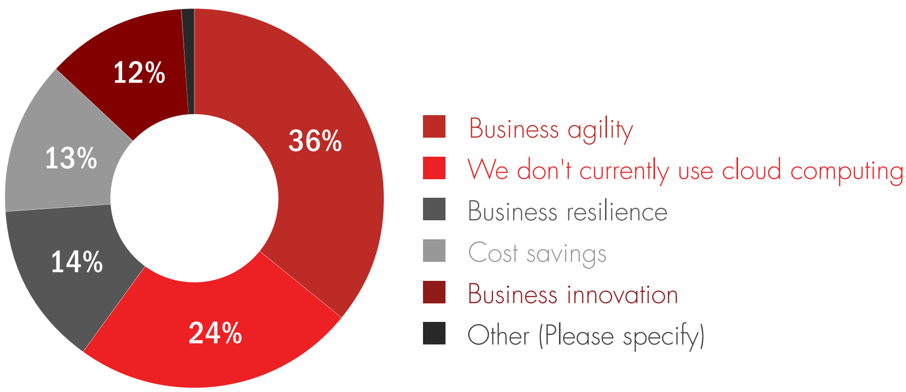
Compared to a public cloud, that is owned and operated by a third-party cloud service provider, a distributed cloud provides public cloud services to external locations, with the original provider still being responsible for cloud service architecture, delivery, operations and updates.

This provides financial institutions greater flexibility, more deployment options, and better optimization for infrastructure, security and compliance. It also reduces the risk of network-related outages.

When we asked financial institutions the rationale for deploying cloud computing, the majority said either to achieve agility (36%) or for business resilience (14%). Not surprisingly, 24% of organizations have not yet deployed cloud technology.

Chart 22: Rationale for Using Cloud Computing

What is the PRIMARY rationale for using cloud computing at your organization?



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Open Banking Provides Potential for Revenue Goldmine

Since the onset of COVID-19, most financial institutions have been playing catch-up, developing and updating digital applications, responding to consumer and small business needs for financial relief and dealing with a work-from-home (WFH) reality. Not nearly enough banking organizations have been focused on innovation and the development of new opportunities presented by the expanded digital economy.

One area banks and credit unions need to examine more closely is API-enabled opportunities and the potential for Open Banking monetization. While APIs have the potential to encroach on banking products and services that traditional financial institutions have provided for centuries, there are also opportunities to expand offerings that could create new revenue streams. Traditional banks and credit unions could also use APIs to create seamless experiences that would take years to develop without third-party partnerships.

Despite the lack of clear guidance from regulators in several countries (including the U.S.), the threat of not investigating options provided by APIs is that fintech start-ups or large tech firms will continue to take market share and inhibit organic growth. Taking advantage of new opportunities during this time of digital transformation also can improve customer experiences as consumers become increasingly aware of how non-financial platforms have made everyday life easier.

Finally, not to be ignored, is the opportunity to serve previously unmet needs of segments of the population that are better (and more economically) served through new digital applications. With the potential for some of the costs to be assumed by third parties interested in reaching these unique segments, traditional banks can avoid relying only on penalty fees and services charges to make products viable.

Organizations that do not rethink traditional operating models run the risk of falling further behind as non-traditional fintech and big tech providers continue to use APIs to power unique products and platforms. More importantly, with margins razor thin, and operating costs under pressure, all revenue opportunities must be investigated.

APIs threaten to fragment banking products and services that large institutions have owned for centuries, according to **Capco**. It also provides the potential for exciting new services with revenue opportunities. New banking solutions – with seamless customer experience at the front end and multiple interconnected providers in the background – will become the norm in the near future. Some organizations are already having success with these new models. Both imagine from **CaixaBank** and Liv from **Emirates NBD** are examples.

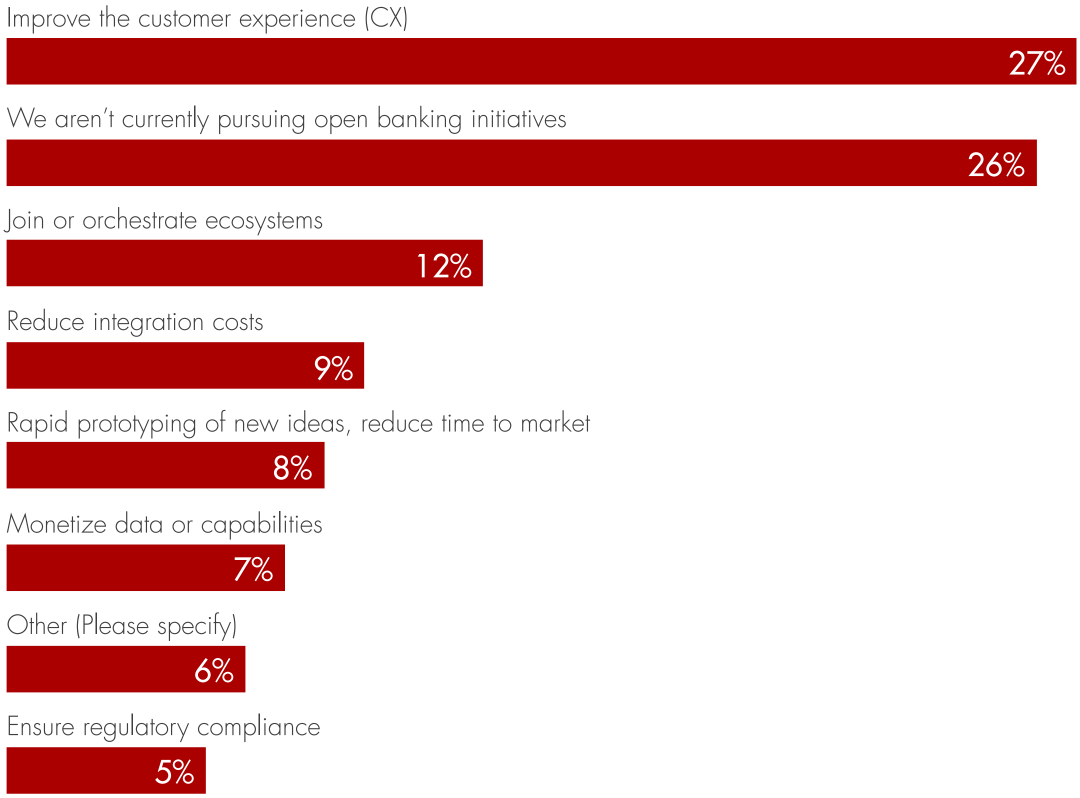
Banks pursuing a banking-as-a-platform model can generate value directly or indirectly. For instance, they can generate direct revenues by offering third-party access to the bank's distribution network, in return for a fee or revenue sharing. Alternatively, they can generate indirect value by leveraging the partnership to expand their customer base, lower their product costs or increase efficiency.

In a banking-as-a-service (BaaS) environment, value is generated by distributing financial services through third parties. As with the banking-as-a-platform model, value can be generated either directly with fees or indirectly through increased distribution or reduced costs of delivery.

When we inquired about why firms are considering an Open Banking strategy, more than a quarter of firms (27%) stated to improve the customer experience. Another quarter of firms have not embraced Open Banking yet.

Chart 23: Primary Reasons for Open Banking Strategy

What are the TOP 3 reasons for pursuing open banking at your organization?



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

The Need for Speed: Expansion of 5G Wireless

The 5th generation of mobile connectivity will provide super-fast download and upload speeds as well as more stable connections. The impact comes from the startling improvement of 10X the speed of 4G connections.

While 5G mobile data networks started to be deployed in 2019, they have expanded significantly in availability and use in 2020. Not only are more geographic areas be covered, but new devices and more affordable data plans will be made available. In other words, 5G has begun to achieve scale in 2020 and will achieve even more in 2021.

Financial institutions, as well as all industries, will need to understand the business implications of having super-fast and stable internet access everywhere. The greatest initial impact will be that all components in the Internet of Things (IoT) universe will be able to connect with each other seamlessly, collecting and transferring more data than ever. 5G will be also be available over wired connections, leading to the convergence of fixed and mobile technologies.

The higher speeds will have the potential to improve both the customer experience and bank infrastructure. For example, virtual assistants, enabled by increased data processing speeds, will be able to provide more contextual recommendations in real time. It will also be possible to increase the security of communications with improved biometrics.

In addition to the expansion of 5G, WiFi 6 will provide the next generation of WiFi connectivity. Similar to the impact of 5G wireless, WiFi 6 will provide faster connectivity and processing in buildings where WiFi is available (workplace, home, coffee shop, etc.). The impact will be speeds that are 3X as fast as available today.

The Voice Revolution

According to **Statista**, over 34 million smart speaker devices were sold in the U.S. in 2018, with 2019 exceeding 36 million units. At the same time, smart speaker usage is projected to rise at a compound annual growth rate of nearly 48%, to include over 76 million users by 2020.

As more people purchase and become more accustomed to interacting with voice devices, the use of voice search will increase accordingly. Advancements in Artificial Intelligence (AI) and machine learning have also made a huge impact on how we interact with our smart devices.

Successful voice interactions in 2020 and beyond will require brands to go beyond search engine optimization terms into the realm of artificial intelligence and natural language. The expectation is an intuitive understanding of what a consumer is trying to say. Integration across platforms and between branches and a variety of other touch-points is also important to a successful voice commerce strategy. The consumer will assume that the voice technology is seamlessly integrated with the entire customer journey.

Finally, voice interactions of the future will need to embody the spirit and personality of a brand. The tone and even the actual voice will need to become part of the brand experience. A switch from visual to audio will mean brands will need to consider how to connect customers with a brand identity that is built around voice and personality.

Throughout history, new technologies have disrupted what was previously in place, creating controversy and stress. In each case, the future of work changed as humans had to adjust to a new reality. Over the long term, these new technologies of their time redefined economies and societies in mostly beneficial ways.

We are currently experiencing a rate of technological change in banking and in our total economy like never before. It is impacting people and socio-political dynamics in ways that were unforeseen. Much of this is being driven by the increased use of data, AI machine learning, analytics, IoT and digital technologies in ways that feel like science fiction.

And because of the advent of 5G wireless systems and higher speed WiFi, the technological change is coming faster than most are prepared for. This will require an adjustment in the culture of most financial institutions as we redefine work and the interactions between humans and machines.

Some organizations may opt to 'ride out the storm'. Unfortunately, when the storm settles down, much of what was remembered from the past will be forever changed. **The survivors will be those organizations that took proactive action to embrace change, take risks and disrupt existing business models.**

Blockchain Technology: A Difficult But Important Transition

While we listed blockchain as a technology trend to watch in 2019, the banking industry was slower than expected to embrace the potential. Many had hoped 2020 would be different. To be sure, there is still caution surrounding blockchain initiatives, due to issues such as regulations, scalability and interoperability. That said, significantly more blockchain tests are occurring in retail and corporate banking due to the ability to improve trust, provide transparency and potentially lower costs, reduce transaction times and improve cash flow.

The initial forays into blockchain will most likely be centered on remittances, KYC/ID fraud prevention, and risk scoring. Even with the benefits, financial institutions will need a significant evolution in culture, since the use of blockchain requires trusting between different organizations, with collaboration and the sharing of data. This has been a stumbling block for many organizations.

The Future of Work: Rise of the Human

Wait, how can the 'rise of the human' be a technology trend in banking? We have all heard the doom and gloom scenarios for massive human displacement caused by technology and automation, including Robotic Process Automation (RPA), artificial intelligence and machine learning. Many have predicted the elimination of millions of jobs from the banking industry … and several mass reductions in staff have already taken place.

That said, automation is also expected to create new jobs and enhance human skills and expertise. Not the same jobs that existed in the past, but reconfigured and redesigned jobs, that move people from middle-income routine work to employment that will emphasize creativity and enhanced thought processes that will improve the performance of digital technologies.

The challenge for banking leaders will be to find and/or train the needed talent and to integrate and make the most of both kinds of labor (digital and human). The biggest change when it comes to this labor transformation will be the pace of change itself. The required skill upgrades and workforce adaptations will occur faster than any organization can handle alone. This will increase the use of outside partners and collaborations to move at the pace of digital.

According to **CIO**, "Human and digital labor will increasingly coexist. Company leaders from the C-suite and the IT team to HR professionals will need to work to provide a productive integration of both aspects of labor — to make the most of both and take advantage of the benefits of digital transformation, including reduced risk, increased efficiency and lower costs."

Leadership Drives Technology Priorities

Even before the coronavirus pandemic CEOs were challenged by a expanding list of priorities. While most financial institutions were experiencing unparalleled prosperity, leadership understood the need to digitally transform their organizations with modern technology. The challenge was … few boards or CEOs understood technology.

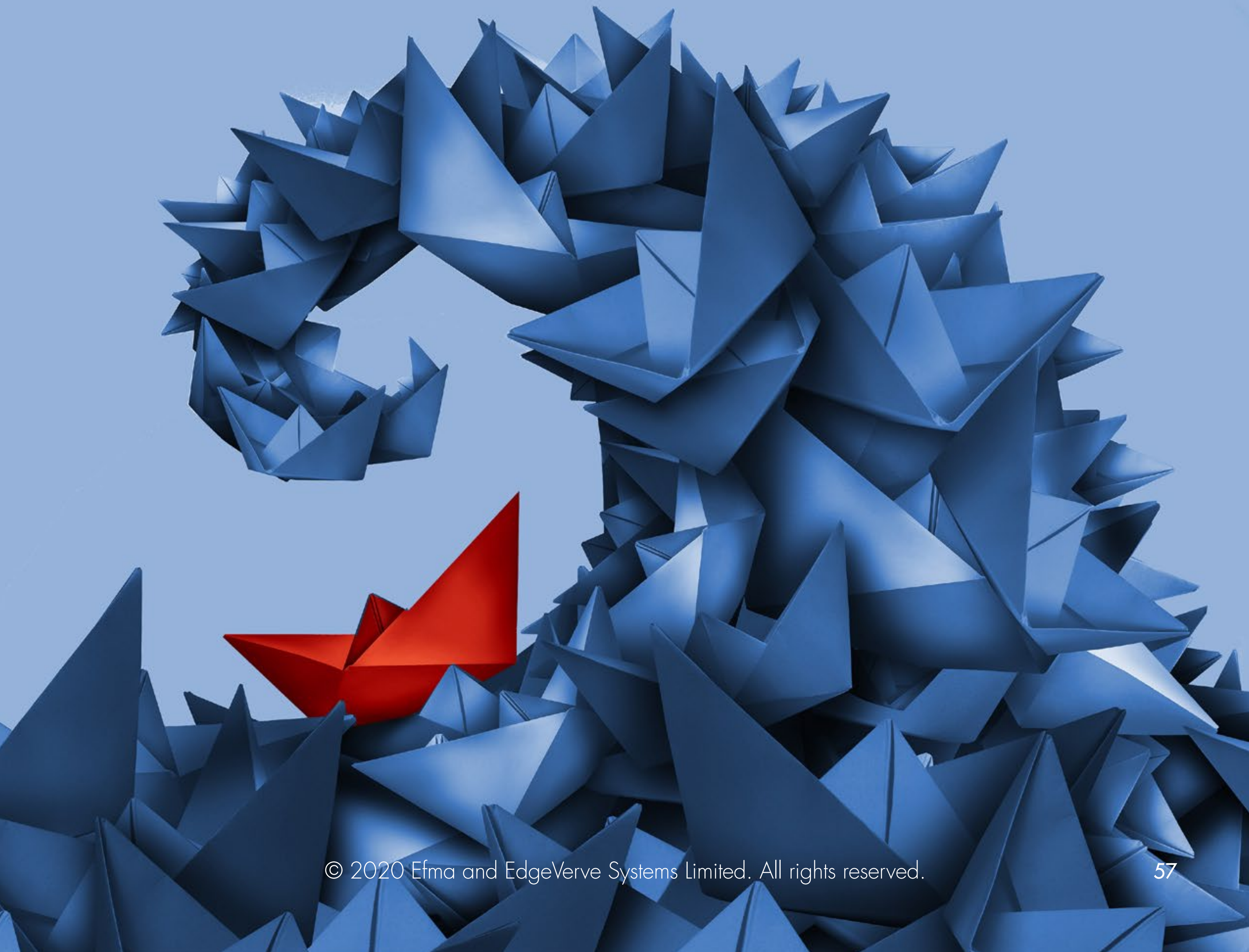
Now is the time to increase the prominence of the CIO and technology functions to a level requisite for change. No longer simply a support function, there must be integration and collaboration between the technology areas of the financial institution and all other areas and functions of the bank or credit union.

More importantly, financial institutions need to recruit the right talent to support the modern technologies required and retrain existing teams to deploy against the new digital model. These new and retrained teams will also need to have the tools required to deploy results quickly with agile working methods.

According to **McKinsey**, "The potential for technology to deliver winning business capabilities and change a company's fortunes is simply too great for CEOs not to lead technology's integration with the wider business. CEOs who actively influence and shape their companies' technology functions can position their companies for greater success in an economy where digital savvy is at a premium."

The question becomes – Which firms are prepared to use modern technology to digitally transform their organizations?

4
Competitive Trends



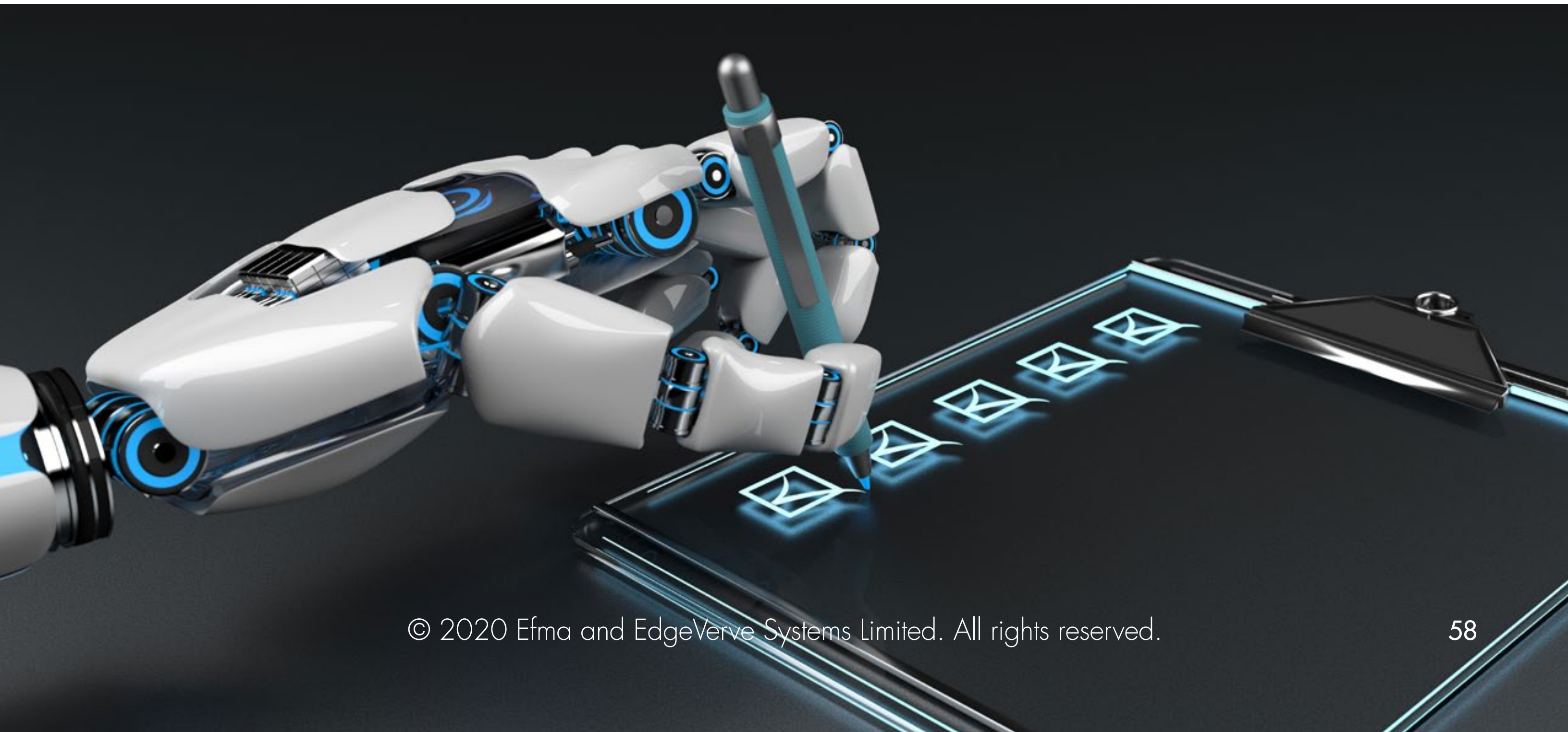
Competitive Trends

The COVID-19 crisis has become a pivotal digital transformation moment for banks and credit unions. Many banks and credit unions have taken this once-in-a-lifetime opportunity to move forward quickly on digital initiatives that were on the back burner. At the same time, many fintech firms are being challenged by a drop in venture capital funding. The gap between progressive legacy banking firms and fintech offerings may have narrowed.

The COVID-19 crisis highlighted and amplified the gap between what consumers expect their financial institution to provide and what many traditional financial institutions were able to deliver. Many financial institutions were not prepared to open new accounts without a visit to the branch, and even more organizations could not facilitate small business Paycheck Protection Program (PPP) loans without significant friction. Some institutions even struggled with personalization of messages and adjustments to policies related to direct deposit of benefit checks.

The good news is that many organizations have worked overtime to fix many of the customer facing issues related to digital banking capabilities and have given indications that back-office initiatives have increased in priority since the COVID-19 shutdown.

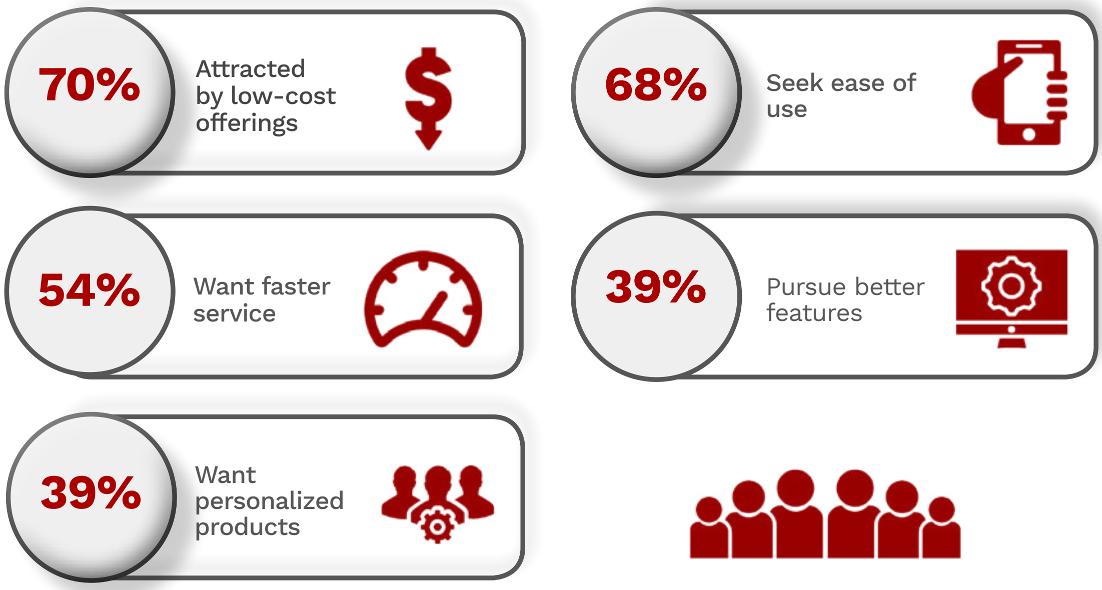
With organizations in all industries working to provide hyper-personalized digital experiences, there has never been a more dramatic call to action than what has occurred during this pandemic. Coming out of this crisis, there will be much more clarity as to which organizations



embraced the digital transformation process and which firms continued to "fake digital" – only making iterative changes to respond to short-term needs.

As was the case last year, challenger banks are seen as another formidable competitor, reflecting the ongoing growth of firms like N26, Starling, Monzo, etc. The threat from non-fintech and incumbent banking firms were seen as least threatening.

Chart 24:
Reasons Why Consumers Use Services From Fintech Players



Source: Capgemini © Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

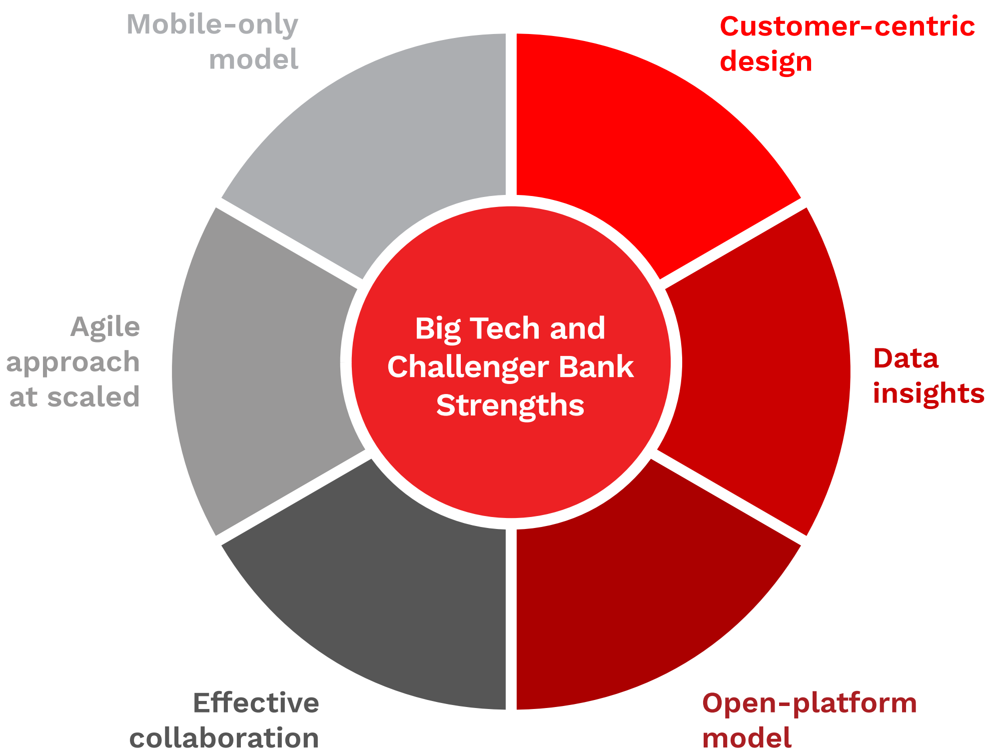
Coronavirus Impact Realigns Digital Rivalry

A major change in the competitive structure of banking has also occurred as a result of COVID-19. Several financial institutions have narrowed the gap between the experiences delivered by a select few traditional financial institutions and the experiences of fintech and big tech providers. This journey to "becoming digital" is not complete at any traditional bank or credit union, but the importance of the journey can no longer be disputed.

According to the *World Fintech Report 2020*, published by **Efma**, if financial institutions want to remain competitive, they must become more customer-centric, agile, and innovative. And they must embrace the open banking opportunity that increases the role of financial services organizations in a consumer's life. This will require changes in corporate culture, business plans and perspectives of collaborating with non-traditional financial institutions.

Chart 25:

Competitive Strengths of Bigtech and Fintech Players



Source: Capgemini © Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

While the collaboration between traditional financial institutions and fintech firms had not always resulted in the desired results, this dynamic has changed. The prosperity experienced by both traditional banks and fintech firms before COVID-19 caused inaction by both sectors. Traditional banks weren't feeling any financial pain that required immediate action, and the flow of venture capital to fintech firms was unabated. If urgency leads to action, both traditional banks and fintech firms have a lot more incentive to partner now than before COVID. The World Fintech Report 2020 found the following pre-COVID pain points:

- Only 21% of banks say their systems are agile enough for collaboration.
- Only 6% of banks had achieved the desired ROI from collaboration.
- 70% of fintech firms don't culturally or organizationally see eye-to-eye with their bank partner.
- More than 70% of fintech firms say they are frustrated with the incumbent's process barriers.
- Half of fintech firm executives say they have not found the right collaborative partner.

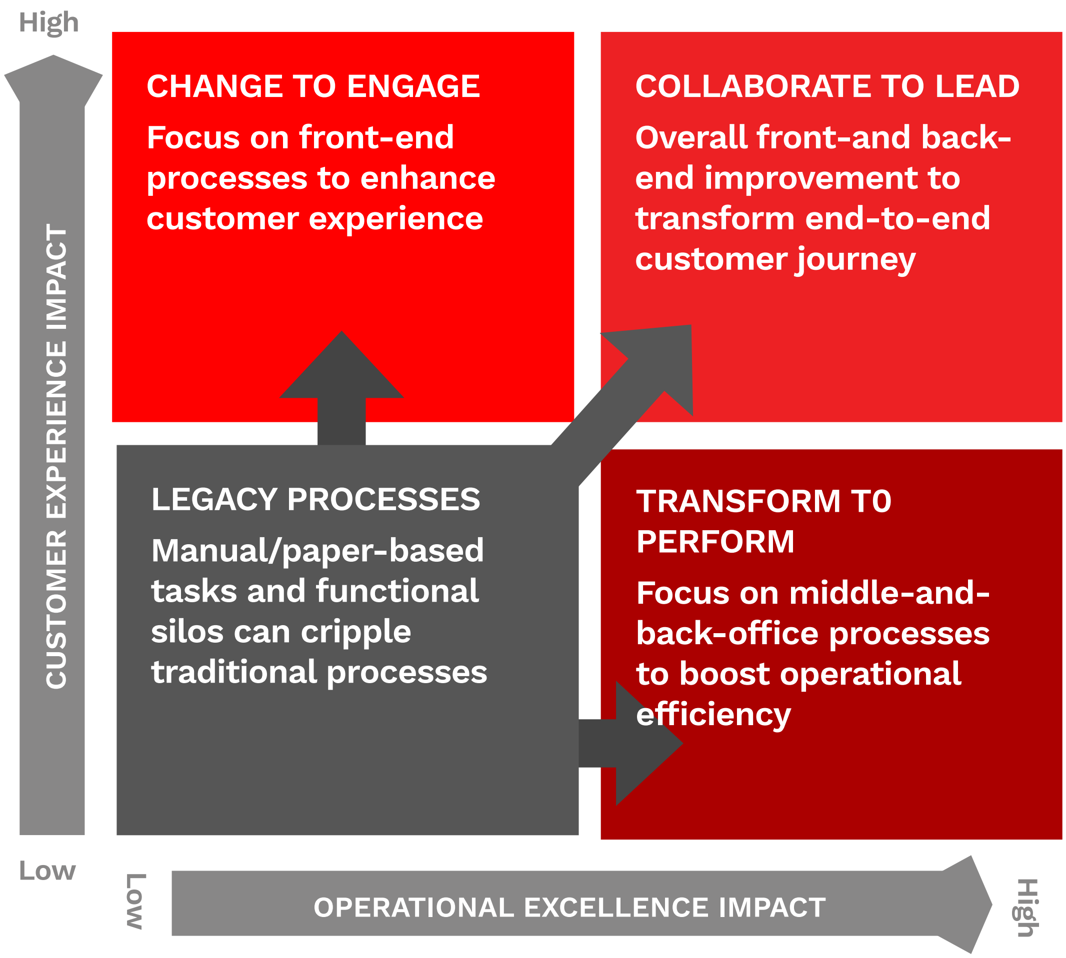
"The world has changed dramatically over the last couple of months. For traditional banks, this will translate into an even greater need for digital experience through further collaboration with fintech firms. It is now essential for incumbent banks to consider them not only as formidable competitors, but as necessary partners of choice to meet changing consumer expectations," stated Anirban Bose, CEO of Capgemini's Financial Services SBU. "Inventive banks with the willingness and capabilities to collaborate at scale and industrialize innovation are most likely to prosper within the shared [Open Banking] ecosystem."

'Being Digital' is More Than Skin Deep

The difference between most big tech and fintech digital financial offerings and those from the majority of legacy financial institutions is that digital-first organizations build digital experiences from the inside out. More than just a pretty mobile app, the design of digital experiences begins with making sure the flow of processes and engagements are seamless. COVID-19 served as an event that highlighted the difference between simply presenting a false digital facade and truly building a digital experience.

Chart 26:

Excellent CX Requires Both Back Office & Front Office Improvements



Source: Capgemini © Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Chart 27: Primary Business Model Anticipated by 2025

What will be your primary business model by 2025? (Select one)

Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

According to the World Fintech Report 2020, financial institutions must prioritize middle- and back-office transformation to be successful. Rather than building from within, they recommend building collaborative relationships with those firms that have already built and tested strong digital engagement tools and services. According to Digital Banking Report research on the state of digital transformation, many traditional financial institutions already knew what was needed, and how this could be achieved.

Many organizations simply hesitated to "pull the trigger" due to a business as usual mentality. This created an overall bad experience during the "last mile" of the customer journey. The need to change was highlighted in the Capgemini report that found that consumers didn't feel like they received a personalized relationship (50%) or couldn't make direct-debit payment on several merchant sites (60%.). Many younger, tech-savvy consumers were also frustrated with the narrow range of products and services offered by their primary traditional bank.

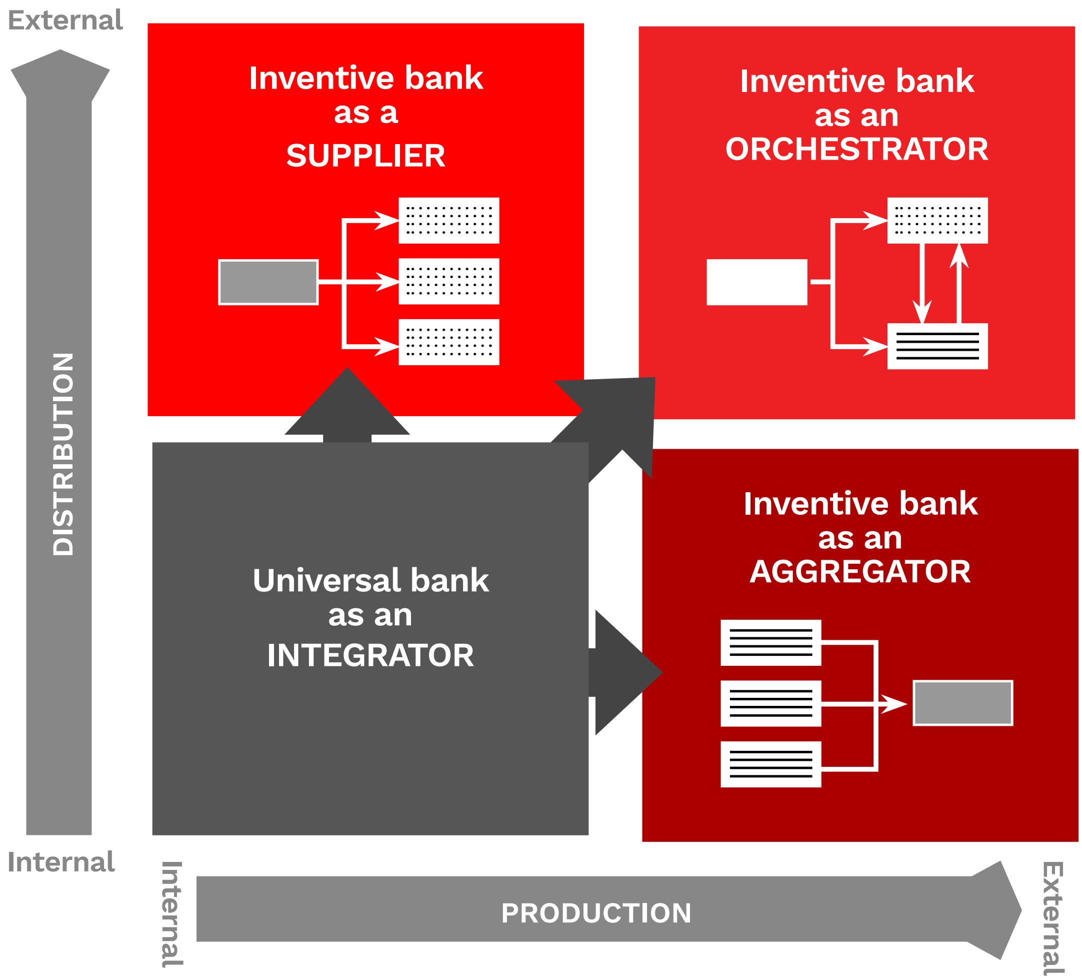
COVID-19 Opens the Door for Open Banking

While offering the current array of services in a much more digital manner maximizing both back-office and front-office user experiences, design principles have quickly become the minimal level of commitment for traditional financial institutions to survive. In the long-term, the industry cannot stop there. Now more than ever, traditional and non-traditional financial firms must look towards building engagement platforms that can bring synergy to both financial and non-financial lifestyle improvement tools.

The World Fintech Report 2020 found that leading collaborative financial institutions had both a dedicated and autonomous startup-partnership team as well as an innovation mentality that allowed for expansive new ideas and a willingness to 'fail quickly'. As highlighted often in this report, the leaders in financial innovation were committed at the very top of the organization to an innovation culture, invested more heavily in this commitment, experienced a higher level of customer satisfaction and were using more forms of advanced technology than innovation "fast followers." These firms also were not shy about collaborating with fintech firms.

Chart 28:

Legacy Bank Journey from Integrator to Open Banking Orchestrator



Source: Capgemini © Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

"Traditional banks are at a critical juncture. They must embrace [Open Banking] or risk becoming irrelevant," said John Berry, CEO of Efma. "In order to keep up with ever-changing customer expectations in today's marketplace, incumbent banks must transform into [innovative organizations] with collaborative support from qualified fintech partners."

Competition Continues to Place Pressure on Legacy Banking

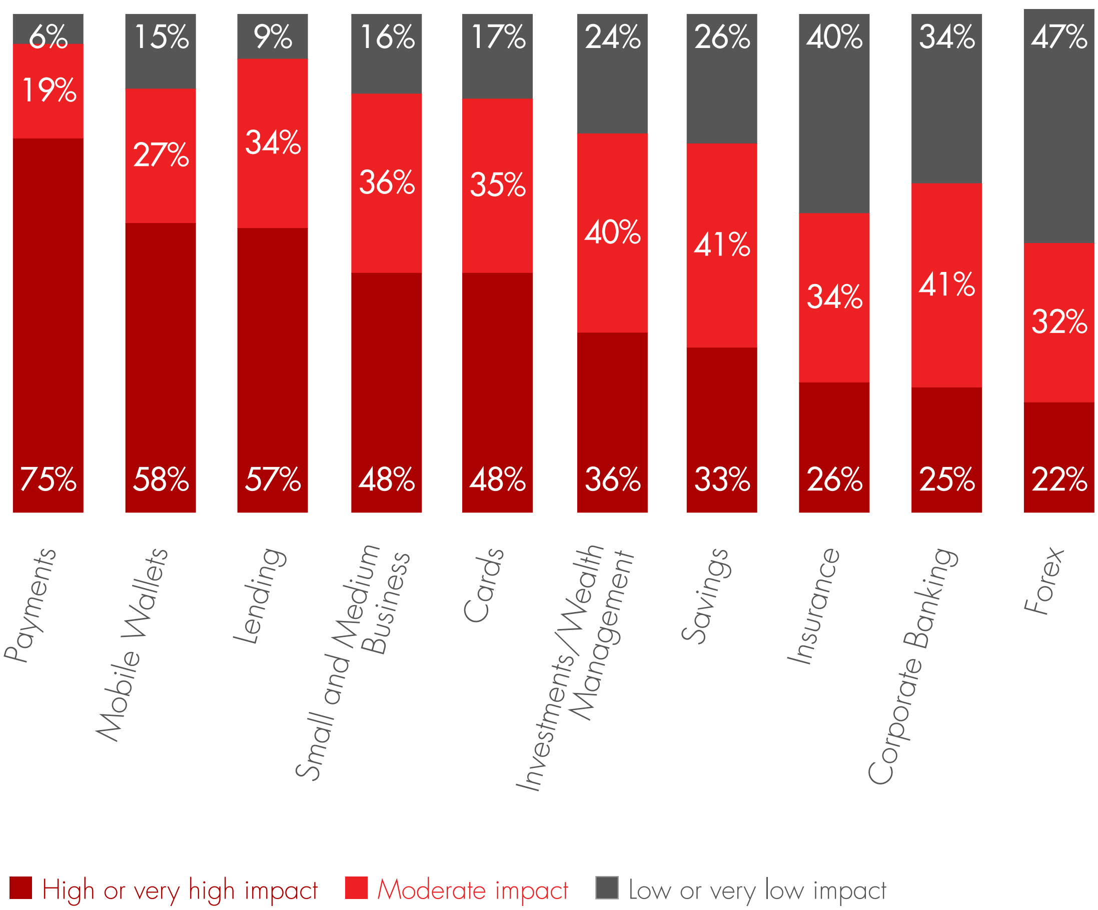
When we asked financial institutions what areas of banking will be most impacted by outside competition, payments, mobile wallets and lending were the most mentioned. In fact, the entire list of services mentioned were in the same order as in 2019, with only modest changes in the amount of impact mentioned.

These areas of traditional and digital banking have already been disrupted by non-traditional competition. In fact, many believe the battle for payments may already be lost.

Chart 29:

Business Lines Under Most Competitive Pressure Over Next 5 Years

In what business lines do you expect emerging competition to have a significant impact on revenues and profitability over the next 5 years? (Scale of 1 to 5, where 1 is very low and 5 is very high)



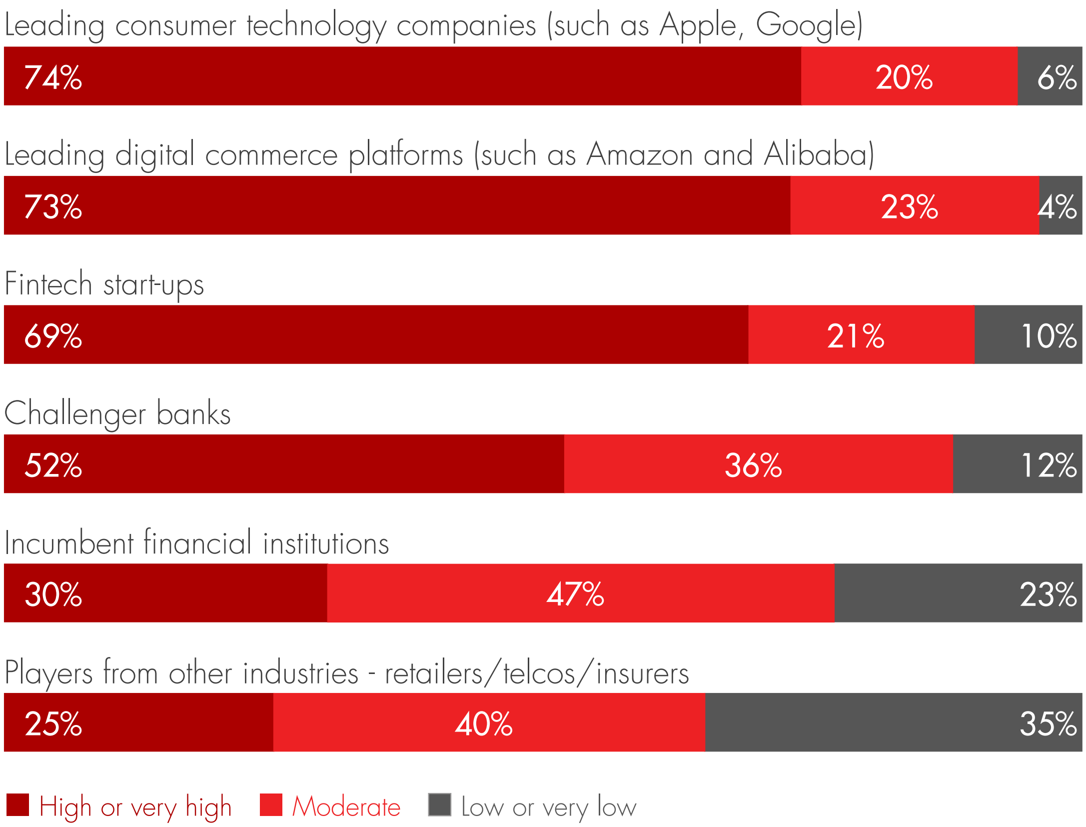
Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

When we asked which type of challenger would be of most concern, consumer technology companies continued to be considered the primary threat, with just slightly lower numbers than in 2019. Leading digital commerce platforms were rated at about the same level of threat as was the case last year. Smaller fintech organizations and challenger banks were seen as lower threats in 2020, with incumbent banks seen as greater threats than in 2019.

Much of this fear of any challenger organization is based on the ability of these firms to provide highly personalized financial services on digital devices using modern technologies. It continues to get down to the application of data and analytics and the leadership of these organizations.

Chart 30: Most Innovative Banking Ecosystem Players Over Next 5 Years

Which of the below players will be leading innovation in the banking industry over the next 5 years? (Rate on a scale of 1 to 5, where 1 is very low and 5 is very high)



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Skills Gap Becoming a Bigger Threat

As the COVID-19 crisis has evolved, the banking industry has needed to rethink strategies around how to get work done and how to serve consumers. After years of a slow but steady digital banking transformation, the pandemic catapulted the industry into the future of work almost instantaneously.

Banks and credit unions had to adjust to a work-from-home workplace that placed a premium on the ability for employees to be flexible, collaborative and innovative. More importantly, COVID-19 highlighted the importance of new skills that integrated humans with advanced technologies.

In research conducted by the *Digital Banking Report* (free access), it was found that the adaptability of the workforce to remote work created new opportunities for knowledge-sharing across departments and functions. It also revealed talent gaps, where existing roles may be threatened, and new training will be required. Finally, the research revealed that technology will most likely not replace humans, but will augment their ability to reduce costs, create customer value and improve job satisfaction.

The research that included responses from close to 300 financial services industry executives found that:

- While there were work-from-home challenges initially, many of these challenges have diminished from April till May.
- 81% of financial institution executives believe there will be greater remote working opportunities in the future.
- 72% of banking executives believe there is a moderate or significant skills gap threat.
- 75% of respondents feel there has been minimal or no progress in upskilling for digital or technical needs.

The vast majority of banking organizations have not leveraged technology to help employees improve the customer experience. While it is still impossible to know what the 'new normal' will be, it is clear that it will be far different than what we remembered just a few months ago. The most successful organizations will be those whose leadership adjusts to the changes that have occurred, but remain flexible to the possibilities ahead.

Over a period of only a couple months, entire workforces were required to familiarize themselves with digital tools which never were needed in a traditional work environment. At the same time, financial institutions were required to connect with customers using mobile apps, online tools and digital engagement capabilities that were foreign to many.

The impact of these changes was felt most by the employees who had been with their financial institution the longest or were in areas of an organization that had not adjusted to recent marketplace realities. Many financial institutions responded to internal and external digital needs with mid-term solutions, understanding that significantly more is needed.

The impact of COVID-19 has forced banks and credit unions to quickly assess the digital competency of their teams, while looking to internal training and the marketplace to provide longer term solutions. This comes at a time when every industry is looking to address a massive digital and technology skills gap.

The research from the Digital Banking Report found that 72% of financial services executives believed there was either a moderate (37%) or significant (35%) skills gap. Less than three in ten thought there was only a minor or no threat.

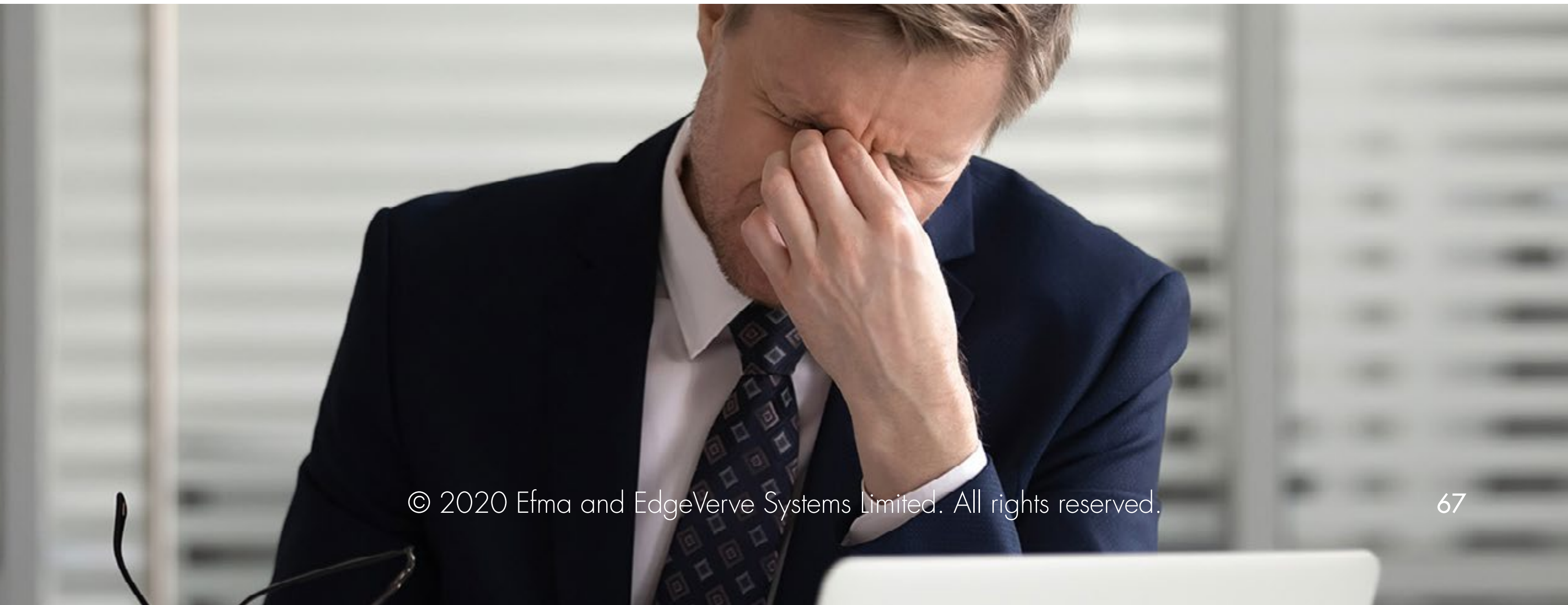
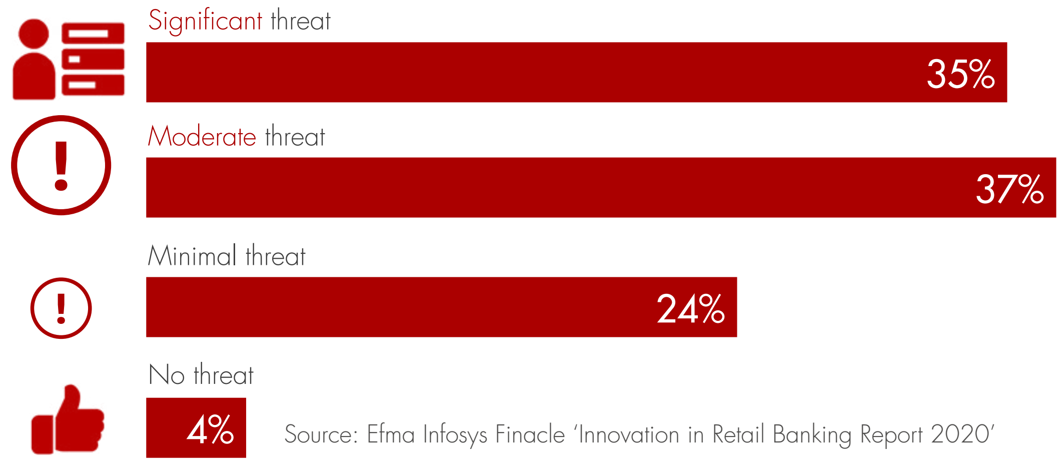


Chart 31: Most Financial Institutions See Threat From Current "Skills Gap"

What level of threat do you believe finding and training employees for a mix of soft, technical and digital skills is over the next 5 years?



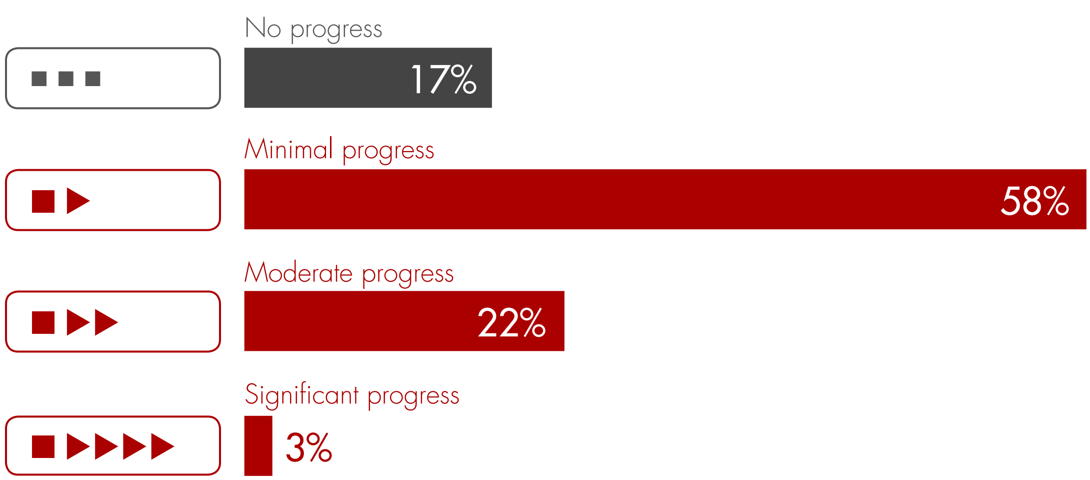
Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

As found in research conducted before COVID-19, despite a recognized threat around digital and technical skills, only 3% believed significant progress was made by their organization in addressing the skills gap, with 75% believing minimal or no progress has been made.

Chart 32:

Many Financial Institutions Unprepared for Bridging Skills Gap

How much progress has your organization made in establishing an upskilling program that develops a mix of soft, technical and digital skills?



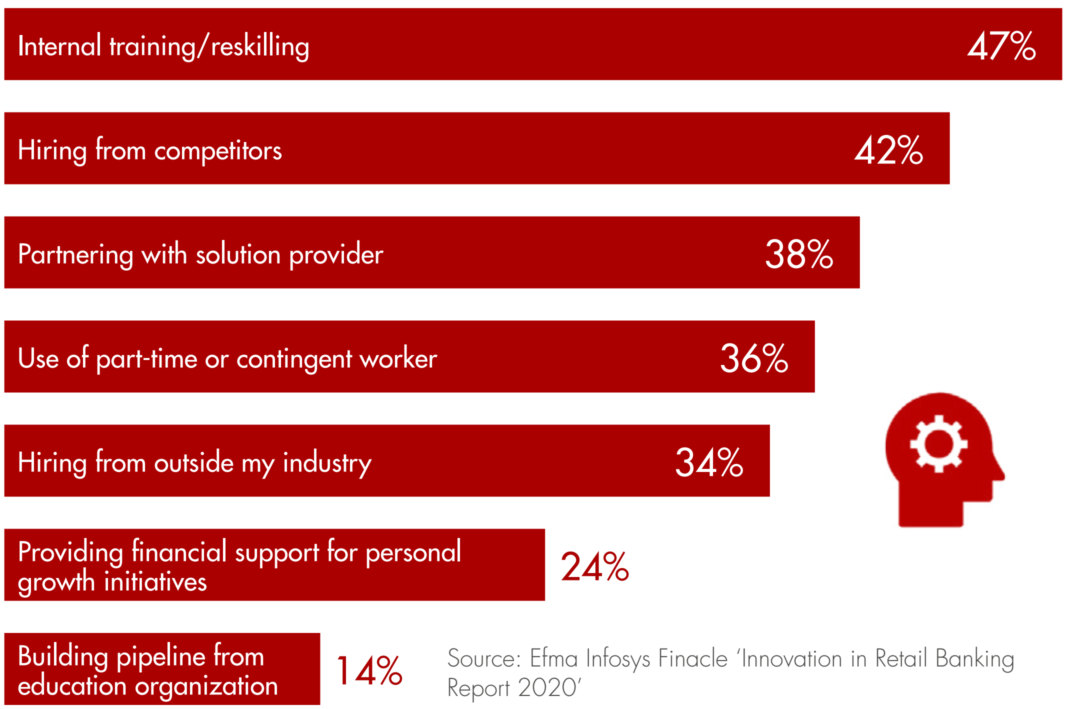
Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

The biggest risks to not having employees adequately trained were thought to be a lack of innovation or digital transformation 58%, with 53% believing the customer experience would be negatively impacted and 44% stating that growth targets would be missed. Not surprisingly, between April and May, each of these negative impacts grew in importance.

Finally, when asked what strategies would be used to close the digital and technological skills gap, financial institutions were expecting to rely on internal training and re-skilling (47%), hiring from competitors (42%), or partnering with a solution provider (38%).

Chart 33: FIs Will Address Skills Gap From Internal and External Sources

Which of these are the most important to close a potential skills gap in your organization? (Pick 3)



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

It's About the People

If anything is clear after this crisis, it is that the people in the organization are more important to the future of work than ever before. In a digital world, leaders and employees who are not prepared to embrace change and take ownership of the skillsets required to compete in the future will become less valuable and will be replaced.

Leaders must guide organizations and employees to be prepared for changing business requirements. Self-development will become more important for personal and professional growth, since organizations are not prepared to provide all of the skills training required. There is no looking back to a pre-COVID world or to believe that a post-COVID world will only be an evolution of what we had before.

Being a 'fast follower' is no longer a viable strategy for people or organizations.

5 Insights from Innovation Leaders

Insights from Innovation Leaders by Jim Marous

There is no set rule book for innovation leaders, or a single path leaders take to create new solutions or companies. But, there are similarities in their personalities and passion. Innovation leaders create enthusiasm around them, and motivate others to follow their lead. Here are some excerpts from Banking Transformed interviews that reveal how innovation culture is created and sustained.

While interviewing innovation leaders from around the world for my **Banking Transformed** podcast, I tried to explore the different strategies small fintech firms and large banking organizations used to build innovation as a foundation for growth. I discovered that the key to being an innovation leader was complete organizational integration, where support of the process started at the top … and permeated the entire organization.

For fintech firms, the process is often easier, because the size of the organization was smaller, and the mission of the organization was to build something different from what was already in the marketplace. In most cases, the vision for innovation came from the founder, so the culture was established from the outset — from the top down.

For larger, legacy organizations, where I interviewed the head of a new entity within the organization, the passion for innovation was still paramount, as was the strong focus on what the unit was intended to achieve. In each instance, the digital unit (and the leader) were fully supported by the leadership of the larger organization. In other words, the new part of the larger legacy organization was not an 'innovation island', but clearly part of an overarching mission within the legacy bank to be an innovation and digital transformation leader.

Insights from...

The following are excerpts from some of my favorite Banking Transformed interviews, where I discuss the innovation process, how an innovation culture is achieved, how passion and focus is sustained over time, and the challenges that are faced. The innovation leaders include:

- Daniel Schreiber, CEO and co-founder of **Lemonade, Inc**. Schreiber shares how artificial intelligence, behavioral economics and a focus on transparency and purpose have been used to disrupt the centuries-old insurance industry.
- Dustin Cohn, Head of Brand and Marketing over Consumer and Investment Management for **Goldman Sachs** and the **Marcus** brand. Dustin discusses the building of a new digital banking brand within a legacy financial firm and the mission of creating a unique customer experience.
- Henry Ma, executive vice president and CIO of **WeBank.** Ma reveals how WeBank became the largest digital bank in the world and their mission of delivering financial inclusion at scale by leveraging AI, blockchain, cloud computing and big data.
- Jay and Luvleen Sidhu, co-founders of **BankMobile**. The Sidhus explain the recent moves by BankMobile to become a digital platform provider and how a relatively small regional bank can create a digital banking leader.
- Benjami Puigdevall, CEO of **imagin**, a digital lifestyle platform created and supported by CaixaBank. Benjami discusses digital transformation at CaixaBank, the importance of an innovation culture and the development of imagin.
- Colin Walsh, founder and CEO of **Varo Money, Inc.** Walsh shares why Varo pursued the first national charter in the U.S., the benefits of being a mobile-only bank, and how to gain scale in an industry that may already have too many players.
- Jayesh Patel, the head of **Liv**, the first digital-only lifestyle bank from Emirates NBD. Jayesh explains the digital transformation process at Emirates NBD, the importance of an innovation culture, and the development of a challenger bank within a legacy banking organization.
- Scott Case, the CIO of **Truist**. In the interview, Case discusses the status of the historic merger between SunTrust and BB&T, the role technology and innovation has played, and the impact that COVID-19 has had on the intended results.

To listen to the full interviews, visit the **Banking Transformed page on The Financial Brand** or subscribe to Banking Transformed on your favorite podcast app.

As an innovation leader, do you need to come from the industry you're disrupting?

Schreiber (Lemonade): We tried to think about new areas of the economy that were left relatively untouched, relatively neglected, by the transformation of the digital era. With insurance, we encountered a space with huge opportunity … dominated by players who were founded during the industrial revolution.

We said, "If we really want to engage in first principles thinking, if we want to

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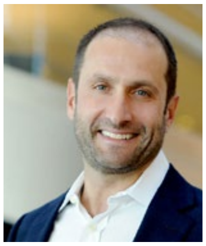
try and reinvent the way things are done, then it's best that we not know how they are done." It's the knowledge curse. Once you know, it's hard to unknow. Let's milk our ignorance for all its worth in order to try and rethink things from scratch."

We thought through what kind of insurance company we would like to interact with as consumers. Why did people not trust their insurance company? Why do people hate the paperwork and the faxes and the bureaucracy in the process? And, we built something kind of from scratch – sketched it out on that board. Lemonade today bears more than a passing resemblance to what we sketched out those five years ago on the board.



Dustin Cohn (Marcus): Instead of starting with what we knew, we started with a blank sheet of paper. We did not have legacy technology, we didn't have any legacy products, really no legacy internal organization to deal with, and we tried to think with a very open mind. And, at the end of the day, we wanted to leverage consumers to help us build Marcus.

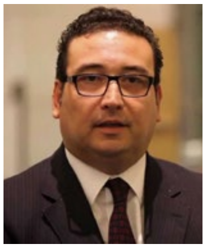
It was through the lenses of the consumer that helped lead the build of the brand.

Having people from multiple backgrounds created a unique combination. It's the unique blend that allowed us to think out of the box.

Do you think culture overall is the biggest hindrance to moving an organization from legacy process to a digital process?

Schreiber (Lemonade): To begin with, most executive teams are wrong. These are people who've been groomed for 30 years for legacy preservation, when what is really needed is business transformation. Often, the shareholders are also wrong. You've got a class of shareholders who just want their 5% dividend year in, year out, with low volatility. They don't want you placing big bets on technology and transformation. So that means that your board of directors is wrong. Every element of the business is wrong.

How do you create an innovation culture?



Puigdevall (imagin from CaixaBank): There must be a strong commitment from the top management of the bank, because innovation and the use of technology to enhance the relationship with the client is in the DNA of CaixaBank. Of course, this commitment has to be consistent and has to be stable. It's not a matter of what's in fashion. I think that's very consistent in the last 20 years – the strategy of how to use technology to create new services.

In addition, in the year 2000, the bank decided to create a subsidiary that would focus the talent and the resources to develop a digital business. This was a kind of spin-off, with very digital oriented talent to execute the strategy of using technology to enhance digital services.

Dustin Cohn (Marcus): A key ingredient is the mix of people. We have about a third of our employees on Marcus by Goldman Sachs from Goldman Sachs itself. We have about a third of our

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employees from consumer finance outside of Goldman Sachs, who can bring best practices across the industry and across different organizations. And then, about a third of us, like myself, come from outside financial services completely. We can bring best practices from completely different industries.

And certainly, a leadership team from within the parent organization and within Marcus that is committed to innovation and delivering the best retail consumer experience.

> ***"The biggest hindrance to innovation and technology growth is legacy culture" – Daniel Schreiber, Lemonade***

Jay Sidhu (BankMobile): You got to have a vision. If you don't have a vision of what you're trying to achieve, you're not going to have innovation … you will just have incremental changes. Then you must decide how to use technology, the changing trends, the customer behaviors, the regulatory environment, etc. and create a passion for execution. If you have all these four things, you will create a very successful innovation culture.

Colin Walsh (Varo): Sometimes it's about blending people that are just wired very, very, differently. They should be wired around consumer centric design and iteration and agile mentality and how you use data and tech to drive a consumer business.

That's what motivates us, and what brings us together, and it's kind of bound by that common purpose. It is a little bit of a petri dish of taking people that just see the world through a very different lens, and getting them to collaborate effectively and focus on the bigger picture.

Scott Case (Truist): It's super important to have leadership that understands the importance of things like design thinking, client experience, client in the middle, in this emergence of ecosystems and partnerships that we have to tap into and have the capabilities to meet the client's expectations. It's setting the vision, and then having the courage to go get it done.

Then lastly, it's our purpose. I think we constantly take the compass heading on client input, our purpose, and that's how we set the vision and then we go execute.

Jayesh Patel (Emirates NBD Liv): In my view, 60% of innovation culture comes from the board and the executive team. If you look at the Emirates NBD executive team, they've been huge sponsors of innovation from the start. They have not only allowed us, but they've inspired many of the people in their team to do more. I know a few organizations that have tried it and unfortunately, haven't seen as much success.

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How important is simplicity in innovation?

Puigdevall (imagin from CaixaBank): Simplicity is of utmost importance. This is something created by the pure digital players who changed the way to develop and to offer totally digital services. Today, simplicity is always key.

The imagin platform is an example of simplicity in a banking value proposition. CaixaBank has hundreds of different products to offer to the whole database of clients. imagin has only two, or three products of each category. So that means simplicity makes decisions for the client easier and this is very powerful to generate engagement with the client.

And the one click capability is always very important, but probably more difficult to execute than simplicity, because it depends on the system – the legacy you have and your IT capabilities. It's something we always keep in mind when defining new services.

Henry Ma (WeBank): It is the customer experience that our target segment would expect from services like ours, because they are very much used to the mobile and digital experience. Everything must happen in a few clicks away … in real time.

The big data technology that we have adopted, and also the credit model that we have prebuilt, allows a customer to apply for credit, and receive a funds from us, in less than five seconds. In fact, five seconds is the commitment that we give to our customers.

Similarly, when a customer is trying to do a drawdown, it's also only a few clicks away and the money will go out of the bank within a second. Since it takes a while for the receiving bank to process the transaction, our customer will be able to see the fund in their account within a few minutes.

What is the biggest challenge to creating an innovation culture?

Luvleen Sidhu (BankMobile): Change is hard. In a business, it's no different. It's easier to go the course that you're going than to pivot. I think that even a disruptor has to be careful. No one can become complacent. Organizations need to keep thinking and reflecting on what changes need to be made, because change never stops. Organizations all have to continuously have this paranoia – but a constructive paranoia – where they stay on their toes and keep thinking about where is the industry going.

Henry Ma (WeBank): A challenge was that we had a limited budget from the very start. We learned it was important that, to be successful in the long term, it's important to think big … but also be able to start small.

It's also about having the right blueprint in mind, but being able to start humble, start small and scale up iteratively.

Jayesh Patel (Emirates NBD Liv): If needing a digital proposition is done as a 'tick box', you're likely going to fail. When we did it, we didn't come out and say, "We want a digital bank." We

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went out and said, "Look, our customers are changing. What is it they want?" Maybe the answer wasn't a digital bank, but in our case, we believed it was.

Scott Case (Truist): The biggest challenge has been we have 60,000 plus or minus teammates and we had to bring two companies together … and it's a human endeavor. When you think about the need to get the alignment all the way at the top of the house, as well as to every single one of our teammates and partners and vendors, it's tough at times.

And then the focus needs to be on driving positive client experiences.

How do you get employees committed to innovation?

Colin Walsh (Varo): It's about hiring the right people. If you have people who care deeply about what you're doing, they're going to put their all into it.

And, I say often that I like to hire missionaries, not mercenaries. And I want people that believe in what we're doing, because I believe in it. This is why I started the company in the first place. And you can really feel it when you meet people at Varo, I think there is a real consistent sense of authentic purpose to what they're doing.

How quickly should it take to go from ideation to implementation?

Henry Ma (WeBank): Being a digital bank, we emphasize agility. We could be doing hundreds or maybe even thousands of updates in a single month. In fact, unlike a typical banking institution, where they want to control the number of changes to their environment as much as possible to mitigate the change risk, we actually operate in a very agile way because the architecture that we have adopted is fully distributed.

And, because we are only changing the features of the products on a very small percentage of our customers, even if things go wrong, it's not going to create too big of an impact. We can usually complete ideation to production within 10 days.

What advice would you give legacy organizations wanting to transform to innovative, digital firms?

Jayesh Patel (Emirates NBD Liv): Don't innovate or pursue digital transformation because you want to do it as a check mark. You really have to believe in the process and the destination, because it's not easy. I also think organizations need to get good advisors and partners who can help with the pitfalls.

Next, you need to get a good team in place, not just on your tech side and certainly not just bankers. Eighty percent of my team is non-bankers. They've come in and they've built something that they want.

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6
Final Thoughts Moving Beyond Crisis Mode

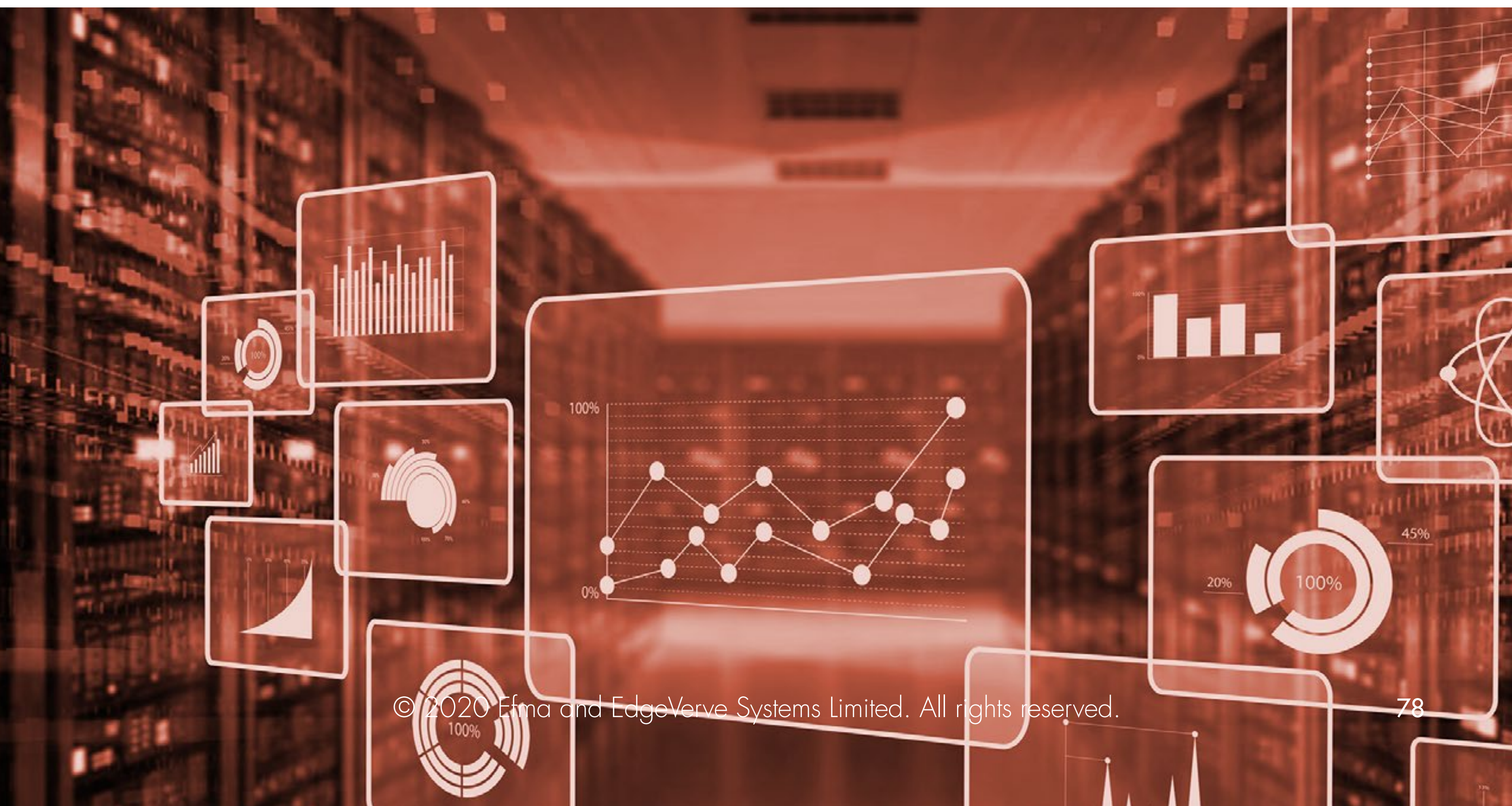
Final Thoughts
Moving Beyond Crisis Mode

Most financial institutions moved with unprecedented speed, teamwork, focus and empowerment to build solutions in response to COVID-19. The question becomes, how do institutions maintain this level of agility, commitment and innovative thinking moving forward? How do they use the crisis as a springboard for the broader objective of digital transformation that is requisite for long-term survival?

Since the pandemic disrupted the world as we knew it, financial institutions had to rethink the way work was conducted, how products and services were built and delivered, how consumers were communicated to, and the vision for the future. The industry had to react to unexpected opportunities and challenges in an instant, sometimes opting for less than perfect outcomes.

Over the past several months, product and service gaps rose to the surface. Outdated processes and procedures hampered the ability to deliver what consumers desired. The pandemic highlighted where financial institutions were falling short of expectations. While some (few) organizations were well prepared, others were forced to change course in a more piecemeal manner.

As we look to 2021, incremental changes to last year's strategic plan will be insufficient. Organizations will need to make assumptions around the state of the banking ecosystem, identifying gaps that require immediate attention, and re-setting priorities and investments appropriately. Digital banking transformation is no longer optional … it is a matter of survival.



Importance of Strong Leadership

It is during times like these that strong leadership is required. It is one thing to lead during a crisis. It is entirely different to maintain speed and agility as part of an ongoing strategic mission. How do organizations keep the momentum going? How does a bank or credit union reflect on the gaps that were amplified when the world came to a screeching halt?

But don't simply limit the view to what took place during the past few months. Put all that was learned in the context of what your organization was already working towards before the pandemic, and where you believe the industry will be five years from now.

For instance, it is one thing to be able to allow consumers to open a new account or apply for a loan digitally. It is entirely another to make the process as fast and simple as the strongest competitors in the marketplace. Leaders must set the vision for the future, while clearing out the obstacles that prevented digital transformation in the past. What stands in the way of changing the legacy processes, upgrading outdated infrastructure or upskilling current employees to move beyond status quo?

According to **BCG**, "It's important to appeal to people's deepest motivations in a positive way — to establish the aspiration for new possibilities that the organization can achieve, rooted in a broader purpose — and to galvanize people around that aspiration."

Moving Beyond Comfort Zones

Leaders at all levels of a financial institution must move out of their collective comfort zones to embrace the change that is needed in the future. Leaders must articulate the new vision at the beginning of the strategic planning process, motivating and delegating to others within the organization, eliminating fear and confusion around the massive changes to business as usual.

The good news is that, while change can be painful, leading change is easiest when change is already occurring. With everyday life at home and work completely disrupted and in a state of constant flux, collaboration and productivity have increased as people instinctively pulled together. COVID-19 also provides the opportunity to take advantage of the massive shift in digitization to advance digital banking transformation significantly more than would have been possible without the pandemic.

What leaders must be cautious of is the potential aftermath of the crisis mode – when the adrenaline and energy of making massive changes wears off. Without continuous engagement and communication of purpose, fatigue and stress can take over. Leaders must shift the mindset to the future state of the business to re-energize the organization. As stated in an article from **YSC Consulting**, "Leaders need to have the confidence to lay out a hypothesis [for the future] with the humility to expect that some of the predictions will be wrong."

Don't Wait for a 'New Normal'

More than at any time in the past, there is a need to act decisively in developing a transformation agenda. This year's strategic planning process allows leadership teams to articulate a vision and specific plan for the future that is far different than a modest adjustment to last year's plan. Organizations must redefine what it means to be a 'digital bank' and what is required to be 'customer-centric'. Leaders must share the vision they have for employees, customers, their strategic partners and investors despite not knowing for sure what the future may bring.

The pandemic made it clear that there is no such thing as a 'new normal' in the context that there is no specific end-point to the environmental changes occurring. Instead, strategic planning should be done understanding that the world and strategic plan is iterative, with adjustments made accordingly.

The challenge in the 2021 strategic planning process is that there is no guidebook for success, since so much is still unknown. In addition, last year's successes, organizational structure, investment priorities and marketplace assumptions represent the realities of the past. In other words, most organizations need to start from scratch based on what has happened over the past 6-9 months.

Most importantly, being a fast follower is no longer a valid strategy, since each institution is vastly different and because change is happening faster than ever. There is no reason to throw out all that was learned in the past, but it is not wise to hold on to past assumptions that may no longer be valid.

Redefining Organizational Culture

The pandemic served as a wake-up call to organizations steeped in legacy culture. It is more clear than ever that the banking business models of the past are both outdated and dangerous to hang on to. Every demographic group has changed the way they do banking and what they expect from their financial institution. From digital capabilities without the need for a branch, to hyper-personalization that uses data to recommend appropriate solutions, the business of banking has been altered forever.

Many organizations have seen positive behavioral and cultural changes emerge in response to the crisis. The pandemic also revealed some less favorable changes. As leaders are building their strategic plan for the future, they must also redefine the culture that they want going forward, reassessing individuals and teams against these transformed expectations.

In other words, this time of disruption is an excellent time to reset the mission, purpose and value proposition of an organization. From the markets that will be served, to the way the institution will engage with employees, consumers and businesses, this is the time to determine what an organization will be known for going forward. But this vision will not be static. Instead, it should evolve and be responsive to the marketplace.

Don't Forget Your Employees

As mentioned, the pandemic disrupted the way people in the organization worked as well as the responsibilities that many employees had prior to COVID. This was disruptive to both individuals and teams. To be successful in the future, banks and credit unions must not ignore the opportunity (and risks) for new ways of working, new skills required and new motivational models emerging.

Organizations that only focus on the external consumer without paying attention to the needs of the workforce will fail in transformation efforts and the ability to leverage the most important component of success. Companies will need to focus on training and upskilling to provide future opportunities while eliminating fear of being displaced. Creating people-focused initiatives that support the physical and mental well-being of the workforce will not only help the organization and its employees, but also be reflected in customer satisfaction.

6
About the Research

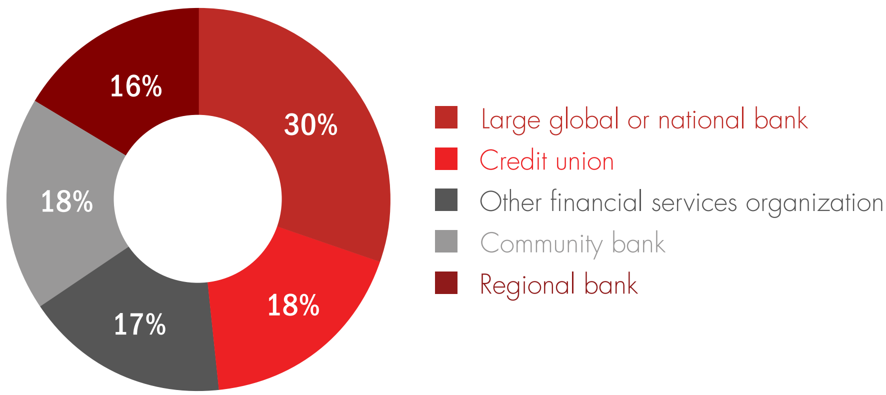
About the Research

The analysis in this report is based on an August 2020 Digital Banking Report survey of global banks and credit unions. The survey used the subscriber lists of The Financial Brand and Digital Banking Report, which includes organizations of all sizes worldwide. We also included organizations that are members of Efma and clients of Infosys Finacle.

No responses from non-financial organizations were included in the results, and only completed surveys were included. The responders were self-selected after receiving a nominal incentive of raw survey results.

Among overall survey respondents, 30% are from large national or regional banks, 18% are from credit unions, 16% are from regional banks and 18% are from community banks. This distribution is a bit different than previous research, with a lower penetration of regional bank responders.

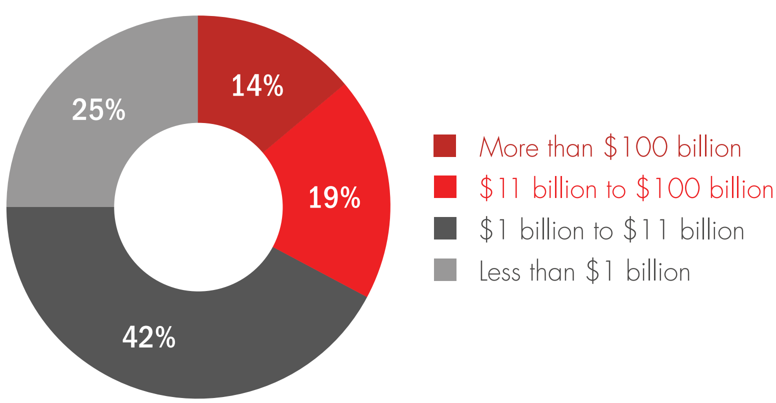
Chart 34:
Respondents by Type of Financial Institution



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

In 2020, 14% of respondents are from FIs with more than US$100 billion in assets (16%), with slightly less than one-fifth having US$11 billion – US$100 billion in assets (19%), and 42% representing firms with US$1 billion – US$10 billion in assets. The distribution by size of organization is comparable to the majority of the previous research done by the Digital Banking Report.

Chart 35:
Respondents by Asset Size (in US $)

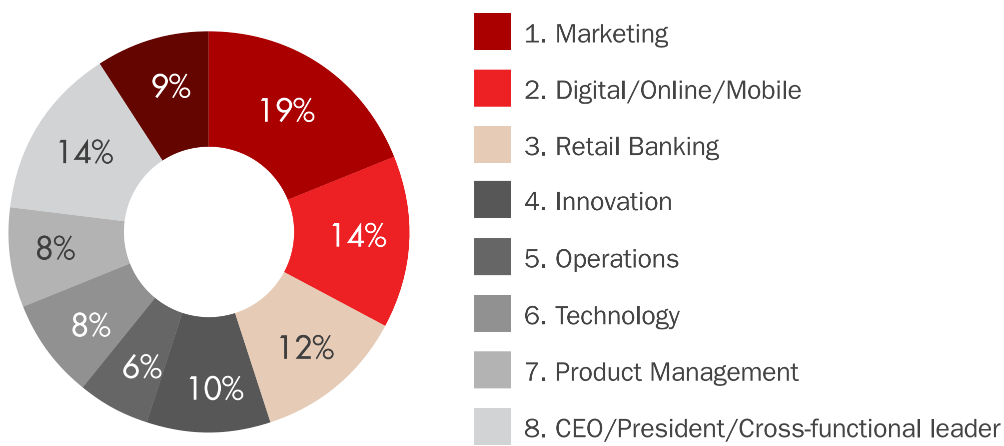


Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

When we looked at the role/department of the respondents, we found 19% were in marketing, 14% owned the digital/online/mobile channels, with another 12% in charge of the retail banking area. There were 18% in charge of technology and innovation, with the remaining respondents being from multiple areas of the organization.

Chart 36: Role of Respondent

Which of the following best describes your role at your financial institution?

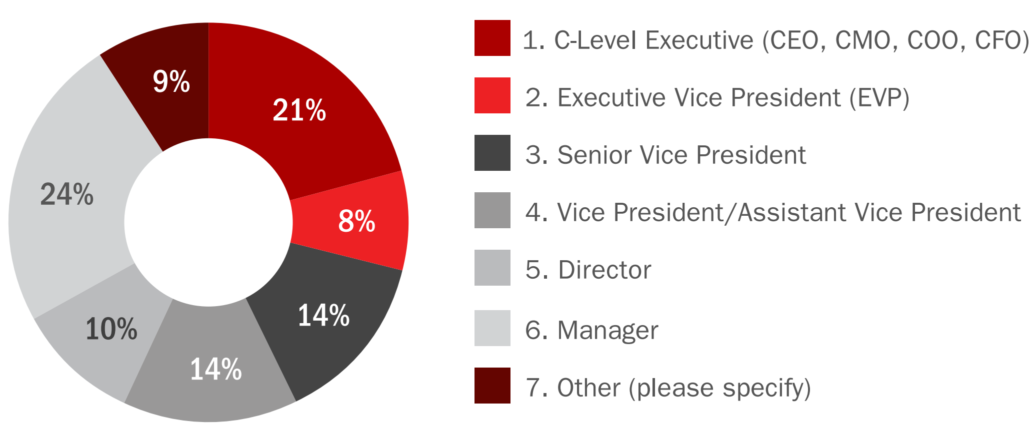


Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

When we looked at the position/title of the respondents, we found 21% of the respondents were C-level executives, 8% were EVPs, with 28% being SVPs/vice president/AVP level. In addition, 10% were directors, with 24% being at the manager level. These were very similar to previous studies.

Chart 37: Position/Title of Respondent

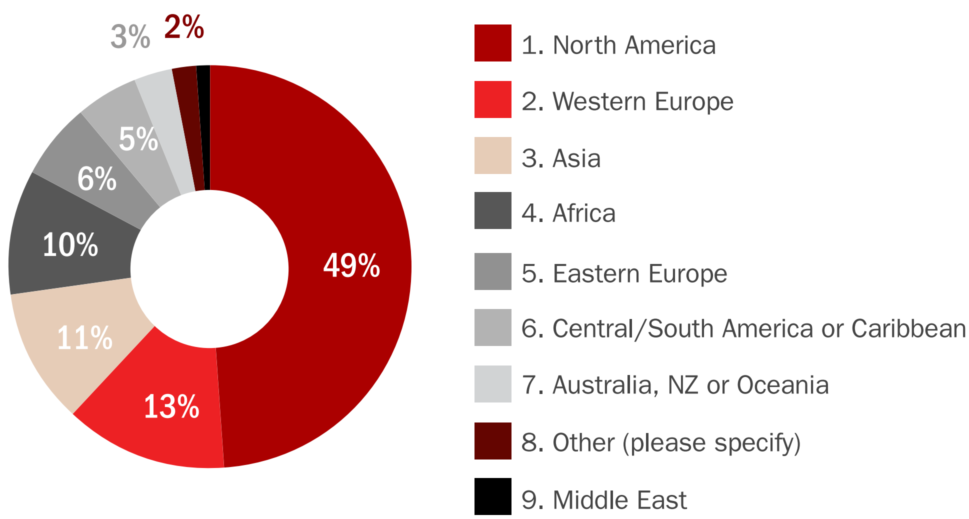
What is your position/title?



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

Finally, the respondents who participated in our research were globally headquartered. While there was an over sampling from North America (49%), 19% were from Europe, and 11% were from Asia.

Chart 38: Location of Respondent's Organization



Source: Efma Infosys Finacle 'Innovation in Retail Banking Report 2020'

About Us

A global non-profit organization established in 1971 by banks and insurance companies, Efma facilitates networking between decision-makers. It provides quality insights to help banks and insurance companies make the right decisions to foster innovation and drive their transformation. 120 financial groups in 133 countries are Efma members. Headquartered in Paris. Offices in London, Brussels, Andorra, Milan, Stockholm, Bratislava, Warsaw, Moscow, Istanbul, Beirut, Dubai, Tokyo, Singapore, Sydney and Montreal. Learn more: http://www.efma.com

Finacle is the industry-leading digital banking solution suite from EdgeVerve Systems, a wholly owned product subsidiary of Infosys. Finacle helps traditional and emerging financial institutions drive truly digital transformation to achieve frictionless customer experiences, larger ecosystem play, insights–driven interactions and ubiquitous automation. Today, banks in over 100 countries rely on Finacle to service more than a billion consumers and 1.3 billion accounts.

Finacle solutions address the core banking, omnichannel banking, payments, treasury, origination, liquidity management, Islamic banking, wealth management, analytics, artificial intelligence, and blockchain requirements of financial institutions to drive business excellence. An assessment of the top 1250 banks in the world reveals that institutions powered by the Finacle Core Banking Solution, on average, enjoy 7.2% points lower costs-to-income ratio than others.

To know more, visit **http://www.finacle.com**

About the Author

DIGITAL BANKING REPORT

Named as one of the most influential people in banking and a 'Top 5 Fintech Influencer to Follow', Jim Marous is an internationally recognized financial industry strategist, co-publisher of **The Financial Brand** and the owner and publisher of the **Digital Banking Report.** The Digital Banking Report is a subscription-based publication that provides deep insights into the digitization of banking, with over 200 reports in the digital archive available to subscribers.

THE FINANCIAL BRAND

As a sought-after keynote speaker, author and recognized authority on disruption in the financial services industry, Marous has been featured by CNBC and CNN, Cheddar, The Wall Street Journal, New York Times, The Financial Times, The Economist, The American Banker, Accenture and the Irish Tech News and has spoken to audiences worldwide. Jim has also advised the White House on banking policy and is a regular contributor and guest host for the Breaking Banks podcast.

You can follow Jim Marous on Twitter and LinkedIn or visit his professional website.

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banking transformed with Jim Marous

The **Banking Transformed Podcast** provides listeners an opportunity to hear about the organizational impact of digital transformation. Discussing subjects ranging from advanced technology and product development to customer experience and the future of work, each episode provides a unique perspective from some of the best minds in business worldwide.

With new shows each Tuesday, Jim Marous interviews his guests with the objective of digging deeper into the opportunities and challenges facing banking (and all industries) today. Download shows on **The Financial Brand podcast page** or on your favorite podcast platform.

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