



FIS

**WHAT IT REALLY
MEANS TO BE
A DIGITAL BANK**

A matter of survival?

Fintechs are the world's favorite startups. According to Statista Research, the Americas lead the way with over 11,500 startups, followed by EMEA with around 10,500. Despite strong economic headwinds, digital banks are in the spotlight and seem likely to remain there. Banking has become a technology business, and digitalization is now a matter of survival. Why?

Let's go behind the scenes to understand what it really means to be a digital bank.

Banking through the lens of a challenger

Although there's universal interest in challenger banks, there is also some confusion. Newer entrants in today's banking landscape have their own lexicon that includes challenger banks, neobanks, mobile banks, virtual banks and digital banks, all of which promise a new dawn in banking. Are these essentially different ways of describing the same type of institution, or variations on a theme? Opinions differing and agreeing on a single definition are elusive.

One thing we know is that a challenger bank is what a challenger bank does. Here, the clue is in the name: A challenger bank challenges traditional banking. How so? Challengers do things differently, they often specialize in areas underserved by incumbents, and they offer an innovative, digital-first approach to banking.

Many digital banks have made great inroads into core banking activities such as deposits, payments and loans. With a lower cost base, they can offer attractive interest rates on deposits and loans. But with their strong brands, loyal customers and rich service offerings, incumbent banks are well placed to respond. Many have already launched their own digital banks while others adopt hybrid models. Why?

Banking - a technology business

Digital challengers harness the power of modern technology to give customers the financial services they want, where and when they need them. In theory, this isn't about technology alone. But in practice, banking has largely become a technology business.

Increasingly, it is the bank's technology that determines the customer experience and how customers engage with the bank's brand. This is particularly relevant for younger customers who are "digital natives" relying essentially (or entirely) on digital banking, but it applies to all demographics. Digital banks were quick to identify these new dynamics. They use modern technologies to offer truly customer-centric banking. This is a major challenge for many traditional banks that often have complex legacy technology that has in comparison, evolved gradually over the decades.. In many cases, each banking channel has its own technology stack, which makes it difficult to offer customers a single view of all banking activities. Digitalization is the only solution to this – but it's also essential for other reasons.

TECHNOLOGY HAS BEEN ELEVATED FROM THE BACK OFFICE TO BE AT THE BEATING HEART OF EVERYTHING A DIGITAL BANK DOES. BANKS HAVE EVOLVED TO BECOME TECHNOLOGY COMPANIES OPERATING WITHIN THE CONSTRAINTS OF A BANKING LICENSE, SO A BANK'S TECHNOLOGY STRATEGY IS EFFECTIVELY ITS BUSINESS STRATEGY.

Digitization or digitalization?

Although these terms are often interchanged, there are important differences, and these offer a useful insight into what a digital bank really is. To a certain extent, all banks have digitized in that they offer traditional banking in a digital format, such as online and mobile transactions, account management and more. While these services are of great benefit to customers, this does not constitute bank digitalization.

A bank that is digitalized has a digital approach to everything it does. In practical terms, this means that technology drives all end-to-end business processes. A digital bank is empowered to deliver more customer value in less time than was previously possible. This goes some way to explain the universal interest in digital banks.

While most incumbent banks appear to be digital, many still rely on monolithic mainframes, outmoded development methods and manual processes. This is unsustainable. Virtually all incumbent banks have committed to digitalization, which has quickly moved from being a competitive advantage to a matter of survival. But digitalization involves much more than the digital replication of existing analog processes.

IN SUCCINCT TERMS, DIGITALIZATION MEANS DOING DIFFERENT THINGS AND DOING THINGS DIFFERENTLY.

Digitalization is synonymous with digital transformation, a term which suggests a fresh approach, with an intent to do better. We're talking about a fundamental shift in how the bank's business operates and delivers value to customers. A true digitalization strategy involves technology, people, processes and how things get done.

There's always a tech element to digitalization, but the journey also requires transforming the bank's organizational culture. With digital transformation, people are expected to adopt new technology and adapt to new ways of working. This can be tricky, as humans are notoriously resistant to change. To be successful, the reasons and benefits of transformation must be made clear throughout the organization, the "roadmap" communicated, and the necessary training and coaching provided.



Digital drivers: why banks need to transform

Disruptive forces are redefining global banking on multiple fronts. Compelling reasons to transform include:



Customers

Customer expectations keep rising, and tech giants like Google continually redefine the digital customer experience. In comparison, the banking industry has fallen behind – the gap is evident. Worse still, legacy technology (and methods) can be a major impediment to vital change and advancement. Transformation to digitalized banking gives customers what they want:

- A consistent, unified experience across all channels
- Seamless account opening, funding and money movement
- Simple user journeys that eliminate unnecessary hurdles
- Productive assistance when desired
- Real-time and round-the-clock account access



Digital banks fuel deposit growth

Digital banks offer the speed to market, reduced overhead, lower acquisition costs and expedited onboarding that enables banks to fast-track deposit acquisition and expand their market and customer base.



Costs and competition

All banks need sustained cost reductions. Digitalization offers cost-effective options and significant opportunities. Fintechs have an edge being unimpeded by legacy technology. For incumbent banks, transforming away from legacy technology to digitalized banking affords greater business agility and promotes innovation at lower cost.



Mobile banking in real time

The global pandemic accelerated the adoption and use of mobile banking, which means real-time processing. Many banks have addressed the real-time challenge in a piecemeal fashion, and now need to strategize how to embrace mobile without a wholesale “rip and replace” of their core platform.



Digital banks support financial inclusion

Digitalized banks give financial institutions the ability to present a new brand identity to an untapped portion of the market, and to reach customers who are outside of the branch footprint – including the underbanked and the unbanked.



Regulations

Regulatory compliance is a major cost of doing business, and legislation is growing in complexity and volume. Shifting to a digitalized RegTech approach can reduce these costs and mitigate compliance risk.

One bank, two speeds

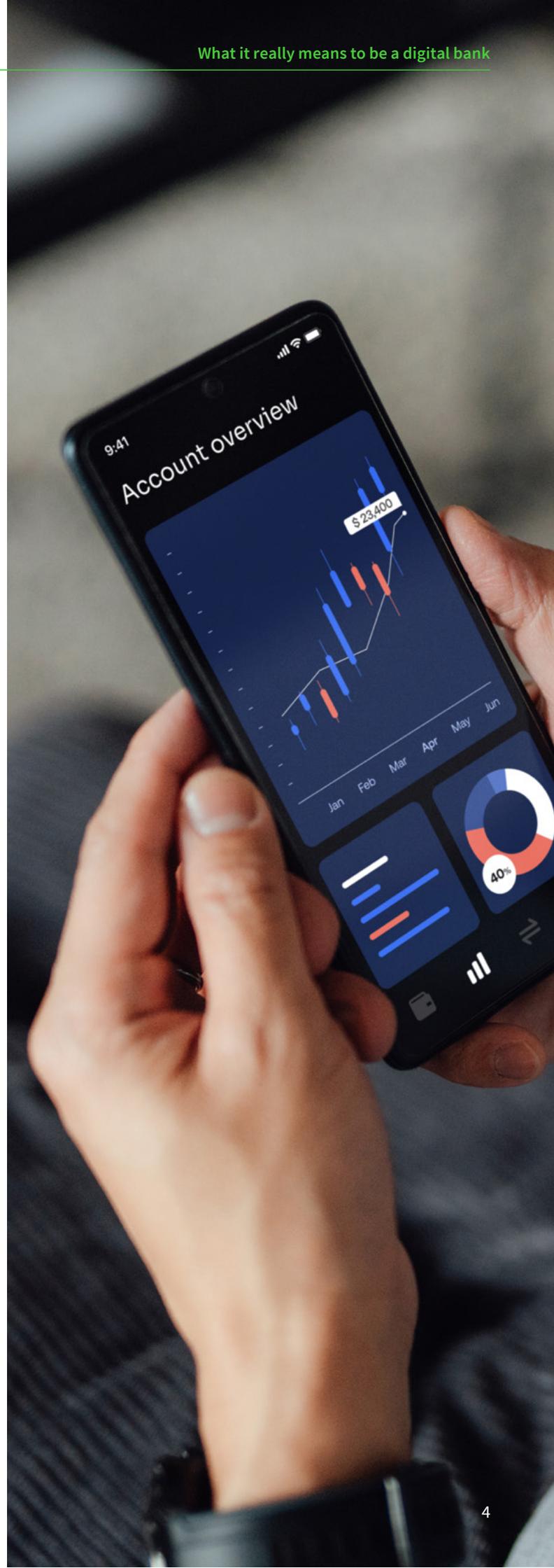
Few doubt that the future of banking is digital, and incumbent banks have approached digitalization in several ways. Some have built “greenfield” digital banks from the ground up while others have acquired digital competitors. But few banks can afford the luxury of starting with a clean slate, and they must find a way to digitalize while “keeping the lights on.” The answer involves two-speed architecture, an approach that will enable financial institutions to provide consumers state-of-the-art banking experiences; customer-centric, a truly modern user experience and service offerings, while preserving the reliability of their legacy platforms.

A TWO-SPEED ARCHITECTURE INSULATES THE RELIABILITY OF THE LEGACY PLATFORMS WHILE REMOVING THEIR LIMITATIONS.

This approach also enables banks to react to changes in consumer expectations quickly and offer features that the consumer expects – plus surprise and delight them with innovated features they didn't even know were possible – without the limitations and technological constraints of their legacy systems.

Two-speed architecture reduces the time to market for consumer experience enhancements. Microservices and mediated application programming interfaces (APIs), which are an integral part of two-speed architecture, allow banks to quickly develop, A/B test and deploy new features to consumers, with zero downtime to their banking operation. They also allow banks to collect and analyze vast amounts of behavior data at the consumer-facing component level without overloading the legacy transaction processing engines.

In a nutshell, two-speed architecture allows banks to reap the benefits of providing their customers with a modern experience while using their legacy core platform at a reduced cost, faster and with much less risk than having to replace their entire technology platform. While this may not offer the same level of flexibility as “starting with a clean slate,” the risk mitigation and cost savings that two-speed architecture provides could be worth giving up some of the luxury of flexibility.

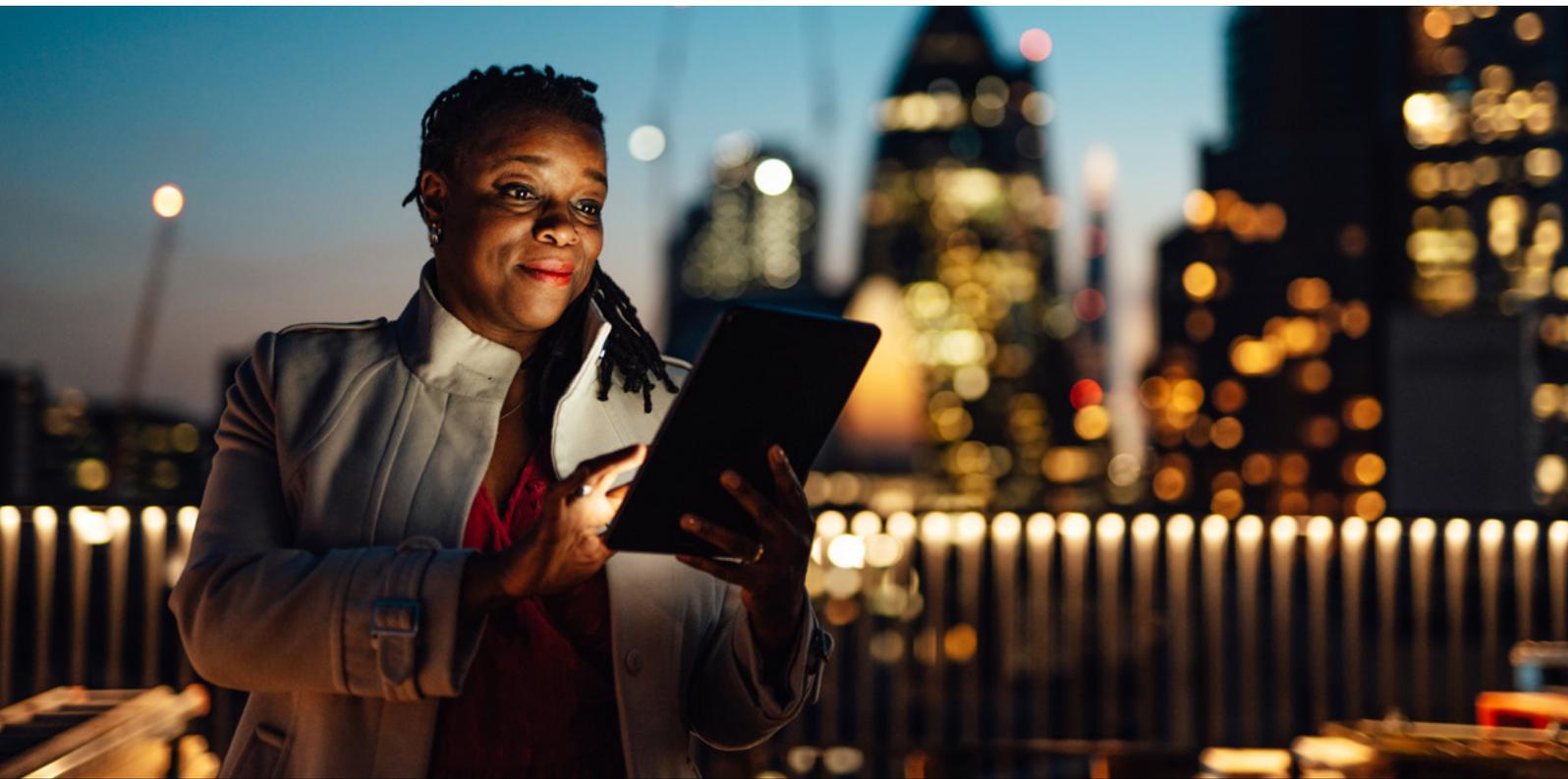


The future – cloud native and digital

With the power of cloud, a bank can gain the business benefits of lower costs, elasticity, scale and resilience. As part of two-speed architecture strategy, a bank can move to the cloud at a pace of its own choosing. For example, new development – or the user experience – can be managed on cloud while most core processing remains on legacy.

The age of the digital bank has arrived. One day, we will not refer to digital banks, because the two will be synonymous – all banks will be digital.

TO SUM UP THE QUESTION OF WHAT IT REALLY MEANS TO BE A DIGITAL BANK, THE NEW NORMAL IN BANKING IS ALREADY EMERGING AS A FULLY DIGITALIZED FINANCIAL ECOSYSTEM, CHOREOGRAPHED IN REAL TIME BY OPEN APIS.



About FIS

FIS is a leading provider of technology solutions for financial institutions and businesses of all sizes and across any industry globally. We enable the movement of commerce by unlocking the financial technology that powers the world's economy. Our employees are dedicated to advancing the way the world pays, banks and invests through our trusted innovation, absolute performance and flexible architecture. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS ranks #241 on the 2021 Fortune 500 and is a member of Standard & Poor's 500® Index. To learn more, visit www.fisglobal.com. Follow FIS on Facebook, LinkedIn and Twitter (@FISGlobal).

 www.fisglobal.com

 getinfo@fisglobal.com

 twitter.com/fisglobal

 linkedin.com/company/fis