Digital Transformation for the Retail Banking Industry
Defining and Delivering Value for Your Next-Generation Business
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Executive Summary

Disruption. Innovation. Transformation. Three words inspired by one essential truth: that the core nature of banking is changing at an accelerated pace. A decade that started with fears of a global threat to the financial industry is ending with the emergence of a true digital banking industry, one built on finding new ways to serve customer expectations.

Keeping up with quickly evolving customer, employee, and regulatory expectations requires a cultural, operational, and technology metamorphosis. Banks must redefine expectations of customer value, invest in new core skills, and establish a cultural framework that will characterize operations in the coming years. All of this is fueling compelling reasons for banks to accelerate digitization initiatives:

- With the right technology investments, banks can capture their share of a massive $3.1T in digital value at stake for the industry between 2015 and 2024.1 (The Digital Value at Stake is how Cisco defines the economic impact of disruptive technologies).
- A recent global survey of retail banking executives predicted that four of the top 10 incumbents will be displaced by digital disruption in the next three years.2
- Analyst IDC predicts that the number of bank–client interactions will increase by a factor of four in the next five years as a result of the Internet of Things (IoT) and as the digitization of the consumer matures.3

In the banking industry, this disruption is reenergizing incumbents toward alignment and organizational support for new banking models. Such models rely on new embedded digital capabilities, shaped by technologies that offer sustainable and differentiated value. By the end of this decade, these capabilities will be crucial to establishing a distribution model that is agile enough to keep pace with customer expectations, drive differentiated value, and propel growth. These digital imperatives can enable new self-service capabilities, differentiate customer and associate experience, and define new operating models across your enterprise.

Cisco identifies five top strategic digital imperatives for this transformation:

- Planning Your Digital Strategy
- Securing Your Data and Systems
- Evolving Your Distribution and Customer Experience Model
- Digitally Enabling Your Workforce
- Aligning Your IT and Business Strategy

Cisco’s Financial Services Digital Transformation Group partners with you to help develop and execute these winning strategies. With decades of experience in serving global financial services companies, Cisco is a leader in creating a new vision for today’s digital business transformations.

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1  "A Road to Digital Banking in Retail Banking," Connected Futures Magazine, Cisco (May 2016)
3  IDC FI Survey 2004 and 2015, 2020 IDC Financial Insights estimates
Transforming the Retail Banking Industry

Today’s retail banking industry remains highly volatile at a time when the global economy is greatly improved.

Although economies such as the U.S. and China are gaining ground, Europe and the greater Asia-Pacific region continue to struggle with political and financial uncertainties. Retail bankers are concerned about risk management, improving efficiencies, and finding new ways to deliver services – especially improving the customer experience – as a way to offset these downshifts. Regulatory requirements, tighter margins, and new customer demands all mean that banks must innovate to grow.

To address these issues, retail bankers are looking to digital transformation to help them find new ways to restore profitability and cut costs. As well, they need new ways to manage stringent regulation and cybersecurity restrictions. Constraining banks’ ability to grow, these changes are also motivating technology initiatives that can help improve the business.

In fact, 53 percent of European banks are now looking to invest in customer-facing technologies. This is not surprising, as Europe is one of the most digitally advanced societies in the world—83 percent of citizens have Internet access in their homes. At the same time in developed Asia, more than 60 percent of transactions are being moved to digital channels. However, overall digitization is still uneven, due to inconsistent investment and resources.

Four major factors are driving the need to transform and digitize:

A Changed Competitive Landscape: A new crop of “digitally native” banking competitors is acting as a catalyst for retail banks to innovate and transform. These all-online bankers elevate this customer-centric distribution model to satisfy customers’ preference for digital interactions. If Amazon can provide the customer with more personalized, fast, and reliable media services, shouldn’t Simple (www.simple.com) be able to do the same with checking accounts? If Google can mediate between the consumer and the provider with the greatest degree of accuracy and speed, why shouldn’t Kabbage (www.kabbage.com) do the same for small business lending?

Aggressive Regulatory Environment: In response to the financial crisis, the industry has been subject to a significant and ongoing overhaul of compliance and risk management requirements. This has shifted operating costs, caused banks to exit profitable but more risky business lines, and placed a higher burden on banks’ ability to meet the new market paradigm of speed, agility, and creativity, at a time when such competencies are most needed to meet the new competitive threat.

Macroeconomic Headwinds: The convergence of the longest cycle of suppressed interest rates, a significant reduction in traditional non-interest income sources as a result of regulatory changes, and an ongoing low-growth condition has produced a constant headwind for many of even the best-prepared financial institutions. These factors, combined with an ever increasing cost burden, points to a banking model which can no longer depend on traditional components of performance.

The Move to “Mobile First” Initiatives: In many areas of the world, such as Asia-Pacific and Latin America, self-service mobile banking is becoming the transactional method of choice. In developed Asia, more than 60% of transactions are being moved to digital channels. However, retail banks are still figuring out how to harness the power of mobility in customer relationships. Payment services, alternate delivery platforms, and other capabilities will likely to expand in the near future. However, the move to mobility also opens up new possible competitive forces.

The Digitization Effect: The financial crisis has acted as a compressed window for rapid industry disruption and transformation, the effects (and survivors) of which have yet to fully play out. According to a 2015 study by the Global Center for Digital Business Transformation, the financial services industry has been particularly affected by digitization over the past few years. Adoption of digital solutions only continues to accelerate: Ninety-five percent of the Fortune 1000 expects to undertake a digital project by 2017.
Overall, digital technologies are becoming more mature and pervasive. Solutions considered ahead of their time three years ago are now a reality. The consumer sector especially is driving significant digital value. It’s not just about business-to-business anymore — consumer-focused digital solutions represent a significant portion of the Digital Value at Stake. To address these trends, your institution needs to increase its focus on new customer-centric solutions, particularly mobile apps. Now in their second generation, capabilities such as bill pay, funds transfer, and mobile check deposit are commonplace, as are simpler, intuitive user interfaces optimized for specific devices (smartphone, tablet, watch, etc.).

However, many banks have yet to implement the full range of capabilities afforded by mobile devices. In fact, Gartner studies show that while business and IT leaders know change is needed, less than 10 percent have achieved a clear integration between their network and digital business strategies. Cisco believes that contextual real-time communications and cross-channel integration present a chance to personalize and develop closer consumer relationships, uniting digital channels to create a truly seamless banking channel experience.

As a starting point, bankers are moving to digital-ready infrastructures that enable a new level of real-time process and interaction enabled within new business models. A well-considered technology investment plan based on a personalized customer experience, workforce innovation, optimized business operations, and managed risk allows you to generate savings and grow revenue over the course of the digital transformation journey. While the market waits for someone else to make the first move, you have an opportunity to seize the lead and achieve a sustainable competitive advantage.

Figure 1. Financial Services $3.1T Digital Value at Stake, 2015 - 2024

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13 Gartner
Top Strategic Digital Imperatives

You and your decision-makers have the opportunity – and the need – to make a profound difference in the way your business is run. Choices made today will impact not just current business, but the long-term stability of your company. Your competitors are already formulating their plans to address pressing tactical and strategic business imperatives. Now is the time to embrace digital transformation to achieve a winning position.

Recent Cisco research found several troubling findings about the potential for disruption and incumbents’ unreadiness to adapt. Survey respondents believe an average of roughly four of today’s top 10 incumbents (in terms of market share) in each industry will be displaced by digital disruption in the next five years. Nearly a third are taking a “wait and see” approach, in hopes of emulating successful competitors. Only 25 percent describe their approach to digital disruption as proactive—willing to disrupt themselves in order to compete. The most successful disruptors employ “combinatorial disruption,” in which multiple sources of value—cost, experience, and platform—are fused to create disruptive new business models and exponential gains.

The difference between digital disruption and traditional competitive dynamics comes down to two main factors: the velocity of change and the high stakes involved. Digital disruptors innovate rapidly, and then use their innovations to gain market share and scale far faster than challengers still clinging to predominantly physical business models. They grow enormous user bases seemingly overnight, and then are agile enough to convert those users into business models that threaten incumbents in multiple markets.14

Planning Your Digital Strategy

Today’s unprecedented level of disruption, driven by new competitive threats, evolution in digital capability, and a rapidly changing set of customer expectations, is driving all industries to transform. Transformation towards a digitally-centric operating model is progressing in three distinct stages (see Figure 2).

Clearly, technology is having an exponential impact, becoming part of the value organizations deliver. Technology creates efficiencies and supports revenue growth. It also enables innovative capabilities through mobile engagement, analytics, and services delivery, offering a consistent context for interactions across channels. Many services can now be automated, giving better access to previously unavailable data sources and setting policies to make routine process decisions.

Changes in consumption models are driving changes in the way companies build, use, and deliver such solutions. The result is an ability to leverage more customer and organizational information, scale reach to new levels, and enable penetration into areas of the market you have never touched before. Everything becomes connected – across data centers, the company, and customer mobile devices (see Figure 3).

Securing Your Data and Systems

Cybersecurity has become a board-level priority for financial services over the past two years. While the focus has been on protecting and preserving the organization against threats, security investments also impact the ability to achieve business growth. According to the Ponemon Institute, the

Figure 2. The Financial Services Digital Transformation is progressing in three distinct phases

14 “Digital Vortex: How Digital Disruption is Redefining Industries,” Cisco, Inc. (June 2015)
average cost of a successful cyber crime to a financial services company in 2015 was $13.5 million, the highest of any industry group. In a recent Cisco study, a stunning 71% say concerns over security are hindering their ability to innovate, and 39% say they have stopped a mission-critical initiative because of security problems.

The industry also recognizes that cyber-risks can create liabilities that are greater than insurance policy coverage. This calls for enhanced underwriting, rating, and mitigation of cyber liability Insurance. Since cybersecurity falls squarely in the operational risk area, boards are also asking risk managers to quantify cyber-risks and reduce the chance of loss. New levels of visibility are therefore needed before an attack so that firms can more quickly identify potential risks and threats before losses occur. Extending this capability not only helps reduce cyber-risk, it provides a more granular level of reporting to meet regulatory requirements in compliance with the industry standards.

While these very real needs exist, most retail banks are still secured by a complex mix of point solutions, based on siloed strategies that do not lend themselves to a single view of the company’s security position. Your firm needs tested and validated security solutions that protect you, your customer, and proprietary information; that meet compliance guidelines; and that preserve the company brand across functions and channels.

Cisco takes a “before, during, after” approach to cybersecurity that deploys multiple networked solutions to increase visibility and maximize preparedness before, during, and after an attack. This strategy enables a stance of constant readiness, response, and resiliency, and is designed to address threats before, during, and after they occur. It is woven into every business operation, process, and interaction - after all, an industry built on effective risk management must surely be in the vanguard of managing security risk. And in an increasingly dangerous world, it is no longer a matter of whether security threats will occur, but when (see Figure 4).

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15 “Cybercrime costs the average U.S. firm $15 million a year,” by James Griffiths, CNNtech (October 8, 2015)
16 Cybersecurity as a Growth Advantage, Cisco (2016)
Digital Transformation for the Retail Banking Industry

Evolving Your Distribution and Customer Experience Model

In the financial services industry, the debate continues on the ultimate role and relevance of the branch. Fueling this discussion is a decreased reliance on the branch in most parts of the world for transaction activity (down seven to nine percent each year) and a saturation of high-cost branches (the U.S., however, retains three times the branch capacity per capita of the rest of the world).

The dramatic consequences of digitization witnessed by businesses built on physical distribution, as well as the growing emergence of online banking, have placed branch networks in the sustainability spotlight. By its nature, digitization transfers value from the physical to the digital part of your business, and frequently the consequences are such that physical counterparts – and their distribution channels – are made irrelevant.

In spite of this, consumer preferences and core value elements remain centered on having a physical presence in the communities served. This view focuses on how to optimize the economic model of the branch, transforming instead of eliminating it. Whether as an outcome of expense control, improved customer experience, or growth, it is paramount to place digital capabilities at the center of your bank’s physical strategy.

Cisco believes that digitization of the retail bank customer experience is in its infancy. A transformed retail distribution model will eventually contain differentiating digital capabilities including:

- Improved workforce models that leverage unified workspaces, environmental controls, and greater reliance on automation in the branch operation. Available too are new methods of customer and workforce connectivity, seamless physical security, and customer experiences based on infrastructures that combine critical business functions. For example, video capture combined with analytics can be used to detect threatening behaviors in the bank, helping to prevent robberies, and enabling lower staffing levels. Bank security is supported by secure wireless for workforce, partner, and guest-enabled connectivity, content delivery, and behavioral analytics.
- Multiple levels of client-to-machine interaction. Bank customers are already accustomed to interacting with machines such as ATMs and kiosks, which feature interactive media content and digital displays. This is advantageous for the bank, as it promotes branch self-sufficiency while offering a new path for services promotions and reducing operating expenses. Other types of branch technologies enable the use of digital capabilities to work directly with bank staff. Such solutions may include

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**Figure 5. Digitally Transformed Branch**

<table>
<thead>
<tr>
<th>Category</th>
<th>Legacy</th>
<th>Transformed</th>
</tr>
</thead>
<tbody>
<tr>
<td>POSITIONING</td>
<td>Bank-centric</td>
<td>Customer-centric</td>
</tr>
<tr>
<td>PRIMARY ACTIVITY</td>
<td>Transaction</td>
<td>Sales/Advisory</td>
</tr>
<tr>
<td>INTERACTION OBJECTIVE</td>
<td>Process Satisfaction</td>
<td>Convenience Optimization</td>
</tr>
<tr>
<td>SQUARE FOOTAGE</td>
<td>3,500 Sq Ft</td>
<td>1,900 Sq Ft</td>
</tr>
<tr>
<td>STAFFING</td>
<td>7-9</td>
<td>3-7</td>
</tr>
<tr>
<td>COMPETENCY</td>
<td>Specialized (Sales Vs. Service)</td>
<td>Universal</td>
</tr>
<tr>
<td>CAPABILITIES</td>
<td>Human Assisted</td>
<td>Human &amp; Machine Assisted (assisted self service and complex advisory)</td>
</tr>
<tr>
<td>FINANCIAL OBJECTIVES</td>
<td>Deposit Growth</td>
<td>Optimized ROI</td>
</tr>
<tr>
<td>BUILD STYLE</td>
<td>Inflexible</td>
<td>Modular And Dynamic</td>
</tr>
<tr>
<td>TECHNOLOGY</td>
<td>Independent Per Function</td>
<td>Integrated</td>
</tr>
<tr>
<td>LOCATIONS</td>
<td>Stand-alone</td>
<td>Retail Pervasive</td>
</tr>
<tr>
<td>HOURS</td>
<td>Limited/Weekdays</td>
<td>Flex</td>
</tr>
</tbody>
</table>
remote video or concierge capabilities, video at the ATM, and mobile collaboration integrating video.

- A unified fabric of client detection and engagement, supported by edge analytics and mobile infrastructure, that creates a differentiated interaction model for the store. Analytics leverage comprehensive data that helps banks understand customer behavior to better assure an excellent in-branch experience. Such solutions may include real-time interactions programmed to understand the emotional state of the consumer, or delivery of ads targeted to meet their immediate needs on-site. Another important step is based in understanding the overall environment. Tools such as hyper-beacons assess physical traffic flows and other metrics to help create an optimal site design and manage staffing, helping to speed customers through the banking process.

Digitally Enable Your Workforce

As Baby Boomers leave the workforce for retirement, your company not only loses leadership but gains a significant gap in organizational knowledge. Younger workers need access to new resources to help them fill the shoes of more experienced elders. At the same time, you need to achieve better worker productivity by embracing a digitally enabled workforce.

To resolve this paradox, your organization must find ways to harness the technical knowledge and lessons learned by senior executives, making that competency available to the entire workforce. You also need to assess and reach out to more diverse groups of prospective workers, identify top performers, and provide them with the tools they need to maximize their contributions to the firm. Just as important to hiring and retaining top talent is creating a work environment that will attract tech-savvy millennials. Many banks remain firmly rooted in the practices of the past. But traditional offices are not well-suited to engaging employees who increasingly expect to be able to work across a variety of geographic locations, time zones, and digital platforms. They expect to collaborate freely, work wherever they are, and engage with customers across channels from the phone to social media.

To stay competitive, organizations need to transform their workplaces from cost centers into flexible, collaborative workspaces that empower workers to work whenever and however they want. Your competitors who are willing to provide a modern work environment will have the first choice of good talent.

We proved this at Cisco by example: When we deployed our workforce experience solutions in-house, we realized significant, ongoing positive results (see Figure 6):

Aligning IT and Business Strategy

Today, siloed management and information technology can easily become almost unmanageable. When tactical and overall strategic goals, data, priorities, processes, and tools do not align with those of other departments, there is increased risk of lost business, lower operational excellence and productivity, increased exposure to regulatory and compliance requirements, and higher operating and capital expenses.

Aligning IT with business functions helps to support collaborative enterprise strategy by breaking down the silo mentality. It promotes a smooth flow of data and information across the organization. Such an integrated environment far more strongly supports a truly integrated channel experience, improving your competitive position and satisfying the customer.

Figure 6. Cisco Workforce Experience Survey - Key Areas of Digital Value Impact

- 78% Of occupants reported a better sense of well-being and comfort
- 56% Increase in occupant capacity
- 40% Drop in workplace-related OpEx

Digital Transformation for the Retail Banking Industry
How to Transform Your Business Outcomes

Cisco believes that the banking industry must embrace disruption and take a business outcome approach to achieving board-level imperatives. Our research shows that bankers want to be able to partner with digitally native companies (Fintechs) who clearly demonstrate how solutions align with their business goals. This includes being able to provide tech-to-business insights, build strong relationships across both IT and business teams, and present solutions in the context of your specific imperatives. You also want to ensure that you realize the value of your investments, and that you can take advantage of flexible delivery models (including the financing of CapEx).

Cisco’s approach is adapted to meet the widely varying needs and standards required in financial services organizations across regions around the world. As part of our differentiated customer engagement model, we help identify business outcomes, map journeys that simplify the customer experience, connect our experts to guide through change, and capture results that enable transformation. Our global perspective and industry expertise help you realize value, accelerate growth, and enable transformation. We:

- Take time to understand your business priorities
- Help to bridge the gap between line of business, digital officers, and IT
- Connect Cisco and partner capabilities
- Help the organization to understand the link between a modern, agile infrastructure and the ability to innovate at pace
- Focus on the entire customer journey

Based on our Cisco Business Outcome Approach, we work to ensure that we drive measurable results that drive operational cost savings, support revenue growth, and secure the operation. We support the ‘how to do it’ rather than just the ‘what to do’. (see Figure 7).

Discovery

Depending on your business needs, Cisco executes a robust discovery process to identify and document how digital solutions can achieve optimal outcomes. This effort is not a single exercise, but a continuous process of analysis, documentation, and socialization throughout your organization and with the partner community. Cisco uses multiple techniques for investigation and diagnostic assessment, which may include stakeholder interviews, customer journey mapping, subject matter expert interviews, and use-case/best-practice alignment. (see Figure 8 on page 11).

Figure 7. Delivering Customer Value

<table>
<thead>
<tr>
<th>How we Execute</th>
<th>Customer Needs</th>
<th>What we Deliver</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discover</strong> digital capabilities for transformation</td>
<td>- Establish the Digital Agenda – uncover and frame need for transformative change via deep industry point of view</td>
<td>- Customer Roadmap – uncover people, process, and technology ‘moments that matter’ – Map capabilities to outcomes</td>
</tr>
<tr>
<td><strong>Define, architect &amp; quantify value</strong></td>
<td>- Customer Roadmap – digital business architecture aligns business imperatives to architecture</td>
<td>- Business Case – define impacted metrics &amp; value</td>
</tr>
<tr>
<td><strong>Deliver and measure differentiated outcomes</strong></td>
<td>- Adoption and utilization plan – maximize success</td>
<td>- Realize Impact – monitor &amp; measure intentional outcomes</td>
</tr>
</tbody>
</table>

Customer Outcomes
Design and Quantify Value

Secondly, Cisco may conduct a detailed Architecture Design that aligns your existing capabilities with prioritized solutions. In this way, you can leverage the findings from the discovery stage to drive an optimal outcome.

To help achieve this stage of digital transformation, Cisco can work with bankers to develop a Digital Transformation Roadmap. This outlines what you should be doing both now and over the next three to five years to achieve your stated company goals, while managing risk and compliance. It also helps to define which technology investments will deliver next-generation customer experiences.

To gauge the tangible economic benefit of your digital transformation journey, Cisco may also perform a “Value at Stake” analysis – a three-step process that provides an “outside in” point of view to your firm to define, validate, and quantify the business outcomes that the proposed solutions will help drive:

• **Phase 1**: Cisco customizes a “value map” based on the solution use case hypotheses to show the logical linkage between the solution capabilities, business processes, key business levers, and impacted metrics that will generate financial outcomes.

• **Phase 2**: Cisco calculates an order of magnitude of potential financial impact using a proprietary financial model, based on your publicly available data combined with industry benchmarks and assumptions.

• **Phase 3**: The Value at Stake results are presented to your stakeholders and provide a basis for further discussion.

The Value at Stake analysis can be further refined when you validate assumptions, data and metrics. It becomes the basis for a more comprehensive business case.

**Acceleration**

The third stage of the business outcome approach is focused on solution acceleration, including deployment, measurement, and continuous improvement. Every outcome-based solution requires a detailed understanding of what will be achieved, as well as a detailed methodology for tracking and assessment to realize a viable return on investment.
Conclusion

Retail banking is changing at breath-taking speed – historically, banks rarely wanted to be ‘first movers’ but given the speed of digital transformation the age of being a ‘fast follower’ may be over. To survive in this day and age, most banks realize that they need to digitally transform their business end to end. However, knowing what they need to do and knowing how to do this (e.g. at a pace they can accommodate, within their agreed risk appetites, in an order they can afford) is another matter. It is imperative to your bank’s viability to champion and accelerate your drive toward digitization. This will enable a transformation that accommodates the economics of a modern retail delivery scheme while keeping pace with heightened customer expectations.

To meet these many challenges, the banking industry is working to adopt innovative digitization models similar to those seen in other industries. And yet, traditional banking still has its place – as a store of value, source of finance, and facilitator of transactions.\(^\text{17}\) A holistic approach is necessary to achieve the level of success that boards of directors expect.

Cisco has more than 30 years of experience in the financial services industry and is working with banks (and other industries) to provide strategic advice and transformational support – helping with the how not just the what. To define and deliver business value, we approach our work with authenticity, accountability, curiosity, conviction, and connection to achieve outcomes that matter. As the business landscape continues to change, you need the right guidance and capabilities to redefine how you can build new business models, infuse collaboration, simplify processes, create efficiencies, and generate growth, clearing the path for your journey to digital transformation.

For more information on how Cisco and our partners can help transform your business, please contact us at FinancialServices@cisco.com.

\(^\text{17}\) Retail Banking 2020: Evolution or Revolution?, PriceWaterhouseCoopers (2014)