

2018 North America
Banking Operations Survey

BACK OFFICE, IT'S TIME TO MEET THE CUSTOMERS



COMPETITIVE BANKING IS ABOUT ANYTIME, EVERYWHERE PERSONALIZED CUSTOMER EXPERIENCES

Most North American banks aim to compete and win in the digital economy by delivering such an experience consistently. To do so, however, bank customers need real-time access to all their accounts and products through every digital touchpoint and a seamless customer journey across channels—from ATMs and websites to smartphone apps and branches.

Unfortunately, in most North American banks, traditional approaches to operations aren't well aligned with that vision. Centralized back-office operations are too slow, inefficient, and inflexible to meet customer expectations, and the data needed to personalize interactions remains trapped in disparate legacy systems. Unlike digital natives, most of whom started out organizing their operations around customer needs, banks are still oriented around product and functional silos. As such, they struggle to support customer-facing innovation that can ripple through the organization, reconfiguring operations as it goes. Instead, operations tends to be a governor on the speed of innovation, changing one process, one function, or even one technology at a time—and, ultimately, limiting banks' ability to become truly future-ready.

Bank operations' transition is a lot like Play-Doh's

Bank operations needs to be repurposed and reinvented, just like the wallpaper cleaning industry of the 1940s. In the 1930s, Cincinnati-based soap maker Noah McVicker had invented a pliable, putty-like substance to clean coal residue from wallpaper. Following World War II, the shift from coal-based home heating to oil and natural gas decreased internal soot and

new washable, vinyl-based wallpaper products emerged. Wallpaper cleaning putty was a product without a customer until a nursery school teacher later saw a newspaper article about making art projects with it. She suggested that McVicker's son market the non-toxic, non-staining, reusable modeling compound as a children's toy. McVicker's team had to make the mindset change from offering a product that rolled across soiled walls to lift up grime to one that children could now use as modeling clay. The rebranded Play-Doh was launched in 1956, and has since sold more than 3 billion units and reported a 32% revenue increase in 2015.¹

New findings from the 2018 Accenture North America Banking Operations Survey of 80 bank leaders point to a similar repurposing of the back office. Yet, the question remains whether the typical bank back office will be pliable enough to shapeshift into an enabler of the future-ready bank. Or, to put it another way, will back offices be able to make a material contribution to a bank's profit that is strong enough to generate the investment funding needed to win in the digital economy?

In this report, we highlight key survey findings and offer insights into where a bank's back office must go to be future-ready and how it can get there effectively and efficiently.



**74% of bank operations
leaders say that customer
experience is their top
strategic priority.**

BANKS INDICATE FOUR GAME- CHANGING THEMES

Bubbling up from across bank executives' views on operational challenges, strategic priorities, and the reality of competing in the digital economy are four main themes that are set to change the game for bank operations.





Theme 1

“CUSTOMER FIRST” HAS REACHED THE BACK OFFICE

"Customer First" Has Reached The Back Office

After years of investing in technology to improve efficiency, three-quarters of bank operations leaders now say that improving the customer experience is their top strategic priority (Figure 1). Their three priority strategies for achieving that aim are customer journey optimization, core system replacement, and organizational agility. Most banks (66%) feel that their banking operations are currently very well prepared to deliver on their strategic priorities over the next five years.

However, delivering on those priorities will also require fewer staff, with slightly more than 60% of banks expecting to cut 10% to 30% of middle- and back-office positions in the next three years as they implement new technologies.

Which of the following represent your bank's greatest strategic priorities?

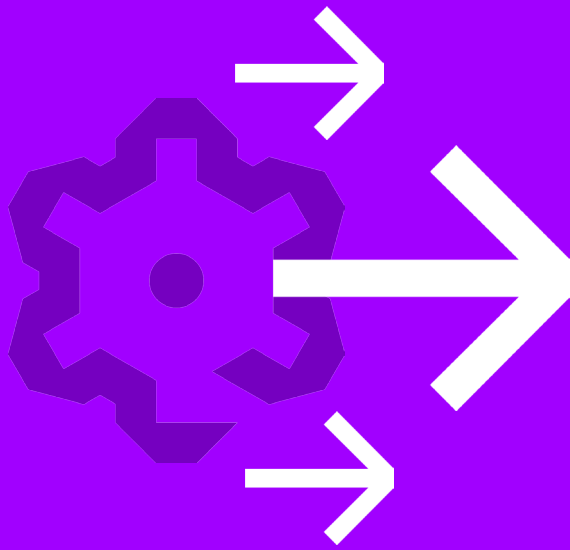


Figure 1.

*Ranked from 1 to 5, where 1 = Greatest Strategic Priority

Results represent top three priorities; No respondents selected "None of the Above"

Base: All Respondents



Theme 2

BANK OPERATIONS BECOMES THE INTELLIGENCE ENGINE

Bank Operations Becomes The Intelligence Engine

Bank operations are shifting to become more intelligent with circumspect view of the bank, enabling leaner processing and quicker, insight-led decision making. Almost one in two banks foresee banking operations' primary role as achieving straight-through processing and harnessing the full potential of customer and transaction data residing in operational systems (Figure 2).

What do you foresee as being banking operations' primary role three years from now?

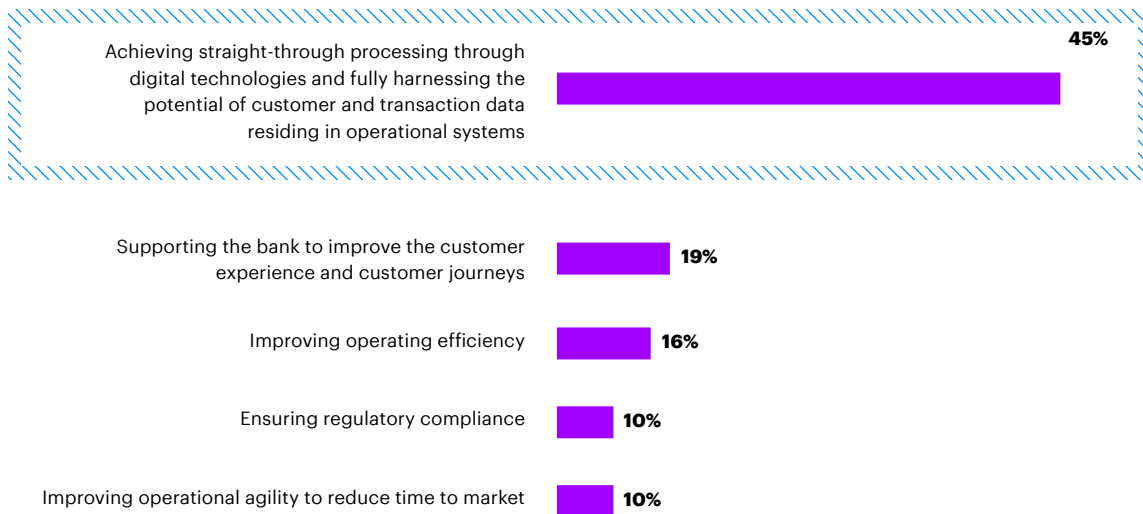
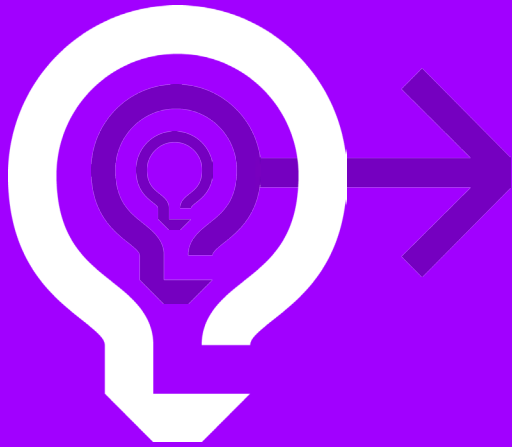


Figure 2.

*No respondents selected "None of the above"
Base: All Respondents



Theme 3

**TAPPING
TRAPPED
VALUE
ELEVATES
CUSTOMER
EXPERIENCE**

Tapping Trapped Value Elevates Customer Experience

Nearly 70% of banks believe that their operations hold trapped value that is not currently being accessed (Figure 3). Releasing and optimizing this value will depend on their ability to both use digital technologies in combination and create better front-line interfaces and improved customer journeys.

Please rate your level of agreement or disagreement with the following statement:

I believe my bank's operations hold trapped value (data and/or capabilities) that is not currently being leveraged.

Select one.

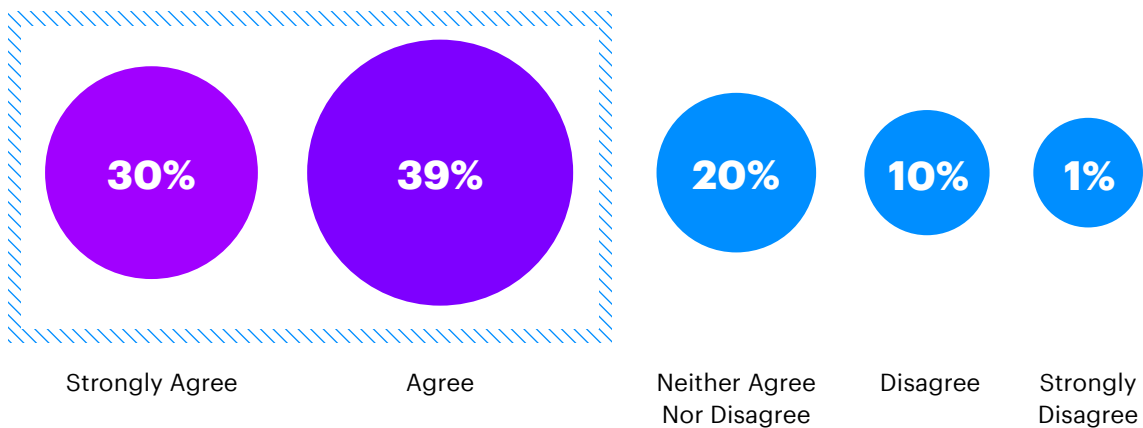
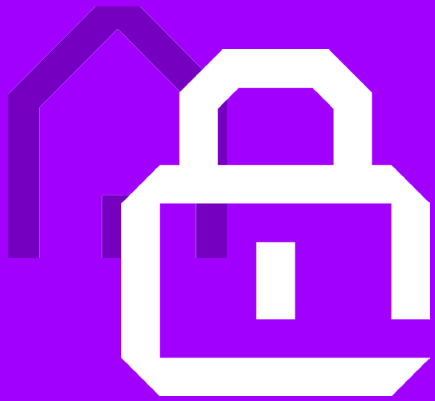


Figure 3.

Base: All Respondents



Theme 4

THE LEGACY ENVIRONMENT IS HOLDING BACK CHANGE

The Legacy Environment Is Holding Back Change

COOs are aware of the challenges of digitization, and they are particularly concerned about the constraints that legacy systems place on the bank’s ability to improve operations and be future-ready. Almost 40% of respondents said that their limitations of legacy systems are among the top three impediments to digital transformation. (Figure 4).

What are the greatest barriers to your organization’s ability to drive through digital transformation?

Select Top Three, where 1 = Greatest Barrier.

■ Within Top 3 ■ Greatest

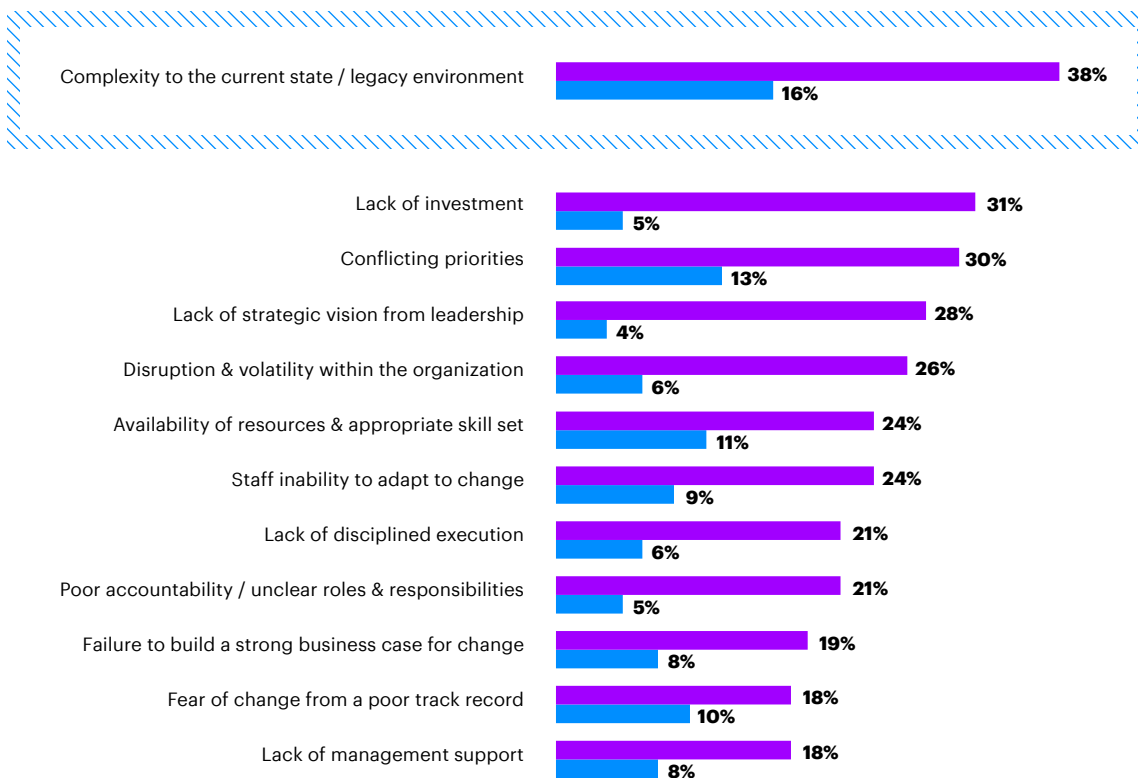


Figure 4.
Base: All Respondents

BECOMING THE NEW FRONT OFFICE

The collective implications of these four themes suggest that banks that want to be future-ready need to make a bold move and bring the back office to the front line.

As customer experience is now paramount and as bank processes and data become more transparent, the back office is no longer a hidden function. The reality of Open Banking alone is already exposing bank data, algorithms, and processes to outsiders. End customers will increasingly experience such back-office “offerings” through digital channels in real-time. Indeed, the very idea of the “back office” may disappear. Consider HDFC, for example. The Indian bank introduced “Eva,” a chatbot that is accessible from all digital touchpoints and links the customer to traditional back-office functions.² Eva responds to spoken queries and text messages and can help customers with questions about their accounts and bank products. All the while, Eva is collecting data about customer interactions, which the bank can mine to create targeted offers that drive growth.

This new back-to-front repurposing raises the bar for operations. Instead of satisfying internal clients, operations will be increasingly responsible for engaging directly with consumers and giving them a direct window into bank processes and data. With intuitive, transparent, and secure processes and systems, the back office will run like a customer experience front office. It will deliver continual improvements in digital touchpoints to keep up with customer needs. It will free up and tap into trapped data in back-end systems to enable better experiences in customer-facing services, like analytically driven pricing. It will support two-way intelligence, capturing data from new customer interactions that can be used to trigger personalized offers—such as presenting a home equity loan application to a customer who registers a change of address. A back-office deployed as a front office, wherever and whenever needed, will make it easier for customers to do business with the bank.

As operations becomes the new front office, the role of the bank's COO is also changing. The evolution of operations from a pure cost center to a hybrid that also contributes to top-line growth requires that COOs become more strategic in their outlook and approach to contributing to revenue growth. This shift also positions the COO to oversee a comprehensive digital transformation, and we are starting to see some banks head in that direction. At Barclays, for example, the COO has broad responsibility for delivering improved services to customers, including overseeing an open innovation platform established to facilitate collaboration with fintech companies.³ At ING, the COO also serves as Chief Transformation Officer, charged with developing a globally scalable banking platform that will deliver standardized services and process improvements to improve customer experience and increase revenues.⁴

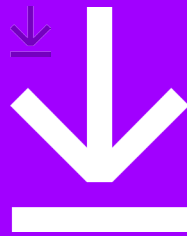
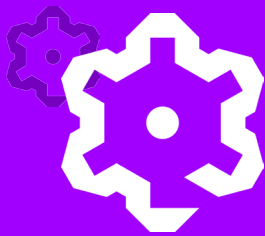
North American bank operations leaders say that by 2020, up to 40% of their banks' spending on digital transformation will be in operations.

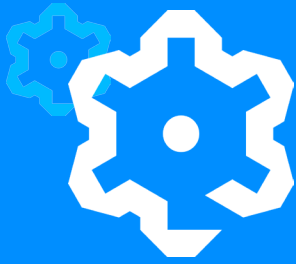


A DIGITAL PATHWAY TO FUTURE- READY BANK OPERATIONS

Bank operations today are a bit like Play-Doh when it hardens—it can be tough to change, but mixing in a little water makes the putty soft and pliable again. Digital innovation is water for a bank’s back office.

Reinventing the centralized back-office model into a front-office engine for growth and customer loyalty must be part of a bank-wide digital transformation effort championed by the bank CEO. With such an overall blueprint in place, there is a host of actions the COO must drive to automate and reposition operations toward the end customer: adopt rotation-to-new metrics, balance strategic initiatives and core operations, transform the core, enable fit-for-purpose governance, and so forth. Yet, based on our experience and survey findings, three critical transformation-enabling strategies are especially worthy of a COO's attention.



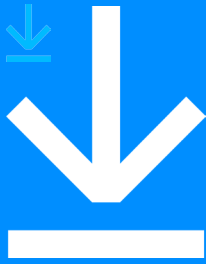


Create agility through digital decoupling.

Banks can decouple the rapid execution of their business strategy from the more lengthy and gradual update of core legacy systems by taking a granular, component-based approach to digital transformation. In digital decoupling, banks opt to use a combination of existing and break-through IT technologies to plug-and-play new customer-facing apps and processes within or around legacy applications. Nearly 80% of bank operations leaders say their organization's existence could be threatened if they don't update technology to be more flexible and capable of supporting rapid innovation. Doing so will allow banks to accelerate adoption of Agile, starting first around architecture and then moving to new digital capabilities while creating options for IT renewal and extending the useful life of legacy systems. Key technologies to combine include:

- APIs and micro-services that connect IT architectures and enable banks to integrate easily with third parties and partners.
- Robotics process automation (RPA) to quickly access manual mainframe transactions, yet only 16% of bank COOs surveyed are using RPA, while 63% plan to use it over the next year or are experimenting/piloting the technology.
- Cloud Services deployed for new business, with legacy volume managed as a closed book run-off to prevent migration complexity.
- Data Lake-centric Architecture and Legacy to serve as the System of Record.
- Cognitive/AI skills used for automatic API programming and data indexing.

Accenture's experience indicates that using advanced technologies in combination—AI, RPA, and cloud, for example—can lead to revenue and productivity gains that can add as much as seven percentage points to Return on Equity.⁵ In India, for example, banks are combining visual sensors and AI algorithms to enable customers to use a smartphone app to check in real time to see if there will be a long wait at a particular branch, addressing a major consumer pain point. In Singapore, DBS Bank combined cloud, open APIs, data analytics, and AI to improve its digital banking service, increasing income from digital customers by 23% between 2015 and 2017 and raising digital's contribution to revenue from 49% to 60%.⁶



Gain flexibility and speed by adopting agile software development methods.

Whether it's called Agile, DevOps, or design thinking, these software development approaches use cross-functional teams, rather than fixed hierarchies and functions, to improve flexibility and speed. They stress experimentation and rapid iterations—introducing minimal viable products, then testing and refining them in the same way digital leaders do. These approaches are a way of doing business that changes the way a bank operates—from redesigning processes to introducing new products. While 41% of bank operations leaders in our survey said that becoming an agile

organization is a high priority, adoption of new methods is mixed. Only 11% of respondents said they use Agile in more than 60% of projects; 19% say they use DevOps in 60% of projects. Only 25% of respondents say they plan to switch entirely to agile development over the next three years; 22% say they would switch to DevOps; and 15% said they would use design thinking.



Re-skill back-office workers to optimize the customer journey.

Bringing the back office to meet customers means new requirements for a smaller back-office workforce. With a new focus on performance measures like customer satisfaction and retention, existing back-office staff may be redeployed to other areas or asked to retrain to develop more front-office relevant skills. Digitization and automation will further alter labor demand, creating even greater need for high-skill talent in the back office. Two-thirds of bank operations leaders expect they will need up to 30% fewer people in three years due to newly implemented strategies, and most banks (91%) agree that re-skilling will be required for remaining workers.

Having the talent needed to repurpose the back office involves a combination of recruiting, greater use of flexible work arrangements, investments in re-skilling and employing intelligent automation. Slightly more than 20% of bank operations leaders are tapping into freelancers/on-demand workers, while 40% plan to incorporate them within the next year.

**TIME TO
REIMAGINE
THE BACK-
OFFICE.
LIKE PUTTY.**



To realize their customer experience ambitions, banks now need to rethink the role and purpose of operations—evolving it from back-office support to front-office engagement that increases retention and stimulates growth.

Initially, it may seem farfetched. A defunct wallpaper cleaning putty that becomes a legendary child's toy? We are already seeing what is possible with future-ready IT architectures—think online mortgage originations or mobile payments. No, it's not child's play, but it shows that the back-to-front repurposing of operations is both possible and necessary.

Accenture has the experience and capabilities to help COOs make the change by adopting new digital approaches that bring the best of bank operations (data, people, and processes) directly to customers and use them to deliver the type of customer experience that will allow the bank to win in the digital economy.

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Notes

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- 2 The Times of India, "HDFC Bank launches Artificial Intelligence driven chatbot EVA," March 5, 2017. <https://timesofindia.indiatimes.com/business/india-business/hdfc-bank-launches-artificial-intelligence-driven-chatbot-eva/articleshow/57481168.cms>
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SURVEY POPULATION AND METHODOLOGY

Data collection for this study took place through a global quantitative online survey in November and December 2017 of bank chief operating officers (COOs), executive vice presidents (EVPs) within Operations and their respective direct reports at top banks in the United States and Canada. Respondents included 70 executives from American banks and 10 from Canadian banks. For the purposes of this survey, “operations” includes middle- and back-office functions (such as products processing and call centers), IT centers and central functions (human resources, risk, finance, marketing, legal and compliance).

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