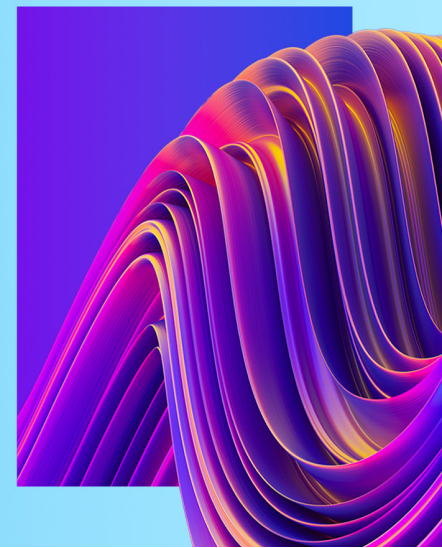




Empowering banks to be future-ready

It starts with the foundational elements of digital transformation



Tomorrow's marketplace will be a competitive chessboard where any company—not just banks—with the technical ability to grow, manage, and move consumer money will be competing for market share. And many of those competitors are not weighed down with the same business and technical debt as banks.

However, banks have a great opportunity to respond to this challenge by modernizing their core infrastructure and thrive as a future-ready, customer-centric bank.

Fortifying the foundation

Modernizing an entire bank may seem overwhelming. However, those that begin with the foundational elements realize the greatest return on investment. Core modernization is a method to unlock product innovation, delivery speed, and real-time processing.

Digital transformation through core modernization is more than just updated technology; it impacts the entire enterprise—from strategy to culture. It includes everything from the business model down to the operating model, resulting in a connected and seamless bank experience for your customers.

Where to begin: Deposits and payments

There's no silver bullet that solves all modernization efforts—as with any massive overhaul, prioritizing and sequencing the work is the key to success. We'll start our digital transformation series by examining the critical deposit and payment systems. Of the approximately 15 modernization components that could be addressed, those two are central to everything a bank offers because customers view them as essential services.

Deposits

Because deposit systems are often an entry point to the relationship and the source of customer loyalty and predictable cost, it is imperative that banks get this right by offering a secure way to transact with an optimal customer experience.

However, most banks have not touched their deposit platforms outside of routine maintenance and required enhancements for years. Recent market share loss to nonbanks has heightened pressures for modernizing deposit systems.

Everything is impacted when core deposit systems are replaced: staffing, operations, processes, how teams are organized, and legacy applications. It is not simply a "technology trade." The modernization effort will be a multiyear journey—and the rewards deserve time and effort. This is because an upgraded core deposit system responds to customer demands of real-time offerings and capabilities and supports future digital banking investments.

Payments

Several converging forces are driving a payments revolution. This includes alignment with ISO 20022—a new global standard for payment messaging, the open banking initiative, a changing regulatory climate, and real-time payments, among other competitive pressures.

Further impacting payments are third-party partnerships that lower customer acquisition costs by embedding banking services into leading fintech and box stores. These nonbanks are becoming payment facilitators, enabling them to move money and transact directly with the customer. They benefit from building payments capabilities from scratch, dodging the technical debt of traditional banks.

Mastering money movement is the key to banking relevance. Those who have embraced the digital agenda and have embedded payments modernization can meet rising client demands, delivering a positive customer experience across multichannel products and services. They know customer pain points—and how to solve them. They understand where, when, and how each customer wants to pay—allowing a frictionless experience and a satisfied client.

Don't get left behind

A digital banking divide is widening at a rapid rate. It's the divide between banks investing in infrastructure to transform and develop better services and those that lag, risking becoming the “dumb plumbing” of the future.

While an army of fintech start-ups, box stores, and alternative lenders raise competition by scaling up and moving steadily into the banking space, modern infrastructure will allow banks to survive—and thrive—against these disruptive threats.

Procrastination brings loss. Every day that you don't start modernization efforts is a commitment to your past, not your future.

The digital transformation series

In this brief, we've addressed Deposits and Payments, two critical systems within banking infrastructure modernization. In our series, we address other core systems, starting with:

- Commercial lending
- Consumer lending
- Mortgage lending.

To view the series, and to learn more about how to be a future-ready bank, **Visit kpmg.us/connectedbanking** to learn more.

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