



# Digital transformation in banking

Connect your enterprise to help optimize costs and improve experience

Many banks are operating a patchwork of legacy systems and applications. Business processes often require workarounds. Customer-facing channels may be loosely linked but not fully integrated. As a result, it can be challenging to keep pace with fast-changing customer expectations. All the while, bank executives are facing enormous pressure to take out costs and drive profitability.

Maintaining outdated, disjointed IT systems is a significant drag on efficiency and operational agility. Modernizing IT systems—through well-designed, planned, and executed digital transformation—can be the solution to multiple problems.

**Banks have come to terms with the fact that digitalization is no longer a nice-to-have capability. It is essential to customer experience—and crucial for cost takeout.**

Indeed, in 2023 KPMG surveyed 200 senior banking executives and found that investment in digital innovation and technology implementation continues despite the economic environment:

**67%** of senior banking executives say they will proceed as planned with digital transformation initiatives even if a recession occurs.

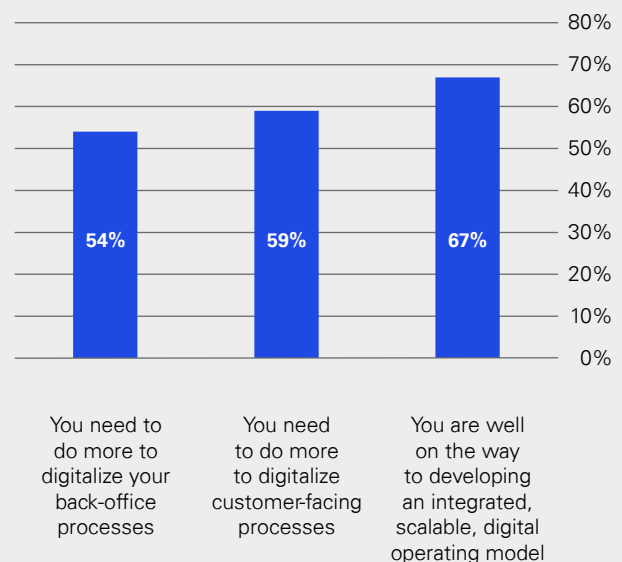
**64%** are migrating or have recently completed migration of substantial processes to the cloud.

**61%** are upgrading core banking technology, and the same percentage have introduced artificial intelligence (AI) or machine learning.

**60%** have invested in technology to enhance customer experience but concede they have more to do.

Many bank executives say they are focused on creating integrated, scalable digital operating models. Even so, our recent survey data reveals there is still significant work related to customer-facing and back-office initiatives.

Where are you on your digitalization/transformation journey?



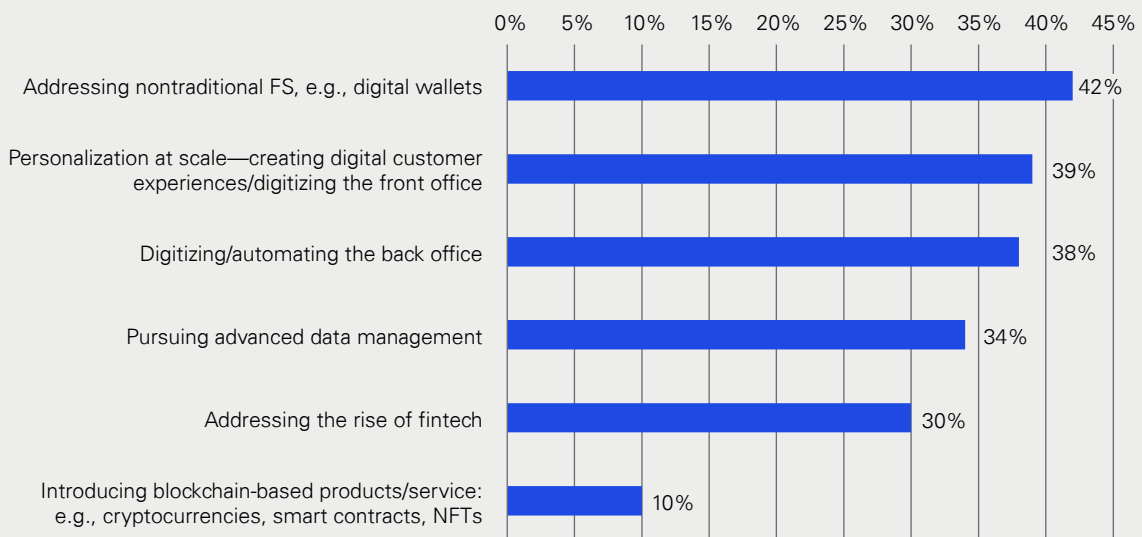
## Cost of inaction: Too high?

Ninety-seven percent of respondents said that in 2023, digitalization efforts would either proceed as planned or simply slow down. Only 6 percent said they would stop altogether.

Banks have said they are primarily focused on migrating substantial processes to the cloud (if they haven't done so already). They are leveraging advanced analytics, including AI and machine learning. They are taking steps to continue replacing core banking technologies. And they have made—or are starting to make—significant technology investments to enhance customer experience. Some specific priorities are detailed in the chart below.

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### E3 Prioritizing digitalization challenges



Going forward, we expect banks to expand efforts around foundational digitalization elements as a means of realizing meaningful—and measurable—return on investment. In the coming months, look for significant attention toward modernization to help in fueling product innovation, enabling real-time processing, and addressing an array of customer needs.

### Action steps

How can banks maintain or increase digital transformation momentum in the quest for

competitive and cost advantages? Consider these recommendations:



**Work from the top down.** Many banks attempt digital transformation from a tactical, bottom-up perspective instead of a top-down approach. We have seen numerous attempts at digital transformation from multiple entry points—some at the functional level, some at the solution level.

These banks may make progress, but that progress tends to be fragmented. Bank leaders must take a connected enterprise perspective, which is designed to help them look across the organization to plan, design, and deliver value. The connected enterprise approach is crucial to integrating operations and technology based on customer insights.



**Embrace change.** Giving up certain responsibilities and taking on new roles can be challenging for individuals inside a tradition-bound institution. One way to think about change is to view the institution as a single enterprise—not a federation of functions and lines of business—preparing for the future.



**Act with speed and confidence.** The COVID-19 pandemic showed that organizations can pivot quickly when there is no other choice. It also added fuel to customers' fast-changing preferences and expectations. Bring this same sense of urgency when setting the tone and pace for digital transformation.



**Choose wisely for better returns.** Bank leaders would be wise to consider carefully how they want their business model to look in the future. That future-state vision will define how the organization generates revenue, defines its market position, and wins new customers. No bank can afford a strategy that looks good “on paper” but doesn't align with long-term goals.

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