



# Digital banking: Navigating the unknown and unexpected on the path to resilient growth





“Expect the unexpected” is probably the best way to describe the past several years in banking. The phrase “unprecedented times” is repeated time and again. Playbooks are being constructed on the fly and banks are constantly scrambling to keep up with the rapidly swinging pendulum of change—all while having to simultaneously maintain efforts to grow, remain efficient, and deliver amazing and secure experiences.

Facing a constant swinging pendulum of change they cannot predict or control, many banks choose—or are forced—to batten down the hatches and move into reactive modes. Meanwhile, they struggle to maintain focus on the multitude of efforts that will retain and win customers and accelerate long-term growth. Today, embracing digital capabilities is a necessity in order to have the buoyancy to sustain the unexpected and the fortitude to unlock growth and experiences that matter to customers.

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**Facing a constant swinging pendulum of priorities, banks are frequently distracted and lose focus on crucial long-term growth efforts.**



## How can banks break this cycle?

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Through digital transformation, banks are equipped with the capabilities to seamlessly weather and/or respond to each swing of the pendulum and create sustainable value across the full range of customer needs, setting a strong course for future growth.

### Read this article to learn:

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Why modern digital technology is a high-powered bank growth engine

Advice for leading successful digital transformation efforts, based on our extensive industry experience

How KPMG LLP (KPMG) help banks create the digital capabilities needed to grow, including a real-world case study



## Compounding volatility: A growth distraction

Today, banks face a confluence of external forces that are creating uncertainty and challenges: competition from nontraditional players; increasing consumer expectations; economic pressure caused by interest rate environments and credit uncertainty; and potential postelection changes in office and policies that could spark a new wave of volatility across the external environment.

More challenging still, these risk challenges connect with and compound one another. Each seems to exacerbate the last—and all seem to demand 100 percent attention.

The math simply doesn't add up, forcing banks to try to make trade-offs. More often than not, regulatory compliance, risk management, cost-cutting, and incremental optimization of what worked in the past take precedence while strategic investments in the future fall to the wayside.



## Don't let them slip: Three keys to sustainable growth

To compete, banks must build the business of tomorrow. They cannot afford for reactive and defensive strategies to come at the expense of those that will have lasting impact: winning customer experiences and new revenue streams. They also cannot neglect or abandon initiatives that help them deal with their many evolving risk challenges and put them in position to seize emerging opportunities.

**As banks navigate toward a still-unfolding future, three key areas demand investment today to unlock growth tomorrow.**

As they build the business of tomorrow, banks can't deploy reactive strategies on top of archaic technologies. They won't support the innovation required to compete in the future, and they will come at the expense of strategies that will have lasting impact: winning customer experiences and unlocking new revenue streams.



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## The bank growth engine: Modern digital technology

To steer through the pendulum swings of today's turbulent industry environment—and strike the right balance between growth and innovation and risk and cost management—banks need to accelerate and sustain their digital transformation journeys.

A strong technology environment that integrates digital technologies into the enterprise is the foundational enabler of organic growth in banking. It allows banks to quickly and flexibly pivot to address short-term priorities while maintaining organizational attention on vital growth drivers such as product and service innovation, customer experience improvements, and efficiency and productivity gains.

Modern digital operations are the foundational enabler of organic growth, allowing banks to pivot to address short-term demands while maintaining attention on vital growth drivers.

### The duality of growth in banking

Continue to optimize the business of today.



Innovate and grow the business of tomorrow.

◆ Eliminating product-centric lines of business



◆ Cohesive, dynamic experiences

◆ Breaking geographic boundaries



◆ Predictive and data driven

◆ Creating connected channels



◆ Distribution agnostic

◆ Decreasing cost to serve



◆ On-demand personalization

◆ Operating with line-of-business tech stacks



◆ Simply secure

◆ Accelerating risk management



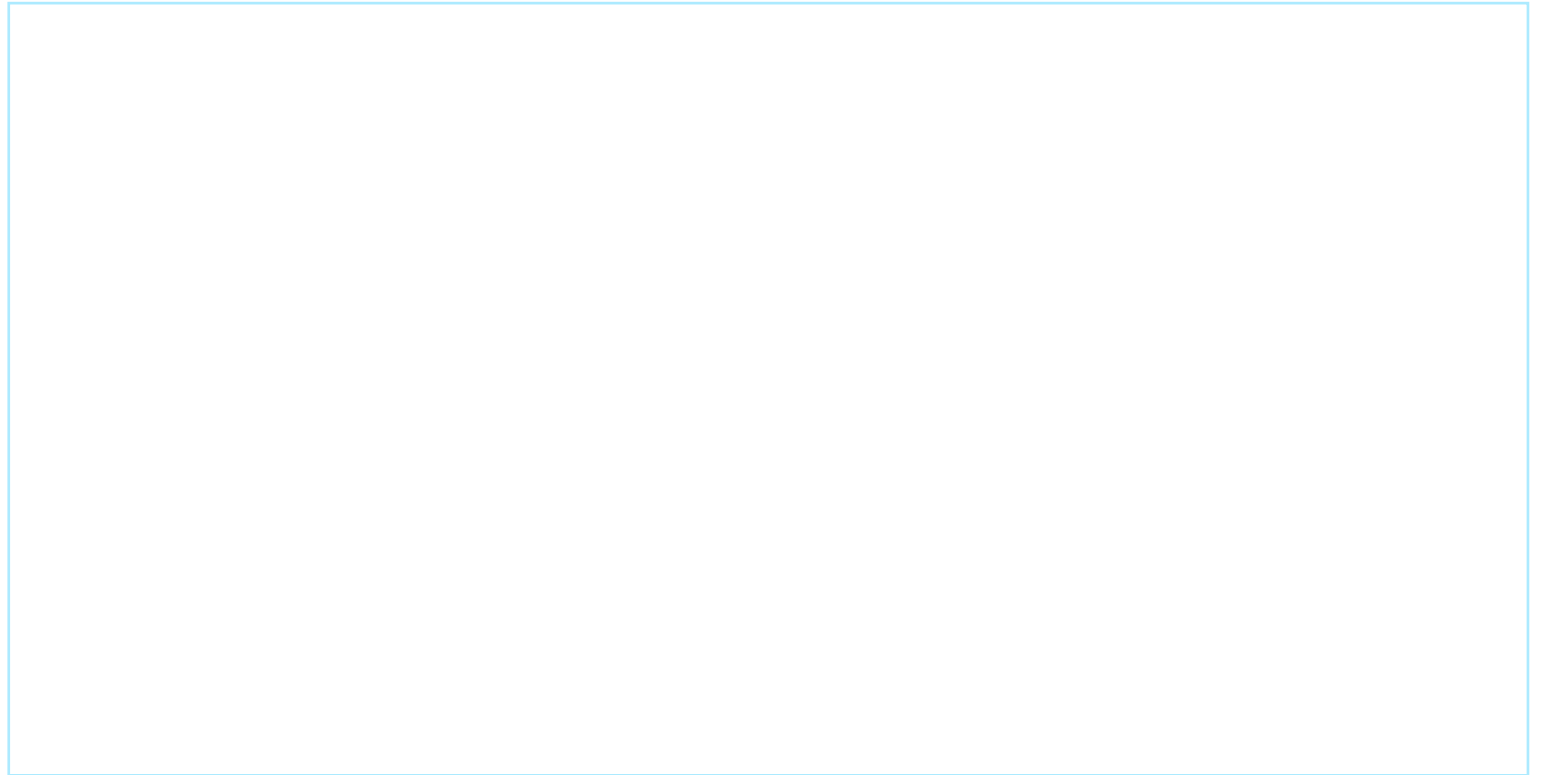
◆ Emotionally responsive





## A closer look at digital transformation opportunities

Investing in digital transformation across three key areas allows banks to achieve their growth goals.





## Client story

Modern digital capabilities help accelerate a regional bank's expansion

### Challenge

Facing slowly declining deposits, a large US regional bank wanted to fuel a national expansion but was hampered by aging technology, products, and operations. The bank's mainframe-based core platform had been developed in house decades ago, creating operational complexity and preventing organizational agility and product speed to market. The bank also had many outdated products, services, and processes that contributed to a rising cost-to-serve and made it difficult to manage changes to customers in the complex and evolving regulatory environment.

### Solution

A KPMG strategy and technology advisory team helped the bank's executive team articulate a vision for the future, craft a strategy for how to get there, and a develop a high-level business case to illustrate the economic value. We performed extensive industry and customer research to inform the product and experience the bank aspired to create.

Next, we stood up specialized execution teams across all functions to help the bank slim down the core and move it to the cloud, rationalize legacy products and services, and streamline existing processes. We helped manage customer communications through every

phase of the journey, resulting in no significant customer complaints and minimal deposit attrition. We also worked closely with bank stakeholders to proactively incorporate regulatory considerations into the platform build and prepare materials to keep regulators informed as the program evolved.

### Result

The bank gained significant operational efficiencies from its modern digital core and capabilities. These gains helped fund a new national, digital platform that will eventually offer deposit accounts, credit cards, and loans to a national customer base on a modern, flexible technology stack.

Milestone achievements throughout the bank's digital transformation included:

- Gaining regulatory approval to launch digital channels in the public cloud
- Significantly improving onboarding approval rates and other key conversion metrics
- Reducing the operating cost of the banking core due to migrating off legacy mainframe
- Reducing legacy products and services by 90 percent, and eliminating many back-office processes as a result
- Consistent handling of customers through all the changes, resulting in no material impact to complaints or deposit attrition.



## How to get started building a digital growth engine

By embracing modern technology ecosystems, banks can transform into agile, customer-centric, digitally enabled organizations—ready for the next pendulum swing. They will be able shape the future with enhanced customer experiences and new revenue streams while remaining competitive with streamlined, efficient, and secure operations.

To reap these benefits, banks should focus on the following capabilities.

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## How KPMG helps banks modernize and grow

KPMG offers a range of digital transformation solutions for banks to help them navigate the challenges and capitalize on the opportunities in the digital era. Our services include developing digital strategies, enabling agile ways of working, and leveraging data analytics and AI to drive innovation and growth. With our technical skills and experience in the banking sector, we can help banks successfully transform and stay ahead of the curve.



Digital transformation



Connected enterprise strategy



Business models and growth strategy



Core modernization



New product and payment innovation



Lending transformation



Channel and distribution modernization



Customer experience and journeys



Automation and generative AI



Back-office optimization



Marketing and partnerships



Regulatory and compliance



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