OPINION

What is slowing banks' digital transformation?

Lightico CEO Zviki Ben Ishay provides a look at some of the obstacles banks face, including organizational resistance, scalability issues, legacy IT systems and fears about compliance.

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Zviki Ben Ishay is the CEO of Lightico, a digital customer interaction platform.

Despite all the talk surrounding digital transformation and the changes that coronavirus has spurred on, not all traditional banks have achieved full digital transformation.

The prospect of fulfilling customer expectations, saving on operational and processing costs, and improving efficiencies should ideally provide plenty of incentive for banks to fully digitize their processes — especially given the likely continued prevalence of COVID-19 in our lives for the foreseeable future.

But we don't live in an ideal world, and banks face some real obstacles to going digital. Fears about compliance, organizational resistance, scalability issues and constraints of legacy IT systems are holding banks back from a full-fledged digital transformation. Let's examine how banks can address some of these issues as they transition to more digital processes.

A digital future for banks

The coronavirus pandemic has pushed digital banking from an alternative or partial method of banking to the primary one. Whether it's opening a new account, applying for a credit card, or taking out or modifying a loan, many customers got their first taste of truly digital banking during the outbreak.

As banks scrambled to provide a wider range of digital banking services during the initial lockdown, banking customers grew comfortable with the added abilities and options they began to be offered — beyond simply checking their balance on a mobile app or sending a payment. And since experiencing this new convenience, many don't want to go back, even after the virus passes.

A survey conducted in mid-May 2020 found that 79% of banking customers want their bank to offer more all-digital banking options in the future. And no amount of protective measures will make them go running back to the physical branch. In fact, only 10% of customers said they would be more likely to visit their branch if it offered masks, hand sanitizers and other precautions.

Why isn't this digital transformation happening faster?

Despite growing customer demand for digital services, banks haven't fully digitally transformed. To be sure, they are making good progress toward increasing digital investments. But choppy digital journeys — in which customers try to complete tasks online but are redirected to a physical branch or another channel — are still far too prevalent. Here are some of the main obstacles holding banks back from providing customers with a complete and easy digital experience for all their banking tasks, as well as some potential solutions.

1. Compliance concerns

Even as many daily transactions can be started or completed online, many banks continue to require customers to come to a physical branch for a variety of tasks, including opening a new account, adding an account holder's name to an existing account, taking out a loan, or modifying the terms of a loan.

Ostensibly, requiring customers to take care of these tasks in person reduces the risk of fraud or deception and keeps banks compliant using age-old methods. Indeed, banks are accustomed to comparing photo ID to a real person and receiving signatures — especially as know-your-customer compliance requirements continue to grow.

For many banking professionals, especially those tasked with ensuring top-level compliance, digitizing certain processes still feels risky given, for example, the extensive fines for an anti-money laundering infraction.

Yet these fears are largely founded in a decade-old concept of what technology has to offer and a misunderstanding of the advanced methods of identification and verification we have today.

Many technologies, such as patch management tools, auditing and ID verification, are either fully compliant with the highest regulatory standards, or actively help promote compliance. Technology can automate and enhance all of these processes provided the technology fits with existing procedures.

2. Organizational resistance

Banking executives who are trying to champion innovation often face resistance from other executives, managers, front-line employees and the security team. Other executives are fighting for budget for their own initiatives and don't necessarily see the urgency of digitizing. Managers may be overwhelmed with other responsibilities. Front-line employees are accustomed to legacy systems and are wary about having to learn new technology. Security has concerns about data breaches.

When acquiring new technology, it's important not just to get buy-in from mandatory stakeholders but from anyone else who will be affected by the new technology, including the people who will be using it. For that reason, a multipronged approach to winning their support is necessary.

Other executives need to understand how technology can help them meet their department goals. Managers need to see how technology can help improve their workers' performance. Front-line employees need to be shown how the technology will make their life better — and get hands-on training. And security needs to receive information about the technology's certificates and other important information.

3. Scalability issues

Banks that adopt new technologies often struggle with issues of scalability, and workloads increase. This makes it difficult for them to gain the desired effectiveness from the particular technology, and may even lead to resistance to adopting new technologies in the future.

Here, too, it is critical for IT and banking professionals to develop a keen understanding of needs, limitations and opportunities. This enables an open discussion with technology providers to ensure the technology can scale as systems grow. This means more users can easily be added as more customers use the bank's services. It also means pricing is flexible and fair based on the number of users, which may be dynamic.

Of course, the technological solution itself should promote scalability. For example, automation of processes, especially those based on machine learning and artificial intelligence, can reduce the need for more manpower and repetitive manual work. Chatbots, voice assistants, automated fraud detection, eSignatures and eForms are a few examples of technology that enables scalability.

4. Legacy IT systems

Almost 50% of banks don’t upgrade outdated IT systems when they should, according to the U.K.’s Financial Conduct Authority. And 43% of banks continue to use COBOL, an inefficient programming language from the 1950s that inhibits automation and doesn't work in real time. The adoption of technology may be postponed over concerns surrounding integration with core systems.

As banks work on upgrading their core systems, they can simultaneously adopt front-end technology that can make customer-facing processes more efficient, fast and enjoyable for customers and agents alike. While this certainly doesn't replace the need for a robust core system, it can be a quick and relatively affordable way to improve the customer side of operations.

Digitizing can be a challenge –– but well worth it

In the past, efforts to digitize customer-facing processes may have hampered legitimate concerns about compliance, organizational buy-in, scalability and integration with core systems. But today's technological capabilities are more flexible, secure and compliant than ever. With the right approach and the right technology, a complete digital transformation can be attained sooner than imagined.