"Resiliency" is proving to be one of banking's most important guiding words in 2020, affecting everything from customer experience to employee morale and enterprise risk.

Regaining Excellence Through Resiliency in Banking

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Introduction

The provision of financial services often relies on the clockwork precision of the workflows used in delivering products and services to the bank's customers. Unfortunately, these mechanisms frequently consist of manual and cobbled-together processes that prove extremely fragile in the face of disruptions. Everything seems to be fine (arguably) until some event causes a chain reaction that breaks the clockwork of service, suddenly increasing the institution's risk. These events can be large, such as an economic downturn or a natural disaster like a hurricane; they can also be small — yet critical — such as the loss of a key employee in an area that is overly dependent on manual processes and legacy knowledge. In all cases, disruptions result in unsatisfied customers, frustrated staff, and further manual intervention in the form of stopgap measures to stem any negative impact from the event. Those stopgap measures often become ingrained into the bank's workflows, adding even more vulnerability to future business interruption.

Indeed, one of the key results of patchwork operational processes was the rise of fintech competitors in the financial services industry. With more fully automated systems and processes, these competitors were better able than banks to provide service excellence to customers. However, while the banking industry has been focused on the front lines of customer experience with digital channels such as mobility or the transformation of back-office core banking systems in order to modernize and compete against smaller fintech organizations, the vital links between the front office and the back office — the operational processes and workflows — have languished. Mobile banking apps that are intuitive to use are quickly forgotten when a loan origination process or a payment gets bogged down in the bank's middle office because of inefficient workflows, even when everything is "going right." Customer payments are one of the bank's three main roles (deposits and lending being the other two), and they are mostly already automated. Yet whenever there are problems with payments, settlements, reversals, and/or research, the same broken operational processes and workflows are a source of frustration for customers and staff. They also represent potential fraud surfaces and can quickly become unmanageable based on the sizable volume of payments.

AT A GLANCE

WHAT'S IMPORTANT

» Avoiding risk, understanding customer needs, and optimizing business processes were ranked 1, 2, and 3, respectively, in order of importance of investments in data and analytics for the banking industry in IDC's 2019 EMEA and U.S. Vertical Survey.

» Any disruption to a bank’s operation tests the strength of these three areas, with failure resulting in dire consequences to customer service, employee morale, and enterprise risk.

» However, these capabilities are connected via workflows that often lack the resiliency to withstand disruption. Solutions to address this issue should be at the forefront of the investment cycle going forward.
Benefits
IDC Financial Insights has been providing guidance on the need to digitally transform for a number of years now. Digital transformation (DX) focuses on the capability of banks to become innovative while maintaining resiliency from a business perspective. In fact, IDC defines DX as "the continuous process by which enterprises adapt to or drive disruptive changes in their customers and markets by leveraging digital competencies to innovate new business models, products, and services; blend digital, physical, business, and customer experiences; and improve operational efficiencies and performance." Integral to this definition is the agility needed to execute on the continuous aspect of change in order to respond quickly and efficiently to market shifts.

2020 has become a challenging year for most industries, and banking is no exception. Key to DX this year will be the resiliency of the enterprise and its impact on customer engagement, staff operations, workflow, systems, risk, security, and compliance. Some institutions invested in process and workflow improvements in previous years. Until recently, and mostly as a result of increased pressure from fintech providers in lending, investments in this area took second or third priority behind investments in direct customer impact areas such as mobile banking.

Prioritizing improvements in process and workflows will provide benefits in multiple areas at the institution:

» The delivery of products and services, account creation and management, and problem resolution are all governed by processes and workflows that must adapt to change quickly. Automation in the form of robotic process automation (RPA), artificial intelligence (AI), and machine learning (ML) is key to agility in processes that need to respond to new environments or to the ability to create new processes to support new products. In 2020, for instance, many institutions have been challenged by their inability to implement the Paycheck Protection Program rolled out by the federal government in response to the COVID-19 pandemic.

» The ability of intelligent workflows to respond to disruption has a twofold benefit:
  ■ The customer benefits from an immediate improvement of experience, whether in the time to deploy new services, the quality of the service or product, or the bank's ability to support problems or new financial relationships.
  ■ The bank's employees are released from always being "behind" on the work they do to support legacy processes. By providing a smarter way to help customers, bank employees can now focus on providing a better experience and even have time to look for opportunities to provide the next best action and delight the customer in ways that were not previously possible.

» Today’s modern workflow engines and automated processes are significantly better instrumented to provide insight into risk, security, and compliance. Often an afterthought, these aspects of the bank’s operations have become critical to the institution’s overall resiliency. Particularly in large-scale businesses such as payments, fraud and relaxed regulatory compliance attitudes can increase and are sources of deeper disruption. By building controls into modern workflows, the organization is better protected by automated risk management and compliance.
**Trends**

Although the guidance in this paper stands during any environment, and resiliency is, or should be, a primary principle for the banking industry, the COVID-19 pandemic has exposed gaps in resiliency for every bank.

A consumer survey conducted by IDC in March 2020 revealed an interesting and worrying gap between the perceived need for banks to respond to changing customer needs and the ability of banks to support the changes, particularly among younger customers. The survey response was particularly arresting in the implied need for human interaction (see Figure 1).

**FIGURE 1: Changing Needs Versus Ability to Conduct Business Without Branches**

Q. **Do you anticipate that your banking needs will change as a result of COVID-19?**

![Chart showing the percentage of respondents who anticipate changes in their banking needs as a result of COVID-19 by age group.](chart)

- **I will still be able to conduct my banking transactions even if my bank’s operations center and branches need to close for an extended period of time.**

![Chart showing the percentage of respondents who agree, neutral, or disagree with the statement about conducting banking transactions.](chart)

- **n = 1,515**

*Source: IDC Insights’ Cross-Industry Consumer Response to COVID-19, March 2020*
Ironically, respondents in the 18–24 age group perceived the greatest need for banking services change during the pandemic, yet they demonstrated the smallest confidence that they would be able to conduct their financial business without the support of branches and contact centers. Interestingly, this group has adopted digital methods of banking and payments more than any other.

Overall, consumers are fairly confident that digital banking channels will be able to support their needs. But this data point exposes the gap between a need and a confidence that the bank can support that need for future generations of customers. It also points to the importance of human staff in the delivery of support for financial services, especially during market disruption.

COVID-19 is but one instance of disruption for which banks must be always prepared. Focusing on customer experience excellence is good, but it can’t be done without including the bank’s own employees and the tools they use to overcome challenging times. At the same time, the bank needs to instrument those tools to govern and protect its business.

**Considering ServiceNow**

Founded in 2003, ServiceNow is an enterprise platform-as-a-service firm that serves multiple industries, including financial services. In this context, the Santa Clara, California–based company specializes in helping financial institutions transform their operations to enhance experiences; improve resiliency; manage operational controls, risk, and security; and increase productivity and efficiency, all while reducing costs. The primary means by which ServiceNow enables financial institutions to accomplish these goals is through a workflow optimization product called Financial Services Operations, which is designed to help financial institutions overcome operational challenges, including:

- **Operational scale.** One of the main aspects of resiliency is the ability to scale up or down to meet market demand as needed while ensuring that the operations are working at peak efficiency.

- **Experience consistency.** Ensuring excellence and consistency in customer experience for consumers, small businesses, or corporate clients requires an integrated approach to the different operational areas within the institution that should work in unified collaboration.

- **Resiliency.** The COVID-19 crisis has raised the challenge of resiliency to critical levels. Customer demands and behaviors are changing, the importance of financial products is shifting based on market needs, and weaknesses in operations are exposed when the market experiences this kind of disruption. The strength of the institution and its relationship with its customers rely heavily on the stability and responsiveness of its business operations.

These challenges apply not only to the institution's customers but also to the institution’s internal staff and executives. ServiceNow's Financial Services Operations platform is aimed at the institution's staff, both in the lines of business and in the "back office," to improve their efficacy and ability to help customers. This focus on people applies particularly to internal areas such as regulatory compliance, where transparency is needed in data and processes to demonstrate evidence-based adherence to applicable regulations and laws, and in risk management, using the implementation of consistent, enterprisewide workflows.

ServiceNow delivers these capabilities to financial institutions via a platform-as-a-service model that includes AI-enabled workflow designers, an integration hub, application development environments, and a common data architecture and analytics to gain valuable insight into the institution’s operations.
Challenges
As with most "infrastructure" vendors, ServiceNow finds itself in a position not of "We build this product" but of "We make what you have better." Within financial institutions, operational efficiency sometimes lacks the prioritization of investment that business software enjoys. ServiceNow seeks to solve the problems involved in stitching together, improving, or recreating operational process that are disjointed and/or overly reliant on human resources. These problems often involve multiple lines of business and operational areas, making it difficult to work with a single executive (outside the COO) to help drive operational improvement through platform implementation. This hurdle also affects the priority of investments the institution is willing to make.

The impact of COVID-19 on the discretionary spending at most financial institutions has created an opportunity for ServiceNow. Normally, investments are directed to projects that are absolutely necessary, such as modernizing a critical business system, or projects that have an immediate impact on market share. IDC believes that in 2020, much of the longer-term investment made by banks will be withheld until we see signs of market stabilization. However, projects that can deliver certain ROI, including cost savings, as well as projects that can speed time to market for key products such as small business lending, will gain importance and funding. Because the ServiceNow platform is delivered as a service, deployment should be much easier and quicker than overhauling homegrown or on-premises solutions. This will help ServiceNow overcome the inertia normally associated with operations-related investments by addressing what is desperately needed as a result of the pandemic — resiliency.

Conclusion
2020 has brought with it a complete shake-up of how and where financial institutions will allocate transformational budgets. In the past two to three years, DX has centered around use cases that had direct customer impact or on the modernization of back-office systems that opened up the bank’s architecture to enable innovation and keep pace with the fintech economy that threatened traditional banking markets.

But this year, because of the COVID-19 pandemic, resiliency has risen to the forefront of strategic importance for financial institutions. The first phases of the crisis exposed weaknesses in the ability of banks to respond to the enormous market disruption as evidenced by failures in customer communications, the move to work from home for staff, and the inability to provide services such as the Paycheck Protection Program to small business customers.

These factors, along with the anticipated amnesty of a significant portion of loan portfolios, are causing banks to redirect their discretionary spending to use cases that provide an immediate return on investments while repairing the many areas that failed during the onset of COVID-19. ServiceNow, and its Financial Services Operations platform, is "in the right place at the right time" to assist financial institutions in transforming operational areas that lack the automation and collaboration to ensure the consistency that they need to build enterprise resiliency into their operations. To the extent that ServiceNow can address the challenges described in this paper, the company has a significant opportunity for success.
About the Analyst

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Jerry Silva is Vice President for IDC Financial Insights responsible for the global retail banking practice. Jerry's research focuses on technology trends and customer expectations and behaviors in retail banking worldwide. Jerry draws upon over 25 years of experience in the financial services industry to cover a variety of topics, from the back office, to customer channels, to governance in the technology shops at financial institutions.

MESSAGE FROM THE SPONSOR

For over 10 years, ServiceNow has been helping institutions improve experiences and increase the resilience of their technology. With 19 of the top 25 global banks as customers, we have deep expertise in enabling the digital enterprise. In recent years, our capabilities have extended beyond IT to create a powerful Platform for transformation, and our latest Financial Services product drives even closer alignment between our customer needs and the outcomes that we deliver. To learn more about ServiceNow in financial services and our Financial Services Operations product head to www.servicenow.com/finserv

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