

# NEXT GENERATION BANKING: HOW AI AND CLOUD TRANSFORMATION ARE CHANGING THE BANKING INDUSTRY



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*The banking industry was already at a tipping point when the COVID-19 pandemic hit, causing a major shift in how financial institutions and their customers did business with each other. Digitisation, already a major focus of the banks in 2020, became even more important as interactions with customers went almost completely digital.*

## The Rising Demand for Digital Banking


The increased demand for digital-first and digital-only banking experiences predates COVID-19. It has driven massive innovation in customer-facing applications, but the shift isn't simply a matter of exchanging physical for digital. Digital banking isn't about becoming bigger and more homogenous; it's about becoming more focused and purposeful,<sup>1</sup> according to Forrester.

Customer choice and convenience can be catered to, but only if market offerings are highly segmented and personalised. It's not so much about what channels you offer customers, but what paths to satisfaction you make available. Customer experience (CX) is key, whether that's self-service options, automated processes, or the ability to start a process or initiate a query on one device and complete it on another seamlessly.

## Risk Management is Core to Successful Digitisation

Adoption of new technology is vital to digitising banking experiences. However, with banking staff and customers increasingly accessing financial networks from home, banks are now open to a range of new cybersecurity threats. Traditional risk management focuses on loss mitigation, which must now be augmented with IT enablement and cybersecurity.

A digital disruption to Australia's economy, such as a concerted cyberattack on financial institutions, could cost the Australian economy<sup>2</sup> up to AU\$30 billion and more than 163,000 jobs, according to AustCyber. Attacks on payment systems<sup>3</sup> could erode citizen



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trust in banking and government, Reserve Bank Australia stated. Failure to safeguard bank system access and customer data even on a smaller scale could still have devastating consequences.

The cost of cyberattacks is most keenly felt in the banking industry, where trust erosion can prove as costly as direct financial losses. Consumers are more aware than ever of banking cybersecurity risks thanks to recent widely publicised malware and ransomware events<sup>4</sup> in the financial sector. Security is now cited as the top concern for banking customers<sup>5</sup> seeking to shift to digitised options, per AustCyber.

During this unprecedented era when mobile banking is on the rise and customers are prioritising convenience, banks must take advantage of every opportunity to make their core systems more intelligent, agile and risk averse.

## Digital Transformation in the Banking Industry

In 2017, Boston Consulting Group reported that 86% of financial institutions believed that digital would fundamentally change banking,<sup>6</sup> yet 43% admitted they had no digital strategy. The pandemic changed everything, forcing banks to develop and deploy digital options for consumers on a tight timeline.

Recent shifts in how Australian banks and consumers interact were described in June 2020 as being equivalent to five years worth of change in just 10 weeks,<sup>7</sup> The Sydney Morning Herald reported. It's been posited that the most significant changes are likely to be permanent; including reductions and eliminations of cash acceptance in retail, an emphasis on digital banking, permanent closure of bank branches, and the introduction of AI into bank customer experiences.

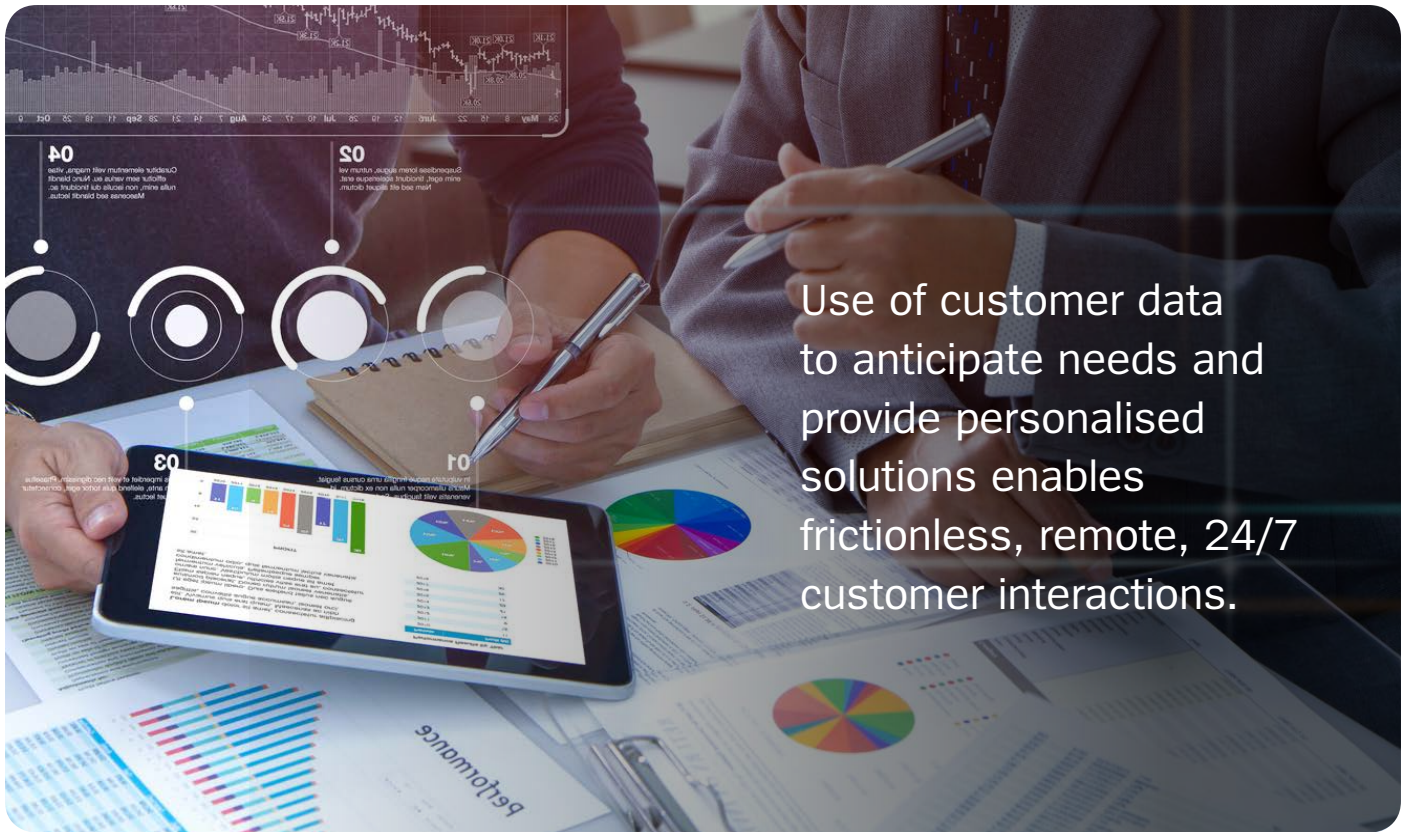
## Next-Generation Banking is Customer-Centric and Digital-First / Digital-Only

As the timeline for digital transformation has been moved up the next wave of change for financial institutions is already rolling forward. Next-generation banking is powered by artificial intelligence (AI) and cloud computing, and banks continue to face challenges as they modernise their internal systems, customer-facing applications and core IT technologies.

Successful banks will drive business growth through continued digital workplace transformation, including ongoing initiatives around e-loans, automated mortgage lending processes, and omni-channel interactions.



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Use of customer data to anticipate needs and provide personalised solutions enables frictionless, remote, 24/7 customer interactions.

AI, the cloud, blockchain and robotic process automation are key technologies that can be leveraged to bring banks forward into the 21st century. Based on a KPMG survey, three out of four young bankers believe banks will soon become mainly tech-driven companies,<sup>8</sup> offering high-end products like investment advice and private banking almost exclusively online.

Open banking provides consumers with increased choice and raises demand for newer, specialised products. Neobanks, with a digital-only approach, are challenging traditional banking models with even more success. How can mid-sized banks rise to the challenge and update their offerings and approach to meet next-gen standards?

## Improving the Customer Experience

Machine learning (ML) and AI are helping banks find patterns in consumer demographics. Banks can now create more accurate customer profiles and develop personalised experiences for banking customers.

Tailoring products to individual needs and customising banking experiences helps deepen customer relationships. Use of customer data to anticipate needs

and provide personalised solutions enables frictionless, remote, 24/7 customer interactions.

As banks continue to streamline customer identification and authentication, blockchain technology is speeding up payments via decentralised channels using distributed ledgers.

## Reducing Operational Costs With the Cloud and AI

The cloud is making it easier and more cost-effective for remote banking staff to remain productive, and creating new ways of working. Cloud-based storage allows infrastructural resources to be scaled on demand, making it easier to maintain data-related compliance at volume.

Front- and middle-office AI applications deliver increased cost savings, while facilitating more accurate payments, enhanced fraud detection, and improved anti-money laundering practices. AI is also driving decision support for loan origination and other financial products.

## Enhancing Cybersecurity and Risk Management

AI is improving security, helping to detect suspicious behaviour and flag fraudulent activity. Accounting and auditing automation improves accuracy and transparency of financial records transactions, data-gathering activities, and digital identity verification methods. Regulatory compliance can be facilitated through automated data collection and record-keeping that meets all industry requirements.

## Committing to Cybersecurity and IT Excellence with Unisys

When you partner with Unisys, you gain a higher level of enhancement and protection in regard to security, the cloud, and digital workplace services. For small to mid-sized banks, consumer trust in data protection is key. Valuable data can be secured using Unisys solutions providing a higher degree of comfort about resilience and security in the midst of digital transformation and cloud adoption.



**Sources:**

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