Banking in the Digital Era: Flipping the Paradigm
The banking, financial services and insurance (BFSI) industry is at an inflexion point. Changing customer behaviors, non-traditional players, digital enablers, and regulations mandating open models—are all setting the stage for a Business 4.0™ transformation in the sector. Artificial intelligence (AI), analytics, cloud, automation, and agile methodologies are the key enablers that will help BFSI organizations adopt four critical business behaviors—driving mass personalization, creating exponential value, leveraging ecosystems, and embracing risk.

Enterprises are leveraging flexible digital platforms to collaborate with players from different ecosystems to create innovative products and services. Backed by free flow of data, hyper-personalized offerings tailored to individual contexts are being used to enhance customer experiences and drive revenues. Digital, cloud, and agile afford the flexibility to change course midway and contain the impact of a risky venture. Consequently, enterprises are becoming more receptive to risks of experimenting with a new idea or capitalizing on an opportunity they would have earlier dismissed as risky. With significant digital investments, BFSI organizations are not only well positioned to ride the Business 4.0 wave but also use it to develop differentiated capabilities, transform operating models, and change the course of their business. However, success will depend on their ability to move away from traditional management approaches and change organizational mindsets and culture.
Mindset Switch 1: Optimizing Scarce Resources to Harnessing Abundance

Fundamental to this transformation is a shift in mindset from optimizing scarce resources to harnessing abundance. Unparalleled growth opportunities exist for organizations that are ready to harness the abundant capital, talent, and capabilities available in the ecosystem. Success will depend on organizations’ ability to challenge long-held organizational beliefs and switch from the silo mentality to collaboration with customers, peers, and partners. Collaborative ecosystems will help BFSI organizations leverage capabilities in the wider ecosystem to foray into adjacent industries like consumer goods, create new business models, design innovative offerings, and drive growth. Underlying technology platforms will be key to this switch and aid leveraging the ecosystem resources in real time to generate exponential value. Some national regulators have already taken steps to promote the platform model - for instance, the Monetary Authority of Singapore has decided to allow banks to operate digital platforms to match buyers and sellers of consumer goods. However, banks will be subject to regulatory caps on investing and expanding into non-financial businesses to limit exposure and ensure focus on their core business.

Case in point

1. Singapore’s DBS Bank has tied up with sgCarMart and Carro to launch DBS Car Marketplace, a direct seller-to-buyer online car marketplace. DBS also offers concessions and loan facilities to customers using the DBS Car Marketplace. The Netherlands’ ABN AMRO has set up a developer portal with several application programming interfaces (APIs) enabling the outside world to partner in its innovations. The APIs allow commercial customers to access their checking accounts with ease while the portal allows the use of digital building blocks to enable payments. The portal was tested during the bank’s Beyond Banking Days hackathon, an event that brings together participants from ABN AMRO, partners, and fintechs. These efforts are part of ABN AMRO’s preparations to comply with the European Commission’s PSD 2 directive, which allows regulated third parties to access accounts of customers who have given consent.

3. The US’ Union Bank has formed an alliance with the Lending Club to purchase personal loans through Lending Club’s platform. The two companies will co-create new credit offerings that offer a superior experience for the benefit of the customers of both the entities.

4. DNB, Eika, Sparebank 1 Gruppen and other Norwegian banks have decided to combine payment systems – Vipps, a mobile payment app, BankAxept, a debit card service, and BankID Norge, an authentication platform – to radically improve customer experience and ward off competition from global technology firms and improve product offerings. The move is seen as essential to retaining supremacy in the digital payments market.
Mindset Switch 2: Serving Customer Segments to Serving the Segment of One

Customer data is an abundantly available resource within BFSI organizations. Combined with external data, it can deliver real-time insights into the customers’ changing context opening up opportunities for mass personalization. Harnessing the enormous amount of customer data will also enable better segmentation and empower organizations to embrace segment-of-one marketing by going beyond the individual to specific transactions to achieve an unparalleled degree of personalization and customer centricity. Insights yielded through customer data analytics can also help improve processes and bolster operational efficiencies, facilitate faster delivery, and enhance customer experience.

Case in point

1. Allianz Global Corporate and Specialty (AGCS) is partnering with Flock, an insurtech startup, to launch an app to provide on-demand drone insurance. The app allows pilots to customize the policy for each flight to suit their specific needs and context and offers optional add-ons – all at the click of a button. The app taps into big data relevant to drone risk for real-time information on local weather conditions, environment, operator profiles, and so on. Algorithms are employed to crunch this data and assign risk scores for each drone flight – cloud technology is leveraged for the complex calculations and the score is generated within a second. This score is then converted into a premium for insuring the flight.

2. AXA, the French multinational insurance firm, has launched fizzy, a fully automated, secure platform to compensate customers against flight delays. When a passenger buys flight delay insurance through fizzy, it is recorded in a blockchain ledger. The smart contract leverages global air traffic data and automatically initiates compensation when the flight is delayed beyond two hours. Fizzy crunches huge amounts of data ranging from passengers’ location and flight details to airline schedules and air traffic data. Analytics combined with artificial intelligence (AI) enables fizzy to offer personalized, just-in-time recommendations to buy flight delay insurance that passengers might receive on the way to the airport.

3. Toffee, an India based startup, has tied up with major Indian and global insurance companies to offer innovative policies customized to the lifestyle of millennial customers - Commuter’s Toffee, Globetrotter Toffee and so on - through its digital platform. The company allows customers to cover specific risks such as treatment for dengue fever, accidents during daily commutes, and international travel.

4. Bank of America had deployed a chatbot, Erica, which leverages natural language processing to decipher customer intent from speech and text and machine learning to garner insights from customer data to provide personalized banking advice and recommendations.
Mindset Switch 3: Mitigating Risk to Embracing Risk

BFSI players have traditionally adopted a ‘play-not-to-lose’ approach centered on containing risk through ‘safe’ options. In the long run, protectionist mindsets stagnate growth by focusing on maintaining a lead rather than pushing vigorously forward with initiatives that unlock exponential value. With consumers increasingly expecting fast-paced service, the ‘safe’ approach will no longer work. What we need today is a shift from the risk mitigation mindset to a paradigm of embracing risk and adopting a ‘fail fast’ approach to explore new opportunities with the focus shifting from the risks involved to the possibilities for creating exponential client value.

Case in point

1. MYbank, the online lending arm of Ant Financial Services Group, leveraged cloud computing and big data techniques to lend to the small and medium business (SMB) segment. Lacking credit history or credit ratings SMBs are unable to prove creditworthiness, and are perceived as high risk by traditional banks. By analyzing SMBs’ purchase or trading data from the Alibaba ecommerce network, MYbank’s automated system assesses the creditworthiness and approves or rejects the loan in seconds with no manual intervention. The decision to service the high risk SMB segment without traditional credit scores or proven creditworthiness has paid off with the company creating a new customer segment for itself.
Mindset Switch 4: Realizing Incremental Gains to Creating Exponential Value

Enterprises have largely focused on driving incremental efficiency and cost gains. Achieving transformational growth that drives businesses in a different direction or at a much higher level of effectiveness will mandate leveraging emerging technologies and their network effect – a combination that can reshape industries and create exponential value.

Case in point

1. A leading European bank enabled real-time credit decisioning in its mortgage re-financing function. Digitalizing the end-to-end value chain resulted in exponential value creation for the bank with over 90% straight-through processing, 30% reduction in full-time equivalent (FTE) and substantial cost savings for the bank. The bank’s customers also benefited as end-to-end automation of credit decisioning cut the wait time from two weeks to a few minutes. Integration with third party services formed a key element of the transformation program.

2. Similarly, MYbank created exponential value by venturing into uncharted territory – analytics on alternative data to evaluate SMBs’ creditworthiness resulted in an entirely new customer segment.
Forging the Path to Success in a Business 4.0 World

Given that customer experience spans beyond organizational touch points, BFSI organizations must strive to fulfill customer needs by seamlessly enabling the underlying financial transaction. For instance, home or car buying, leisure or business travel, personal and financial wellness, and other milestones must be handled seamlessly to deliver a hyper-personalized, frictionless experience in a way that the financial transaction becomes incidental to the entire process. In order to move toward this, BFSI organizations must re-imagine customer journeys beyond their touch points; nurture business models in collaboration with ecosystem players across industries, fintech, and social platforms; and stitch together customer engagements across their own touch points as well as external ones. Ecosystem leverage must be viewed more as a business enabler than a facilitator for compliance with regulations like PSD 2 or Open Banking. This means that the business strategy at the overall organizational or line of business level must consider ecosystem play for monetization as well as leveraging capabilities. And finally, BFSI organizations must move away from ‘safe’ options and explore new avenues of growth that may require them to review their business models.

So what must BFSI organizations do to move to the Business 4.0 paradigm? Adopting a systematic approach focused on key business strategy aspects along with the corresponding people-process-technology and IT infrastructure upgrades will enable a seamless transition (see Table 1).

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<tr>
<th>Business 4.0 pillar</th>
<th>Strategy level changes</th>
<th>IT infrastructure, functional, and process changes</th>
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<tbody>
<tr>
<td>Driving mass personalization</td>
<td>▪ Examine business and technology capabilities, front and back office functions, and organizational silos and define a holistic transformation strategy centered on customer centricity.</td>
<td>▪ Build capabilities to leverage real-time insights and create personalized and contextual experience with the right human-machine interplay for a balance between efficiency and human touch. ▪ Ensure security and customer privacy in accordance with applicable regulations.</td>
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<td>Leveraging ecosystems</td>
<td>Embracing risk</td>
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<td>■ Create business models, offerings, and experiences by harnessing capabilities both within and outside the organization and industry.</td>
<td>■ Define a clear strategy to leverage the fintech and insurtech players.</td>
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<td>■ Focus on ecosystem play while defining the business expansion strategy – both into new markets and segments – just as it is currently done for mergers and acquisitions. A final decision must be taken depending on the degree of exclusivity, differentiation and domination to be achieved and the corresponding speed-to-market considerations.</td>
<td>■ Assess the threat from technology firms, fintechs and insurtechs, and other non-conventional players.</td>
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<td>■ Evaluate existing capabilities that can be leveraged while moving to new models.</td>
<td>■ Invest in or partner with fintech, insurtech and other new entrants.</td>
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<td>■ Define transformation roadmaps to re-engineer systems, application portfolios, and platforms to enable ecosystem play.</td>
<td>■ Identify market solutions that can be used to create the digital entity or identify existing IT capabilities that can be assembled or combined with solutions available in the market for faster speed-to-market.</td>
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<td>■ Ensure the right degree of isolation and granularity in the IT architecture to facilitate reuse beyond the enterprise, scalability for consumption, extensibility for broader functional usage, adherence to evolving industry standards, manage-ability, and cloud readiness.</td>
<td>■ Create a digital-only avatar to compete with new entrants on an equal footing within the geographies where the organization has a footprint as well as for expansion into new regions and segments.</td>
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<td>■ Adopt and implement an API model along with developer portals to ensure that every capability is easily consumable both within and outside the organization.</td>
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<td>■ Integrate the pricing model into the new capabilities being built or transformed.</td>
<td>■ Build a separate platform from scratch – this will be time-consuming and may result in losing competitive advantage.</td>
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<td>■ Streamline engineering, assurance, release management and related processes.</td>
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- Embrace Open Banking and convert them into distribution channels for your offerings. Partner with key ecosystem players to create new business models and distribution channels for offerings.

- Implement an API strategy along with appropriate monetization models.

- Offer micro-insurance and on-demand insurance to ensure that the customer base is not weaned away by new entrants.

- Design innovative digital on-demand and micro insurance products.

- Adopt a balanced approach to fraud management - avoid an overly cautious approach that results in false positives and prohibits legitimate transactions, thereby adversely impacting customer experience.

- Use intelligent predictive models to effectively handle or prevent fraud and identify false positives in real time, ensuring better experience.

- Define policies for effective management of customer consent on data sharing and monetization while complying with privacy regulations such as GDPR.

- Implement the right solutions and products as well as establish the right practices and processes for efficient customer consent and privacy management in compliance with applicable regulations.

- Redefine the operating model by adopting SaaS or PaaS models for mission-critical but commoditized capabilities for improved cost of ownership and unlimited scale for business expansion.

- Assess the technology value of existing platforms and applications and implement an application rationalization strategy in line with the business strategy to appropriately enhance, decommission, or outsource capabilities.

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Transforming into Business 4.0 Organizations

The combined power of multiple technology enablers—AI, data analytics, IoT, cloud, and automation underpinned by Machine First™ principles—must come together in an agile environment to drive a Business 4.0 transformation. To successfully transform into a Business 4.0 organization, BFSI players will need to make some important changes:

- **Getting leadership buy-in:** Mindset shift is the foundation of a Business 4.0 transformation – without this fundamental first step, progress in adopting the four Business 4.0 behaviors will be slow. Additionally, top management commitment and consistent communication of the Business 4.0 principles within the organization is crucial.

- **Embracing agile models:** Agile methodologies coupled with digital technology enablers allow organizations to explore new business ideas and broaden their horizons. Treading the 'fail fast' path to innovation lets organizations bounce back quickly if the idea does not succeed and helps instill a culture of experimenting with new ideas and business models.

- **Modernizing the core:** Core infrastructure modernization programs require huge investment, are time-consuming, and can potentially disrupt business-as-usual. However, despite these pain points, legacy infrastructure revamp is critical to the digital makeover of traditional banks and applying a Machine First approach to designing new processes or restructuring existing ones.
References:


2. DBS Newsroom, DBS partners sgCarMart and Carro to create Singapore’s largest direct buyer-to-seller car marketplace, August 2017, June 2019, https://www.dbs.com/newsroom/DBS_partners_sgCarMart_and_Carro_to_create_Singapore’s_largest_direct_buyer_to_seller_car_marketplace


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