



A digital decree

**Reinventing the banking
industry in real time**

June 2020

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Banking's new era is taking shape

We are witnessing banking being reinvented in real time, and taking action now couldn't be more important.

From January to April, as the grip of COVID-19 tightened, a major bank's digital sales leapt threefold. The bank chairman said that this new era "forced a massive shift in consumer behavior." The speed of the bank's digital innovation programs, without the onset of the coronavirus, "might have taken 10 years, and we just did it in two months."¹

Banking executives, especially CEOs, CIOs, and CTOs know that with so many new possibilities on the horizon, and with so many new expectations from customers, they must increasingly leverage digital technologies in order to improve on how to serve their customers and improve operations. Done well, these banks will continue to develop newer ways to add to their top and bottom lines while meeting higher levels of expectations—both internally and externally.

Can banks sustain these new ways of operating and serving? The answer is yes ... provided the executives have the fortitude to change how they think and act. Investing in technological advances is the cornerstone of building a new way of working, but innovation and advancement do not only rest on a collection of new tools and applications. Acceleration of digitization is as much about embracing a culture of breaking with past traditions as it is anything else.

We've developed a seven-step journey meant to fundamentally transform how banks operate by influencing the individuals at the top of the house who actually

¹William Demchak, PNC Chairman and CEO, on CNBC "Closing Bell," May 14, 2020

make changes stick. We believe these steps can provide a strategic and holistic roadmap for a sustained reshaping of how banks operate.

We see that the recent forced digitization only reinforces that message: Quick change is not only possible, but downright essential.

But, make no mistake: More still needs to happen ... and it must happen even faster than it is happening now.

The numbers tell a compelling story.

- In the immediate aftermath of the COVID-19 lockdown, a consumer research group found a significant increase in the use of mobile and online banking tools by retail bank customers.²
- Contactless card payments in the U.S. are projected to increase eightfold between 2020 and 2024.³

Some banks have fared well because they have been on the path to digitization for some time now. They were able to rapidly shift into high gear when the economic lockdown was ordered. Other (perhaps many other) banks appear to be scrambling to accelerate their digital plans and may be losing ground and valuable time.

This report seeks to help banks define their digital strategies, ascertain ambitions, focus on target market segments, and align their culture with their innovation needs.

“ **The future of banking is here, and it arrived much faster than any of us expected. COVID-19 has taken a terrible human toll and it created a significant economic impact. It has also accelerated the need for digital innovation at our country’s banks. Many banks need help in modifying business and operating models to serve customers better, and their employees need help getting ready to do work in completely new ways.** ”

Peter Torrente

**National Sector Leader,
Banking and Capital Markets
KPMG LLP**

² “Digital Engagement as a CX Differentiator,” J.D. Power. April 23, 2020

³ “North American Online Payment Methods 2020 and COVID-19’s Impact,” researchandmarkets.com, April 2020

Digital customer demands have already changed

The COVID-19 outbreak, which has presented bank customers with unprecedented exposure to online and mobile banking capabilities, has resulted in an extraordinary untethering of physical dependencies that otherwise would have taken years to complete.

Now that the exposure has heightened expectations, customers are in the position of dictating that banks rapidly take a renewed approach to providing them with even more powerful, but simple-to-use, digital capabilities.

Pre-COVID-19, digital customers' desires were well known, even if a significant portion of banks hadn't completely rolled out offerings to meet customers' expectations. Digitally leaning customers wanted their banks to:

- Make it simple to engage with the institution using mobile and online technologies
- Enable uncomplicated, rapid money movement between accounts, among family/friends
- Receive personalized advice by leveraging their data in a secure way
- Provide education and strategies to help reach specific financial goals
- Use advanced technologies to protect their personal data.

In the post-COVID world, digital desires are now digital demands.

Consider the comments made by PNC Bank chairman Will Demchak in a May 14, 2020 interview with CNBC's "Closing Bell".

"Digital usage increased by a percentage point or so every quarter for a bunch of years (but) it jumped from the beginning of the year, where digital was 25 percent of our sales, to almost 75 percent of our (April) sales without much volume fall-off."

That hairpin turn has Demchak and his colleagues thinking that the behavioral shift "is going to accelerate what we have already seen in terms of digital adoption, better branch networks, increased reliance on technology and a great share of people who have the capacity to support not just consumers, but corporates, in digital formats."

Consumer research firm J.D. Power issued a survey report in late April that found that respondents planned to visit branches and ATMs less frequently than in the past, and that they would actively seek out retailers that accept contactless point-of-sale payments.⁴



⁴ "Digital Engagement as a CX Differentiator," J.D. Power. April 23, 2020

Reshaping the path to digitization

Accelerating banks' digital capabilities with a keen eye toward a new set of norms starts with understanding the answers to two fundamental questions facing banks:

- 1 How will we generate new growth and protect the current customer base?
- 2 How should business and operating model strategies evolve to drive experiences based on evolving interaction needs?

To help answer these questions, we suggest leveraging four pillars that support the path toward meaningful digital transition. These four pillars, outlined on the following page, address the market position, digital acquisition and pricing, accessibility and experiences, and how the digital tools and capabilities will be deployed and scaled. Further, each pillar should be reviewed while keeping in mind the level of impact (low, medium or high) each has on protection of the business, associated costs, how it might or might not grow the business, and the bank's customers.

“ The onset of COVID-19 saw banks around the world swiftly shift to new ways of working to ensure employee well-being, while at the same time adopting new digital distribution models to enable business continuity for their customers. Now, as we look to a new reality beyond COVID-19, banks have an opportunity to radically rethink their business model. There has never been a more pivotal moment than right now for the banking sector to embrace new ideas, technologies and capabilities that will help pave the path to recovery. ”

Judd Caplain

Global Head of Banking and Capital Markets, KPMG LLP

The four pillars of digital transition

1 Digital market position

Are we serving the right customers, in the right footprint, with the right products via the right channels? How do we evaluate build, buy, partner options to accelerate time to market and business case/balance sheet impact in the current market?

2 Digital pricing and promotion

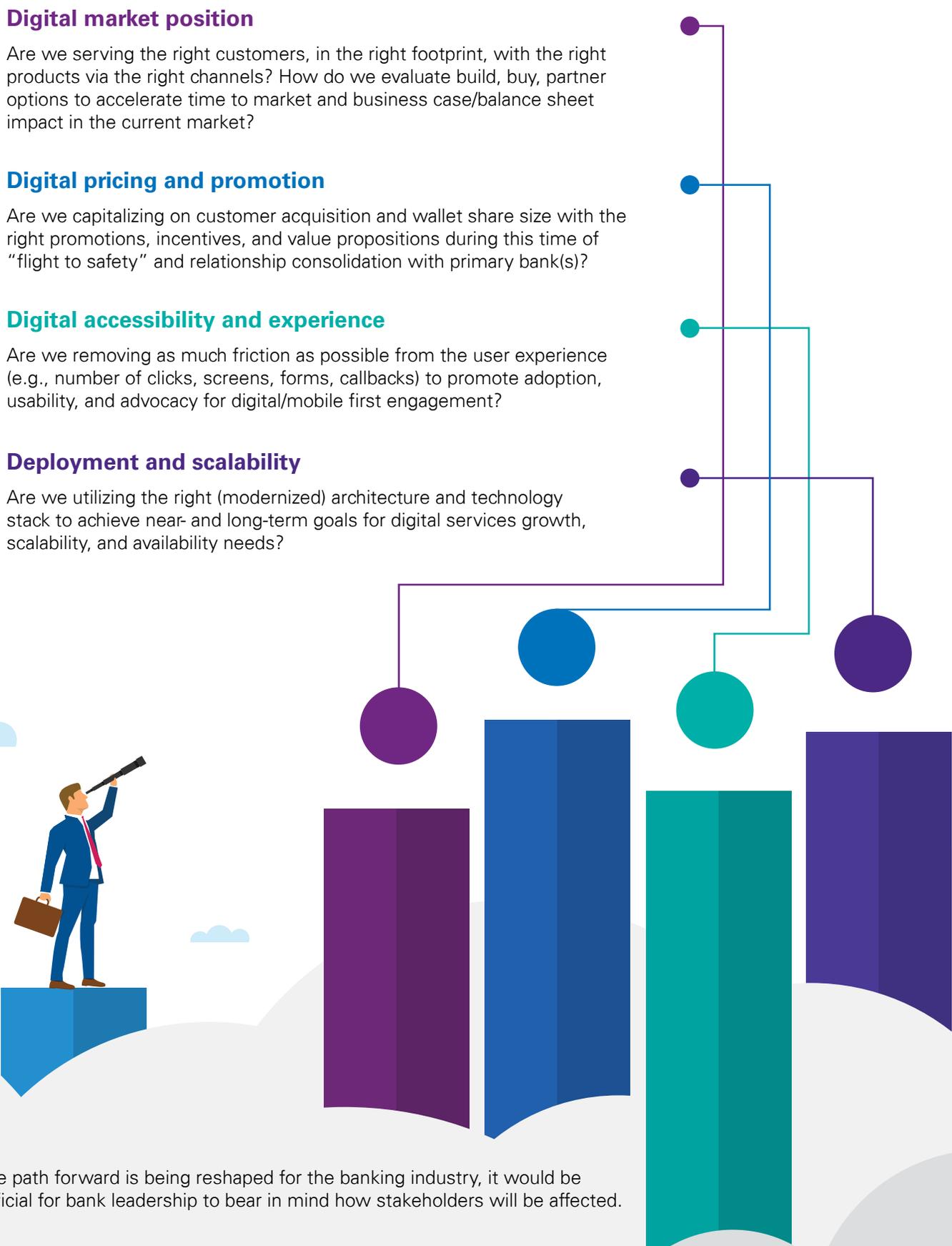
Are we capitalizing on customer acquisition and wallet share size with the right promotions, incentives, and value propositions during this time of "flight to safety" and relationship consolidation with primary bank(s)?

3 Digital accessibility and experience

Are we removing as much friction as possible from the user experience (e.g., number of clicks, screens, forms, callbacks) to promote adoption, usability, and advocacy for digital/mobile first engagement?

4 Deployment and scalability

Are we utilizing the right (modernized) architecture and technology stack to achieve near- and long-term goals for digital services growth, scalability, and availability needs?



As the path forward is being reshaped for the banking industry, it would be beneficial for bank leadership to bear in mind how stakeholders will be affected.

In times of great uncertainty, it is natural to want to apply the brakes, take time to study next moves, and make changes at a measured pace. But, with customer behaviors and expectations already changed and the need for radical operational changes, now is the time to accelerate the digitization process.

Bank executives often ask Mark Twerdok, KPMG's Banking Advisory leader, for guidance about managing through the crisis. His answer? Move ahead with digital innovation plans and execute them in a strategic, enterprise-wide way.

"In the past, many banks looked at digitization as a cost-cutting exercise, and they felt they'd eventually get to the next step of offering new tools for better customer experience. That thinking has to change right away," Twerdok said.

He also frequently is asked: "Where do we start?"

His most common answer: "A logical first step is to challenge any assumptions a bank has made about what 'digitization' means.

"Then the bank should apply the answer to how it relates to the bank's plan for improving operations and enhancing customer experiences."

Celeste Diana, KPMG principal, Digital Strategy, reiterates the point, saying many bank executives for too long viewed digitization through "an efficiency-ratio lens. But now, in the COVID-19 environment, more bank leaders are clearly looking at digitization as much as an enabler of better customer experiences as a means for efficient operations and cost cutting."

Still, she said, the question remains: "How many banks have the technological capabilities" to sustain the digital pivot they started beginning in late February 2020 when work from home and personal lockdowns changed the industry?

A number of media reports respectfully have termed the current condition in banking a "once-in-a-generation-opportunity" to create a highly digitized banking operation. Robert Ruark, the KPMG Strategy banking practice leader and U.S. Fintech leader, said, "while I agree with that assessment, we also have to recognize that not much will happen until banks get over what always have been the sticking points for no movement." Some reoccurring themes are: We need more time to study this ... Let's do it when we can afford it ... Customers really don't want to use all these apps ... It's too complicated ... That's a back-office thing.

For Ruark, enterprise-wide digitalization requires that banks "commit to an honest assessment" of their current position in digital transformation. "I think many banks probably are going to find their digitization efforts aren't all that coordinated, and that realization can be both eye-opening and discouraging," Ruark said.

Banks also will need to compare their capabilities with those offered by competitors and match those capabilities to the demands arising from how customers are now interacting with banks. "The assessment," Ruark said, "should seek to understand what the bank should be doing from a service standpoint and what it should be doing from a sales standpoint, and the bank must think about the customer journey." Banks should consider "how customers actually value that journey. And, there is no way to understand how customers value a service or a product without having the data. Those metrics are essential."

“ There is no specific list of steps for every bank to take when trying to become much more digital than they were pre-COVID. We remind our clients that customers—either commercial or retail—are looking to be helped and to be educated. And, banks that can keep those simple ideas in mind at all times stand a good chance to be trusted and then rewarded with loyalty. ”

Mark Twerdok
Banking Advisory Leader
KPMG LLP

“ **The value of digital channels, products and operations is immediately obvious to companies everywhere right now. This is a wake-up call for organizations that have placed too much focus on daily operational needs at the expense of investing in digital business and long-term resilience. Businesses that can shift technology capacity and investments to digital platforms will mitigate the impact of the outbreak and keep their companies running smoothly now and over the long term.** ”

Coronavirus: CIO Areas of Focus During the COVID-19 Outbreak

Gartner, March 6, 2020



Beneficiaries of banks' digital escalation? Plenty

An interview with Jeremy Balkin, Head of Innovation at HSBC

“There are five core stakeholders who would each benefit if banks revved up their digital innovation engines.”

“Keep in mind, each of these stakeholders has shared interests”:

1

Chief executives—It is in the interest of a rational chief executive officer who wants to drive down duplication and inefficient costs by eliminating manual processes and antiquated information technology systems, which have been accumulating over time, hindering productivity and value creation.

2

Customers—Customers will enjoy a superior experience, which, by the way, is very important at any time—but even more so now with greater demand for digital channels in the COVID-19 crisis. The consumer perception that banks' digital offerings tend to lag other consumer industries is real, and this is the chance to correct that record.

3

Employees—Employees will be more engaged with better technologies and will be doing much more relevant and higher value tasks, resulting in greater productivity and job satisfaction.

4

Shareholders— Shareholders will benefit from happy customers who are more engaged, and loyal customers tend to yield higher revenues.

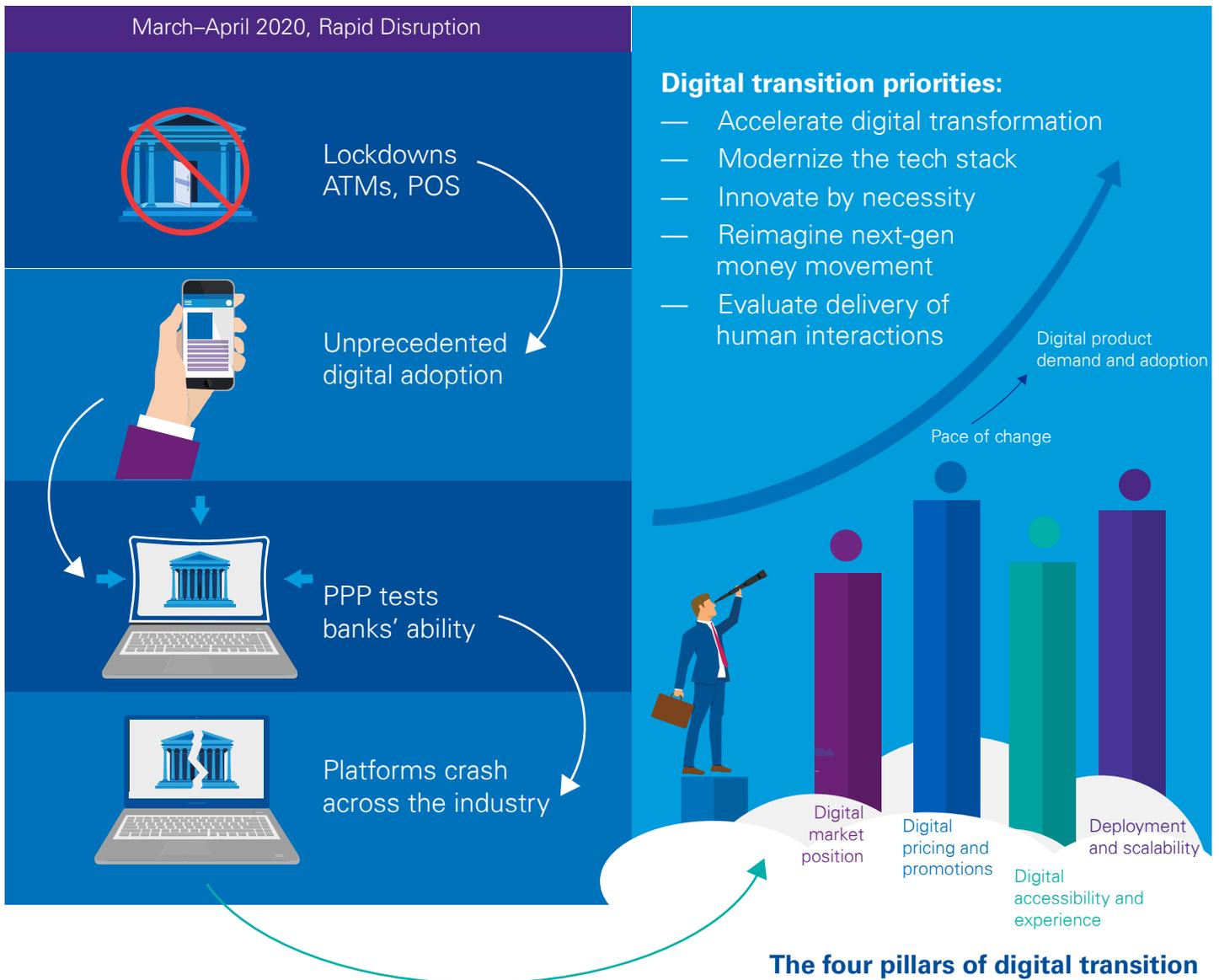
5

Regulators—Regulators will have a more resilient, safer industry if more banks improve their data-gathering and risk-reporting capabilities.

A call to action

There is an immediate necessity to evaluate digital strategies at the enterprise, line of business, and/or product levels. As the pace of change and demand accelerates, a rationalization of investments should be reviewed to identify capital-expenditure capacity for digital agenda priorities.

This illustration maps the arc of industry changes since March and projects how quickly we believe the slope will impact the four pillars that support the path toward meaningful digital transition.



The transformation journey

Our specialists recommend banks that want to move quickly along the path toward creating a strategic, holistic digital strategy follow these seven steps:



Commit to changes in your tech stack

The simple fact is that your technology is old, and there are new patterns that are changing the game. A modern core should sit at the heart of your digital transformation, and it should be built in parallel to your legacy tech stack with some legacy components reused to accelerate, derisk, and lower the cost of your transformation. Once it's built, in months (not years), you can develop a roadmap for minimally viable product (MVP) launches. An MVP is a narrowly defined product that is launched to friendly clients before widespread adoption. "Friendly clients" might include employees or digitally savvy consumer cohorts who would welcome the MVP as an enhancement or upgraded capability. After the MVP launch, a bank can start to think about decommissioning and migration under the guise of continuous improvement, i.e., any customer impact comes with enhanced capabilities.



Forget about a "single source of truth" for your data

You've spent way too much time and money trying to perfect and govern your data. Yes, it's important for regulatory and finance reasons, but unimportant for growth and efficiency. We estimate that as much as 60 percent of the data you need for growth and efficiency initiatives doesn't even sit in your four walls—it's external. Data scientists, data engineers, data archeologists, data modelers, and others can rapidly locate the data you need, land it in an analytics ecosystem (internally hosted or in the cloud, and generate the insights you need in weeks, not months or years. We've proved this out in the most complex environments with data warehouses, data lakes, data ponds, and other repositories.



Commit to modern delivery

Let's face it, the game has changed. Agile is an overused term, but it's incredibly important to change your teams' working routines from the get-go.



Focus maniacally on experience

All teams should be working to create experiences that address the four experience pillars: "Make It Easy, Know Me, Value Me, and Protect Me." Everything you build and every MVP should lean in on creating experiences that will lock in your customers and drive the network effect or stickiness associated with best-in-class experiences.



Go cloud

There is just no way to move fast without cloud, and it must be part of any digital transformation.



Go faster

Digital is about speed; making faster decisions, turning your aircraft carrier into a speed boat, and becoming an organization that skates to where the puck is going, not to where it is. If you don't commit to moving much faster than you do today, we don't believe there is any way to manage a successful digital transformation.



Get your people onboard quickly

You will quickly realize that many of your existing professionals want to do more, want to move faster, and want to be better. Seek out these people—even if they are not your leaders today. We've seen junior professionals literally change the game and become fast leaders when given a chance. Current executives and professionals will either become fast believers or they will hold back your progress. You need to quickly assess who is who and begin communicating across the organization to increase the pace of conversions.

Recipe for digital acceleration



An interview with Chief Innovation Officer at U.S. Bank

Dominic Venturo,
Chief Innovation Officer:
This edited interview was conducted May 5, 2020: (To read the entire interview, visit kpmg.com).

Q **KPMG: How would you describe the current level of digitization among the nation's large and regional banks?**

A Depending on the bank, the answer would be different. Asset size doesn't necessarily have a direct correlation to digital sophistication. Digital capabilities have more to do with the foresight and actions of a bank's management team.

Q **KPMG: Are you expecting rapid acceleration in banks' digitization initiatives in the next few months?**

A In part, speed will depend on the sophistication of a bank's technical capabilities, its people, and its understanding of what's at stake. That said, speed isn't the only factor here. There is a fundamental issue in play, and that is whether management is willing to be challenged on a longer-term basis about traditional beliefs.

Q **KPMG: Do you see some banks being left behind as others ramp up new digital capabilities?**

A There are indications that some banks were caught flat-footed when everything suddenly changed. The need now for digital customer tools and internal digitized processes is immediate, and customers' expectations are very high. Some banks may not have been adequately prepared. At our bank, we have seen a significant uptick in the number of

customers who are using things like chat boxes rather than waiting on phone to speak to someone, or apps for mobile deposits, or mobile wallets for payments.

Q **KPMG: U.S. Bank has an interesting innovation/digitization team in place. What is its mandate?**

A It is an enterprise asset. We keep a couple of goals in mind as we populate the team. We want to quickly offer new capabilities to the customer and to the business by leveraging the newest platforms, and do that at scale, across all of our businesses, consistently. From a talent composition perspective, it is populated with a mixture of roles, and those people interact across business lines so we can avoid operating in silos. Structurally, we have business-domain experts ... in payments, consumer and commercial lending, mortgages, credit cards, or other areas. We also have senior people with technical and engineering expertise. To the extent that those folks have had experience outside of banks is even better, because a lot of the really interesting digital advances preceded banking.

Q **KPMG: What attributes allow banks to accomplish digital changes in a very short period of time?**

A A bank needs to be prepared, digitally capable. It also involves having planned for and created a digital future infrastructure, such as an application program interface ecosystem. That kind of work is foundational to enable new capabilities. If a bank has created a certain higher level of digital sophistication, it can then have the ability to pivot and reposition resources in a time of a crisis. In the past, a project that might have taken a year to complete wasn't viewed as a failure. The urgency wasn't there. But, when the environment changed, the organization must move faster. Its chances of successfully shifting increase if it understands its digital capabilities to reposition resources.

Final Thoughts

Now that a set of newer, faster, easy-to-use banking tools and products are in the marketplace, customer expectations are only going to increase. That can only mean that the bar for services and products will be much higher than it was just a few short months ago. And, inside the organization, the expectations for streamlined operations are going to be higher as well.

In their pursuit of accelerating their digital capabilities, bank executives must be acutely aware of how the bank will generate growth and protect the current customer base, and they must understand that the bank's business and operating model strategies will need to evolve to drive experiences based on customer needs.

Those issues are among the key reasons why KPMG has developed its "four pillars" that support the path toward meaningful digital transition and a focus on market position, digital acquisition and pricing, accessibility and experiences, and how the digital tools and capabilities will be deployed and their scalability. At KPMG, we have deep experiences with helping our bank clients through digital transformation journeys. We know how to help drive results and accelerate your journey.

The time to reevaluate digital strategies at the enterprise, line of business, and/or product levels is now. The pace of change demands immediate attention, and the need for a strategic, holistic digital strategy couldn't be greater.

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