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Industry Leader Roundtable
The Barriers & Breakthroughs of Defining Digital in the World of Banking
Part I

In Part I of this two-part interview, Frank Casale, Founder and CEO of the Outsourcing Institute, sits down with Peter Iannone of Alsbridge and Gene Chao of CSC to discuss the Barriers and Breakthroughs of Defining Digital in the World of Banking

Frank: The pace of change has made banking the toughest job in the business today. The majority of bank executives are understaffed and the increase in regulatory pressure has invoked an almost *Mission Impossible*-type scenario. What are you seeing out there in the banking industry?

Peter: Recently, regional banks have been very active in the sourcing space. You see three or four leading edges that have done a lot of BPO and ITO and now a lot of the regional banks are coming in saying, "We need to cut costs. We don't have the resources. We are not dealing with regulatory well. Let's look at the sourcing community to go ahead and move that forward."

Gene: There are different segments of the markets doing different things at different paces. On a broad-base level, as the banks at large become part of what we will call the "critical infrastructure of everything," there is a scrutiny on speed to market, on both the front and back office. What we are seeing is a focused effort to define what digital means. Just like everyone is talking about the Cloud and the iPhone, yet no one actually says, "but what the heck does the Cloud mean?" the same holds true from the digital perspective. The second part of that, is how to enable what banks continue to call Omni channels, or the front-end customer experience, with those digital platforms. Those are things that are driving everything from the business architecture to investments in technology to a fundamental process change inside those.

Frank: On one hand, when I speak to the banking world, I hear a desire for more innovation, for more business value ad. In those types of discussions I sense this perpetual and ongoing frustration that the service provider isn't delivering innovation. However, the majority of the meetings that I am invited to, the deals I am seeing, are very technical and focused on cost savings. The goals are short-term focused. Is what banks are saying they want and what they are doing a contradiction?

Peter: I think it depends on who you talk to. If you are in the trenches with the CIO, it's all about keep things running. They are dealing with constantly cut budgets and have to do more with less. Innovation is great, but they also want to keep their jobs next year. But, if you talk to the executives and Omni channel, they are saying, "Great. Can we do more mobile, more within the cloud?" Between the desire of the business to leverage technologies and the CIO trying to keep the wheels on the track, and do so in a cheaper manner, is where the disconnect lies.

Frank: Gene, do we help financial institutions define digital?

Gene: It comes back to the adage: you can do it cheaply, quickly, or innovatively, but never all three at the same time. It still holds true, but I think the definition of digital is becoming very specific. We have found there are really four areas in which to search to define digital—they are consistent across the retail banks, the large nationals, and multi-investment banks as well as insurance companies.

1. Readiness and knowing what an innovation platform is. How do you get to mobile trading? How do you get the algorithm trading support when we haven't figured out the mechanism that needs to be there? Where does the data reside? Is it auditable? If you are having these "Omni channels" doing trade support, what happens to that data? We haven't figured out the virtualization piece yet. What is the innovation platform?

2. How do we get to autonomics around an analog process? How do we go from a hands-on to a hands-off process that has intelligence built in? That's a major reference.

3. Quality improvement, which should be continuous, especially when it comes to rates and the trade environment.

4. The simplest one that people forget about is how to go from physical assets of the company to virtual assets of the company? Take newspapers as an example. They have figured out digital innovation starts with a physical asset, a newspaper. How do we get that physical asset virtually onto an iPad? It's a similar question in banking, especially around the knowledge workforce in the banking environment--how to go from physical to virtual? And innovation is subjective. One private equity company might want a virtual office environment, insisting it doesn't need desktops, they just want us to make the whole thing work, which is a heck of a lot different than in the insurance sector, you see moving from a mainframe environment to even just a client server environment let alone Cloud.

Frank: And that means we're talking about what's tangible to the intangible. I had a meeting with a senior executive of a major global bank about two or three months ago. Before I even started the discussion on RPA, this fellow says to me, "You are not here to talk about the internet of things are you? I have that information all over my desk, and I am still trying to figure it out." This was a very smart guy with a very impressive background. This told me that there are some things out there like the digital trend and the internet of things that I think make us happy as industry leaders. We like to talk about it, write about it, theorize it. At the end of the day, though, I just wonder how many of the clients actually get it and have a plan and a budget tied to something high and wide. How do we define innovation in a way that can mitigate this response?

The other observation that I have made in the past year or so is a good amount of the technology that these banks need is out there already. It's good, it's powerful, it's priced right, and a guy like yourself, Gene, is packaging these deals and making it very attractive. I think the slowest moving part of people is either they intellectually don't get it, philosophically they are against it, or there is a fear of change. I have seen deals where technology is right, the price is right; I look at this deal saying it's a no brainer, but that deal doesn't happen.

Gene: I think a mind shift must happen. The first thing is adopting that technology to change it into a business. People view technology, IT, service bundles, and all of the tools and think, Do I have room in my tool belt for this tool? The reality is, it's no longer a tool, it is the business. Technology and banking are virtually one in the same now. The companies we do best with in terms of the change environment have this adoption mentality. We talk about internet and digital as if they're here and ready. By doing so we help make it more tangible, like say a concept car put out by an auto company. That concept car is just that--a concept. In digital, we want you to see what that road map looks like three, five, ten, or twenty years from now so the consumer says, "I got it. That's cool. That's interesting." They can see it, as opposed to looking around and saying, "Well, where is it? Can I touch it?" There's a big gap between what is adoptable and usable versus what is coming.

Peter: I think that's where a huge obstacle stands. Not seeing something as readily available and defined can slow things down. If customers can't get a handle on it, and we don't have examples of it, it takes a while to figure out how to measure or evaluate it, and no one wants to be the first mover.

Frank: I like RPA for the banking community for what I call the one-two punch. It is cost reductive and shaves 25 to 40 percent off labor. It's the real deal and you can measure it. No concept car. The first wave of folks that embrace it are seeing the magic there. What bank is not looking to reduce cost, let alone labor dependency, and what bank isn't out looking for anything to play some role in risk mitigation when it comes to regulatory?

Peter: In the applications environment, it seems that, there are going to be no physical people doing testing at some point. That's one area that has really taken off with robotics. Better quality and better pricing do come out of that, but how do we translate that into the contractual terms that we do? Consider that that Amazon Cloud dropped its price thirty times last year. How do we contract for that? It's just changing the world as we know it. That's the intimidating factor here: change. As those types of changes creep into all of the different aspects of technology and business processes, how are the lawyers going to deal with the contract terms?

Frank: When I talk to audiences about robotic process automation, I see all goodness on the buy side. Who doesn't like better, faster, cheaper? From the service provider side, however, it's a double-edged sword. All of the competitors are a bit fearful of this.

Gene: The fear factor is simply how much do I invest in this, and how quickly? It's the unknown and the steering away from what's familiar. People have yet to dive into this, let alone get their feet wet. But, we know it's coming, we know it's there. We can see it, but is it a competitive advantage? I think it is. When I say competitive advantage, especially with the off shore indie providers, this addresses labor arbitrage head on. That's one aspect of it. Particular to banking, financial services, and insurance, if you go back years and talk about trade processing straight through, that autonomics mind set is already there.

Now, the mindset is even more pervasive. I was out on the board of UTF mutual fund, the first order of business at board meetings is, "What am I trading at? How do we eliminate the human touch to those trade errors?" Instead of a key punch error, do we build artificial intelligence into an autonomic solution? They are trying to adopt that now. That doesn't exist yet because that's real front-office stuff. I would be shocked if it doesn't accelerate in the front office before it gets fully adopted in the back office.

Peter: We are trying to take a very proactive stance within the communities. We need to start by introducing the concepts gradually; we can't expect people to plunge into this head first without some sort of concrete foundation to stand on. Over the next year we are going to hold about ten renewal conferences, which are targeted at our clients, their clients, or anyone who has a contract coming up for renewal. It's going to focus on how they identified things years ago, is not how they are doing it now. One of the major topics is about autonomics and pricing, so we are adding our pricing tools into that. We're basically telling them if they are using autonomics, it can be predicted that the prices are going to change.

I don't think the legal folks have thought that through, but they are going to stand up with us and present it. They are starting to get on board and doing the research and collaborating and say, "We need to get into this topic."

Frank: Peter, I am curious how you see this impacting your role as an advisor.

Peter: A lot of the large banks have their own sourcing departments, many came from the industry -- from supply side and advice side. As we work with them, there's not much that we could do with them that they don't really know. They came from the industry.

Frank: It makes it confusing again.

Peter: All of a sudden it's, "Well we need to talk to you guys because we don't understand the pricing, the legal side, how to bid this, what the solutions look like." It has stepped us back ten years where we become important to them, even though they've built up that expertise which is terrific because they needed it.

Gene: It's a critical path for us. You take the normalized contract renewal, no problem. We get into our next gen offering, we get into wholesale changes in commercial terms, we have to engage. We have invested in new leadership in terms of our engagement with the advisors. The second one is to make sure, it's part of our qualifying system. If there is an advisor involved, they are talking about innovation, talking about changes. I have a comfort level that we will get to a deal. I am not just burning proposal dollars as a test. It's a big deal for us too.

Frank: If you have one piece of advice for those in the banking community, what would it be?

Gene: To find what output you want, define what innovation is, define what digital is. The second part of it is, seek the advice of folks like us in terms of what is a practical application of next gen technology, next gen process bundles, commercial vehicles.

Frank: My advice would be to figure out your robotic process automation. I think in the banking where the benefits of labor arbitrage have run out of steam for them. RPA is almost too good to be true, but it's true. It is better. It is faster. It is cheaper. It mitigates regulatory risk. What I am seeing now is about 10 percent of banks are all over it, and the other 90 percent have no clue what I am talking about. I am spending a good part of my day, every day, one meeting, one discussion at a time preaching RPA. It is very exciting. The backend of this year and into 2016 you'll see many more deals announced.

Look out for Part II of this Roundtable Interview where Frank, Peter and tackle advice for those wrapped up in the high regulatory world of Financial Services. Visit www.outsourcing.com for more.