Why Banks Must Digitally Transform in 2018 or Risk Fading Away

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Wasting time means losing money. That is what digital era businesses cannot bear, and very soon the speed of traditional bankers and banking methods will be comparable to a steam train being placed next to a modern Transrapid i.e. the banking technology of the future.

This fact has been recognised by the banks. Generally speaking, banking is not a technology-friendly industry, and because of the risks involved any decision to make dramatic changes and keep up with the technology race is a very time consuming and difficult task. Yet according to recent banking reports, as high as 80% of banks aim to replace their core banking system within the next five years.

This is not being done through pleasure, but instead through painful necessity. So why are banks taking on such hassle, is it only to satisfy their customer needs? The answer is no, banks are taking this challenge to facilitate the demands of connecting vendors to consumers. This requires high quality and up to date online banking and beyond with agility, scalability and efficiency. Digital platforms not only improve the way customers interact and receive the service, but offer surprisingly efficient approaches for speeding up internal processes within the bank.

With online banking, banks have tried to serve their customers with high end technology for years, but digital banking will modify their internal ways of serving. Internal changes will not only save time and improve customer service speed, but they will assist enormously in cutting operational costs, errors, and mistake costs. More accuracy means precision accounting, online 24*7 command, control over assets and liabilities. The boundaries of digital banking can go even beyond borders and geographical limitations, meaning banks have wider access to markets and can reach their targeted customers in wider areas. This will not only replace ongoing legacy banking operations, but will revitalise the whole industry through speed, precision, and accessibility.

Today, online activities include:

- online payments
- ecommerce for digital companies
- mass lending
- small business financing
- mobile applications
- alerts and scam preventions
- E-trading

Digital banking is a head start for future banking activities, such as:

- internet of things

- blockchains
- crypto currency mining, dealing and exchanging
- biometrics payments
- sophisticated credit, fund disbursements and payments

Since the initial sparks of the online banking evolution in the early 90'S, its expansion and extension has continued at pace, to the extent that today only marginal improvements are significant enough to require a replacement of the entire system.

In recent years, new waves of blockchains and fintechs are launching and evolving more quickly than expected, they are becoming shining stars in the financial industry and being widely adopted and deployed by a young thriving generation of money makers.
More consumers are being attracted to fintech services as they perceive fintechs as being able to satisfy their growing expectations; statistics show that more than half of financially active consumers have signed up to at least for one fintech service. Also, the cryptocurrency and more generally blockchain solutions currently in development must not be ignored, technologies such as blockchain and the Internet of Things are expected to provide much to financial services. Entrepreneurs are already favouring blockchains for their financial platforms, these entrepreneurs will be the future tycoons that will shape the banking industry.

Many banks today see fintech companies as a major threat to their business, whilst some others may disregard them altogether. But the reality is that global investment in fintech has more than doubled in the past four years (from $3bn in 2013 to $8bn forecasted for 2018).
This offers banks two clear options; the first is to engage, take a share, grow and let grow; the second is to resist and resolve. There is no third option. To sustain openness and a willingness to collaborate, investment banks need to strengthen their digital banking backbones. They have to engage with external technologies that offer a variety of services; without open-eyed targeted investment, this innovation cannot happen.

Can digitisation be avoided?
The answer is no. The whole world is becoming digital and user expectation is shifting, meaning that traditional banks need to follow suit in order to remain competitive with the new wave of digitally native financial services.

The term digitisation may have different interpretations; some interpretations mean only investing in multi-channeling and modernising front end customer services, others introduce a higher level of omnichannel capabilities; but to even do this it is inevitable that banks will have to modernise and transform their IT services in addition to their internal processes.

IT norms more generally are heading in the direction of cloud, so bankers may look at new cloud technology in a more serious way. In most cases, the bank's current core banking technology is unable to support today's hi-tech functions; although changing the core is a very lengthy unpleasant project, its becoming a must and banks should take the path as soon as possible. Taking into consideration that a core banking system replacement may take more than three years, banks must select a technology that is still up to date at least at the time of going live.

There is no time to spare; technology and innovation will drag away customers from those who don't want to move in a blink of an eye. Those who view fintechs, cryptocurrencies and blockchains as a threat will face imminent hit from the threats and those who view them as opportunities through cooperation.