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WHITEPAPER

Building customer engagement on top of the core

Agility and integration across siloed systems can accelerate digital innovation

Financial institutions have historically been slow to adopt new technology. The digital acceleration that swept across industries during the pandemic created urgency for a banking sector that still relies heavily on legacy systems. As banks increase their focus on improving customer engagement, it's becoming clear that modernizing core technology is only part of a comprehensive platform for innovation.

Agility and integration are critical elements of modern customer engagement solutions. To succeed in a competitive landscape increasingly focused on the customer experience, banks need to create more responsive systems that allow them to meet their customer engagement objectives regardless of their progress on core modernization.

To better understand how financial institutions are aligning their technology solutions with their customer engagement goals, Arizent and American Banker surveyed 102 U.S.-based global, national and regional retail banks on behalf of SunTec from December 2021 through January 2022.

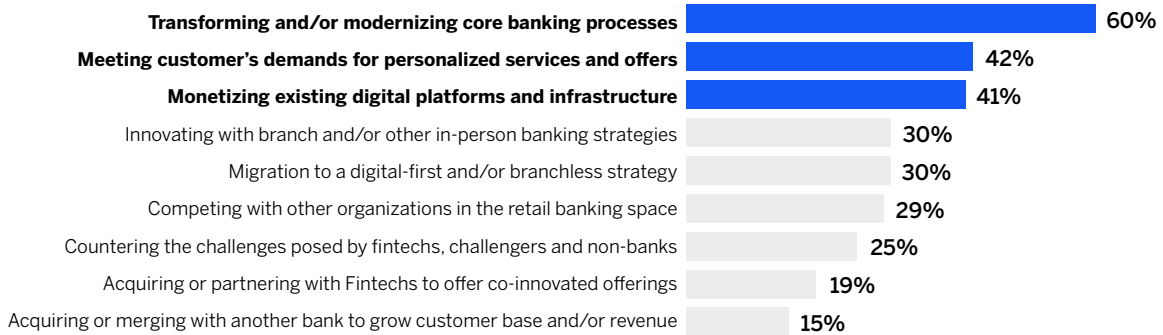
Banks are juggling competing priorities

Modernizing core technology is a critical initiative for banks of all sizes. The transition has been slow and ongoing. At this point, 80% of banks report that they have successfully modernized their core systems in some capacity. However, only 18% of banks report that they have migrated fully to a modernized core. In other words, more than eight in ten banks still rely on legacy core technology in some way.

Meanwhile, other priorities have become more urgent. Efforts to develop personalized products and services are now a top priority for 42% of organizations (see Figure 1). Deriving more financial benefit from existing digital platforms and infrastructure has also emerged as a major concern for 41% of banks. To make substantial and rapid progress on these priorities, banks must devote more of their limited technology resources to them.

Figure 1. Top priorities for retail banks

Which of the following are your organization's current top priorities for your retail banking business?



Source: Arizent/American Banker, January 2022

With 60% of banks still prioritizing legacy core modernization, these resources are already in high demand. While core modernization remains important, it is unlikely to provide the tools banks need to address these other priorities quickly and comprehensively.

The rapid improvements in digital customer experiences in other industries, particularly retail, have increased attention and competition in the financial services industry. As technology companies with experience developing sophisticated customer engagement platforms eye areas adjacent to financial services, such as payments, improving the customer experience has become a more urgent priority for banks.

Legacy core systems are impeding innovation

Addressing personalization has proven especially difficult for banks. Half of the banks in our survey ranked siloed lines of business among the top three challenges they face in personalizing their product and service offerings for retail banking customers. The traditional silos in which their lines of business have operated make it difficult to incentivize or prioritize initiatives that span multiple areas within the bank. This lack of integration prevents them from achieving a holistic view of customers who are likely to do business across various internal departments — such as a customer with a checking account who also wishes to take out a mortgage.

Banks also consistently point to broader problems with customer data as primary barriers to their personalization efforts. These issues include a lack of the types of data they would need to pursue specific personalization strategies, as well as integration issues that make customer data repositories inaccessible to the systems driving promotions and product marketing.

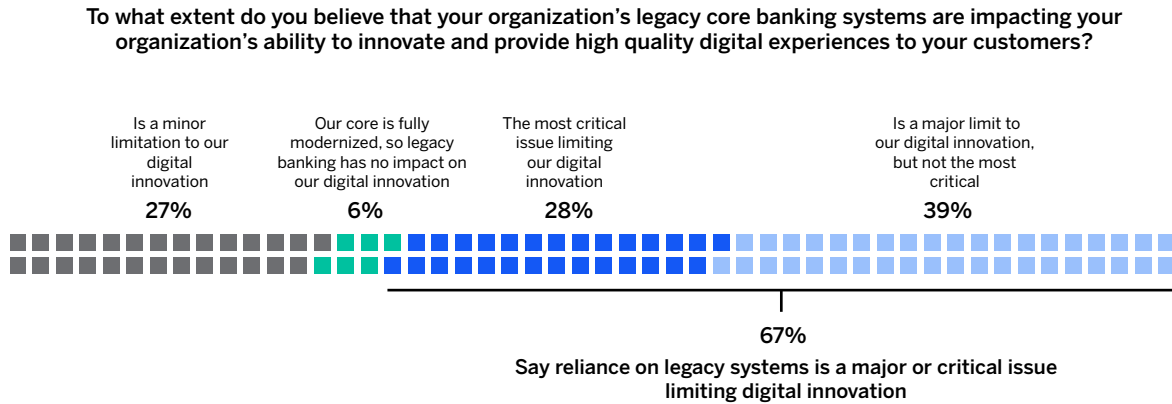
“**Core technology has historically reinforced silos within banks because it has been built to fit banks' internal structures**

— **Nanda Kumar,**
Founder and CEO, SunTec

In many cases, legacy core technology is the root cause of these challenges. Banks are aware of this situation: 67% say ongoing reliance on legacy systems has had a major or critical impact on their ability to pursue digital innovation (see Figure 2).

Legacy core technology is also implicated in the challenges banks face attempting to monetize their digital ecosystems. Nearly four in ten (39%) cite an inflexible technology stack as a primary issue preventing them from meeting this important priority.

Figure 2. How legacy core banking systems affect innovation



Source: Arizent/American Banker, January 2022

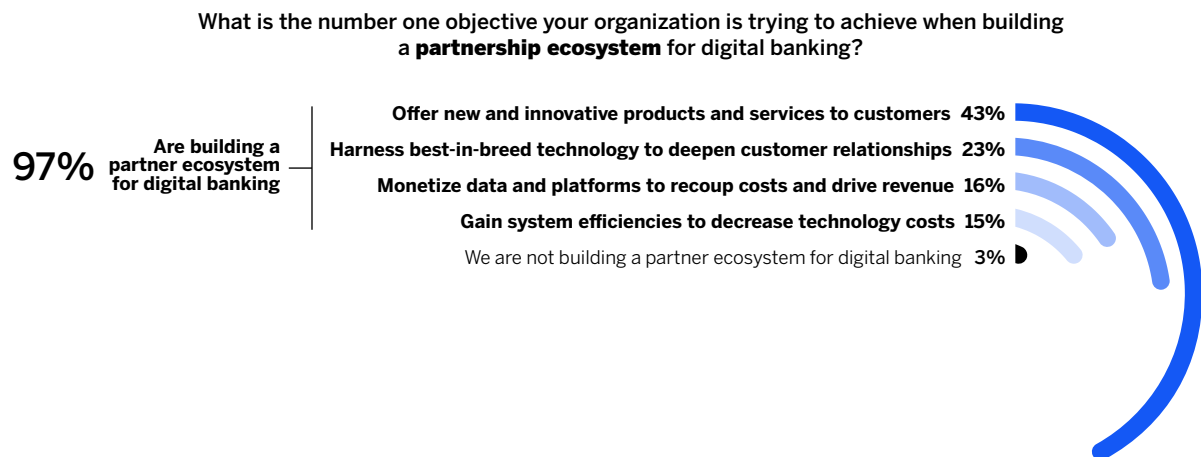
Modernizing core technology is unlikely to relieve these challenges. Core technology is vital to the bank's operations, which means banks must proceed extremely cautiously with their modernization work. As customers demand more sophisticated, personalized experiences, banks may not have the time to wait and see if modernizing their core provides the data access capabilities necessary for agile digital innovation.

How banks intend to address their priorities

Many banks have begun to explore options beyond new platforms as they look for ways to meet their evolving business goals. Working with third-party service providers to develop solutions has gained particular traction in digital banking, where the vast majority of banks are already building partnership ecosystems.

Notably, these ecosystems target many of the top priorities where legacy core systems have proved challenging. The ability to offer new and innovative products and services to customers has been a key driver of third-party partnerships for 43% of banks, while 16% have sought out opportunities to monetize data and platforms to recoup costs and drive revenue (see Figure 3).

Figure 3. Addressing priorities through partnership ecosystems



Source: Arizent/American Banker, January 2022

Digital banking solutions are not comprehensive. They still only deal with a subset of customer touchpoints. They may offer low-hanging fruit for improving customer engagement, but they do not solve the underlying data integration issues banks face in building a truly agile, comprehensive customer engagement solution.

When it comes to integrating and harmonizing back-end technology systems, banks are most frequently relying on efforts to reconfigure their core (16%) or working with third-party service providers to develop solutions (15%). Fewer banks indicate they are targeting areas such as cloud migration (10%) or data integration efforts that dismantle existing silos (9%). And fewer still are seeking out other data integration systems that use middleware (7%) or application programming interfaces (APIs) (3%) to connect all the systems they have.

The solutions banks require go beyond modernizing the core

To achieve their business objectives, banks need to change their approach. Modernizing core technology, while vital, is risky and time consuming. Done improperly, it can lead to catastrophic failures.

“ The time has come for banks to act swiftly and up their value game. This can be done most effectively with the middle layer of technology that sits on top of the core to provide personalized and differentiated experiences to today’s demanding customers.

— **Amit Dua**
President and Global Head
of Client Facing Group
at SunTec

Furthermore, customer engagement functions do not necessarily align with a bank’s internal structures. To innovate successfully, banks need to be able to pull customer information out of the core so they can analyze it and respond to it as quickly as possible. Even a modernized core platform typically results in different, siloed systems for different banking products. Rather than this traditional, vertical style of data structure, banks need a horizontal structure that looks at information across products and across business segments. Replacing the core alone won’t provide that capability. Instead, a better solution is to build a horizontal technology layer on top of the core.

An alternative approach to digital innovation

Adding a middle layer to handle customer engagement functions allows banks to pursue multiple priorities at the same time. Pulling these functions out of the core means banks can implement them regardless of where they are in their modernization transition. By building a system capable of extracting data from legacy core systems banks don’t have to rip and replace their existing systems before they get started. As a result, they can implement personalization systems sooner and with significantly less business risk. Such a system could also be flexibly reconfigured to work with modernized core platforms as they develop, leaving banks free to tackle that pressing issue on the schedule that best suits them.

The more holistic view of customer data afforded by this technology layer creates opportunities for banks to provide value across multiple stakeholders:

Value for customers via personalization

Personalization is a key pillar of banks' customer engagement efforts. Indeed, offering the right products and services to the right customers at the right time is rapidly moving from a point of competitive differentiation to table stakes, as companies like Amazon and Netflix have revolutionized the consumer experience.

With the technology they currently have in place, banks are most likely to use personalization to target marketing based on customer demographics and offer preferential rates based on elementary customer segmentation. These capabilities

“ Historically, the traditional silos that exist in banks have made it difficult to access holistic customer relationships

— **Madhur Jain,**
SVP and Head of Solution Consulting at SunTec

are available using typical core technology, but they are unable to segment customers at any great level of detail. As a result, they may not capture elements of a customer's behavior or relationship with the bank that could better inform the value of promotional pricing both to the bank and to the customer.

Using an intelligent middle layer, can provide banks with a view that includes all relationships they have with their customers – households, customer groups, communities, employers or other targeted or dynamic segments. Banks can then map their

offerings to these customers dynamically. For example, banks could offer dynamic promotional pricing based on the overall relationship a customer has with them. The more valuable the customer, the more incentive the bank can provide to expand the relationship.

Maximizing revenue through transparency

Having access to up-to-date, granular data on customers can improve transparency between the bank and its customers to which can help banks create a centralized and holistic product catalog in one place so that they can offer competitive solutions tailored to customer needs while also minimizing revenue risk. This type of setup allows the bank to offer incentives to customers under specific circumstances. A customer who opens a new checking account might receive an offer of cash back on the account if they set up direct deposit from their employer and perform at least one bill-pay transaction within the first three months.

To provide such an offer through traditional core technology, banks typically would have to write the code controlling the promotion directly into their core systems, making it difficult to implement new initiatives or change existing ones. It can also be difficult to track a customer's progress — they either fulfill their promises and get the reward or they don't. Furthermore, if consumers don't understand what they failed to do, a promotional incentive can become a customer service issue.

Using layer technology, banks can be transparent with customers about what they need to do and when, as well as what any action or lack of action could cost. Banks could update customers periodically to let them know how they're doing or that their offer will be expiring. More broadly, banks can tailor their agreements with their customers in a dynamic, automated way, while maintaining a clear, transparent record of the conditions of the agreement. This level of transparency improves customer trust, while also making it easier for banks to maximize the value they receive from customers throughout their relationship.

Fair value for partners

With the increasing reliance on partnership ecosystems for banking products and services, it's important for banks to ensure their revenue sharing agreements are equitable for themselves and their partners. With a sophisticated middleware technology platform a bank can offer value models to partners dynamically, based on the complexity of their relationships or to provide incentives for partner behaviors.

For example, a bank might deal with Amazon as a vendor partner for multiple products, requiring a complex solution for how to recognize and split revenues. At the other end of the scale, a bank may work with a small vendor on a freemium basis, where the bank's customers receive certain products for free under the agreement, but pay extra for premium services. In a similar vein, as banks and their investors become increasingly focused on environmental social and governance issues, they can offer better rates to customers who purchase from partners with better sustainability characteristics.

A comprehensive view of modern banking

Banks that rethink their systems and move customer engagement functions outside their technology core will give themselves a head start on their competitors in key areas. By building more responsive systems that offer a more comprehensive view of their customers, these banks will be able to meet their customer engagement objectives quickly, regardless of where they are in their core modernization process.

Methodology

During December 2021 and January 2022, Arizent and American Banker conducted a survey of U.S.-based global, national and regional retail banks to gain insight on how they are aligning their technology solutions with their goals for 2022. A total of 102 qualified respondents completed the online survey.



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