Industry Perspective

Accelerating Through the Cloud: What Sets Future-Ready Banks Apart

A joint point of view with KPMG and Workday.

Banking executives have seen the writing on the proverbial wall: their companies must rapidly evolve to meet today's business requirements and tomorrow's competitive challenges. Satisfying consumers' digital-first expectations—now table stakes for financial services—is the most outwardly visible demonstration of the digital transformation in motion across the industry.

"Banking leaders are rapidly advancing digitization throughout their organization because they want to address short-term economic uncertainty while supporting longer-term growth objectives," says Tony Alejo, a principal at KPMG who leads large finance transformation programs. "It's one of the biggest differentiators between who is out front and who is being left behind."

Looking to gain competitive ground—and proactively manage both near-term threats and long-term opportunities—today's future-ready banks are jettisoning brittle, disconnected legacy systems in favor of unified, cloud-native data streams that connect the front, middle, and back offices. Such investments unlock a wide range of benefits, from stronger risk mitigation and faster planning cycles to more effective workforce management and stronger insights.

The ultimate impact? Finance and HR teams are better positioned to proactively partner with the business on strategic priorities and guide swift, data-driven decisions. Rather than reactively tracking value or filling open requisitions, they're able to actively participate in value creation. In short, the bone-deep digital transformation is a change felt across the banking enterprise—functional boundaries be damned.

Such powerful and profound change isn't realized through incremental iteration (just as no amount of tweaks and improvements will turn static spreadsheets into a worthwhile tool). Rather, true transformation requires shaking free of patchwork systems and outgrown applications in favor of a tech foundation that's built to flex and adapt in lockstep with a bank's evolving business.

"There's so much uncertainty around what's ahead for the banking industry over the next 12 to 18 months," says Jim Gahagan, senior director of Financial Services Solution Marketing at Workday. "But what's clear is that banks want to be in a position to move quickly as the business environment starts to change, and to be agile enough to seize strategic opportunities."

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Deep digital change requires a different way of thinking, not just about how data is stored but about how better information can drive better business decisions. You need to embrace a new mindset from the beginning.

Jim Gahagan
Senior Director of Financial Services Solution Marketing,
Workday

A crowded risk landscape.

Contending with uncertainty is nothing new to financial institutions. But today, banks seem besieged by potential risks on all fronts—from the economic fallout of geopolitical tensions and soaring inflation, to heighted cyber risks and an industry-wide skills shortage.

More than half (55%) of banking executives surveyed by KPMG in 2022 say they're unsure of their bank's future profitability and growth prospects in this highly uncertain environment. And what are the specific risks keeping banking executives up at night? Credit risk claimed the top spot when asked about threats to growth over the next three years.

But it's also worth noting that 45% of banking executives say they lack the technology necessary to achieve their climate ambitions. More than half (54%) admit they're losing significant market share to nontraditional service providers, such as fintech start-ups. And nearly two out of three (61%) identify talent retention as a significant concern for the organization.

In other words, risks are currently as plentiful as they are potent.

With economic headwinds on the horizon, many banks have reduced headcount—while also positioning themselves for a rebound through transformation initiatives that maximize their strategic agility. "Banks want to be in a position where they can move quickly as the business environment starts to change," Gahagan says. "The ability to combine and access data in a platform that helps quickly answer urgent strategic questions is fundamental to their stepped-up transformation efforts."

That swift, sure-footed decision-making is antithetical to most legacy systems in which minimal confidence in data and manual aggregation can hamper data analysis—if not impede it entirely. Mergers and acquisitions often amplify those barriers, with data scattered across multiple silos, stitched together in a byzantine and brittle fashion.

"Banks operating on legacy systems face real barriers as they try to anticipate the risk of defaults and delinquencies in different portfolios," Alejo says. "Data limitations mean they can't leverage leading indicators to inform mitigation strategies."

A cloud-native platform makes those common limitations a non-issue. Data across the enterprise—from customer-facing transactions to general ledger entries, payroll processing to succession planning—is harmonized in one secure, reliable platform. And because it's cloud-based, there's no risk of working with outdated or duplicative information. Always-on audit controls and segregation of duties, meanwhile, are built into the very architecture of the platform, helping to minimize risk while empowering employees with the right level of information.

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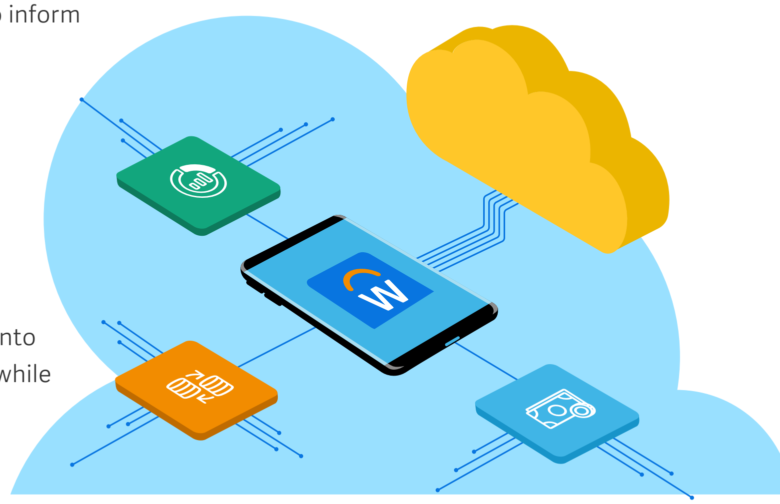


The upsides of such democratized, real-time data are too significant to ignore—particularly in a business environment fraught with uncertainty. "To proactively manage risks and to more broadly support planning, forecasting, and performance management, banks need a unified, ideally cloud-based system," Alejo says. "The benefits are significant."

Change? Ready!

Within banks, the finance function—still largely mired in manual processes and reconciliations—is particularly ripe for the value creation unlocked by digital transformation.

Tedious, time-intensive tasks crowd out bandwidth available for more strategic activities, such as predictive forecasting, data analytics, and increased scenario planning.

"The greatest opportunity that the office of the CFO has is to elevate the value of services delivered," Alejo says. "A big part of that is speeding time to insights."

The ability to deliver value at speed, so critical for rapidly responding to both market signals and customer demands, rests on connectivity among the front, middle, and back offices. A cloud-based platform can unify vast amounts of current and historical data from across the business, giving the office of the CFO the opportunity to double or even triple time spent on analytics and decision support, Alejo says. "That's a major efficiency gain, freeing up time to focus on creating value instead of processing data."

Of course, if digital transformations were effortless, every bank would have ticked this to-do off its list years ago. But the banking landscape is littered with initiatives that failed to sustain adoption among users or delivered only ho-hum impact. Alejo points to three common obstacles that stymie successful digital transformation at banks.

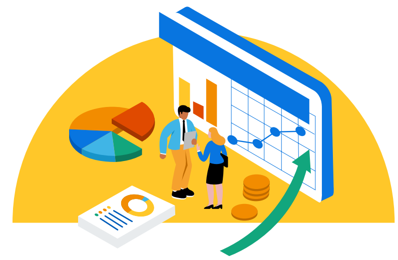
1. An inability to scale enterprise cloud solutions.

Point solutions may seem like an attractive way to dip one's toes into the data analytics waters without having to fully reckon with the brittle, byzantine systems undergirding the enterprise. But that approach tends to breed more data silos and inefficiencies, rather than solve them.

"You still don't have connectivity across the organization," Alejo says. What banks need is a broader enterprise cloud strategy and solution that delivers true scale.

2. The need to disconnect from the broader digitization strategy.

What benefits should a digital transformation initiative provide to the business? Answering this question is part of any business case. But often while the benefits of a specific cloud-based point solution may be clear, those benefits may not dovetail with the C-suite's broader digitization strategy that supports the firm's growth or customer agendas, Alejo says.



75% of senior banking executives say their organizations need to do more to digitize both customer-facing and back-office processes.

87% of senior banking executives are confident in the long-term growth prospects of the U.S. economy, but only **27%** are confident in short-term growth.

3. Too much focus on technical requirements.

Digital transformation is not about merely converting what a bank has in place today into a new system. "Banks need to think broadly about the future and their strategic goals," Alejo says. But too often the back office or office of the CFO is focused on "requirements"—technical specifications and functions required by the enterprise. Those do matter. But ". . . an undue focus on requirements acts as an obstacle to more advanced thinking and adoption of leading practices, versus just trying to migrate existing requirements into digital capabilities," Alejo says.

Most banking leaders begin exploring new enterprise solutions because it's clear the organization has outgrown the functionality of its current system and needs something more powerful, Gahagan says. Rather than opt for an ad hoc or incremental improvement, leaders would be wise to approach this as an opportunity to think big and embrace change.

"Deep digital change requires a different way of thinking, not just about how data is stored but also about how better information can drive better business decisions," says Gahagan. "You need to embrace a new mindset from the beginning. It makes for a much smoother and more successful process."

Digital transformations that enable organizations to tap the full potential of cloud-native platforms, fueled by AI/ML and intelligent automation, offer benefits that are anything but incremental. By connecting data-rich payment platforms to an enterprise resource planning system, for example, finance organizations can dramatically sharpen and accelerate their planning and forecasting cycles, as well as their performance management functions. Swifter, stronger insights—and a team freed from tedious tasks in order to act on those insights—means banks are better able to uncover new ways of attacking the market, such as partnerships with third-party nonbanking institutions, in order to gain ground in specific retail niches.

"Integrating transaction information captured up front about customers' spending habits or credit limit utilizations with finance can unlock valuable insights," Alejo says.

More robust analytical capabilities can also support decisions about acquisitions and divestitures, which are both highly data dependent. A cloud-based platform providing a more comprehensive view of the business can make those decisions easier.

But all these benefits flow from technology-enabled efficiencies that automate and speed up tasks, freeing up finance team bandwidth to be reallocated to more strategic activities. "The more you can avoid spending time on processing and reconciling transactions, the better positioned you are to add more and higher value to the organization," Gahagan says. "It all starts with having the right data readily available in the cloud."

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The skills advantage.

Conversations about banking digital transformations often center on operational efficiencies, richer insights, and customer experience improvements. But in a tight labor market, a workplace powered by future-ready digital tools can be a powerful way to attract—and retain—talent. Rather than digital transformation and a future-ready workforce being separate goals that each demand distinct resources, these initiatives can overlap and reinforce each other in crucial ways.

"If your employees are now doing much higher-value-added activities, rather than just processing transactions, there's a higher level of job satisfaction," Gahagan says. "Successful retention really revolves around giving people a meaningful job to do." That's no small win, considering 6 in 10 senior banking executives in a KPMG survey identified retention and the Great Resignation as significant concerns.

A future-ready workforce is never a static goal, of course. While foundational accounting and financial control skills will always be at the heart of finance, Alejo says, everything from increased regulatory complexity to the rise of environmental, social, and governance (ESG) metrics to greater demands for fluency in data visualization and design thinking mean that organizations must proactively ensure that workforce skills are evolving in lockstep with changing business needs.

"The range of skills that banks require continues to evolve, and having a skills-based mindset for your employees is really crucial to keeping pace," Gahagan says.

For banks still running on legacy systems, even a clear inventory of current skills may feel out of reach. But cloud-native enterprise platforms are not only able to provide visibility into workforce skills and capabilities, they're also able to leverage that data to power internal mobility, upskilling, career development, and more effective performance management.

Fundamental to delivering on this shift to a skills-based approach are technologies such as AI and ML, which enable banks to understand the key attributes that drive automation as well as provide insights and predictions that help identify and align skills with jobs. Forward-looking banks recognize the benefits these technologies provide by surfacing the insights that quickly turn employee data into a strategic advantage while helping businesses adapt to change.

When real-time skills data is analyzed alongside employee sentiment on career goals, workloads, and manager support, it makes it that much easier for people leaders to hone in on high-potential talent for development, as well as spot attrition risks before they give way to resignations. Data-driven insights may be even more essential, as ways of working—including remote and hybrid workplace policies—continue to shift. "Human resource leaders are going to play a critical role in helping banks find the right balance between new work arrangements and keeping the culture intact," Alejo says.

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Accelerating ahead.

Beyond the immediate economic uncertainties banks are now contending with, the bigger picture is clear enough. The future of banking will be digital—prizing strategic agility, data connectivity, and customer centricity. The last 10 years were far from static for the industry, but executives see even more dramatic change ahead: nearly half of bank CEOs surveyed by KPMG say that within the next decade, banking will be exclusively digital and virtual—no brick-and-mortar facilities. No wonder, then, that three-quarters of CEOs say that pushing digital transformation forward rapidly is essential to staying ahead of competitors.

CFOs have the opportunity to be a trusted partner to the business as it evolves with the industry. But to do so, the finance organization must also change. New digital capabilities are needed—but technology is only a means to larger goals. By bringing together data from across the enterprise, cloud-based platforms can offer unparalleled real-time visibility into strategic challenges and potential solutions—which CFOs can shed light on and support.

"Digital transformation affords finance organizations the opportunity to make the transition from a focus on generating trusted results to instead interpreting and analyzing that information," Alejo says. "That enables the business to make faster, more informed decisions."

It starts with connected data, which paves the way for all the analytical capabilities possible within the office of the CFO. But at a more basic level, evolving the office into a strategic partner starts with jettisoning outdated ways of working—and embracing new tools and skills, and the promise of new ways of creating value.

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