Leveraging innovation for catalyzing performance of Banks

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The world is changing .. changing at 10 x

It’s a VUCA world

Disruptive Business models

INNOVATIONS

The key to building a sustainable organization

Changing paradigms of business
Shifting sands…

- Disruptive business models have changed the rules of game
- Technology has transformed how we live and work.
- Demographic shifts have reshaped society and the workforce.
- Globalization has changed the rules across all markets.
- Customer expectations have dramatically increased, expecting everything faster, better, more differentiated and personalized than before.
- Climate change has had a huge environmental impact
- Corporate responsibility is now front and centre in the fundamental purpose of organizations.

The world is changing

Banks must change too

to remain relevant

Banking – The Perspectives

- The banks are the lifelines of the economy
- Banks play a catalytic role in activating and sustaining economic growth, especially, in developing countries and India is no exception.
- Banking Industry is Leading contributor for GDP
- Most of the banks have begun to take an innovative approach towards banking
- The objective is to create more value for stakeholders

Banking is necessary, Banks are not

- The quote attributed to Bill Gates suggests that the core functions and services of banking are essential, but the traditional banking institutions as we know them may not be necessary or the only way to provide those services.

- The impact of technology and collaboration of different players and industries is reshaping the landscape and determining the future relevance of banks in the evolving financial ecosystem.

- The question whether banks are necessary or not hinges on their capacity to adopt this emerging model.

Banking stands on the threshold of a new era, similar to the start of the Digital Age.

Technology, innovation, and workforce transformation are reshaping the banking industry.

These forces are driving dramatic change, and banking leaders must decide if they will be pioneers, follow fast, or be left behind.

Transformation of Banks – An imperative

- To reimagine a brighter future and seize opportunities to drive growth, banks should focus on transforming their thought process, systems, workforce and operations.

- With a clear sense of the path ahead, banks can reframe their future by placing humans at the center of their organization, leveraging new technologies to support them, and enabling innovation at speed and scale.

- Banking leaders will need exceptional agility to manage change.

- Success will arise from a balanced execution of strategic near-term initiatives with investment in people alongside transformation and growth strategies that deliver long-term value.

Why are innovations important?

- History shows that companies that fail to innovate risk losing market share or becoming obsolete.

- This happened to Nokia and Blockbuster. And it might happen to traditional banks that start losing customers to neo banks.

- Innovation has become a critical component of business growth in the banking industry.

- Beyond creating the 'next big thing,' innovation includes the creation of value through new or existing products, services or processes.

- It should incrementally improve customer and employee experiences, back-office efficiency and revenue opportunities.

What is Innovation

- Innovation is a product, service, business model, or strategy that's both novel and useful.
- Innovations don't have to be major breakthroughs in technology or new business models;
- They can be as simple as upgrades to a company's customer service or features added to an existing product.
- Today’s competitive landscape heavily relies on innovation.
- Business leaders must constantly look for new ways to innovate because you can't solve many problems with old solutions.


Innovation is the
result of human
ingenuity.

Types of Innovation

- Innovation in business can be grouped into two categories:

- Sustaining innovation: Sustaining innovation enhances an organization's processes and technologies to improve its product line for an existing customer base. It's typically pursued by incumbent businesses that want to stay atop their market.

- Disruptive innovation: Disruptive innovation occurs when smaller companies challenge larger businesses.

Innovation doesn't equal "improvement."

- Imagine you have a candle, and you decide to create a torch. That's an example of improvement.
- Break-through innovation was offered by Thomas Edison, who is credited with inventing the light bulb.
- Innovation always has the taste of revolution.
- You can't hope that gradual, incremental improvements will result in innovation.
- Adding more horses to the carriage would make it move faster, but the real innovation would be Henry Ford inventing car production on a massive scale.

Imperative : Vision for the future

- Leading banks don't just see and react to what's happening today—they have a compelling vision for the future.

- Some visualize bold digital transformations that change how they operate;

- Others are opening new vistas with purpose-driven strategies or extraordinary customer and employee experiences.

- Technology opens new ways to predict and shape what's next for their customers and their business.

- But today, innovation in banking means little unless it addresses the needs of customers and society during unprecedented times.

Innovation in the banking industry

- Innovations in the banking industry refer to the introduction of new ideas and technologies that aim to improve the efficiency and effectiveness of banking services.

- This can include a wide range of activities, such as the development of new financial products and services, the use of emerging technologies like artificial intelligence and block chain, and the implementation of new business models and operating processes.

- The goal of banking innovations is typically to increase customer satisfaction, reduce costs, and improve the overall competitiveness of the bank.

Four Phases of Innovation

- Clarify: The first stage of the process is clarifying a problem. This involves conducting research to empathize with your target audience. The goal is to identify their key pain points and frame the problem in a way that allows you to solve it.

- Ideate: The ideation stage involves generating ideas to solve the problem identified during research. Ideation challenges assumptions and overcomes biases to produce innovative ideas.

- Develop: The development stage involves exploring solutions generated during ideation. It emphasizes rapid prototyping to answer questions about a solution's practicality and effectiveness.

- Implement: The final stage of the process is implementation. This stage involves communicating your developed idea to stakeholders to encourage its adoption.

Innovation Models

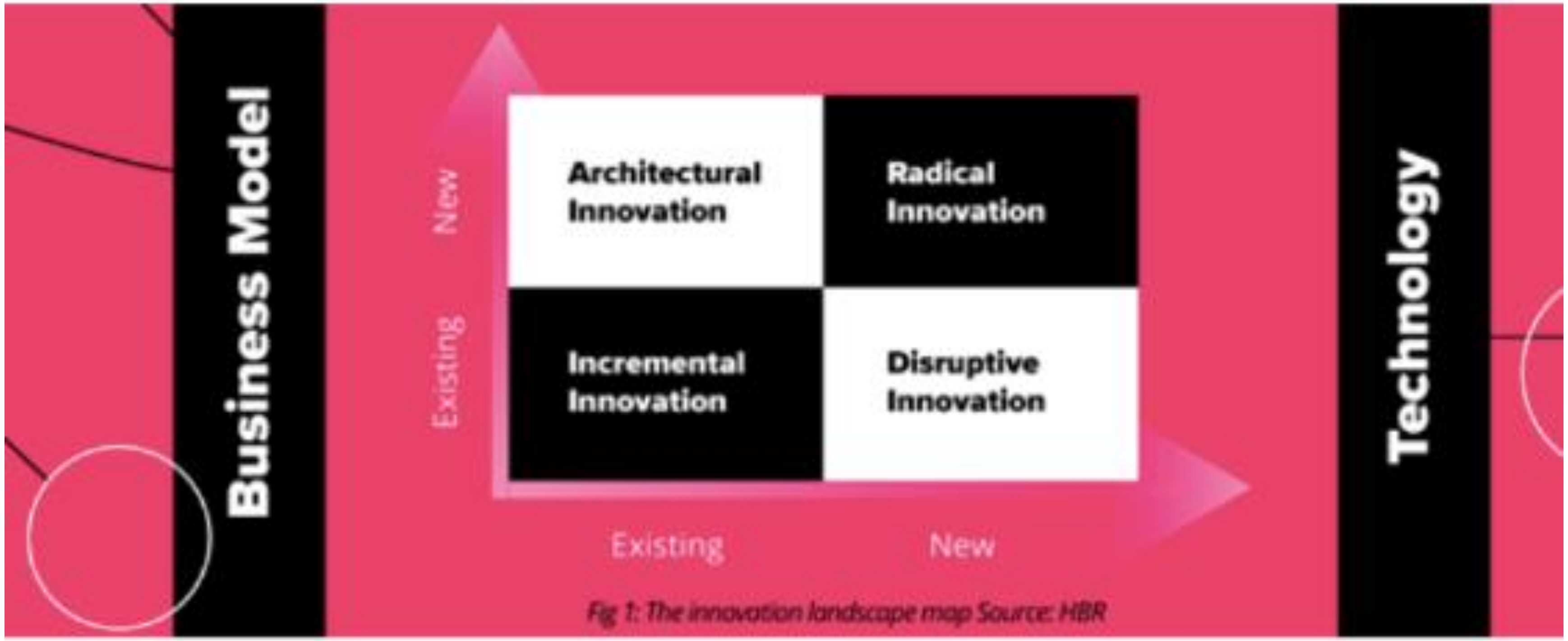

Fig 1: The innovation landscape map Source: HBR

- **Incremental**—this is the most common type of innovation and uses technology to increase a customer’s value (i.e. features, design changes, and more) within an existing business model.

- **Disruptive**—involves applying the latest technologies and processes to a bank within an existing business model. Example: Apple Pay via Apple Watch allows customers to pay for goods and services—mobile banking creates frictionless com

- **Architectural**— is used to apply learned lessons, skills, and processes to a different business model by combining technological and business model disruptions.

- **Radical**—the most disruptive type, radical innovation creates trends via revolutionary technology. Example: Block chain technology replaces and improves current financial fraud prevention methods.

Human- Cantered Innovation

Innovation requires considering user needs

- Desirability: For a product or service to succeed, people must want it. Prosperous innovations are attractive to consumers and meet their needs.

- Feasibility: Innovative ideas won't go anywhere unless you have the resources to pursue them. You must consider whether ideas are possible given technological, economic, or regulatory barriers.

- Viability: Even if a design is desirable and feasible, it also needs to be sustainable. You must consistently produce or deliver designs over extended periods for them to be viable.

Banks need to stay ahead of the curve

- The competition is fierce, with the threat of fin tech startups luring customers away with digital payments and services, traditional banks need to remain attractive.

- That means both retaining current customers and attracting new ones by offering compelling products and outstanding customer experiences.

- There are profound changes underway in the new era of banking innovation, primarily marked by the emergence of cutting-edge technologies like generative AI and block chain.

- These innovations are reshaping every aspect of banking, from customer experiences and overhauling payment solutions to strengthening cyber security defenses, creating exciting opportunities for forward-thinking businesses.

Reasons why banking innovation is crucial

To stay competitive:

- Banks need to constantly innovate to remain competitive in a crowded and constantly evolving industry.
- Fintech startups are actively leveraging new technologies such as AI, machine learning and advanced data analysis to offer advanced services to their customers.
- Traditional banks should look to do the same to remain competitive.
- Offering the latest products and services through technology will also help with reputation and brand image, which helps to retain customers with positive reputation.

To meet the changing needs and expectations of customers:

- With advancements in technology and changes in consumer behavior, customers expect more personalized, seamless and convenient banking experiences.
- Digital convenience is a leading factor, with customers wanting to manage their finances on-the-go using their mobile phones, but still have the options of being able to visit branches or ATMs.
- So banks need to offer an omni channel experience that offers consistency and real-time updates

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To improve operational efficiency:

- Innovations in banking can help automate manual processes, reduce costs, and increase the overall efficiency of banking operations.
- Automation technologies can help to reduce errors, speed up tasks and free up employees to focus on higher value work.

To reduce risk:

- Cyber security is at the top of everyone's mind when it comes to digital banking.

- Innovation can help mitigate risks associated with fraud, cyber attacks, and other potential threats to the banking industry.

- Machine learning can be used to identify fraudulent activities, while biometrics can be used to enhance access security.

To create new revenue streams:

- By introducing new products and services, banks can create new revenue streams and tap into previously untapped markets.

- Partnerships with fin tech firms and exploring cross-selling and upselling opportunities are an effective way to generate new revenue.

Improving the Customer Experience

- Customer experience is a top priority for businesses across every industry, and banking is no exception.
- Nowadays, it is crucial that banks provide superior customer experiences, or they risk losing out to the competition.
- Thanks to advancements in generative AI, banking institutions will be able to improve the customer experience by analyzing every touch point and making improvements where friction occurs.
- Customers are likely to encounter more helpful chat bots, more personalized financial planning solutions, and customized investment strategies.

Taking the next step in banking innovation

What do banks need to do to take the next step in innovation

Putting Innovation in action in Banks

- Banks must assess innovation against readiness for change and available resources.
- Banks should start with incremental change because this model requires a relatively low internal disruption.
- Innovation should be approached with a clear plan and structure to manage ideas from the outset.
- Banks must envision the future state and create a comprehensive but flexible plan to achieve this end.
- The plan must include stakeholders, resources, required systems and processes, milestones, and contingency protocols.
- A cohesive, well-communicated plan helps to ensure budget is not reallocated elsewhere prior to project completion.

How To Rise To The Challenge

- The major challenge in operational innovation is tackling historic operational models that are typically tied to products and have been designed with an internal focus, to meet the needs of the banks themselves.

- Innovation requires a complete change in approach, reinventing banking operations from the ground up to support customer-centricity.

Changing Focus

- As challenges related to the introduction of new banking products and services are solved, new issues may emerge.

- Because of these new issues, banking executives need to adopt flexibility as activities and focus of a project could change over time.

- Banking executives need to consider key objectives for innovation, including the correct audience, end goals, and how progress or transformation is likely to be tracked and optimized throughout the project.

- Banks must solicit inputs from both internal and external stakeholders (i.e. consultants, advisors), and customers as a third-party vantage point may provide crucial insights unseen from a limited internal perspective.

Empathize with design-thinking

- A successful ideation process begins with a shift in perspective—identifying and addressing customer pain points is best accomplished through adopting an empathetic, design-thinking approach.

- Banks must step into a customer’s shoes to determine what they're struggling with and why, before finding the appropriate solution—this is the basis of design thinking.

- By leveraging design-thinking principles and practices, banks can create processes, products, personalized interactions, and more to enhance a customer's experience.

Collaborate with transparency

- The purpose of the ideation process is to gather ideas, with the best ones often emerging from interdepartmental group collaboration—merging individual ideas with group exercises leads to a higher quantity and quality of ideas.
- Commencing an ideation session with an individual contribution provides the opportunity for thoughts to be shared and heard in an open forum.
- These ideas are captured, providing fuel for the subsequent group session.
- Successful ideation is dependent on establishing a framework for stakeholders to safely and securely collaborate and co-create, contribute, and develop ideas.

Iterate to Track and Fail-Fast

- Once a winning idea is agreed upon, innovation progress is heavily dependent on a bank's ability to iterate with an agile and fail-fast mindset and incorporate outside-in collaboration.

- This iterative approach helps banks validate proof of concepts (PoCs), collect feedback, and incorporate changes into design, prior to implementation, as this is widely acknowledged as the most expensive stage of innovation.

- Getting this stage wrong before implementing can present many challenges, not least an overspend in budget.

- Working in iterations allows banks to gain transparent and real-time feedback about the PoC

- Instead of waiting months for the decision to be signed off, project stakeholders can instantly view feedback, and decide on product changes.

Deliver to Scale

- The final stage allows banks an opportunity to accelerate the implementation of an idea with the creation of a validated Minimum Viable Product (MVP).

- After validation, ideas are promoted through mass consensus to ensure the best ideas have been considered. Objectives and key results (OKRs) must be set at the onset of MVP creation, to ensure expectations are met prior to full-scale implementation.

- A primary goal of an MVP is to figure out which products clients don’t want, allowing for the development of products or features that are preferred by clients.

- After implementation, ROI should be constantly tracked to see if any product or idea features need to be improved.

- Creating a well-planned and executed implementation approach drives outcomes and delivers compelling experiences for a bank’s customers.

Operational redesign and innovation to upgrade the customer experience

- Upgrading the customer experience is essential to remaining competitive in the modern banking market.
- Customer needs are changing at a rapid clip and banks are racing to keep up with the pace of change.
- This evolution in customer demand means that banks are competing based on customer experience and the leaders in this field are already pulling ahead of the pack, with ease of service being cited as the top reason for both choosing a bank and sticking with them.
- Customer experience has to be both the starting point and the focus for process design and operational innovation.

Operational innovation to boost profitability, increase ROE and free up resources

Innovation in operations offers several advantages.

- Firstly, it provides the potential to grow revenues by providing new, better and differentiated products and services for customers.

- Secondly, operations consumes large chunks of banks' annual budgets and the efficiency gains achieved through the use of digital technology reduces costs while freeing up financial resources that can be reinvested in digital innovation.

Innovation: Performance indicators

There are many performance indicators (PIs) used to measure, manage and report on innovation.

- Increase in value of ideas at start of innovation pipeline
- Number of new ideas implemented
- Risk-adjusted net present value of innovation pipeline
- Number of projects abandoned
- Number of successful handoffs
- Speed to market
- Number of new offerings launched

Innovative mindset

- An innovative mindset is a willingness to experiment, move fast and learn from mistakes. Thomas Edison tried 10,000 times to construct the light bulb but optimistically said, “I have not failed 10,000 times—I’ve successfully found 10,000 ways that will not work.”

- Traditional banks should create a space for rapid experimentation.

- “Success is walking from failure to failure with no loss of enthusiasm," said Winston Churchill.

- I believe Sir Winston Churchill could have built an amazing neo bank.

Shift Towards Sustainable Financing

- Across all industries, sustainability is receiving a significant amount of attention, and banking is no exception.

- To meet the call to action and increasing demand for green initiatives, banks will need to prioritize renewable energy use and reduce their carbon footprint.

- Additionally, banks will further develop sustainable financial products that allow customers to ensure their money is gathering interest in environmentally and socially responsible ways.

New Regulations

- The regulatory landscape of the banking industry is always shifting, driven by technological innovation and changes in the global economy.

- To stay up to date and comply with regulations, banks will increasingly turn to Regtech. These technology tools make it easier for financial and insurance institutions to contend

Process Automation

- Even though the digital transformation era is solidly underway, many banking processes still rely on manual and repetitive administrative execution.
- With so much human involvement, tasks such as onboarding new customers, document verification, and processing routine transactions are time-consuming and prone to errors.
- In this upcoming year, these tasks and many more will be increasingly automated with the help of AI.

Shift in Approach to Staffing

- With AI increasingly automating repetitive manual tasks, the role of banking employees will inevitably change.
- As generative AI does not replace human intelligence, there will be a greater valuation of human insight for tasks AI cannot handle.

Increased Collaboration With 3rd Party Providers

- The speed of deployment of innovation solutions is more important than ever as the banking ecosystem is evolving faster each year

- When selecting partners for innovation, it’s important to look for firms that align with your core values and the key focus of your innovation agenda.

Increased Importance of Digital Engagement

- Data, analytics, and new technologies are transforming the art and science of personalized customer experiences, enabling the creation of advanced forms of engagement beyond transactions.

- Innovation around customer engagement is holistic, predictive, precise, and clearly tied to business outcomes beyond sales.

- Winning organizations are building the capabilities, talent, and organizational structure needed for this transition. Those that stick with traditional processes will be forced to play catch-up in the years to come.

Back-Office Modernization:

- Innovation requires modernized platforms, simplified applications and democratization of data. That said, outdated technology can't be an excuse for failing to innovate.
- The goal is to provide value beyond just products and services, displaying empathy for customer needs that will strengthen the overall relationship, throughout the entire customer journey.

10 Emerging Banking Trends in 2025

- Artificial Intelligence
- Open Banking
- Hyper-Personalized Banking
- Blockchain
- Banking of Things
- Cybersecurity
- Immersive Technologies
- Banking Process Automation
- Neobanking
- Quantum Computing

Omnichannel Innovations Across the Customer Journey

- More consumers than ever rely have moved beyond branches as their primary channel for routine transactions and service.

- That said, the local branch remains valued for complex transactions, advice and resolving problems.

- In today's omni channel environment, customers expect to be able to choose among self-service, banker-assisted service, or full-service — and the ability to move seamlessly between digital and human interactions.

- Financial institutions need to innovate ways to better deliver high-quality customer experience with the flexibility to reliably support all touch points.

- Democratizing data availability and empowering people with technology are emerging trends — allowing customer support personnel to engage on all channels.

Major Business Model Shift Occurring

- As found in last year’s bank innovation report, financial institutions are increasingly looking to move to more of an open banking business model, re-prioritizing investment strategies and building third-party partnerships that will drive innovation and customer experiences in the future.

- A financial institution’s leadership has a direct impact on the ability to create innovation and the success of innovations already undertaken.

- A culture that encourages new ideas and a challenger mindset is now essential.

Phased approach

- Upgrading critical components while minimizing disruption.
- Updates and new capabilities can be introduced in phases targeting very specific business goals.
- Bottom line, the entire future of innovation in banking hinges on the Mindset and availability, democratization and deployment of data and solutions.

Doing nothing is no longer an option for banks

- Doing nothing is no longer an option for banks, as this risks losing ground to fintechs and neo banks.

- Today’s customers are more likely to be “silent leavers”, i.e. leave existing accounts open while opening an account at a digital bank and undertaking most of their banking there.

- Hence, banks need to drive and measure customer engagement rather than customer attrition and the number of accounts.

- Increased engagement requires modern banking features and new products targeting the needs of digital native customers, something that we know is not easily supported by legacy systems.

Take a narrower focus and become number one with certain ‘right’ customers.

- Offer different levels of service for different types of customers. While it may seem pretty obvious, many banks have uniform service standards that are advertised on their website/branch without any differentiation.
- Offer different pricing for different types of customers. This is self-explanatory and something banks are generally very good at.
- Try to under-promise and over-deliver while tailoring the services and environment to the target customer.
- Provide more convenient access for customers. This needs to take into account what is convenient for the customers, not what is more cost-effective for the bank.
- Pre-screen customers and accept only those that meet specific criteria.
- Communicate only in places where target customers will see messages.

Barriers To Banking Innovation And How To Beat Them

Inertia trap

- Some banking executives are extremely cautious when it comes to "innovation" or "technology deployment," even when it involves low-hanging technological fruit.

- This resistance to change may stem from a lack of a business model that would support innovative ideas.

Hierarchical organizational structure

- The problem of inertia is closely related to the hierarchical structure of most banks.
- This means that any innovative idea has to go through several levels of approval, and the hierarchy hinders creativity, agility and flexibility.
- In organizations with flatter structures, ideas are more likely to see the light of day
- Communication is faster and more actionable, and collaborative brainstorming is welcome, leading to more ideas.

Lack of an innovation culture

- Innovation requires a culture of short failure cycles and improvement iterations that must be learned and accepted.
- These methods contradict the typical long-term planning in banks.
- Banks lack reliable data that would help them make assumptions about future innovations and are reluctant to test and experiment.
- To overcome this roadblock, banks would need to adopt a "startup mentality," i.e., "fail fast and fail often," and accept that innovations do not always make money.

Regulations

- The crisis of 2007-2009 brought remarkable changes in the regulation of the banking sector. Failure to comply with regulations results in millions of dollars in fines – and reputational damage.

- These compliance efforts mean that banks are devoting their resources to meeting regulatory requirements – not to driving innovation.

- All too often, however, regulation is used as an excuse to stifle innovation and fall back on the status quo.

- Instead of seeing regulations as obstacles, banks could see them as assets.

- After all, regulations are there to protect customers and get products to market safely.

Competition

- Last but not least, banks often see each other as competitors, not partners with whom they could join forces, share knowledge, and exchange experience.

- "We should stop pretending that we can protect ourselves by trying to outdo each other by funding startups, and instead develop or venture into new initiatives together,

- Banks need to understand every market in which they operate and what it takes to succeed.

- They’ll have to be willing to shape new business models, partner in unconventional ways, rediscover their purpose and humanity and commit to constant innovation

- They need to deliver bold innovations, often within months or even weeks.

- The pace of innovation we saw is a clear indication of the transformation that lies ahead.

- It goes without saying, but innovations in the banking industry are only good if used in an appropriate way.

- There is no need to implement something new just because of the hype and "because everyone is doing it".

- It’s better analyze the pros and cons of the technology first, to understand its best functionality that will help your customers to solve their exact tasks efficiently.

- In other case, the implementation won’t be successful.

Concluding remarks

- Innovation in banking is showing a distinctly human quality in its mission to address customers' and society's needs during unprecedented times.

- Leading banks are not simply responding to their own needs and what is happening right now—they have an inspiring vision for a future of daring digital transformations, compelling purpose-driven strategies and extraordinary customer and employee experiences.

- Only banks maximizing customer's engagement, digitizing to reduce costs (both sides i.e., sell a buy), innovating to create value and to remain competitive and leading edge, leveraging power of technologies, and hiring talented teams will succeed in the tech race for surviving.

- It is a quest and only the brave and smart ones will succeed.

Future of banking is here

Time is right for bankers to size up opportunities and identify exponential technologies

Thank You