your digital growth

A Playbook for Digital Banking Transformation

TEMENOS

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Banking in an era of accelerating change

Digital banking growth and transformation is not new; what's changed and what puts pressure on banks to change is customer expectation. Technology has created a revolution in which customers today expect smoother, more consistent experiences regardless of communication channel. Unfortunately for financial institutions, when customers compare banking technology and applications with other technology in their lives, banking technology is just not competitive.

Your customers' latest digital experience creates the standard to which they will compare your technology. While most customers are still waiting for a new banking experience, they won't wait long, and that puts banks at risk of becoming a mere back-office utility. While bankers know that change in the industry is inevitable, they face a digital banker's dilemma—how can they balance keeping the lights on and keeping up with competitors while also driving innovation to differentiate in a crowded market?

To compete, larger banks are aggressively investing in innovation. However, smaller banks and credit unions don't need to get caught up in a technological arms race. Some of these institutions have found a smarter way to protect their customer bases. Instead of attempting to outspend larger institutions, successful smaller financial institutions are out-partnering them.

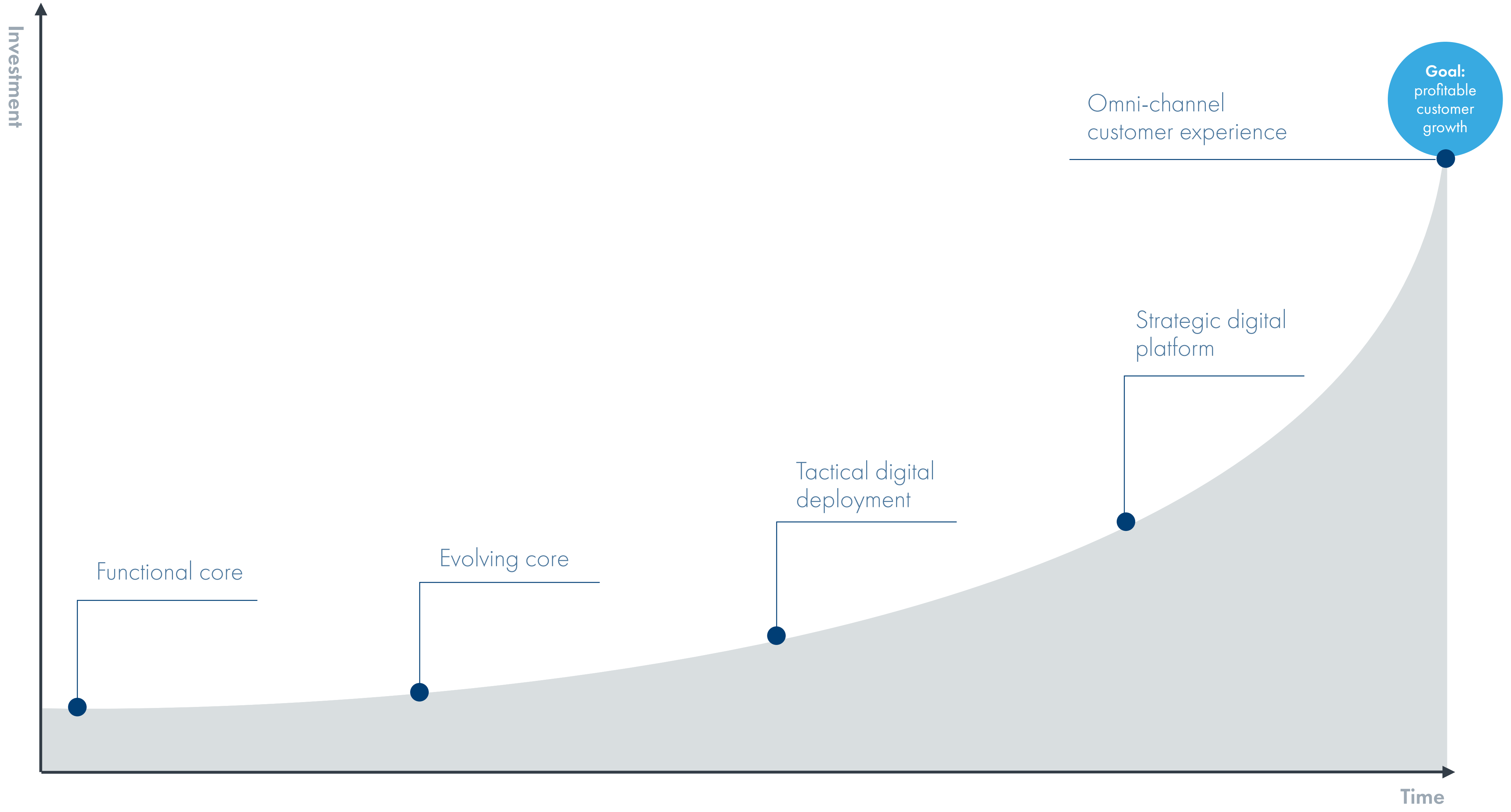
In an out-partnering strategy, smaller organizations are marrying their expertise in banking with fintech's emerging technologies. As a result, they are finding themselves able to gain and retain a competitive advantage. But as financial institutions continue on the path to digital banking, many are finding that a comprehensive approach to digital is still elusive.

This playbook is designed to help you accelerate your digital growth by offering the practical guidance and ready-to-use information you need to achieve a digital banking transformation.

The digital banking maturity curve

According to Forrester's 2018 report *Track Digital Banking Success with Customer-Centric Metrics,* "Customers today turn to an increasing number of touchpoints to discover, explore, and buy banking products and engage with banks. Banks must move beyond product-centric and channel-specific measures."

Most banks realize they need to improve and they have been trying to respond to customer demand, but many are finding it to be an arduous journey that requires a significant investment of time and resources as they struggle with out-of-date technology, skill gaps, organizational and cultural challenges, and unrelenting regulatory demands.



As a result, many small-to-medium banks and credit unions find that digital banking growth is elusive. Typically, most banks and credit unions find themselves in one of the following five states:

1. Functional core:

This is where banks have invested in establishing a strong, traditional and safe core system that delivers the fundamentals of banking. Technology defines the experiences that customers have and the pace of any technological change is controlled by technology partners. Driving change is slow and expensive.

2. Evolving core:

Some banks are pushing their core system providers to move forward with digital experiences but, again, the timeline is in the suppliers' hands. The bank or credit union does not have control over its roadmap, and its digital strategy is defined by the investment priorities of the core system provider. Banks at this stage often find themselves suffering from a case of too little, too slowly.

3. Tactical digital deployment:

At this stage, banks focus on tactics instead of vision. Many banks decide to solve their most immediate problems themselves, often with either off-the-shelf solutions or by investing time and money in developing a native application. These solutions can solve a problem temporarily, but there is limited room for growth or evolution. Banks are also still left with systems that don't talk to each other, and resources are spent on integration with core systems rather than excellence in experience design.

4. Strategic digital platform:

This is the first step to a fully agile and customer-centered banking experience. Banks that have reached this stage are committed to digital banking transformation as a major business initiative. Technology and business work together to attract new customers and to retain and grow the value of the ones that they already have. Banks at this point understand the importance of modernizing how they deliver services and they invest accordingly. They seek a digital platform approach and put the foundation in place to take full control over their roadmap. Banks are now thinking about and implementing solutions that help them get and stay ahead of their competitors and meet customer needs.

5. Omni-channel customer experience:

Financial institutions at this level are completely in tune with their customers' needs. They have a prioritized roadmap, and, because of their agile mindset and planning, they can still pivot if customers' needs change or the market is disrupted. These institutions experience growth, see a reduction in cost-to-serve, and can build the kind of bank that people want to work with and for. Frictionless experiences across all interactions and devices generate great customer relationships. This in turn drives revenue. Reaching this level takes hard work, time and money but the rewards are worth the effort.

Your digital growth: where are you today?

Most financial institutions have already begun a digital banking transformation, but many are struggling to realize their goals, and some lack a strategic plan. To create a digital banking transformation roadmap, you must first better understand where your institution currently stands within the industry benchmarks shown on the maturity curve. Here are four key questions to help you self-evaluate your position on the digital banking maturity curve.

How does the banking experience you offer compare to what your competitors provide?

Exploring this question: As more competitors enter the market and other financial institutions improve their offerings, it's imperative to track how your organization compares. This is the first step to creating a roadmap because it will help you differentiate where you need to be digitally versus where you currently are.

In-depth evaluation questions: Are there any specific customer experiences that you can offer today that you know other banks also provide? Are there any specific customer experiences that you currently offer that distinguishes your organization from competitors?

How do you feel, specifically, about the digital banking experience you offer today?

Exploring this question: As things currently stand, large banks are ahead of smaller institutions in providing a good customer experience. Consider where your organization excels and where it lags on digital banking experiences for your customers. Pinpointing specific pain points to address or finding areas that are already strong will help you eliminate the worst problems and learn from, and potentially accentuate, what you're doing well.

In-depth evaluation questions: Do you have a frictionless and consistent experience wherever or whenever your customers interact with you? Where does your organization excel? Where is there room for improvement? What is your vision for what you need to offer to compete?

What are the biggest internal barriers to delivering the digital banking experience that you want?

Exploring this question: Change can be an incredibly painful process, especially for financial institutions, which depend on their reliability and stability for success. However, internal barriers can be removed with the appropriate planning and information.

In-depth evaluation questions: Which people, processes or technologies are making it difficult for you to innovate? Are there use cases in the industry or from similar industries (such as healthcare) that can help you move forward?

How would you describe your digital confidence today?

Exploring this question: Many financial organizations are playing catch-up as new waves of digital technology change the way organizations deliver banking services. Financial institutions can choose many different paths and destinations for their organization's digital banking transformation. Evaluating your digital confidence today offers you a starting point as you work toward your own digital banking transformation.

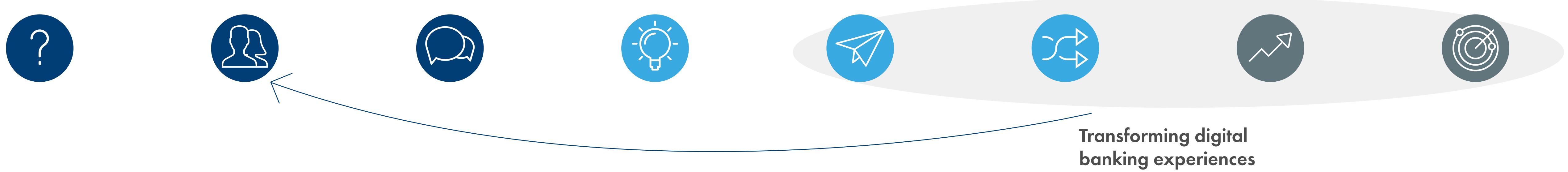
In-depth evaluation questions: How is your digital vision incorporated into your business plan? How close are you to making digital a part of your banking DNA versus a standalone workstream?

After you identify where you currently stand in terms of maturity, the next step is to chart a logical way forward for your institution's digital growth.

Chart a path toward digital growth

You have a vision of the future you want to create for your financial institution. Your vision, combined with a better understanding of your current position on the digital banking maturity curve, is the beginning to determining your company's path for a digital banking transformation. Now you can start being digitally deliberate and move from theoretical strategizing to making hard plans and taking action.

Do we have a problem? | **Do we have buy-in to address the problem?** | **How could we solve it?** | **How do we solve it?** | **How are we deploying?** | **How do we get members to adopt?** | **What impact did it have?** | **What's next in our CX evolution?** | **How do we talk about our success?**



The beginning of any change must start with first asking, "Do we have a problem?" Perhaps you're being reactive and this problem is a current customer pain point, or maybe you're being proactive and it's a foreseen customer experience issue. Regardless, first confirm that there is an issue.

Next, evaluate internal opinions and buy-in. It's imperative to have internal support before addressing the problem. Knowing where everyone stands now will help alleviate concerns and eliminate potential delays in the future.

Once you have everyone at the proverbial table, you can start brainstorming how to solve the problem. Normally, there are multiple options for solving problems but it's important to choose the right one for your company.

Then, and this is one of the hardest steps, figure out deployment. Achieving success at this stage depends on employee buy-in. After employees are engaged, the next step is getting customers to adopt the solution you've selected.

With the solution in place, it's now time to examine whether it's successful. What impacts has the solution had, both internally and externally? A successful solution means it's time to keep improving. Continuous improvement is the key to long-term success, so ask yourself, "What's next for improving our customer experience?" Companies that have made it this far are best-in-class. They share insights about their success and establish themselves as industry leaders.

There aren't any financial institutions that can say they are finished with their digital banking transformation because the process is a journey, not a destination. However, some companies are more successful than others on this journey. It's never too late to get started or recommitted to your digital growth.

Exploring | Engaging | Partnering

How to get started

For the first three stages of the journey listed below, here is a guide for what you should be asking yourself and doing to set your bank up for success.

Do we have a problem?

Do we have buy-in to address the problem?

How could we solve it?

Do we have a problem?

Reasons this question is important: This process begins with acknowledging an issue with customer experience. This question brings a problem to the surface and exposes a business or customer trigger to act: I don't like... I have heard... Our KPIs are falling... I have a vision...

What it accomplishes: This question creates a clear direction and a vision of the future to work toward. It also allows you to benchmark your organization against the industry from a customer experience perspective.

Common roadblocks to be aware of: Many financial institutions are experiencing declining KPIs, such as lower customer experience measures and lower customer acquisition rates, and there's a strong pressure to compete combined with indecision about what to do next. And while there's awareness that the institution needs to change, there's uncertainty on how to get started. This uncertainty is further complicated by a lack of market data, resources and internal alignment.

What you should be doing: At this stage, it's important to be focused on where your company currently stands. This includes having an internal business review, holding a technology roadmap assessment, examining customer experience, and evaluating how your company compares to the market or competitors.

Do we buy-in to address the problem?

Reasons this question is important: Before any digital banking transformation can be successful, there needs to be internal buy-in that the solution agreed upon should be a priority and there needs to be alignment regarding the potential scope for the solution.

What it accomplishes: This question helps with alignment across the organization. For example, this is your opportunity to get IT and line-of-business leaders' input and support. This step is where you begin to understand the scale of investment and start to visualize what is possible for your bank. You also get the opportunity to clearly define business and customer experience goals.

Common roadblocks to be aware of: This stage is still fairly early in the planning process, so alignment issues are common, including around customer experience needs and the technology roadmap. At this stage, it's also okay to still be working toward acceptance of the need to change and the creation of clear, shared goals across line-of-business leaders, marketing and customer experience. Constraints from core or legacy systems can also create a sense of lack of control over your roadmap and produce a feeling of dependence on core providers.

What you should be doing: Keep working toward alignment by holding internal stakeholder meetings and setting up a steering or reviewal committee. At this stage, establish an estimated budget and a priorities list.

How could we solve it?

Reasons this question is important: This is your opportunity to explore possibilities. What options do you have to solve the customer experience problem? How can you distinguish yourself in the industry?

What it accomplishes: Now is the time to explore the market for options to solve your problem. Learn who the key players are and what technology is out there to support your goals. Consider what other banks have done in similar situations but also look at adjacent industries to see how they're solving analogous problems. Make sure to use this time to understand unique challenges or requirements to support existing core or legacy systems.

Common roadblocks to be aware of: Searching for solutions introduces outsiders into what had previously only been an internal discussion. In a multivendor environment, this can bring a lot of confusion and noise to the discussion as you decide how to move forward. There can also be pressure from core providers to stay with them and adopt their available solutions.

What you should be doing: Don't be afraid to look externally for advice and support. Network and meet with peers for best practice validation and employ a consultant to support the process. Reach out to analysts and read analyst content. Create a vendor long list and send out requests for information. Take sales meetings and don't be afraid to ask for live demonstrations from vendors. This will help you create the vendor short list.

Asking and answering these questions is a critically important strategic step for small financial institutions.

Although small banks and credit unions are being outspent and out-marketed by big banks and fintech, these questions set the foundation for a smarter tactic: **out-partnering the competition.**

Small financial institutions can stay relevant by focusing on pain points and creating partnerships to get ahead of both competitors and customer needs.

Six key things to consider as you go through this process

1

Customer understanding.

In a market with many options, customers will choose to use a product that they understand. However, don't just speculate regarding what offerings customers like and use and what they're avoiding. Instead, it's important to put in the additional effort to verify and detail their preferences. Customers will appreciate that you want to understand them.

Consider: In the short term, evaluate and consider acting on the feedback you're getting about your digital experience. In the long term, your institution should be using data to uncover real-time insights and using NPS to track whether your customers are satisfied.

2

Buy-in.

For any project to be successful, internal buy-in both in terms of emotional and financial support, is essential. You need buy-in before you can get a budget. Before starting any project, ask yourself, "Is budget available? If not, can I get it?"

Consider: Make a business case from a variety of perspectives to gain support across your bank. IT is going to care about different things than the marketing department. Build the case for budget through business metrics and make sure to highlight savings for the board of directors or executive team.

3

Mode of operation.

Some banks and credit unions start a transition to digital banking by moving their technical processes to an agile strategy while keeping their business processes (which can often be higher risk) in a more traditional, waterfall model. With the right communication between the two, it's possible to function this way, and it can make the transformation journey more attainable over time.

Consider: Do you have the right processes in place? Can you adopt an agile strategy for both technical processes and business processes? What changes to staffing or processes will have to happen to make a digital banking transformation possible?

4

Total cost of ownership.

An essential part of creating a digital banking strategy is understanding what the total cost of ownership will be. No one wants to be stuck investing endlessly in a solution or paying high maintenance costs, so do this research upfront to help find a satisfying solution.

Consider: What will be your total cost of ownership if you build a solution in-house versus choosing a technology vendor? Some banks and credit unions that have tried to achieve their digital solution in-house have ended up spending double. There are often benefits (such as scalability) to partnering with a vendor that focuses on technology.

5

Key performance indicators.

Key performance indicators (KPIs) are an essential tool for overview and management at any company. What KPIs can now measure can be altered significantly by adopting new technology.

Consider: What types of KPIs are currently in place? Can digital solutions help them improve?

6

Vendor selection.

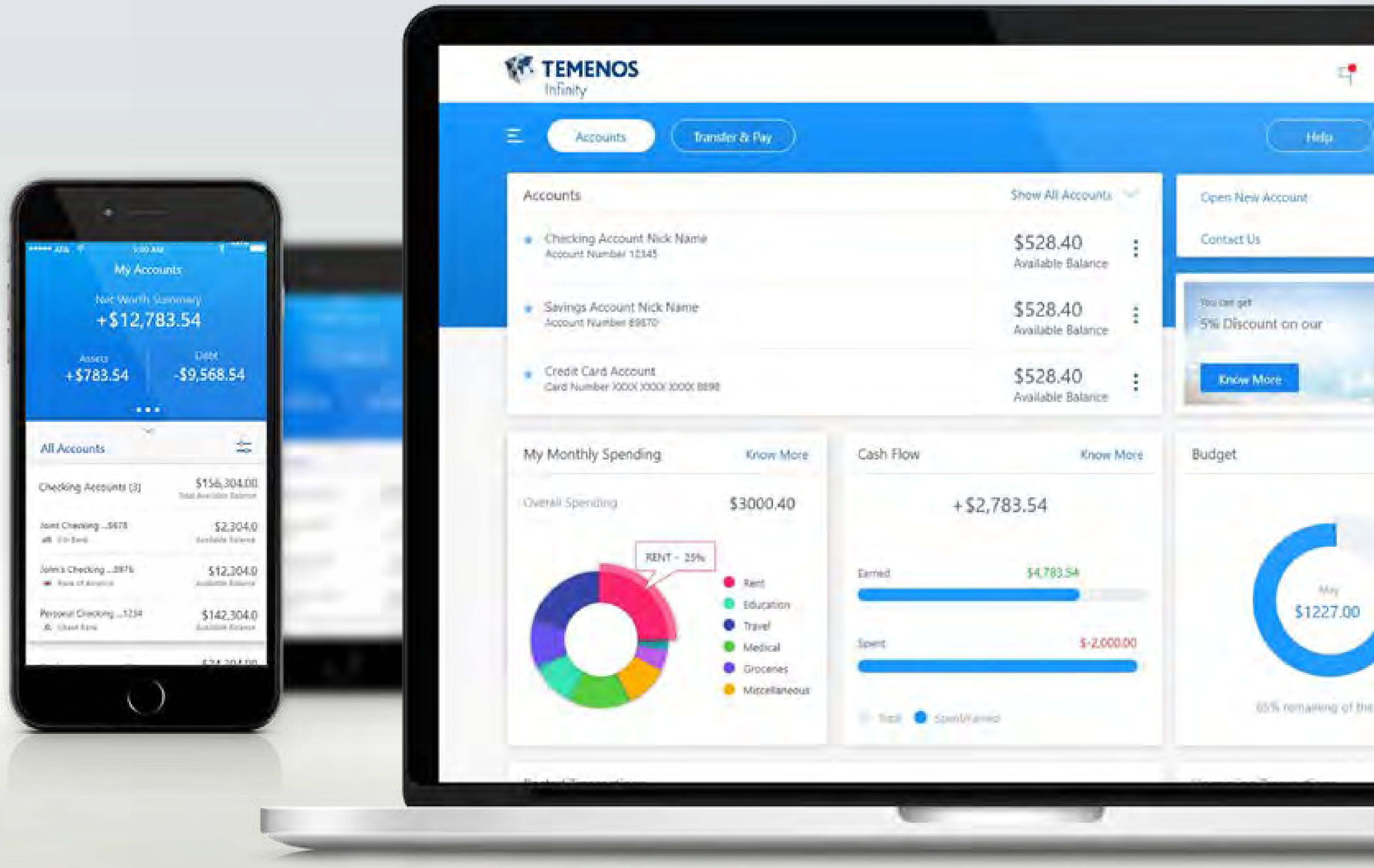
Choosing the best vendor to partner with is a crucial decision. It can make or break the success of this endeavor. Make sure the vendor's vision and roadmap are aligned with yours regarding what you want to achieve and offer.

Consider: If the vendor is not thinking about its innovation path, it won't be well-suited to support you.

What to expect from this journey

Despite not having the resources or ability in-house to quickly build and deploy the modern banking applications their customers expect, some banks and credit unions have found ways to successfully improve customer experience with their technology. As *2018 Retail Banking Trends and Predictions*, a joint digital banking report by Jim Marous, the Digital Banking Report, and sponsored by Kony and Diebold Nixdorf, states, “Being a leader in emerging technology is no longer a luxury only for the big players.” Through strategic partnerships, these institutions have established themselves as digital banking leaders.

These smaller financial institutions reveal that it is possible to take control of your technology, your roadmap, and your customer experience, and you can do it now.

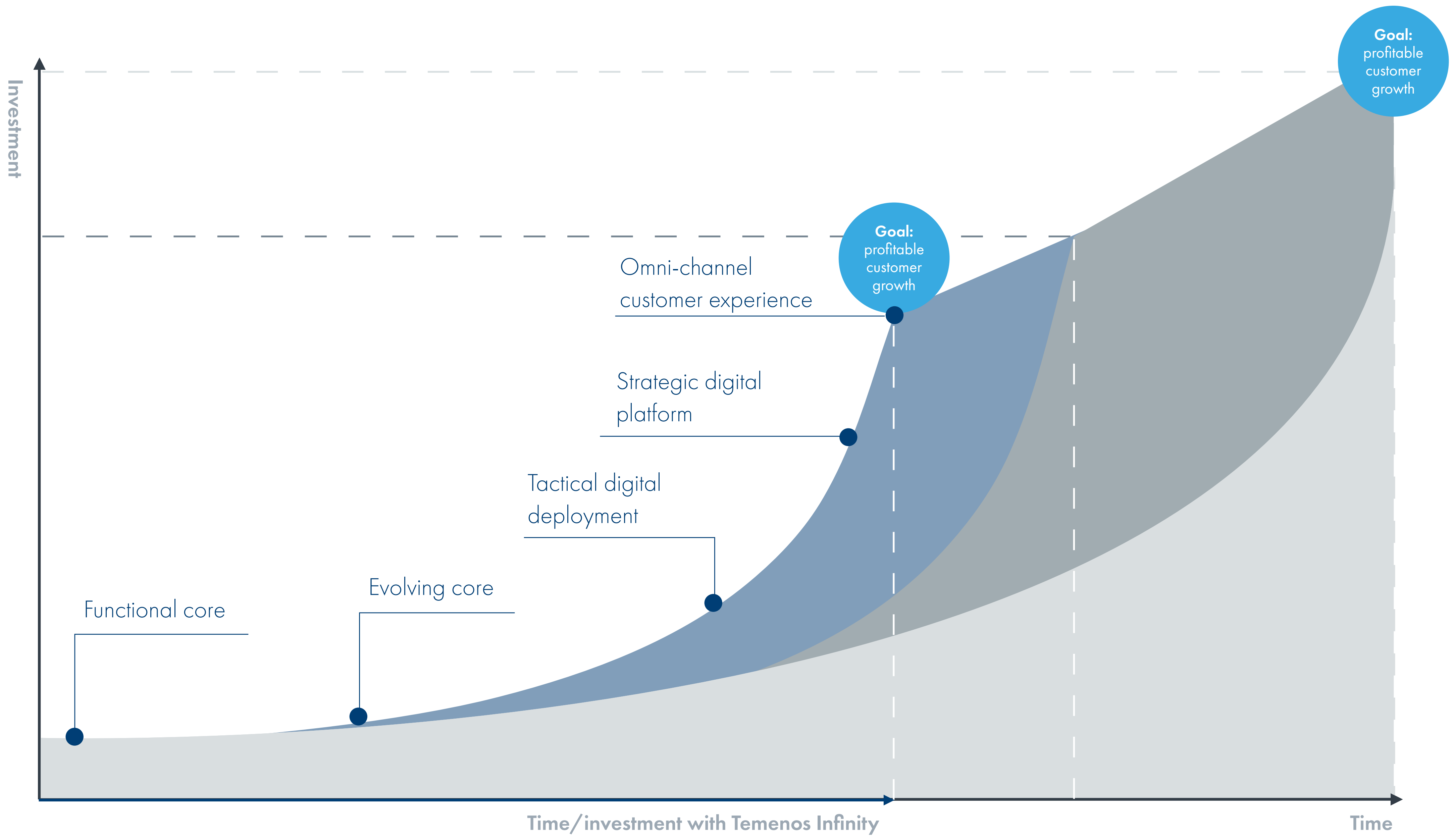


Being a leader in emerging technology is no longer a luxury only for the big players.

Empowering banks & credit unions on their journey of digital growth

To move forward, you need a powerful technology platform that enables you to transform your digital banking experience quickly and cost-effectively while also improving customer interactions with your business. When hunting for a technology to help your company's digital banking transformation, you don't have to choose between build or buy, you can have the best of both worlds.

Wherever you are starting out on the maturity curve, the Temenos Infinity digital banking platform and its powerful banking applications will take you from digitally passive to digitally deliberate more quickly and more cost-effectively than you ever imagined possible. And, perhaps most importantly of all, Temenos technology will allow you to meet the standard to which your customers compare your technology and give them the digital experience they want.



Banking applications: build or buy?

You have a lot of decisions to make as you go through your digital banking transformation and one of the most important will be deciding whether to build your applications or buy them.

There are some very appealing benefits to developing applications in-house, but the reality for most banks that develop their own applications is that nearly all their resources become invested in trying to keep them running and up-to-date. This means they're unable to provide customers with high impact experiences because of resource constraints. Temenos Infinity delivers the best of both build and buy, offering a platform and applications. It can meet institutions where they are without sacrificing what's critical now and in the future. By partnering with Temenos, you're able to innovate ahead of industry leaders without spending like the leaders.

Pre-built application

Pros:
- Fast to market
- Lower resource requirement
- Easier maintenance

Cons:
- No control of roadmap
- No differentiation
- Expensive to customize

Temenos Infinity Retail Banking

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Custom development

Pros:
- Roadmap control
- Unique/differentiation
- Enhanced security

Cons:
- Slow to market
- Higher resource requirement
- Ongoing dev dilemma

Temenos Digital Banking Platform

Your Digital Growth—Powered by Temenos Infinity

Temenos empowers banks and credit unions to transform digital banking experiences and accelerates their transformation so they can compete today. By putting banks and credit unions in control now, Temenos enables them to take control of their future.

> “Temenos had very few limitations related to connecting to our vendor partners and our core banking systems. Working with Temenos, we were able to accelerate the time frame to deliver a fully functional mobile banking application.”

Dawn Brummett, SVP and Chief Operations Officer, shares ORNL Federal Credit Union’s experience working with Temenos. “Temenos had very few limitations related to connecting to our vendor partners and our core banking systems. Working with Temenos, we were able to accelerate the time frame to deliver a fully functional mobile banking application.”

Unlike rigid out-of-the-box application providers, Temenos empowers accelerated deployment of a full portfolio of frictionless, personalized and secure banking applications that both attract new customers and drive long-term customer loyalty.

Temenos Infinity delivers a portfolio of turnkey applications for digital banking, which lowers implementation costs compared to custom development and also provides easy integration with existing core systems. Temenos enables banks and credit unions to future-proof their customer relationships by enabling rapid delivery of exceptional digital banking experiences that keep pace with changing customer needs. On your journey to digital banking growth, **don’t outspend your competition, out-partner them.**

your growth
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We welcome the opportunity to have a conversation.

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