

Can greater automation throw the industry a much-needed lifeline?

Vincent Kilcoyne, EVP, Product Management, at SmartStream Technologies assesses the impact of the coronavirus pandemic on the future of banking.

The coronavirus pandemic has had a huge impact on people's day-to-day lives, working practices and livelihoods. It has also been highly disruptive for businesses and global trade – indeed, some businesses may not survive at all.

Nor is it clear when the crisis will come to an end – we still do not know how soon a vaccine will become available, or whether a truly effective one can ever be found. As a result, we are likely to have to live with social distancing measures for months to come, or possibly longer.

The pandemic has placed a greater emphasis than ever on the role of digital and cloud hosting, e.g., through the increased use of online services by customers, as a result of social distancing, as well as through the rise of remote working. These trends could continue into the future, well after official lockdowns have begun to ease.

Impact on banks

Turning more specifically to the financial sector, what challenges does the industry face? Banks are likely to have to navigate a cocktail of potential hazards over the coming months: they may have to cope with fast-moving or unprecedented shifts in consumer behaviours, while credit quality could also deteriorate quickly, especially in certain geographies. Volatile markets present another danger, as do rapid liquidity shifts. In addition, banks' revenues may become depressed.

At the same time as negotiating their way through these dangers, banks are also under pressure from government to lend to businesses and consumers. There could, however, be a silver lining to supporting business and consumers through the pandemic – some commentators suggest that being a stabilising force in an uncertain world may allow banks to rebuild the trust lost during the financial crisis, offering them an opportunity to be part of the solution, rather than, as at the time of the 2008 crisis, being part of the problem.

Traditional banks could find themselves particularly hard hit by the pandemic: they are still very reliant on large numbers of people – who may be required to work off-site through illness or self-isolation – while inefficient legacy systems also hamper some banks' efforts. Digital challenger banks – at the forefront of the digital revolution, and unencumbered by legacy technology or burdensome branch infrastructure – are at an advantage in this respect.

Digital transformation: the key to survival post-pandemic?

At present, given the constraints imposed by restrictions such as lockdowns, banks will be looking to manage as best they can with the resources and technology they have – although we're having ever greater numbers of serious



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conversations with banks about how fintech can de-risk the situation.

Before the outbreak of coronavirus, however, many banks were looking at digital transformation projects. These typically aimed at standardising and modernising banks’ systems, driving down cost, reducing and consolidating the number of systems, and getting more diverse usage

out of their systems, for example, as evidenced by the increasing demand for API suites. Other goals included achieving greater scalability, interoperability and integration. Financial institutions

were also keen to improve data quality and insight, in order to create better business intelligence. In addition, banks were looking to invest in flexible systems that would last, allowing them to adapt more easily to change and better future-proof themselves.

Digitally transformative projects are surely going to be the key to banks' longer-term prospects. If they are to thrive and survive in the post-coronavirus landscape, they will need to fast-track their automation projects, enabling them to become more cost-efficient, as well as be less dependent on human resources and internal IT systems.

Enhanced IT systems are already helping some banks through the current crisis

When it comes to weathering the storm created by coronavirus, financial institutions that have already invested in robust, enhanced systems, such as SmartStream's TLM suite of solutions, may find themselves at an advantage. For example, the platform offers greater levels of automation, and therefore reduces reliance on human intervention, making banks less dependent on staff who may be ill, self-isolating and so on. These systems can also help drive down overheads – something banks were under huge pressure to do pre-pandemic, anyway.

In addition, new advancements in technology permit banks to move away from old EOD legacy systems and understand their financial position in real time – which is likely to be a major advantage, given current heightened levels of unpredictability. They facilitate proactivity, enabling banks to act quickly to address breaks, anomalies and inconsistencies, allowing prompt, accurate and consistent decision-making. More generally, they assist banks to provide customers, staff and regulators with the information they require, in a timely manner.

Understanding data more efficiently

Information was, of course, hugely important before the coronavirus outbreak but the role it plays post-crisis is likely to be even more significant. The pandemic has brought with it greater levels

of unpredictability and banks need to understand the behaviour of consumers, businesses and other third parties better and faster – both to gauge and protect against risk. Banks' revenues may come under increasing pressure, too, creating a need to identify new commercial opportunities. Those with the best, and most relevant information, are surely going to be at an advantage in this respect.

Understanding the vast amount of data processed by banks was a tough task even pre-pandemic. It is going to be made all the harder now, for example, where banks' profit margins are reduced and they cannot employ armies of staff to compare and interpret data. As a result, there is likely to be an increased role for artificial intelligence to play. AI and ML technologies have the capacity to enhance human decision-making, for example, by offering better predictive abilities; improving the ability to detect irregularities which may indicate fraudulent activity; identifying subtle changes in consumer behaviours which could present potential commercial opportunities. Through its investment in innovation and, specifically, through the introduction of AI and ML into its solutions, SmartStream is enabling its customers to take advantage of the opportunities these technological advances offer.

Conclusion

Navigating the headwinds created by the coronavirus pandemic is an extremely tough task for any financial institution. Robust, enhanced systems can lighten the load, and there is a powerful argument for banks to continue the work of digital transformation begun pre-crisis. Looking to the future, advanced technology could also help banks become less vulnerable and cope better, should fresh shocks occur. For example, while coronavirus is often referred to in the press as a one-in-a hundred-year event, it is worth remembering that other diseases have threatened humanity and the world economy in our lifetime. While we are working through this pandemic, it is important that we explore ways in which we can improve resilience, control and efficiency in the face of other potential similar situations. ■