

The cognitive bank

IBM
Institute for
Business Value

Decoding data to bolster growth and transform the enterprise



Executive summary

It's official, the traditions of the financial services business model are in stagnation...

Customer experience and engagement are not keeping pace with greater expectations of the rapidly evolving digital world

Sustainable profitability is a serious challenge for most of the global banking industry

Even more troubling is that operational efficiency is also in decline and attempts at tactical cost reduction are failing to achieve sustainable efficiencies

IBM's latest IBV study – the cognitive bank – categorizes winners and losers by revenue growth and operating efficiency over the past three years. Data and managing it effectively is the primary source of sustainable competitive advantage

Winners have several traits in common:

Firstly, they are re-orientating their business models, by establishing, expanding, and evolving their ecosystem of partners everywhere...transforming very deep and wide

Secondly, they are investing in fintechs, as partners in sustainable business models

Thirdly, becoming the cognitive bank, using the latest techniques in design thinking and agile

Outperforming banks are already on their journey towards becoming the cognitive bank. We are already partnering with them to plan the journey and charter the course

Banking industry is in the midst of challenges ...

Banking is being commoditized and value is moving from functional capability to relationship management

Banks are struggling to match customer expectations in terms of overall experience

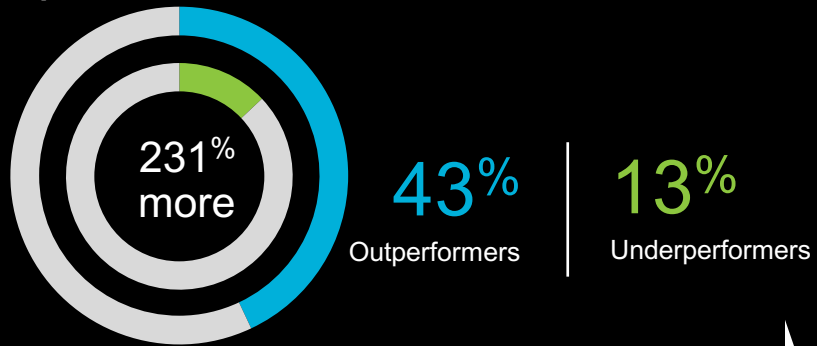
New breeds of competitors are attacking banks on all sides – with low costs and new value to customers

Financial performance has plateaued with many banks struggling to pare costs further

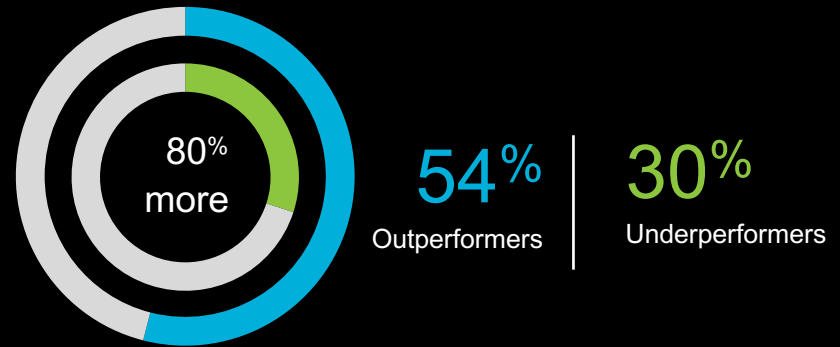


Successful organizations tend to have stronger capabilities in discovery of new ideas and effective decision-making

Outperforming banks are much more aware of disruption¹...



...and more likely to prepare for disruption²



The response of many banking leaders is to cut costs³...



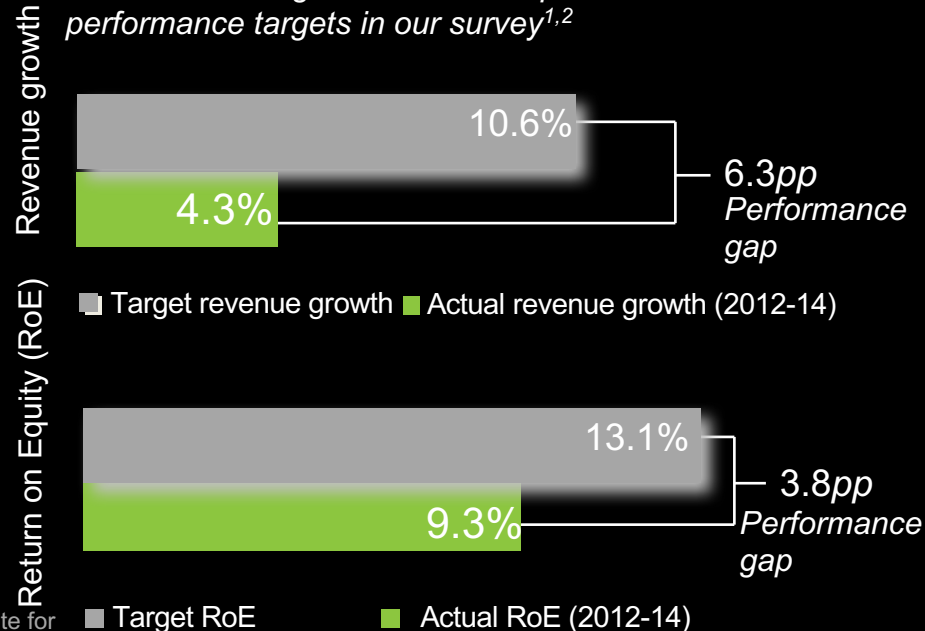
But many now struggle to achieve additional efficiencies⁴

64% report that their bank's **operational efficiency remained the same or declined further** over the last 3 years

But incremental change is not sufficient and banks need more radical and rapid measures to achieve the desired performance

Banks are performing below targets and responding to the headwinds

Performance of global banks compared with bankers' own performance targets in our survey^{1,2}



- Banks are looking beyond immediate gains to tackle the effects of disruption
- The industry is rapidly embracing new technologies to renew growth prospects through a reshaping of the business
- Cognitive computing is enabling banks to exploit the benefits of the data available to them by:
 - Providing deeper and more personalized customer insights
 - Supporting more informed decisions across the whole bank
 - Accelerating operational and organizational efficiencies

They are faced with few key challenges pertaining to changing skill set and lack of effective decision making

Top 3 strategic priorities stated by the banking executives surveyed¹

Of banking executives surveyed

Improving operational efficiency

58%

Improving customer engagement & experience

51%

Growing revenues

50%

Top 3 benefits anticipated from cognitive computing as surveyed²

Of banking executives surveyed

Improve operational efficiency

49%

Improving customer engagement & experience

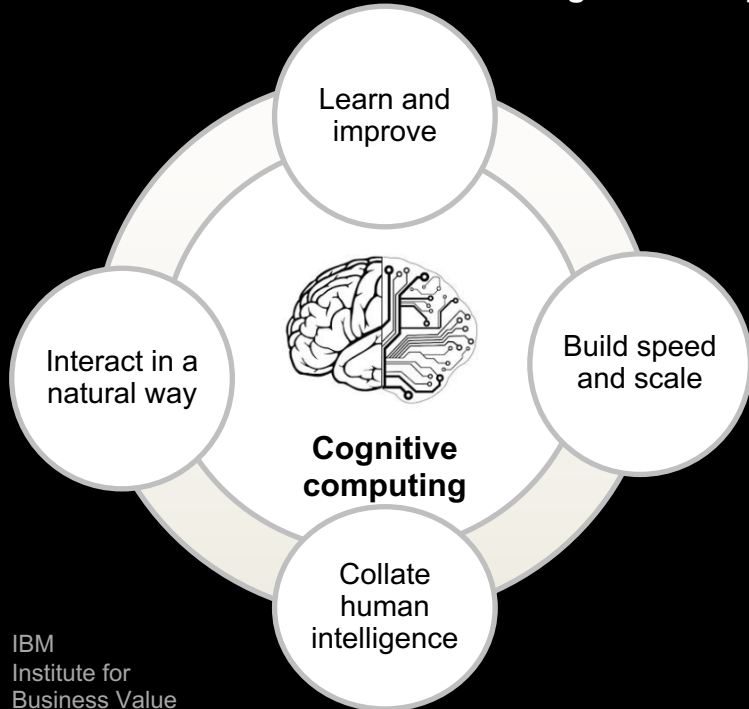
46%

Growing revenues

39%

Cognitive computing enables systems that process and act on data like humans

Cognitive computing is based on four principles



Learn and improve

Improves with each outcome, action, iteration – with each new piece of information

Build speed and scale

Uses machine learning to carry out complex tasks repeatedly, much more efficiently

Collate human intelligence

Makes collective knowledge accessible for reuse, trained by subject matter experts

Interact in a natural way

Adapts to human approach and interfaces, understands context and reason

This performance gap can be bridged by cognitive computing, overcoming human and current systems' limitations



Improved engagement

Engage

Self-service engagement



Delivering one-on-one experiences at scale

Direct-to-consumer cognitive virtual agents serving, guiding and advising via web and mobile



Actionable insights

Decide

Wealth advisor assist



Scaling sales and service expertise

Explore

Customer service support



Accelerating expertise on demand

Employee-facing applications that supplement service across the customer life-cycle



Operational transformation

Monitor

Risk and compliance

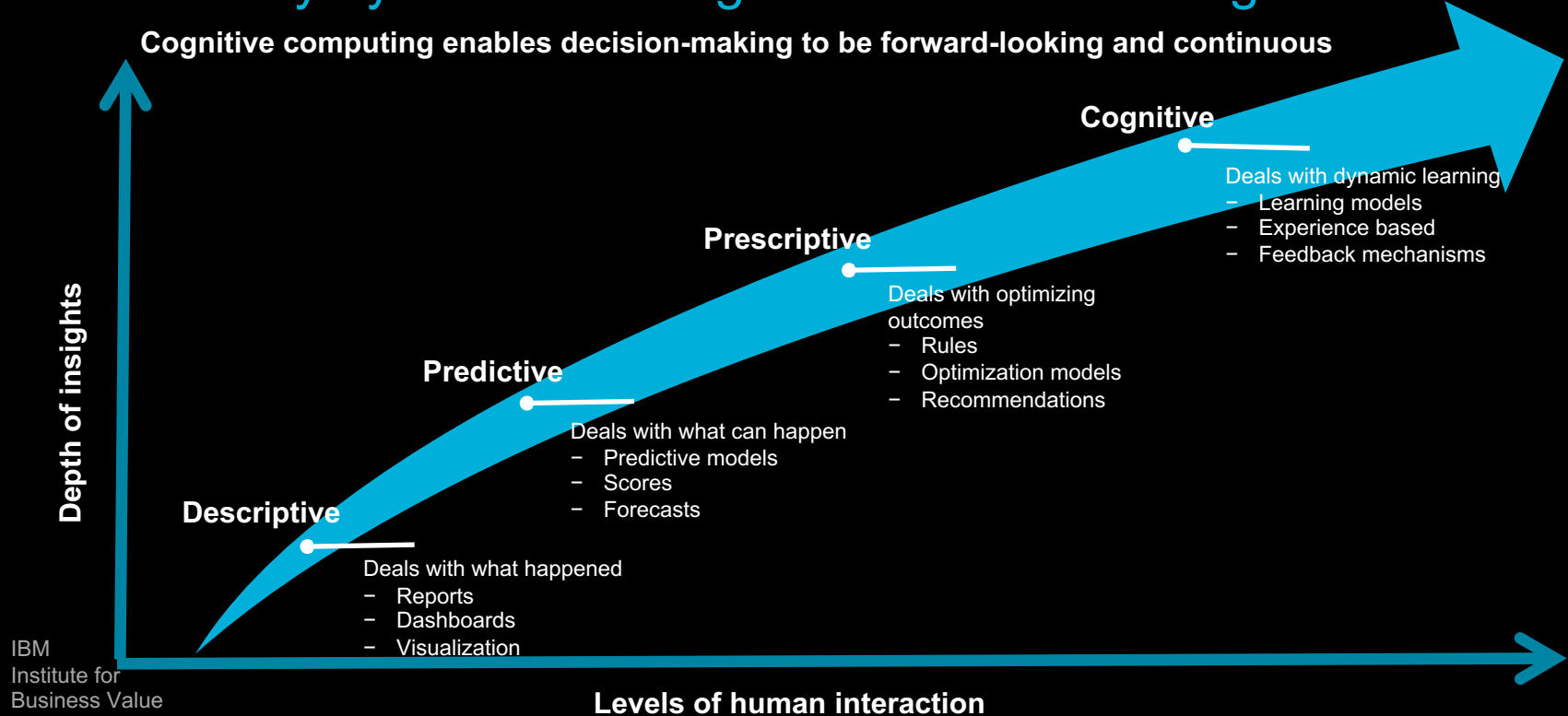


Enabling assurance across all business processes

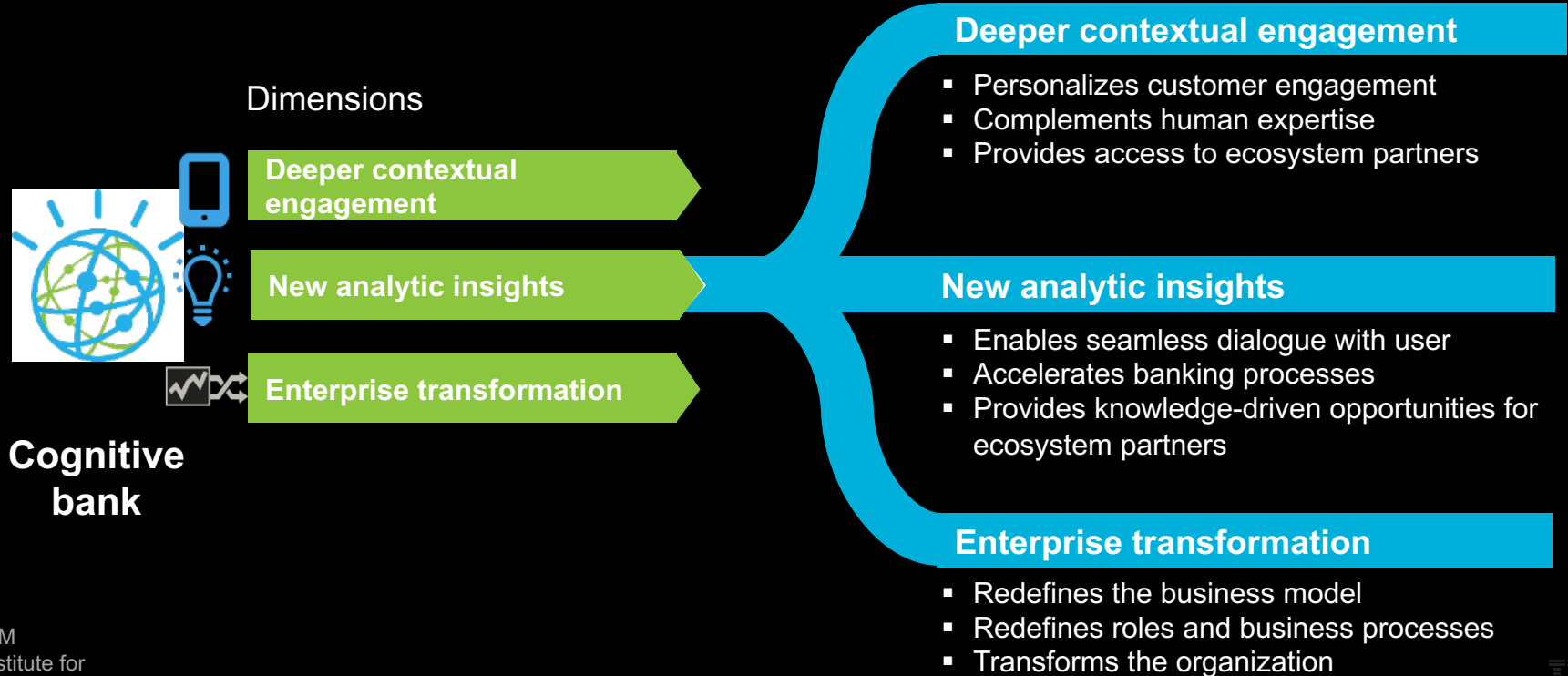
Employee-facing applications that enhance wealth management operations

Above all, the cognitive bank enables decision-making to be enhanced by dynamic learning across the whole organization

Cognitive computing enables decision-making to be forward-looking and continuous



Cognitive computing transforms the entire bank across three key dimensions



Cognitive computing is helping banks in improving engagement, generating new analytical insights and transforming enterprise



Deeper contextual Improved engagement



A bank in Japan pioneers the building of a cognitive based customer service robotic platform that understands customer words and even expressions ¹



New analytic insights



A bank in Spain exploits cognitive to trawl more data more quickly than ever imagined ²



Enterprise transformation



A global financial services organization uses cognitive computing to manage business proactively ³

Next steps



Plan your cognitive journey

Assess the business case for cognitive bank and chart a course for your own cognitive journey

Prepare your organization

Evaluate your current capabilities and build the foundation to make your organization ready

Implement and evolve continuously

Use a strategic rollout for cognitive transformation, and evolve it with continuous learning

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