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## **Risk in Contemporary Economy**

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## Transforming the Banking Organization in the Context of Digital Economy

Oana-Mihaela ILIE<sup>1\*</sup>, Constanța POPESCU<sup>2</sup>, Silvia Elena IACOB<sup>3</sup>

### *Abstract*

*The technological evolution has brought about major changes in the behavior and expectations of bank customers. Thus, digital innovation is a "must" for the development of the domestic banking market. To the extent that more and more people are using new technologies, business models also change radically. The study focuses on the successful transformation of the banking organization into the context of the digitization of the economy, which offers extraordinary opportunities, but also on building the image of the future bank on the basis of five fundamental characteristics.*

**Keywords:** *hiperconnectivity, super computing, cloud computing, smarter world, cyber security.*

### 1. Introduction

The digital economy has imposed significant changes on working conditions and working conditions, being a fundamental challenge for traditional banking organizations, but it also opens up a world full of endless possibilities. The banking organization is undergoing a fundamental transformation. Customer Attraction and Loyalty, Underwriting and Risk Management, Transaction and Settlement of Compensation - All of these areas are subject to change due to digital innovations.

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By 2020, there will be approximately 2.5 billion people connected to social and business networks around the world. In addition, about 200 billion devices will be linked through the Internet of Things.

Retail banking is no exception to this revolution, which causes banking organizations to rethink existing business models to deal with digital disruption.

Thus, banks begin to recognize the need to rethink business models, processes and labor. In view of the growing demand for more efficient operations, the faster delivery of new product innovations and highly personalized solutions, banks need a new approach to support all these goals at the same time. Through agile, end-to-end digital processes, based on a single source of real-time information, from planning and execution to prediction and analysis, today's banks can provide superior customer experience every time.

Digitization allows banks, through mobile and cloud technologies, to launch inclusive banking services and reach new customer segments..

## 2. Theoretical Background

We believe that banks will accompany clients throughout their lives - managing proactively and anticipating their needs, helping them make the best financial decisions. To do this, banks need to focus on the desired customer outcomes, not just on the financial transaction itself.

Among the main factors contributing to digital transformation within banking organizations are:

- **Digital connectivity:** Customers are becoming more experienced in technically and socially connected, with access to purchasing power and increased investment. Increasingly, they are turning to alternative banking providers.

- **Appearance FinTech** sites and other non-bank competitors: FinTech newborns and other businesses offering innovative mentality. Enhancing competition consists in reducing profitability and fragmentation of market share.

- **Loss of direct relations with customers:** Various aspects of financial life of each client moved into new markets, which often enable a new form of financial transactions, such as microlending, micropayments loans peer-to-peer and investment.

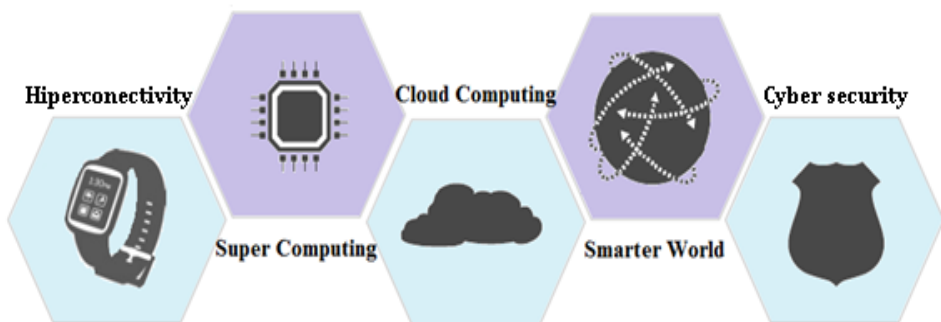
- **Race for the network:** Institutions successfully created strong network of customers, suppliers and partners and formed robust ecosystems.

- **Digital coins:** These technologies enable the development of disruptive solutions that lead to a world without cash market.

Technological progress and the emergence of these "new technologies" triggered a new wave of changes in the economy, highlighting various technological trends shaping the digital economy.

### 3. The technological trends that shape the digital economy

In this era of real innovation of business, five defining technological trends were imposed (Figure 1).



**Figure 1.** The five technological trends that shape the digital economy

*Source: Transforming Banking. Strategic choices for winning in the digital economy, <https://www.sap.com/documents/2016/05/22d1c38e-6f7c-0010-82c7-eda71af511fa.html> , accessed 18/5/2017, at 4:10 p.m.*

#### ❖ **Hiperconnectivity**

Today's customers are socially and responsibly connected and expect immediate and highly interactive communication with their bank. Banks engage in the hyperlinked world to reach new customers, create new products and services, and conquer new markets. This leads to innovations, such as digital coins, mobile phone payments, and crowd financing.

#### ❖ **Super computing**

The use of large-scale computers allows massive simplification - a prerequisite for confiscating new business opportunities. The digital bank is capable of anticipating customer needs and assessing risks in real time. Technologies such as the blockchain can allow the financial services industry to work more efficiently, allowing banks and individuals to exchange money directly.

❖ **Cloud computing**

Cloud computing will lead to faster adoption of new technologies, as cloud capabilities allow banks to deliver significant cost savings and provide valuable resources for innovation. Therefore, cloud computing is one of the key factors for a digital bank.

❖ **Smarter world**

The proliferation of smarter, ever-connected devices allows banks to provide smarter banking products, reorienting value chains and redefining the banking sector. For example, proximity technology creates new forms of customer engagement in customer service, online payments and loyalty programs.

❖ **Cyber security**

Banks are the main targets for cyber attacks. Cybersecurity is a top priority. Multi-factorial authentication, context-based biometrics and location-based intelligence, and behavioral analysis to prevent fraud will become increasingly important.

All these technological advances, which have shaped the digital economy, have forced the successful transformation of the banking organization into a digital organization based on the rethinking of business models, processes and labor.

#### **4. Banking transformation as a result of rethinking business models, processes and labor**

The starting point for the transformation of the banking organization is the re-evaluation of the activities and the reimagination / rethinking of the business, in particular by:

❖ **Reimagine business models**

Traditional business models are no longer viable. Retail banks reassess their activities, networks, digital capabilities, and customer engagement data to find new answers to questions, including:

- Which profitable business models are driven by new technologies and trends such as the Internet of Things, peer-to-peer platforms, changing government regulations and digital coins?
- How is the bank's performance influenced by other non-bank competitors in a changing environment?

New business models and innovative offers create new sources of revenue as follows:

• *beyond the banking sector*: the value chain and integrating non-financial services and value-added services to increase the share portfolio.

- *new market*: the creation and maintenance of financial services markets, while enabling electronic commerce between retail customers, corporate clients and third party suppliers.
- *through banking services*: integration in the value chain for others to benefit from additional customer networks and distribution channels.
- *integrating banking*: identifying new customer segments using cloud platforms and mobile services at low cost.

#### ❖ **Reimagine business processes**

Direct customer interaction and the ability to perform most real-time processes significantly modify the way in which business is conducted.

Examples include:

- Digital loan instantly;
- Payments without cash;
- Digital marketing;
- Robo-advisers.

#### ❖ **Reimagine labor**

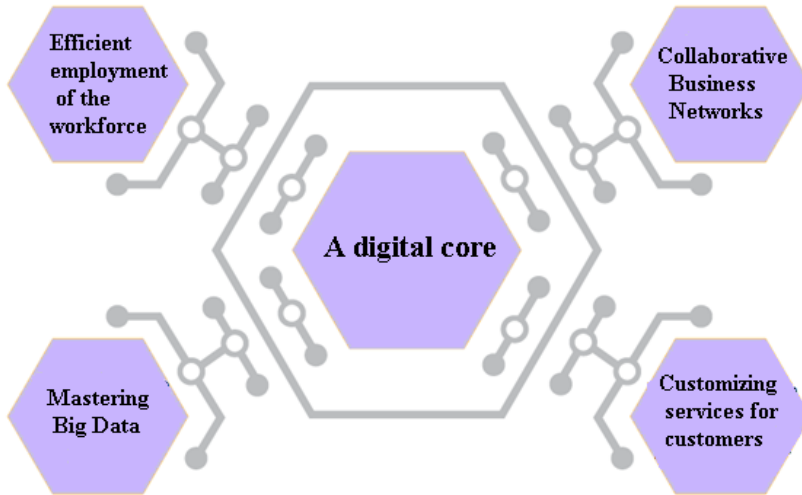
Digital technology not only changes how banks serve their customers more efficiently, but also the way banks work. Within banking organizations, digital transformation has materialized mainly in process automation with the goal of delivering superior customer experience, optimizing operational time and releasing routine tasks. Thus, hired personnel can focus on activities that will lead to increased performance of the banking organization. Defining future business models to successfully transform traditional banking organizations into digital banking organizations involves all the activities of a modern bank and requires a systematic approach to identifying and capturing business opportunities.

## 5. Future bank

The digital economy exerts massive pressure on retail banks, but it also offers extraordinary opportunities to traditional players, new entrants and new companies. Innovation of customer experience is essential. Optimizing processes from customer interaction with back-end systems is a prerequisite for economic success.

To take advantage of the opportunities offered by the digital economy, traditional banks need to turn into a digital bank.

Based on bank transformation as a result of rethinking business models, processes and work, we can outline an image of the future bank that takes into account the five fundamental features that define it (Figure 2).



**Figure 2.** Fundamental Features of the Digital Banking Organization

*Source: Transforming Banking. Strategic choices for winning in the digital economy, <https://www.sap.com/documents/2016/05/22d1c38e-6f7c-0010-82c7-eda71af511fa.html>, accessed 18/5/2017, at 4:10 p.m.*

❖ **A digital core (simplification and standardization of core banking processes)**

By developing a digital core that combines transaction processing and data analysis, banks can reduce time for the market, standardize product development procedures, orchestrate end-to-end processes, and integrate them with customers' and third-party channels.

Consequently, they can provide faster and more proactive responses to customers, speed up product delivery, work more efficiently with vendors and partners, and improve employee productivity.

❖ **Customizing services for customers**

The Bank of the Future brings together the marketing, sales, banking and commercial operations processes, enabling the digitization of the entire customer experience, regardless of the channel used.

In addition, it has a 360 degree view of customers and uses sophisticated predictive analytics to provide customized offers and allow for uninterrupted digitization of all customer experience regardless of the channel used (Figure 3).



**Figure 3.** Personalized experiences offered within the digital banking organization

*Source: Transforming Banking. Strategic choices for winning in the digital economy, <https://www.sap.com/documents/2016/05/22d1c38e-6f7c-0010-82c7-eda71af511fa.html> , accessed 18/5/2017, at 4:10 p.m.*

❖ **Efficient employment of the workforce (improving total productivity)**

Reimagining / rethinking the work of banking organizations based on intelligent applications allows banks:

- ✓ Substantial increase in productivity;
- ✓ Improving the decision-making process;
- ✓ Managing the entire process of recruitment, selection, training, transfer, promotion of hired personnel.

❖ **Collaborative Business Networks (increasing relationships with suppliers and partners)**

Building an ecosystem of customers, suppliers, counselors and partners is a prerequisite for the success of the digital economy. Knowing this, successful banks use established business networks to expand their processes beyond the four walls of the business.

Extending business processes to include partners, suppliers, counselors and customers reduces manual effort, improves collaboration, speeds up transaction processing, enforces compliance, and increases productivity.



### ❖ **Mastering Big Data (The currency of the digital economy)**

Big Data offers banks unprecedented opportunities to analyze massive amounts of internal and external data today and apply prospects.

Through Mastering Big Data, as well as through operational and predictive analyzes, banks can optimize customer experience with personalized and contextual offers. They can use internal and external assets to make better and faster decisions, and improve overall financial reporting and compliance. As a result, banks can open countless new ways to optimize business, simplify processes, reduce costs, and provide the necessary agility in a rapidly changing digital world.

## **6. Conclusions**

Banks that will successfully transform into digital banking organizations will have an increase in the value of shareholders and stakeholders faster. So, to win in a digital economy, they should focus on:

- ❖ Anticipating customer needs and expanding customized offers based on these real-time forecasts;
- ❖ Providing a constant, trouble-free, optimized, highly customized customer experience through all distribution channels;
- ❖ Using large data, predictive analytics, and social media to make optimal real-time loan decisions;
- ❖ Building a network of traditional and non-traditional suppliers to meet customer needs together;
- ❖ Integration of banking services with offers from other suppliers;
- ❖ Providing innovations that respond quickly and effectively to regulatory changes.

In conclusion, this shift from the traditional banking organization to the digital banking organization is a fundamental challenge in the context of the digital economy.

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