How bank directors govern technology transformation
At the outset of 2020, many banks were focused on digital transformation, with plans to deploy more advanced technology to build on the gains from the last decade’s modernization efforts. Many of these plans extended across multiple years and often moved slower than hoped or expected.

The COVID-19 pandemic reshuffled strategic board agendas across the industry. The crisis clearly accelerated technology transformation for banks. Many large-scale implementations that, under normal circumstances, would have required months, if not years, were completed in weeks or months.

It’s clear that tech transformation initiatives can – and should – move faster than they have in the past, especially if they can be executed within strong risk governance frameworks. Yet, while the pace of change is exciting and, some may argue, long overdue, it is not sustainable in its current form and brings with it new risks.

Looking into 2021 and beyond, transformation agendas are converging on seven key priority areas, including deriving incremental value from data, further modernizing technology infrastructure and de-risking the organization. Analytical tools and capabilities to enable revenue growth and personalize customer experiences are also priorities.

As banks move forward with digital transformation, boards must validate that appropriate risk management principles and controls are embedded into change programs, ensure their firms do not lose sight of regulatory requirements, and continuously monitor returns on investments in light of stakeholder expectations. They also have to revisit how they oversee and govern technology-enabled change, so risks are properly reviewed and new opportunities seized.

As part of its series of events for bank directors, the EY Financial Services Center for Board Matters presented its point of view on the technology transformation landscape and the need for strong risk governance. This article provides a summary of the presentations and dialogue during recent events for directors of foreign banking organizations (FBOs) and directors of regional US banks. Some 35 bank directors participated in these sessions. In the report, we include results of surveys conducted during the sessions and findings from other EY research.
The outlook for technology transformation

In the immediate aftermath of the pandemic, banks executed a relatively smooth transition to remote working for their people and teams. They expanded and streamlined their ability to serve customers via digital channels. Longstanding trends toward digital interactions and transactions (including shifts away from physical payments and branches) moved quickly past the tipping point to reach mass adoption. It’s not just retail banking that’s changing; institutional trading operations are being automated and enhanced by artificial intelligence (AI) and private banking is being conducted virtually.

Directors understand that now is the time to build on those gains. Compared to their pre-COVID-19 expectations, the vast majority of banking directors (93%) expect an accelerated pace of transformation in the future.

As fast as things have moved in 2020, they will move even faster in the years ahead. Multi-year implementation timelines will no longer be acceptable. Boards and senior leaders are prompting their IT teams to continue to move quickly and nimbly. But they are also recognizing the risks associated with higher speeds of delivery and technology change.

Some banks have freed up capital for these innovation investments by increasing operational efficiency, one of the primary benefits of replatforming and modernizing core systems. To paraphrase one session participant, now that they have done the challenging, years long foundational IT work, they can move on to the exciting innovations. Another participant spoke of the shift from “fixing and mending our old systems to disrupting with new technologies.”
Evolving technology priorities

EY research and engagement with senior technology executives confirms the shift. Since the global financial crisis, a significant amount of technology spend has been directed to maintenance, risk and regulatory remediation. Often these “defensive” investments were designed to harmonize data across platforms and systems, fill documentation gaps or update manual and batch processes so that banks could provide information more routinely to regulators and demonstrate the effectiveness of internal controls. See Figure 1.
Firms have been under regulatory and operational pressure in their attempt to modernize. Pivoting from defense (regulatory focus) to offense (revenue focus) requires them to identify where to place their bets.

More recently, firms have been on the offensive, accelerating digitization based on technology advancements and market expectations. Regulatory compliance is still critical, of course, and work remains to be done on both core infrastructure and essential data capabilities. However, there has been a pronounced shift toward business-oriented objectives, such as streamlining processes for increased efficiency, enhancing client engagement and transforming the branch experience.

The next horizon of digitally-driven innovation is here, which includes transformations, such as hyper-personalization of customer experiences, multi-cloud ecosystems and real-time client insights. As important as these efforts are, they raise new concerns and implications for boards; directors must be engaged as plans for these new capabilities take shape and resources are allocated.
Top priorities for future tech

Based on the EY survey of chief information officers (CIOs), seven key priorities have come to the fore, as shown in Figure 2.

Each priority is demanding. Running technology as a business – with clear objectives, return on investment criteria, and prioritized plans – is essential. IT has to drive and enable the business and operate like one. The talent agenda is also changing quickly as banks adopt modern technologies. For example, some banks are asking if, as they migrate technology to cloud, they still need CIOs, chief information security officers and other traditional positions? The staff that is retained will likely play different roles and have different skillsets.

The tendency is to view all priorities as important, which perhaps they are. But EY discussions with CIOs makes clear there are in-built tensions between priorities. For example, improving the speed of delivery may conflict with de-risking IT. Similarly, modernizing technology to capture more customer data may be at odds with new data privacy requirements that give consumers the right to be forgotten. Directors must help management find the right balance and ask those critical questions to ensure the company is identifying risks of such initiatives across the business.

In reflecting on these priorities, when polled at EY banking sessions, directors viewed the following as management’s top technology priorities:

- Modernize the technology infrastructure (for employees and/or customers)
- Derive value from data
- Improve speed of delivery
- De-risk IT within the organization
Deep dive deriving value from data: why it matters and how banks are challenged

The ability to generate value from data has been increasing in focus as banks embrace a transformation agenda defined more by business objectives than regulatory scrutiny. Better data integration and management hold the key to success in unlocking the business value of data.

Today, relatively few banks can comprehensively and accurately assess the quantity and quality of all of their data, which is necessary to effectively govern it. Such lack of visibility may compromise management decision-making and reporting and increase financial and nonfinancial risks and costs for the organization as a whole. Consider the challenge faced by banks in the first few years of the Federal Reserve’s Comprehensive Capital Analysis and Review (CCAR) program, which resulted from limited visibility into where data is housed and how it flows across the enterprise, as well as subpar internal controls. Data quality issues often recur when tactical remediation steps fail to address root causes.

The fragmented nature of data storage makes real-time data movement across touchpoints and channels impossible for most banks. Migrating data to the cloud and adopting more sophisticated application programming interfaces (APIs) will help banks address this challenge going forward.

While compliance has been the main priority for the last decade, those banks that have modernized and secured their infrastructure and strengthened their ability to capture, manage and analyze data are pivoting to innovation, growth and customer-centricity. Specific objectives include hyper-personalization of the customer experience, more data-driven decision-making and increased cross-industry collaborations and ecosystem development.

Based on a foundation of high quality and extensive integration, banks would be able to increase their speed of data movement and take advantage of third-party data sets to realize the full value of their data. Boards should challenge business leaders to identify specific types of insights that drive differentiation and value creation (e.g., those that enable more personalized offers and experiences).

To help the bank maximize the value of its data, directors should ask a few critical questions of senior management:

- **How** do we improve our ability to provide end users with data when they need it?
- **How** do we know that we are using data ethically and that our models are unbiased?
- **What** internal and external data do we need to fuel company insights?
- **Where** would we see the most benefit in implementing AI and machine learning?
Evolving risk management to keep pace

Boards play an essential role in making sure risk management evolves sufficiently to keep pace with technology transformation. Recent industry and supervisory focus has clarified several important themes that cut across the enterprise in terms of maintaining robust risk management. These priorities reflect that the regulatory bar has remained mostly in the same place and that many of the same issues continue to trip up even the biggest banks.

To achieve strong risk governance and to remain in regulators’ good graces, board attention and action should be focused on:
• Addressing long-standing systems and data quality issues to produce timely and accurate risk information for effective risk management
• Improving execution of remediation activities, with active involvement from the business to validate that design and execution are fit-for-purpose and responsive to supervisory concerns
• Focusing on program management as key to large-scale change across lines of defense
• Fostering accountability of senior management, particularly within the first line of defense
• Reinforcing roles and responsibilities, identifying and filling skill gaps, and training and upskilling personnel

• Confirming that an effective and sustainable risk and control framework, operating model and management oversight are applied consistently across lines of defense, business lines and entities, reflective of underlying risks, and developing strong quality assurance programs
• Enhancing effectiveness of board oversight of risk management frameworks and internal controls; providing informative, timely and actionable reports to the board
• Engaging the right talent and fostering an enterprise “risk management” culture, for effective first-line adoption, and to make sure larger transformations and remediation efforts are truly sustainable

From a board perspective, this set of imperatives necessitates not only asking the right questions, but also critically evaluating the answers. As one participant put it, “directors can ask the first question or two, but subject-matter experts are typically necessary to ask the probing third and fourth questions.” Beyond strong technical controls, boards also must recognize that an embedded cultural commitment to risk management may be the strongest defense.
The right model for committee oversight

Directors are keenly aware that oversight of the technology agenda is critical, especially as the pace of technological transformation quickens. Yet they know overseeing technology is challenging, as shown in Figure 3.

**Figure 3: Top board challenges in overseeing technology transformation**

- Too much focus on specific IT issues and not enough focus on the broader IT agenda: 39%
- Having the right mix of talent and experience on the board who understand the technology issues: 36%
- Risk management of the company is not evolving at a pace to keep up with the technology change: 18%
- IT issues fall between the cracks of our committee structure: 4%
- Not enough time spent discussing the issues: 4%

Another challenge to effective technology risk oversight is that the top issues and agenda items do not align well with traditional committee structures, which leads to complex reporting matrices. The same can be said of overseeing the three-lines-of-defense model in general.

Depending on the bank, technology-related risks are overseen by CIOs, chief technology officers (CTOs), CISOs, chief data offers or chief privacy officers. These executives often report into both the audit committee and risk committees, which can necessitate the need for joint sessions to address tech-related risks. Talent committees are also involved in making sure the bank – and the board itself – has the right technology talent and experience. Cyber risk has become so important that some banks manage it at the level of the entire board.

Some bank boards have established stand-alone technology committees to focus on oversight, with close alignment to the risk committee, especially relative to...
An evolving approach to oversight at FBOs

In dialogue, FBO directors identified inherent challenges in striking the right balance between global and local accountability, especially for “top-down” technology and risk projects driven by the home office. For example, in the past, establishing data-quality standards, management accountability and program management structures were all tasks typically handled at headquarters. US operations simply had to fit in, even if local regulatory requirements conflicted with the design of global programs.

In recent years, however, the process has become more collaborative. For instance, some US banks have led the design of specific governance and risk models to meet local standards, which were then implemented globally. At a minimum, US executives have been given a more prominent role in developing global approaches. Personnel adjustments – such as key executives playing both national (or line of business) and global roles – can promote consistency.

cyber. However, such an approach is not without challenges. The technology committee still needs to coordinate with other committees on key areas.

In defining the ideal committee structure, banks are delineating between technology-specific risks vs. enterprise risks with technology components. Similarly, more boards are thinking beyond “defensive” postures to focus on “offensive” or upside risks – that is, monitoring whether the bank is taking sufficient risk and assuming the right types of strategic risks to create value. This broader and more holistic view will become more important to market leadership post-COVID-19 and, therefore, a more prominent feature of board agendas in 2021 and beyond.

The bottom line: striking the right risk-innovation balance in transformation

As banks seek to increase organizational velocity through seamless data sharing and broader use of enabling technologies, there is increased risk that the business and risk management functions will further diverge. That’s why it’s imperative for boards to make sure that risk management principles are embedded into the automation of customer-facing processes and the development of models and products that use new capabilities, such as artificial intelligence. That is the best way to protect against the downside of unknown risks and enable appropriate risk-taking to drive higher dividends from the huge technology investments banks have already made and will continue to make.
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Further reading

- How COVID-19 has sped up digitization for the banking sector
- How will banks transform to build the next generation of businesses?
- How financial services boards can reform committee oversight
- How banking boards’ priorities alter due to political change

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