

A black and white photograph showing a large pile of US pennies. A hand is visible on the right side, pouring more pennies from a metal jar into the pile. The pennies are scattered across a dark surface.

Transforming a Bank

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Introduction

The blazing speed of technological progress has kept banks struggling to keep up in its wake. Coupled with tectonic shifts in customer and employee expectations, large financial institutions seem to be at a loss of coherent directions. Scrambling to keep abreast of the competition, all major players have launched 'Digital Transformation' campaigns.

They have been quick to jump on the proverbial bandwagon, and are fueling it with huge budgets in the hope of gaining momentum. These usually include fragmented efforts in disparate avenues with no consolidated, unifying vision and has caused most of these efforts to either fizzle out or have minimal impact. In certain cases, this has resulted in hugely negative repercussions for the bank. With the exception of a few, the majority have yet to see returns on their investments.

The Transformation Imperative

Before classifying transformation as 'Digital' or otherwise, a vital question needs to be answered: Why do banks need to transform in the first place?

A few of the most often quoted answers are: '*to keep abreast of changing times*', '*to stay ahead of the curve*', '*for better customer experience*', '*to become resilient against technological disruptions*' and '*to optimize legacy processes & systems*'.

A closer look beneath the assumed rhetorical answers to this question is a deeper reason that belies the imperative behind the transformation initiative: **the quest for a redefined meaning of banking**. **The major factor disrupting the banking sector is changing customer expectations (Fig.1)**. This speaks volumes about where the focal areas lie for transformation efforts.

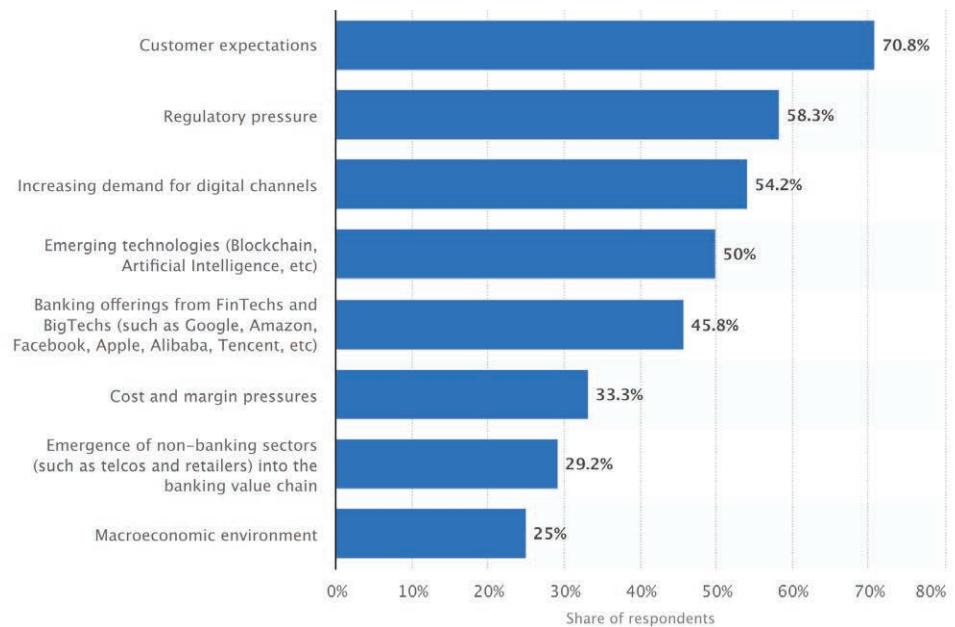


Fig.1 : Most important factors disrupting banking sector according to senior banking executives worldwide in 2018.

Source: <https://www.statista.com/statistics/946835/disrupting-factors-global-banking-sector/>

Banks have never been at a more precarious position than they are now. Since the establishment of the institution, they have largely possessed substantial influence over wealth: its transfer, storage, distribution and, for apex banks, even creation. This status quo is being severely challenged, with even small organizations posing as compelling competitors.

One of latest manifestations of this is the emergence of Peer-to-Peer (P2P) banking, where the bank is almost entirely eliminated in the transfer and distribution of wealth from one stakeholder to another. The Bitcoin phenomenon is just one among several efforts to create a decentralized economy of cryptocurrency- essentially creating wealth through digital mining. The digital cryptocurrency wallets then store it, all with the convenience of being accessible at a tap of the screen. To further illustrate how these 'Davids' are chipping away at the 'Goliaths', take a look at Fig.2. The crisis needs to be addressed urgently, and transformation is the only thing that is going to save banks from succumbing to defeat.

Currently Prevailing Directions in Digital Transformation

Most of the efforts aimed at transforming the bank are focused on technology, and all such endeavours have been clubbed together under the 'Digital Transformation' umbrella. What Digital Transformation itself means has been up for deliberation for quite some time now. However one perspective reigns supreme- the view that this endeavour must involve technology-focused efforts.

This could include digitization of repetitive processes, introduction of new technology to optimize operations and value chain as well as an overhauling of core legacy banking systems.



Fig.2 :Startups targeting specific value offerings provided by a major European bank.

As many as 85% of global banks surveyed by EY had cited implementation of a Digital Transformation program as a key business priority for 2018. In concurrence to this, banks have begun to either develop their own technological capabilities in-house or seek assistance from outside through acquisitions, partnering and purchasing (Fig. 3).



Fig.3: Development of technical capabilities.

The Co-operative Bank, UK made a decision to overhaul their legacy IT infrastructure and head down the Digital Transformation road in 2006. It wanted to rebuild its core banking systems from the ground up. Such an uphill endeavour, however, proved to be too complex for them, and the digital transformation effort was abandoned in 2013, hurting them to the extent of £300 million.

Sir Christopher Kelly, the former British civil servant in charge of assessment of the bank's 1.5 billion capital shortfall, put the majority of the blame on the failed transformation caused due to:

"poor co-ordination, over-complexity, underdeveloped plans in continual flux and poor budgeting. It is not easy to believe that the programme was in a position to deliver successfully."

In fact, Digital Transformation efforts, according to a 2013 study done by McKinsey, have a failure rate of about 70%. This is a huge cause for concern, and also begs the question:
Why is this happening?

One of the problems is with the term 'Digital Transformation' itself. The name automatically evokes thoughts of organizational transformation from a technology perspective. While tech interventions are a crucial component, they must be synergized with other avenues of transformation. In fact, Jeanne Ross, the director and principal researcher at CISR, MIT, has described Digital Transformation in the following manner:

"Digital transformation is not about technology. It is about redefining your value proposition. To deliver that value proposition, you will have to REDESIGN your company."

For banks, this means that in order to transform successfully, they will have to redefine their existing value propositions that are better suited to the rapidly changing business context. For this to happen, banks will need to redesign themselves- and this cannot be limited to technology only.

Apart from this, the other major factors causing transformation failures are:

- Lack of a unified vision for transformation.
- Disconnect with customers.
- Inability to power new growth engines.
- Rigid mindsets.
- Implementation issues.

How to Transform a Bank

For banks to transform meaningfully and successfully, there needs to be a conscious effort towards the following transformative endeavours:

1. Overarching Vision for Transformation

The problem with existing transformation efforts is the lack of a coherent Transformation Vision. This is an extremely crucial step as it lays the foundation for all future endeavours. Project are executed in bits and pieces with repercussions such as redundant efforts taking place for the exact same problems and unexpected emergent errors due to friction with existing systems.

2. Human Centricity

Before labeling people as 'employees', 'clients' and 'stakeholders', banks need to recognize that they are dealing with humans first. This has two components:

a. Workforce Transformation: With demographic changes comes a need for organizations to design policies, the workplace and even incentives to cater to the expectations of employees.

b. Customer-centric Transformations: Though the customer is always said to be revered, the reality is that banks (especially legacy ones) are reluctant to change the status quo to suit the evolving customer expectations. This involves a lot of effort and risk for financial institutions, who are comfortable with the established system.

3. Value Propositions

A very important criteria for banks to stay competitive is to have continuously contextual, relevant, effective and profitable value

propositions. This is an extremely uphill task without a deep understanding of the customer's expectations, their needs and requirements.

Transformative measures aimed at redefining the value propositions based on this study need to be done continuously to evaluate and course correct directions for the development of new value offerings. Along similar lines, even the value propositions for employees and associated stakeholders need to be redesigned.

4. Transforming Business Models

It is all too easy to fall prey to competitive forces and try to beat other players in an over-crowded market through incremental efforts. The problem here is that this only causes temporary gains for the bank. To truly take a giant leap ahead, the business model must be uniquely designed to power new growth engines. The redesigned value proposition mentioned above needs to propel it into a 'blue ocean', and this can only be possible through business model transformation.

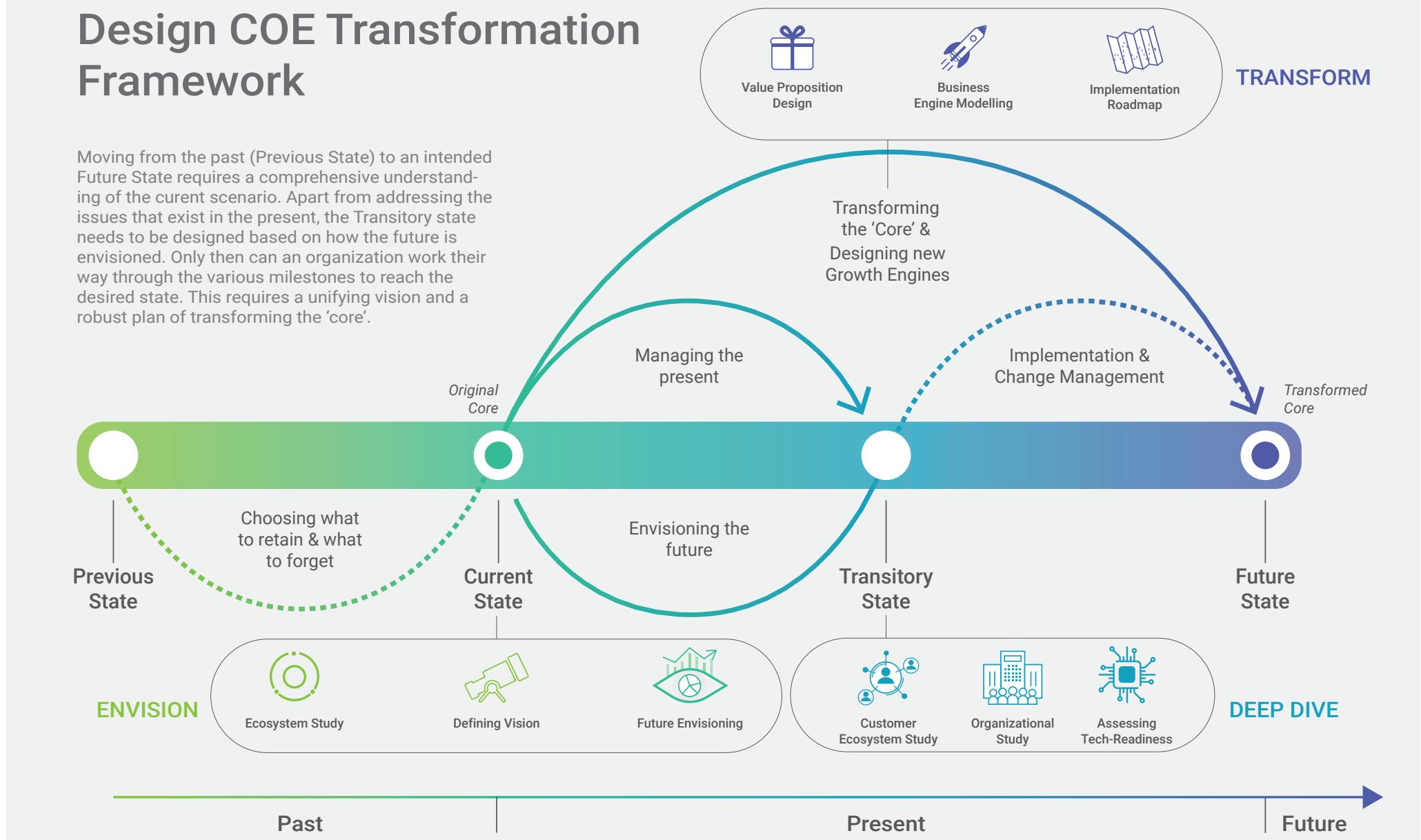
5. Technology-enabled Transformation

Technology is a powerful tool to enable transformations- and that is what it should be recognized as. Instead of a 'tech-first' approach, banks need to be focused on the objective to be achieved through effective utilization of the technology.

Emerging technologies like AI, AR/VR and blockchain present significant potential in transforming banking, but they require thoroughly researched avenues for effective application, rather than cosmetic ones.

Design COE Transformation Framework

Moving from the past (Previous State) to an intended Future State requires a comprehensive understanding of the current scenario. Apart from addressing the issues that exist in the present, the Transitory state needs to be designed based on how the future is envisioned. Only then can an organization work their way through the various milestones to reach the desired state. This requires a unifying vision and a robust plan of transforming the 'core'.



Design COE Transformation Framework

We have developed a three-stage process to enable meaningful and effective transformation in banks. These are:

1. Envision

This stage focuses on creating a body of knowledge that helps establish context for the transformation endeavour.

Framing the overarching Transformation Vision through Forecasting and Scenario Mapping.

2. Deep-Dive

Understanding the customer and the organization thoroughly with regards to its employees, processes, culture and systems.

3. Transform

Redesigning the value proposition and business model for the bank. This is then followed by the development of the implementation roadmap.

These have all been shown in the infographic on the facing page.

There have been successful endeavours, like the transformation of BBVA, but these stand out as exceptions rather than the norm. In a world of constant disruptions, transformation must be approached as a journey rather than a static objective.

Conclusion

Banks have been touting the importance of Digital Transformation, and there is a substantial amount of truth behind this. However, it is important to recognize that the larger issue at hand is the need for a holistic approach towards transformation aimed at redefining the bank for the changing definition of banking itself.

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