Transforming financial services

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WITH PROVEN USE CASES P. 11

An integrated view

How to successfully execute digital strategies and solutions

MADE-TO-MEASURE MODEL ON P. 7

In a nutshell

Digital countdown

Financial service providers are facing a digital dilemma. There is no lack of ideas or projects, but many of them do not achieve a wider change or materialize too late. So what should managers do? This booklet sets out to identify and address the key problems posed by digital transformation, and provide an integrated, tailor-made model to support the execution of digital solutions. With the help of client feedback, we find that there are four key digital challenges that must be tackled in parallel. Our Made-to-Measure model addresses these individually, providing pathways and solutions for any company at any stage of digital transformation. Finally, the given use cases emphasize the benefits of such an approach, and make clear that there is no time to lose.

SEE P. 4

SEE P. 11

An integrated view

The financial services industry is **awash with digitalization ideas**, from platform-based business models to radical new ways of working. The problem is, there is far **less clarity about how to actually execute them successfully.** Our experience shows that, to date, too many good ideas have underachieved or failed to bear fruit.

Financial service providers know this. Many have already launched digital projects, digital labs or factories, quickly learning that **every strategy is only as good as its execution.** Even successfully implemented projects have **failed to facilitate wider change** and impact the wider organization. Key challenges have been rooted in overarching framework constraints, applied methods and business architecture, as well as legacy technology, organizational and cultural topics, and the question of how to address these challenges in an integrated way. For example, what's the point of building a new front end and teaching agile working methods if your core IT platform and organizational logic are 20 years old and the organization is unable to handle it? Furthermore, if initiatives are **not executed along a common strategic roadmap** they add to the legacy technical debt, making future change more expensive and time-consuming, potentially leading to deadlock.

Another headache is that the potential **execution pathways are diverse and difficult to select**, ranging from agile project management to digital factories, intrapreneurship and greenfield company building. This is compounded by the fact that there is frequently too little understanding of how these pathways fit together, and how they can be successfully related to broader legacy structures.

While a single, unsuccessful digitalization project may seem a minor concern, the management of digital change is key to an organization's survival. If a company is to achieve its digitalization goals, it must be able to roll out digital projects across the organization, and ensure they work in harmony with others, as well as having a broad impact. **If the company fails, its future is bleak.**

The aim of this article, therefore, is to tackle the issue of how to successfully execute digitalization strategies, given the legacy constraints for financial service providers. We observe that many approaches address these issues from only one particular angle – for example cultural change or working methods – and lack an integrated perspective. We provide this by first identifying and addressing the key challenges posed by digital transformation, then offering a model to help organizations better execute digital projects and scale them up. **Our aim is to emphasize the need for an integrated view,** rather than focusing more deeply on any one dimension.

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The key digital challenges

When it comes to digital transformation, financial service providers face two main tasks: to digitalize their existing core business, for example by offering innovative, app-based payment, loan and savings solutions; and to launch new digital business models in parallel, for example digital ecosystems that increase share of wallet through new services.

Achieving this is placing organizations under huge change pressure. They must deliver new digital initiatives and at the same time develop and adapt their legacy infrastructure – as well as fulfill ever stricter regulations for both. This leads to conflicts and complications.

As a result, financial service providers launch several, sometimes myriad individual projects. But these cover only partial aspects of the required transformation, sometimes only addressing silos, and deliver changes that are too small to create tangible impact, or take too long to execute.

In our view, the challenges to digital transformation can be clustered into four main dimensions, all of which need be addressed in parallel:

Rules of the digital game: how to ensure a common strategic direction, balance flexibility and control, and ensure transparency, appropriate budgeting and accountability in an agile environment

Business & IT architecture: how to ensure a seamless integration from product to business processes, down to corresponding IT architecture. How to deal with existing legacy IT infrastructure, run new and old elements temporarily in a de-coupled, parallel way while moving towards open, service-oriented architectures.

Methods & procedures: how to apply agile methods and to what extent for each topic

Culture & organization: how to change the culture to embrace digital transformation, for example dealing with failure and identifying the structural changes needed to support the transformation

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client feedback

What are the current problems?

To date, many financial service providers have often found the scope, speed and success of their digital transformation projects disappointing. Feedback from our clients shows that the same problems frequently crop up:

1 RULES OF THE DIGITAL GAME

>"Agile teams often do not commit to any strategic roadmap and there is also not enough board committment; agile approaches tend to become dogma."

>"Corporate controlling and incentive systems demand compliance with traditional planning and reporting instruments, which can only be partially fulfilled by agile working."

> "There is insufficient coordination between several initiatives; where is the overall vision? The interface between projects and the line organization is often not clear."

2 BUSINESS & IT ARCHITECTURE

>"In the past, products and business processes have been defined without looking properly at the impact on IT, therefore we have many IT workarounds."

>"Our legacy IT is simply too old and based on vertical silos – we cannot easily build new customer-facing, interactive solutions."

> "It is not an option to replace our legacy IT in the short term; somehow old and new solutions have to co-exist and we need to avoid creating new legacy in an uncoordinated way."

3 METHODS & PROCEDURES

>"Different projects require different levels of agility, especially when comparing client-oriented vs. back-end-related projects."

>"Existing stage-gate logic for technology development projects is not yet prepared for continuous release and DevOps."

> "Our key people are not used to working in an agile way."

>"Agility means loss of control and the illusion of responsibility in our given corporate hierarchy."

4 CULTURE & ORGANIZATION

>" How do we pass solutions to line organizations and safeguard digital achievements?"

>" How can we realize quick wins and lighthouse projects and leverage the lessons learned for the entire organization?"

>" Responsibilities between central IT, business IT and digital entities are often not clear, and we have a lack of the relevant resources."

>" We cannot bypass existing decision bodies by delegating on-the-fly authority to agile teams."

The risks of failure

Failure to properly manage these issues has several consequences that threaten the digital transformation process:

- Newly developed solutions are not as innovative as intended, meaning old structures prevail and competitors move ahead. This is especially true for new, digital market challengers.
- Good intentions are not followed up with concrete action and successful, productive results.
- New approaches are too ambitious or introduced in a "big bang" way, overstraining the organization with their need for new IT architectures, new working methods and new organizational structures in parallel.
- Disorderly implementation of agile approaches may mean time, cost and resource requirements are not clear, necessitating frequent re-planning and resulting in quality flaws and time and cost overruns.
- Newly developed solutions don't fit together or require significant adjustments, resulting in sunk costs and new products quickly becoming obsolete.
- Flawed execution makes iterative learning difficult, with the same problems infecting unchecked parallel topics.
- Even successful pilot projects may be thwarted by other initiatives or because they can't be maintained by the line organization after handover from the agile team.

In summary, overall digital transformation would be too limited, too slow and not innovative enough. While businesses often acknowledge that current ways of working are out of date, there is also still resistance to the new ways. This makes it difficult for financial service providers to adopt a startup mentality or begin agile, greenfield projects. Yet they must do so in order to address the four key dimensions. So what should they do? We believe that all of these challenges and related experiences must be addressed step-wise, but with each step covering all the dimensions in an integrated way. Below we outline our way forward.

Our core beliefs

We believe pragmatism and an integrated approach are key to overcoming these challenges and avoiding failure. Our five core beliefs in digital transformation for financial service providers reflect this:

- The endgame is agile: the weaknesses of traditional approaches will be compensated by agile elements along all four dimensions (such as rigid/inflexible milestone tracking, "waterfall" project management, monolithic and "closed" technologies, or siloed organizations).
- There is no one-size-fits-all solution for the transformation path due to two main factors: first, everything depends on the organization's current digital experience and maturity level, business model and IT maturity; and second, the complexity of the problem at hand matters, for example is it a back-office change with clear requirements vs. disruptive innovation, or known vs. unchartered territory.
- Because of, and not despite, agility, an overarching framework is still required – but this needs to provide sufficient leeway for flexible working in between.
- No "digital showrooms" only: digital initiatives must be designed to deliver productive and tangible results.
- Minimum viable products (MVPs) are the right step forward within a staggered approach that follows a clear strategic agenda and vision.

These core beliefs drove us to develop a pragmatic, client-adaptable model for digital transformation: the Made-to-Measure model (MMM).

The Made-to-Measure model

The model addresses the four dimensions. The first element considered, therefore, is "**Rules of the digital game.**" This encompasses an organizational entity with top management defining the overall strategic direction and vision, steering the portfolio of digital initiatives and setting out clear operative rules for attributes of new solutions, required artifacts, and development tools and processes. In addition, it covers the concepts of agile playbooks, documenting how agility is actually applied throughout processes and agile budgeting. The latter means having no fixed budget for pre-defined milestones anymore, but rather a budget to achieve certain digital targets, allocated in a flexible way. This entity will also supply skilled digital resources to drive the transformation process at the beginning and provide support to agile teams. Over time, as the maturity of the organization increases, the role will evolve into more of a coordinating function, similar to many of today's business development units but with a broader mandate.

After this, the model tackles the "**Business & IT architecture**" dimension. There are several activities that need to be considered here. In a first step, future products and business requirements need to be systematically linked to a clear target picture for the IT architecture. That includes mapping existing and new technologies along the relevant business processes. It determines the relevant IT solutions for both front and back end and how these interact. Given that many applications are often based on vertical silos with a huge amount of legacy technologies, the target architecture has to decouple flexible, customer-facing front ends providing new functionality and data models from the existing core systems or other back-office processing engines. New micro-services therefore have to be designed for specific features that are linked with the legacy solutions through a flexible and open interface architecture. The target IT architecture defines the "playing field" and also provides guidance on how to integrate innovative startup technologies into the landscape.

In a second step, the required skills and operating model for running both technology types is determined. Going forward, a plan needs to be developed on how to decommission legacy tech as part of a step-by-step roadmap and replace it with modern solutions. Typically, the modernization will happen in layers – for instance, once the first layer on customer interaction has been rebuilt, further functionalities from the back end will be migrated to the new technology until there is very little complexity left in the legacy tech. This can then be either decommissioned or replaced by a standard solution in the final state.

The model's third element, "**Methods & procedures**," focuses on delivery approaches for digital projects, both clearly defined ones as well as disruptive topics. To begin with, there are project types requiring stable, more waterfall-like approaches, but enhanced by digital elements until full agility is achieved. Next is the main approach of agile project management, which lends itself to E2E customer journey re-designs, for example. Third comes the most de-coupled approach, of company-building/digital speedboats. This involves establishing separate entities outside your organization to deliver solutions from a greenfield environment. This is especially relevant to the development of entire new business models outside the current environment. ▶

All four elements of the model need to be mastered together.

Measuring up

The Made-to-Measure model offers an integrated solution for digital transformation.

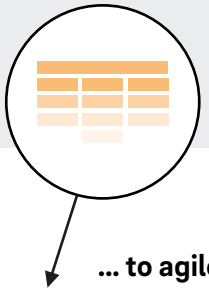
Made-to-Measure

1 **Rules of the game**	Strategic direction/ vision Portfolio steering Operative rules	Agile playbooks Agile budgeting	Digital resources
2 **Business & IT architecture**	Clear architecture model from product to technology	Mapping existing/ new technologies	Decomissioning strategy, skills and operating model
3 **Methods & procedures**	**"Enhanced waterfall" with digital elements as interim solution** e.g. back-end changes, release update	**"Agile projects"** e.g. E2E customer journey, efficiency programs	**"Company-building/digital speedboats"** e.g. disruptive digital/new business model
	Stability (exploit)		**Flexibility** (explore)
4 **Culture & organization**	Initial organizational structure separate from line organization and digital resources	Gradual roll-out to more comprehensive digital cluster organization	Replacing the current line organization

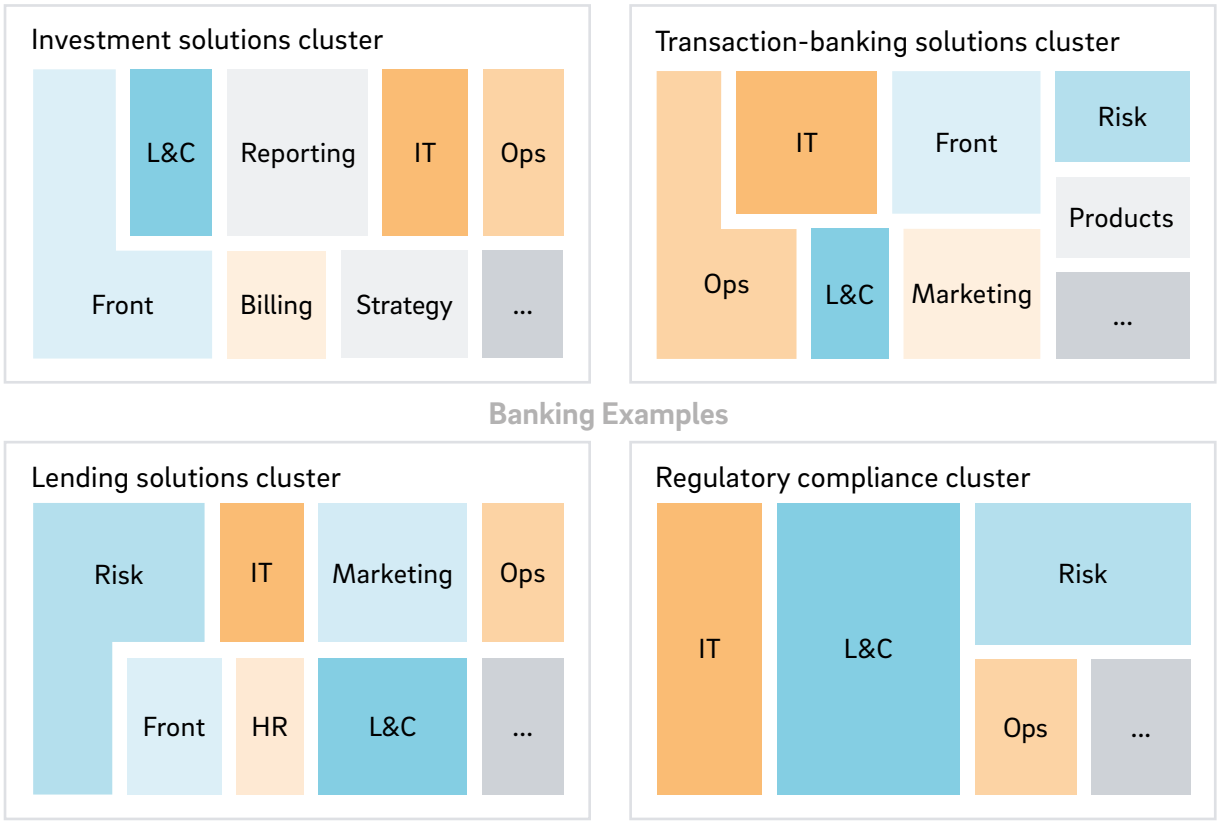
Source: Roland Berger

Finally, the model addresses "**Culture and organization.**" Key to success here is to create an initial nucleus with digital-savvy resources, separate from the line organization, to deliver the first digital transformation projects and learn from them. This nucleus should then gradually evolve from a "secure place" into a more comprehensive digital organization (see "The agile organization" below). These are based on agile clusters as an alternative to the traditional siloed organization, free of hard divisions between IT and business functions. Each cluster represents an interdisciplinary team, which focuses on a particular product, client journey or platform solution that the clusters develop and improve. They are staffed by IT and business experts, replacing the current line organization. All elements need to be mastered together. This doesn't mean in a "big bang" approach, but each MVP along the roadmap needs to be designed in a way that covers all elements.

The agile organization



Digital clusters consisting of interdisciplinary teams focus on particular products or solutions with the necessary skills to develop, operate and improve.



Source: Roland Berger

The benefits of the Made-to-Measure model

The value of applying this model results from the benefits that can be achieved within each of the dimensions. Only by following the integrated approach can an agile organization that delivers a tangible impact on clients and markets be achieved.

Rules of the digital game

- Alignment with corporate objectives
- Clear prioritization of initiatives
- Central "source of truth" to provide status quo of digital projects and transparency
- Avoiding "loss of control" concerns

Business & IT architecture

- Business requirements are supported with consistent technical solutions.
- Common technology standards to ensure best fit of new solutions with legacy IT and innovative components
- Clear way forward in terms of decommissioning legacy IT
- Step-by-step reduction and lower risk regarding legacy constraints instead of "big bang" migration approaches

Methods & procedures

- Different project types can be run at their own speed, e.g. projects with clear and stable requirements can be managed differently from those needing more flexibility.
- Consistent approach and methodology across the organization
- Best practices can be shared and leveraged across different projects.

Culture & organization

- "North Star" for organization, ensuring much more client-/market-oriented, agile and integrated working than in traditional silo organizations
- Broader digital skills within the organization, eliminating bottlenecks and ensuring acceptance and maintenance of newly developed digital solutions
- Developing and training a digital mindset among employees
- Supporting a learning organization by providing a "secure place" at the start and allowing the subsequent roll-out across the entire organization

The approaches to executing digital transformation in the financial industry, including the shortcomings that we have observed so far, are both understandable and reasonable, given the legacy and complexity. This is part of a learning curve. But it is necessary to move ahead by really challenging the old ways of working and transforming into a truly agile organization.

Where the model works

Use Case #1

Digital transformation of a large bank's domestic lending business

Facing potential disruption to its established business model, the bank decided to commit to a full, end-to-end digitalization program for its domestic core business. It took a greenfield approach to establish an open platform, simplified products and processes, and created efficient digital processes internally and with clients and distribution partners. The integrated approach ensured delivery was on time and on budget.

Rules of the digital game: the program combined formerly separate digital initiatives and executed them in an aligned way according to an overarching digital strategy. Budgets were allocated to achieve the overarching targets, but could be used in a flexible way. Development tools, guidelines and roles were defined and applied in the same way throughout.

Business & IT architecture: the program developed target requirements for future products and processes, allowing an IT architecture to be developed. This included a de-coupled greenfield layer, which newly developed elements had to fit into.

Methods & procedures: As the bank had no previous experience with agile methods, the program used an enhanced waterfall methodology to begin with. The project scope was split into small, concrete objects, which were developed in short production cycles, and incorporated client and partner feedback. This allowed iterative learning. Based on the positive experience, agile methods were increasingly introduced.

Culture & organization: the program was set up as a separate organizational entity, with employees independent of old line functions and management lines. Similar to a cluster logic, interdisciplinary teams focused on different products and client journeys from conception to implementation. This was possible because all the necessary skills and resources were available for each team and topic.

Use Case #2

Development of a new platform-based business model

Observing digital market trends, especially emerging platforms and ecosystems, and a potential threat at the client interface, the bank decided to develop a platform in the real estate/mortgage segment. This initiative was part of a company-wide digital transformation program.

Rules of the digital game: the program defined overall ambition levels and strategic priorities and deducted a portfolio of initiatives linked to them. Development guidelines and roles were centrally defined.

Business & IT architecture: new IT architecture was developed according to pre-defined customer journeys. Infrastructure elements usable by many initiatives were centrally developed and implemented.

Methods & procedures: the bank opened a digital factory and applied agile methods to all innovation initiatives. All platform development was executed by the factory.

Culture & organization: within the factory, interdisciplinary teams worked on defined client solutions and journeys, independent of old management structures.

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