

Think:Act

navigating complexity

PART 4



January 2019

Central banking HR of the future: Driving strategic change

New realities in central banking

Roland
Berger



THE BIG

3



50%

efficiency savings in HR functions through process optimization and automation.

Page 8

80%

of central banks don't have any institutionalized open innovation initiatives.

Page 12

3

effective ways that HR can drive strategic change: create a supportive organizational setup, instill an innovative mindset and become a borderless organization.

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Central banks are on the precipice of change: HR has a key role to play in embracing new technologies and pre- paring for new realities

In the wake of the global financial crisis, financial institutions are faced with stricter regulation, increasing complexity and interdependencies. Rapid technological changes are also having far-reaching consequences for the financial services sector and the players within it. The environment in which organizations are operating is changing at the same speed. The number of Fin-Tech startups has risen enormously and their ability to transform and innovate increases the potential for disruption within the industry. Cloud technologies and robotics are increasingly being used to reduce costs and improve quality. In short, digital technologies have become the new norm in the financial world.

Today's central banks find themselves in the midst of this fast-changing environment, with all the attendant consequences for their business. They are trying to be proactive and endeavoring to picture how the world might look tomorrow. Expectations on them are high – from both the markets and the political world. Furthermore, against the backdrop of rapidly changing

demands, roles and governance, the qualities and skill sets they require have evolved, raising the question of what the key expectations on them are. One thing is for sure – central banks must immediately start to create the conditions to manage the present while at the same time laying the foundations to own the future.

With these challenges in mind, the following questions arise:

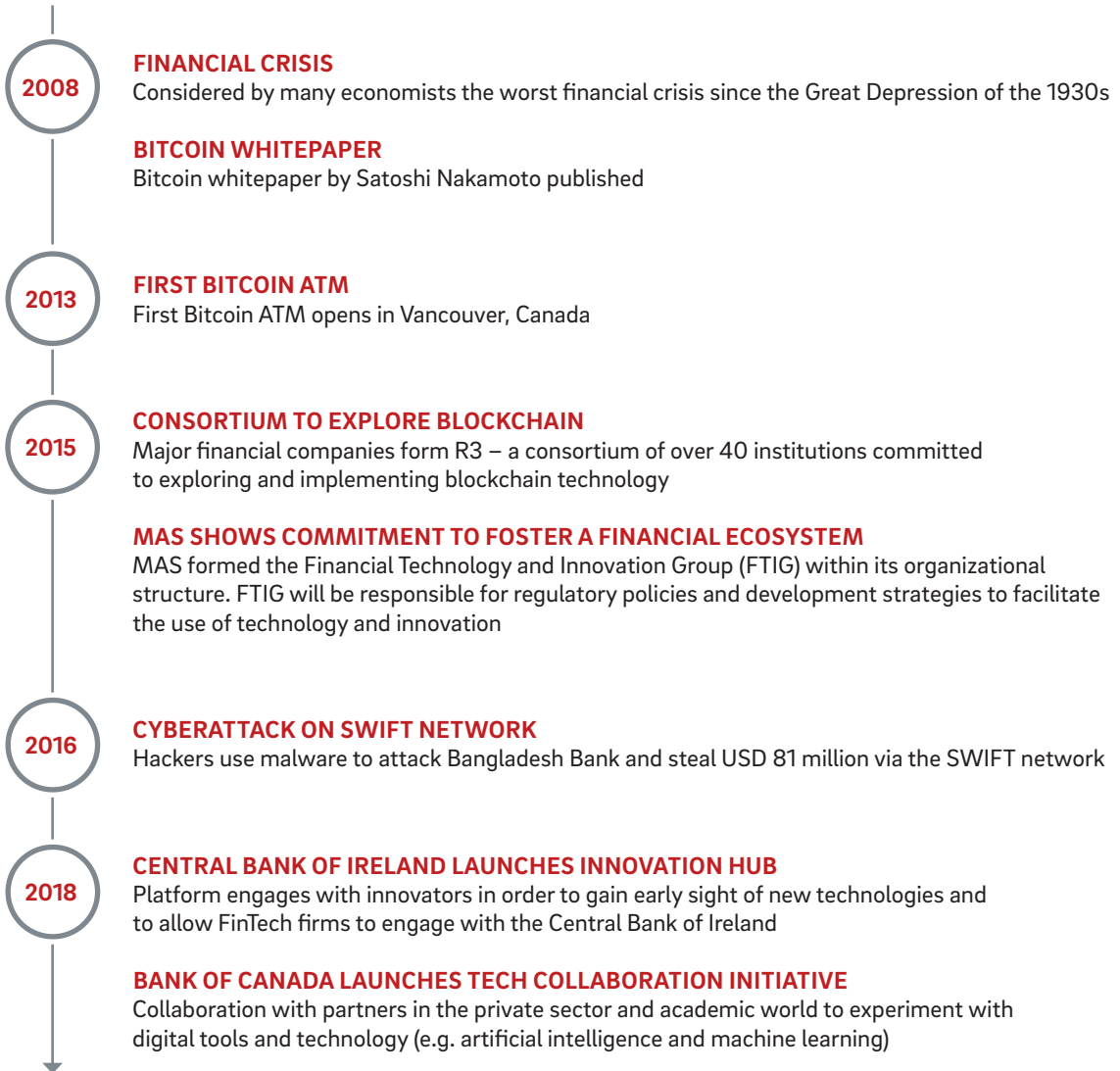
- > In what way will the mandate of central banks change?
- > What will be demanded of central banks in the future?
- > How can resources be used in an effective and efficient way?

Our ongoing series "New realities in central banking" looks to address these issues. Part one, "The Organizational Challenge", explored the difficulties central banks are facing in fostering cultural change within

A

NEW REALITIES IN CENTRAL BANKING

Technological innovation and new players in financial markets are strongly affecting central banks around the world.



Source: Roland Berger

their organization. The second publication, "The Rise of Cryptocurrency", shed light on the impact of digital currencies and other emerging technologies on central banks. Our third study focused on how the IT organization, systems and infrastructure of many central banks are not yet fit for purpose and explained how they can

transform their IT departments into proactive business partners with a clear strategic mandate. → **A**

This fourth publication focuses on human resources, the backbone of every organization, and points out how tomorrow's business environment and workplace will require HR to become more proactive. Human re-

source experts need to understand what changes are coming and, crucially, the needs of the individuals within their organization to decide on the best way to manage change. This includes ensuring that the right talent is attracted, developed and retained.

Looking forward, HR must act as a transformation partner, designing the organization for adaptability. Moreover, it needs to foster and actively drive change by breaking through bureaucracy and instilling an innovative mindset in the organization. By breaking up silos and fostering an innovation-friendly culture, central banks can pave the way for co-creation. Ultimately, this means they and their HR departments need to re-think their traditional working structures and discuss new collaboration models to leverage untapped potential by building up a network.

In the following pages, we outline the three key enablers that will allow HR to prepare central banks for the future and drive strategic change.

"The bottom line is that digital technologies are disrupting central banking along with everything else. Digital disruption is likely to be a major preoccupation of central bankers for the foreseeable future."

Stephen Poloz, Governor, Bank of Canada

Selected key elements crucial for future success



END-TO-END PROCESS DIGITIZATION

Foster an end-to-end process view and support cooperation across teams – Increase efficiency through automation



FROM EXPERT TO ENTREPRENEUR

HR needs to lay the foundations by hiring for innovation, creating a culture for innovation and rewarding for innovation



TRANSFORM INTO A BORDERLESS ORGANIZATION

Become a borderless organization and evaluate how the expertise of third parties can be used to build up new capabilities and leverage untapped potential

① End-to-end process digitization: Foster collaboration, reduce errors, improve efficiency and free up resources for more complex tasks

Today's fast paced, innovation-driven business environment and the rapid substitution of one "next big thing" with another strongly influence the way we live and how business is conducted. An important part of thriving in this ever-changing world is having an organizational setup that is flexible, agile and designed for adaptability.

Central banks are often traditional companies with a rather hierarchical, historically grown organizational structure. They are often divided into "suborganizations" or divisions, each performing a specific function. Targets are then defined on the level of the separate departments – often without considering the organization as a whole. But this approach prioritizes the short-term goals of individual departments, and results in the duplication of work as departments are

not aligned. Moreover, departments focus on optimizing their own unit instead of the overall process and outcome. The approach ultimately leads to the inefficient use of resources as well as lower overall performance.

THE NEED FOR AN END-TO-END PROCESS PERSPECTIVE

As public institutions, central banks are required to allocate their resources in the most efficient and effective way, based on effective and sustainable HR operations built on the sound design of support processes and effective use of technology. To deploy resources more efficiently and achieve better performance, they need to break down existing silos and foster a shift from a functional view to an end-to-end process perspective.

To do this, banks need to transcend the current silo mindset, or function-based thinking, which results in project delays, increased costs, poor decision making and a lack of ownership. They should become more business-process oriented and strive towards the overall target, thus fostering end-to-end process responsibility. This closer interaction and collaboration should go beyond business departments and, in particular, be developed at the interface of business and IT. Poor alignment and cooperation between IT and business departments results in missing ownership and project delays. Coordination along processes within the whole organization should therefore be a top priority, and direct interaction between departments actively encouraged through cross-functional, agile teams.

To this end, central banks should build an organization that encourages teams and individuals to work together and share information transparently. Collaboration and an end-to-end process view is not a "nice to have" organizational philosophy anymore but an essential ingredient in organizational success. Hence, there needs to be flexibility for employees to move from team to team depending on the issue at hand, supported by the relevant tools and collaboration platforms. The central bank of the future is designed for speed, agility and adaptability.

In recent years, our clients experienced the following benefits from adopting a process-oriented perspective:

- 1 Stronger focus on continuous improvement of processes and outcomes
- 2 Focus on aligning and linking processes to achieve overall organizational goals and objectives
- 3 Focus on improving efficiency and effectiveness by concentrating on the outcome
- 4 Consistent performance and well-defined workflows
- 5 Stronger knowledge exchange and more involvement and empowerment of employees

WHAT CAN HR DO TO FACILITATE TEAMWORK AND AN END-TO-END PROCESS VIEW?

Change will only happen if it is supported and enabled by HR. First, HR needs to ensure that the right reward system is in place, meaning that it needs to review the existing appraisal processes and make sure they reflect a stronger focus and acknowledgment of group results instead of individual results. Second, collaboration

needs to be integrated in the personal development plans of employees, and KPIs need to be tailored to group goals as well. Third, job descriptions need to be reviewed and cooperation actively considered part of the job profile. Fourth, the right leadership needs to be in place to form and foster the change.

FOSTERING AN END-TO-END PERSPECTIVE VIEW BY DIGITIZING PROCESSES

As already mentioned, a process view will place a stronger focus on continuously improving processes to drive efficiency. As the demand to perform complex, labor-intensive tasks increases and the shortage of skilled workforce grows, the automation and end-to-end digitization of processes is seen as an important enabler of business efficiency and agility. Moreover, the end-to-end digitization of processes will ultimately support the shift to a process view.

Yet not every process should simply be automated. It's vital for central banks to determine which processes are best suited to automation and which ones still need human interaction. Our previous experience has shown that the automation of routine and repetitive tasks requiring no human interaction tends to produce the best results. Data evaluation, data analysis and document management based on predefined rules are other areas well suited to automation. The technology can reduce human error in processes or tasks managed by employees themselves (e.g. data entry, document upload, order placements), thus increasing efficiency (for instance through pre-populated entry fields or pre-checks, etc.).

Organizations need to look at the strategic and operative drivers of process improvements. The use of technology and machines should be especially considered for processes that are time and resource intensive. Once processes that are suited to automation are identified, it is crucial to review them from start to finish. This includes cutting the number of process steps, reducing or revising the amount of documentation necessary, and developing automated decision making based on predefined rules.

Automation will not entirely replace human interaction. While useful to free up resources to use on more complex problems, it is not (yet) a good fit with subjective tasks, such as the selection of candidates. Moreover, some support functions should not simply be given over to the technology; chatbots, for example, may make employees feel less appreciated.

B

BUSINESS PROCESS OPTIMIZATION

Changes to HR processes can lead to significant improvements in efficiency.

Over the course of three months with a team of 3 three consultants, Roland Berger successfully redesigned and automated key HR processes at a large Eurosystem central bank in order to increase efficiency while decreasing manual workload. The following results were achieved:

- | | | |
|---|----------|--|
| <hr/> LINKAGE TO MASTER DATABASE | 1 | <hr/> Stronger linkage to master database and introduction of standardized pre-checks and pre-populated e-forms led to fewer errors and significant quality improvements |
| <hr/> SELF-SERVICES | 2 | <hr/> Through the expansion of services offered in a self-service mode, a significant decrease of the current manual workload can be attained while also increasing customer satisfaction |
| <hr/> AUTOMATION/ DIGITIZATION | 3 | <hr/> Digitization of paper-based forms and workflows led to a decrease in the amount of effort involved in processing and uploading documents. Moreover, customer satisfaction was increased due to greater transparency and self-explanatory processes |
| <hr/> ALIGNMENT | 4 | <hr/> Through the fostering of a stronger alignment and linkage between processes, duplication of work was reduced significantly and overall process ownership increased |
| <hr/> POLICIES | 5 | <hr/> Stronger focus on self-declaration, lump sums and random inspections instead of policies according to individual employee needs – significant reduction of complexity, redundancies and inconsistencies |

PROCESS EFFICIENCY WAS ON AVERAGE INCREASED BY UP TO 50%

C

THE FUTURE HR VALUE CHAIN

Many new technologies have the potential to transform HR functions and processes.



Source: Roland Berger

To succeed in the automation of their processes, central banks should bear in mind the following three best practices:

- 1** Objectives and automation goals need to be clearly defined and potential risks considered
- 2** Employees must be trained to use the new technologies
- 3** A human fallback option for all automated tasks should be in place

Once processes are digitized, central banks will be able to automatically collect data and information that can be used to better understand process performance, cost drivers and risks. Using data for real-time reports and dashboards means that problems can be addressed before they become critical. All data systems need to be "smart" in order to track patterns in sick leave, for instance, or to provide managers with reminders of an employee's stage in the lifecycle – especially useful when it comes to strategic workforce planning.

End-to-end digitization requires designated process owners who adopt a process perspective across functional areas with a mindset of continuous improvement. Cross-functional collaboration supported by digital tools and processes will then pave the way to an open platform where co-creation with third parties is enabled. A past project conducted by a large European central bank demonstrated how process automation can increase efficiency by up to 50%. → **B**

PROCESS OPTIMIZATION 2025: BEYOND ROBOTICS

Many organizations are currently leveraging Robotic Process Automation (RPA) to automate manual workflows and drive short-term efficiencies with short payback periods. While RPA solutions should be investigated for automating manual HR processes, HR organizations must also begin laying the foundations for AI-based software tools and workflows. Figure C highlights the potential of future technologies along the HR value chain. → **C**

② From expert to entrepreneur: Instilling an innovative mindset

To thrive in today's market environment, companies need the capacity to adapt and transform themselves in response to changing market conditions. Things will only get more uncertain as we go forward – so companies need to figure out how to move towards long-term goals and how to be innovative. Some may think that this might not be true for central banks. But just as for private companies, innovation also matters for central banks.

A few years back, who would have imagined that interest rates would be below zero in several economies? And who would have thought that you could get Bitcoin out of an ATM? Innovation is not about reacting to a current crisis but rather about setting the sails for the future. Central banks therefore need to become more innovative and flexible; they need to infuse an entrepreneurial mindset into their traditional structures, one that constantly challenges the status quo. They need to understand that entrepreneurship is not a position reserved for the founder of a company but is, in fact, a state of mind. Employees need to be empowered to become mini-CEOs, people who generate ideas, create opportunities and take on responsibility.

But how can central banks foster and encourage innovation and an entrepreneurial mindset? We identified three levers that HR professionals should pull to foster innovation:

- 1 Hire for innovation
- 2 Create a culture for innovation
- 3 Train and reward for innovation

1 **HIRE FOR INNOVATION: ATTRACT EMPLOYEES WITH AN ENTREPRENEURIAL MINDSET**

HR professionals should start by hiring employees with an entrepreneurial mindset. Hiring for innovation means that central banks' HR needs to review and adapt their existing recruiting strategies. They need to identify people who can "think outside the box". Relevant questions to ask include: Are they curious? Are they locked into one viewpoint or are they willing to consider other options? Are they open to new ideas and concepts?

2 **CREATE A CULTURE FOR INNOVATION: ATTRACT AND CULTIVATE THE RIGHT LEADERS**

A positive corporate culture starts with leadership, so having the right leaders in place to shape the company culture through their behavior is an important part of fostering an innovation culture.

Over the past few years the expectations on leaders have changed. They are expected to cope with and manage a changing working environment, know how to deal with networks and be empathic and supportive of a feedback culture. They need to support and foster the performance of other teams and focus on the overall success of the company instead of individual results.

These new expectations come with challenges in terms of leadership development. To cope with the demands, HR managers need to change their assess-

ment procedures and move away from appraisals based on performance only, focusing instead on the leader's ability to build and foster networks that support their teams and their work.

Talent management should therefore especially look for the following skills when recruiting and developing future leaders:

- > The ability to foster a common vision and empower employees
- > The capacity to support an adaptive way of thinking, promoting innovation and a pioneer spirit
- > The ability to apply this way of thinking in new situations and support problem solving through an iterative learning process
- > The capability to activate performance-supporting networks and promote effective use of networks and collaboration

The central bank of the future is characterized by employees with an entrepreneurial mindset who generate ideas and assume responsibility. → **D**

3 **TRAIN AND REWARD FOR INNOVATION: ADJUST YOUR REWARD MECHANISMS**

The implementation of the right rewards system is a powerful force when it comes to supporting employees and shaping the corporate culture to be more innovative and reinforce commitment. To support change and an innovation-friendly culture, HR must review current reward mechanisms (e.g. performance management tools, compensation strategies), asking whether they are doing the right things to develop their employees and the central bank's culture. KPIs in performance reviews should ensure that they are promoting the development of innovative employees, as well as group goals.

D

UP-SKILLING IS A PREREQUISITE

HR will be driving strategic change by attracting and developing leaders with new skillsets.



③ Transform into a borderless organization: Leverage third party knowledge and skills

The modern central bank needs to move away from being a collection of "silos" towards becoming a truly agile and collaborative organization. The central bank of the future is not isolated but rather part of an open platform, bringing together the best in class around the topics of emerging technologies and other capabilities. Investing in the automation of processes and thus improving efficiency will create a virtuous circle that will yield many other benefits, including the freeing up of resources for tasks that require specialized know-how and skills.

However, nowadays the more specialized the required skill, the greater the shortage. Central banks should therefore not only consider building up know-how and skills internally but also think about leveraging external resources. To cope with the prevailing fast-paced business environment, overwhelming influx of technologies and applications, and the constant flood of information, new working methods such as design thinking or prototyping need to be incorporated.

"It is astonishing what foolish things one can temporarily believe if one thinks too long alone, particularly in economics," as John Maynard Keynes wrote during the Great Depression. Engaging with people outside the bank helps ward off tunnel vision, and can be more efficient. Central banks need to build up a network of experts with specific knowledge, expertise, experience, capabilities or tools in order to stretch their own capa-

bilities and expertise and get on-demand access to external resources. That said, 80% of today's central banks do not yet have any institutionalized open innovation initiatives in place.

It is often argued that technology will destroy jobs while also creating new roles. Many jobs will likely remain – but most will be transformed, requiring new skills and capabilities to make the most of new technologies. To make sure that the skills and competencies needed in the new world of finance are built up, central banks should start to work with educational institutions and training providers relevant for the future. As the Monetary Authority of Singapore's initiatives show, joint projects with educational institutions are a way to make sure that the required knowledge is built up. Joint projects and cooperation with FinTechs or regulators are a way for central banks to expand their knowledge and promote an environment for accelerating innovation. Organizing conferences or talks with universities to reach out to students will, moreover, not only allow industry leaders to come together but also allow central banks to position themselves as attractive and innovative employers. There are various cooperation models that can be considered.

One thing is for sure: Technological evolution, such as the rise of blockchain and cryptocurrencies, is expected to persist in one form or another. On the subject of blockchain, given that versions are still emerging

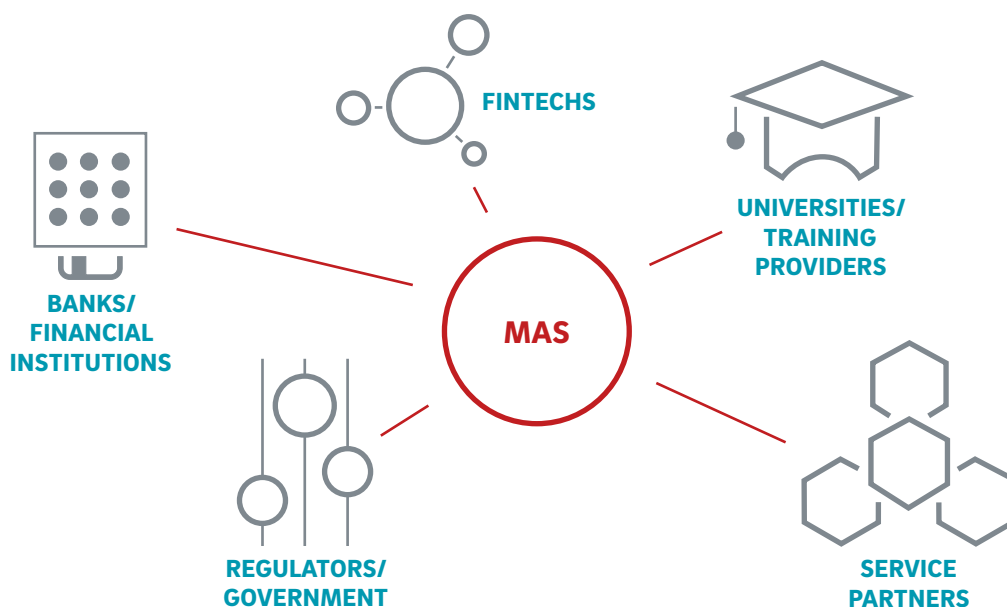
CASE STUDY

MONETARY AUTHORITY OF SINGAPORE

In recent years, the Monetary Authority of Singapore (MAS) rolled out several initiatives with the goal of establishing a financial ecosystem, where innovation is pervasive and technology is used to increase efficiency, better manage risks, create new opportunities and improve people's lives. It hopes that innovation-friendly regulation and a safe and secure environment will support Singapore's efforts to become more attractive to FinTech investment. MAS's initiatives include:

- 1 Creating platforms for idea generation, knowledge sharing and networking:** In November 2018, the MAS, in partnership with the Association of Banks in Singapore, organized a FinTech Festival bringing together more than 40,000 participants from over 100 countries.
- 2 Fostering connectivity with other FinTech hubs:** As of November 2018, the MAS had signed more than 29 FinTech cooperation agreements with various entities, e.g. in London, Japan, Switzerland and France to create frameworks for information sharing on FinTech trends and regulatory issues.
- 3 Embracing new technologies:** The MAS, the Singapore Exchange and eight banks started a proof-of-concept project to use blockchain technology for inter-bank payments.
- 4 Promoting new possibilities:** Encouraging the development of open APIs among financial institutions to enable efficient data sharing.
- 5 Building capabilities and skills:** In October 2016, the MAS and five local polytechnics signed a Memorandum of Understanding agreeing on a framework to prepare and equip their graduates with the skill sets necessary to take on new FinTech-related jobs emerging in the financial sector.

The MAS example demonstrates that the central bank of the future has a network of experts with specific knowledge, expertise, experience, capabilities or tools to enhance its in-house offerings: Central banks need to become "borderless organizations". This calls for various stakeholders across multiple fields to be brought together: technology, finance, venture capital and startups. In other words, what is needed is a strong ecosystem so that innovation can thrive.



and no dominant design is yet ready for adoption, central banks need to understand and evaluate the new technology. Building up a network of experts will allow central banks to gain access to specialized know-how and better understand the technologies. Data scientists, IoT experts, digital communities, recruiters,

startups – the list of potential partnerships is long. Central banks need to figure out for themselves how they must adapt or upgrade their own skills and know-how to facilitate these new working methods, and how to develop capabilities through collaboration and co-creation.

Summary

Three enablers to prepare the central bank for the future and drive strategic change

How should central banks, and especially their HR function, cope with the global economy in 2019 and beyond? How can they ensure that they are able to excel at managing the present while preparing to own the future? There is no one-size-fits-all solution for coping with crises or rapid changes in the environment, yet central banks can create conditions and lay foundations that allow them to be more flexible and agile.

END-TO-END PROCESS DIGITIZATION – CREATING A SUPPORTIVE ORGANIZATIONAL SETUP

Central banks, and especially their HR functions, have to acknowledge that to make sense of complexity, strategies need to change, and existing structures and working methods need to be adapted. They need to start thinking out of the box and move away from rigid organizational structures and their function-by-function view by breaking up silos and moving towards an end-to-end process view that fosters collaboration and continuous process improvements. HR can support this development by considering teamwork part of the job profile and by changing the appraisal processes, e.g. by stronger integration of group results, and by providing specific training on agile development and design thinking methods. Moreover, the automation and end-to-end digitization of processes is seen as an important enabler.

FROM EXPERT TO ENTREPRENEUR – INSTILLING AN INNOVATIVE MINDSET

Central banks need to acknowledge that they are no longer isolated silos, but team players within a complex, interconnected and interdependent world. With their

pioneering role, central banks should foster the development of ideas, innovation, talent, knowledge sharing and team work; not just within their own bank, but also with other players in the finance industry, with regulators, ministries and so on. By doing so, they can actively contribute to shaping the future of the global financial sector. HR can support their employees' innovativeness by hiring for innovation and by cultivating leaders that support change and teamwork through a suitable reward system. A feedback culture, iterative learning, trust and teamwork need to become the new norm.

BORDERLESS ORGANIZATION – LEVERAGING THIRD PARTY KNOWLEDGE AND CAPABILITIES

Central banks must allow their own boundaries to become increasingly blurred by opening up to third parties and by building a network. It is crucial for HR to provide the right foundations for leveraging the third parties' knowledge. By building up a network of experts, central banks will be able to get on-demand access to know-how, capabilities and expertise.

Technologies are here to stay, that much is certain, and the environment within the financial services sector will only keep evolving. Nevertheless, we believe that technologies in their own right won't be enough to ensure future success, but rather this will also heavily depend on a company's organizational setup and its employees. Consequently, it is up to HR to provide the right foundations on which to build success and proactively drive strategic change within their respective central banking organization.

ABOUT US

Roland Berger, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working from 34 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 230 Partners.

Navigating Complexity

Roland Berger has been helping its clients to manage change for half a century. Looking forward to the next 50 years, we are committed to supporting our clients as they face the next frontier. To us, this means navigating the complexities that define our times. We help our clients devise and implement responsive strategies essential to lasting success.

FURTHER READING



CENTRAL BANKING IT OF THE FUTURE New realities in central banking

With online attacks a growing threat, cybersecurity has become a top priority for central banks. Yet many have failed to fully prepare themselves. For this report, Roland Berger interviewed a large number of central bank IT department heads and industry experts to identify their key concerns. These are: cybersecurity, process automation, cloud solutions and digital currencies.



BETWEEN AMBITION AND REALITY Key findings from the Roland Berger HR Trends Survey 2017

Roland Berger's HR Trends Survey 2017 examines the maturity of HR functions across companies. It finds that new work process and structures are putting employees and managers under pressure, and that the bigger the firm, the bigger the gap between HR ambition and reality. It identifies talent management and strategic workforce planning as key challenges to overcome.

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