

The Digital-Ready Bank

How Ready are European Banks
for a Digital World



An IDC Financial Insights White Paper
Sponsored by SAP

EXECUTIVE SUMMARY

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- ❑ Almost every bank in EMEA claims to be engaged in some form of digital transformation (DX) today. In 2Q16, IDC Financial Insights conducted a study, sponsored by SAP, of just over 250 retail and corporate banks across EMEA which points to a subtler picture of business-led “islands of innovation” posing as DX, while true business transformation is much rarer.
- ❑ The IDC survey finds that while 96% of the banks surveyed acknowledged some kind of DX initiative in their institution, 44% linked those initiatives to front-office projects only.
- ❑ The most commonly implemented DX initiatives surround automation of the security strategy, which 43% of banks are either already delivering or have completed.
- ❑ 20% reported DX as a back-office-only program, and 24% recognized DX as part of an organizationwide strategy. IDC believes that this is not sustainable, and that IT must work with lines of business to create an enterprisewide approach, the end goal being an entirely digital platform. Digitizing the bank (front and back) means that the bank can reduce its cost base and improve customer experience.
- ❑ Digital technologies are required to personalize and tailor customer experience down to the individual.
- ❑ Although the differences in approaches are subtle, and line of business-led projects undeniably improve the customer experience, IDC finds that the enterprise approach is sounder as it prepares the institution to fundamentally shift the way it uses technology, preparing the bank to address evident, as well as unforeseeable, changes in the industry.
- ❑ Industry disruption and convergence seems inevitable in banking based on the experience of other industries. This also indicates that business models will change and adapt, and the technology infrastructure needs to enable this.
- ❑ There continues to be a tension between line of business-led DX initiatives and the work on core enterprise IT systems. Although more than half of the respondents indicated that they would consider non-traditional bank business models, the disconnect between IT and line of business will be a considerable challenge to those aspirations.
- ❑ The digital transformation leaders have three characteristics: 1) strong executive commitment, (which leads to a collaborative culture); 2) a focus on a “digital core” that includes analytics and open, agile technologies; 3) a willingness to partner with external providers like fintech startups, technology providers, and non-financial services firms.

Predicting a Banking Future

It's not difficult to imagine what a bank customer will want 5 or 10 years from now — consumers and business will still have the same fundamental needs they do now, education, medical services, home ownership, tax payments, retirement, payroll, invoicing, etc. What is difficult to predict is the role of banks in those life events 10 years from now. Even today, there is an ever-increasing chasm between customers looking for basic, easy-to-use banking products versus those looking for a high-touch bespoke experience — and this dichotomy poses challenges for the banking industry. How can a bank manage the balance between traditional customer needs and new models of behavior and requirements that may not even be apparent today?

Going beyond the traditional banking models through digital transformation will allow institutions to answer questions like:

- ❑ How can the bank combine its existing position in value chains with the deep, data-driven knowledge of its customer base to provide new services to its corporate clients?
- ❑ Should the bank insist on supplying only one component in this value chain, or will it assume the role of “assembler” by developing partnerships, alliances, and networks to fulfill what the customer wants?
- ❑ If so, what are the kinds of services that banks would be in a strong position to offer?
- ❑ Can banks use their own data to build metrics that might be translated into M&A advice?
- ❑ Would small businesses in particular look to their banks for legal assistance, or debt management?

This IDC White Paper presents the findings from a survey of just over 250 retail and commercial banks in EMEA. This study looks at the readiness of the EMEA banking market to transform into a digital industry that can quickly respond to the changing needs of consumers and businesses, and even go beyond current business models to play an expanded role in customer relationships. It is critical for banks to evaluate their digital preparedness in order to succeed in this venture. There have been a few examples of other industries where organizations have faced the challenge of preparing for an uncertain future, and there are lessons to be learned from those examples.

Polaroid Fails to Prepare for the Digital Age

Polaroid is often cited as an example of a company which dominated a market but failed to make the transition to the digital world. However, Polaroid did invest heavily in digital imaging in the 1980s and 1990s. But it was the assumption that consumers would always want a hard copy of their pictures (and the inherent profitability of its film) that drove the company to continue to focus on the chemistry of photography and owning the whole value chain, from camera to film to print.

Other camera manufacturers like Canon and Nikon focused on their core strengths, optics and electronics, and made the transition from film to industry standard digital memory devices, collaborated on standards to print directly from the camera to compatible printers, and even WiFi-enabled their cameras. Although the

photographic industry has been absolutely disrupted by digital technologies, the demand for dedicated photography equipment remains strong. Many companies survived the transition to digital imaging by focusing on what their customers wanted, even if it meant abandoning preconceived notions of what their business models were supposed to be. In response to fears that the standardization of photographic technology would diminish competitive differentiation, one need only ask photographers about their preference for Canon versus Nikon to understand that these brands continue to foster enviable levels of loyalty even today.

Now that connectivity is so much greater, the likelihood of being able to control an entire value chain is diminished, and the idea that a single company can provide best-in-class service end to end becomes less tenable. Openness to other players in the digital world is the quickest and surest way to innovate, and this lesson is especially true for the financial industry.

Banking “Outside the Walls”



People have learnt the habit of posting selfies through their social interactions with others, a phenomenon that wouldn't have been possible without advances in both mobile and social technology. Looking forward, social networks and mobile technology are spawning new banking behaviors, such as social payments. These are new behaviors that are difficult to predict — cultural shifts that are unlikely to originate from the established financial services industry. Rather they spring up organically, some going “viral” and creating new markets. A bank cannot possibly participate in such shifts by looking at the market through the lens of existing products and services. If the banking industry is to avoid the kind of strategic missteps taken by other companies, it must prepare for a future where the only certainty is change.

Fintech companies are using digital technologies to disrupt parts of the industry which lend themselves to capital-lite operating models, such as mobile share trading. But the fundamental reason for their success is their ability to follow customer behavior very closely and isolate places in the value chain where they can plug into the growing digital ecosystems. We are beginning to see complete fintech-based banks like Berlin-based solarisBank. solarisBank uses cloud computing to reduce operating costs, data analytics to personalize offerings, deploys mobile channels to reach its customers, and offers open APIs to other fintech companies to plug into their back-office infrastructures.

Former Harvard Business School professor Theodore Levitt stated, “People don't want to buy a quarter-inch drill. They want a quarter-inch hole.” This concept is key to approaching digital transformation in a way that will transform the bank, provide the competitive differentiation that will drive new business models, and thus prepare for the future. A mortgage is a fine product to sell — but ultimately what the consumer wants is a home. And that includes working with estate agents to find the ideal house, hiring inspectors to ensure that the structure is sound, dealing with the tax implications of home ownership, paying for utilities, maintaining the property with landscaping and repairs, and even selling the home again.

“People don't want to buy a quarter-inch drill. They want a quarter-inch hole.”

– Theodore Levitt,
Former Harvard
Business School
Professor

The key point here is the ability to understand the needs of each individual customer, and finding ways to tailor solutions internally or in conjunction with partners. Banks can achieve this by understanding their customers in the first place, then offering a broader set of values through a combination of core products, API-based partnerships, white-labelling, and other forms of connected relationships with different types of service providers.

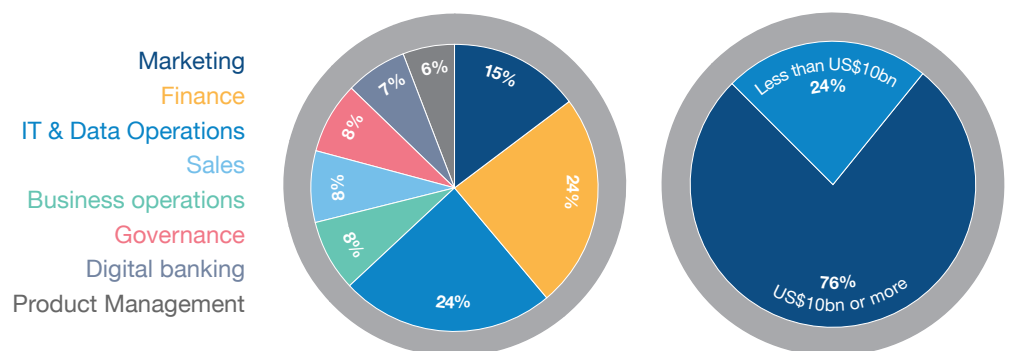
The IDC Digital Transformation (DX) Study for Banking

Many banks are making large investments in digital transformation today, but IDC suspects that few are taking the time to look beyond the front office (e.g., mobile innovation and new Internet banking platforms) and evaluate their fundamental business models in the context of enterprise digital transformation and its role as a future-enabling strategy. Many digital initiatives are still department specific, driven by line-of-business executives, and tend to be outside the realm of the bank's core enterprise IT systems. These "islands of innovation" or product-specific digital initiatives most often manifest themselves in the form of standalone cloud or mobile applications for customer-centric projects.

To investigate this view, IDC Financial Insights conducted an SAP-sponsored survey of just over 250 EMEA banking institutions to understand the current maturity of digital transformation in banking, to find out where institutions are focusing their DX efforts, and to learn how banks are measuring their digital transformation initiatives. The survey also delves into the roles of leadership in digital transformation programs, and investigates to what extent the lines of business and IT are collaborating to accomplish enterprise transformation. The survey results were grouped into 10 DX propositions that IDC wanted to test on the current state of digital transformation in banking. Figure 1 shows the respondent demographics associated with the survey.

In addition, IDC conducted one-on-one interviews with banks in EMEA to gather anecdotal, real-life information about banks that are undertaking (or not) the large remit of digital transformation.

Figure 1 IDC EMEA Banking Digital Transformation Survey Demographics



253 respondents across the U.K. and Ireland, France, Germany, Iberia, Italy, the Nordics, and Middle East/Africa

Source: IDC's Digital Transformation in Banking Study – May, 2016; EMEA n=253

Digital Transformation (DX), Attributes, Dimensions, and Maturity

IDC defines digital transformation as the continuous process by which enterprises adapt to or drive disruptive changes in their customers and markets (external ecosystem). They do this by leveraging digital competencies to innovate new business models, products, and services that seamlessly blend digital and physical and business and customer experiences while improving operational efficiencies and organizational performance. Digital transformation initiatives typically leverage a mix of cloud, business analytics, enterprise mobility, or social technologies. IDC has also identified five dimensions that banks must evaluate in the context of digital transformation in order to become a DX-mature institution (Figure 2).

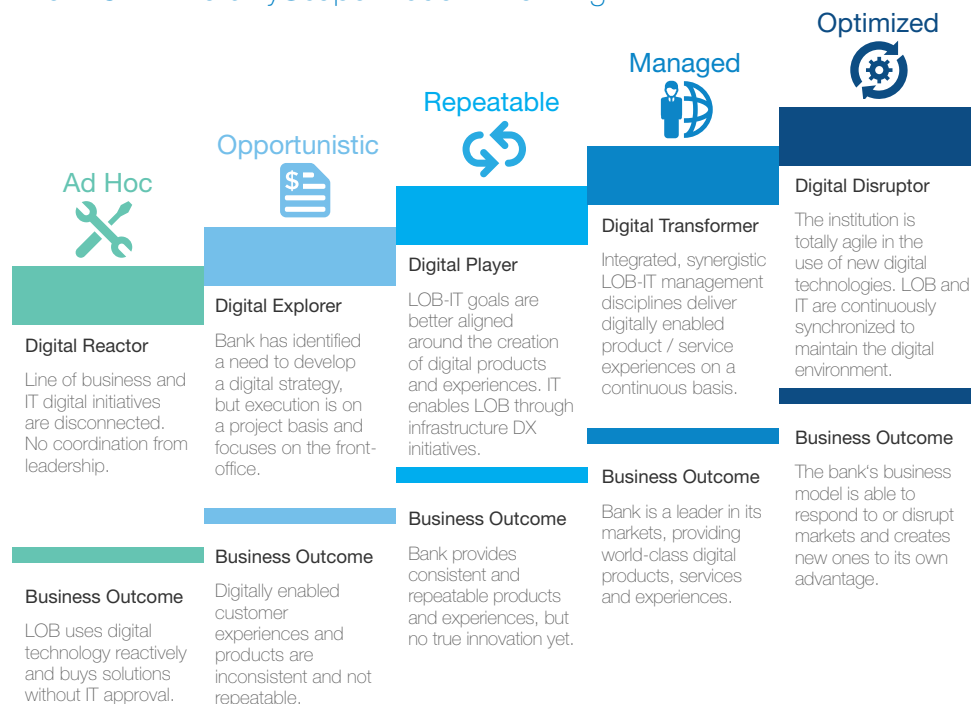
Figure 2 The Five Dimensions of DX Maturity



Source: IDC 2016

Banks must recognize that digital transformation is not a “mobile-only” initiative, but that it affects the entire enterprise. DX represents a fundamental shift in capability, and the shift needs to occur in these five areas of the institution. The IDC Digital Transformation MaturityScape Model (Figure 3) places organizations on a scale of maturity from “Ad Hoc” to “Optimized” based on their ability to use transformation to react to, anticipate, and disrupt the banking business.

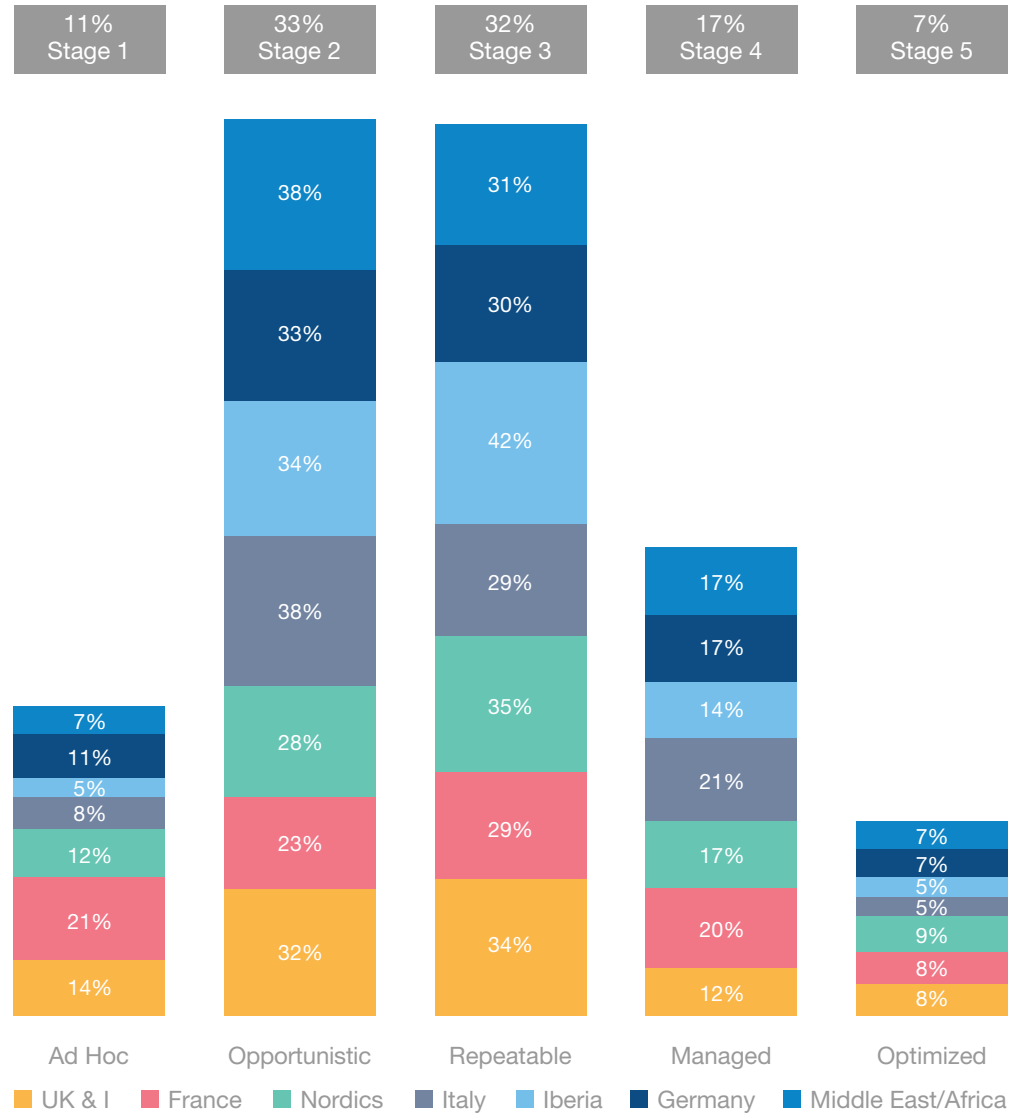
Figure 3 The IDC DX MaturityScape Model in Banking



Source: IDC 2016

“Digital Reactors,” which practice ad hoc, siloed digital transformation, are governed by leadership that lacks vision or commitment for DX, and have a culture that is resistant to change. At the other end of the scale, “Digital Disruptors” use DX to transform markets and customers by creating new business models and product/service experiences.

Figure 4 EMEA Digital Transformation Maturity



Source: IDC’s Digital Transformation in Banking Study – May, 2016; EMEA n=253

Digital Disruptors can create game-changing business models and disrupt the competitive environment due to their focus across all of IDC’s Digital Transformation MaturityScape Dimensions. An example of the way an optimized financial institution can leverage digital transformation is in going “beyond banking” by expanding beyond its traditional boundaries into its customers’ value chain.

Utilizing our Digital Transformation MaturityScape framework, IDC assessed the relative maturity of the institutions surveyed across EMEA and found that 11% of banks are still at the Ad Hoc stage with their digital transformation efforts. A plurality are at stage 2, the opportunistic stage. Almost a third are at the point where they can claim that their DX initiatives are repeatable, while the numbers in the leading two categories tail off. Coincidentally, the percentage of banks that have delivered either managed or optimized DX — 24% — is the same percentage of banks which view DX as an organizationwide undertaking. In both cases, the number is far too low for comfort.



CASE STUDY

mBank: Europe's digital disruptor

mBank, owned by Commerzbank, was the first Internet bank in Poland. It now has more than 5 million clients in Central Europe, of which a fifth are mobile and tablet clients.

A key focus for mBank is personalization, which it provides by analyzing trends to anticipate customers' needs. The bank focuses on simplifying complicated data from existing sources such as transaction histories to provide the data to the customer in a useful and aesthetic way. This personal finance management (PFM) interface combines forecasting and analytics with search engine capability, allowing users to locate transactions by category, size, or other factors. mBank offers native apps for iOS, Android, and Windows smartphones, taking PFM to the customer, converting the apps into digital assistants. Customers can apply for loans on the spot, with approval taking only 30 seconds.

mBank has taken the idea of partnerships further than most other banks. Customers can access a greater bundle of services through the bank. Connectivity with Facebook allows clients to transfer money to peers. A targeted incentive program allows clients to access discounts at retail partners, where the bank has negotiated special deals and customers are alerted to these discounts based on their location.

The bank has launched a joint venture with mobile operator Orange, branded Orange Finanse. This explores the possibilities of combining mBank's mobile banking platform with Orange's telecoms expertise and reach: Orange is responsible for the marketing and customer acquisition aspects while the banking services are provided by mBank. mBank also has a partnership with AXA Group to provide insurance products through mBank's channels.

mBank also partnered with SAP for predictive analytics, meaning that its marketing messages are delivered through real-time personalization. mBank has been able to develop its IT infrastructure more or less from scratch, giving it an advantage in terms of its technology.

As the owner, it is Commerzbank's duty to learn from the successes of its digital subsidiary. The two entities operate in different markets and different scales, but eventually the likes of Commerzbank will be forced down a similar path that innovators like mBank are already taking.

"The main secret is that the business and IT goes hand in hand"

Bartosz Witorzeńć,
mBank

Beyond Banking

Proposition 1

With a comprehensive approach to DX, a bank can expand outside its traditional boundaries and into customers' value chains.

There is a reductive view of the future of banking that is gaining popularity. This vision is of the bank as a utility — holding onto only those parts of the value chain best delivered in large volumes, but otherwise seeing much of their traditional (and differentiating) business slipping away to digital players which specialize in a narrower remit and form one link in flexible, heterogeneous, and complete value chains.

However, with the advantages the incumbent banks have (e.g., scale, reach, and existing customer relationship), they would be negligent to allow this situation to develop organically. They share a huge variety of touchpoints with their customers which all drive the creation of data that would be the envy of any startup. This data can (and should) be used today to enhance their offerings and deliver a personal experience. But it can also be a launch pad for banks to move “beyond banking,” and look for ways to expand into other parts of customers' lives.

Figure 5 from the IDC Digital Transformation survey shows that this evolution is in its early stages. Over half of respondents reported behaving in a reactive way toward extending the customer experience. And about one third are starting to think beyond their existing customers toward engaging all stakeholders in the ecosystem. Only a small number of banks so far have reached the stage where they have connected to all stakeholders in the ecosystem, and an even smaller proportion claim to be delivering compelling experiences to all involved.

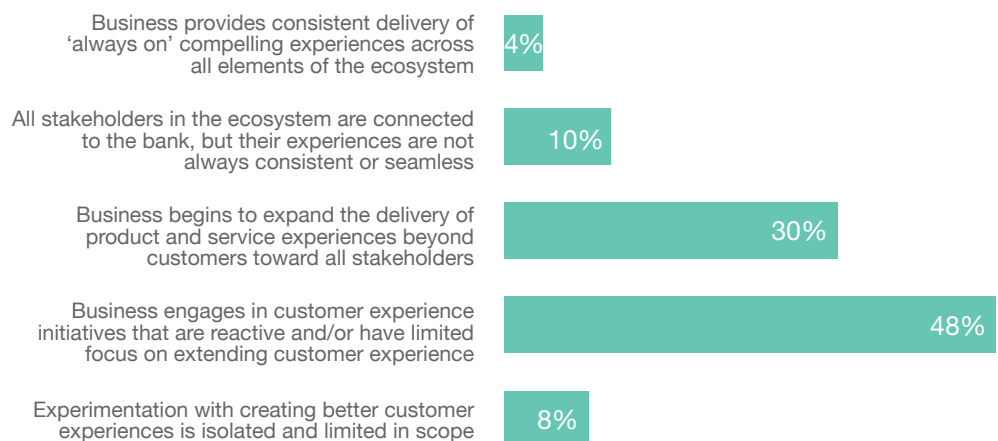
French banks are leading the way in this category. One in ten are delivering an “always on” experience, but more significantly almost 60% are beginning to expand delivery beyond customers and toward all stakeholders, double the proportion from Europe as a whole.

Proposition 2

Successful banks will take advantage of their business networks with suppliers, employees, and suppliers to create value for customers and the organization.

Maturity/Value

Figure 5 Current Bank Approach to the Ecosystem Experience



Source: IDC's Digital Transformation in Banking Study – May, 2016; EMEA n=253

Evolving the banking business model

*“In the future
no one will be
independent.
So my bank
could sell a
product from
an insurance
platform or
a bitcoin
provider.”*

Large Central
European Bank.

The banking industry can learn much from the health insurers that in recent years have managed to transform their reputations from humorless loss indemnifiers into digital lifestyle assistants, incentivizing people to live healthier lives for mutual benefit through social apps, gamification, and, most importantly, analytics on customer data that can be fed back to those customers in a variety of useful ways: comparing their fitness activities or driving habits to peer groups, or showing progress over time or toward a goal, for example.

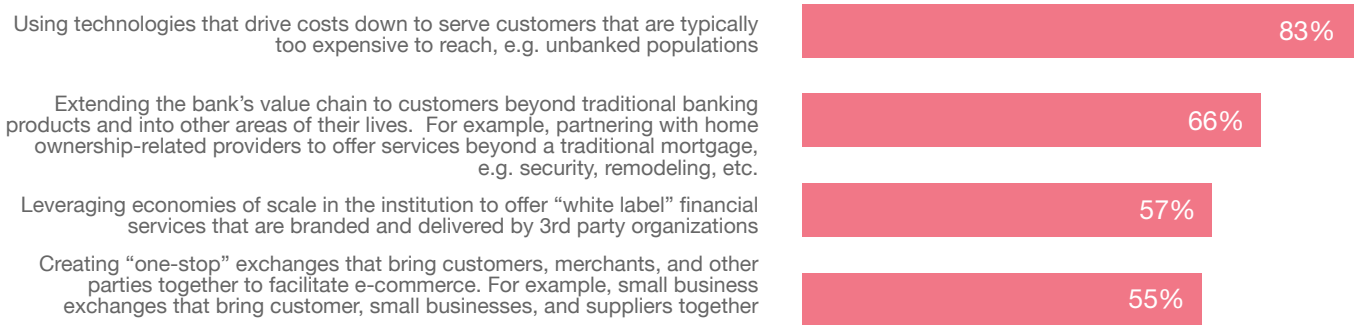
One first step for banks might be to give customers basic budgeting tips. For example, Halifax in the U.K. has begun providing customers projections of their account balance at the end of the month based on their typical cash flows, but banks can go much further down this road. By running analytics on customers’ spending habits, banks could advise customers on potential savings on their spending with cheaper alternative products and services. This could be meshed with current rewards programs to form incentives for customers as well, with the aim of reinforcing loyalty. Push notifications could be deployed to keep the customers engaged and the overall effect would be to keep the bank’s brand front and center of customers’ minds. Add mobility and a social aspect to this data analytics functionality and it becomes a powerful tool for customers. Ultimately this capability could grow into a portal for other types of mobile activity, such as grocery shopping or train ticket purchasing. BZ WBK, Santander’s subsidiary in Poland, has pioneered this approach.



The growth of external digital ecosystems is seen as a threat to financial service providers that have traditionally been able to hold on to the entire value chain for many customer journeys. However, the healthier response for banks is to work out how best to engage with those ecosystems rather than turn inward. So, being able to build partnerships with third parties — whether fintechs, other lenders, or players from other industries — will be key to creating new value for customers and protecting the incumbents’ market position in the long run.

Figure 6 shows banks are beginning to think in terms of extending into other areas. While more than four out of five are keen to use technology to take their current product sets to new customers, 66% are thinking in terms of bringing new services outside of banking to their current customer base, although the numbers for Nordic and Italian banks are slightly higher. A smaller number are preparing to become the aforementioned “assemblers” of services by building an exchange or marketplace of services.

Figure 6 DX Business Models Under Consideration



Source: IDC's Digital Transformation in Banking Study – May, 2016; EMEA n=253

Helping customers to purchase a house is the direction Allied Irish Bank (AIB) in Ireland has taken. It has built an app in partnership with property website Daft.ie, combining their data to deliver a complete customer experience. In prototype, the app is available to customers and non-customers of AIB, but eventually the combination of all the typical functions of a property portal — school standards, commuting times, and so on — with insights from AIB customer data around affordability, mortgage eligibility, and more could provide a powerful example of how new digital partnerships might work in practice.

Digital transformation allows banks to integrate into new digital ecosystems proactively, rather than fight the tide and develop and maintain all links in the value chain. Banks must turn outward rather than inward and work out how to augment their offerings by leveraging the new opportunities digital technology is unearthing. Enterprisewide digital transformation is the only way to prepare for this.

Yet the Front Office is Still Today's Focus

The economic crisis of 2008 caused a significant, and worldwide, downturn in customer satisfaction, trust, and loyalty in the banking industry. Combined with an ever-increasing use of mobile devices and a growing number of startups offering financial services, line-of-business leaders are desperate to implement digital technologies to the customer. This is often without the support of enterprise IT leaders as regulatory compliance and risk management have become the first priorities for most CIOs as a result of the same crisis.

The proposition is borne out by the results of the survey. Figure 7 shows that 44% of respondents indicate that digital transformation remains a front-office initiative aimed at improving customer experience. About half that number of banks, 20%, reported that their digital transformation included primarily infrastructure work, and only a quarter overall answered that digital transformation was, for them, an enterprisewide program meant to redefine their business.

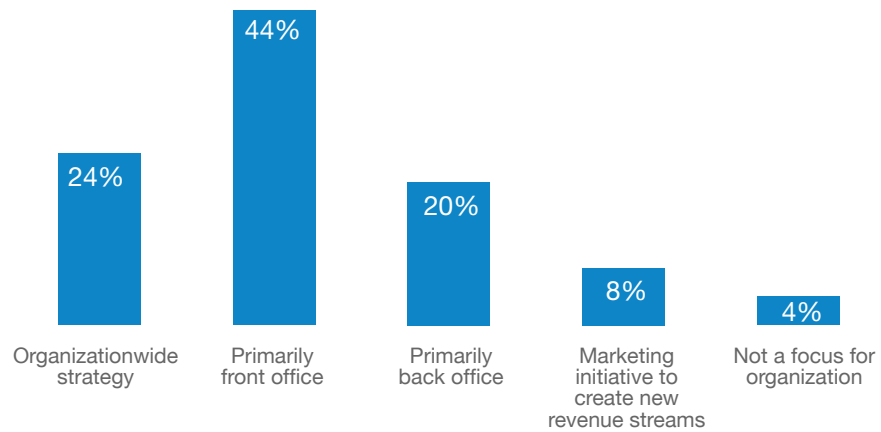
Proposition 3

Digital transformation is mainly being led by individual Lines of Business responding to pressures in their direct sphere of relevance rather than corporate wide Digital Transformation.

Proposition 4

Line of Business-led DX leads to local benefits, but delivers uncertain benefits to the company as a whole as a lack of strategy and integration of effort leads to fragmentation and disconnects.

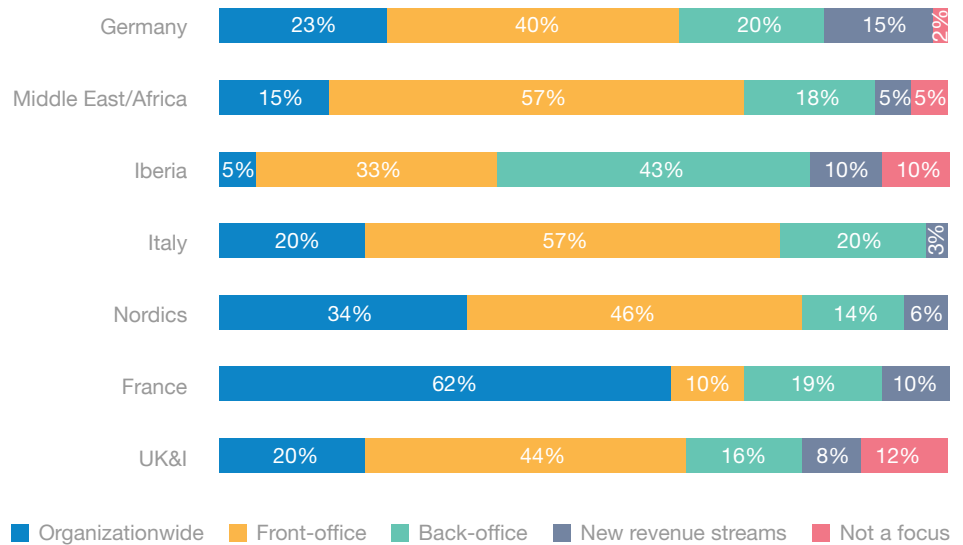
Figure 7 Where is DX Happening Today?



Source: IDC's Digital Transformation in Banking Study – May, 2016; EMEA n=253

That innovation should have been concentrated in the front office demonstrates that whatever the reality of thinking about digital transformation, it is more likely in practice that the customer-facing parts of the business have been where most of the pressure for tactical improvements have been.

Figure 8 What does DX Mean to Your Organization?



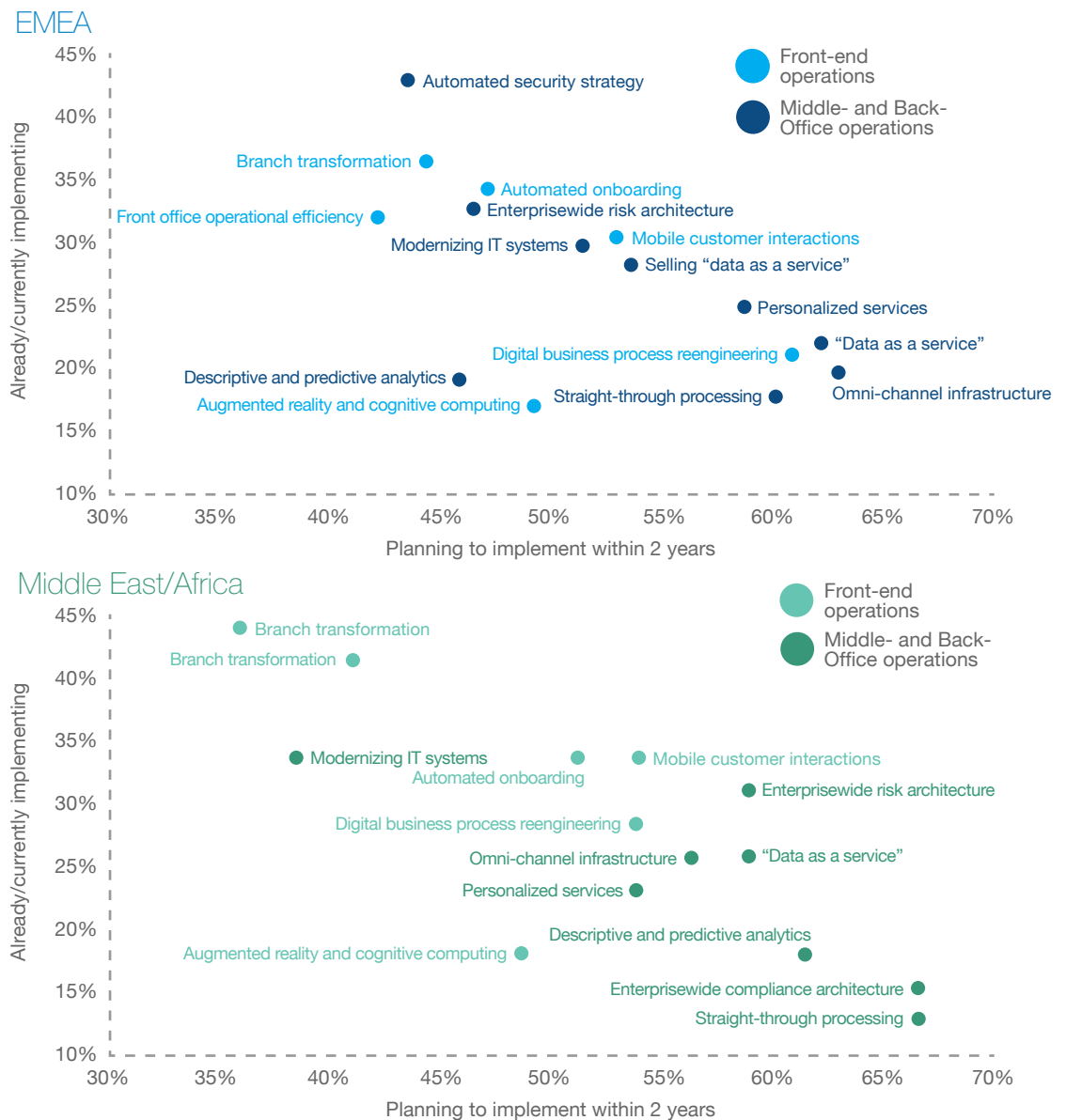
Under a quarter of respondents in EMEA think that DX is an organizationwide concept at their institution. Iberian banks are least likely to think in those terms, while over 60% of French banks do. However, Iberian banks are most likely of all to see DX as primarily a back-office activity, at over 40% against an average of 20%.

In terms of specific uses cases, across EMEA as a whole, the most popular DX initiative has been building an automated security strategy. Front-office initiatives, branch transformation, and automated onboarding are next.

There is a danger that the “enterprise” part of “enterprise transformation” may be delivered retrospectively, as banks scramble to piece together the various innovations which have taken place at the front end. But banks are collectively shifting their focus away from front-office transformation and toward improvements in the back and middle office, as Figure 9 indicates. Across EMEA, five of the top six use cases planned for implementation in the next 24 months are classed by IDC as back- or middle-office. These include building an enterprisewide compliance architecture, building data as a service, and digital business process reengineering. The only primarily front-office operation is building an omni-channel strategy, which is in the plans of more than 60% of EMEA banks.

The switch to back-office focus is even clearer when looking only at Middle East/Africa banks, where middle- and back-office transformation initiatives such as straight-through processing and an enterprisewide compliance architecture — both of which are planned by about two-thirds of respondents — are a much clearer focus than the front-office initiatives of the past few years.

Figure 9 EMEA and Middle East/Africa DX Initiatives



Source: IDC’s Digital Transformation in Banking Study – May, 2016; EMEA n=253

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The Digital Core and Enterprise DX Competency

Proposition 5

Fragmented DX leads to difficulties in data or information sharing across the organization, hindering agility and business growth.

As we've seen, the survey shows that banks struggle to plan their digital transformation projects strategically, beyond the front office. Only a small percentage of banks are in the top 2 DX categories of "Managed" or "Optimized" where the IT set-up enables a full digital customer experience, and digital transformation allows the institution to bring new business models to market.

Part of the problem is the disagreement within the industry over how decentralized innovation should be. Some organizations are arranged by country and line of business, and most of their innovation happens at this level. In support of this situation, adapting to the needs of customers which differ across regions or product sets makes sense, and those parts of the bank which are closest to the customer are well placed to drive organic innovation.

However, many banks are keen to ensure a familiar look and feel across their lines of business. And there are strong reasons to keep overall control from the center. Avoiding key personnel dependence, keeping cost down and generally keeping the overall infrastructure as wieldy as possible requires that standardization and reusability are guiding principles. In this sense, today's legacy problem is yesterday's line-of-business innovation.

Banks are therefore pulled in different directions. Multinational institutions in particular risk a situation where fragmented digital transformation leads to difficulties in data or information sharing across the organization, which hinders agility and business growth.

Yet the banks we surveyed do understand the importance of a "digital core" that serves as an enabler for transformation across the enterprise. The bank's core enterprise IT serves as the unifying platform that can allow agility in the front office without losing control over risk and standardization.

When asked to prioritize the technology challenges in need of improvement to accomplish digital transformation, respondents chose enterprisewide capabilities — open and agile technologies, advanced analytics, and real-time decisioning — as their top 3 priorities, and above omni-channel delivery technologies.

“Currently there is a digital governance authority. But there is also overall governance at all the lines of business. Having separate lines of business is a hugely complex situation.”

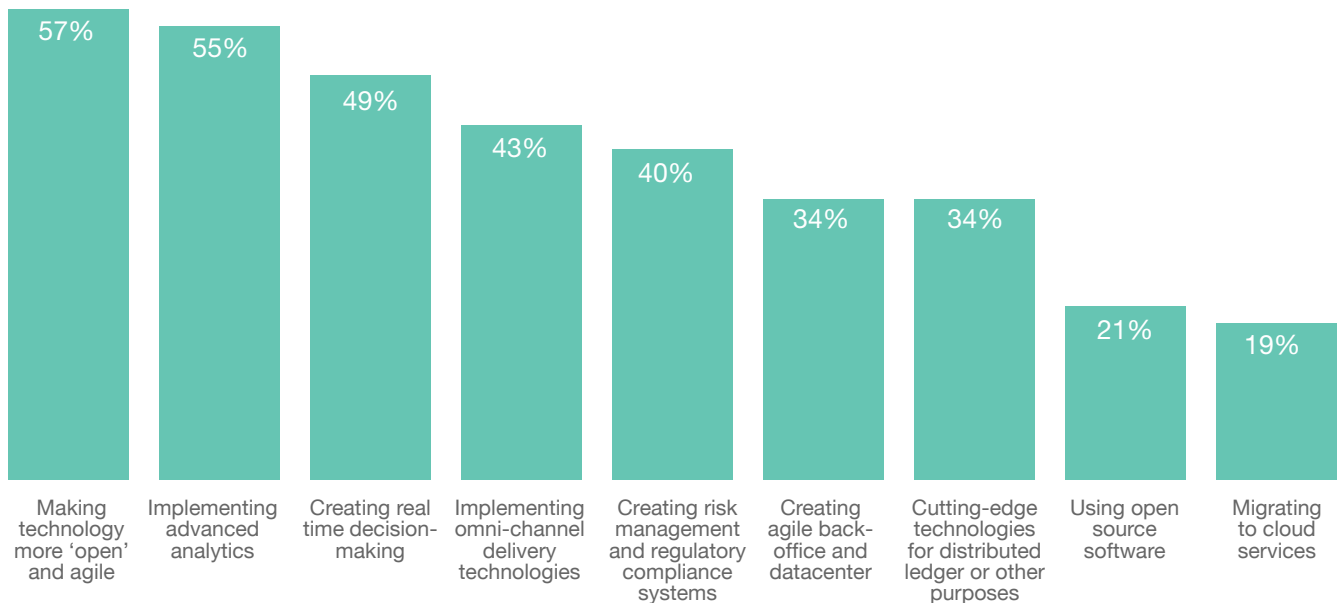
Leading German bank

For DX initiatives to be truly game-changing, innovation teams will need to leverage the collective technology assets and data of the organization – through agile development platforms and tools, APIs, access to complete and real-time data and analysis, cross-departmental access to financial data while being able to manage and anticipate risk associated with new business processes and products versus going about it on their own and working in siloes as is so often the case.

One way forward is demonstrated by Allied Irish Bank (AIB), which has the benefit of being a dominant bank in a concentrated market.

AIB has avoided the fragmentation of its digital transformation efforts in two big ways. The first step was to conclude a large IT outsourcing agreement last year. This was followed by the conception of a digital transformation team, which reports to the chief operating officer. For the first time, this year, AIB hired a chief digital officer. And with IT no longer the core responsibility of the bank, the focus of digital transformation is on the business side.

Figure 10 The Importance of the Digital Core



Source: IDC's Digital Transformation in Banking Study – May, 2016; EMEA n=253

“Innovation will still be decentralized, but it will become more centralized, in that it is being done in the framework of the core banking platform “

Global Systemically Important Bank

Digital transformation is centered on process reengineering, building a real-time, service-based architecture and gradually migrating data into cloud stores that are designed with analytics in mind. While the initial focus for innovation is on retail banking, the focus on infrastructure will ensure that the corporate banking benefits as well. This means that over time AIB will have built the infrastructure of a new, digital bank.

Working out exactly how a digital transformation team fits into the existing structures of a financial services organization is complicated – and it requires a re-thinking of the bank's Leadership DX to pull it all together, along with a sensitivity towards the IT department and the role of the CIO, to ensure that DX is as coordinated as possible.

Proposition 6

Only a minority of companies have a direct DX lead, but those that do see an improvement in companywide DX scope, maturity, and capability.

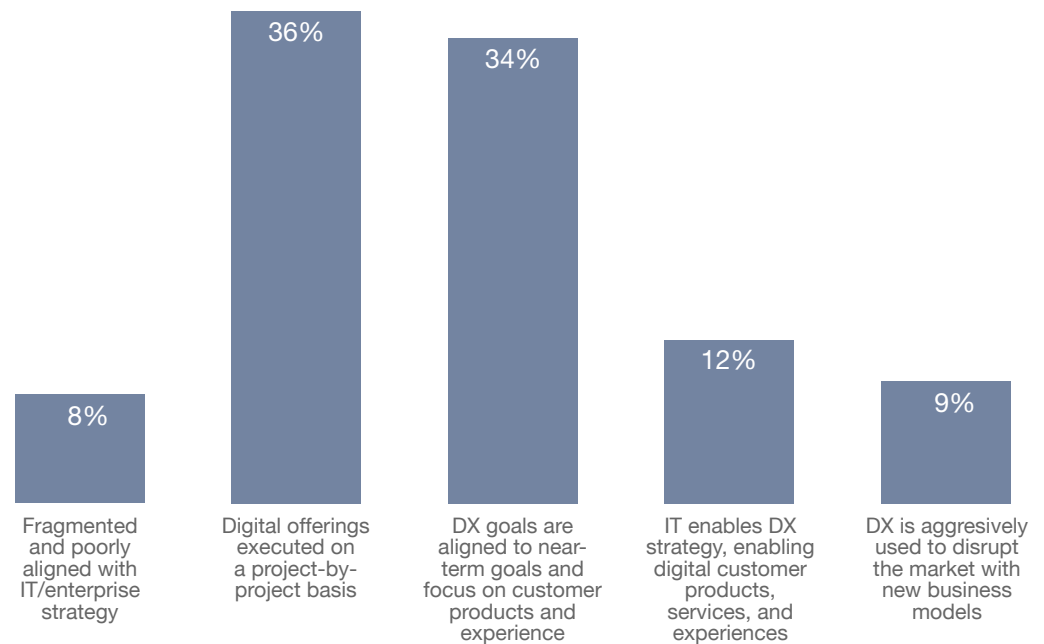
Proposition 7

The growth of enterprisewide DX will require chief digital officers for a successful outcome, but their role needs to be carefully cultivated.

The Critical Importance of Leadership in DX Strategy

Digital transformation projects are widespread in most banks today, with almost all having undergone a recent activity, or currently engaged in or about to embark on one. Although the scope of most of these are quite limited and localized, with about a third of respondent banks feeling that their digital transformation initiatives are focused on a near-term, project-by-project basis, 9%–12% report that their efforts are disruptive or even strategic, respectively (Figure 11).

Figure 11 Are your DX initiatives reactive or disruptive?

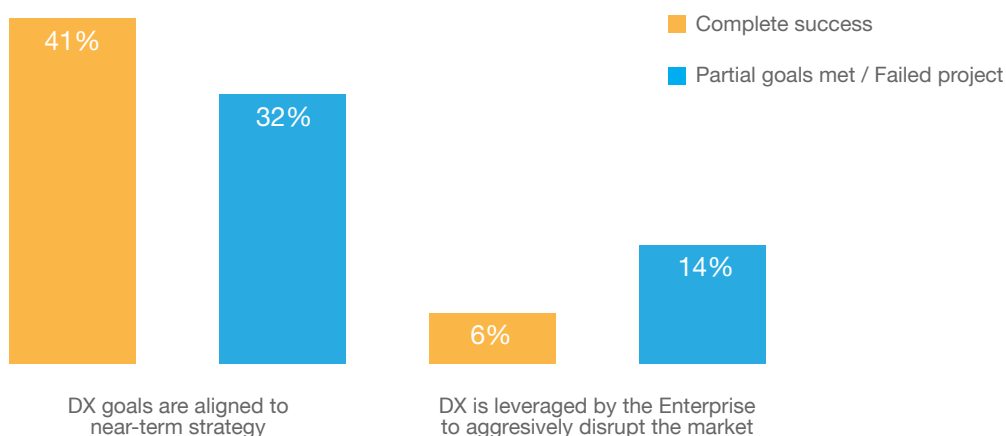


Source: IDC's Digital Transformation in Banking Study – May, 2016; EMEA n=253

As the survey has confirmed, digital transformation in banking to date has mainly involved short-term, line of business–specific transformation efforts. When we look at the end outcome of DX initiatives, we can see a marked contrast in the perceived outcome. Where DX is near term, for example, the number of initiatives in the respondent banks is at a high level. There are a lot of projects and well over half of these are rated as successful having met all the goals that were expected. This should come as no surprise as it is a model with which institutions are very familiar.

However, when we look at more advanced types of DX, where it is being used to change the company and disrupt the market, we can see these changes in two key ways. First, experience with this type of initiative is quite low, as the number of overall projects is significantly reduced compared with those that are near term. Secondly, fewer than half of these disruptive programs end up meeting all their goals (Figure 12).

Figure 12 Success rates of near-term versus strategic DX initiatives



Source: IDC's Digital Transformation in Banking Study – May, 2016; EMEA n=253

“I manage the change agenda”

CIO, mid-tier UK lender

Part of the issue is the emerging nature of the more advanced DX initiatives — they are new and the skills and experience required to lead and support them are still emerging, leading to learning pains as best practice is worked out over time. Another factor is that expectations at this level start to rise due to the involvement of many parts of the company and support and scrutiny by senior management. With higher expectations, many stakeholders with different goals, and a lower experience base, DX projects of this nature will struggle in the short to medium term to deliver across all goals.

The Evolving Role of the CDO

The increasing scope and complexity of enterprise DX call for a step-change in DX leadership to bring best practice to bear to increase the success rate. Most banks still rely on the traditional CIO to deliver transformation, while only 21% have employed a chief digital officer (CDO) to drive this capability. IDC expects that as DX becomes more accepted, there will be a greater number of initiatives that will be enterprisewide, and this will mean changes to both the business and IT to be successful, and in many cases will require dedicated leadership to achieve this. We believe that at least 50% of banks will have a CDO or digital leader driving enterprisewide digital transformation by 2020, helping the CIO to transform the capabilities of and relationship between IT and the business.

50% by 2020

50% of banks will have a CDO or digital leader driving digital transformation by 2020

“The CDO has a big remit in terms of the architecture, looking after all the data, and driving those big transformation projects through”

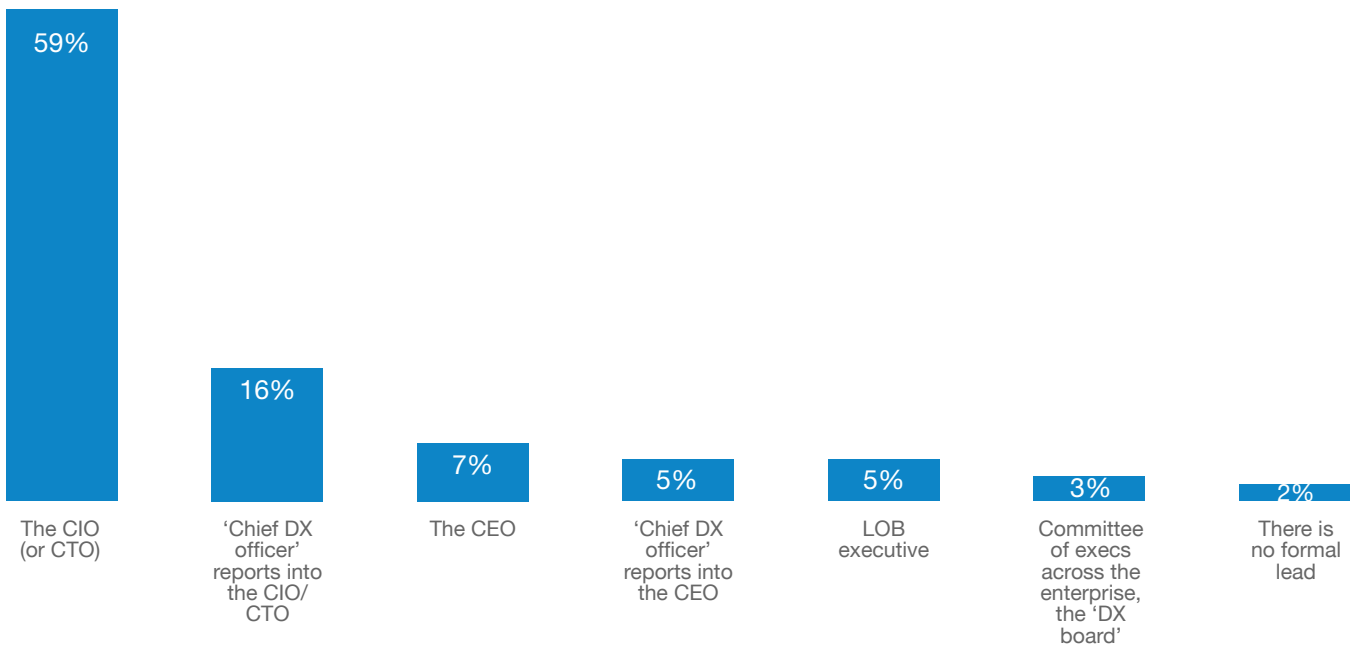
Tier one European lender

However, IDC also cautions that the role of the CDO is still new and maturing. Projects led by CDOs are still prone to missing their goals if they are too controlling and do not allow the required balance of central planning and control necessary for enterprisewide initiatives with the need for individual parts of the business to develop and react to market conditions as they arise. For these reasons, experienced leadership will be necessary to really drive DX successfully as it moves beyond departmental and near-term implementations to enterprise and disruptive scale. But who is the best candidate for this role in the future?

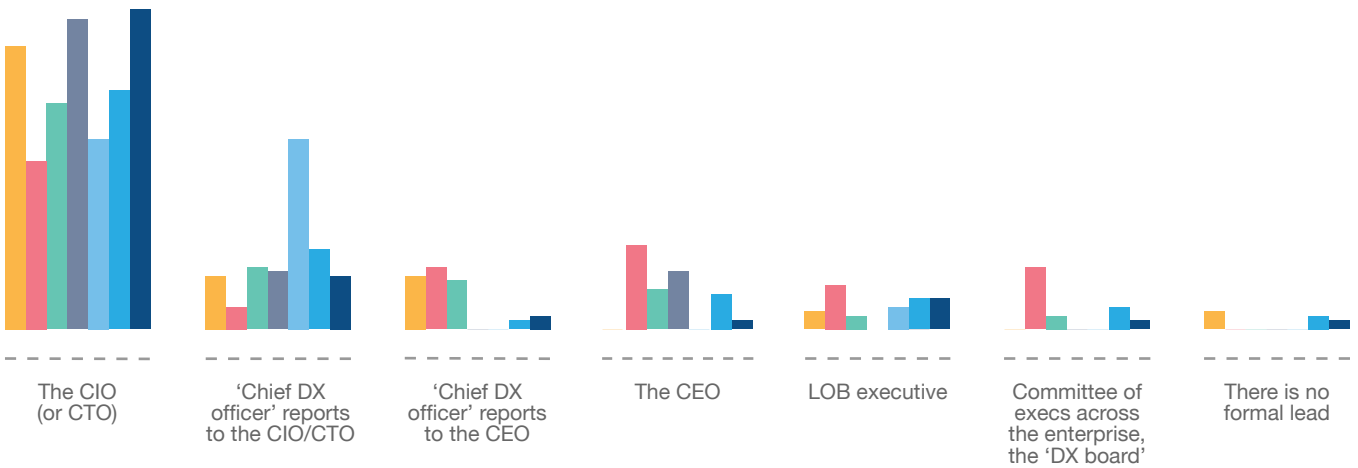
Figure 13 shows that the majority of banking organizations in the survey have the CIO lead DX (59%), while the role of the CDO is still quite low at 21%. As DX moves beyond departmental to enterprisewide and strategic, CIOs are likely to struggle to achieve success and best practice given the demands of their overall role, but this can be an opportunity for CIOs to redefine their relevance.

Figure 13 Who is Leading DX?

EMEA



BY REGION



UK & I France Nordics Italy Iberia Middle East/Africa Germany

Source: IDC's Digital Transformation in Banking Study – May, 2016; EMEA n=253

We see some indications of differences in approach to leading DX across EMEA. In France, this lies more with the CEO, either directly or through a CDO report. In Spain and Portugal there is a shift from the CIO directly leading DX, to the CDO role reporting to the CIO in the banks we talked to.

This rise of the CDO role will help banks position themselves more effectively in the digital economy, but it will not always be plain sailing. A large part of the success story of the CDO will be balancing the role and its scope and influence with that of the CIO — as the CDO role matures it will inevitably start to come into conflict with the remit of the CIO. Therefore, the role of the CIO needs to also adapt to accommodate the changes wrought by the CDO.

There is also a cautionary approach needed as the CDO becomes established. The role needs to bring the right balance of centralized strategy, process, and control coupled with flexibility and freedom. In many cases, the DX initiatives that found the most success not only had centralized control but a significant amount of ad hoc and departmental flexibility.

There may be a natural tendency for newly appointed CDOs to attempt to subsume control of all DX initiatives and bring these under central management when attempting to establish their digital leadership. IDC is of the opinion that an effective CDO will learn to balance establishing an enterprisewide vision, central oversight, and standardization with a collaborative approach, without disrupting experimentation and innovation at the edge.

The best CDO will be the one that is able to balance control and collaboration and over time migrate DX to a more centralized and standardized approach, without themselves disrupting small-scale innovation and transformation.

The Role of IT

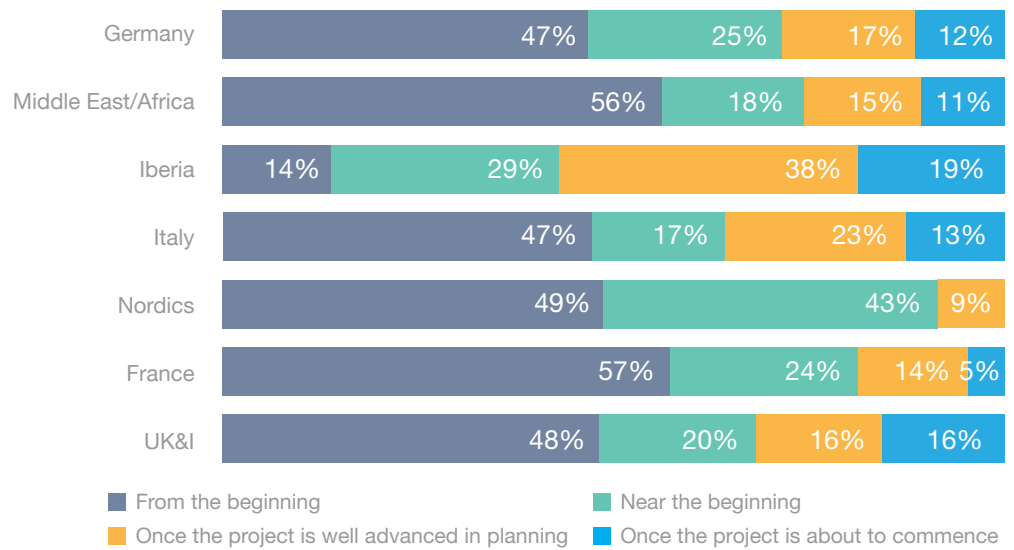
One way to mitigate against problems of fragmentation is to ensure the office of the CIO has a central role in DX initiatives. The extent to which this actually happens today is limited, according to our survey. Only about half of respondents reported involving IT at the very start of the planning process, and a full quarter either bring in IT at the commencement of the project, or when the planning is already well advanced. The regional exception to this is Iberia, where almost 60% of the time IT is only brought into DX initiatives either when planning is well advanced or when the project is already starting.

Interestingly, Middle East/Africa banks were more likely to involve IT at the beginning of a DX initiative — 56% did so — than the overall EMEA population, of which 47% had IT involved in the beginning stages of the projects. Given the relative early stages of core enterprise IT evolution in many Middle East/Africa countries, this makes sense, and also points to a “leapfrogging” effect that could give those regional players a market differentiation.

Proposition 8

In about half of all DX initiatives, IT is not deeply involved at the start of the planning process. But when this does happen, the initiative is more likely to succeed.

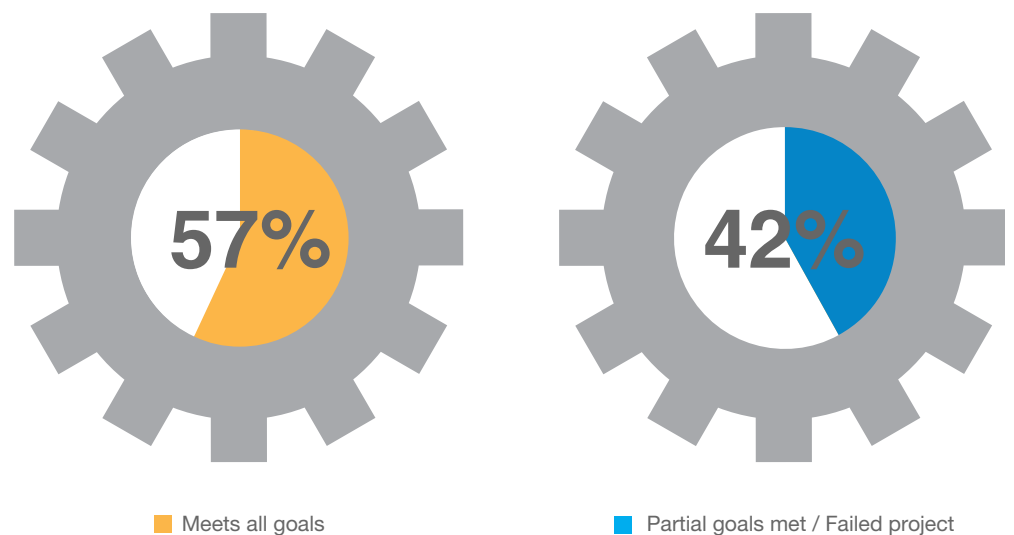
Figure 14 When does IT get involved in DX initiatives?



Source: IDC's Digital Transformation in Banking Study, May 2016; EMEA n = 253

The survey also shows a correlation between the early involvement of IT and DX initiative success rates. 57% of projects where IT was brought in at the first stages of a DX initiative were deemed successful by the bank respondents. Correspondingly, 42% of initiatives with early IT involvement led to failure or partial success, so some improvement is still needed here.

Figure 15 Early IT Involvement Leads to Greater Success



Source: IDC's Digital Transformation in Banking Study – May, 2016; EMEA n=253

The message is that, despite all the talk of the diminishing importance of the CIO and the growth of “shadow IT”, the original IT department remains a critical enabler in digital transformation. Sensitivity towards the IT department must therefore be shown when organizations are considering bringing in a chief digital officer for the first time. And the strengths and resources of the IT department must be harnessed if digital transformation is to be truly enterprise-wide.

Enterprise-wide digital transformation at Commonwealth Bank

Commonwealth Bank in Australia (CBA) has embraced the need for change since the 2008 economic crisis. Its digital transformation has been guided by the aim of delivering a real-time, personalized service to its customer base. The bank's crucial insight was that this was to require an end-to-end, enterprisewide effort. The bank chose as the cornerstone of its approach the deployment of new core banking software from SAP.

On this foundation, CBA has been investing heavily in IDC's 3rd Platform technologies of mobile, social, and Big Data analytics.

CBA realized that understanding its data was key to personalizing its customer proposition, so it started to track, for example, which sites a customer or prospect had visited before the CBA website, allowing it to anticipate the likely reason for visiting CBA and pushing the appropriate offer: someone who had been searching for credit cards would see a credit card offer; someone who had been looking on property sites would be presented with CBA's mortgage deals.

Since the new core platform allows a single view of each of its existing customers, the bank can run analytics to better understand customers' risk profile and future needs. And a knock-on benefit of CBA's new data capability has been the ability to detect fraud in real time, leading to a cut in Internet-based fraud by 80%.

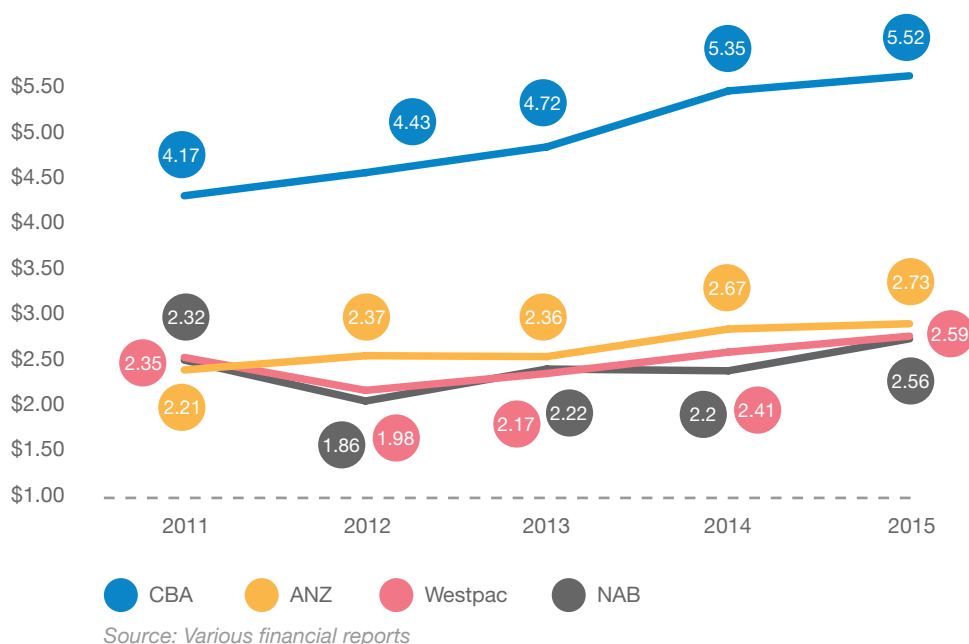
CBA is not a mobile-only bank, but it can play that role for customers who are so inclined. Since 2014 new customers have been able to open accounts through the mobile app, and upload images for verification. The app also allows cardless ATM withdrawals, contactless transactions, and various payment types. These new customers are more likely to remain "digital only," slowly changing the overall make-up of CBA's customer base and reducing cost to serve over time.

An analysis undertaken by IDC in 2013, around the time the core banking program was completed, showed that CBA was a market leader, with a higher return on equity and assets than its main competitors, the lowest number of IT resources, and the greatest overall profitability (Figure 16). Since then CBA has maintained its lead in Australia. This is a market where the major banks have all taken strides to renovate their core platforms, but CBA retains first-mover advantage.

Proposition 9

Companywide digital transformation is rare, but when it is part of the strategy it leads to sustained and enduring advantages.

Figure 16 Earnings per Share of Australian Banks



IDC believes that European banks must collaborate with fintech challengers to stay relevant in the growing digital economy. The survey shows that 30% of banks still view the fintechs mainly in terms of their competitive threat, but, encouragingly, a slightly higher number see them as possible collaborators in bringing new services to customers. However, attitudes to the fintechs vary across the region.

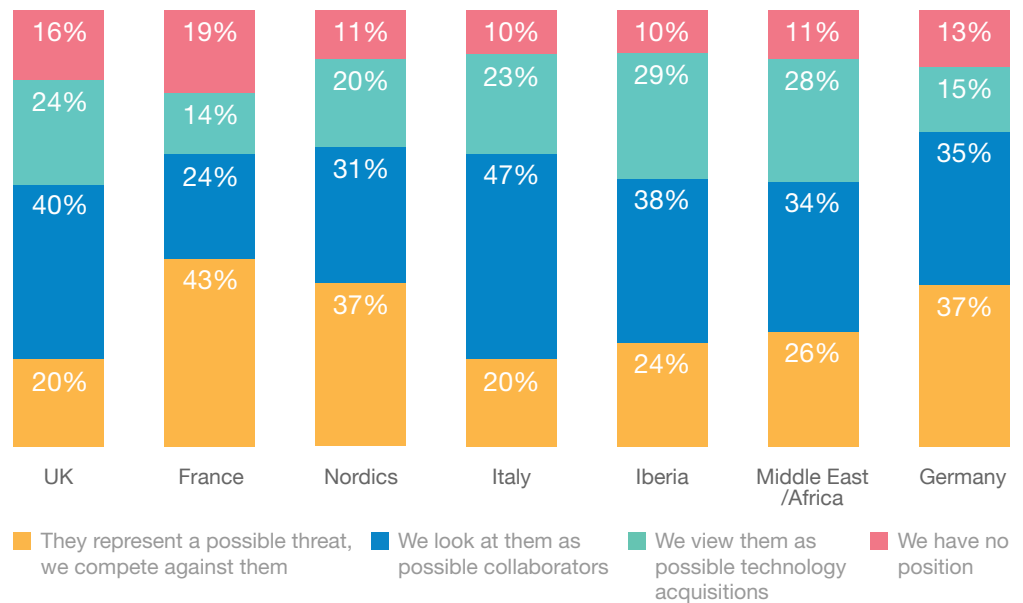
Fintechs are most likely to be seen as potential partners by banks in Italy (nearly half of respondents, as opposed to being seen as competitors by only one in five respondents). Four in ten U.K. respondents view fintechs as potential collaborators, likely reflecting the relative maturity of the fintech scene in that region. The banks least keen on collaborating with fintechs are in France, where only 20% view fintechs as partners. In the short term, this could reflect the confidence French banks have in their DX efforts to this point (see Figure 5). But, as demonstrated by Polaroid, longer-term success must depend on openness to other sectors, including fintechs.

Just over 20% of banks across Europe see fintechs as possible acquisitions, with Iberian banks most likely of all.

Proposition 10

Banks that will lead in digital transformation must partner with fintechs rather than view them as competitors.

Figure 17 Are Fintechs a competitive Threat or a collaborative opportunity?



Call to Action

Digital transformation at any bank always begins with a self-evaluation involving many questions:

- ❑ Who are our customers?
- ❑ Who are our competitors?
- ❑ What are our strengths and weaknesses?
- ❑ Can we commit to a long term DX initiative?
- ❑ Can we overcome long-established cultural norms?
- ❑ Are we willing to think beyond our current banking business model?

1. Begin your journey in the executive suites.

These are often the hardest questions to answer, particularly the question of culture. Many a strategic initiative has been derailed by a failure to march in the same direction as an organization. The lines of business all have separate agendas, and those differ from the operations and IT groups. The enterprise must understand that the future of the institution depends on their collaboration.

2. Create an infrastructure to enable, not to react

This paper and the survey data behind it go some way in helping to answer these and other questions. Most banks in EMEA have some sort of DX initiative in progress, and those that don't soon will. For banks embarking on DX in the front office only, their customers will benefit from innovative products and services, but it is only a matter of time before the infrastructure is strained by multiple line-of-business programs and it will force reactive change to the back office. A proper technology infrastructure is meant to enable change, from any given customer-facing project to a fundamental change in business model.

"We see the new players as an opportunity. In a changing market we have to find the bright spots for us to be involved and look into how to work with our existing strengths."

Northern European GSIB

3. Be open to partnerships

Once the organization is committed, and collaboration is fostered among the multiple entities in the bank, it is imperative to understand where the bank can add value to its customers, and where partnering in a digital ecosystem makes the most sense. Whether it means partnering with or acquiring a fintech startup, working with third-party technology providers, or even non-bank firms that add value to the bank's customers, the new reality of today's financial services market is open, agile, and on-demand. Banks should leverage digital networks of suppliers, customers, and employees to extend their reach into the customer's "value chain."