

# Accelerating reinvention with digital banking frameworks

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# Becoming a digital bank

Digitization and technology disruption are changing the shape of our world, transforming society, industries and economies by reinventing traditional business models and creating new ones. These unstoppable forces are creating the need for the banking industry to develop new operating models. But what does building a truly digital bank entail? IBM Digital Reinvention® is a framework that encapsulates the dramatic changes required, involving fundamental re-conception of strategy, operations and technology from the ground up.<sup>1</sup> For banks, Digital Reinvention includes reimagining employee engagement, customer experiences and other stakeholder relationships with new focus, expertise and ways of working.<sup>2</sup>

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## The impact of digitization

In the banking industry, technologies are tearing down barriers to entry and opening doors for new financial service providers. Competition from startups, internet giants and industries outside of banking, along with increased regulations, are forcing banks to accelerate their Digital Reinvention. Many bankers recognize this inevitability. In a recent survey of global banking executives by the IBM Institute of Business Value (IBV), almost 60 percent of respondents said that the boundaries between industries are blurring and more than 60 percent see competition coming from new and unexpected places.<sup>3</sup>

Rethinking customer experiences and developing efficient, effective operating models that facilitate an open ecosystem of participants are enabled by the underlying processes, technologies and organizational structures. In turn, customers benefit from fair prices, increased transparency, immediacy and high-quality

relevant interactions. They also gain access to a spectrum of personalized products and services both from the bank and the new ecosystem. These products can include financial advice, non-financial products and comparison services. Reinvention also enables a new underlying operating model of lean organizational structures that supports fast processing and facilitates open partner ecosystems. To incorporate streamlined decision and governance processes, the digital bank's integrated IT organization can adopt agile development and cloud deployment.

Banks need to understand what Digital Reinvention means for them based on their specific strategy and readiness to compete in the digital arena. Their efforts will need to be strategic to reach desired business goals with available capital and within an acceptable time frame. All this brings us to digital banking frameworks (which we refer to here as "DBFs").

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## The digital banking journey

DBFs provide a clear methodology for holistic Digital Reinvention planning for banks. It starts by identifying the value propositions banks can leverage to differentiate themselves as digital brands. There are many ways to be a digital bank and each bank must find its own path. Using DBF helps banks define the required fine-grained, digital capabilities for chosen value propositions. Reinvention may require the deployment of new operating models, and changes to architecture, technology, processes, people, partnership models and even culture, to support disruptive business models that can help banks succeed in the digital environment.<sup>4</sup>

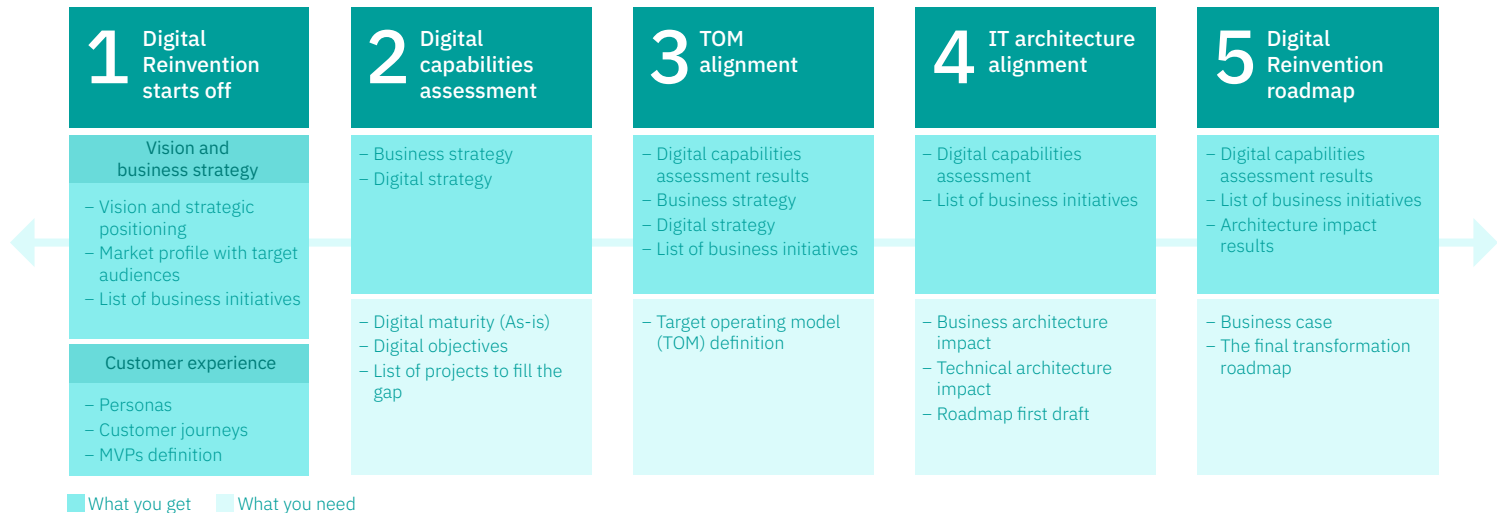
DBFs identify specific value propositions banks can use to differentiate themselves and the required digital capabilities of each. These frameworks enable aspiring digital banks to more easily identify and measure in practical terms their ongoing progress toward reinvention.

A DBF can be implemented gradually, driven by a clear business and digital strategy, and planned on five main stages (see Figure 1):

1. *Digital strategy* is based on a bank's specific vision and mission, the competitive context and target business model with methods such as Digital Reinvention.
2. *Digital capabilities assessment* is driven by the digital strategy. Identify the business and IT capabilities that the bank should develop and deploy to support a new digital business model. Using a DBF, a bank assesses its current digital maturity to help define the overall set of capabilities and compares it with the bank's digital ambition to identify any gaps. The DBF links key financial performance indicators to the digital transformation, recommending projects to close the gaps.
3. Target operating model alignment is based on the DBF operating impact model. This step defines changes required to support the desired digital maturity. Organization, processes, culture, assets, technology and architecture are all affected by the digitization process and should be transformed to support a bank's digital ambition.
4. IT architecture alignment is a crucial element in the transformation of the operating model transformation, and the evolution of the bank's business and IT architecture. The digitization process requires deep changes both in traditional systems of engagement, and in its systems of records. This new generation of front- and back-office systems should be built on data, analytics and artificial intelligence (AI) to make informed automated decisions, and convey data, events and services throughout the enterprise.

5. Digital Reinvention roadmap. Once the digital strategy, operating model and target architecture are defined, and the bank’s budget plan, resources and risk appetite are considered, all changes are orchestrated into a transformation program. Projects and timelines can be oriented to close capability gaps that are supported in financial models showing the required costs, resources, risks and expected returns.

**Figure 1**  
Five key building blocks



## Holistic Digital Reinvention

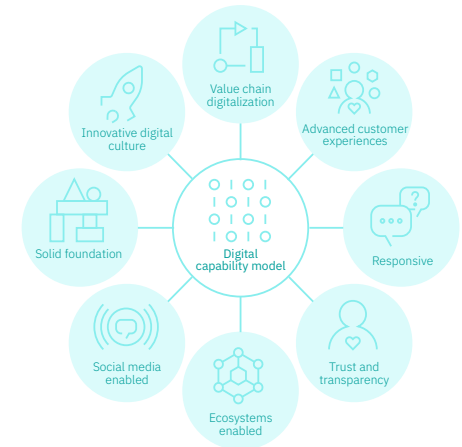
Many banks implement digital changes as isolated initiatives without having a global roadmap encompassing all the changes required to compete in the digital space. By taking a DBF approach, banks can visualize the impact of reinvention across the enterprise and gain a clearer picture of what will happen. A key element is a reference model that defines the digital capabilities that banks must deploy to compete in the digital space. These capabilities fall into the following areas:

- *Value chain digitization.* Digitize processes, and adapt products and services to take advantage of the digital context. Supporting this, in the same IBV survey mentioned above, 66 percent of global banking executives said that traditional value chains are being replaced.<sup>5</sup>
- *Advanced customer experience.* Provide customers with advanced interaction mechanisms, such as personalization, chatbots and consistent omnichannel coverage.

- *Responsiveness.* Offer real-time interactions supported by streamlined operations and real-time automated decisions based on actionable insight.
- *Trust and transparency.* Banks should have an ethical mission and social commitments. Transparency has to be part of banks' principles, vision, mission, culture and compliance.
- *Ecosystems enabled.* In the platform-oriented economy, banks can benefit from participating in open financial ecosystems.
- *Social media enabled.* Use social platforms to create specific communities that deliver value to digital customers.
- *Solid foundation.* Digital banks require an agile, flexible and scalable information system that can respond quickly to changing business needs.
- *Innovative digital culture.* Banks' organizations and culture depends on a context of continuous and open innovation.

The level of maturity required for each of the capabilities depends largely on a bank's strategy, current situation and geography, as well as the maturity of the market, the society and the ecosystem. DBFs propose a careful analysis about where a bank is and where it wants to be relative to all these capabilities in order to define its transformation roadmap (see Figure 2).

**Figure 2**  
*Digital capability model*





## Key takeaways

The imperative for Digital Reinvention in banking is tangible. Taking a structured DBF approach can help minimize disruption and improve the odds of success. Consider these recommendations:

- Make your bank more relevant to your customers with flexible financial and non-financial products. Consider the build-or-buy implications, including the relative benefits of speed versus using in-house talent.
- Develop or join digital ecosystems and platforms that deliver traditional and non-traditional products to customers. In a 2016 IBV global CEO survey, 45 percent of respondents already recognized they will need to participate in platforms created by others.<sup>6</sup>
- Ready your organization for the prescribed digital capabilities. Organizational readiness usually is a combination of reassigning, retraining and recruiting.
- Affirm your IT architecture is ready to support the transformation. Unambiguous teamwork among the CIO, CMO and CFO is important to success.
- Become agile in your response to customer and market requests. Drive teamwork and self-assessment into your development teams and allow them to react to changing market conditions, not simply follow a plan. Monitor progress but remember the old axiom: counting your money doesn't make you richer.

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## Notes and sources

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