

# Roland Berger Focus

August 2018

**The digitalization race: Can financial service providers  
hack the pace? Third European Retail Banking Survey –  
Findings and recommendations**



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# Management summary

This latest European Retail Banking Survey builds on the work of the previous editions, conducted in 2013 and 2015. At the heart of the third edition stands the question of retail banks' digital maturity, their digital priorities and the approaches they are taking to implement them. Our key question to executives and decision makers was: Can financial service providers keep up with the pace of digitalization?

The 60 respondents who took part in our online questionnaire come from ten countries, work across all areas of the retail banking sector and represent banks of all different sizes.

We have summarized the study's most important findings in five key statements. Among the insights we present is the fact that retail banks are not keeping up with the pace of digitalization when it comes to adapting disruptive technologies and grasping new business models. They are indeed working on digitalizing their existing business models, but they are not moving fast enough. In fact, they are still a long way off bringing in any "real" innovations. As such, banks are unintentionally leaving it to other players, especially the tech giants and Fin-Techs, to shape the future of retail banking.

Our survey findings can help retail banking decision makers better analyze and assess their digital maturity against the status quo in the industry and among their banking peers and draw the right conclusions for their future business.

We have formulated two recommendations for banks to help them not fall further behind in the digitalization race and to enable them to catch up as soon as possible. Crucial steps in the successful digital transformation of retail banks will be for them to adopt a targeted strategic positioning and to apply the right implementation models that enable disruptive innovation.

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# Contents

## 1. Five key findings of the third European Retail Banking Survey

<b>Digital maturity in banking is increasing</b> But the industry is still far from catching up with the digital frontrunners .....	<b>5</b>
<b>The customer interface is getting crowded</b> And there is not enough room for all banks to capture the interface .....	<b>8</b>
<b>The FinTech hype is over</b> A pragmatic relationship has emerged between banks and FinTechs .....	<b>11</b>
<b>Banks must free themselves of legacy structures</b> Only then will disruptive innovations become possible .....	<b>14</b>
<b>There is no one-size-fits-all answer to digital transformation</b> Banks need to apply different implementation models simultaneously .....	<b>17</b>

## 2. Two recommendations

<b>Clear strategic positioning</b> Banks can be either relationship expert, product expert or technology provider .....	<b>21</b>
<b>Flexible implementation approach</b> Different models need to be applied in parallel .....	<b>23</b>

## Chapter 1:

# Five key findings of the third European Retail Banking Survey

# 1. Digital maturity in banking is increasing

But the industry is still far from catching up with the digital frontrunners

Digitalization in retail banking is moving forward. End-to-end process digitalization, in particular, is right at the top of the digital agenda for retail banks today.

Successes in process digitalization – closing transactions, for example – are visibly increasing. Banks have managed to expand their digital offering here considerably in recent years. → [A](#)

At the same time, banks have realized that end-to-end digitalization of their existing business model is and can only be the first step on the road to digital transforma-

tion. Disruptive innovations are certainly on the strategic agenda for many banks, but they are not quite the top digital priority yet. → [B](#)

Banks still appear to be too preoccupied with the digitalization basics to actually turn themselves into drivers of innovation in their sector. In fact they do not see themselves in this role at all, instead perceiving their clients and the tech giants as innovation drivers, even ahead of the FinTechs at this time. → [C](#)

## [A](#): Closing transactions through digital channels.

Sharp rise in recent years, increasingly the case with complex products too.

### PROCESS SPEED BY BANKING PRODUCT [% OF MENTIONS]

#### Open new account



#### Get consumer loan



#### Get mortgage loan



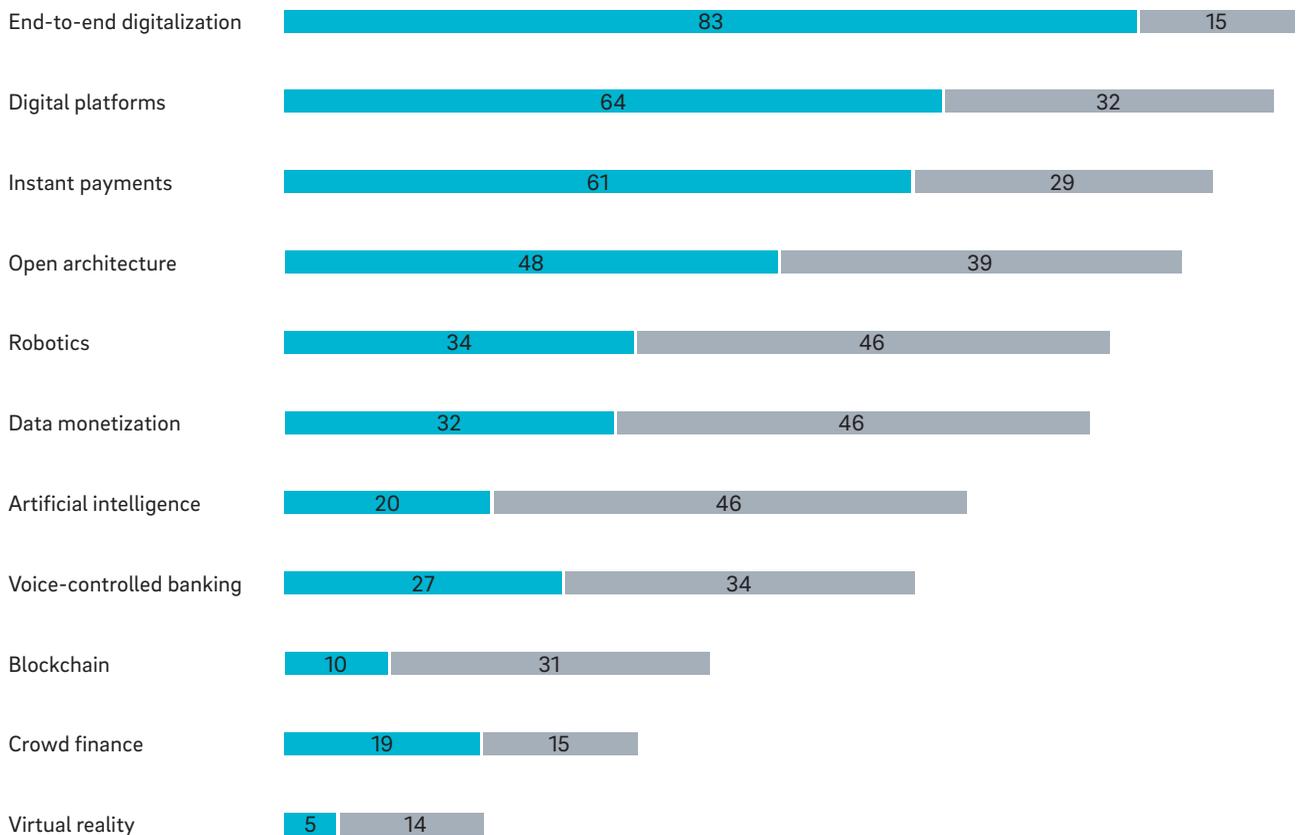
■ Immediately ■ Same day ■ Within 1-2 working days ■ More than 2 working days

Source: Roland Berger

**B: The key innovation trends in retail banking.**

Current innovation focus lies on digitalization of existing business models.

**DEGREE OF IMPLEMENTATION PER INNOVATION TREND [% OF MENTIONS]**



■ Implementation decided or already begun

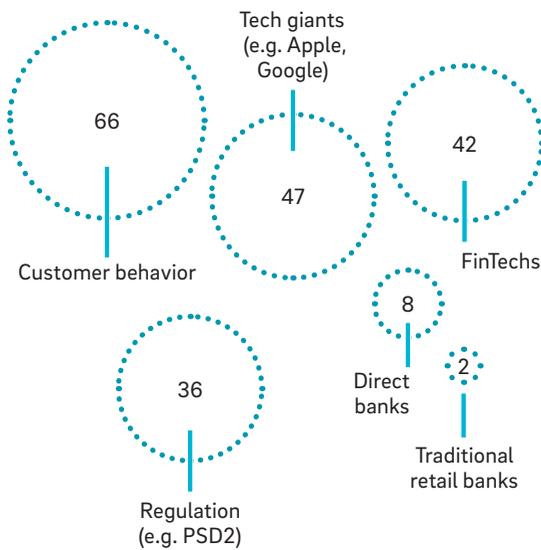
■ On the strategic agenda

**C: Drivers of innovation in retail banking.**

Banks are not digitalization innovators.

**RELEVANCE OF INNOVATION DRIVER**

[% OF MENTIONS]



Source: Roland Berger

As our own project experience shows, banks that rigorously implement end-to-end digitalization are optimizing their organization at many other points along the way, such as through comprehensive digitalization of data processing and data administration, by improving data quality and by standardizing their product and process logic. Retail banks are fundamentally on the right path here, even though product digitalization still lags significantly behind process digitalization in terms of maturity.

A look at other industries makes it clear, however, that the cutting-edge innovation rankings are increasingly led by new, technology-driven business models. If retail banks are to keep up with the pace of digitalization, they therefore need to bring the focus of their efforts firmly onto disruptive digitalization, and fast. For the banking world, the main topics of interest will be areas like artificial intelligence, voice-controlled banking, blockchain and virtual reality.

**WHAT DOES THAT MEAN FOR RETAIL BANKS?**

**It is not sufficient to digitalize existing business models. Innovative approaches and disruptive changes need to be adopted in parallel.**

To continue operating profitably in the market, banks will need to take their digital transformation beyond the end-to-end digitalization of processes and products. It is not enough to simply put innovation on the agenda. Innovative topics and disruptive changes actually need to be implemented so that they become the new digital normal for customers and bank employees alike.

Making the digital transformation permanent will also depend upon not only focusing on new technologies but changing the way people think and work within the organization. One of the things that characterizes successful digital companies is that they afford these kinds of "cultural innovations" the same level of importance as "technological innovations".

## 2. The customer interface is getting crowded

And there is not enough room for all banks to capture the interface

Banks all agree on one thing: The financial services sector is going to be a platform industry.

Platform-based business models are mainly characterized by an open business model with a wide variety of parties involved: buyers and sellers along the value chain, from within the industry and beyond. Platforms evolve around customer needs and strive to meet these needs in all possible ways.

End-to-end processes within a company enable the interactions and network effects that form the core of a platform's value add. The platform model can only work in the presence of adequate digital infrastructure.

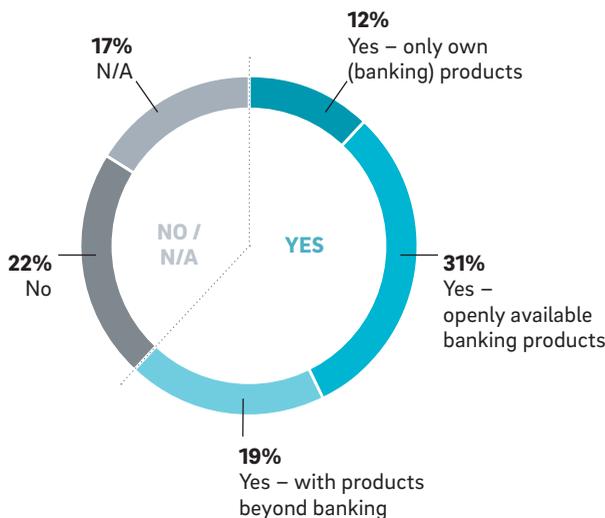
Banks have recognized the importance of platforms and have plans to take their business model in this direction. Most banks see themselves in the role of relationship expert, which puts them at the customer interface. → [D](#)

Besides traditional comparison portals, it is mainly digital marketplaces that the banks believe will be relevant in retail banking. What these platforms offer goes beyond pure-play retail banking products and integrates cross-industry solutions. Complementary products, services and technologies are available to supplement the portfolio of classic retail banking products. → [E](#)

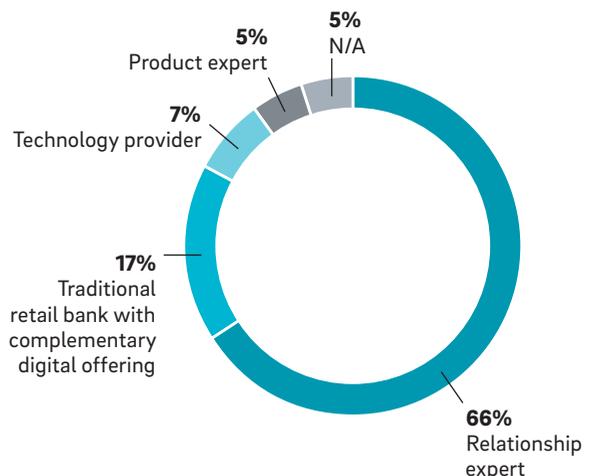
### D: Positioning of banks.

Banks have recognized the importance of platforms and are seeking to position themselves at the customer interface.

**TRANSFORMATION INTO A PLATFORM BUSINESS MODEL [% OF MENTIONS]**



**FUTURE POSITIONING [% OF MENTIONS]**



However, banks rarely see themselves as the driving force behind the establishment and operation of such platforms. Mainly the tech giants like Apple, Google and Facebook are rated much more strongly by the banks here. → [E](#)

Experience from other industries has shown that the transformation to a platform economy leads to a separation between the customer interface (sales) and product creation activities, and results in oligopolization of the customer contact. Platform models often achieve higher market capitalization than pure-play product providers.

- > Take this example from the aviation sector: Following the advent of online aggregators like trivago, the customer interface is now rarely occupied by the airlines; it is much more difficult for airlines to differentiate themselves from rival carriers, and often the only way they can achieve cross-selling and the sale of additional services is through the platform.
- > And this example of food delivery services: The concentration on two food delivery companies (Foodora and Deliveroo) in the German market quickly led to a duopoly. The consequences for restaurants were severe: less negotiating power, reduced profit margins and a significantly harder time positioning their brand toward customers.

The situation in retail banking will be similar. Not all banks will be able to establish themselves as relationship experts. Comparison portals already hold a significant market share in the customer interface.

**E: Platform models in retail banking.**

Platforms are considered very relevant for retail banking.

**THE MOST RELEVANT PLATFORM MODELS FROM A BANK'S PERSPECTIVE**

**76%**

**comparison platforms**

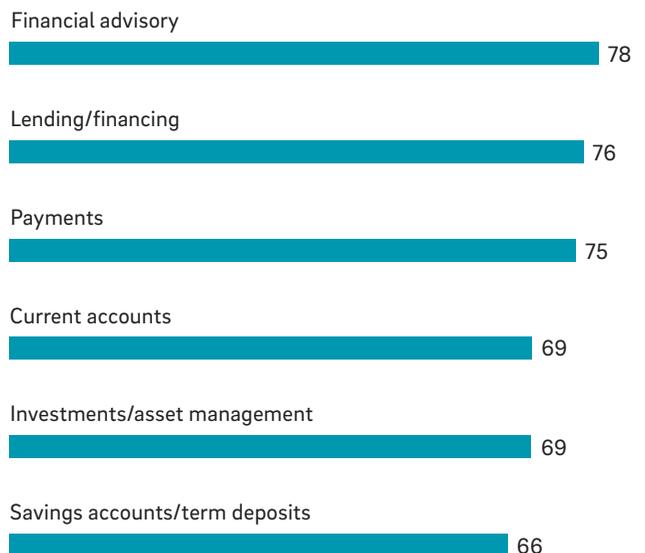
Comparison of banking services and transaction closing

**73%**

**marketplaces**

Meeting customer needs holistically, including beyond banking services

**RELEVANCE OF BANKING PRODUCTS ON PLATFORMS [% OF MENTIONS]**

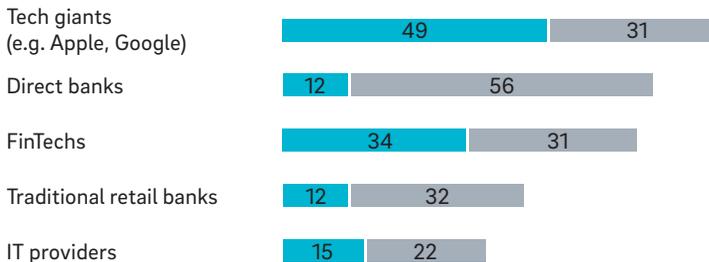


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## F: Platform operators.

Retail banks do not see themselves as the key drivers behind the establishment of platforms.

### PLATFORM IMPLEMENTATION – DRIVING FORCES [% OF MENTIONS]



Very important Important

Source: Roland Berger

### ROLE OF PLATFORM OPERATORS FROM A BANK'S PERSPECTIVE

**60%** **partner**  
in sales and technology

**50%** **competitor**  
at the customer interface

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## WHAT DOES THAT MEAN FOR RETAIL BANKS?

**A clear strategic positioning is the key to success. The platform economy offers banks new possibilities.**

When it comes to determining their basic strategic positioning in a digitalized banking sector, retail banks need to critically examine their current position within their peer group, create an internal awareness of their own strengths and align their business model more toward these specific strengths.

The sector's transformation into a platform industry will inevitably mean that the customer interface is primarily served through platforms – in this regard the retail banking sector will be no different to any other. Genuine customer

focus will be a must for any bank to successfully position themselves at the client interface.

The "traditional" solution whereby the bank covers everything from customer service to comprehensive product provisioning to the technology for the whole value chain is no longer a viable option within a platform economy.

We discuss and present the possibilities open to retail banks to achieve strategic differentiation today in chapter two of this study.

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## 3. The FinTech hype is over

A pragmatic relationship has emerged between banks and FinTechs

Until recently, the digitalization debate in the financial sector was dominated by an obsession – mainly in the media – with FinTechs: all the talk of an increasing digital affinity among generations young and old, promising future tech, mistrust of banks and regulatory pressure on market incumbents was among the main material fanning the hype around FinTechs.

It was said that FinTechs would be able to offer almost the full spectrum of banking services digitally, client centrically and cost efficiently. People were already talking about the end of established banks.

But the great revolution has so far failed to materialize. What we have seen instead is a pragmatic relationship developing between banks and FinTechs. There is a high level of interest among the banks in cooperating with FinTechs, with traditional cooperation formats distinctly preferred over models like incubators or accelerators. → [G](#)

From the banks' current perspective, the role of FinTechs can be summarized in three keywords:

- > Industry innovators: FinTechs are considered the main drivers of innovation in retail banking.
- > Platform drivers: FinTechs are viewed as important to the establishment of retail banking platforms.
- > Solution providers: FinTechs are seen by the banks as service providers in the sense that the banks will be able to benefit from the FinTechs' client centricity, power to innovate and agility. → [H](#)

FinTechs are there to do more than just provide solutions at the client interface. They also have solutions to offer in backend systems and internal processes.

Nevertheless, it is becoming more and more apparent that FinTechs are also faced with the hard task of defending their position in retail banking long term. The key challenges for FinTechs include obtaining critical scale in their customer base, getting a sustainable financing base in place and differentiating themselves

**The relationship between banks and FinTechs in the public eye:**  
The fate of traditional banks already appeared to be sealed.

Headlines from  
leading media publications, 2015-2017

**"Rating agency warns banks  
against FinTechs"**

**"FinTech clock is ticking for banks"**

**"How FinTechs are turning the banking  
sector upside down"**

**"FinTechs – once court jester to the banks,  
now the new king?"**

**"Banking scare; FinTechs sucking  
up fresh capital"**

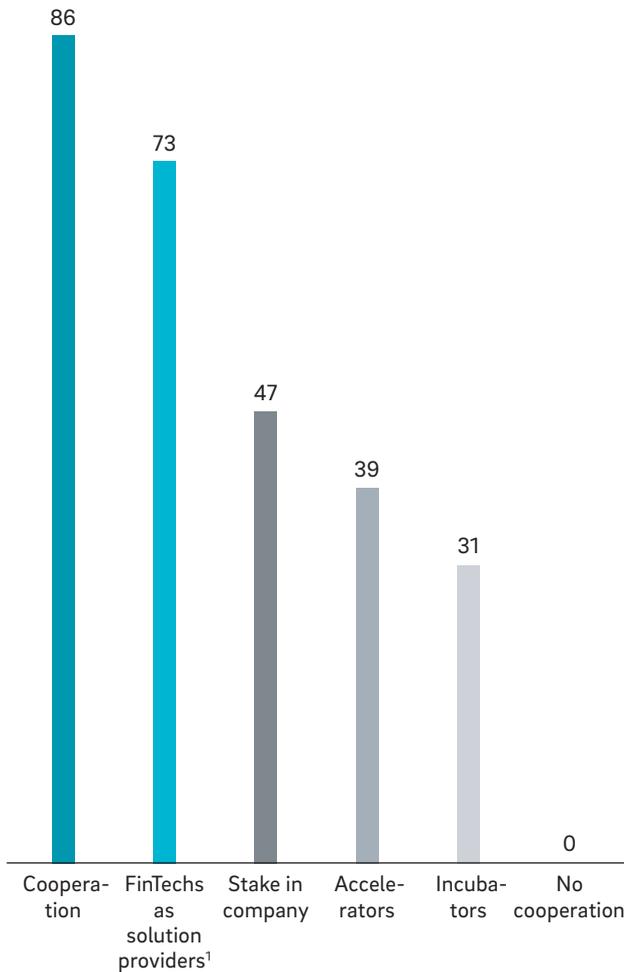
**"Should banks fear hostile takeover  
by FinTechs?"**

Source: Roland Berger press research

**G: Working with fintechs.**

Banks focus on traditional forms of cooperation.

**PREFERRED FORMS OF COLLABORATION**  
[% OF MENTIONS]

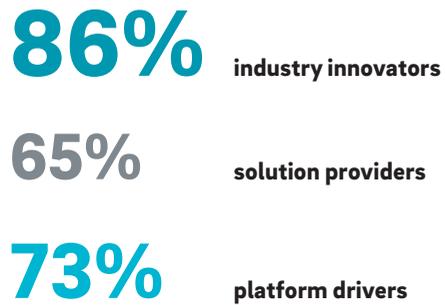


<sup>1</sup> Banks as buyers of services from FinTechs

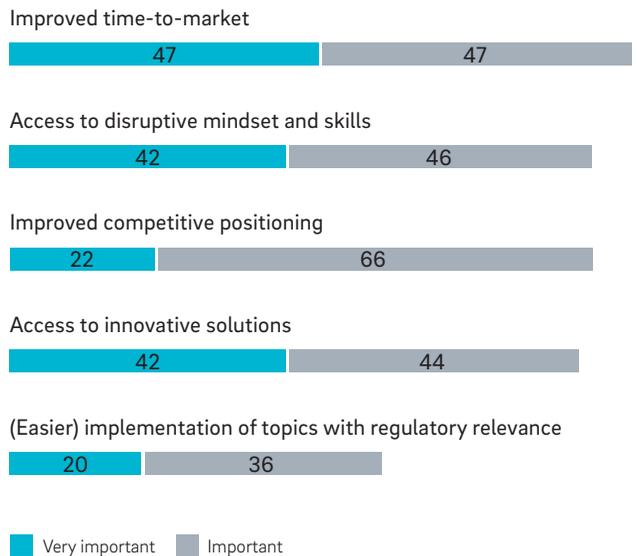
Source: Roland Berger

**H: Role of FinTechs.**

Banks see FinTechs assuming three key roles.



**DRIVERS OF COOPERATION**  
[% OF MENTIONS]



Source: Roland Berger

against their peer group long term. The first business failures among FinTechs are a sign that market consolidation is on the way.

In a threat to FinTechs and banks alike, we are now seeing tech giants like Amazon and Google entering the market in the banking industry, with a focus mainly on payments to date.

This being the case, tech giants could well herald just the kind of disruption that people a few years ago thought the FinTechs would bring. Tech giants have a broad customer base and high level of brand awareness, and they also have the required financial resources and the necessary digital expertise.

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## WHAT DOES THAT MEAN FOR RETAIL BANKS?

### **The time is ripe for pragmatic alliances between banks and FinTechs, going beyond the forms of cooperation we have seen to date.**

For banks and FinTechs, the key to success may lie in long-term strategic alliances, which could range from working together on a project-by-project basis to cooperating to create disruptive digital business models.

This could give banks the chance to learn more from the FinTechs than they would through regular cooperation or just by buying services from them. Client centricity, a disruptive mindset and agile working methods are just some of the potentially relevant issues.

Strategic FinTech partnerships could well become a key factor for retail banks in their efforts to progress their digital transformation, not only on the technology side but also through cultural innovation – innovative ways of thinking and working – and thus to become a truly digital organization.

For FinTechs, the principal benefits of entering into new forms of strategic cooperation with banks would be the access to a broad base of customers and regulatory expertise that this would give them, along with the prospect of stable sources of financing beyond venture capital.

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# 4. Banks must free themselves of legacy structures

Only then will disruptive innovations become possible

Often the biggest barriers retail banks face on the road to digital transformation are the lack of change competencies at all hierarchical levels and the organization's existing IT systems – in other words, their legacy culture and their legacy technology.

> Legacy culture: The mental fixation on existing processes and structures is for banks a challenge not to be underestimated. It takes a workforce of staff who are prepared to accept change in order to get innovations implemented.

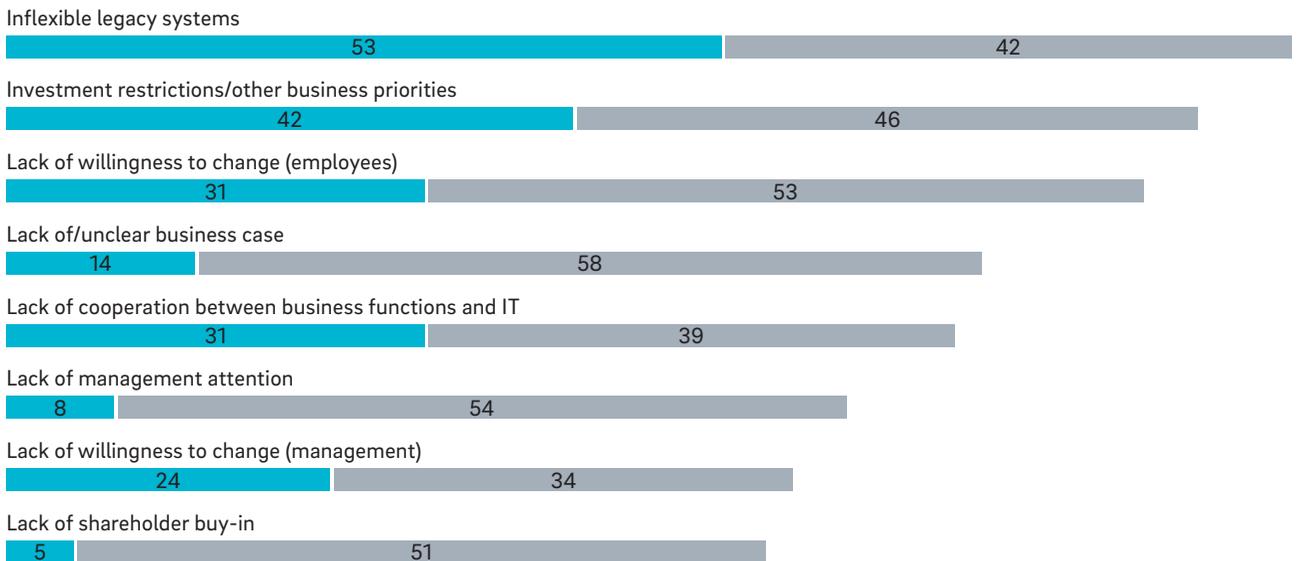
> Legacy technology: Banks' legacy systems are mostly built on complex IT architectures. Incrementally grown over decades, they lack standardization and are technologically outdated. As time goes on, it becomes progressively more difficult to find experts who have a comprehensive overview of a bank's legacy systems. → [!](#)

Closely linked to the willingness or desire to change is the creation of the required digital expertise in the organization – the ability to change. On that front, many banks still need to improve significantly. → [J](#)

## **!:** Cross-cutting innovation barriers.

Cultural and technology legacy form the biggest barriers.

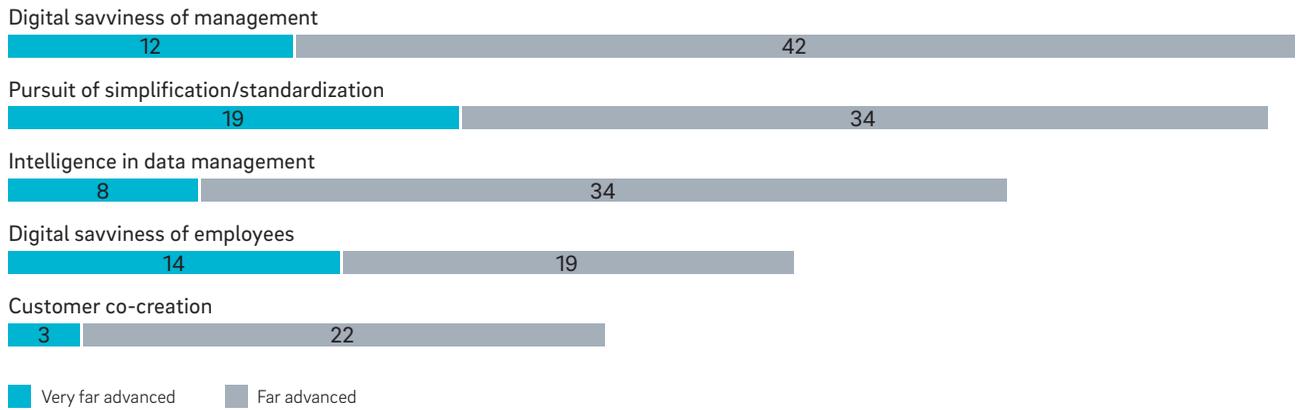
### INNOVATION BARRIERS IN THE ORGANIZATION [% OF MENTIONS]



**J: Digital competency.**

Banks do not have sufficient digital competency in their workforce.

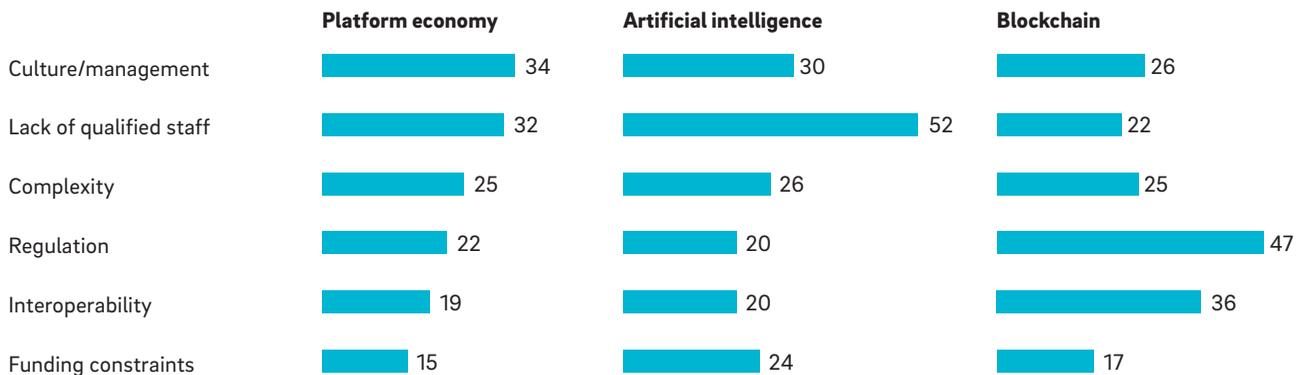
**ASSESSMENT OF DIGITAL MATURITY [% OF MENTIONS]**



**K: Barriers to implementing innovative technologies.**

Numerous barriers to be overcome depending on the level of digitalization.

**KEY CHALLENGES [% OF MENTIONS]**



Legacy culture and technology structures make progress very slow, even in the initial steps of digitalization, and hinder banks in their efforts to develop new business models and implement disruptive innovations.

→ K

The challenge for banks is thus considerable. Granted, it may still be possible to digitalize the current business model within existing structures and processes – with end-to-end digitalization, for example – but if disruptive

innovations are going to work, the organization absolutely must be freed from its cultural and technological legacy.

That said, the act of breaking down legacy systems and overcoming entrenched mindsets must not be allowed to jeopardize the stability of the bank. Activity for activity's sake is not the way to go: Radically purging a bank of any and all legacy elements is neither possible nor necessary.

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## WHAT DOES THAT MEAN FOR RETAIL BANKS?

**The solution could be to decouple certain aspects from existing legacy structures in order to implement especially disruptive innovations.**

Client-centric, innovative solutions can, in some cases, be developed and implemented independently from any existing IT systems. What this involves is taking both the customer interface and the products and processes and separating them from the rigid backend structures before embedding them in new, more flexible layers of the IT architecture.

This decoupling means that the solutions quickly achieve client visibility and, at the same time, offer digital standards such as 24/7 availability and very high levels of performance and security.

However, a permanent increase in complexity across the whole of the IT landscape must be avoided. Whenever new IT solutions are added, existing solutions then have to be taken out of use or "retired".

What can be done for IT – implementing disruptive innovations outside of existing structures – can also be done in respect of the cultural legacy: Wherever it is proving impossible to get enough employees onboard with the change management efforts in a sufficiently short space of time, it can be helpful – at least in the short to medium term – to build up a separate structure outside of the existing organization as a means of kicking off the changes. These structures should then be introduced back into the core organization or coupled back into the bank in some other way.

Long term, it is essential to establish the necessary digital competency across the whole of the existing organization.

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# 5. There is no one-size-fits-all answer to digital transformation

Banks need to apply different implementation models simultaneously

Currently there is no unified approach among banks for how digital transformation efforts can and should be implemented in operational terms.

It starts with the very issue of who is responsible for the implementation: Banks could adopt a CDO model, whereby ownership is bundled at top management level, or there could be interdisciplinary models with ownership held jointly between the business functions and IT within a project setting, or they could apply classic models where ownership is generally held in the line functions. Indeed, all of these models are currently being applied in the market in equal measure. → [L](#)

Things are similarly diverse when it comes to the question of the right implementation models to apply.

Banks have realized that traditional forms of implementation often do not go far enough to meet the demands of digital transformation, so they are increasingly looking to new implementation formats as well, such as innovation labs and joint ventures with external partners. → [M](#)

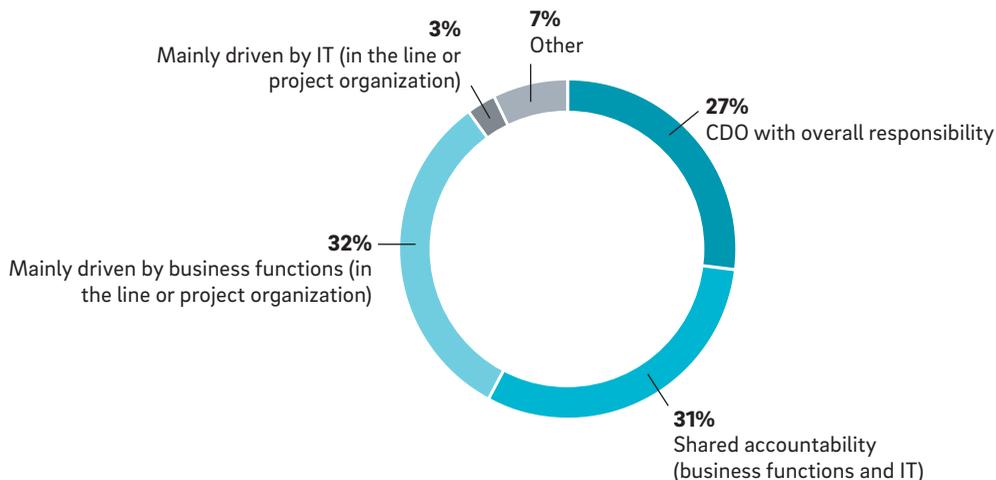
Whenever external partners are brought in to handle the task of implementing the digital transformation, there are two especially relevant challenges from the bank perspective: First, there is the difficulty of defining the project objectives and expected results at the time of commissioning the service provider, and second, there is the provider's lack of understanding of the organization and culture specific to the bank. → [N](#)

## [L](#): Implementation ownership.

Interdisciplinary accountability is not by any means standard.

### ORGANIZATIONAL STRUCTURE FOR DIGITAL TRANSFORMATION

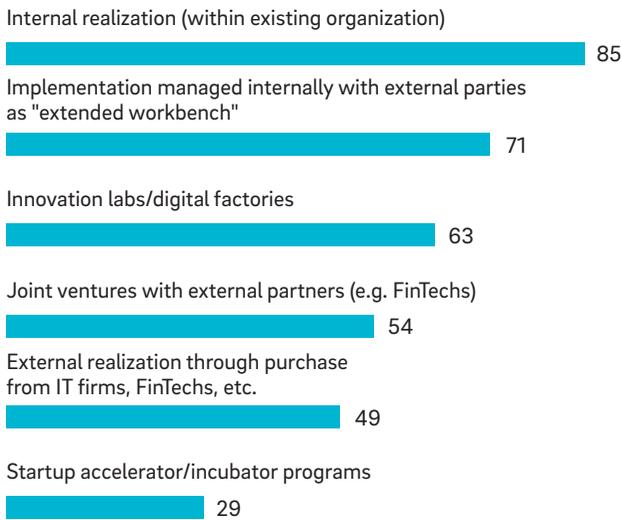
[% OF MENTIONS]



**M: Implementation models.**

Banks use traditional and innovative implementation models.

**RELEVANT IMPLEMENTATION MODELS**  
[% OF MENTIONS]



■ (Very) important

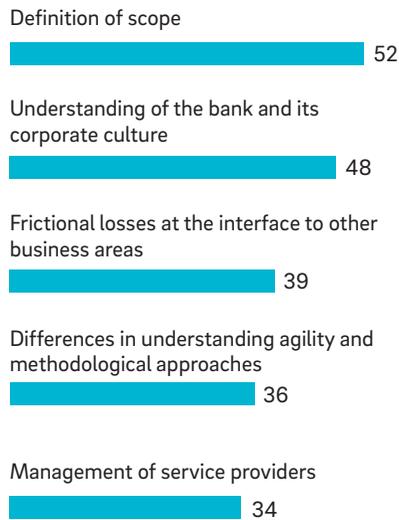
Source: Roland Berger

While not understanding the bank's organization is one of the "typical" challenges of using external partners, the first point, the difficulty of defining objectives and results, is something specific to the issue of digital transformation: After all, the more innovative the intended changes and actions are, the less clearly the expected results can be described at the beginning of the process. That is why agile approaches and frameworks have been developed in an attempt to resolve these very problems.

**N: Implementation barriers.**

Digital transformation cannot be "bought" with the traditional methods.

**BARRIERS IN COOPERATING WITH EXTERNAL PARTIES**  
[% OF MENTIONS]



■ (Fully) agree

Source: Roland Berger

Banks thus face an immense challenge: They must find ways to manage and implement their digital transformation in parallel to their regular bank operations. There is no one-size-fits-all – that much is clear from the survey results and from our prior project experience. The demands of daily bank operations and the demands associated with digitalizing the existing business model while implementing innovative technologies simply diverge too much.

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## WHAT DOES THAT MEAN FOR RETAIL BANKS?

### **Banks need the right implementation approach to not only define their digital agenda but implement it successfully.**

The approach needs to answer three key questions: Who should be responsible for the implementation and what role should IT and the business functions each play? Which models are suited to successfully implementing the different issues on a digital agenda overall and when is which model used? How can banks ensure coordinated implementation within the organization that not only keeps an eye on the implementation of the digital agenda but also does not lose track of regular business operations?

Under the heading of "Flexible implementation approach" in chapter two of this study, we discuss and outline what this kind of implementation could look like.

Success will depend upon selecting the right implementation model for each individual case, the basic rule being: The more innovative the expected outcome is, the more agile the chosen approach needs to be. Coordinated overall management and a clearly defined strategic framework can ensure that it is integrated in the bank's existing organization as required. Accompanying the approach with cultural transformation allows innovative mindsets and innovative skills – the ability and the willingness to change – to be permanently embedded within the workforce on the ground and in the corridors of management.

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### **In spite of the progress made in recent years, retail banks have not managed to keep up with the pace of digitalization in its full disruptive scope.**

How are retail banks doing in terms of their digital maturity? What are the drivers and what are the barriers involved in the digital transformation of banks?

To summarize the five key findings: The level of digital maturity in banks is rising. But the resources allocated by the banks are insufficient for any real digital disruption to take place and for digital business models to be developed. Mostly, the banks are still too busy dealing with the digital basics.

Still today, implementing the first stage of digitalization, the digitalization of the existing business model,

takes up the bulk of the available resources. Outdated, legacy IT structures, and, in some cases, an absence of the ability and the willingness to change among employees and decision makers prevent banks from taking the next major steps toward digitalization. Meanwhile, other industries have long since moved into the next phase of digitalization and are reinventing themselves and their business models with the help of disruptive innovations.

So, in spite of the progress made in recent years, retail banks have not managed to keep up with the pace of digitalization or even to close the gap to the digital frontrunners.

What can retail banks do in this situation?

## Chapter 2:

# Two recommendations

What retail banks can do to keep up with the pace of digitalization

# 1. Clear strategic positioning

Banks can be either relationship expert, product expert or technology provider

What specific recommendations for financial service providers emerge from the key findings of the European Retail Banking Survey?

What should financial service providers do now and what must they do now? What are the issues that retail banks should put on the digital agenda for the future? And how can they successfully realize their agenda?

In our opinion, retail banks and financial service providers can only be successful going forward and become leaders instead of followers of digital innovation if they think first about their strategic positioning and second about the right implementation approach for their strategic realignment.

Many retail banking players grew up in a world where they didn't have to decide which role to take in respect of customer access or product offering. In this context, no strategic differentiation was required, and many banks opted for the most universal positioning with maximum breadth and depth of value creation.

In terms of strategy, banks are often still stuck in that world today. They continue to think along the lines of their old business models, in which they generally cover the entire value chain. This has the consequence of mak-

ing it impossible for their digital activities to follow a clear strategic line. And it puts them at risk of having just a random collection of digital activities that can never be the starting point for a future digital business model.

Banks need to make a more deliberate decision on their strategic positioning and put all their energies into implementing that strategy. Only then will they be able to make a meaningful start to the game of digital catch-up they need to play now, and carry it through to the end.

In order to decide what strategic position to adopt, banks first need to critically examine their current positioning within their peer group. The question they need to answer is: What are the strengths and what are the weaknesses of the bank and of its business model – from the clients' point of view and from an internal perspective?

Clearly, opting for certain roles chosen on the basis of a strategy represents a break with the bank's existing corporate culture and, as such, also shatters the way each individual member of staff has viewed their role within that culture to date. We see three main strategies as being archetypical for the future of banks: relationship expert, product expert and technology provider. → [O](#)

## [O](#): Strategic positionings for the future.

Being stuck in the middle will be normal for a transitional period but cannot be a goal long term.



### **Relationship expert**

Financial service providers whose strengths lie in solving clients' problems can successfully position themselves at the customer interface as relationship experts. In the role of relationship expert, financial service providers focus on understanding the clients' needs and being able to advise them accordingly. The relationship expert specializes in solving clients' problems that require not only the use of financial products but other complementary services as well.

The key to success with this positioning is the bank's level of client focus as perceived by the customers. Is the bank's client focus genuine? Two aspects are essentially decisive in this respect.

First, in place of the traditional supplier-oriented product mindset within the bank, the viewpoint that needs to be adopted is one of client centricity, solving the client's problems.

Second, availability and client centricity will be viewed holistically in the context of an omnichannel strategy: customer contact – either physical or virtual – needs to take place wherever the customer happens to be. Otherwise client focus is nothing more than a marketing buzzword that does not reflect the reality as experienced by the bank's customers.

The relationship expert revenue model is characterized by commission payments and fees received for providing advice or acting as a broker. Where the relationship expert makes recourse to the bank's own products, product revenues come on top of the commission and fee income.

But the digitalization experience of other industries indicates that not all banks will be able to successfully position themselves permanently as relationship experts. Competition at the client interface is intense, not least because of the growing importance of platforms, a channel through which non-industry players can come in and occupy the interface to the customer.

### **Product expert**

If a bank's strengths lie predominantly in optimizing products and processes, they should consider positioning themselves accordingly, as a specialist for products. These product experts provide best-in-class products marketed through a wide network of sales channels, such as platforms, which will tend to be third-party operated in the future.

Unlike banks positioned at the client interface, the product expert focuses on achieving the highest possible level of efficiency in business processes and realizing superior product creation. Product experts aim to get their products well positioned with providers who occupy the client interface. Flexibility in product creation, or product landscape modularization, is a must here if banks are to meet the diverse needs of product customers, from platform providers to end customers. The product expert revenue model is typically based on traditional interest and commission income, depending on the product.

### **Technology provider**

A third strategic scenario is that of technology provider: Technology providers concentrate on developing technology-based solutions for end customers or corporates (B2B, B2C) and on the provision of platform technologies. This model has already increased greatly in importance over the course of digitalization and the evolution of digital platforms. Banks' processes and IT systems are often no longer up to the task of meeting digital requirements; comparison platforms are tying banks to their infrastructure platform or acquiring banks as users (in a Platform-as-a-Service model). The technology provider revenue model is heavily driven by licensing fees and commission payments. Plus, all activities and all services offered are aligned to the precise technology or infrastructure provided. There is no desire to compete for customer access. To be successful as a technology provider long term, a high level of technological expertise and the ability to realize digital economies of scale are essential.

## 2. Flexible implementation approach

Different models need to be applied in parallel

A clear strategic positioning in retail banking is an indispensable requirement for business success in an increasingly competitive environment. But any strategy is only ever as good as the quality of its implementation. And just as there is no single strategy that's right for all financial service providers but several directions in which they can strategically evolve in a digital environment, it is also true to say that there is no such thing as one-size-fits-all when it comes to implementing the digital agenda.

Traditional banks are currently trying to pull off a balancing act, relying on rather incremental implementa-

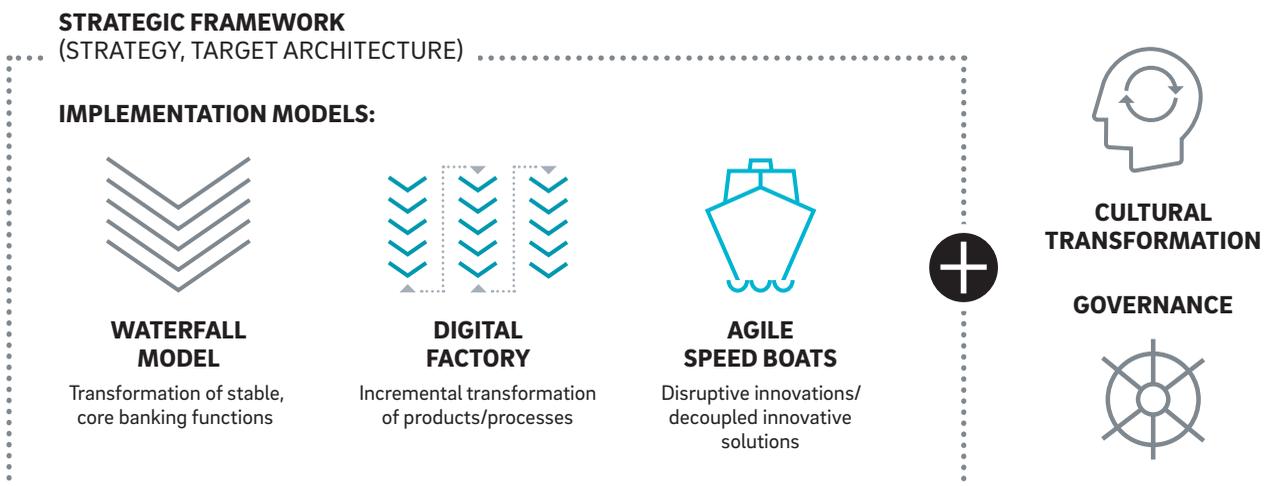
tion models while also applying much more disruptive forms of implementation like those we see innovative startups using.

In this situation, banks should not attempt to work out which is the one implementation model for them. What digital transformation is more about is combining a clear vision with an agile approach to implementation models and getting modern mindsets and skills embedded in the organization.

Four aspects are crucial for implementation: the strategic framework, flexible implementation models, the right governance, and a process of cultural transformation. → P

### P: Flexible implementation approach.

There is no one-size-fits-all when it comes to implementing the digital transformation.



### **Strategic framework**

A clearly defined strategic framework is the crucial precondition for implementation based on flexible models. For a start, the strategic framework has to specify the overarching digitalization strategy and define the portfolio of implementation initiatives. It is also necessary for the strategic framework to determine the set of implementation models that can be applied – from the waterfall model to agile approaches – and ensure that each model is equipped with the tools, templates and working principles to make standardized application possible. And then the strategic framework also needs to determine the overarching, organization-spanning reference architecture from a content and technology perspective and define the associated processes, such as the software development process.

### **Implementation models**

It will be crucial to determine which is the right implementation model to apply in each individual use case. This will depend on the project issue and level of innovation. The task will then be to rigorously pursue the chosen strategy with the required methodological skills. As a basic rule, the more innovative, disruptive and uncertain the expected outcome is, the more agile the chosen approach needs to be.

The traditional waterfall model will remain the right choice for the transformation of stable, core banking functions and associated IT systems. Projects of this kind are usually characterized by clearly defined goals, precisely definable requirements, little flexibility in the planned implementation, and changes on an incremental scale. For disruptive change, however, the waterfall is not the right model to choose.

The digital factory approach is the preferred option for transforming the existing business model on an incremental basis. In a digital factory, the business functions and IT work on an interdisciplinary level, development

cycles are short, and the learning process is iterative. The overall objective is broken down into individual, clearly definable deliverables that are implemented step-by-step in precisely defined phases.

The digital factory method links the advantages of agile frameworks, especially the fast visibility of results, with a clearly structured, standardized approach of the kind normally found in traditional software development.

The primary area of application for a digital factory is in the end-to-end digitalization of the existing business model, for example when digitalizing processes with a clear focus on customer centricity and the reduction of complexity.

The agile speed boat method should be chosen as the implementation model when the aim is to implement disruptive ideas and decoupled innovative solutions outside of legacy structures. It is used for projects that aim to break new ground. Typically, neither the outcome nor the way to achieve it can be fully defined at the start of the project.

This approach places a great deal of emphasis on creating rapidly visible results, having short development cycles and using agile methods such as SCRUM. This usually offers good opportunities for collaboration with FinTechs.

### **Governance**

An approach based on the flexible application of different implementation models calls for coordination of the full scope of work involved. The long-term goal must be for the business functions to be the managers of their own digitalization.

A central "digital office" may be the right instrument for defining the strategic implementation framework and building up the required digital competencies within the organization.

The implementation itself should be under the responsibility of the business functions themselves right from

the start. The role of IT also needs to be redefined in this context: IT must move from being a service provider to being an integral part of the business model. The business functions and IT departments will be jointly accountable for implementing the digital transformation in the future.

#### **Cultural transformation**

The digital transformation of an organization can only be successful on a lasting and permanent basis if technological innovations go hand in hand with cultural transformation. It's about embedding a digital mindset in the organization and putting modern thinking patterns and modes of working at the heart of everyone's actions.

Unmistakable client centricity must replace product centricity; silo mentalities, hierarchies and "all or nothing" solutions must give way to a joined-up, proactive approach, interactive exchange and an open culture of trial and error.

The objective must be to specifically develop the ability to change among the bank's employees and, in doing so, also nurture their willingness to accept change. The key to success is to make the bank's leadership into innovators and role models of the digital transformation.

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**Success in retail banking entails analyzing where banks need to catch up on digitalization, rigorously addressing their strategic position and actively driving the implementation of the chosen strategy.**

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## WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

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