

# Going Digital: The Banking Transformation Road Map

The leaders in digital banking are more client-centric, tech-savvy, and inclusive—and are fundamentally changing to deliver the best results.



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Most banks today want to become digital banking leaders—after all, that’s where the customers are. And for much of the past decade as digital banking has taken hold, most leading traditional banks have incorporated strong digital strategies.

So what separates the digital banking leaders from the laggards? A new A.T. Kearney study on digitization, in conjunction with Efma, seeks the answer and finds three main findings: the leaders understand the importance of mobile in a digital strategy, they are developing more agile operating models, and, most notably, they have tackled the need for internal culture shifts (see sidebar: About the Study).

With top-down implementation, these leaders have set their paths toward becoming more client-centric, more tech-savvy, and more inclusive. As the market evolves even more rapidly through the end of the decade, all banks will have to adapt to a disruptive model in people and IT—the two engines of retail banking—and must fundamentally adapt to deliver the best results.

This paper looks at the trends and the path forward.

## The Evolving Digital Journey

Most banks began their digital journey years ago and have clear digital strategies, yet even those are facing major changes. In particular, as more customers use their mobile phones and tablets to do their banking, and omni-channel takes hold in financial services, the mobile experience is becoming a crucial aspect of digital strategy that banks must address.

Secondly, to keep up in this fast-changing market, traditional banks will have to adapt their operating models. In particular, changes in IT, new products and services development, and changing expectations for time-to-market will be key factors going forward.

Perhaps the most important step, however, is that banking in the digital age requires a drastic, profound reset of how banking staff reacts to customer needs. This means thinking customer first, rather than by channel; as one panelist puts it, “Banks think in channels, but customers don’t.” It means being conscious that small digital players can gain market share faster and in a manner that is more disruptive to traditional banks’ models. It means understanding that organizational silos pose significant obstacles to creating new solutions for customers. Most importantly, it means looking inward, changing organizational beliefs and habits to facilitate clients and drive digital innovation.

A new spirit of banking—led by top executives—will lead the way to addressing market changes, becoming more agile, and improving openness in day-to-day business.

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### About the Study

**This is the second edition of a joint study by A.T. Kearney and Efma about the digitization of retail banking across the globe.**

**The study is based on interviews, conducted between June and September 2014, with more than 25 executives in charge of digital or multichannel in the retail**

**banking divisions of 22 leading banks. The study is based on the general question, “How is the bank implementing its digital transformation?”**

**The study also included interviews of six CEOs from pure-player digital banks. An open questionnaire co-developed by**

**A.T. Kearney and Efma touched upon five key themes: strategic intent and objectives, transformation approach, organization and governance, success factors and lessons learned, and the specificities regarding physical branches and the insurance business.**

In our survey, digital banking leaders tell us that **“the game is about the race to build an audience”** to increase traffic and drive sales.

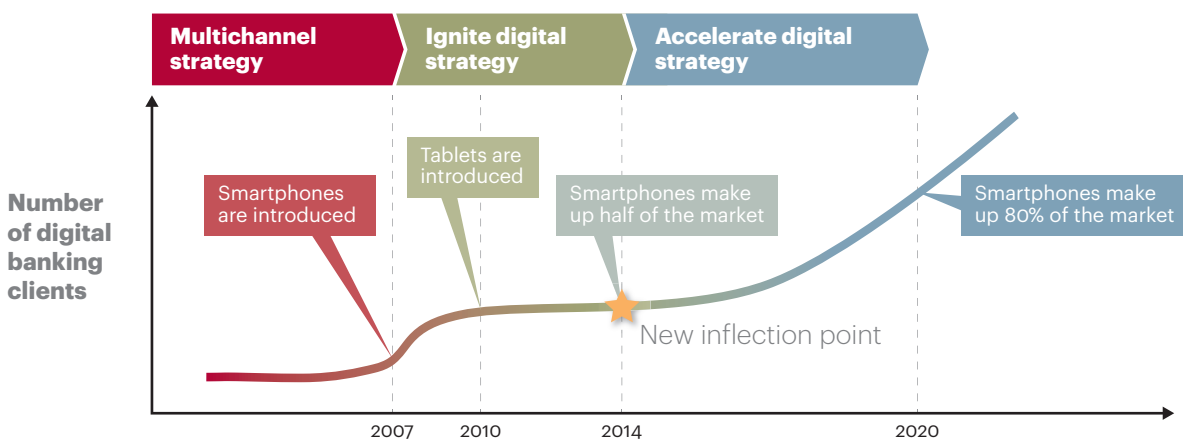
### 1. Mobile Banking Is Changing the Game

The digitization of retail banking is, of course, not a new development. Online solutions and services have existed since roughly the turn of the century, which has progressively led banking beyond mere multichannel strategies as Internet access has become ubiquitous and more heavily used (see figure 1).

In coming years, however, mobile use will become the epicenter of digital banking, as technology improves (3G, LTE) and smartphones and tablets become even more widespread. More than half of mobile devices sold today are smartphones, and more than 80 percent will be by 2020.

Eighty-five percent of the executives we interviewed for this study say that mobile is the cornerstone of their digital strategy going forward, as mobile becomes most customers’ first touch point. One executive at a Latin American bank says, “This year, transaction volumes for mobile have overtaken volumes across all the other channels.” A European banking executive reports that their clients have 11 times as many contacts through mobile than on standard computers.

Figure 1  
**Most banks are now accelerating their digital strategies**



Technology	<ul style="list-style-type: none"> <li>• Workstations</li> </ul>	<ul style="list-style-type: none"> <li>• Smartphones and tablets</li> </ul>	<ul style="list-style-type: none"> <li>• Internet of Things (watches, glasses)</li> </ul>
Clients	<ul style="list-style-type: none"> <li>• Early adopters</li> </ul>	<ul style="list-style-type: none"> <li>• Mobile Internet users</li> </ul>	<ul style="list-style-type: none"> <li>• Heavily connected users</li> </ul>

Source: A.T. Kearney analysis

The spread of mobile banking is creating what we call new “golden rules” for retail banks as they seek to meet customers’ expectations in banking products and services:

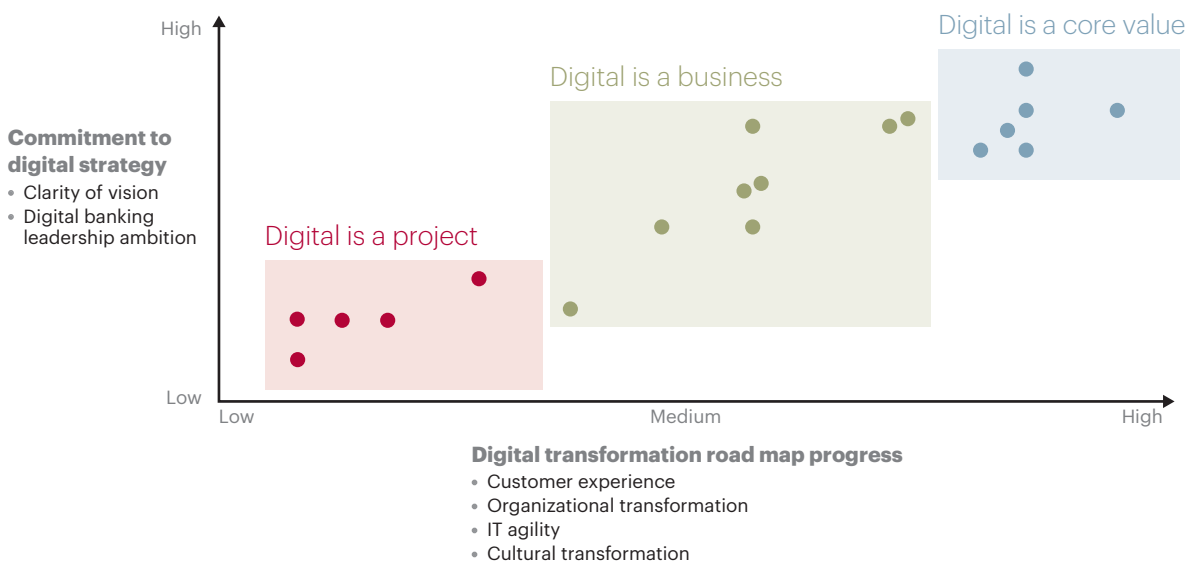
- **Simplicity.** Mobile requires smart, visual, and easy-to-use interfaces and services.
- **Relationship.** The new rule in digital is “always connected.” A consequence of this is that banks must cultivate the development of emotional relationships with their customers, including through social media.
- **Traffic.** Generating web or app traffic is a major concern for digital banking leaders. In our survey they tell us that “the game is about the race to build an audience,” or “generating traffic to increase sales.”
- **Speed of innovation.** Banks are trying to keep pace with new technologies. For example, the most recent iOS update from Apple includes a new Apple Pay feature, with potential buy-in from many banks. Other banks are seeking to develop apps for connected watches, glasses, and other wearable devices as their use spreads.

## 2. Banks Are Aspiring to Build Agile Operating Models

Our research highlights three groups of digital approaches, based on their commitment to digital strategy and their progress on the digital transformation road map (see figure 2). The first, which includes roughly one quarter of the retail banks we examine, sees digital merely as a project, with pilots and gradual deployment, and not as a central feature (see figure 3 on page 4). The second, the “advanced group,” which includes 42 percent of retail banks in our study, consider digital a business within their umbrella. The last, including 32 percent of the banks in our study, take what we call the “boosted” approach where they have a “pure player” (such as a subsidiary) inside the firm and a digital culture from top to bottom.

Figure 2

**Most banks want to become digital banking leaders and are deeply engaged in the transformation to get there**



Source: A.T. Kearney analysis

Figure 3

**Our survey finds three typical digital approaches**

<b>Followers (26%)</b> <b>Digital is a project</b>	<b>Advanced (42%)</b> <b>Digital is a business</b>	<b>Boosted (32%)</b> <b>Digital is a core value</b>
<ul style="list-style-type: none"><li>• Project-by-project basis</li><li>• Pilots and gradual deployment</li><li>• Long-term planning</li></ul>	<ul style="list-style-type: none"><li>• Clear, long-term vision and ambition with client-centric focus and open innovation</li><li>• Cross-functional teams mixing IT, distribution, and marketing</li><li>• Test-and-learn approach: options tested in parallel, with big-bang full deployment</li><li>• Flexible and agile execution, with twice-yearly reviews</li><li>• Abundant internal communication</li></ul>	<ul style="list-style-type: none"><li>• Pure digital business model</li><li>• Use subsidiaries to accelerate digital</li><li>• Pure-player model that accelerates learning for digital transformation</li><li>• Dissemination of digital in the company, culture, and innovation</li><li>• Dedicated “lean” IT</li></ul>

Source: A.T. Kearney analysis

The advanced and boosted groups demonstrate future trends in digital banking. The advanced pack shows a structured approach to digital, with an understanding of how branch networks are evolving in an omnichannel world. These banks use a solution-driven, “test-and-learn” approach, with many options tested and close collaboration with other units, such as IT and marketing. At these firms, the bank’s mindset is client-first, and there is an understanding of the need for investment in IT platforms.

## **Flexibility must become the dominant gene** in the DNA of traditional banks as they rebuild their operating models in a digital world.

The boosted approach, based on a pure player model, demonstrates a possible end-game model and trends. These companies are on the offensive as they seek market—with new technology and their associated opportunities—with the idea that short-term gains will lead to long-term advantage. They are employing agile teams with fast time-to-market—in the range of six months—on products, services, and upgrades. They are dedicated to cost effectiveness—small teams, an entrepreneurial mindset, and dedicated web-enabled IT teams that are partially outsourced. One executive at a European mobile banking pure player described his firm’s digital vision:

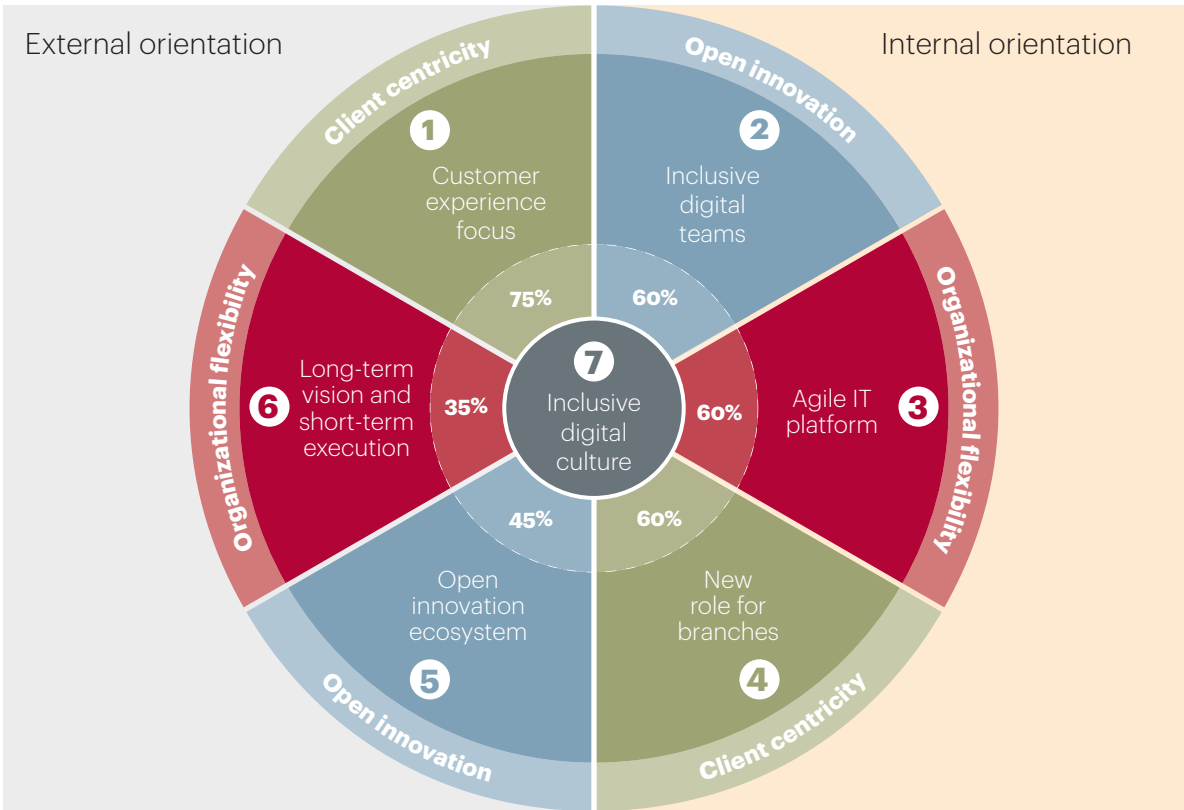
- Fully digital products
- Fully paperless
- Minimal need for call centers and direct interaction with clients
- Lean core banking IT system, with Web banking and CRM enabled by initial design
- Highly outsourced IT with strategic partners

Implementation of digital banking will be anchored by three dimensions: client centricity, open innovation, and organizational flexibility (see figure 4).

**Client centricity.** Client centricity has two parts in a digital transformation: a focus on the customer experience coupled with an in-depth examination of the role of branches. Three quarters of our respondents say understanding customer experience is essential to implementing digital into their organizations. There are three success factors:

- **Be attentive and pragmatic.** The objective is to move closer to clients’ expectations and anticipating them. This requires a change in mindset and practices, with the client becoming the center of the bank. One European executive says, “Everyone in the company thinks client first.” Other practices include watching social networks, maintaining live interaction on those networks, and developing concept spaces—new offers and services, CEO discussions, or closer client interactions—where banks can study customers’ behaviors.
- **Be ready and creative.** An enhanced client experience will go a long way, so a bank’s technology must be leading-edge. As one panelist says, “In digital, the bank’s IT is naked in front of the client.” The ability to capture the full potential of new technologies starts with an agile IT organization and cross-functional teams studying customer desires.

Figure 4  
**Seven success factors for digital transformation in banking**



Note: Percentages are respondents who cite this as a key success factor for their company.  
 Source: A.T. Kearney analysis

- **Rethink the role of branches.** Traditional branch networks embody the brand of the bank as an institution and host an important number of the banking staff. Changing the role of the branch means changing the habits, beliefs, incentives, and experience of the people who work in and for branches. The digital shift is a cultural shift, with new skills required to meet newly digitized customers. What does the future of branches look like? A top executive from a pure online player sums it up nicely: “Delivering high-value advice through true experts.” In this scenario, banks have flagship branches that showcase the brand and are fully integrated parts of the omnichannel customer journey.

**Openness to innovation.** Digital teams with a mix of IT and marketing—in other words both internal and external know-how—can help produce concrete innovations that are ready for client use. Integrating IT and marketing is the essence of the digital age, as it seeks to create an agile organization that merges client needs with solution delivery to deliver new services as quickly as possible. A connection between internal know-how and external market realities leads to more valuable innovations.

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## Leading traditional banks understand that **open innovation ecosystems are the genesis of design and delivery in the digital era.**

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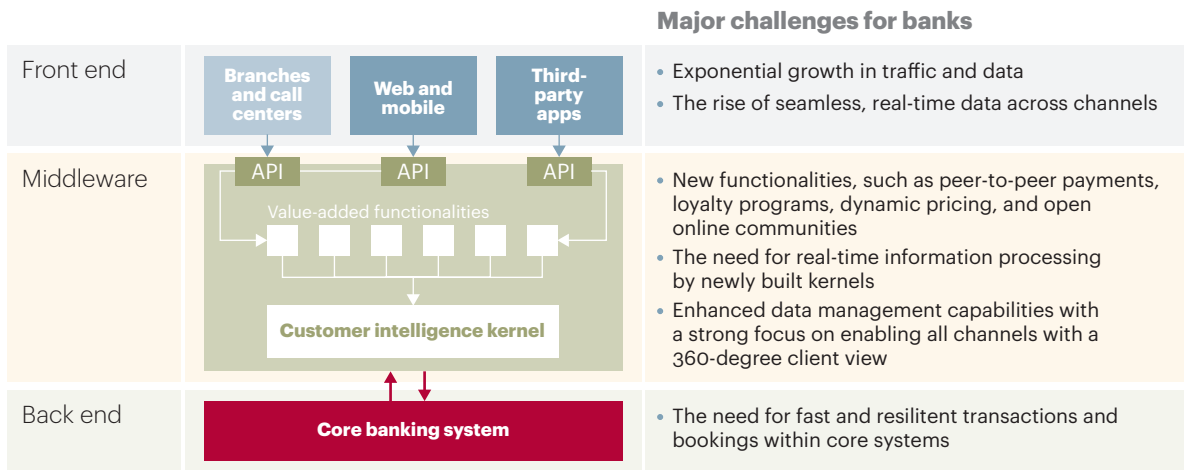
Open innovation and ecosystems are the genesis of design and delivery in the digital era. The market is moving fast, and to lead the race to new mobile offerings requires, as one banking leader in Europe tells us, “a highly efficient connection between new technology releases and partners.”

The leading traditional banks are testing leading-edge technologies at early stages—sometimes in labs close to Silicon Valley’s digital ecosystem of ideas, start-ups, and people—to understand their impact and promise for digital banking. They also understand that it is crucial to transform innovations efficiently into real offers for clients. As new start-ups become an unavoidable feature of the market—so-called “fin-techs” proposing more value-added services—creating connections with these players (either with collaborations or acquisitions) will be necessary, as will close partnerships with the major players leading the digital era revolution.

**Organizational flexibility.** Technological and organizational agility is crucial for banks. An agile IT platform is central to the digitization of banking operating models. The proliferation of new technologies and the faster time-to-market call for a fundamentally flexible IT platform that is able to integrate external cloud services. IT organizations need to be segregated by seamlessly integrating the front-end IT into the business and industrializing the back end (see figure 5 on page 7). At a deeper level, it means a cultural change to embrace new technology testing and integration, and to adopt a customer solutions-driven mind set.

Technological capabilities are becoming a main differentiator for banks when it comes to improving the customer experience. It offers great opportunities for banks to better understand their customer needs while offering new propositions such as peer-to-peer payments, lending, social trading, and personal finance management tools. The risk is that these offers will overload

Figure 5  
**Technology can facilitate a fast and agile environment**



Note: API is application program interface  
 Sources: Interviews; A.T. Kearney analysis

existing core banking systems with additional functionalities and processes, so change will require smart, modular, highly automated solutions that are possibly maintained outside the bank. Leading banks worldwide are creating a smart middleware layer that computes and processes customer and business intelligence with state-of-the-art technologies and interfaces. Ultimately, this trend will require banks to open up their systems or middleware layers to third parties and use open APIs (application programming interfaces) to keep efforts at a minimum. Co-creation and collaboration will be the new mantra of tomorrow’s leading banks—a step requiring fundamental adjustments to their approach.

Ultimately, flexibility requires a clear long-term vision and strong short-term execution. As one leader at a European bank says, “Flexibility must become the dominant gene in the DNA of traditional banks’ new operating models.” This means being committed to the long-term vision by embarking internally on the digital journey, even when the path to digital transformation may not yet be known. With the environment changing and no traditional bank yet reaching the digital “end game,” execution flexibility—by adopting a progressive test-and-learn approach and frequently reviewing plans and priorities to stay competitive—will ensure alignment with customer needs in a fast-moving, competitive environment. Many banks are using alternative organization models, such as adding subsidiary think tanks outside the core bank or supporting innovation incubators that produce new solutions more quickly.

In a nutshell, this means adapting the operating model’s “internal DNA” to cope with the “external” market dynamics.

### 3. People Engagement Is the Key Challenge

Perhaps the most important—and indeed the most difficult—change ahead for traditional banks is a mindset change. The digital age is fundamentally impacting culture as it forces banks to shift from a product-centric point of view to a client-centric one; from a place where



the current IT set-up is doing the job to a tech-savvy mindset; from planning cycles to “test-and-learn”; and from silos to inclusiveness. The executives in our survey highlight three features of changing the culture for a successful digital transformation:

**Forward thinking.** Training and communication must involve everyone in the bank, including departments not directly impacted by digital. Participants are focusing on providing clear, action-oriented content such as ready-to-launch services and new technology uses. Some banks are appointing “digital communication ambassadors” to usher in the new culture.

**Empirical.** Leading banks are developing the “test-and-learn” approach, with some asking employees to practice mobile Internet at work during business hours to fully understand their digital products and be fully aware of what is happening in digital.

**Openness.** Employees should be curious about new digital practices, new services, and technologies. For leaders, this means accepting errors from the test-and-learn process, and collecting and frequently sharing feedback among teams, clients, and partners.

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## The digital age is fundamentally impacting culture as it forces banks to **shift from a product-centric point of view to a client-centric one.**

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At the center of the leading digital transformations are top leaders—specifically CEOs—who become **Chief Cultural Transformation Officers**. To lead the bank to a new digital-focused culture, leaders will have to initiate and lead the conversation about digital vision and increase the bank’s ambition (see figure 6).

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Figure 6

### Digital banking requires a new type of CEO

**Is a digital native** who forges a digital agenda internally and externally

**Strikes a balance** between business as usual and disruption

**Ensures reconciliation** and **inclusiveness** as the natural **“Chief Cultural Transformation Leader”**

- Between generation Y and previous generations
- Among IT, marketing, and business
- Between traditional and digital division

**Create innovation boards** that drive retail banking executive committees

**Empower cross-functional teams**

**Adapt governance** to support digital penetration, distribution network, IT transformation

To consolidate the bank’s strengths in a cohesive manner, the CEO needs to embody the inclusiveness of a digital transformation to ensure that all generations are ready to digest new technologies, that IT and marketing can deliver solutions to clients, and that best practices are in play between the traditional side of the bank and digital business units or subsidiaries.

Most banks have been on the digital journey for years now, but it is only halfway through. **Operating agility and cultural changes are next on the agenda for transformation.**

Our respondents cite a few practical tactics for achieving this, including the direct empowerment of cross-functional teams, and the creation of appropriate governance to drive digital both in operations (IT) and within branch networks.

### Looking Ahead

Most banks have been on the digital journey for years now, but that journey is only halfway through, our respondents say. Operating agility and cultural changes are next on the agenda for the market’s digital transformation, which will only pick up pace through 2020 (see figure 7). Technology trends such as Internet of Things and the spread of smartphones, evolving customer behavior, and changing branch networks are leading to new customer behaviors and expectations across all markets. Banks have no time to waste in addressing these changes.

This will certainly mean fewer physical branches and more mobile services, with a customer experience that is both complementary and consistent in all channels. In other words, the leaders will offer “true expertise” from highly skilled professionals everywhere, be it a branch,

Figure 7  
**The pace of digital transformation will accelerate through 2020**

Technology trends	Evolving customer behavior	Changing branch networks
<ul style="list-style-type: none"> <li>• Internet of Things</li> <li>• Full penetration of smartphones and tablets</li> <li>• Convergence</li> <li>• Explosion of cloud services</li> </ul>	<ul style="list-style-type: none"> <li>• Digital usage crossing generations</li> <li>• Mobile Internet use increasing</li> <li>• Digital culture spreading worldwide across industries</li> <li>• Emerging markets increasingly adopt mobile banking</li> </ul>	<ul style="list-style-type: none"> <li>• Branches activity decreasing</li> <li>• Less traffic than on mobile</li> <li>• Fewer but bigger branches integrated in the customer experience embedded with digital (flagship, showroom)</li> </ul>

Source: A.T. Kearney analysis

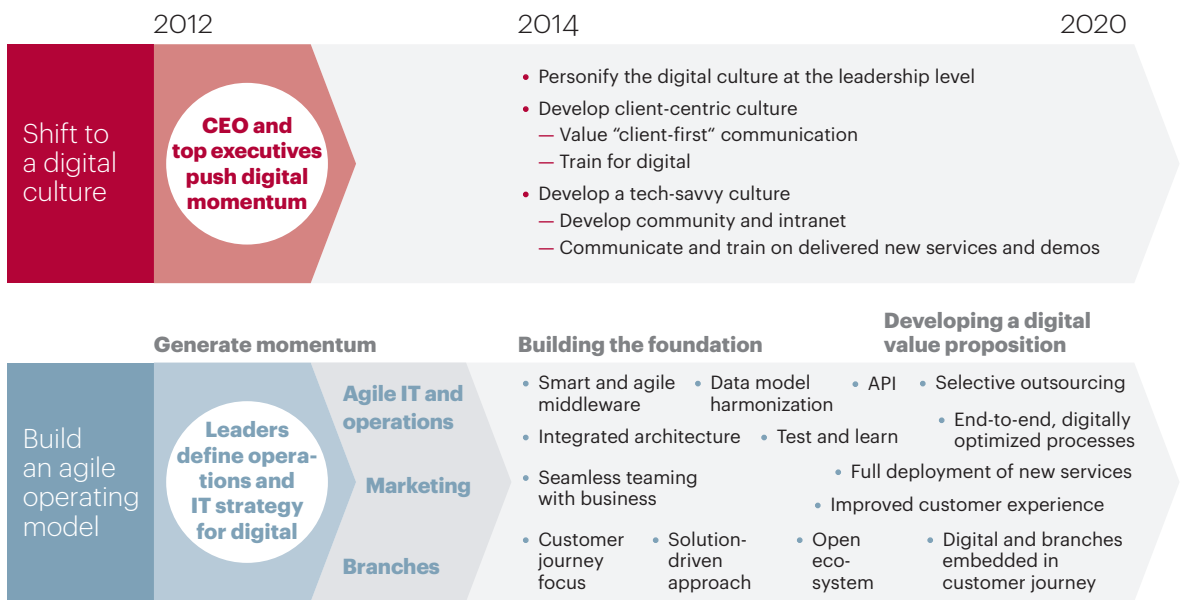
a chat room, or a video conference. Figure 8 highlights many of the steps in the transformation road map, as banks build a digital foundation and then develop strong digital value propositions. Indeed, the “end-game” may be close: paperless billing, 24-7 social network listening, and authentication through biometric technologies are already seeing rollout in some markets (such as Latin America).

Figure 8

**A transformation road map must focus on allocating resources**

**Illustrative**

**Transformation road map**



Source: A.T. Kearney analysis

## Reflecting on the Future

The future will bring a new banking paradigm: a new delivery model where digital teams are integrated with existing personnel, and where some pure digital players may add physical branches to showcase their brands; newly formed IT with an app-focused front end, a central core database connected and hosted in the Cloud, and a back end widely industrialized and out-sourced; and a digitized culture, where all employees are “digital certified,” and where time and cost are given to adapting skills and headcount to deal with competitive and margin pressures.

Compared to the way digital disruption is hitting other service industry sectors less protected by regulation and domestic specificities—such as media, telecom, and retail—it seems that retail banks at this point have only addressed the tip of the iceberg when it comes to digital transformation.

Current efforts in terms of marketing and distribution to build banks’ digital image and to keep digital customers from slipping away seem to be providing short-term help, but there remains much work to be done to ensure profits are protected in the future.

In parallel to customer-facing areas, banks also need to reexamine their operating models, with an end-to-end process review that takes into account current and target costs and the proper allocation of both human and technological resources. For example, can legacy IT and operations be adapted, or should pure-play models be developed with the goal of eventually incorporating them into the core business?

Tough questions indeed, with goals that are no doubt difficult to achieve. Today's leading banks, however, are already taking the lead in answering them.

By applying the seven success factors of digital transformation, banks will surely trigger a positive evolution. Only time will tell if it's enough to respond to the digital revolution.

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## About A.T. Kearney

A.T. Kearney is a leading global management consulting firm with offices in more than 40 countries. Since 1926, we have been trusted advisors to the world's foremost organizations. A.T. Kearney is a partner-owned firm, committed to helping clients achieve immediate impact and growing advantage on their most mission-critical issues. For more information, visit [www.atkearney.com](http://www.atkearney.com).

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## About Efma

As a global not-for-profit organization, Efma brings together more than 3,300 retail financial services companies from more than 130 countries. With a membership base of almost a third of all large retail banks worldwide, Efma has proven to be a valuable resource for the global industry, offering members exclusive access to a multitude of resources, databases, studies, articles, news feeds and publications. Efma also provides numerous networking opportunities through working groups, online communities, and international meetings.