WHITEPAPER

STATUS QUO AGILE BANKING

BY CHRISTOPH SCHMIEDINGER

The 2018 financial crisis as well as increasing pressure caused by digitalization and new types of financial services have forced banks to revisit their strategies and business models. This is why, over the past few years, many institutes have started comprehensive agile transformation programs—in parallel and/or as an addition to their digitalization initiatives. These transformations have already reached an advanced stage and, judging by their business reports, paid off.

However, the wave of agility in the banking sector has not yet reached its peak; on the contrary: we have observed new, more radical forms of change that do not only affect the banks' IT, but also units such as risk management, audit, and sales. Furthermore, modern management instruments such as objectives & key results and Obeya rooms have found their way into performance and portfolio management.

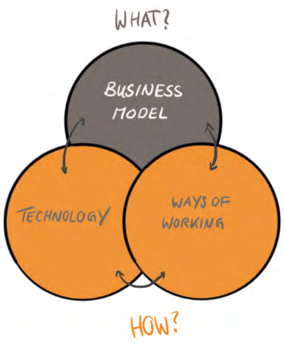
This whitepaper will provide information on trends and current developments in the field of agile banking.

FROM ONE CRISIS TO THE NEXT

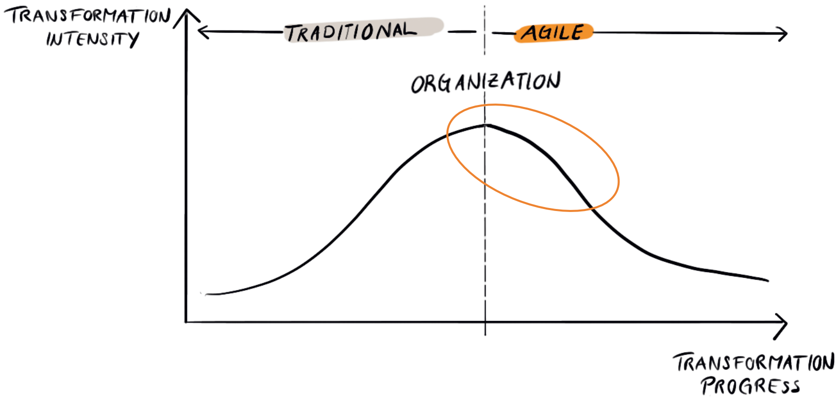
The new decade started with one of the greatest challenges—since the last financial crisis, at any rate: SARS-CoV-2. It is still difficult to predict the scope and duration of the pandemic's consequences, but it will take some time for our globally connected and digitalized economy to return to a stable pace.

This is especially true for banks. Following 2008's disaster, they had only just fought their way back to their previous levels of success. US banking institutes such as JP Morgan and Citigroup[1] as well as European institutes such as BNP Paribas[2] and Erste Group[3] were able to make huge profits in 2019.

However, the period of time between the financial crisis and this—at least preliminary—recovery was characterized by the need for change. Many banks started comprehensive transformation initiatives. This was due to continuously low interest rates on the one hand, and pressure caused by new competitors on the other. Nothing remained as it was. Business models, technologies, and ways of working were all scrutinized. Furthermore, customers tend to be well-informed nowadays, they look for and find simple product alternatives, the state imposes more regulations, and at the same time, the financial market is liberalized—all of this led to increased pressure to transform.



If we look at the wave of transformation rolling through the German banking sector, we are certainly getting close to the crest of this wave. In many banks, transformation is well underway, while many other banks are just getting started. Even conservative and risk-averse institutes such as national promotional banks are taking this step: KfW[4] and LBBW[5] are the best examples in this development. It is a fact: the digital agile transformation is in full swing.



Where on the wave of transformation do we currently find ourselves?

1 see also https://bit.ly/2QqEfuv (in German)

2 see also https://bit.ly/2IH921B (in German)

3 see also https://bit.ly/2W9MWwS (in German)

4 see also https://bit.ly/2TMZKr6

5 Presentation at the 2019 Euroforum Agile Banking Conference in Frankfurt/Main

HOW THE WAVE OF TRANSFORMATION STARTED

Besides the market challenges mentioned, the wave of transformation was intensified by several "front runners" who had already hazarded the leap into the new world of working back in 2015. That year, the Dutch ING Group started a comprehensive transformation project which aimed towards radical restructuring and an agile working model[6]. The US bank Capital One was also among the first institutes considered to be agile back in 2015[7].

What motivated these pioneers? In both cases, it was a great sense of urgency. ING had faced strong cost pressure and was therefore motivated to build a more streamlined and more efficient organization. At Capital One, it was IT that advanced change, because they saw automation as an opportunity to make processes more efficient and thus reduce costs. Both banks struck a chord in their sector, for it was no longer only IT-based companies (such as in e-commerce) that were transitioning into agile organizations, but also traditional banking institutes. All over the world, many large banks have since followed their lead. The early adopters include the German Commerzbank[8], the French Société Générale[9], the Czech Česká spořitelna, and the United Arab Emirates' Mashreq[10]. We are currently observing a large afflux of "early majority" representatives, especially from public-law entities such as KfW und LBBW.

DID THESE TRANSFORMATIONS PAY OFF?

Despite this most welcome spirit of optimism and change, the question remains whether these endeavors benefitted the companies. First things first: agility should only ever be a means to a specific end. Agile methods should not be introduced for methods' sake. So the question is: what is the specific aim of the transformation? Ideally, agility serves to overcome the challenges of a digital transformation—including, e.g., more customer-oriented work and launching better products and services more quickly. This is the only way for agility to really impact the market and, with it, the P&L statements.

When analyzing numerous banking institutes' business reports before, during, and after a transformation, it quickly transpires that it is difficult to establish a direct causal relationship between the introduction of agile methods and financial improvement. However, there does seem to be an indirect relationship: it is rather clear that the digital transformation of services and the development of new digital products led to an improvement in results in many cases. This is where agility comes in—in business reports, it is cited as being one of the key elements of successful digital transformation. For example: in its 2017 investor relations report, Société Générale notes that its agile organization is one of the key drivers of cost cuts and a slightly improved rate of return[11].

6 see also https://mck.co/2xtWgRH and https://on.bcg.com/3aRBHxc

7 see also https://bit.ly/2TZUAal and https://bit.ly/3cW1hTy

8 see also https://bit.ly/38REfKp

9 see also https://bit.ly/2TJX9yc

10 see also https://bit.ly/33cmaoQ

11 see also https://bit.ly/3aPX1TE

Commerzbank sees agility along with its Digital Campus as the reason for the increase in its digitalization ratio[12], and the Dutch ING attributes a part of its improvement in earnings between 2015 and 2017 to the introduction of agile ways of working[13]. In the preface to the German ING branch's annual report, the Chairman of the Management Board Nick Jue writes, "Today, digitalization is a greater challenge than ever before. Customers' requirements change continuously and nobody can reliably predict what these requirements will be in the future. This is why we started to adapt our way of working and our organizational structure to become more flexible in 2018, allowing us to swiftly react to new customer requirements and market circumstances: we successfully completed our transition to agility in 2019. As such, we laid the foundation for permanent success in a constantly changing market environment."[14] In conclusion, it can be said that agile ways of working do pay off for banking institutes.

By the way: we have never seen any indication of agility having a severely negative influence on a company's development. What we have observed in several institutes at the beginning of a transformation, though, is a decline in employee satisfaction and higher fluctuation. These figures tend to be in a non-threatening range (5-10 % of employees leaving the company within a period of 9 to 12 months from start of the transformation).

12 see also https://bit.ly/39NmD3B

13 also see the case study: "ING: An agile organization in a disruptive environment" by IMD (https://bit.ly/3aPA42U)

14 find the report in German at https://bit.ly/31SUW7R

THE TREND:
QUICKER AND MORE RADICAL TRANSFORMATIONS

When the wave of transformations started rolling through the banking sector, the companies preferred individual pilot projects and digital labs. This has changed substantially—nowadays, complete transformations of entire departments, units, and business segments have become the norm. The speed of individual transformation projects has increased considerably.

Many institutes that initially created digital labs are now re-integrating them into the parent company, thus driving change in the entire institute. Examples for this development include the Austrian Erste Bank[15] and the German Commerzbank[16]. Both companies successfully managed to embark on their digital transformation, supported by separate constructs. On the other hand, lab set-ups do have natural boundaries (see advantages and disadvantages of different transformation alternatives in the whitepaper "Digital Agile Transformation – 3 Approaches to the Future"[17]). In the long term, the agile digital transformation cannot be outsourced to a loosely connected unit, but needs to return to the parent company to become really efficient. We have also observed that individual pilot projects now tend to be expanded more quickly. There has been growing recognition that change towards becoming a modern financial institute cannot be accomplished with a pilot project or a digital lab, but that these are only starting points from which much larger positive scaling effects can be achieved.

When expanding agile ways of working to larger units of the organization, it is imperative to consider findings from the pilot projects or the digital lab on the one hand, and (especially when re-integrating a digital lab) ensure that the parent company undergoes perceptible development on the other. Otherwise, those employees that have already been working according to agile methods and serve as important disseminators might consider the development to be a step backwards and leave the company.

CHALLENGES CHANGE

At those banks that have successfully gone through a transformation's most difficult phases, we have observed new challenges that once again lead to the conclusion that an agile transformation cannot be completed and shelved. There are three questions our clients frequently ask us in projects which we would like to briefly address here.

1. The question about the use of agility outside product development
The fact that agile methods have substantial benefits for product development has become widely accepted. However, what about use in other areas such as sales, in service units such as the call center, or in support units such as the legal, risk management, or audit departments? How can cooperation between agile product development and these other company units work?[18]

One disadvantage is that there are very few tried and tested good practices for the use of agile methods in areas other than product development. Most frequently, practices need to be adapted before they can be used in a targeted way. In practice, we often create a new working model based on agile values and principles, as can be seen in the following two examples.

15 see also https://bit.ly/2xC3GTd

16 see also https://bit.ly/2xy8fxH (in German)

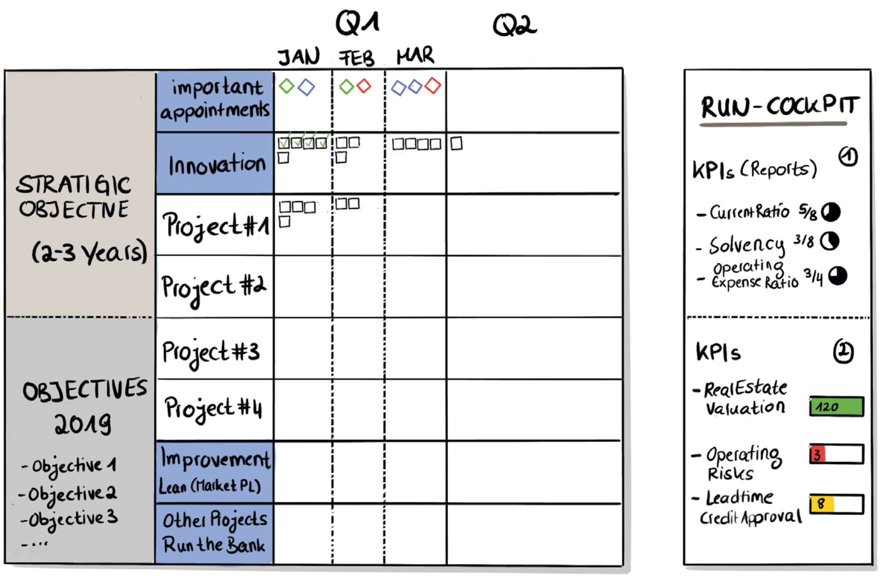
17 available at https://www.borisgloger.com/publikationen/whitepapers/

18 To find out more about agility in auditing, see "Agil im Audit: das Starter-Kit" – https://bit.ly/39kmLYH (in German).

Example 1: Agile methods in strategic risk management

We supported the strategic risk management department head at an Austrian bank in the development of an agile working model for approximately 120 employees, including the accompanying visualizations. With these dashboards, we aimed to gain an overview of day-to-day business on the one hand and initiatives to drive improvement and innovation on the other. The leadership team met once a week in a 45-minute meeting to discuss the current status of day-to-day business and progress concerning the initiatives. At every meeting, one of the most important issues was the clarification of impediments.

A task board was drawn up for every individual area of responsibility within a department, e.g., for the assessment of loan collateralization. Two to five teams each coordinated their activities once a week in order to deliver individual tasks together as quickly as possible. The teams at the operational level were given a lot of leeway for internal team coordination. Even though they had not been instructed to do so, many teams modelled their own boards or developed artifacts to better process daily work. These artifacts were often combined with regular meetings taking place daily or at least weekly.



Visual artifact of the leadership team

Example 2: Agile methods in B2B sales

We supported a German bank in the introduction of agile methods in the B2B sales of financing products. We were able to integrate the idea of working in iterations as a first agile element. We chose a relatively long iteration period of three months to pursue a similar concept to that of objectives & key results (OKRs)[19]: during a planning meeting, the strategic goals for the next quarter were defined and the teams then formulated corresponding tasks. After this, the entire team met in weekly synchronization meetings, using a customized task board in order to keep an eye on the iteration's progress. Each iteration was concluded with a review and a retrospective.

19 see Doerr, John: Measure What Matters. OKRs: The Simple Idea that Drives 10x Growth. Portfolio Penguin 2018. (https://amzn.to/2Bjqjht)

In the teams, we worked on a cross-functional team composition that was as "T-shaped" as possible. This means that besides their own expertise (the T's vertical line), every team member was supposed to have at least basic knowledge of other domains (the T's horizontal line). In this specific example of B2B sales, we worked with a team of customer advisors, experts in loan capital structure, and risk managers. In order to strengthen the "T-shaped" profile, we made sure that the team members supported each other in tasks, thus learning from one another and giving the team a more generalist orientation.

2. The question about the right framework for "more agile" management of the entire bank

A colorful mix of agile teams has emerged in several banks over the last few years. Nowadays, many transformations face the challenge of aligning these teams to have a common target. In this context, we have observed different approaches in practice: some institutes, such as Deutsche Bank[20] or Commerzbank[21], use comprehensive agile scaling frameworks such as SAFe® or elements thereof. The ING Group has developed their own model, combining regular quarterly business reviews (QBR) and visual Obeya rooms[22], and some finance companies also weave the target-management system objectives & key results (OKRs) into these processes. At the same time, we have observed numerous attempts and possibilities to establish agile portfolio management. It quickly becomes clear that there is no one-size-fits-all approach and each company needs to find its individual path to overcome this challenge.

In our experience, this is the best way to establish a management system that is as streamlined as possible; starting with a target-management system based on OKRs that operationalizes the vision into common team-based targets that are not bound to bonuses. Few selected initiatives are used to advance these objectives so as not to overwhelm the organization. To that end, a company needs portfolio management that pays attention to the work in progress—the amount of simultaneous work in the entire system—on the one hand, and a simple, effective prioritization and budgeting process which focuses on personal exchange and is supported by visual communication means on the other. Those teams implementing an initiative together should also be able to communicate with each other as easily as possible. As demonstrated by the ING Group, we recommend a QBR approach in combination with Obeya rooms for target management, and approaches from the scaling framework LeSS for operational exchange between several teams.

20 see Plumpton, John: Implementing a Scale Agile Approach (SAFe®) within Deutsche Bank https://bit.ly/2U0FvoU

21 see Thorand, Mohamed; Birke, Alexander: 6000 – Eine Großbank und ihr Weg zu einer agilen Organisation. https://bit.ly/39RFSsw (in German)

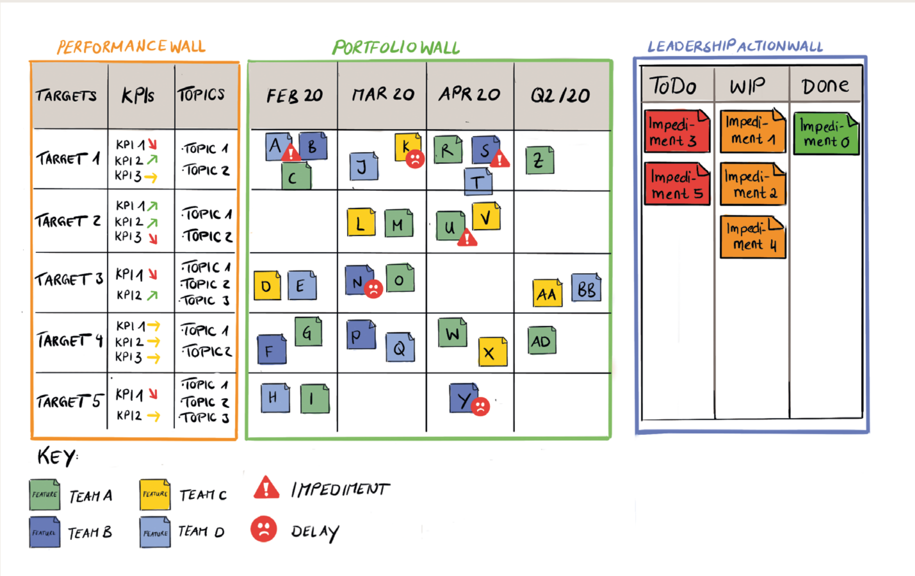
22 see Peter Jacob's presentation: From Doing the Thing Right to Doing the Right Things. https://youtu.be/JIGI8g4udfU

Quarterly business review and Obeya concept

Every three months, the quarterly business review focuses on the results of the previous quarter. As in the sprint review, feedback is gathered regarding deliveries. At the same time, the next quarter's deliveries are planned. The results are recorded in an Obeya room which typically consists of four walls (and, thus, four topics):

- Performance wall (OKRs and KPIs)
- Portfolio wall (release plan/roadmap)
- Improvement wall (measures for continuous improvement)
- Leadership action wall (impediments)

After the QBR, managers, product owners, agile coaches, sometimes also scrum masters and/or chapter leads, IT managers, and those responsible for architecture meet on a bi-weekly basis to keep the walls up to date, keep each other informed, and define short-term tasks, delays, and measures. Basically, this ensures the implementation of a strategic scrum cycle (like in an OKR process), with an iteration period of three months, and "daily synchronization meetings" taking place every other week.



Exemplary Obeya room

3. The question about the compatibility of cost-efficiency programs and digital agile transformations

It cannot be denied that many banks have taken on too many employees over the past few years, thus creating inefficiencies. It will be hard to avoid drastically cutting back on these costs. However, it would be a fatal strategy to consider and apply agile ways of working as a tool to reduce costs. As such, any positive effect would be nipped in the bud. Agile management frameworks are aimed at supporting customer-oriented work and the development of targeted, high-quality, and thus successful digital products through early feedback—in the long run, this reduces costs. Apart from this, we have often observed that the same team can deliver much better output as soon as it has become accustomed to, and is in favor of, agile ways of working. It is up to the relevant organization whether it uses this output to increase turnover or to reduce staff numbers. However, it also needs to be said that at the beginning, transformation entails investment. You should not entertain the illusion that the transformation will result in large cost cuts right away.

Real potential for cost reduction can be found in cooperation between different initiatives within the company. We have often observed that cost-cutting programs and an agile transformation are advanced in parallel, or more precisely, in isolation of each other. Sometimes this is done based on the entirely relatable consideration that agility and cost reductions should not be brought into a causal connection. However, this might lead to measures being taken that contradict one another.

We recommend establishing an overarching transformation and change program. If this program is particularly extensive, it can be divided into individual streams, but regular exchange between these streams is mandatory. To this end, too, those responsible can implement regular synchronization and common visual artifacts to create the desired cooperation and direction.

In conclusion: agile transformation is still intensely discussed within the sector, and this will continue to be the case for quite some time. Those banks that have taken this step face new challenges that go far beyond “scrum in IT”. As such, they will not be able to avoid new methods, ways of working, and cooperation models.

WHAT BORISGLOGER CONSULTING CAN DO FOR YOU

Is your organization planning a transformation? Or is it in the middle of a transformation that has got stuck? We can help you to plan your transformation strategy and support your organization in implementing it at all levels. We lend a hand in every step along the way until your organization is able to continue on this path alone. And even if your organization's transformation is currently experiencing difficulties: we are experienced in getting transformations back on track.

Do not hesitate to contact us. We consider trust to be an absolute prerequisite for the successful implementation of a transformation. We are happy to join you for a non-committal first meeting to show you who we are, how we work, and what we can do for you.

We look forward to meeting you!

Your contact partner: Christoph Schmiedinger

Christoph Schmiedinger is a systems engineer, project manager, and product owner and he has successfully completed several complex, scaled development projects in the safety-critical sector with agile methods. This expertise now benefits his work with the large banks he accompanies in their digitalization initiatives. He advises management on how to set the necessary strategic course and develops appropriate implementation measures.

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