Intelligent concentration of technology as a prerequisite for strategic differentiation

Juerg Frick
Senior Partner
Financial Services, Consulting
Deloitte

Felix Hauber
Manager
Financial Services, Consulting
Deloitte

Many Swiss banks have yet to move their core banking platform to the next generation. They now face the challenge of not missing the boat on digitalisation, which is essential to remaining competitive in today's banking world. Meanwhile, banks that have already migrated to a standard platform feel trapped by their past technology decisions.

Both groups of banks are trying to repair and add to their current technologies, which are often inadequate. Usually under immense time pressure and lacking top-down decisions, these banks are attempting to review the dependencies, coherence and strategy compliance of their technology decisions.

Recent Deloitte surveys conducted with Swiss banking executives paint a clear picture: strategically speaking, all Swiss banks have the same objective for their domestic market, i.e. that differentiation and strategic advantages should be achieved via client interaction. This ambition is driven more than ever by the technological capabilities of banks, but the survey shows the IT priorities of Swiss banks are effectively opposed to this objective. The majority of IT investments – according to Swiss banking CIOs – should go towards compliance, maintenance of current systems and back-office optimisation. The expansion of additional technologies often occurs randomly and is uncoordinated. Promotional initiatives and social media are for the most part coordinated by Marketing; CRM and data analytics by sales; and e-banking overhauls and mobile solutions are often managed solely by IT. The fact that social media goes hand in hand with mobile solutions, data analytics, CRM and e-banking is often ignored, as is the fact that all technological programmes need to follow the same strategy.

IT Transformation paralyses business strategy

Too few banks use questionnaires to predict and ascertain the level of service customers really want to receive. Until now the future was always too distant, but nowadays all Swiss banks should know that the clock of technological development is ticking faster, especially with regards to customer channels and data analysis. Technological innovation, which until five years ago was reserved for large banks, can now be implemented at relatively low cost even for smaller domestic banks. However, the IT architecture of banks is often not flexible enough to implement the changes required by their business strategy. The only way to escape the constraint of IT architecture is firstly to determine what form future client interaction will take and what the requirements are. Only then will a bank be able to determine its IT strategy and IT capabilities. This requires a coherent IT infrastructure providing data through any channel that is linked with a cross application-aligned IT strategy. However, establishing this basis seems to be an insurmountable and unfinanceable hurdle for most banks.

Better coordination of technology projects leads to a drastic fall in IT costs

Studies have shown that IT costs within banks can be reduced by up to 30% to 40% if management is able to keep constant control over the strategic fit, to improve the coordination of technology investments, to leverage functional synergies and to apply the optimal order of implementation. Many Swiss banks would be able to radically increase their power and ability to innovate by applying these principles, allowing them to take a step towards the next technological generation. In addition, coordinating bank-wide initiatives would ensure the correct data availability required for analytics activities.

Next Best Action can be ascertained via analytical models

After more than 20 years of trying, it is finally possible for a bank to use available customer data to ascertain the 'next best action'. This will be a prerequisite when dealing with customers in the future, with banks that are able to interact with their customers via their preferred channels – at an acceptable price – being able to make a real difference for their clientele. This will constitute a competitive advantage until other banks catch up. Deloitte has developed a method that identifies the 'next best action' for each customer through a retail or corporate banking growth engine.

Technological innovation means that banks can move closer to customers via an optimal combination of digital and physical channels, allowing for a bespoke level of interaction

Decentralisation and shared services mean that intelligent concentration of technology is no longer a contradiction in terms

Deloitte is convinced that Switzerland will keep its banking landscape, with more than 3,000 branches, for the long term. However, face-to-face contact with customers will become more important in the future, facilitating the increased success of decentralised banking models. Virtual shared services, together with central service centres, allow cost and know-how synergies to be captured, optimising the employee base and guaranteeing decentralisation and physical proximity with customers. Internally-implemented social banking collates knowledge and provides it to the client adviser, but also to the compliance manager and other support functions. External social banking enables a push-pull interaction between the bank, client adviser and customer, across all channels and at any time. Technological innovation means that banks can move closer to customers via an optimal combination of digital and physical channels, allowing for a bespoke level of interaction.

Implementation mistakes can be avoided

Never has it been so important to coordinate initiatives and projects from a process, sales channel, core banking platform, CRM and data management perspective in order to create a single programme. The competitiveness of banks will eventually depend on this coordination. Current regulatory pressure means that retail and private banks cannot afford to make mistakes in their sales strategy. A successful modern sales function is 100% reliant on technology, but IT strategy must still follow business strategy and not vice versa. Banks that put their IT strategy first will lose out in the long run.

Seven prerequisites to maintaining a competitive edge via technological concentration

1. Take time to think at least five years ahead in terms of customer strategy, despite high regulatory pressure
2. Create a clear unique selling proposition for your bank
3. Determine a sales strategy and develop an approach for each support channel
4. Adjust or re-engineer required business processes
5. Create a coherent IT strategy in terms of core banking, platform transformation, channel integration (e-banking, mobile, web), CRM and data analytics
6. Identify technological scenarios for implementing the above strategies and closing the gaps
7. Fine-tune cost cutting and investment programmes whilst ensuring a strategic fit