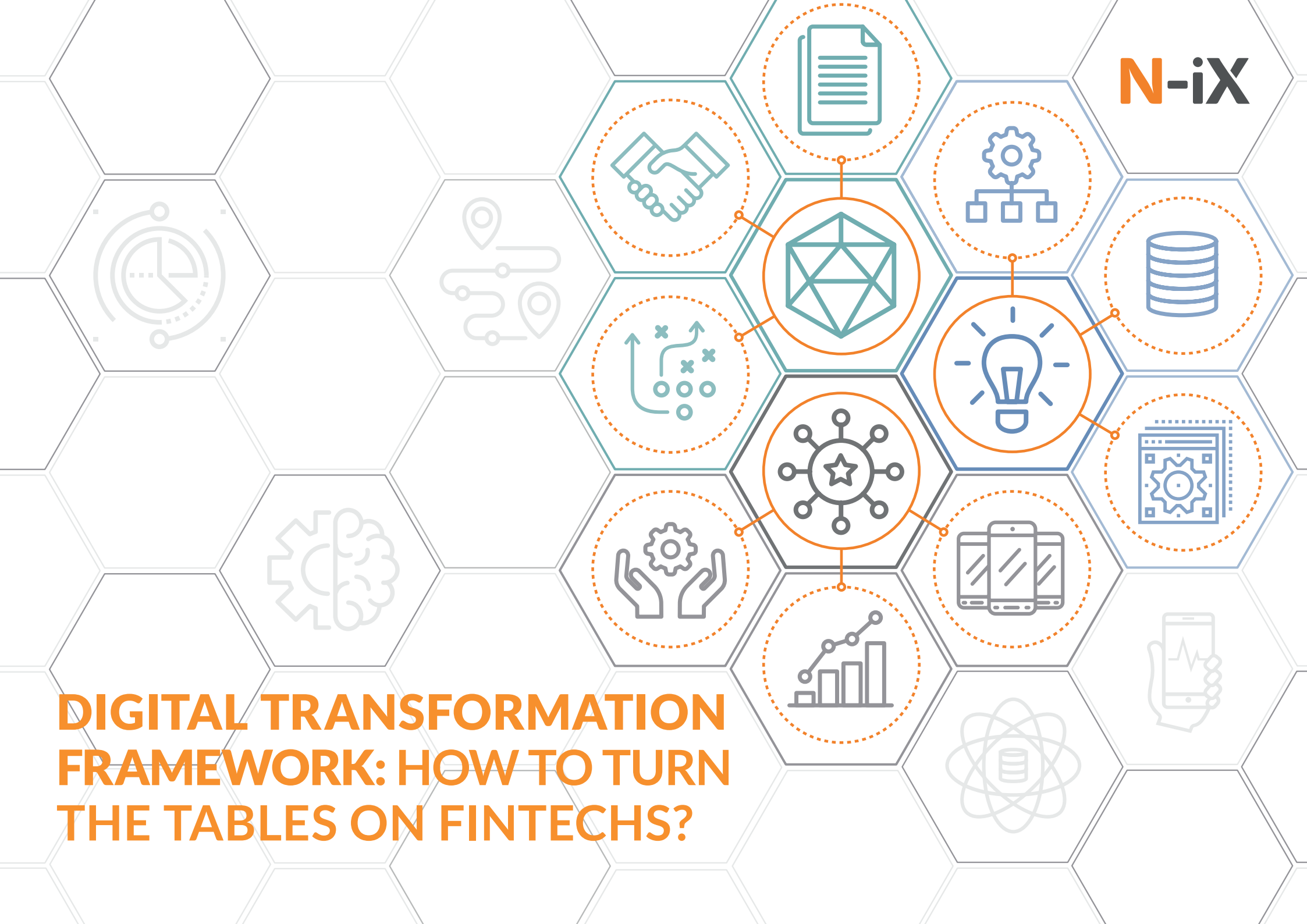


# DIGITAL TRANSFORMATION FRAMEWORK: HOW TO TURN THE TABLES ON FINTECHS?

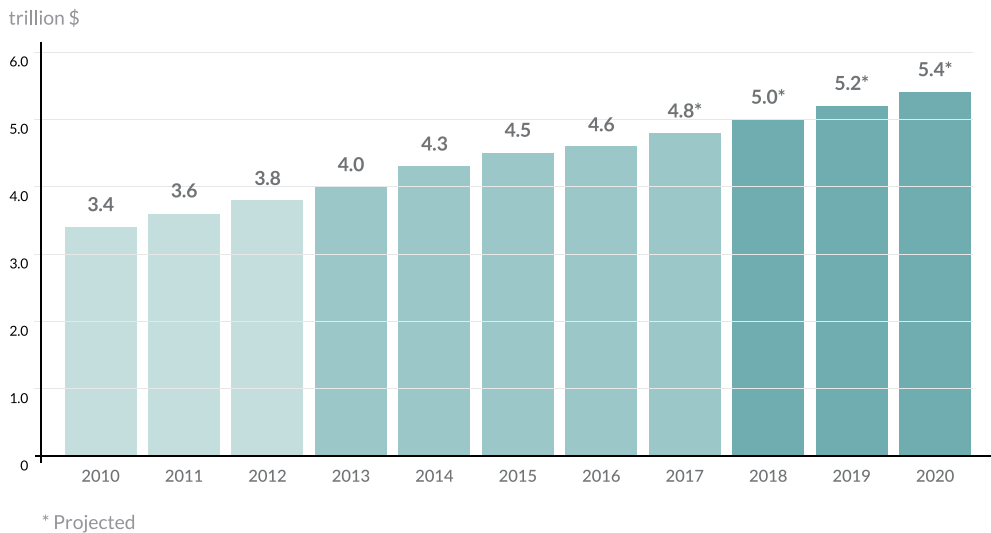




Why do banks need a digital transformation framework?

According to McKinsey, global banking revenues totaled 4.6 trillion in 2016, up 3% from 2015:

### Global banking revenues



If the market is growing, why do banks need to change?

### Apparently, these general figures won't tell you the whole story:

- For the first time since the subprime crisis, **industry growth has slowed down** to just 3% year to year (down from 6% in 2015).
- **Banking revenues in the EU and the US are nearly flat**, gaining only around 1%.
- Margins are narrowing while the costs are on the rise. As a result, **return on equity is only 8.6% globally** (compared to 9.6% in 2015).

### Banking industry revenues slow down

+3%

global banking industry growth  
(down from 6% in 2015)

+1%

banking industry growth in the EU  
and the US

+8.6%

return on Equity globally  
(down from 9.6% in 2016)





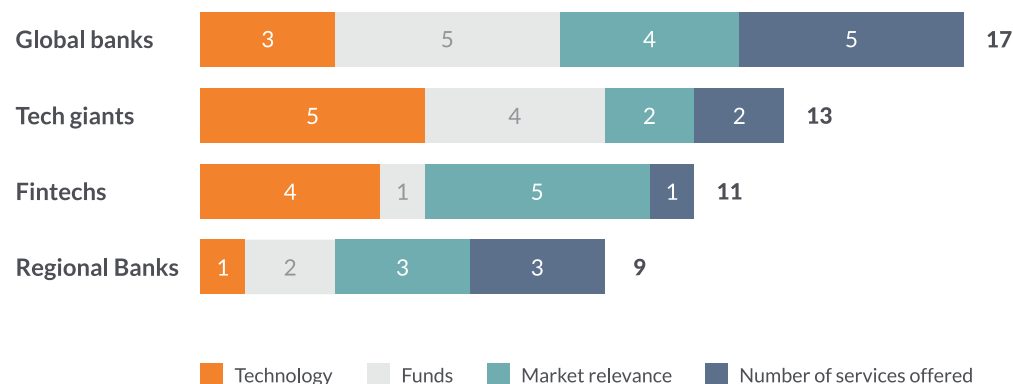
As market slows down and profits erode, not all companies within the financial ecosystem are ready to withstand these changing conditions. Three major groups of enterprises seem to have the edge here:

**1. The disruptors** brought new technology to the market and are already taking some business away from the incumbents. Financial technology companies (fintechs) will become an even greater threat once they gain more financial power.

**2. The global banks** have the resources to battle newcomers. They invest heavily into digital through transformation campaigns, collaborations with fintechs, and acquisitions.

**3. The tech giants** like Google, Amazon, Apple, Facebook, Alibaba can soon become a significant power in payments, and possibly asset management and lending. A combination of exceptional technological talent and financial strength put them in a solid position to compete successfully with banks and fintechs.

Here's the comparative score for 2017. N-iX uses it to assess various players within the global financial ecosystem:

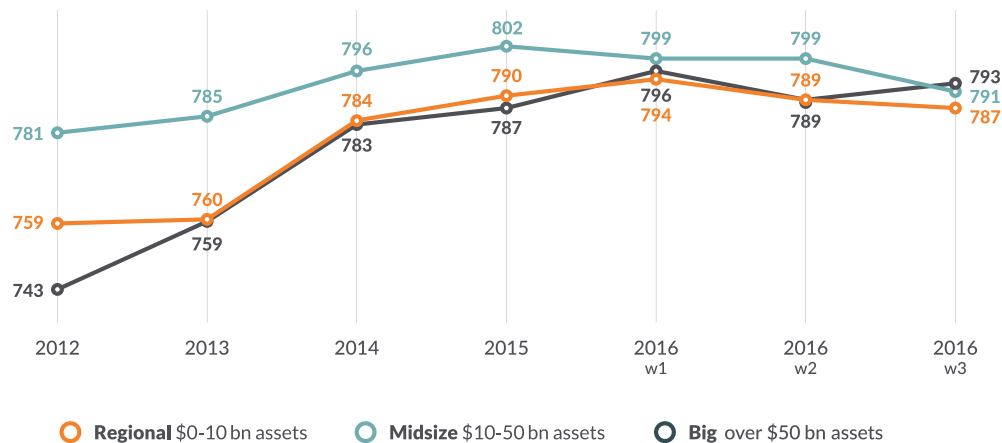


Global financial companies enhance digital services to attract new customers across the whole financial ecosystem. Fintechs and software giants successfully exploit their corresponding niches. In turn, the vast majority of community banks have no distinct advantages over their competitors, according to [American Banker](#).

**Smaller US banks are already behind the larger players in terms of customer satisfaction**, according to J.D. Power and Associates (see more [at the Financial Brand](#)). Something that has never happened before.



### Customer satisfaction in US banks



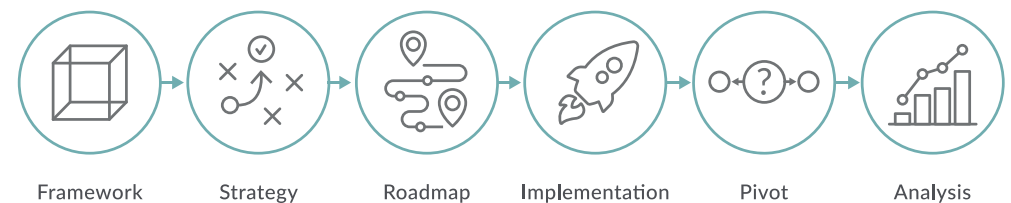
Regional and community banking companies need to change to stay in the game and they have to do so with the limited available resources. You've probably heard this statement a thousand times, but it's true. Admitting there is a problem is the first step to recovery.

How should small and midsize banks plan a sound digital transformation campaign without spending hundreds of thousands of dollars on the advisory services?

**FIX digital transformation framework can be a good start.**

### Digital transformation framework vs strategy

A digital transformation framework sets an overall direction and certain boundaries of the transformation campaign. It allows stakeholders to focus on the core issues irrespective of the particular strategy they choose. Therefore, the entire digital transformation process looks as follows:



In a way, digital transformation framework is like a **SCRUM master**: it protects your strategy from the outside distractions and keeps you focused on the key objectives. If you decide to skip the framework stage, you risk getting lost in the minor aspects of a strategy.

A digital transformation strategy has a smaller scope. It describes particular steps an organization needs to take in order to transform. In fact, several transformation strategies are possible within a single framework.



For instance, here are the **possible strategies** for regional and community banks **within the scope of the FIX framework**:

- Create its own digital solutions (as we described in [this blog post](#)).
- Cooperate with other banks to build shared platform(s).
- White label and integrate an available banking platform.
- Buy digital competitors to gain access to their technology.

### FIX digital transformation framework

You can easily find decent digital transformation frameworks by McKinsey, Accenture, and Capgemini-MIT online. Why invent a new one?

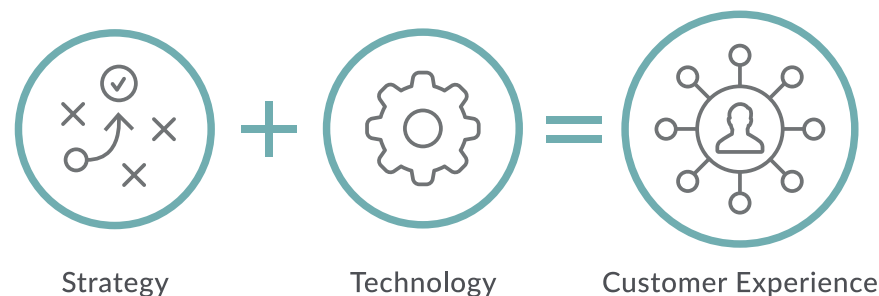
These models give a broad view on the issue and do not focus on any particular industry. We decided to create a simpler and more actionable concept focusing on the community and regional banks, credit unions, and other financial service companies.

**We call it FIX digital transformation framework.**

It follows this assumption:

Business transformation is not about adding a particular technology. Technologies constantly evolve, so **simply changing the current toolset is not enough**. The real change occurs when a company aligns its digital capabilities with the business strategy. This requires a **shift away from a transaction-based model to building services around decent customer experiences**.

### Digital strategy and customer experience



FIX business transformation framework addresses all three parts of the equation: **Form + Innovation = Xperience**

The framework was designed for financial services companies but can be applied to other businesses that operate in industries ranging from Retail to Logistics.



## FIX digital transformation framework

Form	Innovation	Xperience
Strategy	Data	Mobile
Cooperation	APIs	Analytics
Commitment	Automation	Functionality

### 1. FORM

Whether it's a small bank or a huge multinational corporation, the successful change is impossible without top management leadership. Here are the key features of the Form block:

#### 1.1 Strategy

You need to know where you are headed. The change without clear objectives is meaningless, so first and foremost formulate a strategic digitization plan:

- Set clear objectives and the roadmap of the digitization campaign.
- Keep the strategy as simple as possible. After all, every real-life transformation is nuanced, so don't overplan.
- Use the Pareto principle. Target key aspects of the strategy that bring the highest value and keep minor issues in the backlog.
- Create agile cross-functional teams to break down silos and facilitate a shift in mentality.
- Track progress and pivot when it makes sense, but always focus on the key objectives of the campaign.
- Design services around customers, not transactions. For instance, if online onboarding is a critical feature for your customers, find a way to deliver that functionality. Even if your backend does not currently support such online transactions.

#### 1.2 Cooperation

Digital transformation is challenging for legacy organizations because they lack technical talent. Luckily, successful digitization is mostly about the vision and the strategy, not about the digital expertise. Banks can easily fill technological gaps with the right solutions providers. Here are some of the key points:



- Establish strategic cooperation with one or several digital vendors. A bank can choose to white label an existing banking platform or create it from the scratch. In either scenario, the tech company will design software and perform the necessary integrations.
- Use digital solutions that rely on the open-source components. As innovation speeds up, open source software allows keeping up with the pace.
- Have the right people inside an organization to lead the process, e.g. CTO, customer experience manager, etc.
- Establish cross-functional teams where bank's employees engage in deep cooperation with vendor's engineers.

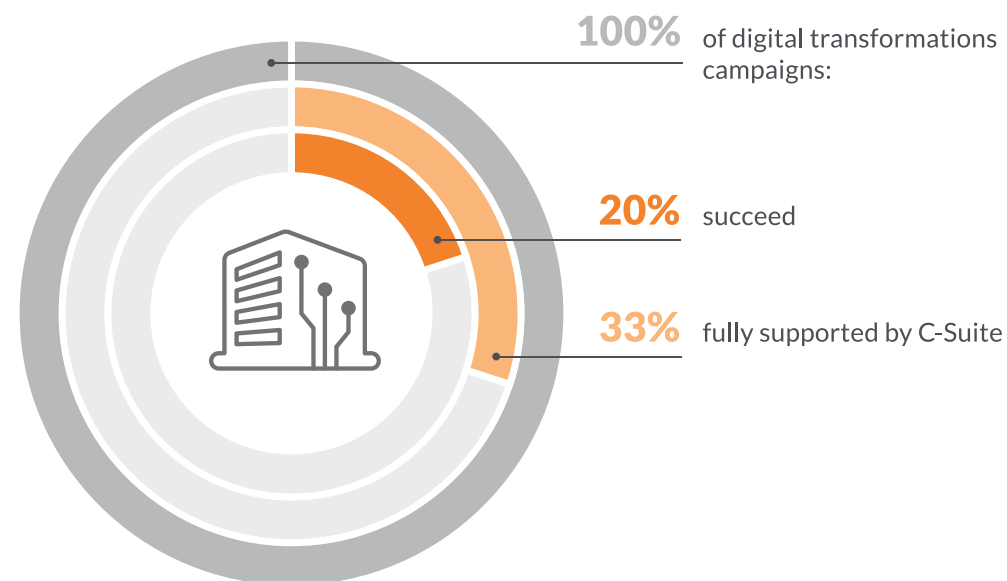
### 1.3 Commitment

An article by Alison DeNisco Rayome at [TechRepublic](#) suggests only 33% of the C-Suites are truly committed to digital transformation initiatives. This study is not on banks exclusively, but the figure for banking is probably in the same ballpark.

Several [studies also suggest](#) that only around 20% of digital transformations eventually succeed.

When you put these two figures together, it's easy to understand why management commitment is a vital component of the successful digital transformation. That is also something we talked about in [our study](#).

### Digital transformation commitment and success



## 2. INNOVATION

### 2.1 Data

A typical financial services company often suffers from vast resistance to change inside the organization. **It takes genuine management commitment to combat that resistance** and transform a legacy business into a truly digital enterprise:

- The top management has to be fully supportive of the transformation.
- C-Suite commitment ensures the credibility of the transformational efforts.
- Clear communication is essential to keep employees informed about the upcoming and ongoing changes. This is the only way to win the support from the whole team.
- Be honest: successful digital transformation often results in job cuts, as [an example of Nordea shows](#). After all, that is the main consequence of the automation. Still, with proper attitude and training, most of the bank's employees will keep their jobs and master essential digital skills.

The data-driven economy has arrived and ignoring that fact means losing out to competition. Bank customers generate enormous amounts of data. This information is a golden source of insights on just about every part of the business operations. Therefore, **a meaningful data strategy is vital for any financial services organization:**

- Design systems that will harvest, store and distribute data easily within the organization.
- Consider cloud adoption for supporting business tasks and complex computations.
- A banking app is a great source of data that can be translated into business insights. Design processes to make use of that source.

### 2.2 APIs

Integrating financial technology solutions to a banking platform can be a real challenge. Just imagine you don't have an API-based platform. Integrating a few digital solutions might not be a problem, but what happens when you add functionality?

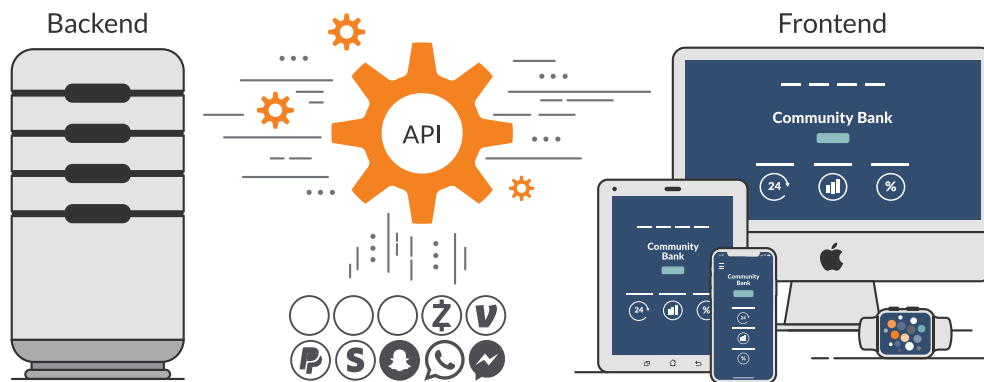




With each new third-party software addition, you will have to find an imperfect workaround or even redesign the whole system. Enormous costs of such painful integrations can easily top the value you get from the new features.

**API-based architecture eases the adoption of any existing and future solutions.** It allows adding new solution without exposing your banking platform and the solutions already integrated with it. APIs keep the whole structure under control, as the system gets more and more complicated.

### More platforms and extended functionality



## 2.3 Automation

Process automation greatly enhances customer experience, reduces branch variable costs, and frees up employees to focus on the activities that bring the highest value. Here are some of the examples of automation in banking:

- Automated user interactions.
- Complex calculations and modeling.
- Machine learning and AI that automate big-volume computations.
- Computerized routine tasks of the employees.

## 3. XPERIENCE

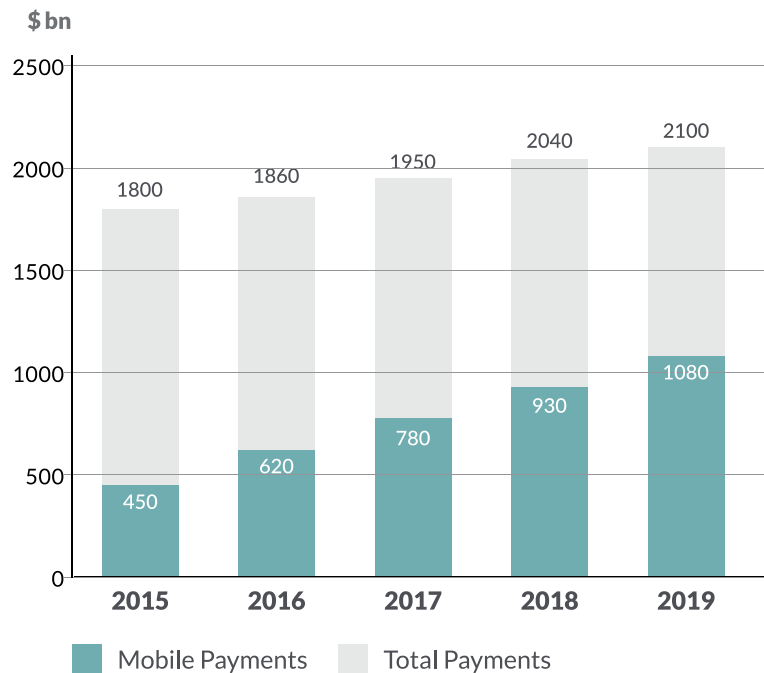
### 3.1 Mobile

Mobile platforms are still largely overlooked by businesses across different industries. For instance, we talked about weak performance of banking apps [in this post](#). At the same time, decent mobile experience is what millennials desire and other demographic groups are eagerly adopting.



Mobile channels generate huge revenues, just look at global mobile payments. This segment has shown an astonishing growth in the recent years. Annual mobile payments [are to top one trillion dollars by 2019](#). This would account for more than 50% of the total payments market [\(a forecast by McKinsey\)](#).

### Mobile & total payments revenues



It's not only the payments market that is being affected by the trend. Mobile platforms gain significance when it comes to onboarding and personalized marketing, according to [The Financial Brand](#). **The mobile-first approach is a game-changing factor in the financial services and beyond.** Hand-held devices are to become one of the major revenue drivers in the next three to five years.

Here are some of the focus areas:

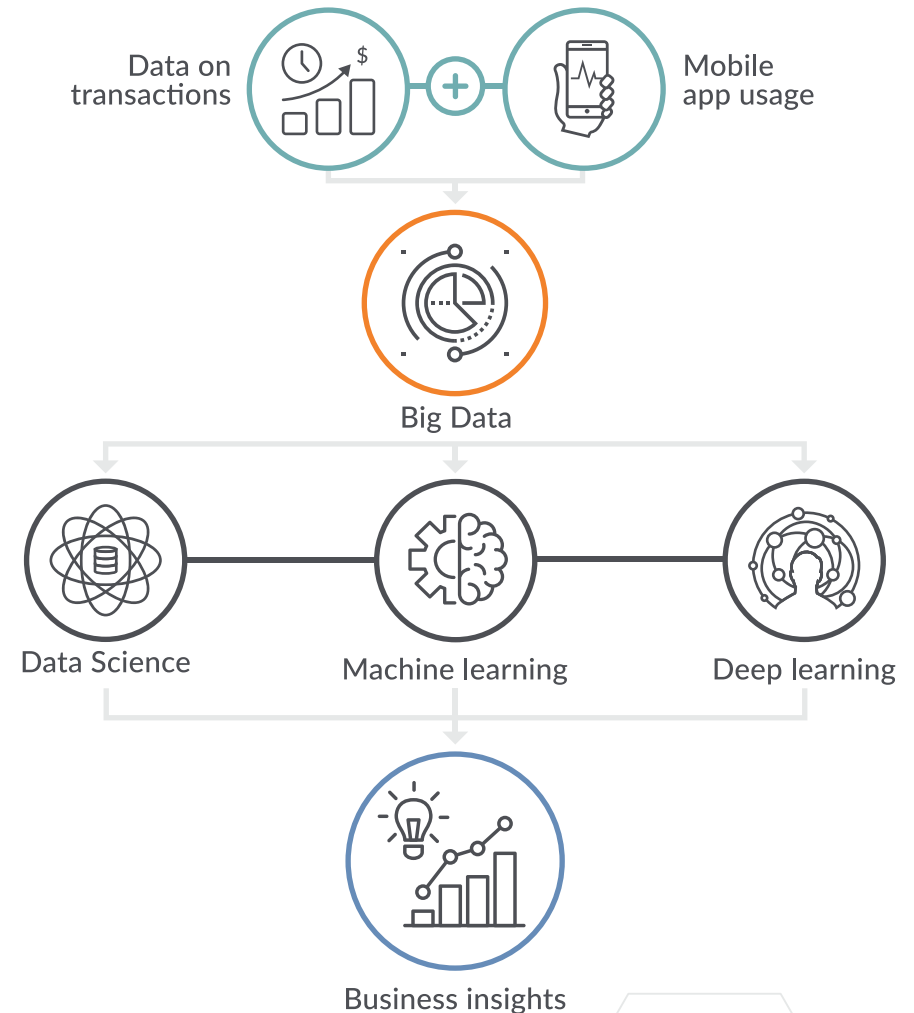
- Offer basic mobile transactions via mobile.
- Focus on simplicity, speed, and great UX to create decent customer experiences.
- Expand functionality with the services most critical for the users.
- Reduce branch labor costs by automating many consumer interactions with a mobile app.
- Implement full-cycle mobile onboarding.

### 3.2 Analytics

Technology allows turning raw data into valuable insights. As soon as you have the Big Data solutions in place, **analyze collected data to personalize user experiences and drive business decisions.**



### Advanced analytics breakdown



Business intelligence, data science, machine learning, and deep learning are readily available for the banking industry. Big banks are already taking advantage of these technologies boosting automation of the complex tasks (like JPMorgan). There is no reason why smaller incumbents can't follow.

Advances in machine learning made by Google and other tech leaders greatly reduced the cost of the sophisticated data analytics. It just takes a competent vendor to integrate these tools.

Here are some of the ways a bank can use analytics to cut costs and increase revenues:

- Use data science and machine learning to extract valuable business insights at a lower cost.
- Process app usage data to optimize digital experiences.
- Discover bottlenecks in business operations to cut expenditures.



### 3.3 Functionality

Allow users to access additional digital services via their devices. When you focus on the great user experience, be ready to gradually extend the functionality of your banking platform.

An API-based architecture allows smooth integration with almost any fintech software. Of course, there is no need to run for every available application. Start with a few fintech solutions that bring the highest value and add further functionality in later iterations.

When it comes to **functionality**, here are some of the obvious choices within a strategic transformation framework:

- Cashless and contactless payments (Mobile wallets, PayPass, etc.);
- Cashback and reward programs;
- Mobile money transfers.

### Digital transformation and corporate culture

There is always yet another massive invention on the rise, so you can argue digital transformation is a never-ending process. Just think

about IoT, Blockchain and other technologies that might soon change banking as we know it. If the end goal of the change campaign were to implement a particular technology, you would probably need another transformation after finishing the former one.

The real objective of the strategic transformation is to reset the corporate culture, and to build an organization that nurtures strategic alignment of business goals and technological capabilities. To build an organization, hungry for digital innovations that add business value.

Embracing such culture will help small banks to easily identify and seamlessly integrate any new technology. FIX framework is one of the tools that will help adopt such corporate culture. Still, it's always up to the people and their determination to make such a dramatic shift in [finance and banking](#), as well as other industries.

### FIX digital transformation framework in ppt

See also a shorter version of the [FIX digital transformation framework in ppt](#).

For N-iX digital transformation expertise in other industries, refer to [this page](#).