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SPECIAL REPORT

DIGITAL TRANSFORMATION ACROSS EUROPEAN BANKING GROUPS

in association with

 **BACKBASE**



EUROPEAN BANKS GRAPPLE WITH DIGITAL TRANSFORMATION

Financial services

Covid-19 has accelerated retail and business banking customers' adoption of digital financial services, driving banks to speed up their transformation programmes across their geographical footprint in Europe. Heather McKenzie reports.

ONCE CONSIDERED TO BE TRAILBLAZERS in the adoption of advanced technologies, banks are now more often identified as laggards, particularly in terms of wholesale digital transformation. Most banks are still in the early stages of adopting technologies such as distributed ledger, machine learning, artificial intelligence and cloud computing that have transformed other industries.

However, as the world continues to battle the Covid-19 pandemic, the limitations of the current banking landscape have been laid bare. Never have the real-time, 24/7, agile and flexible environment that digital transformation promises been more appropriate.

Consultancy McKinsey believes there is “no going back” for Europe’s banks following the pandemic. During lockdown, banks had shown what was possible in

terms of speed and innovation, with many becoming agile “overnight” as thousands of employees worked from home. Now is the time for banking executives to reimagine how their institutions operate, the consultancy stated in a paper published in May. “Bold vision and disciplined execution on a set of key imperatives will ultimately differentiate the leaders from the laggards as this crisis abates,” it said.

The pandemic triggered a range of new financial needs, particularly around liquidity, for many retail and business customers. “Banks need to strengthen their advanced analytics skills to identify which customers they can feasibly serve and then create a personalised offer for them. Small businesses might also be interested in liquidity advice offered as a subscription service,” said the report.

Customer behaviour also changed, with

significant increases in digital banking and online purchasing. A McKinsey survey of 200,000 Europeans during May 2020 revealed that digital adoption jumped from 81% to 95%; under normal conditions, such a rise would take two to three years, the consultancy says. Another survey from the consultancy identified a 10% to 20% rise in digital banking across Europe during April alone. “Such a jump in adoption opens the door for banks to turn digital channels into real sales channels, not just convenient self-service tools,” said McKinsey.

To do this, many banks are adopting cloud-based platforms and infrastructures to cost-effectively modernise core technology systems.

THE DIGITAL EXPERIENCE

The trend towards digital banking and ecommerce predates the pandemic, of

course. In June 2019, Mastercard published the results of its second Digital Banking Study, which found that 84% of Europeans engaged in digital banking regularly, with 63% using mobile banking apps from traditional banks and one in five from digital-only banks, and that almost two thirds expected the demand for digital banking solutions to increase.

More than half (54%) of those surveyed said they would consider switching to a digital bank. In Hungary, 28% said they would consider changing their existing bank for a digital-only one within the year, while the European average was 13%. Almost one in 10 of those surveyed were already a client of a digital-only bank. Clearly, competition is increasing and incumbent banks are beginning to feel the pressure from digital native alternatives, driving them to speed up their digital transformation programmes across their geographical footprint.

But while most incumbents are aiming for a unified digital experience, in terms of function, look and feel for customers, the journey for each banking group will not necessarily be the same, says Dr Edwin Van der Ouderaa, senior managing director, financial services digital and analytics at Accenture.

“There are differences between countries across Europe. Consumers differ in what they think something should look like. Also, no countries have the same regulation,” he says. “Creating a common denominator across Europe, or even across central and eastern Europe [CEE], is a huge challenge for banks. They need to find a way of managing the differences on top of a shared technology stack, rather than creating solutions from scratch for each country.”

Jouk Pleiter, CEO of Backbase, calls this a “platform approach”. “Banks should start small but with a common platform, which will create a seamless customer journey usable across multiple countries,” he says.

DIFFERENT SPEEDS

Michael Wodzicki, partner at Deloitte Consulting in Poland, points out that the digital maturity of individual banks within European banking groups varies significantly across both western Europe and CEE. “Banking groups’ digital offerings are mostly driven by the local markets where they operate; they most often take a multi-speed and varied approach,” he says. For example, Deloitte identifies

Turkey and Poland, along with Russia, Spain and Switzerland, as “digital champions”: countries with financial institutions that offer a wide range of functionalities relevant for customers and a “compelling user experience”.

OTP Bank, for example, operates in 12 markets across the CEE region and has been highly acquisitive in the past few years. “We operate in a diverse geographic area – politically, legally and culturally. Individual countries are on a different level in terms of using banking services, and how they access digital facilities. Over the years, we have learned how to cope with these differences,” explains Tibor Johancsik, OTP Bank’s deputy CEO in charge of IT and bank operations.

“Of course, when acquiring a bank in a new country, we have to carry out thorough research to get to know our customers better, as we have to understand their expectations and needs. Also, we have to get closer to our new local colleagues to enable smooth co-operation with them and also to learn about their experience and needs,” he adds. OTP Bank is planning to standardise its IT systems to drive efficiencies across its countries of operation.

Mr Wodzicki says that some leading banking groups are investing in scalable cross-country platforms and programmes to foster revenue collaboration and share IT development costs. “However, banks should not underestimate the effort required to deliver tangible results from such programmes,” he adds. “The current trend to cloud migration seems to be offering new opportunities for a more coherent international approach.”

The aim for multi-country banking groups should be to improve user experience (UX) across all their markets, but not necessarily have the same UX across multiple countries, Mr Wodzicki says. One way to achieve this, while also making UX more consistent, is to introduce a common design system. “A design system provides the same foundation for every market, which can then be aligned to local market specifics. This approach can not only improve user experience, but can also contribute to reduced time to market and lower product development costs,” he adds.

TRANSFORMATION STRATEGY

Lisa Quest, UK head of public policy at management consultancy Oliver >>



IF A BANK DOES NOT HAVE A CREDIBLE DIGITAL STRATEGY, IT IS UNCLEAR HOW IT CAN GROW ITS EARNINGS OR PROTECT ITS MARGINS

Edwin Van der Ouderaa ●●

Wyman, identifies three archetypes of digital transformation:

- demand aggregator;
- platform provider; and
- component supplier.

Demand aggregators engage in refined customer segmentation, based on the use of behavioural science and extensive customer research. Platform providers create an ecosystem of partners to address a broad range or specific needs of customers. Component suppliers take a 'plug-and-play' approach, providing products to demand aggregators.

"The power dynamics in banking are changing and banks are transforming, with some rebranding themselves as technology firms," says Ms Quest.

Digital transformation is complex and means different things to different people, she adds. "Digital transformation for the top banks is focused on improving data and customer experience, as well as operational efficiency. Banks are focused on their internal cost bases, because challenger banks can run current accounts for a fifth of the cost a traditional bank incurs."

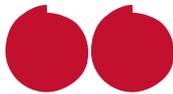
Many banks have struggled with digital transformation projects because they attempted to do too much at once. "A large proportion of these programmes proved difficult to finish as they would go off-track and never deliver an end outcome. Big banks are beginning to learn from technology firms that the key to success is to deliver value on a regular basis," says Ms Quest.

Digitalising one product or function at a time would deliver much more value than attempting to digitise a whole bank, she adds. "Digital transformation should be about creating new value, reducing internal costs or risks, or offering better value to customers."

Mr Pleiter agrees. "Many of our clients start in one country, with one or two major headaches, and solve them on a common platform. In that way, they have a lot of reuse across their operations, plus a single view of the customer and easy cross-channel transitions," he says.

THE LEGACY HURDLE

CEE banks have the opportunity to leapfrog technologies, says Oliver Wyman's UK head of digital Deborah O'Neill. "There are increasing levels of mobile adoption in eastern Europe and Russia, and investment in innovation. More traditional payment approaches such as pay on delivery meant



CHALLENGER BANKS CAN RUN CURRENT ACCOUNTS FOR ONE FIFTH OF THE COST A TRADITIONAL BANK INCURS

Lisa Quest ●●

some banks and retailers in the region didn't develop traditional online applications so will be able to leapfrog to wallet-based payment opportunities." They are also getting better at using technology and collaborating with digital innovators, she adds.

Enrico Camerinelli, senior analyst at Aite Group, agrees. "Banks in eastern Europe have the opportunity of moving to digital systems much faster than those in the west, as they do not have the same huge back office installations of legacy technology. By adopting application programming interfaces and open banking, they can decouple from the complexity of silo-based systems."

In a 2018 report, 'The Rise of Digital Challengers', McKinsey identifies 10 countries in the CEE region – Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia – that it considers "digital challengers". These countries have strong potential for growth in the digital economy and challenge other relatively small countries with high digitisation rates ("digital frontrunners") – Belgium, Denmark, Estonia, Finland, Ireland, Luxembourg, the Netherlands, Norway, and Sweden.

Banks in the challenger countries are less bound to legacy systems. "In CEE, financial transactions based on payment cards entirely bypassed the use of cheques.

Today, countries in the region boast one of the highest adoption rates for contactless payments in the world. Thus, while it may be more difficult for digital challengers to compete in the traditional economy, they enjoy a level playing field in the digital economy," says the McKinsey report.

Some banks consider the CEE region as lucrative, says Accenture's Mr Van der Ouderaa, and rather than entering the market via an acquisition, have developed digital "attacker" operations in the form of neobanks or digital-only banks. "Several large banks have done this and approached markets like a fintech. There's been varying levels of success for this approach as it is difficult and requires a significant marketing spend," he says.

LESSONS LEARNED

During the past five years, attitudes have changed towards digital transformation, says Mr Van der Ouderaa. At CEO level, bank executives acknowledge its importance. What is more, institutional investors evaluate the chances of a bank's growth based on its digital transformation strategies. "If a bank does not have a credible digital strategy, it is unclear how it can grow its earnings or protect its margins. Digital transformation enables banks to reach new sets of customers with a modern product set that protects margins and also creates new revenue streams," he says.

Lessons have been learned from attempts at transformation, he adds. Post-pandemic, transformation projects are likely to focus on end-to-end projects based around straight-through processing at the back end and digital products at the front end. "Covid-19 is accelerating the move to e-commerce; by 2025 half of the global economy will be conducted via digital means. This is no longer a nice-to-have for banks; they will have to be able to interact with platforms and e-commerce sites," says Mr Van der Ouderaa.

Aite Group's Mr Camerinelli says it is clear that digitalisation requires more than "moving from paper to digital". The real value in digital transformation, he says, is creating digital workflows that enable documents to be created and that enable their exchange, modification and execution in a digital fashion. "It's not all up to the banks to do this; corporations also need to do their homework and shouldn't wait for things to happen. They need to change and improve their own business processes." He suggests this would best happen as a co-creation effort with banking partners. **TE**

CLAIRE CALMEJANE

Q&A

The chief innovation officer of Société Générale outlines how the French bank approaches digital transformation through a single platform to deliver a seamless digital experience.

Q What is your digital transformation strategy?

A Corporate and institutional client needs are constantly evolving. In addition to focus interviews and digital listening, we're making strategic choices on what we want to serve digitally and supporting our senior bankers to spend time solving and advising clients on the complex needs caused by today's environment, such as geopolitical uncertainty, economic and market volatility, and the fragmentation of the fiscal environment.

The key is in building a human-tech partnership. On the one hand, digital plays a central role in allowing the automation of transactional activities and integration into client systems; and, on the other, it helps our bankers to better advise clients. Across the group, we have about 80 live artificial intelligence use cases, with the support of our central wholesale business, specifically on capital markets and coverage.

We also keep an eye on the future with our internal start-up, Forge, which recently enabled Société Générale to perform the first worldwide central bank digital currency transaction. We are also leading participants

in trade finance ecosystems such as We.trade and Komgo for trade commodity finance, which is based on distributed ledger technology.

We believe that the digital ecosystem will be the future of trade finance, as it will materially reduce the manual burden, processing time and errors, and improve risk management, that is credit risk and fraud, for all parties involved.

Q How is the strategy being rolled out across your regional footprint?

A SG Markets, our corporate and investment banking platform, is available to our clients across geographies. It is an open platform enabling the integration of services provided by our partners through a seamless integration to meet local market specificities. Our wholesale digital office is working with the business units to ensure a smooth adoption.

Q Are you trying to create a seamless and uniform digital experience across multiple countries?

A This is central to our strategy and we believe is a must for the whole industry to meet rapidly evolving client needs and expectations. We recently set up a structure cutting across our business lines in order to deliver a seamless digital experience for our large corporate clients across business lines and countries, under the sponsorship of the head of wholesale and retail clients.

We will deliver a single streamlined digital know-your-customer [KYC] client journey, a 360-degree view of all their services with the bank, a single digital access to all their services, and the integration of product offerings through digital, such as payments and foreign exchange.

Q Are there specific challenges to this approach?

A From a regulatory perspective, differences exist in requirements across markets, such as KYC documentation and verifications. This requires processes to be adapted to meet each market's conditions.

One of the biggest challenges for many incumbent corporate and investment banks is the legacy technical infrastructure and architecture. Legacy systems need to be progressively replaced or adapted to enable the integration required to deliver our vision of a seamless and simple client experience across products and borders, and enriched client services. One example of this is the ability to access all banking services digitally through a single platform.

Q How are you addressing these challenges?

A Transforming our technical architecture is a constant focus. Our vision is to provide a common client interface, SG Markets, on top of a combination of old and new systems, as well as group-wide and locally-specific systems. This will allow us to deliver a rich and seamless client experience, as well as meet local requirements in terms of regulation and banking services.

A core focus for the group is the use of data and the underlying data architecture. We are putting extensive effort into creating data lakes that will allow us to better serve our clients and give them best-in-class digital access to their banking services.

Q What would be the ideal solution?

A The ideal solution is one that will allow clients to expend the minimum effort on their banking needs and to focus on delivering value to their own clients and building a more durable and better world. It will give clients the choice of access to banking services through the web, mobile or through direct integration into our systems through application programming interfaces or market protocols.

Transactional services, such as payments and simple investments, will become almost invisible, and the focus of client interactions will be on providing high-quality advice on complex needs, such as through digital self-care or by enhancing our front-line with digital tools, and thereby adding value to their business. **TB**



GIANFRANCO BISAGNI AND NICCOLÒ UBERTALLI

Q&A

UniCredit's co-CEOs of commercial banking, central and eastern Europe, explain how the bank's digital strategy aims to deliver a simple omnichannel solution with the same look and feel across all channels.

Q What is your digital transformation strategy?

A Digitalisation is a key component of our Team 23 strategic plan, which focuses on increasing productivity and enhancing customer experience. UniCredit has already made good progress on our digital journey, through our previous plan, Transform 2019. This was clear in our swift response to the Covid-19 crisis.

We quickly shifted to meet the needs of our customers, with remote services leading the way. We were able to seize commercial opportunities and, in just one month, we increased our customers' mobile adoption by more than 5% and inbound calls to our call centres rose by 25%.

Our service infrastructure, including branches, the internet, mobile banking and call centres, and our key products are already available throughout central and eastern Europe (CEE). We are working to achieve a simple omnichannel solution: a single process with the same look and feel across all channels. The Czech Republic will be the first country to go truly omnichannel, providing a simple and intuitive customer experience that will become a benchmark for financial services in the region.

Q How is it being rolled out across your regional footprint?

A We are committed to offering a consistent service across all our geographies. We listen to our customers to understand their local needs. As a result, on top of the omnichannel solution, we are rolling out our digital strategy in two ways.

The first is through high-level, standardised, often self-service, tools, giving our clients a new level of autonomy and allowing for a higher degree of customisation. We focus on local development before implementing successful pilots more widely. For example, we are working with best-in-class fintech Meniga to develop our mobile application focused on personal financial management. First launched in Serbia and Italy, as part of our drive to personalise our cus-

tomers' digital banking experience, it quickly proved successful and we rolled it out to another four CEE markets.

Additionally, we continue to develop specific solutions to meet unique local needs. For example, we partnered with Mastercard to implement the first mobile ticketing solution for public transport in Bucharest. In the Czech Republic and Slovakia, in response to the growing preference for mobile payments, we enabled charity donations via contactless cards and e-wallets, in partnership with Apple Pay and G Pay.

Q Are you trying to create a seamless and uniform digital experience across multiple countries?

A Our goal is to meet all our clients' digital needs with the same high level of service. The exact digital mix may vary across markets, given local needs, but the overall goal remains the same. We have already achieved a level of seamlessness and, within CEE, we now have a single interface running across 10 countries.

However, some jurisdictions call for specific local solutions. To help address local differences, we created a cross-architecture initiative, which unites client-facing platforms. It connects them to a common core banking system with an innovative service-oriented overlay creating a seamless and uniform digital experience. Initially piloted in the Czech Republic and Slovakia, it's now live across seven CEE countries, with more to follow.

Q Are there country-dependent challenges?

A Different regulations but also different cultures mean that initiatives progress at different speeds. For example, Croatia and Bulgaria are ahead of the curve with digital onboarding. In Croatia, we have a best-in-class digital onboarding process where users can open digital accounts in only eight minutes. We have a similar process which enables clients to open accounts via our mobile application in Bulgaria. Our target is to achieve 100% digital onboarding with a high standard across all our geographies.



Gianfranco Bisagni (top) and Niccolò Ubertalli

Our infrastructure is based on standard units; we call them Lego blocks. Each country chooses which ones to use, how to place them and how to set up the interactions. So, we fully leverage on economies of scale across our countries, while delivering a service that is adapted to each local market. Once again, we aim for a best-in-class cost to serve with maximum flexibility and adaptability for our local customers.

Q What would be the ideal solution?

A As one of the few pan-European commercial banks, we aim for an architecture that delivers an omnichannel experience (with a single process across all channels) that is standardised in the back end, allowing low costs and maintaining a strong front-end flexibility that adapts to local markets. With this approach, we deliver a competitive risk-based price, leveraging on our unique European footprint and scale, while adapting to local habits and customs. We are in a unique position to deliver a platform that is difficult to replicate. This is a key success factor for our growth in CEE. **FB**

KRISTINA SIIMAR

Q&A

Luminor Bank's head of products and offering talks about forging the new institution out of the old operations of DNB and Nordea, and bringing its customers onto a single banking platform and common digital channels.

Q What is Luminor's digital transformation strategy and how far along in the journey are you?

A Luminor is committed to supporting the further development of the Baltic region through financing and other banking services, by making banking simpler and more accessible, as well as by engaging in the overall development of the Baltic societies.

The bank was born as a result of merging the Baltic operations of Scandinavian banks DNB and Nordea. Digitally, it entailed bringing the customers of the former six banks in three countries – Estonia, Latvia, and Lithuania – onto a single banking platform and common digital channels, and carving out operations from the systems of parent banks. The scale and complexity of this undertaking is probably the most unique digital transformation journey in north-eastern Europe.

As of today, we have established the Luminor payment hub, an independent correspondent banking system, and migrated our customers to a new platform in Latvia and Lithuania, while also looking to completing the Estonian migration this year.

Currently, Luminor is entering the next phase of its digital transformation strategy, where new harmonised and uniform digital channels will be introduced across the Baltic markets for both online and mobile banking. This, coupled with the efforts being allocated to process automation, will take us further in

providing our customers with effortless and intuitive experience when banking with us, focusing on customer-centric service design and accessibility.

Q How is the strategy being rolled out across your regional footprint?

A Migration from DNB and Nordea systems has been a complex multi-phase project, spanning the past couple of years and across all three main markets for Luminor. Going forward, the bank aims to introduce new channels sequentially across all markets with smaller minimum viable product release increments, which enables faster new value creation for our customers.

Q Are you trying to create a seamless and uniform digital experience across your regional footprint?

A Luminor is a pan-Baltic bank for the local way of life and doing business. Our operational model is pan-Baltic as well, combining global knowledge with local expertise to best serve our customers.

We are aiming for a uniform digital experience in all countries and we are making good progress with a greater part of our transformation completed. It is also based on common principles in our products and offering. The introduction of a uniform digital experience increases customer satisfaction through standardised and easy-to-use interfaces.

Q Are there political/regulatory/cultural/technical challenges?

A The Baltic region is digitally very advanced and customers are looking to new technological solutions and digital offerings. More than 90% of our active customers use digital services and it has been greatly influenced by the Covid-19 pandemic as well, which gave a great boost to remote services.

From a banking perspective, the biggest differences in the Baltic countries are mainly related to language and digital customer authentication. In contrast to generic issues, the hurdles that banks face are more dependent on specific customer groups. For example, elderly people need more attention in terms of introducing them to digital services.



THE BIGGEST DIFFERENCES IN THE BALTIC COUNTRIES ARE RELATED TO LANGUAGE AND DIGITAL CUSTOMER AUTHENTICATION ●●

Q How are you addressing these challenges and do they influence your digital strategy?

A First of all, we are addressing these challenges by making the digital journey simple and intuitive for our customers, as well as by focusing on extra attention and advice in helping our customers use digital services. As one of our 84-year-old customers said, when learning to use new digital authentication methods: "Please don't hesitate to release me from the past."

We are continuously investing more in piloting new products. For example, we have just launched digital remote onboarding for our customers. We have formed a separate service design team to interview and engage with our customers to ensure product-market fit for all new products. In addition, by addressing our own challenges with digitalisation, we have helped local companies transfer their business online as part of our corporate social responsibility initiative.

Q What would be the ideal solution?

A The ideal solution is simple, stable and accessible internet and mobile banking services across the Baltics, through which Luminor customers can fulfil even their most complex banking needs any time in any location. Customers want to be able to access our advisors remotely at their preferred time.

We are now raising customer awareness and digital financial literacy across all our customer segments, as well as introducing social initiatives to support local businesses in going digital. **FB**



ARA ABRAHAMYAN

Q&A

The chief digital transformation officer of Erste Group Bank talks about how a uniform digital platform can enable seamless interactions throughout different channels and geographies.

Q What is your digital transformation strategy and how far along are you?

A Our objective is to make Erste Group digital to the core. For us, this means using a combination of new technologies to deliver the best value for our customers across our seven markets in Austria and central and eastern Europe.

We strive to grow our digital sales and become an increasingly efficient enterprise with digital end-to-end processes, while ensuring leading compliance, cybersecurity and a digital-minded workforce act as enablers for these goals. And we have achieved our first successes.

For example, we are already recognised for having a leading intelligent banking solution, George. More recently, we established group-wide data analytics capabilities called 'Erste Insights', which already support us in advancing our front-office solutions. Still, there is some way to go.

Q How is it being rolled out across your regional footprint?

A Depending on the topic, we apply different models employing different ways

of working – local, central and mixed. This allows us, as a group, to combine the best of both worlds: advantages of scale and the flexibility of smaller entities.

In addition, we have clustered all existing initiatives into one standardised strategic structure, reviewed budgets, analysed dependencies and identified cross-benefits. For some initiatives, we were only busy with fine-tuning and aligning the roadmaps; for others, we provided start-up assistance so that the project could be put on track quickly and easily. All in all, it is about precise prioritisation, transparency and clear project ownership.

Q Are you trying to create a seamless and uniform digital experience across multiple countries?

A We already did that in retail banking. With George, we have the leading digital and mobile banking platform open for external partners and service providers, and are already hosting more than 5.8 million retail customers across our region. Here the goal is to advance the platform's service offering to make it an even more comprehensive, one-stop shop for holistic prosperity advice.

As for our corporate customers, the group-wide strategic priority is to build a specific front end of similar added value and usability as George. And the implementation has already started.

The reasons [for creating a seamless and uniform digital experience] are not hard to work out. It's about delivering high quality, the best possible client experience, the brand, and consistency in our offering. Plus, it's difficult and costly enough to do everything once, so doing it seven times, for each market, would not be smart.

Q Are there any country-specific challenges?

A It goes without saying that operating in various countries comes with different circumstances. Markets are different, demands are dif-

ferent, regulation is different – for example, EU versus non-EU, euro versus non-euro, approaches to public cloud, or responses to Covid-19 – and the history is different as well.

So, we have to balance dealing with the country specifics as best as possible and leveraging synergies as much as possible. These differences, though, make it exciting. Diversity is fruitful in all kind of aspects.

Q How are you addressing these challenges and do they influence your digital strategy?

A As mentioned, the group-wide strategic initiatives can be handled based on a mixed local/central metric-driven governance model whenever necessary. For example, the group-wide strategic IT Progressive Modernisation initiative defines a set of key performance indicators [KPIs] which have to be improved in each country.

However, depending on the local situation, the focus of modernisation activities and the specific targets for each KPI vary for each subsidiary. The digitalisation of back-office processes is handled in a similar way.

In addition, in many cases the local banks address the country-specific challenges through targeted and locally-owned activities.

Q What would be the ideal solution?

A This depends on the topic. For customer experience-related topics, it is as stated above: enabling consistent brand promise and seamless interactions throughout different channels and geographies based on a uniform digital platform. For back-office operations, it is about pragmatism and the consideration of local realities, combined with sound economic decisions.

As for the ways of working and our workforce, it is about flexible collaboration techniques, transforming our capabilities based on agile methodologies and strengthening a continuous learning mindset. In the end, digitalisation is never an end in itself – it needs to be done by people for people. **TE**



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TIBOR JOHANCSIK

Q&A

OTP Bank's deputy CEO in charge of IT and bank operations reports that going digital through agile and IT transformation is well underway. The Hungarian bank plans to drive efficiency by standardising systems across its regional footprint.

Q What is your digital transformation strategy?

A OTP Bank has always focused on keeping pace with the digital transformation taking place in the world, as well as incorporating the latest technological developments into how we operate and serve our clients. Innovation is one of the four pillars of OTP Group's strategy, alongside stability, profitability and growth. We aim for our customers to be able to access our services whenever they like and in the easiest way possible. This requires constant refinement of our channels in line with client behaviour.

This highly responsive process is enabled by our agile transformation that is already going on in the group, which helps us adapt to rapidly changing digitalisation trends. Business problems, organisational changes and strategic and product challenges are all increasingly solved with the help of digital technologies within OTP Group. For example, we rolled out digital end-to-end online account opening with customisable and modular account packages, end-to-end personal loans, digital sig-

nature pads, advanced ATMs with a cash-in function, and Innovation Branch Offices.

We have launched a significant IT transformation programme, aiming at replacing some of our fundamental cornerstones with next-generation technology and processes. Besides redesigning our core products and services, we have also challenged ourselves in the world of start-ups by building two successful spinoffs, OTP Mobile and eBiz [a digital platform for small and medium-sized enterprises]. We incorporate their new solutions while remaining open towards great ideas coming from outside OTP. We are also preparing the fourth edition of our international Start-up Partner Programme in the coming weeks.

Q How is it being rolled out across your regional footprint?

A Digitalisation seems the only way to provide our clients unlimited access to the services they want, when they want and how they want. On the other hand, self-service enabled by digitalisation is a change desired by both clients and service providers, so this is a unique win-win situation. Going digital also means more small changes, which can be achieved through agile transformation complemented with IT transformation as mentioned above.

Our digitalisation efforts are structured to focus on three key areas: managing and modernising legacy systems, agile delivery of client-focused innovative solutions, and increasing efficiency, without compromising development, operational reliability and safety. We highlight digital innovations and trends receiving more attention in the region and in Hungary, such as artificial intelligence-driven predictive banking, advanced data analytics, interactive and conversation-based solutions and open banking. Going digital via agile and IT transformation has gained significant interest in our subsidiaries where it is already underway in many cases.

Q Are you trying to create a single digital experience across multiple countries?

A Of course. A development is more cost-effective if you extend it in multiple countries, but sometimes there are legal or technical boundaries. There is also the dilemma of the tailor-made suit versus the ready-made one: the first better serves the client, in our case the given country at a cost not appreciated by the market, while the other incorporates a few compromises. This is where we have to find a balance.

Some of our core systems are based and operated at headquarters, and after each acquisition we check all the main systems again to find best practices and eliminate duplications, and we adjust our long-term development projects accordingly. We aim to standardise systems to make them more efficient in all 12 countries where we have clients.

Over the past few years, we have been growing by acquisitions, and given this approach we were diversifying by nature. In each country, where we were already established we have integrated the existing and the new entity into a unified bank by combining components from both the local bank and the group. In the next phase we shall be focusing on group solutions in selected technical and business domains, where local regulations do not create major obstacles. Client needs are globalising, especially in the world of digital channels and service access, and this is giving us a strong push to go global in this domain.

Q What would be the ideal solution?

A Recently, we have found ourselves in a rather exciting competition triggered by digitalisation. We are not only competing with banks but also 'big tech', application programming interface providers and fintech. The key is how one manages the changes both technically and mentally; naturally the latter is the more difficult. The race is fast so if we want to keep up and maintain our leading position in central and eastern Europe, we need to lead these change processes as well. **TJB**



SONJA SARKÖZI

Q&A

The CEO of Sberbank Europe, which operates in eight markets across central and eastern Europe, explains how it is well on its way to transforming into a modern bank with automated and digitalised processes, as well as a unified customer approach.

Q What is Sberbank's digital transformation strategy?

A People today expect to be able to do their banking from anywhere, quickly and digitally. We want to enable our customers to do just that by offering them transparent, easy-to-understand products at attractive terms, as well as exceptional service and a digital user experience.

This is why we focus on our IT strategy. We have defined six priorities for the 2019-2021 period: cost efficiency, digitalisation, effective risk management, effective finance management, supply chain business development and efficient group IT governance.

In 2019, we started to roll out our strategy by enhancing cost efficiency through process automation, with a focus on sales and service digitalisation through a new omni-channel platform (OCP) for online and mobile banking. Moreover, we are implementing our group-wide finance and risk management platform (FRMP), a project that will increase the effectiveness and efficiency of information systems and data flows.

Q How is it being rolled out across your regional footprint?

A Our OCP team is about to deploy a new mobile banking application for cus-

tomers. We will start in Croatia and the other countries will follow step by step.

We started our FRMP project with the most crucial aspects: budgeting and planning. Ultimately, FRMP will improve our information management capabilities, enable group-wide centralised data governance and data warehousing based on single-source-of-truth data.

We are driving digitalisation in all our subsidiaries. For example, in 2020 several subsidiaries launched instant payments enabling money transfers within seconds; Sberbank CZ has put into operation a new software robot that helps to process thousands of client transactions monthly; and we are upgrading and improving the functionality of our mobile banking solutions for corporate and retail customers across the region, to name a few initiatives.

Our German branch, which offers end-to-end online deposits, savings accounts and consumer loans, has achieved one of the best customer journey and time-to-yes indicators in the market. On average, customers spend around 13 minutes submitting an application with all the required documents. The loan decision is made within seconds, and the money is available quickly and easily within 24 hours after checking the necessary documents. We have achieved a total loan volume of more than €400m since instant loans launched in Germany in 2018.

Q Are you trying to create a seamless and uniform digital experience across multiple countries?

A With our OCP project we are building a single platform to support our customers' digital banking experience across all channels and all countries. By doing so we expect to increase our customers' engagement with Sberbank Europe, while boosting our market share. We also expect this approach to be more cost-efficient, as the solution can be used by all our subsidiaries. The OCP will give us the opportunity to serve our clients in a variety of ways that are not only convenient and effective, but will also boost our brand's image and credibility.

Q Are there country-specific challenges?

A All countries in our region differ in terms of digitalisation, number of internet users, regulatory specifics, and so on. These differences have become even clearer recently, when regional regulators have reacted to the economic threats of the Covid-19 pandemic, all in their own unique way.

Sberbank Europe has different starting points in every country when it comes to the implementation of our digital strategy. You cannot take a product as it is offered in Croatia and bring it unchanged to the Czech Republic; it has to be tailored and adjusted to local specifics.

Q How are you addressing these challenges and do they influence your digital strategy?

A Our strategy is based on those local specifics and assessment of the strong features of the markets where we are present. We have a high level of local teams' involvement in the strategy implementation, which helps us to adjust it to local realities. Whether in Serbia or in Germany, our priority is to make banking as easy as possible by offering our clients transparent, easy-to-understand products with attractive offers and extraordinary service, as well as digital end-to-end processes.

We are aiming to improve our internal processes, increase our efficiency by making better use of our synergies and create a unified approach towards our customers. The keywords are 'customer experience': our clients should be able to expect the same level of quality, innovation, transparency and competence wherever they approach us. The language of good service is universal.

Q What would be the ideal solution?

A We are well on the way to turning ourselves into a modern and light bank with automated and digitalised processes, improved information management capabilities, strong online banking and flawless customer service. A bank that wins customers for life. **TB**

JOUK PLEITER

Q&A

The CEO of Backbase, creator of the people-centric Engagement Banking Platform, discusses the need for European banks to take a platform approach to digital transformation, one that creates a seamless customer journey and lowers their cost to serve.

Q How are European banking groups tackling digital transformation across their geographical footprint?

A There are two distinct groups. Some are just making isolated technical fixes, such as fixing a broken process or upgrading their mobile banking app, without a long-term strategy in place. Others have a more holistic, or platform, approach, looking at everything from improving account opening and customer onboarding through to expanding their share of wallet and lowering the cost to serve. The latter have realised that patching the siloed nature of their current environment, whether by country, channel or product, is not going to make them more competitive in future, nor create a seamless customer journey, nor improve their cost-to-income ratio.

These banks are opting for an enduring transformation programme; they are breaking it down into projects on a year-by-year basis, but implementing them with a single platform approach. Backbase has several clients with multiple operations across Europe that began their digital transformation in one country by solving a few major digital sales issues, for example, in a generic way on

a universal platform. One platform means they can reuse and repurpose those elements for other product groups or servicing operations in that country, or use it as a blueprint to roll out across the different countries.

Q What challenges do incumbents face when trying to create a seamless and uniform digital experience across multiple countries?

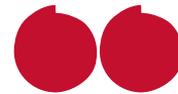
A First, as a technology provider, I think that technology is not the main issue. There are modern solutions available in the cloud from specialist providers, such as Backbase, that will give incumbents an instant technology advantage.

The challenge is utilising this technology, which comes down to digital leadership and 'unlearning' the traditional way of doing projects. Many banks believe that this is just another project, like a CRM or call centre project, but this is a mistake because digital is not a project, it is forever and is becoming the core of operations. Think of Amazon or Uber: enhancing customer experience is not a project, it is their core business. So the biggest challenge for banks is to learn how to embrace a digital delivery culture, combining their banking and local market expertise with digital product innovation and delivery expertise.

To survive, a bank has to make digital the core of the business because the tech giants are moving into this space with deep digital delivery DNA and capability sets. Banks need to start to train that digital delivery muscle through continuing innovation and reiteration.

Q But what is the best way to address banks' legacy technology?

A Most banks have too much technology and too many point solutions, such as call centres, ATM, internet, mobile, and so on, which are all siloed. Compare this with Netflix, where there are no channels, it's just one seamless platform. Banks need to replace all these monoliths over time with more of a platform approach. I believe that platforms are ruling the world



DIGITAL IS NOT A PROJECT, IT IS FOREVER AND IS BECOMING THE CORE OF OPERATIONS

and banks need to make a platform play.

The technology challenge is to move away from legacy silos to a holistic customer engagement platform, which doesn't need to happen overnight. Banks can do it step by step, identifying their top two biggest headaches, solving them on top of a single platform and then expand to the next chapter. Everything will be on the same orchestration platform, which means reuse, a single view of the customer and a seamless cross-channel transition, so customers can move from the web to the mobile to the call centre with ease.

Q What advice can you give banks to achieve faster return on investment [ROI] in their digital strategies?

A First, create a value map, with the different lines of business – retail, small and medium-sized enterprises and corporates – as columns and then horizontally all the processes, such as customer onboarding, digital sales, share of wallet and customer servicing.

Second, do a friction/pain analysis and determine the ROI on improving these processes. It could be the end user's happiness, such as net promoter score, which will improve with a seamless, fast and easy journey, and lead to more sales, increased conversion ratios and lower cost to serve because their processes are simplified and digitised.

Third, start with one or two things and with small agile teams. Within several weeks, you will have made an impact by solving a specific pain point. That creates a reinforcing feedback loop and momentum to add more teams. So, start small but in an intelligent way, to build up confidence and scale up your digital delivery operation. **TB**





Launch your **digital transformation strategy across multiple countries**

with the Backbase Engagement Banking Platform

The future is digital, but above all, customer-centric. By adopting a single orchestration platform, you can accelerate your digital transformation strategy and shape seamless customer journeys that will meet and exceed client expectations. From client onboarding to cost-income optimization, the Backbase Engagement Banking Platform empowers you to improve every aspect of your digital strategy.

Choose to trial your new digital offering in one region or deploy it across multiple countries simultaneously, the Backbase platform adjusts to your scale and ambitions. It only needs to be built once before it can be deployed again and again.

Did we spark your interest? Feel free to request a demo and see how Backbase can kickstart your digital transformation strategy across every region.

