



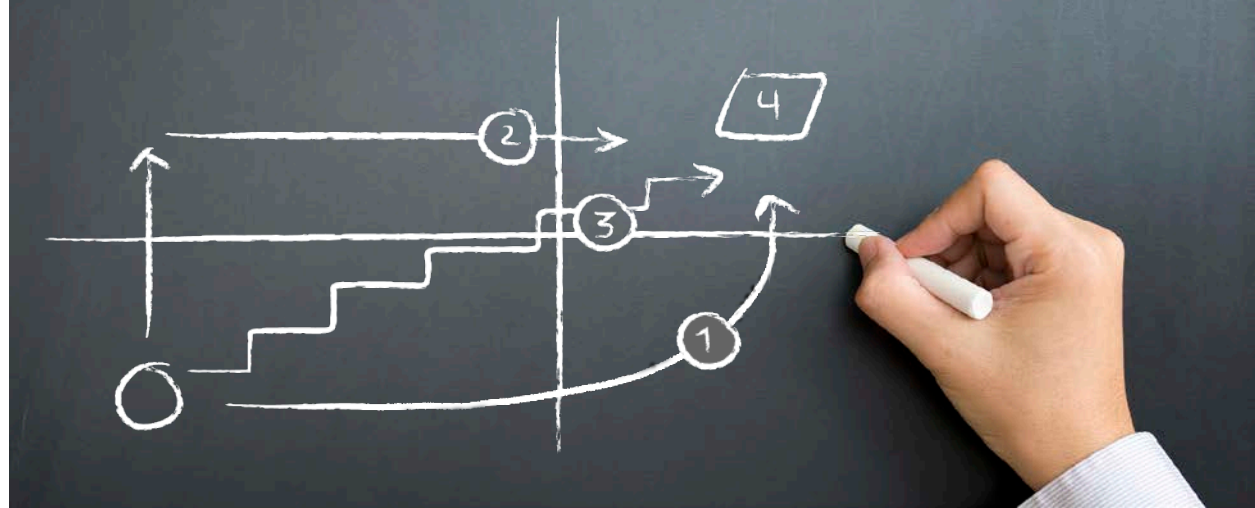
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LTI Banking Technologies Conference 2017: Banking on Insights

Future Ready: Four Pathways to Digital Business Transformation

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Sydney Water
TD Bank, N.A.
Teck Resources Limited
Tenet Health
Tetra Pak
Trinity Health
USAA
Westpac Banking Corporation
World Bank



Financial services – transformation – because ...



- ➔ Financial services functionality will become more embedded into third-party apps and experiences like retailers and search firms
- ➔ Rate of adoption of mobile technology surpassing all expectations plus robo, AI, IoT, big data
- ➔ Regulations are increasing in number and complexity
- ➔ Automated investment platforms will manage approximately 10% (\$US8trillion) of all global assets under management in US (AUM) by 2020¹
- ➔ Workforce changes – freelancers underinvesting for retirement²
- ➔ 77% of financial execs expect blockchain for post-trade use within 5 years³
- ➔ Business models changing: from value chains to ecosystems to become GoTo destination for life events for best customers⁴

Sources: Researcher analysis and BBVA interviews and company documents. ¹<http://www.businessinsider.com/4-reasons-robo-investing-growing-2017-1/?r=AU&IR=T>; ² 2016, Freelancing in America Report; ³77-of-financial-exec-s-expect-blockchain-for-post-trade-use-within-5-years;

⁴P. Weill & S. L. Woerner, "Thriving in an Increasingly Digital Ecosystem," MIT Sloan Management Review, Summer 2015, Vol. 56, No. 4, pp. 27-34, June 16, 2015,

P. Weill & S. Woerner, "What's Your Digital Business Model? Six questions to help you build the next generation enterprise", Harvard Business School Press, forthcoming 2018.

1. What is digital business transformation?
2. What percentage of firms have transformed and how do they perform?
3. What are the pathways to transformation?
4. Examples: Danske Bank, ING Direct, BBVA, mBank
5. Discussion: Which path are you on?

Stories of digital transformation—Multiple pathways



- Make customers' mobile the remote control for the bank



- Respectful, Easy, Dependable—campaign to reduce customers hours spent



- Reorganize by customers' life events



- Created a new company and now merging ...



- Pick target segment—financial coach for millennials



- Acquired 6 companies in 5 years reducing operating cost by 20%



- Social banking: Bypass financial services firms



- GoTo Destination for Investment for individuals and companies

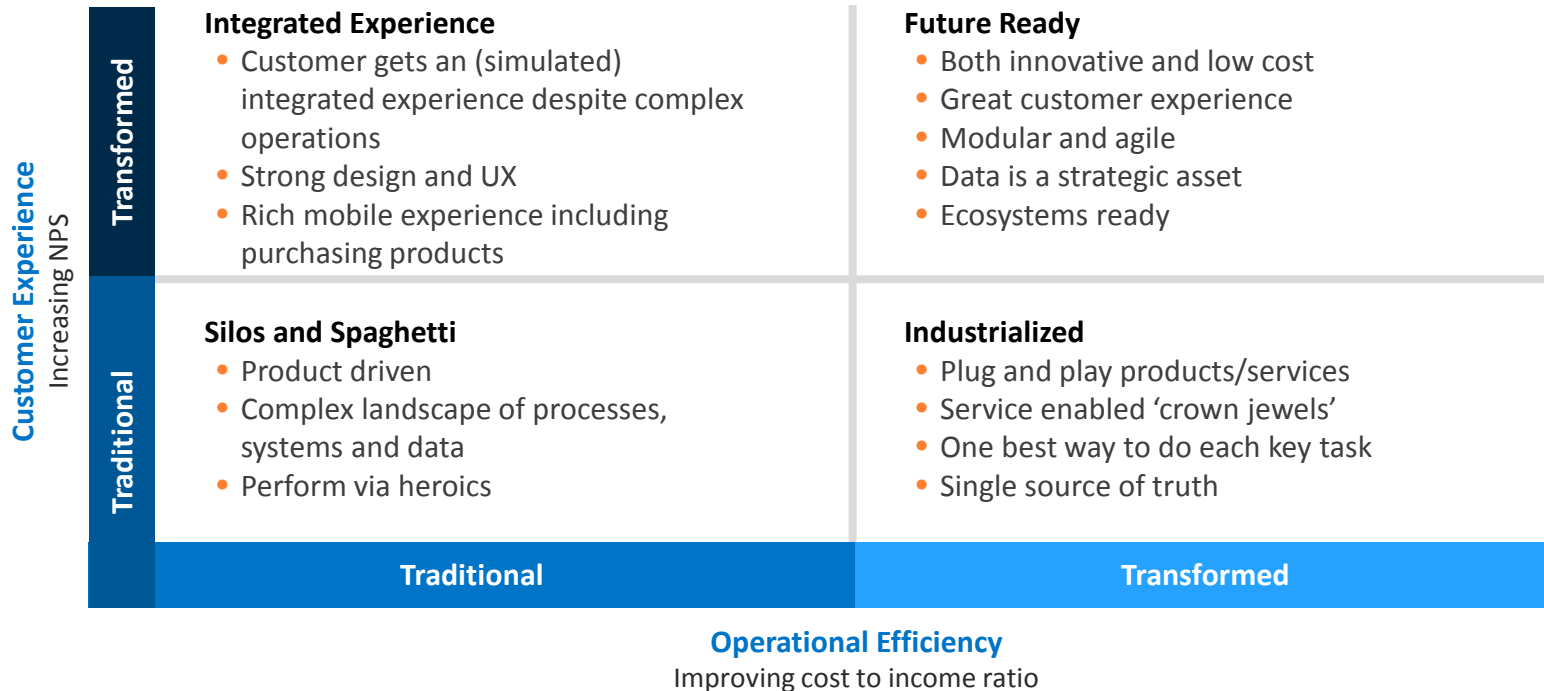


- Open, secure, and technology agnostic financial services



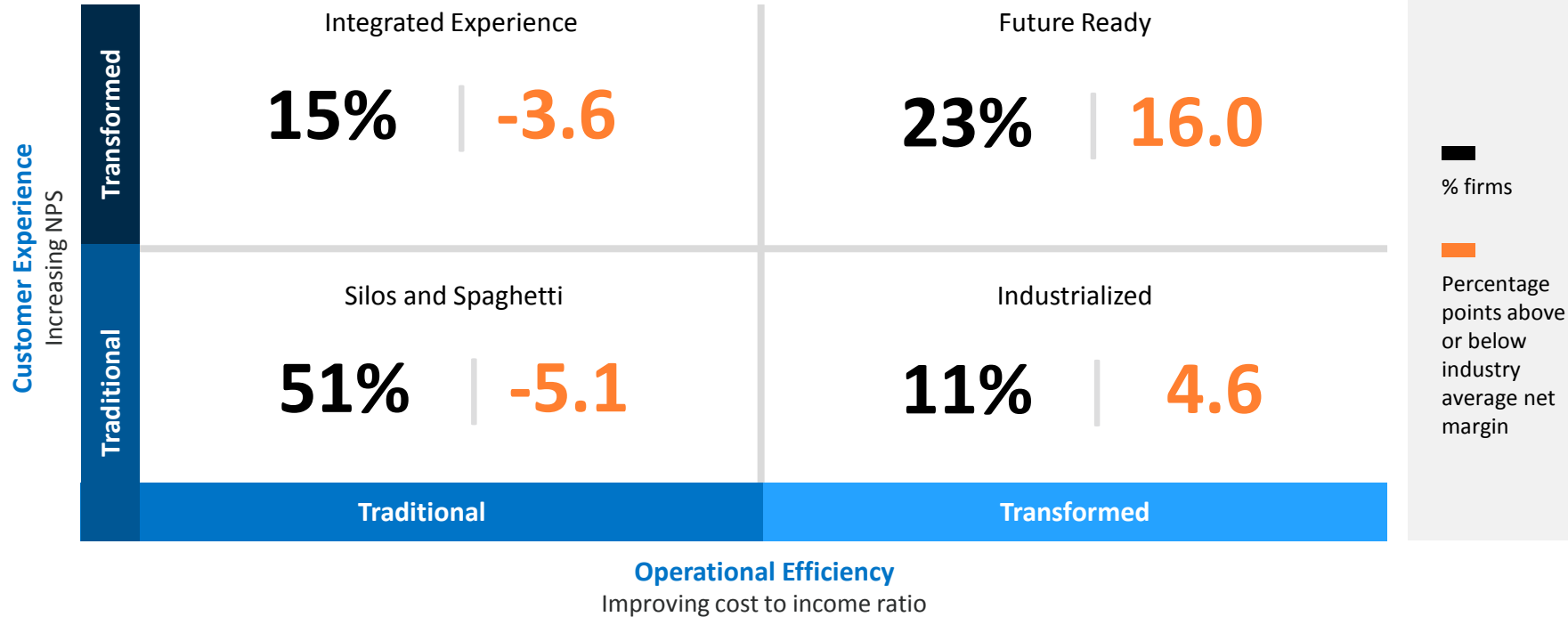
- 3 stages to be great digital bank: customer experience, platform, bank in a box

What is digital business transformation?



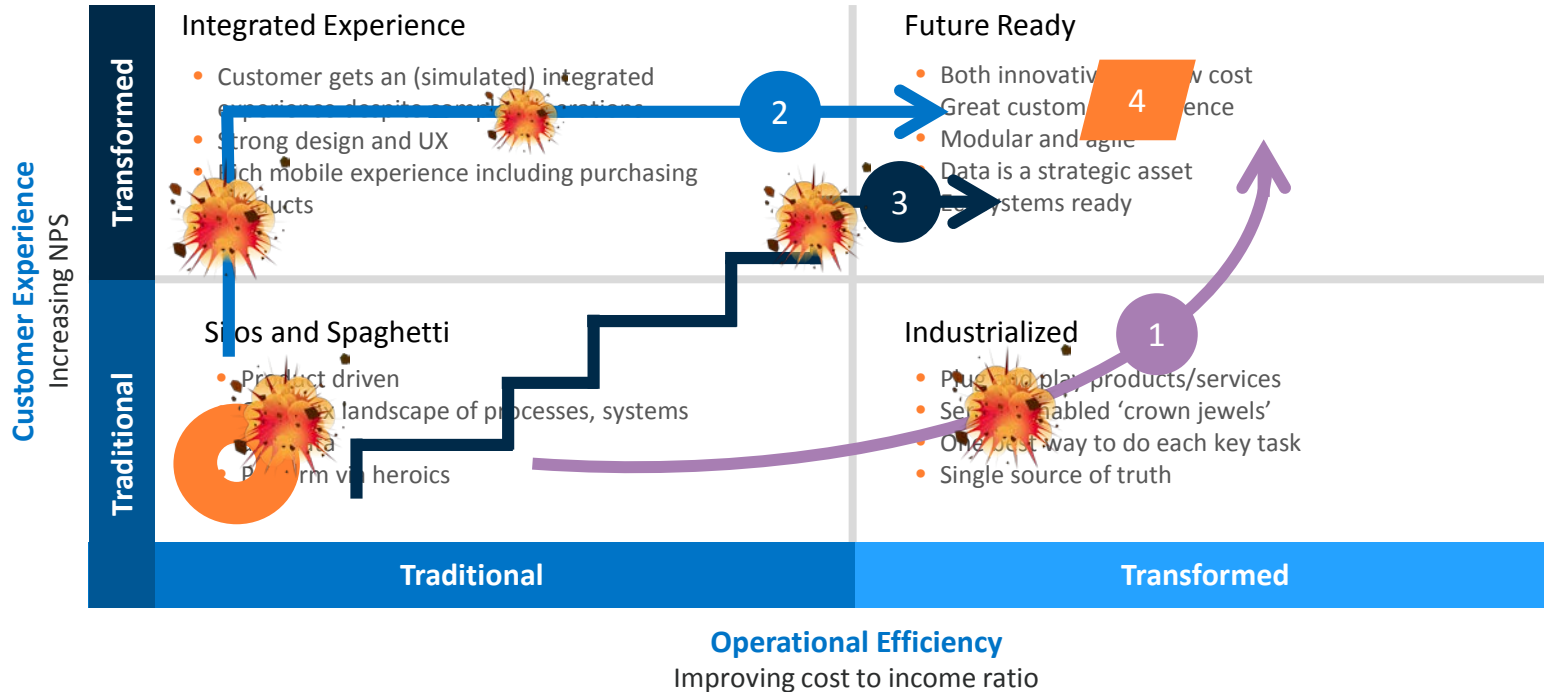
Source: MIT CISR 2015 CIO Digital Disruption Survey (N=413 and 2016 interviews) and 2016 company interviews. Customer Experience=effectiveness on customer knowledge+omnichannel capability+customer experience projects+customer experience performance. Operational Efficiency=effectiveness on automation and employee productivity projects+% of core capabilities with APIs+cost of operations performance. Quadrants are splits at 2/3 along each axis.

Future-ready firms have the best margins compared to competitors



Source: MIT CISR 2015 CIO Digital Disruption Survey (N=413) and 2016 company interviews. Customer Experience=effectiveness on customer knowledge+ omnichannel capability+customer experience projects+customer experience performance. Operational Efficiency=effectiveness on automation and employee productivity projects+% of core capabilities with APIs+cost of operations performance. Quadrants are splits at 2/3 along each axis. Net Margin is relative to industry average.

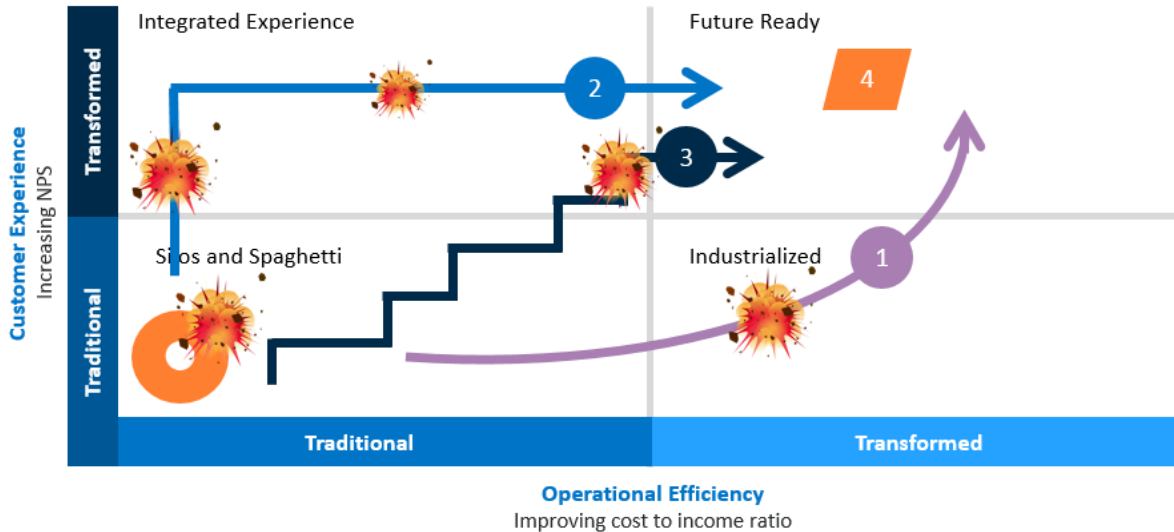
The four pathways to Future Ready



The lines are the transformation pathways. Explosions are major changes in decision rights and organizational surgery.

Source: MIT CISR 2015 CIO Digital Disruption Survey (N=413) and 2016 company interviews. Customer Experience= effectiveness on customer knowledge+ omnichannel capability+customer experience projects+customer experience performance. Operational Efficiency =effectiveness on automation and employee productivity projects+% of core capabilities with APIs+cost of operations performance. Quadrants are splits at splits at 2/3 along each axis.

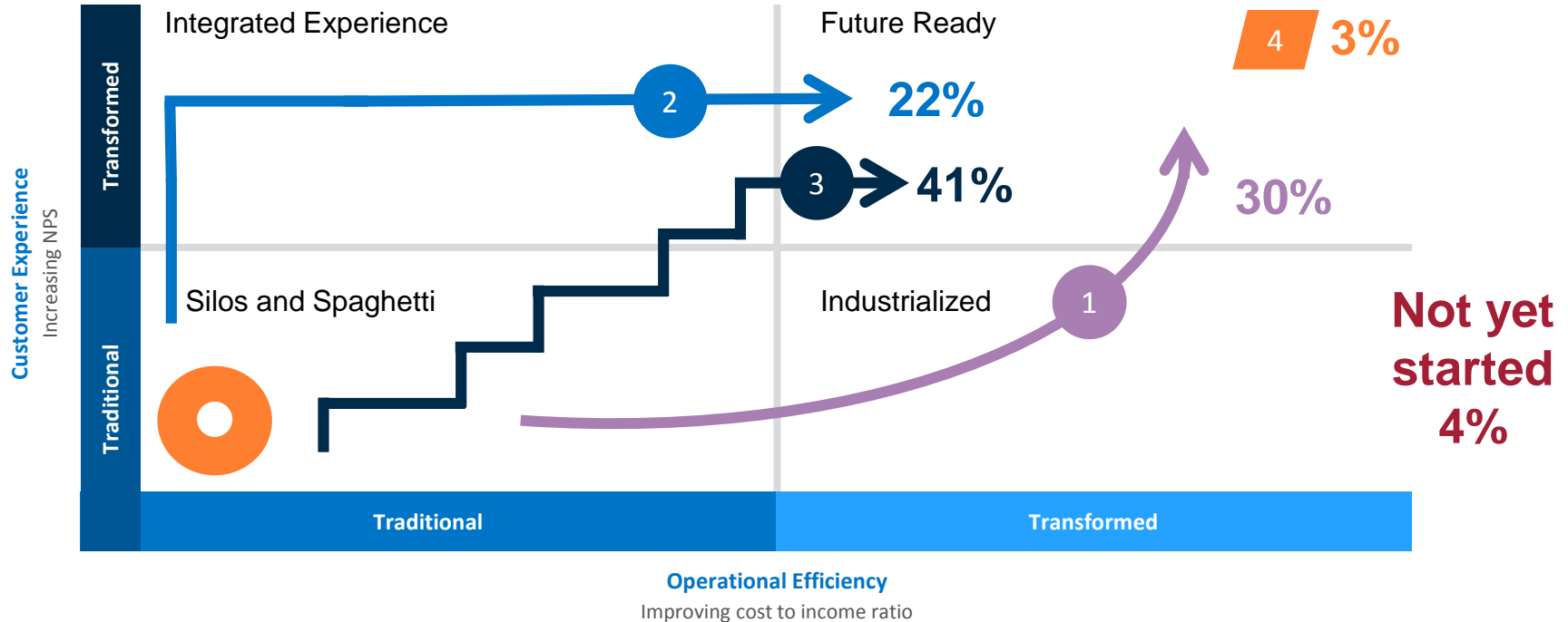
The four pathways to Future Ready



Choose a Pathway

1. Where are you today?
2. Move right on **Path 1** if your customer experience is ok (e.g., NPS around industry average).
3. Can't wait to improve your customer experience (e.g., NPS is below industry average or new scary competitors)? Move up on **Path 2**.
4. Can't wait to improve customer experience but a few initiatives will make a big difference (e.g., a great app)? Start with those and then focus on operations—and repeat in small steps, say 120 days each—on **Path 3**.
5. Can't see a way to change the culture, customer experience and operations fast enough to survive? Build a new company using **Path 4**.

Which pathways are companies pursuing?

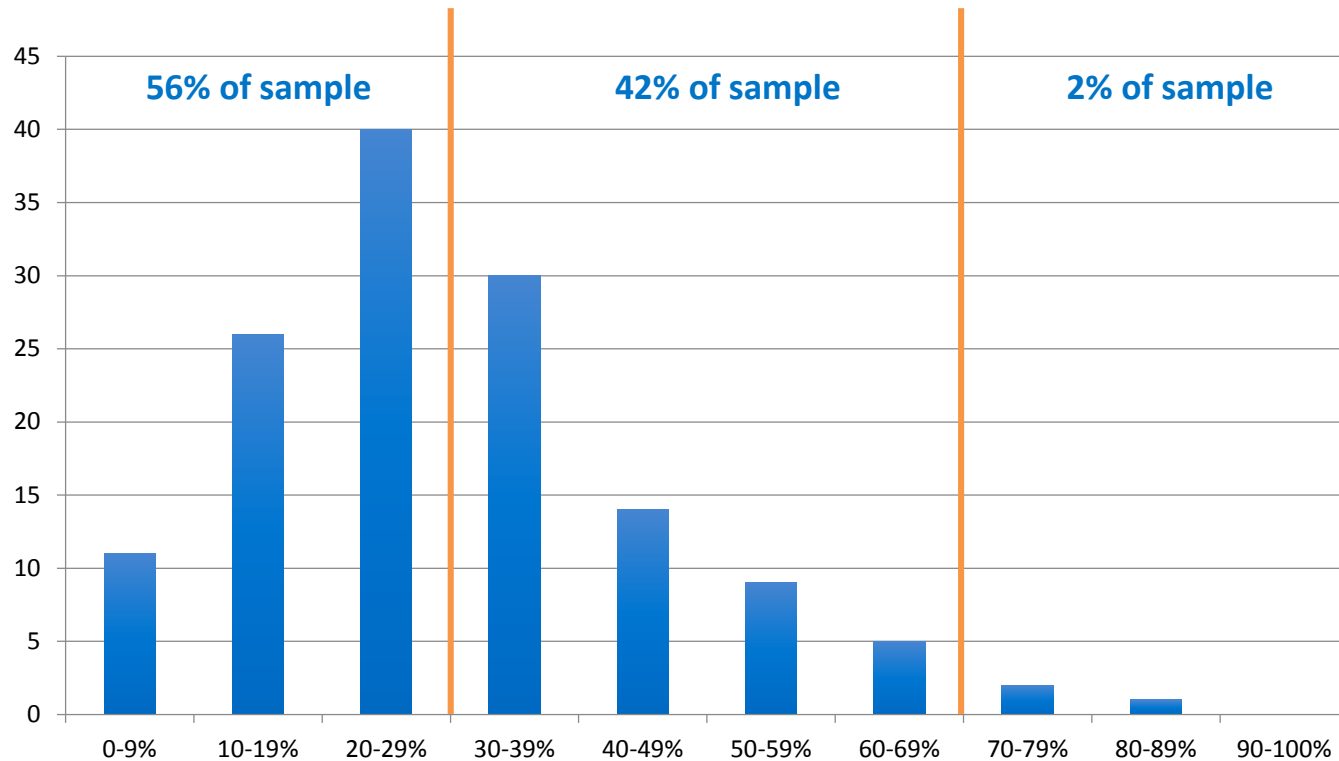


The lines are the transformation pathways.

Sources: Quadrants are derived from data from MIT CISR 2015 CIO Digital Disruption Survey (N=413) and 2016 company interviews.

%s on pathways are from MIT CISR 2016 Annual Research Forum (N=66), MIT CISR 2016 Australia Forum (N=44), MIT CISR 2017 International European Forum (N=61), MIT CISR 2017 CIO Summit (N=23) and MIT CISR 2017 Summer Session (N=49). Total N=243.

How far along are companies on their transformation?



**Average %
completion = 34%**

Sources: Quadrants are derived from data from MIT CISR 2015 CIO Digital Disruption Survey (N=413) and 2016 company interviews.

%s on pathways are from MIT CISR 2017 International European Forum (N=59), MIT CISR 2017 CIO Summit (N=26) and MIT CISR 2017 Summer Session (N=53). Total N=138.

Discussion questions



Which pathway(s) are you on and what percent of the transformation is complete?

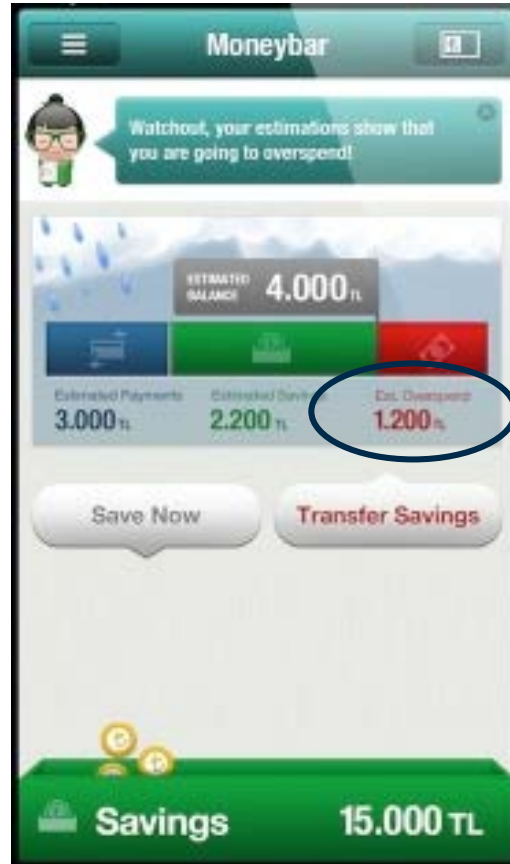


What is the key lesson you have learnt?



Please prepare a one-sentence summary to share.

iGaranti – financial coach for millennials



← Notification

← Estimated overspending amount

And start investing and benchmarking



Customer Experience Increasing NPS	Transformed	Integrated Experience	<ul style="list-style-type: none"> Infrastructure investment 40% Digital spend % of revenue (+/- industry avg) +8% % New projects 36% Digital spend in IT budget 34% APIs (internal) 30% IP addressable assets 26% 	Future Ready	<ul style="list-style-type: none"> Infrastructure investment 46% Digital spend % of revenue (+/- industry avg) +10% % New projects 44% Digital spend in IT budget 48% APIs (internal) 52% IP addressable assets 49%
		Traditional	Silos and Spaghetti	<ul style="list-style-type: none"> Infrastructure investment 36% Digital spend % of revenue (+/- industry avg) -9% % New projects 36% Digital spend in IT budget 37% APIs (internal) 25% IP addressable assets 29% 	Industrialized
			Traditional	Transformed	

Operational Excellence

Improving cost to income ratio

Spending

Infrastructure investment = % of annual digital spending on infrastructure
Digital spend % of revenue = total digital spending as a % of revenue

Where spent

% New projects = % of digital spending allocated to new projects
Digital spend in IT budget = Total % of digitization spending in the IT budget

Capabilities created

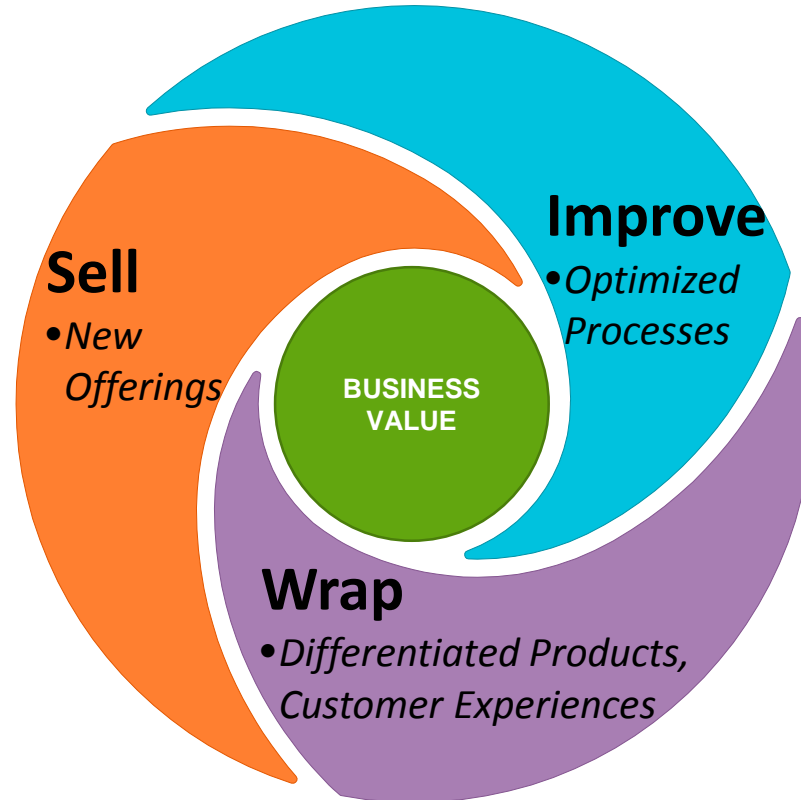
APIs (internal) = % of core capabilities that are API-enabled for internal use
IP-addressable assets = % of enterprise physical assets that are IP addressable



Francisco González
Group Executive Chairman



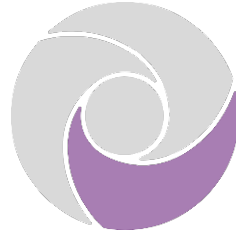
Three ways to make money with data



Common foundations are the “secret sauce”



Improving
*Data-driven
organization*



Wrapping
Data productization



Selling
*“Information business”
business model*

1. Secured, compliant platform
2. Process management
3. Governed, high-quality data
4. Single version of the truth (customer, product, performance)
5. Analytics
6. Pervasive data-savvy talent

Cognitive computing is a multi-step process

