



# Agile banking transformation

## From machine-like bureaucracies to agile organisms

Disruptive technologies and digital-only competitors are forcing traditional banks to go from being some of the most bureaucratic, machine-like organisations to model agile organisms. Financial services companies have faced an existential threat for the past two decades as investment pours into fintech companies and customer demands change rapidly. According to a survey Economist Impact conducted in Latin America on behalf of Mambu in 2020, 87% of banking executives agree that fintechs have forced retail banks to rethink how financial services are done.<sup>1</sup> In a global survey, retail bank executives identified payment companies and digital-only savings and deposits banks as areas where they expected new entrants to gain the biggest market share.<sup>2</sup> This pressure is forcing traditional banks to change more quickly than companies in other sectors, to adapt to the digital era. Indeed 73% of our survey respondents believe that retail banking trails ahead of many other sectors in digitalising its business.

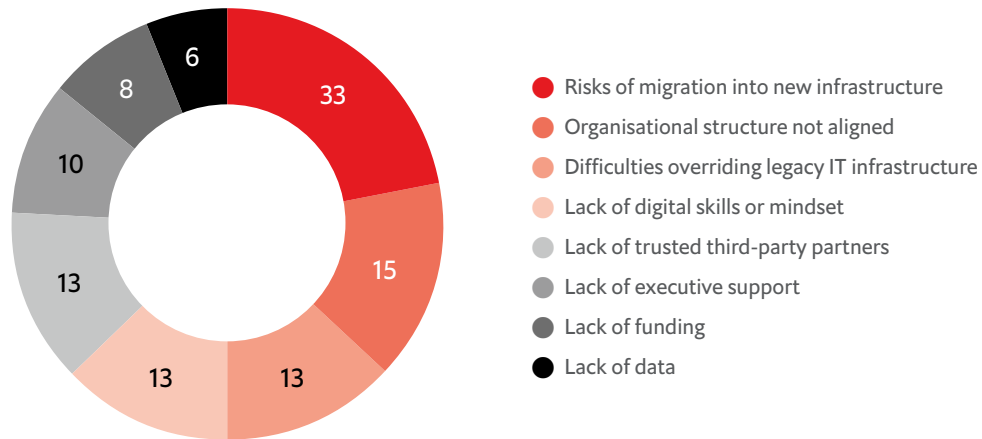
However, digital transformation does not only encompass new technologies. The Economist Impact survey found that organisational structures and a lack of digital mind-set remain some of the greatest barriers to digital transformation in financial services companies. (See Figure 1) Organisational change is a key trait of digital transformation, as agility enables companies to keep up with customer demands and respond to crises. In order to achieve this transformation, banks have taken their cues from technology companies. This means making small decisions as part of rapid cycles, quickly testing these in practice, and adjusting them as needed.<sup>3</sup> This article explores what characterises agile organisations and how agility can help financial institutions stay ahead of customer demands, weather future crises, and empower employees to promote innovation.

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- 1 Economist Intelligence Unit (2019) Making up for lost time: The race to digitise financial services in Latin America
- 2 Economist Intelligence Unit (2019) A whole new world: How technology is driving the evolution of intelligent banking [https://impact.economist.com/perspectives/sites/default/files/intelligent\\_banking\\_temenos\\_2019\\_0.pdf](https://impact.economist.com/perspectives/sites/default/files/intelligent_banking_temenos_2019_0.pdf)
- 3 Agile resilience in the UK: Lessons from COVID-19 for the 'next normal' <https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/agile-resilience-in-the-uk-lessons-from-covid-19-for-the-next-normal>

**Figure 1.**  
**Barriers for digitalisation in financial services companies**  
 Which of the following are the main barriers for digitisation in your company?  
 (%)



Source: Economist Impact 2020\*

### From bureaucratic machines to agile organisms

For decades traditional banks were organisational structures with rigid top-down hierarchies, mid-level bureaucracies and specialised teams working in silos. This organisational model was designed based on Frederick Taylor’s theories on scientific management that optimised labour productivity, which became a paradigm for managing companies throughout the 20th century.<sup>5</sup> Digital transformation has forced companies to rethink

this paradigm and empower multidisciplinary teams that provide end-to-end solutions to business challenges. Banks have been on the frontline of this change as their digital competitors have forced them to undertake ambitious digital transformations.

Agile teams break large, complex problems into modules, and develop solutions to each component through rapid prototyping and tight feedback loops.<sup>6</sup> These teams are self-governing, as senior leaders present the challenge but do not outline the approach to solve it. They are also adaptable, and hold themselves accountable for outcomes like growth or profitability instead of outputs like the number of new products.<sup>7</sup> Instead of a machine, these organisations function as organisms with multiple autonomous networks functioning around a common objective.<sup>8</sup>

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 5 Agile resilience in the UK: Lessons from COVID-19 for the ‘next normal’ <https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/agile-resilience-in-the-uk-lessons-from-covid-19-for-the-next-normal>  
 6 Darrell Rigby (2018) “Agile at scale” <https://hbr.org/2018/05/agile-at-scale>  
 7 Darrell Rigby (2018) “Agile at scale” <https://hbr.org/2018/05/agile-at-scale>  
 8 Wouter Aghina (2018) “The five trademarks of agile organisations” <https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/the-five-trademarks-of-agile-organizations>

## An agile approach allows banks to solve pain points in the customer journey in a micro fashion, and to build on these changes incrementally.

ING, a Dutch multinational financial services company, was one of the first banks to adopt an agile organisational structure, dividing its staff into squads and tribes. Each of these business units identifies its own purpose; the way of measuring the impact it has on customers and how to manage its daily activities.<sup>9</sup> The units then go through a quarterly business review, where each tribe presents its achievements and biggest learnings, celebrating both successes and failures and articulating what it aims to achieve over the next quarter. The bank's agile structure was modelled after tech companies like Google, Spotify and Netflix and was crucial for improving its time to market, boosting employee engagement, and increasing productivity.<sup>10</sup>

### Staying close to the customer

One of digitalisation's main advantages of digitalisation is that businesses can gain a single view of the customer. In the case of banks, it provides enough data to evaluate a customer's income, loans and other transactions to better

tailor offerings based on their preferences and behaviours. In order to achieve this, banks need to be nimble enough to respond to preferences that change quickly. An agile approach allows banks to solve pain points in the customer journey in a micro fashion, and build on these changes incrementally.<sup>11</sup> Most importantly, it puts the responsibility for innovation in the hands of those who are closest to customers.<sup>12</sup>

Customer-centricity is at the heart of agile teams' culture. Over the last decade DBS, a Singaporean multinational bank, underwent a major business overhaul to transform its highly bureaucratic infrastructure and achieve an ambitious goal: making banking joyful.<sup>13</sup> In order to achieve this, the bank put together cross-functional teams that aimed to reduce waste, including the time their customers spent waiting for specific transactions or processes such as reporting a stolen card. After two years working with this structure, the bank was able to eliminate 250 million customer hours.<sup>14</sup> During that process, they also realised that they could solve specific pain points across a variety of processes and transactions by mapping end-to-end customer journeys. Since then, the bank has mapped over 400 of these with remarkable results. DBS has been recognised as the world's best bank since 2017 and seen revenue surge from approximately S\$9.6 bn in 2014, the year it launched its digital transformation, to S\$14.6 bn in 2021.<sup>15</sup>

9 McKinsey Quarterly (2017) ING's agile transformation <https://www.mckinsey.com/industries/financial-services/our-insights/ings-agile-transformation>

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11 Elena Chong (2020) "Agile resilience in the UK: Lessons from COVID-19 for the 'next normal'" <https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/agile-resilience-in-the-uk-lessons-from-covid-19-for-the-next-normal>

12 Darrell Rigby (2018) "Agile at scale" <https://hbr.org/2018/05/agile-at-scale>

13 Vinika D. Rao (2022) How DBS Became the 'World's Best Bank' Insead <https://knowledge.insead.edu/economics-finance/how-dbs-became-worlds-best-bank>

14 Accenture (2020) "DBS Bank's Agile Transformation to Make Banking Joyful" Agile Amped podcast <https://podcasts.apple.com/gh/podcast/dbs-banks-agile-transformation-to-make-banking-joyful/id992128516?i=1000382596956>

15 Vinika D. Rao (2022) How DBS Became the 'World's Best Bank' Insead <https://knowledge.insead.edu/economics-finance/how-dbs-became-worlds-best-bank>

## Responding to crisis

The ability to rapidly adapt and change course when needed, proved fundamental during the covid-19 pandemic. Companies embedding agility into their operating models were also the most successful at managing the impacts of the covid-19 crisis, as reprioritisation came more naturally.<sup>16</sup> Putting speed before perfection and not being locked into strategic plans that were no longer relevant also tempered negative effects. Agile companies were nimble enough to avoid the worst impacts of the pandemic as they put speed before perfection and were not locked onto a strategic plan that was no longer relevant.<sup>17</sup> These companies also empowered frontline employees, which gave them the ability to closely assess the situation on the ground and come up with better ideas on how to serve customers. During this crisis, banks' agility was tested, as both customers and employees were forced to operate remotely. At the beginning of the pandemic, 10% of financial services companies had the technology infrastructure needed to transition to remote work.<sup>18</sup> A year later, in a survey of enterprise

agility in five major industries—financial services, healthcare, manufacturing, public sector, and telecommunications— financial services companies emerged as leaders in business agility, ranking second in overall agility, after telecoms, and first in agile customer experience, risk management, and finance.<sup>19</sup>

## Gaining an edge in the search for talent

In addition to competing for customers, traditional banks undergoing major digital transformations, find themselves in a war for talent with fintechs and other technology companies. The ability to attract qualified talent is now one of the top concerns for banking executives. According to a recent survey, in the US, 67% of executives stated this as their main concern compared with 27% in 2020.<sup>20</sup> By contrast, over the past decade, tech start-ups have been increasing the size of their software engineering and developer staff by nearly 60% each year, the fastest hiring pace among tech and non-tech companies.<sup>21</sup>

Agility and the capacity to innovate are big draws for tech workers and have given start-ups an advantage over traditional banks in this search. Agile models create structures with fewer hierarchies, higher levels of autonomy, and increased team motivation, which in turn can lead to a higher level of job satisfaction,

## Companies that had embedded agility into their operating models were also the most successful at managing the impact of the covid-19 crisis

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- 16 Christopher Handscomb (2020) "An operating model for the next normal: Lessons from agile organizations in the crisis" <https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/an-operating-model-for-the-next-normal-lessons-from-agile-organizations-in-the-crisis>
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- 21 Paul-Noel Guely (2022) Cloud sector boom accelerated by digital transformation, Forbes <https://www.forbes.com/sites/paulnoelguely/2022/06/14/cloud-sector-boom-accelerated-by-digital-transformation/?sh=edf431a447b9>

affective organisational commitment, and work engagement.<sup>22</sup> Agile organisations also promote role mobility and allow employees to build new capabilities through varied experiences.<sup>23</sup>

Aware of this, several banks have embraced agile set ups as part of their push to attract more engineering talent. The Commonwealth Bank of Australia has been using agile models to develop its web and mobile applications for the past 15 years. According to Brendan Hopper, the bank's CIO for technology, implementing these models requires constant focus and investment, as organisations face the risk of shifting back towards project mentalities that focus on hitting deadlines, rather than building quality products.<sup>24</sup> However, this investment is also essential to maintaining a competitive advantage in the talent market. "Banks have really interesting problems to solve and products to build that will make a difference to our customers," Mr. Hopper says, "what excites our teams the most is when they see our technology can be used to have a positive impact on people's lives."<sup>25</sup> Agile teams do a better job of empowering employees and creating a space for greater

experimentation. Autonomous and self-governing teams can become knowledge communities with responsibilities for attracting and developing talent, sharing knowledge and experience as people rotate between different operating teams.<sup>26</sup>

## Conclusion

Technology is often seen as the cornerstone of digital transformation. However, organisations need to be able to integrate data into decision-making and quickly respond to customers' changing needs. Long-term plans can no longer keep up with the speed of technological changes and customer demands. Teams need to be constantly developing new solutions and incrementally building products through ideation and iteration. Agile teams empower those who are closer to the customers to innovate, while senior leadership can focus on setting the overall goals and identifying the key challenges of the organisation. Agile organisations have proven more successful at taking advantage of the 360 degree view of the customer that digitalisation offers, and embedding customer-centricity to its process. This gives them the ability to quickly reprioritise as competitor threats or external crises emerge. Changes in corporate culture and management will be as important as technological advances while banks attempt to evolve and compete with digital counterparts. Agility will ensure traditional banks are able to prioritise timely change instead of long transformation plans that lead nowhere.

**“What excites our teams the most is when they see our technology can be used to have a positive impact on people’s lives.”**

Brendan Hopper, CIO of Technology,  
The Commonwealth Bank of Australia

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24 Interview with Brendan Hopper

25 Interview with Brandan Hopper

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