Digitalization of Back Office Activities
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In our daily life, digitalization is an often discussed and fashionable topic. Many financial institutions see this as an opportunity to gain further competitive advantage. Obviously, it is mainly elaborated in the context of sales and marketing. Back office activities were less in direct focus; however they are even more critical for success. We believe digitalization will provide for the back office and support functions a similar disruption as the industrial revolution did to textile production back in the 19th century.

This year Roland Berger and Efma conducted a holistic study to capture insights on back office digitalization. More specifically, the aim of this study is to assess the current status of the back office, identify the digital forerunners of Central Europe and provide pragmatic recommendations for success and how to avoid the pitfalls of this revolution.

In this booklet, we summarized the key findings of our assessment based on the consolidated view of the retail banking industry in CEE. The report contains insights on the approach retail banks in CEE are pursuing in order to adapt to the disruptive force of digitalization. It is structured into five parts:

I. Introduction to the topic: Why digitalization in the back office is relevant for retail banks in the CEE region
II. Definition and Vision: Defining digitalization, motivation, and vision for the digital back office
III. Targeted areas: Key processes to be targeted and applied approach to digitalization
IV. Implementation: Operationalization of back office digitalization, and approach to implementation
V. Summary and outlook

In order to get a crisp picture, we have carried out interviews with executives (CEOs, Board Members - especially COOs) of leading banks in the CEE region. The insights gathered during these interviews have been combined with the knowledge from our primary research on digital technologies and cooperation with selected fintechs.

We are convinced this report and the insights will support you in developing, refining, and reshaping your approach to digitalization overall, but especially your attitude towards digitalization of the back office.

Sincerely yours,
EXECUTIVE SUMMARY
EXECUTIVE SUMMARY

DIGITALIZATION IS THE OPPORTUNITY WHICH OFTEN CAUSES A HEAD-ACHE

The emergence of digital technologies brings new capabilities to businesses and allows them to address their clients faster, better and precisely coping with their individualism. Some financial institutions master the embedding of these new technologies very well, however for the majority of the banks it means a difficult task with numerous challenges.

New business opportunities and challenges lie in the capabilities offered by the technology. From offering and value proposition viewpoints, digitalization could be a tremendous differentiating factor. On the other hand, changes at the front end of the bank result in significant changes in the back office – Usually the head-ache of the Head of Operation.

OBJECTIVES AND REASONS FOR BACK OFFICE DIGITALIZATION

Back office digitalization has two main facets: improvement of the client experience, and automation of processes. Surely these are interconnected, but there is one key difference: in what way the starting point and the objectives are derived. While client experience oriented banks focus on improving client proximity, the process automation approach is more of an internal view on digitalization (e.g. doing things faster and better).

The three main reasons why banks digitalize their back office are to improve the response time, enhance the client experience and increase the data quality. Interestingly, there are some differences depending on the size of the bank to be observed. Small banks are more focused on efficiency improvement, while large banks are more driven by the improvement of risk management.

VISION OF DIGITALIZED BACK OFFICE SHOWS CONSENSUS

When defining a strategic vision for the digitalization of the back office, banks show consensus on several key points. Firstly, all consider the interaction points to be the key enablers of digitalization. This way more value added activities and new services can be provided. The process with which this can be achieved will gradually develop into an STP standard and only require human interaction for exception management, back-up services, and process engineering.

THE APPROACH TO DEFINING A DIGITAL ROADMAP

When defining the direction of digitalization, 50% of the banks already have a consolidated roadmap, which is in most cases part of the bank’s overall strategy. This roadmap is usually extended over a period of 2-4 years, follows an IT solution
structure and relies on high-level business cases. Depending on the bank, this roadmap can be increasingly KPI based and more defined regarding the target picture and the appropriate road towards it.

As several banks are trying to avoid a detached view of Group management, Board and/or B-1 level field and client visits have been introduced in order to increase the insight of the management and thus the executability of the decisions made. Despite this executability, there is still a high level of theoretical reasoning and lengthy qualification processes, which lead to the currently emerging trial-error pragmatism of banks. This is underlined by the claims, that business cases often do not entirely summarize the economic rationale.

OWNERSHIP AND RESPONSIBILITY DISTRIBUTION OF INITIATIVES

The ownership of digitalization initiatives lies with the Board, often with the CEOs or Head of Retail. In 33% of the cases the Head of Operations takes on the responsibility of developing a digital initiative. The coordination has to be located at the highest level in order to overcome silos between departments.

The next step will be the central coordination between members of international groups to maximize the potential of IT solutions and people. The main priority which the responsibles are basing the decisions on, is predominantly cost reduction as it represents a hygiene criterion. The trigger of the initiatives on the other hand lies in the hands of the front office, while the trend points towards the industrialization of the decision making.

FOCUS AREAS

Compared to the previous three years, there has been a shift in focus from initiatives regarding scoring, payment processing and document management towards the digitalization of credit administration, cash management, and CRM. These are also expected to be the focal points of the digital agenda during the next three years.

When focusing on these fields, two major limiting factors have to be taken into consideration: the legal framework and client preferences. Positive developments are foreseeable in both areas. An example for this is that pioneers are already applying legal workarounds for e-signatures as the current environment does not allow for extensive usage of e-signatures across CEE.
IMPLEMENTATION

After setting the focus, most banks have a similar approach to implementing their digital agendas. The Group determines the budget and the required projects, which are delegated to local management. At this level, the set-up of the project and the break-down of tasks is conducted and then carried out by third parties.

This operative task is limited by obstacles like the unavailability of cheap labor force and technology, making it difficult to economically justify the digital developments as in many cases the IT systems are too expensive - Resulting in low or no cost saving. For the technology, banks are usually contracting local IT solution providers, but the lack of qualified programmers forces banks to reach out to expensive programming companies. This inefficiency could further be optimized by utilizing centralized Group solutions across CEE countries.

Based on the learnings of banks, in order to ensure success in digitalization initiatives, three criteria must be fulfilled: top management buy-in, a modular project approach and early involvement of IT.
METHODOLOGY AND SCOPE OF THE STUDY

METHODOLOGY

Roland Berger has conducted representative interviews among top managers of major CEE banks with Efma’s continuous support, which built the backbone of this study on the digitalization of banks’ processes and in general back office activities. The main objective was to provide regional insight on what different bank executives see as relevant areas and what plans they have to counter certain obstacles they are facing. The main questions we have formulated are the following:

> How is digitalization defined throughout the region?
> What is the vision on future roles and functions of the back office and what disruptive changes can come?
> What kind of competitive advantage does digitalization provide?
> How many banks have a roadmap for digitalization and how are priorities set?
> Who is responsible for digitalization strategies and their creation?
> What kind of projects are banks in the region planning for the coming years?
> What are the key obstacles of digitalization? How can they be overcome?
> What are the key lessons that we can take away from the different projects?

The Digitalization of Back Office Activities study was completed through the cooperation of over 25 leading banks in their respective countries throughout CEE. The study covers 11 counties, namely Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Slovenia, and Serbia.

Figure 12. Study sample highlights and countries in scope
In addition to the regional coverage of our interviews, we have summarized case studies from a leading technology provider, who supports several banks in the development or operation of their IT infrastructure. Together with our vast project experience and expert network, we are confident that we can provide new insights on how regional competitors think about digitalization.

As the methodology outlined in Figure 13, the first step was to define the framework and required data about the banks’ digital back office activities. This was jointly conducted by Roland Berger and Efma. As a second step, interviews were conducted with top level executives followed by the collection of individual KPIs, based on our survey guidebook.

**Figure 13. Study methodology**

As the third step, the collected data and information was analyzed. Next the preliminary findings and conclusions were determined and compiled in a preliminary report, which provided the base for the final Efma report. As a final step the Digitalization of Back Office Activities study got published and communicated by Efma in December 2015.

Efma provided continuous support during the entire report writing process. They played a crucial role as facilitator in organizing interviews, providing contacts, and often acting as an intermediary between Roland Berger and the banks. The conducted interviews with top managers serve as a representative sample of the CEE retail banks’ digitalization efforts, activities, and projects.
ABOUT US

Efma

As a global not-for-profit organisation, Efma brings together more than 3,300 retail financial services companies from over 130 countries.

With a membership base consisting of almost a third of all large retail banks worldwide, Efma has proven to be a valuable resource for the global industry, offering members exclusive access to a multitude of resources, databases, studies, articles, news feeds and publications. Efma also provides numerous networking opportunities through working groups, webinars and international meetings. True to its vocation, Efma has recently developed an Innovation portal which aims to identify and award the most innovative projects in the retail financial services arena.

For more information: www.efma.com

Roland Berger

Roland Berger, founded in 1967, is one of the world’s leading strategy consultancies. With 50 offices in 36 countries, the company has successful operations in all major international markets. The strategy consultancy is an independent partnership exclusively owned by about 220 partners. Roland Berger has also made a name for itself beyond the standard consulting business, establishing itself in the field of research and development. Numerous studies on current business and management issues bear the company’s logo.

The Roland Berger Academic Network, an association established in 1998 and comprising various universities, puts the company at the core of a continuous exchange of theoretical and practical knowledge. In addition, Roland Berger sponsors, chairs at several universities and publishes the „Roland Berger Academic Network“ and the „Papers on European Management“ series

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