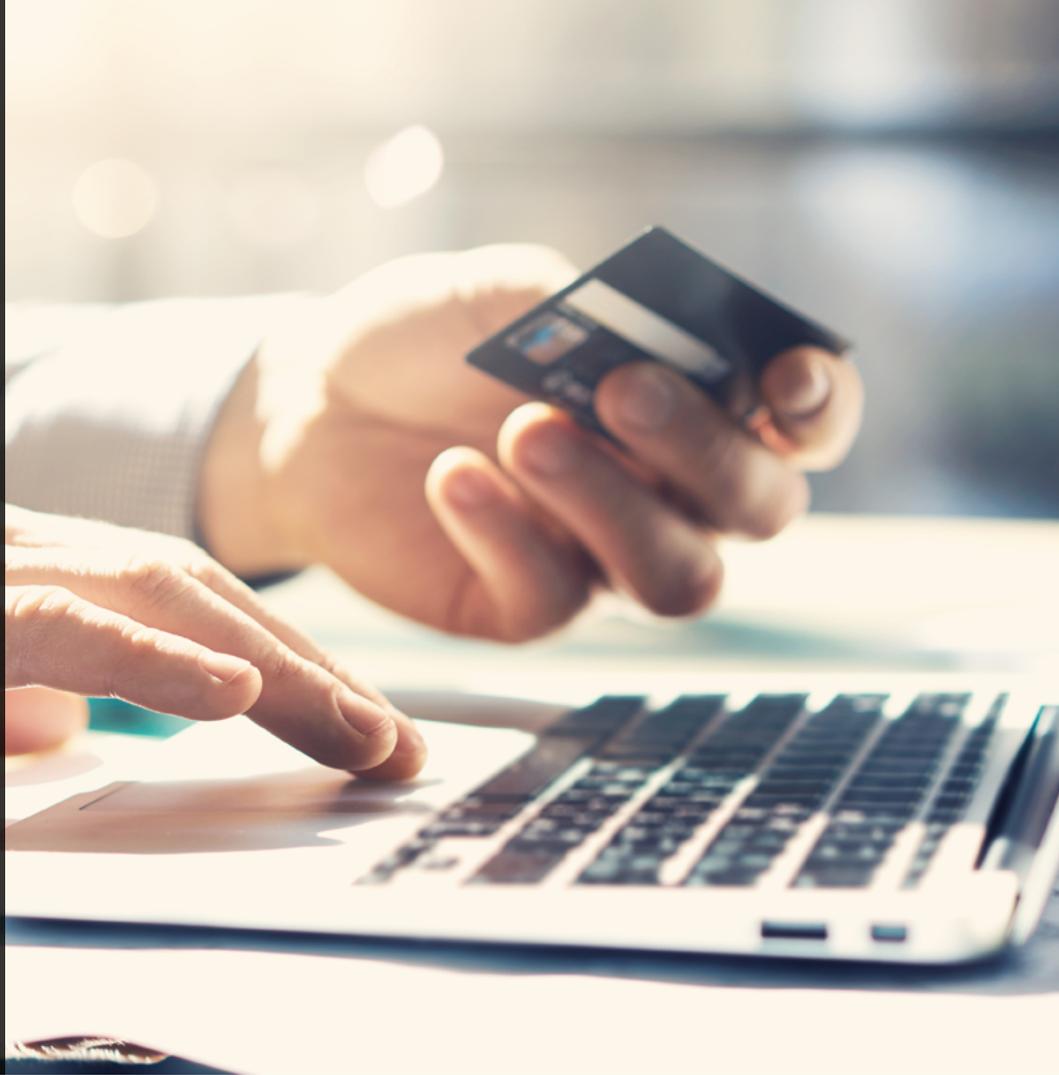




CREATING A BUSINESS CASE FOR BANKING DIGITIZATION

Abstract

Banks and financial institutions that adopt digital transformation initiatives need end-to-end implementation plans from initial planning to support if they are to create enterprise-wide impact and maximize return on investment (RoI). To calculate the potential value from digital transformation, banks must first develop a relevant and well-defined business case. This paper highlights the challenges involved in taking traditional approaches to business case creation and RoI calculations, and examines the actual benefits realized through digitization. It also provides some recommendations on how to create a winning business case for digitization.



Benefits of digitization

Banks that have embraced full-fledged digital transformation programs are already reaping tangible as well as intangible business benefits. When formulating a business case, it is important to understand what these different types of benefits are.

The main tangible benefits that organizations achieve are:

- **Financial savings and revenue** – Successful digital transformation programs help organizations realize significant savings while unlocking new revenue streams. For example, an organization that transforms from a legacy-based core banking system to a nimbler, modern and digitized core saves quantifiable maintenance costs over a period of time. Alternatively, a bank that introduces a new digital channel that is popular with a certain demographic will witness a boost in revenues that can clearly be measured in terms of additional business generated.

- **Lesser turnaround time** – The introduction of technologies to simplify processes such as customer onboarding, loan applications and support requests result in faster and almost instantaneous responses that previously took days to complete. This acceleration in onboarding and servicing processes directly reduce effort and time, which translate to cost savings.

The two key intangible benefits that organizations achieve through digitization are:

- **Enhanced customer experience** – Digitization improves the customer experience by providing new channels, targeted products and personalized services. Organizations can track the spike in customer experience through periodic customer feedback surveys that evaluate customer delight at the inclusion of new digital channels, introduction of optional human support in digital interactions, etc.

- **Improved customer engagement** – Implementing end-to-end digital transformation with close attention to human and digital touchpoints increases customer engagement, retention and, eventually, positive social media coverage. This boosts the organization's image, leading to an increased customer base.

The right approach to create a winning business case

Banking digitization is not a standalone project, particularly when end-to-end transformation is the final goal. Therefore, traditional ways of defining a business case and computing RoI such as those used for smaller projects do not apply here. Organization-wide initiatives affect and transform most workflows, processes and touchpoints across departments and lines of business – and the business case must consider this impact if it is to be relevant. Further, as the previous section highlights,

the intangible benefits of digitization are critical for a bank's survival. However, it is often challenging to capture and quantify these benefits in an RoI calculation. Thus, a business case should consider three main aspects: user/customer journey and experience, process changes, and technology changes.

Here is a recommended 8-step approach for banks looking to create a business case for their digitization initiatives:

- 1. Evaluate the benefits and RoI across functions** – Simplify the process of business case development by evaluating the benefits and RoI across a cluster of related functions and processes. Clusters can be front-end systems and channel experiences such as online, mobile, telephonic, in-branch, etc., or back-end systems covering legacy modernization, data and analytics, and AI and automation, or infrastructure initiatives such as cloud migration and cybersecurity enablement.
- 2. Identify tangible and intangible benefits** – When identifying the individual projects that constitute the overall digitization initiative, banks should record the intangible benefits such as the impact on customer experience and retention, media sentiment, market differentiation, etc., to be derived. They should also define the tangible benefits such as revenue increase, time-to-market improvements, cost savings, etc. These benefits should be in agreement with the objective

of each business line as well as the overall objectives of the transformation exercise.

- 3. Determine the ratio of tangible to intangible benefits achieved** – It is important to note that the ratio of tangible to intangible benefits varies based on multiple considerations. These include what business lines, products and services are offered to customers, what the current state of technology and process readiness is, and what the bank's short-term and long-term goals for digitization are. For instance, goals can be as varied as user experience (UX) and user interface (UI) makeovers, end-to-end digitization, back-end operational excellence initiatives, using digital channels to introduce new products/services, or even starting a new digital bank.
- 4. Set a realistic timeline to achieve goals and measure benefits** – Banks should be aware that the savings for the organization are often cumulative over a period of time. These do not necessarily get realized immediately after the digitization initiative is implemented. Thus, banks should set a time period over which savings will accrue so that benefits can be accurately measured.
- 5. Be agile** – As an organization, banks must be prepared to operate in an agile mode and initiate minimum viable product (MVP) or proofs-of-concept (PoCs) if necessary to prove the RoI.

6. Get all the necessary approvals – Once all the benefits such as the financial savings and impact on customer experience have been identified and evaluated, the overall transformation initiative along with the sub-initiatives must be reviewed and approved by the organizational heads.

7. Be flexible in determining RoI – It is important to realize that business case/RoI calculations are not set in stone once the initiative has been approved or is being implemented. Given that digital transformation initiatives are long-running programs, banks should periodically review the progress on individual projects and accordingly re-engineer them so that they are in sync with changing trends and customer expectations. Such initiatives may also include one-time costs such as implementing a specific product as well as ongoing operational costs. These will also need to be factored into the RoI calculations.

8. Continuously measure KPIs – Once the digitization initiative is completed, banks should continuously measure their net promoter score (NPS)* and devise metrics to continuously engage with customers in order to track customer trust and loyalty levels.

**Net promoter and NPS are registered service marks and Net Promoter Score is a service mark, of Bain & Company, Satmetrix Systems, and Fred Reichheld.*

Conclusion

Banks seeking to embark on digitization journeys should first formulate a fitting business case to understand the costs, benefits and transformation required to achieve success. However, traditional business case development approaches are ineffective in this scenario since digitization impacts the whole enterprise. When it comes to banking digitization, the right approach to business case development is one that clearly identifies tangible and intangible benefits, sets a realistic time to evaluate RoI and continuously measures KPIs among others. With this approach, banks will be better equipped to understand the requirements of transformation, evaluate measurable and intangible business benefits, uncover new revenue streams, and calculate RoI effectively to ensure the success of their digitization programs.

About the Author



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Pramod has been with Infosys in account and program management roles for over 11 years now, and is currently a member of the New Offerings Presales team focused on the Financial Services, Insurance, Healthcare and Life Sciences industry verticals. In this role, he is involved in providing overviews and recommendations to customers on Infosys' offerings around Digitization, AI and Automation, as well as plays a solution consulting role in RFXs in this space.

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