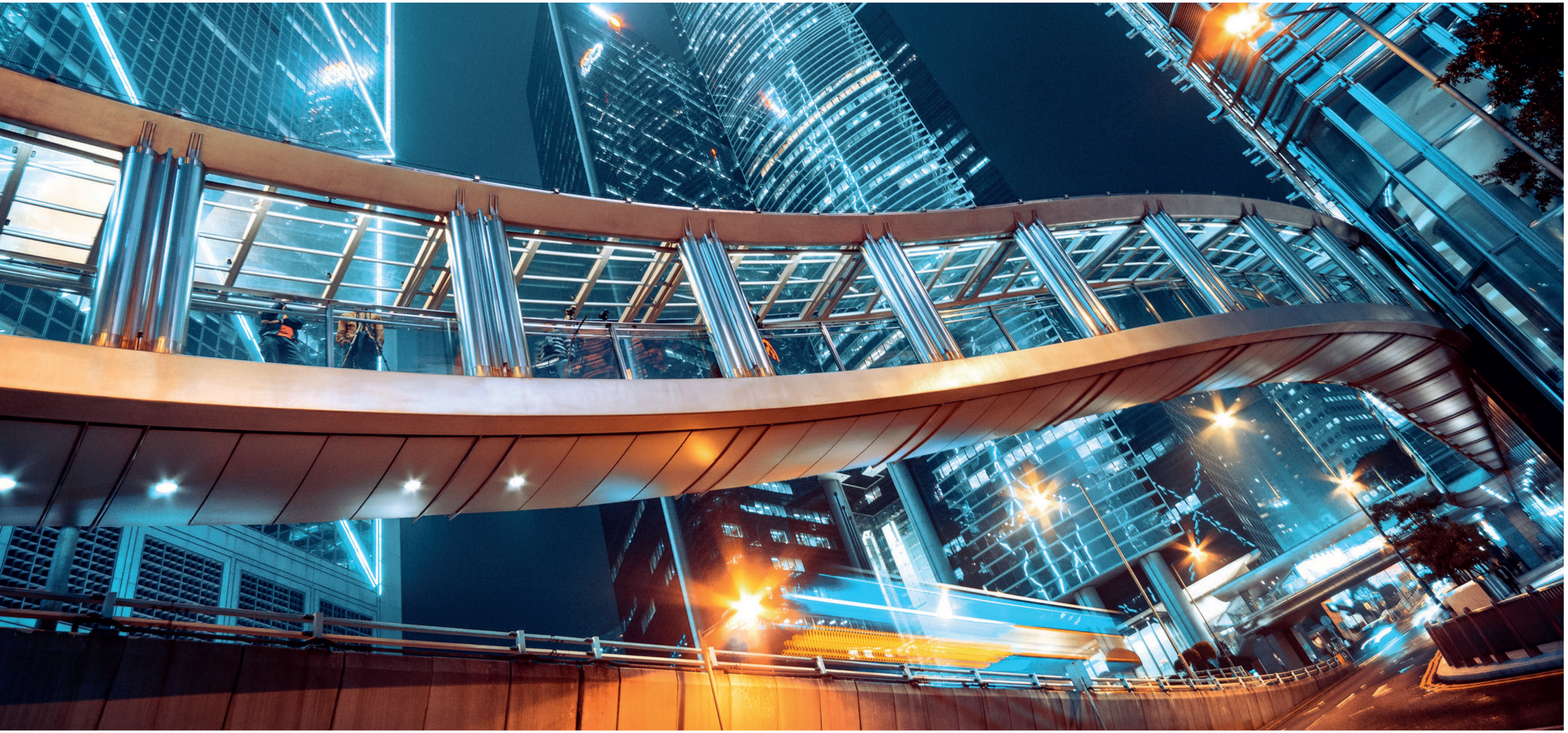
The productivity agenda: moving beyond cost reduction in financial services



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Executive summary

This paper presents the results of PwC's 2018 Productivity in the Financial Services Sector Survey. It's part of a series of thought leadership pieces about important issues and opportunities facing the financial services industry and the ways in which senior executives at the most innovative and successful institutions are responding.

A variety of forces have put tremendous pressure on the financial services industry in recent years, leaving many institutions with unsustainable cost–income ratios. And several of these challenging trends — from new regulatory mandates to augmented capital requirements and aggressive fintech competitors — are strengthening.

Many — if not most — banks are struggling to earn their cost of capital, typically 8% to 12%, let alone get back to the returns on equity (ROEs) of the early and mid-2000s. And the issue is not confined to banks. Some of the world's top insurance companies also struggle to achieve acceptable rates of return and are restructuring and divesting businesses and assets.

Even in the asset management sector, where ROE is much higher than the average in the financial services industry, there is downward pressure on margins and profitability. Managed funds, in particular, are under competitive threat from lower-cost exchange-traded funds, and asset owners are increasingly refusing to pay the fees historically commanded by private equity firms.

Industry response so far

Much of the financial services industry's response to this cost pressure has been predictable, pulled from the same playbook used to address previous downturns and challenges. Financial institutions have rightly focused on reducing expenses and personnel, automating, offshoring and introducing new technology. As for discretionary spending, companies are squeezing suppliers, reducing their rates per hour and the overall cost of professional and other services.

But typical cost-cutting measures haven't done enough to address the impact of the current downturn, which has been uniquely severe. Most institutions have seen whole businesses jettisoned, geographic footprints reduced, and clients 'fired' to the point where the financial services industry has, in essence, de-globalised and become regional and national in nature.

Overall, although ROE is also lower on a combined basis for all of the top ten global banks since the global financial crisis, the new world that emerged from the crisis has made it particularly challenging for smaller institutions to return to their previous performance levels. This is because larger institutions, with diversified business models and robust home markets, have been able to retain or improve the scale of their businesses (mostly through mergers) and have invested heavily in automation technology. The smaller players, though, have mostly reduced assets, clients and products. These actions have left them subscale in many areas, with significant stranded costs and higher cost–income ratios than the scale players.

For both groups, however, the current challenge remains the same, even if there are different degrees of urgency. How do you build a sustainable business model that can compete with both incumbent institutions and new digital contenders?

Moving forward with a focus on productivity

The industry is recognising that it's nearly exhausted its arsenal of conventional cost-reduction tools and that further cutbacks in many businesses are likely to be counterproductive to long-term profitability and sustainability. Organisations also realise that the onslaught of competitive threats and cost pressure is likely to continue, even for institutions that are performing well at the moment. Our clients are asking themselves where to go from here.

As the introduction of new regulatory mandates diminishes and management concentrates on bringing financial institutions' performance in line with investor expectations, organisations increasingly have sufficient capacity and motivation to tackle the productivity challenge — and many of our clients understand that they should. Institutions tend to need help, though, in acquiring the skills and tools needed to boost productivity.

> "Typical cost-cutting measures haven't done enough to address the impact of the current downturn, which has been uniquely severe.

We at PwC have identified six areas where clients are focusing their productivity efforts. In this report, we'll outline the actions you can take within each area to achieve positive results.

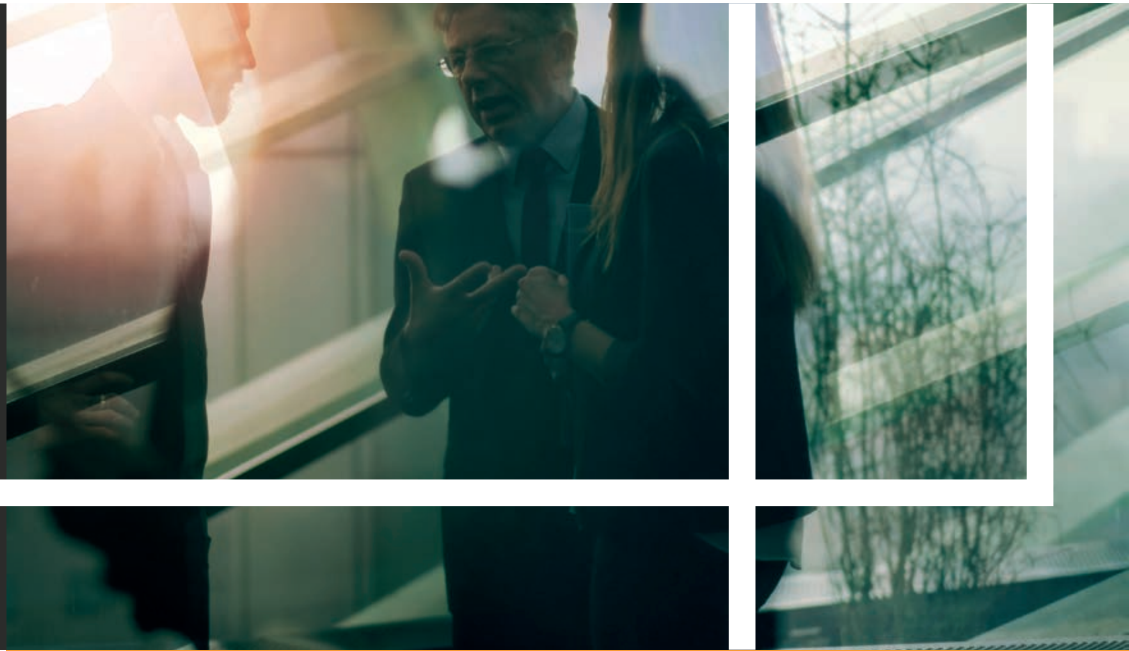
1. Better understanding the workforce
2. Rethinking change functions
3. Embracing the platform economy
4. Improving workforce digital IQ
5. Bringing an agile mind-set to the mainstream
6. Mastering digital labour

All six share two common qualities: the opportunity is huge, and the implementation is not easy. Each action involves fundamentally altering human behaviour in ways that are uncomfortable and sometimes difficult to manage. Most of the actions have a technology and real estate component, too. PwC's 2018 Productivity in the Financial Services Sector Survey highlights some of the main activities and insights of our leading clients around the world.

Outstanding execution and transformation capabilities are critical to overcoming the challenges involved in increasing productivity. And urgency is growing daily as the consequences of inaction become clear.

Better understanding the workforce | **Rethinking change functions** | **Embracing the platform economy** | **Improving workforce digital IQ** | **Bringing an agile mind-set to the mainstream** | **Mastering digital labour**

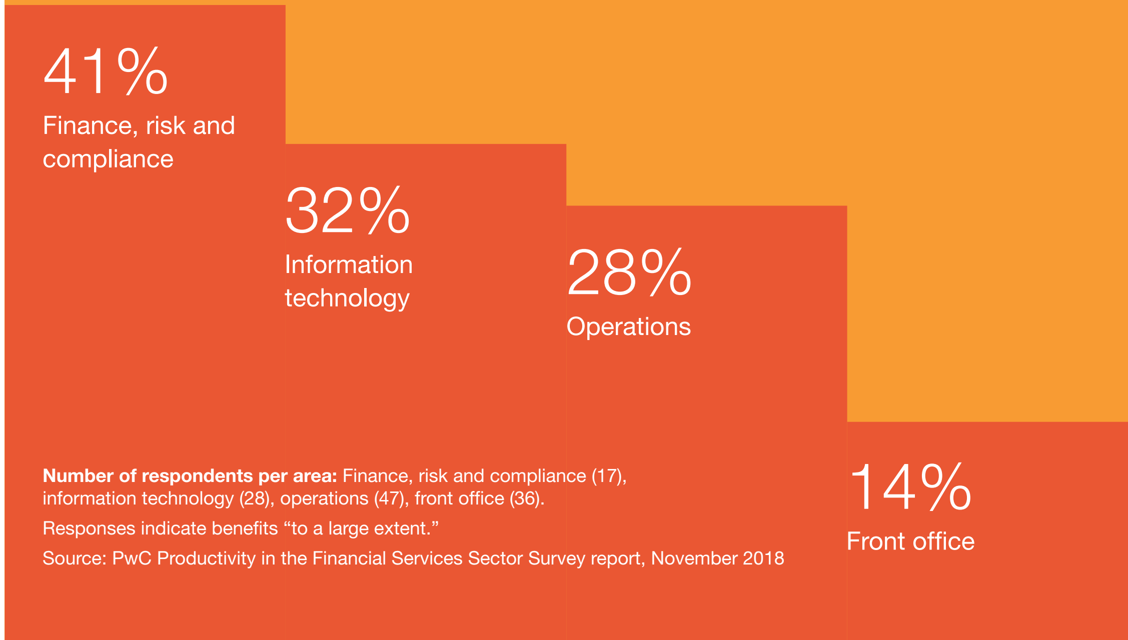
Better understanding the workforce



The current situation

"I have 500 people in India working on our finance transformation, and I'm not sure what they're all doing." Does this sound familiar? This type of comment is a common refrain among our clients and reflects a broader issue in financial services. Most institutions have limited knowledge of what their employees actually do on a daily basis. They understand broad job responsibilities and activities in most cases, but if asked how long it takes to process a trade or how much time a certain employee spent in meetings last month, they typically can't tell you. In our productivity survey, only 27% of respondents said they tracked any employees by task on an hourly basis. For those who did track, the following areas reaped the most productivity benefits from the process (see Figure 1).

Figure 1: Business areas that have reported the most benefits from improved productivity

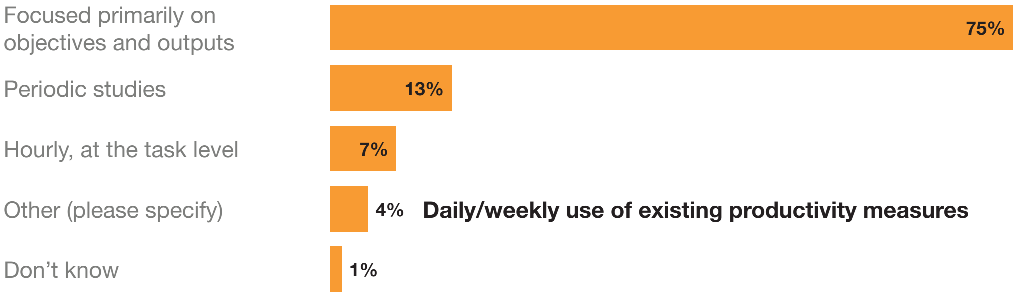


Number of respondents per area: Finance, risk and compliance (17), information technology (28), operations (47), front office (36).

Responses indicate benefits "to a large extent."

Source: PwC Productivity in the Financial Services Sector Survey report, November 2018

Figure 2: Percentage of respondents monitoring team members at various degrees

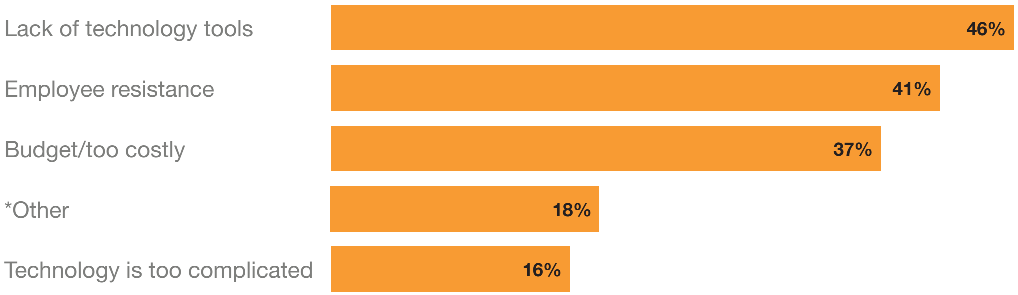


Survey question was, "At what level do you typically monitor your team members? Please select one only."

Number of respondents: 150.

Source: PwC Productivity in the Financial Services Sector Survey report, November 2018

Figure 3: Barriers to productivity tracking



None. I don't see any obstacles in implementing additional measures – 12%

Not applicable. We have all the tracking measures we need – 3%

Don't know – 2%

***Other.** Responses included: application of data to decision making, cultural model or lack of governance structures, availability or validity of data and measures, and not a focus or priority for the organisation.

Survey question was, "What, if any, obstacles do you see in implementing additional tracking measures?"

Source: PwC Productivity in the Financial Services Sector Survey report, November 2018

We noted that even of those who tracked hours at the task level, only 7% did so in a consistent and disciplined way (see Figure 2).

What needs to happen

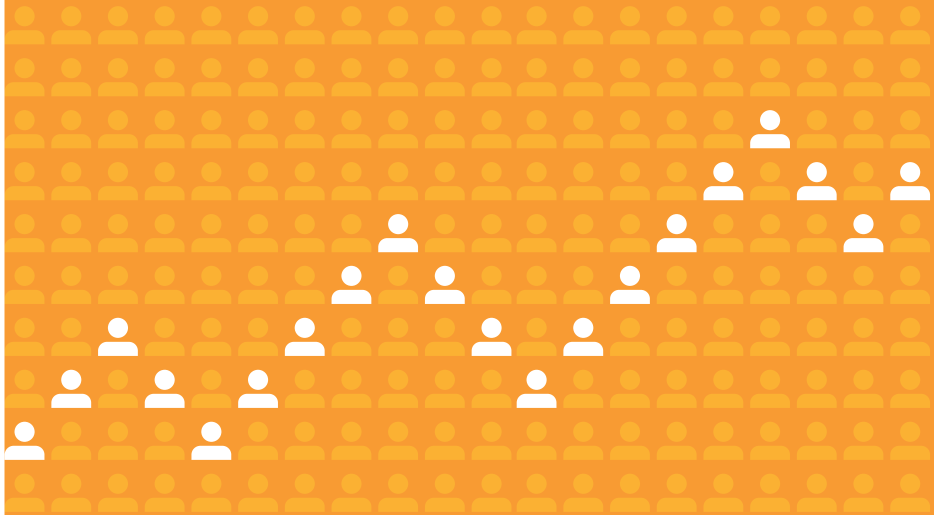
The financial services industry is beginning to recognise, though, that some form of consistent time tracking and workflow analysis is needed to better identify productivity opportunities and execute necessary changes. Of the organisations in PwC's survey that didn't track work by hours and tasks, 62% believed such tracking would yield productivity benefits. And change is coming, with 52% of respondents noting that new productivity-based measurements and initiatives would be implemented in their organisations in the coming year. Our experience indicates that by simply tracking hours by task, organisations can improve productivity by 15% to 20%, and the implementation of service catalogues and multi-tier sourcing can bring another 20% improvement.

Challenges

Respondents recognised there are practical challenges to such consistent tracking (see Figure 3).

In the front office, measuring productivity is a bit more complicated because the tasks tend to be less systemic and people are usually more resistant to being monitored. But how senior bankers and relationship coverage people or top insurance agents and wealth managers spend their time can determine a financial institution's success. For one major international bank, PwC's multiyear effort to help create efficiencies in account planning, client grouping and selected off-boarding led to a 5% to 7% productivity boost per year.

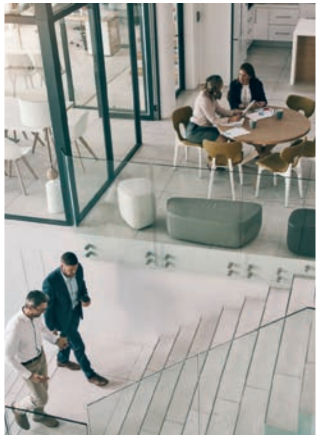
In our experience, most of the industry is simply running blind in terms of what employees are actually doing at a task level. And if you lack baseline information, it's tough to figure out how to measure productivity or how a transformation is progressing.



Steps to take

Creating a 'task catalogue' of key responsibilities specific to particular roles and positions can facilitate disciplined time tracking in areas beyond IT, allow for comparability across employees and locations, and enable financial institutions to better examine the nature of work inherent in various roles and divide work into more efficient bundles. This often makes it possible for institutions to use lower-cost or less experienced workers to accomplish certain tasks. For example, if a worker's role includes a single task that requires significantly more skill or experience than the others, that higher-skilled task can be removed from the role and clustered with others of similar difficulty.

Also, companies need to address the privacy issues and cultural challenges associated with this type of tracking. This requires a combination of clear communication and a suitable system of rewards for desired behaviour. In addition, companies need to ensure compliance with appropriate laws and regulations.



Global bank uses time tracking and analytics to tackle anti-money laundering challenges

A major global investment bank was dealing with a Know Your Customer issue that required wholesale remediation of thousands of client files and supporting documentation to meet new regulatory standards. The bank was struggling with poor execution, slow remediation times and missed regulatory deadlines but couldn't figure out why. PwC assisted the bank in developing a 'task catalogue' of key responsibilities for each role and implementing a time tracking system for more than 400 people in 13 countries. The rate of file completion almost immediately improved by 15% to 20%. Then the bank analysed the data and compared workers across geographies to identify productivity stars and laggards, allowing management to initiate training that spread best practices across the entire workforce. First-time remediation quality rates jumped 40% in just a few months' time. Lastly, the bank built analytical models that allowed teams to predict file completion rates versus deadlines and adjust the workforce and work effort to meet those goals. All of these efforts accelerated the bank's progress towards addressing an important and costly regulatory mandate.

Rethinking change functions

The current situation

According to our productivity survey, more than 41% of financial institutions are spending, on average, 20% of their entire budget on so-called ‘change-the-institution’ efforts that are outside of business-as-usual activities. This work includes implementation of new technology and business processes, creation of new products, and mergers and spin-offs. In most organisations, a combination of professionals dedicated to implementing change, employees working on the day-to-day operations of the company, contractors and consultants drive these efforts. The performance of this team is critical to a financial institution’s ability not only to comply with new regulatory mandates in a cost-effective way but also to digitise and grow in a rapidly changing world.

Unfortunately, many financial institutions struggle with change management. Only 15% of PwC’s survey respondents said they were satisfied with their ability to execute change. Projects often go over budget, fail to meet timelines and milestones, and leave both regulators and shareholders disappointed. Many organisations respond by relying too extensively on contractors and consultants to fix the problem. Others fail to leverage the assets those third parties bring, such as tools and methodologies that can improve performance across the organisation.

What needs to happen

Productivity-related challenges are at the core of these struggles. As with business-as-usual functions, organisations typically need to better understand the important tasks involved in change efforts, the composition of the workforce required to execute change and the available sourcing options. Finally, workforce performance should be comprehensively measured and managed.

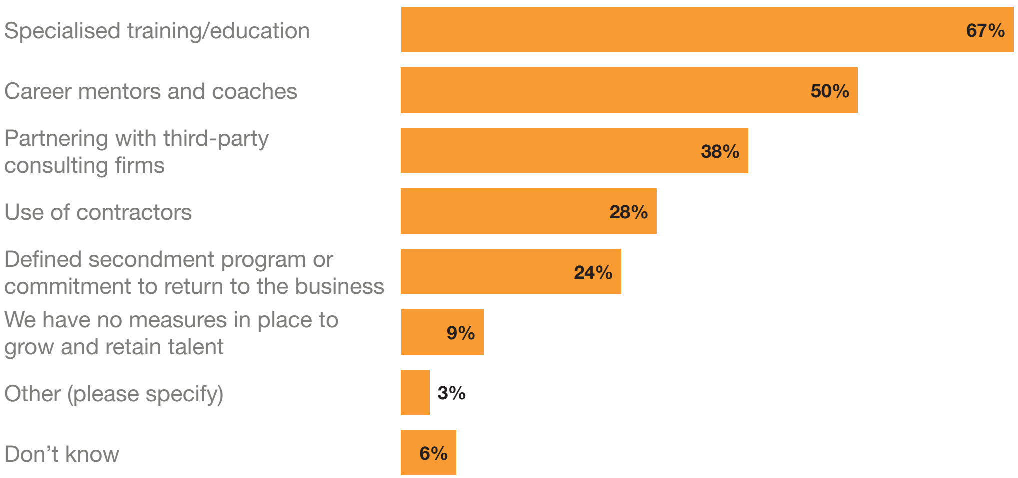
In today’s world, poor productivity in the change function is an absolute killer. Everywhere you look, there’s a strong temptation to significantly reduce this spend to meet quarterly profitability and cost targets, but our experience shows that this approach is shortsighted and ends up costing more in lost business and remediation efforts further down the road. It’s a much better strategy to improve the productivity of the change function and get better results for the same or less spend.

Challenges

Competition to attract the right talent is intense. The best people work for companies that offer them the chance to gain quality experience and advance their careers. They also want to be valued. But at many financial institutions, top employees often feel that giving up their operational roles to help manage a transformation is a high-risk, lowreward proposition, with long hours and stress that result in career uncertainty and lack of a career path once the transformation is complete.

Firms are responding to this by first recognising the importance of change to the success of the institution and then creating a change leadership group that includes some of the best and brightest in the company. The best firms make this group feel elite by offering specialised training, defined secondment programs from the business, enhanced mentoring and coaching support and, critically, competitive compensation. In some cases, firms need to honestly evaluate whether they should insource, co-source or even outsource certain skills and capabilities. Our survey results indicate that institutions are implementing a variety of measures to grow and retain the talent necessary for effective transformation (see Figure 4).

Figure 4: Measures firms implement to grow and retain talent



Survey question was, "What measures, if any, has your change organisation implemented to grow and retain talent?"
Source: PwC Productivity in the Financial Services Sector Survey report, November 2018

> "Almost one in ten say they have no measures in place to grow and retain talent in their change organisation.

Another challenge is having both access to appropriate technologies and the ability to implement those technologies in critical business areas. This is as important to a successful transformation as having the right talent. Financial institutions need technology that supports transformation activities to monitor and drive the workforce. They also need advanced applications, analytics and tools to compete in the modern world. Firms are increasingly moving from internally developed applications to third-party software-as-a-service platforms, which requires both intense internal training and partnership with external firms that already have this expertise.

If financial institutions have access to all the technology they could ever need and can buy talent, why do so many high-profile programs fail?

Many groups lack good execution management. Change efforts often require multiple functional areas to work together to achieve a common goal. They require the management of human capital and technology, a deep understanding of relationships and dependencies, strong methodologies and frameworks, and a high degree of discipline and experience.

Steps to take

As noted above, the first step is to recognise the importance of the change function and treat the individuals involved with it as people whose roles are critical to the success of the institution. Secondly, it's typically necessary to perform an in-depth skills analysis, comparing the backgrounds and experience of the current team (including contractors and other external resources) to those needed to drive not only the specific projects on the docket but also successful transformations in the modern age. Do you have enough architects and data scientists? Do you need to add people with analytical skill sets or product-specific or other specialist skills in areas such as new regulation, cyber and digital?

After doing this evaluation, it's possible to develop a strategy to bridge the skills gap in a cost-effective way. Finally, leveraging technology for time tracking and adding the appropriate program management elements will enable a more efficient and effective change function to support the execution of the organisation's goals.

Higher-performing 'change-the-bank' execution for 40% less

A major global bank was significantly reducing costs and needed to extract greater value for the more than US$40m it was spending managing change programs in certain divisions. The bank's global change team had difficulty attracting talent, particularly in program management and business analysis, given the lack of long-term career paths in the institution for those positions. Specialist skill sets were often difficult to find in a team of generalists, requiring the bank to engage external consultants for expensive one-off projects and overpay largely mediocre onshore contractors. To top it all off, the change team was not delivering. Business owners were unsatisfied, and fewer than 25% of projects were on time and on budget.

Leaders knew they had to think differently about the team's sourcing model, technology tools, cost structure and performance management process. They asked themselves several important questions. Had they really broken the work down in the most optimal way? Was a 100% onshore sourcing model really the right answer? Did they have the tools needed to capture activity at the task level and drive productivity across the workforce? And could they get feedback on performance in a near-real-time manner?

The answer to all of these questions was a resounding 'no.' PwC determined that the bank could boost productivity by employing a different sourcing model and using PwC's Productivity Hub suite of management tools to better manage the workforce and the projects themselves.

Over the long term, the bank achieved savings and productivity gains by moving to a mix of onshore, nearshore and offshore resources and creating small teams to complete similar tasks across the entire portfolio, including program reporting, drafting of business requirements and production of meeting minutes and interview notes.

Productivity Hub captured work effort and measured the performance of team members from seven locations around the world. With better data and analytical tools, the client was able to better manage resource utilisation and improve performance so that 75% of projects were on time and on budget at 40% less cost than in the previous model.

Embracing the platform economy

The current situation

Airbnb and Uber are two of the most valuable companies on the planet, yet neither owns the primary physical assets used in their businesses. Embracing the platform economy has huge productivity benefits for financial institutions, too. Mutual fund marketplaces have shattered the myth that asset managers have to manufacture all of their own funds. And peer-to-peer lenders have taught us that financial institutions can create effective business models without owning the financial capital as deposits. These businesses derive their value primarily through what PwC calls BeCoN, or behavioural, cognitive and network capital.

As technological innovation accelerates, these three new forms of capital have become critical to creating value. Behavioural capital is developed by tracking ongoing activity, cognitive capital is the value inherent in algorithms, and network capital is made up of the connection points, with people and machines, that an organisation can deploy. Each compounds itself exponentially and reinforces the others' growth.

BeCoN is most often captured and nurtured through platforms that drive transactions by using leading-edge algorithms to efficiently match supply and demand. These platforms are essentially networks of people, solutions and services that are linked to end clients. Financial services has long been home to many platforms, such as stock and derivatives exchanges, clearing houses and depositories, all created to benefit both the platform owners and their end clients. We are, however, witnessing an explosion in new platforms, intermediating various types of products, services and talent. And many organisations don't know how to best leverage these platforms to improve their productivity.

What needs to happen

One thing organisations can do is use crowdsourcing to innovate. Platforms such as RedesignMe (product design) and uTest (software testing) enable institutions to solve important business challenges by engaging not only employees but also partners, customers and other third parties in reducing customer churn, developing software, creating new products and services, and improving process efficiency. These platforms can run challenges that tap the collective brainpower and resources of a crowd, driven by a sense of competition to develop the best response.

Institutions also need to start engaging with the gig economy. According to research firm Wonder, the global gig economy is 77m people strong and growing. It has a US$1.5tn value, with an estimated US$150bn in long-term corporate contracts alone. One reason the gig economy has gotten so big is the proliferation of platforms such as Wonolo, Fiverr and PwC's own Talent Exchange, which have connected workers with tasks to be completed.

Challenges

Our productivity survey shows that only 21% of financial institutions employ crowdsourcing tools today. Frequently cited barriers include confidentiality (47%), regulatory risks (41%), risk avoidance (41%) and lack of knowledge or experience (41%). These are real concerns and obstacles, but it's paramount that organisations make crowdsourcing part of their productivity strategy. Of survey respondents using crowdsourcing, 39% said it generated very high or high value to their institution.

Financial institutions are also barely using the gig workforce. PwC's survey reported that only 7% of talent sourced from platforms is gig-based. We expect the use of gig-based employees to increase significantly in the coming years. Survey respondents strongly agree, with 41% indicating they expect to have more gig-based employees over the next three to five years. We think this group of employees will perform 15% to 20% of the work of a typical institution within five years. This translates into significant cost savings across the board, along with the potential to improve the level of talent and innovation delivered from the employee base.

Steps to take

It's critically important to understand what talent and solutions platforms are applicable to your business, so some basic research is needed first. This area is so new and growing so quickly that periodic updates to that research are necessary, too.

Next, choose an area or a handful of areas where you can make the most of crowdsourcing. Are you looking for a new product design? A logo? Are you planning to improve an existing algorithm or process? Run a challenge and include the crowd. As the organisation gets comfortable with leveraging the crowd, barriers to crowdsourcing will begin to break down, and you can make decisions about which areas must absolutely stay in-house.

On the resource side, explore solutions to better acquire talent and apply that talent to specific gigs or tasks that you would normally assign to full-time employees or contractors.

Solving 'unsolvable' problems through crowdsourcing

The country chief executive officer (CEO) of a leading financial institution we began working with several years ago was searching for a way to create more innovation in the organisation. His team was unable to solve a number of seemingly intractable business problems, and he had read about other companies who went outside their organisations to 'engage the crowd.' He had a few true believers on his management team, but many were sceptical that outsiders could master the complexity of the company and create truly practical, value-enhancing solutions.

PwC worked with the CEO and his team to design a series of crowdsourced challenges around a handful of the most difficult of these problems. On behalf of the client, we engaged the crowd by leveraging our proprietary research platform and other search tools, researching thousands of potential solutions in each area, and eventually inviting a handful of third parties to participate in each competition. The organisation gave these third parties detailed briefings on the issues and allowed them to engage with the relevant client personnel in interactive sessions.

At the end of the challenge, the third parties presented their proofs of concept to our client. The presentations were highly interactive and introduced many new ideas and approaches. The presentations also triggered competition among internal teams, resulting in a burst of successful problem-solving sessions and solution implementations.

Improving workforce digital IQ

The current situation

Digitisation is an important aspect of improving productivity. And as people live longer and work longer, and unemployment rates remain low, training and retraining of existing workforces is particularly crucial. This issue is especially acute in countries with an aging workforce, low unemployment or strict labour laws (e.g., Germany and Japan). Despite its importance, research shows that current training and re-skilling efforts are not achieving the desired results. Of the financial services leaders polled in PwC's 2018 CEO Survey, 75% reported they were concerned about shortages of digital skills within the industry.

Digital skills go well beyond just technical aspects, too. Soft skills such as creativity, emotional intelligence, adaptability and the ability to influence and innovate should be developed in tandem with technical know-how. In PwC's CEO survey, 91% of financial services CEOs said they need to strengthen soft skills in their organisations alongside digital efforts.

Skills

The right digital skill sets and capabilities exist across an organisation – people and leaders – to be successful in a digital age

Mind-set

The values, beliefs, attitudes, assumptions, biases and ways of thinking about digital to fuel innovation

Relationships

The right connections, collaboration, relationships and influence within an organisation to foster digital innovation

Behaviours

The application of new learnings to adapt habits and actions that drive digital innovation

What needs to happen

In the US alone, corporate training is a US$350bn spend, which should make optimising these efforts a major priority. But in PwC's Digital IQ 2018 Survey, 63% of respondents reported that lack of technology skills in their workforce was a major inhibitor to becoming digital. It was by far the biggest obstacle cited.

To motivate the workforce to up-skill, we have found it's important to not let anyone opt out of developing digital skill sets. Make it a two-way trade. For those who train hard, offer specific rewards in terms of promotion, pay, professional development and other benefits. We'd also say it's crucial to focus on not just the tech side of the equation, but also the interplay between business, experience and technology, which we call BXT. The ability to drive digital transformation depends on understanding new business models, appreciating the art of the possible from a customer experience perspective and integrating both with leading-edge technology.

Lastly, our experience suggests that digitisation should be made to feel easy and fun. Gamification can help propel workforce transformation. Testing and scoring create a competitive dynamic that drives both individual and group behaviours. As with video game scoreboards and personal health apps, people compare scores and set specific goals, putting organisations on the path to a real workforce transformation.

Challenges

There will be some who resist change. But here might be another way to motivate them. PwC's 2018 Consumer Intelligence Survey showed that 34% of respondents were driven to advance their digital skills by curiosity, efficiency and teamwork; 37% by status, career advancement and external recognition; and 29% by acknowledgment of individual achievements. It's important to engage people in different ways based on how they are motivated.

Skills

63%

cited lack of skilled teams as a key obstacle to digital innovation

Processes

42%

cited slow or inflexible processes

Integration

51%

cited lack of integration of new data and technology

Technology

42%

cited outdated or obsolete technology

Source: PwC's Digital IQ 2018 Survey

Steps to take

Digitising the workforce is a C-suite-level endeavour that often becomes one of the priorities for CEOs and their management team, so getting leadership support is the foundation of any successful effort. The transformation approach must be appropriately tailored to suit the institution's culture and workforce characteristics. For example, lifetime employment–based workforces are not motivated by the fear of losing their jobs, so gamification and other positive aspects of becoming digital (e.g., better job satisfaction and the ability to connect with younger people) must carry the day.

Another important step is to put in place a management process and technology infrastructure, along with discipline and clear metrics. Lastly, creating a sense of momentum and accomplishment, including the publishing of 'success stories' that show how improved digital skills result in important achievements (e.g., new clients and better customer experience), is critical to reinforcing desired learning behaviours.

34%

of respondents were driven to advance their digital skills by curiosity, efficiency and teamwork

PwC launches Your Tomorrow and pledges not to leave anyone behind

PwC employs more than 50,000 financial services experts and more than 250,000 professionals serving all industries globally. We all need to be able to proactively understand new concepts and how they affect business in order to advise and serve clients in new ways. Success requires not only using technology differently but also developing new skills, mind-sets and behaviours across our entire organisation.

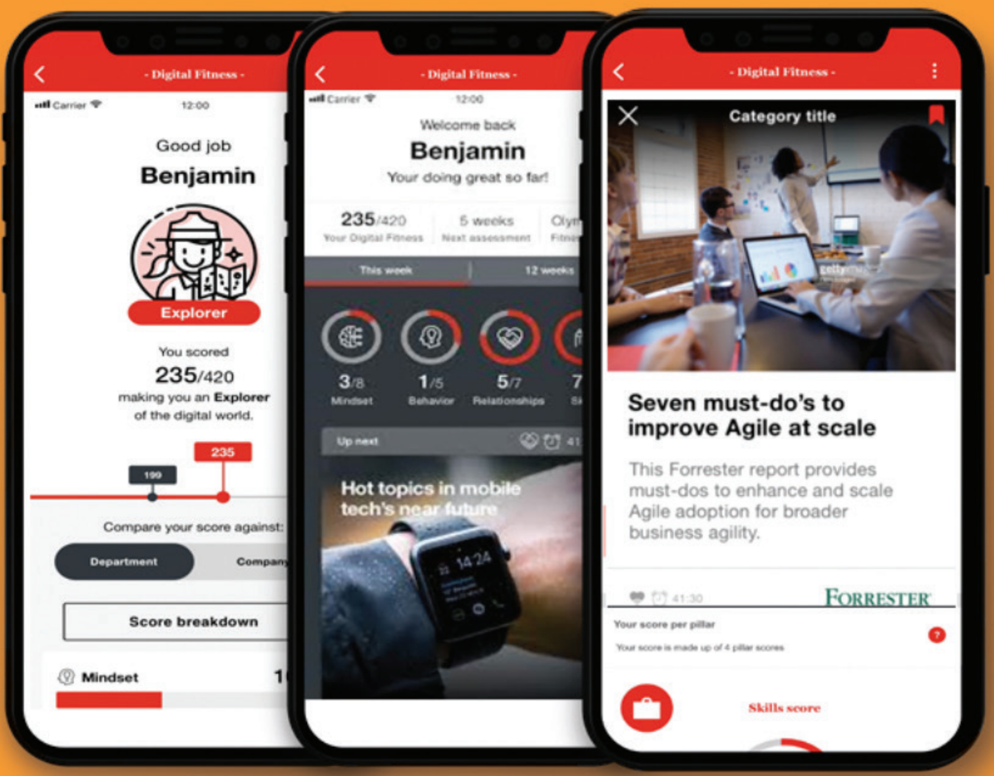
In response to these necessities, we introduced a program called Your Tomorrow. The aim of the program is to make every PwC employee digital savvy and, by doing so, greatly improve the performance, productivity and career satisfaction of our workforce. We see this as a flagship initiative, beginning with 50,000 employees in the US and expanding globally. More than 90% of the US firm participated in PwC's Your Tomorrow rollout, earning an extra week of vacation for surpassing the adoption goal. For our firm, Your Tomorrow meets the following needs we saw in the market:

- real-time, engaging, bite-sized learning
- tools tailored to millennials' specific style of learning
- ability to evaluate current capabilities and develop a plan to accelerate forward
- fun, incentivised rollout to drive adoption
- follow-up program to engage digital champions throughout the firm.

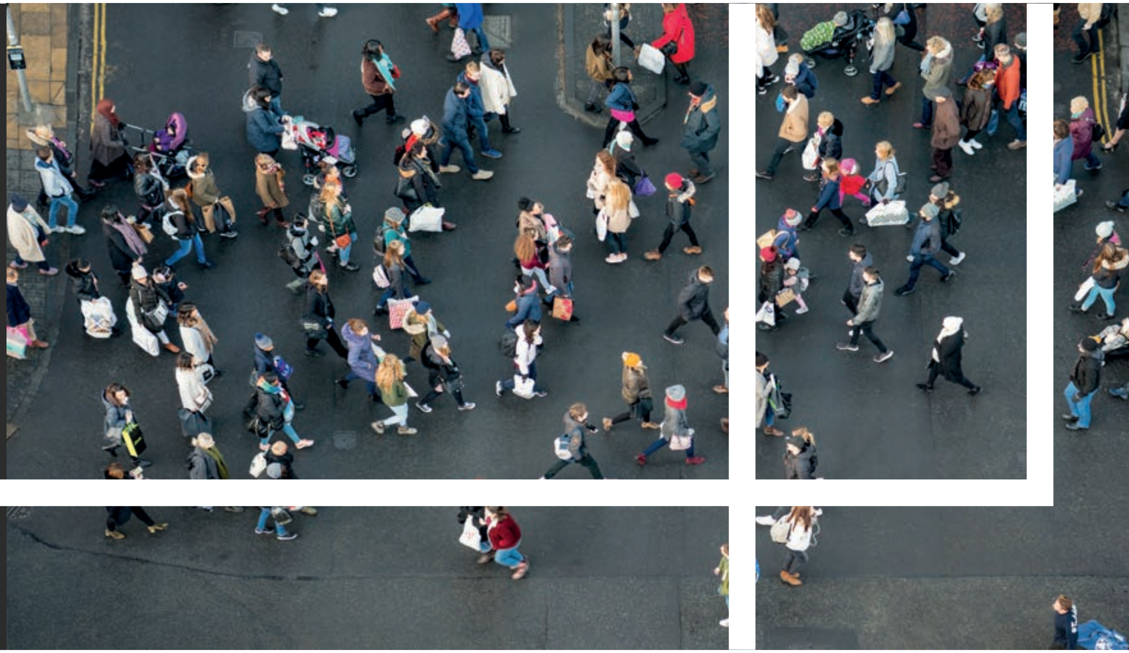
The program is part of a broader strategy we've developed about workforce and digital transformation, which we are now sharing with clients.

As part of Your Tomorrow, we developed the Digital Fitness™ app to help measure the skill level of our workforce and provide training and other opportunities to accelerate our team's conversion from analogue to digital. With digital fitness testing and other tools, we can measure tangible progress, and staff members of all demographics develop the skill sets required to thrive in the digital economy.

We have leveraged our experiences and assets to assist our many clients around the world in moving their workforce from analogue to digital.



Bringing an agile mind-set to the mainstream



The current situation

To be competitive in tomorrow's financial services industry, banks and insurers must be able to rapidly deliver a simple, seamless and instant customer experience at a competitive cost. Financial institutions also have to confront new disruptive technologies that are developing at an exponential pace, new forms of regulation, the continuous rise of fintechs and the threat of 'bigtechs.' To keep up with leading incumbents and digital-only competitors, institutions recognise that they should employ productivity-boosting agile techniques, with 77% of survey participants saying they use agile in some way throughout their organisations.

The agile management approach, originally a set of techniques for software development, draws from a broad set of practices, including:

- scrum (an iterative and incremental framework for software and product development)
- extreme programming (XP, which is another framework based on pair programming, extensive code review and test-driven development)
- DevSecOps (a culture and practice to encourage closer collaboration between developers and operations people)
- lean (a startup philosophy to maximise customer value while minimising waste)
- human-centred design (a problem-solving approach with empathic focus on user experience)
- systems thinking (a holistic method to analyse the way all parts of a system interrelate and evolve over time)
- continuous improvement (a philosophy based on creating a long-term vision for excellence and fostering a culture of continuous learning).

And when organisations employ these techniques across the company, we call it 'enterprise agility.'

What needs to happen

Most organisations don't have a lot of enterprise agility. They concentrate their agile efforts in IT and Operations departments and not including other parts of the institution (see Figure 5).

Interestingly, though, survey respondents who were using agile methods in other areas reported the most benefits from using the techniques in the front office (81%) (see Figure 6).

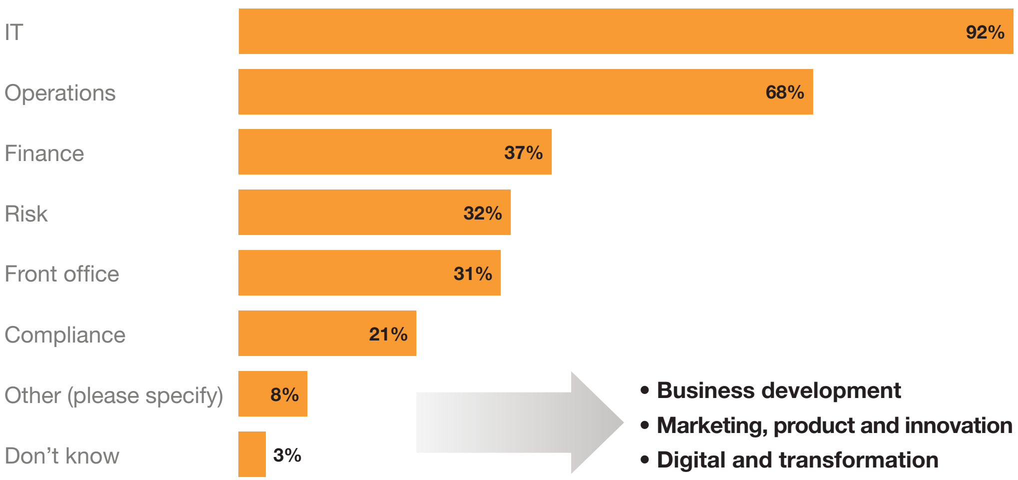
We're not surprised to see benefits in business areas that might not normally be associated with agile techniques. And we've found that organisations with a high level of enterprise agility:

- demonstrate a time-to-market advantage over their peers
- have clients who love their brand and have become ambassadors
- continuously disrupt their own business model
- can attract the best digital talent from the market
- are flexible and cost-efficient.

Institutions need more enterprise agility to adapt quickly, move fast, learn rapidly, embrace dynamic career demands from the workforce of the future and continuously reinvent themselves.

Though less than a third of organisations have adopted agile methods in their front office, 81% of respondents have experienced the benefits when it is implemented.

Figure 5: Where is agile being used?



Survey question was, "In what areas of your organisation is agile being used?"

Source: PwC Productivity in the Financial Services Sector Survey report, November 2018

Figure 6: Areas that benefitted from agile approaches

Responses indicate those surveyed who "have personal experience of the benefits of agile" in these departments. Number of respondents per area: Front office (29). Finance (32). Risk (28). Compliance (18). IT (62). Operations (44).

Source: PwC Productivity in the Financial Services Sector Survey report, November 2018

Challenges

There's no one-size-fits-all model for achieving enterprise agility. Depending on strategic objectives, agile frameworks and practices need to be tailored to the context in which a bank or insurer operates. The implementation involves significant organisational change and adoption of vastly different working practices. Companies with high levels of enterprise agility seem to share several common characteristics in their operating models and have overcome the challenges inherent in managing these successes:

- an organisational structure that breaks down traditional silos and consists of multidisciplinary teams with end-to-end responsibility
- integrated business and IT functions responsible for both build and run activities
- teams strategically aligned with a prioritised set of objectives
- a streamlined, short-cycled decision-making and execution process
- a data-driven, continuous-improvement mind-set with rapid customer feedback loops
- a strong commitment to employee well-being.

Steps to take

As we've stated, agile is best implemented in financial institutions when it's viewed from the enterprise level versus from the perspective of a single business or support area. End-to-end processes within a financial firm are multidisciplinary in nature, so the enterprise view leads to a profound change in the way an institution is organised and operated.

It is once again critical, therefore, that this implementation be a C-suite-level (preferably CEO) issue and have the full support of the management team. Having said that, agile is a journey that can and should be divided into parts. The best way to do this is to identify the key end-to-end processes in an institution and determine those that would most benefit your customers by adopting the agile approach. Is it new product development? Customer service? Underwriting? System development? Whichever it is, it's best to prepare for the long term, because these transformations typically take several years to complete.

A major European bank adopts enterprise agility to leapfrog the competition

After the global financial crisis in 2008, a leading bank in Europe knew it needed to completely transform in order to thrive in a new world of efficient digital competitors, demanding customers and unsatisfied stakeholders (e.g., citizens and regulators). PwC helped the bank design, implement and scale a new agile operating model, assisting the institution with organisational design, new ways of working (down to the level of IT automation), and architectural simplification.

Some of the results included:

- improvement of Net Promoter Score by 15 base points
- 10% growth in primary customer relationships
- cost–income ratio drop of 11% because of significant downsizing
- higher employee engagement scores
- bank ranked among most popular places to work for IT engineers.

Everyone involved learned some important lessons:

- Enterprise agility must be supported by a flexible and highly automated real-time IT infrastructure — batch-oriented processes must be eliminated.
- Engineers must be valued as highly as managers.
- Agile must be adapted to the business and function to which it is being applied — there is no 'one size fits all.'
- Project-to-product orientation is key — you build it, you run it.
- The whole company must buy into the transformation and be able to explain it to shareholders and regulators.
- It all comes down to leadership — top management must be role models and willing to take risks along with the rest of the organisation.

Mastering digital labour

The current situation

The amount and types of tools and technologies available to create highly productive digital labour are staggering. And most of our clients own many if not all of them. But with any tool or technology, translating opportunity into successful execution is challenging. Quite often, the issues that arise — and their solutions — are profoundly human.

Robotic process automation (RPA) is a common first step for most of our clients in incorporating digital labour into their businesses. But most institutions haven't moved forward from RPA. On the other end of the digital labour scale, artificial intelligence (AI) — which organisations typically explore after implementing simpler technologies like RPA — has been called the most important development in computing since the creation of the Internet. It also has unprecedented potential to improve productivity by not only further automating tasks performed today by humans but also performing tasks that no human could conceive of executing.

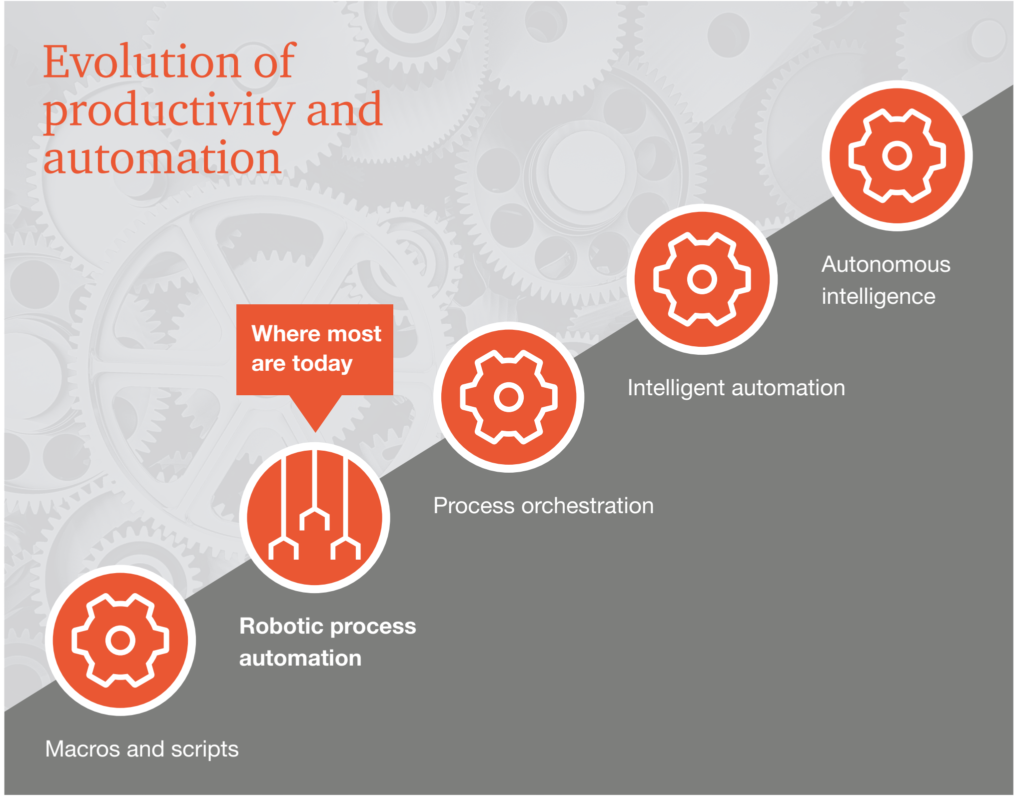
Leading institutions are now rapidly incorporating AI into business functions such as robo-advising, credit scoring and customer support. Leveraging AI has substantially improved client experience, reduced cost and, in some cases, created new products and services.

As AI is incorporated into more and more areas of the business, regulators have begun to take notice. Increasingly, there are concerns that AI is creating new 'black boxes,' where humans are unable to understand the nature of the algorithms and their implications. Does a credit-scoring algorithm have hidden biases? Do robo-advisers deliver a fiduciary standard to consumers?

What needs to happen

Organisations should start with a system to classify various types of digital labour and understand the unique benefits and challenges of each.

Although financial services institutions have already implemented AI (think algorithmic trading), most of these digital labour–focused technologies are possible at reasonable cost only because of the cloud. In fact, emerging digital-only competitors aren't the only ones leveraging the cloud. Traditional competitors that have been most successful in reducing cost and delivering the best client experiences have also embraced it.



Challenges

As with any transformation journey, there are important steps and milestones along the way. Usually, institutions begin with proofs of concept. But many firms barely progress beyond this point. With RPA, for instance, the reasons that progress stalls vary, but common themes include poor selection of business cases, the high cost of the technology, fragmentation of tools, and human resistance to automation and resulting job losses.

We've seen numerous attempts to address these issues with varying levels of success, including the creation of centres of excellence (COEs) to build capabilities and use cases, selection of preferred tools, and the formation of SWAT teams to speed implementations. Still, our survey shows that only 18% of our clients are very satisfied with their programs. What's missing?

PwC's productivity survey shows that 71% of survey respondents cited poor implementation and 59% noted a lack of a coordinated strategy as reasons for not achieving success. In our experience, clients typically lack a rigorous method to determine where digital labour would most benefit their end-to-end process in terms of improving client satisfaction, reducing cycle time and lowering the number of full-time employees needed. So institutions are often making educated guesses about where best to implement digital labour, generating inconsistent and suboptimal results.

As for AI, at most institutions, the main challenge isn't the technology itself but rather the proper governance of it. Proper selection of applications for conversion, the management of regulatory challenges to the use of the cloud (particularly the public cloud), strategic decisions around cloud provider redundancy, a careful approach to data privacy issues, and thorough evaluations of which new applications can most benefit by employing the cloud are most often the determinants of success.

Steps to take

Digital labour is an evolving area that begins with simple macros and ends with AI. The first step is to understand what's out in the market and familiarise yourself with relevant use cases. A technology such as RPA is pretty well understood, and there are a few leading vendors now in the market, but something like deep learning is nascent and some would say unproven.

Creating a COE within an organisation is an important next step. Why? Because things like tool selection, maintenance of case studies, methodologies and models should be handled in one place and accessible to the rest of the organisation. Insight can be more easily shared, and each subsequent deployment of digital labour benefits from the experiences that preceded it. Otherwise, knowledge tends to be diffused, and multiple tools, technologies and methodologies typically lead to a suboptimal implementation experience. Lastly, taking the time and effort to model end-to-end processes allows for sophisticated 'what if' analyses, which, in turn, facilitate the optimal placement of digital labour.

European retail bank streamlines its credit processes

One European client was facing significant competition from both traditional and digital-only institutions in terms of the cycle time required to grant approval for bilateral loans to businesses across a range of sectors. At the same time, cost pressures were causing management to consider workforce reductions and other measures.

The bank had both branch and digital channels to manage and almost 100 full-time employees involved in the end-to-end loan application process for the region used as the pilot for automating credit approvals.

The challenge was to automate those processes in places that would most reduce cycle time and full-time employees while also improving customer satisfaction. Various people at the bank had theories about where the bottlenecks were occurring. But it was only when PwC employed its Realise methodology to model the end-to-end process — leveraging the client's own information, including employee digital footprints — that 'what if' analyses could be conducted to target digital labour investments in areas that would most improve cycle time and reduce the need for full-time employees.

The programme resulted in benefits including:

- increased capacity of 20% to 30% across the end-to-end process and teams as a result of more simple, efficient and consistent ways of working
- reduction by more than a month in the average lending lead time, from credit application through to customer drawdown
- reduction from three days to about three hours in the average annual review lead time, due to establishment of a risk-based approach
- reduction by about 10% in rework across the end-to-end processes via the establishment of clear standard operating procedures (e.g., how to write a credit application)
- adoption of lean ways of working for 350 full-time employees to date
- lean accreditation by an industry-recognised body for 150 employees to support the sustainment of the new ways of working.

Final thoughts

Sustainable productivity improvement is imperative for the financial services industry, but it will be difficult to implement. The transformation will require technology and humans to work together in a fundamentally new relationship, one in which machines take over routine manual tasks but also assist humans in better executing their roles, creating new opportunities for institutions and their employees. To do this, the employees themselves must be 'digital,' and organisations must better leverage the crowd. There's no one right way to approach the productivity challenge, but concentrating on these six areas is a great place to start the journey.

To get things rolling, CEOs should ask themselves whether they are taking productivity seriously or if they are just cutting costs to meet quarterly earnings goals. What are they doing in these six areas? And maybe, just maybe, we've arrived at the moment when it's time for the naming of chief productivity officers to drive the productivity agenda for the industry.

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Survey background

About PwC's Productivity in the Financial Services Sector Survey

The survey generated 150 completes

Results have been prepared for discussion with the PwC US financial services team

- The survey was conducted online and targeted senior-level executives working with the financial services (FS) sector around the globe.
- Participation in the survey was via an invitation from PwC contacts. To respond, people registered their interest via a bespoke registration website, which generated a personalised survey link.
- The survey was live from 3 to 26 October 2018.
- The aim of the survey was to gain an assessment of the meaning of 'productivity' amongst senior-level executives operating in the FS sector.

36 **territories represented**

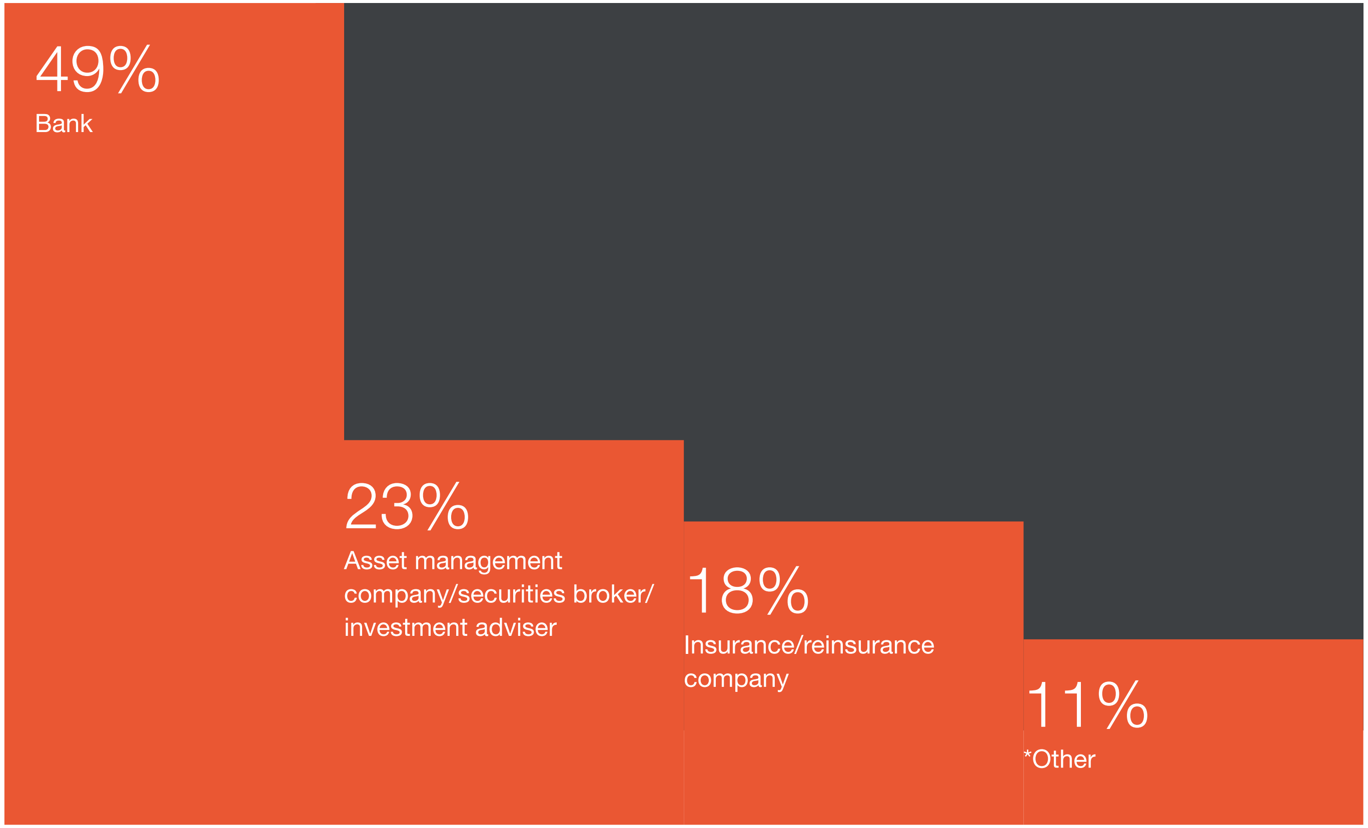
6 **FS subsectors represented**

The voice of 150 **senior executives**

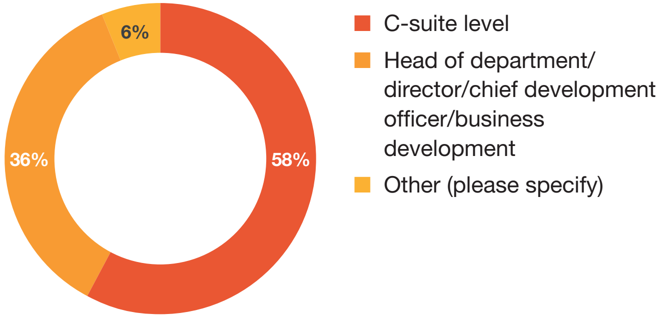
35% **of organisations had revenues over** $5 billion

Key survey demographics

Which type of organisation survey respondents work for



Which role respondents hold in their organisation



13%
of all respondents are chief executive officers

27%
are chief financial officers/senior finance executives

*Other: Venture capital, private equity, fund transfer and payments institutions, building societies, fintech companies, leasing companies and personal advisory services.
Source: PwC Productivity in the Financial Services Sector Survey report, November 2018

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