

# NextGen banking

Creating the 'future bank'

A Q5 point of view

Q5

# Adapting your organisation to build the 'future bank'

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**The way we do banking is changing;** shaped by new technology, new entrants into the market and changing customer habits, **the bank of the future will look different to today.**

Whilst much has been written about the technology opportunities and implications for customers, we would like to focus on the **organisational health** implications.

We want to see how the shape, size and remit of banks change to **take advantage of the changes ahead** and **deliver the future that we all wish to see.**

## In this point of view we cover:

1. Characteristics needed for the 'future bank'
2. Changing your operating model and banking strategy
3. The shifting role of HR
4. Implications on your workforce and people strategy

# The global banking market today

The world of banking is evolving. Advances in **technology, big data** and **AI** are leading banks to adapt their operational ethos to the new wave of digital disruption.

**People are looking to use other banks** and other banking organisations than just the 'usual suspects'.

New entrants to the market providing new services in easy to access ways have also challenged the old orthodoxy promising the hope of **market disruption, innovation** and **better service**.

Changing customer demands and the 'always on' popular culture have forced banks to think of their futures.

***What does this actually mean for the next generation of banking?***

To respond to these disruptions, banks will need to **develop new characteristics** and **change their operating model** and **banking strategy** in order to keep relevant and compete against the increased threat of challenger banks, fintech disrupters and changing consumer preferences.

# Key characteristics required to create the 'future bank'

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The next generation bank or 'future bank' will have to bend to the **new expectations** set by both consumers and new challenger entrants into the industry. They need to **develop new characteristics**, quite different from their traditional 'sweet spots' in order to keep up.

Three key characteristics to develop for the 'future bank':

## Insights-led

### Insights-led

The NextGen bank is one that consumers will **form habits with**. Understanding customer demands, through **customer data**, forensic **analysis of the implications**, and developing **long-term insight-led relationships** with them will be paramount.

### Technology-driven

Using platforms that are easy for the customer to use and for the organisation to develop further products upon are critical. This will require working with partners to **deliver digitisation at pace** and overcome **challenges linked to legacy systems**, for example. They will bring all of a customer's data into one central location, accessible via a smart phone.

## The Next Generation Bank

Technology  
-driven

Digital-first

### Digital-first

Balancing **digital and human interaction** in the moments that really matter to customers, with the **right Operating Model** to support the shift. This requires understanding what makes customers tick and putting in place the organisation where your people can **think, act and do with the customer in mind**.

# Potential operating models to enable the 'future bank'

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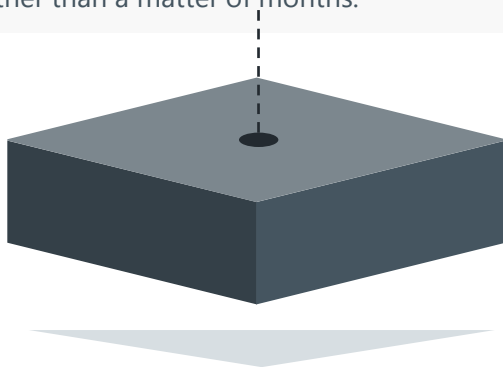
At Q5, we believe organisations will follow a path towards one (or a mix) of the following **three operating models**:



## Highly Agile Model

Banks fully operate in a **customer-centric** and **product agnostic manner** and shift their model to transition into a technology firm.

The model would establish a manufacturing hub that is **highly-attuned to customer needs**, and **rapidly responds** to bring a tailored product to market in a matter of days rather than a matter of months.



### WORKFORCE IMPLICATIONS

This transition would see a distribution model having limited physical human sales force.

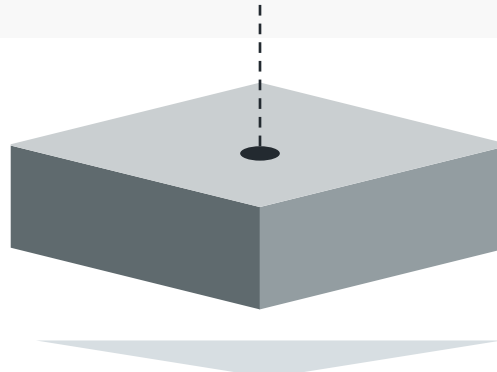
It would be **enabled by best-in-class digital platforms** and '**network of teams**' that are swift to respond to latest customer needs and cyclical market trends.



## Highly Specialised Model

Banks streamline their core business model to become **highly focused** on **their key competitive strengths**.

This model will largely see a move out of retail and **focus on new business building** or expansion in growth markets and connecting international corridors.



### WORKFORCE IMPLICATIONS

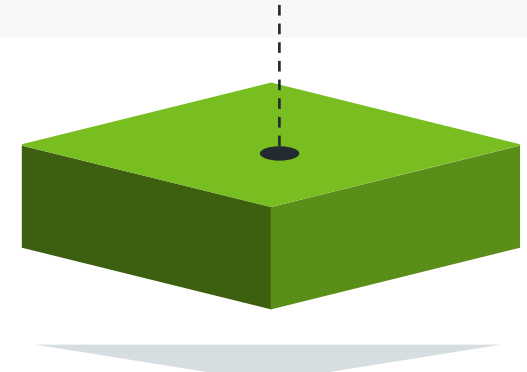
To enable this change, HR and operational functions will need to streamline the organisation towards a **best-in-class** calibre model, high skilled, **high-performance culture** that narrows physical locations and resource profiles.



## Highly Distributed Model

The strategy and customer proposition are largely unchanged from today.

Banks remain product-led, competing on **multiple business fronts, operating across multiple regions / jurisdictions**.



### WORKFORCE IMPLICATIONS




HR and operational functions can respond by developing a **highly distributed, virtualized workforce**, that mimics the cost structure of an off-shored entity but **retains a global balance of high level of talent** to enable the bank's competitive advantage.

# Understanding which model is right for you

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Each model seeks to leverage **specific elements of competitive advantage** that can help the 'future bank' address the challenges of new entrants and disruptors.

Depending on the organisation's strategic goals and objectives, it is even possible to start seeing a **hybrid approach to the three models**.

	Characterised by	Competitive advantage over challenger banks	Capabilities to deliver	HR as enabler	People & Cultural Characteristics
 <b>Highly Agile Model</b>	<p><b>Highly adaptable workforce</b> enabled by best-in-class technologies and 'network of teams' that is swift to respond to latest customer needs and cyclical market trends</p> <p><b>Examples:</b> Apple (<i>cross-functional teams</i>), Bank of America (<i>Internal re-skilling</i>), Spotify (<i>scaling agile</i>)</p>	<ul style="list-style-type: none"> <li>Highly developed customer insight proposition</li> <li>Ability to scale rapidly, taking product from 'concept' to 'product launch' in weeks</li> <li>Strong relationship with Regulators &amp; Supervisors</li> </ul>	<ul style="list-style-type: none"> <li>Cutting-edge tech capabilities (DevOps, Enterprise Architecture, APIs), and strong change and innovation knowledge</li> </ul>	<ul style="list-style-type: none"> <li>Focus on both intrinsic &amp; extrinsic motivators</li> <li>Elaborate career pathway and continuous development program</li> <li>Data-led approach to identify high-value add roles – low-value add roles supplemented as secondary skillsets</li> </ul>	<ul style="list-style-type: none"> <li>Highly fungible workforce, with broad, adaptable skillsets</li> <li>Key focus placed on continuous development including upskilling and reskilling</li> </ul>
 <b>Highly Specialised Model</b>	<p>A small pool of <b>critically skilled resources</b> drive a streamlined organisation with simplified product segments based on key competitive strengths and league rankings</p> <p><b>Examples:</b> Morgan Stanley (<i>Equities</i>), PIMCO (<i>Fixed Income</i>), Goldman Sachs (<i>Origination &amp; Advisory</i>)</p>	<ul style="list-style-type: none"> <li>Highly focused propositions for institutional clients</li> <li>Limited overlap with challenger bank target market (Retail)</li> </ul>	<ul style="list-style-type: none"> <li>Proprietary technology and first-to-market product innovation</li> <li>Highly influential networks</li> </ul>	<ul style="list-style-type: none"> <li>Industry-leading compensation packages</li> <li>Highly focused talent acquisition &amp; retention strategy</li> </ul>	<ul style="list-style-type: none"> <li>High-performance culture</li> </ul>
 <b>Highly Distributed Model</b>	<p>A <b>distributed 'virtualised' workforce</b> that delivers the advantage of a previously untapped global talent network, at highly competitive rates. Business and consumer strategy is largely unchanged from today</p> <p><b>Example:</b> Xapo (<i>fully remote global teams</i>)</p>	<ul style="list-style-type: none"> <li>Leverage economies of scale and balance sheet for superior pricing &amp; fees</li> <li>Global network for transaction banking</li> </ul>	<ul style="list-style-type: none"> <li>Cross-functional</li> <li>Refreshed skillsets to meet latest customer and operational needs (Data &amp; Insights, Change, Customer Journeys...)</li> </ul>	<ul style="list-style-type: none"> <li>Broad network required, tapping talent from multiple jurisdictions and backgrounds</li> <li>Data-enabled approach to assess ongoing value and resourcing requirements</li> </ul>	<ul style="list-style-type: none"> <li>Inclusion of remote staff into a hybrid culture and ways of working</li> </ul>

# Developing the operating model you need



In the future, operating models need to be more **flexible, adaptable** and **agile** to make **better use of the collective skills** and knowledge in the organisation.

Fusing those skills together to **address new demands** and needs enable you to **drive more targeted** and responsive products and services and deliver much more **effective and efficient operations**.

But, no matter what the future holds, having a **workforce** and **people strategy** shaped by and **aligned to your strategy** are imperative.

It will be important that traditional banking capabilities are **enhanced** with **digital** and **tech understanding**, and the ability to **think like a customer**.

To enable this, **the role of the HR or People function** needs to shift too; becoming much more **talent-centric** and highly adept at **commercialising data** to make **critical workforce planning decisions**.

That way they can support the changes that NextGen banking will bring to future workforces.

# The shifting role of HR

The various models will have **unique resourcing requirements**, specifically for **HR** and **People Function** processes.

It is clear that large scale automation, Big Data and AI will lead to a massive rebalancing and reclassification of workforce needs, and enhanced productivity will be required from a leaner workforce.

The types of people resource needed will shift as a result; no longer will there be large number of transactor roles but instead more specialised pools of **data-native**, **technology savvy** and **customer-insight-driven** resources will drive the revolution in banking needed. HR will become an ever more important strategic enabler of the future bank.



The **role and effort of HR will shift completely** depending on the model that each bank will move towards.

The **table on the right**

depicts how the HR/People Functions will need to respond to various considerations based on the three different scenarios outlined above

Categorisation		Key Considerations	Highly Distributed	Highly Specialised	Highly Agile
OD/People Strategy	Acquisition Strategy	Impact on total headcount	Mid	High	Mid
		Organisational structure	Matrix	Functional	Decentralised
		Location strategy	Dispersed	Concentrated	Structured
		People characteristics	Diversified	Specialised	Adaptable
		Talent acquisition model	Varied	Complex	Evolving
	Retention Strategy	Extrinsic motivators	Low	High	Mid
		Compensation plans & structures	Standardised	Complex	Evolving
		Intrinsic motivators	Mid	Low	High
		Career Development Pathway	Straightforward	Exclusive	Complex
		Reward schemes	Straightforward	Complex	Complex
		Attrition risk	Low	High	High

Indicative effort for HR

High		Low
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# The implications on your people strategy

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Depending on the model chosen, there are **different implications** for the **overall people strategy**, **talent acquisition strategy** and the **retention strategies**.

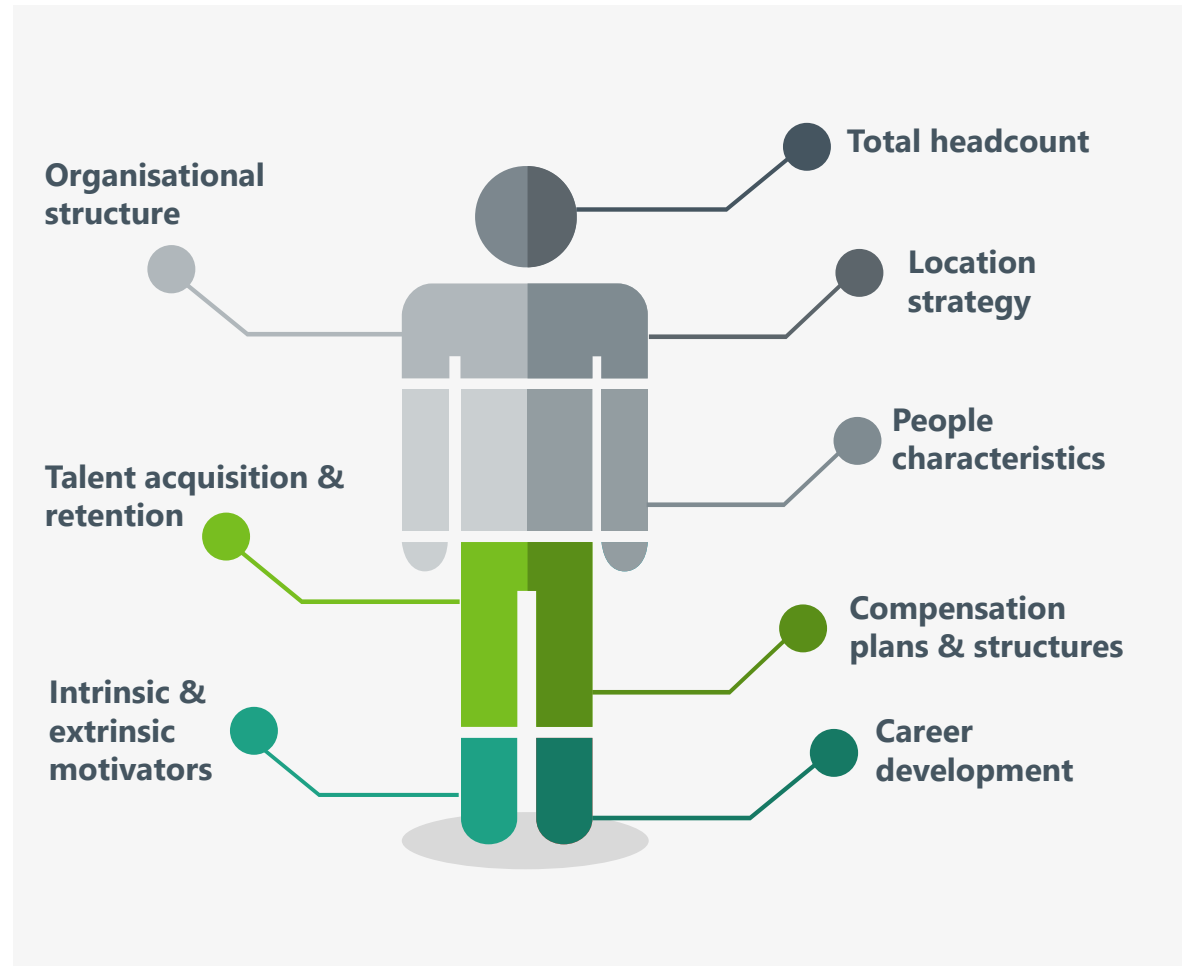
Ensuring that these are addressed will be a specific challenge. However, they also **provide opportunities** for your HR/ People function to really add value to your organisation by managing the **organisational, process and people changes required**.

Those that can do these roles the best will be much appreciated as key enablers of the future.

It's **exciting times to be working in HR or People functions**.

Working closely with the business, your people will be **central to the shift** required.

Building for those changes today will require **foresight, planning** and a **real determination** to help the 'future bank' succeed.



The world of banking is changing in ways that **fundamentally challenge existing models of operation.**

Those banks that will fare best in this new world are **open to the changes required** and are aligning themselves to the future possibilities.

How this develops over the next few years will determine whether the **next generation of banks succeed or fail.**

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## Please get in touch!

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If you are interested in **discussing the impact these changes will have to your operating model, your future workforce and how you can best prepare to deliver to the new agenda**, please reach out to us. We would be delighted to discuss this with you.

Q5 is a global consulting firm that specialises in helping their clients achieve **organisational health** in all that they do; being the right shape, size and environment that **delivers excellent results in the right ways**.

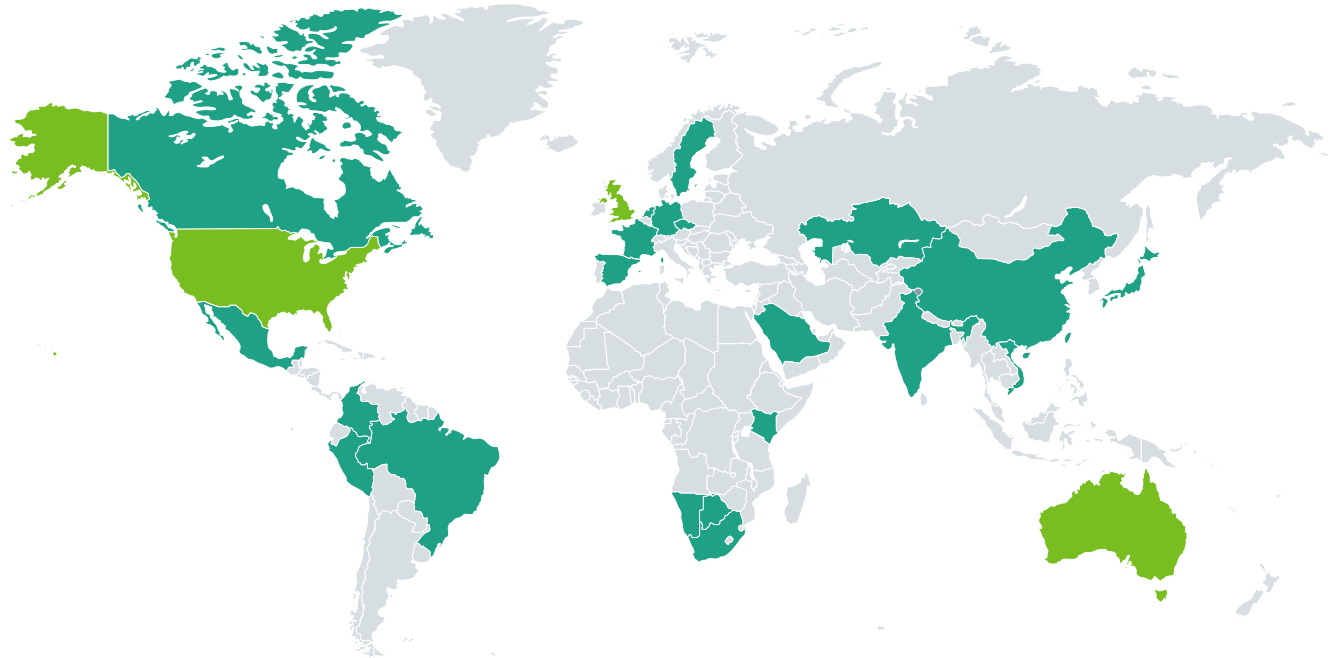
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