

START

If transformation  
needs to be bold,  
do banks have the  
right tools for success?



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# Executive Summary



Banks are struggling to transform. To find out why and to learn how they can make success more likely, EY interviewed banking transformation executives at 10 major multinational banks in different locations around the world. We also canvassed the opinions of our own banking transformation experts. Based on these conversations, we have crafted a series of recommendations on how banks can improve transformation outcomes.

In parallel, EY recently conducted cross-sector research with Oxford University to understand the human-centric drivers of success. Findings from this research, [EY Transformation leadership: Humans@center](#), are referenced throughout this report.

A fresh approach is needed. EY research found that 38% of leaders say transformations underperform against key performance indicators (KPIs). In parallel, two-thirds (67%) experienced at least one underperforming transformation in the past five years and 41% say transformations are more challenging to execute than anticipated. Yet, two-thirds also say that an organization's ability to transform is extremely important to its future existence.

To improve their chances of success, banks should:

1. **Redefine transformation:** Rethink what transformation means. Rather than simply maximizing cost takeout or meeting regulatory requirements, banks should focus on fundamentally improving customer and employee experiences. It is about radical rethinking, not refining and streamlining. Putting humans at the center, whether that be employees or customers, is instrumental to success.

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## 38%

say transformations underperform against KPIs.

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- Inspire and lead from the top:** Transformation will only succeed if leaders, including the board and executive management, engage with the process directly. They must determine and communicate the bank's transformation vision and strategy, align executives and senior managers and make sure they are adequately incentivized to engage with transformation. This is crucial to ensuring buy-in across the entire organization.
- Rethink transformation ideation and investment evaluation:** When evaluating potential transformations, consider the impact on customer and employee experience, as well as on operational and financial performance. Also, set budget aside for innovative but potentially game-changing transformations.
- Reposition for agility at scale:** Whether it be core technology, culture, team structure or governance, act to ensure transformation can be executed swiftly and that initiatives can pivot quickly, as required.
- Reorchestrate talent and invest in people:** Articulate a new value proposition to attract, reskill and retain key skills. Transformation teams should be diverse with respect to gender, ethnicity and work experiences.
- Re-evaluate tracking and performance monitoring:** Assess transformation success using multiple financial and non-financial metrics at multiple stages throughout the lifecycle of an initiative. These metrics should be aligned with strategic objectives. Also, ensure that a central transformation team applies lessons learned from unsuccessful projects to future transformation initiatives.



# Redefine transformation

## Transformation means bold, fundamental change

Nearly every bank makes bold claims about transformation, with executives spending a lot of time articulating these to investors. It's common for any one bank to have a double or even triple-digit number of transformation initiatives under way at any given point and most have at least one Chief Transformation Officer.

But, our interviews with banking transformation leaders found that transformation means different things to different banks – and sometimes even to different individuals within the same bank. EY's view, which is shared by many of the banks that we interviewed, is that transformation means a fundamental change in how a bank operates and the products and services it provides. It is absolutely necessary for long-term survival in the face of the disruption brought by digital-first challengers and evolving stakeholder and customer expectations.

Leading banks also understand that the process of transformation never ends. Of course, individual initiatives may finish, but they should all contribute to an ongoing program of adaptation. However, not all banks think this way. For some, transformation means refining and streamlining products, services and processes, rather than radically rethinking them. Therefore, the first and most fundamental step required for banks to transform successfully is for executives to grasp the holistic nature of the change their institutions must undergo.



## Put customers at the heart of transformation

Banks also need to adopt a customer-first approach to transformation. All too often, transformation programs are inwardly focused and are primarily driven by an imperative to cut costs or meet a regulatory directive. This is of course vital, but there is also the need to transform customer experiences. Given the new business focus on the customer, even transformations primarily driven by cost-cutting or regulatory compliance should be viewed through the lens of improving customer experiences. Banks have a diverse range of customers, so must consider the different needs of their customer base when designing the transformation portfolio.

“Previously, our ambition for transformation was to become a technology business, because we realized that technology is the future of banking,” explains Peter Adams, CEO of ING in Belgium. “That’s true to a certain extent, but the word ‘client’ was missing completely. The new transformation plan for ING Belgium, called Route24, is very different and contains more than a hundred initiatives that ultimately drive value for internal and external customers.”

### Key questions for banks:

- ▶ Is our transformation strategy bold enough?
- ▶ Does our transformation strategy preserve or improve margin and operating leverage?
- ▶ Are customers, employees and business partners at the forefront of our transformation plans?
- ▶ How do we create a culture of continuous transformation?
- ▶ Are we providing our leaders with the training and coaching needed to rethink transformation and understand what success looks like?

## Small-scale change must accompany large programs

Every day, banks make relatively minor changes to their products and how they operate. These don’t fall within our definition of transformation but, over time, they will build to have a material impact on performance. Indeed, many banks we spoke with felt these small changes were just as important as major transformation programs, given their comparable cumulative effect. Many of the recommendations that we make for executives to improve transformation can also be applied to enhancing the bank’s ability to change on a smaller scale.

Continuous change is required to enhance a bank’s ability to transform. These can be adjustments and improvements to skills, technology or agile practices to governance that create a steady stream of micro-changes across the organization.



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One of the main issues that banks face when transforming is that customer experience is not the top priority. Executives can change this by prioritizing customer KPIs and getting into the weeds themselves by, for example, reviewing call-center complaints.

Dr. Dennis Khoo, Managing Partner, allDigitalFuture

# Inspire and lead from the top

## Communicate the transformation vision

Banking transformation must be led from the very top of the organization. EY research found that leaders of high-performing transformations were much more likely than those of low-performing transformations to have clearly articulated why the organization needed to change and have a vision that inspired workers to go the extra mile. Executive management must conceive, and actively and consistently communicate both internally and externally, a transformative vision aligned with the bank's overarching strategy. It is also vital to outline why transformation is needed. This will help build belief in the transformation plan across the organization and inspire teams to participate. Executive management must also, of course, oversee execution of that strategy.

However, this is often not the case. According to the transformation leaders we spoke with, the most frequently cited cause of unsuccessful transformation is an unclear vision. In addition, less than half (41%) of employee respondents say they understood and believed in their organization's transformation vision and strategy.\*

At worst, responsibility is delegated to product owners or other individuals outside of the executive team. In many banks, executive management outlines a transformation vision, but then fails to realize that vision.

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# 41%

of employee respondents understood and believed in their organization's transformation vision and strategy.\*

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The greatest barrier to successful transformation is the misalignment between executive management and the business team that drives the transformation. All too often, banks mobilize without really understanding what the transformation is trying to achieve.

Group Head of Transformation at a leading multinational bank

“The most important driver of successful transformation is making sure that every key stakeholder is aligned on its objective, right from the outset,” says the Chief Operating Officer of a major international bank. “Banks are typically huge, fragmented organizations with many business lines, each with its own priorities. It is hard to align around a common purpose unless it is driven by the most senior management.”

Transformation requires trade-offs. It is simply not possible for banks to maintain all of their traditional activities while transforming. So, as well as outlining the transformation vision, executive leadership must highlight which processes and activities can be discontinued or suspended to free up resource and budget for transformation. Often, these decisions can only be made at the very top of the organization.

### Key questions for banks:

- ▶ How do we align, ignite and incentivize our leaders and influencer network around transformation?
- ▶ What is the right balance between oversight and management when it comes to executive involvement in transformation initiatives?
- ▶ Is executive communication about the bank’s transformation vision and strategy resonating internally and externally?

### Forging agreement at the top

It is crucial to success that the executive management team and senior managers agree on the transformation strategy. If not, transformation will be undermined by misaligned individual objectives and priorities. Personal and functional KPIs may need to be revised to create a culture of accountability and ensure everyone contributes to the transformation agenda.

“A classic situation is that some parts of the bank might be tasked with driving efficiencies, while others might be incentivized to improve customer experiences,” explains Dr. Dennis Khoo, Managing Partner, allDigitalFuture. “This might lead to cuts being made to the operations team, which, in turn, harms customer experiences. Therefore, it’s important for everyone to be aligned.”

The KPIs of those at the very top of the organization may also require adjustment. A key reason why executive management does not lead on transformation is because the size of their bonuses is primarily based on short-term financial metrics, such as revenue growth. Anecdotal evidence suggests that the average tenure of a banking executive is two years, giving them little incentive to invest personally in complex, long-term transformation initiatives. Boards should, therefore, consider integrating transformation KPIs into executive bonus assessments.





# Rethink transformation ideation and investment evaluation

## Crowdsource transformation ideas

How, then, do executives determine their transformation strategies and decide which initiatives to pursue? Our discussions with banks suggest that employees are rarely consulted and that external trends – such as the emergence of new technologies or new business models in other sectors – are seldom considered. As such, the brightest new ideas are often ignored, or not even heard in the first place.

Employees that are closest to products and may fall into a recognized customer demographic can bring fresh, relevant perspectives. Therefore, banks should formalize processes to crowdsource transformation opportunities from across the workforce using initiatives such as hackathons, and senior leadership should be strongly encouraged to engage. Executive management should be made aware, regularly and formally, of key external trends that are shaping transformation across industries.

DBS has taken exactly this approach. “There is a dedicated innovation team within our transformation group that explores major trends within the banking

industry and around the world. It looks at trends, like the metaverse, sustainability and quantum computing to determine if and how the bank will be impacted,” explains Nimish Panchmatia, DBS, Chief Data and Transformation Officer.

“Senior executives will then devote up to a day each year to discuss these trends in order to really understand the implications for the bank and how they should be factored into the transformation strategy.”



## How to pay for change?

Securing adequate financing is one of the most significant barriers to delivering a successful transformation. In addition, only a minority (41%) of executives say that money is available to fund new innovations and ideas.\* Therefore, banks must rethink how they evaluate and fund transformation. As a starting point, adjustments can be made to the frameworks used to assess potential transformation initiatives. Typically, these primarily assess the potential financial payback within a five-year period; this time limit can lead to game-changing initiatives that require a longer payback period being sidelined. It is also vital to codify why a transformation strategy was approved or otherwise and how each performed according to various assessment criteria.

Securing the data required to assess transformations can be difficult. Banks should set tolerance levels according to scope and potential upside for approving transformations that may lack full supporting data. Some banks have decided to carve out budget for risky but potentially game-changing transformations that have a longer-term payback, in the same way that they would earmark funds to comply with unexpected regulatory interventions.

“Data is vital, but there also needs to be a qualitative aspect of assessing potential transformations. A subset of our transformation portfolio contains educated bets where there is uncertainty on the level of return and high execution risk, but they could deliver major returns in the long term.

Chief Transformation Office of a major Asia-Pacific bank

## Consider the level at which transformation budget is released

Banks should also reconsider the level at which budget is provided for transformation, for instance, pivoting from funding discrete initiatives that transform specific products or processes to those that transform entire value streams. This empowers the business unit to act with autonomy by providing it with the flexibility to allocate budget as it sees fit, and to experiment and respond to new opportunities.

“We’re pivoting away from funding discrete initiatives to funding value streams, which is an end-to-end process around a product,” explains the Group Head of Transformation at a multinational bank. “For example, UK mortgages are a value stream. We’re increasingly providing budget over multiple years to create fixed capacity for a value stream to generate a return on investment, but then leaving it up to that team as to which specific initiatives they fund. That’s very different from approving a business case for a team to develop a defined new product.”

41%

of executives say that money is available to fund new innovations and ideas.\*



### Key questions for banks:

- ▶ Are we consulting across the business and paying attention to external megatrends when forming transformation plans?
- ▶ Are we considering human as well as financial and non-financial metrics when evaluating transformation initiatives?
- ▶ Would “our most innovative” transformation programs get approved with our current evaluation criteria?

# Reposition for agility at scale

## Learn to fail fast

With customer expectations changing so quickly and new market entrants unveiling a slew of innovative propositions at speed, banks need to find ways to accelerate the pace of transformation. An all-encompassing approach is needed to entrench agility in culture and mindset, team structures, technology and data, and governance.

One of the most important but often overlooked aspects of agility is the ability to halt transformations that are not delivering and pivot to new opportunities without delay. This capacity to fail fast is essential to avoiding wasting resources on unproductive initiatives. Banks must provide the governance necessary to identify underperforming projects while developing a culture that does not punish unsuccessful initiatives but rather encourages them as part of an iterative learning process. However, just 43% of executives say they made it clear to employees that failed experimentation would not negatively impact their career or compensation.\*

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# 43%

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of executives say they made it clear to employees that failed experimentation would not negatively impact their career or compensation.\*



## Teams-of-teams: A way to bring functions together

EY research finds that successful transformation leaders co-create new ways of working and empower workers to redesign and redefine their own work. To facilitate collaboration, banks should create cross-functional teams-of-teams that are incentivized to deliver specific outcomes. These might include redesigning mortgage applications or the “join-the-bank” experience. Such teams should include representatives from the business and technology teams, as well as those in risk and control functions.

Many banks have created such teams for specific initiatives but do not facilitate ongoing cross-functional collaboration. This is an area where many businesses struggle today: only a minority of the workforce say they collaborate well across units, functions and geographies during transformation. Some banking leaders are already looking at putting these collaborative teams in place on a permanent basis.

“Cross-function teams-of-teams are essential to drive transformation at the required pace,” explains Christine Morris, Senior Executive Vice President, Transformation, Enablement and Customer Experience, TD Bank Group. “The key is for everyone in that team, regardless of where they came from, to be evaluated against the same outcome.”

## Cloud technology unleashes agility

Banks will need to establish the technology and data capabilities required to bring their transformation vision to life, which may require significant investment. Modern core banking systems may be required to hasten the integration of new technology that will allow rapid access to key data.

“Banks need a modern technology architecture to transform with agility,” says Raphael Schapiro, Chief Technology & Operations Strategy and Transformation Officer, BMO. “It’s important to have applications in the cloud but, when it comes to product development, it’s also important that key workflows are built cloud-native. This enables automation and saves significant time.”

### Key questions for banks:

- ▶ Does our culture and governance allow underperforming transformations to be aborted without delay?
- ▶ Are our teams-of-teams aligned and working effectively and can they be rolled out further across the business?
- ▶ What changes can be made to our technology and data systems to accelerate change?



# Reorchestrate talent and invest in people

## Refresh talent propositions

Banks should map out the skills they will need to transform successfully. Most realize they need software developers and coders, but data engineers, data scientists and data architects, as well as those well-versed in agile practices, such as scrum masters, are also vital. Individuals with technical and business expertise are invaluable, as are softer skills such as communication and empathy. Currently, 44% of executives say their organization had the digital skills and mindset needed for transformation.\*

Once leadership has mapped out the required skills, it's imperative that they work with the Chief Human Resource Officer, Chief Operating Officer and Chief Technology Officer to determine the optimal mix of reskilling, recruitment, contingent workers and external specialists and consultants to secure these for the business. Technology and other skills needed for transformation are in short supply, so there is a strong emphasis on investing in existing employees to develop the required mindsets and skills.

Banks may also need to rethink their talent propositions in order to attract and retain top talent. Articulating the

transformation trajectory on first contact with prospective new hires is key, as is communicating their potential role in that transformation.

"There's a real shortage of technology and data skills, so we are investing more in our talent proposition," says the Chief Transformation Officer of a major Asia-Pacific bank. "That encompasses making sure that the work is interesting, there are great career prospects and the compensation is competitive. It's also vital to talk about the bank's transformation plans, its future business mix and how transformation will make the bank a fulfilling and rewarding place to work."



## Culture flows from the top down

The importance of culture cannot be overstated. Senior leadership needs to define the culture and associated behaviors that best support the transformation vision. These will often involve an unfamiliar level of openness to collaboration, new ideas and experimentation and, as a consequence, new levels of risk-taking. It is also vital to instill a culture of accountability, whereby those charged with leading and delivering change take ownership of execution.

However, only around four in 10 executives agreed that their organizational culture had a sense of urgency about change and transformation. The same proportion agreed that their culture encouraged innovation and new thinking.\* Incentives and performance management should be revised to encourage culturally aligned behaviors: less than half of executives and only a small fraction of the workforce say their compensation and performance-management systems were adjusted to reward the behaviors required for transformation.

Moreover, the right cultural balance will only be achieved if it is demonstrated by executives at all times and baked into change management programs. Organizations that underperform when it comes to transformation highlighted limited support from the workforce as the main reason.

“However a bank is seeking to transform, a key determinant of success is the culture and willingness of executives and senior managers to take personal risks and practice courage,” says the Chief Strategy Officer at a major North American bank. “All too often, transformation initiatives are based on what teams know they can deliver, but this is limiting. It’s better to go with your gut and

transform in a way that you think will have a big impact, even if there is some uncertainty. Leadership can encourage personal risk-taking by allowing people to fall short without the risk of dismissal if one particular transformation doesn’t work out. This encourages future risk-taking.”

Generating quick wins through pilot programs or releasing minimum viable products can help keep employees and management engaged during long-term transformation. A change in mindset will be required to make this a reality, as banks historically only release new products or put in place new processes when they are tried and tested.

## Don't forget diversity

The research highlighted the importance of creating an environment that fosters connectivity, collaboration and creativity. Executives we spoke with emphasized the importance of creating future-fit transformation teams that are diverse in terms of gender, ethnicity, nationality and experiences. This will ensure that a range of perspectives are available. However, it’s not enough to have a diverse room. People from different backgrounds need to be encouraged to voice their opinions, especially if they are among the more junior team members. Leaders need to harness the right approach to communication to keep workers engaged and motivated, while providing enough emotional support to prevent anxiety and burnout.

“My team does lots of work on psychological safety, which is needed to ensure that people are encouraged and have the freedom to say what they want,” explains the Group Head of Transformation at a leading multinational

bank. “This is vital because the people who really know what the issue is are often not the most senior people sitting around the table. This is a key element of diversity. All studies I have seen say that teams that feel psychologically safe deliver better outcomes.”

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**Having the right culture is also a powerful incentive for people to perform. Transformation is as much about a cultural shift as it is a technology shift.**

Raphael Schapiro, Chief Technology and Operations Strategy and Transformation Officer, BMO

### Key questions for banks:

- ▶ Do we have a workforce strategy to attract, develop and retain the right talent?
- ▶ How do we define and embed a transformative continuous improvement culture in a hybrid working environment?
- ▶ Are our transformation teams diverse with respect to gender, ethnicity, nationality and experiences?
- ▶ How can we obtain the optimal mix of skills in the right locations in a cost-efficient manner?

# Re-evaluate tracking and performance monitoring

## Define transformation KPIs at the outset

Banks all too often look first to financial metrics when assessing the performance of transformation initiatives, both during and after the program. While they can't be ignored, these metrics should be considered in combination with operational and customer experience indicators, such as net promoter score or straight-through-processing rates. It is vital to define success criteria, a measurement framework and key KPIs for the speed, quality and value of the transformation at the outset of any initiative, and then stick religiously to these criteria.

Quantitative analysis should be combined with qualitative assessments, such as anecdotal perspectives from customers or employees involved in the transformation. These can provide the nuance and context that is often missed in quantitative assessment alone. Monitoring resources should naturally be allocated in greater or lesser intensity according to the scale and importance of the transformation initiative.

“Big-ticket transformation initiatives are reviewed with greater scrutiny, whereby a committee reviews progress twice a quarter and determines how and when challenges can be overcome,” explains the Chief Transformation Officer of a major Asia-Pacific bank. “But smaller transformation initiatives are evaluated quarterly and assessed in an automated way based on some standard governance criterion. We primarily assess the smaller initiatives on outcome alone, once the project is complete.”

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The metrics banks use to measure the success of transformation should be tailored to the objective, but you need to combine a measure of customer and employee satisfaction in addition to the financials.

Nimish Panchmatia, Chief Data and Transformation Officer, DBS

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## Put transformation at the center of the business

If a transformation is deemed unsuccessful, a central transformation team should document the reasons why in post-implementation reviews and share any key lessons with the wider business to ensure that errors of judgment are not repeated. Importantly, this information must be reviewed by executive management; if not, the learning will be lost. Some banks also conduct “pre-mortem” reviews, in which they postulate that their transformation initiative is unsuccessful and consider theoretical factors in this notional failure as a way of identifying barriers to success. As with all successful transformations, imagination will be a key ingredient.



### Key questions for banks:

- ▶ How do we define, measure and report on transformation initiatives?
- ▶ Do we use the right balance of financial, customer, operational and employee KPIs when measuring success?
- ▶ Are we learning from past transformation mistakes?

### Leveraging leadership is key to success

A common theme from all our discussions with banking leaders was the importance of leadership.

Whether it be setting and communicating the transformation agenda, making organizational changes that create a more agile bank or unleashing a cultural shift, strong and engaged leadership is needed to organize and inspire.

With confident and committed leaders, banks can start to master the art of transformation.

**Methodology:** Survey data in this report is taken from [EY Transformation leadership: Humans@center Research](#)



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