Fending Off the FinTechs: How Agile Financial Services Firms are Transforming Their Businesses

Authors

RamanaMurthy Magapu
SVP Operations, BFSI Platforms, Tata Consultancy Services

Sathish Sankaranarayanan
Principal Consultant, BFSI Technology Group,
Enterprise Intelligent Automation, Tata Consultancy Services

Few stories better illustrate the challenge facing banks and financial services firms than the swift rise of Quicken Loans and its online Rocket Mortgage unit. Quicken Loans used Rocket Mortgage's 2016 launch to increase its loan volume by more than 7% to $96 billion. Rocket alone closed $7 billion in loans in its first year, immediately placing it among the top 30 U.S. mortgage lenders.[49] Quicken Loans, meanwhile, increased its U.S. mortgage market share six-fold over the last 10 years, from less than 1% to 5.7% in 2017.[50]

[49] Housing Wire, Here's How Much Rocket Mortgage Helped Quicken Loans in 2016, March 7, 2017, accessed March 13, 2018, https://www.housingwire.com/articles/39505-heres-how-much-rocket-mortgage-helped-quicken-loans-in-2016

[50] Bloomberg, Big Banks Have Ground to Recapture in Mortgage Lending, January 12, 2017, accessed March 13, 2018, https://www.bloombergquint.com/gadfly/2017/01/12/big-banks-have-ground-to-recapture-in-mortgage-lending

How did Rocket propel Quicken Loans? The parent company's CEO credits it to embracing agile approaches in which "the entire team works towards the common goal of making life radically simple for our clients through innovation and passion."[51]

But the mortgage business is by no means the only financial services segment in which companies have adopted agile techniques to blow by competitors. FinTechs and startups, sometimes working with established financial services firms, have made real inroads in all banking products, services, and markets. Take the example of Vantiv. Now merged with Worldpay, the U.S. based payment processor has used agile processes to become a global payments-processing leader in 146 countries, handling $1.5 trillion in transactions per year.[52]

Agile adopters such as online-only U.S. banks like MovenBank and AllyBank boast about offering competitive financial products and a better customer experience than many of their brick-and-mortar brethren. Online wealth management firms like iQuantifi are using robo-advisers and algorithms to provide financial advice to clients. Digital mortgage lending platform provider Roostify has partnered with JPMorgan Chase to let home-buyers track loan applications online.[53, 54]

[51] Quicken Loans Press Release, One for the Thumb: Detroit-Based Quicken Loans Named Computerworld's #1 Best Place to Work in IT for Fifth Straight Year, June 12, 2017, accessed March 13, 2018, https://www.quickenloans.com/press-room/2017/06/12/one-thumb-detroit-based-quicken-loans-named-computerworlds-1-best-place-work-fifth-straight-year/

[52] Cincinnati Enquirer, Vantiv Transforms into Worldpay, Likely Region's Newest Fortune 500, January 17, 2018, accessed March 13, 2018, https://www.cincinnati.com/story/money/2018/01/17/vantiv-transforms-into-worldpay-likely-regions-newest-fortune-500/1041795001/

[53] Roostify Press Release, Chase to Launch Customer-Driven Digital Mortgage Experience, February 16, 2017, accessed March 13, 2018, https://www.roostify.com/press-release-archive/2017/2/16/chase-to-launch-customer-driven-digital-mortgage-experience

[54] Housingwire, Roostify Focuses on the Consumer Experience with Education and Transparency, December 1, 2017, accessed March 13, 2018, https://www.housingwire.com/articles/41981-roostify-focuses-on-the-consumer-experience-with-education-and-transparency

Mobile payment platforms also represent a threat to the banking and financial services industry. AliPay, the digital wallet operated by Alibaba offshoot Ant Financial, boasts 520 million Chinese customers representing 51% of China's $11 trillion internet payment market, and the company is expanding outside China.[55] Its rival, WeChat Pay, linked to the WeChat message service offered by Tencent, accounted for 40% of that market in 2016[56] and has moved into Malaysia.[57] Both services' mobile payment volumes dwarf totals logged in the U.S. Mobile payments also have driven growth at PayPal, whose latest quarterly profit rose 32% rise in its most recent quarterly report, powered in part by Venmo, the company's social payment platform, and by partnerships with big banks like JPMorgan Chase, as well as tech titans like Google, Apple, and Facebook.[58]

Those digital-first giants provide their own challenges, as researchers expect Apple, Facebook, and Google to drive growth in payments through their customers' smartphones.[59] Mobile devices have given consumers powerful tools for conducting a universe of financial transactions, and they expect their banks (like their stores and governments) to work 'anytime, anywhere,' like their favorite apps.

[55] Economist, China's Digital-Payments Giant Keeps Bank Chiefs Up At Night, August 19, 2017, accessed March 13, 2018, https://www.economist.com/news/business/21726713-ant-financial-500m-customers-home-plans-expand-chinas-digital-payments-giant-keeps

[56] Financial Times, China Moves to Impose Order on Mobile Payments Boom, December 28, 2017, accessed March 13, 2018, https://www.ft.com/content/b7866e7c-eb8e-11e7-bd17-521324c81e23

[57] Business Insider, Tencent's Expansion of WeChat Pay into Malaysia is Important for its Long-Term Success, November 22, 2017, accessed March 15, 2018, http://www.businessinsider.com/tencent-expands-wechat-pay-to-malaysia-2017-11

[58] Reuters, PayPal Tops Profit Estimates, Lifts Target on Mobile Payments Growth, October 19, 2017, accessed March 13, 2018, https://www.reuters.com/article/us-paypal-hldg-results/paypal-tops-profit-estimates-lifts-target-on-mobile-payments-growth-idUSKBN1CO2ZW

[59] Juniper Research, Why 2018 is the Year of Social Payments, January 2018, accessed March 13, 2018, https://www.juniperresearch.com/document-library/white-papers/why-2018-is-the-year-of-social-payments

While banking leaders understand the need to adopt agile approaches to counter such disruptive competition, their existing processes, systems, and organizational structures stand in the way of adoption. Even some with agile teams still take months to do what nimbler competitors do in days or weeks.

Banks and financial institutions that wish to compete with truly agile organizations all face the same question: Can we become agile enough, fast enough?

The Missing Link: Unprecedented Cross-Functional Collaboration

Executives at large banks and financial services companies run into familiar problems trying to deploy agile teams and scaling agile across the enterprise. While each institution takes an approach best suited to its context, the lack of a common vision ('Why agile?') and what it means to adopt the agile 'way of working' leads to many failing to deliver the business value they anticipated.

These institutions run multiple lines of business, with organizational structures and processes to support each one.

But these structures and processes typically create distance between marketing, research, legal, and other participants in agile teams. Instead of collaboration, there are hand-offs: the marketing team hands off a decision to the finance team, and the finance team adds information and hands the decision off to the IT team to develop a solution. This adds time and static to the development and launch of new financial products.

The IT landscape at big banks is another major barrier to agility. Over time, through mergers, acquisitions, and other changes, their systems have become complex and unwieldy. Implementing a simple feature in a customer engagement system, for example, requires difficult integration work, and iterative testing to make sure the new feature works well with other features and doesn't break them. In addition, there typically is little automation available to test and release software. In this environment, agile teams inevitably confront bottlenecks and grow frustrated.

These problems share a common theme: Business and IT managers must work continuously together to bring new products from conception to market. If they don't, agile methodologies will never achieve the speed for which they were created. Agile won't work without a unity of purpose, a one-team approach.

In short, becoming an agile organization calls for a transformation that engages people, systems, and processes at all levels. Agile is not just about creating software.

Coming Together Around Agile

To overcome the impediments to becoming agile, financial services companies must take three paths:
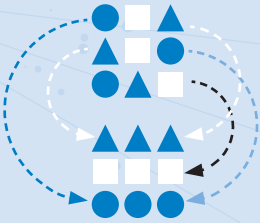
1. Organizational assessment and planning.

They need to define their vision, identify the internal impediments to agility, and create an enterprise transformation roadmap to overcome them. This is about having a change management strategy, adequately supported with resources. Any systemic change requires a feedback mechanism to collect and analyze stakeholder reactions. Addressing the feedback is what drives progress.

2. Implementation preparations.

The goal of agile transformation is to create customer value quickly. Therefore, companies should establish teams organized around discrete pieces of the customer experience. Those teams will work best when managers demonstrate 'servant leadership'—i.e., acting frequently to remove impediments that can slow the work of digital product teams, rather than operating in a traditional command-and-control mode.

3. Technology platform and engineering culture.

To support the agile deployment of new products, financial services firms need to employ modern IT architectures and designs, like micro-services and application programming interfaces (APIs) that take advantage of the latest technology infrastructure designs, and cloud-based systems. What's more, product engineers must adopt a culture of automated systems—converting manual technology work into automated work wherever possible.

Empowered Teams are at the Center of the Action

Self-organizing teams staffed with people from all relevant functions are the heart of an agile organization. They, not their superiors, must be allowed to decide what they can deliver—in weeks, not months—based on the resources they have.

These teams have the power to make these decisions because they are backed by the business's leaders. That only happens when everyone in the C-suite understands and visibly demonstrates (through daily attendance at team meetings if need be) that agile adoption is necessary to the organization's future.

Why do all CXOs need to be on board? Because only they can give teams the flexibility to define the scope of their work and prioritize goals based on the business value their products deliver to customers. Banks succeed with agile adoption when they have business-IT teams in which members share ownership of the work: the delivery of new functions to customers.

A company's technology foundation also is critical to optimizing agile teams. Leading practitioners of agile methodologies adopt DevOps strategies that automatically release new features after the team develops them. DevOps empowers a company to collect timely feedback from customers about new digital products. That feedback enables teams to quickly improve the product, the customer experience or both.

Building the Team: How to Do it Right

Agile teams must possess all the required skills for assessing customer needs and developing new products and product features. As such team members must include representatives from all functions that impact the customer experience—i.e., marketing, sales, finance, HR, IT, research, operations, and other groups.

Four other principles are crucial to the success of these agile teams:
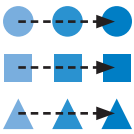
1. Organizing teams by features.

Any team should focus on customer journeys, mapping, and improving a consumer's experience at every step of his or her interaction with the bank. For example, a team could work to make the loan origination process more efficient. Team members would examine every step in the workflow, from routing documents to how consumers upload them online to ensure requirements (consumer credit histories, loan eligibility, bank account validation, employment, and property value check) are met as seamlessly and effortlessly as possible.

We have seen agile teams cut days from this process by eliminating activities that don't add value. For example, in the mortgage lending process, customers can provide electronic signatures for documents instead of coming into the bank, a move that saves time, and reduces mistakes. Electronic systems to check an applicant's credit history and other changes have trimmed six or seven days from the loan approval process, meeting customers' desires for a faster, easier-to-use process.
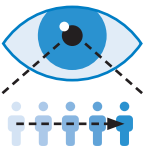
2. Develop team skills for analyzing and improving customer value streams.

Team members must be able to dissect what information and expertise are necessary to improve key customer processes. That requires cross-functional teams that can ask questions such as:

- What are the key elements and business processes central to the bank's operations?
- How many handoffs are happening between systems and functions?
- What tasks add value—and don't (and thus could be eliminated)?

Mapping a customer process such as 'from inquiry to cash' will shine a light on ways to improve workflows and eliminate waste. However, the team working on that process must be composed of members from all the functions that impact that process.
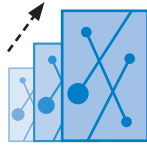
3. Scale those agile skills.

Banks that want to adopt agile approaches are wise to start small— even with one team—before going big. However, once a bank makes one agile team successful, the goal should be to create many more agile teams across the organization. That will help it to build a culture of rapid, iterative, and customer-responsive change.

When that happens, banks will have a flatter organization in which middle managers can move from a command-and-control mindset to servant leadership, assisting teams instead of running them.

All this requires extensive training and coaching by agile experts. Team members must master agile approaches, as well as their roles on the team. Managers must be trained how to shift their style from supervising subordinates to empowering them. Work areas need more open spaces and flexible seating arrangements. They will foster greater collaboration and improve team productivity (while also appealing to millennial team members). Tools that help team members collaborate— especially chat applications, document repositories, and project management software—are also instrumental to boosting team productivity.

Functional Area	Key Features / Capabilities Supported
Sales Processes Across Product Lines	• Prospect campaign execution • Prospect management • Customer offer • Commissions • Product matching • Product sales support
Loan Origination (Mortgage, Auto)	• Know Your Customer (KYC) • Employment verification • Validate bank details • Credit history check • Loan eligibility check • Asset valuation • Documentation management
Retail Bank— Accounts and Deposits	• Account opening, account activation • Transaction posting, balance checks • Service interest computation, tax computation, fees • Support functions—KYC, customer statements
Common Reference Data Used Across the Bank	• Client/party management • Product management • Market data management • External agency management

Figure 8: Banking Features Ripe for Reuse
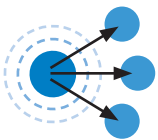
4. Build once, use many times.

When a team develops a hit feature for customers, the organization should look for other parts of the business that could reuse it. This principle is especially relevant to banking and financial services. Figure 8 shows common examples that we've seen of banking features that agile teams are repurposing in their companies.

How Agile Can Pay Off

Banks with agile cultures introduce new products and services much faster. They also are quicker at identifying and making cost reductions. Customer ratings also improve. The impact can be eye-opening:

- A U.S.-based financial services company cut the time it took to introduce new features 55% and the time to test them 70%. The cost of product development fell 40%.
- A leading U.S. mortgage banking services provider reduced the time it took to roll out new product features by as much as 75%, from an average 3-6 months to 6-8 weeks. What's more, the percent of customers who used the new features jumped from 50% to 87%. Not surprisingly, the company's JD Power customer survey ratings rose.
- A large global bank deploying a digital channel for consumers who wanted a mobile-first experience cut the cost of customer research by 94% after adopting agile approaches. It also reduced the time it took to execute payments by 60%, and the average time it took customers to open a new brokerage account by 75%.

Success Takes Work: Making Agile Change Stick

Even as financial services company executives recognize the need to adopt agile approaches, generating benefits like those described above won't be easy. Three challenges routinely emerge: winning over key business stakeholders, organizing geographically dispersed teams, and embracing an agile culture across the enterprise. However, each challenge can be overcome.

Collaboration with business stakeholders. While bringing business and IT people together in agile teams is vital to their success, at some banks decision-makers see both the company's problems and solutions as belonging to IT. Even when technology is central to addressing an issue, however, agile efforts will fail without participation from business functions.

Success with agile requires cross-functional collaboration and direct participation. Teams should include a role for a business-side participant who serves as team leader or product owner. Team meetings should be frequent, with regular presentations, and product demonstrations to business leaders. Teams must also convince business leaders they must devote time to the effort.
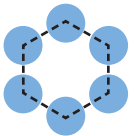
Distributed teams. When a group of software developers created the Agile Manifesto in 2001,[60] they emphasized the value of face-to-face conversation.[61] In today's business environment—with teams often spread across the globe—that's not always possible.

Managing this challenge demands emphasizing the close communication required among all team members. Teams can still collaborate over long distances when they skillfully distribute work tasks. They can even hasten progress. This still requires regular meetings and leveraging collaboration tools. It also involves the extensive use of what's referred to as 'information radiators': large charts, physical or digital, to track team member tasks and to communicate and sustain team momentum. This information must be available to all team members, whether or not they work in the same room.

[60] Agile Manifesto, History: The Agile Manifesto, accessed March 13, 2018, http://agilemanifesto.org/history.html
[61] Agile Manifesto, Principles Behind the Agile Manifesto, accessed March 13, 2018, http://agilemanifesto.org/principles.html

Embracing an agile culture. Culture change is hard. Many managers loath ceding control. To get them to embrace agile, its value must be demonstrated to them. For example, a team can show metrics such as data on customer reactions to minimum viable products (MVPs) and subsequent customer feedback on the iterative improvements to those products.

Skills development is another element of an agile culture. Banks should cross-train team members so they gain additional skills. That will reduce the number of handoffs to other teams, which will increase productivity. We have seen banks train business analysts to perform quality function tasks (such as working on test specifications in addition to product specifications), and developers pick up testing skills, and vice versa.
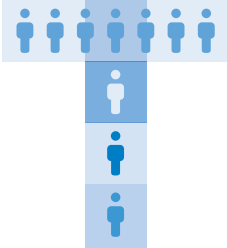
By working together, team members can also gain 'T-shaped' skills. By this, we mean they bring knowledge and experience in a particular area (the vertical bar of the T) and leverage knowledge gained from working with experts in other areas (top of the T).

Agile methodologies embrace 'fast failures'—flaws in a product or service idea that a team discovers early and then fixes. This makes it possible to show how the early lessons learned from such failures can save time and money later as compared to traditional approaches.

There are likely to be some in the organization who resist the effort to move to agile. To bring detractors on board, leaders can implement a comprehensive change management strategy—building awareness, cultivating participants' acceptance, and enabling them to understand the benefits ('what's in it for me'). Demonstrating quick results from the effort will help win over colleagues who are skeptical of agile.

The message needs to be this: The company's competitiveness depends on it.

Once these barriers are overcome, it should become obvious that the adoption of agile is making the organization stronger. Agile should be breaking down barriers across the organization, and focusing it on what matters most to customers—and not on products or product features that aren't generating value. And combined with DevOps practices that automate the release of new technology-enabled features, agile can bring more coherence to a bank's effort to develop IT systems that were not integrated from past mergers and acquisitions.

Leaders at banks and financial services companies know that innovative, fintechs are working hard to take their business, and they are agile for a reason. Agile approaches are critical to making established financial services firms grow faster, become more competitive, and serve customers better, especially online.