

Three Strategies for Modernising Digital Banking

A Guide for COOs

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Executive Summary

Financial services companies are fighting for customers' hearts and minds on a very uneven playing field. Because the rules of the customer experience game are DIGITAL—and there's a gulf between the haves and have-nots of digital talent.

In evidence

- HSBC has 30,000 software developers—almost as many as Microsoft.
- On average, each of the world's top 100 banks spends 26 times more on IT than the individual 900 banks that follow them.

So, the question is

If you're a financial services player but not in tier one, how will you keep up with customer experience leaders?

Traditionally, when it comes to introducing or modernising digital solutions, there are two broad strategies to consider. Should you buy or should you build your solution?

There are many options for each—build yourself, outsource development, buy off-the-shelf, and the degree to which you should attempt to customise a packaged solution.

Further complicating this picture, low-code and no-code platform evangelists would have you believe that virtually any businessperson can develop software with lightning-fast results. (But, in our experience, not necessarily the results you'd be hoping for!)

So, when it comes to sourcing or modernising a digital banking solution, which route should you choose? Our answer, "Buy then Build," may surprise you. Read on to learn the pros and cons of each option, with testimony from those that have trod this path before you.



The Speed Imperative for Customer Experience Improvement

// There's growing recognition that the consumers' digital behaviours that accelerated due to the global pandemic are here to stay. ¹

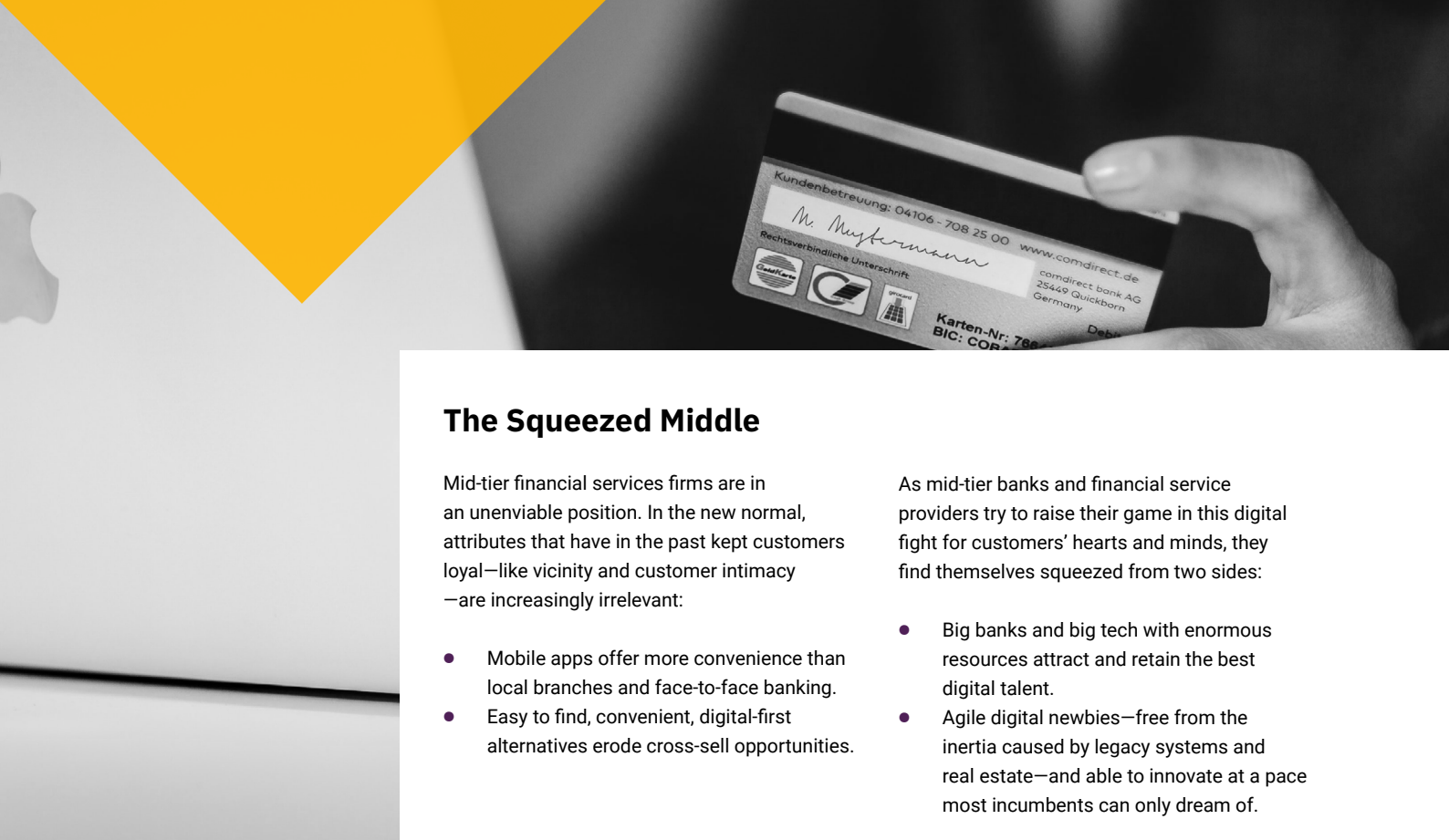
COVID-19 and the consequent changes in customer behaviour provided more impetus to the digital transformation race, with incumbents and Fintech disruptors accelerating their investments.

As reported in KPMG's "Pulse of Fintech H1'21" report, global fintech investment reached a new height of \$98 billion in the first half of 2021, with \$24.5 billion of that in the UK alone.

Many of these products and initiatives are already disrupting the financial services market, enabling new providers to side-step traditional distribution networks or inject themselves between banks and their customers.

Those that lack digital self-service options, or provide clunky and disjointed digital experiences look increasingly vulnerable.

¹ [KPMG, Pulse of Fintech H1'21](#)



The Squeezed Middle

Mid-tier financial services firms are in an unenviable position. In the new normal, attributes that have in the past kept customers loyal—like vicinity and customer intimacy—are increasingly irrelevant:

- Mobile apps offer more convenience than local branches and face-to-face banking.
- Easy to find, convenient, digital-first alternatives erode cross-sell opportunities.

As mid-tier banks and financial service providers try to raise their game in this digital fight for customers' hearts and minds, they find themselves squeezed from two sides:

- Big banks and big tech with enormous resources attract and retain the best digital talent.
- Agile digital newbies—free from the inertia caused by legacy systems and real estate—and able to innovate at a pace most incumbents can only dream of.

The Digital Urgency Era

If your customer-facing digital experiences lag those of your competitors, your firm could be hemorrhaging—lost opportunities, lost goodwill, and ultimately, lost customers.

Stemming such losses is no place for steady and cautious process engineering. Speed to market is paramount in the digital urgency era. That backdrop will limit your choices for how you build or modernise your firm's digital customer experiences.

But before rushing headlong at the challenge, consider this:

Speed of change will be just as important as speed to market.

A quick but rigid solution—that cannot be adapted in response to evolving customer needs, new competitive pressures, or changing regulatory burdens—would be no success at all.

Digital banking solutions—including customer onboarding, mobile or internet banking, and self-service portals—must be quick to change.

For example, will you be able to rapidly adjust the customer onboarding journey and monitor the effect on conversion rates? Such rapid adjustments are crucial to optimise customer experiences, conversions, and engagement.

But as we explore in the next chapter, several barriers stand in the way of achieving such agility.

What's Holding you Back?

Before exploring alternative approaches to sourcing or modernising digital banking solutions, it serves to understand the barriers to speed and agility which you need to overcome.

What stops mid-tier financial services firms from keeping up with “digital leaders”, including big banks, big tech, and a slew of digital-first fintechs?

The IT Backlog

An IT backlog is a necessary evil for any business. Without it, firms cannot prioritise business requirements according to risk and business value.

A potentially long list of priorities in financial services can push customer experience improvement off the top of IT's agenda. These include operational risk, cybersecurity risk, and regulatory and conduct risk.

Such burning issues can leave customer experience improvement projects stuck in a lengthening IT queue. Cruelly, the regulatory

burden for mid-tier financial services firms is much the same as for larger institutions.

Consequently, many mid-tier incumbents have lengthier IT backlogs than digital leaders. If your digital banking requirements languish for six months or longer, you're falling further behind more agile competitors.



Legacy Systems

// Over 90% of UK financial services firms rely on legacy technology in some form to deliver their services.

Financial Conduct Authority, 2021²

Legacy tech consumes a disproportionate amount of IT's resources. Even minor changes can take an age. And given a choice whether to prop up creaking systems or work in a dynamic team using the latest cloud tech, it's obvious where the best IT talent will gravitate.

Simply put, if your firm is burdened with old systems, you've got fewer resources available for innovation, and digital projects will take longer.

The Digital Talent Crunch

// The UK is heading towards a catastrophic digital skills shortage, says The Learning & Work Institute.

BBC News, March 2021³

The global shortage of IT talent is getting worse. According to The Computing Technology Industry Association (CompTIA⁴), the UK's net tech employment has grown at between one and two percent p.a. in recent years. That's woefully short of demand. In evidence:

- Forty-seven percent of IT decision-makers say that they have accelerated digital transformation plans because of the pandemic⁵.
- The number of unfilled cybersecurity jobs has grown 350 percent in the eight years to 2021⁶.
- The \$24.5 billion of UK-based fintech investment in the first half of 2021.

In these market dynamics, it's becoming increasingly difficult for mid-tier financial services firms to attract and retain the digital talent they require.

² FCA, [Implementing Technology Change, 2021](#)

³ [BBC News, March 2021](#)

⁴ [CompTIA, UK Tech Industry and Workforce Trends, 2021](#)

⁵ [Equinix 2020-21 Global Tech Trends Survey](#)

⁶ [Cybercrime Magazine](#)

Lack of Agile/Digital Fluency

// Over fifty percent of UK financial services firms surveyed used a waterfall project management methodology. But firms that use agile delivery were less likely to experience a change incident.

Financial Conduct Authority, 2021⁷

Like any team sport, agile product development requires match practice to build confidence and fluency. Compared to digital leaders, laggards lack the necessary experience to develop such fluency.

And with a quarter of project managers likely to change jobs in 2021⁸, mid-tier financial services firms are particularly vulnerable when head-hunters come calling to fill posts at bigger banks and fast-growing fintechs.

Consequently, even if mid-tier firms succeed in recruiting the latest digital development skills, they risk wasting such talent on projects that run into difficulty. According to the Financial Conduct Authority, 24 percent of high severity incidents result from IT change failures⁹.

7 FCA, Implementing Technology Change, 2021
8 APM Salary and Market Trends Survey, 2021
9 FCA, Implementing Technology Change, 2021



A History of Making Do

// If you want something done well,
ask a busy person to do it.

The heroic efforts of operations teams can make it more difficult to build the business case for digital customer experience improvement. They mask the inefficiency of disjointed systems with human integration—the manual steps, rekeying, and workarounds that they've used for years. Customer onboarding is a great example:

- **Digital leaders** integrate web forms with back-office systems and third-party AI-powered web services for KYC and AML checks, credit risk checks, and more. They automate every step of the onboarding process—making the customer experience lightning quick, and the straight-through execution cost minimal.
- **Digital Laggards** lack integration and automation. They often use paper-based application forms. When using web forms, they result in little more than an email to a shared inbox. Applicants wait while staff perform slow, repetitive, and error-prone tasks. Decisions can take days. Applicants often need to visit a branch to prove their identity. The execution cost is sky-high, especially when you consider the high abandonment rate.

Such busy and knowledgeable people will be immensely more valuable when automation releases them to serve customers.



The Case for “Buy then Build” when Sourcing Digital Banking Solutions

How should mid-tier financial services firms source a digital banking solution?

Traditionally, there are two broad strategies on offer—either buy or build. But as independent research firm Forrester explores in its report “Buy then Build: The New World of SaaS Development¹⁰”, the combination of software as a service (SaaS) and low-code application development capabilities are changing how companies think about software sourcing.

We’ll briefly explore the pros and cons of each approach:

- Buy
- Build
- The combination of buy then build.

¹⁰ Forrester. Buy then Build: The New World of SaaS Development, 2018

Buy

The traditional rationale is to buy commodity capabilities. There's usually no business case to spend time and resources building what you can buy off the shelf in the form of a SaaS product.

Advantages

- Speed to market—if an off-the-shelf SaaS product meets your requirements.
- A market proven low-risk solution

Disadvantages

- Prescriptive and non-differentiating functionality.
- Customisation can add complexity and cost to future upgrades or can even make upgrades impossible.

When to use

- When the functionality required is non-differentiating.
- When out of the box features plus standard configuration capabilities fully meet your requirements.
- In highly regulated situations—when vendor certifications and commitment to deliver future required enhancements will reduce your regulatory compliance burden.

When to avoid

- Don't choose if you need the freedom to customise and differentiate.
- If future requirements are unclear and you cannot be sure of the vendor delivering what you need out-of-the-box.

Build

When you cannot find a SaaS software solution that you can adapt at low risk and cost to meet a business requirement, you might be able to justify custom development.

Advantages

- The freedom to build exactly what your business requires.
- The creation of owned intellectual property.
- The ability to provide customers with a differentiating experience or service.

Disadvantages

- Slow time to market—due to requirements analysis, development, and testing.
- High cost to support and retain knowledge.
- Custom software can soon become legacy.
- High failure risk. According to 2020 research, as few as 35 percent of software development projects fully succeed w.r.t quality, time, and budget.

When to use

- When the functionality required is unique to your business.
- When you cannot economically configure a SaaS product to meet your requirements.
- When in-house developers can respond quickly.
- When requirements are likely to change in ways or at speeds that an external software vendor cannot support.

When to avoid

- When the requirement is non-differentiating, and a commodity SaaS product will do.
- When you lack in-house application development capacity or skills.
- In highly regulated situations—when vendor certifications and commitment to deliver future required enhancements will reduce your regulatory compliance burden.
- When delay and risk cannot be tolerated.

Buy then Build

“Buy then build” means you use a SaaS vendor’s pre-built products and modules—often called “Accelerators”—to deliver 60 percent or more of your requirements. Then, using the SaaS vendor’s specific development tools, you fill the gap with a mixture of configuration and custom development.

Until recently, the perceived wisdom was to avoid heavy customisation of SaaS products. Apart from the risks associated with any software development, businesses worry that deep customisations could lead to future problems. For example, might the implementation of a vendor-provided upgrade break the customisation? Consequently, would it become slow and costly to implement such upgrades successfully?

However, modern application development methods and platforms reduce these concerns. Specifically:

- **Microservices**—a type of software architecture where the application’s functionality is broken up into smaller fragments—make it easier to compartmentalise resilient application modules. Each module can have its own change life cycle, making the overall application much easier to maintain and evolve. This compares favourably to old fashioned “monolithic” applications, where customisations might be scattered across the codebase.
- **Low-code**—increasingly, SaaS software vendors include visual configuration and development tools as part of their product. Customers use these capabilities to speed customisation and extension, to fill the gaps between the standard product and their exacting business requirements. Crucially, with faster low-code development, users typically get solutions to market four to six times faster than traditional hand-coding.

Advantages

- Speed to market with base-product/accelerator(s) with embedded domain-specific IP.
- A proven low-risk solution.
- The freedom to customise and extend using rapid low-code tooling.
- Should provide more agility than pure buy or build alternatives.
- Reduced reliance on hard to hire developers thanks to easier low-code development.

Disadvantages

- Compared to 100 percent coding, “Buy then Build” forces customers to use a vendor’s development technology.
- The additional licensing cost of the underlying development platform. (That cost should be offset by speed to market and agility advantages.)

When to use

- When the vendor’s product or accelerator provides a close but not complete fit to requirements.
- When differentiation is a primary concern.
- When you want to extend or develop additional solutions.
- When the requirements of customers or regulators are likely to change.
- When speed to market and continuing agility justify the premium.
- When build is not an option due to the IT queue, lacking digital skills, or regulatory risk.

When to avoid

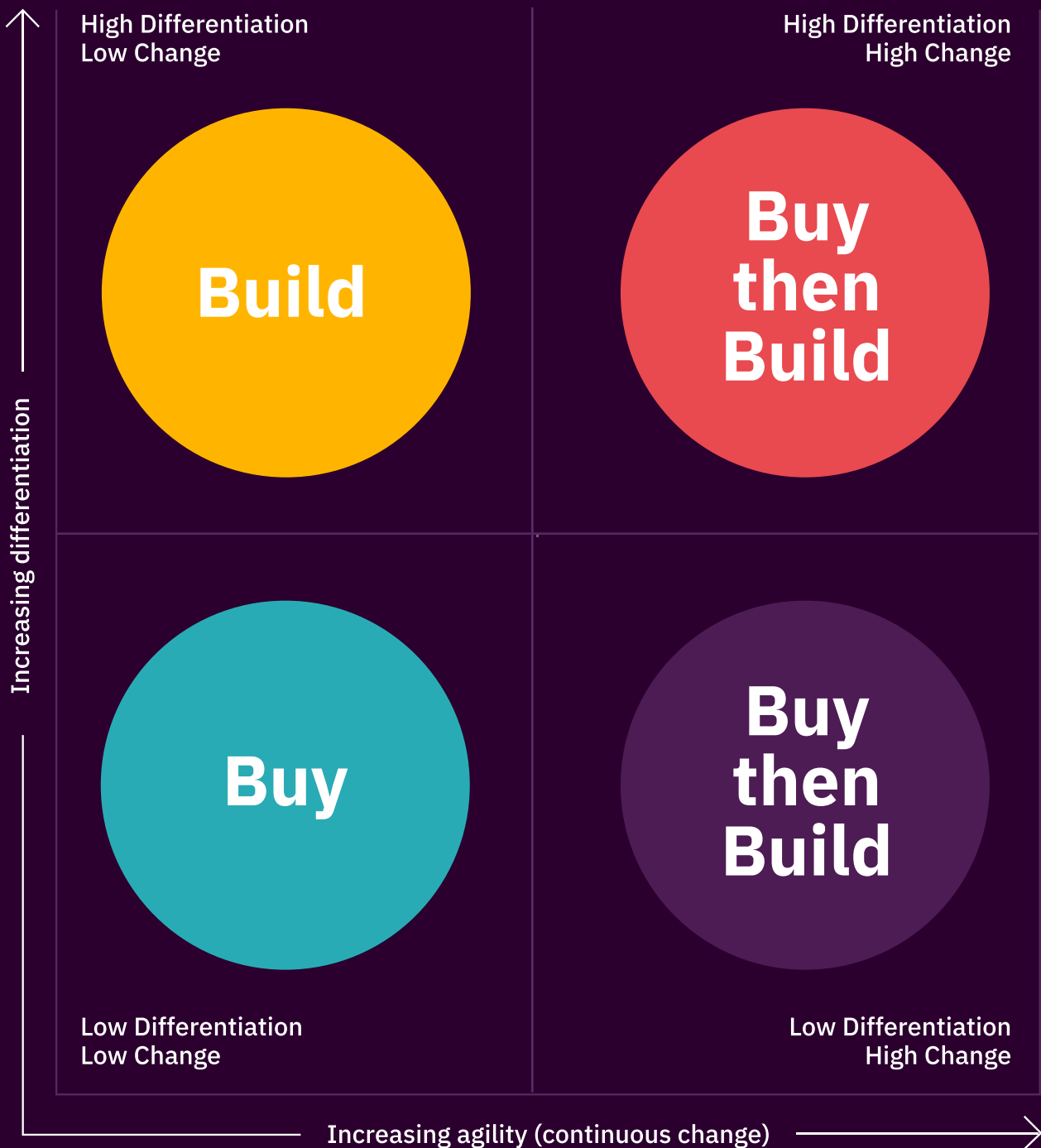
- When agility and differentiation are not priorities, and a standard SaaS product will do.
- When market requirements will not change.
- When ample internal IT resources are available to build and later adapt the solution at speed.
- In unregulated situations—where a vendor’s commitment to deliver future certified enhancements is unimportant.

Buy, Build, or Buy then Build Decision Grid

Although the above tables provide a thorough analysis of the pros and cons of different software sourcing strategies, the decision grid below provides a simpler overview.

This focuses on two key dimensions:

- The need for differentiation
- The degree to which the application(s) will need to change in the future.



Low differentiation
Low change

Buy

If business requirements are non-differentiating and unlikely to need continuous change, buying a SaaS product could be ideal. This assumes that there's an off-the-shelf product that meets your needs through economic and straightforward configuration.

As represented by the up arrow, consider "Build" instead if:

- You cannot find an off-the-shelf solution, or
- You have excess developers with no higher priorities.

High differentiation
Low change

Build

If business requirements are differentiating but have a low likelihood of needing continuous change, then consider building your own solution.

Consider a "Buy then Build" approach instead if:

- A vendor provisioned solution would lower regulatory risk, or
- Your firm lacks the requisite IT skills and resources for custom development. (With a "Buy then Build" approach, low-code tooling and vendor professional services will lessen this skills gap.)

High differentiation
High change

Buy then build

If business requirements are differentiating and are likely to continuously evolve, then adopt a "Buy then Build" approach. You will get to market faster and be able to extend and adapt your solution with greater agility.

Low differentiation
High change

Buy then build

If business requirements are not differentiating but might continuously evolve, then a "Buy then Build" approach is preferable to "Buy." You will get to market just as fast but have greater agility when responding to new requirements.



The Digital Banking Perspective

The above decision grid works well for all manner of digital experience scenarios. Let's see how it stacks up for digital banking. Here we're considering a range of solutions, including customer onboarding, mobile or internet banking, and customer self-service portals.

Differentiation

The digital banking experiences you provide to customers are crucial to compete with big banks and digital newbies. Investigate whether a standard SaaS product could be configured quickly to give the quality of digital experience you require.

However, if you need to extend or customise beyond off-the-shelf features, focus on the top row of the decision grid. If you're competing based on differentiation, either "Build" or "Buy then Build" are your options.

Continuous Change and the Need for Agility

If differentiation is a high priority, then most likely, you'll be gravitating to the top right of the decision grid. Differentiation requires constant vigilance and the ability to adapt fast in the fast-evolving digital banking market. Low-code tooling, available via a "Buy then Build" approach, will likely provide greater agility than the traditional coding implied by "Build."

Regulatory compliance should be a significant consideration for a digital banking solution. In the UK, the Prudential Regulatory Authority (PRA) stipulates that financial services firms attest to the safety and soundness of critical systems and service providers.

A digital banking platform is such a "critical system," for which the PRA will hold you accountable for:

- Operational resilience
- Change control
- Ensuring sufficiency of staff and expertise to support it.

For these reasons, "Buy then Build" is likely to offer several advantages compared to "Build":

- You start with a platform that has recognised regulatory credentials and pre-built accelerators that will minimise custom development.
- The platform has a dedicated development team behind it, making the sufficiency of staff and expertise easier to demonstrate, compared to an overstretched internal IT team with multiple conflicting priorities.
- The platform will have a dedicated operations and IT security team behind it. For adopters, this significantly reduces the burden and responsibility for assuring 24x7 availability, performance and security.
- Attempting to "Build" while at the same time outsourcing development would be a high-risk approach. According to the FCA, in 2019, third-party issues were a top root cause of incidents, accounting for 18 percent of those reported¹².

The above decision flow places "Buy then Build" as a top strategy for modernising digital banking solutions. In the next chapter, you'll hear from a customer that adopted this approach when selecting ieDigital's Interact Application Suite.



Case studies



Online Savings

DF Capital

DF Capital, a specialist savings and commercial lending bank, powers digital self-service with ieDigital Interact. Savings customers can now self-serve their accounts, and apply for new products online.

// ieDigital's dedicated project support, speed to market, flexible approach and invaluable workshop sessions were crucial components in being able to transform the customer experience in a digital way. The process worked very well.

Paul Atherton, Operations Director of DF Capital



Digital-first Approach

Toyota Financial Services (UK)

Toyota Financial Services (UK) has enhanced its customer self-service capabilities with ieDigital. Now customers can manage more of their vehicle finance agreements online.

// Working with ieDigital means, we can increase engagement with our customers through digital channels and provide next-gen services that are quick to iterate and implement and clearly focused on the customer.

Neil Sullivan, Head of Operations, Toyota Financial Services (UK)



Digital Transformation

Darlington Building Society

Darlington Building Society partnered with ieDigital to provide 24x7 digital convenience to all of its members.

// ieDigital came top when we weighed all our criteria. They understand our market, the platform's configurability and customer experience capabilities matched our vision, and the time to value made this the most compelling business case.

Chris Hunter, Chief Operating Officer, Darlington Building Society

Conclusion

As the case study demonstrates, a “Buy then Build” approach can help financial services firms get to market faster with class-leading digital banking capabilities.

“Buy then Build” provides the advantage of a tried and tested software-as-a-service digital banking platform, plus the benefits of low-code tooling to extend and customise digital services at the speed needed to compete with big banks, big tech, and fintech disruptors.

We developed ieDigital’s Interact Application Suite on the industry’s most proven low-code application development platform. The rationale is clear, in the race to provide compelling digital banking solutions reuse will always beat custom development. But when customisation is required, we want to ensure that our customers and consultants have the maximum speed and agility.

Interact Application Suite gives banks and financial services firms the best of both worlds:

- **Class-leading digital banking services**—including customer acquisition, self-service across all products, plus optional portals for mortgage switching and arrears collections.
- **The freedom to customise and extend**—with visual low-code development for rapid innovation. You can either be self-sufficient or co-deliver with the help of our professional services team.

About ieDigital

ieDigital is a solution provider for financial institutions and other financial services providers. We are a team of experts in financial services technology and customer experience. At the very core of our company is a passion and belief in the power and potential of technology, and we’ve been applying technology, such as mortgage software, to solve business problems since 1986.

ieDigital is owned by Parabellum Investments, a family office operating as a private equity firm, founded and led by Rami Cassis, Chief Executive.

www.iedigital.com

Riverview House

20 Old Bridge Street
Kingston upon Thames
Surrey, KT1 4BU

SOLUTIONS

+44 (0) 20 8614 9800
solutions@iedigital.com

MARKETING

+44 (0) 20 8614 9800
marketing@iedigital.com