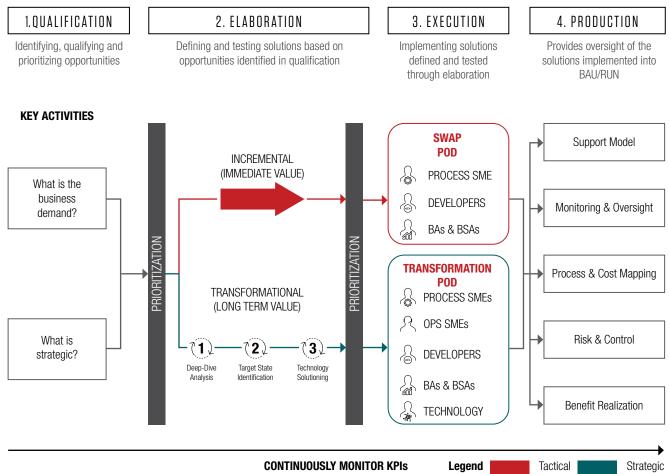# DEMYSTIFYING INNOVATION

Innovation and transformation are associated with complexity and distant value, but they do not have to be. Banks that adopt a systematic approach to innovation can simplify the change journey into manageable components and expedite their value capture.

As previously discussed in An Imminent Threat for Canadian Banks and A Launch Point for Innovation, there is a clear call to action for banks to redefine their target state vision, adopt a change mindset, and enable agile funding approaches. In support of this change journey, Capco's delivery framework (Exhibit 1) is a useful tool that helps financial institutions determine what they are delivering and how they plan on delivering. The following sections will discuss this journey in greater detail and highlight the steps required to accomplish your vision.

1. QUALIFICATION	2. ELABORATION	3. EXECUTION	4. PRODUCTION
Identifying, qualifying and prioritizing opportunities	Defining and testing solutions based on opportunities identified in qualification	Implementing solutions defined and tested through elaboration	Provides oversight of the solutions implemented into BAU/RUN

KEY ACTIVITIES

CONTINUOUSLY MONITOR KPIs
(Instrumentalization/Dashboarding)

Legend — Tactical — Strategic

1.QUALIFICATION:
PRIORITIZING THE VALUE-ADD INITIATIVES

The first step is to analyze and prioritize key processes to determine where the 'business demand' and 'strategic value' lie. The output of this exercise should be the identification of the number and size of opportunities available. When thinking about the first step, it is recommended that banks reflect on key questions to facilitate the analysis and prioritization.

1.   What is the business demand?

- Where is the demand coming from?
- Is the demand aligned with the direction of customer experience (CX) objectivmes?
- How does the demand impact the employee value proposition?

2.   What is strategic?

- Does the key process enable growth objectives?
- Is it critical to own the process internally?

Answering these questions results in a set of discrete opportunities that banks can further segment in the next step (i.e., incremental vs. transformational initiatives). To determine prioritization, it is important that banks apply a consistent framework and criteria (e.g., time to implement, resource needs, strategic alignment) to confirm how to organize and proceed.

2.ELABORATION:
PROTOTYPING & TESTING FOR EXECUTION READINESS

The second step is to define and test solutions based on the opportunities identified. Banks will mobilize around two types of initiatives, 'Incremental' and 'Transformational', which have been strategically separated to capture quick wins immediately while enabling long-term value concurrently.

Incremental Initiatives

The mobilization phase for incremental initiatives should be focused on identifying solutions that will be implemented during the execution phase. Existing operations teams, commonly referred to as SWAT pods, should lead incremental initiatives as they are familiar with the current state, thereby accelerating delivery. Solutioning for incremental initiatives must focus on:

1. Identifying low-cost solutions that can be implemented rapidly
2. Driving operational efficiencies and reducing processing times

Transformational Initiatives

Transformational initiatives will rely on a collaborative approach between external transformation experts to drive the change agenda and internal leadership teams to navigate architectural and hierarchical complexities. Mobilization on this joint effort will require the team to:

1. Perform a deep dive into current state technologies and processes
2. Define a target state for each transformational initiative
3. Identify target state technology constraints and solutions
4. Create a detailed executional roadmap

By separating incremental initiatives and transformational initiatives, incremental teams can quickly mobilize and execute while transformational teams tackle lengthier and more extensive strategic planning and solutioning. Once the transformational efforts have been adequately defined and scoped, they too can begin their execution.

3. EXECUTION:
IMPLEMENTING PROVEN SOLUTIONS

The third step is to implement the defined and tested solutions from the prior phase. By utilizing two types of pods, banks will be better positioned to fully unlock and capture the expected value. Each pod structure is designed to meet the needs of the identified opportunity and intended solution. The two types of pods are:

SWAT Pod

- **Team structure:** Built for hyper-focused implementation of quick wins, and consists of in-house resources across business and technology that can immediately mobilize

- **Guiding principles:** Utilize a data-driven approach to eliminate manual processes that have a negative effect on CX and internal operations

Transformation Pod

- **Team structure:** Larger teams with greater breadth and depth (e.g., includes technology and operational experts) - a necessity in executing large-scale change over a longer timeline

- **Guiding principles:** Teams should focus on replacing the monolithic, legacy infrastructure with modern technology to enable a next generation CX with its underlying plug-in capabilities.

4. PRODUCTION:
MAINTAINING YOUR SOLUTIONS IN RUN

The fourth and last step is intended to provide oversight of the implemented solutions in RUN. Banks need to establish five key RUN components to manage and monitor the implemented solutions in operations:

1. **Develop a Support Model:** In the new RUN state, teams will operate using new methodologies (e.g., agile) and processes. Realizing the benefits of these enhancements on a continued basis requires banks to stand up the appropriate support processes and channels to minimize the effects of and remove blockers.

2. **Implement Monitoring & Oversight:** Decision makers closely monitor the transformational efforts and individual pods to ensure plans advance as planned. Automated reports and instrumentalization (e.g., executive dashboards) are tools that can provide decision makers with enhanced visibility while minimizing disturbances to the transformation and manual monitoring efforts.

3. **Process & Cost Mapping:** Document all redesigned processes and map new products or processes to the appropriate RUN cost center. Having this in a centralized location will enable stakeholders to easily access and understand what is required for a given process.

4. **Establishing Effective Risk & Controls:** Appropriate approvals and controls need to be implemented to manage the newly defined operational processes. Increasing autonomy by redefining control mechanisms allows business groups to operate more efficiently.

5. **Tracking Benefit Realization:** Teams must document the benefit that the individual initiatives, as well as the overall program, have had on the enterprise. Enhanced visibility allows decision makers to monitor planned vs. actuals and course correct if necessary.

CONCLUSION

Leveraging Capco's delivery framework enables banks to consistently identify, prioritize, build, and deploy solutions that meet the demands and strategic goals of the business.

To get the most out of deployed solutions, banks must diligently measure and monitor KPIs and success metrics to understand if the change journey is heading in the right direction, if a course correction is required, and when success is achieved.

Banks must act quickly to deliver large-scale implementation of digitization and automation to rapidly improve CX and deliver operational efficiencies. Embracing innovation by starting the change journey today will help banks create a sustainable competitive advantage and accomplish their growth ambitions. Prolonging this critical change journey will only create opportunities for your competitors to eat up market share. For more information on how to approach the digitization and automation journey, contact us at solutions@capco.com.

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