

WEDNESDAY 21 FEBRUARY 2018

Zak Mian, Group Director, Transformation

Right, so good morning everybody and welcome to the breakout session on digitising the Group and transforming our ways of working. My name is Zak Mian and I am the Group Transformation Director. I am joined by Jen Tippin, our Group People and Productivity Director. Over the next 20 minutes or so we are going to talk about the key priorities of this important pillar of the new strategy and then it will be time for some questions.

First, I would like to kick off by just going through four key priorities of this important strategy. The first of those is to digitise more customer journeys end-to-end and scale up the transformation of our central functions. And customer journey transformation is really where we have taken key processes that we do on behalf of customers, like helping them take out a mortgage. We have looked at the friction points and we have really transformed that customer experience. We have looked at the complexity, we have stripped that out and we have increased the operational efficiency. And those two things in combination are what we describe as customer journey transformation. So going forward our intention is now to broaden the range of journeys covered and we will also include and apply that same approach to our central function journeys, helping colleagues on-board and join the organisation is a good example.

Secondly, we are going to talk about progressive modernisation of our IT architecture. And this is really around investments, making key targeted investments in new technologies like applied sciences, cloud, big data to really help deliver new innovative services to customers, reduce our cost of ownership and improve our flexibility.

Thirdly, it's about changing our ways of working, really looking at the way we deliver projects and this is really around saying, if we are going to have this huge level of investment that we are making in the business, how do we make every pound of that investment count for more? So we're going to be shifting away from waterfall-based development, kind of traditional ways of delivering projects to a more agile set of techniques. And these are the ones we have been trying out over the last few years in our digital unit. It allows us to test and learn with customers, deliver value incrementally and shorten our time to market.

Lastly and most importantly, we are going to make a huge investment in our colleagues and this is about upskilling and training, but also introducing new skills into the organisation. Things like data science, things like software engineering skills. And this is where we really think these are going to become the new strategic competencies of the organisation going forward given the digital future.

So some of the outcomes. In journey transformation that is around broadening the scope of up to 70 per cent of the cost base. In terms of efficiency of delivering projects, that is about 30% improvement. And in terms of a ramp up in our investment in people and training, that is a massive 50 per cent increase.

So before I go onto the specifics of the new strategy I think it would be useful perhaps just to look at how we got here. So this has been a 6 year journey. And the beginning of that really kicked off in 2011, and now we have got the largest digital franchise in the UK. So we started, this was about building a new digital platform for consumer customers, regardless of the brand. So we had one platform supporting all three of our core brands, supporting the desktop solutions and the mobile solutions. And that is where we started.

Three years ago, in 2014, we announced an ambitious strategy to build out that platform and deepen its functionality, begin to build the best digital bank in the UK. So where are we now? We have 13 million desktop users using internet. We have 9 million on mobile. We are ranked in terms of account opening on mobile, we are the number one journey in the industry. We have reduced complaints from digital year-on-year. We have driven up advocacy in terms of measured by net promoter score every year. And as you can see the scale now, this platform is that we support 3 billion logins per year. Technically what does it take to kind of scale like that? On a peak day, at a peak time that is seeing 16,000 logins every minute. That is only possible by having a scalable infrastructure that is very resilient.

So going forward, we really see a continued use of this platform, broadening its role across the architecture and delivering great value for customers. And before I move on I would just like to show a quick video about some of the work that we have done.

[Video]

So I hope you can see there are already some big deliveries, some big business outcomes and some great customer improvements. So the next stage is, we talked about customer journeys, is now by going broader and deeper. So what do we mean by that? So in terms of end-to-end transformation on the left there, this is about looking more end-to-end in the process. Looking at the control functions and the back office operations making sure no stone is unturned and we make sure we iron out all of the opportunities for customer improvement.

It is also about broadening the scope of the customer journeys. In the last phase we only really looked at 16, we picked 16 key customer journeys to transform, but there are many more to go after. So think about general insurance claims, how do we help the customer do that? How do we use digital technology to make that simple, quick and easy? Financial planning and retirement, a huge opportunity that you will hear more about in one of the other breakout sessions.

But then we also have a lot of central function activity. HR, risk, finance, run a whole set of processes, they are still far too labour intensive. So how do we begin to apply digitisation to those things as well? And this is really the scope of the transformation and that really gets us to this from 12 per cent of the cost base being covered up to 70 per cent. In terms of the scope of the journeys from 16 to 50. And this is really all part of this big major investment kick-up from up 40 per cent to more than £3 billion of strategic investment to help us deliver these outcomes.

In the middle here, some of the things we are also bringing to the toolkit. So in the first phase of transformation of journeys we looked at simplifying processes using digital technologies, process and product simplification changes, procedural changes. But we are now, the world continues to move on, so we now have an API channel that we will cover in a bit more time. Upgraded data and applied science technologies using machine learning is part of the toolkit. Using cloud and simplified infrastructure, how can we leverage that as part of the transformation? And accelerated innovation through fintech, how do we bring all of those things to the party to make sure that transformation is deep but also really makes the most of the things that are now possible that weren't possible before.

So let me give you an example of one part of a journey in a particular channel. This is about our telephony operations. And the key really here is as part of the journey transformation philosophy, making improvements to customer experience, but also below this waterline here, improvements to operational efficiency and we think this is the virtuous circle that we need that we can deliver to create the capacity to invest more and then reinvest those savings in more improvement. So in this example, in telephony, we use biometrics and integrate the mobile app with a telephony infrastructure to save the time for a customer to authenticate themselves.

We are introducing new solutions on the mobile app to allow customers to interact with things they are more familiar with using social media type structures. It is a bit like having a WhatsApp chat with your bank, and we think that could improve customer satisfaction.

From the bank side though, we think leveraging those sometimes similar technologies like chatbots, artificial intelligence and machine learning could save, could create capacity in our telephony operations of up to a third.

Using machine learning smart, we think, we can provide coaching prompts to colleagues so that every colleague is armed with the best things to say to the customer by having that machine learning solution look at all the conversations we are having with customers and provide prompts to that colleague. And that is a massive opportunity for us.

But we also have, inevitably, compliance checking to do, outcome testing to do. Again, right for automation and improvement and we think we can drive a 20 per cent improvement there as well.

And we really think this formula of driving systematic improvement in customer experience and significant operational efficiency through this end-to-end journey approach, is the key to delivering sustainable but deep transformation. And if we can build these organisational muscles as new technologies arrive, new opportunities arrive, we can continue to reinvest it and deliver further and further improvement.

So none of those things ultimately are possible unless we have got a scalable, resilient and modern IT architecture and this is a big and complicated architecture, but it is one that we have progressively built over the last few years and this is the same architecture that already delivers those 3 billion logins per year for our mobile banking service and our desktop service. The challenge though is how do we maintain it? What are our choices about upgrading it? And we think the key really is a progressive modernisation. What is the alternative? The alternative is to do a 'big bang'. Let's take a few billion pounds. Let's take 4 or 5 years out, let's create a change freeze, let's stop delivering value for customers and rip out huge amounts of this.

Given the pace of technology change, we think that would be a fundamentally the wrong thing to do. Instead have a progressive modernisation approach. What that allows us to do as we have shown over the last 6 years is to look at which parts of the architecture you need to improve, where do we modernise, where do we simplify, where do we leverage new technologies?

So let me just step you through some of these pieces. So at the top there, the hard shell, the cyber defences. Really important, we keep customers safe and confident in transacting with us. Next in the channels, branch, telephony and digital, we will continue to build out through those customer journeys improvements to the service and getting slick, multi-channel things in place for customers. But we also see the appearance of a new channel, the API channel, and this has come about as a consequence of the Open Banking regulation. It is still early days for that channel, but we think it holds huge opportunity for us. And the reason I think that is the stars are now aligning around fintech because up to now fintech I think has had challenges in integrating with banks, really at a production level. Now with data standardisation that has come with Open Banking, with public cloud becoming more mature, we think those things allow us a great opportunity to leverage fintech innovation in our system value chains, effectively, quickly and delivering value for customers.

I talked earlier in the telephony example, about the introduction of AI and machine learning. That relies on a big investment in data. Getting all of that data, a real time data set in place, joining up all the data around the Group. And an example of that, we would feed into that would be the single customer view. We have had our single customer view for many years in the organisation, it already serves the core banking solutions and joined up savings, loans, mortgages. We would now be augmenting that to add insurance and you will hear more about that within the Financial Planning and Retirement update. But it really allows us with all that information, to turbo charge through the use of applied sciences, customer interactions and that we see as a huge lever as we go forward.

On the bottom there you see infrastructure. And this again, we already have a very mature in-house hosting solution where our mainframe, mid-tier applications sit. We already use on the left there software as a service. And there will be times when we can buy a commodity application like a new HR system that gives us a competitive solution in an area we can consume as a service from a third party or continue to do that when the opportunities arrive. But we also see now the maturing of cloud. There are many different types. There is private cloud, there is public cloud and we will have a hybrid strategy that makes best use of both.

So in summary, API enablement to leverage fintech and exploit Open Banking and give great services to customers. Insight powered customer experiences by leveraging the mass of information we have and using applied sciences. A selective but progressive upgrade of our core systems on an as needed basis, but avoiding a 'big bang' solution.

Then transforming our software development processes with greater automation by using some of these new cloud technologies and helping the developer to be more productive.

And finally, all of those coming together to deliver great outcome for customers and huge cost efficiencies for the organisation.

So I would now like to hand over to Jen who will talk more broadly about agility and transforming ways of working.

Jen Tippin, Group People & Productivity Director

Thank you very much indeed Zak. So Zak has already highlighted, the success of this transformation is really going to depend, yes on technology but also importantly on the skills and capabilities of our people and to that end, GSR3 marks the largest ever investment that we are going to be making in our people.

Now we have mentioned agile a few times during this presentation. So let me just try and define it for you. Applying agile within our transformation function will allow us to build cross-functional teams, bringing together specialist skills such as data scientists for example, or user-experience engineers, digital engineers together with our subject matter experts in our business divisions. And by co-locating our teams, we'll further improve collaboration and efficiency.

Now when you do change in an agile way, what this means is that you adopt a continuous test and learn mindset with short development sprints, enabling us to integrate feedback from our customers at pace and increase our speed to market as well as optimising the solution for our customers.

Now this move towards agile will really change the culture of the organisation, moving away from teams staffed with temporary people working on fixed initiatives to really teams coming together for the long-term, really aiming to build the very best in customer outcomes.

Now this move to agile is not motivated by a financial imperative to save costs. But it is motivated by a desire to be responsive to our customers going forward, to improve our employee engagement and also to improve productivity. We are going to be deploying agile based techniques to more than 50% of our change activity going forward to really increase our speed of execution and drive greater efficiencies in the usage of our resource.

Now Zak has already mentioned, we have already seen the benefits of agile, through our Customer Journey methodologies over the last 6 years. And ultimately we expect to be able to deliver the same amount of change with 30 per cent fewer resources going forward.

We also have a proven track record of delivering change through the more traditional waterfall projects and that will remain relevant, particularly for complex regulatory projects with very fixed outcomes.

Now to deliver this transformation of the Group and to create real lasting competitive advantage, we are going to be making, as I said before, our largest ever investment in our people, really to both equip them with the right skills and capabilities but also to transform how we work to enable us to succeed in a digital world.

Now as part of this approach, we will be creating a number of colleague academies, with tailored curricula to really develop specific skills for specialist roles such as digital experience engineers for example or scrum masters.

We will make a number of improvements to our colleague proposition, including the simplification of our organisational design and we will also introduce a new job-family architecture.

But we recognise that upskilling at scale and this is a scale upskilling of our people we are talking about, increasing our annual training hours by more than 50 per cent to 4.4 million. We recognise that upskilling and retraining is only part of the solution and it's also really important that we're able to retain those skills as well as attract new skills going forward.

In order to achieve that, we are going to be enhancing our approach to recruitment, with specific targeted campaigns to be able to attract specialist skills. And we are also going to be applying our Customer Journey methodology to the core processes that we use every single day during the bank to help make us more efficient.

To further enable our future resourcing needs, we will also work closely with our graduate and apprenticeship programmes, to ensure that those are aligned to our needs going forward.

By building our internal capability further, we expect to see a 30 per cent reduction in our reliance in external change resource. And in addition to the uplifts we are going to see in Agile, we'll also grow our number of specialist roles across the Group, for example we will double the number of digital experience and robotics and AI engineers.

Now as we mentioned at the start of this session, our strategic plan to digitise the Group and transform our ways of working is ambitious but, given our existing capabilities and importantly, our track record, we are confident in our ability to deliver.

Taken together we purposefully believe that this will give us an opportunity to enhance our existing competitive strengths, as well as creating new ones that will sustain us for the future.

As we embark on the next phase of our strategy, the Group already enjoys a market-leading efficiency position as defined by our cost:income ratio within the UK banking sector. And we aim to further improve that over the course of the plan. That will increase our advantage over our existing peers, but it will also develop new strengths to enable us to compete with new players in the market, including disruptors. And as you already heard, we aim to achieve a cost:income ratio by 2020 in the early 40s.

We are very proud to have the largest customer franchise in the UK and we expect to make significant improvements to our customer experience going forward.

Our scale and our heritage and our brands are really important to our customers, they are also really important to our colleagues. And we will reinforce that trust with our planned investments to deliver a modern technology architecture as Zak has outlined, and data platforms.

Now as António mentioned earlier, customer expectations are changing at an unprecedented rate. But by streamlining our processes and transforming the way that we work in the organisation, we will become more agile and responsive to those changes in customer needs, in turn positioning us more strongly against our peers.

I'll hand over to Zak to just conclude.

Zak Mian, Group Director, Transformation

Thanks Jen. So we hope you can see digitising the Group and transforming our ways of working, really do represent a kind of big hairy audacious goal in terms of what we are trying to do. It is a huge opportunity for us and one we are really excited about. But we are actually really confident about as well. Why are we confident? Because organisationally, I think, we have proven through some of our big complex change programmes in the past, like dealing with the merger, dealing with the divestment and the build of TSB and its divestment, that we can do big complicated things. Through the building of the digital bank, which is now the biggest digital bank, I think we have proved we can deliver new technology based improvement for customers and do it at scale.

With the customer journey transformation we think we have proved we can deliver again against new technologies, but on a multi-channel basis, great experiences for customers but also operational efficiency. And doing those two things together gives us that virtuous circle I talked about earlier.

So those things in combination is what gives us our confidence and we really think we can now move onto the final stage of digitising the group and transforming those ways of working.