From Dream to Delivery

Better practices for Australian lenders on the technology transformation journey

FULL INSIGHT REPORT

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Australia's retail and commercial lending leaders are under pressure to show returns on their technology investments, *and deliver meaningful improvements to customers*.

This report combines the latest industry research with KPMG's deep expertise in the Australian financial services sector to *outline common roadblocks* on the digital transformation journey, and proven strategies for ensuring you *deliver ROI, faster*.

Australia's lending modernisation challenge in numbers

>52% of all projects undertaken across the Australian economy fail to meet stakeholder expectations

MORE INVESTMENTS

$25 billion
total investment spend by majors, 2018–22

88%
Australian CEOs with an 'aggressive digital investment strategy'

MORE COMPETITION

600+
non-bank and alternative lenders in the Australian market

29.8%
total year-on-year decline in owner-occupied mortgages to December 2022

LIMITED RETURNS

49.2%
average cost-to-income ratio for major banks in 2022, vs 46.6% in 2018

$148 billion
lending market share lost by majors 2018–22

COMMON ROADBLOCKS IN THE LENDING TRANSFORMATION JOURNEY

- Skills shortages
- Inadequate change management
- Ineffective use of technology
- Organisational complexity
- Dynamic market conditions
- Stakeholder management

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01.

The lending modernisation challenge

The lending modernisation challenge

Australian banks have invested billions in improving their platforms and processes over the past decade – with limited success to date to the underlying cost base.

Despite the promises of new tech-enabled business models, lending costs have remained stubbornly high, while customers continue to demand better, faster service at a more competitive price.

Compounding these challenges are the uncertainties of the post-pandemic market. The global economic landscape has deteriorated over the past year, with nations facing high inflation, tightening monetary policy, rising energy costs and declining consumer confidence. Australia's property market has softened significantly since the 2020-21 boom. As of December 2022, every jurisdiction has recorded falls in average prices for residential dwellings, and the value of new owner-occupier mortgages is down nearly 30 percent year-on-year.[1]

The modern lending landscape

+ **More competition** from smaller players and Fintechs, which are attracting record levels of investment in the Asia Pacific region.[2] Over the past four years, Big 4 lenders have lost an estimated total of **$148 billion** of home and business lending opportunities to smaller competitors.[3]
+ **High costs** with cost-to-income ratios increasing on average by 0.5 percent per year or returning to 2018 levels. Second tier lenders' cost-to-income ratios remain high (~60%) and may face pressure from wage inflation in the medium term.[4]
+ **Rising interest rates** could threaten mortgage growth as the housing market cools. Australia has faced **10 consecutive rate rises** as of March 2023. The value of new owner-occupier mortgages has fallen almost 30 percent in the year to December 2022.
+ **Evolving customer expectations** are shaping new offerings, particularly in the retail lending sector. In the words of ANZ Bank CEO Shane Elliot: *"Customers are going to continue to want more; they want faster, better, cheaper; they don't want to pay for anything; they expect 24x7 and they've been trained to want* ***constant improvement****."*[5]
+ **Shareholders want to see results**. Banking leaders are under constant pressure to identify opportunities to address short-term tactical requirements, while also laying the groundwork for capabilities and experiences they want to provide in the future and deliver value along the journey.

1 KPMG (2022), Australia Economic Outlook Q4 2022 (Source) and ABS (2023), Lending indicators – December 2022 (Source)

2 KPMG (2022), Pulse of Fintech H1'22. (Source)

3 Based on market share lost between September 2018 and September 2022 for Australia's major banks. KPMG Research, APRA Monthly Authorised Deposit-taking Institution Statistics. (Source)

4 Source: Financial statements for Macquarie Group, Bank of Queensland, Bendigo and Suncorp

5 Australian Financial Review (2022), 'ANZ's drawn-out tech transformation'. (Source)

1

The lending modernisation challenge

In our many conversations with Australian retail and business lenders, we find that most understand that they will need to proactively address these challenges in order to remain competitive in the long term. But so far, few have been able to achieve the results they seek.

Although the majors have invested a total of $25 billion over the past four years in infrastructure improvements, risk and compliance, and productivity and growth initiatives, their cost-to-income ratios have remained just under 50 percent.[6] Second-tier lenders face similar challenges, with top Tier 2 banks reporting cost-to-income ratios of 55 to 62 percent.

Multi-year technology transformation projects have yet to generate significant returns, and the media is rife with examples of projects that have gone over budget or otherwise failed to deliver on expectations of customers, shareholders and the business.[7]

As the market softens, many global banking CEOs are now rethinking their digital transformation strategies to focus not only on growth, but also on ensuring they have the systems, processes and data required to understand and control their risks in a downturn.

> "Banks are in the challenging position of balancing the need for market share growth with the threat of a global economic slowdown. As interest rates rise, many are refocusing their efforts on risk management and solid credit decisioning. Customer data has a huge role to play in strengthening these capabilities and enabling continued growth."

CHRIS FOSTER
Partner, Financial Services

6 KPMG (2022), Major Australian Banks FY2022 Results Analysis (Source), Major Australian Banks FY2021 Results Analysis (Source), Major Australian Banks FY2020 Results Analysis (Source), Major Australian Banks FY2019 Results Analysis (Source).

7 KPMG (2022), The 2022 Banking CEO Outlook. (Source)

02.

Costs, speed and better lending

2

Costs, speed and better lending

For years, Australian lenders have been betting big on technology transformation projects to deliver new efficiencies and capture the opportunities promised by an increasingly digital, data-driven world.

CBA, WBC, ANZ and NAB collectively invested a total of **$7.4 billion** on infrastructure improvements, risk and compliance programs, and productivity and growth initiatives in FY2022.[8] This figure has grown steadily over the past four years, from $4.3 billion in 2018.[9]

While they have yet to achieve their full potential, these technology investments have already enabled new offerings and significant improvements in customer service, credit risk assessment and loan processing times.

NAB has credited its technology strategy for its ability to automatically approve loans of up to $250,000 to small business customers in just 20 minutes, and to process approvals for all simple home loan applications in an average of two days.[10]

In the retail lending sector, Westpac's One Bank Platform recently brought its median mortgage approval time down to six days, comparable to the four to seven days promised by Commonwealth Bank, and the Macquarie Group median of a week.

Commonwealth Bank's investments in data and artificial intelligence has also enabled better, more targeted engagement with retail lending customers, with the bank now able to proactively identify mortgagees affected by natural disasters and contact them with tailored offers of help.[11] These improvements have helped the bank defend its market share, which – despite increased competition – has remained stable in both business and home lending markets over the past four years.[12]

8 KPMG (2022), Major Australian Banks: Full Year 2022 Results Analysis. (Source)

9 KPMG (2018), Major Australian Banks: Full Year 2018 Results Analysis. (Source)

10 NAB (2022), NAB halves average time to home loan approval (Source), NAB's tech strategy takes next evolution (Source)

11 Commonwealth Bank (2022), CBA using technology to improve customer experience. (Source)

12 APRA Monthly Authorised Deposit-taking Institution Statistics. (Source)

2

Costs, speed and better lending

Figure 1: Significant digital lending product launches in Australia

2016

NABPay enables contactless payments.

Westpac's Live Online Lending Application (LOLA) for business customers.

NAB's QuickBiz loans approves small business loans of up to $50k within 3 days.

2017

Ubank's RoboChat offers real-time help to customers for online home loan applications.

Westpac's SmartPlan helps customers manage their credit card balances.

2018

CommBank's Ceba chatbot leverages AI to assist
customers with 200 banking tasks.

Westpac's Siri banking enables customers to transact using Apple's digital assistant.

ANZ's Jamie helps users with 30 of the most frequently searched topics on the help section.

2019

Ubank's Mia AI assistant helps answer questions about home loan applications.

Neobank 86 400 launches digital home loans with electronic statement capture, mobile ID verification, and electronic signatures.

2020

ANZ's online lending platform approves unsecured small business loans of up to $200k in less than 20 minutes.

CommBank's BizExpress Online provides up to $50k in real-time credit to small business customers in less than 20 minutes.

NAB's StraightUp Card becomes Australia's first no-interest credit card.

2021

NAB's Quickbiz loans now offer small businesses up to $250k within 20 minutes.

CommBank's Stream Working Capital launches as a fully digitised working capital solution.

CommBank's StepPay lets customers Buy Now Pay Later (BNPL).

ANZ's BNPL service launches using Visa]Installments technology.

2022

CommBank's Unloan digital home loans are processed in less than 10 minutes.

Fintech Nano's Lending Solutions business facilitates digital loan approval without any manual intervention.

ANZ Plus app allows users to track spending, receive real-time alerts for bills and expenses and talk to ANZ Plus coaches for expert support.

Westpac's digital mortgage platform offers end-to-end digital mortgage experience with 10-minute application processing.

NAB Now Pay Later offers BNPL using the existing Visa credit card system.

Costs, speed and better lending

Top 3 goals of lending modernisation projects

The typical borrower has two key demands: they want competitive rates and a streamlined customer experience – including the ability to meet any application data requirements with minimal effort, no matter their situation.

Meanwhile, lenders are looking to strengthen their balance sheets and build a good book of sustainable business to withstand the economic headwinds ahead. In our analysis, lending modernisation projects typically address these demands by targeting three key improvements: to reduce costs; enable product differentiation; and improve decision-making.

Reduce costs

49.2%

average cost-to-income ratio of major banks in 2022

10%

cost-income improvement targeted by international banking executives

59%

of bank CEOs say digitisation is the most important cost lever

Cost optimisation has been high on the agenda for most banks for many years and has become even more important in the wake of the COVID-19 pandemic.

Over the past decade, the average cost-to-income ratio of Australia's four major banks has risen from 44.2 percent to 49.2 percent, while top Tier 2 banks in 2022 reported cost-to-income ratios of up to 62%.[13] According to a recent KPMG survey of over 200 banking executives around the world, banks are now looking to reduce their cost-to-income ratios by 10 percentage points or more.[14]

As the global economy slows, banks are looking beyond the high-profile front-end investments towards end-to-end improvements. Globally, almost 6 in 10 bank CEOs have identified digitisation as the most important lever in their cost reduction efforts. The biggest gains are expected to be made in process automation and end-to-end digitisation in the middle- and back-office, where there is an opportunity to free up capacity from manual, labour-intensive processes.

"Banks are striving to break the direct reliance on FTE by investing in technology transformation. Currently, if they want to grow, they typically require the equivalent additional staff to maintain service levels. Digital investments can help break this cycle, allowing banks to grow while reducing unit costs".

CHRIS FOSTER
Partner, Financial Services

13 KPMG, Major Australian Banks: Full Year 2022 Results Analysis (Source), Major Australian Banks: Full Year 2018 Results Analysis (Source)

14 KPMG (2021), New cost imperatives in banking. (Source)

Costs, speed and better lending

Enable differentiated products and services

600+

Non-bank lenders and financiers in the Australian market

23%

of commercial banking executives say product innovation is the number one factor in changing the competitive commercial banking landscape

The Australian lending market has become more crowded than ever, with the emergence of neobanks and alternative lenders like Athena, Judo, Prospa, Capify, Pepper and Thincats.

There are over 600 non-bank lenders and financiers operating in the Australian market, with this segment growing an estimated 4.3 percent a year between 2017-2022.[15]

Many of these disruptors have thrived by targeting niche markets. Brighte, for example, operates within the solar financing segment, offering zero-interest loans to customers paying for solar and smart home technology.

Similarly, small business lender Prospa is known for its simple, straightforward loan application process, great customer service, and speed, while OnDeck, Jacaranda Finance and others are using new risk models to assess applications without traditional documentation.

In KPMG's 2021 survey of over 400 commercial banking leaders from around the world, 23 percent said "innovation in commercial banking products and services" had the greatest potential to change the competitive landscape, while a further 23 percent expected "seamless digital banking" to be the number one game changer.[16]

15 Austrac (2021), Australia's non-bank lending and financing sector (Source) and IBISWorld (2022), Non-Depository Financing in Australia.

16 KPMG (2022), Future of commercial banking. (Source)

Costs, speed and better lending

Improve decision-making and agility

10 Minutes

'time to yes' for simple digital loans

For customers venturing into a major buying decision, time to unconditional has become a crucial aspect of the banking offering. As a result, lenders have been racing to shorten their loan origination times over the past two years, driven by the demands of the housing market boom and competition from fintech companies such as Nano, Tic:Toc, 86 400, and Propel.

Loan approval speeds were so important to consumers during the housing boom that mortgage brokers said borrowers would be willing to commit to a higher interest rate if it meant they would get their loans approved faster.[17]

Many lenders either already offer or are working towards digital loans with a 10-minute time to yes. However, these are no-frills products with relatively narrow eligibility requirements and cannot be scaled to reach all potential customers. The vast majority of loans will still require more robust background checks and credit risk analysis. Lenders will need better ways of collecting and using verified data if they are to truly improve credit decision-making across the business.

The rapidly changing regulatory landscape will also require lenders to become more adaptive. In the retail banking sector, our analysis indicates that global regulators are likely to take more of an interventionist approach in the wake of the pandemic to increase competition, drive greater enterprise resilience, increase cyber security, protect data and support vulnerable customers.[18]

Banks that can quickly and efficiently fulfil their regulatory and compliance obligations have the advantage, particularly over newer market entrants whose risk and regulatory frameworks may not yet be as mature. Leading financial services organisations are now looking to integrate internal and external risk and financial data to more easily meet data requirements, and deliver a more consistent, standardised view of risk-adjusted returns so they can make better decisions, faster.[19]

17 Realestate.com.au (2022), Loan turnaround times critical for borrowers as properties sell fast (Source) and SMH (2020), Major banks on mission to reduce 'time to yes' for loan approvals (Source)

18 KPMG (2020), Future of Retail Banking. (Source)

19 KPMG (2021), How Australian banks can unlock the potential of regtech. (Source)

Costs, speed and better lending

Figure 2: Significant regulatory changes for the home loan market, 2016–23

2016

ASIC's **'fintech licensing exemption'** opens the door to new market entrants.

ASIC issues guidance to **marketplace/ 'peer-to-peer' lenders** with information on regulatory requirements, risks involved and legal obligations.

ASIC extends **unfair contract term protections** to cover standard form small business contracts.

2017

ASIC's **targeted industry surveillance** looks to crack down on unsuitable interest-only loans.

2018

Australian Financial Complaints Authority (AFCA) is established to handle all financial services and superannuation complaints.

APRA launches **a new Restricted ADI framework** to help new market entrants navigate the licensing process.

APRA **relaxes bank lending restrictions for residential property investors**, removing a 10-percent investor loan growth cap that was put in place in 2014.

2019

APRA amendments now allow **ADIs to use their own minimum interest rate caps** for serviceability assessments, instead of the previous minimum of 7 percent.

ASIC **bans short-term lending** to protect consumers from predatory lending.

The **Banking Royal Commission** releases its final report, recommending amendments to the Banking Code of Practice, and no extension of the NCCP Act to lending to small businesses.

2020

Banking Code of Practice is updated as per Royal Commission recommendations.

ASIC's appeal in the **Westpac 'wagyu and shiraz'** responsible lending case is dismissed by the Federal Court.

Government proposes **changes to responsible lending obligations** but reforms are not passed through parliament.

2021

APRA **increases the minimum interest rate buffer** banks must use when assessing the serviceability of home loan applications, to 3.0 percentage points over the loan interest rate.

APRA revises its approach **to licensing and supervising new ADIs.**

ASIC introduces **design and distribution obligations** requiring financial products to be designed and distributed in a more targeted manner.

ASIC's **breach reporting regime** is extended to all credit licensees.

ASIC introduces RG271 guide on **internal dispute resolution.**

2022

ASIC prohibits the provision of **short-term credit and continuing credit contracts** which included charging higher fees from clients for small credit amounts.

ASIC announces '**Enforcement Priorities for 2023**' focussing on greenwashing, predatory lending and actions on poor design, pricing and distribution of financial products.

2023+

ASIC requires financial firms to report **internal dispute resolution data.**

Unclear if the government's proposed changes to **responsible lending obligations** will be passed through parliament.

03.

Most transformation projects fail to meet expectations

Most transformation projects fail to meet expectations

Across the world, technology investment is fast becoming an unavoidable cost of doing business, as organisations grapple with constantly evolving customer expectations and digital disruptors continue to push the limits of what modern systems can achieve.

Emerging technology is now considered the greatest threat to organisational growth over the next three years and 88 percent of Australian CEOs say they have an "aggressive digital investment strategy" intended to secure first-mover or fast-follower status.[20]

Statistically, however, a significant number of those investments are destined to fail. Research indicates that **52 percent of all projects in Australia fail to meet stakeholder expectations.**[21] For digital transformation projects, the likelihood of failure is even higher with global studies indicating that over 70 percent fall short of their goals.

Transformation projects are costly, often requiring multiple years and significant investment of expenditure. And the cost of failure goes beyond project costs alone. Projects that fail to meet expectations often result in significant damage to organisations' relationships with their customers, shareholders, partners and staff – ultimately impacting profits and market share in the longer term.

> "The top Australian lenders are locked in a technology investment arms race. Almost everyone has a multi-year technology transformation project in play. But unfortunately, very few institutions are able to achieve the return on investment they would have expected at the outset, or show value along the journey."

THEO EFTHYMIOU
Partner, Financial Services

20 KPMG (2022), KPMG 2022 CEO Outlook (Source). KPMG (2022), Australian CEOs see mild downturn before return to growth (Source)

21 KPMG, AIPM (2022), The state of project management in Australia. (Source)

3

Most transformation projects fail to meet expectations

Majors' market share is declining

1.6%

business lending market share lost by majors in the past four years

6.4%

home lending market share lost by majors in the past four years

$148 billion

total estimated market share lost by majors in the past four years

Australian borrowers were in the driver's seat when interest rates were lower. A 2020 KPMG survey found that 45 percent of Australian mortgage holders planned to renegotiate their mortgages in response to falling interest rates during the pandemic. Since then, there have been 10 consecutive rate rises, with more predicted. In today's lending market, it's clear that customer loyalty has lost its pull.

Over the past four years, major lenders have lost significant market share to new competitors. In the four years to September 2022, the combined market share of ANZ, Commonwealth Bank, NAB and Westpac fell from 70.4 percent to 68.1 percent in business lending, and from 80.1 percent to 73.7 percent in the housing credit market.[22]

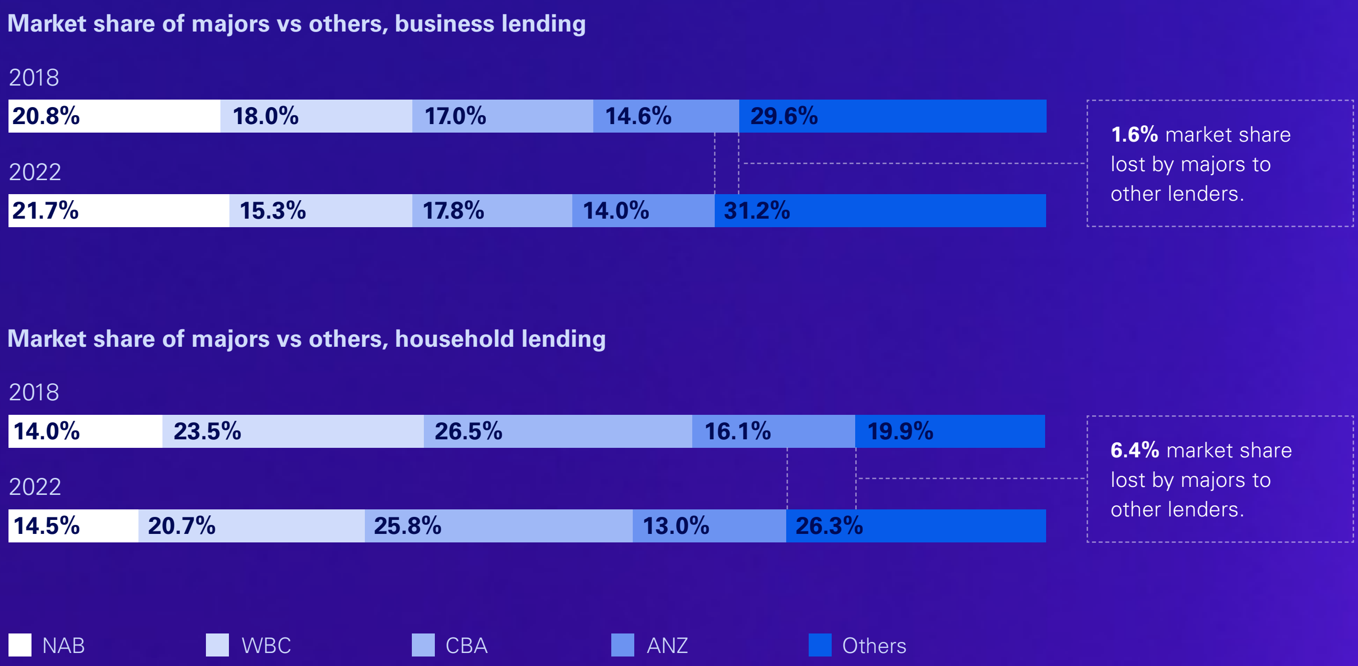
Based on these figures, and the total value of retail and commercial loans recorded by APRA-regulated institutions, we estimate the major lenders have lost $15 billion in business lending opportunities and $133 billion in household lending opportunities.[23] In total, the majors are estimated to have lost $148 billion worth of market share in the past four years.

22 APRA Monthly Authorised Deposit-taking Institution Statistics, December 2018 and December 2022. (Source)

23 APRA (2022), Monthly Authorised Deposit-taking Institution Statistics, December 2022. (Source)

Most transformation projects fail to meet expectations

Figure 3: Market share of major lenders and other players



In retail lending, industry surveys show that a growing share of consumers are now looking online when it comes time to secure or renegotiate their loans[24]. Fintechs are particularly well positioned to capture these digital opportunities and have attracted a great deal of investor interest as a result.

Australian fintech investments reached record levels in the first half of 2022.[25] While non-bank lenders still only target narrow segments of the retail and commercial lending market, with no clear way of scaling up, we expect interest in fintechs to continue to drive innovation and competition in the coming years.

24 KPMG (2020), The evolving mortgage market. (Source)

25 KPMG (2022), The Pulse of Fintech H1'22. (Source)

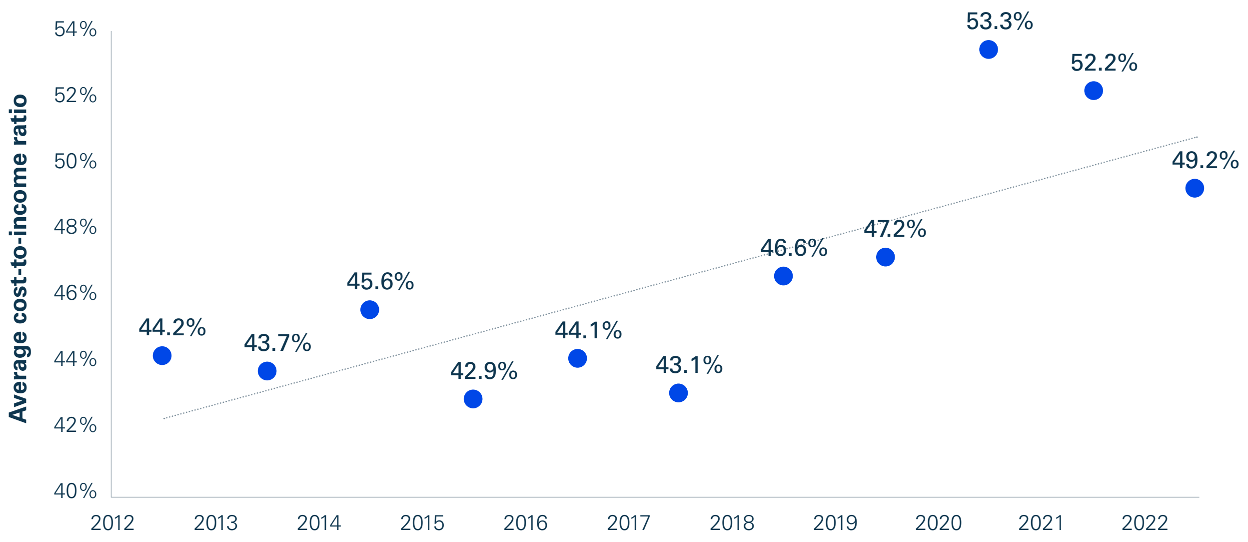
3

Most transformation projects fail to meet expectations

Costs are ballooning

Digitalisation can be an effective way for organisations to bring down operational costs. For mid-tier banks, industry research shows that digitally native organisations can run 50 to 70 percent cheaper than those using legacy technology.[26] Despite embarking on several cost-focused technology projects over the past decade, however, the Australian financial services sector as a whole has been unable to keep costs in check.

Figure 4: Average cost-to-income ratio of major banks



Majors reported an average cost-to-income ratio of 49.2 percent in 2022 while Tier 2s reported cost-to-income ratios of up to 62 percent. This is an improvement from 2020, when majors incurred additional staffing and other costs due to the operational impacts of Covid-19. At the same time, it is clear that digital transformation projects of the past decade have yet to make a significant impact on banks' cost bases.

While costs remain at the top of the agenda for all banks, as of 2022 many have signalled plans to adjust their cost targets due to factors including inflationary pressures, regulatory compliance requirements, ongoing customer remediation, and increased labour costs.

26 KPMG (2021), Digitally transforming the Australian mutuals industry. (Source)

Most transformation projects fail to meet expectations

Revenue gains are falling short

>10%

revenue increase expected by most US mid-tier financial services firms from digital transformation projects.

Financial services organisations tend to expect a great deal from their digital investments, only to be disappointed as their projects progress. In a 2019 survey of US financial services executives, 62 percent of respondents expected their digital investments to boost revenues by 10 percent or more.[27] Of those, two-thirds were disappointed, with the majority of respondents achieving more modest revenue improvements of 1 to 9 percent within a year of their investment.

Nine percent of survey respondents reported that their digital investments had made no discernible revenue impact at all.

If applied to the Australian context, missing out on even 1 percent of potential revenue would cost a major bank **$35 million** in home loan revenue alone.[28]

27 Rabin Research Company (2019), Digital Transformation in Financial Services. (Source)

28 Based on ABS new loan commitments data for the 12 months to September 2022, and lending rate data from RBA. We estimate new home loan income for the average major bank to be $3.53 billion over the 12 month period, based on an estimated market share of 20% and interest rate of 4.77%.

04.

Top challenges in the technology transformation journey

Top challenges in the technology transformation journey

While the technology transformation journey is different for every organisation, most experience a common set of challenges that can lead to project delivery issues if left unaddressed. These challenges can be broadly grouped into six key categories: skills shortages, change management, ineffective use of technology, organisational complexity, dynamic market conditions, and stakeholder management.

Skills shortages

As banking technology becomes increasingly sophisticated, banks are now competing not only with each other but also with the world's top technology brands for the skills they need to succeed.

In 2021, a high-profile banking platform overhaul was hamstrung by a shortage of in-house IT skills, which eventually saw the bank hire hundreds of engineers. Meanwhile, both NAB and Commonwealth Bank partnered with universities as they looked to hire a total of 2,500 new technology workers in the past year.[29]

According to the Tech Council of Australia, Australia will face a shortage of 653,000 technology workers by 2030, with approximately 861,000 people currently working in technology jobs across all sectors of the Australian economy today.[30]

We expect the war for talent to drive organisations to offer not only bigger pay packets but also other benefits, such as flexible working arrangements and innovative cultures that are more commonly associated with technology firms and startups.

> "Skills really are the new currency of the banking sector and this is especially true in relation to IT skills. For banks to maintain and innovate their banking platforms, they require access to IT skills which are in high demand and low supply. Part of the challenge is that these same skills are needed by multiple players and multiple sectors. Banks need to reinvent themselves and their employee value proposition in order to compete in this war for talent."

PAUL PINDER
Partner, People & Change

DAVID CUMMINS
Partner, Management Consulting

29 NAB (2022), Tackling the skills gap with a global workforce (Source) and AFR (2022), CBA defies skills shortage, targets 1000 more techies (Source)

30 Tech Council of Australia (2022), Getting to 1.2 million. (Source)

Top challenges in the technology transformation journey

Inadequate change management

In many cases, transformation project failures are not due to technological issues, but cultural ones. After all, there is little to gain from implementing a best-of-breed technology platform that no one is willing to use.

Globally, an estimated 87 percent of digital transformation projects fail to include a change management plan.[31] This can lead to employee resistance, with staff preferring to do things the familiar way rather than learn new processes and procedures.

In our experience with transformation programs in Australia and around the world, the most successful transformations are **people-led, customer-and business-centred and technology-enabled**.[32] Organisations need to build readiness for the new systems and processes they wish to put in place, requiring a 'transformation of culture' – including clear, consistent and engaging communication and the identification of any capability gaps – before the technology change.

Ineffective use of technology

Despite the promises of technologies like artificial intelligence, open banking and IoT (Internet of Things), a majority of digital transformation projects to date have failed to meet stakeholder expectations. In a 2019 survey by Cornerstone Advisors, 77 percent of banking executives said a "lack of understanding of digital trends" had hindered digital transformation within their organisations.[33]

Many organisations either do not fully understand how new technologies can be best applied to their businesses, or lack the in-house capabilities to put new systems to full use. Consequently, many spend years on piecemeal technology projects that often cannot be scaled beyond their original scope.

Unfortunately, while financial institutions see data as an asset, most are far from unlocking its full potential, with studies showing that **banks use less than 10 percent of data they have** to create value.[34]

> "Australian banks have done a great job in collecting data but have been very poor at using it. The vast collection of transaction data has not been effectively leveraged for credit assessment or management purposes across products or systems. Many banks still request considerable information from customers which frustrates them if there is an existing relationship with the bank. Harnessing the existing data assets can provide more reliable and timely risk assessments."

PAUL LICHTENSTEIN
Partner, Credit Risk Management

31 FICO (2021), Why most banks fail at digital transformation and how to avoid those pitfalls. (Source)

32 KPMG (2022), Culture counts in successful transformation. (Source)

33 Forbes (2020), Banking's delusions of digital transformation. (Source)

34 KPMG (2022), Frontiers in Finance Issue #64. (Source)

Top challenges in the technology transformation journey

Organisational complexity

Banks are large and complex organisations, often with multiple business units, data assets and specialist staff with different priorities and needs. This complexity can make it difficult for banks to determine the appropriate project scope and sequencing.

We have seen many examples of projects that have failed due to disconnects between technical staff and business users, or due to an incomplete understanding of what is needed to truly drive process improvements. One common misstep is for organisations to start small by looking to automate discrete parts of existing processes, only to realise that these projects will not deliver the scalable results they seek in the long run.

According to a 2021 study, nearly 7 in 10 enterprises say their companies' complex, siloed organisational structure impedes digital transformation, and nearly 9 in 10 believe they have set too narrow a scope for their technology investments.[35]

> "In the rise of complex business transformation projects which involve many stakeholders across your typical enterprise, such as finance, risk, legal, technology, product, customer distribution – no one area has a clear view of the sequencing required to operationalise a new business model and deliver value along the journey."

VINCY NG
Partner, Operations Advisory

35 FICO (2021), Why most banks fail at digital transformation and how to avoid those pitfalls. (Source)

Top challenges in the technology transformation journey

Dynamic market conditions

Digital transformation projects tend to be long and relatively complex, involving several months of planning and several years of work. In Australia's dynamic lending market, a great deal can change during that time.

In four years between 2019 and 2022, Australian lenders faced major regulatory changes, including more flexible interest rate caps; short-term lending bans; the introduction of the Banking Code of Practice; and the expansion of ASIC's breach reporting regime. The competitive landscape also evolved significantly with the introduction of Ubank's Mia, 86 400 home loans, and new 10-minute digital loans and Buy Now Pay Later products from the major banks.

Figure 5: Example of market landscape changes in recent years

	2016	2017	2018	2019	2020	2021	2022	2023+
No. of digital offerings by Australian lenders	3	2	3	2	3	4	5	-
	NABPay Westpac LOLA NAB QuickBiz	Ubank RoboChat Westpac SmartPlan	CommBank Ceba Westpac Siri banking ANZ Jamie	Ubank Mia 86 400 home loans	ANZ online lending platform CommBank BizExpress Online NAB StraightUp Card	NAB Quickbiz CommBank Stream Working Capital CommBank StepPay ANZ BNPL	CommBank Unloan Nano Lending Solutions ANZ Plus app Westpac digital mortgage platform NAB Now Pay Later	
No. of regulatory changes in Australian lending market	3	1	3	3	2	5	2	2
	ASIC fintech licensing exemption ASIC new peer-to-peer lending guidelines ASIC unfair contract term protections	ASIC targeted industry surveillance	Australian Financial Complaints Authority (AFCA) established APRA restricted ADI framework APRA relaxation of bank lending restrictions	APRA interest rate cap amendments ASIC short-term lending ban Banking Royal Commission report	Banking Code of Practice Responsible lending changes proposed	APRA increased interest rate buffer APRA licensing and supervision of new ADIs ASIC design and distribution obligations ASIC internal dispute regulation (RG271) ASIC breach reporting regime	ASIC short-term credit and continuing credit contracts ban ASIC enforcement priorities for 2023	ASIC internal dispute resolution data requirements Responsible lending legislation expected

Regulators have admitted that the future state of Australia's financial system is still "foggy" given the rapid pace of change that digital disruptors have set.[36] These fast-changing conditions will require banks to remain flexible and agile, to ensure projects are designed to capture evolving opportunities and meet regulatory demands.

The average length of digital transformation projects at Australian banks is around four years.

36 iTnews (2022), APRA still unclear on digital innovation trajectory. (Source)

4

Top challenges in the technology transformation journey

"Since the Hayne Royal Commission in 2017 we've seen a large number of regulatory changes affecting the lending market. From the implementation of a new capital framework and changes to the banking code of practice, to new design and distribution obligations and the introduction of the consumer data right. Lending practices have been fundamentally transformed and we anticipate the future of lending to be radically different as a direct result of these changes."

STEVE JACKSON
Sector Lead, Banking & Capital Markets

Stakeholder management

Banking is an essential service, and any disruptions can severely damage a bank's relationship with its customers, shareholders and the general public. In that context, digital transformation programs can often feel like building an aeroplane while flying it: banks need to work towards delivering on their long-term goals, while also meeting their year-on-year business case commitments.

In many organisations, we have seen a cultural divide between teams seeking to "run the bank", and those seeking to "change the bank" to capture digital opportunities. While these "change the bank" initiatives will be necessary as customer relationships shift online, banks also need to be mindful that today's customers are just as important as tomorrow's.

The most successful project teams are those that are able to **deliver value incrementally** along a multi-year transformation journey, and clearly communicate their progress to internal and external stakeholders. Project managers need strong interpersonal, planning and problem-solving skills to help manage expectations and priorities across the organisation.

"Many organisations have created a delineation between 'change the bank' investment and 'run the bank' investment. By virtue of this delineation, sub-cultures and disparate ways of working have started to form. Teams are competing for the same budget, the same customers and the same access to stakeholders and resources. However externally, customers are seeking a single face and interaction with the company."

GULREZ KAUR
Director, Strategy

DAVID RYAN
Partner, Management Consulting

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Better practices

Better practices

Lending modernisation is a large and complex challenge. The most successful organisations on this journey are those with a particularly clear view of what they need to deliver to achieve their strategic goals, and how they plan to do so.

We find that most technology transformation roadblocks may be mitigated with:

+ **A clearly defined project scope.**

  This helps set clear and realistic expectations for stakeholders and the business.

  In determining the scope of a project, organisations must first define their target future state based on their business strategy, long-term goals and position in the market. They then need to understand exactly what business capabilities they will need in that target state. For example, a home lender looking to boost online originations may need to develop digital pipeline hunters that monitor user behaviours on its website and proactively offers support to help close the deal.

+ **A project roadmap that manages change and delivers ROI regularly.**

  A clear and detailed project roadmap helps keep the delivery team and partners accountable and keeps multi-year projects on track. With this roadmap, organisations can ensure changes are implemented in the appropriate sequence, so staff are prepared and there are fewer disruptions along the way.

  Organisations should also look to build in tangible stepping stones that release value at key points along the transformation journey. These 'value drops' allow the business to realise demonstrable returns on investment (ROI) at regular intervals, which is particularly important in long, complex projects.

+ **Access to world-class advice and expertise.**

  Organisations may mitigate the risk of skills and knowledge gaps by leveraging the experience and expertise of trusted partners. These relationships can help organisations better understand available technologies, best practices, and any changes in market conditions throughout the transformation journey.

How we can help

From our experience with some of the most prominent lenders in Australia and the world, we know that planning is everything. With KPMG as a trusted partner, clients can ensure they have the knowledge, processes and plans they need to achieve their strategic goals, execute at pace and realise returns on investment faster.

With over half of all Australian projects destined to fall short of stakeholder expectations, we know how important it is not only to meet an organisation's overall ambitions but also to deliver demonstrable benefits along the way.

We help deliver successful technology transformations by first supporting clients in clearly defining what they want to achieve and how. Leveraging our pre-designed blueprints, we work with each client to build a custom target operating model (TOM) based on their strategic choices, and a Business Capability Map (BCM) that clearly articulates the activities and outcomes needed to enable their target state.

We also help clients create a project delivery roadmap that delivers tangible benefits incrementally, so stakeholders know what to expect at each stage of transformation. And we leverage our network of subject matter experts, technology partners and strategic alliances, to ensure clients stay ahead of the latest trends, opportunities, risks and regulatory changes every step of the way.

Beyond the development of these plans and operating models we also help deliver the actual change from data, technology and credit to operational execution.

Our proven methodology ensures transformation programs are driven by actual customer and business needs, and gives organisations the confidence and framework they need to succeed.

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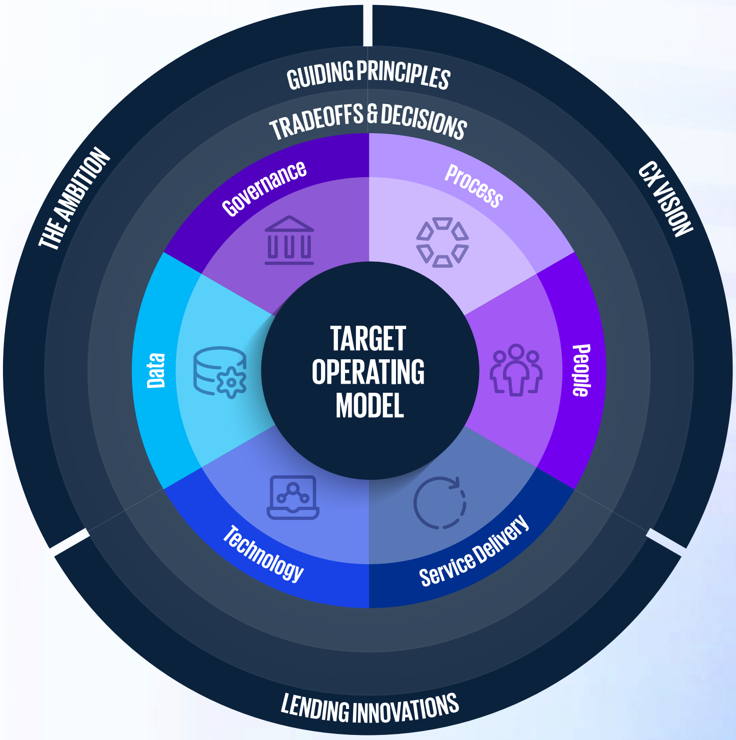
KPMG's Target Operating Model blueprint



KPMG's future operating model blueprint outlines the People, Process, Governance, Data, Technology and Service Delivery capabilities that an organisation is seeking to achieve in its target state. The future operating model is designed to support sustainable and scalable growth and further improve the customer and broker experience.

Guiding principles and strategic decisions form the guardrails for an organisation's Target Operating Model.

+ Guiding Principles ensure the project is aligned to an organisation's long-term vision. Examples include: leverage innovation, insight-driven, standardise where possible, modularisation.
+ Strategic decisions are key choices to be made that define the approach for the future operating model, including credit strategy, brand, customer segmentation, channels, technology and partnerships.

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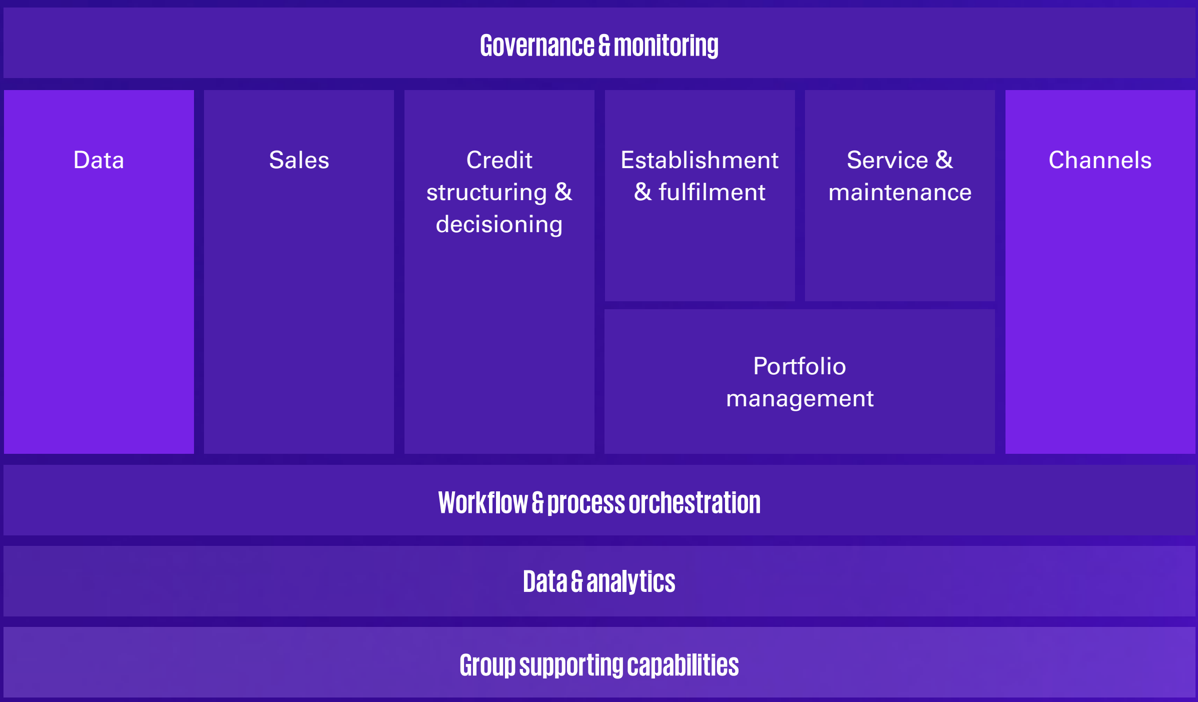
KPMG's Business Capability Models

Traditionally, business activities occur within vertical silos, driven, for example, by customer, product or technology teams. However, this approach can mean that initiatives are too narrowly focused to truly deliver on an organisation's overall vision and strategy.

KPMG works with clients to develop a capability-driven business architecture across the organisation. We see business capabilities as core functional building blocks representing what the business does and what it can do, providing the linkage between strategy and execution.

BUSINESS LENDING CAPABILITY MODEL



Our Business Capability Model blueprints come predesigned with 160+ capabilities that, together, enable industry-leading core lending functions, supporting functions, and channels. BCMs are tailored for each client, and tested against complex stakeholder personas to ensure they will deliver the desired end-to-end lending outcomes.

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A Roadmap that Delivers ROI Faster

Transformation projects are often multi-year investments that involve hundreds of millions or more of expenditure. A clear and detailed roadmap can help organisations hold staff and partners accountable, and ensure stakeholder expectations are aligned as the project progresses.

We work with clients to develop a roadmap that delivers tangible ‘value drops’ at regular intervals along the transformation journey. These value drops may include new or improved capabilities, demonstrable cost savings, or other improvements to revenue, headcount and business growth.

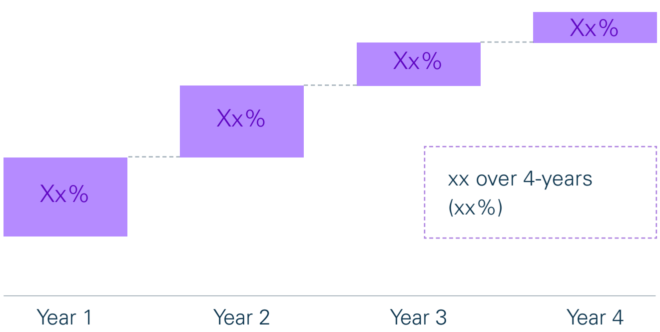
Value Drops Delivered through the TOM

	FY23	FY24	FY25	FY26	FY27
Capability	• Example 1 • Example 2 • Example 3 • Example 4 • Example 5	• Example 1 • Example 2 • Example 3 • Example 4 • Example 5	• Example 1 • Example 2 • Example 3 • Example 4	• Example 1 • Example 2 • Example 3	• Example 1
Cost	~$xx-$xxM	~$xx-$xxM	~$xx-$xxM	~$xx-$xxM	~$xx-$xxM
Benefit	xx run rate $x-$xM in-year benefit	xx run rate $x-$xM in-year benefit	xx run rate $x-$xM in-year benefit	xx run rate $x-$xM in-year benefit	xx run rate $x-$xM in-year benefit

Key assumptions

- FTE numbers at xx FTE (which is inclusive of xx leaders).
- ~$xxk average FTE cost, ex on costs.
- Annual investment spend maintained and access to specialist resources.
- FTE can be reinvested to offset new volume, or harvested yielding a cost out, outcome.
- No change to volume and regulatory expectation which would increase demand.

Value



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Case study

DEFINING THE LENDING PLATFORM REQUIREMENTS OF A MAJOR BUSINESS BANK

KPMG worked with a major Australian bank to develop the business case for a technology platform overhaul that would streamline loan origination for a variety of customer segments using modern tools such as automation, data and advanced analytics. This project was an integral part of a three-year business lending transformation program to become the number one business bank in the Australian market.

We supported the bank by defining a Business Capability Model (BCM) with 160+ capabilities that it would need from its future Business Lending Platform. We used future state personas and scenarios to validate the BCM, and developed a detailed roadmap to deliver these capabilities, working collaboratively with the bank's Architecture and Delivery teams to determine the optimal sequencing.

Based on our industry experience and consultation with the bank, we helped the bank evaluate potential build, buy or partner opportunities by developing detailed assessment criteria and performing a high-level market scan of potential solutions.

We delivered a business case outlining the investment required and expected business benefits of the future state Business Lending Platform, providing the clarity that the bank needed to progress to the next stage of its transformation program.

Case study

USING "DIGITAL TWINS" TO OPTIMISE HOME LENDING OPERATIONS

KPMG partnered with a major Australian bank and a technology start-up to create a digital twin for evaluating and improving the bank's home lending operations. A "digital twin" is a digital replica of a business. This technology has been used increasingly in sectors like agriculture, mining and manufacturing as a powerful way for organisations to test and optimise their processes.

We supported the bank with the overall design, development and coordination of activities required to build and implement a digital twin. This involved identifying the right processes to simulate and optimise; sourcing key data attributes and information required to build the digital twin; and defining the measures of success for the optimisation simulation.

With the digital twin, the bank was able to simulate potential changes to its third-party origination processes. The digital twin was able to proactively identify, surface and recommend further process improvements, ultimately delivering a 30 percent reduction in time-to-decision and 18 percent uplift in productivity.

Author

Chris Foster
Partner, Financial Services, KPMG Australia
cfoster@kpmg.com.au | +61 2 9455 9016

Chris has considerable experience in implementing business transformation and operational excellence within various organisations throughout Australia, UK and Europe. With his focus squarely on delivering results, Chris works to build capabilities across the financial services sectors, and helps organisations ensure they get the best use of new technologies to improve and automate their end-to-end business.

Key contacts

Vincy Ng
Partner, Operations Advisory
vincyng@kpmg.com.au
+61 2 9335 8982

Theo Efthymiou
Partner, Financial Services
tefthymiou@kpmg.com.au
+61 3 9288 5355

Adrian Chevalier
Director, Customer & Operations
achevalier1@kpmg.com.au
+61 3 9838 4134

Gulrez Kaur
Director, KPMG Strategy
gkaur19@kpmg.com.au
+61 3 9838 4683

David Cummins
Partner, Management Consulting
davidcummins@kpmg.com.au
+61 2 9335 8491

David Ryan
Partner, Management Consulting
davidryan@kpmg.com.au
+61 2 9335 7134

Paul Pinder
Partner, Management Consulting
ppinder1@kpmg.com.au
+61 3 8663 8988

Paul Lichtenstein
Partner, Audit, Assurance & Risk Consulting
plichtenstei@kpmg.com.au
+61 3 9288 6420

Donald MacDonald
Partner, Actuarial & Financial Risk Management
dmacdonald2@kpmg.com.au
+61 2 9455 9003

KPMG.com.au

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