

## Interview with Wolfgang Gaertner on “Digitalization in Retail Banking: Differentiation and Standardization Through IT”

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**BISE:** Mr. Gaertner, digitalization has massively impacted many industries in the recent years. Recent studies have also stressed the importance for the retail banking sector. What is your point of view?

**Gaertner:** Financial advice becomes even more important in the digital age. Advice can go even beyond

financial advice and does not have to be in person. This is why we are looking for new opportunities to offer products and services to our clients focusing on simplification and convenience by taking care of their financial and non-financial needs in daily life. A key differentiator among the competitors within the banking sector will be the client experience. Besides, brand strength has been and will be a key asset and differentiator, and strong brands will attract clients in the digital world.

**BISE:** Historically, banks have followed a tailor-based software development approach emphasizing the importance of differentiation through individualized IT solutions. Recently, the potential of standardized product software has also been identified in the financial services industry. Do you leverage standard product software? If yes, why and where?

**Gaertner:** First of all, we decided to use our own technology roadmap based on industry standards. For example, to date we have already achieved benefits in a double-digit million range per annum and reduced time to market by more than 70 % for the provision of infrastructure through our standardization of Database Servers on a private cloud solution. The usage of standard software is a vital part of our strategy. In the last decade, standardization of processes has been a major trend. Also driven by regulations and implementations of standards like SEPA in the financial industry, standard software is available especially for core banking and reporting systems. Deutsche Bank has a strategic partnership with SAP and is transforming the core systems for our retail banking platform in Germany including Deutsche Postbank.

For client facing applications like online or mobile banking, we rely on proven industry standards and integrate standard products wherever they add value. However, the front end to the client is where we want to differentiate ourselves from the competition and where our different

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propositions (Deutsche Bank, Postbank) target different client groups. Therefore, we need to have as much flexibility as possible in designing our client facing technology according to our clients' needs. This is achieved by an architectural framework which integrates our own development with purchased services.

**BISE:** How does using standardized product software change the way you do your “business”? How does it impact your investment portfolio? Are projects set up differently? Do you require different skills for your IT staff? How is the interaction with your internal customers impacted?

**Gaertner:** Changing from “writing business requirements and developing software” to “adopting products and processes to a standard software package” requires a thoughtful process. We need to select the right package to avoid the need for ‘over customization’ and diminishing the benefits of standardization. For such an approach, we need to have a stable relationship between IT and business. As an internal IT provider you need to have a “seat at the table” and the right to say “no”. On the other side, you will get a steady stream of improvements of functionality as well as adoptions of new regulations driven by vendors' product roadmaps. Therefore, it is crucial to manage intense relationships with vendors.

**BISE:** Being able to adjust existing and enable new business models in a short time frame is a critical success factors for retail banks. In the past, IT was often blamed to be the key bottleneck from a speed and cost perspective. New financial products often required dedicated IT projects that implemented the various changes in different silo-based functional systems. What is the current state in your organization and how do you react from an IT point of view?

**Gaertner:** We have to distinguish between backend systems which often have been used for decades and client facing systems where we have to follow short term market trends. Development processes for both systems may follow different paradigms with different focus on time to market. Our experience is that time to market aspects are more relevant in the client facing systems. Therefore, we analyze opportunities to implement different operating models for software development in those areas: more agile in the client facing areas and the proven waterfall in the backend systems.

There is a clear trend to distinguish between “Systems of Engagement”, where time to market client experience and agility are key, and “Systems of Records”, where long term stability, reliability, compliance, and cost efficiency have priority. This leads to a “Two Speed” IT organization.

**BISE:** Internet and Mobile Banking have been massively adopted in the recent years, and implementing omni-channel strategies enabling blended physical and digital interaction with the retail bank is requested by the customers. Furthermore, we see increasing activities in the

domain of social banking. How do you address this? Any suggestions or ideas for further research in this context?

**Gaertner:** Actually we are early adopters of the main social media trends: Among others, Deutsche Bank has been present at YouTube since 2008, at Twitter since 2009, and at Facebook since 2010.

For the bank it is important to be present in the same space as our clients. Our clients expect us to be there and to be available to serve their needs: At YouTube, for example, we publish videos that explain our products or provide basic education on how banking works. We use twitter as news stream to post press releases, announce studies or present Deutsche Bank as an employer and at Facebook we maintain several channels: for career, corporate news, and services.

Also for our retail business, social media is becoming more and more important. We run several service channels to interact with and support our users and customers whenever they are looking for that support from the bank.

Apart from service issues, social media allows us to easily interact with our community, via live-chats or providing relevant information (SEPA migration, product information, etc.), for example. However, we do not give any financial advice via public social media platforms, which would be neither in our interest nor in the interest of our clients.

Social media is an increasingly relevant and important touch point and Deutsche Bank is able to meet the needs of its customers in this respect.

**BISE:** Leveraging data for differentiation is another important topic, Big Data Analytics is a major trend across all industries. Retail banks know a lot about their customers. Do you leverage data for differentiation purposes? What are the challenges from a technological and non-technological perspective?

**Gaertner:** In the banking industry we have always been dealing with large amounts of data coming from different sources and in different formats, particularly in the risk and regulatory area. As an example, we have 670 million online and mobile logins per year and €170 bn transactions in Germany which we analyze to protect our customers against fraud. What is really new with innovative technologies like in-memory databases and big data frameworks is the ability to analyze high data volumes real time and thus provide direct benefits to our clients.

Big data has a strong technology aspect and we will have to master the new technologies and, at the same time, cope with the cost challenge rising with growing amounts of data. In any case, big data initiatives have to be driven by business needs instead of being merely capability driven. From a non-technological perspective big data gives rise to challenges like efficient data ownership management and compliance with data protection laws. For big data, our mantra is: whatever we do, it is in our customers'

interest. Innovative technologies are just one enabler in this area.

One of our focus areas concerning big data usage in relation to direct client interaction is the so called “next best offer” functionality, which we use to enhance “relevance”. If you can analyze the data to understand a person’s requirements, you will be able to make offers more relevant to them. Our long term goal is to use the opportunities of big data and provide real time access to relevant information to both our customers and business counterparts. Thus, we can help our customers to take decisions being ahead of market changes, and proactively protect the bank.

**BISE:** Looking at the future, how do you see retail banks realizing standardization and differentiation through IT? What are the future key challenges from your point of view?

**Gaertner:** CIOs will have to offer both elements to the bank: standardization and client intimacy. This requires an IT of two speeds that we are building as we speak. We need to provide standardization, with efficiency and controls in our core platform – no compromises allowed with regard to regulation, compliance, and security.

On the other hand, we need to be agile with a fast time to market while maintaining a high quality standard when it comes to components that directly create value to the clients.

Whoever implements this new paradigm fast and efficiently will have a clear yield compared to the market.

**BISE:** Mr. Gaertner, thank you very much for your time and for this interview.