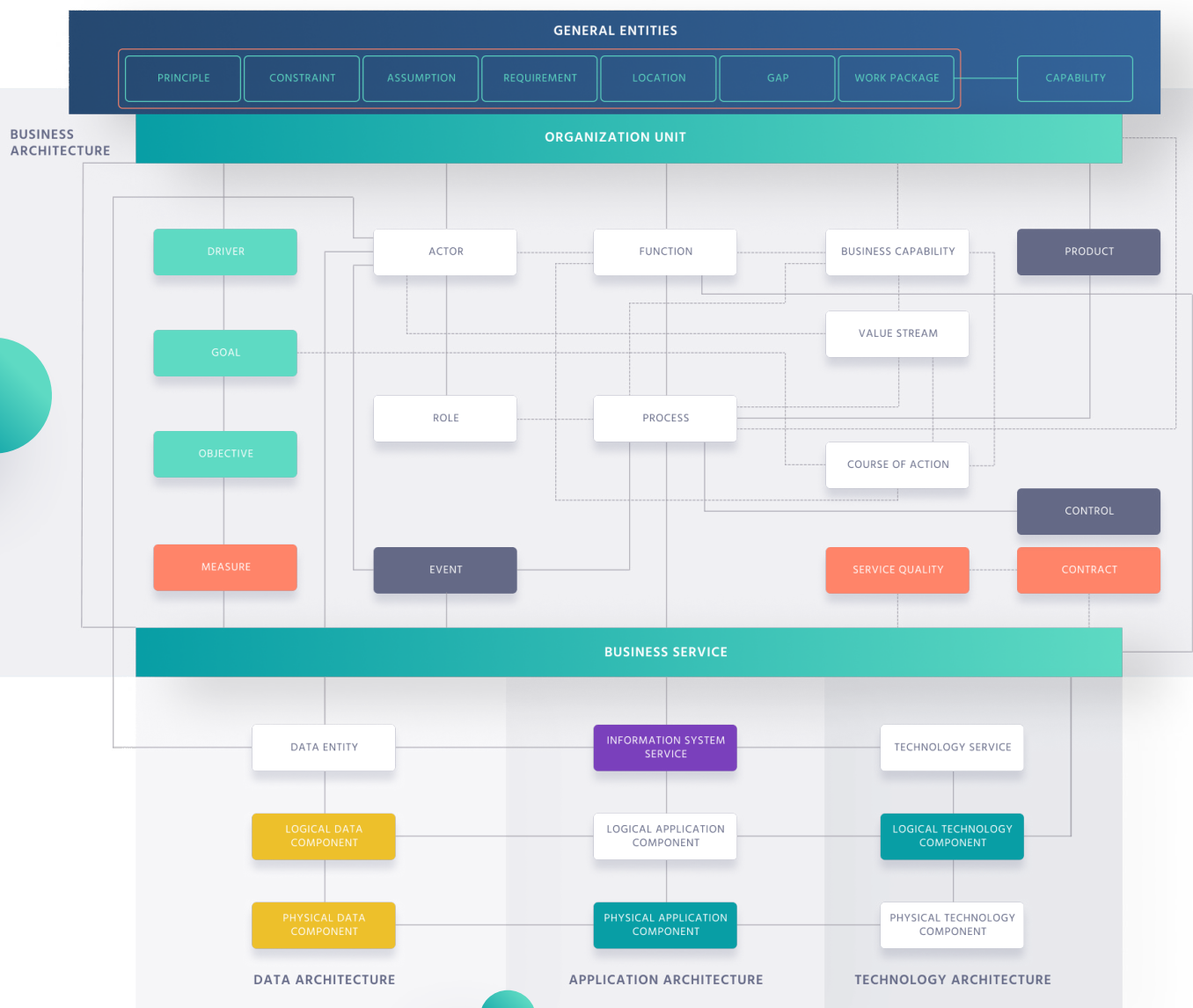


Capabilities vs Services: Delivering Architecture Value in Banking



Introduction

The landscape for banking and financial services has been in near constant upheaval since the 2008 financial crisis, as the blowback from that event coupled with the ever increasing pace of technological change. Large incumbent banks have seen challenger banks spring up, offering new products and better customer experience through applications. In the wider financial services industry, Fintech businesses have found numerous new opportunities, whether in cryptocurrency or more traditional avenues like investment. Faced with these challenges, existing enterprises have been forced to adopt new strategies that prioritize the use of technology to meet internal and external needs, such as operational resilience requirements or new financial products.

In such an environment, the IT function has to be able to deliver value to the wider organization at pace, value that is aligned with strategy. Enterprise architecture is vital to this alignment.

Deploying your architecture value through Services Planning and Business Capability planning enables a stronger fit and strategy alignment between business and technology teams. If you are a bank or financial services firm with a mature architecture organization, the opportunity exists to enhance your architecture outputs and value to the business through a hybrid architecture approach that does not focus solely on developing and uplifting business capabilities.

There is an alternative to consider and it doesn't require you to own all of your IT Assets nor require you to spend long project delivery time building and embedding business capabilities that can be sourced, managed and enabled through business and technology services. ITIL defines a Service as "a means of delivering value to customers by facilitating outcomes customers want to achieve without the ownership of specific costs and risks". In a business or technology sense, this enables significant agility, risk management and financial control but requires a strong planning, contract management and internal ownership base to ensure you are actively managing the service outcomes according to your business and technology needs. The term XaaS refers to "Everything as a Service" or "Anything as a Service" and reflects a growing market for developing technologies in the cloud and enabling subscription based cost models that can rise and fall with business demand.

A business capability is the expression or articulation of the capacity, materials and expertise an organization needs in order to perform core functions. The longer term needs of the business may or may not be better met through actual ownership of business capabilities. More and more companies from Banks to Fintech to Insurance are questioning whether leveraging external service providers that are not core to the main business is a more effective value proposition.

This eBook will explore the new architecture landscape with the advent of XaaS enabling lower Total Cost of Ownership, less impact on business stakeholders, agile project delivery and improvements in the way you manage your application portfolio, free of the longer term costs to owning and retaining business capabilities.

The Challenges

The root cause of many banks' problems in managing technology services is a weak application governance process. Technology teams react to requests from many entities across your organization based on politics or funding sources, without an enterprise wide consensus on priorities.

This creates pressures to keep up with demand for innovation in areas like omnichannel user experiences, but rarely do they have an application plan for the future.

What's missing is a fact-based process for making application decisions. The string of business requests may be based on local needs and perceptions but is usually disconnected from the enterprise wide business strategy. Part of the problem may be that the business strategy has not been clearly articulated and communicated.

As a result, each group has its own parochial view of the strategy and a clear consensus on action requires a common view of the organizational outcomes. The application governance processes used to develop and execute the application strategy must collect a fact base from the business leaders and use it to analyze the state of the portfolio.

For these application governance processes to work, business leaders must be engaged in the process rather than throwing requests over the wall. The business must be engaged in the decision-making process, take ownership of the applications, and be jointly accountable for the implementation of projects and the business value delivered by the applications.

Limited engagement with the business is a common problem for many enterprises, not just banks and financial services firms, as well as a lack of clear connections between business strategies and investments. Inefficient allocation of limited budgets and slow legacy waterfall application development, leave the portfolio out of step with the business. Technical and business risks are also unclear.

Other common problems faced by technology teams include:

- A staff of developers with outdated skills wedded to past ways of developing applications
- Lack of technical documentation and financial records i.e., licensing, maintenance, operations and support making it difficult to determine cost of ownership
- Insufficient data to prove the business value of applications
- Demand for applications from business is overwhelming IT's ability to deliver causing the rise of shadow IT, integration and security problems

The Architecture Opportunity

Enterprise Architecture teams are faced with a number of opportunities to connect the business to the technology teams and the customer to the enterprise as follows:

- Connecting information and insights to the management team
- Connecting strategy to daily execution
- Connecting all the parts of a bank to the adopted strategy
- Connecting departmental goals to corporate goals
- Connecting technologies to functions and business outcomes



A critical question for the Architecture and Executive team is:

How can we simplify and co-ordinate activities to leverage the opportunities above?

The opportunity to create value by architecture teams is significant in guiding the strategy, planning and scoping activities across the organization. Executive champions need to prioritize application functionality investments based on the organizational capabilities available and the capabilities and services required to support corporate strategy, particularly as the level of technological innovation of the financial industry continues to surge. Often the decision around a services or capabilities based approach can be complex depending on the appetite and long term value to the organization.

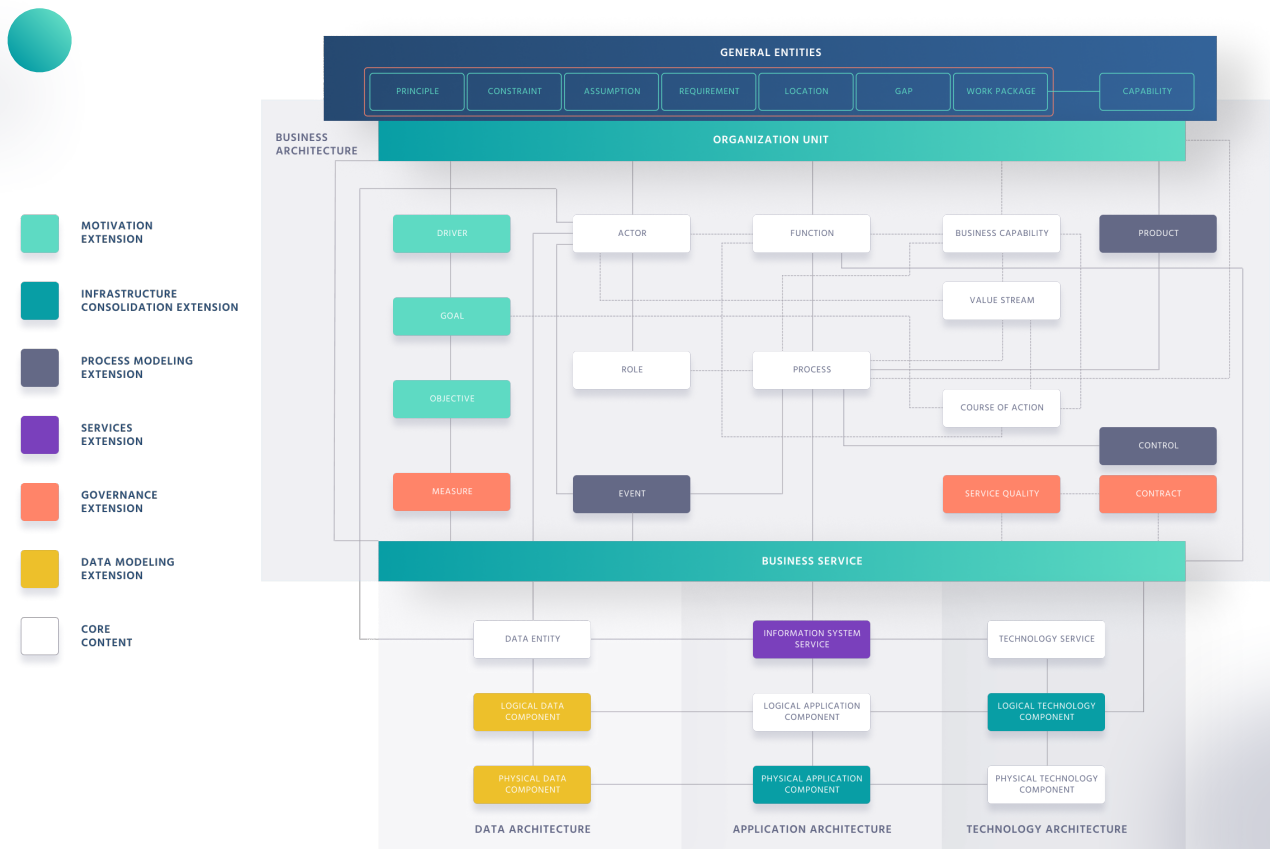
Architecture of Services and Capabilities

A Services and Capabilities based architecture framework enables flexibility and agility in delivering business outcomes and ideally provides a base for the ongoing management of your business and technology responses.

There are a number of different models available for depicting these inputs but we will focus on the approach provided by the dominant TOGAF framework.

TOGAF provides a clear distinction between Business Capabilities and Services and positions them both within the model in figure 1. In reality, Business Capabilities act as the point guard and mapping station for a range of architecture inputs including Business Functions, Data Entities, Applications and Infrastructure and can be utilized by a range of different business units and functions.

Services have a similar set of inputs but are characterized by inputs and outputs that include a set of measures such as SLA's. These measures provide an efficient and effective monitor of service effectiveness and efficiency and enable the service to be optimized. The TOGAF model also distinguishes between business services and technology services which enables a more flexible management of the architecture portfolio.



Technology and Business Services



SERVICES STRATEGY

Developing a compelling and shared vision for the business to specifically address your source of differentiation in the marketplace requires a future vision and work plan to achieve this vision.

A Services strategy is a critical input to achieving agility, resilience and enabling your business vision. However, an ineffective or non-existent Services strategy is the norm, and this has left incumbent banks struggling to handle the new demands of digital transformation from challenger banks. Slow delivery processes resulting from traditional waterfall development methods hinder attempts to deliver product innovation to customers and match new entrants, while many outdated applications also linger and are hard to retire.

Both Business and IT can articulate clearly the reasons for investing in Information Technology Services Management (ITSM) and the business case for doing so rests on business outcomes rather than the need for self-defence within Operations.



The basis for such investments could include:

- Enhanced Stability of Service Provisioning
- Enhanced Responsiveness of Services
- Ability to Support Complex Operational Models
- Achieving Realistic Outcomes in relation to Worlds' Best Practice
- Ability to increasingly automate currently manual processes
- Continuous Improvement
- Compliance

TECHNOLOGY SERVICES

Management of your Technology Services requires a disciplined approach if you are going to optimize delivery outcomes to your business units.

Figure 2 is a Technology Services Model that outlines the range of inputs that need to be addressed to enable your Services strategy.

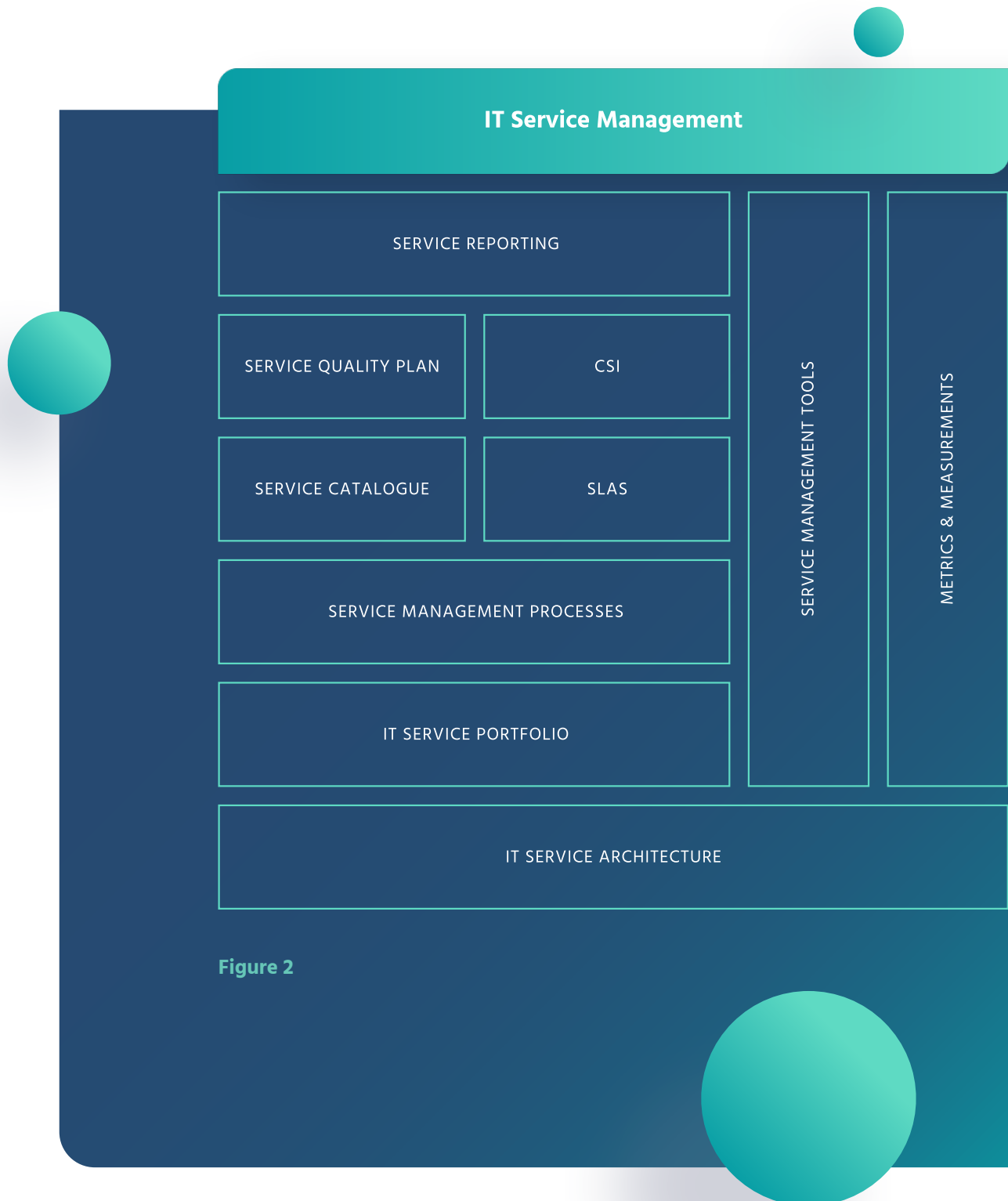


Figure 2

BUSINESS SERVICES

The distinction is real between Business and Technology Services with business services reflecting those services consumed by internal and external customers and technology services primarily provided by technology teams and consumed by business units.

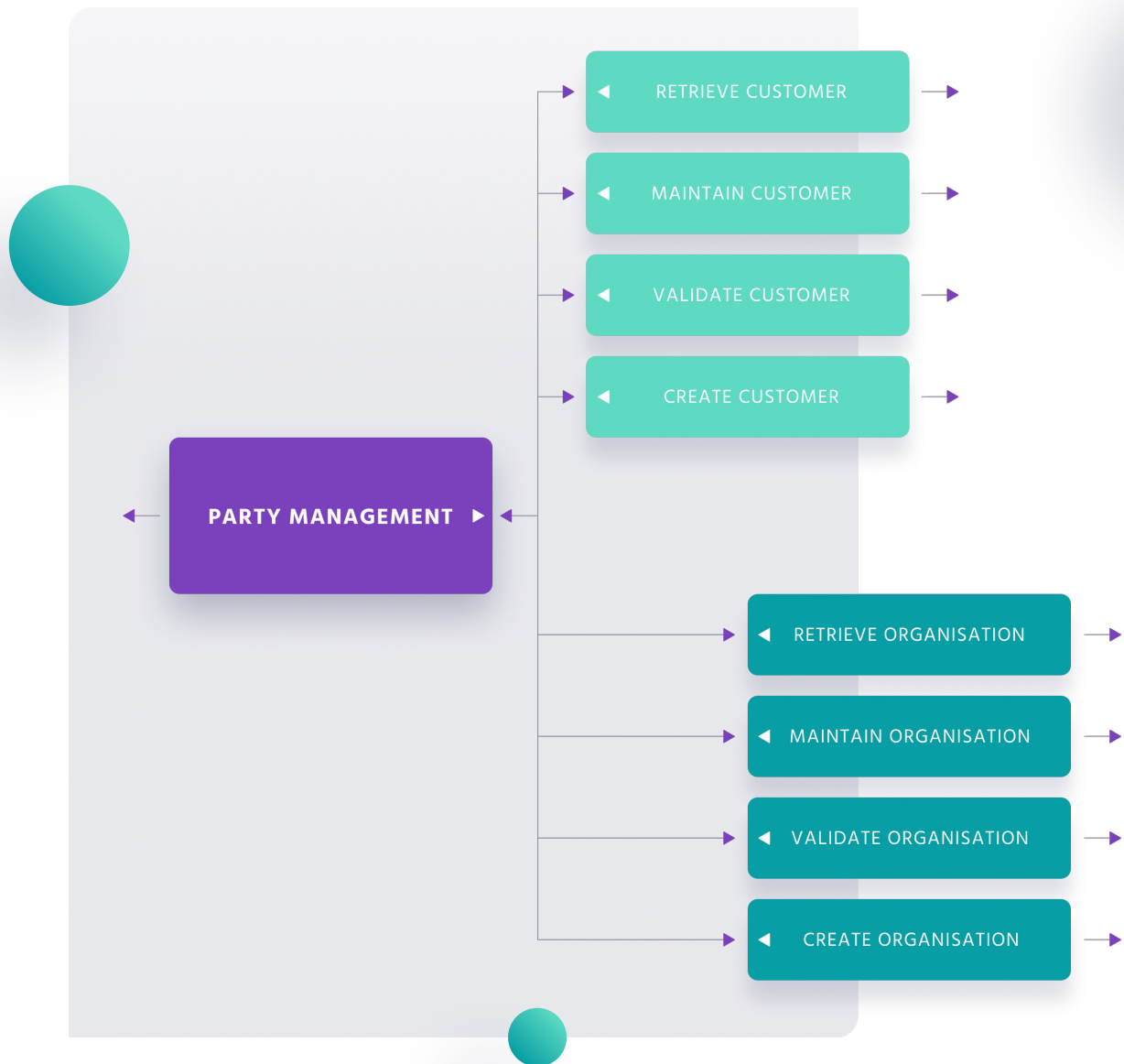


Figure 3 is an example of a Business Services architecture that can be re-created across all channels accessed by the customer.

Visibility and management of business services consumed by the customers is just as critical as managing technology services as the customer experience is directly impacted by the viability and performance of your business services.

The Need for Strategic and Architectural Alignment



Alignment between enterprise strategy, business processes and technology is often missing in the planning and scoping of initiatives.

Although Senior Executives can espouse corporate strategies, the Executives making process-transforming technology decisions are often unable to articulate which software applications will best support the enterprise's goals. Another reason enterprises end up with less-than-optimal results is that the technologies support a departmentally focused view.

The value of architects who understand the important role technology plays in transforming business processes are able to articulate the end to end representation from business outcomes to capabilities to technologies, functions, services, products through channels and customer segments.

Some potential actions to consider for the architecture team include:



High Priority Year 1



- Evaluate the fitness and value of existing applications and assess how well an application fits current business needs and technical requirements
- Review and prioritize projects and IT investment in projects flowing from the fitness and value review, understand and articulate the impact of your current project portfolios while building trust with business colleagues
- Start transforming the IT culture into agile development and services based planning i.e., understand which capabilities or applications could be best met through a Services based model

Medium Priority Year 2



- Complete an updated and detailed assessment of application fitness and value
- Complete the transition to agile through transition of appropriate Applications to agile and product management by Year 2, and continue shifting resources to differentiating activities supporting agile developments
- Establish fact-based governance processes and ensure optimal use of resources
- Formalize the Application strategy using business context and Application Principles

Proactively Managing your Services and Capabilities Architecture

In creating the critical Services and Capabilities Architecture models to support executive decision making, key data management tasks need to be addressed:

01

Data Collection:

Developing your architecture models is all about the data. Without a strong base of accurate data, models will add to the confusion or at worst provide inaccurate insights for action

02

Data Sharing:

Capabilities and Services are a critical source of organizational DNA and should be shared across the organization

03

Data Analysis:

Draw on your analysis and insights for specific recommendations and business and technology conversations

04

Customer and internal client Interactions:

Contract and Vendor Management become critical functions to enabling Services based Architecture and ensuring business outcomes are generated

The architecture function plays a critical role in consolidating this information, bringing these functions together and creating a number of architecture outputs reflecting work flows as follows:

- To include all major processes and connections
- To identify customer, business partners, and all participants in the value chain
- To represent the current state of operations – the existing capabilities and services of the enterprise
- To connect customers with the work streams that deliver value to them
- To serve as the starting point for all strategy and planning activities



The Last Word

CEOs, CIOs and banking executives across the industry are battling to keep their firms relevant to a constantly changing external environment with customer demands changing on a regular basis, cost and revenue jaws impacting on investments to be made, a digital world that is in constant change mode and a legacy set of company assets to be managed.

The use of both Capability and Services based planning is a great opportunity for the architecture function to add significant value to your Strategy and Planning activities and transform the profile of your business and technology change portfolios, programs and projects.

Business outcomes are still the cornerstone of Strategy, Planning and Architecture activities and a more agile and responsive approach to these outcomes will emanate from a hybrid use of Capabilities and Services.



Take the First Step

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