

Capabilities vs Services: **Delivering Architecture Value in Banking**



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Introduction

The landscape for banking and financial services has been in near constant upheaval since the 2008 financial crisis, with the blowback from that event coupled with the ever increasing pace of technological change.

Examples like the collapse of Silicon Valley Bank in March 2023 highlight the risk-ridden landscape of finance. Large incumbent banks have seen challenger banks spring up, offering new products and better customer experience through applications. In the wider financial services industry, fintechs 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.

In such an environment, the IT function must deliver value that is aligned to the wider organization's strategy, at pace. 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.

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The Challenges

A weak application governance process can lead to many problems in managing technology services in banks. It can cause issues such as inefficient resource allocation, lack of transparency, inadequate risk management, and poor decision-making.

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 another common problem for 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

Architecture teams are given several opportunities to bridge business and IT, which ultimately provides a more ideal experience for the customer.

It's all about providing a clear direction:

- Collecting key information and connecting the dots to help bring transparent insight to the executive team
- Linking strategy to daily execution
- Ensuring all key aspects of the bank are aligned with the agreed strategy
- Aligning department and corporate goals so all are working towards a common objective
- Relating technologies to functions that will deliver a business outcome

Architecture teams can provide significant value by presenting sound guidance for the strategy, planning, and scoping of activities across the enterprise. Executive champions need to prioritize application investments based on the internal capabilities available and those required to support corporate strategy, particularly as technological innovation in 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.

A critical question for the Architecture and Executive team is:

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

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.

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 SLAs. They measure effectiveness and enable the service to be optimized. TOGAF also distinguishes between business and technology services which enables a more flexible management of the architecture portfolio.

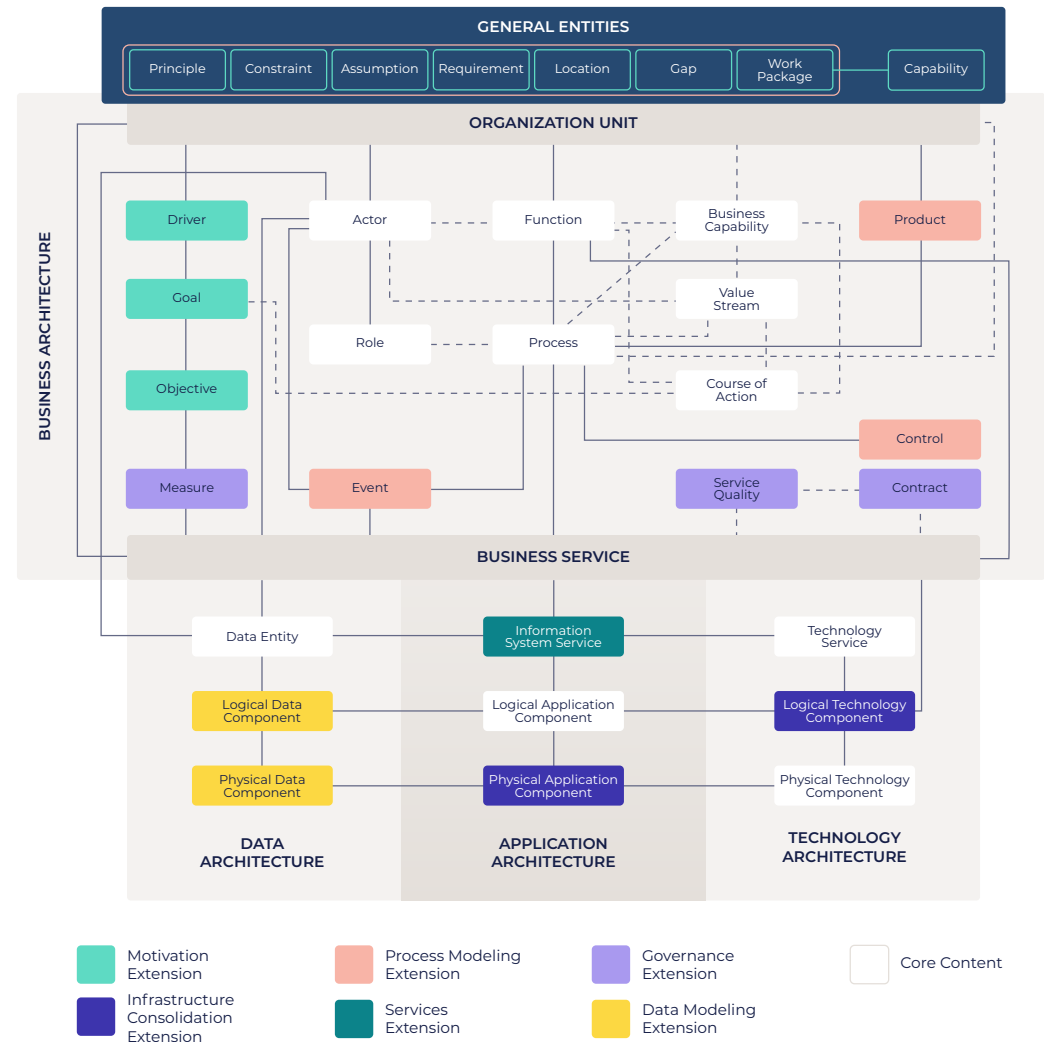


Figure 1

Technology and Business Services



Services Strategy

Addressing your source of differentiation in the marketplace requires a vision and work plan.

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 demands of digital transformation from challengers. 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 the reasons for investing in IT 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.

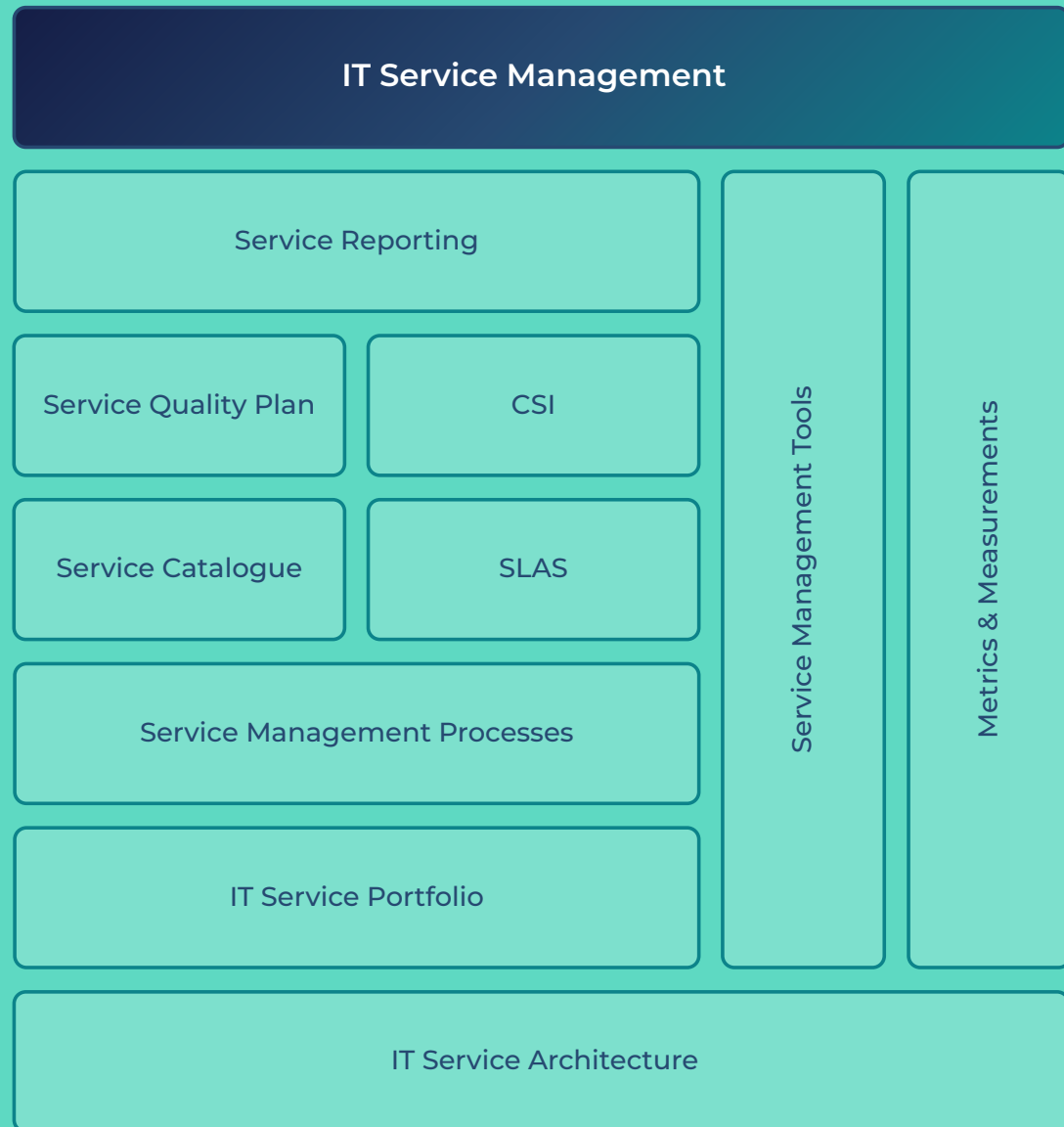


Figure 2

Business Services

There is a distinction between business and technology services:

- Business services are those provided to external parties, such as customers.
- Technology services are internal services provided to internal parties, such as employees.

Visibility and management of business services consumed by 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.

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

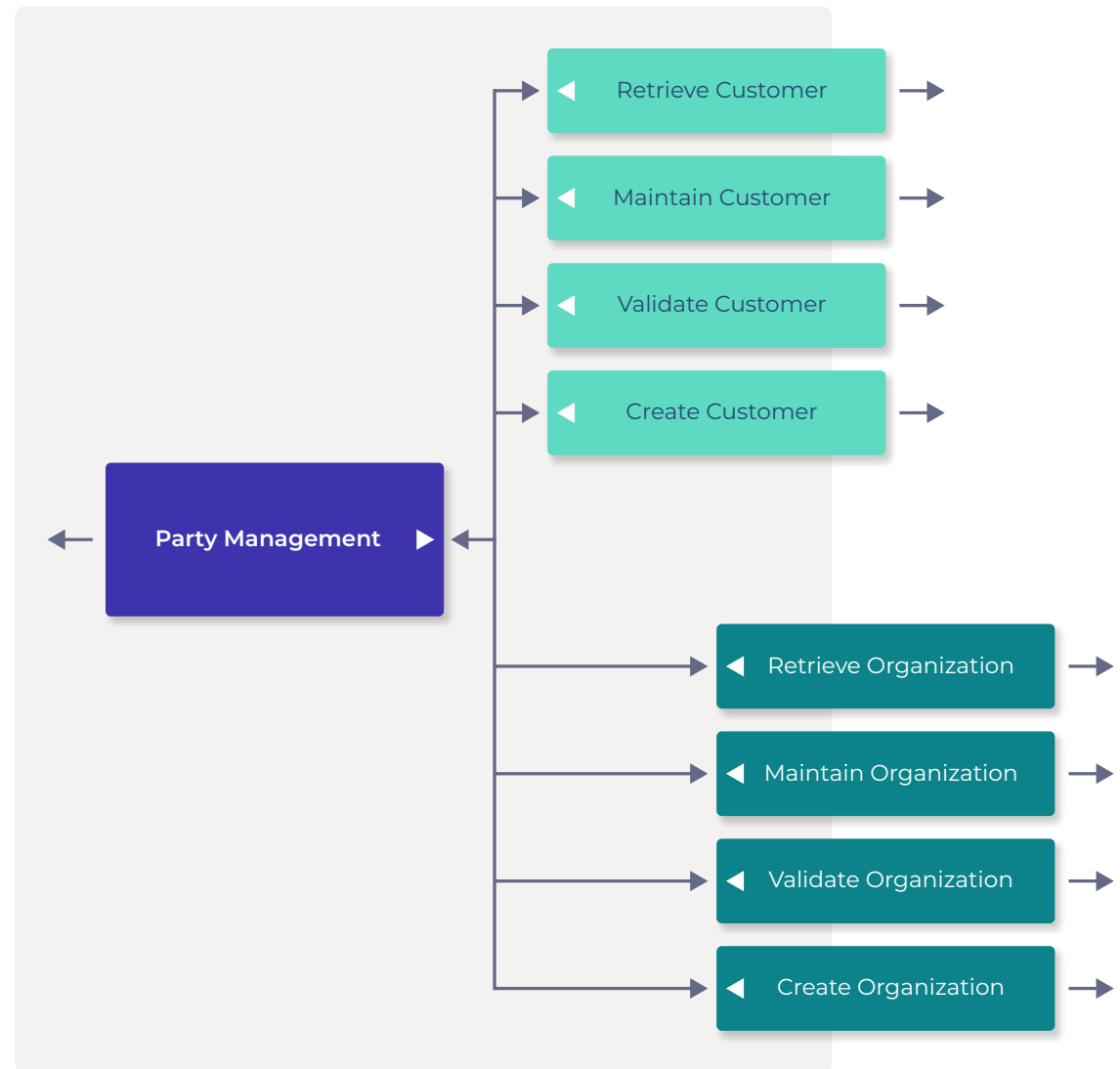


Figure 3

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. Technologies also tend to support a departmental-focused view, resulting in less-than-optimal results.

The value of architects who understand the important role technology plays in transforming business processes is that they can articulate the end-to-end representation of business outcomes, capabilities, technologies, functions, services, and 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

High priority year 2

- Complete an updated and detailed assessment of application fitness and value
- Complete the transition of appropriate applications with agile 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:

1

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

2

Data sharing

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

3

Data analysis

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

4

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 of customer demands, cost and revenue laws, and a dynamic digital world, while juggling their own legacy assets.

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.

Strategy and planning are the cornerstone of effective business outcomes. This leads to increasing importance of agility and responsiveness, and ultimately leads to a position of proactivity, rather than reactivity.



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