

Banking Digitalization – Five Stages of Grief

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Alexander Makeyenko, Managing Partner at DataArt, talks through the denial around digitalisation in the banking industry - comparing it to the five stages of grief in the Kübler-Ross model.

Swiss-American psychiatrist Elisabeth Kübler-Ross in her 1969 book, *On Death and Dying* described her now-famous model, now popularly known by the acronym DABDA for the emotional stages experienced by terminally ill patients. Kübler-Ross examined those close to death but the model is also used for the children divorced parents, those grieving for a lost romance and so on.

I don't share the popular gloomy take on the present banking system and think that "the patients" have quite a good chance of recovery (though probably not all of them). But still - there are some interesting parallels between dying people and the retail banking sector.

According to a report by McKinsey and Company: "Across Europe, retail banks have digitized only 20 to 40 percent of their processes; 90 percent of European banks invest less than 0.5 percent of their total spending on digital. As a result, most have relatively shallow digital offerings focused on enabling basic customer transactions.

"Neither customers nor digital upstarts are likely to wait for retail banks to catch up."

Furthermore - McKinsey estimates that banks can remove 20-25 percent of their cost base by leveraging a digital short and becoming more competitive. But still, the banks crawl slowly towards the inevitable change. This must mean that there are deeper, almost pathological cultural reasons for reticence.

Having worked with the banking industry for over 15 years, it is my experience that there is a peculiar reticence in facing up to the changes taking place. And many I have heard many strange comments, that reveal a certain grieving for the lost age of non-digital banking. All the quotes below are real ones, I've heard with my own ears over the years. For obvious reasons, they are not ascribed:

Stage One: Denial -- One of the first reactions, where the survivor imagines a false, preferable reality.

In banking, that phase started quite a while back and all players went through it. "We're different," they said. "Customers will feel reassured by our traditional approach, in an otherwise confusing world of digital disruption." "Internet banking is a toy, people still need/want to visit real offices", or "mobile is for kids that don't have money anyway", or "nothing can replace real people with real expertise - certainly not a stupid computer". It lasted ages, while the rest of the world moved on, banks were late to change. Some are still there.

Stage Two: Anger -- When the individual recognizes that denial cannot continue, he/she becomes frustrated, especially at proximate individuals.

"Why did it stop working?", "Why are our margins so low?", "Why are clients so disloyal?", "Who in this organisation got it wrong?", "Why are we under attack?" "No one understands".

Many banks are still asking these questions. Some are blaming those around them internally, asking why they weren't warned (they usually were) and others are blaming external partners. These attacks often surprise those at the receiving end - who often protest that they have been flagging up the need for digital innovation and their words, reports, emails have - till now - fallen on deaf ears.

Stage Three: Bargaining -- The third stage involves the hope that the individual can avoid a cause of grief. Usually, the negotiation for an extended life is made with a higher power in exchange for a reformed lifestyle.

Regulations and government support - that's the God many banks are praying to now. Would that work out or just temporarily slow the inevitable changes?

Stage Four: Depression -- "I'm so sad, why bother with anything?"

In this state, the individual may become silent, refuse visitors and spend much of the time mournful and sullen. Through this phase goes comes individuals and the whole organisations, unfortunately not always at the same time. That's one the reasons of heaving side effects in HR dimension with people leaving and being let go.

Stage Five: Acceptance -- "I can't fight it, I may as well prepare for it."

I was surprised to hear those at the CxO level of leading banks, the very people one might have imagined would be chomping at the bit to start on exciting new tech projects, say: " We can't build that internally with the lack of time and money we have - we should buy it," or "the core business of the bank is middle-office operations and compliance. We are ready to give up client facing parts of the system to external technology players." This a-typical giving away of power and control, was a surprising turn by an industry in shock.

It has to be said - not all banks have suffered as deeply as others from these odd reactions. And it is my prediction, that in five years time we will see deep resistance to change as the beginnings of the death knell for some of the slowest movers. And some surprising newer players, who weren't so wedded to the past, will rise triumphant having snatched first mover advantage from the jaws of some of their grieving competitors - and bought them up.

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