



# From Dream to Delivery

Better practices for Australian lenders  
on the technology transformation journey

**REPORT SUMMARY**



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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.***

**The most successful lending modernisation projects to date have been those designed to release value at key points along the transformation journey while progressing towards long-term goals. Organisations will benefit from a clearly defined roadmap that leverages proven strategies to *deliver ROI faster.***

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## 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.

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. Some have made gains with discrete, targeted technology projects – only to find

themselves unable to scale these hard-earned new capabilities more widely across their organisations.

As a whole, it is clear that few organisations have been able to achieve the results they seek.

Australian lenders are facing:

### More investment



total investment spend by majors, 2018-2022

### More competition



non-bank and alternative lenders in the Australian market

### Limited returns



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



Australian CEOs with an 'aggressive digital investment strategy'<sup>1</sup>



total year-on-year decline in owner-occupied mortgages to December 2022<sup>2</sup>



lending market share lost by majors 2018-2022

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

2 ABS (2023), Lending indicators – December 2022 (Source)

# Transformation projects have failed 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.

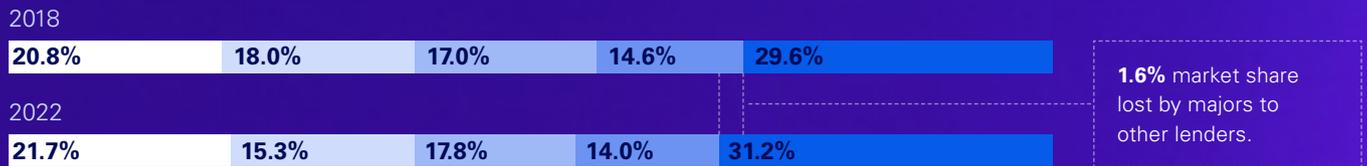
In our analysis, lending modernisation projects typically target three key improvements: to **reduce costs**; **enable product differentiation**; and **improve decision-making**. Ultimately, these efforts aim to enable competitive rates and a more streamlined experience for customers, as well as strengthening banks’ balance sheets and loan books in preparation for the economic headwinds ahead.

Statistically, however, many of those investments are destined to fail. Research indicates that **52 percent of all projects in Australia fail to meet stakeholder expectations**.<sup>3</sup> For digital transformation projects, the likelihood of failure is even higher with global studies indicating that over 70 percent fall short of their goals.

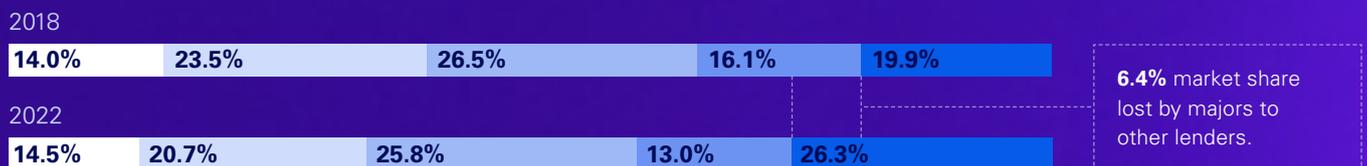
Our analysis shows that despite organisations’ best efforts, cost-to-income ratios have risen; transformation projects have not delivered expected revenue gains; and Australia’s Big 4 lenders have lost a combined \$148 billion worth of market share in the past four years.

**Figure 1: Market share of major lenders and other players<sup>4</sup>**

### Market share of majors vs others, business lending



### Market share of majors vs others, household lending



■ NAB    ■ WBC    ■ CBA    ■ ANZ    ■ Others

<sup>3</sup> KPMG, AIPM (2022), The state of project management in Australia. (Source)

<sup>4</sup> APRA (2022), Monthly Authorised Deposit-taking Institution Statistics, September 2022. (Source)

Figure 2: Average cost-to-income ratio of major banks<sup>5</sup>



The cost of failure goes beyond the obvious costs of time and hundreds of millions or more of expenditure. By failing to meet expectations, organisations can also suffer significant damage to their relationships with 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 EFTHYMIU**  
Partner, Financial Services

<sup>5</sup> 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).

## Transformation roadblocks

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:** 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.<sup>6</sup> Skills shortages may delay or even derail technology transformation projects, potentially leading to unexpected costs and rushed hiring decisions.
- **Change management:** Globally, an estimated 87 percent of digital transformation projects fail to include a change management plan.<sup>7</sup> This can lead to employee resistance, with staff preferring to do things the familiar way rather than learn new processes and procedures.
- **Ineffective use of technology:** 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. While financial institutions see data as an asset, most are far from unlocking its full potential, with studies showing that banks currently use less than 10 percent of the data they have to create value.<sup>8</sup>
- **Organisational complexity:** 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.<sup>9</sup> Typically, when complex business transformation projects involve many stakeholders across many different divisions, no one area has a clear view of the sequencing required to operationalise a new business model.
- **Dynamic market conditions:** Our analysis shows that digital transformation projects in Australia's financial services sector tend to span an average of four years. In Australia's dynamic lending market, a great deal can change in that time (Figure 3). Banks will need to remain flexible and agile to ensure projects are designed to capture evolving opportunities and meet regulatory demands.
- **Stakeholder management:** 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. 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.

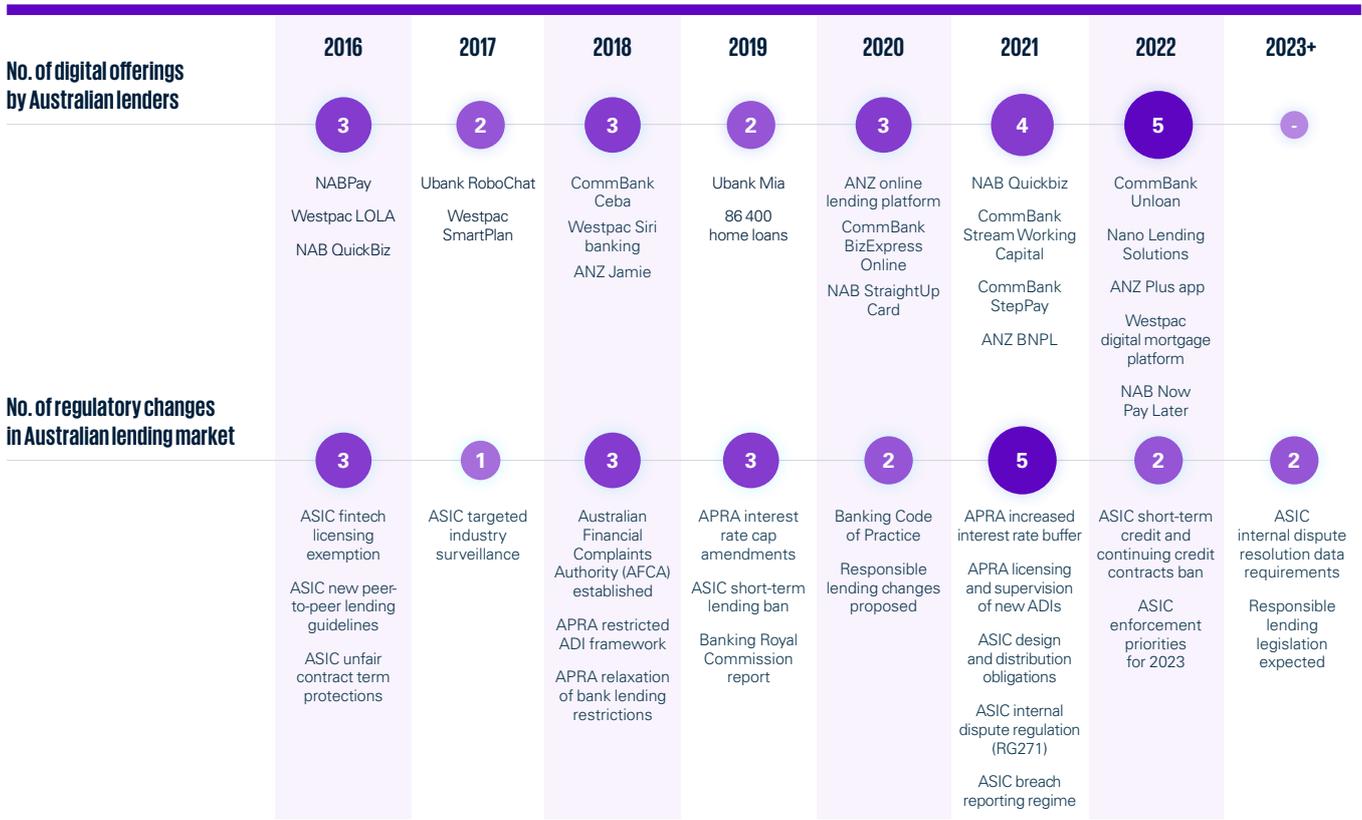
6 Tech Council of Australia (2022), Getting to 1.2 million. (Source)

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

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

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

Figure 3: Example of market landscape changes in recent years



## 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. They do this with:

- A clearly defined project scope that accounts for the organisation’s strategy, long-term goals and market position, and clearly sets out what business capabilities it will need in its target future state. This helps set clear and realistic expectations for stakeholders and the business.
- A project roadmap that manages change and delivers ROI regularly. This ensures changes are appropriately sequenced and managed, as well as keeping the delivery team and partners accountable and ensuring multi-year projects remain on track.
- Access to world-class advice and expertise. Organisations may mitigate the risk of skills and knowledge gaps by leveraging trusted partners who can help them better understand available technologies, best practices, and any changes in market conditions throughout the transformation journey.

## A proven roadmap for your transformation journey

KPMG can help with proven strategies to reduce cost and accelerate value of technology transformation projects.

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.

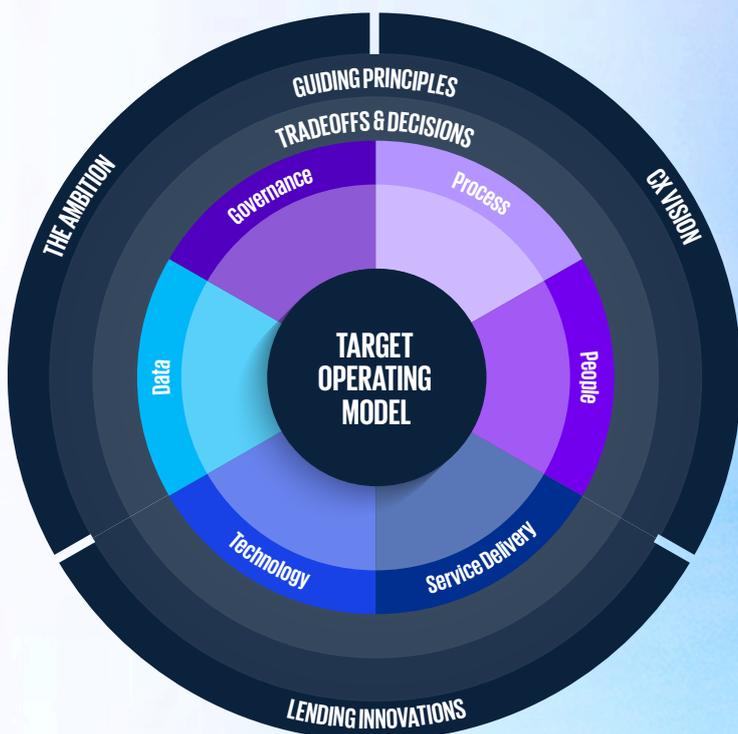
We support clients with:

- KPMG's pre-designed 'Target Operating Model' blueprint, which clearly articulates the People, Process, Governance, Data, Technology and Service Delivery capabilities that an organisation is seeking to deliver in its target state.

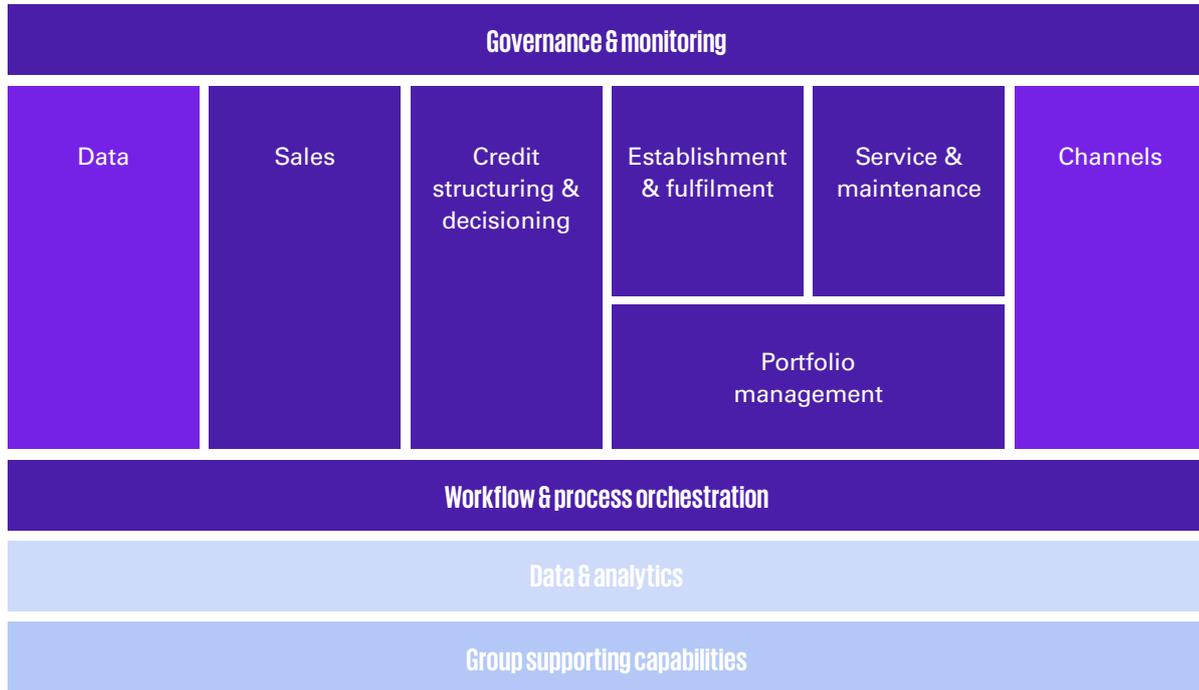
We work with clients to customise this, based on their organisations' strategic requirements.

- KPMG's 'Business Capability Model' blueprint, which comes pre-designed 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 deliver the desired outcomes.
- Development of a detailed project roadmap that delivers tangible 'value drops' at regular intervals along the transformation journey, to help hold staff and partners accountable and set clear and realistic expectations for stakeholders.
- KPMG network of subject matter experts, technology partners and strategic alliances, to ensure clients stay ahead of the latest trends, opportunities, risks, and regulatory changes at every step of the way.

### Target Operating Model



### Business Capability Model



### Project Roadmap with value drops



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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.

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