

From Savings Mono-Line to Full-Service Bank: Growing ING Direct Spain

Teaching Case

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Abstract

Started as a mono-line focused purely on savings, in late 2012 ING Direct Spain was becoming a full-service bank. To this end, the bank had substantially increased its product- and channel-portfolio. ING Direct Spain originally provided “simple”, “good value for money” products in an “easy to deal with” way at low cost supported by a direct model. But with the growth in its product portfolio during the previous decade and the ambitious goal of becoming a full-service bank, an increase in complexity seemed inevitable. Like many businesses in the global, digital economy, ING Direct Spain found it needed to decide which complexity created value for its customers and which one not. It also learned that IT can contribute to complexity and/or help manage complexity.

This case offers a close look at challenges of growing a company by increasing product complexity to provide comprehensive yet simple services.

Keywords: Business complexity, simplicity, enterprise architecture, growth, IT business value, business strategy

Overview

Our ambition is to transform ING Direct into a full-service bank.

—ING Bank N.V. Annual Report 2012

Founded in 1999, ING Direct Spain was originally a mono-line business focused purely on savings products sold exclusively in a direct model via phone and the internet. In December 2012, ING Direct Spain’s website offered payment accounts, credit cards, investment funds, pension plans, brokerage services, mortgages, personal loans and life insurance in addition to savings accounts. It also listed close to 30 branch offices across all of Spain.

ING Direct’s business was built on providing simple, transparent, valuable products through easy to use direct channels at low cost.

One of the pillars of the ING Direct model is to really give an excellent client experience—to be superior in terms of client experience in comparison with all our competitors. But, at the same time, we need to maintain our cost advantage.

—Werner Zippold, Chief Operating Officer

These and other propositions were regarded as part of the “orange culture” (hinting at the company color) that had been important to ING Direct Spain from the very beginning:

When somebody joins the bank, what we need to make sure is that they align with the culture, the values of this organization. That everybody who joins the bank feels that they have gone to a different place, a place that wants to approach the customer with banking products in a different way.

—Daniel Llano, Executive Vice President Products & Strategy

As ING Direct Spain grew, executives wondered how they could preserve their value proposition around simplicity for customers.

I've been working here now for nine and a half years. When I entered the bank, you got painted orange and that kind of thinking [around simplicity] became natural for you. Now we recruit a lot of people very often from other financial institutions – which is natural – but when you have a thousand people, it's not so easy anymore to paint all these people orange and to make them think that way.

—Werner Zippold

ING Direct Spain was still simpler than most Spanish banks. But its ambitious goal of becoming a full-service bank inevitably led to increased complexity.

Background: ING Direct and ING Direct Spain

ING Direct was founded as part of ING Group¹ in 1997 with Canada as its first country of operation. After Canada, ING Direct Spain had been the second country world-wide and the first European country to join what became a “fleet of companies” with ING Direct in nine countries including Australia, Canada, France, Germany and Austria, Italy, Spain, the United Kingdom and the United States.²

ING Direct started as a pure savings player focused on providing superior interest rates for savings deposits to attract customers from competitors. The bank profited from a low-cost model that was enabled by the efficiency of a direct, branch-less operation.

The strategy of ING Direct is to be a low-cost provider of financial services in large mature markets by offering its clients best value for money and excellent service via call-centers and the Internet.

—ING Banking Annual Report 2003

Werner Zippold, COO of ING Direct Spain described ING Direct's strategy as follows:

If I had to summarize the model of ING Direct in one sentence, I would say it's offering the first class service of Singapore Airlines with the cost structure of Ryan Air. The first class service of Singapore Airlines for us is absolutely critical to maximize customer satisfaction, because it's our only way to get out of a pure price play. If the client has to sacrifice the relation with his branch to actually change, he will always need an attractive price. So, at some point we are

¹ As of January 1, 2010, “ING Direct became part of the newly-formed Retail Banking Direct & International division” within ING Group (ING Banking Annual Report 2010). In 2013 that division was called “Retail Banking International” (<http://www.ing.com/Our-Company/About-us/Mission-Strategy.htm>).

² Although ING Group had announced the sale of ING Direct in the US, Canada and the UK, it expressed its commitment to the remaining countries by stating that it “continues to invest to evolve the ING Direct business model, increasing the product offering and extending distribution, while integrating the balance sheet with the rest of ING Bank.”

already sacrificing margin in comparison with a traditional bank. If we get into pure price play, we are dead in the long run.

—Werner Zippold, Chief Operating Officer

In 2011, ING Direct as a whole served over 24 million customers (a 9-year compound annual growth rate (CAGR) of 14%) and managed funds amounting to over 410 million EUR. Over the prior nine years the company had experienced a CAGR in revenues of 16% and 27% in profit before tax. ING Direct first became profitable in 2003 and the 2011 profit margin was 29%. Its cost-income ratio in 2010 and 2011 was around 50% and 57% respectively.³

Part of ING Direct's growth was due to the expansion of its product portfolio. Annual reports cited two main products in 2004: savings products and mortgages. Three years later, ING Direct added payment accounts and investment products. In the 2009 annual report, ING listed consumer lending as its fifth product category. Finally, in 2011, ING declared its intention to "selectively evolve" ING Direct units into "full service banking models."⁴

But not all countries within ING Direct had the same product variety. In fact, while the countries followed the same principles and shared best practices via global councils, "the execution was purely local" in each country. For example, after Spain had pioneered the payment account other country units adopted it with varying degrees of local adaptation:

We shared our knowledge in the council. We had every single country visiting us to understand in detail how we had done it, what had worked, what had not worked, how were the processes, what were the key success factors [...]Italy and France have copied elements of the Spanish model with some adaptations to the local market. Australia and Canada have included some of our features and in others they have chosen different models. The only two who have gone in a pretty different way are Germany and the US.

—Werner Zippold, Chief Operating Officer

ING Direct Spain had one of the most diverse product portfolios within ING Direct (Appendix 1 provides an overview of ING Direct Spain's product and channel growth over time).

Every two years, we have had a big change in the bank, like going into mortgages, going into payment accounts, going into investment products, even launching branches.

—Daniel Llano, Executive Vice President Products & Strategy

ING Direct Spain had not planned that growth strategically. Instead it grew into new product categories one step at a time, fueled by increasing customer demand, an entrepreneurial spirit as well as its own success:

It was discovering how far you can go. In direct banks, more than a decade ago, nobody knew how far the business was going to go. But every single product that we were launching was a success [...] We started to hear from our customers that they were also asking for other investment opportunities and mortgages.

—Daniel Llano

The increased variety in the product portfolio was viewed as creating value for ING Direct Spain: by 2012, 54% of all customers used more than one product from ING Direct Spain.⁵ And the life-time value⁶ of the average customer holding more than one product was nine times the value of customers with only a savings account. Customers with a savings account, a payments account and a lending product were up to 20 times the value of a customer with only a savings account.

³ Source: ING Bank Annual Reports 2002-2011; in 2012, ING stopped reporting ING Direct as a separate segment. See Appendix 6 for details on ING Direct's financial performance over time.

⁴ Source: ING Bank Annual Reports 2002-2011

⁵ Of those, 10% of customers had savings and investment products, 38% payments, savings and/or investment products, and 6% payments, savings and lending products

⁶ A combination of increased length in relationship and increased contribution to profit before fixed cost.

At the same time, operating fixed-cost per customer had grown by only 20% since 2005. In 2011, ING Direct Spain reported 77 million EUR in profits before tax (a 9-year CAGR of 28%) and 2.41 million customers (a 9-year CAGR of 16%), of which more than 700,000 used ING Direct Spain as their main bank.⁷ Citing the Association of Spanish Banks, ING Direct Spain took pride in being the “leading direct bank in Spain,” with managed funds that totaled 29.9 million EUR and 940 employees.⁸ Also in terms of total operations cost per account, ING Direct Spain continued to be very efficient. One benchmark performed by an independent consulting company compared ING Direct Spain’s costs per account to ten Eastern & Central European banks that were deemed comparable in terms of scale. ING Direct Spain’s costs per account were somewhat below the average of the top three banks in the sample which was less than half of the cost of the average performers in the sample and a third of the average Iberian bank.⁹

Enhancing Customer Experience

To grow organically, ING Direct Spain needed to convince customers to either switch from their existing financial service providers or to consider ING Direct as an additional banking relationship. To this end, ING Direct’s value proposition was focused on providing premium customer service.

The full organization agrees that our strength is the customer experience we create and the only way to retain and to acquire new customers is through satisfaction and recommendations.

—Daniel Llano, Executive Vice President Products & Strategy

In 2011 ING Direct Spain was ranked as the number one bank nationwide in terms of Net Promoter Scores (NPS).¹⁰ Its 2012 NPS was 40% while the average Spanish bank reported negative scores (see Appendix 2 for a development of ING Direct Spain’s NPS). It was the most recommended bank in Spain for the fourth consecutive year.¹¹ Over 40% of new customers came to ING Direct Spain via recommendation.

Part of that customer experience proposition was to make “the dream of a simple bank” come true, with “simple products, transparent conditions, easy operations, clear statements” (For more details, see the “Fresh Banking Manifesto” in Appendix 3).

If you want to distribute financial products online, you just cannot be as complex as the others. If I want to sell a pension plan on a web page, there is no way that that product can have the complex features that my competitors put in their products. Otherwise I wouldn’t be selling anything. And if I want to sell something like a mortgage online, it better be a non-complex process for the customer, because otherwise they will go to a branch. We want to avoid complexity for the customers.

—Daniel Llano

An example of striving for that customer-facing simplicity was the process for opening a payment account. That process at a direct bank usually required a number of steps: it involved at least an application, a subsequent identification by the customer, the exchange of several physical documents (e.g. a welcome package, PIN numbers, transaction numbers (TANs), debit cards, credit cards, forms for authorizing a change of direct deposits, etc.), as well as the activation of the cards and the account. In most direct banks, the account opening process involved several step-by-step interactions across online and physical channels and the exchange of several mailings. For example, the customer would apply online, and then

⁷http://economia.elpais.com/economia/2012/02/09/actualidad/1328784277_302769.html

⁸ <http://www.ingdirect.es/sobre-ing/ingdirect.html>, Appendix 6 provides details on ING Direct’s Spain’s financial performance over time.

⁹ Iberian banks were larger banks than ING Direct

¹⁰ In terms of customer satisfaction, most ING Direct countries were ranked as number one (Spain, Germany, Italy) or two (UK, France) in banking when looking at Net Promoter Scores (NPS) in 2011. Source: Presentation “ING DIRECT: Un modelo de banca innovador,” ING Bank, April 1, 2011

¹¹ <http://www.ingdirect.es/sobre-ing/ingdirect.html>

receive the opening package, send back completed and signed authorization and identification forms, then in return receive the debit card and several PINs and codes in separate packages, etc. To reduce cost, most banks had automated individual activities (like embossing cards and mailing them), but that had led to more customer touch points, in effect, making the customer's life more difficult.

The only way to have automated processes is to send all these materials separately. Because the only fully automated machines that exist, they emboss a card, put it in an envelope and then put it into mail. So what usually happens is you open an account and then over two or three weeks you get a couple of different mailings to your home and you're pretty lost in the process.

—Werner Zippold, Chief Operating Officer

ING Direct Spain identified the hassle in the account opening process as one of the barriers to clients changing their payment account. Driven by its goal of providing a simple customer experience, leaders insisted that the number of mailings required to open an account be reduced to one:

When we went to the steering committee the team was very proud that it had actually reduced [account opening] to two mailings in total. The cards and the forms that you had to fill in to switch your direct debits and payroll deposit and all that would come within one package which we would hand over to you personally after checking your ID. And then the PIN would go separately. And I still remember that our CEO at that time said: 'You did a really lousy job, I want one single mailing.'

—Werner Zippold, Chief Operating Officer

Eventually, ING Direct Spain found a way to eliminate the need to send a physical PIN at all: after receiving the welcome package with all cards by courier instead of mail (where the courier takes over the identification step), the customer is presented the PIN for the card at the end of the activation process on ING Direct Spain's web site.

We have taken away complexity from the client and we basically hand them a package and tell them listen, you get everything you need to operate with that account. Just use it.

—Werner Zippold

The simplified account opening process resulted in a significantly improved conversion rate for account applications to actual account users. With the new process, more than 80% of existing savings clients applying for a current account would actually finish the account opening process and authorize direct deposit of their salary in the account – a sign that they would be using it as their primary account.

Shifting Complexity from Customers to Employees

Simplifying the process for the customer created complexity within ING Direct's internal processes:

What we deliver now, we deliver a single pack with all those elements by a courier, wherever the customer wants at whatever hour they want. That is fantastic for the customer. Instead of receiving three or four elements that they need to operate with the bank, they receive it once, but the internal processes to put everything in the same pack is not an easy one: So, sometimes you need to invest in internal complexity to create experiences that you think that the customer will value.

—Daniel Llano, Executive Vice President Products & Strategy

ING Direct Spain had to move away from the pre-packaged, fully-automated services offered by external providers and had to coordinate multiple providers themselves instead:

We have to coordinate about six or seven external service providers in this process. There are manual steps in the process, so you need very strict quality controls, because one of the worst things you can do is to send the debit card of one person with the form of a different person. That's pretty disastrous in terms of image.[...] Obviously it's a lot more complex for us than just sending out everything separately, because that's all automated.

—Werner Zippold

That increase in complexity was also reflected in increased cost. The cost of delivery per active account approximately tripled. But given the benefits of the increased conversion rate, adding this internal complexity was viewed as paying off overall:

The total cost of acquisition is several hundreds of euros, and the main driver of cost per active account is actually conversion. By assuming complexity in one point, you optimize your overall investment, because obviously when you send out the packets you have already spent a couple of hundred euros in marketing.
—Werner Zippold

With at least some of the complexity in the portfolio and processes creating significant value for the customer and the bank, the challenge was to identify which complexity was valuable and which was not:

[We need to maintain] the right relationship between complexity and value added. The key thing is not how much complexity you have, but how much of your complexity does actually create added value and what part of your complexity does not create added value
—Werner Zippold, Chief Operating Officer

Investing in Value-Adding Complexity and Avoiding Non-Value Adding Complexity

ING Direct Spain employed a number of mechanisms to address the tradeoffs between creating value for customers and increasing internal complexity. Those included maintaining a focus on what matters most to customers, building and protecting digitized platforms for processes and systems, and encouraging enterprise-wide thinking and cross-functional collaboration in product design.

Maintaining Focus on What Matters Most to Customers

ING Direct Spain had defined business rules to keep the company from adding a lot of products that added little value for most customers. One of these rules stated that any new product would have to have the potential to generate at least five percent of the bank's overall revenue.

One of our principles is that anything that does not have scale, we just don't do it. To win the race in the long term, we will not be winning that via small decisions or small business.
—Daniel Llano, Executive Vice President Products & Strategy

One assumption behind the rule was that every product would introduce a certain level of overhead and internal complexity that was not worth taking on if the benefit wasn't high enough. Management believed this rule contrasted starkly with the approach taken by other full service banks:

You come into a bank and you see this huge fund portfolio of 3,000 funds. And you look at it and say listen, you're basically making 85% of your volume with 100 funds. What do you have the other 2,900 for? And then you always get the answer: Well, the clients who buy the Mongolian bond fund are just fantastic. They are five, but they're incredible. So, that's the kind of thing we must not do, because we do not have the margin to support the complexity you get from that.
—Werner Zippold

These rules helped to avoid an explosion of the product portfolio and encouraged a more cautious approach to product expansion instead. However, even introducing "larger scale" products and making changes to existing products bore the risk of introducing significant internal complexity, especially in processes and IT systems. ING Direct Spain's way of dealing with this challenge was to emphasize building and preserving re-usable digitized platforms.

Building and Protecting Digitized Platforms

Information technology and IT-supported business processes were regarded as a cornerstone of ING Direct Spain's business – especially given that most customers were interacting with the bank digitally: 92% of all operations were being conducted over the internet by customers.¹² The way the IT-systems and IT-supported processes were architected played an important role in allowing ING Direct Spain to manage complexity:

*Our architecture provides us with a robust and stable system that is simple to maintain. It is an easy platform to manage, scalable to support the growth of the bank, interoperable with other systems, cost-effective and safe. And it will allow us to keep growing in new channels, products and features.*¹³
—Werner Zippold, Chief Operating Officer

ING Direct Spain's CIO, Enrique Avila, described the company's platform as following a multi-layered architecture, separating the data from the business rules and from the presentation to customers. The layering of different parts of the platform allowed the company to change different layers independent of each other. In case a new product or channel was introduced, only the presentation layer and potentially business rules needed to be adapted, leaving other layers untouched:

The different layers of the architecture have different life cycles. We considered from the initial stages that the core banking system, for instance, was something that would have to last for decades, while the business layer was something that was going to be replaceable in ranges of three to six years, while the presentation layer, the touch point for the customer, was something that required much faster cycles.
—Enrique Avila, Chief Information Officer

The platform was built following a “greenfield approach” in 1999 (i.e., without any legacy systems) and was designed with re-usable components in mind.

We identified common things that will be useful, not only for the things that we were building at the time, but also, being able to support the future business needs—things that are common and shared for all the business applications, such as log in, auditing mechanisms, authentication, authorization.
—Enrique Avila

Beyond re-using technical components, the concept of platforms and re-usable components also extended to business processes:

What we also did from the very beginning was to identify common business patterns that could be reused. For example, at the very beginning, the application supporting the business process for opening a savings account was the same skeleton that we used later for the initial promotion for selling short-term deposits and so on.
—Enrique Avila

In fact, ING Direct Spain went as far as re-using complete applications for different channels. Some banks would have separate applications for transactions initiated by customers and those initiated by call center agents. At ING Direct, customers transacting via the internet used the exact same application as call-center agents.

One of the key things that has allowed us to keep the complexity of the architecture to a decent, manageable level, [is reflected in] our call center application [...] The application adapts to the context where it runs, meaning that for a call center agent, they are allowed to do more things than an Internet customer for managing their own finances, but the application is exactly the same. It only behaves differently depending on the context. That gives us a lot of change capacity, because changing the business process is only done once.
—Enrique Avila

¹² Interview with Werner Zippold published by Aventura July 8, 2011 at <http://www.aventianews.com/>

¹³ Interview with Werner Zippold published by Aventura.

All of this re-use helped to minimize the growth of complexity in systems and processes, e.g., during ING Direct Spain's introduction of branches:

*Technologically speaking, integrating this new channel [branches] into our systems has taken very little effort, thanks to our architecture.*¹⁴

—Werner Zippold, Chief Operating Officer

Given this importance of IT systems and IT-based processes, IT employees were involved early on in product development.

When we start thinking about any product or any process or any new feature to an existing product, one of the first conversations that we have is with IT. How complex is this process? How do you feel? How do you think it will fit in our IT architecture? Nobody comes into my office and says 'OK, this is a product I want to launch,' without understanding what will be the impact in the whole bank. That can't happen.

—Daniel Llano, Executive Vice President Products & Strategy

This way, IT was able to consider the implications of a proposed product for the digitized platform:

But our team [IT] is careful in understanding the business, and even helping them to redefine the requirements. And this involvement is from the very beginning of the ideation process. So there's no mismatch between something that they want to do and what the architecture can deliver because we already challenge, at very initial stages, the business about different approaches, the implication that their requirements might have in the future implementation and maintainability and sustainability of the platform.

—Enrique Avila, CIO

This early involvement of IT helped ING Direct Spain to protect the platforms from increasing significantly in complexity despite the introduction of new products, channels and features.

Usually, the business comes with many requirements. But maybe only one of them is introducing a lot of complexity, or is going to force us to make a lot of changes. Generally, we challenge them back and say: 'If you are able to alleviate a little bit of this business requirement, we might offer a solution that is more maintainable, more manageable, we'll have it faster, and it will cost you less.' And most of the times they listen to us very carefully.

—Enrique Avila

Business leaders understood the benefits of the platform the bank had built and accepted that it took more time to build a re-usable and longer-lasting solution instead of a quick one.

If I want to make a quick launch, I know that after a period of time, I will be suffering from the technical solutions that IT will deliver. So, I need to trust them and give them some more time.

—Daniel Llano, Executive Vice President Products & Strategy

In addition to trying hard to protect the process and systems platforms from increasing in complexity in the first place, another task of the IT team was to continuously seek ways to reduce complexity:

In our existing platform, there's also a key role of IT: how can I keep the same service with less complexity? You have to do that on a pretty continuous basis, because the problem is when you let complexity accumulate, the effort to actually reduce grows exponentially – that's my experience even though there's no way I can prove that with a formula.

—Werner Zippold, Chief Operating Officer

Due to that line of reasoning, ING Direct had, since around 2007, undertaken major upgrade projects to keep the technical platform up to date.

ING Direct Spain relied on external vendors to provide and maintain IT applications and services. This was seen as a way to shift complexity because the vendors would then have to deal with the complexity outsourced to them. Beyond IT, outsourcing was also used in other business processes: overall, ING Direct Spain outsourced 57% of its end-to-end operations spend. A benchmarking report compared this to 18% of average outsourced operations spend in a sample of ten European banks of similar scale.

¹⁴ Interview with Werner Zippold published by Aventia.

An IT cost benchmark performed by an independent consulting firm revealed ING Direct to be best-in-class in the Spanish market. Its cost per account had dropped by 25% between 2008 and 2011.

Encouraging Enterprise-wide Thinking and Cross-functional Collaboration

The efforts of IT and product management to understand each other's requirements exemplified the enterprise-wide thinking embraced by ING Direct Spain's leadership. While fulfilling their own responsibilities, each function was expected to keep in mind the well-being of the bank as a whole:

When we make a decision about launching any new product or service for our customers, this is a bank where all the departments work very much together. We are all very aware of the difficulties that working in silos can have.
—Daniel Llano

So even though the different product groups (savings, lending, payments, and insurance) were responsible for their own P&L, they considered the impact of their actions on other parts of the bank:

There is no way that I go to the management committee and say: 'We're going to do this business and we will earn several million euros and it will be fantastic for the P&L next year.' If the people in Customer Service or IT don't see it as compliant with our principles, then we will not do it.
—Daniel Llano, Executive Vice President Products & Strategy

The importance of enterprise-wide thinking was also reflected in the incentive schemes for annual performance evaluations and bonus schemes:

In the remuneration that the employees receive, it is as important to meet the whole bank's target, as their own targets. The global targets are not only financial; we want to have a given Net Promoter Score, we want to have certain scores in satisfactions. So, everybody is aware that the success of the bank will not only come by doing my job properly, but by creating value as a bank.
—Daniel Llano

Considering what was best for the enterprise was also applied when making trade-offs between product managers and IT and sometimes delayed new product introductions:

This year, I wanted to introduce a couple of new products in mortgages. But the work flow that we have to manage the mortgages was creating unexpected results in operations. And every time I wanted to make a change in the process, it was taking me a month. So IT said: 'We need to change this tool. But if we want to change that tool, there are not enough resources this year to launch these new products.' So I decided that we will not launch those two products this year; we will do it next year. But it was better!
—Daniel Llano

Delaying new products short-term to improve internal processes was not only seen as a necessary evil, but as an investment into the future of the company:

I think that one of the things that I'm more proud for being in this bank, is that we can have those honest conversations, not only focusing on how good it will be for me or for my department, but for the bank as a whole. Sometimes I have to say that when I look at the project list in the bank, there are so many projects that will not have a direct impact in my P&L account, or in my new customer numbers or whatever. But it's just building up the bank of the future. And you need to invest there always.
—Daniel Llano

An important way to foster enterprise-wide thinking on an everyday-basis was to employ cross-functional teams in product development. Although ING Direct Spain was organized in functions (see Appendix 4 for an organizational chart), it had developed a culture of cross-departmental collaboration:

Our culture is very much around team spirit. We always had a very strong horizontal integration: all relevant departments, product, marketing, operations, IT, credit risk, operational risk, would enter in the definition of any product or process in a very early stage.
—Werner Zippold, Chief Operating Officer

The benefit of cross-functional teams was to bring together different perspectives that would encourage mutual challenging. This mutual challenging would mitigate the risk of designing products that would one-sidedly emphasize either customer value or internal complexity:

There you have very different perspectives challenging each other. Any idea that survives that sort of challenging has a certain guarantee that it's well thought through in terms of how you actually handle the complexity later, because you have operations and IT people actually contributing in the definition.

And they can offer solutions or twist sometimes the way we do things to make it a lot simpler.—Werner Zippold

ING Direct Spain found that complexity was usually not created by those people who had to deal with the complexity later. For example, product managers might define products in a way that would make the life of people in operations, IT or customer service more difficult.

It is very important that the full organization is aligned. Let's say, for example, if my team, when they design a product, they might make complex things, then people, for example, in customer service will suffer and the customer will suffer. Or we put together something that is operationally so complex that it will produce complaints in the future.

—Daniel Llano, Executive Vice President Products & Strategy

ING Direct Spain had also put organizational forums in place to support cross-departmental collaboration. For example, for every new product that was launched, a project steering committee would meet monthly to provide a place for officially discussing cross-functional issues that could not be resolved in the project team. In addition, a project steering management group (including the COO, CIO, VP of projects management besides product leaders) would discuss cross-functional issues across all major products.

We strongly believe that as a counterweight for the functional structure, we need that horizontal integration to maintain the culture of mutual challenging.

—Werner Zippold, Chief Operating Officer

In addition to projects, each product had a bi-weekly forum for discussing cross-departmental issues in day-to-day operations. And on a higher management level, a business steering group would meet monthly to discuss cross-functional issues in daily business operations across all products. Appendix 5 provides a conceptual overview of the four different cross-functional forums at ING Direct Spain.

The focus on cross-functional collaboration was so important to the way ING Direct Spain operated that onboarding of new hires always involved a short “tour of duty” in every department:

They go to every department and they have a chat with the managers, and they explain how they work and then they see how our values are applied in every department.

—Daniel Llano

The challenges ahead

Given the strategic goal of becoming a full-service bank, one question was how far ING Direct Spain could go in terms of expanding its product portfolio without adding too much internal complexity. Management also wondered whether the current approaches to managing the balance between customer value and internal complexity would scale with the desired growth. In particular, the culture of cross-functional collaboration and enterprise-wide thinking was seen to be at risk with growing complexity:

It's sort of starting to get difficult, this is why I'm trying to formalize more on how you actually prove business cases, how you manage the complexity, because I see the first signs of working within departments and optimizing bits and pieces instead of the overall thing. Obviously, you will have to continue to invest in the culture, but somehow the culture needs support. I have the feeling that we are at a point where it might not be self-sustainable anymore. So, you need some structural or institutionalized support.

—Werner Zippold, Chief Operating Officer

Important aspects of the current success in managing complexity were ascribed to the specific culture within ING Direct Spain. A major question was whether more formal mechanisms would need to be introduced to sustain the success:

When someone comes with a new idea, you need to challenge and ask does it really have critical mass. So far this challenging was basically done on a cultural basis or – when we were 200 people – by our CEO [...] And that was basically sufficient. But, that’s not going to be sufficient any more.
 –Werner Zippold

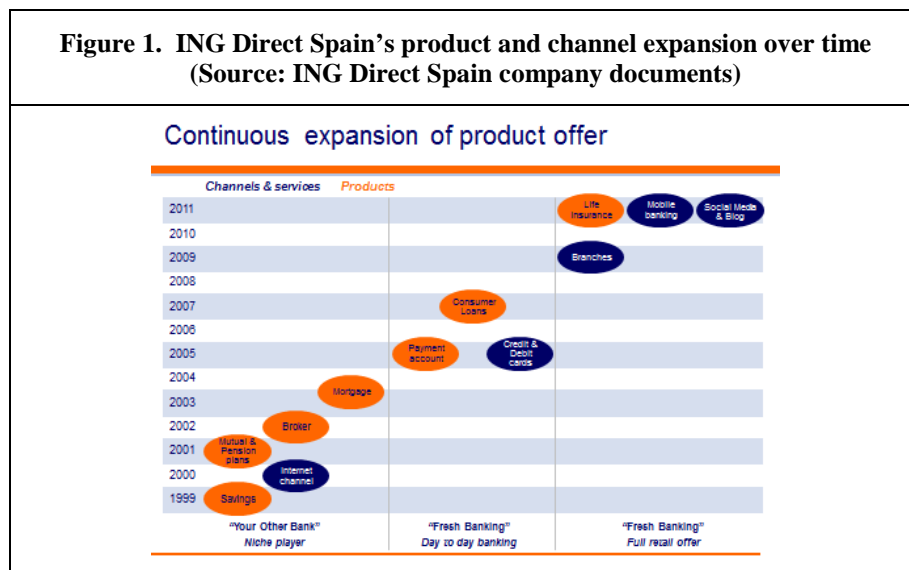
One approach was seen in trying to measure the value and especially the cost of complexity in a more explicit and quantitative way:

You try to put numbers on that complexity and you try to make sure that you incorporate your best guess about the costs in IT, in Operations, in Customer Service.
 –Daniel Llano Executive Vice President, Products & Strategy

But most of the impact of complexity was assessed through discussion and based on experience. It was unclear whether this was sufficient going forward and whether it was possible to further quantify the complexity impact:

In the business case, a small part of the complexity actually shows up as cost. What does not show up is the long term effect of overall complexity in the organization. And I should be able to put a couple of indicators next to the business case, which would give me an indication of the impact on structural complexity that you have.
 –Werner Zippold

Appendix 1: ING Direct Spain’s product and channel expansion



Appendix 2: Customer Satisfaction Scores for ING Direct Spain

Net Promoter Score (NPS) is calculated as the percentage of Promoters minus the percentage of Detractors for a product or service. Promoters are loyal enthusiasts who will keep buying and refer others to the company’s site and Detractors are unhappy customers who can damage the company’s brand and impede growth. (cf. <http://www.netpromoter.com/np/calculate.jsp>). The table below provides the NPS for ING Direct Spain together with the NPS of the bank that had the second highest NPS after ING Direct in Spain out of a comparable sample of Spanish banks.

Table 1. Net Promoter Scores of ING Direct Spain and competitors (Source: Data provided by ING Direct Spain)		
Year	NPS of ING Direct Spain	NPS of runner-up bank in Spain
2007	32	2
2008	27	2
2009	24	-2
2010	33	-5
2011	34	-1
2012	40	-7

For 2012, TNS Benchmarking determined that out of 30 surveyed banks, ING Direct was the most recommended one. The question that was asked to customers was: “Would you recommend products and services from your bank to a relative or friend?” 3433 answers were collected. For details see <http://www.tns-global.es/sectores/finance/benchmarking-banca/>.

Table 2. ING Direct Spain Customer Recommendation (Source: ING internal documents, TNS benchmarking)			
Recommendation level	Percent of ING Direct Spain customers	Percent of customers for runner up bank	Percent of customers for average Spanish bank
Surely yes	44.6	28.8	15.6
Most likely	36.1	33.9	21.2
Likely	17.9	30.5	34.0
Unlikely	0.9	1.6	20.1
Surely not	0.5	5.2	9.0

Appendix 3: “Fresh Banking Manifesto”

Years ago, we created a new and fresh way of banking, in line with the times. Today, you can find it everywhere. We are the world’s largest Direct Bank. This new system is based on various premises. Is it essential for Banks to talk about “believing”? For our way of Banking, yes.

That is our commitment.

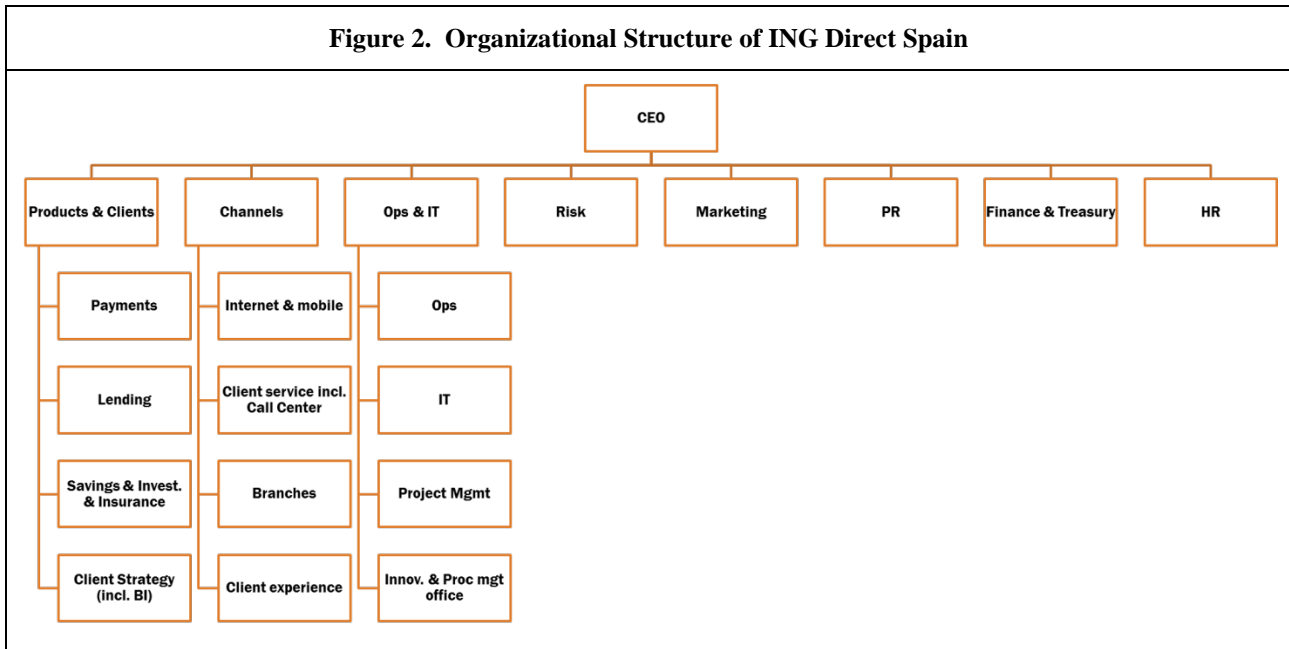
- | | |
|---|--|
| <ol style="list-style-type: none"> 1. YOU WILL NOT BE JUST ANOTHER CUSTOMER. WE WILL NOT BE JUST ANOTHER BANK. Times have changed. People have, too . . . and so have we. That’s why we invented a new customer-bank relationship. The way it should have always been.
No more counters. No more formalities. No more bureaucracy. 2. WE REDUCE COSTS. YOU GAIN MUCH MORE.
That’s the DNA of this new way of banking. Technology and innovation allows us to eliminate structural expenses that you don’t need at all. So you win. As simple as that. 3. WE GIVE MORE. WE ASK FOR LESS.
Fresh banking is universal in vocation. And its philosophy is applied to each and every product we offer. It’s not enough to offer the best conditions for one product. We have to offer the best conditions for all of your needs: savings, daily operations, mortgages, investments, loans... 4. LESS IS MORE.
The old dream of simple Bank. Simple products. Transparent conditions. Easy operations.
Clear statements. And the small print made giant. After all, we offer excellent conditions. We want you to be able to read all of them clearly. 5. NO MORE NEGOTIATING! YOU DON’T NEED TO WITH US.
Fresh banking is the democratization of the best conditions for customers. For you. For everyone. Negotiating is part of the past. Congratulations. | <ol style="list-style-type: none"> 6. ENTER. EXIT. TAKE. LEAVE. (YOU OWN YOUR MONEY)
A Bank can’t tell you what to do with your money. Your money is yours. No more restrictions, deadlines and exclusion periods. You are completely free to come and go. 7. NO MORE COMMISSIONS!
Pay us to be your Bank? What kind of a relationship is that? We assume you want to make money. Have no doubts: we-don’t-want-commissions-to-undermine-your-profitability. 8. YOU COME. YOU TRY. YOU RECOMMEND.
The objective of fresh banking is to become a reference in customer satisfaction.
And it doesn’t have anything to do with altruism: the driving force behind growth and expansion is recommendation-trial-satisfaction-recommendation . . . we firmly believe in this chain of events.
Nothing is as effective as customer recommendation. 9. WE WANT TO WIN... WE WANT YOU TO WIN.
We are not only committed to our customers. We have a debt to society, as well.
That’s why collective progress, respect for people and the environment and honesty will always be a part of our daily decision-making process. And we’ll reinforce our commitment by supporting different social programs. |
|---|--|

ARE WE FINISHED? NO. WE’VE ONLY JUST BEGUN.

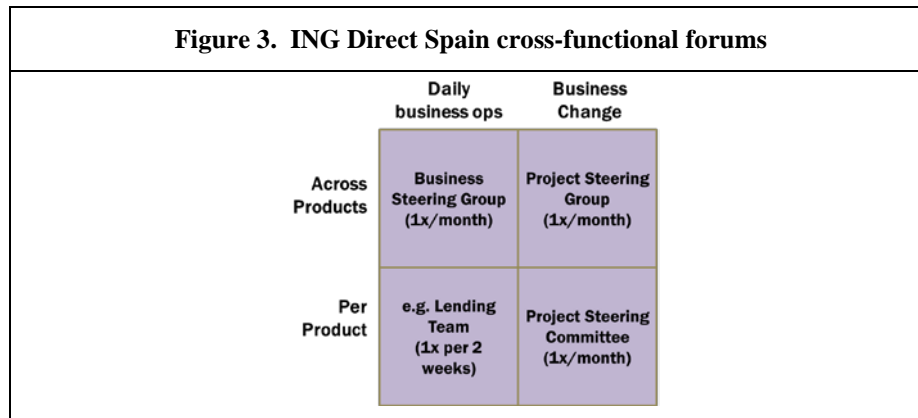
The world is constantly changing. And we’ll continue to search for opportunities with every change. New alternatives. New advantages. You can rest assured: we will continue to redefine the rules of the game. There are more of us every day. Would you like to join us?

Source: Internal Company Documents ING Direct Spain, translated from Spanish

Appendix 4: Organizational Structure of ING Direct Spain



Appendix 5: Horizontal cross-functional forums at ING Direct Spain



Appendix 6: ING Direct Spain and ING Direct financial performance

Table 3. ING Direct Spain Financial Performance
(Source: ING Direct Spain website, public sources)

(in million Euro)	2003	2006	2009	2010	2011
Profit	11	48	75	79	77
Funds managed	8,316	17,800	24,200	25,900	29,400
Customers (in thousands)	753	1,455	1,996	2,184	2,410

Table 4. ING Direct (across all countries) Financial Performance
(Source: Annual Reports)

(in million Euro)	2004	2005	2006	2007	2008	2009	2010	2011
Income	1,705	2,119	2,289	2,196	878	1,762	3,782	3,423
Expenses	1,273	1,502	1,595	1,666	2,003	2,429	2,332	2,424
Operating Expenses	1,185	1,396	1,482	1,598	1,719	1,663	1,886	1,962
Profit before tax	432	617	694	530	(1,125)	(667)	1,450	999
Clients (in millions)	11.5	14.7	17.5	N/A	N/A	N/A	N/A	24.0

ING Bank stopped reporting ING Direct as a separate segment after 2011.

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