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Capability and Innovation Hubs - Have Financial Institutions Missed
the Opportunity?

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By Rajiv Gupta, Lukas Haider, Sreysha George, Alexander Noßmann, Fabian Falter, and Sayan Majumdar

Capability and Innovation Hubs - Have Financial Institutions Missed the Opportunity?

Financial institutions (FI) were pioneers in the development of capability and innovation hubs (CIH)¹, historically also referred to as global capability hubs with many seeing their potential back in the 2000s as low-cost centers for back-office operations. In recent years, those early models have often been supplanted by more advanced offerings. Rather than acting as simple cost and efficiency drivers, the most advanced CIHs provide services from advanced analytics and software engineering to risk and credit management and regulatory reporting – and they employ fewer people than previously, who are tasked with more complex responsibilities.² That said, while companies in industries including consumer and media have embraced these changes, many FI CIH remain under-powered and constrained by reactive rather than proactive ways of working. To avoid missing significant innovation and productivity gains, FIs now need to take the next step – loosening the reins on their CIH and investing to build (or scale) CIH fit for the modern era.

Today, financial institutions collectively employ approximately 30% of the global CIH workforce³, led by large banks including J.P. Morgan, Goldman Sachs, and HSBC, as well as insurance companies and fintechs including PayPal and Stripe. Among these institutions, adoption rates run as high as 60%, compared to about 45% across industries.⁴ The industry is also set to grow fast. Between 2023 and 2027, we expect FIs use of CIH to expand at 9–11% per year (CAGR). By location, India dominates the market, with 60% of the global workforce working in scaled banking CIH. The Philippines, Eastern Europe, and Latin America each account for 5%–10%.

Case study: A universal bank centralized its operations with a diverse approach to offshoring and outsourcing

A large global bank structured its operations based on product factories, with some segment-specific services (e.g., retail banking ops and lending ops) and some shared services across multiple products (e.g., payments). The bank tailored its model to the location:

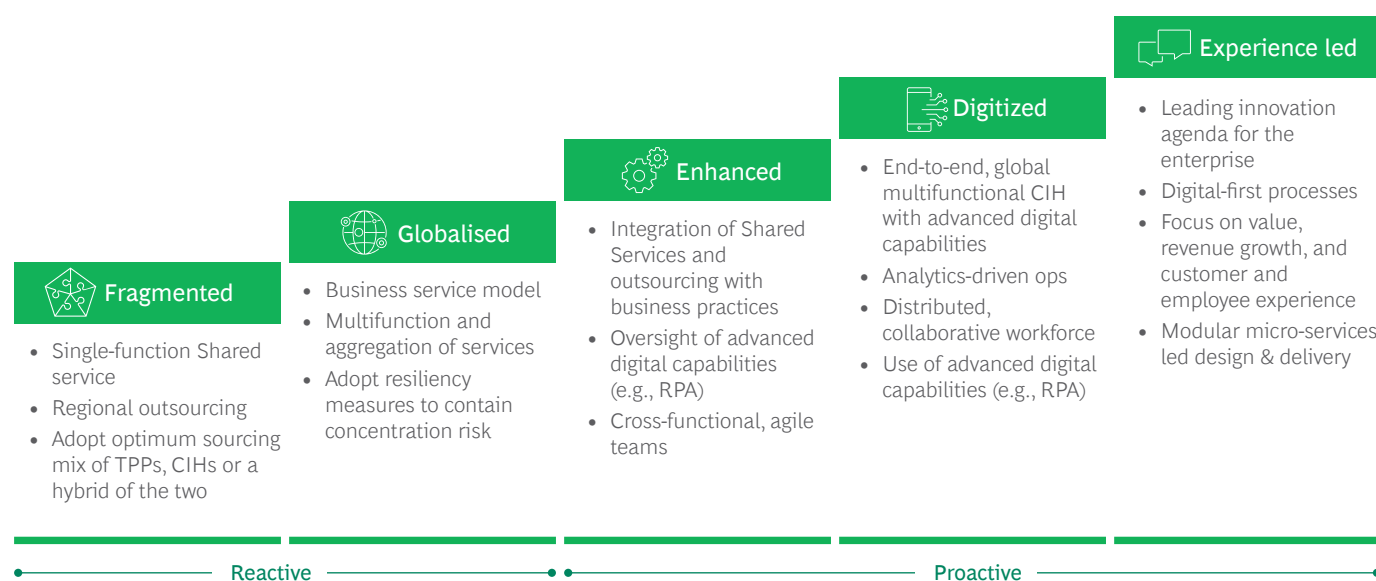
- Within its local market, it outsourced approximately 40% of employees to a third-party vendor, leading to cost benefits on routine activities.
- To serve the UK, the bank opted for a nearshoring approach, localizing about 30% of its FTEs to a captive center in Poland.

1. Specialized (insourced or outsourced) hubs that organizations establish to centralize & handle business functions (e.g., internal/external support processes, IT, banking operations) in a specific location to create cost efficiencies or gain access to talent amongst other benefits.
2. BCG Leadership survey 2022 highlights a 8% reduction in the number of employees engaged in transactional activities and a 4–10% increase in employees engaged in advanced conceptual tasks, steering digital initiatives, advanced analytics and capability development in niche technologies.
3. According to Nasscom.
4. “Capability and innovation hubs – the emerging frontier”, BCG, December 2023. <https://www.bcg.com/publications/2023/india-capability-innovation-hubs-the-emerging-frontier>.

As CIH adoption continues to grow, the picture among FIs is mixed. Some large banks are seizing the initiative by building more advanced models and investing in tools and talent. For these companies, the next step will be to move toward CIH archetypes we call “experience led”. (See Exhibit 1.) These will be mandated to carry out a range of activities, including propelling revenue growth, seeking out new value streams, and developing solutions to elevate the customer and employee experience. They will use digital-first processes and modular micro-service led design, enabling process delivery through modules that can be accessed on demand. Benefits will include much higher levels of interoperability and the ability to decouple from complex upstream and downstream process integrations. Additionally, the cloud will play a major role, enabling scaling and flexibility.

For FIs still behind on the adoption curve, these kinds of applications will be in the future. The immediate task will be to transition from early CIH archetypes to hubs that can play a proactive, rather than reactive, role in creating value across the business.

Exhibit 1 - Five CIHs archetypes for financial institutions



Source: BCG Future of GCC study; Publication-Smart Simplicity in Global Business Service.

Global CIH market is expanding rapidly

About 6,500 CIHs globally employ more than five million people and the sector is growing fast - projected to reach a market valuation of \$700 billion by 2027. India is the largest market, with an about 30% share and an expected growth rate of approximately 10% up to 2027. Geographically, we expect CIHs to continue to expand in Central & Eastern European (CEE) and the Middle East (ME), with even faster growth in Latin American and Asia Pacific, reaching 45% by 2027, at least partly driven by geopolitical considerations in CEE and ME.

Many FIs Have Not Realized the Full Potential CIH Benefits

Over recent years, leading CIH have evolved from limited, cost-focused enterprises into scaled capability hubs, often operating at the frontier of agile innovation. But many financial institutions have failed to keep pace with this transformation. Indeed, while leading banks employ about 20–25% of their workforces at CIHs, many regional banks employ only about 2–5%, primarily to carry out support functions and IT support.

While many bank CIHs operate at scale, they often still lag those run by non-financial companies - sometimes despite substantial investment in digitization, lean processing, and process automation. One reason is that many institutions have not been able to create a sufficiently tight integration with global business units and are still acting at arm's length, thus the spirit of partnership is not being manifested fully.

Moving CIH into the modern era requires more than a willingness to add capabilities. The few, mainly larger, institutions that have developed their CIH models to their potential have also taken a strategic leap – moving from focus on efficiency to a focus on experience. They have prioritized delivering products and services that are laser-focused on the end user experience, continuous innovation, and revenue growth. Often combining human expertise and advanced technology, they are in step with examples set by some fintechs, challenger banks, and players in other industries (see [Major international retailer GCH is a frontrunner in bringing innovation to customers](#)).

Major international retailer is a frontrunner in bringing innovation to customers

One leading retailer operates major capability hubs in Bengaluru, Budapest, Dundee, and Waterford - employing more than 4,500 employees specialized in IT, business, commercial buying, and store development. The CIH provides predictive and prescriptive analytics, with more than 250 employees focusing on activities such as delivery optimization, fraud prevention, consumer behavioral insights, and targeted marketing campaigns. The hub offers comprehensive distribution and dotcom business support, including logistics, inventory management, online advertising, and web design.

FI CIH Can Drive Innovation by Becoming Custodians of Front-to-back Processes

If FIs can emulate leading players in the CIH space, they have an opportunity to create ultra-modern innovation hubs that are also significant value creators for the business. In our client engagements, we have seen that forward-looking companies accrue benefits across five key dimensions:

A talent magnet for high-skilled roles: CIH can attract highly skilled niche talent and capabilities at a scale that is often not available onshore, particularly in scarce tech resources. To attract the best and brightest, banks need to develop tailored employee value propositions aligned with their CIH locations. For example, in India, a strong proposition might focus on offering an attractive work-life balance, flexible working hours, and sense of positive impact on society.

A digital innovation custodian, especially for emerging tech such as GenAI: Leading banks view their CIH as hubs that bring together highly skilled, cross-functional talent to drive transformative agendas at scale. This would include digitalization, development of blockchain applications, intelligent automation, and implementation of generative AI. The hubs lead on end-to-end product development across locations, leveraging their centralized roles to roll out bank-wide use cases, unlock synergies, and drive impact. And due to these structures, they work with multiple business units, markets, and functions. In one example, a large FI leveraged its CIH to design a product that uses blockchain technology to facilitate cross-border payments.

A best-in-class global operating model, with a more prominent seat at the table and increased autonomy: CIH operate most effectively and attract more talent when they are assigned higher levels of responsibility – for example in handling customer-facing processes. With more latitude, they can also more easily operate agile and cross-functional approaches. Benefits include fewer handovers, the ability to micro problem solve, and end-to-end process optimization that can drive back-office automation and move them closer to Zero Ops ways of working.

Governance with shared goals and outcome metrics: Rather than relying on governance handed down by parent organizations, modern CIH manage a wide range of processes themselves, including customer onboarding, retail and commercial loan servicing, and collection and recoveries - with ownership levels ranging from 65% to 75%. (See Exhibit 2.) When it comes to HR services such as training, ownership levels tend to be in the 50–60% range.

Platformed delivery: Leading banks work to ensure their CIH can collaborate across borders, creating platform effects supported by standardized and autonomous workflows. They leverage unified data lakes that are accessible to the entire network hub, enabling much faster time to market and avoiding fragmentation across CIH networks.

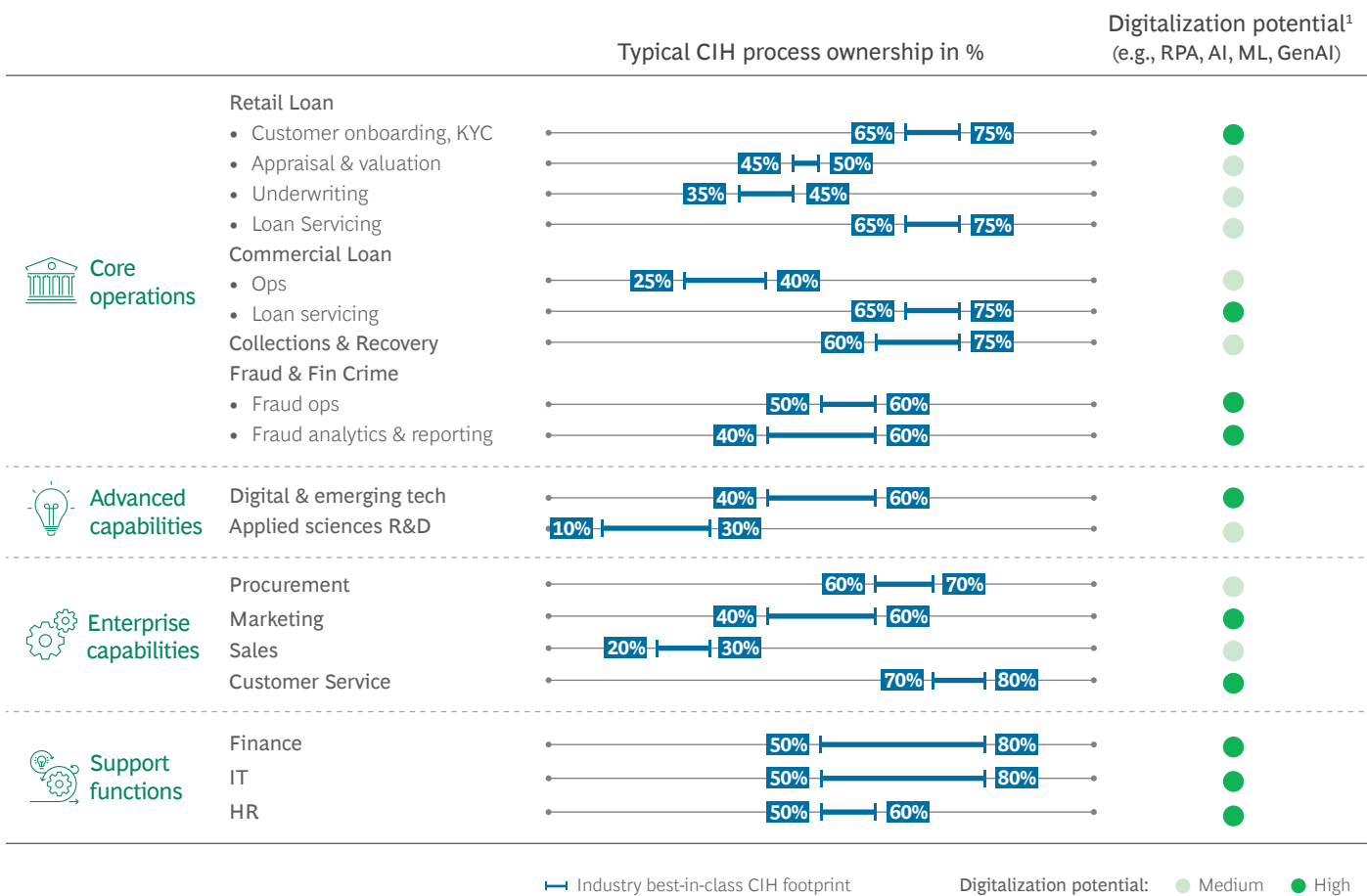
How three banks have transformed their CIH into experience-led hubs

One leading US-based financial institution drove continuous innovation in its CIH by focusing on end-to-end process digitalization. The bank saw a jump in customer satisfaction and achieved a more than 90% straight-through-processing rate, as well as 15–20% cost savings. Key differentiators included access to a rich talent pool focused on end-to-end digitalization and availability of advanced technologies.

A major Asian bank transformed itself into a digital bank, leveraging innovation hubs in India and Singapore while digitizing the mobile banking process end to end. The bank established an ecosystem of tech partners to innovate around technologies including blockchain, AI/ML and GenAI. It reached a more-than 3,500 tech employees in India and created distinct talent pipelines to build expertise, for example in data science. As a result, the Indian hub has been instrumental in acquiring more than two million customers in India for the digital bank.

Finally, one leading international bank based in the UK leveraged its hubs in India, China, Philippines, Malaysia, Mexico, and Poland to deliver advanced capabilities and drive organization-wide transformation across multiple business units. Among the benefits, the bank saw a reduction of about 20–30% in testing cycle times and lifted its cloud adoption rate to 35% - meaning that proportion of its operations were conducted on the cloud. Moreover, the banks heavy investment in its various locations led to significant levels of employee satisfaction, with 85% saying it was a great place to work.

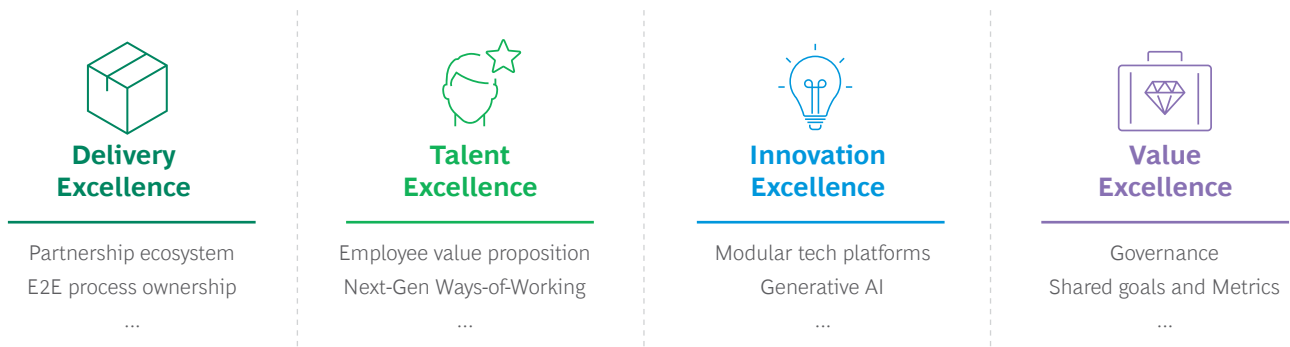
Exhibit 2 - CIH process ownership and digitalization potential across functions



Source: BCG Experience.

¹Digitalization potential refers to the potential for a process to be converted from traditional/manual format into a digital one through tech levers like RPA, AI, ML, GenAI, etc.

Exhibit 3 - Comprehensive framework to transition to an experience-led CIH



Source: BCG Experience.

How Banks Can Transform their CIH into Experience-led Hubs, or Build from Scratch

Individual FIs are at different starting points on the CIH adoption curve. Some operate extensive but outdated hubs, while others have recently modernized. A few maintain smaller CIH, while others have completely foregone the CIH model, opting instead for full outsourcing or relying solely on local, onshore resources.

Irrespective of their starting points, banks have an opportunity to transform their CIH or build from scratch, creating experience-led hubs across four dimensions: delivery excellence, talent excellence, innovation excellence, and value excellence. (See Exhibit 3.)

The first step in that process would be for senior-level decision makers to commit to and articulate a clear vision that informs the business case for change. With this foundation in place, work to establish a delivery model can start in earnest.

A strong success factor is that program leaders must make early decisions on location strategy. The focus should be on access to talent, specific language skills, and a strong cultural fit (rather than proximity to the parent) while also taking cost effectiveness into account – especially if the plan is to centralize customer facing activities. Best practice is to aim for 40–50% of the workforce to bring digital expertise in areas such as data and analytics, a requirement that favors regions such as Asia Pacific and CEE.

Leading banks that have transitioned to an experience-led CIH have shown that a partnership-focused operating model in contrast to a service provider model tends to work best, based on offering the CIH increased autonomy and a significant role in decision-making, including participation in leadership discussions. Rather than service-level agreements, the CIH can benefit from outcome-driven KPIs (for example, relating to product release speed), which can encourage a focus on delivering customer value and revenue growth.

As CIH become more powerful and pervasive in the global economy, there is a chance for FIs to promote excellence across four key pillars – delivery, talent, innovation, and value – leveraging both cutting-edge technologies and human expertise. Driven by changing business priorities, CIHs will evolve towards advanced capability and experience-led hubs to become a key enabler for a bank's transformation. But there is no one-size-fits-all model for implementation – indeed, specific strategic priorities will vary depending on individual organizations' starting points and level of offshoring maturity. While some banks may focus on tech-driven transformations, others may prioritize change management around the CIH concept or hybrid sourcing models to optimize efficiency and control. Whichever route they choose, a decisive plan of action is likely to be optimal, achieving CIH benefits that include faster digitization, increased resilience, easier access to talent, and sustained competitive advantage.

As financial institutions face an increasingly competitive landscape, the evolution of Capability and Innovation Hubs into experience-led centers offers the unique opportunity for banks to leverage the full potential of CIHs in driving innovation, efficiency, and customer-centric value delivery.

About the Authors

Rajiv Gupta is a Managing Director and Senior Partner in BCG's New Delhi office and leads the global business services and innovation hubs service offering of BCG and is the leader for Technology, Media and Telecommunications practice area in the region. You may contact by e-mail at Gupta.Rajiv@bcg.com.

Lukas Haider is a Managing Director and Senior Partner in BCG's Vienna office and Global Leader for BCG's Operations in Financial Institutions practice. You may contact by e-mail at Haider.Lukas@bcg.com.

Sreysha George is a Managing Director and Partner in BCG's Bengaluru office. She co-leads the digital shared services practice in Asia Pacific. She works extensively with organizations on resiliency, digitization & leads People and Gen AI topic within APAC. You may contact by e-mail at George.Sreysha@bcg.com.

Alexander Noßmann is a Managing Director and Partner in BCG's Dusseldorf office and CE Leader for BCG's Operations in Financial Institutions practice. You may contact by e-mail at Nossmann.Alexander@bcg.com.

Fabian Falter is a Principal in BCG's Vienna office and a core member of BCG's Operations in Financial Institutions practice. You may contact by e-mail at Falter.Fabian@bcg.com.

Sayan Majumdar is a Principal in the Platinion team within the Digital BCG ecosystem focusing on topics like shared services, outsourcing advisory, digitalization of support functions, intelligent automation as well as IT strategies. You may contact by e-mail at Majumdar.Sayan@bcg.com.

For Further Contact

If you would like to discuss this report, please contact the authors.

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