

# WORLD RETAIL BANKING REPORT 2018



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# Preface

Even though most retail banks have pushed customer experience transformation to the top of their strategic priorities' list, the need for improvement is not letting up. Disruption from unexpected competitors, the explosive growth of new technologies, and relentless consumer demands have been pressuring banks since the post-recession era. As the world's consumers embrace digital adoption, so too, do retail banking customers expect seamless service across multiple channels and all lifecycle stages.

These days, reinvention is the collective concern of banks striving to compete in a digital-first economy. Personalized and relevant customer experience is not merely about customer retention, it is a way for banks to distinguish their brand within an increasingly competitive financial services landscape. More and more incumbents are exploring ways to proactively deliver personalized products and services while adopting best practices and key learnings from groundbreaking organizations in other customer-facing industries.

The **World Retail Banking Report 2018 (WRBR 2018)** from Capgemini and Efma, explores the intrusion from non-financial services players – such as BigTechs – that is signaling an industry shift and, in some cases, diminishing the relationships between banks and their customers. Pure banking as we have known it, is in flux. The next wave will be the result of an open ecosystem of customers, traditional banks, FinTech firms, regulators, developers, non-banking firms, and others to potentially follow. The common denominator? Commitment to place the customer at the center of the value proposition.

The *WRBR 2018* assesses the significant change process banks will undergo in their commercial and operating models, to survive in this new ecosystem. Although banks will consider new revenue streams, at the same time, they will also look to maintain control of their customer relationships while infusing their cultural DNA with agility and a digital mindset.

New banking models will be born from principles around data, technology, and an agile, digitally-focused organizational culture. Possibilities and partnerships from both the financial services arena and other industries offer a path to connected, seamless customer services and new revenue streams.

**Anirban Bose**

Financial Services Strategic Business Unit CEO  
& Group Executive Board Member,  
Capgemini

**Vincent Bastid**

Secretary General,  
Efma

# Executive Summary

## As Banks Close the Customer Experience Gap with Other Industries, Ample Opportunity to Improve the Customer Journey Remains

- Although banks are updating and improving their customer experience models, low satisfaction remains across various channels.
- Front-end digitization, alone, does not equate to superior customer experience. Technology is just one component of financial services transformation.
- As banks leverage technology to improve operational efficiency, they should also commit to a personalized engagement model that retains the human touch.
- Ongoing investment in customer experience augmentation, together with proactive delivery of personalized products and services, will help banks to build and maintain customers' trust and loyalty.
- As connectivity becomes ubiquitous, customers will continue to seek banking services that responsively integrate with their connected life – 24/7.
- Banks will look to reinvent themselves in order to compete in a digital-first economy. Disruptors and early movers across industries can offer the key learnings banks require to drive customer experience to the next level.



## High-Velocity Changes May Leave Banks Vulnerable in the Financial Services Landscape of the Future

- Competition from non-financial services firms, an explosion of new technologies, and soaring customer expectations have spurred unprecedented banking industry change.
- Hyper connectivity and digitization are helping to converge and blur lines between traditionally different industries.
- As digital pure players in other industries offer simple, immediate, and personalized experiences, today's bank customers expect the same ease of use.
- Intrusion from non-financial services players – such as BigTechs – signals an industry shift and a more complex view of competition.
- Customer-centric financial services entrants are becoming more popular as they earn customer trust, which poses a wallet share threat to incumbents.
- Payments have been hit the hardest to date, but as disruption by non-traditional players heats up in other banking sectors, increased industrywide impact as incumbents potentially lose fee-based and interest revenues can be expected.
- Similarly, customer-facing areas of the banking value chain are confronting new competition that may compromise customer relationships and perpetuate the perception that they are merely a utility provider.

## The New Financial Services Ecosystem Can Be Leveraged Through Strategic Transformation of Banking Business Models

- A new, open ecosystem of customers, traditional banks, FinTech firms, regulators, developers, non-banking firms, and others to potentially follow – is taking shape and incumbents are required to develop and implement a winning strategy for their impending new roles.
- While disruption will change the traditional banking landscape, all players are expected to stabilize their ecosystem position eventually.
- A successful future-ready model will be agile and flexible enough to help banks thrive in the open banking ecosystem and to remain at the center of the action.
- New technology, fast-paced unprecedented change, and unexpected competition have made previous banking models obsolete. Updated models are now required to innovate new revenue streams and for developing delight-inducing customer experiences – all while maintaining banks' control of their customer relationships.
- New banking models will be born from principles around data, technology, and an agile, digitally-focused organizational culture.
- Possibilities and partnerships from both the financial services arena and other industries offer a path to connected, seamless customer services, and new revenue streams.
- Enabled by robust IT infrastructure, digital capabilities, and customer centricity, banks should embark on a long-term transformational journey rather than a trip from point A to point B.

# As Banks Close the Customer Experience Gap with Other Industries, Ample Opportunity to Improve the Customer Journey Remains



## Summary

**Although banks are updating and improving their customer experience models, low satisfaction remains across various channels.**

- Front-end digitization, alone, does not equate to superior customer experience. Technology is just one component of financial services transformation.
- As banks leverage technology to improve operational efficiency, they should also commit to a personalized engagement model that retains the human touch.

**Ongoing investment in customer experience augmentation, together with proactive delivery of personalized products and services, will help banks to build and maintain customers' trust and loyalty.**

- As connectivity becomes ubiquitous, customers will continue to seek banking services that responsively integrate with their connected life – 24/7.
- Banks will look to reinvent themselves in order to compete in a digital-first economy. Disruptors and early movers across industries can offer the key learnings banks require to drive customer experience to the next level.

## Although banks are updating and improving their customer engagement models, low satisfaction remains across various channels.

Investments by banks into digitization and emerging technologies have helped them close the gap with other industries on customers' experience assessment (Figure 1.1).

Across the globe, banks recognize the need for faster innovation and are focusing on improved customer engagement activities. Banks realize that digital transformation is now critical in order to provide new and better products and services – as well as to control and reduce operational costs.

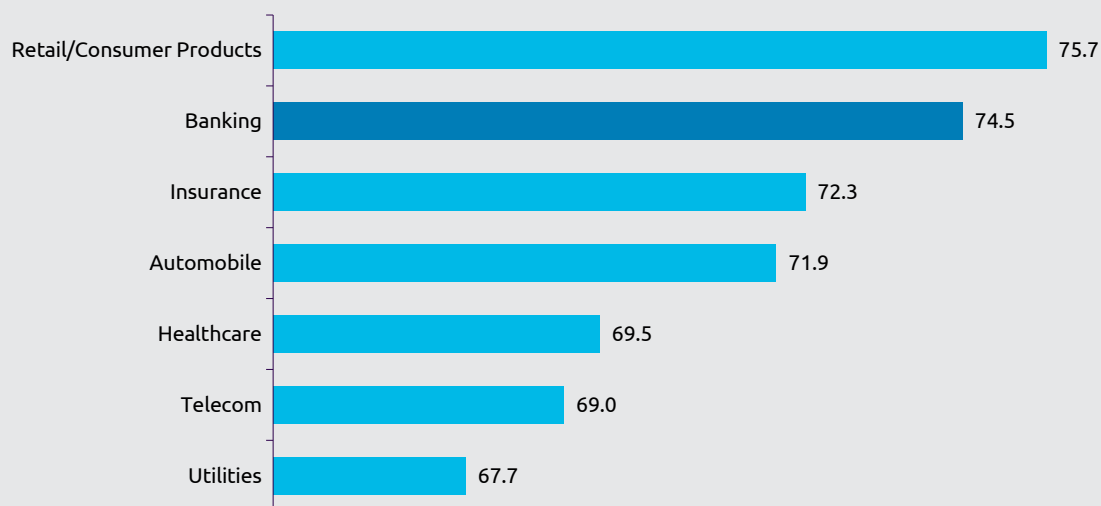
Driven primarily by digital transformation efforts among leaders such as Bank of America, Capital One, Citibank, Wells Fargo, USAA, CIBC, and RBC, banking surpassed all other industries in North America in a measurement of customer experience assessment.<sup>1</sup> However, compared with other industries, banking ranked third in Latin America, which may be because

of slow digital investment by Latin American banks. In fact, according to a recent study, only 22% of Latin American banks qualified as digital leaders with a complete digital offering.<sup>2</sup>

With increasing commoditization of services, banking has now become less about the financial transaction and more about customer experience with the transaction in the background. Some of the leading global banks are introducing a variety of popular customer engagement innovations.

- For example, multinational bank **Barclays** offers a top-rated mobile app with a direct-call feature that quickly connects customers to a service representative who already knows their name and account details.<sup>3</sup>
- Customers from Singapore-based multinational **DBS Bank** are encouraged to use social media to send messages to the bank via *WhatsApp* or *WeChat*. DBS' artificial intelligence technology receives the messages and automatically carries out commands. A DBS chatbot also provides customers with banking tips or information such as the location of the nearest ATM.<sup>4</sup>

**Figure 1.1 Cross-Industry Customer Experience Assessment (on a scale of 100), 2018**



Sources: Capgemini Financial Services Analysis, 2018; Capgemini Voice of the Customer Survey, 2018.

01 Capgemini Voice of the Customer Survey, 2018

02 *Forbes*, "Latin American Banks Were Slow To Go Digital But Now They're Moving Fast," Tom Groenfeldt, April 19, 2018 <https://www.forbes.com/sites/tomgroenfeldt/2018/04/19/latin-american-banks-were-slow-to-go-digital-but-now-theyre-moving-fast/1>

03 *World Finance*, "Top 5 most innovative digital banks," Kim Darrah, April 3, 2017 <https://www.worldfinance.com/banking/top-five-most-innovative-digital-banks>







04 Ibid.



- With branches across England and Wales, **Lloyds Bank** offers a mobile app that provides customers with daily offers and deals, allows them to apply for new products, and set up payments for new and existing payees without authentication.<sup>5</sup>
- Chatbot *Erica* helps **Bank of America** customers manage basic banking needs and acts as a virtual financial advisor by helping customers manage funds, pay bills, analyze spending habits, earn rewards, schedule payments, and transfer money between accounts.<sup>6</sup>
- **Moven** uses gamification features such as *Break the Glass*, which simulates breaking the phone's glass to discourage customers from making impulsive purchases.<sup>7</sup>
- UK banking startup **Monzo** lets users open an account through its mobile app without any human interaction and offers customers expense categorization, quick mobile money transfers, and seamless integration with day-to-day technologies such as Uber.<sup>8</sup>

**However, despite continued investments, banks have not entirely quelled dissatisfaction. In fact, barely half of customers said their experience across different bank channels was positive** (Figure 1.2). This less-than-stellar result may be because bank investments largely target augmentation of front-end interfaces versus improvement of the end-to-end customer journey.

**Figure 1.2 Positive Customer Experience by Channel (%), 2018**

	Importance of Channel			Positive Experience with Channel		
	Branch 	Mobile App 	Internet (Website) 	Branch 	Mobile App 	Internet (Website) 
Overall	60.1%	50.4%	61.8%	51.1%	46.9%	51.7%
Gen Y	61.7%	60.0%	62.7%	46.0%	44.6%	45.3%
Tech-Savvy	61.6%	62.1%	65.5%	47.6%	47.3%	48.1%

- Notes:
- (1) The channels have been defined as Branch (physical bank office or building), Internet (accessing accounts through laptop or PC), Mobile App (using mobile, smart phone to access bank accounts).
  - (2) Customers provided a rating for each of the channels on their importance and their current satisfaction provided by their primary bank for banking products; The ratings are on a scale of 1–7, where 7 represents the highest score for importance and satisfaction, and 1 represents the lowest score for importance and satisfaction.
  - (3) The percentages represent the customers who gave a rating of 6 or 7 on a scale of 1–7 for each of the channels.

Sources: Capgemini Financial Services Analysis, 2018; Capgemini Voice of the Customer Survey, 2018.

05 Thisismoney.co.uk, "Best banking apps revealed: How does your big bank score for useful features and safety?" Emma Gunn, November 28, 2017

<http://www.thisismoney.co.uk/money/saving/article-5092405/Which-banks-offer-useful-mobile-banking-apps.html>

06 *Charlotte Business Journal*, "Bank of America rolls out AI assistant Erica to all mobile customers," Caroline Hudson, May 21, 2018

<https://www.bizjournals.com/charlotte/news/2018/05/21/bank-of-america-rolls-out-ai-assistant-erica-to.html>

07 *Bank Innovation*, "Moven Provides Savings Path for First-Time Savers," Diana Asatryan, December 12, 2016

<https://bankinnovation.net/2016/12/moven-provides-savings-path-for-first-time-savers/>

08 *World Finance*, "Top 5 most innovative digital banks," Kim Darrah, April 3, 2017

<https://www.worldfinance.com/banking/top-five-most-innovative-digital-banks>

As banks strategically move from brick-and-mortar to digital, branch as a channel remains important across all customer segments. For example, UK-based **Metro Bank** continues to invest in branches to provide customers the right mix of physical and digital experiences while it looks to further its digital transformation.<sup>9</sup>

It is important to note that – compared with the overall customer base – Gen Y and tech-savvy customers (both high-potential segments for banks) attributed relatively higher importance to digital channels (mobile and internet).<sup>10</sup> However, across all channels, positive experience for Gen Y customers dips when compared with the overall customer base.

*“Though we invest heavily in digital transformation processes, we are convinced that in the banking sector, the human relationship between consultant and client remains central, a decisive aspect to manage the relationship of trust and the in-depth knowledge of the client’s objectives.”*

**Chief Operating Officer of a leading Italian bank**

*“It is not about closing branches and transforming everything to digital. Just like digital companies are opening stores, we must digitalize our relationship with the customer. This transition is critical, and banks must improve their relationship with the client. The user experience must be powerful, it must provide real value to the customer, and it should make digital change important for the customer.”*

**Luis Félix Uriarte Extremiana, Digital Banking Director, Bankia**

Compared with other regions, North America had the highest levels of positive customer experience. However, compared with 62.4% of customers who claimed a positive branch experience, customers cited lower positive experience with digital channels (53.6% with mobile and 59.0% with internet). In Latin America, positive experience with internet banking (43.9%)

lagged the global average (51.7%) by 7.8 percentage points. In line with the worldwide trend, internet (website) banking registered the highest positive experience when compared with other channels in Europe. Aside from the internet (53.4%), all other channels cited a lower positive experience when compared with the global customer base. However, Gen Y (44.9%) and tech-savvy (46.1%) customers cited a significantly lower positive experience with internet channels, when compared with the overall customer base in Europe. Less than 50% of Asia-Pacific customers registered a positive experience across channels and banks will look to innovate to provide their customers with the next level of experience (branch: 47.1%, mobile: 44.8%, internet: 47.4%).

**Instead of providing services across channels that are merely interfaces for broken back-end processes, banks could start building processes that translate well into customer-centric journeys.**

*“It is essential to challenge beliefs and push for 100% digital solutions. If that doesn’t work for the as-is process, then the process must be redesigned. Ensure that monitoring and control mechanisms are made digital. In that sense, it’s not just about digitizing the customer-facing processes. Digital thinking must apply throughout the bank – from the front end to controlling, to support and to the back end. As in manufacturing, digital can be used to make products more profitable – where small tweaks translate into bottom-line effects.”*

**Kristina Tänneryd, Head of Products, Skandiabanken**

*“Customers now demand the best products and services. It is, therefore, essential for banks like us to provide best-in-class offerings to all customer segments. We aim to create winning moments in customer journeys and use transactional Net Promoter Score (NPS) and relationship NPS to measure customer satisfaction. We also try to understand customers’ feelings and perceptions about the brand”*

**Deepak Sharma, CDO, Kotak Bank**

09 NS Tech, “IT Leaders: Metro Bank digital chief Alex Park on biometrics and digitising branches,” Sooraj Shah, February 8, 2018 <http://tech.newstatesman.com/it-leaders/metro-bank-digital>

10 In the context of this report:

- Gen Y customers are categorized as individuals aged 18 to 34, while Non-Gen Y represents customers aged 35 and older. These groups are Mutually Exclusive and Collectively Exhaustive (MECE).
- Customers that use online and mobile channels frequently to conduct transactions such as purchasing electronics, clothes, food and groceries, paying bills, etc. are categorized as Tech-Savvy; Tech-Savvy and Non-Tech-Savvy customer segments are MECE.

## Ongoing investment in customer experience augmentation, together with proactive delivery of personalized products and services, will help banks to build and maintain customers' trust and loyalty.

The superior experiences customers have enjoyed while doing business with agile and innovative industries have raised the bar when it comes to the expectations of banking customers. Banks no longer compete exclusively with other banks and trends across industries can result in instantaneous changes in customer expectations. As channels and touchpoints grow exponentially, customers expect banks to provide a consistent experience across them.

Challenger banks, FinTech firms, and BigTechs all tout next-gen products and services, which, again, raise the customer experience bar.<sup>11</sup> If banks struggle to understand and quickly respond to customers, they risk losing those who seek a better contextual experience and no longer fear the move to alternative providers.

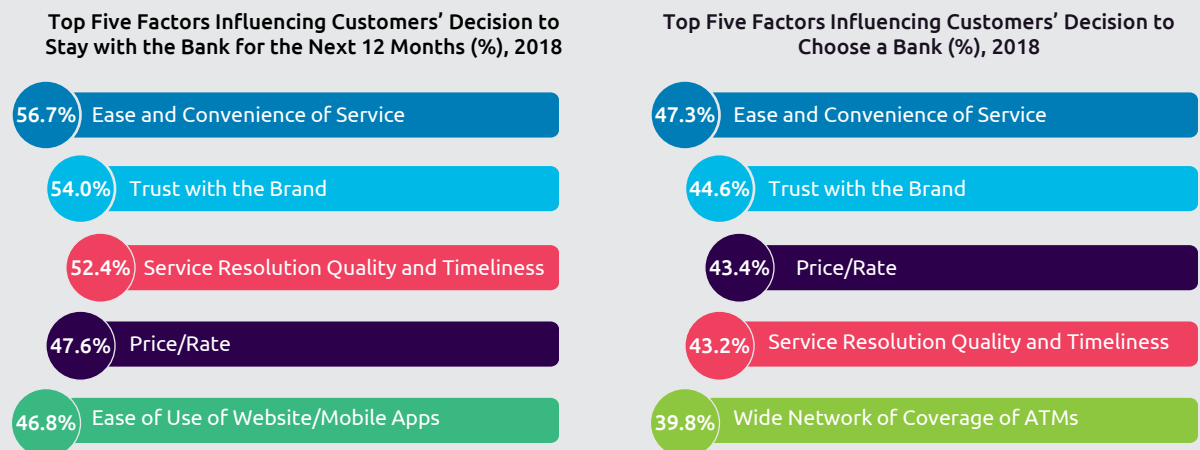
**For retaining and growing the customer base, banks will look to consider customers' demand for convenience, faster response time, and higher value for their money as opportunities – and adopt a more customer-centric approach.**

*"With the advent of technology, innovation, and our experiences of doing business we are moving from a system-centric bank to more of a customer-experience-centric bank. And, we are not simply moving old things onto a portal. We are redefining the customer journey to meet our customers' changing needs."*

**Chief General Manager at one of India's leading banks**

Although customer stickiness depends on several factors and facets, providing easy and convenient banking services, and high trust are the key attributes that influence customer retention, as well as customer acquisition (Figure 1.3).

**Figure 1.3 Factors Influencing Customer Stickiness**



Notes: (1) The percentages for both graphs represent customers who gave a rating of 6 or 7 on a scale of 1–7 for each of the factors.

(2) Only the top five factors are shown in the figure.

Question: "How much do the following factors influence your decision to choose a bank and to stay with the bank? (Please rate each criterion on a scale of 1–7, with 1 = Very low influence, 2 = Low influence, 3 = Somewhat low influence, 4 = Neither low nor high influence, 5 = Somewhat high influence, 6 = High influence, and 7 = Very high influence)."

Sources: Capgemini Financial Services Analysis, 2018; Capgemini Voice of the Customer Survey, 2018.

11 The term *BigTech* encompasses tech behemoths such as (GAFA) Google, Apple, Facebook, and Amazon.

Technology has changed how customers interact across every industry, wherein all aspects of their lives have a digital footprint, and digital is an answer to how banks can provide quicker service resolution, competitive pricing, and easy-to-use of website/mobile apps. Banks are likely to focus on delivering personalized digital experiences since nearly half (49.1%) of the customer base claiming a positive experience with their bank said they had been offered personalized services proactively. The positive-experience rate fell to 39.5% when it came to customers who said their banks did *not* proactively offer them personalized services. For Gen Y customers, the difference in positive experience for proactive and non-proactive banks was as high as 14.8 percentage points.

### Retail bank creates a personalized, multi-channel experience by merging customer data with online behavior

**Bank of Ireland**, a *Big Four* traditional Irish bank, is merging online and offline data to improve customer engagement. Bank of Ireland's goals were to reduce cost-per-acquisition by targeting potential customers that best fit its products and services proposition while also improving current customer satisfaction through enhanced services. The bank imbibed best practices for personalization from BigTechs such as Amazon, Facebook, and Google used tagging and tracking tools to personalize email messages and omnichannel branch experiences.<sup>12</sup>

The strategy has been successful as Bank of Ireland increased year-over-year application submissions by 278% across all digital channels and, by displaying personalized content, realized a 15% increase in personal loan digital application submissions by displaying personalized content.

*"Our strategy is 'relationship' – which implies personalization and our proactivity. We proactively keep in touch with the customer, and not just from transaction to transaction but through a relationship that could be described under the permissioned marketing concept. Personalization is natural part of this process reflecting also in the right mix of channels for each individual. For example, we are setting up more personal bankers in our branches."*

**Neven Horvat, Executive Director – Retail Mass Clients, Privredna banka Zagreb**

Identifying customers' future needs and providing appropriate personalization is tantamount to banks' success and staying ahead of the customer expectations' curve.

Several banks, globally, are committing to personalized offerings and superior services.

- In collaboration with data and analytics firm Foursquare, **Capital One** is piloting the use of location-based customer data to push out real-time mobile banking app notifications to customers who shop at partner retailers.<sup>13</sup>
- Texas-based Fortune 500 financial services group **USAA** has implemented a contact hand-off system so customers who click contact us in the mobile app are connected to a service representative who already has their basic information and the reason for contact – which enables a fast and personal response.<sup>14</sup>
- **Westpac New Zealand** uses beacons (wireless sensors connected to the internet to gather local data) in its branches to identify previously-enrolled customers. Apart from reducing turnaround time, beacons enable staff to provide more personal customer engagement.<sup>15</sup>

12 Market-1st Omni-Channel Personalisation – Efma Innovation in Retail Banking Portal

13 Tearsheet, "Capital One is using Foursquare to push offers to customers," Suman Bhattacharyya, May 17, 2018 <https://www.tearsheet.co/modern-banking-experience/capital-one-is-using-foursquare-to-push-offers-to-customers>

14 Nectarom, "The Best in Banking Personalization: USAA's Innovative Customer Service," Komal Desai, January 16, 2017 <https://nectarom.com/2017/01/16/best-banking-personalization/>

15 *American Banker*, "Why the Internet of Things Should Be a Bank Thing," Penny Crosman, November 19, 2015 <https://www.americanbanker.com/news/why-the-internet-of-things-should-be-a-bank-thing>

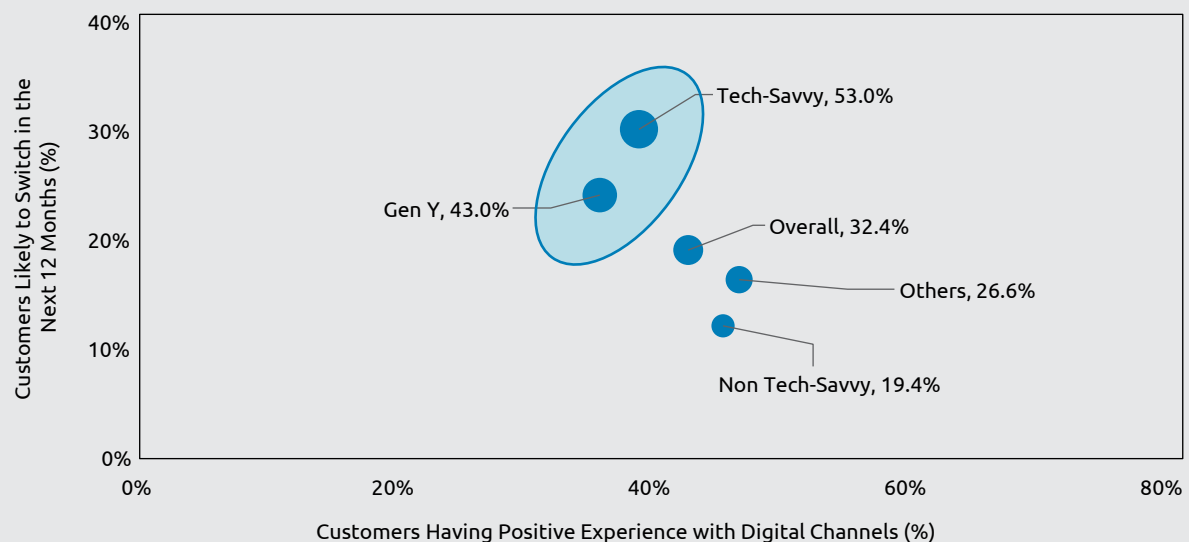
**Banks face external threats as well, with nearly a third (32.3%) of customers saying they might turn to BigTechs for financial products and services.**

The potential to consider BigTechs is even higher among Gen Y (43.0%) and tech-savvy (53.0%) customers. Moreover, among individuals already likely to switch banks, the prospect of considering BigTechs for financial products and services increases significantly, to 70.2%.

Customers with relatively low positive experiences with digital channels are more prone to switch or to consider BigTechs for their financial needs (Figure 1.4).

Compared with other regions, customers in Latin America are significantly more likely to consider BigTechs for their financial needs. Four out of five digital consumers in Latin America are active daily on social media as compared with 65% of digital consumers in other parts of the world.<sup>16</sup> Data privacy – which has been a deterrent to some customers considering BigTech products and services – is a relatively minor concern in Latin American countries (Brazil and Mexico).

**Figure 1.4 Customers' Switching Propensity vs. Positive Experience across Digital Channels vs. Customers Considering BigTechs, by Demographic Segment (%), 2018**



- Notes:
- (1) The size of the bubble indicates the percentage of customers willing to consider BigTech firms (such as Google, Apple, Amazon, Facebook, Alibaba, etc.) for their financial services needs, if they start offering financial products or services.
  - (2) Digital channels are defined as Internet and Mobile.
  - (3) The horizontal axis represents the percentage of customers who gave a rating of 6 or 7 on a scale of 1–7 for digital channels. The ratings are on a scale of 1–7, where 7 represents the highest score for satisfaction, and 1 represents the lowest score for satisfaction.
  - (4) The vertical axis represents the percentage of customers who are likely to switch their primary bank over the next 12 months.

Questions: (1) "How likely are you to switch your primary bank over the next 12 months? (Please rate on a scale of 1 to 7, where 7 is most likely and 1 is least likely)."

- (2) "If internet/technology firms such as Google, Apple, Amazon, Facebook, Alibaba, etc. start offering financial products or services, which of the following financial products/services would you consider using from them: Current/ Depository Account & Payments (e.g., includes debit cards, online payments, cheque payments, check/cash deposits, etc.); Credit Cards (e.g., charge cards, pre-paid cards); Loans/Mortgages (e.g., home loans, student loans, personal loans, auto loans, reverse mortgages, home equity loans/lines of credit)? (Please rate each of the financial products/ services on a scale of 1 to 7, where 7 is 'highly likely' and 1 is 'highly unlikely')."

Sources: Capgemini Financial Services Analysis, 2018; Capgemini Voice of the Customer Survey, 2018.

<sup>16</sup> *Forbes*, "3 Things You Need To Know About Latin American Digital Consumers," Michelle Evans, August 10, 2017 <https://www.forbes.com/sites/michelleevans1/2017/08/10/3-things-you-need-to-know-about-latin-american-digital-consumers/1/>

Asia-Pacific is also likely to witness a higher adoption of BigTech within the financial services space. In China, Alipay (Alibaba's third-party mobile and online payment platform) and Tenpay (an integrated payment platform launched by Tencent) have built a mobile payments duopoly that accounts for 93% of China's mobile payments market.<sup>17</sup>

With a vast customer pool, reliable infrastructure, and solid brand reputation, BigTechs are likely to challenge banks and become significant players in the financial services industry.

*"If you look at areas where revolution is happening, we see a lot happening in banking around savings and online banking. Amazon spoke about banking services it might start offering again. The Chinese market is at the forefront in creating solutions that dilute the distinction between banking and other services in which clients engage regularly. We see them as a potential threat. It is just a matter of when."*

**Global Investments Product and Advisory Lead – a major global bank**

**Going forward, positive experiences will drive customer loyalty.** Therefore, banks should reassess customer-engagement strategies for retention, particularly around digital channels for new-generation segments.

*"For us, the driver for growth and transformation is constant improvements in customer experience, especially across channels, as well as the ability to be more practical and helpful to customers across the most important customer journeys."*

**Jakub Fast, Executive Director, mBank**

### **Customers view all their provider accounts through convenient *Connected Money app***

Financial services leader **HSBC** launched its Connected Money app in May 2018 to enable customers to see account information from all their providers in one place. Customers can review their UK checking and savings accounts, mortgages, loans and cards held across 21 banks – including Santander, Lloyds, and Barclays in one app.<sup>18</sup> With an eye on becoming its customers' financial hub, HSBC encouraged consumers to pull all their financial accounts into one place while providing them with tools to gain more control and have a more positive relationship with their money.

The application garnered 13,000 downloads within one day of its rollout. HSBC is also creating a rewards program that uses artificial intelligence to personalize its rewards program and to create more meaningful customer interactions.

17 *South China Morning Post*, "China pulls further ahead of US in mobile payments with record US\$12.8 trillion in transactions," Alice Shen, February 27, 2018

<http://www.scmp.com/tech/apps-gaming/article/2134011/china-pulls-further-ahead-us-mobile-payments-record-us128-trillion>

18 Finextra, "HSBC launches Connected Money app," May 9, 2018

<https://www.finextra.com/newsarticle/32074/hsbc-launches-connected-money-app>



## Thai bank caters to customer needs through innovative lifestyle-banking app SCB EASY

Initially introduced in 2012, SCB EASY is a dynamic mobile banking application from Thailand's **Siam Commercial Bank (SCB)**. SCB EASY allows users to process a variety of transactions and payments and boasts features such as cardless cash withdrawal by app users (or anyone) from any SCB ATM via a unique code from the app.<sup>19</sup> SCB EASY users can personalize their menu for quick access to frequently-used functions. Moreover, SCB EASY Digital Lending covers personal loans, credit cards, auto loans, mortgages, and small- and medium-sized business loans.

SCB EASY scored high praise in a market survey among other Thai banks in categories such as look and feel, ease of use (user journey), and innovativeness, and ranks number one at Thailand's Apple App Store in the Finance category. Compared with earlier versions of the application, new daily user registration recently grew over 300%, and transaction count rose over 190%.<sup>20</sup>

**In today's connected world, any industry can raise the customer-experience bar. In fact, companies that embrace and leverage disruption seem to win consistently and maintain the loyalty of their customers and attract new ones.** It makes sense, therefore, for banks to consider best practices from these winning trendsetters and to fold their critical learnings into future-proofing strategies.

### Assume a proactive approach

Disruptors such as Google, Amazon, Alibaba, and Uber proactively approach new technologies and their future potential. Realizing that consumers are often reluctant to call for support, disruptors educate their customers about how to effectively use their products and services. For instance, AT&T reduced its inbound call volume by turning its customer bills into interactive educational videos that preemptively answer questions.

*"It is critical for banks always to be ready, to proactively support the customer, and to anticipate needs. There are two important considerations: one is to have all the data available, and two is to aggregate solutions – not only within the bank but also outside the bank."*

**Kostas Kalogerakis, Senior Advisor in Retail Banking, National Bank of Greece**

### Leverage deeper customer insights

Google, Amazon, Facebook, Alibaba, and Uber have blazed a trail in the very areas where banks seek knowledge. These open, platform-based providers leverage customer insights to understand their users, which enables them to offer digital interactions at critical moments during the customer journey.

*"The GAFSA companies have done an amazing job around leveraging data, and they've done it in a way that integrates the data into insights (something better than what banks have done). I still don't believe banks are at the level of sophistication of the GAFSA companies and it certainly is an area banks should continue to work on. Technology such as artificial intelligence and machine learning are going to assist in that regard."*

**Brian Duguid, Managing Executive – Nedbank Integrated Channels, Nedbank Limited**

### Reinvent the business model

When it comes to leveraging artificial-intelligence-enabled chatbots and virtual agents, retailers have been pioneers while banks have yet to embrace these convenience-enhancing solutions fully. Authentic connection with new technologies involves more than collaborating with third parties and will require business model reinvention.

*"Technological developments change the way of doing business. New players enter our lives. The size of the competition is changing. Big and long-established institutions need to keep up with this new system and economy. If we talk about Facebook or any other BigTech, in the end, the customer base is the same. So, the best solution is to give the right portion of service, to make the service better and available for the customer so that it could fit for them in the future. Be ready as a bank to change your business model according to threats coming from these disruptions."*

**Burak Sezercan, Head of Retail Banking Marketing Division, Isbank**

19 *Nikkei Asian Review*, "Thailand's oldest lender's mantra: Go digital," Yukako Ono, May 11, 2018 <https://asia.nikkei.com/Business/Company-in-focus/Thailand-s-oldest-lender-s-mantra-Go-digital>

20 Efma website, "SCB EASY is set to become the ultimate platform for well-connected society," March 30, 2018 <https://www.efma.com/article/detail/29332>

### Personalize experiences

Amazon, Uber, and Netflix have snagged customers from their competitors by prioritizing consumer needs, delivering a better value proposition, and effectively leveraging customer data to offer a more personalized, seamless, and connected experience. While none of these brands has necessarily provided an entirely new product or service, they have drastically improved the customer experience.

*“Data is absolute key to any future developments in the digital space. I think banks are nowhere near where GAF A firms are toward utilization of data, and banks are making baby steps in this area.”*

**Yair Grossman, Head of Group Strategy, Israel Discount Bank**

*“Customer service remains the holy grail of retail banking and how banks will leverage digitization and innovation to deliver the best customer experience will determine their success.”*

**Senior Executive, Emirates NBD**

### Collaborate

Major commercial airlines expanded their horizons by forging international and inter-regional partnerships with new industry entrants (some of which were rivals). Willingness to collaborate helped these incumbent airlines to understand different customer needs better, and also led to robust new market share gains. Additionally, 68% of digital masters are looking for innovations in their value chains according to a survey conducted by the Capgemini Digital Transformation Institute.<sup>21</sup> Moreover, digital masters seek innovations in their value chains and to accomplish this, 66% work with a wide ecosystem of partners.<sup>22</sup>

*“Our goal is to be more involved with our customers’ day-to-day lives. When seeking for partnerships we can find new opportunities, in different industries, to offer a better experience to customers.”*

**Senior Executive, Banco Bradesco S.A.**

### Offer seamless cross-channel services

Apple is a leader when it comes to tying customer experiences together – such as offering in-store tech support once a customer has researched a problem and booked an online appointment. This cross-channel effort optimizes Apple’s tech support process while providing customers with a personal touch. Similarly, Amazon linked its retail bookstore chain (Amazon Books) to its entry into grocery stores (Amazon Go) and validated that customers want a combination of digital and brick-and-mortar experiences going forward.

*“You need to look at things from the customer’s perspective and quickly understand what they are getting from other companies like Amazon, Facebook, and Netflix. They are getting an experience – a customer journey – and that is where banks should focus.”*

**Head of Group Strategy – a leading bank in the Middle East**

*“Today’s consumers seek low-effort communication tools, valuable products, and relevant services. And, more and more, the consumer experience is becoming the bank’s DNA. That is why it is so pertinent to provide the right product and service at the right time and place.”*

**Executive Vice President at a leading global bank**

21 Digital Masters are defined as organizations that have a high mastery of both digital and leadership capabilities

22 Capgemini, “Understanding digital mastery today,” Capgemini Digital Transformation Institute, July 3, 2018 <https://www.capgemini.com/resources/understanding-digital-mastery-today/>





# High-Velocity Changes May Leave Banks Vulnerable in the Financial Services Landscape of the Future



## Summary

### **Competition from non-financial services firms, an explosion of new technologies, and soaring customer expectations have spurred unprecedented banking-industry change.**

- Hyper connectivity and digitization are helping to converge and blur lines between traditionally different industries.
- As digital pure players in other industries offer simple, immediate, and personalized experiences, today's bank customers expect the same ease of use.
- Intrusion from non-financial services players – such as BigTechs – signals an industry shift and a more complex view of competition.

### **Customer-centric financial services entrants are becoming more popular as they earn customer trust, which poses a wallet share threat to incumbents.**

- Payments have been hit the hardest to date, but as disruption by non-traditional players heats up in other banking sectors, increased industrywide impact as incumbents potentially lose fee-based and interest revenues can be expected.
- Similarly, customer-facing areas of the banking value chain are confronting new competition that may compromise customer relationships and perpetuate the perception that they are merely a utility provider.

## Competition from non-financial services firms, an explosion of new technologies, and soaring customer expectations have spurred unprecedented banking-industry change.

Increased consumer adoption of digital across industries has raised the bar so that today's customers expect a wide range of services to be accessible via their touch screen. Global internet users have exceeded the four billion mark. Well over half of the world's population now uses the internet, and a quarter of a billion new users came online for the first time during the past 12 months.<sup>23</sup> The way customers communicate is shifting rapidly, with more than three billion people now actively using social media each month, up 13% from 2017.<sup>24</sup> More than 200 million people got their first mobile device in 2017, and two-thirds of the world's 7.6 billion inhabitants now have a mobile phone, with more than half of the handsets in use today being smart devices.<sup>25</sup>

As the world becomes increasingly digital, many organizations, including banks, are finding it difficult to keep pace with customer expectations and stay ahead of the curve.

**Hyper connectivity and digitization are helping to converge and blur lines between traditionally different industries.** For instance, the examples below demonstrate how a few firms have defied traditional industry boundaries to venture into new arenas created by the digital economy.

- E-commerce pioneer **Rakuten Ichiba** is Japan's largest online retail marketplace. It spans more than 70 businesses, offering credit cards, a travel agency, a golf-reservation system, matchmaking,

wedding planning, and insurance while also providing loyalty points and e-money usable at numerous stores – virtual and real. It owns Viber, a calling and messaging app and has invested heavily in car-hailing service Lyft. Moreover, earlier this year Rakuten's bid to operate Japan's fourth mobile network was approved (Rakuten currently runs mobile services using another operator's infrastructure). In contrast to players that started out as mobile carriers before adding related services, Rakuten is targeting its current e-commerce customers with a new mobile service.<sup>26</sup>

- China's largest insurer, **PingAn**, leveraged its early-mover advantage in mobile apps and underlying technologies – artificial intelligence and blockchain – to venture past insurance, banking, and asset management in order to spawn 10 startups over the past six years. Startups include peer-to-peer lender Lufax, Ping An Good Doctor, a healthcare portal with 30 million-plus monthly active users whose recent IPO raised US\$1.1 billion in Hong Kong; and Ping An Healthcare and Technology, a mobile app for booking hospital visits used by 800 million customers across 70% of cities in China.<sup>27</sup>
- Chinese tech conglomerate, **Tencent**, owns the popular WeChat and QQ messaging and payment apps as well as a host of top mobile games and many other applications. Think of a scenario in which a consumer wakes up and checks social updates and reads about news and sports. On the way to work, the consumer pays for breakfast through mobile and plays mobile games. During the return commute and at home, he or she makes a few retail purchases, listens to music, or watches videos. By day's end, all of these activities will have been transacted within the Tencent companies' ecosystem.<sup>28</sup>

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23 We Are Social, "DIGITAL IN 2018: Essential Insights into Internet, Social Media, Mobile, and Ecommerce Use Around the World", Simon Kemp, January 30, 2018  
<https://digitalreport.wearesocial.com>

24 Ibid

25 Ibid

26 *Nikkei Asian Review*, "Rakuten's integrated services to prize open Japan mobile market," Minoru Satake, April 17, 2018  
<https://asia.nikkei.com/Business/Companies/Rakuten-s-integrated-services-to-prize-open-Japan-mobile-market>

27 *Forbes Asia*, "Chinese Giant Ping An Looks Beyond Insurance To A Fintech Future," Shu-Ching Jean Chen, June 6, 2018  
<https://www.forbes.com/sites/shuchingjeanchen/2018/06/06/chinese-giant-ping-an-looks-beyond-insurance-to-a-fintech-future/#79fddaf48f33>

28 *Forbes*, "How Tencent Is Using Closed-Loop Data To Drive Better Insight And Engagement," Kimberly A. Whitler, January 9, 2018  
<https://www.forbes.com/sites/kimberlywhitler/2018/01/09/how-tencent-is-using-closed-loop-data-to-drive-better-insight-and-engagement/#1a3bc7211f0d>

*“If you figure out how to solve a problem within a specific value chain but learn that your solution can be used in many different markets you will try to monetize your initial investment in as many ways as you can. So that’s where you start to see a blurring between industries because digitization allows companies to almost hyper focus on a particular use case or problem that they’re trying to solve.”*

**Kevin Bannerton, Partner, Head of Corporate Strategy & Product Development, Total Bank Solutions**

**In addition to long-standing burdens, today’s banking industry faces a new variety of disruptive pressures.** As banks continue to cope with familiar challenges such as margin pressures, macroeconomic factors, and regulatory compliance, new elements such as changing customer expectations, new competitors, and emerging technologies pose more unwieldy challenges (Figure 2.1).

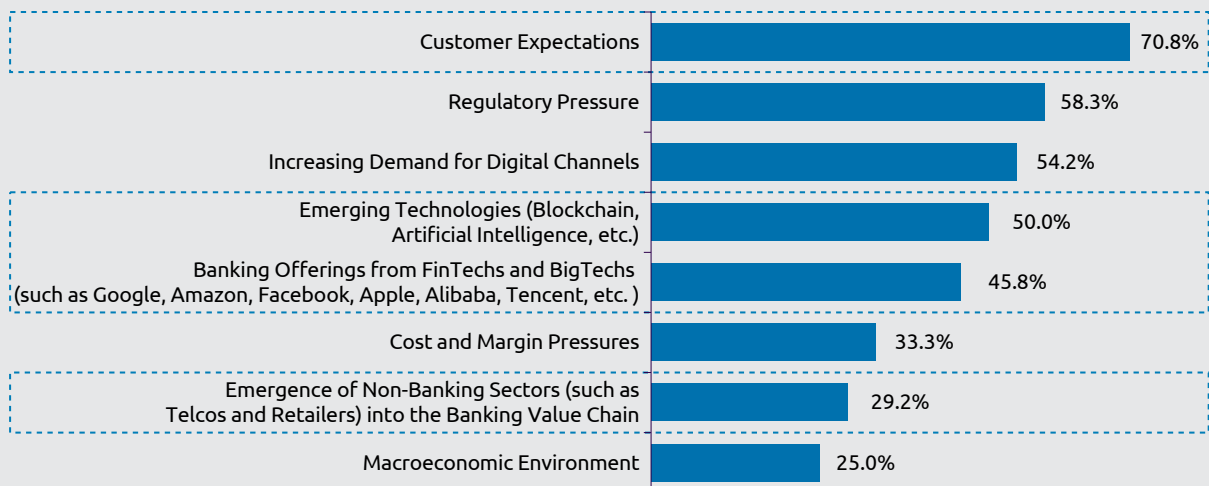
While banks shift their focus from products to customers, customer expectations remain relentless as positive experiences with other industries raise the satisfaction bar.

Digital pure players such as Amazon, Apple, and Uber continuously reinvent themselves by delivering simple,

immediate, and personalized experiences. Amazon is no longer merely a bookseller and Uber has moved far past being a ride-booking app. They aim to meet customer expectations and exceed expectations through quick, personalized, and consistent experiences across all channels.

Today’s customers seek on-demand service and expect banks to both anticipate and address their needs with precision and expertise at every touchpoint. Enlightened and empowered by other service experiences, customers now assume that their bank will understand their individual needs and will proactively customize product offers based on their history. What is the penalty for a non-performing bank? It is much graver and far-reaching than merely a lost customer. With the increasing reach and power of social media and other platforms, customers often publicly voice their opinion, which can tarnish a firm’s brand and reputation. Financial regulators, aware of the threats posed by social dissent to a bank’s overall risk, have increasingly started creating a baseline set of guidelines and regulations governing the minimum set of customer experiences and entitlements.

**Figure 2.1 Factors Causing Disruption in Banking (%), 2018**



Note: The percentages represent banking executives who gave a rating of 6 or 7 on a scale of 1–7 for each of the factors.

Question: “What are the key factors that you think are causing disruption in the banking industry today? (Please provide your response on the importance of the following disruptive factors on a scale of 1–7, with 7 indicating a ‘very important factor’ and 1 indicating a factor that is ‘not at all important’).”

Sources: Capgemini Financial Services Analysis, 2018; Capgemini Voice of the Customer Survey, 2018.

Amazon's *1 Click* is an early example of dedication to exceeding customer expectations. The idea that consumers can enter their billing, shipping and payment information just once and then click a button to make further purchases was unheard of in 1999 when Amazon secured its *1 Click* patent. The concept was a game changer for hassle-free online shopping.<sup>29</sup> Amazon provided customers with a convenient and comfortable experience by allowing them access to both traditional and one-click options. The company understood that some customers might want a high-touch experience, while some prefer a quick and easy checkout.

Today, emerging threats from non-financial service providers such as BigTechs, retailers, and telcos are not yet fully understood. Competition has become increasingly complex as different players target the same market.

### Other banks

This includes traditional peer bank competition – an ongoing challenge for banks as they struggle to secure market/wallet share while maintaining profit margins. In this scenario, unsatisfied customers are likely to switch or choose another primary bank as the costs and efforts to change banks have fallen in recent years.

### FinTech firms

The 2008–09 financial crisis spurred a lack of trust in the banking industry that took several years for banks to reverse. This period also encouraged a rapid uptake of emerging technologies (such as data analytics) that enabled FinTech firms to fill gaps left by traditional banks. Although mostly considered as a collaborator or potential partner, many FinTech firms directly compete with incumbents today.

### Digital-only banks

These new-age challengers are exclusively digital, technology-driven, and customer-centric. In the past, traditional banks relied on the reach of their branch-network to expand business and better serve customers. Today, the trend is to close expensive brick-and-mortar branches with low foot traffic. Unencumbered by physical offices, digital-only challengers can offer customers cost-efficient, 24/7 service through mobile apps/websites while providing quick, convenient, data-driven products and

services. Although they have come on the scene only recently, digital-only banks are sprouting up across geographies– ranging from Bank Mobile in the United States to Starling in the UK and Timo in Vietnam.

### Non-financial services firms

This nascent-stage competition has its roots in industries such as retail and telecom, and incumbents can expect a more aggressive rivalry once non-banking players begin to offer full-fledged banking products and services or attempt to change the way financial services are offered. Orange, a French multinational telecom provider, entered financial services with Orange Bank, and is now targeting two million bank customers by 2027.<sup>30</sup>

Arguably, competing with incumbent banks for traditional financial products may be an uphill task for non-financial services firms – even for those with the necessary financial and technical resources. What is more plausible is that these firms will offer financial services integrated with their core services, potentially eliminating the need for banking services. For instance, a credit line with a telco provider for telecom services might easily be tied to mobile payments. The result would be disintermediating the credit card from the bank as well as from the entire card's value chain (issuer to acquirer). While it is difficult to ascertain the ultimate impact of non-banking players, their financial savvy and tech capability merit attention and caution.

### BigTechs

This growing group includes tech giants such as Google, Amazon, Facebook, Alibaba, and others with a heavy tech-focus and a substantial retail base. BigTechs currently remain under the regulatory radar and have been relatively free to experiment and offer innovative financial services. With time, their range of offerings is likely to expand. The following BigTech firms have made their foray into financial services.

- **Uber** applied for a European payment processing license early this year to accelerate its diversification into a broad range of consumer-facing services. The e-money application with the Dutch Central Bank also will streamline Uber's payment processes across businesses such as its ride-hailing app and its UberEats food-delivery venture.<sup>31</sup>

29 *Banking Exchange*, "3 growth lessons for every bank from Amazon," Derek Corcoran, February 15, 2018 <http://www.bankingexchange.com/blogs-3/unconventional-wisdom/item/7373-3-growth-lessons-for-every-bank-from-amazon>

30 Capgemini website, "Buy versus build: the new banking architecture paradigm," June 14, 2018 <https://www.capgemini.com/2018/06/buy-versus-build-the-new-banking-architecture-paradigm>

31 *Finextra*, "Uber applies for e-money license," March 28, 2018 <https://www.finextra.com/newsarticle/31887/uber-applies-for-e-money-license>

- Uber's Southeast Asia rival **Grab** launched a peer-to-peer fund-transfer system in 2017 for instant transfer of *GrabPay Credits* from one person to another. Grab has expanded its financial services reach with a dedicated business unit and the introduction of micro loans and insurance products.<sup>32</sup>
- Backed by South Korea's wildly popular messaging app *KakaoTalk*, online **KakaoBank** launched in July 2018, attracting more than 300,000 customers within 24 hours. In just four days, it secured US\$245 million in deposits and approved US\$232 million in loans. Unlike traditional banks in Korea, there are no specific ATMs attached to KakaoBank and customers can withdraw and deposit money from any ATM. Today, the bank continues to leverage *KakaoTalk* to enhance customer experience through easy access and online-only authentication, as well as affordable loan rates and fees.<sup>33</sup> KakaoBank parent, Kakao Corp., has ventured into mobile payments, ride-hailing, games, banking, music streaming and even fresh produce sales for farms.
- **Amazon** introduced a credit card in January 2017 that allows cardholders to earn and accumulate points based on Amazon purchases that are redeemable for Amazon gift cards.<sup>34</sup>

*"Players like GAFa have already begun to establish themselves significantly. The ability to invest and attract talent in the technology industry make these players a serious threat. With the introduction of open banking and PSD2, there will be further competition. Banks that do not position themselves risk losing their direct client relationship and may end up becoming a mere services supplier."*

**Senior executive at a leading private bank in Italy**

## Aside from new competition, the rapid adoption of emerging technologies fuels banking industry disruption while holding the promise of innovation.

### Open APIs

While application programming interfaces (APIs) are not an emerging technology, open APIs are gaining traction in the banking industry to enable connectivity among multiple stakeholders. Regulations such as Europe's Revised Payment Services Directive (PSD2) and open banking initiatives have pushed banks to share data with third parties. Moreover, platforms are now seen as the way forward as banks work to create an infrastructure that supports third-parties (such as FinTech firms) that can produce and distribute products synergistically with the bank. For instance, BBVA's *API Market* portal, commercially launched in 2017, offers 10 API portals in Spain and two in Mexico and the United States that enable FinTechs to develop innovative plug-and-play solutions within the BBVA banking platform.<sup>35</sup>

### Artificial intelligence

Applications and benefits of artificial intelligence in financial services have extensively unfolded in recent years. Analysts estimate that AI will save financial institutions more than US\$1 trillion, and by 2030 institutions can save 22% of operating expenses.<sup>36</sup> Banks have been collaborating with AI technology companies, such as Google and Amazon, and adding banking skills to their smart home assistants. For example, using voice commands, text or touch, Bank of America customers can instruct virtual assistant Erica to give them account balances, transfer money between accounts, schedule meetings, or send money with BofA's mobile app feature *Zelle*.<sup>37</sup>

32 *TechCrunch*, "Grab, Uber's Southeast Asia rival, now offers micro-loans and other financial services," Jon Russell, March 13, 2018 <https://techcrunch.com/2018/03/13/grab-financial-services-southeast-asia>

33 *Fintech News Hong Kong*, "Internet Giants Are Threatening Incumbent Banks," April 3, 2018 <http://fintechnews.hk/4883/various/internet-giants-threatening-incumbent-banks-s-citi-report>

34 Société Générale Securities Services website, "As the financial services industry and Fintechs work ever closer, where does that leave BigTech?" <https://www.securities-services.societegenerale.com/en/insights/technology/the-financial-services-industry-and-fintechs-work-ever-closer-where-does-that-leave-bigtech>, Accessed June 28, 2018

35 BBVA website (Banco Bilbao Vizcaya Argentaria), "BBVA, recognized for its open banking," Pablo Ortiz, May 25, 2018 <https://www.bbva.com/en/bbva-recognized-open-banking-initiative>

36 *The Financial Brand*, "Artificial Intelligence and The Banking Industry's \$1 Trillion Opportunity," Lisa Joyce, May 2018 <https://thefinancialbrand.com/72653/artificial-intelligence-trends-banking-industry>

37 *Charlotte Business Journal*, "Bank of America rolls out AI assistant Erica to all mobile customers," Caroline Hudson, May 21, 2018, <https://www.bizjournals.com/charlotte/news/2018/05/21/bank-of-america-rolls-out-ai-assistant-erica-to.html>

## Blockchain

Blockchain is a distributed ledger or a record of transactions that is shared by a network of participants. Financial firms have been at the forefront of exploiting the potential of blockchain and are now in advanced stages of solution creation for payments, identity management, lending, and trade finance. For example, Santander, the Spanish banking giant, recently launched One Pay FX, a mobile payments service built on blockchain technology, Ripple's xCurrent protocol, for retail customers.<sup>38</sup> These and many other technologies are changing the banks' ways of working. While many see this as a disruption, others see it as an opportunity to drive innovation and develop delightful experiences. Despite differing views, experimentation in these technological areas continues, and adoption has picked up due to potential benefits and products that are readily available in the market.

**Massive changes have started to affect traditional banking dramatically. However, firms that agilely adapt to these disruptions are demonstrating phenomenal growth.** While many banks struggle to cope with industry changes and live up to customer expectations, some new-age digital banks have designed banking models meant to handle today's challenges. A few of these banks have demonstrated phenomenal growth and have joined the unicorn club, consisting of startup firms that have achieved sizeable market share in a short time span and are valued at more than US\$1 billion.

- London-based startup **Revolut** launched in July 2015 as a money management app offering currency exchange at the live currency conversion rate and has since become a digital banking alternative that provides a prepaid debit card, currency and cryptocurrency exchanges, peer-to-peer (P2P) payments, travel insurance, and property

investment services. It is now often referred to as Britain's first digital bank unicorn.<sup>39</sup> The app-connected Revolut card allows users to hold world currencies and then spend, send or withdraw them abroad at low fees. The FinTech firm claims to have broken even in December 2017 and says that 6,000 to 8,000 new customers are signing up each day. The company serves 350,000 daily active users and more than 800,000 monthly active users, according to company executives. Revolut plans to launch a premium card made from metal, which gives 1% cash back in cryptocurrencies. As part of a platinum offering, users will have access to a personal concierge who will book concerts or restaurants on behalf of customers based on their needs.<sup>40</sup>

- Founded in Berlin in 2016, mobile bank **N26** (a Revolut competitor) serves most of the Eurozone and is expanding to the United States and the UK this year. The standard N26 account has no monthly fee, while N26 Black costs US\$6.86 per month. Both accounts offer a credit card that can be used anywhere in the world where MasterCard is accepted. N26 currency transfers are processed at the mid-market rate with no exchange-rate markup, thanks to N26's partnership with TransferWise.<sup>41</sup> It took N26 only nine months to grow from 500,000 to 1 million customers, and the company plans to have five million users by 2020.<sup>42</sup> The N26 website claims an account can be opened directly from a smartphone in under eight minutes.

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38 Santander press release, "Santander launches the first blockchain-based international money transfer service across four countries," April 12, 2018

[https://www.santander.com/csqs/Satellite/CFWCSancomQP01/en\\_GB/Corporate/Press-room/Santander-News/2018/04/12/Santander-launches-the-first-blockchain-based-international-money-transfer-service-across-four-countries-.html](https://www.santander.com/csqs/Satellite/CFWCSancomQP01/en_GB/Corporate/Press-room/Santander-News/2018/04/12/Santander-launches-the-first-blockchain-based-international-money-transfer-service-across-four-countries-.html)

39 Reuters, "Revolut becomes Britain's first digital bank unicorn," Emma Rumney, April 26, 2018

[https://www.santander.com/csqs/Satellite/CFWCSancomQP01/en\\_GB/Corporate/Press-room/Santander-News/2018/04/12/Santander-launches-the-first-blockchain-based-international-money-transfer-service-across-four-countries-.html](https://www.santander.com/csqs/Satellite/CFWCSancomQP01/en_GB/Corporate/Press-room/Santander-News/2018/04/12/Santander-launches-the-first-blockchain-based-international-money-transfer-service-across-four-countries-.html)

40 *Business Insider*, "Revolut hits 1.5 million customers as break-neck growth continues," Oscar Williams-Grut, February 26, 2018

<http://www.businessinsider.com/revolut-customers-breaks-even-transaction-volume-2018-2>

41 *Forbes*, "N26 Review: Why Every International Traveler Should Bank With N26," Jordan Bishop

<https://www.forbes.com/sites/bishopjordan/2017/03/20/n26-review/#336c6e9336cd>

42 *Techcrunch*, "N26 now has 1 million customers," Romain Dillet, June 4, 2018

<https://techcrunch.com/2018/06/04/n26-now-has-1-million-customers>



## Customer-Centric Financial Services Entrants Earn Customer Trust, Pose Wallet Share Threat to Incumbents

### New competitors are targeting various areas of banking, causing a dent in banking revenues.

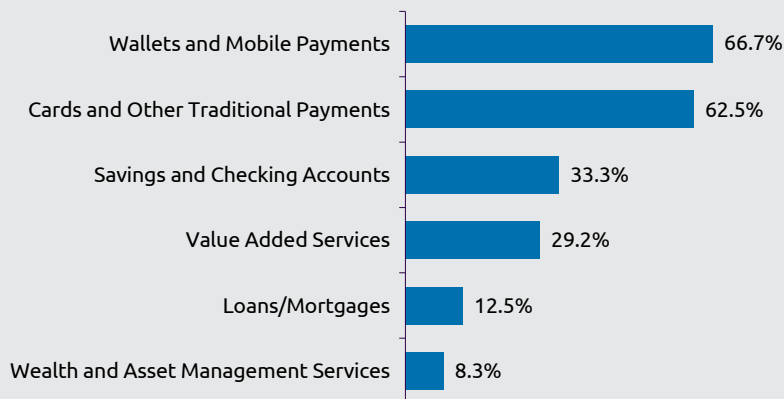
While wallets, credit, FX, and payments have been key targeted areas, we can expect other sectors to be affected as disruption heats up (Figure 2.2).

Increased use of digital and comparatively simple payments' regulations are making it easy for newcomers to tout their innovative offerings and

grab payments' market share. These new players have made inroads in origination, acceptance and capture, security, cross-border, and value-added services.

While banking executives believe loans, mortgages, and wealth management services are not as competitively vulnerable, the rise of robo-advisers and increased customer acceptance of P2P firms and non-banking players may push them to rethink the possibility of disruption.

**Figure 2.2 Impact of Non-Traditional Financial Firms on Banking Products and Services (%), 2018**



Note: The percentages represent the banking executives who gave a rating of 6 or 7 on a scale of 1–7 for each of the products/services.

Question: "Non-traditional financial firms (such as Retailers, Telcos, BigTechs, and FinTechs) are now increasingly entering certain areas of the banking value chain. What is the expected level of impact on the following banking products and services? (Please provide your response of impact assessment on a scale of 1–7, with 7 indicating a 'very high impact' and 1 indicating 'no impact at all'.")

Sources: Capgemini Financial Services Analysis, 2018; 2018 Retail Banking Executive Interview Survey, Capgemini Global Financial Services.

### **Intrusion beyond payments looms as newcomers expand into lending and wealth management.**

As non-traditional banking firms begin to operate in sectors beyond payments, their success may encourage others to seek a slice of the financial services' pie. While the incursion into payments will have repercussions

on transactional processing revenues, increased competition in other sectors may similarly impact interest income and fee-based revenues. Following are examples of prominent non-banking firms that have successfully entered the banking arena.

Driven by data and backed by financial and technical capabilities, non-traditional players will continue to enter the financial services space.

#### **Amazon Marketplace Lending**

Amazon has ventured into the small business lending business which was generally considered the forte of traditional banks. Last year, Amazon issued US\$1 billion in loans to 20,000 small businesses within a 12-month period, with more than half of the companies agreeing to a second loan.<sup>43</sup>

Riding on the success of its lending strategy, Amazon has partnered with several banks, such as Bank of America in the United States and Bank of Baroda in India, to enhance the scope and reach of its lending services.

Amazon's success is not a fluke. Since 2011, the company has been collecting data generated by small businesses that use Amazon Marketplace. The data allowed Amazon to identify candidates most likely to need loans ranging in size from US\$1,000 to US\$75,000. By strategically utilizing this data and offering loyalty incentives, Amazon achieved two objectives – to extend its retail customers better product availability and to develop non-traditional revenue streams.

#### **Ant Financial's Banking Activities**

Ant Financial, an affiliate of Alibaba Group, provides payments services, in the name of Alipay, for Alibaba and its affiliated companies and has also established partnerships with firms across the globe, covering multiple sectors including commerce, media, healthcare, travel, logistics, dining, and lodging.

Ant Financial's wealth management app, *Ant Fortune*, acts as a retailer that sells selected financial products from its sister companies or third-party financial institutions. The company's online bank, MYbank, provides microloans to small and medium-sized businesses. MYbank had extended loans valued at US\$17.3 billion through the first half of 2017.<sup>44</sup> Ant Financial's money-market fund, Yu'e Bao, invests the leftover money in Alipay digital wallets. By 2017, the fund grew to 370 million account holders and was managing assets of US\$211 billion.<sup>45</sup>

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43 *World Finance*, "Non-bank financial institutions are disrupting financial services," Callum Glennen, October 26, 2017 <https://www.worldfinance.com/banking/non-bank-financial-institutions-are-disrupting-financial-services>

44 eMarketer, "Despite Concerns, Online Lending Set to Rise in China" Man-Chung Cheung, December 4, 2017 <https://www.emarketer.com/content/despite-concerns-online-lending-set-to-rise-in-china>

45 *Business Standard*, "Meet Alibaba spin-off Yu'e Bao: The world's biggest money-market fund," Yifan Xie & Chuin-Wei Yap, September 14, 2017 [https://www.business-standard.com/article/international/meet-alibaba-spin-off-yu-e-bao-the-world-s-biggest-money-market-fund-117091400274\\_1.html](https://www.business-standard.com/article/international/meet-alibaba-spin-off-yu-e-bao-the-world-s-biggest-money-market-fund-117091400274_1.html)

**In the face of this new competition, product offerings, customer acquisitions, and servicing are vulnerable, which could ultimately undermine banks' relevance to customers** (Figure 2.3).

All areas of the banking value chain face disruption – although the extent may vary. The impact on customer acquisition, servicing, and product creation is explicit and tangible in the near term, while areas such as banking operations and risk management remain somewhat untouched for now. With fulfillment becoming increasingly digital and instant, operations around distribution and fulfillment will morph into the new way of working. For example, today, credit modeling is often outsourced and is no longer a bank-only purview. For savings and checking accounts, customer acquisition would be highly affected, which

could result in revenue loss as well as lower profit margins as the cost of raising capital from other sources increases.

*“While disruption is real in certain parts of the value chain, in others it is more of a threat. If banks do nothing, however, the loss of clients is certainly a risk.”*

**Brian Duguid, Managing Executive – Nedbank Integrated Channels, Nedbank Limited**

Value-added customer servicing will now directly impact customer experience. If non-banking players unbundle traditional bank services and assume customer-facing roles that erode the customer/incumbent bank relationship, traditional banks may be reduced to a utility provider role – sometimes referred to as a dumb pipe.

**Figure 2.3 Impact of Non-Traditional Financial Firms on the Banking Value Chain (%), 2018**

	Customer Acquisition	Customer Servicing	Product and Services Creations	Banking Operations	Risk and Compliance Management
Savings and Checking Accounts	50.0%	15.0%	15.0%	15.0%	5.0%
Cards and Other Traditional Payments	21.7%	26.1%	30.4%	17.4%	4.3%
Non-Traditional Payments	21.7%	21.7%	39.1%	4.3%	13.0%
Loans/Mortgages	33.3%	27.8%	16.7%	16.7%	5.6%
Wealth and Asset Management Services	20.0%	30.0%	40.0%	0.0%	10.0%
Value Added Services	27.8%	38.9%	22.2%	5.6%	5.6%

Note: The percentages represent banking executives who believe banking products and services are highly impacted (figure 2.2) and gave a rating of 6 or 7 on a scale of 1–7 for each area of the value chain.

Question: “Based on the impact of non-traditional firms (such as Retailers, Telcos, BigTechs, and FinTechs) on banking products/services, which areas of the banking value chain do you think are likely to be the most affected? (For each of the products/services, please select the most relevant option).”

Sources: Capgemini Financial Services Analysis, 2018; 2018 Retail Banking Executive Interview Survey, Capgemini Global Financial Services.

Customer deterrents to trusting non-banking providers are disappearing (Figure 2.4). Banks have contended that privacy and security concerns would discourage customers from using BigTech firms for financial services, even though BigTechs' barriers to entry have been diminishing substantially. These days, more and more consumers are trusting technology firms based on their positive experiences during other routine BigTech interactions. In fact, one-fourth of customers complain that newcomer financial products and services are still limited.

If new-age firms begin to enthusiastically promote a broader range of attractive, relevant and convenient offerings, traditional banks will face a severe threat. The time has come for bank executives to accept that past concerns no longer deter customers from considering a switch.

**Regulations will play a critical role in how banks can respond to these challenges. While regulations can limit banks' responsive options, they can also encourage the development of the capabilities of tomorrow.**

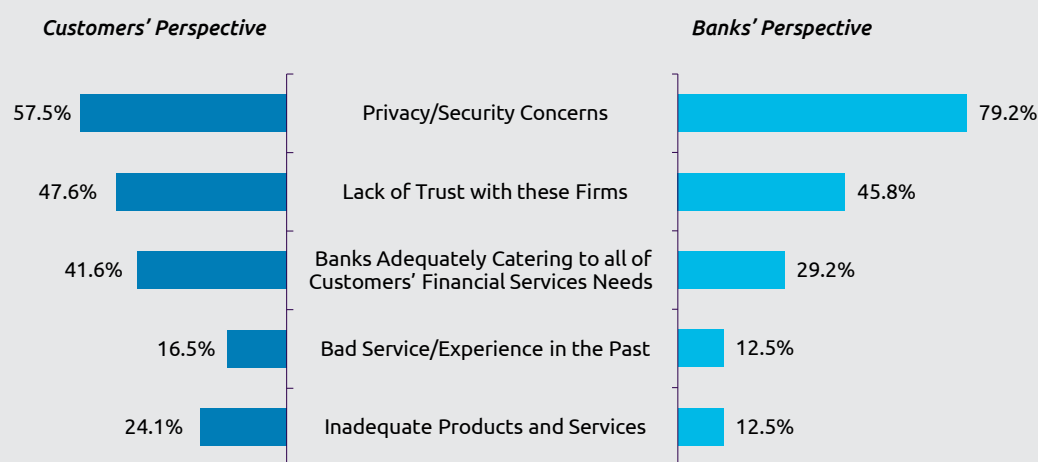
Traditionally, banks considered regulators and regulations as innovation inhibitors because of the costs associated with compliance. Since the subprime crisis, banks have shelled out vast sums to keep up with capital and liquidity regulatory requirements.

Regulations such as the **MiFID II (Markets in Financial Infrastructure Directive)** require compliance with reporting conditions such as time-stamp and more than 65 other elements covering trading activities, which is likely to spur higher data management costs.

Now that the **GDPR (General Data Protection Regulation)** has come into force, banks face a significant innovation challenge as they will look to protect the security of additional data received through digital channels.

With regulation being a mandated cost of doing business, many cash-strapped banks have been forced to deprioritize their innovation and digital transformation efforts. However, regulation can act as an enabler because when banks or any business is forced to behave differently, innovation and creative thinking often result.

**Figure 2.4 Factors That Might Deter Customers from Using BigTech Firms' Financial Services (%), 2018**



Notes: (1) The percentages shown in the left graph represent customers who chose that particular option.

(2) The percentages shown in the right graph represent banking executives who gave a rating of 6 or 7 on a scale of 1–7 for each of the services.

Questions: (1) "What are the concerns that might deter you from availing financial services and products from internet/technology firms such as Google, Apple, Amazon, Facebook, Alibaba, etc.? (Please select all the applicable reasons)."

(2) "What are the factors that might deter customers from availing financial products and services from BigTech firms such as Google, Apple, Amazon, Facebook, Alibaba, etc. in the near future? (Please provide the importance of each of these factors on a scale of 1–7, with 7 being a 'very important factor' and 1 being 'not at all important')."

Sources: Capgemini Financial Services Analysis, 2018; Capgemini Voice of the Customer Survey, 2018; 2018 Retail Banking Executive Interview Survey, Capgemini Global Financial Services.

When we look at **KYC (Know Your Customer)** requirements which intend to prevent money laundering, some banks have used automation extensively to perform these checks in real-time, allowing quicker decision making.

**PSD2 (Payment Services Directive 2)** was designed to promote industry competition, protect consumers from fraud, and encourage lower prices. For banks, it provides an excellent opportunity to monetize and share their customer data with third parties such as FinTechs and to enable collaborations to create first-of-their-kind offerings.

*“It is not the regulatory approach that matters but how the banks will interpret regulations. For example, you can implement PSD2, with a business approach or a defensive approach. It depends on banks.”*

**Senior Executive – Leading bank in Italy**

**Financial services front-runners are strategically aiming to develop and deliver new-age offerings, services, and value propositions to take customer experience to the next level.**

Despite uncertainties, banks will have to evolve to accommodate shifting conditions and customer expectations. It will take innovative new offerings, services, and value propositions to drive customer experience to the next level. Within today’s dynamic competitive environment and amid high-velocity changes, there are no set rules – aside from agility and customer centricity – that will ensure success.

### **Kotak 811 elevates customer experience via onboarding ease and access to a range of features that enable customers to bank, shop, pay and live**

Indian private-sector bank, Kotak Mahindra Bank, launched its digital banking initiative, 811, in early 2017, offering zero-balance savings accounts with no charges for digital transactions. Kotak 811 is India’s first digital, paperless savings account that can be opened instantly through the mobile app or the web. It offers mobile features, such as financial transactions, fund transfer, and investment management. Its lifestyle app also makes it easy to access e-commerce platforms. Kotak 811 is fully integrated with the Indian government’s digital payment system (Bharat QR Code), so money can quickly be sent or received. Kotak 811 makes 24/7 account opening customer-centric, with no paperwork or physical presence needed.

Kotak Mahindra Bank’s 811 service had 12 million customers as of December 31, 2017. Moreover, mobile transactions were up 120% year-over-year while mobile banking increased 111% in value and 120% in volume.<sup>46</sup> The Kotak mobile banking app has garnered a 4.5 rating (out of 5 stars), which makes it one of the most highly rated banking apps in the Google App store.<sup>47</sup> What’s more, the popular app earned the *Best Corporate Innovation Award* at the 2017 India FinTech Awards (IFTA).<sup>48</sup>

46 Kotak Mahindra Bank, Investor Presentation Q4FY18

47 Google App Store, [https://play.google.com/store/apps/details?id=com.msfbank.mobile&hl=en\\_US](https://play.google.com/store/apps/details?id=com.msfbank.mobile&hl=en_US) Accessed June 28, 2018

48 Market Simplified website, “Kotak 811 triumphs at India FinTech Awards 2017,” December 4, 2017 <https://www.marketsimplified.com/kotak-811-triumphs-at-india-fintech-awards-2017/>

# The New Financial Services Ecosystem Can Be Leveraged Through Strategic Transformation of Banking Business Models



## Summary

**A new, open ecosystem of customers, traditional banks, FinTech firms, regulators, developers, non-banking firms, and others to potentially follow – is taking shape and incumbents are required to develop and implement a winning strategy for their impending new roles.**

- While disruption will change the traditional banking landscape, all players are expected to stabilize their ecosystem position eventually.
- A successful future-ready model will be agile and flexible enough to help banks thrive in the open banking ecosystem and to remain at the center of the action.

**New technology, fast-paced unprecedented change, and unexpected competition have made previous banking models obsolete. Updated models are now required to innovate new revenue streams and for developing delight-inducing customer experiences – all while maintaining banks' control of their customer relationships.**

- New banking models will be born from principles around data, technology, and an agile, digitally-focused organizational culture.
- Possibilities and partnerships from both the financial services arena and other industries offer a path to connected, seamless customer services, and new revenue streams.
- Enabled by robust IT infrastructure, digital capabilities, and customer-centricity, banks should embark on a long-term transformational journey rather than a trip from point A to point B.



## A new, open ecosystem of customers, traditional banks, FinTech firms, regulators, developers and non-banking firms – is taking shape.

**Traditional banks are compelled to develop and set winning strategies for their impending new ecosystem roles as aggressive competitors, emerging technologies, rising customer expectations, and regulatory mandates reshape the way banks have worked for decades.**

The drivers of change vary across countries and geographic regions. Often prompted by regulation, most geographies are witnessing new forms of competition. For example, there are numerous wallet players in India, and big platforms have a strong Asia-Pacific presence (AliPay, WeChat).

With computational power exponentially expanding to enable vast amounts of data to be managed and processed in near-real time, technologies such as artificial intelligence (AI), machine learning (ML), distributed ledger technology (DLT), and the Internet of Things (IoT) are making new business models possible.

*“Adoption of AI and ML is faster due to packaged products that reduce the learning curve for regular users.”*

**SVP Technology – Leading bank in Canada**

Today’s customers expect more from banks. They want the digital-age services provided by banks to be readily accessible and to be relevant to their context. This customer-centric approach encourages reevaluation of the ways in which bank products and services are delivered and priced.

FinTech firms are continuously challenging the old models, and industry practices are converging. Therefore, banks are on the verge of significant change. Customers don’t expect banking to be a stand-alone destination. They seek banking services

integrated within their contextual requirements. That’s why it makes strategic sense for banks to support the API-led economy and collaborate with third-parties to offer new-age services.

Straight-through processing will become the norm as complex tasks are now simplified through AI and ML so that real-time decisions and analysis of risk and fraud are accomplished through previously unavailable, extensive data sets.

Banking products should also be reimaged by disaggregating core platforms into services, separating out transaction processing from product and customer management. Successful growth is no longer about adding a digital business at the fringe of the bank. Instead, it’s about realigning a customer-centric organization while managing the regulatory, commercial, and risk dimensions unique to financial services.

**Because of ongoing changes, a new ecosystem comprised of several stakeholders is expected to arise with banks remaining at the center of the action.**

This future ecosystem will include customers, FinTech firms, other banks, developer communities, and non-financial services players as well as other players that may join down the road. Increased acceptance of FinTech firms and the development of innovative products/services by third parties have made it imperative for banks to work collaboratively. In fact, in some locations, visionary banks are embracing change and have already put ecosystem-based programs in place.

However, it is vital for banks to maintain control of their customer relationships to avoid severe disintermediation and the threat of becoming a utility provider. For this reason, they should position themselves at the center of the ecosystem.



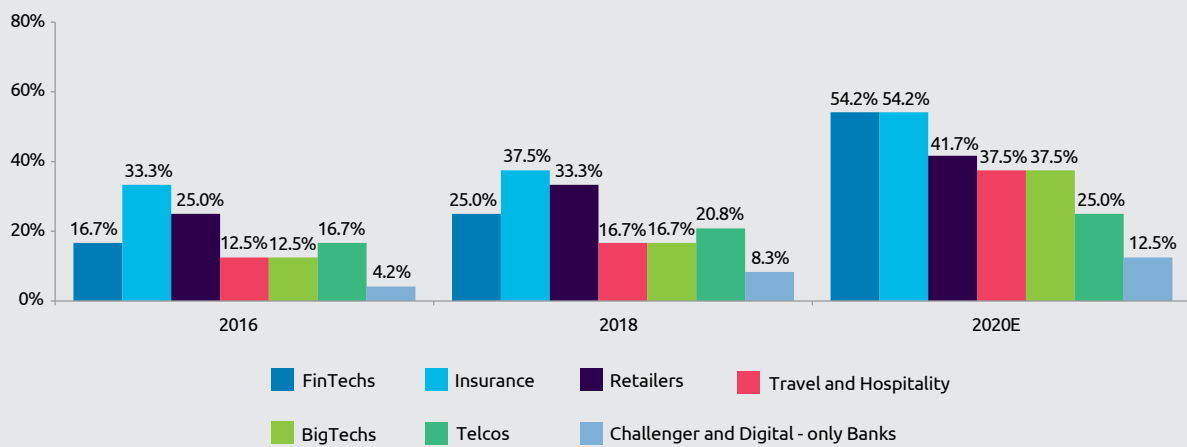
**As the ecosystem evolves, roles and perceptions of players will advance. While banks may view non-banking players as competitors today, they expect more partnership within the future banking ecosystem** (Figure 3.1).

Although FinTech and BigTech firms may not have made significant contributions to date, bank executives foresee more ecosystem influence in the

*“Two extreme models of banking will emerge. We will have the Netflix-style platform model where different types of firms offer services, but banks will facilitate these economic interchanges. And, on the other hand, we will have niche banks that, for example, cater to high-net-worth individuals or other specific customer segments such as sportsmen, film celebrities etc.”*

**Ramon Lladós Bernaus, Corporate Services Division Director, Crèdit Andorrà**

**Figure 3.1 Banks’ Perception of Other Entities’ Ecosystem Contribution (%), 2018**



Note: The percentages represent banking executives who gave a rating of 6 or 7 on a scale of 1–7 for each of the entities.

Question: “What has been/will be the role played by non-banking entities over the given timeframe, i.e. do you perceive them to be a competitor to banks OR do you see them as enablers/partners in the banking ecosystem? (Please provide your response on a scale of 1–7 as detailed in the dropdown below with 1 being a ‘Key Competitor of Bank’ and 7 being a ‘Key Contributor to the Banking Ecosystem’).”

Sources: Capgemini Financial Services Analysis, 2018; 2018 Retail Banking Executive Interview Survey, Capgemini Global Financial Services.

future. FinTech and BigTech potential and abilities may encourage a shift in banking strategy that spurs partnership and collaboration. Such changing views also give rise to the possibility of shared offerings in which banks and non-banks come together to deliver better and more comprehensive services.

**Customers are expected to benefit from more unique offerings as ecosystem momentum picks up.** Increased collaboration among various players is likely to spur seamless, streamlined experiences offered through connected systems – saving customers the hassle of interacting and managing multiple service providers.

While views differ about how retail banking will evolve, customers are expected to benefit from evolutionary changes.

**Structural changes within the industry require operational, organizational, and technology transformation.** Yet, until now, most banks have made only minor inroads using data and technology with little progress toward complete transformation.

**Time commitment**

Complete bank transformation requires rebuilding or redeploying systems from the ground up, and it may be a lengthy process with uncertain ROI. Moreover, because banking systems are expected to operate 24/7, implementation may entail sizable disruption.

**Risk**

Considering the complexity, system transformation is a risky process with potential loss of customer data or unplanned outages.

**Cost**

Specific benefits and risks associated with transformation or implementation are not easy to quantify, making it difficult for banks to build a convincing business case.

Banks are investing in new channels and technologies seeking to meet business requirements while fulfilling digital strategies, laying them over current systems with little change beyond the front end. Subsequently, existing systems and processes have grown to include multiple layers and technology platforms built on top of each other. Quick fixes have provided a short-term solution but are creating more complex systems over the long-term. As the eventual tipping point nears, transformation may become significantly more difficult and expensive, than if it had been undertaken more rapidly.

*“I’m convinced that banks will become the platform for many services by strongly changing their actual technological structure. The change of legacy perhaps is the hardest challenge to exceed.”*

**Pierpio Cerfogli, Chief Business Officer, BPER Banca**

The situation faced by non-traditional players such as FinTech firms, BigTechs, and challenger banks is different because they are digital natives without significant legacy concerns. Therefore, they have kept pace with new technology and shifting customer expectations and have quickly rolled out innovative products and services.

**Minor changes and inconsistent approaches across business functions will not help banks in the long run. A digital, optichannel, ecosystem model will help banks hedge against a changing landscape**

(Figure 3.2).

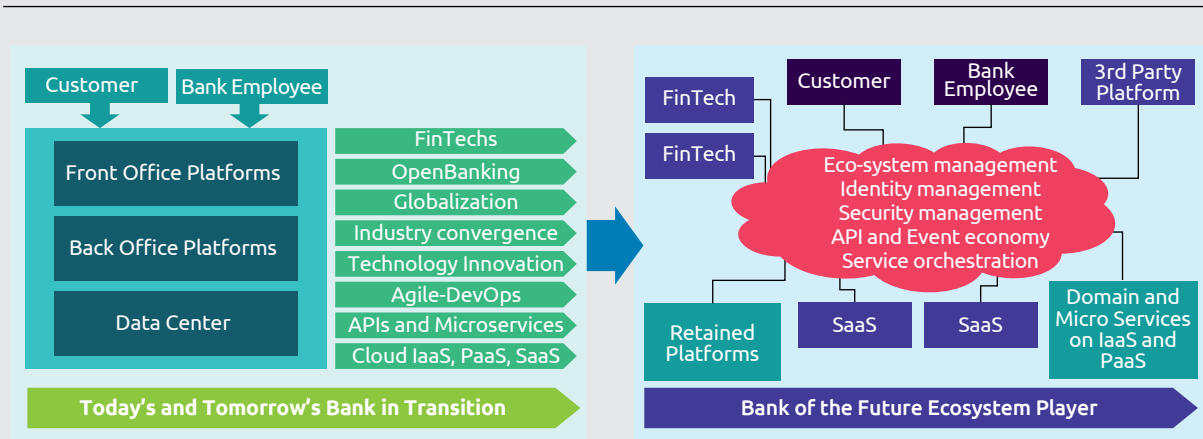
As the industry landscape fluctuates and the ecosystem evolves, banks are evaluating their operating models to seize opportunities through customer-centricity and technological know-how. However, new models should also prioritize rapid development and deployment of services. A three-layer digital model will enable banks to offer superior customer experience and responsiveness while remaining compliant with ever-shifting regulations.

The first layer is a simple, minimum-function core cut down to a basic ledger. In earlier models, services focused around high-integrity transaction processing and ledger management. In the new model, core platforms are disaggregated into services, to separate transaction processing from product and customer management. The new model will spur enthusiastic product management and platforms bundled independently of core ledgers, which will morph into real-time utility services, not reliant on batch models.

*“A best practice now is to have the general ledger outside the core banking system. Smarter banks are using Enterprise GL to combine financial and non-financial data for personalization of products and services.”*

**Azeem Azimuddin, CFO and Advisor to Chairman, AYA Bank**

**Figure 3.2 The Changing Bank Ecosystem**



Source: Capgemini Financial Services Analysis, 2018.

The second layer is agile, with no – or limited – differentiation among digital functions such as customer management and omnichannel support that includes security, integration, and analytics across all touchpoints. This second layer will consist of core functions (such as product management and onboarding) stripped from the first layer – now a basic ledger. Therefore, it can be configured easily with business rules such as dynamic pricing or quotes. The third and outer layer can be a significant differentiator for banks because it can be added (or removed) quickly to accommodate third-party providers such as FinTech firms. The layer's plug-and-play option will help banks meet customer expectations with new business models or services (banking or other) offered directly or through collaboration. What's more, banks could experiment and craft a *North Star* strategy to help them rally around innovation areas and value propositions most relevant to customers.

*"It is evident from all the market observations that the opening of information (open data) and the progressive standardization of exchange methods (open API) are leading to a heterogeneous ecosystem of actors who can (and must) collaborate to elevate the service to customers and – in a more general sense—to the community."*

**Chief Operating Officer of a leading Italian bank**

The three-layer model enables an optichannel experience, defined as the optimal channel experience for each customer at each touch point, depending on customer journey, customer interaction history, and contextual data.

The three-layer model enables an individual customer experience across all touchpoints by design, by using the preferences of that customer.

It also will help banks to maximize the speed to value and buy, eliminating the need for building everything from scratch. Coupled with agile and DevOps practices, the new model will enable automated application lifecycle management and rapid deployment of new

business functions. Moreover, as business boundaries disappear, banks will be able to manage a federation of services with a broad ecosystem of partners.

This evolved model of agile and simplified architecture can help banks become more flexible and cost-effective. However, the evolution will not happen overnight.

*"It's not going to be a magical, massive transformation where we shift from one platform to the other. It will be more gradual with measurable progress. Ultimately, architecture will support a more dynamic model and we will gradually decommission legacy. The focus will be on key businesses and product areas within a shared services environment that will help firms eliminate fixed costs, free up investment capital, and enable partnerships to accelerate the revenue side."*

**Kevin Bannerton, Partner, Head of Corporate Strategy & Product Development, Total Bank Solutions**

*"In the new paradigm, every firm seeks to be part of some ecosystem of a customer journey. These firms play different roles—creator, participant or orchestrator—depending on their position in the value chain. Companies that realize they can no longer exist in isolation will stand a chance to retain, if not expand, their customer base. The implication for banks includes the emergence of business models driven by the desire to create a seamless client journey and co-sharing of data to provide greater relevance to their client base."*

**Siew Choo Soh, Head of Consumer Banking and Big Data Analytics Technology, DBS**

## Innovative Models Are Required to Develop New Revenue Streams and Customer Experiences That Create Delight.

**A successful future-ready model will be agile and flexible to help banks thrive in the open banking ecosystem and to remain at the center of the action.**

*"Banks' operating models must quickly shift given competitive pressures and technology changes. There is no way the traditional operating model can profitably last. Therefore, we must automate, rationalize the physical footprint (branches network), and better leverage data."*

**Yair Grossman, Head of Group Strategy, Israel Discount Bank**

Banks across geographies are struggling with margin pressures and other macroeconomic challenges. At the same time, the industry's move to openness threatens revenue loss to new competitors. While some banks may choose to wait and watch how the market evolves, forward-looking leaders are preparing for the future now and reimagining their business and operating models. Trends indicate that interest margins and income from transaction processing will remain under pressure as new competition makes a foray into profitable areas of banking. While new revenue strategies will depend on the business model and value proposition, banks should consider several options.

### Optimize the base

Banks could promote low-cost digital products that help customers manage their working capital position and cash flows. Retooling customer accounts with digital-only features will help. For instance, Dutch bank ING reentered the UK retail banking market in late 2016 with *Yolt*, a free mobile app that helps consumers manage their finances on the move. Building on the EU's revised Payment Service Directive (PSD2) and an Amazon-like platform, *Yolt* is a digital-only personal financial management app that allows customers to link their existing accounts and credit cards, providing a full view of their finances in one place.<sup>49</sup>

### Drive consumer mindshare

Open banking is being leveraged through partnerships with established and emerging players to offer superior customer experiences and new products and services. Experience-based partnerships are cropping up across the globe to stimulate differentiation and new revenue streams. For instance, digital-only Starling Bank enables its customers to make transfers from the UK across 35 currencies via an app from London FinTech startup TransferWise.<sup>50</sup> For now, the service includes only checking accounts, but plans are underway to integrate pensions, savings, travel insurance, and mortgages through 25 partnerships.<sup>51</sup>

### Create a value play through horizontal and vertical integration

This option enables value proposition extensions through ecosystem partnerships or by leveraging emerging technology such as artificial intelligence (AI). Cross-sector collaboration (retail or healthcare for example) is also becoming increasingly popular. For example, American Express acquired AI travel assistant startup Mezi to offer AMEX customers a personal travel agent that learns patterns and preferences over time. American Express had previously collaborated with Mezi on pilot project *AskAmes*, which was built to support card members and travel providers.<sup>52</sup>

*"To maintain margins, banks must first optimize resources using a technology infrastructure that augments channels. Thanks to technology, today's customers are doing their operations via mobile and other digital channels without bank staff, which leaves branch representatives available to provide extra services or handle complex issues such as mortgages or commercial needs. Second, banks must build new platform businesses. We have the data, the customer base, and the technology. Through a platform for non-financial companies tied to our mobile app, we can create new revenues by helping retailers work with us to serve their customers."*

**Burak Sezercan, Head of Retail Banking Division, Isbank**

49 *Financial Times*, "ING returns to UK market with free mobile app," Martin Arnold, October 18, 2016 <https://www.ft.com/content/e2f7f7b6-9463-11e6-a1dc-bdf38d484582>

50 *Wired*, "TransferWise partners with digital-only Starling Bank," Lee Bell, March 15, 2017, <http://www.wired.co.uk/article/transferwise>

51 *TechCrunch*, "Starling's marketplace banking rollout adds pensions, savings, travel insurance and mortgages," Steve O'Hear, Feb 13, 2018 <https://techcrunch.com/2018/02/13/starling-financial-marketplace>

52 *TechCrunch*, "Virtual travel assistant Mezi acquired by American Express," Catherine Shu, January 30, 2018 <https://techcrunch.com/2018/01/30/virtual-travel-assistant-mezi-acquired-by-american-express>

Heavily reliant on application programming interfaces (APIs), these new business models and value propositions will enable banks to generate revenue through direct or indirect aggregation.

***“Banks must try to commoditize basic banking services to achieve cost reduction. First, they can implement the open banking model to improve revenues by becoming a player able to integrate and leverage the FinTech ecosystem to offer more value-added services. Second, they can utilize data to increase service profitability and improve customer engagement. And, finally, they should manage customer relationships – especially the last mile.”***

**Deputy CIO – major European bank**

*“To enhance profits, banks must relentlessly focus on digitization to create a scalable model. They must move away from delivery models that depend on physical assets and high human touch, except for very selective high-end advisory roles where high human touch is the differentiator.”*

**Siew Choo Soh, Head of Consumer Banking and Big Data Analytics Technology, DBS**

Some financial services innovators are chalking up significant wins by implementing new-age revenue models and working within a services ecosystem.

Founded in Stockholm in 2005, **Klarna** is one of Europe’s leading providers of payment solutions for e-commerce. The company is present in 19 countries, with nearly 90,000 merchants serving 60 million customers.<sup>53</sup> Klarna offers online shoppers the flexibility to “try before they buy” through post-purchase or planned payments. Its unique micro-credit-check business model allows customers to pay after they receive their ordered items. Klarna pays the merchant before receiving funds from customers based on AI-powered algorithms that assess

individuals’ credit worthiness. Recently, it acquired a banking license from the Swedish regulator and is planning to launch its own-brand credit cards to use both in-store as well as online.<sup>54 55</sup> Features of the Klarna *buy now, pay later* revenue model include:

- **Merchant fees:** Klarna charges merchants a set-up fee as well as a fee-per-transaction percentage in exchange for payment services.
- **User fees:** Klarna end users pay by invoice or through an account. The invoice option is normally cleared in 14 days with interest charged on installment or late payment plans. There is no fee for the account option.
- **Revenue sharing with partners:** Klarna collaborates with platform players to plug in their services through APIs and earn a transaction fee percentage per API call.

**Paytm** (an acronym for payment through mobile) is India’s largest platform for mobile payments, e-wallet service, and commerce based on a marketplace model. It serves around 280 million mobile wallet users and five million merchant partners.<sup>56</sup> Paytm launched in 2010 as an app to refill mobile balances (calling minutes), but quickly expanded, using its mobile app. In 2013, the company introduced Paytm wallet, which allows users to store money in an e-wallet on their phones.

In 2015, the e-wallet was folded into a payments bank service, allowing customers to place more money in their mobile wallet and earn interest on their deposits. Paytm now provides loans, sells insurance policies, and facilitates gold transactions.<sup>57</sup> Over the years, the company has developed an ecosystem of services that contribute to its overall revenue.<sup>58</sup>

- **Digital Gold:** Paytm partners with gold refiners to enable its users to buy, sell, and store gold digitally, and earns revenue through affiliate commissions.

53 Klarna website, Klarna Statistics

<https://www.klarna.com/uk/about-us/klarna-statistics>, Accessed July 10, 2018.

54 TechCrunch, <https://techcrunch.com/2017/06/19/klarna-gets-a-full-banking-license-gears-up-to-go-beyond-financing-payments>

55 Retail Gazette, “How can retailers protect themselves from a ‘pay later’ returns culture?” Ava Szajna-Hopgood, April 25, 2018

<https://www.retailgazette.co.uk/blog/2018/04/can-retailers-protect-pay-later-returns-culture>

56 Live Mint, “100 million Paytm users have completed KYC” Salman S.H, April 23, 2018

<https://www.livemint.com/Industry/A6ffGLyEs2SKi74Et7ce7J/100-million-Paytm-users-have-completed-KYC.html>

57 CB Insights, “How The Owner Of India’s Massively Successful Paytm Mobile App Wants To Take Over Banking, Insurance, Loans, Credit Cards, And More,” March 8, 2018

<https://www.cbinsights.com/research/one97-communications-paytm-fintech-strategy-expert-intelligence/>

58 Paytm website, <https://paytm.com>

- **Payment Solutions:** Paytm offers smart payment solutions for online businesses, charging a per-transaction commission.
- **Paytm Marketplace:** Paytm Mall (the e-commerce arm of Paytm) comprises around 75,000 retailers<sup>59</sup> and is eyeing for US\$10 billion sales by FY19.<sup>60</sup> Revenue is generated through fees and commissions from sellers and differs by product category.
- **Recharge Services:** Paytm provides mobile recharges, bill payments, TV channel subscriptions, and data card services – and charges commissions from operators.
- **Paytm Wallet:** Money in Paytm wallets is deposited into an interest-earning escrow account with a partner bank.
- **Paytm Bank:** A digital bank that accepts deposits and awards interest on deposits, but does not offer loans.

Within the API-driven ecosystem, banks can develop, test, and embrace innovative strategies to spur new revenue streams. Our *World Retail Banking Report 2017* explored a range of approaches for application programming interface (API) adoption. Today, those strategies are particularly relevant because the evolving ecosystem increasingly depends on APIs; and banks are looking for revenue-generation ideas, which

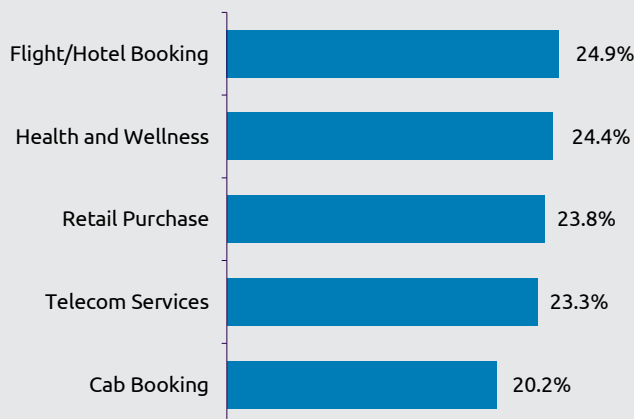
are linked directly or indirectly to API use or generated value. New strategies include using APIs to create: non-linear revenue growth, more internal and external innovation by allowing other businesses, partners, suppliers, and collaborators to innovate on top of bank platform services, and direct integration of third-party systems with bank systems.

APIs can also help deliver a bank’s proprietary or collaborated services by decreasing architectural couplings to better manage and scale independent systems. Device-independent APIs also can help banks to prepare for the expanded penetration of the Internet of Things (IoT). The time is now for banks to devise a forward-looking API development and management strategy.

**As non-financial firms offer banking services and blur traditional industry boundaries, the connected-ecosystem evolution enables the creation of non-banking-based revenue models.**

While some banks may be reluctant to venture into non-banking services and may even be limited by regulations, nearly a quarter of banking customers interviewed for the *WRBR 2018* said they were willing to purchase a variety of non-banking services from their banks. While this figure is indicative for now, the creation of a diverse services ecosystem by banks may encourage even more customer interest (Figure 3.3).

**Figure 3.3 Customers’ Likelihood of Purchasing Non-Banking Services from their Bank (%), 2018**



Note: The percentages represent customers who gave a rating of 6 or 7 on a scale of 1–7 for each of the non-banking services.

Question: “If your bank/insurance firms start directly offering the following services, how likely are you to avail them? (Please rate on a scale of 1 to 7, where 7 is ‘highly likely’ and 1 is ‘highly unlikely’).”

Sources: Capgemini Financial Services Analysis, 2018; Capgemini Voice of the Customer Survey, 2018.

59 *The Times of India*, “Paytm Mall claims it doubled share to 14% of e-tail market”, May 03, 2018

<https://timesofindia.indiatimes.com/companies/paytm-mall-claims-it-doubled-share-to-14-of-e-tail-market-in-six-months/articleshow/64010550.cms>

60 *The Hindu Business Line*, “Paytm Mall eyes \$10 billion sales by FY19” Abhishek Law, March 14, 2018

<https://www.thehindubusinessline.com/news/paytm-mall-eyes-10-billion-sales-by-fy19/article23246303.ece>



Indeed, the sale of these new services will bolster bank revenues. More importantly, however, new offerings will help incumbents retain control of relationships and become part of their customers’ daily lives – a vital source of insights.

Bank executives acknowledge that it may be difficult to develop new products and services in isolation or independently and say collaboration is critical to producing and distributing new offerings (Figure 3.4). Similarly, bank leaders realize they may need support when it comes to meeting customers’ growing expectations.

It’s no surprise, then, that platformification is gaining traction as a way to both attract customers and third-party providers that can best fulfill customer demands.

Future-focused banks will invest in infrastructure to accommodate third parties with which they can synergistically develop and distribute innovative new products.

*“We are moving toward a significant unbundling of the distribution model where we have vendor or third-party distribution through the bank’s digital touchpoints with the bank switching to an interface or a dumb pipe. Distribution is becoming more complex, but there is room for banks to distinguish themselves. Increasingly, we will move to specialization, which is what open banking attempts to push. Players that are not traditional financial institutions will get into the fray. And, at the same time, opportunities will increase for distribution across both financial institutions and through third parties.”*

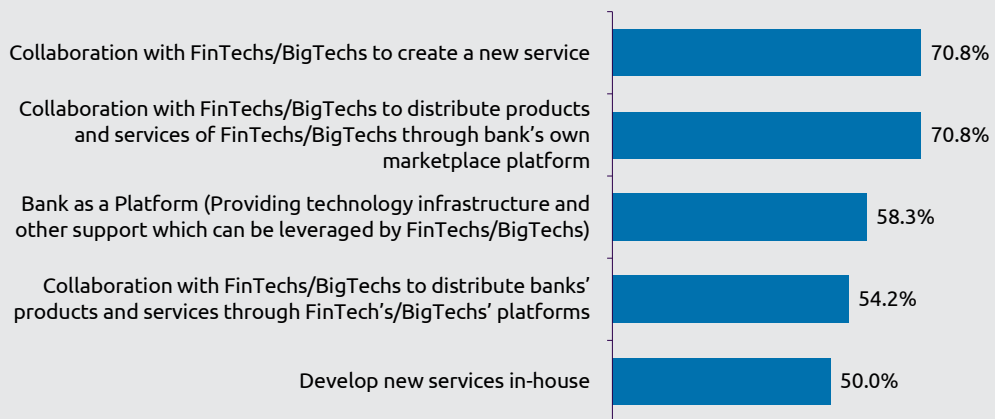
**Senior Executive, Emirates NBD**

Just as incumbents and FinTech firms turned from foes to allied collaborators, it is likely that banking ecosystem players will find their place and work collaboratively to originate new services and experiences.

*“Some banks will consider platforms and marketplaces to distribute products versus their current closed practices.”*

**Deepak Sharma, CDO, Kotak Bank**

**Figure 3.4 Banks’ View of Opportunities to Generate Non-Traditional Revenue Streams (%), 2018**



**Note:** The percentages represent customers who gave a rating of 6 or 7 on a scale of 1–7 for each of the opportunities.  
**Question:** “How important are the following opportunities for banks to help develop new products/services (either in-house or in cross-sector collaboration) in order to generate non-traditional revenue streams?” (Please rate the following opportunities on an importance scale of 1–7, with 7 being a ‘very important opportunity’ and 1 being ‘not at all important’).”

**Sources:** Capgemini Financial Services Analysis, 2018; 2018 Retail Banking Executive Interview Survey, Capgemini Global Financial Services.

To some, it may seem farfetched for banks to offer non-banking services. In reality, however, many banks have already begun to provide non-traditional services. The examples below illustrate this innovative trend.<sup>61</sup>

### **Rabobank enters the digital identity market**

Dutch multinational banking and financial services company, Rabobank partnered with Norwegian FinTech firm Signicat to provide a digital identity hub for businesses looking to onboard new customers and sign legally-binding contracts online. As a joint Digital Identity Service Provider (DISP), Rabobank began offering online login, signature, identity, and archiving solutions last year to energy, telecom, and insurance companies, as well as to healthcare institutions and financial services providers. The new services are lucrative for Rabobank because clients appreciate the direct access to bank-verified-and-approved business and individual identities without having to invest in know-your-customer/background check processes. An extension of services to retail customers may be considered.

### **Isbank partners with Piri to offer bank customers a superior travel experience**

Turkey's largest bank, Isbank, collaborated with audio walking tour app Piri to make it easier for its customers to plan a trip. Piri is an affordable, tech-enabled solution that offers travelers unique stories and tested tour routes, as well as easy access to relevant travel content spoken through the voices of local guides. Launched in November 2016 on AppStore and Google Play, the Piri service app was downloaded more than 100,000 times within a year. Isbank's VIP customers can access domestic Piri tours for free, and the bank can monetize the service for use by others.

### **OP Financial Group offers electric car-leasing service**

One of the largest financial companies in Finland, OP Financial Group, now provides electric car-leasing for private and corporate customers for a fixed monthly fee. The *OP Kulku* program does not require a significant initial investment from customers and includes insurance and maintenance coverage. OP Kulku utilizes an omnichannel sales model through which various channels are matched to typical customer behavior. The OP Kulku website encourages customers to daydream about electric and hybrid cars and helps them compare different models. Once a customer indicates interest, the OP Kulku service desk is alerted and a human agent visits with the customer online to set up a test drive. OP Kulku has

boosted electric car use in Finland and has garnered overwhelming media coverage that is setting the stage for OP's other mobility services. OP Kulku's market share for newly-registered electric cars in Finland is more than 20%. The program boosts the bank's financing and insurance businesses.

### **Emirates NBD launches e-commerce portal**

Dubai-based Emirates NBD launched an e-commerce portal, *SkyShopper*, to make exclusive deals available to its customers. The portal's mission is to become a single destination to book flights, pay bills, shop locally and internationally, or plan movie and entertainment events without toggling among different websites. SkyShopper is enhancing customer experience through best practices and integration with e-commerce leaders. The efforts have been successful so far, with spend/visit results indicating SkyShopper potential. Within 75 days of launch, more than 3,000 Emirates NBD customers signed up, spends exceeded US\$544,490, visits surpassed 250,000, and an average purchase totaled US\$436. As UAE e-commerce is forecasted to heat up, Emirates NBD aims to gain a significant share of the market while increasing revenue from card instruments.

*"SkyShopper is a multi-product online marketplace exclusive to Emirates NBD customers that provides shopping across categories – travel, fashion, electronics, and others and also from international geographies – with the convenience of a single check out. Despite its rapid growth, the UAE's e-commerce sector continues to be based largely on cash on delivery. SkyShopper is uniquely positioned to change that by providing customers the security and convenience of purchasing everything from airline tickets to mobile phones and luxury items to groceries via Emirates NBD's trusted payment platform, in addition to exclusive deals and promotions."*

#### **Senior Executive, Emirates NBD**

These examples demonstrate that banks can develop new revenue streams from a range of opportunities. Non-banking services that are adjacent to a bank's existing offerings and services may be the most likely for early consideration – travel, insurance, or foreign exchange services, for example.

New strategies will help banks only remain focused on defending their strengths while beginning to compete with firms in other industries. Such expansion of services may not seem significant at the moment, but it offers a glimpse of the future of business within the new banking ecosystem.

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61 Efma Innovation in Retail Banking Portal, <https://www.efma.com/innovations>



## New Banking Models Will Be Born from Principles around Data, Technology, and an Agile, Digitally-Focused Organizational Culture

**New-age strategies can reinforce banks' pivotal role within the new ecosystem and to customer relationships.** While there is no surefire path to a bank's winning emergence in the new ecosystem, there are 10 DNA-like markers to help guide the way (Figure 3.5).

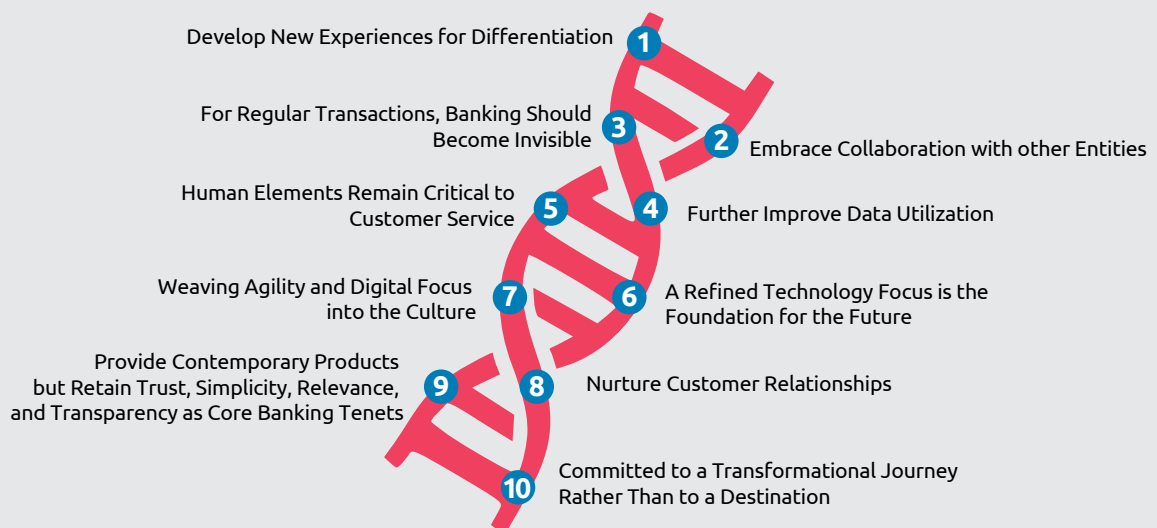
### Enhanced convenience

With the rapid adoption of digital, AI, and voice assistance technologies, banks are poised to develop superior experiences. For example, while voice-based banking with built-in authentication is in its early stages today, it may soon become mainstream.

### Advice

Advisory experiences that customers may not expect, may add to their delight. For instance, offering a consolidated view of financials, analysis, and suggestions and offers based on spending patterns and needs.

**Figure 3.5 Guiding Principles Can Help Banks Thrive in the Future Ecosystem**



Source: Capgemini Financial Services Analysis, 2018.

### 1 - Develop new experiences for differentiation

Banks will have to reimagine financial services and continually offer new customer experiences that are personalized and relevant to consumers' changing needs and lifestyles to stay ahead of the competition. Potential areas for development include:

#### Cross-sector services

Banks might consider new services and experiences—both inside and outside of financial services—to create sticky and immersive experiences for banking ecosystem customers. Consider collaboration with various potential industries and choose a complementary partner.

#### Value-added services

Banks can develop innovative services such as mobile ATMs or concierge services for VIP customers based on firm strengths, customer expectations, and geographic trends.

*"The market will not be driven simply by prices or offering customers a better deal. The critical factor will be the bank's opportunity to have a 360-degree view of the customer and accompany him through all life stages with the appropriate products and services."*

**Brahim Benjelloun-Touimi, Group Executive Managing Director of BMCE Bank of Africa and Chairman of BOA Group**

The following banks are taking the lead when it comes to differentiation by delivering innovative customer experience.

### **HSBC—Facial Recognition**

HSBC offers facial-recognition banking for its corporate customers and may eventually consider its extension to retail customers. Clients in 24 countries use Face ID to log in to the HSBCnet app, which already offers a nearly-instant Touch ID login.<sup>62</sup>

### **Monzo—Task Automation with IFTTT**

UK digital bank Monzo is leveraging the free web-based service If This Then That (IFTTT)—which creates chains of simple conditional statements called applets—to enable customers to automate tasks using their financial data. Monzo customers leverage a range of applets to simplify their financial lives as IFTTT brings all internet-connected devices together. Personalized rules for money management is a significant step in moving beyond passive insights to active, tangible actions customers can take according to their preferences.<sup>63</sup>

### **Capital One—Uses Foursquare to Push Offers**

Capital One is piloting the use of location-based customer data to push offers to customers who shop at partner retailers. The bank has been working with data and analytics platform Foursquare to roll out real-time notifications within its mobile banking app.<sup>64</sup>

### **Chase—Voice Authentication**

Chase is rolling out voice-based authentication for credit card customers phoning its call center. Apart from security and convenience, more efficient authentication methods can save Chase money and cut down on abandoned transactions.<sup>65</sup>

### **SBI—YONO**

State Bank of India, the country's largest, launched YONO (You Only Need One), a fully digital banking platform to address all the financial needs of customers as well as lifestyle requirements. YONO includes a digital bank where customers can do all banking, payments and other non-financial banking transactions; a financial superstore wherein it offers insurance, mutual funds, investment options, etc. and an online marketplace featuring options from auto rental to retail purchases to travel planning.<sup>66</sup>

Overall, banks should keep a close watch on how digital is becoming embedded within customers' lives to ensure similar inclusion.

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62 *BankingTech*, "HSBC unveils facial-recognition banking for corporate customers," Antony Peyton, May 9, 2018  
<https://www.bankingtech.com/2018/05/hsbc-unveils-facial-recognition-banking-for-corporate-customers>

63 *Wired*, "Monzo's big smart bank move links your money to Alexa, Twitter and pretty much anything else," Matt Reynolds, June 7, 2018  
<http://www.wired.co.uk/article/monzo-if-this-then-that-integration-ifttt-bank>

64 *Tearsheet*, "Capital One is using Foursquare to push offers to customers," Suman Bhattacharya, May 17, 2018  
<https://www.tearsheet.co/modern-banking-experience/capital-one-is-using-foursquare-to-push-offers-to-customers>

65 JP Morgan Chase website, "Chase Introduces 'Voice ID' to Credit Card Customers," Ashley E. Dodd, April 19, 2018  
<https://media.chase.com/content/pr/chase-introduces-voice-id-to-credit-card-customers>

66 State Bank of India website, <https://www.sbiyono.sbi>

## The Voice Heard Around the World: Digital Assistants

**The broad acceptance and popularity of voice-based digital assistants is a significant lifestyle change for consumers, and many banks are strategically leveraging the trend.**

### Drivers

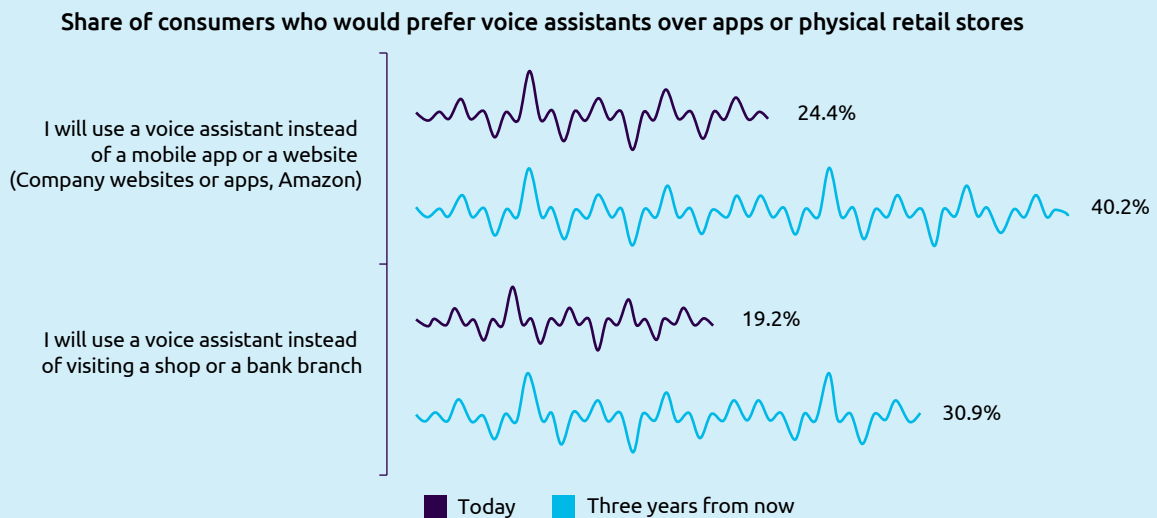
There has been a prominent move recently toward chatbot-based customer service from Interactive Voice Response/phone/email. However, even before broad adoption, advancements in the natural language processing capability of machines made a compelling case for voice-based banking services. Apple’s *Siri*, Google’s *Assistant*, Amazon’s *Alexa*, and Microsoft’s *Cortana* have made inroads into customers’ daily lives through services such as entertainment, shopping, or ride-hailing. It is only the matter of time before customers expect banks to provide financial services in a similarly convenient manner.

Already among voice assistant users, around 35% said they had bought products such as groceries, homecare, and clothes via the service. Moreover, 34% of users said they had ordered a meal, and around 28% had booked a ride. Not surprisingly, 44% of users said they were interested in using voice assistance for banking services (sending money to people, paying credit card bills).<sup>67</sup> Gradually, customers will expect more voice-enabled banking services. (Figure 3.6).

### Use cases

Enabled by machine learning, voice-based assistants have a birds-eye view of customers’ financial stages and can analyze the information footprint left by customers after digital interactions with banks. This prior knowledge makes voice-based assistants efficient because they don’t waste customers’ time seeking basic information, and they can directly perform actions such as balance inquiries or money transfers. Voice assistants can also go beyond basic transactions to provide suggestions that suit customers’ lifestyle or financial needs.

**Figure 3.6 Customers’ Usage of Voice Assistants – Today vs. Three Years from Now (%), 2018**



Sources: Capgemini Financial Services Analysis, 2018; Capgemini Digital Transformation Institute, Conversational Commerce Survey, October–November 2017, N = 5,041 consumers in the US, UK, France, and Germany.

67 Capgemini’s Digital Transformation Institute, Conversational Commerce Survey, October–November 2017, N = 5,041 consumers in the US, UK, France, and Germany.

## Notable examples

Bank of America's voice assistant, *Erica*, offers customers recommendations about how to improve their market reputation or credit score.<sup>68</sup> Similarly, Capital One leverages Amazon's virtual assistant, Alexa, to offer customers voice-activated control through which they can access account information by adding Capital One to their Alexa *skills* and verbally saying, "Alexa, open Capital One," into their activated device.<sup>69</sup>

American Express has launched a feature that brings select experiences of AmericanExpress.com and the AMEX mobile app to Alexa to devices such as Amazon Echo and Echo Dot. Once a card member links their online American Express account to an Alexa-enabled device, they can check their account balance, make payments, review recent charges, and more via voice commands.<sup>70</sup> Istanbul-based Garanti Bank has, likewise, developed an interface that lets customers perform transactions on their app by speaking to it, as if they are talking with another person.<sup>71</sup>

## Future strategies

Moving forward, voice-enabled banking is expected to be embraced by customers as a natural and convenient way to interact for any task. At present, banking use cases for digital voice assistants focus mostly on basics such as checking account balances, paying bills, or tracking spending. As voice recognition matures and security-related concerns gradually recede, the technology will enable bank customers to perform more complex tasks and receive more personalized and contextual advice.

Adoption of voice-based assistants has increased dramatically over the past two years and will soon be an integral part of customers' daily lives. It is, therefore, imperative for banks to identify processes that could benefit from conversational voice platforms. Given the adoption phase and convenience factor, it would not be far-fetched to assume that banks should consider voice assistants as an entirely new channel—similar to the internet or mobile. Development of a voice strategy and investment in voice-enabling talent, technology, and tools are also prudent.

Although the task may seem daunting, voice-enabled services can help banks become more involved in customers' day-to-day lives and build long-term relationships.

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68 Maruti Tech Labs website, "DOES BANKING NEED DIGITAL VOICE ASSISTANT?," <https://www.marutitech.com/banking-need-digital-voice-assistant>, accessed July 10, 2018.

69 Capital One website, "Alexa, ask Capital One, what's my balance?," <https://www.capitalone.com/applications/alexa>, accessed July 19, 2018.

70 American Express press release, "American Express Brings the Card Member Experience to the Connected Home with Launch of the Amex Skill for Amazon Alexa," May 11, 2017, <https://about.americanexpress.com/press-release/american-express-brings-card-member-experience-connected-home-launch-amex-skill>

71 BBVA website, "Efma recognizes Garanti Bank's mobile voice assistant," Luz Fernández Espinosa, February 17, 2017 <https://www.bbva.com/en/efma-recognizes-garanti-banks-mobile-voice-assistant>

## 2 - Embrace collaboration with other entities

Banks should rely on collaboration with FinTech firms and other entities to develop innovative offerings that might be difficult to create independently.

### Offering Portfolio

It is nearly impossible for banks to be the best product/service provider across the spectrum on its own. Therefore, it would be more pragmatic for banks to identify the areas where they are good at and collaborate with other players such as FinTechs or developer communities for offerings in other banking areas. With this bank can offer best-in-class products while still maintaining their brand with the white-label approach.

### Customer Service

FinTech firms and other customer-focused players excel at providing superior customer experience. Through collaborations, traditional banks also can deliver excellent customer experience throughout the customer journey. Experiences may not be limited to the front-end as improving efficiency in the middle- and back office also translates to smoother and quicker processing of customer services.

### Technology Applications

While most banks were protective of their software in the past, things are changing as collaboration becomes key to realizing the full potential of technology. Distributed ledger technology (DLT) is an excellent example of cooperation where consortia of banks work together to drive real benefits from technology. Another example is of Fintech Open Source Foundation (FINOS), where firms from various areas such as Goldman Sachs, JPMorgan, Citi, UBS Group, Thomson Reuters, GitHub, Red Hat, and Nodestsource collaborate on open-source projects.<sup>72</sup>

## 3 - For regular transactions, banking should become invisible

Banks can drive customer convenience to the next level with seamless banking services that have minimum possible friction in the customer journey. The principle behind making banking invisible is acceptance of the fact that although banking is an essential part of customers' lives, their lives do not center around banks. Customers want services that integrate into their lifestyles and provide a seamless, more convenient, faster, and enjoyable banking experience.

Growing capabilities in digital technologies such as analytics, voice-based conversation, or artificial intelligence will spur invisible banking. While full-fledged invisible banks may be a thing of the future, activities such as payments or balance inquiries can become embedded with customers' lives, with no actions required.

For instance, BBVA is testing a facial recognition system at its in-house cafeteria that recognizes users and their orders and charges their cards as part of a strategy to render checkouts and payments invisible. The order-ahead app enables users to order a coffee, pick it up without waiting in line, and pay for it without their wallets. The aim is to remove the friction from the customer journey completely.<sup>73</sup>

Invisible banking is a guiding principle for Singapore's DBS Bank. It aims to make banking genuinely joyful by helping customers from behind the scenes. DBS believes the future of banking will be built on an ecosystem of partnerships that improve customer journeys such as buying a house, dealing with loss, or making a purchase.<sup>74</sup> The new DBS tagline – *Live more, Bank less* – emphasizes its mission to make banking simple, effortless, and seamlessly integrated into customers' lives.

*"The Asian BigTechs – Baidu, Alibaba, Tencent (BAT), and others – use data to anticipate customer needs in a way that is unprecedented. And they solve customer problems well before the customer interaction line. Therefore, the user or customer experience is completely invisible. Banks can learn to be more anticipatory from BAT practice and, similarly, make banking invisible."*

**Senior Executive, Emirates NBD**

72 Fintech Open Source Foundation (FINOS) website, <https://www.finos.org/members>

73 Finextra, "BBVA tests 'invisible payments' technology at inhouse cafe," March 19, 2018 <https://www.finextra.com/newsarticle/31828/bbva-tests-invisible-payments-technology-at-inhouse-cafe>

74 Finextra, "DBS: The Rise Of Invisible Banking," November 5, 2017 <https://www.finextra.com/blogposting/14693/dbs-the-rise-of-invisible-banking>

## 4 - Further improve data utilization

Banks have been investing in building better data utilization capabilities to good effect. However, there is still ample room for improvement in this area.

*“Banks don’t use customer data as well as they could or should. Data offers a massive opportunity and it is only a matter of time before banks begin to leverage it more. Third-party partnerships will be key.”*

**Chief Commercial Officer, leading financial services firm in the UK**

Harnessing and utilizing customer data will help banks create a better contextual value proposition for customers. Techniques such as data analytics, machine learning, and AI can drive significant improvements.

### Customer experience

Effective use of data analytics can help banks gain a full view of customers’ preferences and needs, helping them to come up with customized and personalized products. These personalized products should take into account the lifestyle and life stage needs of customers. Real-time analytics also helps reduce drop-out rates as decision making is quick and customers are not kept guessing or waiting. Moreover, analytics-based optimal pricing and next-best offer services will act as a hook for customers. Better customer monitoring will support cross-selling and upselling the right products to maximize the customer’s lifetime value.

*“Banks should be adaptive to technology development. AI/artificial intelligence could help us to get a better understanding of our customers.”*

**Henry Koenafi, Director, BCA (Bank Central Asia)**

### Operational enhancements

Data analytics applications exist in almost all areas of banking operations. In the face of subdued growth and margin pressures, analytics are even more critical as a way to reduce costs while simultaneously improving efficiency. Data analytics can identify bottlenecks and disconnected systems to save time, money, and resources. Data can also help banks determine optimum marketing channels and targets, helping them maintain relevance rather than being intrusive.

### Workforce transformation

Data is already playing a pivotal role in shaping the workforce of the future by automating regular and mundane tasks and developing intelligent software that can handle complex tasks as well. Better data analytics will help banks make more informed decisions and execute them faster, thus inculcating digital business agility within the banks. Data will also help banks optimize their branch and ATM networks as those constitute a significant portion to their costs. For example, JPMorgan developed an AI system that wiped out 360,000 hours of legal work overnight, and the UBS high-net-worth system takes a second to complete what used to take humans 45 minutes to administer.<sup>75</sup>

### Security and compliance

Analytics can help banks respond faster to regulatory requirements. Banks can have improved risk management through predictive analytics as it can have better credit risk assessment. Data can provide insights into the loan defaulting pattern, thus enabling banks to take action whenever and wherever required, rather than blindly chasing customers for repayments. Analytics can also help banks reduce fraud by checking customers’ spending or location patterns.

Banks can ask for additional authentication whenever an anomaly is noticed to uphold security as well as convenience.<sup>76</sup> Advancements in data processing and insights’ generation will make the banks of the future leaner, more efficient, and ready to tackle rapidly-changing conditions.

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75 The Finanser.com, “The Big Digital Banks: JPMorgan and Goldman Sachs,” Chris M. Skinner, April 2018  
<https://thefinanser.com/2018/04/banks-technology-companies.html>

76 CXO Today, “Using Analytics To Prevent Banking Fraud,” Sohini Bagchi, October 14, 2014  
<http://www.cxotoday.com/story/using-analytics-to-prevent-banking-fraud>

Despite regional variations, customers generally trust their banks more than they trust FinTech firms or BigTechs (Figure 3.7).

While BigTech data-processing capabilities appear unmatched, there have been controversies surrounding the way customer data has been used.

Customers’ willingness to share their personal data reflects the trusted position banks enjoy. However, banks should avoid intrusiveness and use data only for relevant value propositions. While customer trust may sound like good news, regulations may still constrain

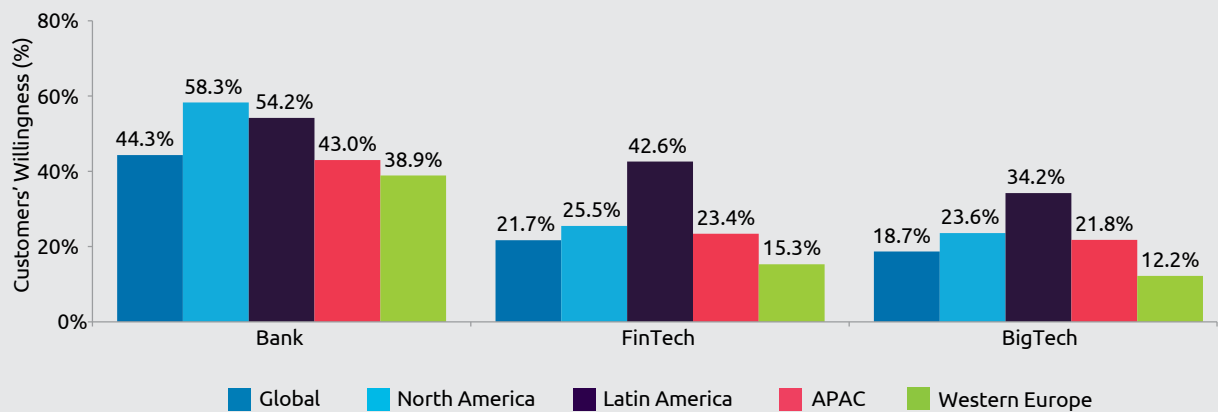
banks, and therefore, ongoing discussions among various stakeholders should be encouraged.

*“From the beginning, GAFA companies recognized their business is data business. Banks are still adopting this view and may be the reason we were outplayed by the data-driven companies, so far.”*

**Neven Horvat, Executive Director – Retail Mass Clients, Privredna banka Zagreb**

Using customer data strategically will help banks provide a differentiated customer experience and address the persistent question of the right pricing (Figure 3.8).

**Figure 3.7 Customers’ Willingness to Share Personal Data with Various Entities, by Region (%), 2018**



Note: The percentages represent customers who gave a rating of 6 or 7 on a scale of 1–7 for each of the entities.

Question: “On a scale of 1 to 7 (where 7 is ‘very comfortable’ and 1 is ‘not at all comfortable’), for personalized and better service and enhanced experience, how comfortable are you in sharing your personal data with these entities?”

Sources: Capgemini Financial Services Analysis, 2018; Capgemini Voice of the Customer Survey, 2018.

**Figure 3.8 Banks’ Strategies for Putting Customer Data to Use (%), 2018**



Note: The percentages represent banking executives who gave a rating of 6 or 7 on a scale of 1–7 for each of the data applications.

Question: “In order to provide a differentiated customer experience, which of the following ways are important while putting customer data to use? (Please provide your response for importance on a scale of 1–7, with 7 being a ‘very important approach’ and 1 being ‘not at all important’).”

Sources: Capgemini Financial Services Analysis, 2018; 2018 Retail Banking Executive Interview Survey, Capgemini Global Financial Services.



Banks can use data to remove customer journey pain points for a more consistent and pleasing experience.

Additionally, one of the most compelling uses of data is to provide relationship-based pricing to customers. Optimal pricing will help banks retain existing customers as well as realize the value of newly acquired customers (which is generally much more expensive).

Data can help banks segment customers so that they can be targeted appropriately. Addressing these factors may help banks reduce the gap that customers perceive between service experience from banks and other firms that provide a superior customer experience.

*“Banks have a relevant and significant mass of data, bigger than GAFAM currently have and utilize, but do not have the culture and the competencies to rightly and massively use them. However, the introduction of new behavioral analysis and spending attitude platforms could help to improve the effectiveness of sales and customer management processes.”*

**Deputy CIO – a major European bank**

Personalized and relevant services will help banks realize the lifetime value of a customer rather than just the impending transaction value. Through analytics, banks can devise personalized services that not only improve customer experience and drive upsales and cross-sales, but also make customers feel valued and distinguished. As banks move from traditional face-to-face customer relationships to digital relationships, this ability becomes even more crucial. Smoother customer journeys during sales, servicing, and problem resolution will also help banks realize the maximum lifetime value of customers. Banks should ensure that all functions work in tandem with a unified view of the customer's status to provide a consistent customer experience across all lifecycle stages.

For example, Poland's **Bank Zachodni WBK** based its Neo Intelligence project on social network analysis (SNA) to identify its customers' social networks and understand their online community activity.<sup>77</sup> Neo Intelligence assigns social roles, such as a leader or follower, to bank customers to better understand their motivations and suggest relevant offers and services. Neo Intelligence supports customer acquisition efforts and builds stronger relationships with the bank's most valuable customers. The effectiveness of the Neo Intelligence campaign increased 15-fold compared with a previous edition, and total responses have doubled.

More in-depth knowledge of customers will enable the bank to align with its customers' financial needs to provide relevant offerings and services that maximize the lifetime value of the customer.

*“Our main focus is to grow our active customer base. We want to increase our transactional relationships, because once a primary transactional relationship is in place, there are sure to be other things those customers will need. A transactional relationship fosters an emotional connection, so when a new need arises, the chance is the customer will check with us first.”*

**Jakub Fast, Executive Director, mBank**

## 5 - Human elements remain critical to customer service

While effective data utilization is imperative for banks, human interaction and advice cannot be ignored. Of course, technology is essential, but it is best used to empower customers and employees in a way that suits their needs and preferences.

**Personal preferences:** While there has been a rapid uptake of digital banking services, a segment of customers continue to prefer human interaction over technology. Even among digital adopters the human channel may be preferred for a particular task or tasks. Therefore, banks will likely gain by providing an omnichannel customer experience.

**Transaction volume vs. value:** While transaction volume is generally higher compared with the branch, transaction value in most cases is higher at the branch.

*“Digital transaction and over-the-counter transaction are both important for BCA. Digital transaction covers at least 97% of all transactions compared to over-the-counter transaction which is only 3% in terms of volume. However, over the counter transactions are higher in terms of value.”*

**Henry Koenafi, Director, BCA (Bank Central Asia)**

**Customer service:** While chatbots or self-service options may be ideal for general queries or problems, human help remains the most effective support for complex issues. Automated customer service may save money but should not come at the expense of a positive customer experience. If banks find it difficult to tackle satisfaction issues in a closed-service environment, this percentage could erode further as they step further into an open ecosystem. The onus is on banks to push customer service to the top of their priority lists to prepare for the future.

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77 Efma Innovation in Retail Banking Portal, <https://www.efma.com/innovations>



**Customer advice:** Offering advice to customers requires a greater emphasis on human understanding, and this can be coupled with analytics-based customer view, offer, and decisioning.

**Tech is not there yet:** While banking of the future will become largely invisible with seamless customer interactions, human interaction will be necessary for not-so-regular banking activities.

### Spain's Bankia strengthens customer relationships through multi-channel "Connect with your Expert" solution

Bankia, one of the largest banks in Spain, is bolstering its customer relationships through the multi-channel, *Connect with your Expert* (Conecta con tu Experto) solution.<sup>78</sup> The free service complements its brick-and-mortar offices. Connect with your Expert reaches customers via face-to-face meetings at Bankia's standard and quick branches as well as through a 24/7, dedicated web app. The innovative solution offers Bankia customers access to a personal adviser (always the same person) for financial advice and transaction support. Aimed at digitally-savvy customers, Connect with your Expert features include customer-to-adviser video calling and screen sharing for document review.

The program was rolled out at a single branch in April 2015 with a manager, six personal advisers, and 4,500 customers. By the end of 2017, it had expanded to six regional multichannel centers that oversee over 50 branches, 500+ personal advisers, and 600,000 customers. Bankia expects that the program will serve more than a million customers by 2019. As a result of the popularity of Connect with your Expert, Bankia's overall customer satisfaction index increased from 77.3% in 2016 to 80.7% in 2017. The Connect with your Expert solution's global satisfaction is 92.4% and it has earned a Net Promoter Score® of +60.9.<sup>79</sup>

*"Our brick-and-mortar office will do more advisory, project finance, commercial, and wealth management work. It will focus mostly on sales and marketing and on building a better recovery model. Servicing and fulfillment work will be done digitally."*

### Chief General Manager at one of India's leading banks

Bankia is not the only digital-first leader that assigns equal importance to human touch.

**Beneficial Bank:** A provider of personal and business banking products and services in Pennsylvania, Beneficial emphasizes face-to-face community connections to attract new customers and build loyalty. It has repurposed branches as networking spaces rather than transactional centers. Moreover, Beneficial introduced community, center-type branch campuses to provide informal areas where community members can gather and consult bankers. The approach generates client loyalty while providing direct access to Beneficial staff.<sup>80</sup>

**Chase:** Mobile business advice center, *BizMobile*, is a part of Chase Bank's plan to extend face-to-face connections with business owners through free one-on-one advice sessions on business insights, marketing, and small-business financing. Its objective is to connect with potential clients and prospects who may consider taking up service offerings from the bank in the future. By emphasizing face-to-face connections, Chase hopes to build trust among their clients, who know that they are entering a long-term relationship with a bank.<sup>81</sup>

**Amazon:** The retail giant is continuing its dedication to the human touch by combining its massive digital presence and tech prowess with brick-and-mortar retail. It reported US\$4.26 billion in Q1 2018 sales in its physical stores (predominantly grocery and bookstores).<sup>82</sup>

78 Bankia Annual Report 2017, "Multichannel Approach: Bankia's Remote Personalized Customer Service Model," Section 04.2, Retail Banking, Page 136,

<https://informes.bankia.com/recursos/cmsmemoria/recursos/doc/memoriaanual2017/2018/04/12/4-business-model.pdf>

79 Ibid, Global Reporting Initiative (GRI 102-43). A Net Promoter Score of +50 is considered excellent.

80 *Tearsheet*, "Inside Beneficial Bank's business banking strategy," Suman Bhattacharya, May 16, 2018

<https://www.tearSheet.co/modern-banking-experience/inside-beneficial-banks-business-banking-strategy>

81 *Tearsheet*, "Chase to reach business owners through 'business advice center on wheels,'" Suman Bhattacharya, June 15, 2018

<https://www.tearSheet.co/marketing/chase-to-reach-business-owners-through-business-advice-center-on-wheels>

82 Nasdaq, "A Look At Amazon's Physical Retail & Subscription Growth," Benjamin Rains, April 27, 2018

<https://www.nasdaq.com/article/a-look-at-amazons-physical-retail-subscription-growth-cm955146>

### Human touch often stymies challenger banks:

Although challenger banks are built on new-age business models and fueled by robust technologies that help them efficiently and cheaply serve customers, human-touch capabilities have not come quickly.<sup>83</sup> A common perception is that digitally-savvy customers do not want human engagement. The reality is that customers seek person-to-person support for complex issues such as investment advice or setting financial goals. Digital-only banks have grappled with integrating human interactions into their products and are working to create human touchpoints to increase customer comfort and trust. With emerging channels such as mobile video, they may finally be able to deliver a branch-like experience from the convenience of a personal device.

### 6 - A refined technology focus is the foundation for the future

While we have discussed bank-of-the-future characteristics, some technological focus points will help banks achieve their future state. An IT infrastructure that not only supports agility and cost savings but also enables real-time processing and third-party connectivity is a priority.

**Targeted investments:** Bank IT budgets are enormous and make up a sizeable chunk of total expenses, with much dedicated to maintaining existing systems and payroll and the remainder earmarked to overhaul the front-end. The result? Middle- and back-office upgrades become a low priority. Pragmatic, future-focused organizations will allocate sufficient investment in end-to-end IT transformation.

### Robust, forward-looking IT infrastructure:

Banks should consider building a robust IT infrastructure capable of handling fast-paced ecosystem change. Additionally, they could look to increasingly adopt a cloud-first strategy as this will help with drive agility and deploy microservices. Banks should ensure that their core banking systems are secure, agile, robust, and capable of handling frequent change. The middle layer of architecture needs to connect through APIs to take advantage of open banking. For most banks, the task may be challenging.

*"A lot of large banks have many, highly-complex systems. If they do not simplify, they cannot build APIs and transition to open banking."*

**Boonson Jenchaimahakoon, First Senior Executive VP, Government Savings Bank**

**Real-time and 24/7 processing:** With growing customer expectations, it has become essential for banks to address the issue of speed. Rapid delivery of services will keep employees in the "present" rather than focused on creating backlogs. With evolved in-memory computing capabilities (such as SAP HANA) banks can generate insights in real-time adding to the superior experience, relevant offerings, and quick decisioning. 24/7 processing will also ensure that banks are not making duplicate records which will be processed later.

*"Of course, we should consider new technology opportunities to improve how we produce and deliver our products. We must also look at services to target today. The struggle is to move from today's profitable areas into areas that currently may seem more marginal in revenue value."*

**Jan Friestad, Executive Vice President Retail Market, SpareBank 1 SR-Bank**

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83 *Tearsheet*, "Digital-only banks grapple with integrating 'human' interaction into their products," Suman Bhattacharya, June 12, 2018  
<https://www.tearsheet.co/modern-banking-experience/digital-only-banks-grapple-with-integrating-human-interaction-into-their-products>

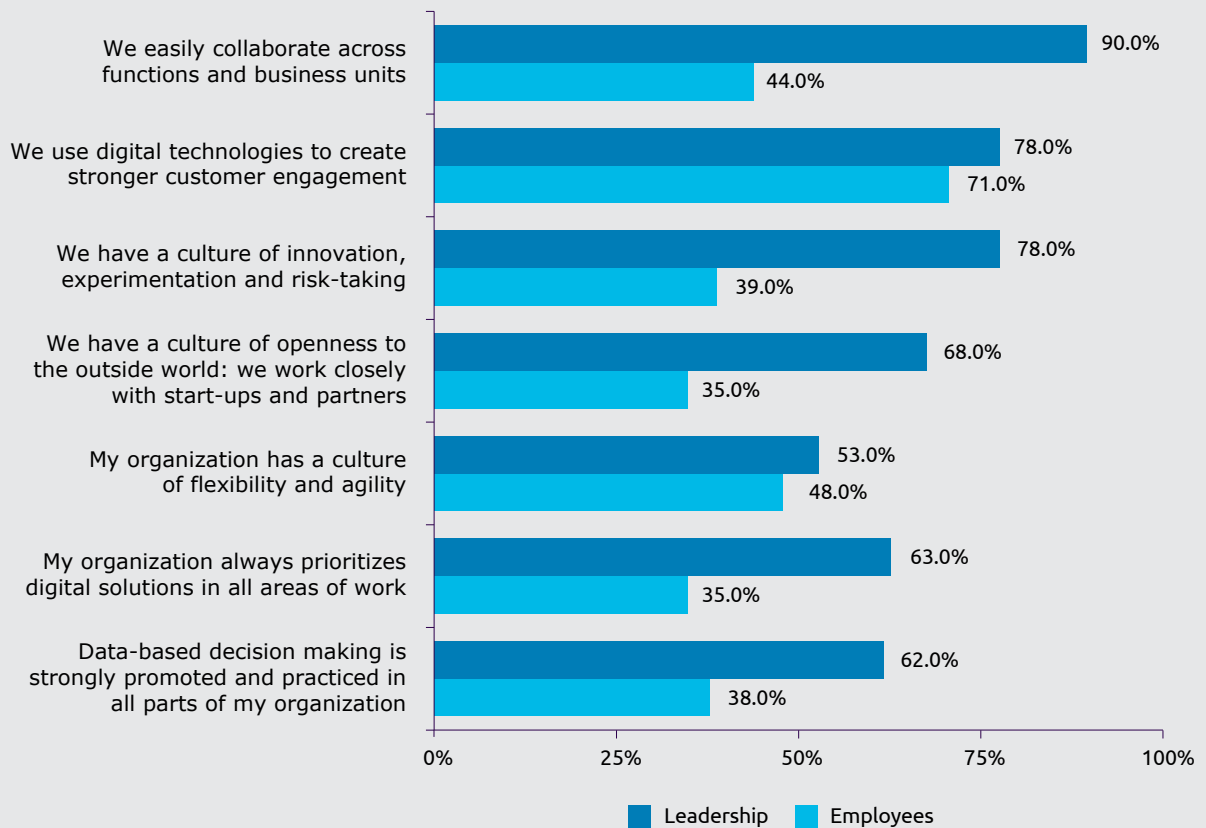
## 7 - Weaving agility and digital focus into the culture

Based on a Capgemini/Massachusetts Institute of Technology research project, we define digital culture as a set of seven attributes: Customer Centricity, Innovation, Data-driven Decision Making, Collaboration, Open Culture, Digital-First Mindset, and Agility-Flexibility.<sup>84</sup>

The project reported incongruity between the opinions of employees and leaders when it came to real-world prevalence of digital culture attributes—with particular gaps around collaboration and innovation (Figure 3.9).

The differences in opinion within financial services organizations were significant with less than half of surveyed employees (44%) saying they believed their organization provided a collaborative culture, and 90% of senior executives saying the culture was collaborative. A significant pain point is that employees are struggling to leverage the power of collaboration and are still managed through traditional hierarchical norms and operational silos. The Digital Transformation Institute survey asserts that innovation exists in theory, but not necessarily in practice, with around 78% of senior financial services executives believing that they have a culture of innovation, but only 39% of employees feeling the same.

**Figure 3.9 Leadership and Employees' View of the High Prevalence of Digital Culture Dimensions**



Sources: Capgemini Financial Services Analysis, 2018; Capgemini Digital Transformation Institute Survey, Digital Culture, March–April 2017, N = 1700, 340 organizations.

<sup>84</sup> Capgemini’s Digital Transformation Institute, “The Digital Culture Challenge: Closing the Employee-Leadership Gap,” June 8, 2017, <https://www.capgemini.com/consulting/resources/the-digital-culture-challenge/>

Similar findings were reported from Capgemini's Digital Mastery Survey,<sup>85</sup> which reveals that only 53% of banks across the world consider upskilling/reskilling their employees on digital skills as a top priority. Also, only 39% of banks enable their employees with the tools to encourage digital collaboration. While most banks struggle in this state, the approach they take to overcoming these shortcomings should be specific to their assessment of strengths and weaknesses. Each bank should uniquely address the best ways to promote innovation, agility, and a digital focus within their operational culture to support their new business strategy.

Changing business culture has always been an enormous challenge, but those organizations that succeed will be better prepared for future challenges. Core cultural issues, such as risk aversion, legacy mindsets, and the lack of customer centricity should be tackled as a first order of priority. Instilling digital culture cannot happen independently but requires a consistent push from top management. However, it should not be a mandate for any single person or team to drive innovation.

*"The belief is that the 'innovation team' does not innovate. It is the various business and support units, and individuals within those units, who are responsible for being innovative in what they do. The 'innovation team' is responsible for facilitating the process."*

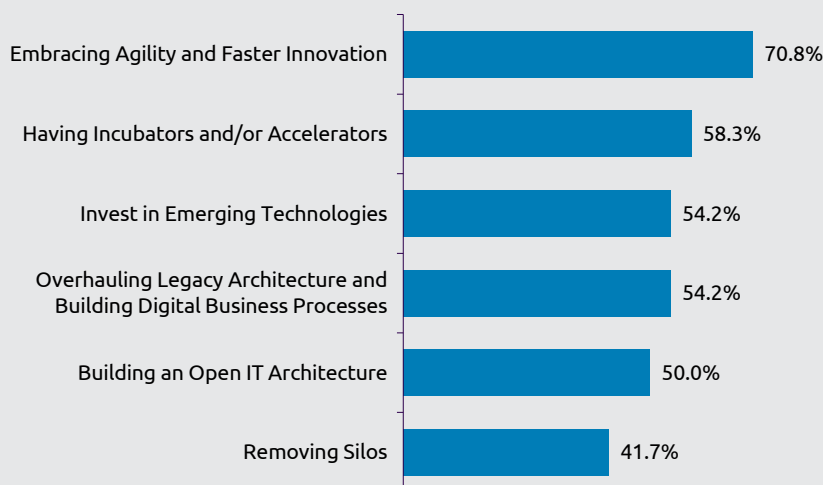
**Siew Choo Soh, Head of Consumer Banking and Big Data Analytics Technology, DBS**

Agile principles will not only help banks innovate faster, but also save time, effort, and money since issues can be raised earlier in the process. A truly lean and agile structure will help banks quickly overcome the unpredictable challenges that may arise within the rapidly-evolving banking ecosystem.

*"In order to inculcate digital culture, the bank is dramatically changing internal and HR processes. It is not possible to be digital with customers without being digital with employees. Moreover, a strong digital governance managing projects and processes is a cultural accelerator."*

**Head of ICT Department – a large southern EU bank**

**Figure 3.10 Banks' Strategies to Inculcate Digital Culture and Promote Innovation (%), 2018**



Note: The percentages represent banking executives who gave a rating of 6 or 7 on a scale of 1–7 for each of the options.

Question: "What are the strategies that your bank is adopting to inculcate a digital culture and promote innovation? (Please rate the following strategies on an applicability scale of 1–7, with 7 indicating a 'highly applicable strategy for your bank' and 1 indicating 'not applicable at all')."

Sources: Capgemini Financial Services Analysis, 2018; 2018 Retail Banking Executive Interview Survey, Capgemini Global Financial Services.

85 Digital Mastery Survey; April–May 2018, Global N = 1,338 respondents, 757 organizations; Banking N = 200 respondents, 125 organizations.

Many banks have undertaken initiatives aimed to promote a digital culture.

**BBVA** is regarded as an innovation leader and was among the first to embark on breakthrough initiatives such as open APIs. The multinational Spanish banking group's long-running digital transformation agenda focused on both aspects - technology and the way its employees think and work, encouraging an agile and collaborative way of working.<sup>86</sup>

**DBS** has undergone a significant and successful transformative journey. The Singapore-based multinational banking and financial services group understood that it was competing against nimble startups and aimed to build a similar culture by creating central teams focused on customer journeys and innovation. Later, DBS invested in its internal culture through employee training and hackathons.<sup>87</sup>

**USAA** is dedicated to a customer-centric culture. Enabled by digital tools, the Texas-based, military-focused banking and insurance conglomerate rewards employees for customer responsiveness and customer-based collaboration.<sup>88</sup>

## 8 - Nurture customer relationships

Banks will have to focus on the core tenets of customer service to retain control of their customer relationships. Open banking paved the way for the adoption of open APIs, which enabled external players to build products and services on top of bank data and architecture. Subsequently, incumbents have faced losing customer interactions as well as relationships.

Now more than ever, banks should decide how they will position themselves in the open banking landscape – starting with the formulation of vision-aligned strategies.

**Customer first:** Banks will be shifting from product centrality to a customer-centric approach that puts the customer at the center of business decisions.

**Agile and innovative solutions:** Banks should be agile and innovative to create optimal solutions for customers.

**Beyond banking:** Banks should elevate the focus from transactional-only customer relationships and adopt a new view by increasing their services and product portfolios outside of banking.

**The future is digital:** Banks should be digitally enabled to fulfill customers' expectations of a seamless digital experience.

**Ecosystem partnerships:** In the age of connected and seamless services banks will be partnering/ collaborating with other entities in the ecosystem to provide better products and services. However, they should remain the face of their offerings to retain customer relationships.

## 9 - Provide contemporary products but retain trust, simplicity, relevance, and transparency as core banking tenets

Financial services newcomers such as Klarna, PayTm, and Monzo have disrupted the creation process for banking products. In fact, a broad variety of players are unveiling innovative financial products that evoke questions about the existence of some traditional financial products. For instance, in certain geographies, PayPal now offers a credit line that can be used anywhere for payments through PayPal as well as for person-to-person transfers. Customers are not charged if the credit line is repaid within the stipulated timeframe. Otherwise, interest on the loaned money is levied. With this one offering, PayPal has encroached on the traditional stronghold of financial products such as credit cards, overdrafts, payments, point-of-sale financing, and loans.

Subsequently, appropriate due diligence is critical in developing a bank's product portfolio as well as product management skills that leverage the market environment and are agile enough to deftly accommodate shifting market conditions. As emphasized earlier, it is not necessary for banks to build everything on their own and they should be open to taking a favorable decision in the buy-versus-build debate.

Despite product, technological and organizational changes, banks should continue to uphold their traditional principles of trust, simplicity, transparency, and relevance.

86 *Finextra* "BBVA restructures to achieve 'digital transformation'", May 5, 2015  
<https://www.finextra.com/news/fullstory.aspx?newsitemid=27310>

87 DBS Bank website, "DBS CEO Piyush Gupta on the digital reinvention of an Asian Bank," May 2, 2017  
<https://www.dbs.com/innovation/dbs-innovates/dbs-ceo-piyush-gupta-on-the-digital-reinvention-of-an-asian-bank.html>

88 *American Banker*, "Bank of the Year: USAA," Kevin Wack, November 29, 2016  
<https://www.americanbanker.com/news/bank-of-the-year-award>

When it comes to trust, it is crucial to protect customer data and privacy. When data is used to develop personalized services, customer consent will be necessary. Simplicity can be built through positive and natural interactive moments via all processes and user interfaces. Customer experience should be consistently delightful and straightforward. Banks should ensure that customers are aware of what they are getting into; for example, compliance and terms and conditions should always be explained in a direct, and easy to understand manner. Bank executives could put themselves in their customers' shoes to accurately assess their thoughts and needs so that relevant products and services may be developed.

### 10 - Committed to a transformational journey rather than to a destination

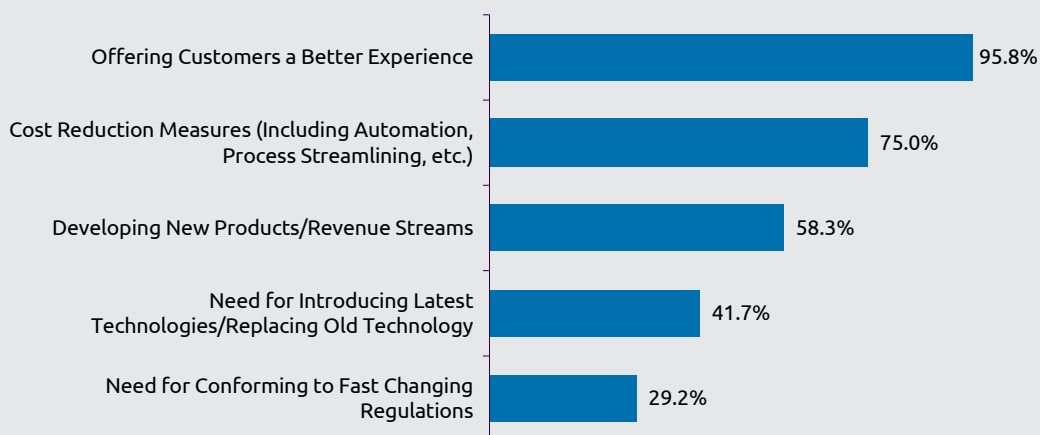
Banks have been undertaking transformational projects – with customer experience a top priority – to prepare for ongoing and upcoming challenges.

Customers today demand a better experience, more convenience, a faster response time, and more value for their money, exerting constant pressure on banks to transform. Not surprisingly, the majority of banks (95.8%) consider customer experience to be their top driver for transformation (Figure 3.11).

Banks' cost-reduction measures are often isolated and therefore marginally effective. For automation, process reengineering, and other initiatives to have greater impact, banks can look at simplifying systems that have grown complex because of disconnection, use for stand-alone business functions, lack of upkeep, and general neglect due to mergers and acquisitions.

To develop innovative products and services, banks can process data across multiple product lines and channels and use real-time analytics to generate new insights on customer spending, behavior, and preferences.

**Figure 3.11 Banks' Drivers for Transformation (%), 2018**



Note: The percentages represent banking executives who gave a rating of 6 or 7 on a scale of 1–7 for each of the drivers.

Question: "What are the key drivers for transformation in your bank? (Please provide the importance of each of these drivers on a scale of 1–7, with 7 being a 'very important driver' and 1 being 'not at all important'.")

Sources: Capgemini Financial Services Analysis, 2018; 2018 Retail Banking Executive Interview Survey, Capgemini Global Financial Services.

Most banks have a digital strategy but are not making sustained efforts to implement a transformative agenda, and so far, transformational results have been somewhat muted (Figure 3.12).

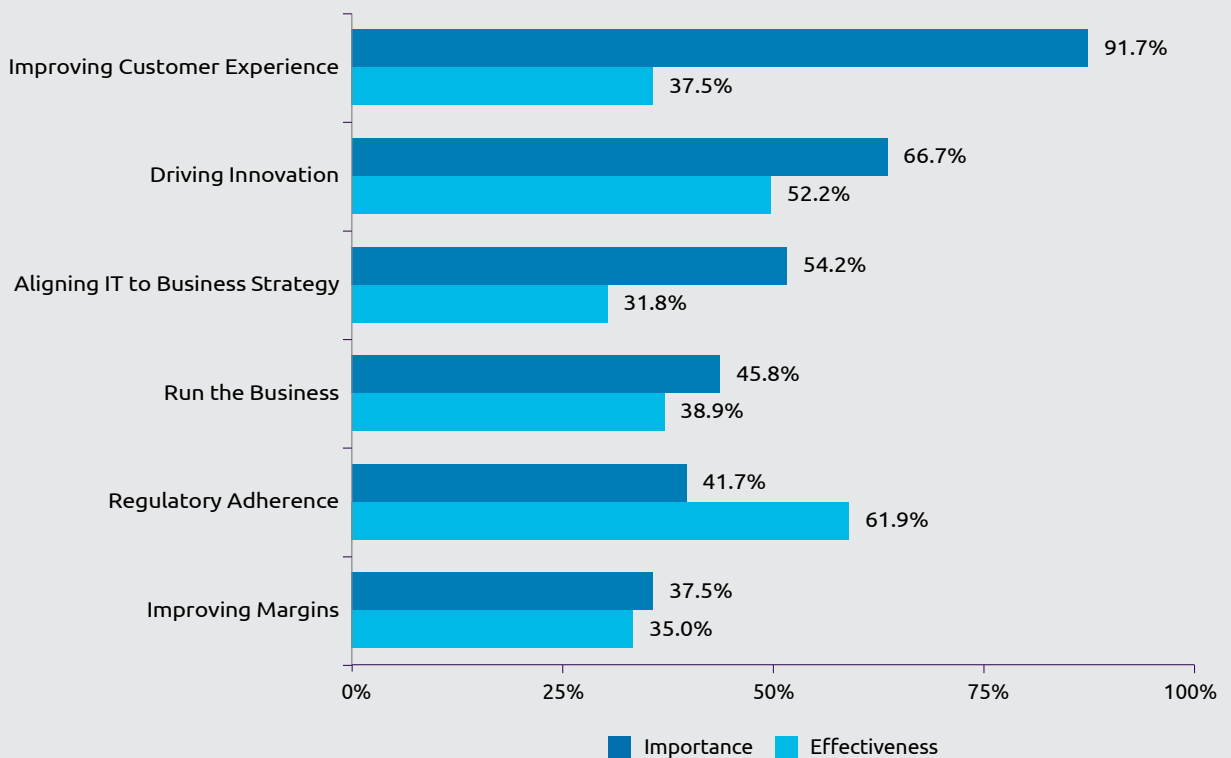
Despite being given moderate importance, the effectiveness of improving margins and regulatory adherence is relatively higher. At the same time, banks are failing to recognize the due importance of innovation and aligning IT to business strategy. Although banks are focusing on improving the customer experience, they should strive to level any gap in the effectiveness of their efforts. To offer a better customer experience, banks should focus not only on the front end but also inculcate a customer-centric culture across the organization.

the banking industry is moving at a dizzying pace, and by the time banks set a destination milestone, the context may well have shifted. The transformation process is not about moving from one point to another but about moving away from cumbersome proposition design to a test-and-learn model.

Growth is not achieved by adding digital business at the fringe of the organization. It demands organizational realignment focused on customer centricity while managing the parameters that are unique to financial services, such as commercial, regulatory, and risk dimensions. Comprehensive transformation has been a daunting task for banks, but now they will have to embrace new business parameters and success criteria to keep evolving.

**Transformation should be a journey for banks, not a destination.** Long-term success is only possible if within a culture of continuous change. In today's world,

**Figure 3.12 Banks' Guiding Principles that Dictate Digital Strategy (%), 2018**



Notes: (1) The percentages on the first stack represent banking executives who gave a rating of 6 or 7 on a scale of 1–7 for each of the drivers.  
 (2) The percentages on the second stack represent banking executives who believe the above factors to be the driver and have given a rating of 6 or 7 on a scale of 1–7 for the effectiveness level.

Questions: (1) "Which of the following guiding principles dictates the digital strategy in your bank? (Please rate the importance of guiding principles on a scale of 1–7, with 7 being 'very important' and 1 being 'not at all important')."  
 (2) "In your assessment, how effective have these strategies been? (Please rate the effectiveness of these strategies on a scale of 1–7, with 7 being 'very effective' and 1 being 'not at all effective')."

Sources: Capgemini Financial Services Analysis, 2018; 2018 Retail Banking Executive Interview Survey, Capgemini Global Financial Services.



## Banks Will Look at Determining Their Role in the New Ecosystem

While there are challenges as well as suggested approaches, each bank's situation is unique regarding demographics, macroeconomics, customer expectations, competition, internal factors, and regulations. The following questions may guide situational assessment and definition of a strategic roadmap.

- Do banks look at themselves as a participant in the future ecosystem, or as an owner of the ecosystem?
- What roles will banks play in the future ecosystem? Will they focus on their core strengths or collaborate with other entities in other non-core areas?
- Which new revenue streams will banks target?
- What will their overall value proposition be for customers?
- What level of personalization will banks provide their customers?
- Will future banking operating models focus on manufacturing products, distribution (managing channels and customer relationships), or a hybrid model?
- Will banks become platforms or aggregators themselves, by launching proprietary platforms that extend into non-financial services?

*"Decisions for banks include which ecosystems to take part in, and which role to take in those ecosystems. In some, we will try to take a central role and possibly even try to control the ecosystem. In others, we will take more of a 'participator' or 'member' role. For example, when it comes to integrations to ERP and other financial systems, the path forward will be to form partnerships with key players."*

**Mats Torstendahl – Head of Retail Banking, SEB**

*"If banks continue what they have been doing for the past few years, they will lose the game and make themselves obsolete. We must leverage technology to help us understand customer needs to serve our clients better. Transformation can't be successful if it is based on legacy systems. We need to be open and not scared to rethink everything. This is not a marketing gimmick but a deep dive in process management."*

**Frederic de Melker – Managing Director of Personal Banking, Rabbank**



# Methodology

## Scope and Research Sources

The *World Retail Banking Report (WRBR) 2018* draws on research insights from two primary sources – the 2018 Global Retail Banking Voice of the Customer Survey and the 2018 Global Retail Banking Executive Interviews. This primary research covers insights from 41 markets: Andorra, Australia, Belgium, Brazil, Bulgaria, Canada, China, Croatia, France, Georgia, Germany, Ghana, Greece, Hong Kong, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Mexico, Morocco, Myanmar, the Netherlands, New Zealand, Norway, Philippines, Poland, Russia, Singapore, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Arab Emirates, the United Kingdom, and the United States.

## 2018 Global Retail Banking Voice of the Customer Survey

A global survey of customer attitudes toward retail banking forms the basis of the 15th-annual *World Retail Banking Report*. Our comprehensive Global Retail Banking Voice of the Customer Survey polled over 10,000 retail banking customers in 20 countries. The survey sought to gain deep insight into customer preferences, expectations, and behaviors with respect to specific types of retail banking transactions. The survey questioned customers on their general satisfaction with their bank, the importance of specific channels for executing different types of transactions, and their satisfaction with those transactions, among other factors. Participants were also asked questions around factors that influence their decision to choose or stay with their current bank, their willingness to receive proactive services from their bank, and their perception of BigTech firms and firms in other industries.

## 2018 Global Retail Banking Executive Interviews

We supplemented these detailed findings with in-depth interviews with senior banking executives around the world. The 2018 edition of the report also includes insights from focused interviews of over 60 senior banking executives of leading banks across 23 markets. These markets together represent all the three regions – North America, EMEA (Europe, Middle East, and Africa), and Asia-Pacific.

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