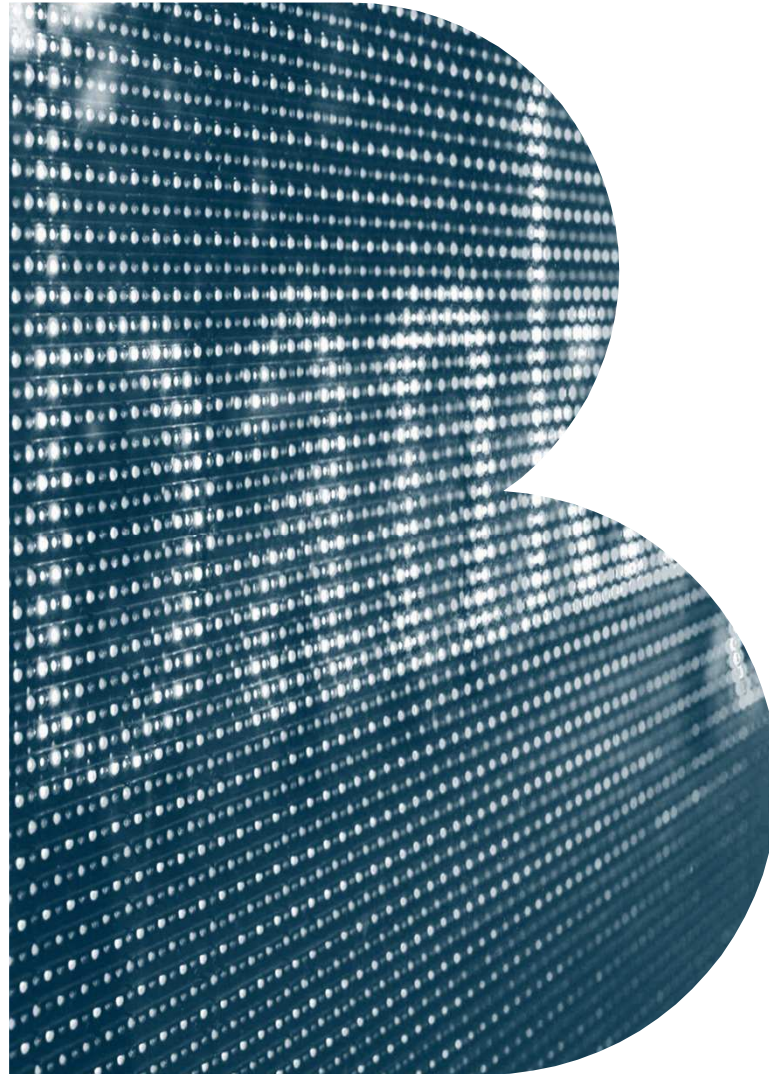


# Executive Retail Banking Survey: Digital Transformation

Summary document



Contents	Page
A. Introduction to the survey	4
B. Retail bank digital maturity – Status quo	7
C. Impact of digitization on retail bank financials	15
D. High-impact priorities – Enhance and leverage digital capabilities	20

# Our second Executive Retail Banking survey sends out a stronger than expected call to action

Key take-aways from the Executive Retail Banking survey



1. Channel modernization investments resulted in more **convenience and speed in basic transactions**, but there is still a long way to go for more complex processes
2. Banks have difficulty adding **new value** in this digitization process and becoming truly **client centric**
3. There is growing **realism about the (limited) new revenue potential** of digitization
4. The digitization focus must shift from front-office only to **legacy and back-end processes** to improve financial performance
5. Banks have been experimenting with **new innovation techniques**, but still need to thoroughly transform their organizations

## A. Introduction to the survey



# Context and value for participants



- After the successful 2013 edition of our Retail Banking Survey, Roland Berger conducted this initiative once again to gather views on the future of retail banking. This edition has a **focus on digitization**, a make-or-break transformational journey for all banks across Europe
- Digitization efforts and their outcomes were assessed, with benchmarking of performance and comparison of views to see if these efforts:
  - Aim to secure or grow revenues in the current business model?
  - Will generate new revenues from innovative business models?
  - Create operational excellence, thereby reducing costs?
- At the same time, the **macro environment** European retail banks are faced with has remained largely unchanged since our 2013 edition. The ECB's monetary policy is a major factor to take into account
- The results of this survey enable European retail banking leaders to benchmark their performance and compare their views against their peer group

# We clustered the survey results of 65 European banks into four large regions in order to reflect local market specifics

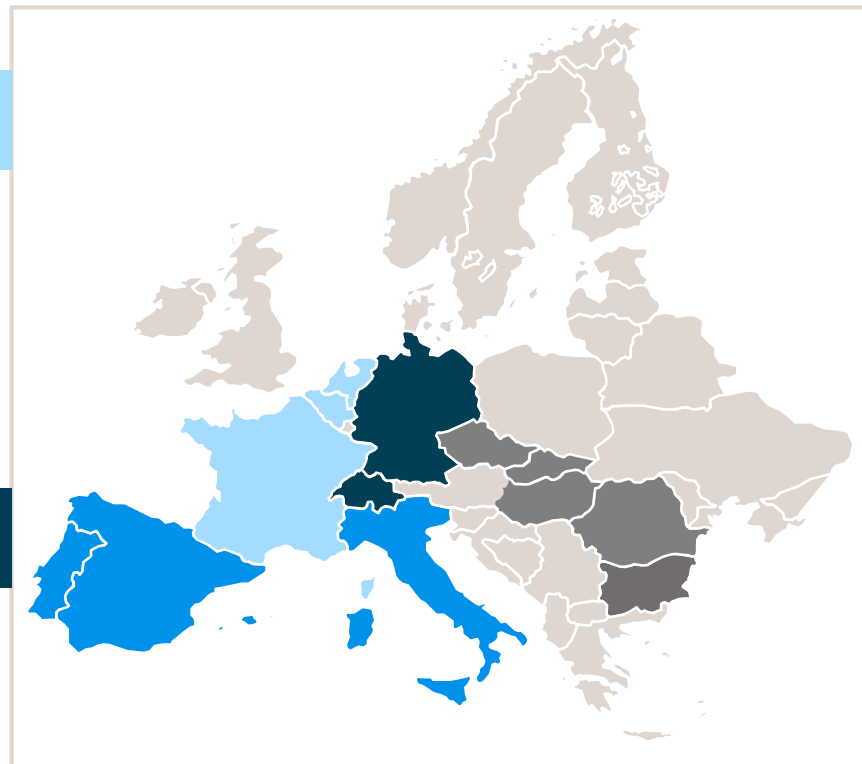
## Clustering of results

### WESTERN EUROPE (WE) > 16 banks

- > Belgium
- > France
- > Netherlands

### CENTRAL EUROPE (CE) > 13 banks

- > **SWITZERLAND** 
- > Germany



### EASTERN EUROPE (EE) > 16 banks

- > Bulgaria
- > Czech Republic
- > Hungary
- > Romania
- > Slovakia

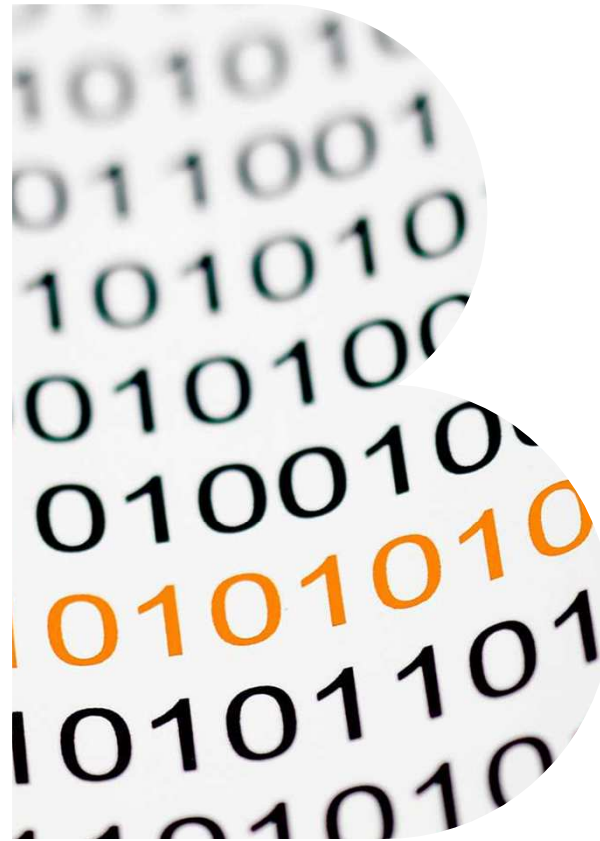
### SOUTHERN EUROPE (SE) > 20 banks

- > Italy
- > Portugal
- > Spain

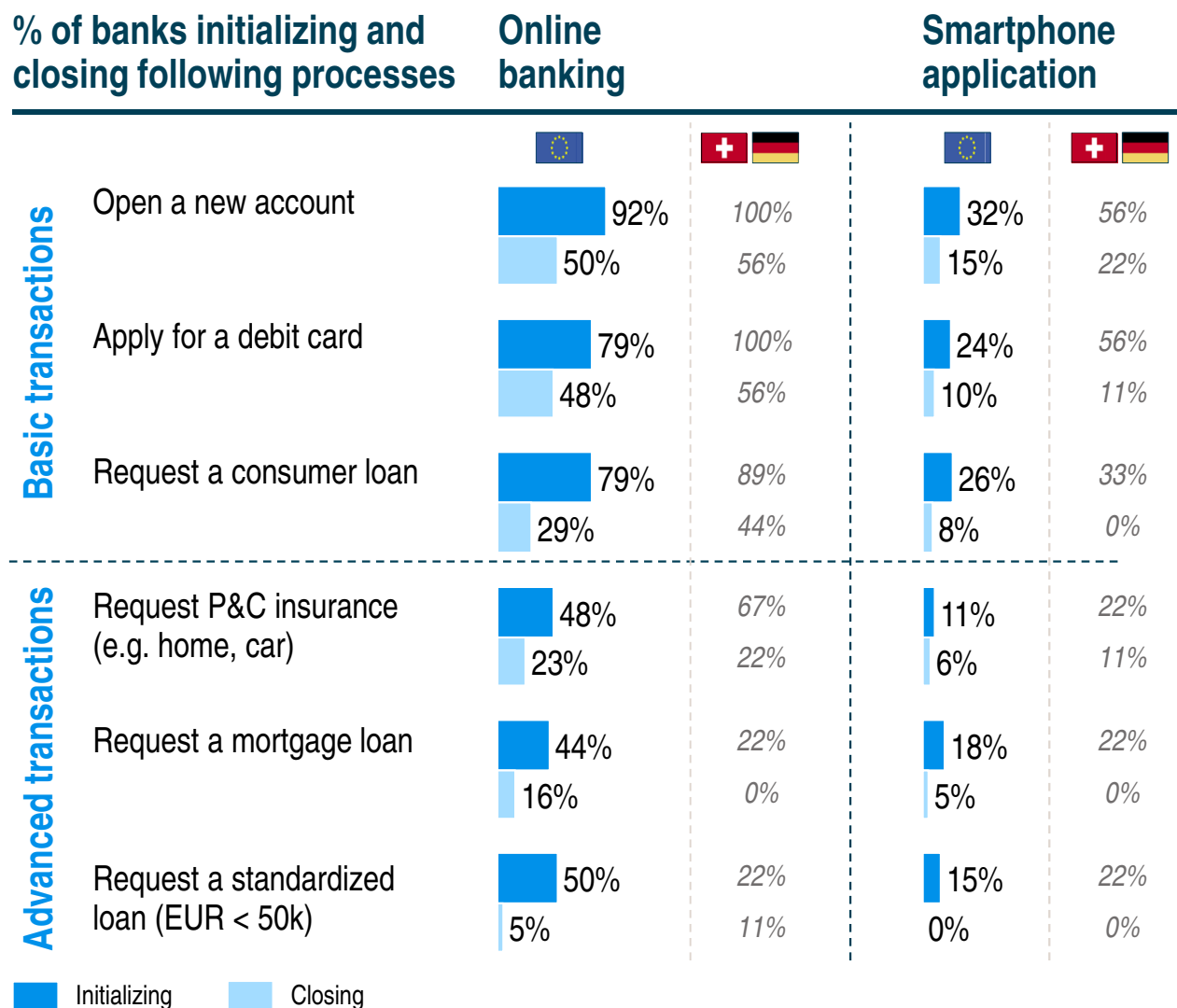
## COMMENTS

- > Current clustering takes into account both geographical characteristics and specificities of the local banking system
- > Participants from all large German banks or banking groups

## B. Retail bank digital maturity – Status quo



# Most retail banks have completed the first wave of digitization and are now investing in closing the loop for complex transactions



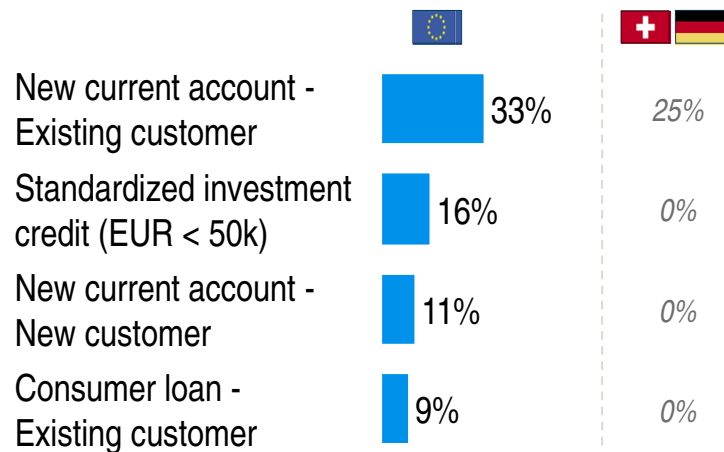
## Comments

- > In the first wave, banks invested mainly in **client-facing applications** like initializing certain transactions online, especially the basic ones
- > The second wave concerns **closing transactions & mobile applications**, which are still in their infancy. There is no consensus on whether the **smartphone** is a suitable platform for closing more advanced transactions
- > While traditional players struggle with closing contracts (e.g. as a result of internal compliance rules), **direct banks** in many countries have found **innovative** ways to complete the processes online
- > **German banks outpace** European competitors in digitization of **basic products** for both online and mobile banking
- > Digital solutions for **complex** transactions still **need to be developed**

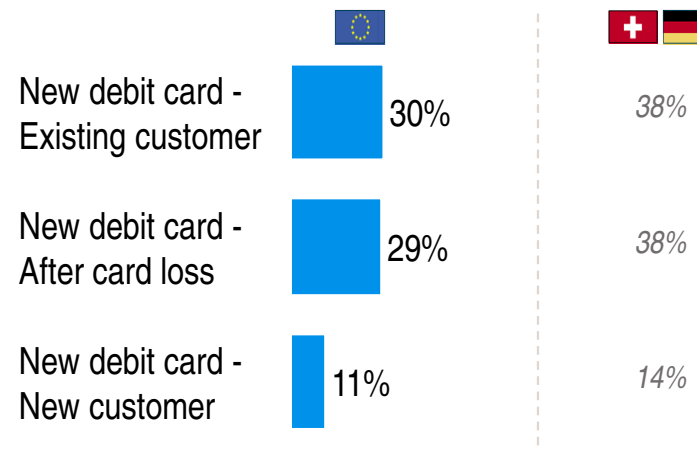


# German banks are below average in service delivery speed, even though consumer expectations have substantially evolved

## Instant delivery [% of banks]



## Within 1-2 working days [% of banks]



## Comments

- > Financial services are no longer "different" in terms of service level expectations: they should be **fast, reliable, traceable**
- > Though progress has been made, some critical processes still take **too long from a client perspective** (debit card delivery, loan underwriting, etc.)
- > **Public awareness** of the stringent regulations imposed on banks is often **limited**

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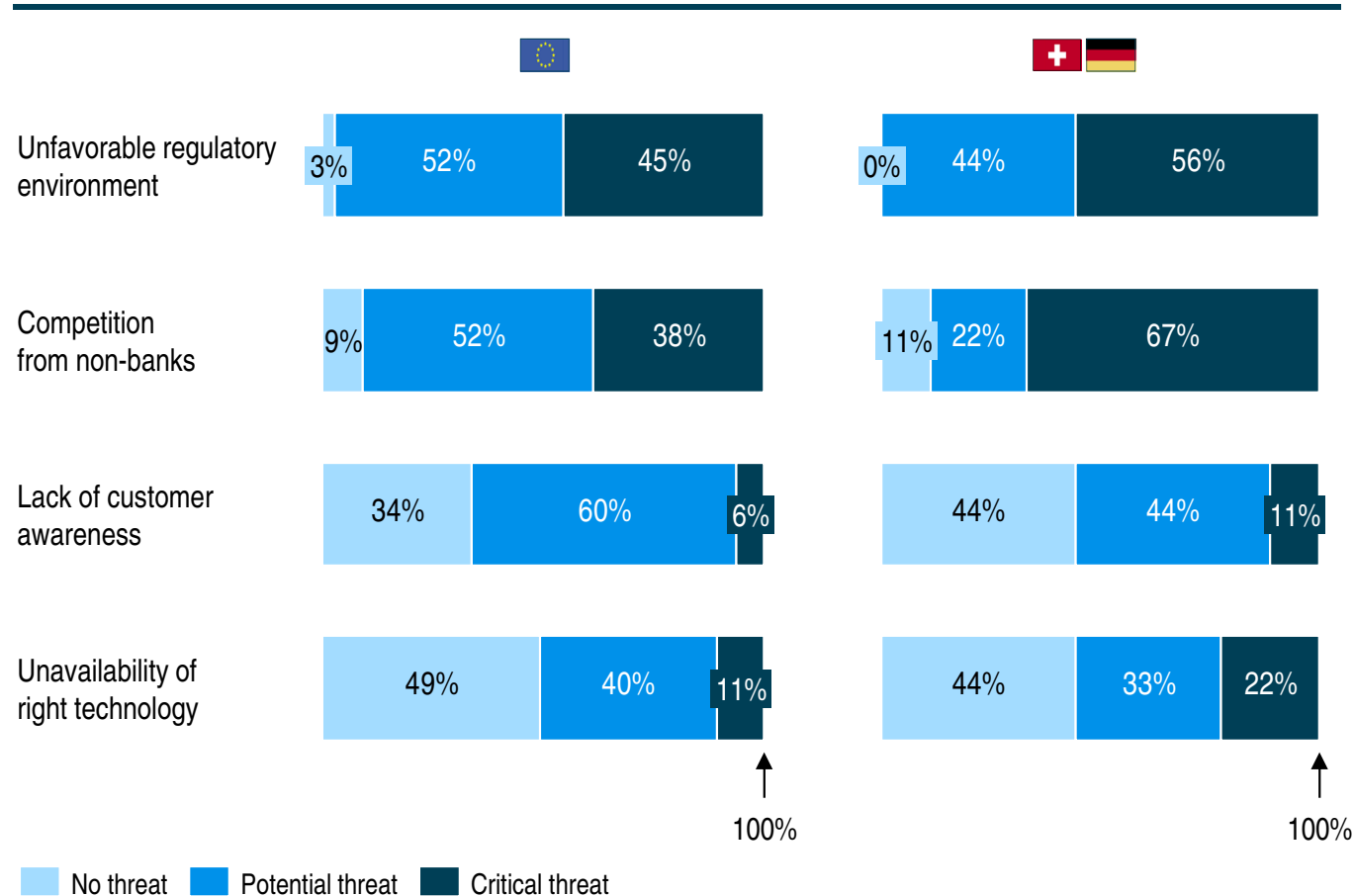
# Efforts to become more client centric have already been made, but there is still a long way to go

## Client centricity levers

	<u>Remarkable overall survey results</u>	<u>Regional performance differences</u>
<b>Client centricity</b>	<b>1. Put clients at center of omni-channel journey</b> <b>76% of banks</b> (100% of German banks) – Lose information when switching a client between digital and physical channels	Southern European banks are the most advanced, while Western European banks seem to lag behind
	<b>2. Simplify processes</b> <b>39% of banks</b> (56% of German banks) – Do not continuously analyze online behavior to simplify processes	Eastern European banks rarely analyze online behavior, whereas Western European banks are the most advanced in this area
	<b>3. Guide client in product choices</b> <b>75% of banks</b> (44% of German banks) – Guide the customer with product simulation only for basic products	Almost all Western & Southern European banks guide clients with a basic product simulation, but only 2/3 of CEE banks do this
	<b>4. Proactively propose products</b> <b>41% of banks</b> (56% of German banks) – Propose less than 3 personalized product offers a year	Only Southern European banks are lacking in personalized product offers, while all other regions score very well
	<b>5. Personalize customer experience</b> <b>70% of banks</b> (56% of German banks) – Do not use external client data to personalize the customer experience	Western and Eastern European banks actively use external data to personalize customer experience

# Most banks experience regulation and competition from non-banks as the main external hurdles for transforming their business models

External hurdles for transformation toward a new business model [% of banks]

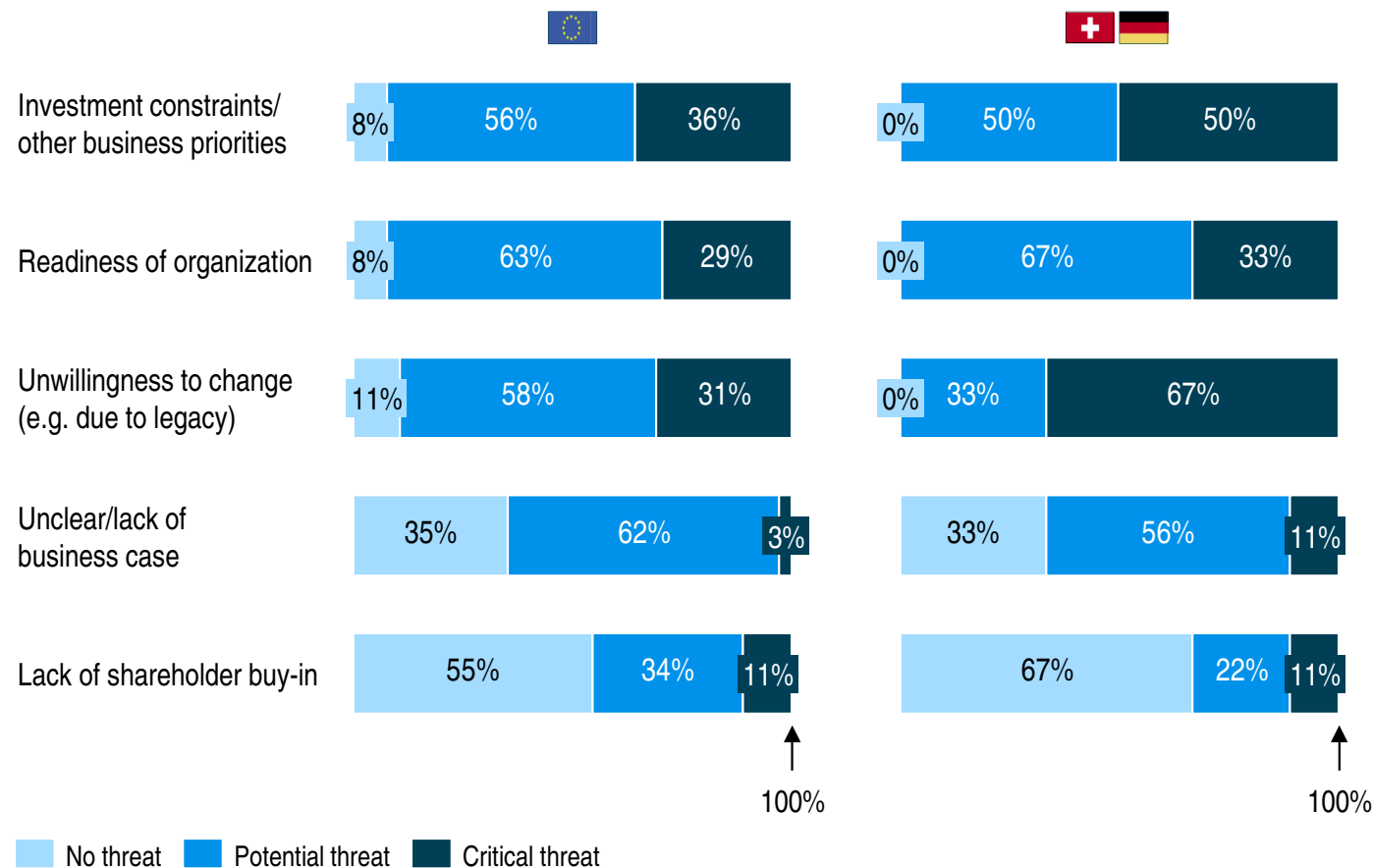


## Comments

- > **Ambiguous role of regulation**, which is seen as a hurdle for transformation, while also acting as an entry barrier for new players (esp. cited by WE banks)
- > Compared to prior studies, **competition from non-banks** is perceived as **fiercer**:
  - Broader range of players (large or small)
  - Capacity to interfere along the value chain, disintermediating where value is
  - Greater agility and benefiting from investors' appetite
- > **Access to technology** seen as the **least critical** transformation hurdle

# Internal hurdles also threaten the transformation, mainly investment constraints and lack of readiness and willingness of the organization

Internal hurdles for transformation toward a new business model [% of banks]

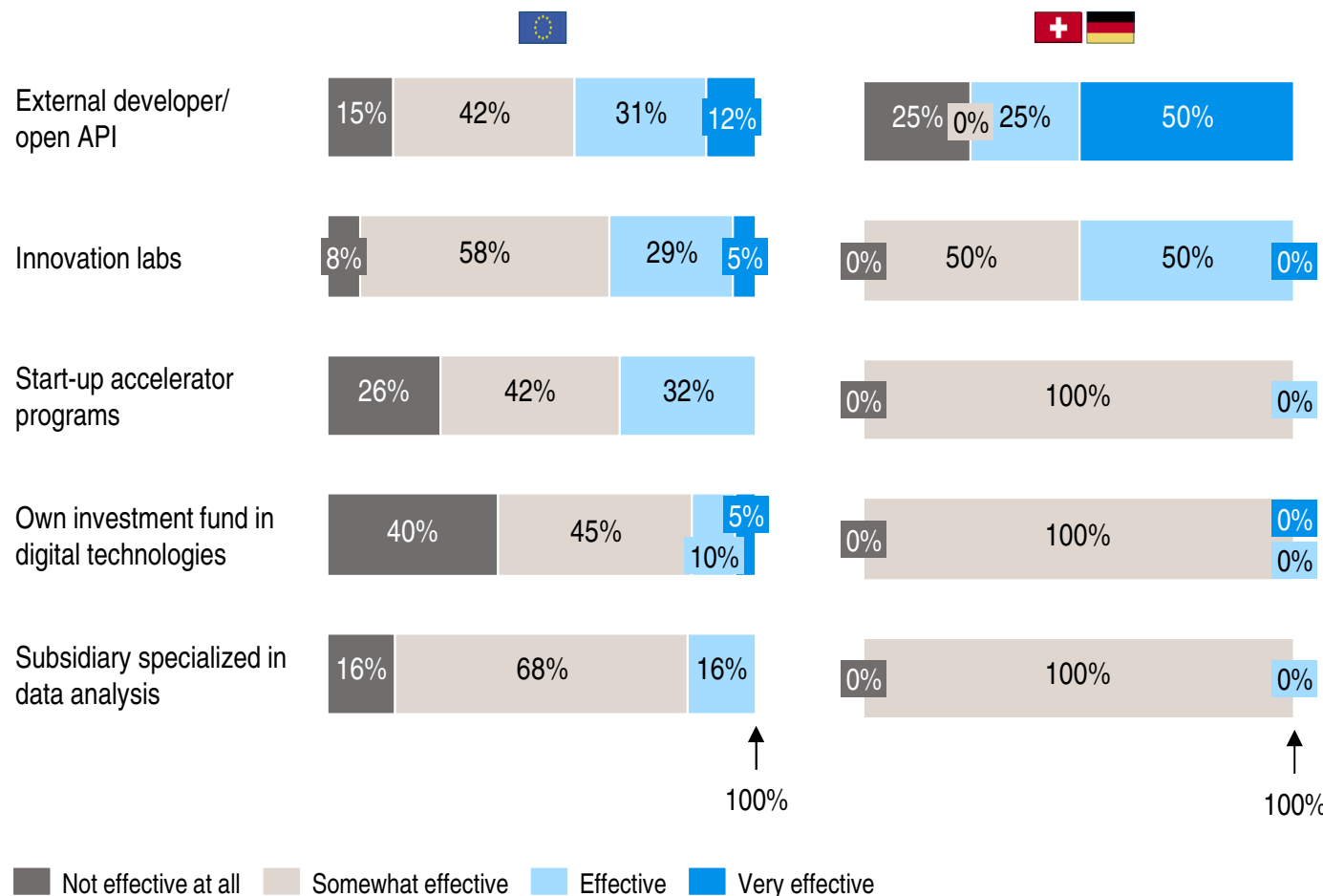


## Comments

- > Though digital is undoubtedly very **high on the agenda**, the capacity to "act beyond thinking" is still limited:
  - **Other strong priorities** (regulation & compliance)
  - Process of **cultural adaptation** still ongoing
  - **Digital tsunami** on business models **more progressive than disruptive** when compared to other industries
- > In general, **WE banks seem to have progressed the most** in offsetting these internal hurdles

# Banks are using a wide variety of innovation techniques – European banks more open than German banks

## Techniques banks apply to foster innovation



## Comments

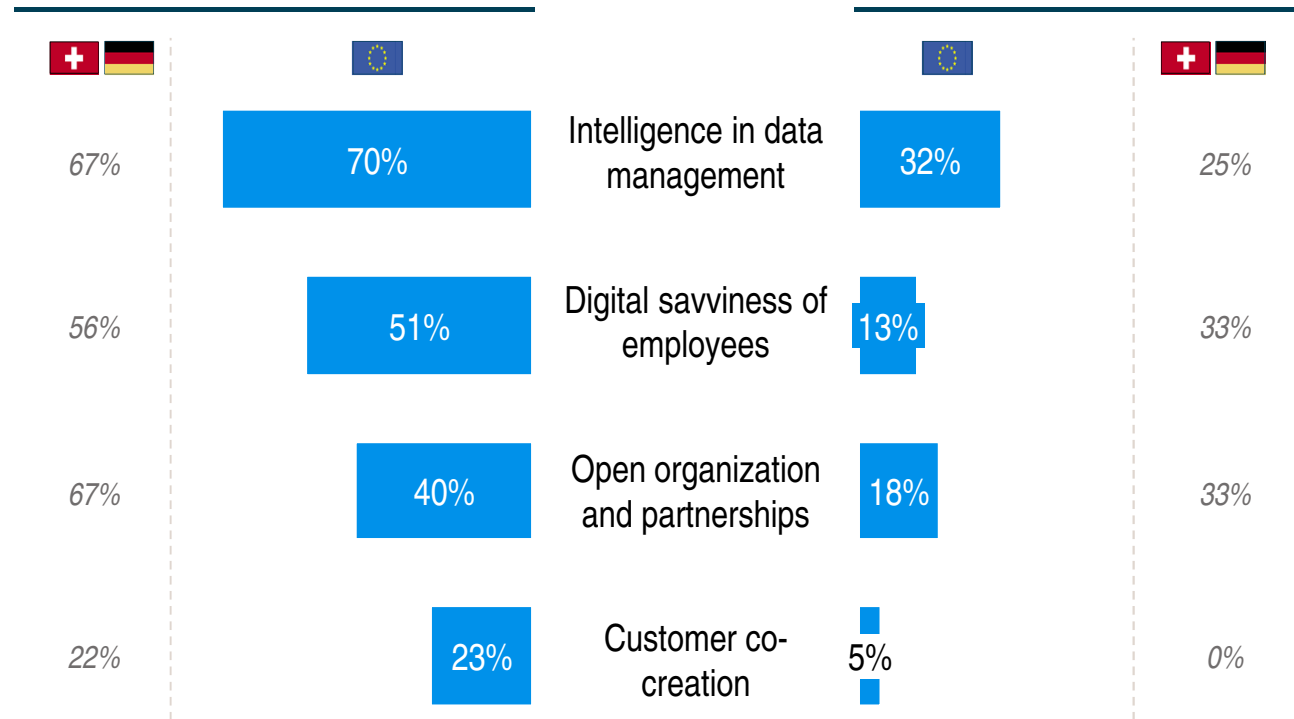
- > **Effectiveness** of most initiatives perceived as **relatively low**, bearing in mind though that initiatives (open API, labs, ...) are **often recent**, and banks are still "learning by doing"
- > **Greater penetration of the digital ecosystem** by start-up accelerator programs or dedicated investment funds: **less conclusive so far** (seen as most valuable by WE banks, with the exception of France)
- > Some banks very **active in the FinTech world**, "learning from the inside" (rather than "copy/pasting")

# There's a wide gap between the importance and the current maturity of the new capabilities needed to succeed in tomorrow's world

## Capabilities rated as highly important [% of banks]

## Current maturity rated as high [% of banks]<sup>1)</sup>

## Comments



- > **Intelligence in data management** has seen considerable progress at many banks, while room for improvement still exists (e.g. business impact)
- > Digital **savviness of employees** is a **major challenge** across all regions, since digital is still a "management thing" (limited cascading to RM's and client support teams)
- > Despite several recent announcements, organizations are often in a **closed-loop approach**, finding it hard to open up to external partnerships or co-creation/"more fuzzy" and uncertain processes

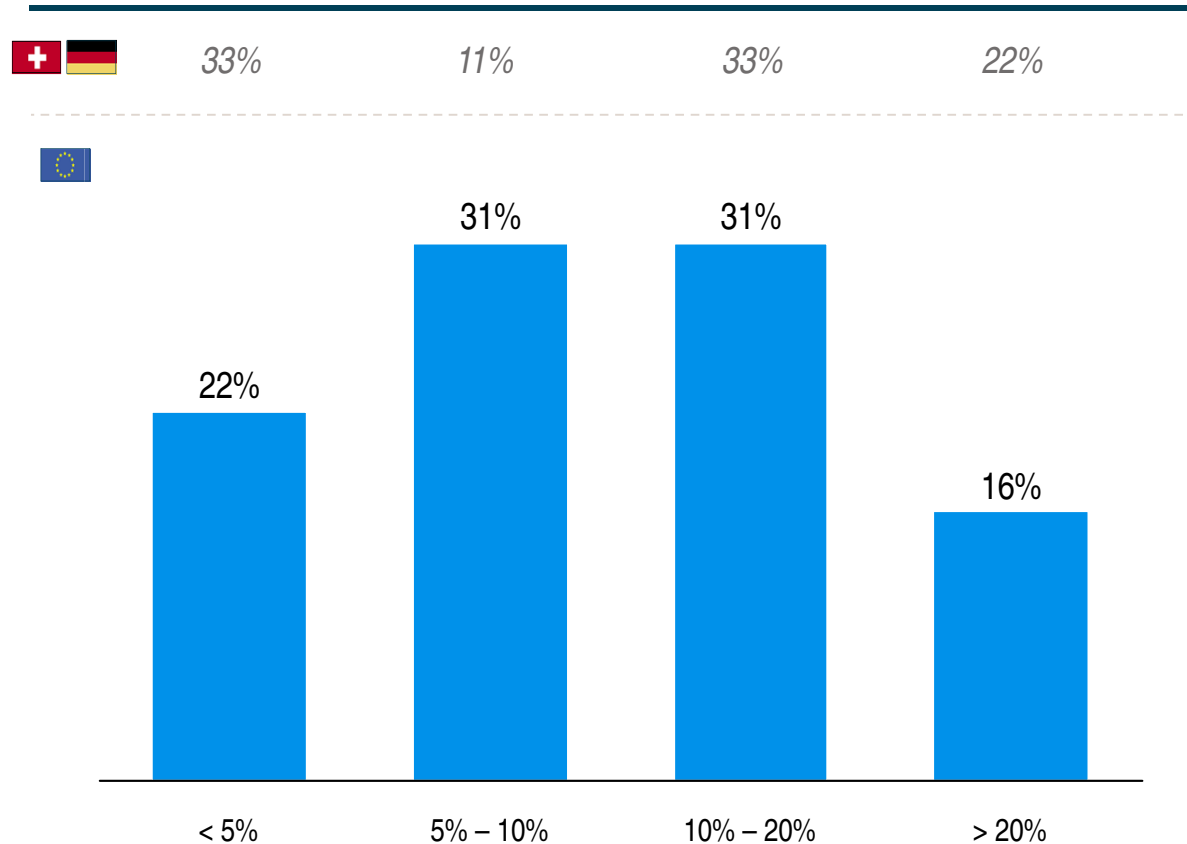
1) Evaluation based on selected statement – "High" corresponds to the most established capabilities

## C. Impact of digitization on retail bank financials



# Banks are prepared to spend up to 20% of their IT budget to develop new digital revenue sources

IT budget used for new revenue generation [% of overall IT budget]



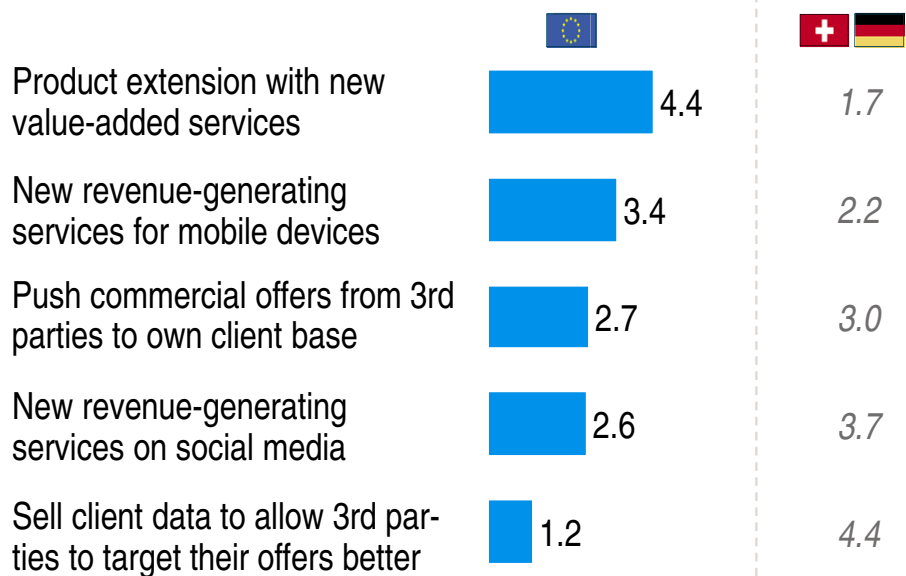
## Comments

- > Banks **struggle** to free up **necessary funds** for investments in digitization – High IT budget share tied to running business and implementation of **regulatory requirements**
- > Multiplication of investment programs targeting **employee savviness**, process **simplification** and **automation**:
  - SocGen: Digital for All program targeting 150,000 employees
  - ING: EUR 200 m in the next 2 years to simplify, standardize and automate IT & processes in the Netherlands
  - DB: EUR 200 m yearly investment in digitization
  - BNPP: Digital working program and global digital investment in the EUR 1 bn range



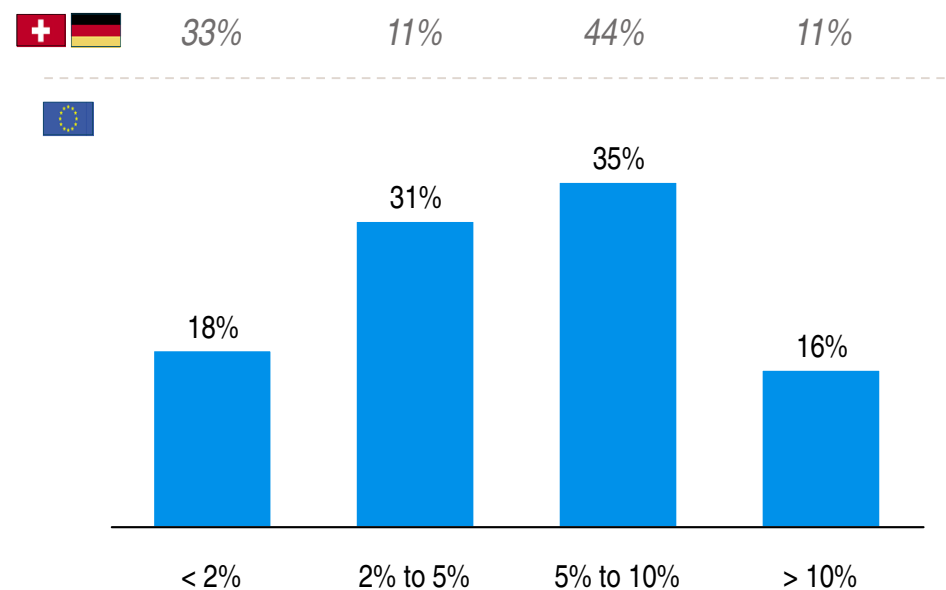
# Digitization will secure present business and improve client experience, rather than generate new revenues

**Priority of initiatives to generate additional revenue**  
[scale from 6 (high priority) to 1 (low priority)]



- > New value-added services expected and valued by clients, but **difficult to monetize** in a "freemium" digital world where **free tends to prevail** (e.g. direct banks)
- > **Digital channels** (mobile, social media, ...) expected to **boost client solicitation** efficiency and return on marketing investment, while **appetite for 3rd party deals** remains **globally limited**

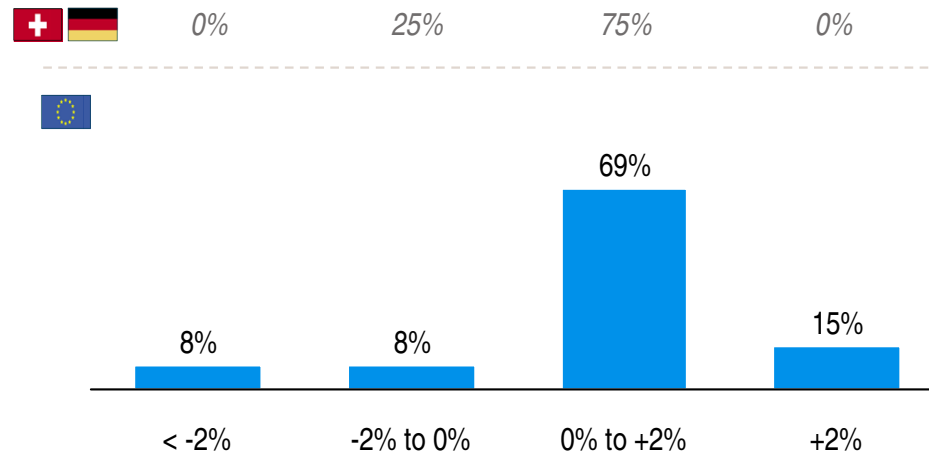
**New revenues from digital business models**  
[% of total respondents]



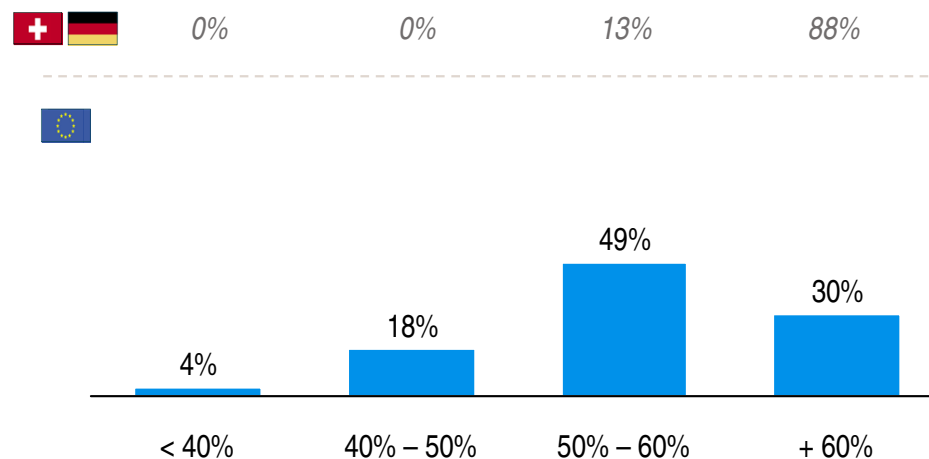
- > Growing perception that **digital and "traditional" business models** will be **increasingly difficult to segregate** for mainstream banks
- > Models will be approached in a **"convergence" rather than disruptive mode** to renew **client experience** as well as **operating models**

If digital can help navigate through a low NBI growth environment, its role in cost efficiency improvement should be even more important

Expected average annual growth of net banking income [2014 – 2017]



Expected average cost-income ratio [2014 – 2017]



### Comments

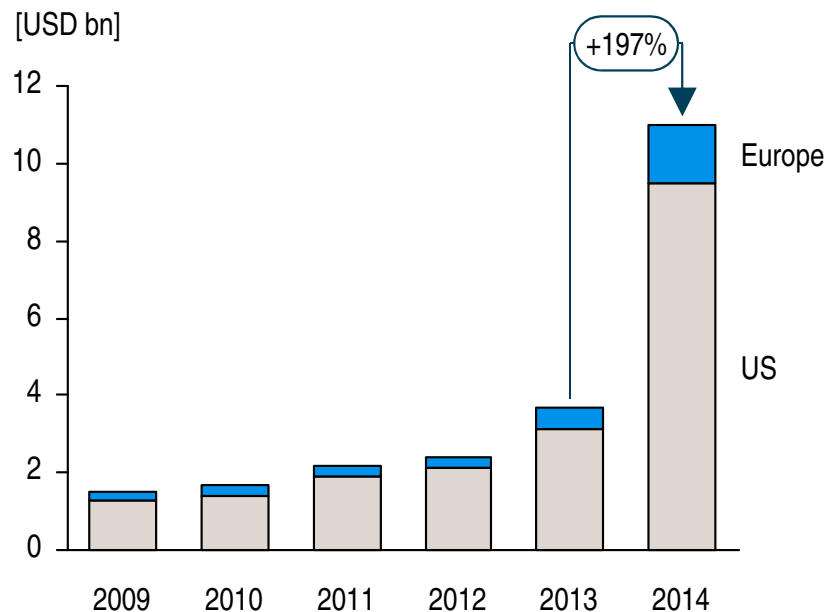
- > Low or even negative NBI growth prospects expected by most, while **ambitions** appear **higher on CIR**, hence **priority given to cost efficiency** where digital can help significantly
- > Compared to other industries, **significant cost savings remain to be extracted** from banks across their various functions:
  - **Commercial productivity of the front line** (more commercial time, enhanced client knowledge, ...)
  - **Efficiency in middle- and back-office operations** (still much room for further simplification and automation)
  - **Risk, control and compliance**, which have grown in **complexity**

# Be it on the revenue or cost side, banks must accelerate their transformation owing to the growing pressure from FinTech

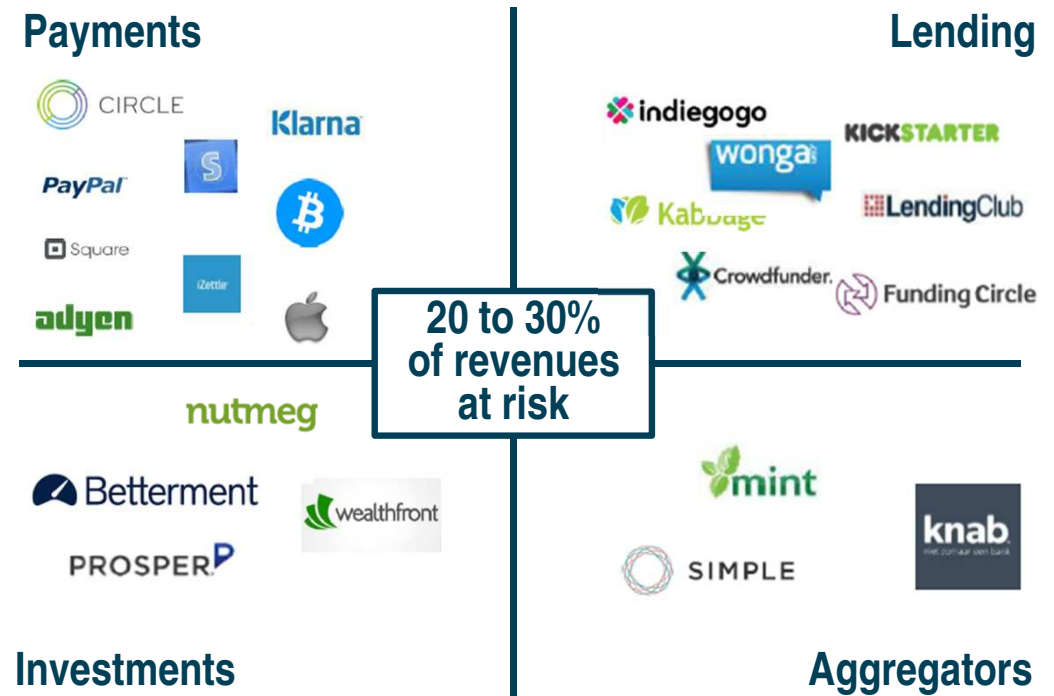
## Success of FinTech companies

Investments in FinTech have triple to more than USD 10 bn in one year

[Global investment in FinTech, 2009-2014]










The disintermediation/debundling threat is more present than ever with an estimated 20-30% of revenues at risk



D. High-impact priorities –  
Enhance and leverage  
digital capabilities



# We see several high-impact priorities for retail banks to accelerate their transformation and enhance their digital capabilities

-  **1 Enhance client solicitation model**
  - > Better target the "when" beyond the "who" and the "what"
  - > Boost return on marketing investment
-  **2 Develop alternative client acquisition engines**
  - > Digital players capturing the majority of net client acquisition
  - > New dynamics needed through innovative initiatives
-  **3 Explore potential of new revenue-driven initiatives**
  - > Digital is opening up new business frontiers
  - > Several promising patterns identified to explore new territories
-  **4 Better connect to the broader digital banking ecosystem**
  - > Fast evolving digital environment with still limited penetration from banks
  - > Growing ecosystem to which banks can connect better in different forms
-  **5 Push a "learning by doing" approach**
  - > Digital calls for a new "mindset" (stronger empowerment, customer centricity...)
  - > Digital Labs as enablers of greater agility and market responsiveness
-  **6 Reshape client servicing models**
  - > Digital to deliver both on efficiency and client experience in sales-support and after-sales activities (simplification, automation, first-time resolution), incl. a major cultural shift
-  **7 Create end-to-end digital chains**
  - > End-to-end digital chains go far beyond current process optimizations

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