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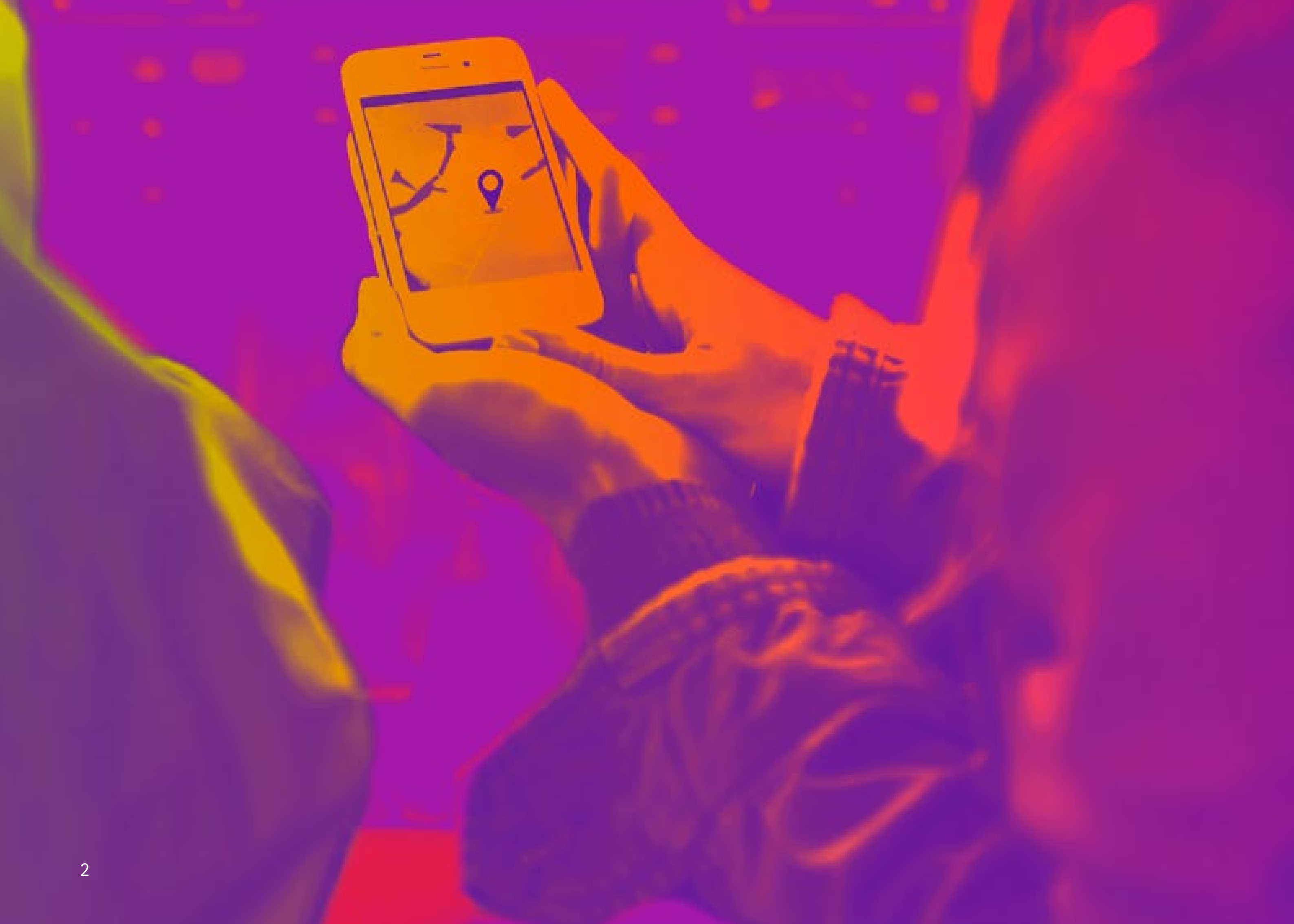
Beyond the Everyday Bank

How a GAFA approach to digital banking transformation will increase revenues, improve customer engagement, while reducing the cost base.

Thanks to digital technologies, the banking industry is becoming a consumer-to-business (C2B) industry, spurred by customer experience standards being set by Google, Apple, Facebook, and Amazon (GAFA). Banks have to define clear digital agendas and allocate the right investments, between "GO Digital" and "BE Digital" and then selecting the options within each—from which business platforms to prioritize and transform ("phygital"—physical and digital transformation), to which new digital business initiatives to launch, and which key processes to digitize. The goal for banks is to be relevant at all times, for all financial and non-financial services, with consistent and fulfilling customer experiences in both the digital and physical spaces. Accomplishing this will require building partnerships, including those with financial technology companies (FinTechs), and leveraging the power of real-time analytics.



Powerful trends have been reshaping the banking industry, forever shifting the competitive landscape. For one thing, consumers are increasingly in control, engaging businesses when and where they want to, often creating value in multiple ways. Think of the enormous amounts of data created through Facebook "likes" and Amazon product reviews. In this emerging consumer-to-business (C2B) era, in which consumers are creating value (for example, by writing product reviews) that businesses can then exploit, companies need to share that value. Google AdSense, for example, allows for some revenues to be split among bloggers and webmasters[1].

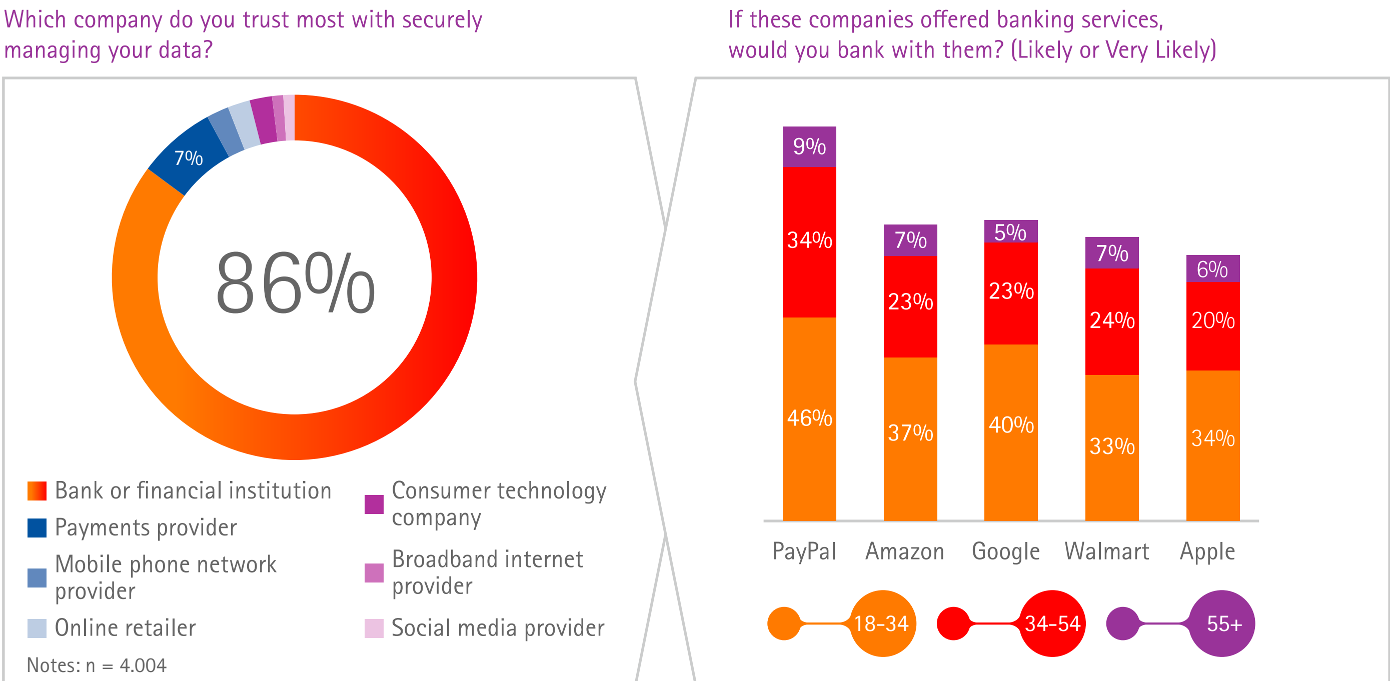
As the world evolves more toward C2B relationships, the major C2B players—including Google, Apple, Facebook and Amazon (GAFA)—have been increasingly encroaching on the territory of traditional banks. Google now offers a plastic debit card in addition to Google Wallet, a mobile payment system that enables consumers to make online purchases and send money through e-mail[2]; Apple has entered the market with Apple Pay, a mobile payment and digital wallet service[3]; Facebook Messenger allows users to send money to each other[4]; Amazon Lending offers its "power merchants" business loans and takes the loan payments out of the sales proceeds of those merchants[5]; and Alibaba has 400 million active monthly users for its AliPay Wallet[6].

Those GAFA moves are part of a broader strategy. In order for these players to become more relevant in consumers' lives, they have been naturally expanding the full range of their offerings to include not just shopping, entertainment, and travel, but also products and services that address people's health, their homes, and their money. This approach has generated a tremendous amount of data that can be analyzed in real-time to obtain customer insights that can then be used to create opportunities for both cross- and up-selling additional and/or complementary products.

Such moves have made incumbent banks increasingly vulnerable, even as they begin to transform themselves into the "Everyday Bank" of the future—one that interacts daily with customers. The bottom line is that banks must now think in new and innovative ways, or risk becoming a mere back-office utility. Indeed, we estimate that, by 2020, different business models could impact up to 80 percent of existing banking revenues. Revenue streams with a high degree of impact could include current accounts, consumer finance, cash management, and small- and medium-enterprise (SME) payments[7].

As such, the challenge for banks is to figure out how best to deploy their strengths in the new C2B era. "Banks have millions of customer relationships, a legacy of trust, a wealth of data and the necessary investments to play a leading role in the digital transformation of financial services," notes Francisco Gonzales, Group Executive Chairman, BBVA.[8] Indeed, in a recent Accenture survey, 86 percent of the respondents said they trusted their banks or financial institutions most with the task of securely managing their data. Online retailers, cell phone providers, consumer technology firms, and social media companies ranked far behind. At the same time, though, consumers—especially those in their 20s and early 30s—are becoming increasingly receptive to having their banking services provided by a non-traditional financial services company. If Google offered banking services, for instance, 40 percent of consumers aged 18 to 34 said they would be "likely" or "very likely" to use them (see Figure 1).

Figure 1. Customers trust in banking



Source: Accenture, "Banking shaped by Customer", 2015; Accenture, "The Digital Disruption in Banking", 2014

Given those competitive pressures, banks will need to move fast and make the right decisions in three crucial areas:

- Which roles to play
- Which "phygital" (combined physical and digital) businesses to prioritize and transform, and which new businesses to launch, both today and tomorrow (including understanding where the bank's future revenues will come from)
- How to develop and deploy relevant digital enablers, and how to digitize processes end-to-end (E2E), including branch activities

These decisions will help executives articulate and share a common digital agenda, from having a realistic strategic direction, to determining the actions required, to setting up the appropriate governance capability, to committing to execution.

Different Roles

Banks can learn much from GAFA about the innovative ways in which to position themselves in their customers' lives. In particular, they should consider operating across a combination of the following roles:

1. Relationship player

The bank owns the relationship with customers, leveraging its ecosystem of partners and in coopetition (or cooperative competition, in which competitors work with each other) with GAFA and FinTechs to provide everyday life solutions. In some cases, the bank may not even sell customers its own products but recommend the offerings from other firms.

2. Platform provider

The bank provides an open platform for sellers, buyers, and content providers to interact, create and sell products and services and share value.

3. Core financial services utility/manufacturer

This is the traditional regulated role of banks in packaging and providing compliant financial services.

4. Innovation playmaker

The bank participates in FinTech and digital banking ecosystems, leveraging a full spectrum of corporate approaches (including incubators, accelerators, and venture funds) to provide capital and to enter new businesses.

5. Digital ID enabler

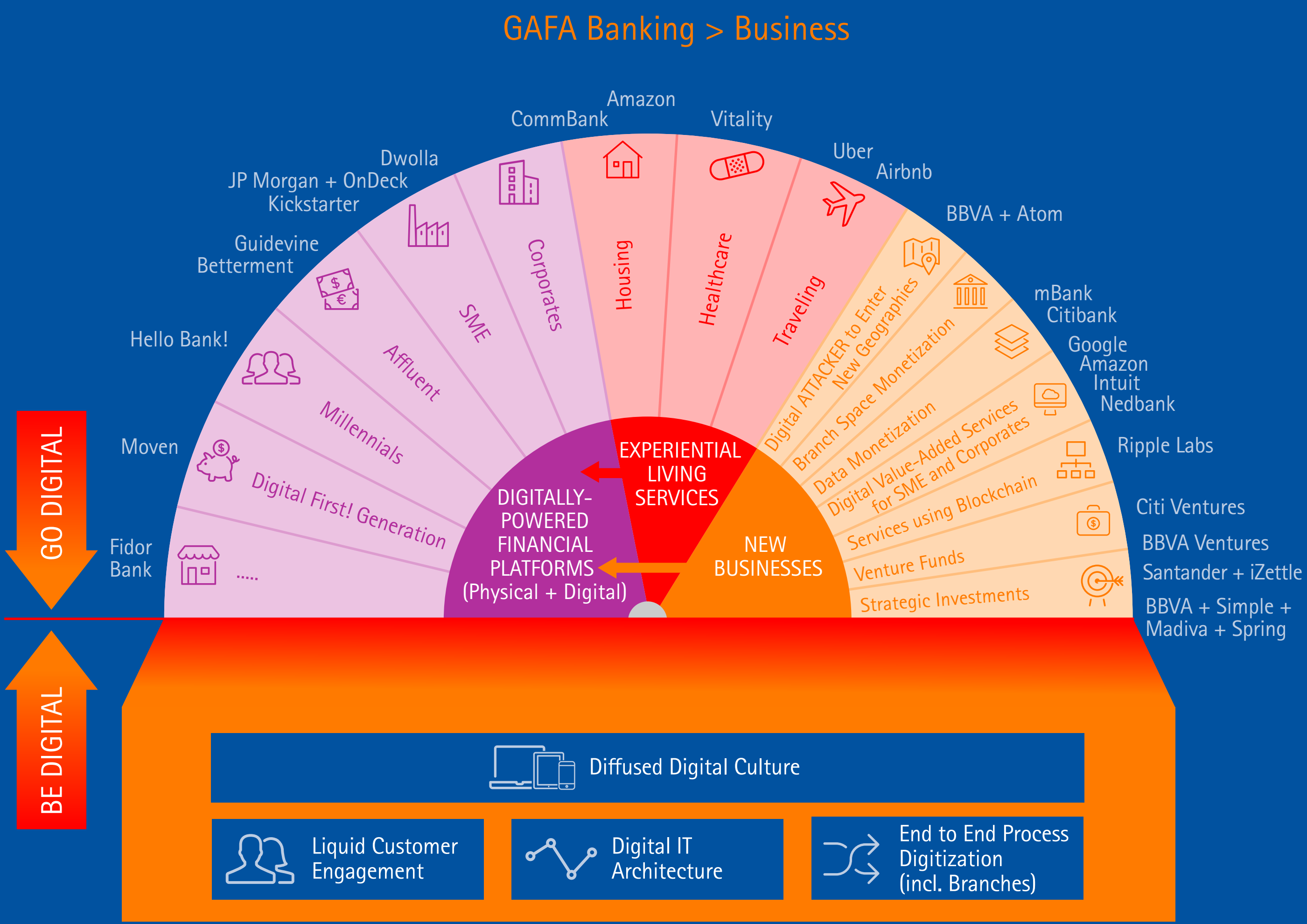
The bank operates a secure platform that offers consumers easy access to digital commerce. Over time, this role might extend to the authentication of digital IDs, the overall safeguarding of individuals' privacy, and the monetization of certain personal data [in compliance with relevant local privacy laws].

The GAFA Banking Approach

To remain central in the lives of consumers while developing new revenue streams, banks need to evolve their business models by turning their attention to their own portfolio of businesses as well as to next-generation business opportunities. The goal is to quickly develop a viable response to emerging digital disruptors while managing strategic risk to avoid the loss of revenues to those disruptors. The key here is the interaction between "GO Digital" and "BE Digital" agendas, in which the former is about the businesses of focus, and the latter is about enablement (see Figure 2).

In light of a company's overall business strategy, the major issues include the following: What is the total investment budget for the digital agenda? How should that budget be allocated across GO Digital and BE Digital? For those GO Digital and BE Digital initiatives, which are the priority items and "coopetition" strategies with FinTechs?

Figure 2. GO Digital, BE Digital



A Portfolio of Businesses

There are three major GO Digital sets of platform/ businesses to consider within the GAFA banking portfolio (See Figure 2):

1. Provide digitally powered financial platforms. Banks could offer physical and digital choices both in terms of access (allowing the customer to decide when and how to engage with the bank) and in terms of an easy and simple experience. For instance, depending on the business strategy, a digital advisory platform could be developed for affluent consumers, evolving each step in the advisory value chain from prospect collection and onboarding to client engagement, investment portfolio proposal, and illustration of various offering and products. Or digital platforms could be developed for small to medium sized enterprises (SMEs) and for corporations, targeting the specific financial and non-financial needs of different businesspeople. Such platforms could leverage the FinTech ecosystem in the same way that JP Morgan Chase is doing with its OnDeck partnership to provide more financing opportunities at better pricing[9]. Dedicated digital platforms could also engage the mass market by addressing emerging sub-segments, such as Digital First! Generation or people carefully managing their money. An example of that is Moven, with its real-time mobile money app[10].

2. Tap into experiential living services. Banks should consider partnering with others to develop platforms that deliver "living services"—that is, services that can adapt in real-time to fulfill the needs of consumers' everyday lives. This means increasing the level of interaction with customers, having access to extensive data on their behaviors, and embedding customized financial services propositions in various areas, including housing, health care, and traveling. A strong example being the ecosystem-rich services offered by the Discovery Vitality platform in South Africa in terms of nutrition, exercise and preventative care.[11]

3. Develop new businesses. In order to multiply customer interactions and/ or generate new revenue streams, banks should explore new businesses. Potential opportunities include the following: digital attacker (for entering new geographies), branch space monetization (by teaming with players like Amazon), data monetization (merchant-funded discounts and offers to merchant market intelligence and business insights, such as Nedbank Market Edge), digital services for SMEs and corporations (such as Kurumsal offered by DenizBank), services leveraging block-chain (such as in payments, trade finance, or capital markets), venture funds (such as Citibank, BBVA, and others), and strategic investments.

With respect to GAFA approaches, banks should consider that developing experiential living services and new businesses will not only generate new revenue streams but also act as a multiplier for customer interactions and touchpoints. This can then help generate value for the bank by remaining at the center of customers' lives and needs, accessing new revenue opportunities that are beyond traditional banking, staving off impending competitive forces, and developing "exponential" business models, which can enable a company to quickly develop new opportunities and/or expand across borders.

Digital Enablers

To provide different products and services while performing certain roles, banks need to possess the appropriate digital enablers. There are four important components (see Figure 2):

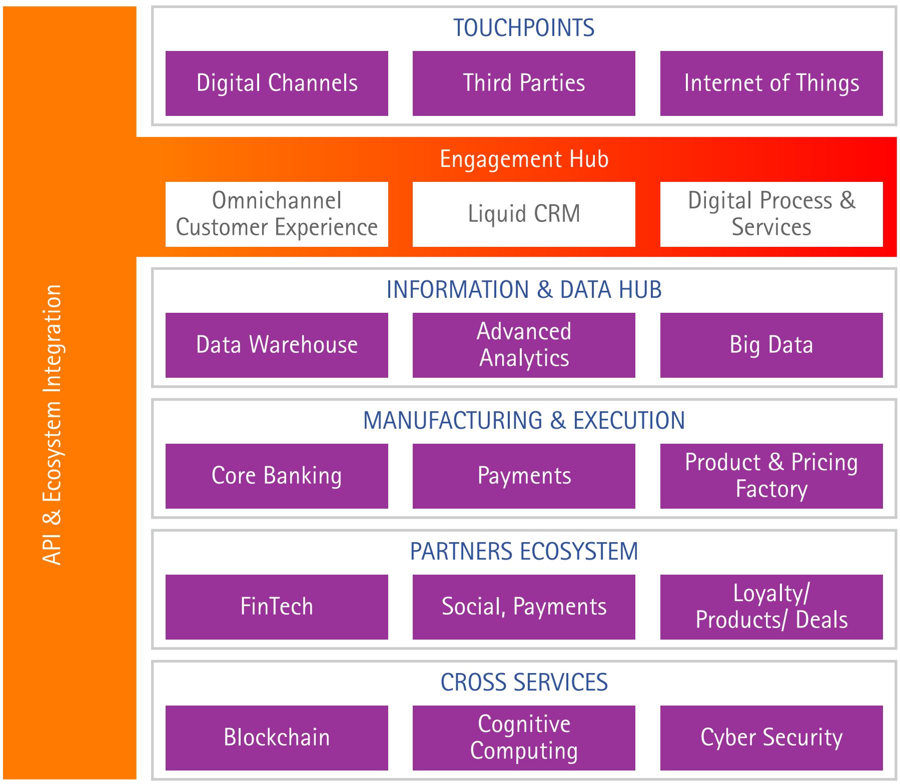
1. Diffused Digital Culture. Traditional, top-down hierarchies are no longer optimal. What is required now is a diffused digital leadership, sharing the art of the possible and emerging strategic options. It is also important to establish an environment where new, important positions—such as data scientist, digital architects, community advocacy builder, and even storytellers—can flourish.

2. "Liquid" Customer Engagement and CRM. Banks need to revise their customer engagement and relationship management (CRM) for greater flexibility and agility. The goal is to move more quickly from customer insights to marketing automation to customer interactions, leveraging "big data."

3. Digital IT Architecture. IT architectures need to be liquid (highly decoupled and made of granular components to be created/customized in an agile way), intelligent (embedding robotics and cognitive computing to accelerate the process digitization), connected (API-driven, enabling banks to integrate easily with third parties and partners), and smart (using distributed consensus ledgers and smart contracts to enable real-time transactions without intermediaries and at much lower costs). When combined, these technologies will be a game changer, enabling banks to create new living services faster, provide new propositions, and make current products "instant"—all without having to change back-end systems. Additionally, they will be able to develop new products and services on distributed ledgers for ubiquitous access and transaction real-time and 24/7/365, and receive data and events from a third party like Amazon to create value-added services in real-time, integrating and distributing their products in a wider ecosystem. (see Figure 3).

4. End-to-end process digitization. Thus far, most banks have focused on digitizing front-end processes. It is now important to discover the potential of digitizing the "invisible" processes, including back-office tasks, to provide end-to-end (E2E) digitization. In the past, customers opening an account might have needed one to two weeks, from filling out a paper application to receiving multiple letters containing information about the account itself and any linked debit and/or credit cards. With full E2E capability across all processes, a customer might be able to begin using an account just minutes after having completed the online application. It should be noted that digitization, in this case, will also affect and improve digital processes that exist/co-exist in physical environments, such as branches. This is critical in an industry where services and experiences are delivered across a "phygital" continuum.

Figure 3. IT blueprint for GAFA Banking > Business Approach



Executing the Digital Agenda

The portfolio of businesses—when combined with the right decisions about which roles to play and what digital enablers to develop—becomes a bank's value-generation engine. A GAFA approach will work consistently across revenue growth through greater cross and/or upselling, customer acquisition and retention, new revenue streams, customer engagement and cost optimization for instance, transforming the cost-to-income ratio of a retail bank from 65-70% to less than 40%.

The successful implementation of a digital transformation agenda requires banks to manage four interacting steps. The first is to confirm the strategic direction by balancing and evaluating choices to reach a single vision. This could entail revisiting decisions on roles in view of prospective business opportunities, and vice-versa, as well as understanding where existing and planned enablers might make an additional role viable or even desirable.

The second step is to design the digital agenda by creating a blueprint for the digital transformation. Typical outputs include Rotation-to-New metrics; a prioritization of business initiatives, customer journeys, and E2E processes; the identification of the preferred allocation of investments; and the setup of the ecosystem and FinTech programs.

The third step is to enable fit-for-purpose digital governance, which may evolve over time (going, for example, from decentralized to centralized) as the intensity of the digital transformation increases.

Finally, the fourth step is to conduct digital enablement activities by creating three-year execution plans, typically centered on transforming customer journeys and connecting the GO Digital with the BE Digital agendas. To be clear, executing these four interacting processes is no simple matter, and banks should take note of a number of factors that can greatly improve their odds of success (see below "Executing Digital Banking Transformations").

Executing Digital Banking Transformations

Our experience shows that, when it comes to executing an agenda for digital transformation, a number of key requirements will be the difference between speedy success and a low return-on-investment (ROI):

- Clearly articulated digital agenda with shared priorities and clear targets
- Governance adjustments that reflect new goals
- Disseminated digital culture across the organization
- Business objectives aligned with key levers and clear accountability
- Speed of execution
- End-to-end (E2E) process transformation aligned with "customer journey" simplification
- Digital performance management, starting with customer indicators
- Enabling the technology platform to provide reach and flexibility

Toward the Future

The banking sector is rapidly changing and evolving toward C2B relationships, as customers increasingly want to be in control and engage with businesses only when and where they want to. In this new era, where companies must be accessible 24/7, the banking industry can learn much from successful C2B leaders like Google, Apple, Facebook and Amazon (GAFA). For banking executives, this means focusing their investment strategies and creating new business models—based on a portfolio of businesses and selection of roles to play—that will multiply interactions with customers, generating valuable data and driving cross- and up-selling opportunities.

Careful attention will be required to select and manage the digital enablers necessary to execute a bank's transformation—both in digital and physical (such as branches and contact centers) terms. Speed is of the essence here. In an accelerated C2B world, playing catch-up will not be good enough because, by then, GAFA and other competitors will have only advanced further. Thus it is critical for banks to think innovatively and to act quickly; otherwise, they risk becoming yet another casualty of the GAFA juggernaut that has already disrupted numerous businesses in other industries.

Notes

1. Google www.google.com/adsense

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10. Moven App Encourages Savings, Eliminates Product Silos, The Financial Brand, May 13, 2015

11. Discovery www.discovery.co.za

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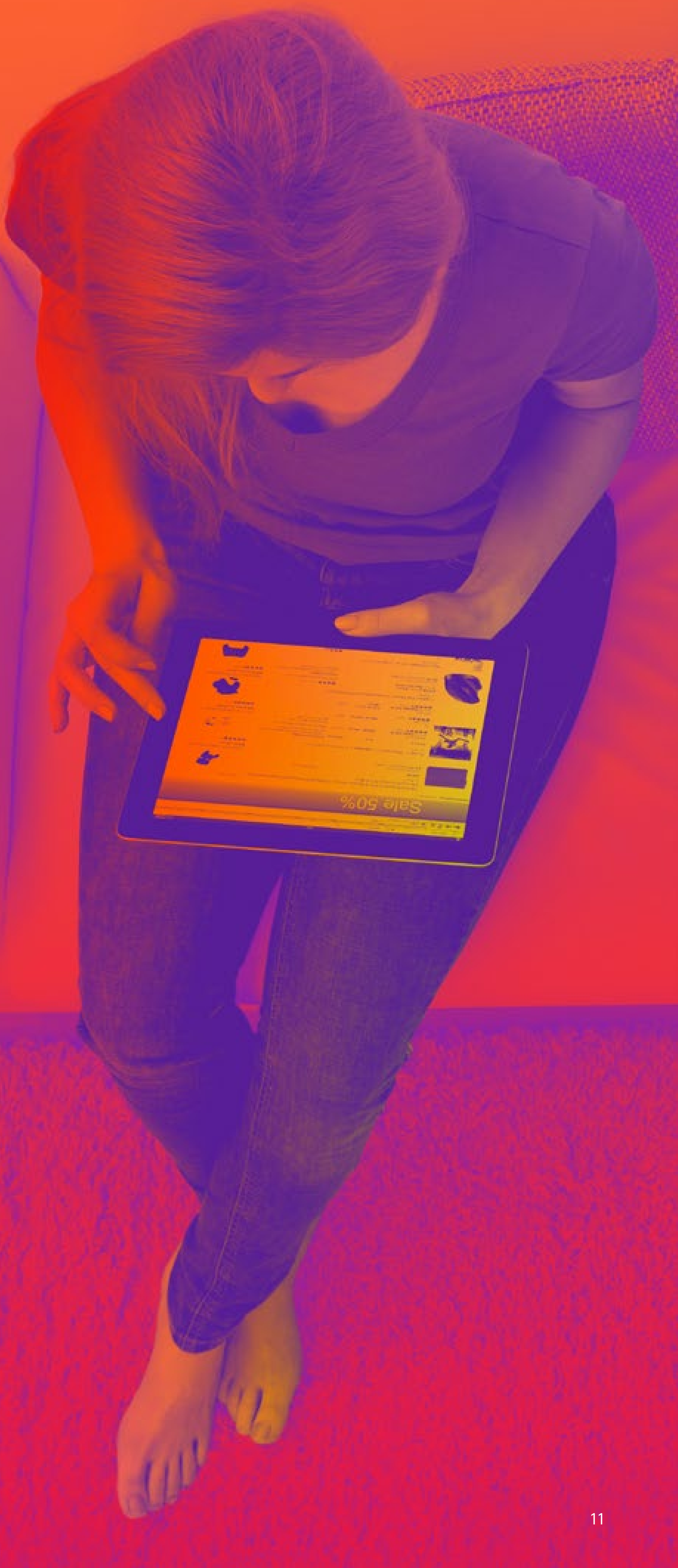

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