

ING BANK: FACING DIGITAL DISRUPTION¹

Niccolò Pisani and Vivien Fodor wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In March 2017, Ralph Hamers, chief executive officer (CEO) of ING Groep NV (ING), needed to decide how to deal with the many challenges posed by digitization. Despite the positive numbers reported in the 2016 annual report, the outlook for the bank did not seem certain. Three figures in particular called for careful reflection on the future of ING and, more broadly, the banking sector: (1) digital channels already accounted for 98 per cent of contact with ING retail customers in 2016; (2) mobile interactions with ING retail customers increased by more than 50 per cent during 2016; and (3) a report by Citigroup Inc. showed that investments in financial technology (fintech) companies had grown exponentially over the decade—from US\$1.8 billion in 2010 to \$19 billion in 2015—indicating that fintech was rapidly bringing the banking sector to a tipping point.²

In view of the many challenges posed by digitization, Hamers had recently announced that the bank would invest €800 million in continued digital transformation to further improve the customer experience and accelerate growth.³ While there was no doubt that this investment was needed, Hamers had to decide how ING would respond to and take advantage of the radical changes that would likely further disrupt the banking sector. Which strategic actions were most needed for the bank to thrive in the digital disruption? Which specific initiatives should Hamers prioritize for the €800 million investment?

THE HISTORY AND GROWTH OF ING

ING was the product of a merger between insurance company Nationale-Nederlanden and banking company NMB Postbank Groep in 1991. The new bank was initially named Internationale Nederlanden Groep, which the market immediately abbreviated to I-N-G, so the company formally changed its name to ING Group. Within a few years of its foundation, ING had rapidly expanded its range of activities through a combination of organic growth and a series of acquisitions. ING had evolved from a Dutch company with limited international activities to a large multinational with operations across several countries. By the end of 2016, as a global financial institution with a strong European base, ING offered banking services in more than 40 countries and employed over 54,000 people worldwide. The bank had 35.8 million customers and the ING brand ranked 27th on the list of the most valuable bank brands in the world.⁴

Over the years, ING had segmented its geographical markets. The Netherlands, Belgium, and Luxembourg (the market leaders) constituted its key markets. ING had a strong position in both retail and wholesale

banking in these countries. Germany, Austria, Spain, Italy, France, Australia, and the Czech Republic constituted the challengers. ING mainly offered retail direct-banking with strong savings franchises in these countries and showed potential for growth in wholesale banking. In Poland, Turkey, Romania, and selected countries in Asia (the growth markets), ING provided a full range of retail and wholesale banking services. Although the bank did not hold large shares of that market, its businesses were characterized by strong growth potential. ING only had wholesale banking activities in the other countries where it had operations.⁵

According to its 2016 annual report, ING was committed to achieving sustainable progress and empowering its customers to make informed financial decisions. The bank defined its purpose as “empowering people to stay a step ahead in life and in business.” This purpose was embedded in four promises ING made to provide its increasingly digital and self-directed customers a differentiating experience: “to be clear and easy, with an anytime, anywhere service offering that empowers customers to make smart decisions” and “to keep getting better.”⁶ *Clear and easy* reflected the bank’s efforts to save its clients both time and money by providing clear products and striving for plain language, fair pricing, and simple processes. *Anytime, anywhere* represented ING’s work to get its services to where its customers were, giving them the possibility of accessing banking services at their convenience. *Empowering* meant providing customers with relevant, up-to-date information about their choices and related short- and long-term implications. ING believed that the best financial decisions were informed decisions. And finally, *keep getting better* corresponded to the bank’s efforts to make its customers’ lives easier with new ideas, solutions, and approaches. With improvements, both ING and its customers could stay ahead.

ING had a successful year in 2016, showing strong growth in customer numbers, savings, and lending. The bank was also recognized by *The Banker* as 2016’s global bank of the year and bank of the year for Western Europe, the Netherlands, and Belgium. Since Hamers was appointed CEO and chairman on October 1, 2013, ING had been reporting increasingly positive results, which confirmed the bank’s sound competitive position in the market.⁷

ING’s Competitive Position

One of ING’s key strengths was its branding: ING was a well-known, strong brand with positive recognition from customers across multiple countries. The bank also enjoyed a strong capital and liquidity position, and a solid financial and operating performance. The omni-channel distribution strategy that ING had adopted years before had been successful in growing the number of customers. Moreover, ING had been one of the first traditional banks to invest in digital platforms, which proved to be a significant advantage, with the bank acquiring precious experience in the digital environment.

A weakness for ING was its dependence on interest income. It needed more agility to compete in the new environment and needed more efficiencies to remain profitable in the future. The bank also faced challenges with different market positions in the various markets in which ING had operations. Moreover, its global presence meant the bank had to deal with varying customer needs and regulatory environments; adapting to these distinct environments was still a costly element of ING’s operations.

Further improving its customers’ experience would give ING the opportunity to grow faster than the market. To offer a differentiating customer experience, the bank needed to leverage its scale and early experience with digital platforms to invest in new digital technologies.

A major threat was further disruption caused by digitization, which exposed the banks to cybercrimes. ING also faced growing competition from new entrants to the market, such as fintech companies. As well, the

financial sector generally had an unfavourable image in many countries, and the regulatory environment was becoming increasingly complex, heightening the execution risk. To resolve the latest capital requirements of the Basel Committee on Banking Supervision, the bank still needed to accumulate more capital.⁸

In an assessment of the competitive challenges lying ahead for ING, Hamers stated,

Customers are increasingly digital and bank with us more and more through mobile devices. Their needs and expectations are the same, all over the world, and they expect us to adopt new technology as fast as companies in other sectors. In order to continue to lead in digital banking, we need to offer a better customer experience that's instant, personal, frictionless and relevant. At the same time, banks are confronted with continuous regulatory burden and a prolonged period of ultra-low interest rates. These factors put pressure on the returns which are necessary to fund growth and investments, and [to] cover our cost of capital.⁹

DIGITAL DISRUPTION IN THE BANKING SECTOR

Digital technology was affecting all aspects of life, and digitization was responsible for considerable large-scale changes in the business environment. It led to greater efficiency and significant innovation as companies responded to the changes digitization made to the way companies operated and customers experienced products and services. Companies were called to radically transform themselves to remain competitive. The digital transformation project launched by the World Economic Forum reported,

Becoming a digital enterprise requires far more profound changes than merely investing in the latest digital technologies. Companies will need to search for new business models, fundamentally rethink their operating models, revamp how they attract and foster digital talent, and consider afresh how they measure the success of their business.¹⁰

Accenture highlighted that digital disruption had been occurring at every single level in the banking industry, and the other major consultancy companies corroborated this.¹¹ Customers had increased their expectations and changed the way they wanted to communicate with their banks and make use of their services. New digital technologies had given banks the opportunity to revolutionize their business models, creating digital platforms for their clients, introducing new products, and increasing their efficiency levels. New entrants characterized by their heavy reliance on digital technologies—the fintech companies—had started offering financial services to their customers, representing a growing threat to the once secure revenue streams of traditional banks. According to Accenture estimates, by 2020, different business models would impact up to 80 per cent of the revenues the banking sector made in 2016.¹²

An analysis for the World Economic Forum listed five key developments that had contributed to the radical transformation of the banking sector: Consumers had lost their trust in the traditional banking system after the global financial crisis of 2008. Clients' expectations were increasing as the clients became accustomed to faster and more convenient experiences, mainly as a result of the digital transformation. The millennials—an entirely new demographic—had different expectations and a stronger technological orientation than older segments of the population. Use of the mobile Internet was on the rise; consumers were always connected and were widening the range of services they accessed through their smartphones. Generally, the financial sector was already tightly regulated, but several countries had further enhanced their regulations to protect consumers' rights.¹³

The Rise of Fintech

Numerous analyses indicated that one of the phenomena related to digitization in the financial services sector was the rise of fintech companies—businesses that offered financial services by making use of software and modern technology.¹⁴ They competed directly with banks in most areas of the financial sector. These companies realized that financial services of all kinds (money transfers, lending, investing, and payments) were better when integrated with the increasingly digitalized lives of customers.

The explosion of fintech companies was disrupting the banking industry, with the phenomenon mostly affecting American and European banks. A Citigroup report showed that investments in fintech companies had grown exponentially over the previous decade, from \$1.8 billion in 2010 to \$19 billion in 2015. The report predicted that the rise and development of fintech would soon bring the banking world to a tipping point.¹⁵

The majority of investments in financial technology were being made to facilitate payments, such as those required for online invoicing and purchases.¹⁶ Online services with payment options and mobile phones with direct money transfer functions were only some of the digital options that were offered to consumers. The result was that fewer customers were likely to walk into a bank for financial services and fewer employees would be required. Citigroup predicted that up to 30 per cent of employees in banks across Europe and the United States could lose their jobs by 2025, primarily as a result of the automation of retail banking.¹⁷

Traditional banks still had the advantage of scale; however, only about 1 per cent of North American consumer banking revenues had moved to new digital models by 2017, and this percentage was likely to grow exponentially. Fintech companies had already gained considerable market shares beyond the United States. For example, in China, Internet giants moved very early into financial services and gained significant market shares in e-commerce as well as in third-party payments. Building on the extensive knowledge acquired in the digital world, these companies were able to rapidly create convenient, quick, and cost-efficient alternatives to traditional bank payments.¹⁸

Although the financial industry was generally known for its relatively tight regulations, variations did occur from country to country, and the same was true of the regulators' responses to the rise and growth of fintech. For instance, in the United Kingdom, the Financial Conduct Authority (FCA) launched Project Innovate in 2014 to work with innovative businesses in regulated sectors. The same approach was followed by Singapore and Australia. However, in some countries, a company was still required to be a formal "bank" even to offer one financial activity, such as payments.¹⁹

DIGITAL TRANSFORMATION AT ING

Despite the positive financial results and reassuring awards obtained in 2016, ING was aware that its future, and the future of all traditional banks, was threatened by digitization. Hamers acknowledged the risk and the need for change just a few months after releasing the bank's 2016 annual report. In an interview in New York City, he declared, "We want to be a tech company with a banking license."²⁰ Clearly, Hamers was indicating that the bank had already begun to adjust its strategy to remain competitive in the resulting fundamental transformation digitization was causing in the banking sector.

The primary goal of ING's transformation and €800 million investment in digitization was to enhance the experience of its customers with an integrated digital platform that catered to all of its customers' financial needs and to provide new digital tools that made their financial planning and decision making easier. For example, My Money Coach, launched in 2016 in Spain, was a free digital adviser that helped customers create a personalized plan to achieve their savings, investment, and retirement goals. In Poland, ING launched a

customer lending application that used advanced analytics to approve applications from existing customers and allowed customers to secure loans in minutes. ING developed similar tools for its customers in Belgium, France, and the Netherlands. ING had also worked on transforming its wholesale banking division, expanding the reach of its digital cross-border banking platform, InsideBusiness, which gave customers real-time insights and a single point of access to manage all their financial operations. The bank intended to merge its platforms as rapidly as possible to a single digital and scalable banking platform across countries.²¹

The bank seemed to be focusing on three areas for its digital transformation. The first focus was improving customer experience by engaging clients through their new necessities and habits. Hamers was convinced that ING needed to be where people were. He described the change by talking about his own banking experience as a client:

I was in the line-up, 20 people ahead of me. None of them were talking. All of them were right here—on their mobile phone! This is where people spend their lives these days. . . . They're not on the street. You can't reach them with your branches. They have no interest. They're spending their lives on social media. Posting their blogs, making their comments, posting their pictures. They're buying stuff on Amazon.²²

The second area of focus dealt with the rise of fintech companies. Hamers believed that ING had to deal with this new form of competition while finding a way to learn from them:

Doing their personal finances is no one's hobby—not even mine. People need banking but not necessarily banks. And a new breed of financial services competitor has emerged to meet that need: the fintechs. There's much to learn from these new competitors.²³

The third area of focus was similar, but broader: ING needed to come to terms with the fundamental role technology and innovation were playing in the future of banks. Hamers understood that, and he also understood the need for talent who could deal with it:

Banking is becoming more of a technology play than a content play, with people who have a lot of knowledge about a specific product. The product is not what differentiates you as a bank, it's the experience that differentiates you as a bank. Your experience more than ever before is in how you deliver in a digital way, how quickly and easily you can deliver, and how real time the information is, because clients want instant satisfaction. They're used to that through Facebook, through all of their Internet experiences. Instant satisfaction is what is needed. Now, knowing that, you know that you have to attract more and more talent on the technology side of things.²⁴

ING'S FUTURE

Digitization and changing customer needs were clearly affecting the whole financial services sector, including ING. As in other industries that had been disrupted, consumers were becoming accustomed to and expecting a better, digitally enhanced experience. In an industry such as banking, where trust and loyalty had been key in attracting and retaining customers, there was a diminishing need for personal contact as people increasingly managed their financial transactions digitally. This turned banking products into commodities, making differentiation significantly more complicated for banks. Moreover, as in many other industries, consumer loyalty was decreasing: customers were often turning away from their well-known and trusted banks to small, newly established companies that provided financial services at lower costs in a more digitally friendly way.

ING, being a multinational that operated in over 40 countries, had to cope with these challenges in very different country settings. The differences between countries made it even more difficult for the bank to respond to current trends. Investing in digital solutions was also likely to affect the bank's future need for human resources, reducing the need for staff across countries. Dismissing a significant number of employees would surely hurt the bank's reputation among consumers, especially in established markets such as the Netherlands, Belgium, and Luxembourg.

How would ING take on these challenges and take advantage of the radical changes that would likely continue to disrupt the banking sector? Which strategic actions were most needed for the bank to continue thriving in the face of the digital disruption? How should Hamers prioritize the initiatives for his announced investment of €800 million?

ENDNOTES

¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of ING Bank or any of its employees.

² ING Group, *Annual Report 2016: Accelerate*, March 2017, accessed June 10, 2017, www.ing.com/About-us/Annual-reporting-suite/Annual-Reports-archive.htm; All currency amounts are in US dollars unless otherwise specified; Citigroup, *Digital Disruption: How FinTech is Forcing Banking to a Tipping Point*, March 2016, accessed July 1, 2017, <https://ir.citi.com/D%2F5GCKN6uoSvhhvCmUDS05SYsRaDvAykPjb5subGr7f1JMe8w2oX1bqpFm6RdjSRSpGzSaXhyXY%3D>.

³ € = EUR = euro; €1 = US\$1.07 on March 31, 2017; ING Group, "ING Strategy Update: Accelerating Think Forward," press release, October 3, 2016, accessed January 5, 2018, www.ing.com/Newsroom/All-news/Press-releases/ING-strategy-update-Accelerating-Think-Forward.htm.

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⁵ Ibid.

⁶ Ibid.

⁷ ING Group, "ING Named Global Bank of the Year," press release, December 8, 2016, accessed February 15, 2018, www.ing.com/Newsroom/All-news/ING-named-Global-Bank-of-the-Year.htm; ING Group, *Annual Report 2016: Accelerate*, op. cit., 10.

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¹² Accenture, op. cit.

¹³ Taavet Hinrikus, "What Will the Bank of the Future Look Like?," World Economic Forum (blog), February 15, 2016, accessed September 1, 2017, www.weforum.org/agenda/2016/02/what-will-the-bank-of-the-future-look-like.

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¹⁶ Ibid.

¹⁷ Citigroup, op. cit.

¹⁸ Boyle, op. cit.

¹⁹ Hinrikus, op. cit.

²⁰ ING Group, "'We Want to Be a Tech Company with a Banking License'—Ralph Hamers," press release, August 8, 2017, accessed January 8, 2018, www.ing.com/Newsroom/All-news/We-want-to-be-a-tech-company-with-a-banking-license-Ralph-Hamers.htm.

²¹ ING Group, *Annual Report 2016*, op. cit.

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