

# STAR SHIFTING: RAPID EVOLUTION REQUIRED

Banks can grow by accelerating  
their move to digital



WINNING IN THE DIGITAL  
ECONOMY SERIES



# Preface

New Accenture research attempts to quantify the level of change in the global banking and payment industry structure. We found, for example, that 17 percent of industry players in 2017 entered the industry over the last 13 years. These newcomers have grabbed one-third of revenue growth in Europe, and in markets like the U.K., the combination of high numbers of new entrants and material revenue migration indicates a high level of disruption already taking place. Incumbent retail and commercial banks must rethink their “North Star” business models and be bold in reorienting their business to be future-ready or run the risk of being left behind as the industry changes around them.

Our research suggests two priorities for incumbent banks; priorities which are addressed in two linked points of view, each of which takes the same industry analysis as its jumping-off point. In **“Beyond North Star Gazing,”** we discuss how the evolution of the industry should shape medium-term business model choices and why not all business models are equally viable in each market. It makes the case that while many banks seem to be defaulting to just being a digital version of their traditional selves, the true strategic challenge is more complex and also more urgent. In the companion report, **“Star Shifting: Rapid Evolution Required”** we make more of a short-term case that banks need to take advantage of industry changes to become more relevant to their customers and sustain top-line revenue growth. The advent of Open Banking, digital engagement models and cross-industry platforms all represent threats as well as opportunities for incumbents. To thrive in the future (and earn the right to make the best medium-term strategic decisions) banks need to seize the opportunities to drive organic revenue growth and stay relevant to their customers.

**Banks can no longer wait to pursue successful growth strategies. New Accenture research shows that thousands of new competitors have changed the industry structure and are beginning to take significant revenue share, while incumbents struggle to make money on high-cost traditional banking. Only by becoming more relevant and harnessing digital to drive growth—like the new competition does—can incumbents prevail.**

# THE ENVIRONMENT HAS CHANGED

While banks were struggling to restore vigor to their core business after the financial crisis, the environment was changing radically. Ten years later, banks find themselves caught in a tightening trap between new forms of competition and deteriorating returns on core banking businesses.

## Several converging forces have changed the environment.

In the decade since the financial crisis, several forces have been unleashed that, little by little, have changed the environment for banks. Perhaps the biggest and most obvious is the push for more competition by regulators. Through various measures in the U.S. and Europe, such as the EU's 2007 Payments Services Directive (PSD1), regulators have encouraged thousands of new players to enter the market. Meanwhile, billions of consumers have shifted the way they shop, socialize and manage their lives squarely into the virtual world, where they have grown accustomed to a level of convenient, hyper-relevant service that they rarely experience in the physical world—and which banks struggle to match. Finally, "digitization" is redefining efficiency and opening new ways to grow.

### NEW COMPETITORS

New competitors include payment institutions, new banks (digital and traditional) and fintech start-ups, as well as players from outside banking, most notably large internet platform players.<sup>1</sup> For instance, in Japan, e-commerce giant Rakuten has built the nation's largest online bank, which had net revenues of \$433 million in 2017. Amazon has signed up 33 million customers (as of 2016) for its Amazon Pay service and has made loans totaling \$3 billion to small businesses. 127 million iPhone users have activated the Apple Pay app, which is offered by partner banks in 25 countries across the globe.<sup>2</sup> Alibaba's Alipay has more than 520 million customers in China and 112 million in other parts of Asia (via affiliates).

Ant runs the Alipay system, which is used on Alibaba e-commerce websites. Ant and WeChat (a messaging, social media and payments platform) have a combined 94 percent of China's mobile-payments market with more than 1.3 billion active users (Figure 1).

The biggest edge that platforms have is customer relevance. Because of these rich customer relationships, consumers seem willing to trust platform players to handle all sorts of services—banking is just one of many consumer services the platforms are adding. The same cannot be said for banks, where customer service has deteriorated in many cases; most banks will need to convince consumers that they will do a good job in non-financial services.

## **FIGURE 1. OVERVIEW OF BIGTECH COMPANIES' FINANCIAL SERVICES ACTIVITY BY REGION**

		Company	FS Service	North America	South America	Europe	APAC	Africa & Middle East	Info
US BIG TECHS	Google	Google Pay		●	●	●	●	●	Available in 18 countries (including US, UK, CAN, AU, Brazil and Japan)
	Amazon	Amazon Pay, Amazon Lending, Amazon Cards, Amazon Current Account		●		●	●		\$3 billion lent since 2011 in US, UK and Japan to 20,000 sellers
	Facebook	Messenger Payment		●		●			Active in US and UK
	Apple	Apple Pay		●	●	●	●	●	Available in 25 countries with +127 million users, 70% of which outside US
	Tencent	WeChat Pay and WeBank		●	●	●	●	●	+38 million WeBank customers and +800 million WeChat Pay customers in China and 15 other countries
	Alibaba	Ant Check Later, MYbank, Alipay, Ant Fortune		●	●	●	●		+520 million Alipay active users in China and 25 other countries, +180 million Ant Fortune registered users and +3.5 million micro and small enterprise served by MYbank in China
APAC BIG TECHS	Baidu	Baidu Wallet, Baidu Umoney, Baidu Wealth Management		●		●	●		+100 million Baidu Wallet activated accounts in China
	Rakuten	Rakuten Bank, Rakuten Pay			●	●			+6 million accounts in Japan and Europe and Rakuten Pay support 14 electronic money services and 6 credit card brands in Japan

Source: Accenture Research Analysis

Other digital competitors include fintechs and digital challenger banks. These banks are startups, such as NuBank in Brazil, and neo banks owned by entrants from other industries, like Orange Bank in France, a subsidiary of telecom giant Orange S.A. Digital challengers have proliferated in the highly liberalized U.K. market. ClearBank, for example, was the first new clearing bank in the U.K. in 250 years when it launched in 2017. Another startup, OakNorth, secured a full banking license and became the first U.K. bank to have its core system fully hosted on the cloud. Together, fintech start-ups and challenger banks attracted \$88 billion in investment from 2010 to 2017<sup>3</sup> as well as some of the industry best talent.

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## **Digitization is redefining efficiency in banking and making possible entirely new ways of doing business and driving growth.**

### **OPEN BANKING**

Regulators continue to push to open up competition in banking and financial services. Recently, both the EU through its PSD2 rules and the U.K., through the Open Banking regulations, have mandated that banks open application programming interfaces (APIs). Open APIs allow third parties to fetch customer data from bank computers and even initiate transactions. For example, if consumers agree to do so, their Amazon purchases could be paid directly from their bank accounts. Other open API ideas include financial-management apps for consumers and information services for small businesses, such as aggregated customer data that shows spending trends. With Open Banking, third parties can start to use banks as an invisible back office for their financial services, disrupting traditional banking relationships.

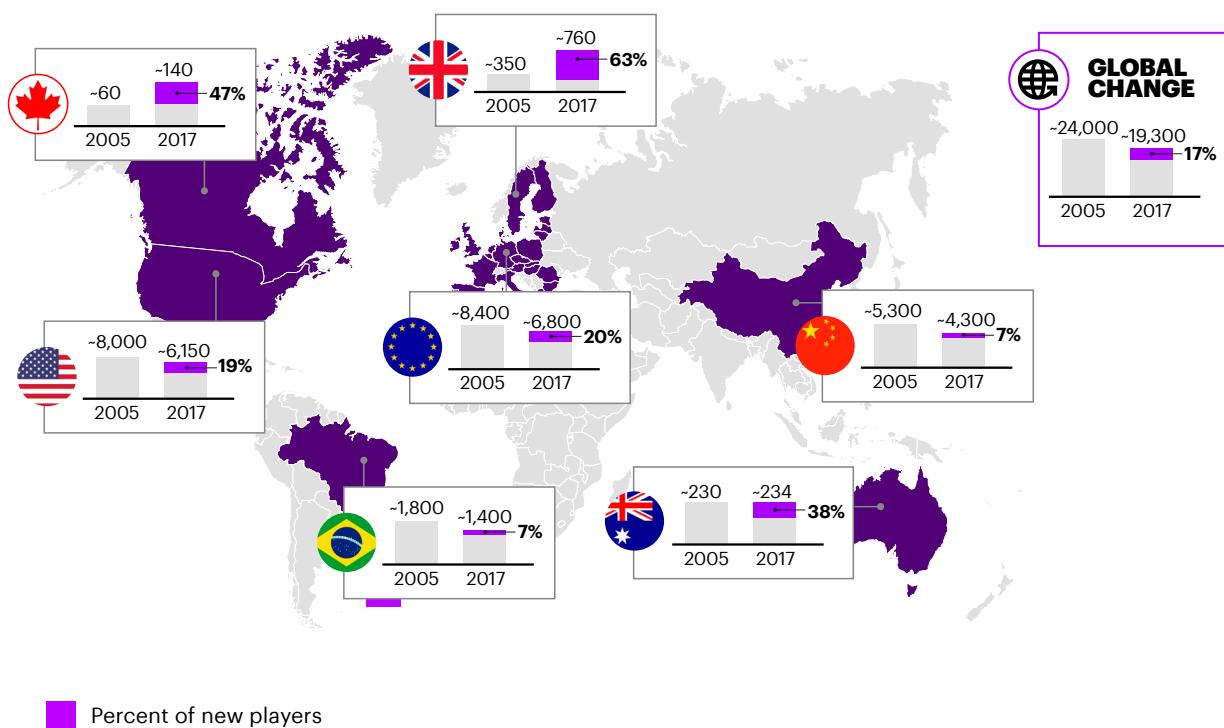
### **DIGITIZATION**

As in other industries, digitization is redefining efficiency in banking and making possible entirely new ways of doing business and driving growth. Banks are pursuing growth through expanded digital channels and other digital strategies. But they are constrained in their ability to build out new digital businesses by their obligations to maintain core systems to guarantee safety and reliability. Banks, it should be noted, are also held back by their own conservative approaches, even as competition from “digital natives” grows.

# The new competition is beginning to have real impact.

The impact of new competitors—above all payment companies, internet platform players, fintech start-ups and digital challenger banks—can already be seen in changing market structure and the beginning of sizable revenue shifts to new players. The most important structural change is the altered composition of the banking industry: a large proportion of the banking industry is now made up of players that did not exist a decade ago, especially in places like the U.K. where there has been significant pro-competitive deregulation. While most of these players are small, they are beginning to generate significant revenues, especially in payments.

**FIGURE 2. THE MAGNITUDE OF INDUSTRY STRUCTURE CHANGE VARIES BY COUNTRY**

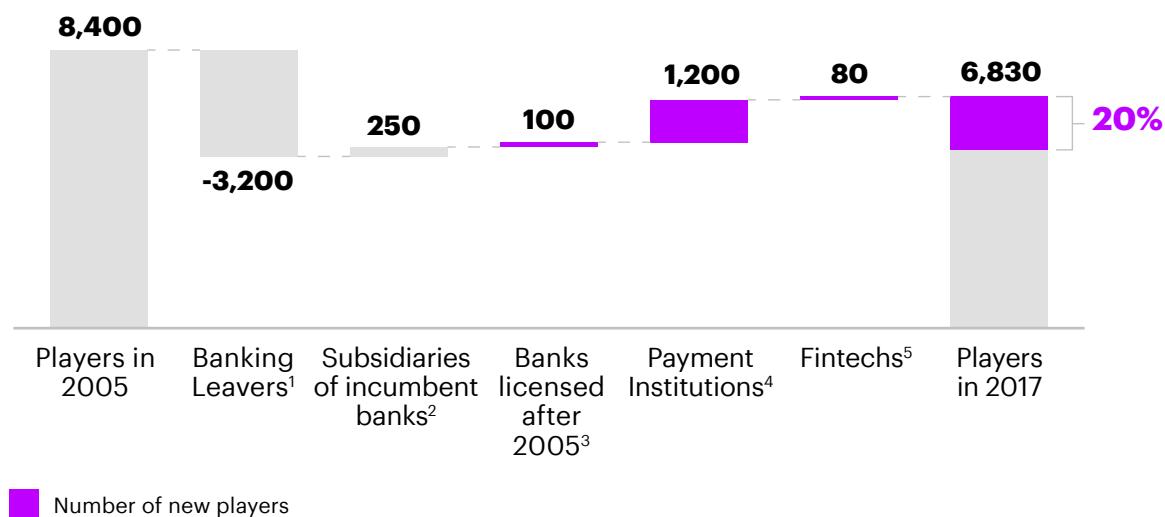


Source: Accenture Research Analysis

## A MORE FRAGMENTED INDUSTRY STRUCTURE

Even though the total number of banks has declined due to market failures, M&A and divestment since the global financial crisis, there has been an explosion in new competitors. Across the seven markets we analyzed (Australia, Brazil, Canada, China, the European Union, the U.K. and the U.S.), the total number of players in banking and payments fell from 24,000 in 2005 to 19,300 in 2017, due to consolidation. But 17 percent of market participants in 2017 (3,200) had entered since 2005 (Figure 2).

## FIGURE 3. CHANGE OF BANKING & PAYMENT MARKET STRUCTURE IN EUROPE



Source: Accenture Research Analysis on ECBA, FCA and CB Insight data

1. Divested, ceased or impacted by M&A

2. Either with banking or payment license

3. Players to whom was granted a banking license after 2005

4. Institutions licensed as Payment System Provider and/or E-money Institutions that do not hold a full banking license, plus relevant processing players even if without payment license

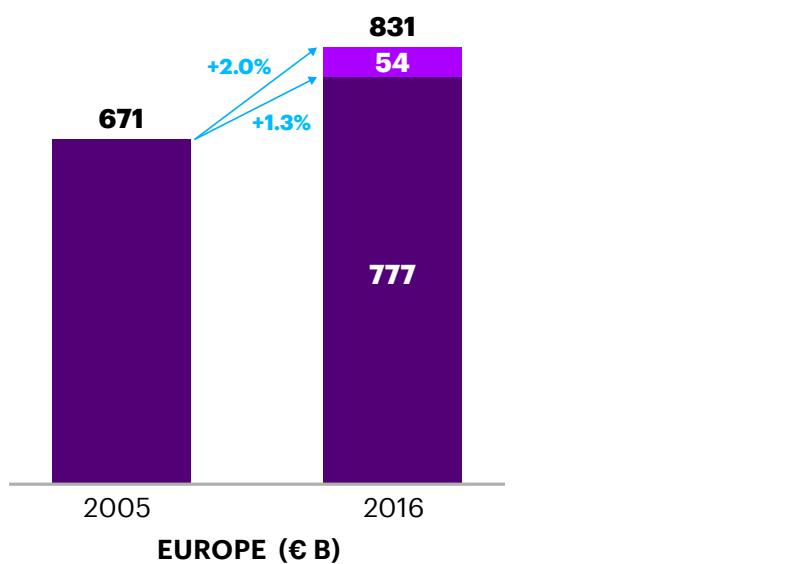
5. Fintech start-ups offering banking services, b2b and b2c, with mid or later stages of financing round

In Europe,<sup>4</sup> 20 percent of the 6,800 financial services players in 2017 had entered since 2005 (Figure 3). Of these 1,400 companies, most are payments institutions (1,200 are in payments, 100 are new banks and 80 are fintechs).<sup>5</sup> In the U.K., which has been a leader in liberalization, 63 percent of 760 players in 2017 were new since 2005. This means that the U.K. has now 2.5 times the number of players it had in 2005. Of these new institutions, 91 percent are payments companies, while others are fintechs and digital challenger banks.

## ACCELERATING REVENUE SHIFTS

According to recent Accenture Research analysis, the nearly 1,400 new players in Europe that emerged since 2005 captured six to seven percent of banking and payment revenue, totaling €54B in 2016 (Figure 4). That is one-third of all new revenues. In the U.K. the revenue shift has been much more pronounced: new competitors have grabbed about 14 percent of revenues. The biggest gains have been made by payments processors and licensed payment institutions, which have captured about 12 percent of the market. Challenger banks in U.K. are also growing and an additional £775 million will be provided under the Alternative Remedies Package to promote competition in the small and medium-sized enterprises (SMEs) market.<sup>6</sup>

**FIGURE 4. BANKING AND PAYMENTS MARKET REVENUES IN EUROPE**



Source: Accenture Research Analysis on ECB and S&P Capital IQ data

■ Revenues of new players   ■ Incumbent players   % = CAGR

While fast-growing payments players, such as Adyen, iZettle and Klarna, are taking revenue share, they are not taking a commensurate slice of profits. It is easy to get into payments—among other reasons, capital requirements are low—but turning a profit is not so simple and, for now, many new players are operating payments businesses as loss leaders. TransferWise, a U.K. digital payments start-up, has grown to two million users by charging one-eighth the fees that banks would charge. But it recorded an operating loss of £56,000 in fiscal 2017 and only showed a net profit because of the one-time impact of depreciation and amortization, and tax credits.<sup>7</sup> We estimate that it could take eight to 12 years for a typical fintech start-up to achieve profitability.<sup>8</sup> On the other hand, new players have cost advantages—they don't have to operate branches and maintain legacy IT systems, for example.

So far, platform players have not taken revenue share from banks. Most operate outside the formal banking system by reselling banking services (e.g., private-label credit cards). Some others such as China's Tencent or Japan's Rakuten, however, own a licensed digital bank. Platform players have greater flexibility in pricing because banking is not their sole source of profits and, like other digital challengers, they have no bricks-and-mortar overhead.



# **DESPITE SOME VALIANT EFFORTS, MOST BANKS HAVE NOT PIVOTED TO THE DIGITAL FUTURE**

**While new players have made inroads and started to alter the structure of the banking industry, banks have continued to focus on what worked in the old environment. Their investments in digitization have focused on improving efficiency and easy wins. Only a few valiant companies are using digital to generate new growth.**

Bank investment in IT is large and growing. On average, banks spent 8.7 percent of revenue on IT expenses, the highest allocation to IT of any industry.<sup>9</sup> In U.S. and Australian banks, tech and communications spending, as a percentage of total expenses, has grown by more than two percentage points since the financial crisis.<sup>10</sup> However, digitization in banking is still relatively slow. Banks spend around 70 percent of their IT budgets on traditional IT services (such as maintaining core legacy systems) and only about 30 percent on non-traditional solutions related to digital transformation, such as cloud or data analytics.<sup>11</sup> Most banks have not yet used digital to support fundamental changes in business models or to expand into other types of services. Overall, what banks have spent on digitization has not yielded substantial payback, either in cost improvement or revenue growth.

## **CONSERVATIVE FOCUS ON EASY WINS**

The inability of banks to generate new growth from digital investments reflects a mindset of protectionism and an internal focus that has dominated the change agendas for incumbent banks. Overall, bankers have taken a risk-averse approach to investments in digital and have prioritized easy wins—making the current business model better, faster and cheaper. In some cases, returns on these digital investments have been overwhelmed by losses in other areas, including in businesses such as payments where digital competitors are making inroads. Overall returns for large banks have improved, but at about six percent, average ROE is still below cost of equity.<sup>12</sup>

## **A FEW VALIANT EXCEPTIONS**

A relative handful of banks has made valiant efforts to move beyond optimization and use digital to develop new sources of growth. Norway's DNB, for example, has closed approximately 75 percent of its branches since 2010 to focus on expanding digital channels.<sup>13</sup> BBVA has made strategic acquisitions to build up internal ventures that use open APIs and digital platforms. It has also funded an independent venture-capital firm to invest in fintech start-ups. Santander launched the \$100 million InnoVentures fund in July 2014 to develop new digital initiatives and CitiGroup's Citi Venture set up shop in 2010 in the heart of Silicon Valley to accelerate the digital transformation of its business.<sup>14</sup>

Many banks have used the first wave of digitization to improve the customer experience and understand customer value, which will be fundamental to successful growth strategies. For example, DBS has segmented digital and traditional customers and determined that ROE on digital customers is 27 percent compared with 19 percent for traditional customers; the cost to income (C/I) ratio is 34 percent for digital customers vs. 55 percent in the traditional segment.<sup>15</sup>

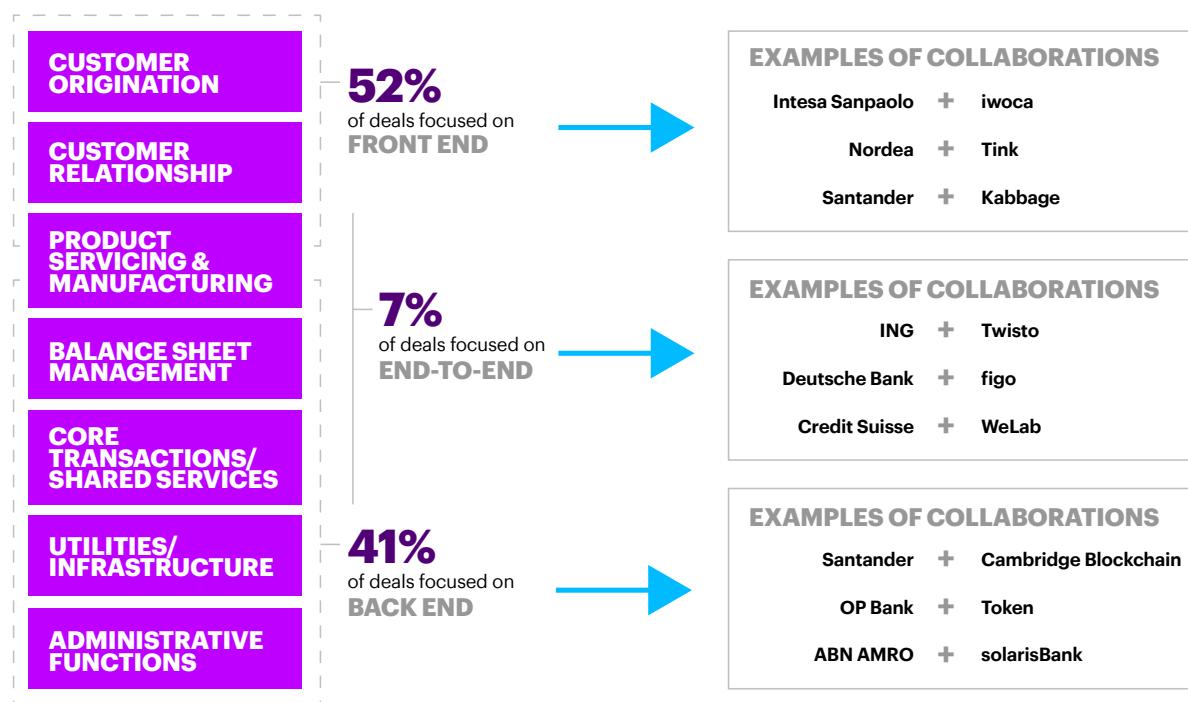
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Several incumbents are investing in digital challenger banks in their own markets. In France, BNP Paribas has acquired fintech start-up Compte Nickel and Groupe BPCE has acquired Fidor Bank, a German digital bank. As Figure 5 illustrates, these investments and partnerships cover the entire banking value chain, but the majority are focused on front-end activities such as customer origination that drive top-line growth or are “end-to-end.”

The lesson is that incumbent banks can't win by simply being the biggest, most powerful players in the traditional business—no matter how efficient they are. The future belongs to banks that can build new sources of growth, including finding opportunities beyond traditional financial services. Indeed, the banks that are making strategic alliances with fintechs and making the greatest efforts to use digital to generate growth are emerging as digital leaders. And they are being rewarded by investors: in the past three years, banks that have a recognized digital growth strategy have been rewarded with a premium of 13 percent to 17 percent above the value of their core business.<sup>16</sup>

## FIGURE 5. EUROPEAN BANKS' COLLABORATIONS WITH FINTECH COMPANIES



Source: Accenture Research Analysis

# THE SHIFT TO DIGITAL-DRIVEN GROWTH IS AN IMMENSE CHALLENGE

**There are good reasons why more banks have not made aggressive efforts to evolve and adapt to the new world of competition and digital business. It will be a massive effort and nobody can say with certainty what the future bank will finally look like. Doing more than optimizing the current model and tinkering around the edges still takes banks and boards far beyond their comfort zones. They will need to risk billions to fund the change, while maintaining and improving the core business. It will take intrepid leadership to pull this off.**

It is not surprising that there are so few digital leaders and those that have emerged have not gone as far as they need to go to build new sources of growth. The reality is that the pivot to “the new”—to a more customer-relevant, digitally-enabled growth model— involves many difficult strategic choices. These are decisions that the organization will need to live with for many years—longer than the typical CEO tenure or the time horizon of most boards. Moreover, banks will be making these large strategic bets without full knowledge of the regulatory environment they will operate in or the changes in technology and competition that will emerge.

The strategic choices also take most banks out of their comfort zone because they require a level of technological understanding that most bank executives and boards do not have. Another stretch for banks will be working across the ecosystem with partners and giving up exclusive ownership of customers. Banks will need to develop a broader understanding of risk and get beyond the traditional banking conception of absolute risk. In the transition to new digital business models, there are no zero risk choices. Banks also will need to find new yardsticks to measure success. The appropriate benchmarks will come from neo banks and fintech challengers, not from other incumbents.

Even if bank leaders can get comfortable committing to building up digital businesses, they will need to balance digital growth initiatives with the need to maintain the legacy business—even as they continue to take out cost. Getting the balance right starts with a correct assessment of value loss from the current franchise. At the same time, banks will be dealing with investments that are larger and lumpier than what they are accustomed to funding.

We estimate that banks will need to aim for a 30 to 40 percent reduction in operating and distribution costs over three to five years, while funding infrastructure renewal and venture investments. This could result in costs and restructuring charges of \$5 billion to \$8 billion for a moderately complex bank.<sup>17</sup> No bank today is configured to approve, allocate and monitor such complex investments.

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**Only investment in net new growth can enable banks to escape the tightening trap between new forms of competition and deteriorating returns.**

On top of the strategic and financial challenges, companies face organizational obstacles as they contemplate a large-scale pivot to new digital business models. One of the biggest concerns is convincing the organization that there is a compelling need to transform. It has been a rough decade for bank employees and managers. Having survived liquidity crises, counterparty failures, regulatory actions and repeated restructurings, the troops may not be responsive to yet another call to arms. And the improving outlook for the core business, thanks to rising interest rates, could undermine the argument for change. CEOs also need to convince boards and investors, who want dividends and favor productivity improvements over risky long-term investments as a way to get them.

However, the value at stake now is too high to ignore: many past strategies to boost profits have been unsuccessful and ROE is still dangerously close to the cost of equity in several regions. Only investment in net new growth can enable banks to escape the tightening trap between new forms of competition and deteriorating returns.

# HERE ARE THREE WAYS FOR BANKS TO BE RELEVANT AND GROW

There is no single growth strategy that will work for every bank. But we do know that to match the new competition and gain the credibility to start offering services beyond traditional banking, it will be important for banks to be relevant to the lives of customers—the way the online platforms are. The difficult part for banks will be generating more value from their core businesses, even as they make large investments in the new.

We identify three broad strategic thrusts that banks can pursue that will allow them to create more value from the current franchise, while pivoting to the new.

- 01.** Use digital to win substantial increase in market share through rapid deployment of better and cheaper versions of existing services
- 02.** Create new banking revenue streams by selling additional services to existing customers
- 03.** Develop new revenues at the intersection of banking and other industries

## USE DIGITAL TO BUILD SHARE

In the near term, banks can still wring top-line growth out of legacy businesses by using digital to expand share. The fastest way to do this is to partner with digital platform players, although there are risks involved). JP Morgan Chase, for example, has partnered with Amazon on the Prime rewards credit card. Through the rewards card, JP Morgan Chase can tap a rich market—100 million Amazon Prime customers worldwide. Now the two companies are talking about an Amazon-branded checking account and a co-branded credit card for small business owners. In a recent survey, roughly 45 percent of Amazon customers said they would be open to using Amazon as their primary bank account.

Amazon would not become a bank—it would not want to submit to bank regulations—but JP Morgan Chase (or another incumbent bank) could do the actual banking and potentially add millions of new customers for checking, savings and various forms of lending.

Digitization can also give banks competitive advantage in services such as mortgage origination. A fully digitized loan-application process can not only reduce approval time but also provide more accurate underwriting/credit monitoring, which can make it possible for a bank to offer loans at lower rates. With real-time validation and authentication, approvals could be granted in one hour. Robo advisors to walk borrowers through different options can cut marketing costs, too. In our experience, by implementing an “end-to-end” digital process, banks can expect to raise conversion rates on mortgage leads by five percent, while identifying more desirable customers and improving margins.

## **CREATE NEW BANKING REVENUE STREAMS**

There are many ways to generate more revenue from existing customers by identifying new services to sell them. Some banks, for example, are providing data to SMEs about consumer purchasing behaviors. Commonwealth Bank of Australia, for example, provides insights about demographics and spending habits through its Daily IQ tool. BBVA offers Commerce360, which provides insights for merchants about BBVA credit card customers, based on anonymized and aggregated’ usage data. Open Banking could play a role in this new growth strategy, because it could allow banks to become central to the daily lives of customers by addressing core life needs. A recent Accenture survey found that most bank executives (63 percent) see Open Banking as an opportunity. And, in a 2017 Accenture survey, 90 percent of bank executives estimated that Open Banking could increase organic growth by up to 10 percent.<sup>18</sup> Even now, some large banks, that are not covered by the U.K. or EU rules, including Citibank in the U.S. and Singapore’s DBS, are voluntarily opening their APIs in hopes of making Open Banking a source of profitable growth, both by expanding the range of services they offer and getting paid for providing services to third parties.

Another idea for enriching current customer relationships is offering secure document storage. Barclays Cloud service lets customers store important documents on a secure cloud system and retrieve them through the Barclay mobile banking app. Another possibility is using artificial intelligence-based systems to offer personalized, in-depth advice at branches.

## **DEVELOP NEW REVENUES BEYOND BANKING**

Ultimately, banks will not be able to generate adequate growth without moving into new kinds of services. Like the platform players that are moving into banking, banks can offer a range of banking and non-banking services for both consumers and commercial customers. For consumers, banks can place a relentless focus on customer experience and look for new ways to make life easier. This might include more forms of financial advice and even lifestyle tips (both based on instant analysis of spending data). Royal Bank of Canada, for example, is offering tools and resources for home buyers to help them research neighborhoods, find movers and painters and learn about trash pickup schedules. The bank says it expects such services to help triple its growth rate and add 2.5 million customers over five years.<sup>19</sup>

For small business customers, banks can morph into platforms for entrepreneurial activity, providing accounting and advisory services alongside traditional banking services. For example, Santander UK recently announced a deal with Xero, operator of the U.K.'s leading online accounting software system, to offer an integrated service for SMEs. Small business owners would be able to combine accounting and business data with banking data in one place, creating up-to-date financial reports that provide an accurate and timely view of cashflow. This would help SMEs improve financial management and enable better decision making.



# **MAKE YOUR BANK ORGANIZATION CHANGE-READY**

**Most banks today are not prepared for the sustained effort that will be needed to adapt to the new environment. Success will depend on organizational agility, the ability to deliver change quickly and investment agility. Organizations will need to define and commit to medium/long-term strategic intent, but also retain the flexibility to adjust in the face of unforeseen forces. It will be critically important to become more externally aware: develop a wider radar system to detect new opportunities and dangers, and be relevant beyond traditional banking.**

In the new environment, banks can adopt some of the methods that their new competitors use to craft strategy and execute rapidly. Lean fintechs and challenger-bank startups as well as the powerful platform players all know how to stake out a clear strategic identity then pursue it with focus and intensity, while also remaining agile and responsive.

Banks can start by envisioning what they will be a decade from now. Some could become invisible utilities, working as product manufacturers in the background that supply banking services sold under another brand. Others might choose to remake themselves into blockchain balance sheets, focusing on facilitating financial transactions, or carve a niche as trusted sources of data in a world of cyber fraud. Others might become masters of the “eco-verse,” adroitly partnering with a wide range of players in fintech, e-commerce and consumer services to offer a wide range of banking and non-banking services.

Choosing the right strategy will be management’s most important challenge.

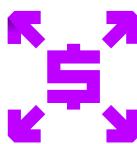
Once the overall strategy is set, banks have to execute it. Execution needs to be agile to deliver rapid change while also allowing the bank to adapt to shifts in the market. Looking at the way platform players like Alibaba, Tencent and Netflix execute fast change can help. These companies have a very clear long-term view of what they want to be five or ten years and they never lose sight of that. Yet, they are not locked into any single way of getting where they want to go. They hedge their bets because they know that advances in technology and shifts in the environment, as well as mercurial customer preferences, will likely change how they pursue their long-term goals. These players are always scanning the horizon for new signals and are prepared to modify or even scrap Plan A when it’s no longer optimal.

There are four things that banks can learn from the way these companies operate:



### BUILD ENTERPRISE AGILITY

To adapt to the new environment and seize emerging growth opportunities, agile ways of working are essential. This is more than learning agile methodology—it's a top-down change of attitude and culture that also requires a considerable focus on digital skills and building tech acumen at every level of the organization. Some banks are already using agile methods to speed up investment decisions, develop new talent strategies, streamline risk control functions and collaborate more effectively with partners and suppliers.



### DEVELOP INVESTMENT AGILITY

Investment agility means being able to make major commitments to drive future growth, while also retaining flexibility. For example, a bank might decide that its best growth opportunity is to become more relevant to SMEs. But it would not place all its bets on one way of doing that—a super-advanced AI system that gives small businesses robo advice, for example. It would hedge its bets with multiple investments, some in technology (including alternative AI bets), some in acquisitions and some in partnerships.



### LEARN TO DELIVER CHANGE QUICKLY

At this point, banks do not have the luxury of time. The scale of change that is required and the pace of evolution in financial services is so swift that banks—no matter how large—will be pressed to make rapid organizational changes to support new initiatives. Banks may first need to launch “change how we do change” programs.



### MAINTAIN A WIDE EXTERNAL FOCUS

For the past decade, banks have had to focus most of their attention on the core business and traditional competitors. They have gone through restructurings and M&A, and have had to master complex and labor-intensive compliance regimes. But the new environment demands a far wider view of the world. Not only is competition coming from non-traditional sources, the growth opportunities that banks need also will come from outside the banking industry (as traditionally defined). Monitoring the market changes in a much more proactive and analytical way has become key for mapping successful banking strategies. Developing a wide radar may also imply exploring different kinds of partnerships, with players that can complement banking services (see “Partnerships: Necessary, but with many unknowns”).

# **Partnerships: Necessary, but with many unknowns**

For banks to move ahead at the speed that is required, they can't do it alone. Partnerships of all kinds will be increasingly important. Already, there is growing collaboration between incumbent banks and digital startups. Several incumbents have invested in digital challenger banks and hope to capture market share by using digital banking services as a user-friendly front end.

Many fintechs have partnered with incumbent banks—and many fintechs have been acquired—providing the banks with both technology and digitally-enabled services. For example, ABN AMRO, through a digital investment arm, has invested in startup solarisBank to provide instant digital loans through ABN Amro's Moneyou online bank.<sup>20</sup> However, fintechs have also banded together to compete with incumbents using a "marketplace" model that gives challenger banks such as Monzo, N26 and Starling Bank scale.

Partnerships with platform players such as Google and Facebook or with fintech companies are pretty much a necessity for banks that hope to vault into digital growth businesses. While mutually beneficial, platform partnerships are often asymmetrical. For example, in negotiations to sign up banks for its Apple Pay service, Apple demanded all major players accept its deal at the same time so no bank could gain more market share and demand better terms. For JPMC, offering current accounts through Amazon would probably mean trading reduced revenue per customer for higher share of market.

Incumbents may come to regret collaborations with platform players, because they are helping create powerful competitors. Inevitably, these partnerships mean giving up some control over customer relationships. But in the near term, these partnerships can help banks reach new customers and demonstrate that banks can deliver the type of customer experiences that consumers have come to expect from digital players.

# **Conclusion**

**The banking industry in all markets can expect a period of turbulent change during the decade ahead. The structure of the industry and banking business models will continue to evolve; the rate of change will vary by country, and incumbents and digital natives will move at different speeds.**

**Leading an incumbent bank through this period will be exhilarating and exhausting, but it certainly won't be boring. While other industries face similar strategic choices, banks do have a unique source of relevance to build on—the absolute reliability and unquestioned safety that have defined the industry. Indeed, banks will succeed by extending their trusted relationship with customers into the digital future.**

## RESOURCES

- <sup>1</sup> “Big tech” companies such as Google, Apple, Facebook and Amazon (the so-called GAFA group) and Asian so-called BATRs (Baidu, Alibaba, Tencent and Rakuten).
- <sup>2</sup> Apple website, “Countries and regions that support Apple Pay”, accessed on June 26, 2018 (<https://support.apple.com/en-us/HT207957>)
- <sup>3</sup> Accenture Research analysis of CB Insight data
- <sup>4</sup> European Union and United Kingdom
- <sup>5</sup> In our sample we count only the fintech start-ups that have received medium- or late-stage of funding.
- <sup>6</sup> [https://www.rbs.com/content/dam/rbs\\_com/rbs/Documents/News/2017/September/RBS-WG\\_ALTERNATIVE.pdf](https://www.rbs.com/content/dam/rbs_com/rbs/Documents/News/2017/September/RBS-WG_ALTERNATIVE.pdf)
- <sup>7</sup> Transferwise website; Transferwise’s annual report for FY 2017 (ended March 2017)
- <sup>8</sup> Where Fintech Lending will Land, Accenture PoV 2017
- <sup>9</sup> Citi GPS: Bank of the Future The ABCs of Digital Disruption in Finance, March 2018.
- <sup>10</sup> Ibid.
- <sup>11</sup> Accenture Research analysis based on IDC Financial Insights and market forecast custom data, November 2017
- <sup>12</sup> ECB data on 112 significant banks shows weighted average ROE was 6 percent in 2017, up from 3.4 per cent in 2016 but still below 8-10 percent, which is the usual range for bank cost of equity.
- <sup>13</sup> Citi Research, “Everyone’s Talking Digital – What We Want To Hear,” 24 Nov 2017.
- <sup>14</sup> BBVA IR presentation, February 2018; Companies’ websites for Santander and Citi
- <sup>15</sup> DBS, “Creating shareholder value from digitalisation”, Nov 2017
- <sup>16</sup> Accenture Research analysis on S&P Capital IQ
- <sup>17</sup> Accenture project experience
- <sup>18</sup> Accenture Open Banking Pulse Survey, 2017
- <sup>19</sup> Martin Arnold, “Royal Bank of Canada warns on Big Tech threat to banking,” Financial Times, June 13, 2018.
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## RESEARCH METHODOLOGY

Accenture Research analyzed more than 20,000 institutions in the banking and payments market across seven geographies: Australia, Brazil, Canada, China, the European Union, the United Kingdom, and the United States. We relied on data provided by the European Central Bank (ECB), local central banks, and various financial supervisors. We excluded statistically irrelevant smaller companies, mostly in the payments area. Of the companies analyzed, 3,200 were considered new players (having entered the market since 2005). New institutions fall into three main categories: licensed banks, payments players (payment system providers, including e-money services, and payment system operators other than banks), and non-licensed new players in banking and payments, including well-established “fintech” start-ups (receiving mid- to late-stage funding in the past five years). For selected markets (Canada, the European Union, the United Kingdom, and the United States), we conducted an additional bottom-up analysis of the banking and payment revenues captured by new players vs. incumbents. The analysis was based on company data, where consistently available, and on an econometric model to estimate the unreported revenues.

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