Capgemini RESEARCH INSTITUTE | Efma

WORLD RETAIL BANKING REPORT 2019

TABLE OF CONTENTS

Preface

Within today's connected, digital environment, bank executives realize that customer satisfaction standards must stack up not only to those of other firms providing financial services, but also with non-industry businesses that consistently keep consumers engaged, satisfied, and loyal. These days, any organization can leverage technology to create new customer delight benchmarks that influence the financial services paradigm and bank customers' expectations.

The World Retail Banking Report (WRBR) 2019 from Capgemini and Efma examines the successful customer experience approaches of various innovators and breaks down the challenges faced by retail banks when it comes to customer experience. Our observation is that banks have the right products, but they are lagging behind and giving ground to non-traditional players in the last-mile customer experience.

As popularized in supply chain management and logistics, last mile is what individuals experience and remember. In banking, a positive last-mile experience is the result of personalized product packaging and seamless interactions – connections between processes, internal departments, partners, channels, and product delivery.

Friction in banking interactions and less-than-robust omnichannel solutions drag user satisfaction metrics down, according to Capgemini's Voice of the Customer 2019 survey of more than 8,000 consumers across 20 countries. Meanwhile, BigTechs and challenger banks are capturing the last mile of the banking value chain by swapping the conventional rulebook for offerings designed around customer needs.

Now, more than ever, banks must integrate seamlessly into customers' lives to meet demands for intuitive convenience. Open banking can help banks to expedite this journey, but our survey finds that most banks have yet to drive open banking initiatives effectively. Before firms can harness the full potential of open banking, legacy stumbling blocks – siloed infrastructure and traditional mindsets – must be overcome.

WRBR 2019 explores mindset shifts that can help banks to clear legacy barriers and leapfrog to an Open X era that will feature a seamless **ex**change of resources, improved customer **ex**perience, and **ex**pedited product innovation.

The banks most likely to become Open X leaders will evolve in the coming months as inventive banks – intelligent and open banks ready to effectively collaborate with FinTechs. WRBR 2019 outlines the structured approach banks can take to develop cooperative capabilities across all stages and aspects of partnership. Our survey probed value generation across all collaborative stages to find that banks will need to strengthen critical pillars – People, Finance, Business, and Technology.

Failing to move fast to develop Open X readiness and address last-mile challenges can expose banks to significant threats and market share loss. However, we encourage retail banks to adopt a two-pronged strategy of building digital and collaborative alacrity while optimizing their traditional strongholds to create an unshakeable advantage within the coming Open X era.

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

Vincent Bastid
Secretary General, Efma

Executive summary

Customers demand a more comprehensive and personalized banking experience, but banks struggle to deliver a delightful last-mile experience

- Positive customer experience perceptions are at a low level across various banking interactions and channels, making the availability of omnichannel engagement critical.
- New-age firms, the FinTechs and BigTechs, have raised the bar around expectations for Gen Y and tech-savvy customers, who want more from their banks when it comes to meeting individual financial preferences.

As BigTechs and challenger banks redefine the financial services paradigm with a customer-centric focus, they are capturing customer mindshare in the last mile

- More than half of customers are using or are likely to use BigTech or challenger bank solutions in the next three years in payments, cards, and retail banking accounts.
- It is becoming imperative for banks to address the last-mile challenge in banking by re-packaging the banking experience around the customer's holistic financial wellness than discrete banking products.

Open banking will play a vital role in transforming the customer banking experience but is characterized by false starts and missed expectations

- While open banking can power banks' ability to quickly provide innovative solutions that enhance the last-mile experience, less than a third of banking executives surveyed say implementation of open banking initiatives were effective and just 21% say they achieved desired results.
- An improved approach towards addressing the last mile challenge by leveraging the ecosystem is necessary to harness the full potential of open banking and to industrialize its benefits.

As the inevitable future-state Open X era approaches, banks need to overcome legacy mindsets and evolve as inventive banks[1] to remain relevant

- Within the Open X ecosystem, winning banks and other players will need to shift mindsets from product to experience, compliance-only to data, ownership to shared access, and build/buy to partnership.
- Bolstering their collaborative capabilities at each of four critical pillars (People, Finance, Business, and Technology) – across all stages of collaboration – will be essential to ensure banks' relevance in the Open X environment.
- As part of Capgemini's Open X Collaboration Readiness Index, only a handful of banks have climbed to our *North Star* quadrant by acing preparedness across all pillars and leveraging collaborative relationships.

By strategically leveraging collaboration while also maximizing traditional strongholds, banks can create a powerful advantage in the Open X era

- Banks can strategically choose partners that complement product portfolios, enhance service delivery, boost sales – and work collaboratively.
- Banks must lay the groundwork for collaboration readiness through commitment, change, and catalyzing the shift to Open X.
- At the same time, they should look to maximize traditional incumbent strongholds such as regulatory compliance, omnichannel capabilities, and cross-product synergies that are difficult for new entrants to replicate.

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[1] Inventive banks: intelligent and open banks ready to effectively collaborate with FinTechs. These banks break silos and create digital, experience-led offerings by collaborating seamlessly with other ecosystem players.

Customers demand a more comprehensive and personalized banking experience, but banks struggle to deliver a delightful last-mile experience

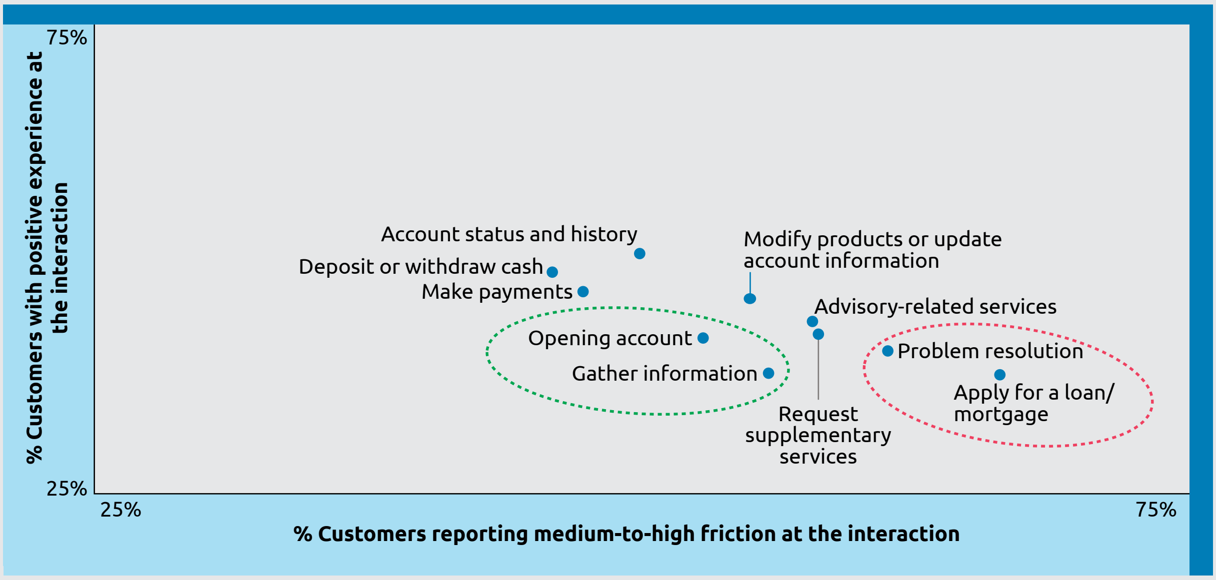
Banks have the right products. There is no doubt that, functionally, banking products –deposits, loans/ mortgages, cards – play an essential role in customers' lives. However, today's retail banks are surrendering ground to non-traditional competitors in the last mile, which involves packaging and delivering products in a manner that delights customers.

"Customer expectations have increased a lot in the last few years," noted a senior executive from a leading Italian bank who participated in our research. *"They expect real-time and customized services similar to what they receive from BigTechs and FinTechs."*

Banking interactions are typically complex and not seamlessly integrated into customers' lives. Many customers do not report positive experience across many banking interactions – especially when it comes to complex or high-involvement areas, such as applying for a loan/mortgage or problem resolution.

More customers applying for a loan or mortgage describe the process as friction-filled versus those who see it as a positive (Figure 1). Simpler interactions that most banks digitize – such as verifying account status – perform better. Faster processing, shorter wait times, and anytime/anywhere ability positively impacts customer experience. Re-engineering processes and systems will play a significant role in improving perceptions around more complex interactions too.

Figure 1. Customer experience and friction across banking interactions (%), 2019



Questions Asked: X axis – For each banking interaction listed, rate the level of friction or difficulty you experienced with your primary bank in the last 12 months, where 1 = Very low friction or difficulty and 7 = Very high friction or difficulty.

Y axis – How satisfied are you with the services provided by your primary bank for the interactions listed, across different channels? Rate on a scale of 1–7, where 1 = Extremely dissatisfied and 7 = Extremely satisfied.

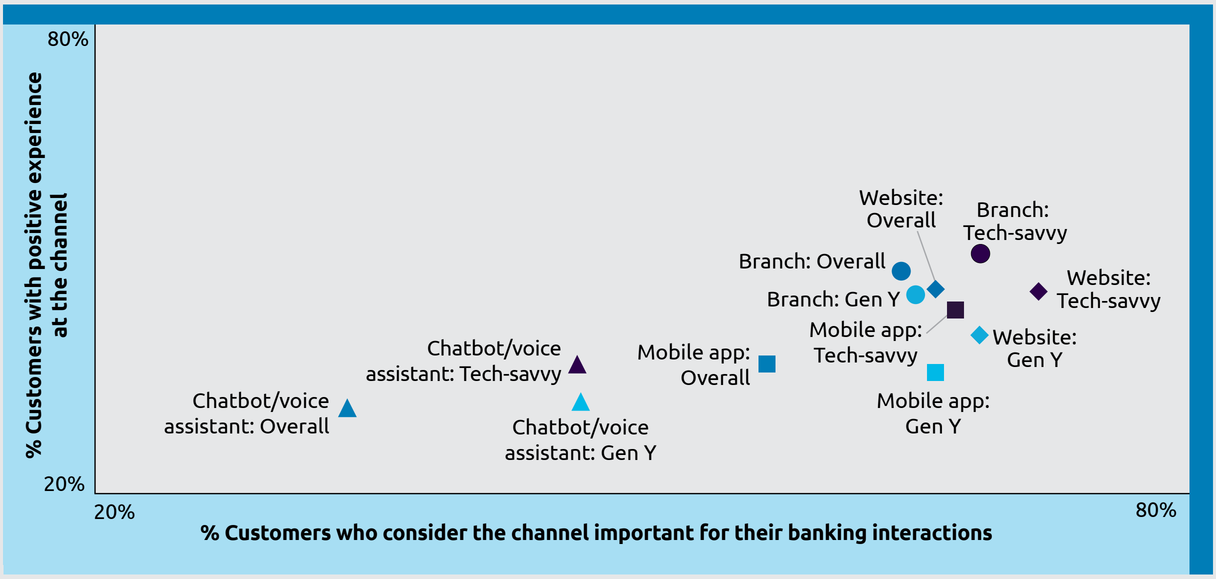
Source: Capgemini Financial Services Analysis, 2019; Capgemini Voice of the Customer Survey, 2019.

> *Banks are increasingly focused on removing friction from their customer journeys. This is very essential to enable them to stay relevant amidst the digital transformation that is happening across all industries and aspects of our lives."*
>
> **—Siew Choo Soh**
> Managing Director, Group Head of Consumer Banking and Big Data/AI Technology, DBS, Singapore

As per our survey, customers cited lower friction as well as a less-positive experience in the initial stages of the banking relationship, such as while opening an account or gathering information. Likely, this happens because customers may have a preferred channel in different contexts for these interactions, but banks have yet to provide truly omnichannel solutions. A weak positive experience at these initial stages could lead to missed revenue opportunities. Research from Fenergo, a banking software provider, showed that more than one-third of banks lose customers because of inefficient or slow onboarding, at a loss of US$10 billion in annual revenue. Banks should adopt a solution that connects front-, middle-, and back-office systems to provide a single, connected client journey through any front-end channel, including mobile, web, and in-person.[2]

Addressing these perception issues will depend on banks creating a robust omnichannel strategy. The internet has overtaken branches as the most significant banking channel for key customer segments (Figure 2). For example, Gen Y respondents to our survey rate the web and mobile applications as both being more important than brick-and-mortar branches.

Figure 2. Channel importance and customer experience across different channels (%), 2019



Questions Asked: X axis – Please review the various banking interactions listed and rate how important are the different channels for conducting each of those interactions? Rate on a scale of 1–7, where 1 = Not important and 7 = Extremely important.

Y axis – How satisfied are you with the services provided by your primary bank for the interactions listed, across different channels? Rate on a scale of 1–7, where 1 = Extremely dissatisfied and 7 = Extremely satisfied.

Source: Capgemini Financial Services Analysis, 2019; Capgemini Voice of the Customer Survey, 2019.

[2] Fenergo, "Enable OmniChannel Client Onboarding with Fenergo Digital Client Orchestration," https://www.fenergo.com/solutions/digital-client-orchestration, accessed September 2019.

A concerning observation is that, overall, customer experience across channels is pointedly lower than channel importance. While banks are delivering a higher positive experience in more mature channels – such as the branch and website – they have to ensure a better experience at increasingly-popular digital channels, such as mobile and chatbots/voice assistants. For example, Gen Y considers mobile to be vital, but few report a positive experience with that channel. Within a changing competitive landscape, it will be essential for banks to close the importance-experience gap across channels to safeguard market share.

Gen Y and tech-savvy customers are attracted to the seamless experience offered by new-age technology firms. These customer segments are also more likely to feel that traditional bank offerings are not adequately meeting their expectations. In our survey, we found that more than one in five Gen Y and tech-savvy customers said their primary bank's offerings did not ideally match their needs or preferences. As the FinTechs, challenger banks, and BigTechs transform the last-mile banking experience, it will be essential for incumbents to identify and fill service gaps.

Non-traditional firms are redefining the financial services paradigm by exploring beyond traditional notions of banking products

Non-traditional firms have focused on customer pain points to transform daily challenges into rewarding positive experiences. They are integrating expanded offerings seamlessly into the overall customer journey and not confining themselves to banking interactions. While BigTechs and FinTechs are providing innovative solutions in specific areas of the banking value chain, challenger banks are redesigning the overall banking journey through digitized and simplified interactions.

BigTechs are prominent in the payments area with most GAFA firms having a payment system or digital wallet. Launched in August, **Apple's** credit card (in partnership with **Goldman Sachs and Mastercard**) ties closely to a mobile app through which customers track their spending by category. Users receive cashbacks – instead of reward points – for immediate use.[3] Similarly, **Amazon** is redefining deposit and payment aspects of the customer banking journey through its Cashload feature in India and Amazon Go stores in the United States. Cashload allows customers to deposit cash into an Amazon Pay account at their doorstep through Amazon delivery staff, while Amazon Go is making completely frictionless retail store payments a reality as shoppers walk in, grab what they need, and Amazon bills their credit card at the exit turnstile.[4,5]

FinTechs are meeting existing gaps, such as offering customers quick or early access to funds not covered by traditional loan or card systems. **Affirm**, a FinTech that positions itself as an alternative to credit cards provides point-of-sales loans for purchases from partner merchants including Wayfair, Casper, Peloton, and most recently, Walmart. It offers options to customers who do not own credit cards. Affirm uses proprietary algorithms at the point of sale to determine creditworthiness.[6,7] **Even**, a FinTech startup in the United States, partners with companies (such as Walmart and Kronos) to provide their employees with a budgeting and savings mobile app. Employees can pay US$8 a month for interest-free access to their salary ahead of payday, which addresses typical payday lending challenges. Some partner companies even subsidize the early paycheck access fee for their employees.[8]

Challenger banks are redefining customers' banking interactions via simplified, intuitive interfaces similar to the apps consumers use in their daily lives. They are also tightly integrating offerings with customers' daily lives. Berlin-based **N26** offers consumers a banking app loaded with intuitive features such as automatic spending categorization, card-locking, fingerprint login, and the ability to create sub-accounts for each financial goal. It also integrates with other useful FinTech apps such as **TransferWise** for multi-currency transfers.[9] London-based **Monese** launched a joint service with **PayPal** in July 2019 that allows customers to add the Monese card to their PayPal digital wallet and manage their PayPal balances in Monese's app. Monese is also linked with British Airways' frequent flyer loyalty currency Avios so customers can manage their Avios balance on the Monese app.[10,11] Challenger banks stand apart because they do not attempt to own all the innovations they offer, instead opting to extensively leverage FinTech collaboration to provide customers a greater range of choice.[12]

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3 The Motley Fool, "5 Things You Should Know About Apple's New Credit Card," Chris Neiger, August 21, 2019, https://www.fool.com/investing/2019/08/21/5-things-should-know-about-apple-new-credit-card.aspx.

4 The Financial Brand, " 'Amazon Bank' Is Already Here, Without a Charter or Regulatory Approval," Steve Cocheo, August 20, 2018, https://thefinancialbrand.com/74543/amazon-bank-checking-account-regulators-charter.

5 CNN Business, "I spent 53 minutes in Amazon Go and saw the future of retail," Matt McFarland, October 3, 2018, https://edition.cnn.com/2018/10/03/tech/amazon-go/index.html.

6 Forbes, https://www.forbes.com/companies/affirm/#7e48f43471d9, accessed August 2019.

7 CNBC, "2019 Disruptor 50 Full Coverage," May 15, 2019, https://www.cnbc.com/2019/05/14/affirm-2019-disruptor-50.html.

8 *The News & Observer*, "This Raleigh native's startup is taking on payday lenders — and helps manage your money, too," Zachery Eanes, January 30, 2019, https://www.newsobserver.com/news/business/article225241770.html.

9 N26, "Your dreams are big. They need some space," https://n26.com/en-eu/spaces, accessed August 2019.

10 The Paypers, "Monese, PayPal launch joint service," July 4, 2019, https://www.thepaypers.com/online-payments/monese-paypal-launch-joint-service/779576-3#.

11 FinExtra, "Monese integrates with Avios loyalty currency," February 18, 2019, https://www.finextra.com/pressarticle/77312/monese-integrates-with-avios-loyalty-currency.

12 Capgemini, World FinTech Report 2019, June 4, 2019, https://www.capgemini.com/news/world-fintech-report-2019.

"One of the reasons new-age firms have such a significant impact is the speed and frequency with which they release new products and features. FinTechs release new, useful features frequently after paying attention to their customers and thus, nurture a virtuous cycle of loyalty."

—Vinay Jayaram
CEO, Envizage, United Kingdom

With their highly customer-centric offerings, BigTechs and challenger banks are already making inroads into the banking industry through increased customer adoption, especially among Gen Y and tech-savvy segments (Figure 3).

Customers prefer financial products from BigTechs slightly more than those from challenger banks, and three-fourths of tech-savvy customers are already using at least one financial product from a BigTech firm. The top three reasons customers say they turn to financial products from non-traditional players are lower costs (70%), ease of use (68%), and faster service (54%).

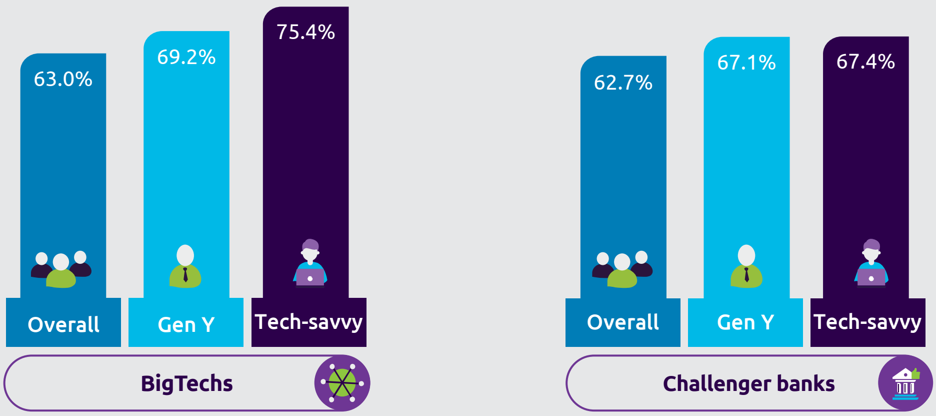
Analysis of the near-term competitive landscape indicates that retail banks are most vulnerable to losing last-mile customer mindshare to non-traditional players in payments, cards, and core banking accounts. More than 60% of customers say they already use these products from BigTechs/challenger banks or are likely to do so in the next three years (Figure 4).

An interesting finding is that while BigTechs scored more with those customers who are considering a change today, challenger banks were slightly ahead of BigTechs among customers likely to adopt new products within the next three years. Incumbents should take particular note of a customer trend indicating that those prone to switch banks within the next 12 months are considerably more inclined to purchase products from a non-traditional firm. This highlights that there is a distinct segment of bank customers who are unsatisfied and perceive a stronger value proposition from non-traditional firms.

Non-traditional players may not try to replace banks, but they may contribute to margin compression for banks by placing themselves between the bank and the customer. The biggest opportunity for banks is to focus on deepening engagement through customer experience."

—Dr. Dennis Khoo
Regional Head, TMRW Digital Bank, UOB, Singapore

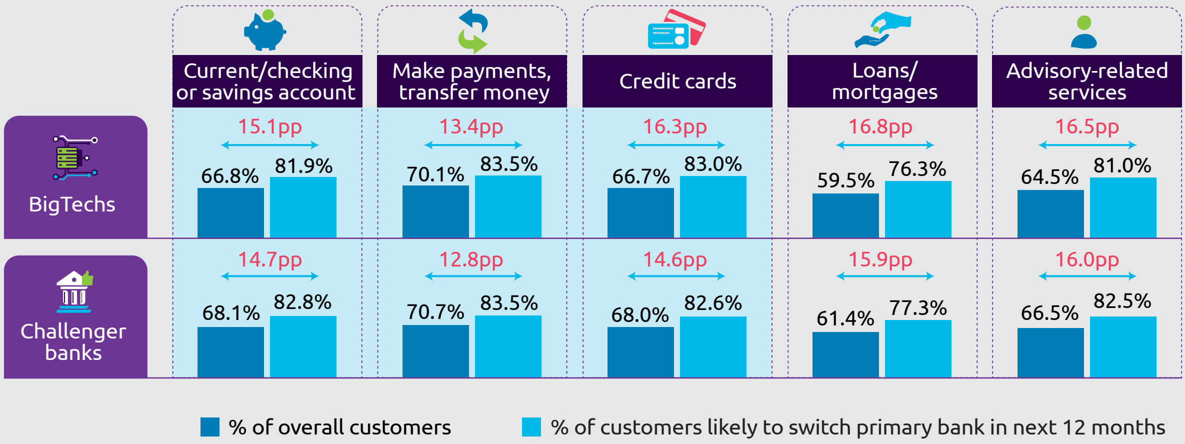
Figure 3. Customers currently using at least one financial product from non-traditional firms (%), by demographic segment, 2019



Questions Asked: For each banking product listed, please share if you use or are likely to use an offering from a BigTech/challenger bank. Options: (a) Currently using (b) Likely to use within next 12 months (c) Likely to use within next three years (d) Will never use it.

Source: Capgemini Financial Services Analysis, 2019; Capgemini Voice of the Customer Survey, 2019.

Figure 4. Customers currently using or likely to adopt banking products in three years from non-traditional firms (%), by product, 2019



Questions Asked: For each banking product listed, please share if you use or are likely to use an offering from a BigTech/challenger bank. Options: (a) Currently using (b) Likely to use within next 12 months (c) Likely to use within next three years (d) Will never use it.

Note: pp denotes the percentage point difference between overall customers and customers likely to switch primary bank in next 12 months.

Source: Capgemini Financial Services Analysis, 2019; Capgemini Voice of the Customer Survey, 2019.

Therefore, it is becoming imperative to address the last-mile challenge by repackaging the banking experience around customers' holistic financial wellness instead of discrete banking products. Banks can do so by better integrating banking with other aspects of customers' lives and providing useful financial management tools. However, most firms cannot deliver benefits quickly by working alone. Open banking will play a critical role.

Digital solutions leveraging artificial intelligence and machine learning can enable banks to provide financial planning and advise to their respective end customers with little to no human interaction. Such solutions can enhance the complete banking experience, with banks going from providing just financial services to helping improve the customers' overall financial wellness."

—Vik Ramesh
CEO, Fintel Labs, United States

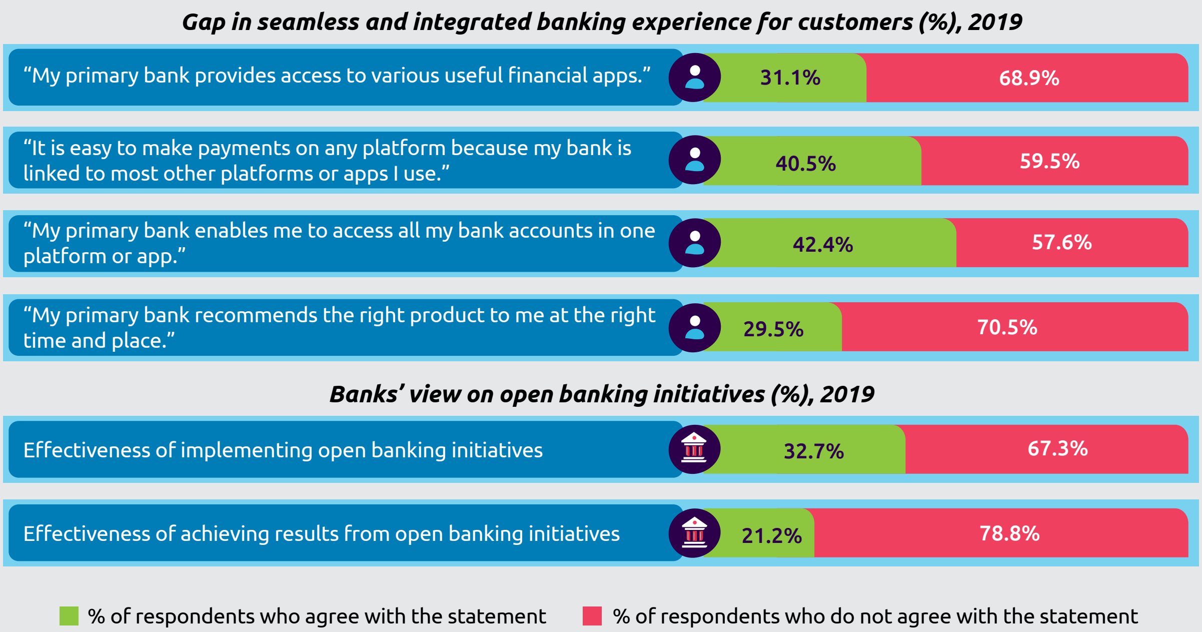
Open banking can help close customer experience gaps but is characterized by false starts and missed expectations

Effectively capitalizing on open banking can help banks address the existing gap in providing customers a seamless and integrated banking experience. Presently, less than a third of customers believe their bank offers a variety of useful financial apps or timely and relevant product recommendations (Figure 5). As banks adopt open banking processes – such as sharing secure access to customer data and working with third parties – customers will be able to integrate banking with other aspects of their lives and take advantage of useful financial apps from third-party players.

However, implementing open banking as purely a regulatory mandate may not be the answer. Our survey found that countries with regulation-driven open banking performed more poorly overall than countries with market-driven open banking in delivering required customer benefits. Only 27% of customers in regulation-driven countries said they could access various useful financial apps as compared with 41% in market-driven geographies. In Europe, 38% of customers agreed they could make payments on any platform (compared to 41% globally), and only 26% said their bank provides access to various useful financial apps (compared to 31% globally). This highlights that adoption of open banking with a clear appreciation for its potential is important for truly driving value from initiatives.

Banks are falling behind when it comes to effectively leveraging open banking – only 33% of banking executives surveyed say implementation of open banking initiatives were effective and just 21% say they effectively achieved results.

Figure 5. Importance and effectiveness of open banking initiatives (%), 2019



Questions Asked: To customers – To what extent do you agree with the listed statements? Rate on a scale of 1 to 7, where 1 = Strongly disagree and 7 = Strongly agree; Ratings 6 and 7 are shown in the chart for customers

To banks – Rate the strategies/initiatives conducted by your bank in terms of their effectiveness. Rate on a scale of 1–10, with 10 = Very effective and 1 = Not effective at all. 1. Effectiveness implementing open banking initiatives, 2. Effectiveness achieving desired results from open banking initiatives; Ratings 8-10 are shown in the chart for banks.

Source: Capgemini Financial Services Analysis, 2019; Capgemini Voice of the Customer Survey, 2019.

Open banking implementation challenges include:

- Customers are not aware of possible benefits and, therefore, are resistant to sharing data, which is the lifeblood of open banking
- Both customers and banks are concerned about data security and privacy
- The lack of industrywide standards to guide regions with less concerted open banking efforts is stalling broad implementation
- Concerns from banks about loss of control over customer data and the related competitive advantages that data confers on the owner
- Constraints imposed by legacy systems and processes.

Overcoming legacy challenges and devising a robust approach based on recognition of open banking benefits will enable banks to harness open banking's full potential and commercialize its benefits. Within the banking ecosystem of the future, an advanced approach to open banking will be critical to creating a synergistic banking ecosystem and transforming the customer experience.

Leapfrogging to Open X

FinTechs, BigTechs, and challenger banks are disrupting financial services by delivering superior customer experience and innovative products and services. Many established banks are attempting to tap into potential opportunities introduced by these new entrants. However, incumbents often do not have the competencies to replicate new-age experiences and need partners for support. Moreover, regulatory bodies are pushing established banks and new entrants to work together. The result? An open ecosystem that depends on collaboration. We call it Open X!

Open ecosystems feature new roles and models that challenge traditional banking assumptions. The pursuit of relevance within an open ecosystem will drive banks to assume positions that align best with their internal capabilities and external operating environment. However, to excel, firms will be required to transform current models and collaborate with specialist partners to overcome weaknesses and build on strengths.

Open X defined

Capgemini conceived the Open X concept as part of the World FinTech Report 2019. It is an evolutionary future state for the industry, in which leading industry players leapfrog Open Banking and enter an era characterized by more effective and open collaboration with new industry players facilitated by API (application programming interface) standardization and shared customer data insights.

In the Open X era, players will collaborate to share resources with a primary focus on customer experience versus product delivery. Instead of assets on the balance sheet, customer data will take center stage. Players will seek to monetize (rent) their ideal infrastructure and will partner to overcome portfolio weaknesses versus attempting to develop products unilaterally. Open X will drive data-use excellence that fosters a seamless **ex**change of resources, improved **ex**perience for customers, and **ex**pedited product innovation.

As banks embark on their Open X journey, they can learn from companies (such as Amazon, Netflix, etc.) that have revolutionized the customer experience by providing platform-based, highly customer-centric offerings ranging from real-time, location-based services to two-hour deliveries while empowering employees to make a difference for customers. Marketplaces and data sharing have made previously inconceivable services possible. These firms effectively use data to support product innovation, increase engagement to form closer customer relationships, and do it all at scale.

The time has come to navigate the inevitable Open X environment. But, where to begin?

1. **A change in mindset**
2. **Become an inventive bank**

1. A new mindset can turn open banking false starts into Open X victory laps

To address open banking shortcomings and prepare for Open X, banks must shift from four progress-stalling legacy mindsets (Figure 6).

Product mindset to experience: During initial open banking attempts, most firms focused on products more than overall customer experience. As it turned out, overlaying open banking on top of existing inefficiencies – without transforming and reimagining the customer journey – failed to make the last-mile customer experience a priority.

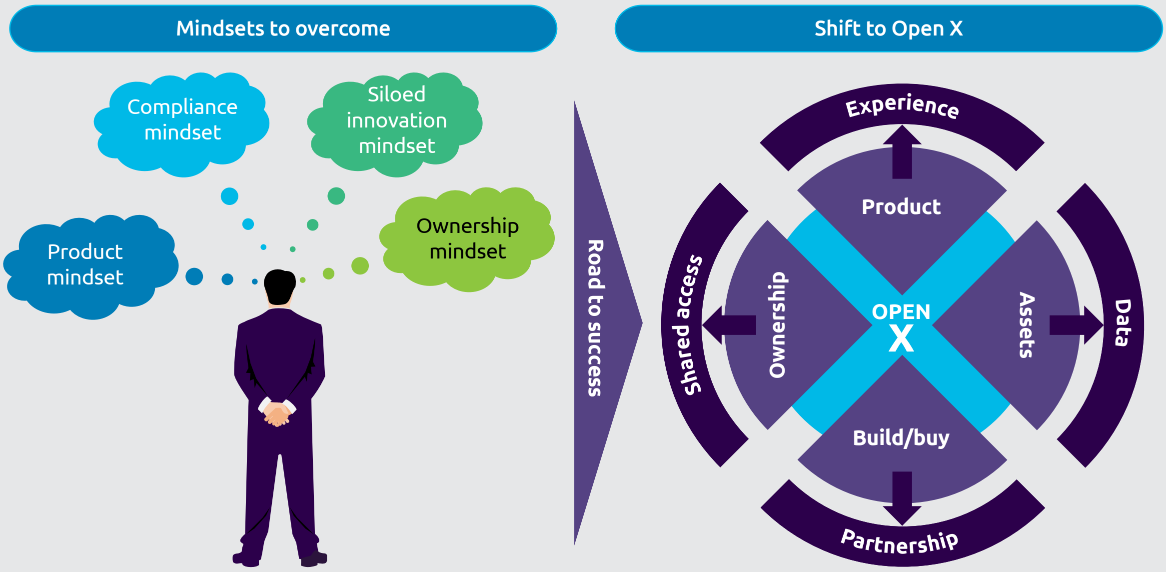
Discarding one-size-fits-all approaches, banks embracing an Open X mindset will move to hyper-personalization by tapping into the open ecosystem to provide a tailored, integrated banking experience rather than a discrete set of functionalities.

For example, UK-based FinTech **Envizage** offers an API that can be integrated into banks' existing digital offerings, enabling them to offer their customers a holistic life planning experience. The Envizage simulation engine considers risks to a household's future plans from financial markets as well as from life events like mortality, disability, health, and long-term care. Its next-best actions cover the full range of financial products, from savings and investments to insurance and borrowing, as well as lifestyle and other considerations.[13]

Compliance-only mindset to a data-driven approach: Banks must transcend their compliance-lens view of open banking that focuses only on

[13] Capgemini, 2019 Retail Banking Executive Interview Survey, September 2019.

Figure 6. The path to Open X includes a mindset shift



Source: Capgemini Financial Services Analysis, 2019.

one-way data sharing via APIs. Instead, they must tap the extensive and valuable data now accessible within the ecosystem to create value for customers and the organization. Data must be leveraged at every phase of the customer lifecycle to provide relevant and proactive offerings based on their life stage and preferred channel.

> *To be both relevant and accessible to future generations of clients, Nordnet service has to become ever more personal. The real question about open banking is not which data you can gather from third parties, but who offers it immediately and attractively to create a truly personalized experience that offers clients understandable performance."*
>
> **—Rasmus Järborg**
> Chief Product Officer, Nordnet, Sweden

Siloed innovation mindset to partnerships: A unilateral, in-house, build-or-buy approach to technology product suites will likely limit a bank's innovation potential and speed. When banks collaborate with other firms and leverage complementary strengths to bolster partnership synergies, they can optimize innovation by enhancing scope and effectiveness.

Ownership mindset to a shared marketplace: Within an Open X environment, banks should not expect to own every customer interaction and innovation. Instead, they will offer access to the experiences and services of others and, similarly, will share their products with ecosystem players. As banks move beyond an ownership mindset and offer customers access to an array of innovative products and services, they will safeguard customer loyalty and build win-win strategic relationships with ecosystem counterparts.

2. Open X collaboration will require banks to strategically evolve as inventive banks

Within the Open X environment, traditional banks will find it difficult to single-handedly achieve the best product/service provider status across the spectrum. Therefore, open-minded firms will identify the areas in which they clearly excel and then seamlessly collaborate with other players (such as FinTechs or developer communities) to add offerings in other banking areas, so as to deliver digital, experience-led offerings to customers. We call banks that take this strategic approach, inventive banks.

There are a number of challenges to banks attaining the inventive bank status. For instance, banks often struggle to find best-fit collaboration partners; only 26% of banking executives surveyed as part of the World FinTech Report 2019 said they had identified the right partner to drive collaboration efforts. Even when banks do find a partner, collaboration often falters because of cultural or mindset clashes.

A structured approach can help banks to collaborate effectively and leverage ecosystem synergies. To guide such an approach, Capgemini developed an Open X Collaboration Readiness Index that outlines the different stages and pillars or dimensions of collaboration where banks must build their collaborative capabilities to ensure partnership success:

- **Four-stage collaboration process:** Banks must identify the objectives and requirements of the four stages of collaboration (Open Innovation, Evaluation, Acculturation, and Industrialization) and prepare to make the most of their partnerships.
- **Four pillars of effective collaboration:** To strengthen each collaboration stage, banks must also bolster capabilities across four results-defining pillars (People, Finance, Business, and Technology).

A planned four-stage process – supported by adequate time and budget across all stages – is a collaboration must-have for banks

Collaboration effectiveness heavily relies on the ability to identify the right partner, work together as a team, and prepare a scalable experience leveraging new technologies. From creating a culture of innovation and intrapreneurship to developing an innovative pilot, banks must follow a structured process across the four stages to ensure they can produce customer-focused Minimal Viable Products (MVP) and scalable offerings (Figure 7).

As per our World Retail Banking executive survey 2019, successful banks on an average dedicate ~40% of total time and investment to the acculturation phase (onboarding and working collaboratively), while less successful firms typically devote substantially less time and resources. Banks that underrate the acculturation phase are forced to put additional efforts into scaling up or industrialization. However, they may still not achieve the desired success owing to lack of a strong base to build upon.

Figure 7. Four stages of bank-FinTech collaboration

OPEN INNOVATION

Sets the groundwork for developing future capabilities by preparing a conducive risk-taking environment

Impact on overall collaboration readiness:

- Enhances the organization's internal capabilities.
- Helps identify technology gaps and collaboration focus areas.
- Unlocks organizational potential to leverage internal assets and resources for innovation.

How can firms improve readiness at this stage:

- Develop an innovative organizational culture.
- Promote intrapreneurship and innovation.
- Empower employees to take risk.
- Ensure that the right people, processes, and infrastructure are ready for collaboration.

EVALUATION

Identifies best-fit partners by evaluating start-up maturity, scalability, and business track record

Impact on overall collaboration readiness:

- Broadens innovation frontiers by enhancing the organization's awareness regarding FinTech innovations.
- Ensures collaboration investment is channelized optimally by identifying the right partners.

How can firms improve readiness at this stage:

- Build a global systematic approach to work with FinTechs
- Assess the strengths and weaknesses of the organization to identify the need to prepare for partnership.
- Explore multiple avenues to learn about a range of FinTech innovations and find a best-fit partner.
- Evaluate and select a partner based on its maturity, scalability, and business track-record.

ACCULTURATION

Aligns people, process, and technology to focus on common objective by leveraging synergies

Impact on overall collaboration readiness:

- Minimizes friction, enabling a more seamless collaboration.
- Enables synergies during collaboration by making sharing of resources easier and more secure.
- Ensures progress on collaboration objectives through systematic monitoring.

How can firms improve readiness at this stage:

- Allocate dedicated teams, funds, and align processes to enable seamless collaboration.
- Empower collaboration teams to take risks by adopting a "learn-fast, fail-fast" approach.
- Ensure business alignment through early involvement and buy-in of operational and senior leadership.
- Establish a change management culture and drive mindset shifts.

INDUSTRIALIZATION

Incorporates scalability and commercial viability to give a marketable shape to the innovation

Impact on overall collaboration readiness:

- Enables collaboration that is sustainable, profitable, and end-user ready.
- Ensures achievement of tangible and desired collaborative returns.

How can firms improve readiness at this stage:

- Identify a suitable monetization model to ensure commercial viability.
- Ensure technical and business scalability for multi-sector, multi-geography implementation of innovative solutions.
- Set up a formal framework and processes based on market demand and prospects to scale up select innovations.

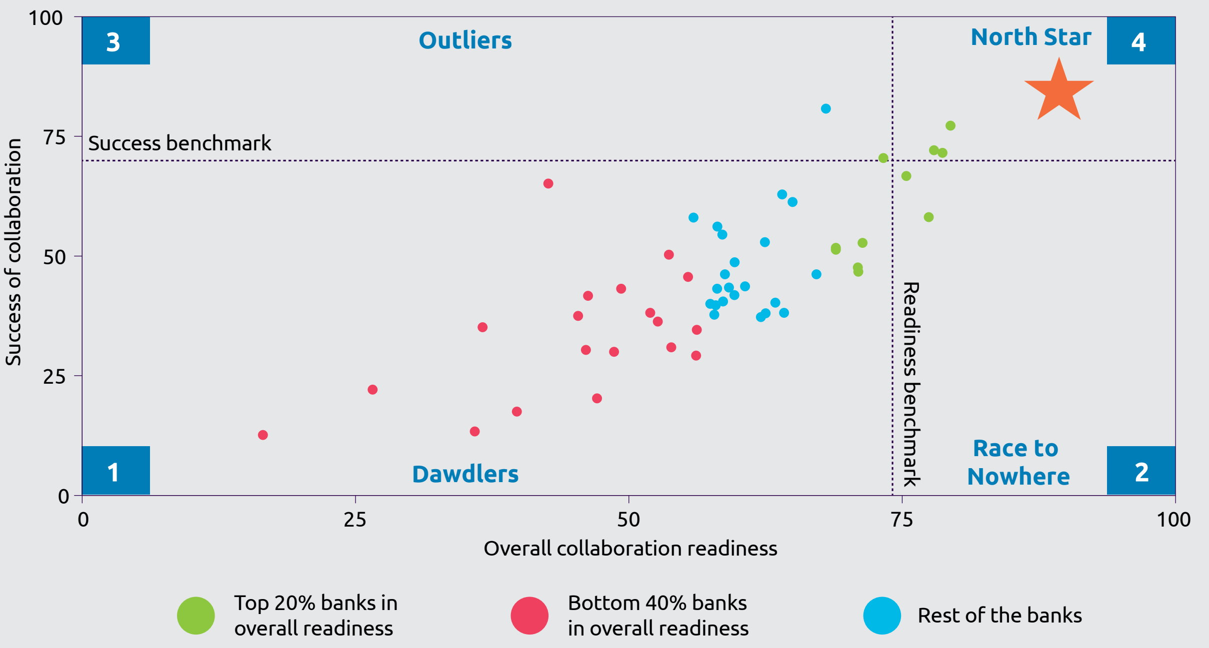
Source: Capgemini Financial Services Analysis, 2019.

Value generation across all collaboration stages will require banks to bolster capabilities across People, Finance, Business, and Technology pillars

Banks seeking a truly transformational partnership mindset must delineate the business model, financial requirements, stakeholders, and technology functions involved. Efforts across four fundamental pillars are critical: People, Finance, Business, and Technology.

The Open X Collaboration Readiness Index measures banks' success from collaboration initiatives as compared to their collaboration readiness across the various pillars to help banks analyze their relative position compared with their peers. Readiness scenarios include banks making slow progress (dawdlers) to a few outliers achieving maximum success despite little visible effort. The desired space to be, which we call the North Star quadrant – is occupied by a few high performers that have accelerated collaboration readiness (Figure 8).

Figure 8. Banks' view on collaboration readiness vs success of collaboration (%), overall, 2019



1 Dawdlers	2 Race to Nowhere	3 Outliers	4 North Star
Within this quadrant bank collaboration efforts are lackluster and success elusive. Most surveyed banks lie in this quadrant and require dedication to a comprehensive strategy across each of the four pillars to boost progress.	Banks earnestly plan and strategize collaboration initiatives but achieve limited success, possibly because of ineffective execution or low emphasis on one of the critical pillars.	This quadrant indicates exceptions in which banks achieved success but expended minimal effort.	Most banks should aim for this quadrant by accelerating collaboration readiness to drive higher success. To date, only a few banks have reached the North Star.

Note: Please refer to methodology for benchmark calculations.

Sources: Capgemini Financial Services Analysis, 2019; 2019 Retail Banking Executive Interview Survey.

Let's more closely examine the People, Finance, Business, and Technology pillars to gain perspective about necessary collaboration capabilities.

People:

Most banks fall short on the people dimension (Figure 9). Typical challenges include:

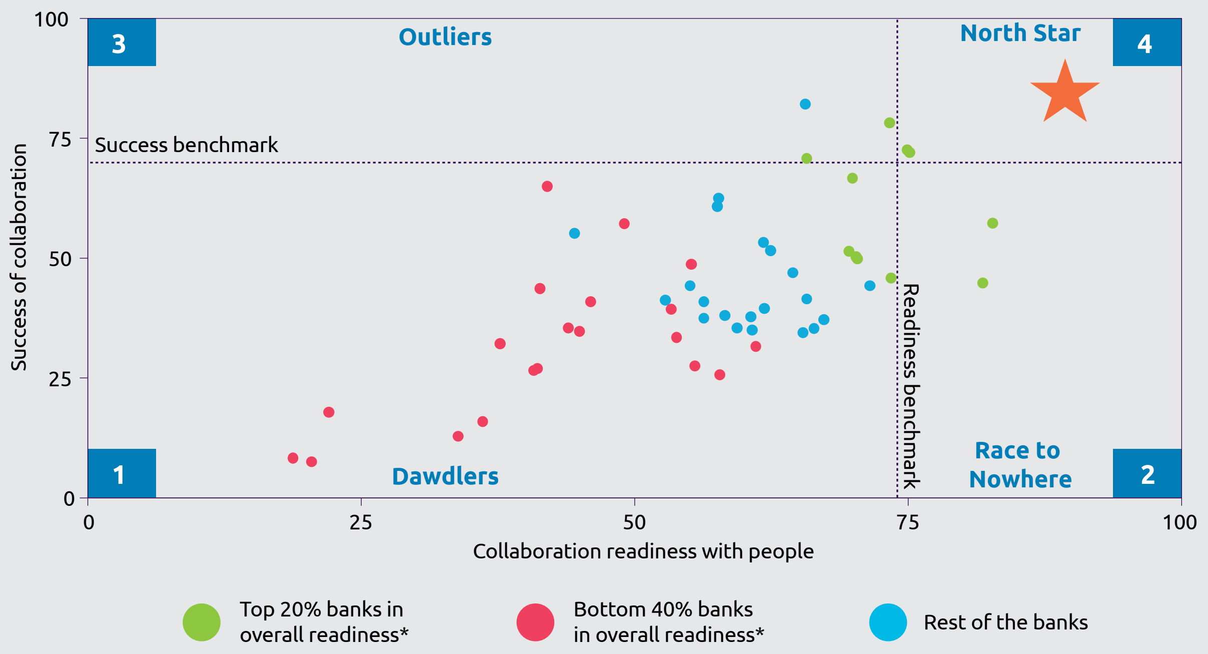
- Ingrained cultural biases, assumptions, and ways of working
- Rigid siloed structures
- Excessive hierarchy
- Promoting non-risk taking behaviors
- Compensation schemes exclusively based on performance rather than a split between short-term performance and mid-term innovation.

Any one of the above issues can make collaboration with FinTech firms challenging, but banks that prioritize the below People factors give themselves an edge:

Conducive culture: Learn to understand and adjust to the culture of the partner firm. For collaboration to be productive, banks will have to become more flexible and look for a middle ground between hierarchical structure and that of a horizontally-managed startup. To achieve this desired state, banks should build a culture that promotes innovation, internal entrepreneurship, and quick adoption of business and regulatory change. D10X, a global program launched by **Citi** in 2016, encourages internal entrepreneurship by empowering employees to build, test, and launch new solutions. D10X now has over 2,500 employees and nearly 100 in-house startup ideas in various stages of development.[14]

Dedicated team: It is unrealistic to assume that organizations, especially those as encumbered by legacy challenges as banks, can reverse cultural direction overnight to speak the language of agile newcomers. As part of a more pragmatic approach, a dedicated, empowered team can act as an intermediary between FinTech and bank stakeholders (internal departments and senior management). A dedicated team can reduce friction between partners, so each firm extracts maximum value. Encouraging and protecting the unique culture of the dedicated

Figure 9. Banks' view on collaboration readiness vs success of collaboration (%), People, 2019



Notes: Please refer to methodology for benchmark calculations; Outliers: Exceptions where successful collaboration was achieved without substantial effort at people readiness; North Star: High preparedness in people readiness a key reason for achieving success; Race to Nowhere: Banks having people readiness but not achieving success; Dawdlers: Unpreparedness in people readiness a key reason for not being successful.

* The categorization is based on overall collaboration readiness (Figure 8) across all four pillars and not just for people aspect

Sources: Capgemini Financial Services Analysis, 2019; 2019 Retail Banking Executive Interview Survey.

[14] Citi GPS: Global Perspectives & Solutions, "BANK X - The New New Banks," March 2019, https://www.citibank.com/commercialbank/insights/assets/docs/2019/Bank-X.pdf.

team is essential, as only 31% of banks say they have made efforts to ring-fence the FinTech or collaborating group from the rest of the bank.

Holistic expertise: The dedicated team should feature diverse experience with members from finance, IT, HR, legal, marketing, and more. The team should strive to include members who have worked in startups.

Upend the status quo: The dedicated team's objectives must be defined, and members authorized and rewarded for risk-taking. The team must be dynamic, open to change, and empowered to challenge bank or industry norms. Only 19% of banking executives said their dedicated collaboration team had decision-making authority. Autonomy to make decisions will foster an environment in which both organizations can work productively, unhindered by how the rest of the organization operates.

"Bank employees working with FinTechs have to be open to change. While many people are willing to challenge the status quo of the bank or the industry, you really need to put very dynamic people together," noted a senior executive from a leading Spanish bank.

Upskilling: Bank employees who are upskilled or re-skilled in digital technologies can interact efficiently with collaborating FinTechs and maximize synergies. By organizing immersive training programs, banks can foster an environment in which employees feel empowered to innovate and break the status-quo. While many banks have initiated upskilling initiatives focused on digital capabilities, only 44% of banks believe their efforts have paid off, indicating the need for a more invested approach for upskilling their employees.

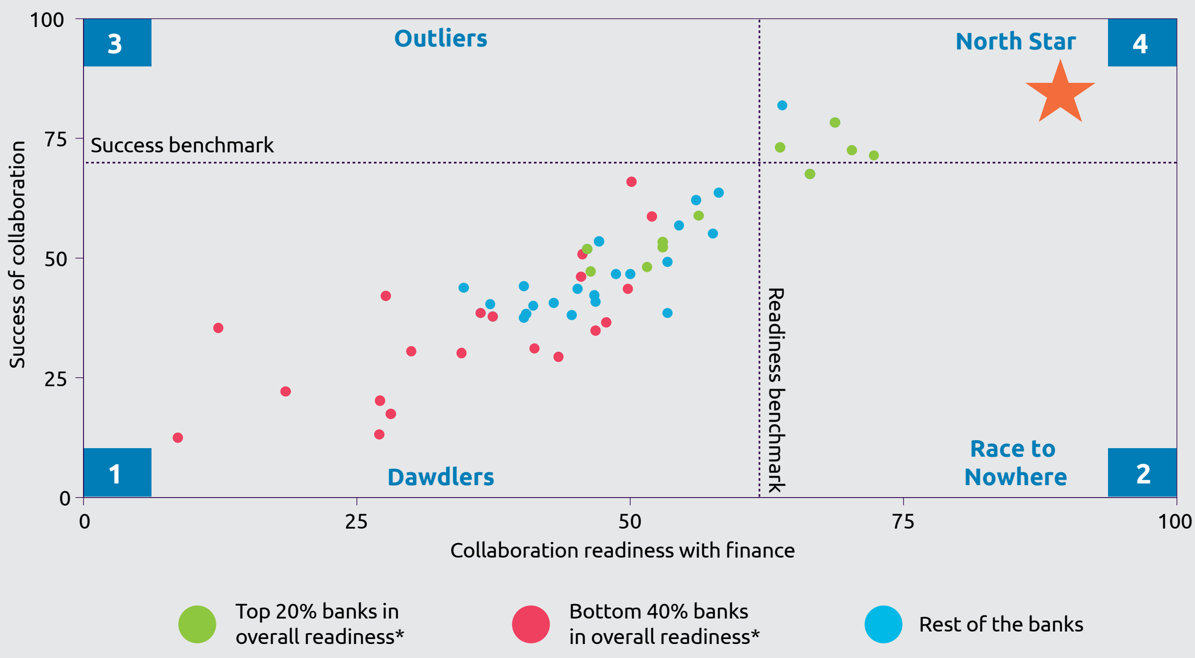
Finance:

Compared with other pillars, banks struggle most with the Finance aspect of collaboration readiness (Figure 10). Issues around optimal budget allocation, setting financial KPIs, tracking financial milestones, and other challenges choke advancement.

To build financial preparedness, banks can:

Allocate dedicated funds: Banks must earmark adequate funds for the partnership across its entire lifecycle until the ultimate industrialization stage.

Figure 10. Banks' view on collaboration readiness vs success of collaboration (%), Finance, 2019



Notes: Please refer to methodology for benchmark calculations; Outliers: Exceptions where successful collaboration was achieved without substantial effort at financial readiness; North Star: High preparedness in financial readiness a key reason for achieving success; Race to Nowhere: Banks having financial readiness but not achieving success; Dawdlers: Unpreparedness in financial readiness a key reason for not being successful.

* The categorization is based on overall collaboration readiness (Figure 8) across all four pillars and not just for finance aspect

Sources: Capgemini Financial Services Analysis, 2019; 2019 Retail Banking Executive Interview Survey.

As reported in the World FinTech Report 2019, one critical factor hampering collaboration readiness was insufficient funding. Around 74% of banks have not allocated adequate budgets for collaboration initiatives. Proper distribution of funds across stages of collaboration ensures continuity and enables collaboration teams to budget for, manage, and track projects.

Set realistic financial KPIs and milestones: The ultimate goal of the collaboration is to generate profit for both partners. Therefore, banks should set realistic KPIs; otherwise, they may aim for an unachievable target that sets the stage for collaborative failure.

"Realistic financial goals for the projects are essential. Sometimes when we start a general venture or a FinTech project, we tend to be very optimistic, and we want to achieve very challenging or positive results in a short time period. It is these unrealistic goals that might kill the project," said a senior executive from a leading Spanish bank.

Establishing milestones, deadlines, and a break-even point are essential. Taking timely corrective actions via regular checks goes a long way in making the partnership successful. A balance between giving collaboration teams too much leeway or tying their collective hands is vital.

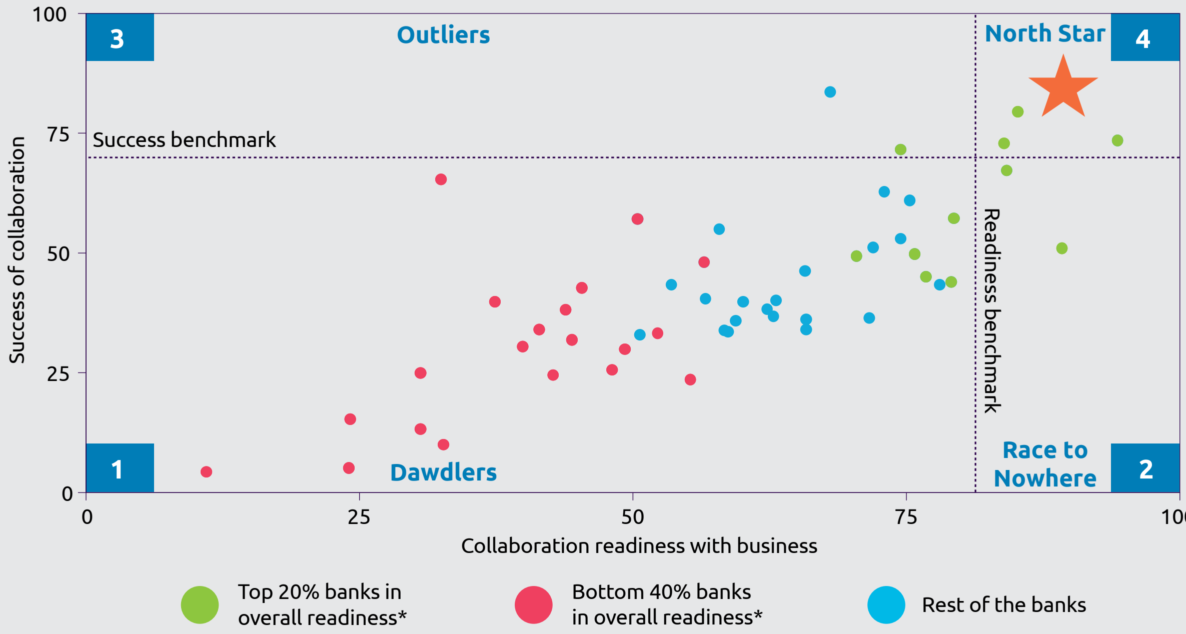
Build a financially viable model: Banks need to identify, invest, and build sustainable business models, which will have intended commercial impact. Only 6% of banks participating in the Open X Collaboration Readiness Index survey said investment in collaboration had yielded desired return on investment (ROI). Pilot programs with FinTechs can enable banks to estimate the commercial potential of collaborative solutions while designing implementation strategies – and demonstrating innovation value to investors.

Experiment to innovate: Not all collaborations work. Sometimes firms are unprepared, or because of extenuating circumstances, timing is bad. That is why it makes sense for banks to learn and implement a "test-fast, fail-fast" approach and budget appropriately in case collaboration does not work. Only 25% of banking executives believe their firm is financially ready to adopt a fail-fast approach to innovation. Potential failure should not preclude collaborations altogether. Instead, banks should financially prepare to take risks during partnership initiatives.

Business:

Most banks are well prepared to tackle the *Business* pillar (compared with *People* and *Finance*), but areas for improvement remain (Figure 11). First, banks should

Figure 11. Banks' view on collaboration readiness vs success of collaboration (%), Business, 2019



Notes: Please refer to methodology for benchmark calculations; Outliers: Exceptions where successful collaboration was achieved without substantial effort at business readiness; North Star: High preparedness in business readiness a key reason for achieving success; Race to Nowhere: Banks having business readiness but not achieving success; Dawdlers: Unpreparedness in business readiness a key reason for not being successful.

* The categorization is based on overall collaboration readiness (Figure 8) across all four pillars and not just for business aspect

Sources: Capgemini Financial Services Analysis, 2019; 2019 Retail Banking Executive Interview Survey.

specify the need for collaboration, identify the business need, and define what skills and capabilities are required. Business decisions include partners to consider, how to onboard them (passing the Purchasing, Compliance, Legal and IT teams), how to scale solutions, and more. Banks may require help from industry experts/external mentors to work through challenges and adopt best practices to boost success potential. A clearly defined business plan will ensure that all parties benefit from the partnership.

Banks can implement collaboration best practices to ensure strong business alignment:

Get leaders actively involved: Early involvement, commitment, and support from senior stakeholders are essential. A proper governance structure will make sure that roles, responsibilities, and expectations of all involved stakeholders are defined. Senior bank stakeholders must sign off that the collaboration strategy aligns with firm business objectives. Innovation sponsors and stakeholders must ensure alignment by committing to ongoing business engagement and the timely dialogue often sought by FinTechs.

> *"Empathy drives clarity and clarity drives partnerships. True partnership means the bank should help the FinTech firm develop broad sponsor relationships, so they are not affected if a key sponsor from the bank exits or gets promoted. True partnership means being open about your business objectives and working collaboratively to help achieve them."*
>
> **—Vinay Jayaram**
> CEO, Envizage, United Kingdom

Seek advice from industry experts: One of the most significant challenges banks face is finding the right partner. The World FinTech Report 2019 found that 74% of banking executives say their bank is not prepared to identify a best-fit partner. It can be challenging for bank stakeholders to feel comfortable with agile and unfamiliar FinTech partners. Fortunately, through third-party industry experts, partners with scalable solutions can be identified. Only 21% of banks say they engage on a high level for advice from external mentors or industry experts during FinTech collaboration. Moreover, industry experts can help calm stakeholders' nerves and find partners that meet bank criteria.

Create a smooth onboarding process: Once the right partner has been identified, the FinTech onboarding process is the next critical task. Only 27% of banking executives say they find it easy to onboard FinTechs for collaboration initiatives from a business perspective. Clear communication about the bank processes FinTechs must follow is essential. Business processes should be streamlined to make the onboarding process seamless. **Barclays** tailors its FinTech onboarding journey based on the value and risk profile of the potential partner's proof of concept. For low-value, low-risk engagements Barclays decides within just five days. If the engagement risk is more substantive or the innovative solution of higher value, Barclays has tools and guidelines to make onboarding more manageable.[15]

Test business model scalability: For collaboration to work, it must ultimately generate sustainable profit. Therefore, partner solutions must be able to scale efficiently. Best-fit partners will be able to co-develop a smooth-running solution that can scale without stress – allowing the bank to offer the solution to customers quickly. To safely test scalability, a sandbox environment can enable banks to review FinTech business models and solutions within a controlled, consumer-protected environment.

Technology:

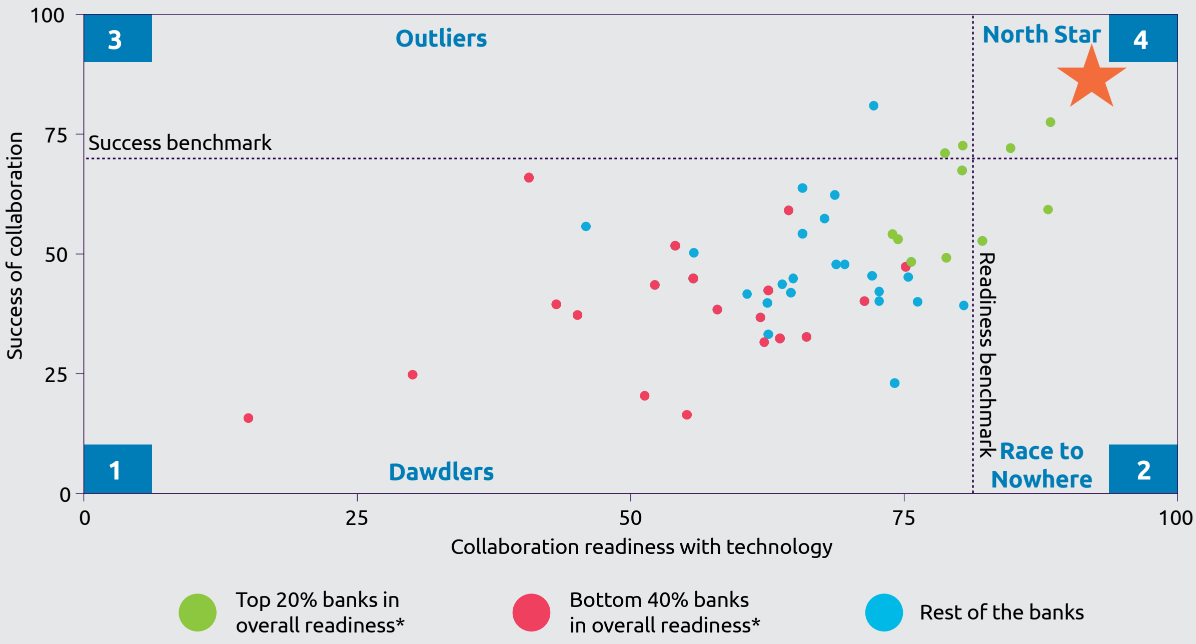
Keeping pace with technology has been the Achilles' heel of many traditional banks, although most firms believe they are technically ready for collaboration (Figure 12). As banks struggle with legacy systems, agility remains an issue, particularly as it relates to pre-collaboration integration with leading-edge FinTech solutions. Tools and third-party experts that connect a firm's infrastructure with that of an external partner may offer banks an immediate solution.

Key technology considerations that can boost bank preparedness for collaboration:

Emphasis on agility: Although banks may aim to embrace innovation, FinTechs might face inherent conservatism from incumbents. Only 21% of banking executives say their systems are flexible/capable of adapting to the needs of collaboration. Leading banks have adopted emerging technologies such as the

[15] Barclays, https://home.barclays/who-we-are/our-suppliers/fintech-friendly-onboarding-/, accessed September 2019.

Figure 12. Banks' view on collaboration readiness vs success of collaboration (%), Technology, 2019



Notes: Please refer to methodology for benchmark calculations; Outliers: Exceptions where successful collaboration was achieved without substantial effort at technology readiness; North Star: High preparedness in technology readiness a key reason for achieving success; Race to Nowhere: Banks having technology readiness but not achieving success; Dawdlers: Unpreparedness in technology readiness a key reason for not being successful.

* The categorization is based on overall collaboration readiness (Figure 8) across all four pillars and not just for technology aspect

Sources: Capgemini Financial Services Analysis, 2019; 2019 Retail Banking Executive Interview Survey.

cloud, artificial intelligence, and blockchain to enable agility that once seemed improbable. Technology can also significantly simplify and improve banks' back-end operations.

> *Traditional banks must get out of their own way and start organizing themselves and their work more like FinTechs or other tech companies. Siloed organizations, decisions by committee, and waterfall-type development have to go."*
>
> **—Rasmus Järborg**
> Chief Product Officer, Nordnet, Sweden

Utilize APIs to aid information flow: Legacy systems lack the flexibility to adopt new technologies or integrate with FinTech systems efficiently. Dependency on legacy systems for core applications is still high, according to 58% of bank respondents. APIs facilitate bank-FinTech collaboration by enhancing information flow between all entities in the new connected ecosystem, resulting in new business models and customer-centric offerings.

Focus on data security and privacy: Data security is the primary reason why many banks have been hesitant to adopt open architecture. The World FinTech Report 2019 revealed that 76% of banks are concerned with data security and customer privacy within an open banking ecosystem. Few banks have implemented a robust security framework for a connected ecosystem, which hampers data integration and user-management with third parties. Assembling the required technologies before partner collaboration – and using integration layers to ensure data security – will help to streamline the process.

Participate in events: Firms that produce solutions quickly and efficiently stand to gain the most out of new technology because they will be able to use it to improve their services faster. Innovation-generating environments such as hackathons, sandboxes, and other events can help banks to identify startup firms that offer potential solutions to long-standing challenges. Multinational, Singapore-based **DBS Bank** sponsored a global hackathon, Paradigm Shift, earlier this year that attracted 1,000 participants across 25 markets. The event focused on a customer-centric approach to developing cutting-edge services for digitally-savvy customers.[16]

Ensure technical scalability: Solutions born from a collaborative partnership must incorporate existing as well as new technology because emerging technology offers a competitive edge. Maintaining a technological advantage can help firms weather market disruptors and adopt new technology quickly through partnership.

> *One of the greatest challenges for banks is when a new FinTech solution is deployed, they need to make sure it can scale gracefully with growing customer bases."*
>
> **—Vik Ramesh**
> CEO, Fintel Labs, United States

[16] DBS, press release, "DBS breaks new ground with global hackathon," May 28, 2019, https://www.dbs.com/newsroom/DBS_breaks_new_ground_with_global_hackathon.

CASE STUDY

A comprehensive approach to collaboration enables sustainable, win-win partnerships for Singapore bank

About the company: Headquartered in Singapore, DBS is a leading financial services group in Asia, operating across 18 markets with over 26,000 employees.

Business case: As part of its mission to enable customers to "live more, bank less" by delivering seamless and invisible banking, DBS is focused on digital transformation and actively explores FinTech innovation. At the same time, the bank also aims to ensure that its FinTech partnerships are sustainable and profitable for all the stakeholders.

Implementation: DBS has followed a structured and comprehensive approach to FinTech innovation and collaboration. DBS invested in setting up the foundational infrastructure for **open innovation** through its DBS Asia X (DAX) innovation lab in 2016. The lab provides 16,000 square feet of project pods, journey rooms, and agile co-working spaces and has run over 1,000 experiments. DBS has assigned a permanent team of about 25 innovators to its DAX facility, including design professionals and software engineers. Other employees from the bank and its FinTech partners also have the opportunity to work in the innovation center. One of the outcomes of the DAX facility was the DBS Developer Portal.[17]

In 2017, DBS launched its very own API developer platform with 155 APIs across 20 categories such as funds transfers, payments, rewards, etc., which enabled it to partner with a range of companies in the ecosystem. What gave DBS an open platform implementation edge was its focus on building a robust **technology** foundation.[18] DBS also ensures that its collaboration initiatives can scale and commercialize. The bank revamped its accelerator program to create the Startup Xchange program in October 2018 aiming to connect DBS and its corporate and SME clients' problem statements to startup firms.[19]

Startup Xchange enables **acculturation** by fostering a common culture of innovation through design thinking and experimentation for both startups and DBS project sponsors to achieve shared business goals. It also ensures strong **business** alignment by bringing in startups to co-create solutions with the bank that address business problem statements of the bank or its clients in real time. With a strong **people** focus, Startup Xchange provides DBS employees with learning and collaboration opportunities with startups to encourage a shift to design and agile thinking. More than 15,000 DBS staff have participated in design workshops, hackathons and other innovation-related initiatives every year. The program further helps its FinTech partners secure sustainable funding and **industrialize** their solutions by allowing them to refer to DBS as an anchor client when raising capital.

Results: Since its pilot launch, Startup Xchange successfully matched 21 startups with units within the bank as well as the bank's SME clients to solve business pain points, resulting in the successful rollout of 10 emerging technology solutions as of October 2018. For its efforts, DBS has won global recognition, including the 2019 World's Best Bank award from Euromoney.

Source: DBS Bank website, August 2019.

> *"The most critical aspect is the alignment of objectives and motivation. It forms the foundation for allocation of people, budget, and priorities, which are key for successful collaboration thereafter."*
>
> **— Siew Choo Soh,**
> Managing Director, Group Head of Consumer Banking and Big Data/AI Technology, DBS, Singapore

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[17] The Financial Brand, "7 Financial Institutions Taking Innovation Labs to the Next Level," Steve Cocheo, November 28, 2018, https://thefinancialbrand.com/77058/bank-credit-union-innovation-lab-accelerators

[18] DBS Bank, "Reimagining banking, DBS launches world's largest banking API developer platform," November 2, 2017, https://www.dbs.com/newsroom/Reimagining_banking_DBS_launches_worlds_largest_banking_API_developer_platform.

[18] DBS Bank, "DBS launches startup matching platform to help the bank and its customers harness the power of emerging technologies," October 30,2018, https://www.dbs.com/newsroom/DBS_launches_startup_matching_platform_to_help_the_bank_and_its_customers_harness_the_power_of_emerging_technologies.

Strategic collaboration and traditional strongholds can give banks a decisive lead in the Open X era

A burning platform may be an apt description of the urgent need for change in banking. Customers are demanding extreme personalization, faster service, proactive offerings – and all at a lower cost. Our analysis indicates that traditional, siloed banks will gradually face customer attrition, and in due course, may lose significant market share to new-age firms. Challenger banks are targeting high-value opportunities and have been successful in creating a large customer base (see table below).

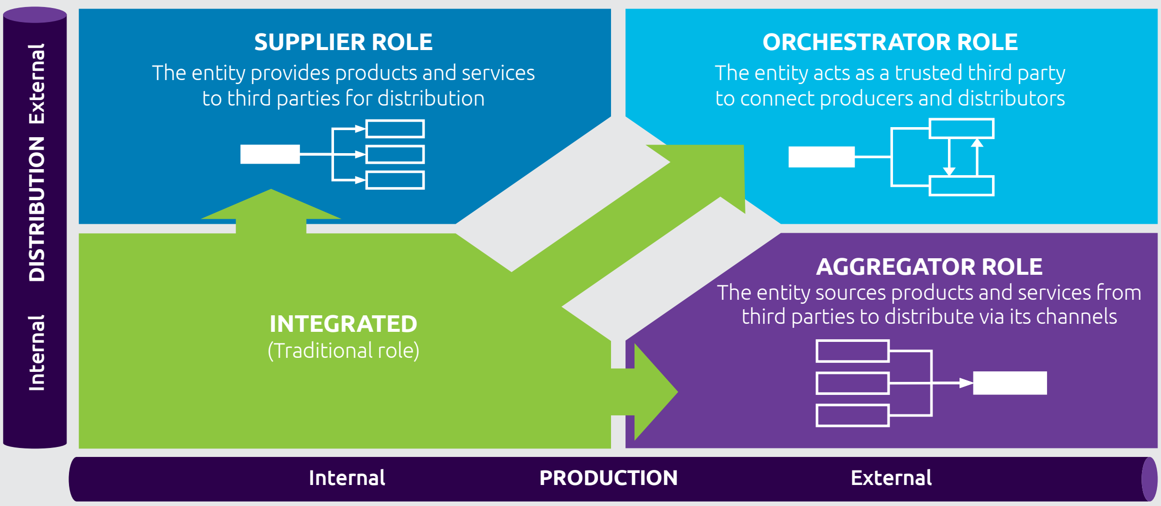
Over the years, incumbent banks have built capabilities (trust, brand affiliation, regulatory and reporting framework) and resources (branches, broad product portfolio, global presence) that can be enhanced and leveraged now to provide a differentiating customer experience. Banks that strengthen their traditional strongholds further can create an advantage that competitors find difficult to replicate. (To explore further, turn to page 28.)

Challenger bank	N26	Revolut	Monzo
Customer base	3.5 million[20]	3 million[21]	2 million[22]

To assess their competitive position, banks should dissect back-end, middle-office, and front-end operations across business functions and product lines. They should then delve into a two-pronged approach that strengthens traditional strongholds while simultaneously identifying improvement areas where collaboration is essential.

Open X is poised to provide opportunities to all ecosystem participants, provided they play to their strengths and are ready to collaborate. As the World FinTech Report 2019 explained, to thrive in the ecosystem, incumbent banks will have to choose a best-fit role: Supplier, Aggregator, or Orchestrator (Figure 13).

Figure 13. Open X business roles



Source: Capgemini Financial Services Analysis, 2019.

[20] Eu-startups.com, "Berlin-based mobile bank N26 reaches 3.5 million customers, with plans to launch in the US in coming weeks," Jun 14, 2019, https://www.eu-startups.com/2019/06/berlin-based-mobile-bank-n26-reaches-3-5-million-customers-with-plans-to-launch-in-the-us-in-coming-weeks/.

[21] Bitcoin.com, "Digital Bank Revolut Surpasses 3 Million Customers," November 13, 2018, https://news.bitcoin.com/digital-bank-revolut-surpasses-3-million-customers/.

[22] FinExtra, "Monzo hits two million customer milestone," May 20, 2019, https://www.finextra.com/newsarticle/33845/monzo-hits-two-million-customer-milestone.

Collaborating with FinTechs will help the banks to:

1. **Enhance service delivery (integrated model):** FinTechs can help banks overcome legacy processes and make customer experience a pleasurable one. United States-based cloud software firm **nCino** helps incumbents automate end-to-end lending processes to offer borrowers a transparent and seamless experience.[23]

2. **Complement product portfolios (banks as aggregators or orchestrators):** FinTechs will provide non-competing, value-added services/ products to banks' customers and banks will thereby act as aggregators of innovative FinTech offerings. **Banco Santander** (acting as an aggregator here) has integrated **Moneybox** to its Openbank platform, so that customers can round up their purchases and invest the spare change from their daily expenses.[24]

3. **Boost banking services sales (banks as suppliers):** Partnerships can help drive sales by opening new avenues and channels through preferred-partner alliances. Payment channel facilitators such as **Fitbit Pay**, **Samsung Pay**, and **Apple Pay** enable higher adoption of their partner banks. **Raisin**, a Berlin-based FinTech that helps European savers switch money into higher-yielding accounts, partnered with 62 incumbents to create a pan-European retail banking marketplace.[25]

For traditional banks, the future is collaborative; and the path forward illuminated by these compelling watchwords:

- **Change** – Establish an innovative organizational culture. Staff and leadership must move from legacy mindsets and processes to an agile model and progress toward Open X.
- **Commit** – Sustain collaborative intent through support of a dedicated team, funds, and commitment from senior stakeholders to build the bank of the future.
- **Catalyze** – Catalyze or accelerate the shift to an Open X environment to gain an early-mover advantage. Banks must actualize their pivotal role in the new ecosystem, where innovation and collaboration lead the way.

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[23] nCino, Inc, "Bank Operating System Solutions," https://www.ncino.com/platform/solutions, accessed September 2019.

[24] FinExtra, "Moneybox launches Open Banking integration with Santander," August 02, 2018, https://www.finextra.com/newsarticle/32475/moneybox-launches-open-banking-integration-with-santander.

[25] Raisin, "Raisin Announces $114 Million Funding Round and $11 Billion in Deposits," Maggie Bell, February 6, 2019, https://www.raisin.com/press/fintech-raisin-announces-114-million-funding-round/.

Traditional bank strongholds are competitive enablers that are difficult for new entrants to replicate

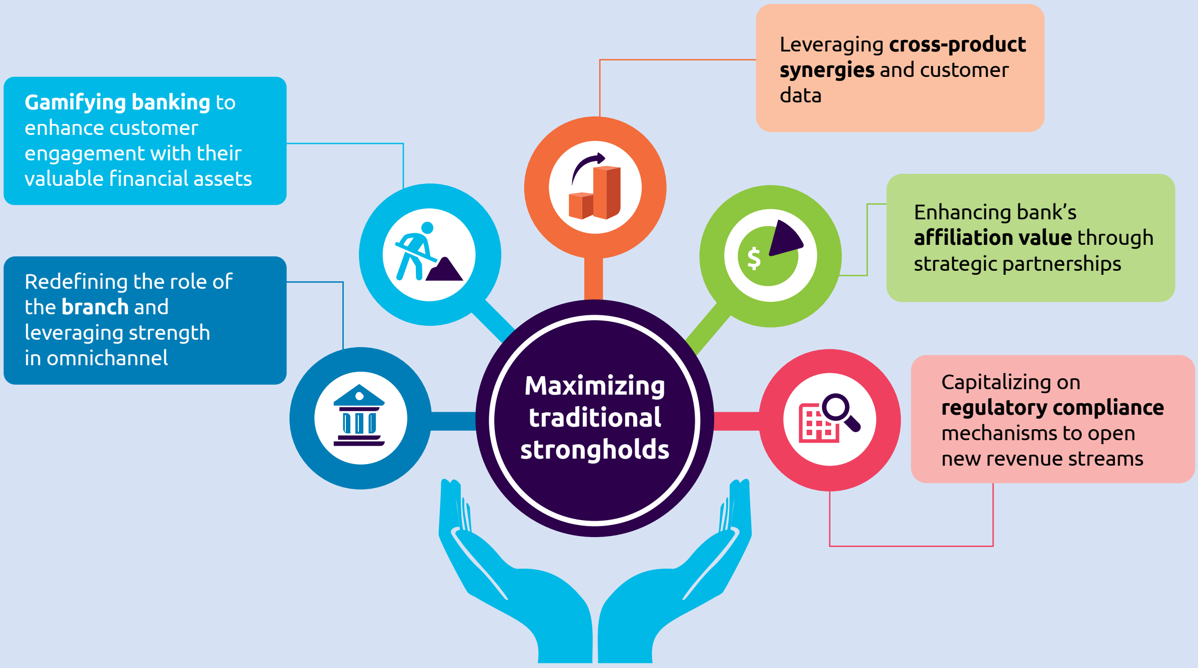
Banks' traditional strengths have been finetuned over decades of operation and are a powerful competitive advantage for incumbents (Figure 14).

A strong branch and smart-ATM/kiosks network and presence over multiple channels are strengths unique to established retail banks. Brick and mortar branches and ATM network are a vital banking channel for 70% of customers surveyed as part of WRBR 2019. Branch facilities were also named among the top five influencers of banking/customer relationships. Banks can leverage this strength to deliver a higher level of customer engagement by redefining the role of the branch to position it as a value-adding channel versus purely transactional.

Banks can position branches as spaces for financial education and planning, where customers can seek advice about long-term financial planning. Self-service branch kiosks enable customers to independently conduct routine transactions while café and wi-fi facilities allow customers to wait comfortably for assistance or advice while, say, logging into their work. **ING** is transforming its branch design to make customers feel at home. The new branch design includes a table where customers can have coffee or work, and it also contains spaces for personal advice, digital self-service, and a kid's corner.[26]

Gamifying the banking experience can remove complexity and address the paradox where customers do not want to spend time on managing their valuable financial assets. Gamifying will also help in increasing financial literacy and educating customers about their financial wellness. More than a third of Gen Y and tech-savvy customers said gamified apps that simplify banking would highly influence their overall banking experience.

Figure 14. Maximizing traditional strongholds for incumbent banks



Source: Capgemini Financial Services Analysis, 2019.

[26] FinExtra, "ING introduces 'branches that make you feel like home,'" July 18, 2019, https://www.finextra.com/newsarticle/34144/ing-introduces-branches-that-make-you-feel-like-home?utm_medium=newsflash&utm_source=2019-7-18&member=6738&_lrsc=5b0ed686-5a84-47af-b0fd-f3e2b129ab77.

Banks can offer visually intuitive user interfaces based on the customer's settings.

- Visually appealing and easy navigation for various transactions, add-on apps from bank partners.
- The ability for users to connect with other customers on the platform for more than just fund transfers. Ex., communicating with other users to apply for products such as a joint loan or account, etc.
- Programs that motivate members to engage more with the bank, such as reward points for internal funds transfers or for achieving savings targets.
- Educational tools that make it easy to understand banking products. Ex., using a simulator to explain loan payments for various scenarios.

Leveraging cross-product synergies can help banks personalize their offerings and create greater customer stickiness through an ecosystem of interconnected products. Ex., when an account balance exceeds a certain amount, the bank can proactively check with the customer to ask if they want to invest that amount and provide personalized investment recommendations based on past customer data. Similarly, the bank offers more favorable loan terms if the customer makes credit card payments regularly. Such incentives may motivate customers to purchase both these products with the same bank so they can take advantage of the benefits that cut across products.

Enhancing the bank's affiliation value through rewards programs can help safeguard bank brand image and play a valuable role in customer retention. Strategic partnerships or affiliate loyalty programs can benefit customers purely by association with their bank. Banks can boost their affiliation value by maintaining influential positions within the new banking and non-banking ecosystems. Partnership with an online retail platform can produce frequent discount offers for customers paying with a bank card. An alliance with airlines/travel aggregators might mean free lounge access if the traveler makes payments via the bank. More than 35% of customers surveyed for WRBR 2019 select or opt to remain with a bank based on financial/loyalty rewards or product incentives.

Chase Bank offers a co-branded pre-paid card in partnership with **Starbucks**. Unlike the traditional pre-paid cards, it can be used for purchases beyond Starbucks, earning customers Starbucks' points for every US$10 they spend on the card.[27]

Regulatory compliance expertise is an area in which banks have built years of credibility. Today banks are experts in customer verification through extensive customer onboarding and authentication processes as well as in customer data security mandated by rulings such as the EU's General Data Protection Regulation (GDPR). Banks can leverage their investments in compliance and security by providing related services to other firms and creating new revenue streams.

Banks can offer customer verification as a service to companies that need to validate customer identity. Such services could become especially relevant in the sharing economy, where individuals look to register themselves as commercial service providers.

Banks can leverage their expertise in customer data security to provide customers with digital vaults similar to the physical vaults banks already offer. For a nominal fee, customers can securely use digital vaults to store important documents or personal information.

Rather than view compliance as a costly necessity, banks can use it to secure a central role in the changing ecosystem.

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[27] Chase, "The Starbucks® Rewards Visa® Prepaid Card," https://www.chase.com/personal/debit-reloadable-cards/starbucks, accessed August 2019.

Methodology

Scope and Research Sources

The World Retail Banking Report (WRBR) 2019 draws on research insights from two primary sources – the 2019 Global Retail Banking Voice of the Customer Survey and the 2019 Global Retail Banking Executive Surveys and Interviews.

2019 Global Retail Banking Voice of the Customer Survey

A global survey of customer attitudes toward retail banking forms the basis of the 16th-annual World Retail Banking Report. Our comprehensive Global Retail Banking Voice of the Customer Survey polled over 7,900 retail banking customers in 20 countries. The survey sought to gain deeper insights into customer preferences, expectations, and behaviors with respect to specific types of retail banking transactions. The survey questioned customers on their satisfaction and importance of various channels for different types of interactions, and their overall satisfaction with those interactions, among other factors.

2019 Global Retail Banking Executive Survey and Interviews

A global survey encompassing responses from 50+ banks forms the basis of the World Retail Banking Report 2019. The survey gauged bank readiness — along with different parameters — to collaborate effectively with FinTechs in an effort to understand where the industry stands today from a collaboration-readiness perspective.

The 2019 edition of the report also includes insights from focused interviews with senior banking executives of leading banks across regions.

Capgemini Open X Collaboration Readiness Index

The Capgemini Open X Collaboration Readiness Index evaluates banks based on 67 data points to judge banks on their collaboration readiness across four pillars – People, Finance, Business, and Technology. Appropriate weightages were assigned for each parameter and final scores were plotted on a scatter plot (by rebasing score on 100). We represented banks view of readiness to collaboration on the X-axis (overall and for individual parameters) and on the y-axis, we have banks view on their success of collaboration. We have taken the average of top 20% banks as a point of readiness and have considered an overall score of 70 as a benchmark for collaboration success.

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