

WORLD RETAIL  
BANKING REPORT

2012

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# Preface

Capgemini and Efma are pleased to present the *2012 World Retail Banking Report*.

Retail banks around the world are struggling to maintain their competitiveness in the face of severe external challenges. Massive debt loads are threatening the global economy, while stringent regulations put in place as a result of the financial crisis of 2008 are staunching traditional revenue streams. Customers, still distrustful of the industry, have become increasingly accepting of non-bank alternatives, and social media is giving them an opportunity to publicly explore them.

More than ever, retail banks must strive to create stronger bonds with their customers. The *2012 World Retail Banking Report* addresses this imperative by establishing a new framework for identifying and measuring success in retail banking. Specifically, our Customer Experience Index (CEI) offers a mechanism for accurately taking stock of the critical measure of customer loyalty.

The CEI improves upon traditional measures of customer attitudes by incorporating customers' standards and expectations, alongside their channel preferences, to shed light on whether customers are having positive experiences in the areas most important to them. Our findings show that positive customer experience is an extremely predictive indicator of customer loyalty.

We created the CEI by beginning with a large, in-depth investigation of the many voices and opinions around the world that make up the modern bank's retail customer base. Our Voice of the Customer surveys queried more than 18,000 customers in 35 countries across six geographic regions, making it one of the most detailed studies of its kind.

Findings from the CEI led us to identify three models of emerging retail-banking specialists. Focusing on one or two of the models—product leader, distributor, and utility/processor—will give banks an opportunity to stand out in today's increasingly competitive marketplace. Banks should prioritize the movement toward a more focused approach as a long-term goal, executed in sync with efforts to improve customer loyalty.

In this report, we also examine mobile banking's role in improving the overall customer experience. While mobile banking adoption is still low, it could become an extremely compelling channel for large numbers of customers. Gaining a better understanding now of how to shape positive experiences through mobile will position banks for the future.

As always, it is a pleasure to provide you with our findings. We hope you continue to find value in the World Retail Banking Report's insights.



**Jean Lassignardie**  
Global Head of Sales and Marketing  
Global Financial Services  
Capgemini



**Patrick Desmarès**  
Secretary General  
Efma

# Key Findings

Customers may be the lifeblood of retail banking, but to many institutions they remain somewhat inscrutable. Our surveys of thousands of customers across the globe have found that traditional measures of customer attitudes can yield confusing results. For example, customers say they are largely satisfied with their banking relationships, even though most do not trust their banks and half are unsure they will stay with them in the short-term.

Banks recorded a global average of 65% in terms of customer satisfaction, with North American banks having the highest average levels at 80%. Despite this outcome, only 50% of customers are confident they will remain with their primary bank over the next six months. Further, only 15% have trust and confidence in the banking industry.

The inability of current measures to present a coherent picture of customer expectations and behaviors is problematic, given the large number of secular changes currently impacting the industry. Globally, extremely high debt levels, political turmoil, regulatory change, and evolving customer habits are creating an environment more difficult than any the industry has experienced in decades.

Our 2012 World Retail Banking Report offers a mechanism for better understanding customers, as well as a prescription for navigating the current terrain. Our Customer Experience Index proved to be an effective indicator of customer loyalty, which is an essential element of retaining and attracting customers. We found an almost linear relationship between positive customer experience and the likelihood of staying with a bank.

While banks modestly increased their levels of positive customer experience from last year, they still are not delivering enough positive experiences. Just over 40% of customers are having positive experiences through most channels today. The mobile emerged as the channel through which the greatest improvement in positive customer experience is likely to occur in most regions.

As they seek to improve the level of positive customer experience they offer, banks must also respond to the changes occurring in the environment by developing a long-term strategic plan. Importantly, the plan should not be to “do everything.” Rather, banks should focus on a specific area of expertise within the distinct disciplines of product innovation, distribution, and utility/processing. A gradual transformation, involving investment in core strengths, will help lay the groundwork for the future.

Having a long-term strategy and combining it with greater insight into customer behaviors and attitudes offers a compelling argument for greater retail banking success. While banks are making progress in this area, our report suggests specific areas for further improvement.



### map navigation



### world data

Finance Business Culture  
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### statistics



### data central



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# Unlocking Pathways to Greater Customer Loyalty

- **Long-standing measures point to contradictory customer feelings toward banks.**

Customers around the world continue to have low trust and uncertain loyalty toward banks, yet overall satisfaction remains high in most regions.

- **Globally, positive customer experience increased modestly from 35.8% in 2011 to 42.7% in 2012.** Canada led all countries with the highest levels of positive customer experience, defined as satisfaction along the dimensions most important to customers. Other regional leaders were Australia, Norway, Turkey, South Africa, and Argentina.

- **Positive customer experiences generate loyalty, but few banks consistently deliver them.**

Less than 50% of customers are having positive experiences through most channels today.

Banks need to work harder to 'wow' customers as a way to strengthen relationships, as well as to improve loyalty and profitability.

- **The mobile channel had the highest increases in positive customer experience in most regions, but the branch and internet remain the two most important channels.**

While mobile banking is still nascent, uptake could accelerate more quickly than internet banking adoption, despite concerns about security, consistency, and ease of usability.

# Customers Express Conflicting Sentiments toward Banks

- Despite low levels of trust, confidence, and loyalty, customer satisfaction with banks remains high in most regions.
- Satisfaction levels have little impact on loyalty. Despite overall high satisfaction, 40% of customers are not sure they will stay with their primary bank, and 9% are likely to change in the next six months.
- Canada's banks led the world in customer satisfaction at 82%, followed closely by those in Switzerland (79%), the United States (78%), India (78%), and the Philippines (78%).
- Eight markets, including six in Europe, experienced double-digit improvements in customer experience.

## DESPITE IMPROVEMENTS, TRUST LEVELS ARE STILL LOW

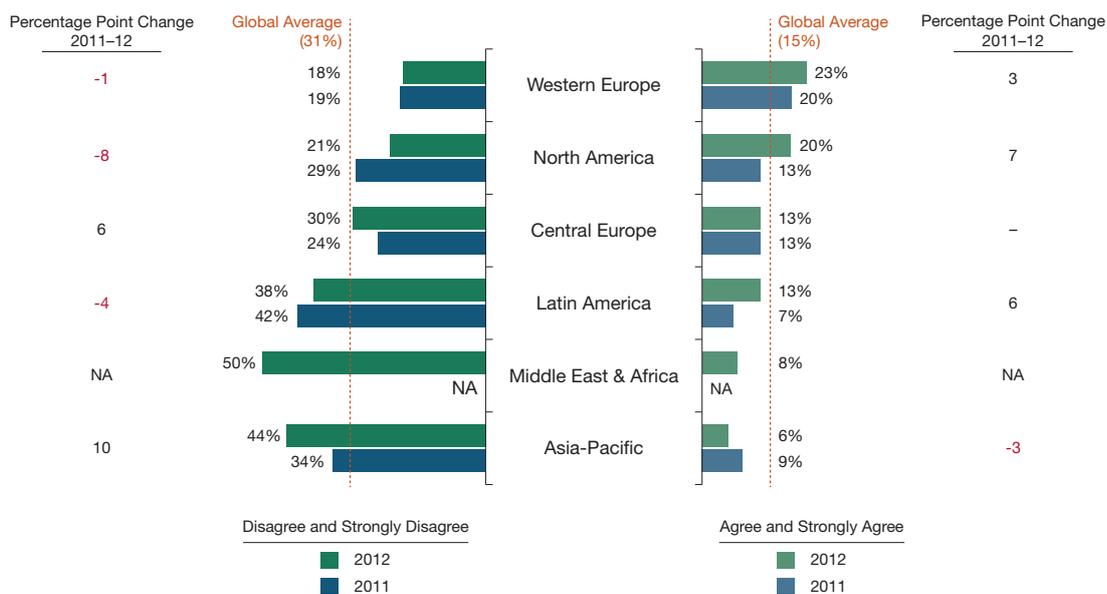
Trust is a fundamental element of the banking system. Without it, consumers would have little reason to deposit their income into current accounts or put their retirement funds into long-term savings accounts. Low trust levels create a less efficient system as customers pull their funds out of banks in search for better options. A lack of trust

is also the reason that many unbanked customers have not put their money in a bank in the first place. The lower the trust levels in banks, the wider the opportunity for newer entrants, including non-banks, to attract disenfranchised customers.

Despite the importance of trust, the industry has struggled, especially in recent years, to provide it. Trust in the banking industry has been especially tenuous since the start of the global financial crisis. Twice as many customers around the globe (31%) say they have little or no trust in the banking system, compared to the 15.3% who say they do (see Figure 1). The highest rates of distrust exist in the Middle East and Africa (50%), Asia-Pacific (44%), and Latin America (38%).

Compared to last year, some signs of improvement emerged. Banks in North America experienced a 7% increase in trust and confidence levels compared to 2011, while those in Western Europe experienced an increase of 3%. These improvements are heartening, given the multitude of economic, regulatory, and competitive challenges facing banks in the U.S. and euro zone.

**Figure 1 Level of Agreement That Banking Customers Have Trust and Confidence in the Banking Industry (%), 2011–2012**



Note: Total may not add to 100% as the percentage of respondents with answers corresponding to 'Somewhat Disagree', 'Neutral', and 'Somewhat Agree' have not been shown  
 Source: 2012 Retail Banking Voice of the Customer Survey, Capgemini, 2011, 2012

### CUSTOMERS DO NOT FEEL STRONG LOYALTY

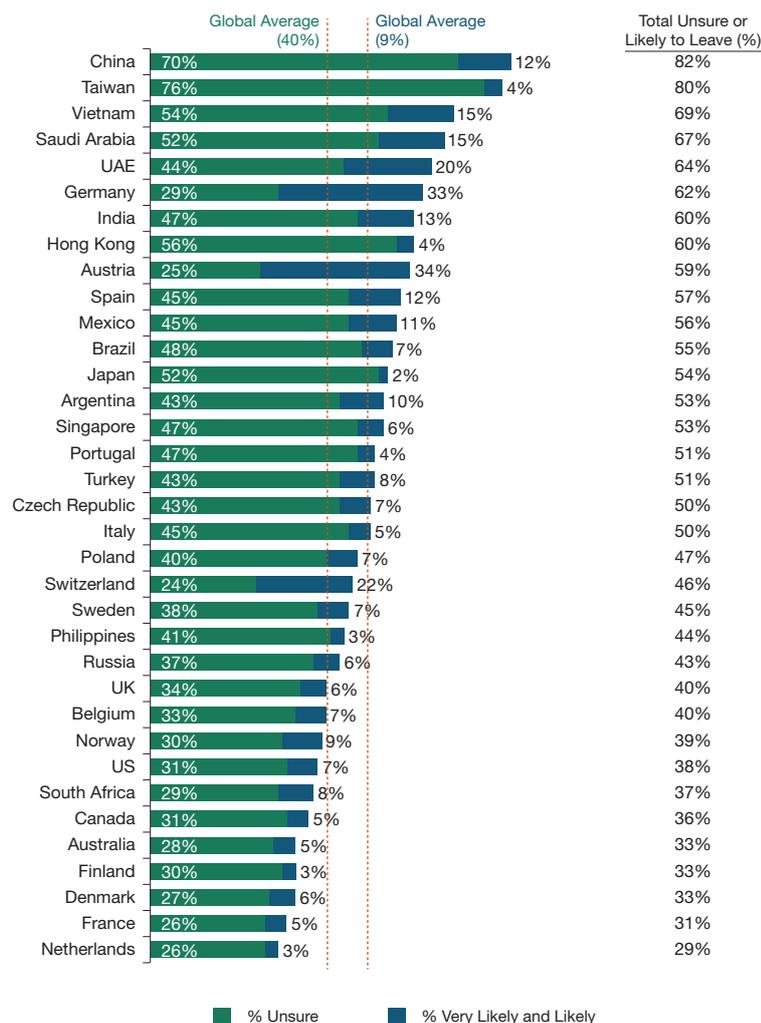
In addition to anemic trust and confidence, banks are inspiring fairly low levels of customer loyalty, a critical element of retail banking. Loyal customers not only buy more products over longer periods of time, they become advocates of a firm and inspire other people to buy its products. Especially in times of stress, as when the global financial crisis and the European debt crisis caused banks in the U.S. and Europe to experience a surge in withdrawals and a drop in loan applications, institutions with the most loyal customers benefit by having a reliable base of individuals to supply both deposits and a demand for loans.

Customer loyalty will become more important as non-bank competitors enter the market and increase the array of available financial transaction options for consumers.

Also, as customers increasingly use the internet to discover information about competitive financial offerings, loyalty may emerge as a large factor keeping some from switching. A significant regulatory shift in some markets will even make it easier for customers to switch from one bank to another via a shared account database and account portability between banks (however the massive inertia may still mean this is not a watershed moment, more of an erosion). In such an environment, customer loyalty would be essential not only to counter the ease of switching, but to keep retail banking from becoming even more of a commodity than it already is.

Despite the importance of having a loyal customer base, only 51% of customers globally are confident they will remain with their primary bank over the next six months. A large group of customers do not have strong feelings

**Figure 2 Customers' Likelihood to Change Their Primary Bank in the Next Six Months, by Country (%), 2012**



Source: 2012 Retail Banking Voice of the Customer Survey, Capgemini, 2012

about their bank. These are the 40% of customers who are unsure if they will stay with their bank. Another 9% of customers is likely to change banks in the next six months (see Figure 2). The customers most likely to switch banks are in Austria (34%), Germany (33%), and Switzerland (22%).

**DESPITE LOW LOYALTY, SATISFACTION LEVELS REMAIN HEALTHY**

Banks have long used customer satisfaction measures to gain greater insight into how their products and service levels meet or surpass customer expectations. Especially as the market has become more competitive, banks have attached a high level of importance, as well as substantial internal resources, toward improving customer satisfaction. These efforts appear to be paying off to some extent.

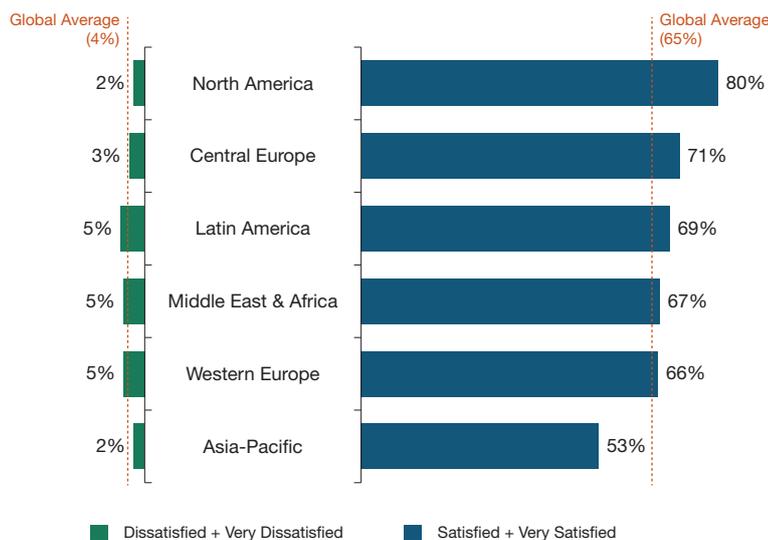
Despite low levels of trust and loyalty, banks fared well in terms of satisfaction, recording a global average of 65%. Banks in North America had the most success in customer satisfaction, at 80% (see Figure 3). This outcome is understandable in light of the investments in customer-focused technology North American banks have been making for some time. North American banks also have had more success in identifying what is important to their customers compared to banks in some other regions, and some have even started partnering with social media firms to better engage their customers.

Banks in Asia-Pacific were least successful in satisfying their customers, with their average of 53% putting them well below the global average. Asian-Pacific banks in several advanced Asian markets do not appear to have kept up with the high expectations and demands of the sophisticated clientele in their regions. Of all the countries worldwide, Hong Kong and Japan scored the lowest, with only about one-quarter of their banking customers expressing satisfaction.

Canada emerged as the country with the most customers expressing satisfaction, at 82%. Canada achieved this satisfaction level by increasing its satisfaction from last year by 14%. It surpassed the U.S., last year's leader, likely because of its solid performance throughout the global financial crisis, as well as increased investment in customer-focused technology. A quartet of countries followed in the 78% range: Switzerland at 79%; the U.S. at 78%; India at 78%, and the Philippines at 78%.

Russia emerged as the satisfaction leader of Central Europe with 76% of its customers satisfied. This outcome represented a percentage-point increase of 22.6% from 2011 and likely resulted from major service improvements made by state-owned Russian banks, which control a large part of the market. Mexico was the leader of Latin America at 73%, and South Africa the leader of the Middle Eastern and African nations at 73%.

**Figure 3 Customer Satisfaction with Primary Bank (%) by Region, 2012**



Note: Total may not add to 100% as the percentage of respondents with answers corresponding to 'Somewhat Dissatisfied', 'Neutral', and 'Somewhat Satisfied' have not been shown  
 Source: 2012 Retail Banking Voice of the Customer Survey, Capgemini, 2012

Several countries experienced notable increases in satisfaction levels between 2011 and 2012. Six of the eight countries that saw the highest increases were European, including the Czech Republic, which had the highest percentage point increase (24%), putting it at a 73% satisfaction level. India followed with an increase of 23%, putting it at 78%, and Russia had the third-largest increase (23%), giving it 76% satisfaction.

The European debt crisis appeared to be driving some of the results in the region. The relatively healthy nature of the Czech Republic's banks throughout the crisis likely aided the large increase in satisfaction they experienced. Similarly, the crisis seemed to weigh on banks in Spain, which at 50% had the lowest satisfaction level of the European banks.

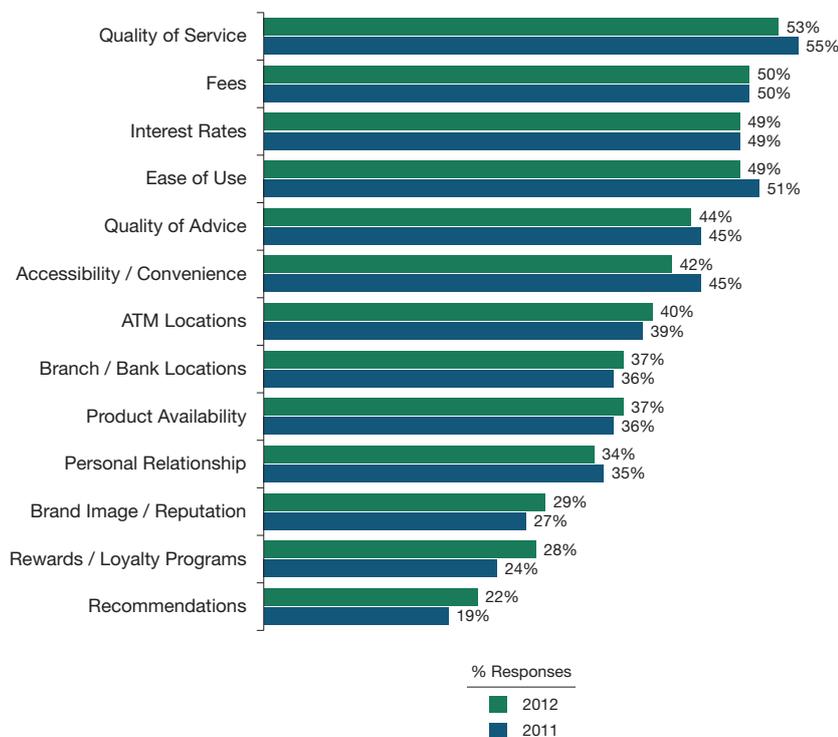
### CUSTOMERS WANT HIGH-QUALITY SERVICE

By identifying the factors that cause customers to attrite, banks can begin to make changes aimed at moving customers toward greater satisfaction, and ultimately,

loyalty. For the second year in a row, quality of service emerged as the leading reason customers leave their banks. Globally, more than half of customers (53%) said they would leave their banks because of the quality of service they received (see Figure 4). Close behind, at number four, was ease of use, cited by 49% of customers. These findings indicate that banks able to offer high-quality, easily understood, and convenient services have an opportunity to differentiate themselves in the market.

The second and third reasons customers leave their banks are price-related, including fees, cited by 50% of customers, and interest rates, cited by 49%. Factors that are less important to the decision to leave include reward and loyalty programs at 28%, and a bank's brand image or reputation, at 29%. Emerging relatively low on the list was a desire for personal relationships, cited by 34% of customers.

**Figure 4** Factors That Affect Why Customers Leave a Bank (%), 2011-12



Source: 2012 Retail Banking Voice of the Customer Survey, Capgemini, 2011, 2012

# The Need for a Customer Experience Index

- Customer experience is an effective predictor of loyalty. Those enjoying a more positive experience are unlikely to change banks.
- Customers who have been with their banks for at least five years are at much lower risk of leaving, no matter how positive or negative their customer experience.
- Banks can grow profitable relationships by “wowing” customers through positive experiences. Similarly, they risk losing customers through negative experiences.
- The ability to carry out day-to-day banking conveniently and efficiently is more important to customers than having specialized services.
- Globally, positive customer experience levels increased modestly from 35.8% to 42.7%. At 56.2%, Canada had the highest levels of positive customer experience.
- The biggest improvements in customer experience came from Western European countries, including Norway with an increase of 12.3% and Netherlands with an increase of 10.9%. Central European countries followed, including Russia with an increase of 9.8%, Poland with one of 7.9%, and Turkey with one of 6.9%.

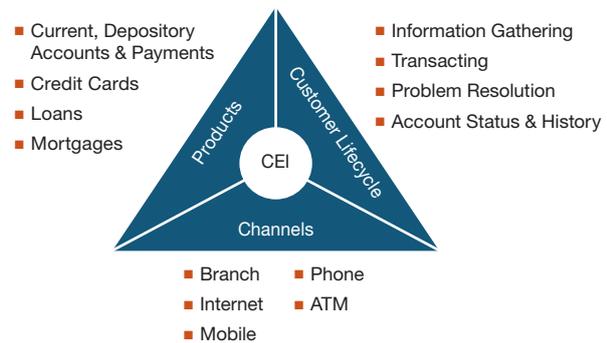
## CURRENT MEASURES OFFER A MIXED PICTURE

On the surface, the findings of our surveys of customer trust, loyalty, and satisfaction appear to raise more questions than answers. One might expect, for example, that extremely low trust levels would lead to less satisfied customers. Yet the average global satisfaction level of 65% is much higher than the average global trust and confidence level of 15%. One might also expect that satisfied customers would be more loyal, yet the average global loyalty level of 51% is much lower than the global satisfaction level.

These findings contribute to an unclear picture of the expectations and motivations of retail-banking customers. They indicate a need for greater precision in measuring retail-bank customer behaviors and attitudes, as a starting point for better serving them. In 2011, we introduced the Capgemini Customer Experience Index (CEI), which measures customers’ banking experiences across 80 different touch points, as a means of gaining greater insight into customer perceptions of their retail banking.

The CEI addresses the disconnect between measures of customer confidence, loyalty, and satisfaction by identifying the factors that are most important to customers, and then measuring satisfaction specifically along those dimensions (see Figure 5). The CEI supports in-depth views of customer experience along three

**Figure 5** Dimensions of Capgemini’s Customer Experience Index (CEI)



Source: Capgemini analysis, 2012

dimensions: products (including current, savings and payments accounts; credit cards; loans; and mortgages); channels (including branch; internet; mobile device; phone; and ATM), and lifecycle stage (including information gathering; transacting; problem resolution; and account status and history).

samples of at least 500 retail-banking customers in every country covered. The resulting data can be segmented by a wide range of customer variables, including the region, country, or size of the city customers live in, as well as their age, gender, investable assets, employment status, education, and other factors.

The CEI is built upon Voice of the Customer data from over 18,000 banking customers in 35 countries across six geographic regions (see Figure 6). Online surveys polled

**Figure 6 Geographic Scope of Customer Experience Index, 2012**



Note: Austria was considered to be part of Western Europe for analysis purposes in 2012  
Country boundaries on diagram are approximate and representative only  
Source: Capgemini analysis, 2012

**Figure 7 Customer Experience Index by Country, 2011–2012**



Note: 10 markets were added to the Customer Experience Index only in 2012, and hence there is no 2011 data for these  
 Source: 2012 Retail Banking Voice of the Customer Survey, Capgemini, 2011, 2012

### NORTH AMERICAN MARKETS CONTINUE TO LEAD THE CEI

The overall CEI, which examines customer experience across all products, channels, and lifecycle stages, shows banks doing an adequate job of delivering a positive customer experience. As in 2011, the vast majority of countries are close to the global average CEI score of 72.1, with Canada and the U.S. still residing in the top spots at around 79 (see Figure 7).

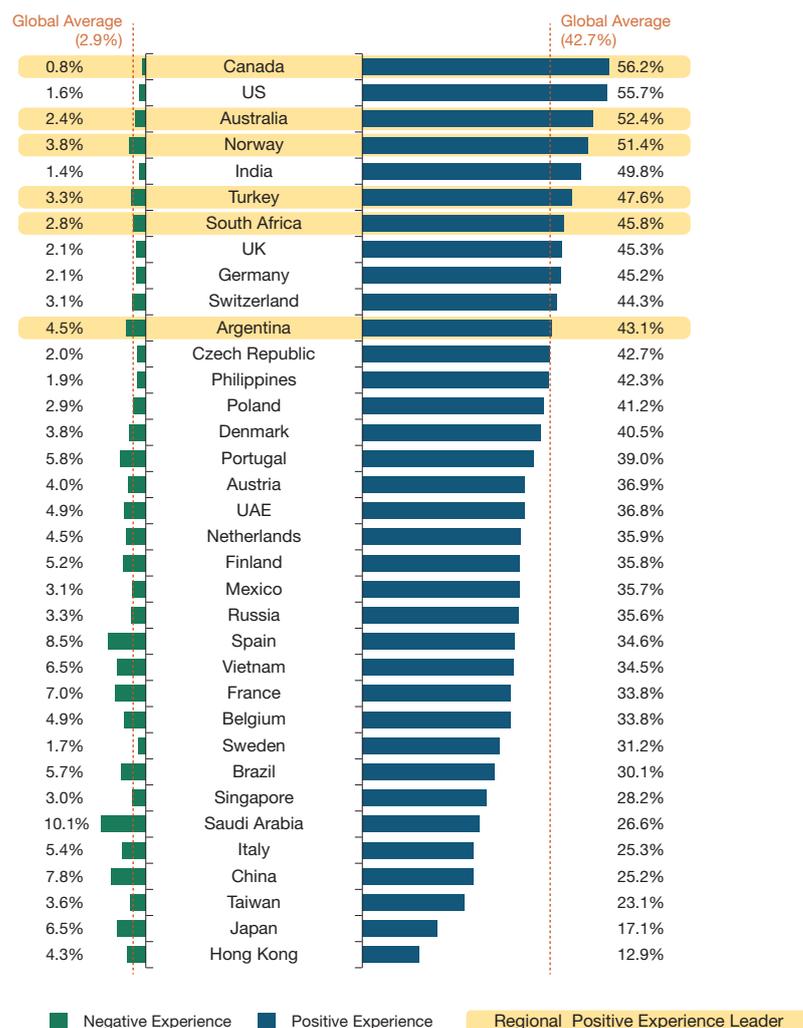
India emerged as the regional leader for the Asia-Pacific banks, scoring just behind the two North American leaders with a 77. Norway was the Western European leader with a 76.2 and Czech Republic was the Eastern European leader with a 74.7. The Latin American countries surfaced lower on the rankings, with Argentina the leader in that region with a 72.7.

### BANKS ARE NOT “WOWING” CUSTOMERS

Banks have been much less successful when it comes to delivering positive satisfaction along the dimensions most important to customers. These types of experiences are crucial to truly delighting customers and winning their loyalty. Viewed from this more in-depth perspective, banks achieved a global positive experience average of only 42.7%. This outcome represented a modest increase from the global average of 35.8% recorded in 2011.

Banks in North America were likely to offer the most positive customer experience levels, with Canada and the U.S. achieving 56.2% and 55.7% respectively, followed by Australia with 52.4%, Norway with 51.4%, and India with 49.8% (see Figure 8). The lowest positive customer experience scores came out of Asia-Pacific, with Japan and Hong Kong scoring 17.1% and 12.9%, respectively.

Figure 8 Customers with a Positive/Negative Experience by Country (%), 2012



Note: Total may not add up to 100% as the percentage of respondents with neutral answers has not been shown

Source: 2012 Retail Banking Voice of the Customer Survey, Capgemini, 2012

Rounding out the bottom four countries were China at 25.2% and Taiwan at 23.1%. The poor performance of Japan and Hong Kong may be due to the high expectations that consumers in these advanced economies have of their banks. These expectations have not been fulfilled in recent years by any novel or significant innovations in service delivery.

The five countries with the biggest gains in positive customer experience compared to 2011 are all European. Banks in the two biggest gainer countries—Norway, with an increase of 12.3% and Netherlands, with an increase of 10.9%—have been investing in new channels and customer-focused technologies. Norway’s largest bank, DNB, introduced a new web platform and online bank, as well as 24/7 customer service in 2011. In Netherlands, a critical mass of customers adopted mobile banking in 2011. In addition, almost all large Dutch banks are now providing personal financial management tools to help customers optimize their finances.

The other countries that increased their positive customer experience ratings were all in Central Europe and included Russia, by 9.8%; Poland, by 7.9%; and Turkey, by 6.9%. As in the case of satisfaction, Russian customers may be responding to general improvements in services being offered by state-owned banks. In addition, none of the five European gainers have been severely affected by the European debt crisis.

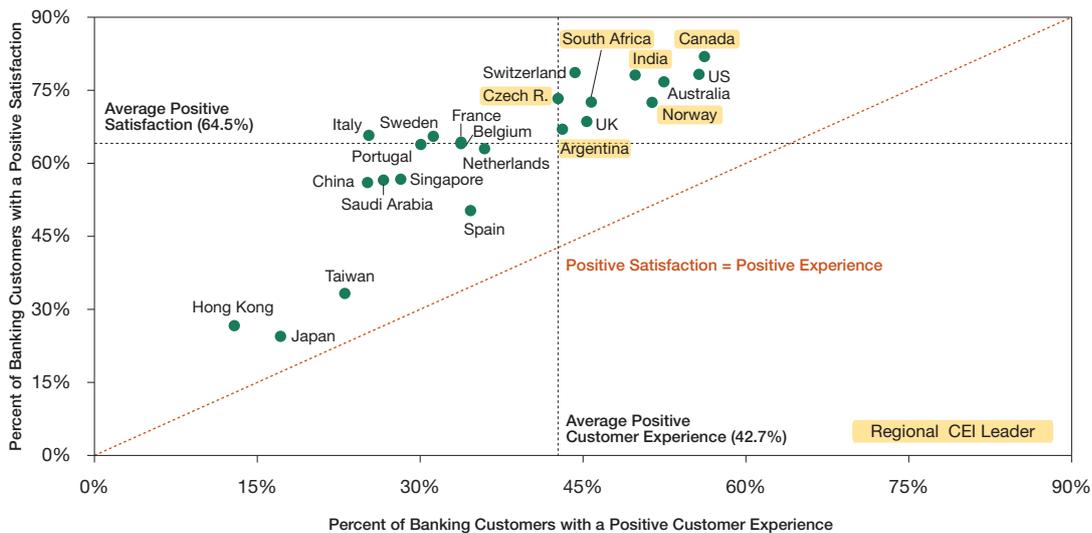
**MORE CUSTOMERS ARE SATISFIED, THAN ARE HAVING POSITIVE EXPERIENCES**

As in 2011, general satisfaction levels are much higher than positive customer experience rankings. In every country analyzed, there are significantly more satisfied customers than there are customers having a positive experience (see Figure 9). In Italy, for example, banks are approaching the global average of 65% in satisfaction, but have a positive customer experience of only about 25%.

These findings indicate that banks should proceed with caution when it comes to measuring customer satisfaction. Clearly, high customer satisfaction levels are easier to achieve than high levels of positive customer experience. Yet it is only through the ability to “wow” customers through positive experiences that banks can expect to generate high levels of loyalty.

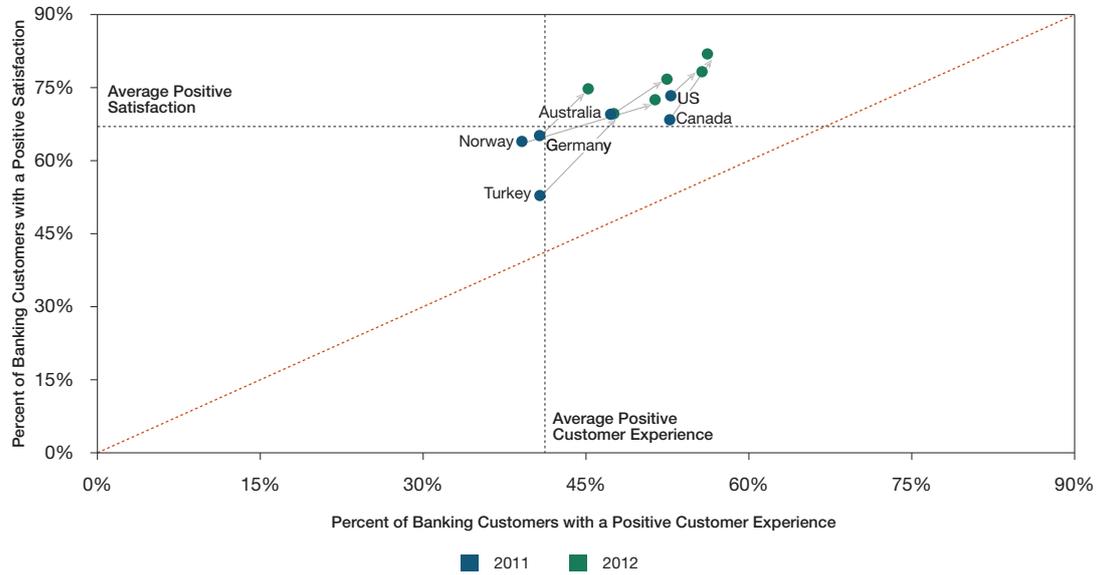
Banks in a handful of countries significantly improved from 2011 their levels of both general satisfaction and positive customer experience. These include banks from Canada, the U.S., and Australia, as well as the European nations of Norway, Germany, and Turkey (see Figure 10). Banks in other countries, including India, Italy, and Switzerland, increased overall satisfaction, but had virtually no impact on positive customer experience (see Figure 11). Banks in a few Asia-Pacific markets were

**Figure 9 Positive Customer Satisfaction<sup>a</sup> vs. Positive Customer Experience<sup>b</sup>, by Country, 2012**



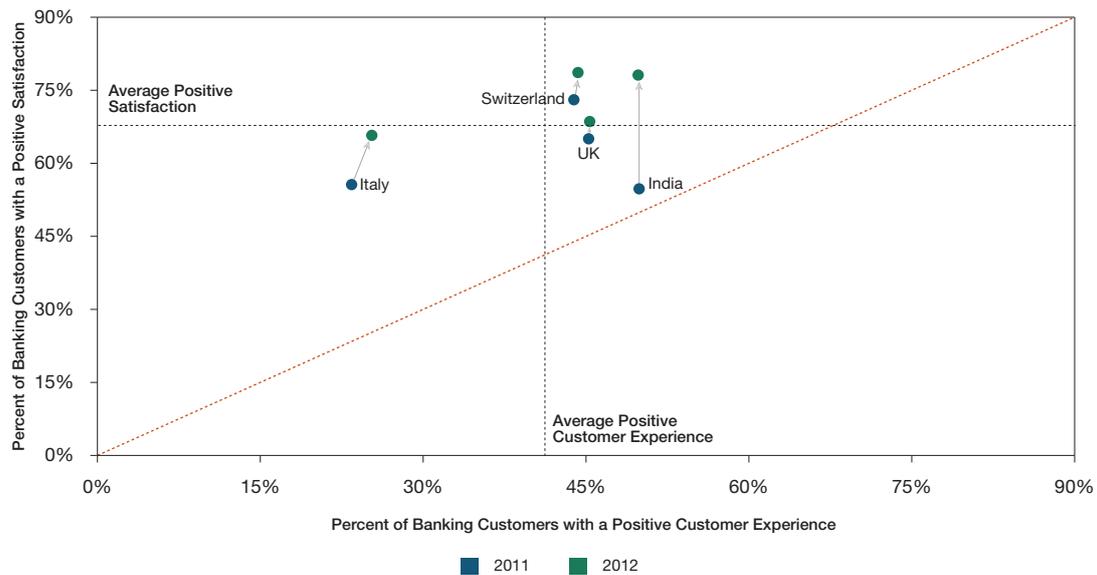
a) Positive Customer Satisfaction has been defined as positive or very positive; b) Positive Experience has been defined as positive or very positive  
Source: 2012 Retail Banking Voice of the Customer Survey, Capgemini, 2012

**Figure 10 Positive Customer Satisfaction<sup>a</sup> vs. Positive Customer Experience<sup>b</sup> for Select Countries with Improved Customer Satisfaction and Customer Experience by Country, 2011-2012**



a) Positive Customer Satisfaction has been defined as positive or very positive; b) Positive Experience has been defined as positive or very positive  
 Source: 2012 Retail Banking Voice of the Customer Survey, Capgemini, 2011, 2012

**Figure 11 Positive Customer Satisfaction<sup>a</sup> vs. Positive Customer Experience<sup>b</sup> for Select Countries with Improved Customer Satisfaction, by Country, 2011-2012**



a) Positive Customer Satisfaction has been defined as positive or very positive; b) Positive Experience has been defined as positive or very positive  
 Source: 2012 Retail Banking Voice of the Customer Survey, Capgemini, 2011, 2012

**Figure 12 Positive Customer Satisfaction<sup>a</sup> vs. Positive Customer Experience<sup>b</sup> for Select Countries with Decreased Customer Experience, by Country, 2011-2012**



a) Positive Customer Satisfaction has been defined as positive or very positive; b) Positive Experience has been defined as positive or very positive  
Source: 2012 Retail Banking Voice of the Customer Survey, Capgemini, 2011, 2012

among the small group that experienced declines in positive customer experience along with only small or negligible increases in satisfaction (see Figure 12).

### POSITIVE CUSTOMER EXPERIENCE LEADS TO LOYALTY

The findings from our surveys of customer trust and satisfaction showed that these factors are not effective indicators of the crucial measure of customer loyalty. A much better indicator of customer loyalty is positive customer experience. In fact, the likelihood of customers to change their primary bank within the next six months increased almost linearly as the customer experience got poorer (see Figure 13). Accordingly, as the experience gets more positive, the customer is less likely to change banks. The most loyal customers are those who are enjoying the most positive customer experiences.

These findings point to a prescription for minimizing customer attrition. Banks should ensure customers are having positive experiences by improving their satisfaction in the areas that matter most to them. This, in turn, should lead to increased customer loyalty, which could also translate to more cross-selling and result in a more profitable customer relationship.

The greatest effort into improving the customer experience should occur within the first five years of a customer's relationship. This will help ensure that over a period of time, the bank is able to deepen the customer relationship and make it more profitable by capturing a larger share of the customer's wallet. That's because people are most likely to leave their bank one to four

years after becoming a customer. For customers who remain with their bank through the first five years, the probability of staying with the bank for a very long time increases exponentially.

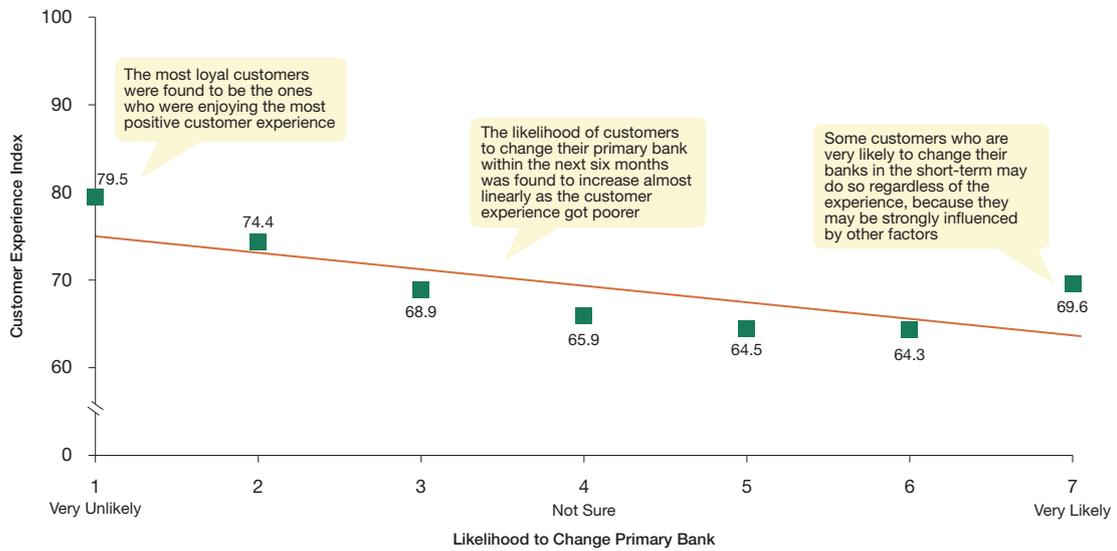
One aspect of customer perception that appears to have little impact on customer experience is trust and confidence. We found that customers could have high positive experience without having much trust in their banks. In Australia, for example, more than 50% of customers report a positive experience, but only about 20% of those customers say they trust their banks.

### POSITIVE EXPERIENCE LACKING IN IMPORTANT CHANNELS

Channel performance is a key element of the customer experience. That's because delivery channels are the prisms through which customers gauge their experiences. The branch and the internet remained the most important channels, with roughly 70% to 90% of customers in all regions citing them as so. Yet banks were not effective in delivering an experience to match the level of importance customers placed on those channels. The percent of customers reporting a positive experience through these channels ranged between only about 40% and 60% (see Figure 14).

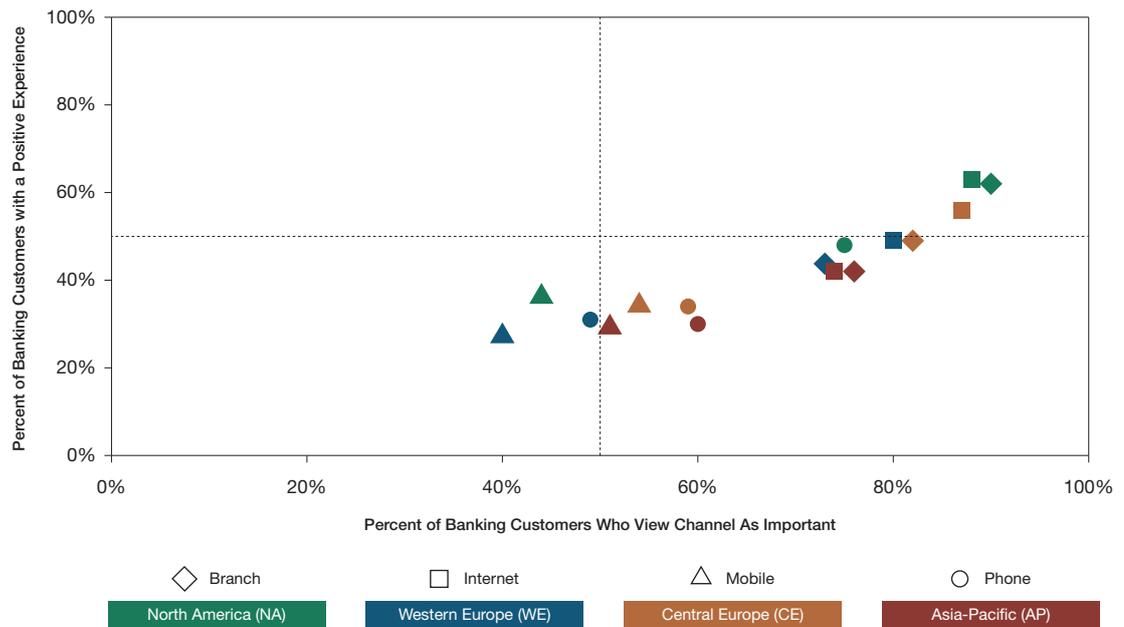
Customers were less likely to view the phone and mobile channels as important, with only 40% to 60% of customers in all regions indicating as much. The exception is North American customers, of which nearly 75% ranked the phone as important. Along

**Figure 13 Customer Experience Index vs. Likelihood to Change Primary Bank, Global, 2012**



Source: 2012 Retail Banking Voice of the Customer Survey, Cappgemini, 2012

**Figure 14 Positive Experience of Channels vs. Channel Importance by Region, 2012**



Source: 2012 Retail Banking Voice of the Customer Survey, Cappgemini, 2012

with identifying the phone and mobile channels as less important, customers also experienced considerably lower levels of positive experience through these channels.

Given the importance of the branch and internet, banks could benefit by improving the customer experience through these channels. Our Voice of the Customer survey found that, in terms of branch banking, customers are most interested in having a knowledgeable staff (67%) and low waiting times (65%). Not as important is personalized branch service (61%) and the ability to open an account in less than 30 minutes (58%).

In terms of internet banking, customers are looking for more complete services. They most highly value the ability to carry out all types of transactions (70%), as well as have a holistic view of account information (68%). They also want to be able to find answers to all their queries (64%). Less important is having personalized service (58%).

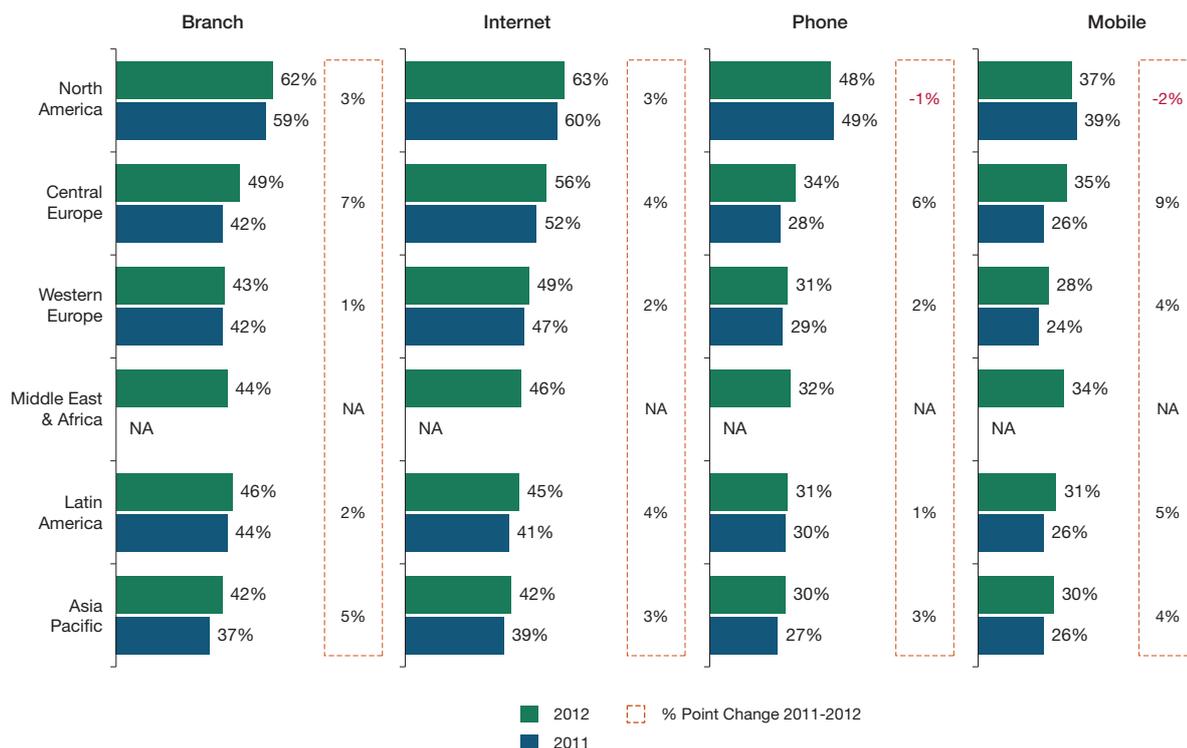
In ATM banking, basic account management emerged as the most important attribute. Nearly 47% of customers cited as important the ability to manage their accounts by being able to make payments and transfers. The ability to scan and deposit checks through the ATM is valuable for 44% of customers, and finding answers to all banking questions is important for 42% of customers. Less important is having a customized interface (39%).

A common finding of customer attitudes toward the different channels is that customers are more interested in accomplishing a wide range of everyday banking activities, than in receiving specialized services through those channels. In effect, banks must improve their ability to conveniently fulfill fundamental banking needs through all channels, before they make investments in more advanced, personalized services.

The mobile channel has high potential for improving overall levels of positive customer experience. In every region except North America and Asia-Pacific, mobile had the highest increases in positive customer experience compared to 2011. Positive experience in the mobile channel increased by nine percentage points in Central Europe, four percentage points in Western Europe, and five percentage points in Latin America (see Figure 15). While positive experience in mobile increased by four percentage points in Asia-Pacific, positive branch experiences in this region increased by slightly more (five percentage points).

The only region where positive mobile experiences did not increase was in North America. Here, positive experience levels decreased by two percentage points. North American banks may be having difficulty meeting the high expectation levels of North American customers who are already accustomed to using mobile phones for a multitude of purposes.

**Figure 15 Customers with a Positive Experience by Channel and Region (%), 2011–2012**



Source: 2012 Retail Banking Voice of the Customer Survey, Capgemini, 2011, 2012

# The Growth of Mobile Banking

- Customer-experience improvements are most likely to occur in the mobile channel, except in North America and Asia-Pacific, where they are happening in the branch.
- The branch and internet continue to have the highest customer experience levels, but mobile is approaching them, presenting an opportunity for aggressive players.
- Mobile banking is still nascent, but adoption could accelerate, matching or even surpassing the rate of adoption of internet banking.
- Innovation in mobile banking is hampered by security concerns, a lack of harmony in the mobile banking ecosystem, and issues of usability.

## **BANKS AND CUSTOMERS ALIKE HAVE REASONS TO ADOPT MOBILE**

The forces of supply and demand are coming together in mobile banking, setting the stage for exponential increases in adoption. On the supply side, banks are providing increasingly sophisticated, real-time mobile services. In addition to basic transaction capabilities like account look-ups and money transfers, they are starting to take advantage of advanced mobile features like geo-location to provide enhanced offerings such as mobile coupons and branch/ATM locator services. In some areas of the world, particularly parts of Africa where other channels are not well established, banks are positioning mobile as the primary way of accessing the bank.

On the demand side, customers are doing their part by adopting mobile and smart phones in large numbers. Mobile carriers are building network connections to support the more sophisticated services consumers are seeking. And currently unbanked consumers are emerging as a new market, as they look to banking services delivered through mobile devices to help propel them into the ranks of the banking populace. While growth in mobile banking is still at an early stage, it is poised to grow similar to the way internet banking grew over the last decade.

Mobile phones have the advantage of ubiquity. The developed markets, including North America and Europe, have already reached mobile-phone saturation, with at least one subscription per person. While the penetration rate in the developing economies is at about

80%, the absolute population using mobile is much larger than in the developed nations. In fact, three-quarters of global mobile subscriptions were from the developing regions in 2011.

Smart phones are particularly well-suited to mobile banking, thanks to their advanced functionality. Smart phones have made rapid gains since 2009, driven largely by the European market. The number of smart phone users is projected to increase to 631 million by 2015, up from 172 million in 2009<sup>1</sup>. Despite this growth, basic mobile phones still heavily outnumber smart phones, making them an important part of an effective mobile-banking strategy.

## **MORE THAN 60% OF CUSTOMERS WORLDWIDE WILL LIKELY USE MOBILE BANKING BY 2015**

As customers increase the amount of time they spend and the number of activities they perform through mobile phones, mobile banking is expected to grow. Mobile banking fulfills customer demand for real-time account updates, and is accessible whenever and wherever a customer chooses. Available 24/7 from virtually any location, it offers customers the most convenient method of banking possible.

Like their customers, banks that invest in the mobile channel can benefit in a number of ways. A strong mobile channel can help bring costs down by moving customers away from more expensive channels, such as the branch. At the same time, mobile can be used to drive revenues by enabling banks to target the large market of unbanked individuals, especially in the emerging markets. Mobile also serves to improve the experience and drive the loyalty of customers who value its convenience.

The industry as a whole needs to establish a presence in mobile simply to ensure it doesn't lose market share to non-bank entities seeking to take advantage of mobile's ubiquity and convenience to offer banking services. Mobile operators, for example, are starting to offer payments and transactions, and may move toward more advanced services, such as direct deposit into customers' mobile phone accounts. These efforts may significantly reduce customers' dependence on banks for payment services.

<sup>1</sup> "Mail Manager Now Compatible With iPhone, iPad, Android Smartphones and Tablets and Windows Phone 7", marketwire, July 12, 2011

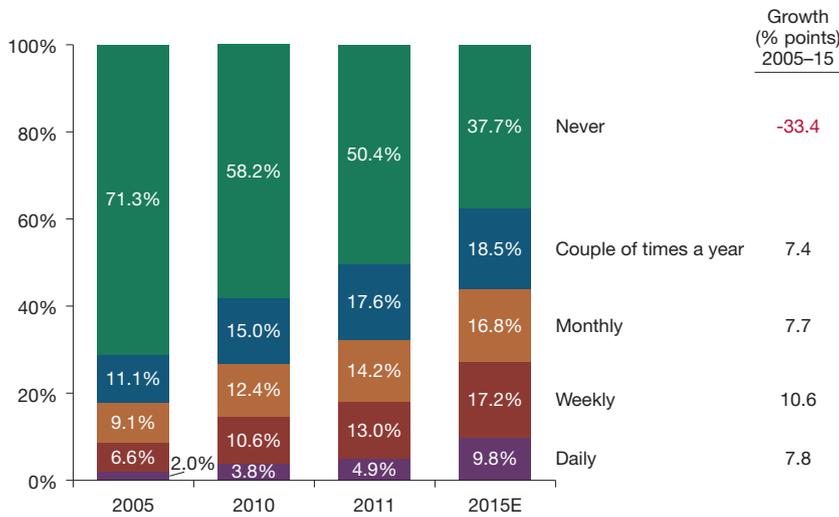
Nearly three-quarters of customers today have never used mobile banking, but that percentage is expected to fall by nearly half by 2015. While the biggest percentage of users by 2015 is expected to be those who use it a couple of times a year (18.5%), the number of daily users is expected to increase from 2% to 9.8%. In total, more than 60% of customers are expected to be using mobile by 2015, putting banks under pressure to develop a full suite of mobile banking services (see Figure 16).

Current trends indicate that adoption of mobile banking may evolve in a similar way as internet banking did. Internet banking was hampered by security concerns

until widespread adoption of e-commerce, along with the establishment of sites like Amazon and eBay, led to increased comfort levels with the technology. Similarly, mobile banking is currently constrained by security issues and runs the risk of not gaining traction (see Figure 17).

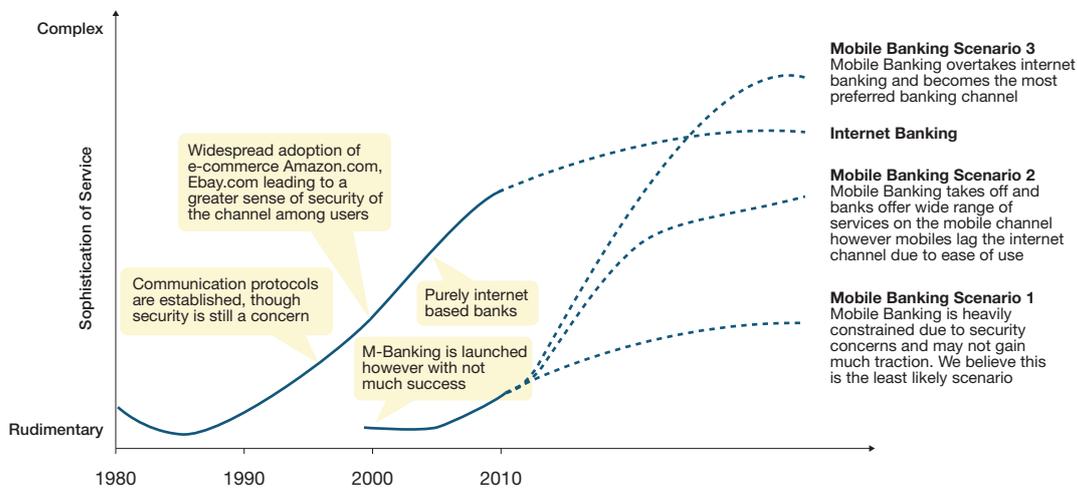
A more likely scenario, however, is that the security concerns get resolved and mobile banking begins on a growth path. Whether mobile eventually surpasses the internet as the most preferred channel may depend on the quality of services it offers and their ease of use.

**Figure 16 Mobile Banking Usage Statistics (%), Global, 2005–2015E**



Source: Capgemini analysis, 2012; 2011, 2012 Retail Banking Voice of the Customer Survey, Capgemini

**Figure 17 Potential Evolution of Mobile Banking vs. Internet Banking**



Source: Capgemini analysis, 2012

### MOBILE'S FLEXIBILITY LETS IT DRIVE A WIDE RANGE OF STRATEGIES

The potential for delivering sought-after services through the mobile channel is high. Mobile banking innovation is already occurring in every corner of the world.

Lloyd's TSB in the U.K., for example, is using near-field communication to support contactless payments at the 2012 Olympics through special-edition phones commemorating the games. ING Direct, meanwhile, offers mobile payments that occur when individuals tap their phones together via "bump" technology.

In Malaysia, Hong Leong Bank has overcome interoperability issues by introducing a mobile-banking app that runs on the three major smart phone platforms. American Express is pushing the boundaries of reward programs by offering mobile users discounts when they "check in" via mobile geo-location at participating merchants. Nigerian banks are using mobile to bank the unbanked. And Commonwealth Bank of Australia is breaking down channel silos by allowing account applications started in one channel to be completed in another.

Working in mobile banking's favor is its potential to fulfill a wide range of strategies, depending on the needs of a particular region. In North America and

Western Europe, for example, mobile will likely be used to dovetail with social banking and support near-field communication. In Asia-Pacific and the Middle East/Africa, it is more likely to be used to target unbanked consumers and to support person-to-person banking.

The path to greater usage of mobile banking is not without challenges. Security remains a top concern. The business models between banks, telecom carriers, and other third-party providers have yet to be worked out. Developers will need to offer sophisticated services, while still keeping user interfaces simple. And mobile must evolve to work with existing channels to deliver the consistency between channels that customers desire.

Going forward, banks should keep in mind three tenets of mobile-banking development. First, customer demand for functionality, combined with the small screen sizes and processors of mobile phones, will require banks to develop highly useful, but simple services. Second, banks should evaluate how they want to position the mobile channel alongside existing channels, given the current and expected importance of those channels. Third, given mobile's flexibility in fulfilling a number of different strategies, banks should have a firm understanding of the customer segment they intend to target with mobile banking.



# At a Crossroads, Retail Banks Must Identify and Prioritize Core Strengths

- **The retail banking industry is at an inflection point.** Long-term shifts and short-term shocks are converging at the same time, adding a new level of difficulty to the industry's ongoing challenges.
- **Determining the optimal response requires clarity of vision.** At a time when having a long-term strategy is paramount, retail banking executives are highly uncertain about how they should prepare their firms for the future.
- **In the absence of a long-term focus, retail banks are choosing to 'do everything.'** A broad approach to retail banking is not a model for success. Banks must differentiate themselves by organizing around areas of strength.
- **Three categories of retail banking specialists are emerging—product innovators, distributors, and utility/processors.** Retail banks must identify where their strengths lie along this spectrum.
- **A phased transformation will require investing in core strengths, while gradually minimizing other areas.** In the short-term, banks should focus on developing 'must-have' capabilities related to their core strengths, while planning for gradual investments in supporting capabilities. They should also start planning to reduce investments or decommission/outsource operations in areas that are non-core to their projected business model.

## The Ground Beneath Banks Is Shifting

### MASSIVE DEBT LOADS WEIGH ON THE GLOBAL ECONOMY AS SUPER CYCLE ENDS

Retail banks around the globe are facing challenges more severe and intractable than any they have encountered before. Some are the culmination of long-term trends; others the result of short-term shifts. All are occurring against a backdrop of ongoing legacy issues that continue to bedevil the industry, including aging technology systems and expensive branch networks.

One of the biggest potential problems has been building for decades, but is only now poised to have an impact. Steadily growing levels of public and private debt in developed economies around the world since the 1980s have resulted in debt loads not seen since just before the Great Depression. Economists call it the debt super cycle, and it portends an extended period of sluggish growth worldwide, high unemployment, and volatile markets.

The super cycle began when debt levels fell after the Great Depression and remained consistently low for decades. The downward debt trend reversed itself when low interest rates began prevailing in the early 1980s. At that point, consumption-driven debt started accumulating in modern economies including the G7, spiked in the 2000s, and resulted in the current unsustainable levels. Today, public debt is a primary reason governments face increased difficulty in stimulating their economies. Further, it has raised the specter that default by a major euro-zone country could set in motion a prolonged global economic recession.

Consumer trends are not helping the situation. With low confidence in the economy and limited credit availability, consumers have begun deleveraging, leading to a fall in economic activity. Total outstanding household debt fell to \$11.6 billion in the third quarter of 2011, compared to a peak value of \$12.5 billion in the third quarter of 2008. Governments attempting to counter a major deleveraging cycle responded by adding debt onto more debt, running large fiscal deficits, and increasing debt levels on central banks and government balance sheets.

Between consumer deleveraging and fiscally weak governments, countries around the world now run an increased risk that they will reach the limits of their ability to borrow. In effect, even though the industry just weathered a global financial crisis, it may well be on the precipice of another.

### SHORT-TERM DISTURBANCES ARE ALSO SHOCKING THE SYSTEM

The long-term debt story is behind other economic events that have punctuated the short-term. The United States suffered its first ever credit-rating downgrade in 2011, with Standard & Poor's citing high debt levels. Meanwhile, Europe's sovereign debt woes continued to gain traction, with the ratings of several countries experiencing downgrades in early 2012.

The contagion has spread to individual banks. Ratings agencies have downgraded or put on warning dozens of banks in the United States and Europe. At the same time, cross-border lending exposure to the fragile euro zone is now reaching levels that could present systemic dangers if Europe fails to stabilize its debt crisis.

The pervasive economic instability has inevitably led to political turmoil. The governments of several countries have been ousted, and citizens around the world have taken to the streets in protest of a wide range of economic ills, including austerity, unemployment, and inequality. In a vicious cycle, the political unrest is causing unease in the global financial markets, raising the interest rates paid by indebted nations to even higher levels, further threatening their solvency.

On top of the economic burden is a regulatory one. New rules and requirements to come out of the 2008 financial crisis have been particularly onerous. While past regulations may have imposed extra administrative work, many of the most recent ones are having a direct impact on revenues. Changes to the way U.S. banks can charge for basic products like current accounts, and credit and debit cards, for example, have eliminated billions of dollars of retail-banking fee income.

The too-big-to-fail mandate that has long characterized global banking policy is now getting increased scrutiny. Opposition is coming not only from the populaces of countries that have imposed austerity measures, but from high-level policy makers who have proposed that being too big to fail is too big, period. Rather than a wholesale dismantling of large institutions, however, the more likely outcome will be enhanced regulatory oversight of globally important firms, with perhaps one or two firms dismantled by market forces and/or government intervention.

Another outcome of the 2008 crisis is tightened core-capital requirements. Basel III, the most recent global regulatory standard to oversee bank capital adequacy, seeks to address many of the banking-system flaws that became visible in the crisis by applying more stringent requirements than its Basel predecessors. Meeting the requirements is expected to have a substantial impact on bank profitability. At the same time, it may hamper economic growth. The Organization for Economic Cooperation and Development (OECD) has estimated that implementation of Basel III will decrease annual GDP growth by 0.05% to 0.15%.<sup>2</sup>

### **EVOLVING CUSTOMER HABITS PRESENT NEW THREATS**

Customers themselves are changing the way they bank, making it difficult for retail banks to continue business as usual. For one, they are flocking to non-bank competitors. Americans fed up with bank fees are increasingly seeking out the more than 1,000 money center stores of the discount retailer Wal-Mart to cash checks, pay bills, wire money overseas, or load money onto prepaid debit cards. Wal-Mart also offers tax preparation services and a credit card with no annual fee.

Similarly, as a number of customers across the world increasingly start relying on mobile phone operators and online services such as PayPal for making their payments, their dependence on traditional retail banks, and their need for having a bank account is declining.

Customers are also putting pressure on banks by demanding service through a wide range of channels, including physical branches, mobile phones, tablets, personal computers, and automated teller machines. Until the competitive standard changes, banks must bear the cost of supporting this multitude of channels.

Finally, customers have been greatly empowered by social media. Networking sites such as change.org, which promotes social change through the use of online petitions, and Facebook, have given consumers a convenient mechanism for banding together to make their voices heard. Perhaps the most striking example of this newfound power occurred at the end of 2011 when Bank of America was forced to drop a plan to charge a \$5 monthly fee for debit-card usage. An online petition garnered 300,000 signatures, generating a media backlash against Bank of America and causing other major banks to drop similar plans.

### **NORTH AMERICAN BANKS STRUGGLING WITH CUSTOMER TRUST**

A disregard for banks became apparent in two events of late 2011 and has now become one of the main issues facing the industry in North America. An online event called Bank Transfer Day encouraged customers to move their accounts out of large commercial banks to non-profit credit unions. The Credit Union National Association reported that more than 40,000 consumers joined credit unions on the designated transfer day and more than 200,000 joined in the month leading up to it. Similarly, Occupy Wall Street protesters brought together via social media set up an encampment in downtown New York City. Their actions spurred similar protests in other cities around the world throughout the fall.

The increasingly vocal outcries against banks have further damaged the already poor reputation of the industry in North America. Capgemini's Voice of the Customer survey found that only 20% of customers in North America and just over 15% worldwide have trust and confidence in their primary banks.

Much of the dissatisfaction with U.S. banks stems from fees. A spate of new regulations, as well as the opening of the Consumer Financial Protection Bureau, is now making it harder for banks to impose fees. While the fee restrictions may have the benefit of improving relations with disgruntled customers, they are already resulting in drastically reduced profit streams.

Further eroding the economic prospects of North American banks are the large fiscal and current account deficits being run by the U.S. Federal Reserve, which could lead to more restrictive monetary policies and slower growth. The euro-zone debt crisis continues to present a significant risk to the U.S. banking sector, given its exposures there. And a shift by consumers from credit products to less profitable debit products could impact loan growth.

### **SOVEREIGN DEBT CRISIS IN EUROPE COULD BE CRIPPLING**

As disheartening as these trends are for retail banks in North America, the overall situation in Europe is potentially far more concerning. The sovereign debt crisis in the peripheral euro-zone states shows no sign of abating, and could impact the future of the Economic and Monetary Union (EMU). Half of the credit ratings of countries in the euro zone have been downgraded, further depreciating the euro currency and the economic stability of the Eurozone.

<sup>2</sup> Slovik, P. and B. Cournede (2011), "Macroeconomic Impact of Basel III", *OECD Economics Department Working Papers*, No. 844, OECD Publishing

The ongoing crisis is already leading to high levels of state interference in the banking sector. Besides slowing overall economic activity, the crisis could also lead to losses on sovereign debt holdings, large debt write-downs, and an increase in non-performing loans for banks. Businesses have lost confidence in the economy and consumers have lost trust in the banking sector.

Whatever the ultimate fallout from the debt crisis, there is no question European banks will need to meet heightened requirements for capital adequacy, liquidity, and risk management. Closing current capital shortfalls is expected to have a substantial impact on profitability, reducing return on equity for the average European bank.

### EXPANDING MIDDLE CLASS SET TO PROPEL ASIA-PACIFIC BANKS

Although the European debt crisis could impact financial markets in Asia-Pacific, this region has the brightest growth prospects for retail banking. The region did not suffer as badly as Europe and the U.S. during the 2008 crisis, and momentum there is only accelerating.

The Organization for Economic Cooperation and Development has projected that by 2020, the percent of global spending by the middle class in Asia-Pacific

will almost equal that of North America and Europe combined. By 2030, middle-class spending in Asia will be nearly double that of North America and Europe combined.<sup>3</sup> This emerging middle class is expected to drive significant growth of retail banking services.

A potential downside to near-term growth in Asian retail banking is the risk of property prices falling, affecting mortgage loan profitability. Asian banks also face the prospect of reduced European lending, which currently makes up 25% of total foreign lending. They also must adhere to Basel III regulations, which will force them to increase their capital ratios, reduce riskier assets and accept government cash to reduce solvency risk.

Some emerging economies, meanwhile, are at risk of slowing down. In early 2012, the World Bank cut its 2012 growth forecast for developing countries to 5.4% from 6.2%. India, China, and Brazil experienced a decline in GDP growth in late 2011, and signals indicate there may be more decline ahead. The slowdown in emerging economies will not only affect the local retail banks in those regions, but also the global expansion plans of banks in developed nations.

## Traditional Tactics Are Less Effective in the Current Environment

### THE LONG-TERM FUTURE IS INSTILLING HIGH LEVELS OF UNCERTAINTY

Despite the many challenges retail bankers around the globe face today, they are not wholly unprepared. They have encountered crises before, including the dot-com crash of 2000. In fact, compared to their readiness in 2000, and later in 2008 when the financial crisis hit, bankers believe, according to Capgemini's 2012 Global Retail Banking Executive Survey, that they are better prepared to deal with today's short-term challenges than they were to handle the previous crises (see Figure 18).

Less than 40% of bank executives said they were at least somewhat prepared for the dot-com crisis of 2000 and the financial crisis of 2008. Banks are far more upbeat about their ability to navigate the short-term future, with nearly 80% saying they are at least somewhat prepared. This short-term optimism is likely due to their recent success in surviving the financial crisis and their current focus on the short-term. Certain outcomes of

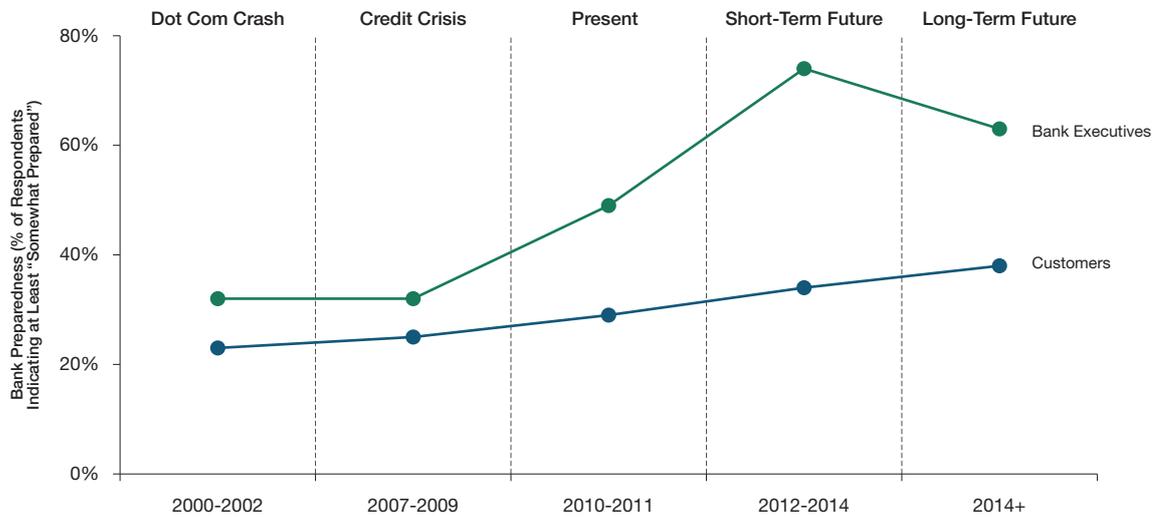
the crisis, including higher core capital requirements and improved risk management routines, are also cause for higher confidence.

Retail bankers are less certain about their ability to cope in the long-term. About 60% of executives say they are at least somewhat prepared to handle the challenges that will arise in 2014 and beyond. This dip in confidence is mainly attributed to uncertainty about the global economy and the impact of regulatory changes. It also reflects the fact that most banks have placed strategic importance on the short-term, and have done little to address long-term issues.

While bankers are fairly confident overall about the future, customers are much less so. Not even 40% of customers think banks are at least somewhat prepared for the short- and long-term future. One encouraging sign is that even though bankers were less optimistic about their preparedness for the long-term, customer confidence in banks is expected to gradually increase over time.

<sup>3</sup> Kharas, H. (2010), "The Emerging Middle Class in Developing Countries", OECD Development Center, Working Paper No. 285

**Figure 18 Retail Banking Industry Readiness/ Preparedness Assessment by Bank Executives and Customers (% of Respondents), 2012**



Source: Capgemini analysis, 2012; Capgemini 2012 Global Retail Banking Executive Survey; Capgemini 2012 Retail Banking Voice of the Customer Survey

### TODAY'S CHALLENGES ARE MORE ACUTE THAN BEFORE

Bankers' general unease about the future is understandable. Banks are facing a convergence of issues unlike anything they have experienced before. Not only is the mix of challenges greater, so is the degree.

Consider regulation: While banks have always had to bear the brunt of it, today's rules are impacting profitability in a way older regulations never did. For example, Know Your Customer controls require banks to formally identify and document customers, a task that mostly creates extra administrative work. Newer rules regulating overdraft and debit-card fees have been far more severe; they directly impact revenue streams, causing banks to have to consider new business models to retain profits.

A higher degree of difficulty is also associated with the cost of capital. New Basel regulations have forced banks to increase capital adequacy ratios and upgrade risk governance systems, putting additional burdens on bank profit margins. To meet higher capital requirement norms, most banks will likely be forced to sell off assets and raise capital.

Meanwhile, the ongoing sovereign debt crisis in Europe could impact the future of the monetary union and have an adverse impact on the balance sheets of banks due to forced debt write-offs. Growing state intervention and greater public scrutiny could pose a challenge to independent decision-making by banks. With so much

economic uncertainty, the cost of raising new capital has soared, weighing on bank valuations, while pervasive ratings downgrades have led to a rise in borrowing costs. At the same time, interbank lending has declined.

Similarly, while banks have always had some trouble winning the trust of their customers, the problem today has never been more acute. The number of Americans expressing a great deal or a lot of confidence in their banks began to fall in 2006, according to Gallup. Spurred along by the global financial crisis, in which institutions went bankrupt or required government assistance to survive, consumer confidence in U.S. banks plummeted, reaching an all-time low in late 2010.

Customers are presenting other never-before-seen issues. People could always complain to their friends and neighbors about their banks, but social media has given them the means to amplify and organize their complaints into social action. The pressure on banks to rescind their monthly debit-card fees is unprecedented. In general, information sharing over social media is making consumers more aware of their alternatives and less averse to changing banks.

Customers are also more sophisticated than ever before. Their experiences with top consumer brands such as Apple and Amazon have dramatically increased their expectations and demands for personalized service. And as they adopt new devices such as smart phones and tablets, they are putting pressure on banks to keep up with what is becoming an expensive proliferation of channels.

**PROFIT SOURCES WILL BE INCREASINGLY HARD TO FIND**

Not surprisingly, all of the pressures on retail banks have constrained profitability. The top global banks saw profits drop significantly during the financial crisis, with retail banking negatively affected by deposit withdrawals, reduced lending, and rising rates of mortgage foreclosures. During and after the crisis, the main drivers of retail banking profits experienced lower margins. Consumers deleveraged, reducing credit card and other debt, and house prices and sales volumes fell. Even though profits recovered somewhat in 2010 and 2011, the ongoing sovereign debt crisis in Europe and fears of a double-dip recession are putting profitability under pressure again.

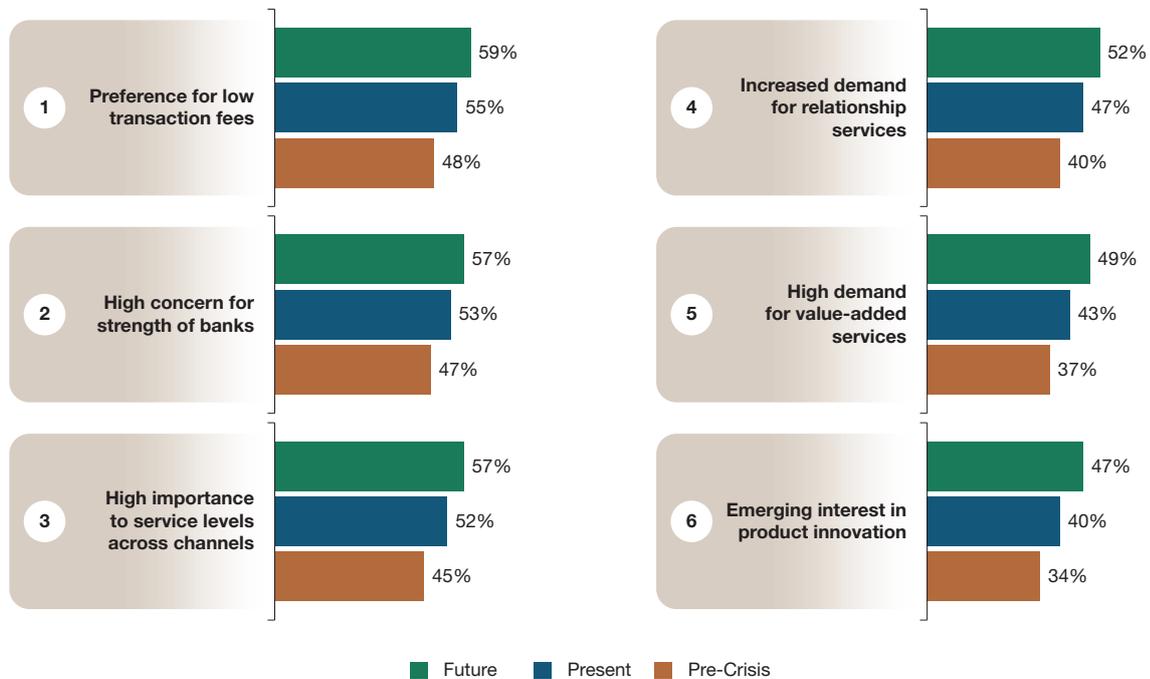
Customers cannot be counted upon to lift banks out of the profitability quagmire. Fee income related to consumer overdrafts and transactions has been severely curtailed. Mass affluent customers, which in the past provided a stable source of reliable profits, are being siphoned off by brokers, investment firms, and asset managers. Increasingly, banks are looking to mid-tier deposit accounts to drive revenues, but designing profitable products for this customer segment is difficult.

The generic retail-banking customer of the future has vastly different characteristics than those of the recent past. While retail banking customers typically returned to traditional behaviors following a crisis, too many variables related to customer expectations are currently in play for that outcome to reliably occur again. Capgemini’s Voice of the Customer survey shows customers have increased demands for the future, compared to before the crisis, across several dimensions.

Low transaction fees are a top criteria for 59% of customers in the future, up from 48% pre-crisis. Not surprisingly, bank strength is of high concern for 57% of future customers, up from 47% pre-crisis. Rounding out the top three customer demands is the need for service across channels, important for 57% of customers in the future, up from 45% before the crisis (see Figure 19).

Over time, customers are expected to give importance to almost all the conveniences retail banking can offer. Compared to before the crisis, customer demands are higher with regards to a desire for relationship services (52% versus 40%); value-added services (49% versus 37%), and product innovation (47% versus 34%).

**Figure 19 Demands of the “Retail Banking Customer of the Future”, 2012**



Note: The above charts represent percentage of respondents indicating the criteria as ‘Important’ or ‘Very Important’ based on 18,321 responses from Voice of Customer Survey  
 Source: Capgemini analysis, 2012; Capgemini 2012 Retail Banking Voice of the Customer Survey

## TRADITIONAL PROFIT LEVERS ARE BECOMING LESS EFFECTIVE

Retail banks need to take action to counter all the industry- and customer-related challenges facing them. Yet they cannot fall back upon traditional responses. Actions they typically took in the past to sustain profitability simply do not have the same effectiveness or are unavailable in today's environment (see Figure 20).

Fee income is a prime example. Banks relied heavily on it over the years to boost profits, but now their ability to do so has been severely crimped. First, new regulations eliminated a rich source of fees related to current-account overdrafts and debit cards in the U.S. The ability of banks to impose new fees to cover the shortfall soon became imperiled by consumers empowered by social media. With consumer awareness of fees now very high, any bank effort to raise fees is likely to cause customers to consider low-cost, low-fee competitors, such as retailers, telcos, and non-profit credit unions.

For years, banks also turned to mergers and acquisitions as a tool to expand market share, cut costs and ultimately increase profits. But increased capital requirements and uncertainty about the future are dissuading banks from seeking out acquisition partners. European regulators

in particular are preventing banks from expanding geographically by mandating that banks build their capital bases from internal sources.

Raising capital, another fallback solution, is a significant challenge in the current economy. Banks, particularly those in Europe, are already scurrying to comply with new capital rules. And with anxiety over the industry's health riding high, banks seeking to raise capital are finding investors either scarce or in demand of hefty discounts.

Reducing costs, always the default option, may be the most effective of the traditional responses. But this option does not necessarily position banks strategically for the long-term. And in the short-term, banks will likely face higher costs as they invest in automation and information technology to increase efficiency.

## COMPLIANCE AND CUSTOMER LOYALTY RULE IN THE SHORT-TERM; CORE COMPETENCIES IN THE LONG-TERM

With traditional tactics becoming less effective, banks will be forced to rethink their strategic approach. Opportunity lies in prioritizing certain short-term actions while preparing for long-term shifts. The era of slowly evolving business models is over. Rather, a clear vision of the bank's ultimate endpoint is necessary.

Figure 20 Traditional Retail Banking Responses and Their Effectiveness, 2012

Traditional Responses	Current Effectiveness	Comments
Raise Fees		<ul style="list-style-type: none"> <li>With increasing customer awareness, banks have been constrained from raising or adding new fees, while new regulations prevent banks from imposing new fees</li> <li>Fee concerns have led to loss of large customer base to non-banking players such as retailers and credit unions</li> </ul>
Add New Fees		<ul style="list-style-type: none"> <li>Recently, there have been massive protests over social media against banks for imposing fees on traditional free services such as debit card usage</li> </ul>
Strategic M&A		<ul style="list-style-type: none"> <li>Increased capital requirements due to Basel III regulatory constraints prevent banks from using M&amp;A as a means of strategic growth</li> <li>Strategic M&amp;A is not a part of the current strategy for retail executives due to uncertainty about industry's future</li> </ul>
Geographical Expansion		<ul style="list-style-type: none"> <li>Regulators, especially those in Europe, are preventing geographical expansion of banks to prevent deleveraging in local geographies as banks try to build their capital base from internal sources</li> <li>Uncertainty of retail banking industry's future, slowdown in emerging countries, and increased capital requirement has led to low effectiveness for global expansion</li> </ul>
Raising Capital		<ul style="list-style-type: none"> <li>Raising additional capital allows banks to meet regulation requirements and expand, but remains a challenge in present times</li> <li>Retail banks are challenged by both scarcity of available capital infusion and increased cost of capital while they need to increase their core capital due to regulations</li> </ul>
Cost Reduction		<ul style="list-style-type: none"> <li>Cost reduction remains a key priority for most of the banks across the globe and holds significance due to ongoing pressure on interest margins</li> <li>Banks are expected to continue to invest in automation and IT in order to reduce operational costs</li> </ul>

Highly Ineffective Today      Highly Effective Today

Note: The above charts represent percentage of respondents indicating a measure as 'Effective' or 'Very Effective'  
 Source: Capgemini analysis, 2012; Capgemini 2012 Global Retail Banking Executive Survey

In the short-term, there is no getting around compliance with new and emerging regulations, including the Basel frameworks and, for U.S. banks, the Dodd-Frank Act. Basel regulations are forcing banks to increase their Tier 1 ratios and reduce the weighting of riskier assets. In Europe, SEPA requires banks to revamp retail credit transfers and direct debits. In the U.K., the FSA's Retail Distribution Review, set for implementation in 2012, raises professional standards for independent financial advisers and wealth managers. In light of these regulations, banks should seek to optimize their product portfolios, and consider discontinuing products or services that have become less profitable.

With profitability harder to come by, preventing attrition of the most profitable customers is increasingly important. Accordingly, putting in place targeted customer retention programs is a high short-term priority. So is cost reduction, but it should be done

strategically to ensure continued growth of core businesses. Finally, banks need to take care of business by raising capital, not only to meet regulatory expectations, but also to provide adequate support for operations and bolster investor sentiment.

At the same time that banks are moving toward these short-term goals, they should be laying the groundwork to meet their long-term visions. The most important steps for the long-term will be to identify and specialize around core competencies, while divesting non-core businesses. This approach will let banks differentiate themselves in a highly competitive environment, while also preserving capital and boosting profits by shedding non-essential businesses. Throughout the long-term, banks should maintain a focus on personalized service, as this will always be an essential element of building a loyal and profitable customer base.

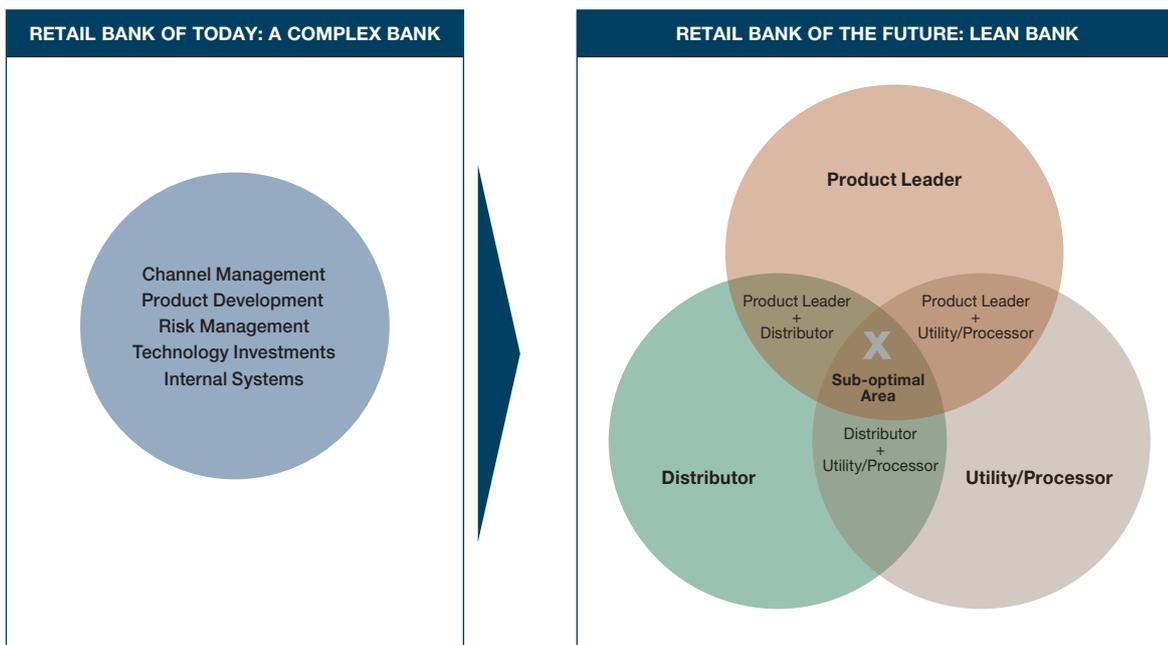
## The Way Forward: Extreme Measures for Extreme Times

### BANKS MUST IDENTIFY THEIR STRENGTHS

Three business models for the future—product leader, distributor and utility/processor—are emerging (see Figure 21). Retail banks should begin working now to

assess the capabilities they currently possess around each of these areas, and the steps they would need to take to become true specialists. They should evolve gradually toward one or a combination of two of these models, while still prioritizing necessary short-term actions.

Figure 21 Retail Bank of the Future—Leaner Business Models, 2012



Source: Capgemini analysis, 2012

### **PRODUCT MODEL EMPHASIZES INNOVATION, SEGMENTATION**

Product leaders have superior skills in developing, bundling, and pricing products, while also managing customer risk. They are less concerned about the quantity of new customers acquired, than their overall quality, including lifetime value. They have a high ability to offer a mix of optimally priced products, taking into account product demand, as well as a customer's risk profile, potential profitability, and lifetime value.

Product leaders invest heavily in best-in-class customer on-boarding and cross-selling technology, and can price products dynamically. They are innovative product developers, drawing upon customer segmentation tools to identify demand for new products, while keeping in mind changing macroeconomic, technological, regulatory, and market trends. They emphasize risk management, using real-time risk assessments based on 360-degree customer views.

A customer-based view of risk is a departure from the standard practice today of assessing risk by account. Banks today also tend to offer a surfeit of products, increasing the complexity of risk management, pricing and operations. Nor have banks put much thought into aligning products to meet changing capital requirements.

To become a product leader, banks need to change their risk models to accommodate customer views, and strive to simplify their product sets across fewer customer segments. Given changing capital requirements, they should also seek to introduce products that better fulfill new capital and liquidity needs. For example, they might offer current accounts that include investment capabilities, which would receive the beneficial treatment of stable funding. Or they could offer product bundles that combine financing and deposits, such as retail mortgages that carry interest rates based on the net amount of outstanding credits and deposits.

### **CHANNEL INTEGRATION AND ANALYTICS ARE HALLMARKS OF DISTRIBUTORS**

Distributors specialize in channel management. They have a strong customer relationship management infrastructure to support a consistent picture of clients across channels. Seamless integration and organized business-process flow between all channels offers customers a common user experience, regardless of the channel they use.

In addition to having superior sales productivity, distributors are experts at optimizing a mix of channels. They offer an unparalleled self-service experience.

They use channel analytics and take advantage of common information technology and customer databases to develop strategies for migrating customers to more efficient channels. They are quick to roll out products and services that are aligned to the specific capabilities of each channel and that take into account the channel behaviors of individual customers. Their channel investment decisions are highly aligned to an overall channel strategy.

Banks today tend to fall short of these requirements. While they have introduced a growing number of channels in response to customer demand, they have not done a sufficient job of integrating them. Service and product distribution usually occurs through channels operating in distinct silos and through applications that have been bolted on to existing legacy systems. Their ability to perform channel analytics and use customer data to enhance the end-user experience is poor.

To become more efficient distributors, banks need to improve channel integration and their ability to serve customers seamlessly between channels. They should upgrade their use of channel analytics so they can better flow customers to the channels that best suit their needs. And they should develop a proficiency in quickly rolling out products and services that are optimized for specific channels.

### **SUPERIOR UTILITIES/PROCESSORS OFFER VALUE-ADDED INFORMATION SERVICES**

Utilities/processors excel in cost-effective transaction processing. They operate their internal systems at optimum transaction speeds and capacity levels, and have the ability to scale to meet future processing needs, locally, regionally or globally. They employ best practices in business-process engineering to achieve lower total costs and improved operations performance. They also instill consumer trust by meeting or exceeding security standards and operating at close to 100% uptime.

Processing specialists do more than just execute transactions. They analyze the data going through their systems to gain insights that can be applied to new product development, customer segmentation strategies, and compliance risk. They also generate fee income by leveraging their data to offer value-added informational services. By using a shared services utility model, banks can leverage their state of the art infrastructure to offer value-added services to other institutions, and hence will lower their total cost of ownership through combined transaction volumes while generating additional fee income.

Most banks today view their data processing units as cost centers that require steep investments in technology, but generate thin margins. Because most banks do not consider processing to be strategically important, they face growing competition from non-banks, the threat of commoditization, vulnerability to downtime, and an inability or unwillingness to use transaction data to develop value-added services.

To become more proficient processors, banks need to drive operational excellence while controlling costs and maximizing capacity and scalability. They need to identify and offer services that take advantage of the data they possess. Finally, they must achieve certificate-level compliance and security. These certificates are also key in the qualification process for providing services to other institutions.

**TOO MANY BANKS ARE PLANNING TO OFFER EVERYTHING, WHILE SPECIALIZING IN NOTHING**

To prepare for the future, today’s retail banks must reduce their complexity. Retail banks are currently heavily invested in all aspects of the business—they develop products, create and manage the channels for delivering them, oversee risk, and run the internal systems required to keep the entire operation going.

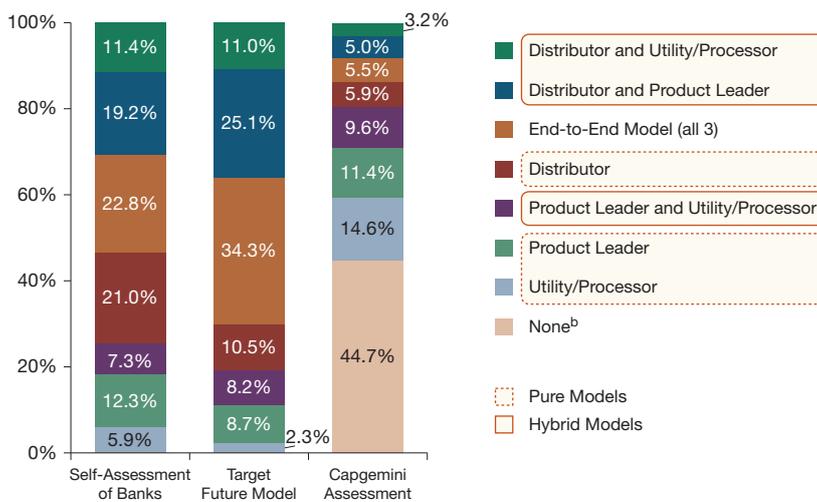
In the future, retail banks must maintain a much leaner operation. They should work now to identify their strengths within the three emerging models of product leader, distributor, and utility/processor. Over time, banks should seek to focus on one, or at most two, of these three key business areas, and strategically develop them into true specialties.

This approach lies in stark contrast to the strategy many retail banks anticipate pursuing. Rather than identify and build on their core strengths, a significant number of banks are seeking to be end-to-end providers, with solid capabilities in all three areas of product development, distribution, and processing.

Our Executive Survey found that more than one-third (34%) of banks expect to target an end-to-end model in the future, up from 23% currently (see Figure 22). This “do-everything” approach will require a large investment across all three functional areas, and may become increasingly difficult to maintain in the current environment of depressed profits, greater regulatory scrutiny, and increased economic and competitive pressures.

An increasing percentage of banks are seeking to pursue a hybrid model. Forty-four percent of banks expect to focus on two core areas in the future, up from 38% currently.

**Figure 22 Self-Assessment by Banks vs. Capgemini Assessment<sup>a</sup> of Banks (% of Respondents), 2012**



a) Capgemini Assessment is based on an internal model that re-categorizes the banks surveyed into one or more of the three extreme models  
 b) None refers to banks which scored low (less than 5 on scale of 1 to 7 with 7 being 'best in class') in current capability calculated based on parameters of three models  
 Source: Capgemini analysis, 2012; Capgemini 2012 Global Retail Banking Executive Survey

The most popular approach is to combine product leadership with distribution, favored by 25% of banks in the future, up from 19% currently.

Meanwhile, fewer banks are seeking to move toward a pure model. Twenty-one percent expect to be purists in the future, down from 39% currently. Banks are most likely to move away from the distribution-only model, with 10% of banks viewing that as an endpoint, versus 21% currently.

Part of the problem in choosing a specialty may be that banks do not see themselves as currently excelling in any one area. Asked to rate their emerging-model capabilities on a scale from one to seven, with seven being best in class, banks scored themselves right around a four in all three areas. For the future, they anticipated improving their capabilities to right around a five for all three areas.

In fact, banks are even less capable than their self-assessments indicate. Based on a proprietary Capgemini assessment, nearly half of banks (45%) achieved a score of five or less when their capabilities across all three areas were examined. Banks are also less apt to be adhering to one of the models than their self-assessments indicate. While 77% say they are adopting a pure or hybrid model, our assessment reflects the actual number as only 50%.

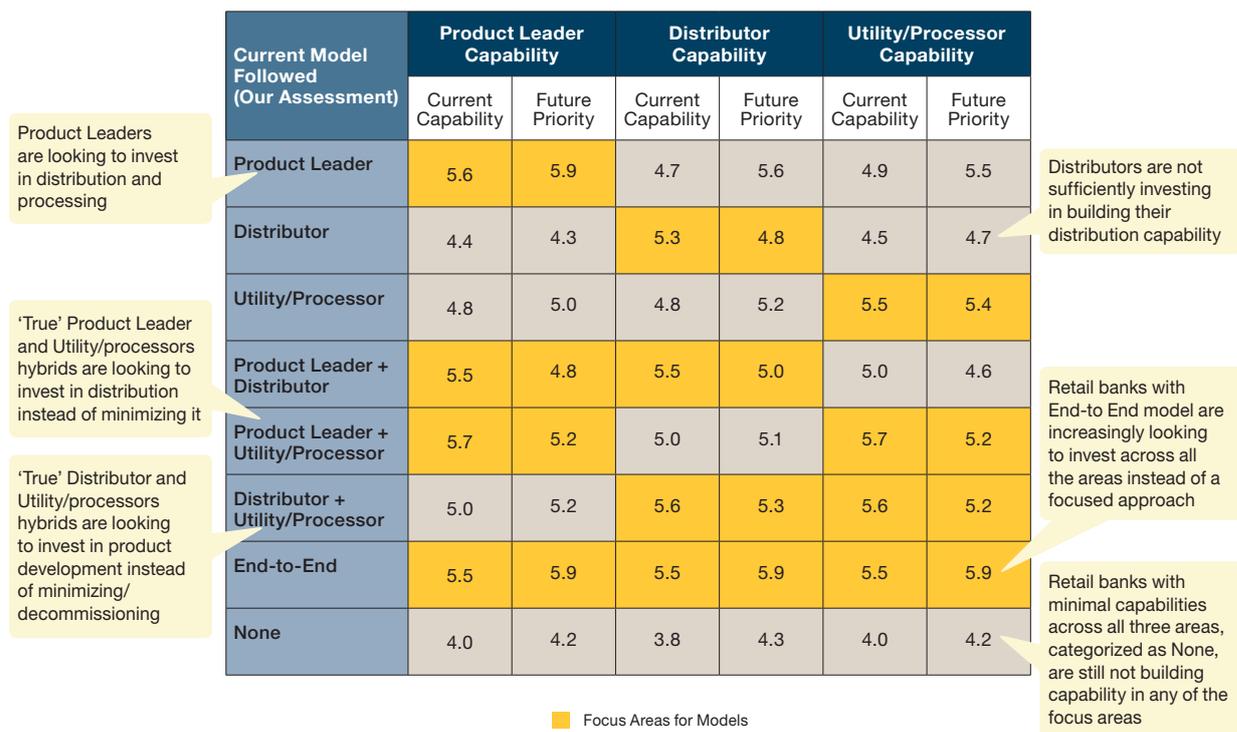
With most banks possessing minimal capabilities, the industry appears to have missed the mark by spreading its investments across a large number of areas, but achieving excellence in none. Maintaining their across-the-board investments may hold them back from building a differentiated capability. Rather than seeking to make improvements across the board, banks should consider more focused investments.

**BUSINESS-MODEL STRATEGIES AND FUTURE INVESTMENTS ARE NOT ALIGNED**

Focused investments would be an improvement over the misaligned investment plans of many banks today. Banks we assessed to be product leaders, for example, are placing almost as much priority on distribution and processing as they are on product development. Similarly, hybrid product-leaders/utility-processors are looking to invest in distribution, rather than minimize it (see Figure 23).

Product leaders should focus on maintaining investments in must-have capabilities, which include product innovation, pricing and product mix, along with regulatory compliance (see Figure 24). In general, banks we identified as product leaders need to invest more in customer-driven product development, while minimizing or decommissioning certain distributor skills, such as channel analytics, and certain utility skills, such as scalability.

**Figure 23 Capgemini-Assessed Current Capability and Future Priority Scores by Model, 2012**



Note: Any value greater than or equal to five is considered to be as 'Above Average Capability', and/or 'High Priority'  
 Source: Capgemini analysis, 2012; Capgemini 2012 Global Retail Banking Executive Survey

Distribution experts face a similar misalignment. Banks we identified as distributors are not sufficiently investing in building their distribution capabilities. Similarly, hybrid distributors/processors are seeking to invest in product development, rather than deemphasize it.

We found distributors should be placing more short-term emphasis on must-have distribution capabilities, such as channel analytics, channel delivery excellence, unparalleled service, and reduced time to market. Over the long-term, they should seek to improve other supporting distribution capabilities, such as delivering a multi-channel experience and integrating channels (see Figure 25).

Utilities/processors are also misaligned. Those we identified as processing leaders actually plan to invest more in product and distribution capabilities in the future, and less in processing. Since we found many of these companies to already be operating at high levels in terms of their processing capabilities, their inclination to invest less in these areas may be

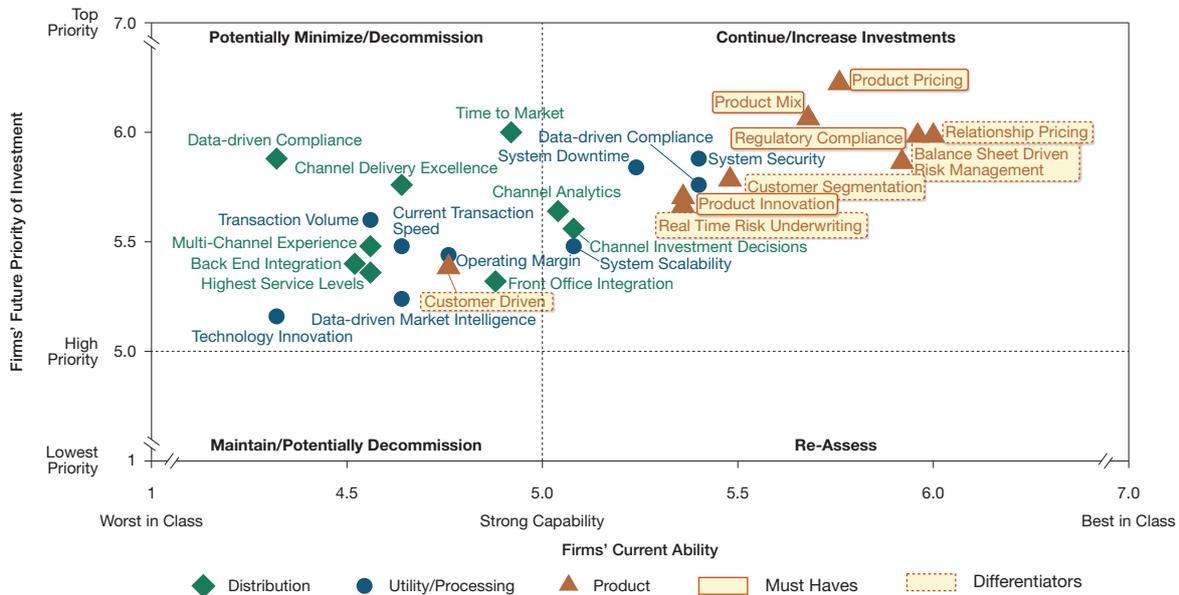
understandable. For the most part, utilities/processors are already high performers when it comes to scalability, operating margins, data-driven market intelligence, and compliance. But at the same time, these firms should also seek to minimize their investments in distribution and product development (see Figure 26).

**LEADERS ARE IDENTIFYING AND BUILDING UPON CORE STRENGTHS**

Most banks today have not proven their ability to excel in any of the three emerging-model areas of product leader, distributor or processor. Yet many are planning to adopt a ‘do-everything’ strategy requiring them to have superior skills in all three areas. This approach could be particularly difficult to support in the current constrained operating environment.

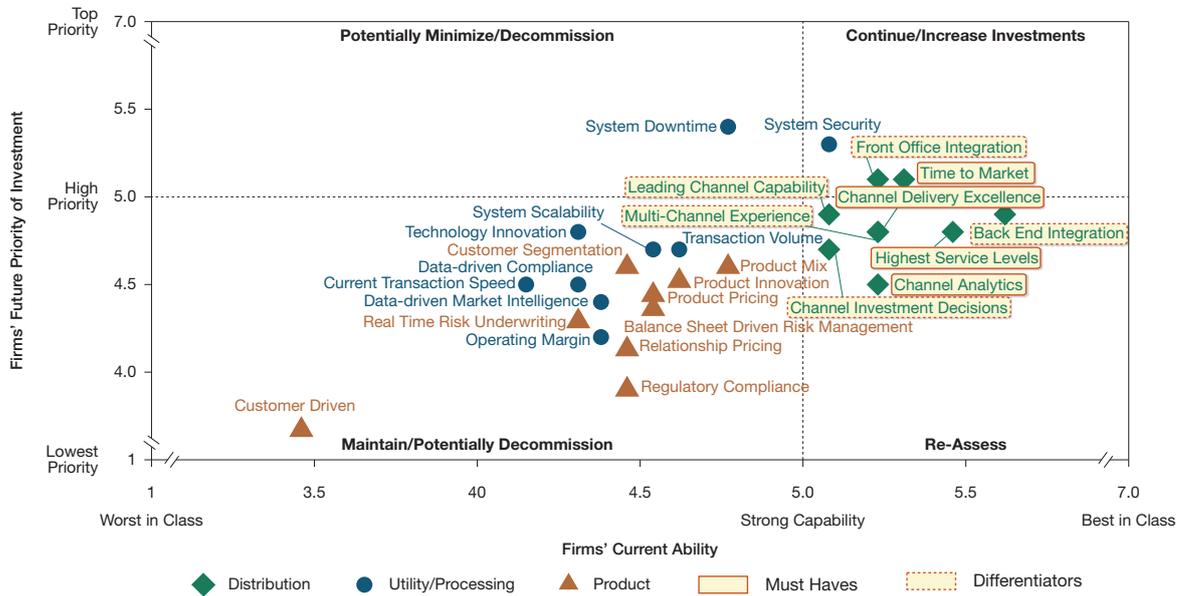
Retail banks face a choice. They can continue trying to support an end-to-end model and invest their finite resources across all facets of that model. Alternatively, they can opt to become a purist, focusing on a specific business model, or take a hybrid approach, in which

**Figure 24 ‘True’ Product Leader Positioning on Key Parameters, 2012**



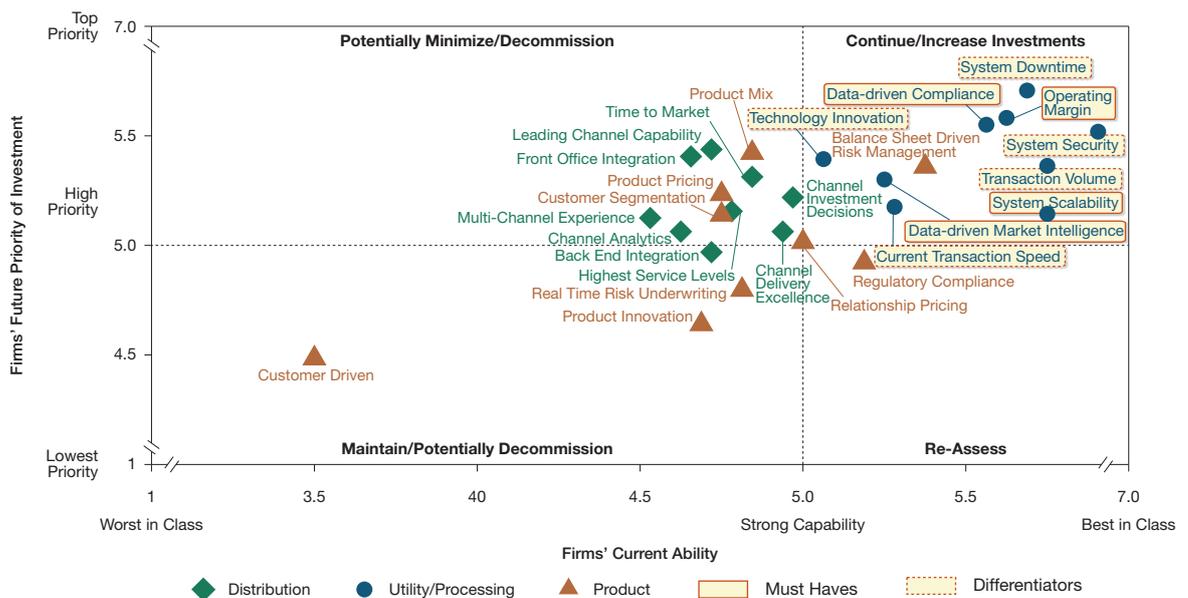
Note: The above analysis reflects pure extreme models only and firms targeting a hybrid model could combine inputs from two of the pure model analysis  
 Source: Capgemini analysis, 2012; Capgemini 2012 Global Retail Banking Executive Survey

Figure 25 'True' Distributor Positioning on Key Parameters, 2012



Note: The above analysis reflects pure extreme models only and firms targeting a hybrid model could combine inputs from two of the pure model analysis  
 Source: Capgemini analysis, 2012; Capgemini 2012 Global Retail Banking Executive Survey

Figure 26 'True' Utility/Processor Positioning on Key Parameters, 2012



Note: The above analysis reflects pure extreme models only and firms targeting a hybrid model could combine inputs from two of the pure model analysis  
 Source: Capgemini analysis, 2012; Capgemini 2012 Global Retail Banking Executive Survey

they combine two of the three models (see Figure 27). Retail banks able to identify their core areas of strength and build upon them will be positioned to be leaders in the field. Those that continue to follow an unfocused and undifferentiated approach may find themselves as laggards.

**THE EVOLUTION OF A RETAIL-BANKING LEADER**

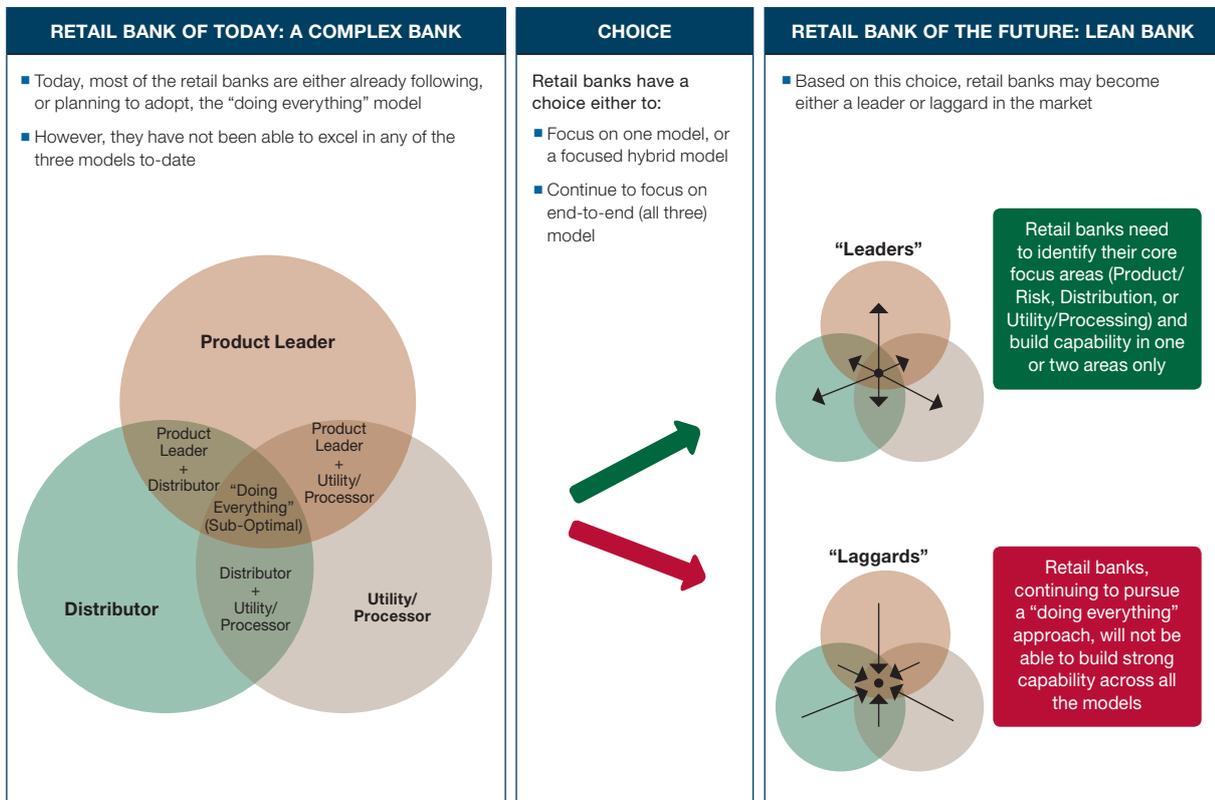
Moving toward a core area of strength will require a gradual transformation consisting of three phases (see Figure 28). Phase 0 involves understanding the bank’s current capabilities with respect to the three future models—creating products and managing risk; distribution, and processing. Determining the best future model will require high-level decision-making, in combination with a willingness to invest in foundational

elements relevant to all the models. These foundations include business intelligence systems, rationalization of information technology systems, and compliance.

Phase 1 involves investing and building scale in the “must-have” attributes pertaining to the chosen area of specialization. For example, product leaders will likely emphasize product pricing and innovation, while distributors will focus on developing channel delivery excellence and a broad network of delivery points. At the same time that they build up their must-have capabilities, banks will need to also develop a plan for maintaining, minimizing or decommissioning functions that are non-essential to their identified specialties.

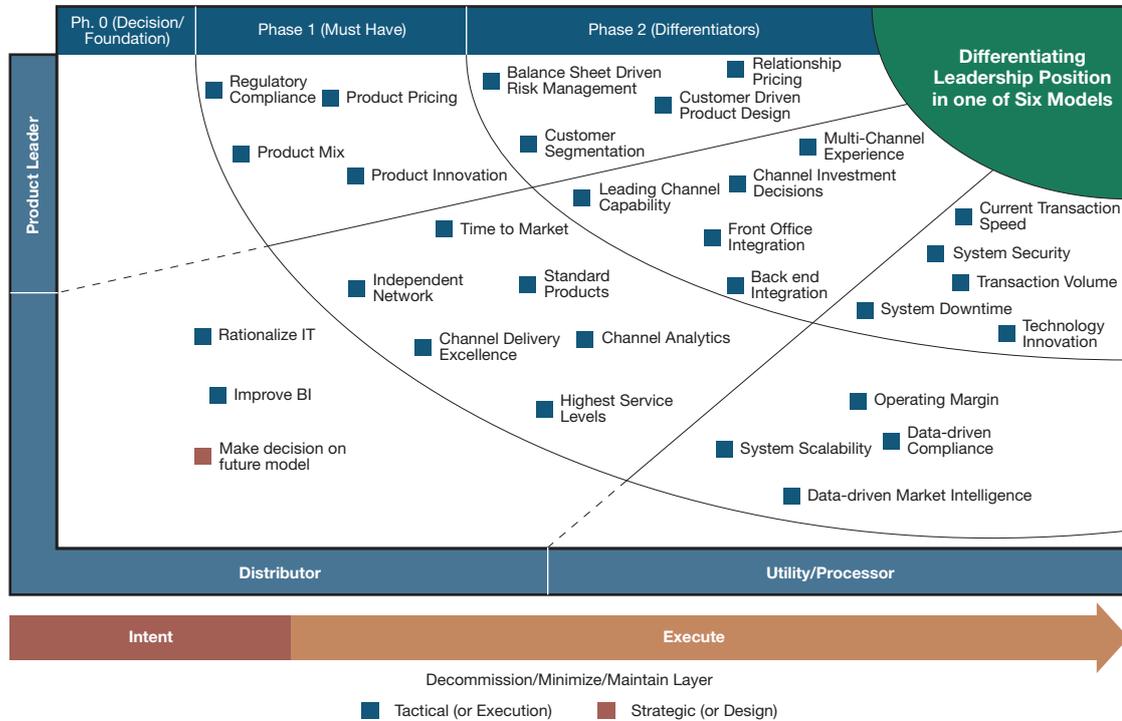
The final phase requires investing in differentiating capabilities that support the area of specialization. For processors, these might involve transaction speed and

**Figure 27 Path Forward for Retail banks**



Source: Capgemini analysis, 2012

Figure 28 Roadmap Towards ‘Retail Bank of the Future’ Models



Source: Capgemini analysis, 2012

volume, while for product leaders they might be customer segmentation and relationship pricing. As they develop their differentiating capabilities, banks simultaneously need to adopt a full-scale decommissioning of non-core areas. As banks evolve into industry leaders, they will then have the ability to provide value-added services to other banks that lack sufficient capability in those areas.

The phased transformation approach positions banks to become industry leaders in their areas of strength by optimally directing funds to areas in which they have the potential to excel. The approach propels retail banks toward leadership in a target future model by building upon and strengthening their current capabilities.

# Methodology

## 2012 Global Banking Voice of the Customer Survey

A global survey of customer attitudes toward retail banking forms the basis of the ninth annual *World Retail Banking Report*. Our comprehensive Voice of the Customer survey polled over 18,000 retail banking customers in 35 countries. The survey sought to gain deep insight into customer preferences, expectations and behaviors with respect to specific types of retail banking transactions. The survey questioned customers on their general satisfaction with their bank, the importance of specific channels for executing different types of transactions, and their satisfaction with those transactions, among other factors. The survey also questioned customers on their trust and confidence in their bank, why they choose to stay with their bank, their perceived importance of different services provided by their bank, and other issues. We supplemented these detailed findings with in-depth interviews with senior banking executives around the world.

## Capgemini's Customer Experience Index

The responses from the global Voice of the Customer survey, which analyzed customer experiences across 80 data points, provide the underlying input for our proprietary Customer Experience Index (CEI). The CEI calculates a customer experience score that can be analyzed across a number of variables. The scores provide insight on how customers perceive the quality of their bank interactions. They can be dissected by product, channel and lifecycle stage, as well as by demographic variables, such as country, age, investable assets and comfort level with technology. The result is an unparalleled view of how customers regard their banks, and the specific levers banks can push to increase the number of positive experiences for customers. The index provides a foundation for banks to develop an overall retail delivery strategy that will increase satisfaction in ways that are most meaningful to customers.

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