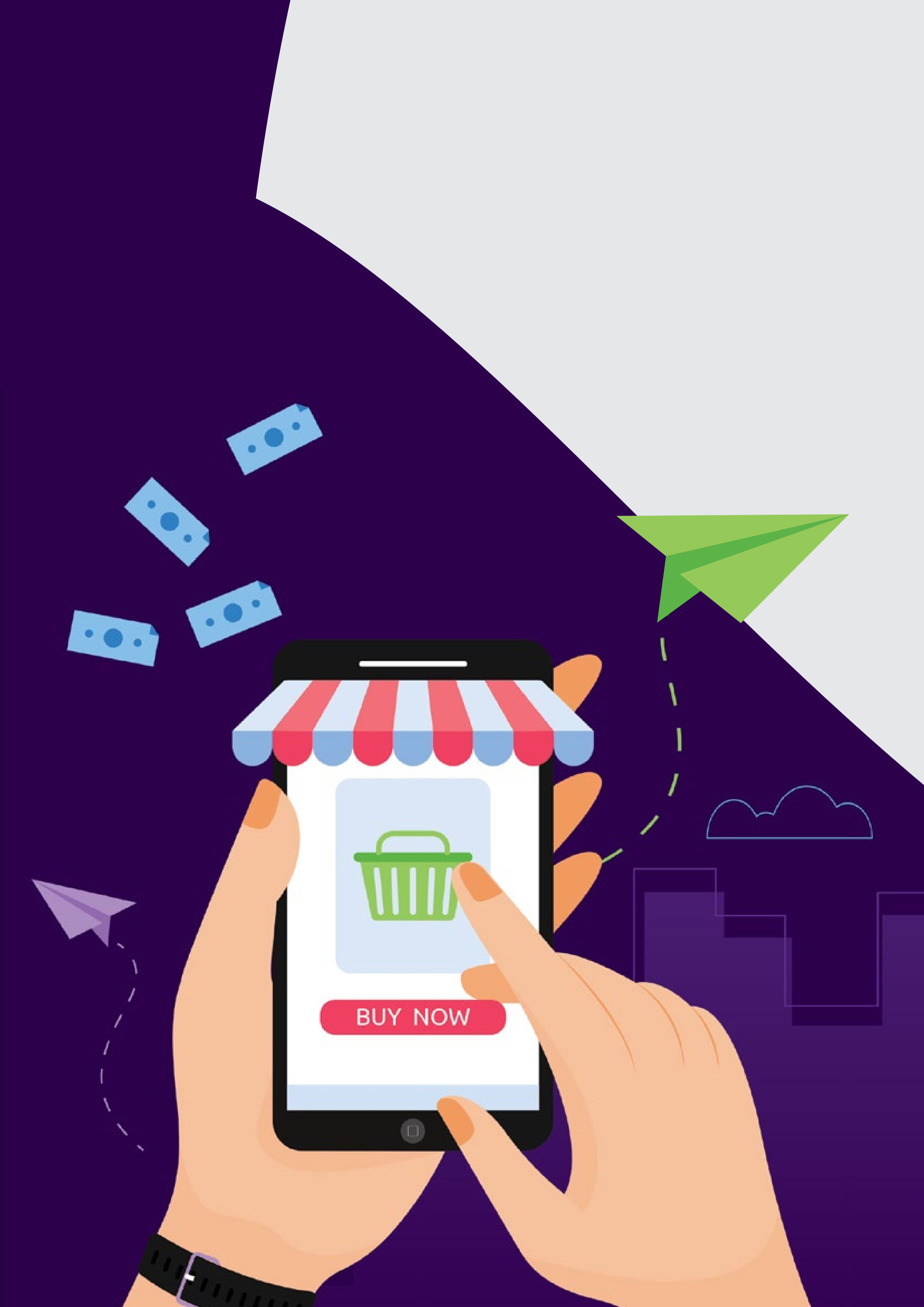
# Retail Banking
# Top Trends 2021

Drivers, opportunities, and risks shaping financial services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## Executive summary

# Lessons learned help us focus on the future

Yes, 2020 was one for the history books. It has been a remarkable, uncertain year that will set the global tone for the foreseeable future. It has tested our **business resilience** as the focus shifted from exclusively financial to include non-financial and operational risks – and banks have had to adapt quickly to the new normal, by virtually engaging customers. **Cost reduction** became a critical priority for banks amid long-lasting low interest-rate decade and high pressure on fee income. **ESG** held its position on retail banks' radar, as they sought to be more responsible within fast-changing environmental conditions.

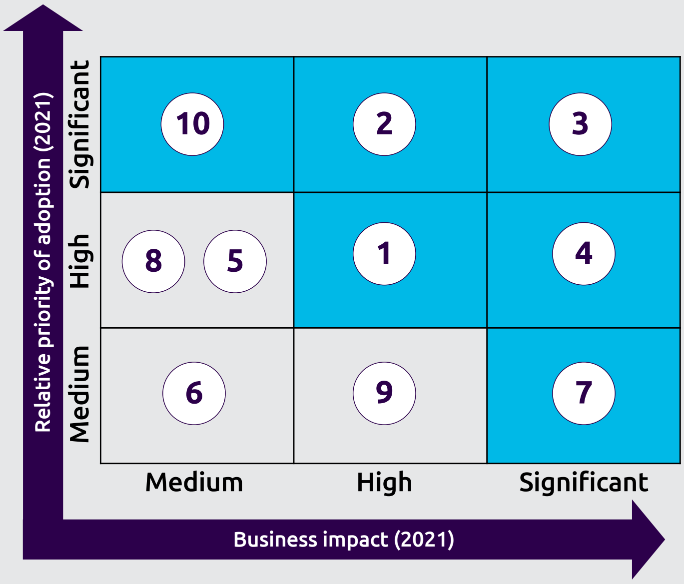
The **customer-centricity** journey continues as techniques – such as segment-of-one – emerge to customize offerings and ***humanize*** digital channels for better customer engagement. As we noted in the Capgemini World FinTech Report 2020, **intelligent processes** will help banks think beyond the front end to revamp middle and back offices.

First introduced in the World Retail Banking Report 2019, **Open X** (X for eXperience) enables banks to showcase their strengths while interacting within an **open ecosystem** and leveraging specialized expertise from other players. Based on the customer trust they have earned, incumbent banks have all the elements to become an enhanced **one-stop shop** by providing consumers value-adding experiences with financial and non-financial components.

Retail banks are tapping into value-based propositions – such as POS financing and mortgage refinancing – to drive revenues and reduce customer acquisition costs. **Banking-as-a-Service** allows firms to make their high-value offerings (products, platforms, and processes) available to other players. Finally, to improve go-to-market agility, all aspects of the **cloud** (public, private, hybrid) are becoming an everyday reality.

**Exhibit 1: Top retail banking trends 2021- Priority matrix**

1. Non-financial risks accelerated by the pandemic require robust strategy, oversight
2. COVID-19 pushes cost transformation into overdrive
3. Cloud's silver lining - business agility
4. Banking-as-a-Service exemplifies Open X potential
5. ESG boosts responsible banking and resiliency
6. Banks tap low-interest, no-friction, value-based offerings to energize customer acquisition
7. Banks leverage segment-of-one marketing to hyper-personalize offerings
8. Tomorrow's frontrunners will offer consumers convenient one-stop shops
9. Humanizing digital experiences will foster more authentic customer connections
10. Banks can reduce fraud with end-to-end value chain optimization




Source: Capgemini Financial Services Analysis, 2020.

**Priority of adoption** refers to the urgency of adopting a particular trend to maximize value creation in 2021. This is a relative rating based on the identified trends for a large to mid-size retail bank operating in the current environment.

**Business impact** represents impact of an identified trend on the bank's business in 2021. The impact could be on customer experience, operational excellence, regulatory compliance, or profitability.

The matrix represents the view of Capgemini analysts for banks working in the current operating environment:

- Low interest rate
- Operational disruption due to COVID-19
- High competitive environment and increased focus on customer centricity due to new-age players
- Operational cost overruns and high capital lock-ins
- Uncertain regulatory environment

The matrix will vary for specific banks depending on their business priorities, geographic location, and several other factors. For specific requirements, please contact [banking@capgemini.com](mailto:banking@capgemini.com)

**Trend 01**

# Non-financial risks accelerated by the pandemic require robust strategy, oversight

### *Banks adopt integrated approaches to tackle ever-changing non-financial risks*

## Context

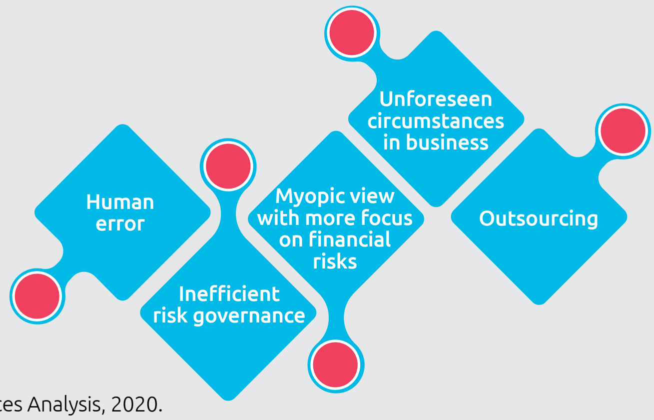
The 2008 financial crisis altered the landscape as risk surrounding credit, liquidity, and consumer protection drew regulatory scrutiny. Today, COVID-19 is sparking destructive non-financial risks (NFRs) that show little sign of abating.

- These days, banks must contend with threats on strategic and operational fronts (HR, IT, legal, data, cyber, fraud, infrastructure) broadly defined as non-financial risks.
- As technology (cloud, APIs) and regulations (PSD2, GDPR) evolve, so too will NFRs; therefore, banks will need a disciplined risk-management approach.
- Increasingly, NFR is becoming a leading cause of significant bank loss. Globally, fines issued to banks could surpass USD8.4 billion in 2020.[1]

## Catalysts

- Internal conditions, such as inefficient processes with high human-error potential, are at the root of an alarming increase in NFR-related losses. In fact, 35% of data breaches in banking and insurance sector involve internal actors, according to a 2020 report by Verizon.[2] The outlook, post-pandemic, is cause for concern.
- Fluctuating external conditions – lockdowns and third-party risk may accelerate NFR incidents.

**Figure 1: What triggers non-financial risks?**




Source: Capgemini Financial Services Analysis, 2020.

[1] The Irish Times, "Fines issued to banks globally could surpass $8.4bn this year," August 17, 2020.
[2] Verizon, "2020 Data Breach Investigations Report," May 19, 2020.

- Banks have activated business continuity plans (BCPs) to maintain operations as employees work from home, which has increased exposure to cybersecurity threats such as ransomware and phishing. COVID-19 is responsible for 238% uptick in cyberattacks against banks.[3]
- Working with third-party vendors and systems has heightened exposure to breaches within new normal conditions. In Australia, 100,000 Westpac customers faced cyberattack exposure through the bank's real-time payments partner PayID.[4]

## In a nutshell

- COVID-19 operational disruption prompts banks to assess existing BCPs and fold in NFR mitigation plans to ensure resilience against black swan events. Work-from-anywhere models come with unique challenges that are aggravated when emergent collaboration technologies are adopted quickly. Clearly, a renewed approach to risk mitigation is warranted.
  - During the early weeks of the pandemic, DNB, the central bank of the Netherlands, evaluated the adequacy of its existing BCPs and began improvements to manage risks posed by uncertain circumstances.[5]
  - Similarly, Standard Chartered prioritized staff communication and worked to ensure its security around high-volume, time-sensitive processes – including transaction monitoring, live payments monitoring, and name screening.[6]
- To manage risks related to compliance – data leaks, and third-party – many banks taking a closer look at outsourcing assessment methodologies.
  - A consortium of leading FS firms (American Express, Bank of America, Bank of New York Mellon, JPMorgan Chase, and Wells Fargo) founded US-based TruSight to combine best practices, develop a unified assessment methodology, and improve governing standards.[7]
  - And before the pandemic, in 2019, the European Banking Authority published revised guidelines on outsourcing arrangements and requirements for banks engaging with various third-party vendors.[8]

## Impact

- Banks will strategically adopt integrated risk management techniques that equally consider financial and non-financial risks.
  - Integrated risk management solution identifies, analyzes, and proactively plans responses to a wide range of organizational threats. It adds value by ensuring that any risk exposure is suitably understood and managed.
  - More and more banks will allocate personnel and budget to NFR with dedicated teams to manage different incident complexities.
- Service providers that simplify and manage NFR effectively will be in demand.
  - Expect more technological innovation in the NFR management space as leading FS institutions collaborate with startups to develop risk-management solutions to avoid loss. For example, Irish startup Sedicii offers solutions to manage negative social media feedback and identity theft (especially for personally-identifiable data). The firm has worked with Waterford Credit Union and Savvi Credit Union to create identity tools to ensure online services protect private data.[9]
- In the post-COVID-19 era, as banks engage with outsourcing third parties, stricter scrutiny, and due diligence will prevail.

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[3] ZDNet, "COVID-19 blamed for 238% surge in cyberattacks against banks," May 14, 2020.
[4] Sydney Morning Herald, "Almost 100,000 Australians' private details exposed in attack on Westpac's PayID," June 3, 2019.
[5] Regulation Tomorrow, "DNB on business continuity plans for Coronavirus (COVID-19)," March 6, 2020.
[6] Standard Chartered, "A risk-based approach to tackling COVID-19 crime: Lessons for financial institutions," June 30, 2020.
[7] Microsoft, "TruSight," May 6, 2020.
[8] Prevalent, "How to Meet European Banking Authority Third-Party Risk Requirements," October 3, 2019.
[9] Efma.

Trend 02

# COVID-19 pushes cost transformation into overdrive

***Banks optimize costs through leaner physical models and emerging technologies***

## Context

As banks focused on staff and customers during the 2020 peak of the pandemic, bottom and top lines were clobbered.

- The COVID-19 economic downturn spurred weak investment returns, squeezed margins, subdued customer demand, and cost inefficiencies. This, coupled with market uncertainty, more or less affected capital positions.
  - In Q1 2020, US bank profits fell by nearly 70% – to USD18.5 billion – from the previous year due to the novel coronavirus pandemic.[10] For example, JP Morgan profits sank by almost two-thirds.[11]
- Banks deprioritized costs, as they focused their resources and strengths on customer support.
  - In the US, Bank of America, Ally Financial, and Citi assisted customers by either waiving fees or deferring payments.[12]
  - And, Ally Financial allowed auto loan holders and existing mortgage customers to defer payments for up to 120 days without penalty.[13]
- Throughout the health crisis, full-scale remote work for staff has forced a bump in operational costs, as a torrent of loan requests kicked up servicing costs.

## Catalysts

- As bank profits dropped, competition from innovative new competitors grew to squeeze margins. New-age players continue to attract more and more customers.
  - According to Capgemini's COVID-19 research, 36% of customers discovered a new financial provider during the crisis and plan to continue with them post-pandemic, as 55% of fintech customers said they were satisfied with their provider's offerings.[14]
- According to Capgemini's World FinTech Report 2020, banks have invested heavily in improving the customer-facing, front-end experience at the detriment of legacy, middle, and back ends.[15] This strategy has hindered end-to-end CX and operational optimization.[15]
  - Paper-based documentation, legacy systems, and low scalability often lead to significant middle- and back-office bottlenecks that cause steep operational costs, staff overtime, and unsatisfactory results.
- The global lockdown prompted many banks to shutter branches, as they continued to incur infrastructure costs. Despite 30–40% of bank branches being closed, fixed property costs remain.
- In the future, banks that reimagine operating models to simplify both lines of business and IT complexity will be prepared to retain gains during economic uncertainty.

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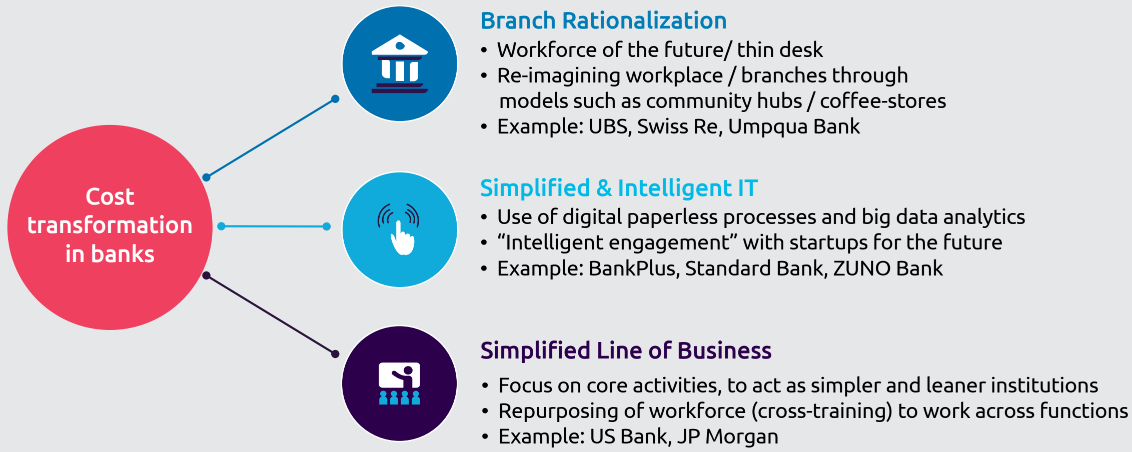
[10] Reuters, "U.S. bank profits plunge 70% on coronavirus loss provisioning," June 16, 2020.
[11] The Economic Times, "JPMorgan profit plunges as banks brace for coronavirus hit," April 14, 2020.
[12] CNBC, "These banks are offering coronavirus financial aid," March 23, 2020.
[13] Ibid.
[14] Capgemini COVID-19 research.
[15] Capgemini, "World FinTech Report 2020," April 21, 2020.

## In a nutshell

- Incumbents now enthusiastically implement emerging technologies across the banking value chain to deliver a superior last-mile experience to customers while optimizing operational costs.
- Banks leverage cognitive document automation (CDA) using OCR (optical character recognition) to tackle paper-based documentation challenges, cut costs, and boost CX.
  - DBS adopted ABBYY Mobile OCR to offer *Quick Credit*, a mobile app that allows DBS customers to apply for loans on the go. The relevant fields (names, financial details, etc.) are filled in automatically based on documents preloaded by the customer. The app allows DBS to verify and disperse loans within minutes, which augments decision making while cost-effectively enhancing CX.[16,17]
- Traditional players shift to AI-automated bots to process various data types to optimize costs while engaging with customers on the front-end for experiential transactions.
  - To transform its back-end processes, Colombia-based Bancolombia deployed bots to search through unstructured and semi-structured customer data. The move improved service time efficiency by 51%, reduced provisioning costs by USD19 million, saved 11,000 days of back-office operations, and boosted customer service efficiency by 50%.[18]
  - JP Morgan's Contract Intelligence (COiN) chatbot analyzes legal documents and extracts essential data points and clauses. The bot reviews 12,000 annual commercial credit agreements in a matter of seconds, which previously required 360,000 manual hours.[19]
- Cutting overhead expenses and reducing infrastructure operation expenses can provide short-term relief to the banks. Over the longer-term, strategic banks will recalibrate their physical presence through a mix of closing some branches and remodeling others for smart use and cost-efficiency.
  - In the US, Capital One launched *Coffee Shop Banks*, where customers sip coffee while conducting banking activities.[20] Similarly, in Spain, CaixaBank launched *imaginCafé* in partnership with several universities and brands, including Samsung and Adidas.[21]
  - TSB, part of Spanish bank Sabadell, has been phasing out basic frontline positions at its branches and replacing them with advisory services such as mortgage or loan application support.[22]

**Figure 2: Cost transformation imperatives in the new normal**




Source: Capgemini Financial Services Analysis, 2020, Kofax.

[16] ABBYY Case Study-DBS, "ABBYY Mobile OCR Makes On-theGo Loan Approval a Blast," December 15, 2015.
[17] Ibid.
[18] Automation Anywhere–Bancolombia case study, "Leveraging Intelligent Process Automation: 1300% ROI Delivers Increased CSAT and $7M in New Revenue Streams," July 2018.
[19] Emerj, "AI in Banking – An Analysis of America's 7 Top Banks," March 14, 2020.
[20] Business Insider, "Capital One is trying to curry favor with millennials by opening cafes around the country that offer free Wi-Fi, local coffee and food, and complimentary money coaching," February 10, 2017.
[21] Caixa Bank, "CaixaBank launches imaginCafé, a major cultural space for millennials," December 15, 2017.
[22] Reuters, "Return to big offices? Why bank branches may get a new lease of life," September 1, 2020.

- Banks no longer adhere to the *more is better* mantra. For most firms, multiple business lines distracted sales teams while contributing little to the bottom line.
  - As a result, banks are phasing out some business lines to focus on core activities and leveraging the advantages of a lean structure. In the US, Bank OZK exited its secondary-market home-lending business, and U.S. Bank closed its wholesale mortgage lending facility.[23]

## Impact

- Economic, political, and risk volatility make cost optimization critical. It's not surprising that banks are reimagining their internal structures to support digital technologies that boost CX and foster product development and new revenue streams.
  - 66% of global banking executives recently surveyed by the Economist cited artificial intelligence, machine learning, blockchain, and the internet of things (IoT) as new technologies poised to drive the banking sector over the next five years.[24]
  - To remove back-end bottlenecks, banks are adopting CDA tools to increase the efficiency of document-based operations while reducing costs.
- As many banks close branch locations, other new and remodeled branches will provide cost-effective environments conducive to customer engagement.

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[23] American Banker, "BankThink Most important strategy of top-performing banks? Simplify," June 7, 2018.
[24] The Economist, "Forging new frontiers: advanced technologies will revolutionise banking," June 9, 2020.

Trend
03

# Cloud's silver lining – business agility

***Banks are migrating to the cloud to create cost-efficient, lean and agile enterprises***

## Context

Historically, banks sidestepped the cloud and relied heavily on in-house infrastructure for IT, which inhibited the adoption of disruptive technologies. However, cloud acceptance by new-age players, combined with cloud capability upgrades (security, data analytics, and storage), are finally encouraging incumbents to put their heads in the cloud.

- Banks were on track in 2020 to invest 48% of their IT budgets on cloud initiatives (up from 34% in 2018). Moreover, 32% of executives surveyed as part of the Capgemini World Retail Banking Report 2020 said they plan to pilot cloud projects during 2020–2022, while 56% say they will scale their cloud infrastructure.[25]

## Catalysts

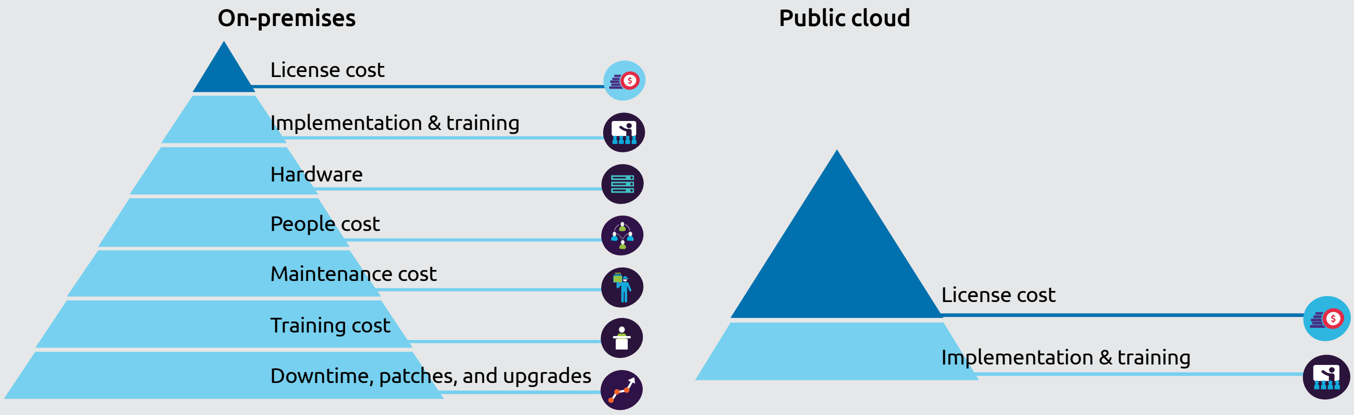
- As banks struggle with high cost-to-income ratios, legacy IT infrastructure is another profit-eroding bottom-line burden.
  - 62% of bank executives interviewed for the Capgemini Retail Banking Report 2020 said legacy systems rack up significant IT maintenance costs.[26]
- Banks are aggressively following digital transformation goals to revamp their business models and achieve higher operational efficiency. However, after a decade of significant investment in digital transformation, banks continue to struggle with inefficiencies and poor CX.
  - Capgemini's World Retail Banking Report 2020 determined that legacy systems with monolithic architecture trigger IT complexity, lead to inefficient integration with new technologies, and obstruct connections with third-party APIs. In short, legacy systems hurt banks' digital transformation outcomes.[27]
- As competition from new-age players heats up, traditional banks are being forced to adopt scalable and modular platforms to reduce time to market and spur innovation.
  - More than 40% of banking executives said legacy systems (without cloud capabilities) lack scalability and slow down innovation.[28]

[25] Refinitiv 2019 Report, "The Cloud: A silver lining for financial institutions?" accessed August 2020.
[26] Capgemini, "World Retail Banking Report 2020," June 11, 2020.
[27] Ibid.
[28] Ibid.

## In a nutshell

- Migrating to the cloud (public, private, or hybrid) could help banks significantly accelerate their digital transformation and integrate disruptive technologies to improve CX and boost innovation capabilities.
  - Lloyds Banking Group will adopt public cloud capabilities as part of an ambitious GBP3 billion (USD3.8 billion) digital transformation project announced in Q1 2020. The bank will migrate its customer data onto Google's cloud infrastructure to boost its ability to use AI and data analytics. Lloyds is leveraging cloud capabilities to modernize its app development and API interface as part of its open banking initiatives.[29]
- Cloud technology can help banks optimize processes and boost operational efficiency through app modernization. Cloud adoption supports the transition from monolithic legacy architecture to modern modular microservices architecture.
  - HSBC announced plans in July 2020 to migrate to AWS cloud infrastructure. The bank will modernize applications within its global Wealth and Personal Banking business as part of its digital transformation journey. The firm will leverage cloud proficiency to enhance its computing power, storage, and database capabilities, to integrate AI efficiently, to automate critical processes, and to develop a containerized, modular, and scalable IT environment.[30, 31, 32]
- Mega-firms Goldman Sachs, Deutsche Bank, Bank of America, and Banco Sabadell are also moving to the public cloud to boost their digital transformation efforts.[33]

**Figure 3: Total cost of ownership (TCO) for on-premises and cloud**




Sources: Capgemini Financial Services Analysis, 2020; iCRM.[34]

## Impact

- Cloud adoption helps banks innovate with agility, enabling them to quickly and economically add new digital services, products, channels, and applications. The result? Superior customer experience.
- Cloud transformation helps banks manage legacy system operational concerns such as capacity, redundancy, and resiliency, enabling a significant improvement in disaster recovery and business continuity capabilities, especially when facing the unknown (such as COVID-19).

[29] Computerweekly.com, "Lloyds Banking Group signs five-year Google Cloud deal," March 10, 2020.
[30] CBR, "HSBC Signs Sweeping AWS Deal," July 15, 2020.
[31] Computerweekly.com, "HSBC chooses AWS for public cloud business operations," July 15, 2020.
[32] Jefferson Frank, "AWS and HSBC sign new long-term deal", accessed September 2020.
[33] Ft.com, "Big banks look to the cloud to accelerate digital shift," July 20, 2020.
[34] iCRM, "Cloud vs on-premise," accessed September 2020.

# Trend 04

# Banking-as-a-Service exemplifies Open X potential

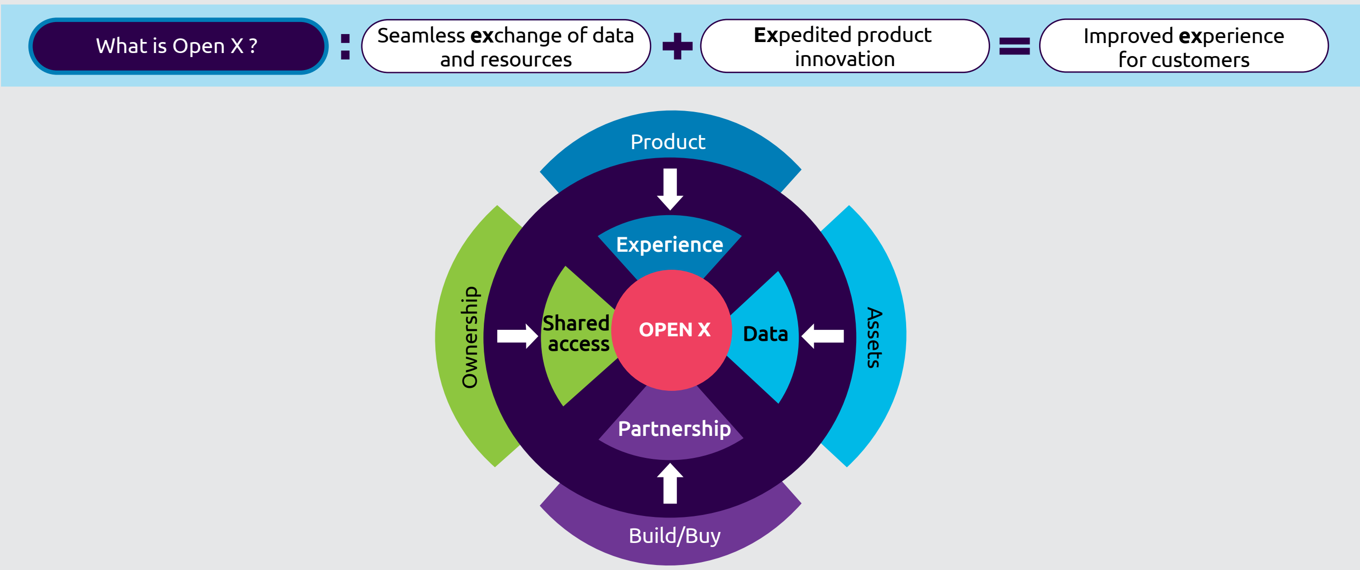
***BaaS will gain prominence as incumbents rush to cash in on the burgeoning embedded finance market***

## Context

Changing customer expectations, competition from new-age players, disruptive technologies, and open banking regulations are upending traditional banking paradigms. With value creation at the top of most agendas, future-focused banks are looking to engage and integrate with third-party service providers.

- Banking-as-a-Service (BaaS) enables banks to monetize their products and services as consumable APIs for third parties. The BaaS platform model enables FinTechs and other third parties to build financial offerings on top of a regulated bank infrastructure.
- BaaS enables banks to share and monetize data and infrastructure, and co-create new products with faster time to market. The model exemplifies the Open X ecosystem, as conceptualized by Capgemini.

**Figure 4a: The Open X model**




Sources: Capgemini Financial Services Analysis, 2020.

## Catalysts

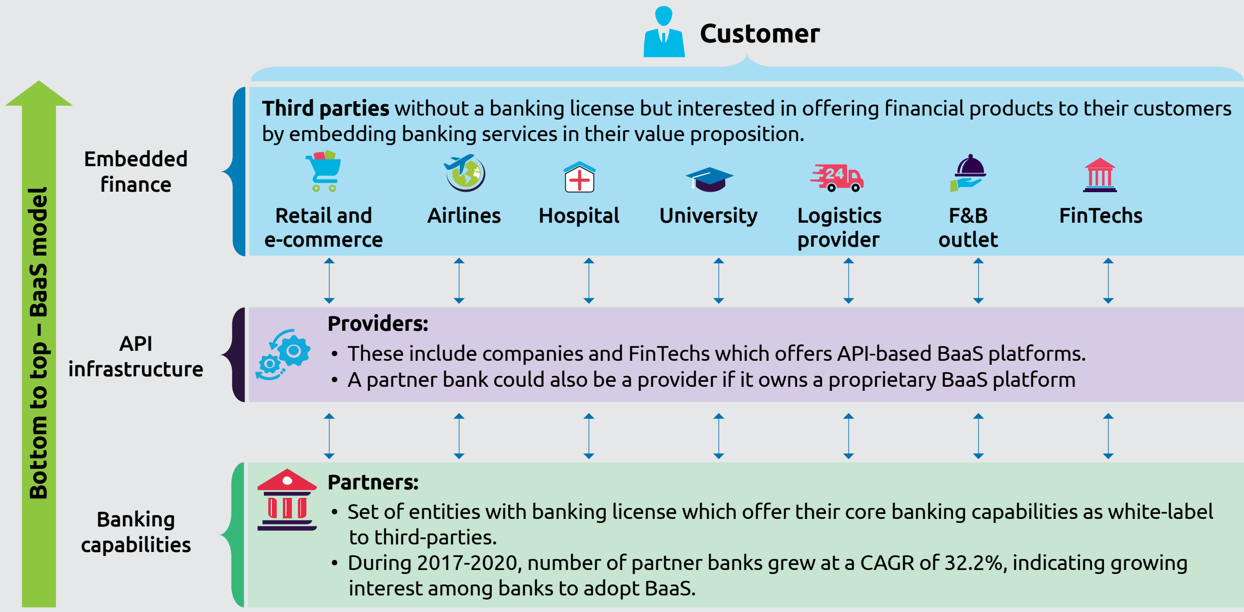
- The current global economy has kept interest rates low and undermined topline growth. BaaS offers incumbents new and sustainable growth opportunities by monetizing their infrastructure.
  - Consumer and retail banking revenue declined significantly in Q2 2020. Consumer banking revenue of JP Morgan and Citigroup witnessed a 9% and 10% decline in Q2 2020, respectively. Moreover, Bank of America reported a 96% YoY decline in net income of the consumer banking division in Q2 2020.[35, 36]

[35] Fortune, "Big bank earnings: The good, the bad, and the ugly," July 15, 2020.

[36] Business Insider, "Bank of America beats second-quarter earnings estimates, and reports an 81% increase in global markets income," July 16, 2020.

- On the technology front, the proliferation of APIs will boost BaaS adoption globally.
  – Our 2020 World Retail Banking executive survey revealed that 60% of bank executives plan to scale their firm's API infrastructure during 2020–2022.

**Figure 4b: Banking-as-a-Service stakeholders**




Sources: Capgemini Financial Services Analysis, 2020; Andreessen Horowitz; Forbes.[37, 38]

## In a nutshell

- BaaS enables firms to monetize their core capabilities – in the form of revenue-sharing agreements, one-time setup charges, subscription fees, or a combination of these.
  – For example, BBVA charges subscribers a one-time, upfront implementation fee to cover the cost of integration due diligence. A monthly subscription program covers all BaaS amenities and associated transaction fees, such as bill payments, card payments, and KYC.[39]
- Banking-as-a-Service helps firms streamline their distribution networks and significantly reduce operational costs. For instance, BankMobile (a subsidiary of US-based Customer Bank) leverages a BaaS platform to employ a multi-partner distribution model that affordably generates high-volume customer acquisition.[40]
  – With its disruptive BaaS model, BankMobile keeps its acquisition cost per customer as low as USD10, compared with USD300 to USD500 for a traditional bank.
- The networking effect of BaaS helps firms expand their customer base. For instance, US-based Green Dot bank white labels its core banking capabilities to large enterprises (embedded finance).[41] The initiative helps Green Dot add new customers and develop new innovative products.[42, 43]

[37] Forbes, "Uber's departure from financial services: A speed bump on the path to embedded finance," August 3, 2020.
[38] Andreessen Horowitz, "The Partner Bank Boom," June 2020.
[39] Business Insider Intelligence, "Q&A: BBVA head of open platform on how the bank is leading the way on banking-as-a-Service in the US," September 27 2019.
[40] The Financial Brand, "The Secret Behind Bank Mobile's High Volume, Lost Cost Approach to Deposit Growth," accessed August 2020.
[41] Embedded finance refers to non-financial businesses (without banking license such as retailers, e-commerce firms, airlines, etc.) integrating and offering financial products to their customers.
[42] Forbes, "Green Dot banking services are available at 100,000 outlets in the US," May 23, 2019
[43] Tearsheet, "BaaS company spotlight 2/8: Green Dot – A full service BaaS for non-FinTechs," July 16, 2019.

- In 2019, Green Dot services were available at ~100,000 US retailers. The firm offers its core banking capabilities to businesses, such as Uber, Walmart, Apple, and Stash, and has ~5 million accounts on its platform.
- In a drive to expand its market reach and customer base, Standard Chartered launched its BaaS solution Nexus in March 2020 to share core banking capabilities with e-commerce companies in Asia, Africa, and the Middle East.[44]

## Impact

- Non-financial entities (without banking infrastructure and license) seeking to offer financial products are increasingly integrating banking services into their business platform. This trend is boosting demand for *embedded finance* capabilities. Banks could seize this market potential by offering their core banking capabilities as white label solutions.
  - Embedded finance is on track to grow ~10x – from USD22.5 billion to USD230 billion – between 2020 and 2025. Growth potential (within a favorable operating environment) is pegged as high as USD3.6 trillion by 2030.[45]
- In addition to creating a new source of value, BaaS could help banks optimally use assets – a move that could improve the financial health of banks struggling with profitability.
  - An analysis of 30 banks (leveraging the BaaS model) indicated a potential of two-to-three fold improvement in RoA and RoE over and above the industry average.[46]

[44] East & Partners, "Standard Chartered launches 'BaaS' nexus solution," March 17, 2020.
[45] Forbes, "Uber's departure from financial services: A speed bump on the path to embedded finance," August 3, 2020.
[46] Andreessen Horowitz, "The Partner Bank Boom," June 2020.

Trend 05

# ESG boosts responsible banking and resiliency

***Green and sustainable banks are more resilient to disruption and outperform their peers in the market***

## Context

As if COVID-19 didn't make the first half of 2020 stressful enough, experts recorded 530 natural disasters.[47] The result was disrupted economic activities and hikes in contingency spending that negatively affected the bottom lines of most businesses. The disasters (excluding the pandemic) led to a global economic loss of USD75 billion.[48]

- Notably, the Global Association of Risk Professionals' (GARP) 2020 climate risk survey found that 90% of financial firms had board-level governance around environmental and climate risks – and corporate involvement is growing. More and more banks are developing comprehensive risk-management strategies.
- However, the GARP survey also discovered that only 30% of firm executives believe their firm is resilient to environmental and climate risks beyond five years. And, only 10% were confident about resilience beyond 15 years.[49]

## Catalysts

- Environmental, climatic, and other natural disaster risks are further eroding financial institutions' already thin margins. When banks must set aside contingency funds to cover bad loans, profits take a hit. As a result, many firms embed ESG (environmental, social, and governance) considerations within their risk management initiatives.
  - California wildfires damaged real estate value and tourism while throwing state and local government budgets into chaos. The potential cascading impact may trigger high default rates and market disruptions – precursors to a financial recession.[50]
  - Similarly, COVID-19-induced financial stress could cause borrowers to default on a total of USD104 billion at Bank of America, CitiGroup, JPMorgan Chase, US Bancorp, and Wells Fargo.[51]
- Increasing consumer interest in sustainability is fueling demand for green products across the industries, including banking. Not surprisingly, businesses are setting and achieving ambitious targets to reduce carbon footprints.
  - A 2019 survey indicated that more than half of UK companies across industries would increase spending to make manufacturing sustainable, improve internal processes, and upgrade buildings and equipment to reduce carbon footprints by 2021.[52]

## In a nutshell

- To pursue green banking and counter environmental and climate risks, banks are integrating sustainability into corporate governance.

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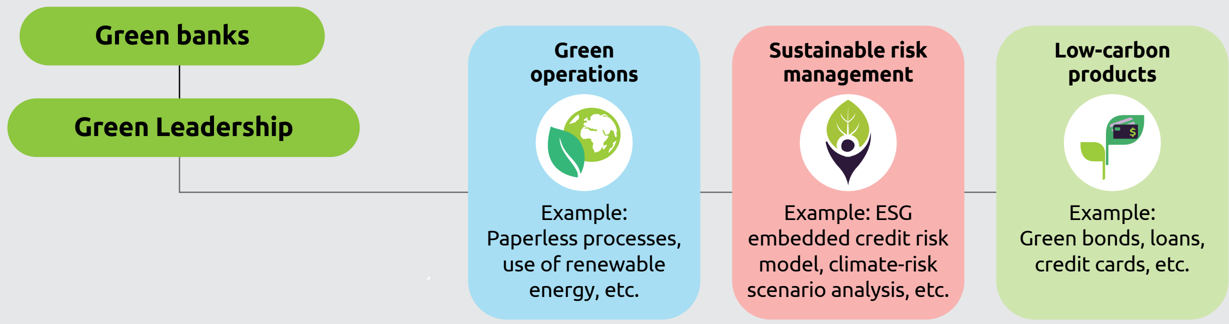
[47] Munich Re, "Munich Re NatCatSERVICE," July 2020.
[48] Aon, "Global Catastrophe Recap: First half of 2020," July 23, 2020.
[49] GARP, "Second Annual Global Survey of Climate Risk Management at Financial Firms," May 14, 2020.
[50] Insurance Journal, "Explained: How California's wildfires could spark a financial crisis," September 10, 2020.
[51] CBS News, "Bad debts at nation's biggest banks top $100 billion," July 17, 2020.
[52] The Telegraph, "Why more than half of UK businesses are planning to increase spend on sustainability," November 8, 2019.

- For instance, in 2017, DBS bank established the DBS Sustainability Council and appointed a chief sustainability officer (CSO).[53]
- Similarly, in 2019, Citi Group promoted an executive to a newly created chief sustainability officer position.[54]

- Green leaders are driving banks' sustainability initiatives with a focus on managing climate risks, adopting green operations, and developing green products.
- To reduce their carbon footprint, banks are adopting green and sustainable operational practices.
  - Bank of America, Spain's Bankia, and Germany's Commerzbank focus on using renewably sourced electricity for branch operations and central services to cut energy use, slash greenhouse gas emissions, and reduce environmental impact.[55]
  - Banks are turning to e-documents to create paperless processes. For instance, in the UK, Natwest Bank stopped sending automatic physical bank statements beginning in January 2020.[56]
- More and more firms integrate ESG into credit offerings to address environmental and climate risks.
  - BBVA (Spain) and State Bank of India motivate customers to opt for zero-emission vehicles with clean-energy vehicle loan schemes that offer reduced interest rates, flexible payment options, and zero processing fees on electric vehicle purchases.[57, 58]
  - And in 2020, RHB bank (Malaysia), BBVA, and Länsförsäkringar Bank (Sweden) launched credit cards made of recycled plastic.[59, 60, 61]

**Figure 5: Three key focus areas of green banks**




Source: Capgemini Financial Services Analysis, 2020.

## Impact

- Banks that prioritize environmental and climate risks – and embed ESG within their core business – are more resilient to market disruption and could recover faster from a crisis.
- ESG-focused firms boost their potential to outperform competitors.
  - For instance, an analysis of 613 public companies and 140 stocks indicated that ESG-focused companies outperformed their peers as the COVID-19 pandemic began (December 2019–March 2020).[62]
  - Moreover, a list of the top-100 sustainable companies – including Standard Bank, Westpac Banking Corp, Banco do Brasil, and Shinhan Financial Group – consistently outperformed the average MSCI ACWI (All Country World Index) firm.[63]

[53] DBS, "DBS shares sustainability commitments addressing climate change," January 26, 2018.
[54] The National, "Citi to begin measuring emissions tied to its loans," July 30, 2020.
[55] CNBC, "10 banks embracing renewables and looking to slash their environmental impact," August 23, 2017.
[56] Money Expert, "NatWest to Scrap Paper Statements from January," November 14, 2019.
[57] BBVA, "BBVA launches a new line of green loans to buy hybrid and electric vehicles," June 18, 2019.
[58] Economic Times, "SBI offers 20 bps discount on electric vehicle loans," April 22, 2019.
[59] Tieto Evry, "Länsförsäkringar Bank launches world's first sustainable payment cards made of recycled plastic," June 17, 2020.
[60] Business Wire, "IDEMIA Partners With RHB Bank to Launch the First Recycled Debit Card in Asia Pacific," June 15, 2020.
[61] BBVA, "BBVA launches Spain's first card made of recycled plastic," February 27, 2020.
[62] HSBC, "ESG stocks did best in Covid-19 slump," March 27, 2020.
[63] Visual capitalist, "Mapped: Where are the world's most sustainable companies," March 6, 2020.

Trend 06

# Banks tap low-interest, no-friction, value-based offerings to energize customer acquisition

***Retail banks can generate revenue through upselling and cross-selling while reducing customer acquisition costs.***

## Context

Although service no longer depends on branch proximity, efforts to attract new customers have become increasingly challenging and expensive. Banks are seeking ways to tap into new population segments by focusing on the specific needs of each. POS financing, mortgage refinancing, and wealth management products are cost-effective ways to attract new customers.

- POS financing is now an attractive – and prevalent – feature for online and in-store shoppers. Estimates put the global POS financing market at USD400 billion.[64]
  - Retailers, including Walmart, are partnering with FinTechs to extend multiple POS financing options to finance customers' credit needs, reduce cart abandonment rates, and drive sales. Banks can increase their retail presence by customizing lending options and participating in marketplaces through collaboration.[65]
- Since the onset of COVID-19, close to three-quarters of millennial home buyers say they feel stressed about their overall finances. That apprehension, combined with historically low-interest rates, has sparked a refinance boom as a way for homeowners to save money.[66]

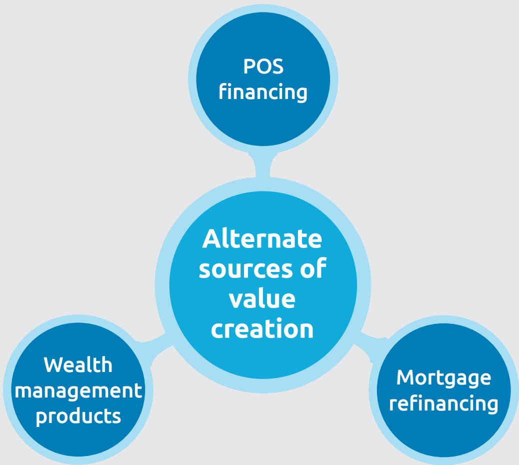
## Catalysts

- Competition from FinTech firms offering niche products is up, and banks seek cost-effective ways to attract and acquire new customers. In 2019, it cost about USD300 to acquire a single new FS customer – significantly higher than other industries.[67]
- Low-cost, fast-engaging, and no-friction sales opportunities – such as POS financing – are becoming more convenient and easier to use. More and more shoppers want a simple, straightforward experience when they opt for installment-based funding over compound-interest credit cards.
  - The rise of e-commerce and the subsequent shift of big-ticket goods to various platforms are fostering the use of POS lending by price-sensitive, tech-savvy millennials. Sixty percent of millennials are interested in payment methods other than traditional credit cards to finance large ticket e-commerce purchases.[68]
  - High cart abandonment rates in B2B (~67%) are also paving the way for POS financing in the corporate buyers' space.[69]

[64] TurnKeyLender, "Retailers Can Take Control of Fees in Their POS-Financing Programs," February 12, 2020.
[65] PYMNTS.com, "POS Financing Makes Its Way Into B2B eCommerce," March 29, 2019.
[66] Carolina One Mortgage, "Refinancing in an uncertain market," May 1, 2020.
[67] Blue Orange, "Bank Customer Acquisition: Three Data-Driven Strategies That Work," March 18, 2020.
[68] Business Insider, "THE POINT-OF-SALE FINANCING REPORT: Research on the winning strategies companies are deploying to capitalize on the alternative financing space," December 18, 2019.
[69] PYMNTS.com, "POS Financing Makes Its Way Into B2B eCommerce," March 29, 2019.

- To assist consumers financially during the ongoing pandemic, many central banks have reduced interest rates. The US Federal Reserve cut interest rates to zero in mid-March 2020. As a result, a mortgage refinancing uptick is expected.
  - In the United States, refinance applications increased by 479% in March 2020 compared 2019, according to the Mortgage Bankers Association.[70]
- The number of high net worth individuals grew by nearly 9% YoY in 2019, which signals that banks might combine investment opportunities with retail offerings to appeal to next-gen millennial prospects.[71]

**Figure 6: Banks are exploring ways to unlock new revenue sources**




Source: Capgemini Financial Services Analysis, 2020.

## In a nutshell

- POS financing continues to see a wave of FinTechs offering services to multiple retailers and, in turn, millions of consumers across various regions.
  - Affirm, Blispay, and Square (United States), Financeit (Canada), Revo (Russia), Klarna (Sweden), Kreditech (Germany), and Paytm (India) are all POS specialists.[72]
- BigTechs are also collaborating with lenders to offer shop-now, pay-later benefits.
  - Amazon Pay partnered with Capital Float in India to offer *Amazon Pay Later,* an instant credit service that helps eligible consumers buy products and delay payment without interest in a particular time frame.[73]
  - In 2019, Alipay partnered with Klarna to offer buy-now, pay-later to AliExpress shoppers in Germany, Netherlands, Austria, and Finland. Adyen, the payments provider of AliExpress, powers the Klarna solution.[74]
- Not to be outdone, incumbent banks are stepping up their offerings to capitalize on popular alternative financing options.
  - *My Chase Plan* and *My Chase Loan* heralded JPMorgan's foray into POS financing, enabling consumers to purchase big-ticket items without interest over an extended period and borrow against credit lines.[75]
  - American Express, in collaboration with GreenSky, offers POS financing solutions to its network of merchants.[76]

[70] Grow, "2 questions to ask yourself before you take advantage of low interest rates and refinance a mortgage," May 14, 2020.
[71] Capgemini, "World Wealth Report 2020," July 9, 2020.
[72] Corniche Growth Advisors, "Shop Now, Pay Later," February 19, 2019.
[73] News18, "Amazon Pay Later Launched in India: Where to Use, Max Limit, Auto Debit Rule Explained," April 19, 2020.
[74] Klarna, "Alipay and Klarna enable consumers to 'buy now, pay later' at AliExpress," May 10, 2019.
[75] Forbes, "JPMorgan Chase Enters A Hot Fintech Space: Point-Of-Sale (POS) Financing," March 4, 2019.
[76] FinExtra, "American Express and GreenSky collaborate on POS financing," August 7, 2018.

- A growing trend among aggregators and marketplaces is to simplify the lending process further for both retailers and consumers.
  - New York startup ChargeAfter offers personalized POS financing from multiple lenders within a single platform. Visa strategically invested in ChargeAfter to give its network of sellers, acquirers, and issuing banks the option to distribute a broad range of POS financing and credit instruments to e-commerce and in-store sellers worldwide using the FinTech's platform.[77]
  - Mastercard acquired Austin-based Vyze, a cloud-based FinTech, to offer merchants an opportunity to connect customers with multiple lenders. Vyze works with lenders to provide consumer finance products such as branded store credit cards, installment loans, and lease-to-own payment plans.[78]
- Mortgage refinancing continues to gain traction as consumers seek to secure their finances. As a result, major banks are offering payment forbearance and mortgage refinancing options or are expanding eligibility criteria for current customers who want to refinance a nonconforming mortgage.
  - Fifth Third Bank (US) offers customers payment forbearance along with fee-waiver programs.
  - Wells Fargo expanded its eligibility criteria for current bank customers seeking to refinance a nonconforming mortgage. All current Wells Fargo mortgage and home equity line-of-credit customers are eligible, as well as those with assets in a qualifying Wells Fargo deposit, brokerage, or wealth and investment management account.[79, 80]

## Impact

- In the coming years, traditional banks are on track to make up lost ground in alternative lending as volumes grow, through in-house solutions, collaborating with FinTechs, and joining aggregating marketplaces.
  - Marketing initiatives and checkout signage will drive customer acquisition and create opportunities to boost upselling/cross-selling efforts.
- Hyper-localized financing could grow as regional retailers and community banks collaborate.
- As banks manage their data more effectively, they are poised to cross-sell/upsell peripheral products – such as mortgage refinancing and wealth management products – to existing customers, which will reduce acquisition costs and unlock new revenue sources.

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77 PYMNTS, "ChargeAfter, Visa Partner To Expand POS Financing Options," February 12, 2020.
78 PYMNTS, "Why Mastercard Bought Vyze," April 17, 2019.
79 American Banker, "Wells Fargo expands nonconforming jumbo refi loan criteria," July 10, 2020.
80 Bankrate, "List of banks offering help to customers impacted by the coronavirus," May 14, 2020.

Trend 07

# Banks leverage segment-of-one marketing to hyper-personalize offerings

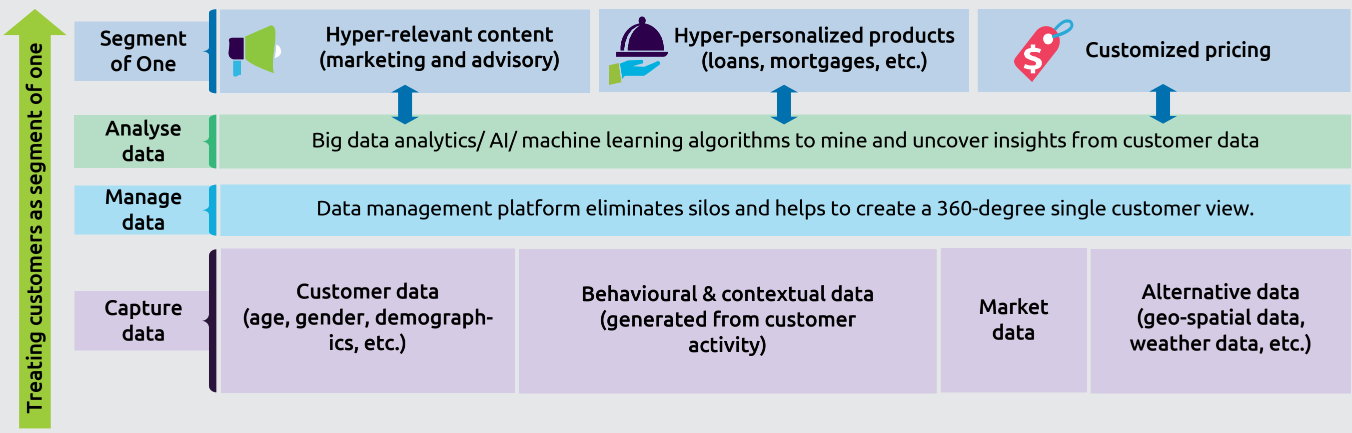
***Banks that treat each customer as an individual segment will earn loyalty, reduce attrition, and increase lifetime value***

## Context

One-size-fits-all marketing has lost its luster. Fifty percent of customers face a gap in seamless and integrated banking experience – not surprising when you consider that ~71% of customers don't receive time-targeted product recommendations from their primary bank.[81] For insight, simply take a page from Netflix or Amazon books.

- As part of a micro-segmented customer engagement strategy, both firms assess individual shoppers based on their past purchases and behavioral data to customize product recommendations and personalize service.

**Figure 7: Developing segment-of-one capabilities**




Source: Capgemini Financial Services Analysis, 2020.

## Catalysts

- New-age players (challenger banks, neobanks, and some FinTechs) are doing their best to seize market share from incumbents as BigTechs expand their FS portfolios.
  – Amazon and Alibaba started with payment services (Amazon Pay and Alipay, respectively), and are now aggressively venturing into lending, money markets, and cards.
- The proliferation of digital devices has accelerated data generation. At the same time, data management costs have declined significantly as the ability to leverage data steadily rises.
  – Our World Retail Banking Report 2020 revealed that 65% of bank executives are confident in their ability to manage data (store, access, share, and secure data) and, 62% said they plan to implement big data analytics at scale during 2020–2022.[82]

[81] Capgemini, "World Retail Banking Report 2019," October 29, 2019.
[82] Capgemini, "World Retail Banking Report 2020," June 11, 2020.

## In a nutshell

- Beefed up technological and big data capabilities are helping incumbents to target customers with surgical precision by creating hyper-relevant content – significantly empowering customer acquisition and retention.
  - In India, Yes Bank leveraged an AI tool to hyper-localize marketing by analyzing more than 40 real-time, dynamic customer parameters. The initiative helped the bank create hyper-relevant content for individual customers. Yes Bank said it reduced cost-per-acquisition by 230%.[83]
  - Spanish multinational BBVA analyzes contextual data via its Bconomy app to offer bank customers hyper-relevant content and product suggestions.[84]
- Segment-of-one thinking can help banks transition from mass production to mass personalization. Because hyper-personalization efforts remain pricey, it makes sense for banks to prioritize which segments to target first.
  - Canada-based BlueShore Financial uses a 360-degree customer-view to drill into client data to uncover preferential and behavioral insights. This close-up perspective enables BlueShore to develop unique offerings for each customer.[85]
  - Nordea, Royal Bank of Canada, and TD Bank also leverage contextual and behavioral data to view customers as a segment-of-one and to create customized products and experiences.[86,87]
- Tailored segment-of-one offerings can help banks customize pricing for services and improve revenue per customer.
  - San Francisco-based Bank of the West (a BNP Paribas subsidiary) uses a central data warehouse to mine data for relationship-based pricing, not on a product-by-product basis.[88]

## Impact

- A segment-of-one marketing approach allows banks to drive brand trust and loyalty.
  - Micro segmenting can help banks attract customers, earn more from existing ones, and increase retention by reducing churn. The result? High customer lifetime value. Businesses focused on improving customer loyalty (or loyalty leaders) grow revenues 2.5 times faster than their industry peers, according to the Harvard Business Review.[89]

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[83] ET CIO.com, “Yes Bank takes a leap with AI-based hyper-personalization tool, Pyxis,” November 11, 2019.
[84] BBVA, “BBVA Bconomy,” accessed September 2020.
[85] Temenos, “BlueShore Financial – Success story,” accessed September 2020.
[86] Teradata, “Royal Bank of Canada’s Answer,” accessed August 2020.
[87] American Banker, “Why TD Bank wants to read its customers moods,” December 18, 2019.
[88] The Dubs, “5 US banks nailing personalized customer service,” accessed August 2020.
[89] Harvard Business Review, “Are you undervaluing your customers?” January–February 2020.

Trend 08

# Tomorrow's frontrunners will offer consumers convenient one-stop shops

***Incumbents that effectively leverage ecosystem players can position themselves as a consumer services hub***

## Context

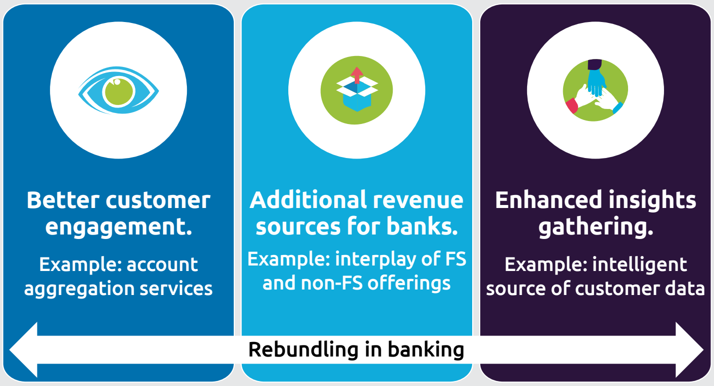
By acting as a central hub for multiple services, banking ecosystem players are moving to address a critical customer pain point: managing their disparate relationships, accounts, protections, and profiles.

- The first wave of FinTechs unbundled traditional banking services by providing stand-alone, domain-related offerings in payments, lending, accounts, and more.
- Today's second wave of new-age players is *rebundling* services to offer customers various benefits from a single platform.
- Banks can capitalize on this trend because they already have infrastructure that, with modernization, can deliver a variety of bundled services, including non-financial offerings.

## Catalysts

- It has become increasingly difficult for consumers to manage accounts from diverse providers of different services. More than half of customers interviewed for the World FinTech Report 2020 said their banking experiences were not integrated.[90]
- As agile newcomers aim for a larger share of customers' wallets, they are adding services to meet additional financial needs while maintaining the WOW-factor CX that attracted consumers in the first place.
- As open banking expands globally, and regulations such as PSD2 and GDPR evolve, new opportunities are emerging for banks to expand and diversify their portfolios.

**Figure 8: Banks leverage the rebundling trend to offer one-stop-shop convenience**




Source: Capgemini Financial Services Analysis, 2020.

[90] Capgemini, "World FinTech Report 2020," Apr 21, 2020.

## In a nutshell

- FinTechs are rebundling services by expanding from mono-line offerings such as bill payments to a diversified suite of banking products.
  - UK-based Zopa began as a peer-to-peer lender and was recently granted a full banking license and plans to launch a fixed-term savings account, followed by a credit card.[91]
  - British FinTech Revolut started as a digital wallet but now offers crypto-trading, brokerage services, and bank accounts. Its mobile app has 10 million European customers. Revolut expanded into the United States in March 2020.[92, 93]
- BigTechs are adding a range of new services to existing offerings.
  - Google teamed with Citibank to introduce bank accounts in 2020, similar to what Apple did in 2019 by launching a credit card in partnership with Goldman Sachs. By summer 2020, eight US banks had joined the partnership to offer co-branded accounts via Google Pay.[94, 95]
  - Recently, Standard Chartered introduced an installment payment program offering buy-now, pay-later services to its credit cardholders who shop on Amazon in the UAE.[96]
- Challenger banks are fattening up their product portfolios by collaborating with a broad range of partners.
  - UK mobile-only bank Starling features a partner marketplace that offers customers a variety of third-party products and services. The platform provides complementary services such as utilities, accounting, and mortgages, etc. to help customers manage their finances as their needs require.[97]
- By collaborating with ecosystem partners, incumbents are marking their rebundling territory by embracing a platform service model that features financial services as well as value-added non-FS offerings.
- Banks have baked in their digital and analytical capabilities during recent digital transformation initiatives. Now, they are ready to flexibly cross-sell and upsell the right products to the right customers at the right time.
  - Citibank is trialing a program to offer customer incentives such as links to entertainment accounts, Hulu, Amazon, or Spotify. The bank is considering a shift from standard cash rewards to more value-adding incentives.[98]
  - Dutch bank ABN AMRO collaborated with Swedish FinTech Tink to develop Grip, a personal finance management app that allows customers to view their consolidated finances, including integrated accounts from other banks.[99]

## Impact

- Rebundled services and a single consolidated view will help consumers manage their accounts – and banks with centralized hubs will be able to promote that convenience to attract new customers.
- Incumbents have an opportunity to retain and attract customers by augmenting their portfolios to meet the non-financial needs of today's busy consumers. Traditional banks that become service hubs will position themselves as a trusted partner at the center of all customer activities.
- With value-added non-FS offerings, banks will develop new sources of revenue while also gather insights into consumer behavior outside of financial services.

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[91] TechCrunch, "Zopa granted full UK bank license as it gears up to launch savings account and credit card," June 23, 2020.
[92] Data Driven Investor, "The unbundling & rebundling of the Fintechs," February 7, 2019.
[93] The Verge, "Popular European banking app Revolut is launching in the US today," March 24, 2020.
[94] Financial Times, "Cache crunch: Google-Citi deal could be future of banking," November 15, 2019.
[95] Finextra, "Google to offer co-branded accounts with eight US banks," August 3, 2020.
[96] Finextra, "Standard Chartered introduces Amazon instalment payment programme," September 10, 2020.
[97] Starling Bank, "Offer your services on the Marketplace," accessed August 2020.
[98] Comperemedia, "Why banks should get bundling," August 20, 2019.
[99] Tink, "How ABN AMRO built the most popular Dutch PFM app," August 19, 2019.

Trend 09

# Humanizing digital experiences will foster more authentic customer connections

***As banks strive for omnichannel engagement, consistency with in-person communication will drive CX delight***

## Context

Digital interaction is now a must-have feature – which means banks are on the spot to provide interactive experiences, on-demand, tailored, and consistent with each individual's unique needs.

- Digital devices for banking services became mainstream a few years back, and by 2019, nearly three-quarters (73%) of US customers interacted with their banks digitally via online or mobile.[100]
- Despite significant investment in digital, however, only 20% of customers say they feel emotionally connected to their primary bank.[101]

## Catalysts

- Most consumers still depend on human interactions to address specific needs.
  - Per a survey by Arm Treasure Data, 75% of US consumers preferred interaction with a human or a combination of human and electronic systems, while only 25% preferred interacting with only electronic systems, when it came to banks/credit unions.[102]
- Emotional banking that enables bankers to forge lasting customer relationships requires empathy. For example, issues such as delinquent payments or situation-based product/service requirement necessitate empathetic human agents to earn customer trust.
- Most banks suffer from data management inconsistency because bots cannot typically offer personalized recommendations and usually require intervention from live agents. Only 24% of banks use data effectively for hyper-personalization, according to the Capgemini World Retail Banking Report 2020.[103]

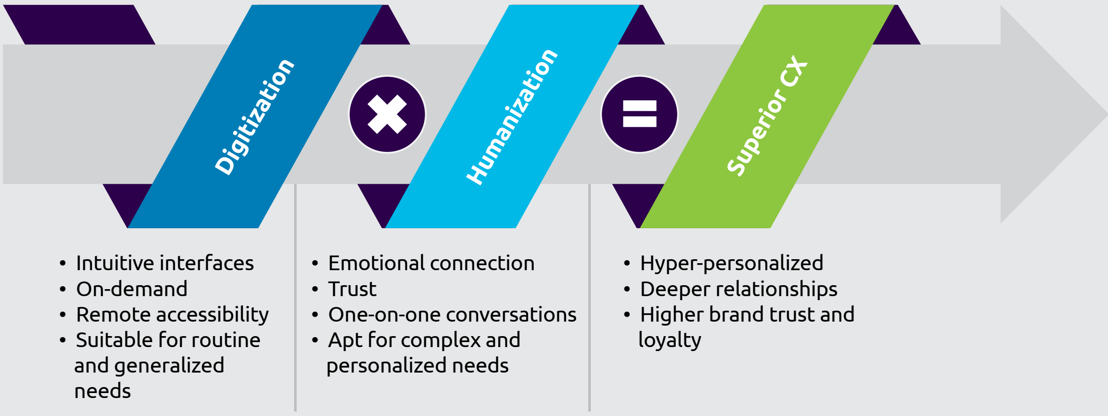
## In a nutshell

- Banks are struggling to provide human-like experience through digital channels and to nurture one-on-one customer relationships. Firms that learn to blend human touch within their digital interactions will be better prepared to build trust and emotional connections with customers.
  - Turkey-based VakifBank introduced an iPad app for its direct sales agents, providing a 360-degree customer view. Results included hassle-free banking for customers while VakifBank benefitted from enhanced customer engagement, better processing efficiency, and sales team productivity improvement.[104]

[100] American Bankers Association, "Survey: Bank Customers Preference for Digital Channels Continues to Grow," November 5, 2019.
[101] Gallup, "3 Strategies for Humanizing the Digital Customer Experience," July 9, 2019.
[102] Treasure Data, "AI vs. Human Customer Service: When Do Consumers Prefer a Bot?," October 8, 2019.
[103] Capgemini, "World Retail Banking Report 2020," June 11, 2020.
[104] Veripark, "Three benefits of adding a human touch to digital banking," May 6, 2019.

- Incumbents are rolling out video-banking features to help customers connect with their advisors digitally, a critical service in the age of social distancing.
  - UK banks Barclays and Natwest and US-based Star Financial Bank leverage video calling for services such as account set-up, query resolution, payments, and transactions.[105, 106]
- Some firms, including US-based Frost Bank, analyze particular customer sentiments to provide emotional banking. Frost correlated optimism with financial health and launched a campaign called *Opt for Optimism*. Participating customers learned how attitude and mindset could impact financial planning.[107]

**Figure 9: Digital era with a human touch**




Source: Capgemini Financial Services Analysis, 2020.

## Impact

- A balance of human and digital is poised to take shape, with bankers boosting their investments in emotional analytics while allocating more resources trained to understand and display empathy.
- Brand loyalty and trust is likely to grow as customers engage more deeply with their banks.
  - US-based Umpqua Bank rolled out a human-digital banking platform *Go-To Banker* that combines mobile technology and specially trained associates. The program lets all customers – regardless of their account balance – team with an Umpqua personal financial expert for specific needs. More than 90% of platform users said they were satisfied with the offering.[108]

[105] Bobs Guide, "How in-branch video banking enhances customer service experience," December 4, 2019.
[106] Star Financial, "Video Banking," accessed September 15, 2019.
[107] Daily FinTech, "How Emotional Banking can look like," June 18, 2019.
[108] Financial Brand, "Umpqua Bank Doubles Down On Its 'Human Digital' Strategy (Here's Why)," October 9, 2018.

Trend 10

# Banks can reduce fraud with end-to-end value chain optimization

***Front-, middle- and back-office digitization is a must for monitoring efficacy and reduced fraudulent activities***

## Context

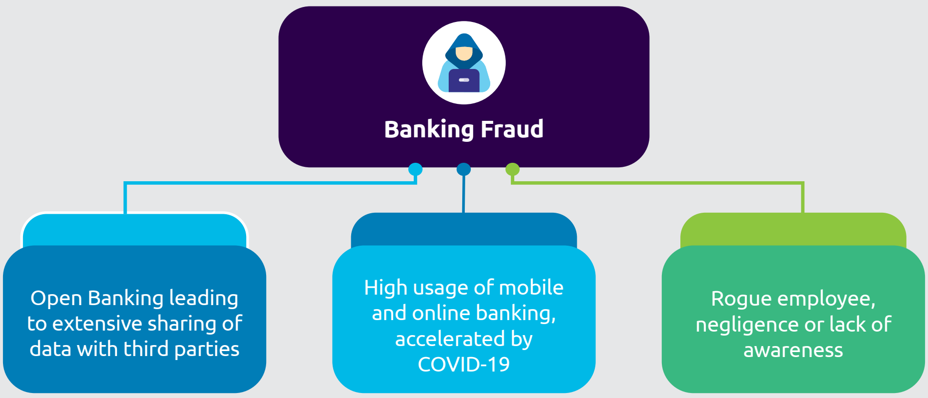
With the rise in banking fraud in the recent past, primarily due to the massive influx of digital activities in financial transactions, banks need to prioritize system modernization to ensure security.

- Banking sector fraud is nothing new. And, now, it's on the rise. The number of bank fraud cases increased by 15%, with the amount involved rising by nearly 74% in 2018-19, according to the Reserve Bank of India.[109, 110] Globally, banks are on course to experience similar deceptive incidents.
- Fraud has become a multi-million-dollar problem for the banking and finance industry. According to Business Insider, in 2019, the world's top five banks estimated ~USD65 billion in fraud losses.[111]

## Catalysts

- As fraud increases in value and volume, banks bogged down by manual, paper-based, and obsolete processes find it challenging to track such activities.
- The advent of open banking forced banks to share previously confidential data with third-party services, thus, creating additional opportunities for digital banking fraud.
- Fraudsters have begun to target millennials and tech-savvy Gen Z, who rely on personal devices and favorite mobile apps for easy and convenient banking activities. Research from UK-based Lloyds bank revealed a four-fold increase in 18 to 34-year-old victims of fraud in 2019.[112]
- And as COVID-19 disrupts regular routines, regulators around the globe are detecting a financial crime uptick.

**Figure 10: Factors that spur banking fraud**




Source: Capgemini Financial Services Analysis, 2020.

[109] LiveMint, "Bank frauds this fiscal have their roots in the past," February 17, 2020.
[110] Factly, "Amount involved in Bank Fraud cases increased 35 times in 10 years," September 5, 2019
[111] Fcase, "3 Current Fraud Threats Which are Creating Major Challenges for the Banking and Finance Industry," October 7, 2019.
[112] Lloyds Bank press release, "More young people being duped into 'safe' account scams," September 1, 2019.

   - Criminals are taking advantage of pandemic conditions to carry out financial fraud and exploitation scams, including advertising and trafficking in counterfeit medicines, offering fraudulent investment opportunities, and engaging in phishing schemes that prey on virus-related fears, according to a report from Interpol.[113]
- Enhanced technology, coupled with RegTech solutions, may soon become standard industry practice to tackle financial crime.

## In a nutshell

- Traditional players are leveraging RegTechs to improve banking processes and to ensure better compliance.
   - Singapore-based United Overseas Bank (UOB) partnered with Tookitaki to bolster its AML efforts via machine learning technology. UOB individualized Tookitaki's Anti-Money Laundering Suite (AMLS) with co-created machine-learning features to conduct more in-depth and broader analyses.[114]
   - OP Financial chose Enfuse, a Finnish payments FinTech, provides its turn-key PSD2 compliance services in Estonia, Latvia, and Lithuania. The service includes back-office management such as a full audit trail and third-party provider (TPP) support.[115]
- Banks are deploying advanced technologies such as AI to mitigate financial and operational risks and speed up the review process to hunt for fraudulent transactions
   - As part of a 2020 Capgemini survey, 74% of participating bank executives said incumbents could reduce up to 25% of false positives by using advanced technology, and 70% said AI was an asset in meeting compliance requirements.[116]
   - Banks are combining ML and AI tools with other technologies, such as using biometrics as a customer-facing authentication method for more complex fraud protection.[117]

## Impact

- AI and adaptive machine learning will play a significant role in achieving scale in terms of the constant fine-tuning of fraud detection strategies and compliance policies.
   - According to Capgemini's financial services analysis, three out of five executives said banks could achieve up to 25% improvements in their risk management capabilities from AI implementation.[118]
- It will be crucial to move beyond single-faceted device fingerprint, IP address and geolocation data, and access behavioral biometrics intelligence for multifactor authentication.
- Strategic partnership with the RegTechs is becoming a reality to removing human intervention and increasing automation, thus not just helping the banks with compliance but also fraud and risk management.

[113] ITProPortal, "RegTech on the rise - Financial fraud in a pandemic," May 7, 2020.
[114] The Straits Time, "UOB, Tookitaki tie-up to apply machine learning to fight money laundering," August 24, 2018.
[115] FinTech Futures, "OP Financial chooses Finnish fintech Enfuce for turn-key PSD2 services," May 20, 2020.
[116] Capgemini State of AI executive survey 2020; n=90.
[117] PYMNTS, "How US Bank Is Using Machine Learning To Tackle Fraud," September 18, 2019.
[118] Capgemini State of AI executive survey 2020; n=90.

# Conclusion

In an extraordinary year that demanded resilience, traditional retail banking shifted to become more intelligent and experiential. COVID-19 was a catalyst to prioritize risk management with an eye on financial loss, fines, and reputational damage. Customer centricity was at the top of most FS agendas and will remain a 2021 focal point. Bank executives will aim for channel and engagement strategy balance as they seek increasingly-valuable millennial mindshare. In unusual times, many organizations tend to tighten budgetary belts. Now, however, the operational impact of emerging technologies is clear, and innovating middle- and back-office processes is gaining traction.

Open X continues its steady and inevitable forward march, as incumbents collaborate with ecosystem players to solidify their best-fit long-term roles. Open platforms are becoming enabling shared services. And some firms are leaping into the evolving marketplace to add a variety of non-financial services offerings to their product portfolios. Banks are shedding asset-heavy models and moving to the agility of the public cloud to speed processes, innovation, and go-to-market timeframes.

How will banks leverage 2020 lessons to react resiliently to 2021 uncertainties? Will the push to augment traditional models take shape in the months ahead?

Our 2020 lessons learned were to expect the unexpected and prepare to act swiftly to keep customers informed, engaged, and satisfied.

# Ask the experts

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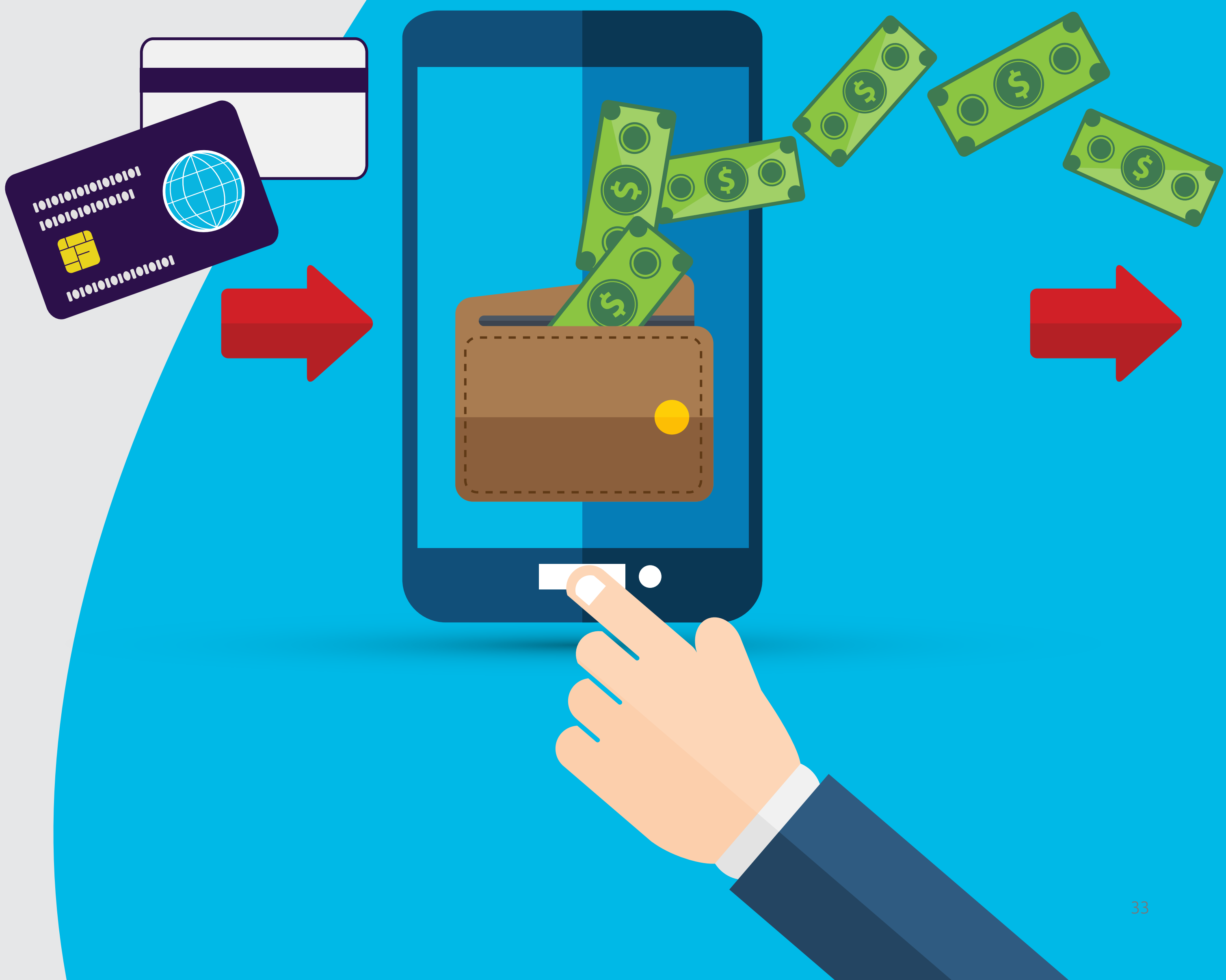
## Disclaimer



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