Innovation in Retail Banking

October 2018, 10th Anniversary Edition

A Decade in Review

DIGITAL BANKING REPORT

Efma Infosys® | Finacle

Innovation in banking is not universal, with many organizations needing to create a culture that will embrace the change that is occurring in the marketplace, take qualified risks, and be willing to disrupt current business models to succeed.

— Jim Marous

Owner and Publisher
Digital Banking Report

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Preface

Efma and Infosys Finacle are proud to present the 10th annual 'Innovation in Retail Banking' report. After a decade of charting the development of innovations and business models in retail banking, this year's study is a milestone that marks just how far the industry has come – and how new technologies are still driving transformation. We also look ahead at what's in store for banking in 2022.

Customers remain at the center of banks' innovation efforts as organizations across the industry move to improve digital customer experience across new touch-points and channels. In line with this, we found that delivery channels are the key focus of innovation, with most banks saying that mobile and online will be the primary distribution channels in four years' time.

In terms of product innovation, we found banks focusing on payments, mobile wallets and lending as the most important areas of banking. These are also the three areas where non-traditional financial institutions pose the biggest competitive threat.

A lot more banks are taking a longer view of returns from their investment in innovation compared to last year's report. We also found banks prioritizing an 'innovation culture' as the primary driver of innovation. More banks now have an innovation strategy in place, although growth is slow in this area. Banks are using a variety of approaches to support their innovation efforts. Notably, we've seen a significant increase in the desire to partner outside their organizations compared to previous surveys, as banks realize that internal development may not be enough to deliver the speed and customer-centricity they're aiming for.

Banks across the world see open banking APIs as the top technology for the future of innovation, ahead of artificial intelligence and machine learning, chatbots and other technologies. But we haven't yet seen the full impact of open banking, as banks are still considering a range of objectives for how they will use it.

While banks in this year's survey believe they are well positioned to use open APIs, conversational interfaces, cloud processing and mobility/wearables, we found an ongoing lack of readiness to leverage advanced analytics and machine learning – a factor that could inhibit other technology advancements and innovation efforts.

Looking ahead at 2022, banks continue to see platform-based competitors such as Amazon, TechFin firms and fintech organizations as the innovation leaders. We also found an increasing awareness of challenger banks as competitors compared to last year, while non-fintech or banking firms and incumbent banks were seen as the least threatening.

We would like to thank all the banks that participated in our 10th innovation survey and agreed to be interviewed for the study. Not only do they provide invaluable insights into retail banking innovation today, they also contribute to a bigger picture of the industry's innovation over the past 10 years. We hope that our readers find this study informative, inspiring and useful.

Vincent Bastid
Chief Executive Officer, Efma

Sanat Rao
Chief Business Officer Global Head,
Infosys Finacle

Letter from the Author

It was 10 years ago that Efma and Infosys Finacle published the first edition of the Innovation in Retail Banking report. During this period, the banking industry has needed to respond to the impact of the financial crisis, the digitalization of the industry and mobilization of the consumer, an influx of traditional and non-traditional competitors, new regulations, and continued pressures on margins.

Despite these challenges, or maybe because of them, we have seen an increase in the commitment to innovation from institutions small and large. Innovation has also been the driving force behind fintech as a sector, with new entrants offering competitive alternatives focused on digital delivery and a focus on an improved customer experience.

While the fintech sector was initially viewed as a threat to traditional banking organizations, there is now the belief that these smaller fintech firms can become great collaborators or even investment opportunities. The potential for partnership is born in the reality that the strengths and weaknesses of both traditional banks and fintech firms are served well by joining forces.

To celebrate the 10th year of this important industry report, we start by taking a look back over the previous nine years of this publication, providing a snapshot of the marketplace and innovation trends through the years. From an increasing investment in innovation, to the shift from internal to externally focused breakthroughs, the continued strength of Eastern European and the developing financial marketplace banks as innovators, a lot has happened in the last decade.

We also look at the trends in digital transformation, the deployment of advanced technologies, the impact of external competitive forces and a review of case studies from the winners of the 2018 Efma Innovation Awards. Finally, throughout the report, we provide perspectives of industry leaders as they look back at the past and into the future on how innovation has transformed the banking industry.

It is clear from this year's report, and the reports from the past, that great progress around innovation has been made, but that there is still much to do. The increasing demands of the consumer, fueled by digital experiences from technology leaders, is relegating the banking industry to playing a game of 'catch up'. This is especially true with smaller organizations, who often lack the resources to deliver the digital functionality of larger peers.

To move forward at the speed of change will require a doubling down on providing a culture of innovation throughout organizations, combined with a willingness to embrace change, take appropriate risks and disrupt what has been the norm in the past. This requires getting out of our comfort zone and finding a way to serve the consumer in the way they are being served by big tech alternatives.

Jim Marous

Publisher, Digital Banking Report
Author, Innovation in Retail Banking 2018

Message from Infosys Finacle

I am delighted to present the tenth-anniversary edition of the annual Innovation in Retail Banking study, in association with Efma and Jim Marous. This edition marks an important milestone in our treasured partnership and endeavor to monitor and chronicle developments in retail banking.

With insights from over 300 leaders and practitioners in the industry, this report invites you to review a decade in banking innovation and also take a look into the future. Research findings articulated and revealed in the following pages recount the unfolding of a phenomenon we seldom realize and recognize as we live through it - the phenomenon of evolution. Innovation efforts and practices in banking have evolved steadily over the last decade. Three crucial observations, a reflection of our experience in the industry show us how.

Who is the customer talking to?

A few years into the new millennium, we were still carrying out most of our financial transactions through a teller at the bank branch. The branch housed nearly 50% of the total number of customer interactions. In a striking display of the power of the exponential, less than 15 years later over 90% of customer interactions have moved away from the branch to digital channels such as online banking, mobile banking, digital wallets, and call centers. What's more, industry estimates suggest that by as early as 2022, nearly 50% of these transactions will move beyond bank-owned channels to channels managed by third parties, thanks to digitization and customer-centric regulations.

Where are the investment dollars flowing?

Investment in banking innovation has increased in lockstep with the pace and direction of change. Our research findings over the years suggest a significant investment in digital channels. Leading and progressive banks at the forefront of digital innovation have also invested in the more strategic digital engagement suites and hubs.

These banks are now moving the needle on innovation with new digital models enabled by open banking initiatives across the globe. API-led innovation emerged as the most important area of focus for banks this year reinforcing the sweeping realization that the future of banking is "open".

Who is winning the innovation battle?

What has become profoundly clear in financial services is the firm footprint of technology giants such as GAFA and nimble digital players such as FinTechs. With the democratization of data, these new market entrants are being seen as the frontrunners for innovation in the industry.

According to this year's findings, digital commerce platforms such as Amazon and Alibaba are likely to emerge as clear innovation leaders by 2022. Consumer technology companies such as Google and Apple come a close second. The growing realization that the biggest threat for banks comes not from within the industry but from new players with advanced digital capabilities in critical areas of competitive differentiation is making banks notch up their innovation efforts.

Progressive banks have already begun preparing for this reality by cultivating ecosystems and investing in platform business models. Our survey this year sought to assess what banking practitioners think about the change in business model in banking. Findings reveal that the traditional front-to-back closed model is visibly disintegrating into specialist roles in the new world of banking which places a growing premium on deep expertise and customer relationships. Banks are aligning themselves more strongly with manufacturing or distribution roles to affirm their position in the platform economy.

Transforming for the digital future

Research findings and customer accounts from our experience with financial institutions in over 100 countries indicate that as banks continue to adopt and transition to new digital business models, the great enabler of change – technology – is becoming an inhibitor, especially for incumbent banks saddled with legacy systems.

In response to the digital disruption brought in by modern technologies, empowered customers, agile competition and changing regulations, all banks have introduced digital initiatives. Amidst constraints of capital, resources, or skills, many banks administered a facelift of select touch points and pockets largely limited to the front office, instead of a holistic transformation that is digital to the core. Their huge legacy estates hinder their ability to respond to market changes swiftly.

Not surprisingly, a whopping 74% of banking leaders and practitioners this year indicated "technology enhancement" as the top area of investment. Invariably all banks are now moving beyond peripheral digitization to truly digital transformation with re-imagined customer journeys for frictionless experiences, larger ecosystem play, insights-driven interactions and ubiquitous automation.

The dizzying pace of digitization in a world where windows of opportunities open and shut faster than ever, demands a sharp vision and agility and creativity to translate that vision into action. And banks do not have the luxury of a trade-off between an unrelenting focus on the digital future and delivering on the demands of the present. It is critical to seamlessly juggle the dual orchestra of transforming for the future and excelling at the regular and the routine.

With this research, we aim to help banks sharpen their vision, bolster their innovation strategies and accelerate their digital transformation journey. The study brings together powerful insights about innovation in the industry and provides a benchmark for investments in various areas of innovation. We hope it helps you prioritize your innovation investments and empowers you in your unique journey in this rapidly evolving world of digital banking.

Sanat Rao

Chief Business Officer and Global Head
Infosys Finacle

KEY RESEARCH QUESTIONS:

- Are financial institutions increasing their commitment to innovation?
- What is the primary focus of innovation initiatives?
- What areas are receiving an increased level of innovation investment since last year?
- Do institutions tend to build, buy or partner to drive innovation?
- What technologies will have the greatest impact on banking in the next year?
- Over what time period is the success of innovation measured?
- Who will be the innovation leaders in the future?

KEY TAKEAWAYS:

- While fewer than half the organizations surveyed have a chief innovation officer, the presence of an innovation strategy increased by 6% since 2017.
- 50% of organizations state that their primary area of innovation in the next four years is in product delivery channels.
- 74% of institutions increased innovation investment in technology, 73% increased investment in channels and 69% increased investment for customer experience.
- The primary ways organizations are driving innovation is by partnering with business partners, large tech firms and start-ups.
- Open Banking APIs (5.68 on a 7-point scale) and advanced analytics (5.66) were the technologies thought to have the greatest impact over the next 12 months.
- In 2018, there was a significant shift to a longer-term perspective of ROI for innovation.
- Bankers surveyed believed big-tech firms, digital commerce platforms and fintech start-ups will be the most innovative competition in 2022.

Innovation in Retail Banking 2018 Case Studies

The following is a list of financial marketing case studies that are highlighted near the end of this report complements of the *Efma Distribution & Marketing Innovation Portal.* Efma members have free access to thousands of innovation case studies through this portal.

Institution	Product	Innovation and Differentiation
Banco Bradesco Brazil	Multichannel Reach at Lollapalooza	The main objective of the multichannel initiative was to allow the public to know about and interact with the Lollapalooza festival either in person or virtually. The bank's sponsorship served to link the music universe to the Bradesco brand.
Bancolombia Colombia	Plink	Award winning analytics and advanced intelligence solution that brings together merchants and consumers, providing value to both.
Bank Pekao S.A. Poland	PeoPay	Mobile banking application which allows customers to pay abroad in foreign currencies and enables online shopping to be paid directly from a phone. It also enables payments in contactless terminals in Poland and abroad.
Fidor Bank United Arab Emirates	Moneysmart.ae	The Middle East's first financial community and smart bank concept. Its objectives are to increase financial knowledge among Millennials, help consumers manage their finances and build their wealth in an inter-active bank environment.
Alior Bank Poland	Konto Jakze Osobiste	Personalized bank checking account that allows account holders to choose the benefits that they want and/or don't want via online banking platform, mobile application or at any branch.
Shinhan Bank Japan	Innovative Car Loan Program	Gold winning innovation for social, sustainable and responsible banking involves installing an IOT device in a newly financed car that can identify the location of the car and deactivate the engine if a customer's repayment falls overdue.
BAWAG P.S.K. Austria	TRENDE_ LOUNGE	An event at BAWAG P.S.K. where employees present their innovative ideas for consumer products and services. The event empowers the bank's workforce and has increased awareness for innovation within the company.

Executive Summary

Executive Summary

Over the years, there has been a growing realization in banking towards innovation as the proven path to differentiation and competitiveness. While the transformation has been slow, over the last decade the industry witnessed an increasing willingness to discard the traditional short-term focus, functional siloes and risk-averse culture towards more meaningful advancements and open culture.

While traditional banking organizations have lagged other industries with regard to innovative cultures, the challenges over the past decade seem to be more deeply entrenched at financial institutions in the more developed countries. Evidence of this dearth of exciting innovations by banks in the U.S. and Western Europe can be seen when looking at the big winners at annual financial innovation award presentations.

We have seen over the past several years that start-ups embody the core principles of innovation that drive commercial success. They embrace risk-taking and failure, while rewarding success. They are agile and can pivot immediately to meet market demand and are focused on customer needs. Because they are usually small, they can think big. But because they are small, scalability can be a challenge.

The question is whether banking can replicate the best of fintech start-ups while leveraging their customer base scale advantage to respond to a changing marketplace. Or, will the majority of the industry need to be fast-followers … or laggards, with the inherent risks?

The Challenges of an Innovative Culture

Building a 'culture of innovation' is most likely at the top of most banking organizations' corporate agendas. There is no denying that a firm's own employees are uniquely positioned to understand both their customers and their own organization. We have seen movement over the past decade toward a greater commitment to innovation, but we have also seen the lack of commitment doom innovation initiatives.

Unfortunately, while many organizations say they are increasing their efforts to build a work environment that inspires innovation and creativity, research indicates that many corporations may have a surplus of ideas that aren't being nurtured. Worse yet, a risk-averse approach to innovation creates incremental improvements rather than the level of innovation needed to generate meaningful ROI. Finally, the structure of banking makes the entire process too slow, resulting in lost revenues.

While our research over the years has found that an innovative culture is very important to the generation of entrepreneurial ideas, and that the investment in innovation has increased every year, many firms still do not view themselves as strong innovators and there is a lack of disruptive innovations that ever reach the consumer.

What Makes an Innovation Leader?

Over the past decade of evaluating innovation in banking, several key characteristics have been prevalent in innovation leaders:

- **Focus on Customer Experience:** Innovative organizations put the consumer first, knowing that a positive customer experience is good business. They increasingly use data and advanced analytics to understand their customers' needs and behaviors. They invest in capturing insights from internal and external data sources and build models to enable contextual decision making and communication.
- **Build an Innovation Culture:** The one constant we have seen over the past 10 years is that the most innovative financial institutions have the most evident top-down innovative culture. This goes beyond just support for innovation; to include risk-taking, networking and collaboration (including a meaningful measurement and rewards structure). It is difficult for an organization to achieve the spirit or success of smaller and more agile fintech firms without a commitment from the top.
- **Encourage Internal and External Collaboration:** The most successful innovators take advantage of the best ideas from both inside and outside the organization. In fact, it is becoming more commonplace for innovation to occur through collaboration with fintech firms than to be built from within.
- **Integrate Innovation with Business Objectives:** Investment in innovations must be consistent with overarching business strategies being presented to the public and should be supported by the corporate culture.
- **Take a Long-Term View of Innovation:** Innovation cannot be held captive to the quarterly reporting of earnings. Over the past 5 years, we have seen banking organizations extend their perspective of how fast innovation must generate a return. This is a good trend.
- **Provide a Structured Environment**: If the innovation process at a financial institution does not have a defined leader, it will be more difficult to succeed. Many organizations say they are committed to innovation, but lack the leadership and structure needed. To be effective, an innovation process must run quickly and efficiently, and needs to be separated from the normal banking silo structure that slows the process.
- **Focus on Speed to Market:** Swift execution of innovative ideas is imperative to maximize ROI. Successful organizations aren't constrained by customary ways of doing things — they remove the words 'no' and 'cannot' from their vocabularies, and instead focus on finding a way to succeed. They also utilize small, focused project teams.

Moving Forward

With the ongoing onslaught of outside firms competing in all business categories, financial organizations must take steps to centralize, internalize and prioritize the innovation process. Some suggestions include:

- Assess the innovation culture and process within the organization to determine if new ideas are encouraged and rewarded.

- Determine how innovation can be integrated and aligned within the overall business strategy of the organization through innovation road-maps, measurement processes and a rewards structure.
- Publicize the innovation culture within and outside the organization. Make sure this culture begins at the very top of the organization.
- Create opportunities and incentives for innovation and idea development.

The banking industry is faced with the risk of disruption from many known and unknown sources. How organizations respond is critical to continued success, and ultimately, their existence.

Most banking organizations may need to look no further than their own employees for innovative ideas. While potentially being overwhelmed by ideas that may have limited impact or revenue/ cost benefits, it is still imperative to harvest ideas with potential.

If the banking industry is going to keep up with the new upstarts and fintech entrepreneurs, organizations need to find ways to cultivate, nurture, implement and reward ideas swiftly. The key is to avoid dampening innovative spirit, while aggressively culling ideas with less chance of success, and selecting innovative ideas that will generate returns.

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Innovation Over the Last Decade

Innovation Over the Last Decade

The fallout from the financial crisis of 2008, coupled with rapid technological developments, forced financial institutions to rethink and adjust their business models. Legacy systems and long-standing banking cultures have come under attack. The need for innovation has continued to increase.

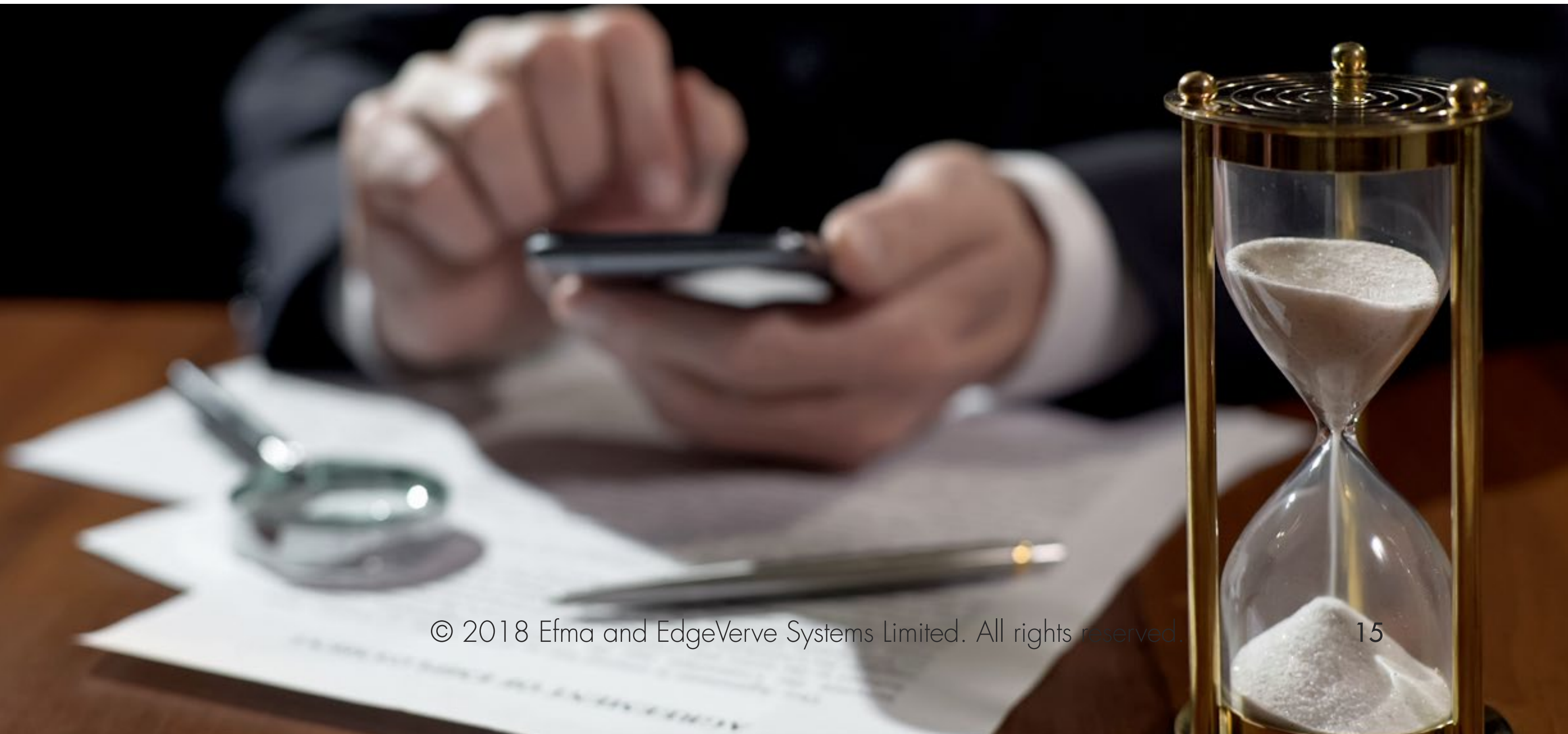
The success of smartphones and the digital convenience of applications have constantly changed consumer behaviors and expectations. New competitors have emerged that have found new ways to leverage digital technologies and customer insights. At the same time, banks' resources have been stretched, driving the need for efficiency and cost reduction. Regulatory systems have had a difficult time keeping pace.

As we look back at the past nine issues of 'Innovation in Retail Banking', we see a transition from a time when product and service innovation was done behind closed doors, to a period when 'Open Banking' provides the potential to co-create with non-financial entities for a competitive advantage.

As we look through the years, we see a trend away from innovation to 'save money' to an increasing focus on improving the consumer experience. With banks providing client access, industry expertise and ready-made infrastructure, fintech firms are bringing innovative solutions, new uses for technology and agility to the table.

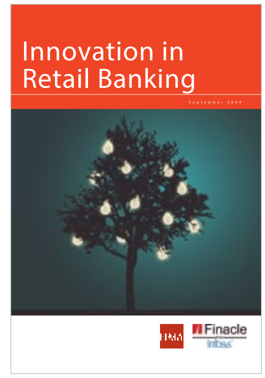
Combining the power of traditional banks with the dynamic potential of fintechs has changed the game in banking. More than ever we are realizing that innovation in a digital world requires cultural change. Banks need to get used to new ways of delivering their services and organizing as a business.

Today, innovations are being developed rapidly (from the user's point of view), being released more quickly and continuously being improved. While a look back is insightful, it is the view of the next 10 years that will be the most exciting.



Innovation Over the Last Decade

2009



When the first Innovation in Retail Banking report was published in 2009, the financial crisis was commanding the majority of the attention of financial services executives worldwide. The focus was on reducing risks, protecting assets, restoring consumer faith in banking and managing costs.

While there was a danger that banks would allow other priorities to slow down their pace of innovation, many organizations realized that this was precisely the time when innovation could lay the platform for future growth and efficiency. When the first report was published, it was already clear that Eastern European banks were going to be the leaders in innovation for years to come.

- 78% of the banks in the survey believed that the importance of innovation was high or very high for both growth and efficiency.
- Only 37% of banks said that they had an innovation strategy, which was low given the perceived importance of innovation and the fact that 73% of banks were aiming to be innovation leaders in their domestic market.
- Strategic innovation was a high priority for many banks, but concrete examples were rare, with 54% of banks saying they were working on strategic innovation, or an equal mix of strategic and incremental innovation.
- Banks in Central & Eastern Europe, particularly Turkey, were leading in growth innovations, with 54% of banks surveyed believing that their level of innovation in product, channel and customer relationship activities was high or very high.
- 70% of the banks in Western Europe rated their level of customer relationship development activity as high or very high, but only 53% rated the level of innovation in this activity as high or very high.
- 90% of banks surveyed said that the importance of innovation for efficiency improvement was high or very high. However, the level of innovation in the efficiency improvement efforts did not match this perceived importance.
- Inflexible IT systems and bottlenecks in IT development were the top two barriers to innovation.
- The lowest barrier was a lack of innovative ideas – most banks had idea generation processes, at least for employees.

Innovation
Over the Last Decade

2010

In 2010, there were early signs of banks emerging from the financial crisis, with many banks increasing their investment in innovation compared to 2009. There were numerous examples of product, channel and process innovations, as well as cases of start-up and established banks adopting innovative business models.

In response to a desire to restore trust after the crisis, banks had an increased emphasis on customer-focused innovation in 2010, with new approaches like crowd-sourcing being adopted to bring the customer into the innovation process.

The way that banks in developing countries were using new technologies and business models illustrated how innovation has a key role to play in any market. In fact, some of the banks in the least developed countries were leaders in branchless and mobile banking innovation.

- 93% of banks believed that the importance of innovation for growth was high or very high, and an equal percentage of banks believed that the importance of innovation for efficiency was high or very high.
- 61% of banks increased their level of investment in innovation in 2010 compared to 2009, whereas only 11% decreased their level of investment.
- A clear vision of innovation as a strategic priority was quite rare, with only a few of the banks surveyed making it clear to their stakeholders that innovation was a strategic priority.
- Central & Eastern Europe were found to be the most innovative, followed closely by banks in the Middle East & Africa.
- Only 34% of banks believed the threat to the industry from new entrants or business models was high or very high. The most common threats cited were from retailers, mobile telcos, alternative payment providers, and person-to-person business models.
- Over 80% of banks said the importance of IT for innovation was either high or very high. However, less than 50% of banks said they were leaders in the use of IT for innovation.

Innovation Over the Last Decade

2011

The global economy, and the banking industry in general, were still recovering from the financial crisis of 2008 and 2009 when the 2011 Innovation in Retail Banking Report was published. Despite these challenges, investment in innovation was increasing and banks believed that their level of innovation was improving across a range of activities.

New innovations from the use of mobile technologies featured quite highly in 2011. There were still plenty of areas where banks had work to do, such as in the areas of online sales processes, real time event-based marketing and the use of social media.

- Unsurprisingly, innovation was a lower priority for most banks than risk management, balance sheet management and cost management.
- Only around 50% of banks had a clearly articulated innovation strategy.
- There was a strong positive balance of banks increasing rather than decreasing innovation investment in 2011 compared to 2010 in all regions.
- The level of innovation was highest in channels, and in particular in the online channel. The innovation level in the product area was also quite high, but this was of less importance for the future.
- The primary innovation objective for banks in Western Europe and Central & Eastern Europe was to cross-sell more to existing customers. In contrast, the focus of innovation efforts in Middle East & Africa was to attract customers.
- A significant minority of banks did not have processes for tracking innovations taking place elsewhere or for testing new propositions against existing propositions in the market.
- 79% of banks in the Middle East & Africa had the objective of being innovation leaders relative to their competitors, whereas 64% of banks in Western Europe expected to be slow followers or fast followers.
- The competitive threat from disruptive innovators was seen to be high or very high by 65% of banks and the threat was believed to be increasing in all regions, particularly in Western Europe.

Innovation Over the Last Decade

2012

Despite conflicting priorities and the continued economic downturn that had lingered for more than 4 years, banks around the world were still increasing their investments in innovation as noted in the 2012 Innovation in Retail Banking report.

- The study found that online and mobile channels were growing rapidly, with banks focused on areas of innovation that would attract new customers and grow revenues. Branches were still very important in 2012, with the highest amount of IT spending going to this distribution channel.
- 79% of banks found innovation as strategically important to the future success of their business.
- 76% said that investment in innovation in 2012 had already increased over the previous year, mostly in the areas of channels and customer experience.
- Bank branches received the highest proportion of discretionary IT budget at 27%, compared to 26% for online and 20% for mobile. There was a consistent view across the regions that online and mobile were the most important channels for innovation.
- 93% of banks expected to offer mobile payment services, and 89% planned to offer bespoke tablet banking applications to customers within the next three years; the area of fastest growth came from innovations in value-added services such as personalized location-based offers, a space where within three years more than 76% of banks said they would shift focus, up from just 8% in 2012.
- 87% of banks were focused on integration with social media, and 86% on interactive services, such as web chat, video conferencing, and click-to-call; this highlighted that banks were focused on improving the customer experience through greater interactivity.

Innovation
Over the Last Decade

2013

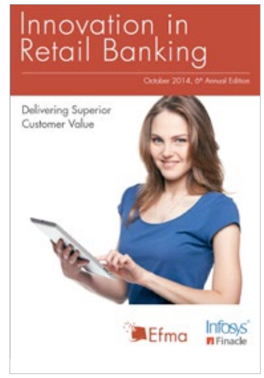
The 2013 Innovation in Retail Banking Report revealed that as the global economy recovered, retail banks across the world were increasingly investing in innovation as a means of generating revenue and controlling costs. In fact, 60% of banks surveyed had an innovation strategy compared to just 37% when the report was first issued.

The study also found that to overcome the main barriers to innovation – legacy systems and organizational silos – banks were looking towards technologies that could simplify their operations and deliver a richer customer experience. In particular, mobile innovation was beginning to gather pace, with 77% of banks deploying or planning to deploy a mobile wallet solution.

- 76% of banks believed they were becoming more innovative, with the biggest increase being seen in customer channels.
- 77% of banks surveyed were increasing investment in innovation. This was an encouraging trend, as the 2009 study revealed only 13% of banks had increased investment.
- More than half (58%) of banks surveyed believed the ability to deploy new systems would have a positive impact on their ability to innovate.
- Mobile location-based offerings were cited as another area of innovation for banks, with 69% deploying or planning on making deployments.
- To enhance their product and service offerings, 45% of banks were already using or planning to invest in gamification, and 61% of banks allowed or planned to allow customers to do some form of product personalization.
- Large and medium sized banks rated the top three barriers to innovation as legacy IT systems, culture and organizational silos.

Innovation Over the Last Decade

2014



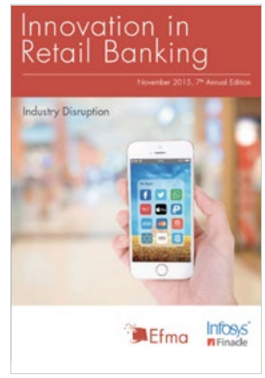
The 2014 edition of the Innovation in Retail Banking report revealed that more banks in fast growing and rapidly developing markets displayed greater ambition for becoming innovation leaders and for delivering superior customer value. They did this by investing more in research and development, compared to their peers in mature markets.

The study also revealed that banks across the globe, especially from more mature economies, were increasing their innovation investments in 2014 compared to 2013 to keep pace with increasing customer expectations and to respond to new market entrants. While new competitors included established technology companies and telcos, there was increasing collaboration with start-up companies to help drive innovation in banks.

- Banks in emerging middle income and high growth countries (such as Brazil, India, Malaysia, Russia, South Africa and Turkey) were more likely on average to have an innovation strategy, to be aiming to become innovation leaders, and to be investing in R&D.
- Banks were most concerned by the threat from technology companies entering the market (for example Google, Apple and Facebook). The threat from this type of competitor was rated high by 45% of banks and had increased in the last 12 months. After technology companies, the most significant threat was perceived to come from telcos and from start-ups.
- 26% of banks surveyed were investing in start-ups.
- 84% of banks were increasing investment in innovation.
- 61% of banks indicated they had an innovation strategy.
- 49% of banks were aiming to be innovation leaders in their markets.
- Channels continued to be the area attracting most investments with 89% of banks increasing their investments in this area.
- 'Mobility' was the most important theme for innovation, with 88% of banks rating the importance as "high". Closely following that were themes of "Big Data" (67%) and "Social Channels" (63%).

Innovation
Over the Last Decade

2015



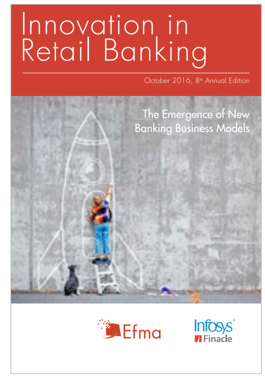
In 2015, there was a general feeling that ongoing changes in the industry would have profound implications for established retail banks in the years to come. The rapid evolution of disruptive technologies and disruptive business models was starting to have an impact on the day-to-day business of banks, reflected in the innovation strategies of banks involved in the 2015 report.

More and more banks began setting up accelerators/incubators or were working with independent accelerators/incubators. There was also a trend towards investing in start-ups either through dedicated venture funds or on an ad-hoc basis. In 2015, there were signs that the investment in innovation was making a difference with innovation performance being perceived to be improving.

- Over two thirds (69%) of banks believed that start-ups would have a high or very high impact on innovation and could help them to develop more innovative solutions.
- Start-ups were introducing new business models such as Peer-to-Peer (P2P) banking, bypassing conventional inter-bank wire transfer mechanisms to lower costs. About 40% of respondents believed such business models would have a significant impact on the industry.
- 60% of banks were not upbeat about start-up challengers and partners. Concerns over regulation and security were high, with half of the banks citing these as the primary challenges of working with start-ups.
- Over two thirds (68%) of banks believed they were becoming more innovative; 84% were increasing their investments in channels; and 82% were increasing their spending on improving customer experience.
- The most important new technologies (after mobile) for banks were advanced analytics/big data, where 57% of banks expected the impact to be high or very high. This was followed by open APIs (53%), and the Internet of Things (47%).
- Mobility was the most sought after competitive solution; almost two thirds (59%) of banks expected mobile technology to have a high or very high impact on the market.

Innovation
Over the Last Decade

2016



It became clear in the 2016 Innovation in Retail Banking report that disruptive technologies were helping to accelerate the digitalization of banking and to spur changes in banking business models. In 2016, there were a large number of start-ups and the beginning of established banks launching digital-only banks which could operate off a much lower cost base and provide a very different customer experience.

2016 also saw regulators pushing for changes in the industry, where they were forcing the pace for the development of open APIs. These changes would allow new players to develop innovative services and again force banks to reconsider their traditional business models. In response, even more banks were opening innovation labs and investing in research and development.

- A majority of banks (74%) said that they had an innovation strategy which was around the same level as in 2015. However, innovation investment was not increasing as much as it was in 2015.
- Over 40% of banks said they were working with startups as suppliers and around 30% of banks were investing in start-ups or working with start-ups in accelerators/ incubators.
- Around 20% of the banks surveyed were launching or considering launching a digital bank as a parallel bank to the existing operation.
- The priorities for banks in their digital transformation were creating a customer-centric organization (78%), enhancing channels to give an omnichannel digital experience (74%), and maximizing usage of mobile and social technologies (68%).
- The biggest barrier to digital transformation was the legacy technology environment according to 50% of banks.
- The threat of industry disruption from technology companies was believed to be high by 48% of banks surveyed. A similar number, 47%, perceived the threat from start-up challenger banks to be high.
- 74% of banks said that working with innovative start-ups as suppliers or partners was of high relevance.

Innovation
Over the Last Decade

2017

The 2017 Innovation in Retail Banking report revealed that technology investments in 2018 would revolve around ‘topical’ areas such as information security, advanced analytics and open banking APIs, as opposed to ‘future-looking’ areas such as conversational AI, robotic process automation, the Internet of Things, augmented reality or virtual reality. However, 70% of organizations planned to support a conversational AI solution, with close to 25% having made investments in AI.

According to the report, retail banks continued their thrust on innovation in all functional areas, with customer experience and channels (both at 78%) being at the forefront. Other segments that witnessed higher spends in innovation included products (67%), process improvement (64%) and marketing (57%).

The research in 2017 found that retail banks considered large technology companies, challenger banks, and smaller fintech start-ups as threats to their growth. Similar to 2016, the greatest impact of transformation was expected to be in the areas of payments and mobile wallets.

- The top three innovation challenges included systems integration, legacy technology, and the time and cost required to move from concept to reality.
- Small and mid-size banks were falling behind in virtually all levels of innovation, reflecting an inability to invest, the impact of competing priorities, the need to focus on cutting costs and to respond to compliance requirements.
- More than 50% of respondents expected to see a measurable ROI from their investment in innovation in 1-3 years; more than 30% expected to see results in less than a year.
- Only 10% of respondents had a robotic process automation solution.
- There was a vast distribution on the level of maturity within organizations leveraging data-driven insights. 37% of banks believed they were able to provide only **descriptive analytics** based on what had already happened. Nearly 20% of banks (usually larger firms) stated they had sound **predictive capabilities** and could help customers understand what will happen in the future. Interestingly, only 15% of banks were able to provide **advisory or prescriptive capabilities** around what the customer could do in the future given the insight known.
- The challenge of acquiring the right skills and expertise in innovation-led areas such as AI, blockchain & digital banking was a major concern across the industry.

Innovation is an Organization-Wide Commitment

Article by: Matteo Rizzi
Co-Founder, FinTechStage

With numerous scarves on my back, loads of odd conversations, plenty of shut doors, and being looked like a joke teller – that's what it looked like to talk about innovation 10 years ago in financial services. To be more precise, none dared to admit to NOT being innovative. Quite the opposite. In pretty much all of the cases, it was incremental innovation — an array of small product improvements disguised as being 'at the forefront of future products and services'.

Back in 2008, what we needed at SWIFT was a visionary CEO, a bunch of rebels, a lot of cold blooded organization-facing meetings, and the first 'infected' executives in the market to create Innotribe, which is now widely recognized as the first global innovation movement pioneering the fintech era.

Since then, me and the people I was fortunate enough to share a part of my path with, have been trying to 'productize' innovation. We have tried to build a more resilient, executive-proof, effective, business-based and sensible way of building a true innovation culture inside organizations.

The Importance of Culture

When we mention culture, we are not talking about some open google-like office spaces. We are not talking about meetings full of high-fives, or posting a couple of thumbs up selfies. And we are not even talking about the "leadership is open to listen to your ideas" type of exercise. True innovation is not something that impacts the few. It's an organization-wide, profoundly rooted, bullshit-free acceptance that you need everybody's ideas, fast failure acceptance, and a continuous self-challenging mindset.

What did I learn from all these innovation crusades that is applicable to any organization, and gives the foundation for this transformation to occur?

1. Create space for innovation

I don't want to use the word Sandbox, because it has been a buzzword for a while now. The truth is, you need to build a physical space where you can be 'switched on' in a different way. A space where there is no pre-structured role, no hierarchy, a very loose structure, and a clear mandate for experimentation and co-creation.

2. Find the rebels

One of my favorite topics, and the subject of my next book, is that organizations tend to push rebels away, not realizing that they are the best opportunity to push innovation forward. They are the ones to challenge the status quo.

Rebels are not odd tattooed guys with stinky t-shirts and a beard. They are rebels in their mind. They think laterally, they find both problems and solutions not many people see, and their reward is mostly about freedom and recognition as opposed to money and power. There are ways to not only spot them, but also to cluster their work and use it to the great advantage of the organization

3. Innovate with your clients

Experience says that the best community that is able to challenge the current status, spot opportunity for innovation, and eventually create new products are your own personnel and your customers. Rather than creating a space just for your employees to innovate, it is important that you invite your own clients, and even prospects and suppliers into that space.

The way to foster client-driven innovation comes in many forms, from co-creation to challenge-led innovation to venture building. And each one of these practices requires way more than 1000 words to describe.

4. Pay attention to start-ups

Start-ups are the lifeblood of the innovation ecosystem, regardless of the industry we are talking about. You always have a bunch of entrepreneurs, experts, former employees, and small teams with an idea who are either trying to disrupt your industry or simply taking advantage of low hanging fruit opportunities. These include unrealized efficiencies and unmet customer experience opportunities.

Organizations have a tendency to miss the obvious. To miss opportunities that don't fit the legacy mold or have been avoided in the past. Instead, organizations do Silicon Valley trips, mostly to show their shareholders they actually 'keep abreast with new technologies and Innovations.' The truth is, they don't usually learn anything they would support back home.

Start-ups are by far the best source of inspiration for any business, and yet plenty of organizations don't know how to relate to that.

5. Have investment capabilities

I am not suggesting that every company should build a fund for massive innovations. Start-ups are not usually equipped to deal with legacy organizations, and the opposite is also true.

What is lacking in most organizations is a fast way to engage with start-ups or innovation opportunities in a way that doesn't stymie the innovation culture of the smaller firm. Sometimes the investment capabilities could be 'spare cash for experimenting' or 'seed money for venture building'. The common denominator is that organizations should act more like angel investors than the way they do now. And they should realize that it is possible to make big changes with small bets.

6. Build a team atmosphere

It is not enough to have a people in a room, no matter how smart and knowledgeable they are. To make sure the work is going to be effective and towards a common goal, leadership must be found that can inspire teamwork and interaction.

Human interaction is an art, and in business, you need to be able to design whatever meeting you are planning in a way that maximizes the connections, the content, the output, & a positive overall journey for everyone. Meetings without a purpose or measurable progress, while the norm in most organizations are very damaging in an innovative setting.

It is not my intention to have created a 'generic innovation manual' with this short article. It is meant to be a set of guidelines that are proven to be effective with financial organizations of all types and sizes.

The exercise of extrapolating these innovation capabilities to be applicable to any industry isn't a stretch at all. There are too many cases of industries (travel, music, media, content delivery, food, transportation, etc.) that have been disrupted by small, nimble and innovative players did not existt less than a decade ago.

The good news is that, in all of these industries, the winners are going to be the ones with the highest capability to make innovation part of their DNA, not another slide in their PowerPoints. That requires humility, vision, openness, agility, ability to fail and reinvent yourself, and ultimately building an environment where everyone feels responsible for a common objective.

This report illustrates several organizations that have accomplished this goal. By cultivating an innovation culture, through investment and new organizational structures, they have empowered their internal teams and external partners to be the best they can be.

Matteo Rizzi spent 13 years as a key executive of **SWIFT**. In 2008, he co-founded **Innotribe**, the innovation arm of SWIFT. This is where Matteo launched the Innotribe Startup Challenge, the first global challenge for FinTech entrepreneurs.

Matteo Rizzi

In 2015, Rizzi created and co-founded www.FinTechStage.com, a platform for Investors, Innovators and start-ups to foster FinTech innovation globally.

2
2018 Innovation Trends

Innovation Trends

To ramp up their innovation programs, financial institutions have to address their core DNA. But a little "genetic re-engineering" can yield some big results.

Saying your organization is innovative doesn't necessarily make it a reality. Nor does spending a lot of money guarantee that your institution will innovate, either. Investing without any clear idea of what to do just burns up resources — both manpower and money.

"All too often, institutions confuse technology with innovation," says J.P. Nicols, Managing Director at **Fintech Forge.** The budget tap opens, and institutions just gobble up more tech.

"What they wind up with," says Nicols, "is a collection of things that don't tie together — technologies without a lot of connective tissue between them."

That connective tissue is called strategy. And that should come first. But frequently what happens is that banking leaders hand off responsibility to the institution's technology chief. For there to be true innovation, as Nicols says, all functions need to play a role.

Brett King, the founder of **Moven** and one of the banking world's most respected futurists, says that the debate about "innovation" in the financial industry has evolved.

"It used to be fintech versus banking," says King. "That's become somewhat nuanced now." According to King, some of the problems and solutions to the "innovation riddle" involve fintech firms, but some of the remedies solely require internal attitude adjustments.

At a time when most institutions are placing customer experience high on the priority list, it is imperative for innovations to reach the consumer. Unfortunately, it's often hard for banking providers to move things to a point where consumers feel there's really been a substantive change in the customer experience.

To accelerate innovation programs, retail financial institutions should follow the following tips and insights.

1. Stop Betting the Whole Pot and Break It Down

Success with innovation takes more than plunking down a huge chunk of money and declaring that your financial institution is going to win big. Instead, this panel of experts cautions that this approach may be the best way to ensure that your organization actually loses.

Whenever Nicols speaks to executives in the banking industry, he warns that gambling everything on one big 'innovation bet' usually ensures that traditional, conservative banking thinking will continue. Why? Because the stakes are simply too high.

This is particularly true when an innovation effort focuses too heavily on one big make-or-break project. It puts the reputations, careers and egos of top leaders on the line. Creativity and a willingness to fail frequently surrender to the fear of getting fired.

"Chunk it down into small experiments and then it isn't a big bet anymore," Nicols recommends.

"Take a measured small risk with a new idea that may cost thousands, instead of budgeting millions for innovation."

Institutions that think small will either have something successful to build on, or (at the worst) have an inexpensive lesson they can learn from. Working small also ensures that all ideas will at least get a fair tryout.

Nicols says using 'fire breaks' like this helps contain losses and leaves funding for new ideas, new iterations of ideas in process, or course corrections.

2. Make Innovation Somebody's (Only) Job

The wrong moves that thwart innovation at financial institutions can arise when board members hear about competitors' innovative advances. They look around at top management and ask, "What have we got going on?" Management opts for the dramatic gestures that appease directors and tickle analysts, instead of focusing on what's really needed or what might really work.

This results in what Nicols calls the 'And Innovation' syndrome in the org chart. That is, someone ends up with 'and Chief Innovation Officer' added to their title, along with their regular day job. They get the title and all the expectations that come with it, but usually no real facilities, no training, and no funding.

Not much comes of this.

3. Give Up 'Innovation Theater' and Spend for Results

Plowing money into an innovation lab or similar physical representation to demonstrate how the institution loves leading edge technologies can be foolish. Many of these facilities look gorgeous, but they soak up money that could instead be used for real innovating.

"I often find out that these labs are funded by the marketing department," says Nicols. "That's a bad sign."

Unless the lab truly serves as a working home for R&D teams, it's meaningless.

As Nicols says, "It's no more effective than management declaring, 'We're going to be innovative!' Bold statements — whether made verbally or architecturally — are little more than rhetoric without the actions, investments and outcomes required to back-up such pronouncements."

4. One More Time (With Feeling): Re-examine Your Culture

While many banking executives talk a good game about 'agility,' often things aren't very agile in practice. Moven has worked with traditional banking institutions to adapt their spending and budgeting technology to their operations, says King.

Looking back on Moven's work with TD Bank's Canadian operations for its MySpend app, King says that adapting the technology took about three months. That was the easy part. But negotiating with the institution's purchasing department took nine months.

Attribution for such problems usually resides with the industry's risk-averse culture. Whenever risk management enters the room, innovation usually runs out.

Traditional financial institutions' leadership simply isn't oriented to innovation.

Technology firms have technology people at the helm. But few banking institutions have that kind of experience at the top.

King notes that some institutions, such as Capital One, BBVA, and USAA, count technologists among their leaders, and he credits some of their success with digital innovation and transformation to that factor.

5. Being a 'Fast Follower' Doesn't Work Anymore

Few banking institutions are pioneers. Most opt instead to be 'fast followers.' Unfortunately, that strategy won't yield the same results anymore, given the pace of change in financial services.

> "95% of U.S. banks can't enroll a consumer digitally. Yet every fintech has that ability. It should be table stakes."
>
> – Brett King

Most organizations now realize that the 'train of digital transformation' is going 90 miles an hour, and it is not slowing down. Banks have got the 'follower' part nailed, but not the 'fast' part.

Banking institutions have no choice but to speed up the process. They have to be prepared to move quickly when new opportunities to innovate arise. Voice-operated services — such as the skills that drive Amazon Alexa — technology, are already achieving significant consumer acceptance, but few banks have solutions using this technology.

Digital account opening is another major weakness.

"95% of U.S. banks can't enroll a consumer digitally," says King. "Yet every fintech does that. To me, it should be table stakes. It shouldn't be that hard."

6. Temper the Corporate Immune System

The challenge is that most financial institutions are genetically programmed to fight innovation like a virus.

Nicols says the typical traditional financial institution is rife with 'corporate antibodies' like the compliance department — something King dubs "the Land of No" — that drum up countless reasons to halt innovation.

Much work goes into something and then the 'antibodies' converge to kill it. This happens when ideas are developed in a vacuum by one department or team working in isolation. The idea is subsequently regarded as a 'foreign entity' — a threat to the survival of traditional banking organisms.

Successful innovators in the financial industry solve this by pulling everyone into one room. Their mission being to stay there until they've come up with a way to meet the challenge posed by management. That gets all viewpoints out on the table at the same time.

7. Have a Fresh Look at Your Omnichannel Thinking

A tug of war between physical and digital strategy has been going on for over a decade in banking, when industry pundits began predicting the ascension of digital services would eclipse branches. Even so, study after study indicates that, for various reasons, consumers still want to visit branches, often in order to open new accounts.

Such research may be flawed. For example, even though most banks offer some form of digital account opening, bankers continue to think 'consumers don't want it.'

The problem is that much of this research is based on incorrect data. For instance, it is not unusual for an account-opening transaction that begins digitally to have to be completed at a branch. When that interaction ultimately gets booked into the system, the branch employees record it as a 'branch-based' opening. Without measurement of the entire customer journey, 'last touch attribution' creates biased statistics that cloud the reality.

"No one really owns the entire customer journey," Nicols states. "All we hear is that the consumer visited the branch for (finishing the process of) opening an account." Until someone takes ownership, recognizing what's really happening and why it happens that way won't occur.

8. Take Advantage of Mainstream Vendors' Fintech Outreach

Smaller banking institutions have historically complained that their core technology vendors and other tech suppliers hold them back from innovating. And some also believe that the big tech firms can engulf startups, pulling their new tech under a corporate umbrella to be developed when they are ready to do so.

The research done this year shows that this image is becoming dated. More major vendors have begun vetting fintech players for their client banks and credit unions, providing the kinds of evaluations that smaller organizations can't do on their own.

This can help banks and credit unions begin using the new tools that fintech firms can bring them. This can overcome the slowness of traditional banking culture.

9. Really work with Fintechs

It's been said more than once that more articles have been written about the need for banking institutions and fintech firms to partner up than there are partnerships.

"Fintech firms and banks working together isn't happening as much as it should," says King. The benefits are clear: Fintech firms have intriguing new products and services but many have trouble finding the scale that will make them pay, while banks and credit unions have established customer bases.

Nicols cites two institutions that he thinks are getting this right. One is **Lincoln Savings** in Iowa. Recognizing that its own market offered limited growth potential, he says, Lincoln Savings became the issuing bank for Square's credit card. The savings institution earlier this year provided the banking muscle behind the fintech's mobile deposit capability, enabling consumers to put pay checks and other payments into the Square Cash App accounts via mobile device.

Another institution on the right track, according to Nicols, is **NBKC Bank**, Kansas City. The company established Fountain City Fintech, an accelerator it runs in partnership with several other organizations and which it says draws on a broad fintech expertise many don't know Kansas City has.

Brett King says the popular idea of financial institutions hosting hackathons where fintech firms can strut their stuff is a good process, but that more financial institutions and fintech firms need to start working on real projects together.

Nicols thinks the idea of fintech accelerators can be internalized. Different parts of a traditional bank or credit union can come up with ideas and try them out on a test basis in an "internal accelerator," as he termed it.

"That's where a nascent idea can become a viable company," says Nicols.

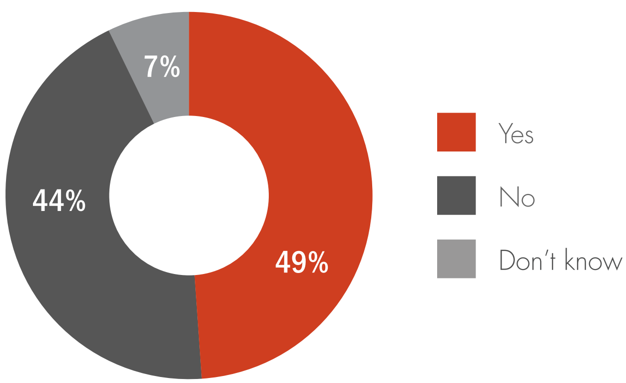
Presence of Defined Innovation Strategy

According to our research, the proportion of banks with a defined innovation strategy increased 6% from 2017 — to 49%. In 2017, the percentage of firms with an innovation strategy was 43%, compared to only 37% in 2009 (when only larger firms were included in the study).

In the past, the vast majority of organizations surveyed were larger financial institutions. In 2017, we significantly expanded our scope of targeted respondents, including smaller firms that are less likely to have a mature innovation process.

When we did a delineation of respondents by asset size, we clearly saw that larger financial organizations are more likely to have a clear innovation strategy.

Chart 1: Presence of Clearly Defined Innovation Strategy

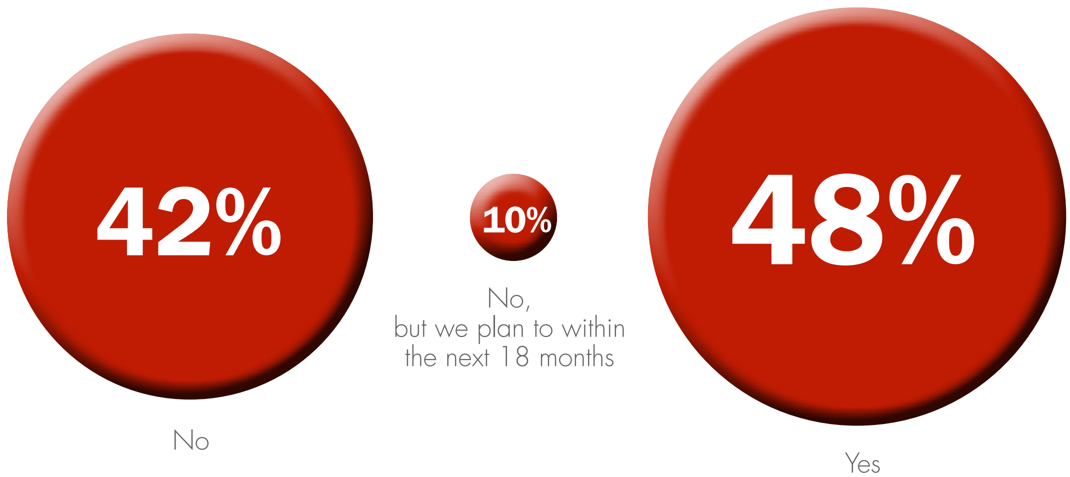


Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

The primary driver of innovation, beyond budget and personnel, is the presence of an 'innovation culture' and a focus on making innovation an integral part of the way an organization views itself. With that in mind, slightly fewer than 50% of organizations have a dedicated innovation officer within the organization in 2018.

The good news is that the presence of an innovation officer increased significantly over the past year. In 2017, only 37% of the organizations surveyed had a dedicated person to lead the innovation process. This increase is one of the largest changes in this year's survey.

Chart 2: Presence of Innovation Officer



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

When we dug deeper into the responses, we saw a definite delineation based on the size of organization. As expected, the presence of an executive for the innovation process is correlated with the size of the bank or credit union. It is assumed that as the size of the organization gets smaller, innovation becomes part of a broader role within the organization.

Level of Innovation Investment

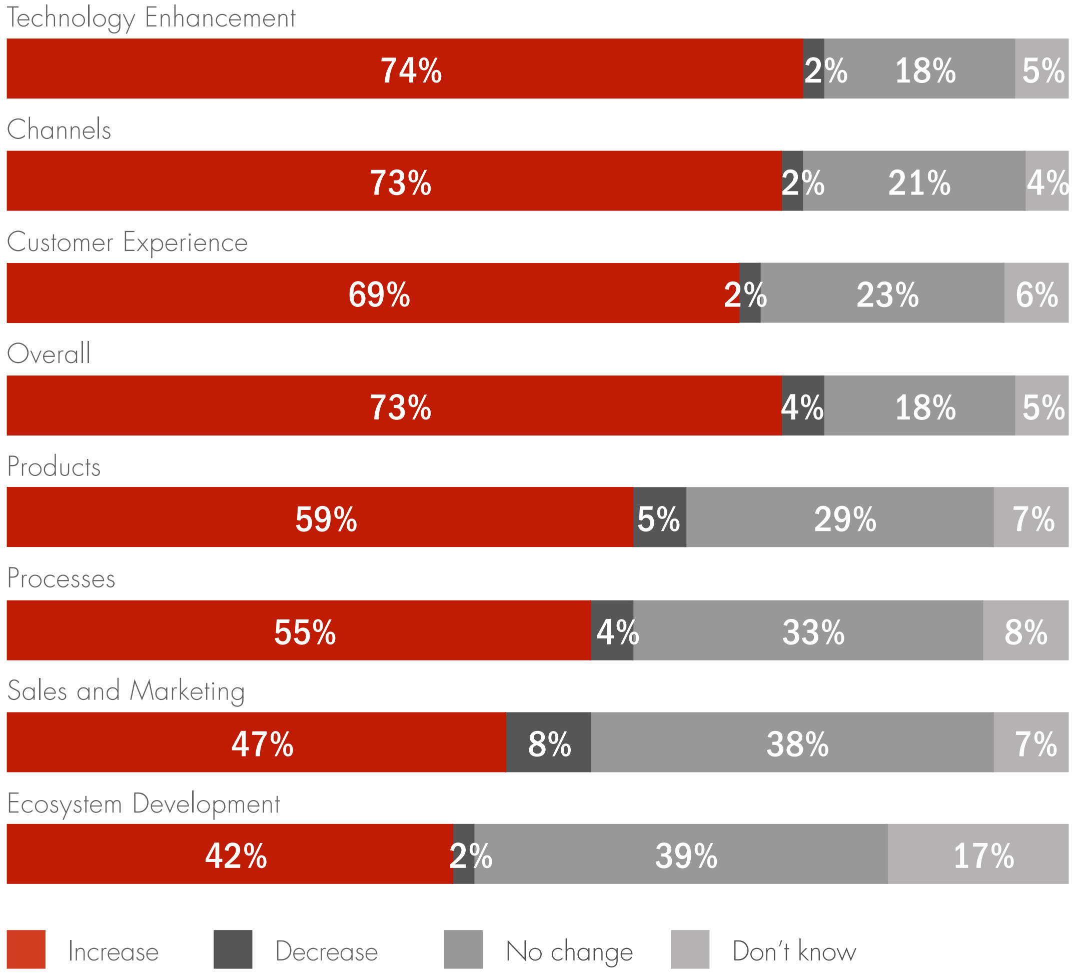
The proportion of banks increasing innovation investment each year increased from 2009 to 2016, with the first decline in this measure being evidenced last year (from 84% in 2015 to 78% in 2016). The percentage of firms increasing investment in innovation in 2018 increased slightly to 82% from 79% in 2017.

While the percentage of firms increasing investment in innovation increased by 3% this year, it is interesting to note that the number is relatively the same across all geographies and sizes of organizations. As mentioned, there was a substantial increase in the number of smaller organizations included in this year's study, yet the numbers remained consistent. We do see that more large organization are increasing investment than smaller firms.

Supporting the focus on improving the digital delivery of financial services for the improvement of the customer experience, investment in channel innovation and customer experience were two of the top three areas of increased investment in 2018.

Not surprisingly, the top area of increased investment is in the area of 'technology enhancement'. Based on other research done by the **Digital Banking Report,** this focus is most likely to reduce costs as opposed to improve the customer experience.

Chart 3: Change in Level of Innovation Investment from 2017 to 2018



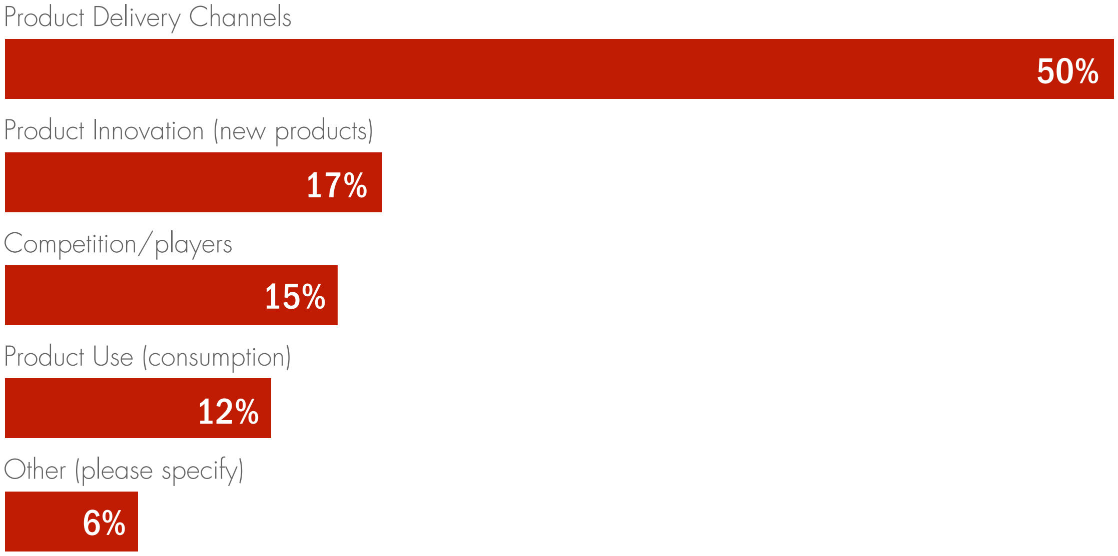
Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Areas of Innovation

Half of the organizations surveyed stated that the largest focus of innovation was in the area of delivery channels. This is in alignment with the movement to improve digital customer experience across the industry.

Chart 4: Areas of Most Banking Innovation

Q: In what area of banking do you see the most innovation taking place over the next four years?



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

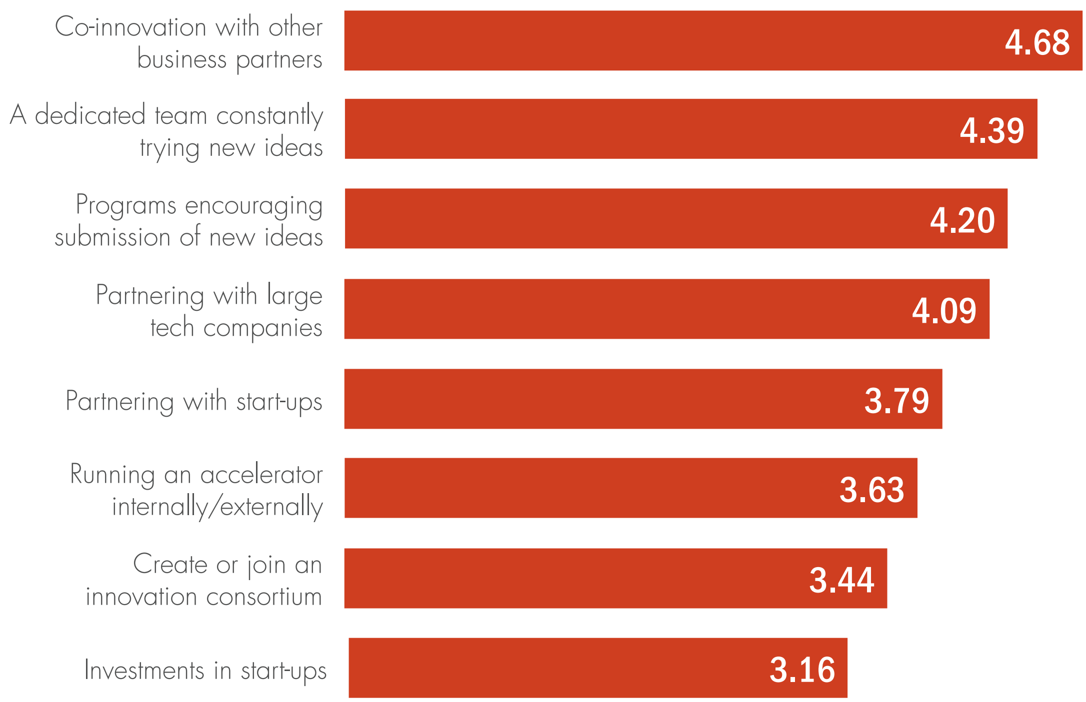
Ways Organizations Will Drive Innovation

There was significant variety in how organizations will be supporting their innovation efforts over the next 12 months, with no option scoring high on a scale of 7. There is no overwhelming agreement on the Build/Buy/Partner decision.

There has been a significant increase in the level of desire to partner with outside organizations compared to previous surveys, indicating a greater realization that internal development may not meet speed and 'focus on the consumer' objectives.

Chart 5: How will your organization drive innovation over the next year?

On a scale of 1-7 (where 1 is very low and 7 is very high)



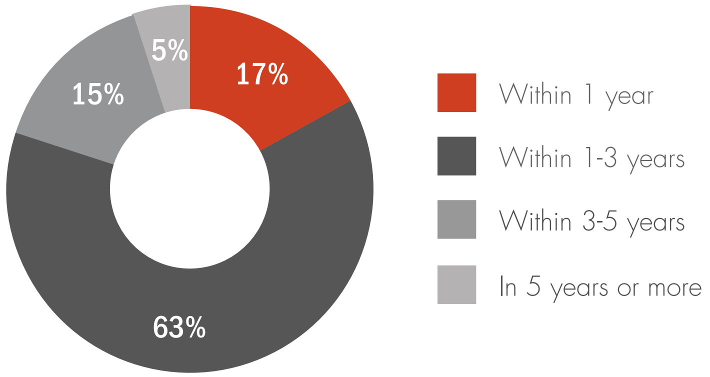
Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Measurement of Innovation Success

In a major shift from last year's report, far fewer organizations are taking a short-term view of innovation returns. In 2017, 31% of firms had a ROI perspective of one year, compared to only 17% this year. That said, while 54% of firms looked for an ROI in 1-3 years in 2017, this number increased to 63% this year.

This extended view of returns from investment in innovation is definitely welcome, since this indicates a separation between innovation and quarterly financial reports. This is a cultural change in our opinion.

Chart 6: Time Period for Measuring Success in Innovation



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Source of Talent for Innovation

Finding the right people to drive and implement innovation will continue to be a challenge according to our research. As a result, the need to partner with outside organizations continues to be a focus.

Potentially in an optimistic perspective, the next two areas of focus will be to train current employees or hiring in a traditional manner. Using innovation events like hackathons was the least likely source of finding talent over the next three years.

Chart 7:
Where will the majority of talent for innovation be sourced over the next 3 years?

On a scale of 1-7 (where 1 is very low and 7 is very high)

Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Why Would Innovators Want to Work with a Bank?

Article by: Louise Beaumont
Strategic Adviser at Publicis.Sapient & Co-Chair of the Open Banking Working Group at TechUK

Almost every banking organization is looking for young, creative and innovative minds that will assist in developing the 'next best thing' in banking. But, how do you attract innovators if you are a … bank?

Innovation sounds like such a good thing. But, to actually build an innovation culture and process requires you to start at the right place. It needs to start from the place of understanding who you are, and innovating within that context.

At a financial services conference recently, I asked the audience a simple question, "What does Starbucks want its role to be, in your life?" I got a flurry of predictable answers:

"It's a coffee shop. They want their role to be selling me coffee. And cake. Lots of cake."

"It's a money-making machine. Their purpose is to make money."

"It's a property company."

Interestingly, Starbucks defines their role in your life as your 'third place'. Your first place is your home, your second place is where you work. They want to be your third place.

Once you understand this, you understand the logic in their innovations – the locations they choose, the seating they use, the lighting they provide and why they offer candles and mugs for sale and have an alcohol licence. These decisions make sense. Starbucks has a guiding principle which shapes their decisions and their investments.

Next, I asked my audience "What does your bank want its role to be, in the lives of its customers?" In almost every instance, I got silence. And, after a very long pause, I might got awkward answers like; "Um, they want to be your bank…."

And therein lies the rub. If you don't know what your purpose is, all you can be is lowest common denominator functionally. You've got no yardstick against which to make innovation decisions, and no need for an innovation budget.

Whatever happened to R&D?

This brings me to the lost art of R&D. I did some thinking with **The Royal Society** recently – they were researching innovation in three sectors; Financial Services, Defense and Pharmaceuticals. They had found sizeable R&D budgets in both Defense and Pharmaceuticals. They had found far smaller investments by financial service incumbents. The researchers were stumped; "How can they innovate, if they don't have a strong R&D budget?" they asked.

The conclusion we came to was that the gene (and budget) for R&D had been lost, if ever it existed at many organizations. Even at those organizations where a budget existed, it was either minimal, or used as a way to satisfy the investor public … or both.

The need for innovation has not been lost – as expressed by customers' uptake of services that work, services that feel good, services that inspire loyalty and deliver pleasure. Services which are a lot more than traditional banking.

Which leads us to where you find innovation in financial services. The answer is, of course, you find it in the ecosystem with the Big Tech organizations. For example, tech companies owned the top 5 spots in the US for R&D spend in 2017. Amazon was number 1, spending

$22.6 billion in 2017, 41% more than in 2016 when it also topped the list. Innovation budgets are also found in fintech firms and 'challenger banks'.

Partially because of this historically low commitment to innovation as an industry and individual organizations, you need to work hard to attract innovators to work with you. Unfortunately, while banks seek to attract, they often, in reality, repel.

Here are five of the most common mistakes banks make as they try to attract innovators to their ecosystem:

1. What innovators want in a bank partner: We know who we are, what our role is in our customers' lives, and what innovation we're seeking.

The reality: We're flailing around, looking for anything we can dress up in front of our Executive committee – the more PR-able, the better!

2. What innovators want in a bank partner: We've got the money, as well as the change mandate to invest in your business or to partner with you.

The reality: We have limited budget available. We spent the budget on bean bags and fairly non-functional 'labs'.

3. What innovators want in a bank partner: We've got a clean, fast process from assessment to rolling out. We've got two people for you to work with, one from the business, one from technology. They handle the bank, so you don't have to.

The reality: Everyone (yes, everyone) is going to get involved, all looking for ways to drag this process out ensuring nothing gets done. Welcome to our hackathon/accelerator/PR First Circle of Hell.

4. What innovators want in a bank partner: We've got a slick tech capability which is aligned to the business.

The reality: We're holding our technology together with Elastoplast and prayer. That big budget we boast about in our annual report is just keeping the lights on.

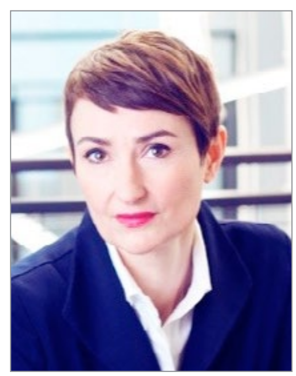
5. What innovators want in a bank partner: We have a timeline to go-live with services that will make a real, positive difference for our customers.

The reality: We're stringing this out until retirement – 5 to 10 years minimum – and that's if we fail to kill it off entirely.

There's a theme here. Don't impersonate a vibrant home for innovators. It's a colossal waste of time, effort and money. And worse, it's insulting the very innovators you want to attract into your orbit and, ultimately, it's failing to serve your customers.

Here's what you need to know

Innovation works best when it starts from the right place: understanding who you are and innovating within that context. Innovators are out there, in the ecosystem, but you need to attract them into working with you - repelling them is counter-productive. It's all about culture and commitment.



Louise Beaumont

Louise Beaumont advises **Publicis. Sapient** and their clients on the Open Future. Beaumont also Co-Chairs techUK's Open Banking and Payments Working Group, making the case for successful implementation of Open Banking, she is also a member of the New Payments System Operator's End User Advisory Council, advising on FinTech. She is an avid writer and a regular contributor to **The Financial Brand**. She can be reached on LinkedIn and Twitter.

3 Digital Transformation Trends

Digital Transformation Trends

Digital transformation is about more than just providing online and mobile functionality. Traditional banking providers need to combine digital speed and convenience with human interactions that are both thoughtful and caring at crucial moments in the customer journey.

Typically financial institution executives mention a lack of talent, lack of funding, poor infrastructure, or even lack of data as being barriers to digital effectiveness.

And those are significant factors. But three cultural barriers surpassed all others according to research by McKinsey & Company. These were: 1) the presence of functional and departmental silos, 2) a fear of taking risks, and 3) the difficulty of forming and acting on a single view of the consumer.

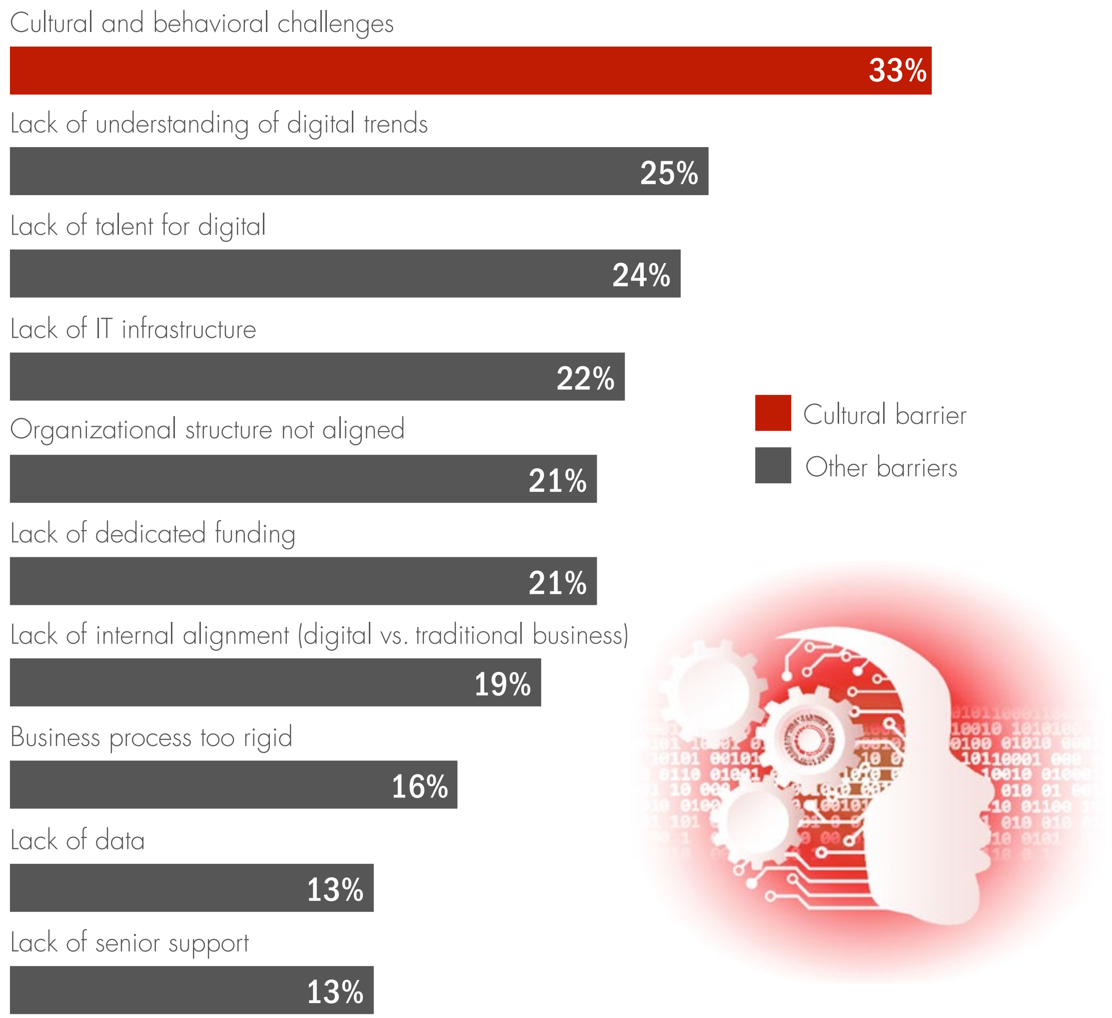
"Getting culture right is the key to success in a digital world and resolving culture issues is 'no longer optional'," states the study. It's so important, in fact, that McKinsey recommends that banks and credit unions bring in leaders willing to shake things up.

When silos exist within financial institution, it is impossible to get a true 360 degree view of the consumer, resulting in both slow and incomplete responses to needs. The cultural issue of risk aversion usually results in an under investment in strategic opportunities and slow responses to consumer needs as well.

Finally, when a single view of the consumer is not developed, organizations fail to recognize the consumer journey and integrated touchpoints, and have trouble creating consistent experiences. All of these challenges hinder optimal digital strategies.

Chart 8: Culture is the Most Significant Barrier to Digital Effectiveness

Q: Which are the most significant challenges to meeting digital priorities?



Source: McKinsey & Company © Efma-Infosys Finacle Digital Banking Report Survey 2018

Organic Culture Change Too Slow

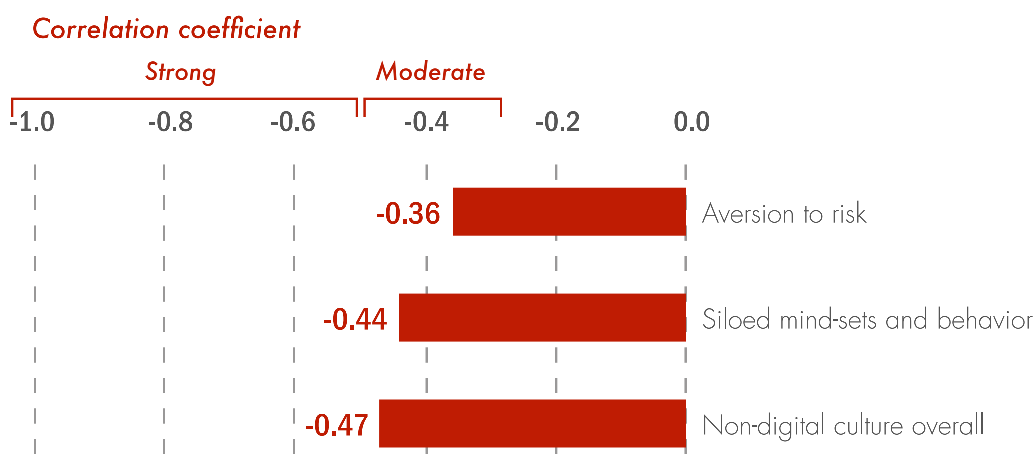
Waiting for a banking company's culture to change organically is not a fast enough process in the digital age. In other words, it is difficult to teach an old dog new tricks. One primary reason is because the leadership already in place may be part of the foundation of the existing culture.

Executives must be brought in who will be proactive in developing a new culture within the institution. This new leadership must be willing to embrace the change that is occurring in the market, be willing to take risks and, most importantly, be willing to disrupt the existing organizational culture.

Bottom line, the effort made to make a cultural transformation must equal or exceed that which is being done to achieve operational transformations. "Executives must be proactive in shaping and measuring culture, approaching it with the same rigor and discipline with which they tackle operational transformations," says the McKinsey report.

As mentioned, the focus of this cultural transformation must be on eliminating silos, accepting more risks, and focusing more acutely on the consumer experience. Not making these required cultural changes can actually have a negative impact on financial performance.

Chart 9: Cultural Obstacle Correlation with Economic Performance



Source: McKinsey & Company © Efma-Infosys Finacle Digital Banking Report Survey 2018

Siloed Thinking a Big Part of the Problem

When people discuss silos in banking, most think in terms of an organizational chart. While this illustrates the division of responsibilities within a financial institution, that view is far too simplistic. A much larger dynamic lies beneath the surface, where the inability to share insight about customers across silos makes the process of seamless digital transformation close to impossible.

In a digital world, the power comes to those banks and credit unions that realize the potential of working cross-functionally and of driving customer centricity into the everyday operations of the business. The narrow, parochial mentality of workers who hesitate to share information or collaborate across functions and departments can be corrosive to organizational culture. In fact, executives surveyed rank siloed thinking and behavior as the most damaging among obstacles to a healthy digital culture.

Sharing data and insights and encouraging transparency across the institution helps to create a consistent direction and digital culture. Another way to achieve better alignment on a banking company's direction is to rotate executives between siloed functions and business units.

Internal accountability helps solve the siloed culture problem of regarding an issue as 'someone else's responsibility.' To achieve this, organizations must remove the barriers that keep people from collaborating and build ways to eliminate the bureaucracy that legacy cultures (and management) have built up over time.

Risk Acceptance Is Tough to Change

Accepting risk goes far deeper than encouraging experimentation and the acceptance of failure — broad concepts that are still foreign to many legacy banking executives. In fact, many banking leaders started their career with the desire to be in a lower risk environment. Beyond the personal aspect of accepting risks, capital markets have typically rewarded organizations that were more risk averse, making a change in culture that much more difficult.

Nowhere is the importance of top leadership commitment more important than on the perspective of risk-taking. While outside hires and start-up partnerships may help, top management must also empower frontline employees to make decisions based on new insights that accept small-scale risks.

"The critical question for executives concerned with their organization's risk appetite is whether they are trusting their employees, at all levels, to make big enough bets without subjecting them to red tape," says McKinsey. At the same time, executives must be willing to make bold, decisive actions that enable the business to pivot rapidly, sometimes at very large scale. In banking, the pace of change has never been faster … leadership decisioning must reflect this new norm.

Consumer Focus Must Be More Than Talk

Despite making 'improving the customer experience' a top goal for several years, most financial institutions are falling further behind on this objective, especially as digital consumers become more demanding. This is a double-edged sword, with digital technologies providing greater capabilities to personalize experiences at the same time that consumers are asking financial institutions to customize solutions more than ever.

Bottom line, having a customer-centric culture is more than just a good thing — it's become a matter of survival. Although companies have long declared their intention to get close to their customers, the digital age is forcing them to actually do it, as well as providing them with better means to do so.

Done well, customer-centric cultures anticipate emerging changes in consumer behavior and customize relevant interactions by integrating structured data with unstructured data for a better consumer journey.

'Embrace Change, Take Risks, Disrupt Yourself'

In talking to financial institutions of all sizes around the world and in doing the research for the **Digital Banking Report**, it is clear that culture is one of the biggest differentiators between successful and less successful organizations. While it is understandable that cultural change may be slower than technological change, a proactive focus on changing culture is still an imperative.

Change is going to continue … albeit at a faster pace than we have ever experienced. Rather than reacting to this change, it must be embraced and dealt with both strategically and organizationally. Speed and agility is part of this process.

An organization's perspective on risk must also change. Greater risks don't necessarily need to be taken, but the use of data and analytics must be leveraged to provide a better perspective on the risks that are financially viable. Being a fast follower is no longer a valid strategy.

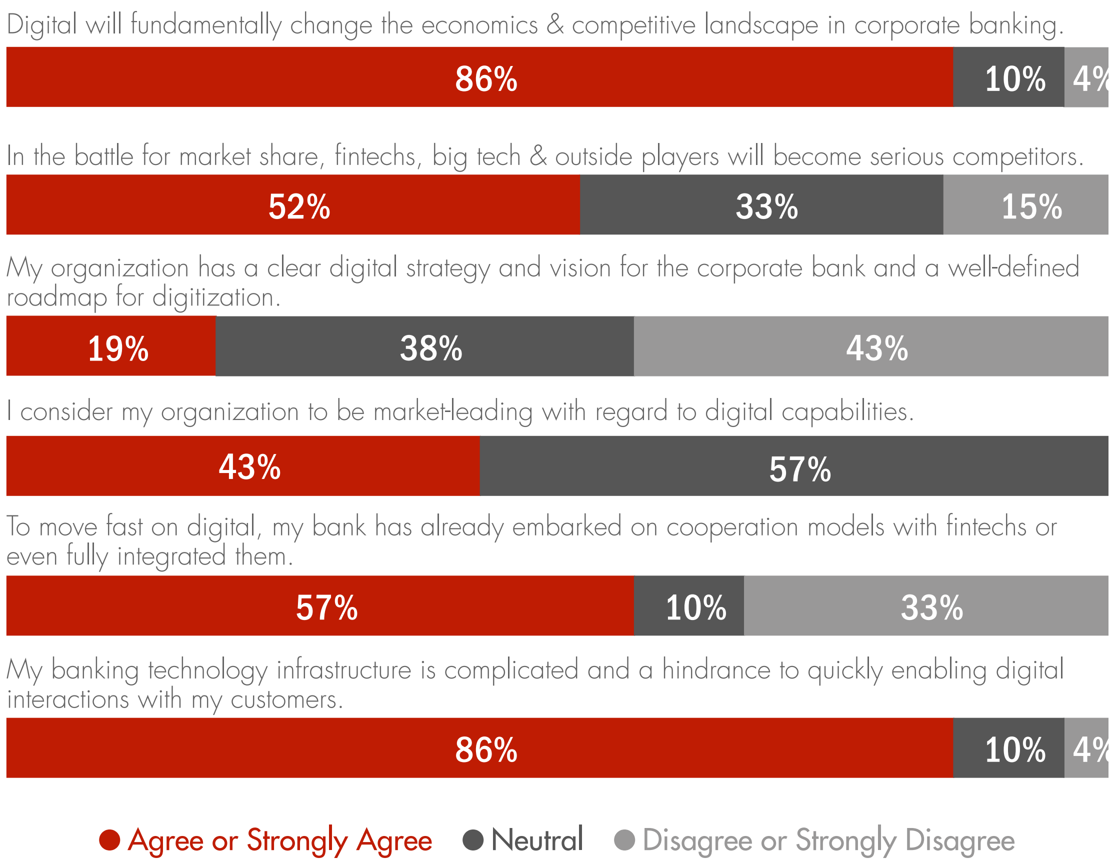
Finally, organizations must be willing to disrupt the status quo. Slow, incremental adjustments to last year's strategy aren't enough. The consumer expects more from their financial institution because they get more from other business partnerships like Amazon, Google, and Apple. Disruption will also need to occur on a personal level, since the marketplace is demanding skills that are beyond what most executives and employees have been taught.

It is more important than ever to build organizational cultures that perform well across functions and business units, embrace risk, and focus obsessively on consumers.

Digital Transformation Strategies

Four out of five financial institutions believe that digital will fundamentally change banking and completely transform the industry's competitive landscape. But according to research from the BCG, less than half (43%) confess they don't even have a digital strategy. And an astonishing one-in-five banking execs consider their bank or credit union "market leading" when it comes to digital.

Chart 10:
Digital is a High Priority, but Banking Providers are Moving at Different Speeds



Source: BCG © Efma-Infosys Finacle Digital Banking Report Survey 2018

What's holding them back? The vast majority point their finger at their current technology infrastructure. (Translation: "It's our core DP's fault!")

So, what should traditional banking providers do to remedy the situation? Just like with any major transformational initiative, you should begin with a strategy. Digital is no different.

The starting point for each financial institution will depend on its business strategy, market position and capabilities. But all must consider how they can reshape their distribution models, improve their value propositions and develop end-to-end consumer-centric journeys to increase growth and customer satisfaction."

The strategy can't be a series of one-off à la carte initiatives taken on by separate and individual business units. This is the kind of undertaking that will require banks and credit unions to stretch outside their comfort zones; instead of uncoordinated initiatives they need to tackle digital transformation as a comprehensive, enterprise-wide strategy — one that's led from the very top by the C-suite, with the CEO firmly at the helm.

Without a top-down, integrated approach that involves every aspect of the organization, traditional banking providers will struggle taking advantage of powerful new tools such as robotics, big data, AI and blockchain.

To build a digital transformation strategy, financial institutions should focus on four priorities:

1. Reinvent the consumer journey
2. Leverage the power of data
3. Redefine the operating model
4. Build a digital driven organization

Reinvent the customer journey. The consumer journey doesn't get much less frictionless than Amazon's one-click ordering — see it, like it, click it, buy it. And for many consumers, that's the purchase journey they expect from everyone they do business with.

Imagine what goes through consumers' minds when faced with a journey at their bank or credit union that takes days or even weeks. Consumers are apt to think banks and credit unions have had ample time to figure out what Amazon is doing right and emulate it — e.g., *"Why doesn't my bank work like Amazon? When will they get their act together?*

Banking providers need to determine what matters most at critical points in the customer journey — which is going to vary greatly between different consumer segments — and then work relentlessly to improve the experience. The end goal is to completely digitize the consumer journey from start to finish.

Not only does a digitized journey make consumers happy, it also frees up staff for more valuable tasks like cross-selling and relationship building while simultaneously saving the financial institution money by streamlining processes. That's a triple win.

Leverage the power of data. Data analytics enable banks and credit unions to better understand consumers, identify business opportunities and reduce costs. Advanced analytics uses granular cluster analysis to compare an individual consumer product mix — to the average for that consumer type, and uses that information to cross-sell and deepen relationships.

Banks and credit unions can use data mining for better prospect and client targeting. On the prospecting side, it can prioritize leads and establish connections to current and potential clients. Behavioral analytics can identify consumers who are a flight risk and then create individual action plans to keep these consumers loyal.

Data mining can help banks and credit unions reinvent themselves as partners that offer highly tailored solutions to their clients, rather than suppliers trying to push products that might not match consumer needs.

Redefine the operating model. Consumers increasingly want the best of both worlds: a digital experience when they need speed and convenience and a human experience when they need advice for more complex products such as investments or mortgages or when they have an issue or problem. Boston Consulting Group reports that the percentage of consumers who want a hybrid experience has increased to 43% from 37%.

Banks and credit unions that combine human interaction with digital and self-service functionality can expect up to a 15% increase in revenue, up to a 35% reduction in branch costs and up to a 15% increase in customer satisfaction.

Build a digital-driven organization. In a digital driven bank or credit union, digital is treated as a priority that needs a clearly articulated strategy, funding, talent, agile ways of working and an organizational culture that is willing to take risks. That's not easy to accomplish but can be well worth the effort. Banks and credit unions that digitize can achieve a 20% increase in revenues and a 30% decline in expenses.

Infusing a digital mindset into a traditional banking culture can be challenging and the need to manage two cultures during the transition can exacerbate the situation. Success depends on engaged senior leadership that is committed to radically changing the bank.

As organizations dive into digitization, many banks and credit unions are disappointed in the initial results. Implementation is often slower than expected. It's difficult to scale digital initiatives across the institution. They don't have the talent with the necessary digital and analytics skills. The organization doesn't want to change. And the impact on the bottom line is much smaller than they thought it would be. As a result, initial enthusiasm wanes over the course of the project.

Challenges become roadblocks. Integrating digital applications with the legacy infrastructure is a particular sticking point.

Channels for the Future

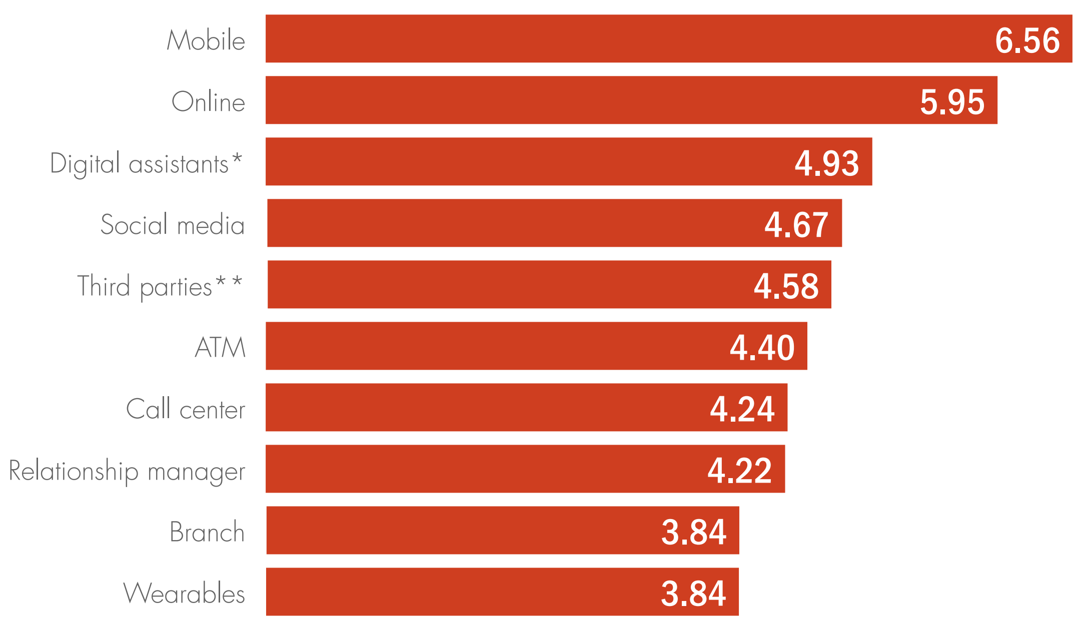
When banking organizations were asked to determine what channels will be the most important in 2022, an overwhelming majority of organizations saw mobile and online being the primary distribution channels.

After the current digital channels, it is surprising that digital assistants (bots and voice devices) were seen as the third most likely channel, with social media close behind. The impact of open banking can be seen by the fact that third party distribution was seen as a more important channel than ATMs and call centers.

In a very dramatic view into the future, banking organizations worldwide see branches as the second least likely delivery channel in the future, with relationship managers also being rated very low, Interestingly, this year's survey respondents did not have much 'digital love' for wearables.

Chart 11: Primary Channels for Banking Services by 2022

Q: On a scale of 1-7 (where 1 is very low and 7 is very high)



*Bots, voice devices, etc.

**Channels or apps of third party developers/FinTechs/ company from a different industry

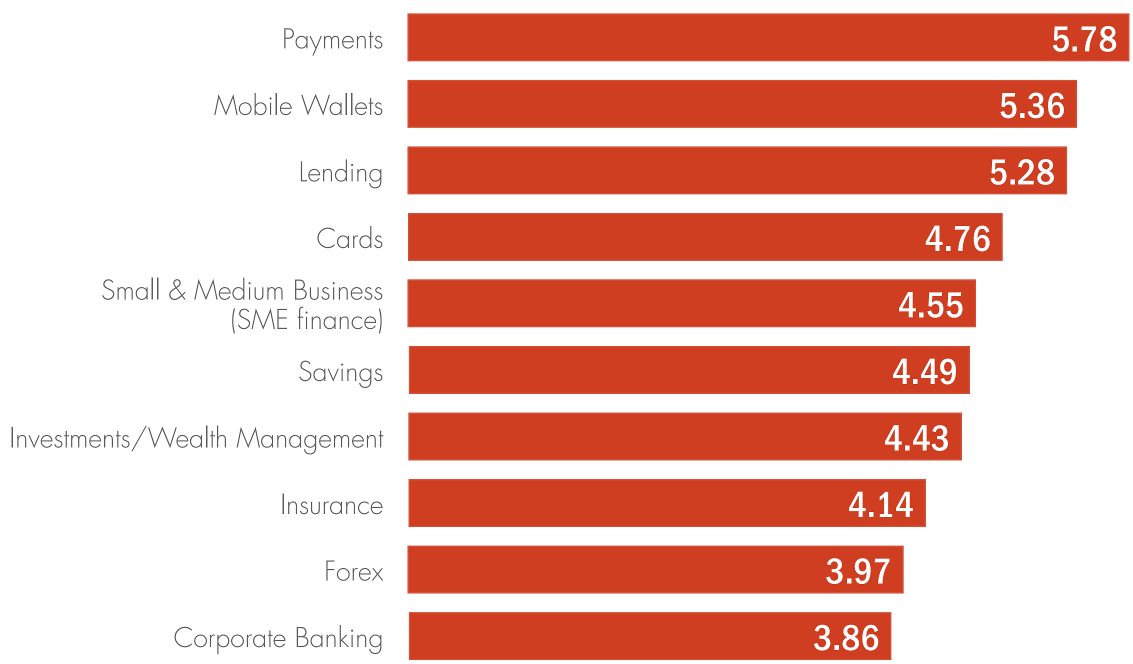
Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Product Lines of the Future

When asked what product lines of banking will be most important to organizations in 2022, payments, mobile wallets and lending were the 3 top mentioned services. This should be a red flag for organizations who also rank fintech and big tech firms as the most formidable competition, since these are the three areas where non-traditional financial institutions already excel or could overtake traditional banks from a customer experience perspective.

Chart 12: Competitive Business Lines to have Significant Impact on Your Bank's Revenue and Profitability in 2022

Q: On a scale of 1-7 (where 1 is very low and 7 is very high)



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

How Smaller Institutions Can Compete and Win in the Digital Arms Race

Article by: JP Nicols
Managing Director, **FinTech Forge**

The financial industry is in a digital arms race, but having the biggest technology budget does not guarantee success. Likewise, institutions with smaller budgets are not doomed to defeat; but the margin for error is smaller, so they do have to spend more wisely.

Do smaller institutions need to spend at all? Can't they just compete on better customer service? The problem with this strategy is that an increasing number of customers are defining 'better service' in terms of digital capabilities. Coffee and cookies in shiny lobbies, local decision-making, and community involvement are things that community bank and credit union executives can be proud of, but they are not making up for slow paper-based and human-scaled processes for a larger and larger share of customers of all ages.

The largest banks have technology budgets counted in the billions, how can smaller institutions compete with budgets that are smaller by orders of magnitude?

Here are three tactics for smaller institutions to compete and win in the digital arms race:

1. Pick Your Battles

I am loathe to use unfortunate and inappropriate analogies to actual warfare in business, but for the purpose of illustration, do for a moment consider how cutting edge modern weaponry superior both in efficacy and numbers has been at many times ineffective at stopping much smaller forces operating on different rules of engagement. You can't match a multi-billion-dollar budget move for move without your own multi-billion-dollar budget, but you can blunt their competitive impact in a few key areas, and you can cherry-pick weak spots to go on offense.

The smaller institutions that are competing best in this era of digital disruption are those that understand where they can win and are not afraid to exit some of the toughest battles in order to redouble their efforts where they have better chances of competing and winning. Those that are trying instead to manage miniature versions of Bank of America have too many bets spread across the table, too much complexity to manage, and too often are fighting battles where their lack of scale is at a meaningful disadvantage.

The founders of Venmo had a major resource deficit in their early days relative to the dominant players in P2P payments. They didn't beat the incumbents at their own game, they changed the game by redefining the customer experience. Don't compete head-on, think asymmetrically.

2. Prioritize Your Priorities

These resource challenges are only amplified with institutions' long lists of dozens of technology priorities being discussed in boardrooms and executive suites these days. We believe that every organization should have their own Declaration of Innovation™, something that defines the who, what, when, where, how, and why of their innovation strategy. A challenging but necessary part of that process is breaking down those long priority lists into something manageable and immediately actionable.

I recently had a discussion with a couple of executives from a $400 million community bank who declared their intent to have "best in class" digital banking services as quickly as possible. They were trying to understand what appropriate benchmarks might look like and what kind of budget and timeframe they would need to have to achieve their ambitious goals.

"Before we even attempt to answer those complex questions," I said, "let me ask you a couple of simpler ones. First, what other important priorities are you willing to cross off of your list? Second, how will achieving your goal be a competitive advantage? And third, how long do you think you will be able to sustain that advantage?"

The two previously confident and assertive executives grew very quiet. They had been charged with this goal after the board's last strategic planning session, and they had been trying to size up their task for a couple of months now. They had asked numerous consultants and technology vendors these questions and had only grown more confused with the conflicting and wide range of answers they had been receiving.

Now, rather than gathering some additional data points to add into their spreadsheet, they were seemingly worse than back to square one. They hadn't thought before about the "why" of this particular goal, and they didn't know how they could push back on the CEO and board on a directive that was assigned with such certainty and high expectations.

As our conversation continued, we talked about how a single standard of 'best in class' was elusive at best, potentially meaningless financially at worst, and annoyingly temporary in any case. The head of retail banking grew despondent as she recounted the list of fairly serious shortcomings of their current digital offerings. She perked up considerably though as we explored the value of getting from "unacceptable" to "good enough", and how that might be achieved faster and cheaper than she and her CIO colleague had considered.

This potential savings helped solve some other vexing issues. The team also had quite a few other urgent priorities that would not only take considerable financial resources to complete, but would also require significant managerial time and attention to execute properly. As they thought about which of those priorities were really defensive maneuvers—turning a negative into at least a neutral, they were also able to identify a couple of areas where they could really win by playing a strong offense where they could leverage their relative strengths.

The largest SBA lender by dollar volume in the U.S. right now is Live Oak Bank, a $3.4 million community bank. The second largest is Wells Fargo, which at $1.95 trillion in assets is an institution nearly 600 times larger. Live Oak has focused its attention and its technology where it has a chance to win.

3. Culture Doesn't Cost a Thing

Theoretically, smaller teams should be closer to the customer, and having fewer layers of bureaucracy should make it easier to turn those customer insights into better outcomes faster. In practice however, our need for safety and soundness and predictability and compliance mean that all too often we ignore those important insights when they don't fit into our existing processes.

We need to build a culture that recognizes when we need to listen and adapt and change. A culture that encourages us to hold our strong opinions loosely and be willing to seek new data and incorporate it into our operations. Customers' needs and expectations change, and we can't be stuck with an organization that is still solving yesterday's problems.

Engaging your 500 or 5,000 employees to understand and respond to these changes is much easier and faster than attempting the same with a team of 50,000 or 500,000, but it won't just happen on its own. Having a flatter organization chart, or fewer silos, or decentralized decision-making aren't really competitive advantages if you can't leverage those factors to create better outcomes for your customer.

JP Nicols is Managing Director of **FinTech Forge**, where he helps financial institutions build and leverage their innovation capacity internally and through strategic fintech partnerships & investments.

JP Nicols

4 Deployment of Advanced Technologies

Deployment of Advanced Technologies

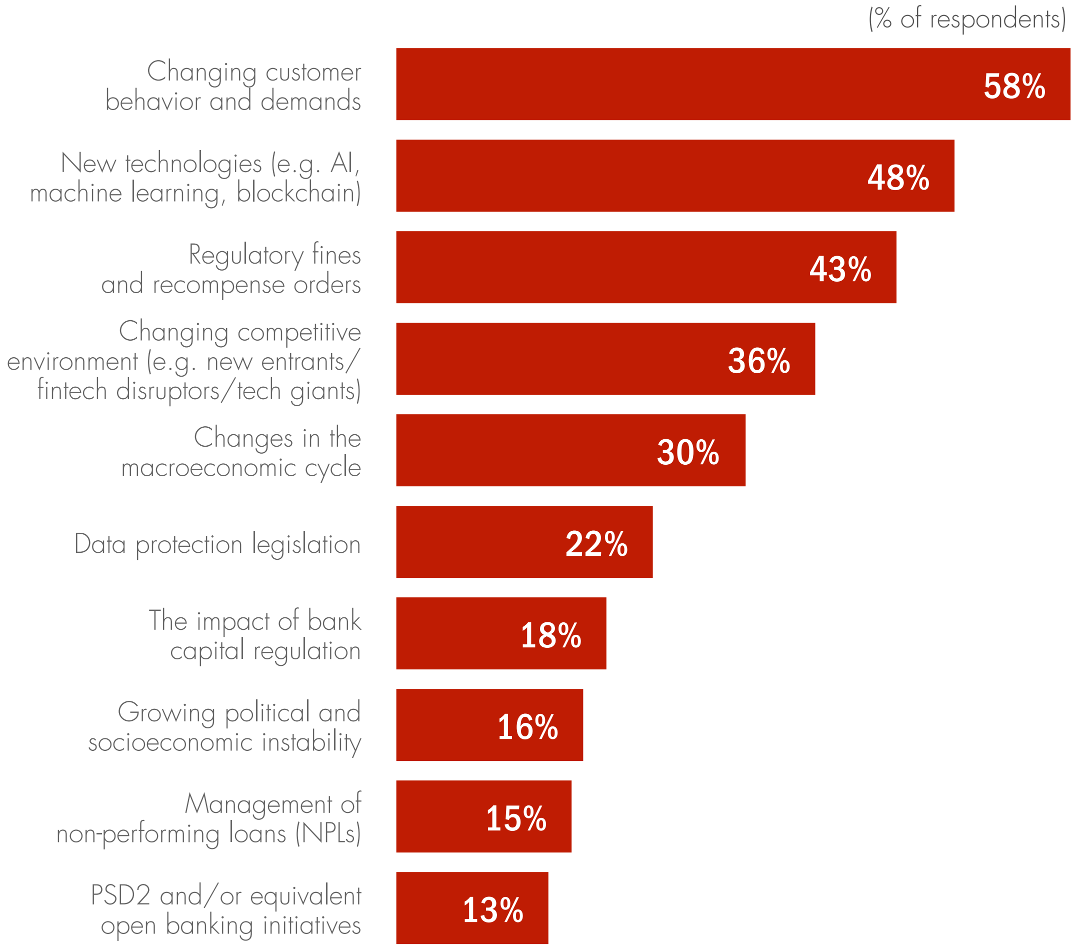
Global banking organizations are focusing on advanced technologies, customer experience and security of data in their efforts to keep pace with consumer expectations. At the same time, many have conceded the battle for payments to fintech and big tech organizations.

As the banking industry continues to move more transactions to digital channels and adjusts the technology used in back-office operations, costs are being reduced, productivity is increasing and response to risk and compliance needs are improving. As a result, global bank executives are now more concerned with technology-driven trends than they are by regulation.

About 58% of respondents in the annual Economist Intelligence Unit survey on the future of retail banking said "changing customer behavior and demands" will have the biggest impact on retail banks in the years till 2020, citing a survey of 400 senior banking executives across the globe. In addition, "technology and digital" (48%) are now bigger trends than "regulatory fines and recompense orders" (43%).

This trend is not true in North America, where regulatory fines and penalties are still the primary concern for large banks (56%), compared to just 34% who said the same about new technologies such as artificial intelligence and blockchain (14% lower than global results). And, while the changing competitive environment was expected to have a major impact for 36% of global banks, the impact was felt to be much higher in Latin America (48%) and the Middle East & Africa regions (40%). This most likely is the result of the large underbanked segments in these economies, making it easier for new non-bank competitors to enter the market with smartphone and cloud technologies.

Chart 13:
Changing Consumer Behavior has Biggest Impact on Retail Banking till 2020
Q: Which trends will have the biggest impact on retail banking in the years to 2020?



Source: The Economist Intelligence Unit © Efma-Infosys Finacle Digital Banking Report Survey 2018

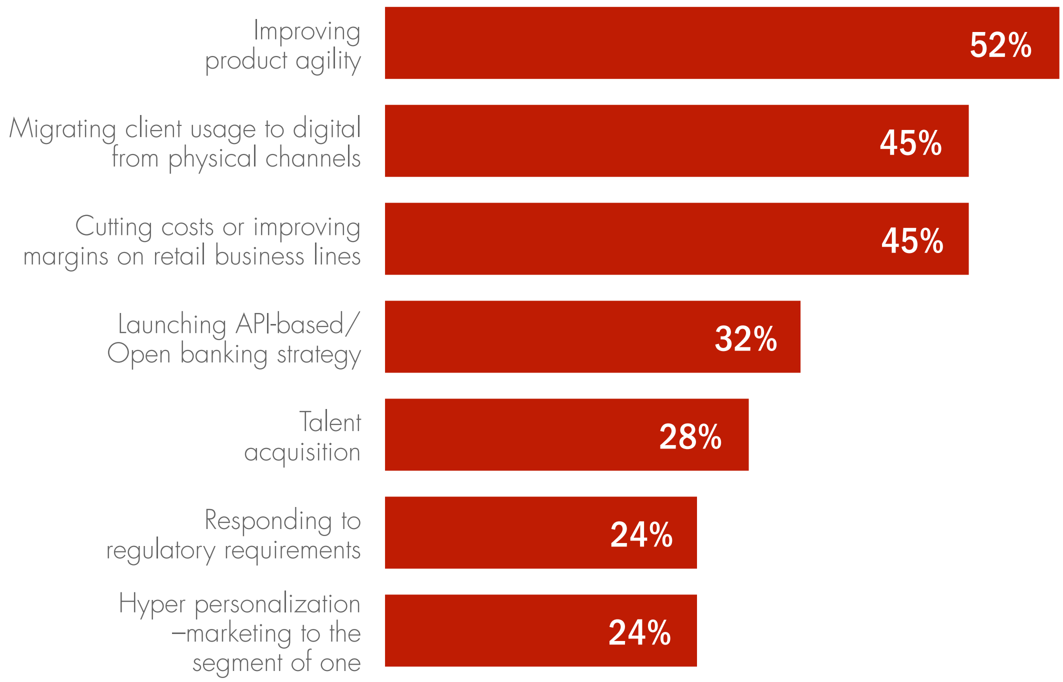
Big Banks Concede Battle for Payments

Has the battle for payment supremacy been lost by traditional banks? Globally, 77% of respondents say that the majority of payments will flow outside traditional banking networks by 2020, with bankers in Asia-Pacific the most likely to agree.

This loss of an important component of traditional banking has impacted the importance of agility in the minds of bankers. According to the research by the EIU, 52% of global bankers consider product agility as a top strategic priority. Moving consumers to digital channels and cutting costs were considered equally important priorities (45%).

Chart 14:
Top Retail Banking Strategic Priorities till 2020

Q: What are the top strategic priorities of your company in the years to 2020?

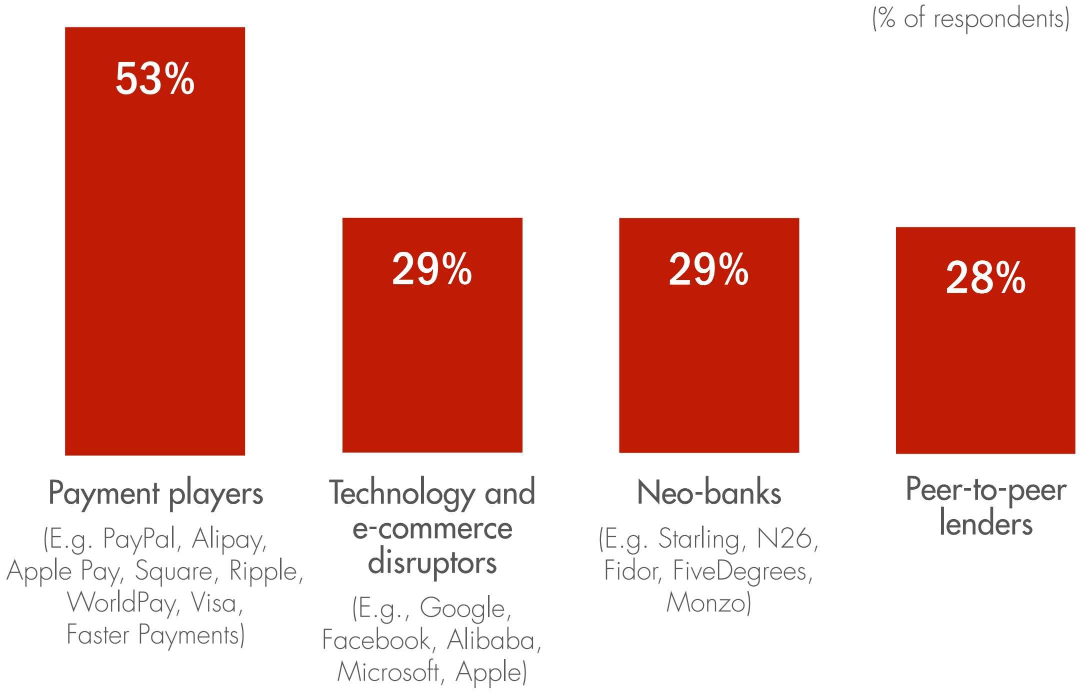


Source: The Economist Intelligence Unit © Efma-Infosys Finacle Digital Banking Report Survey 2018

Supporting the finding that traditional bankers are concerned about their remaining payments business, the non-traditional players that keep bankers up at night are the large payment players. Surprisingly, the big tech firms (Google, Alibaba, Facebook and Apple) were considered equally a threat as neo-banks.

Chart 15:
Payment Players Pose Biggest Competitive Threat

Q: Which non-traditional entrants to the retail banking industry will be your company's biggest competition in the years to 2020?



Source: The Economist Intelligence Unit © Efma-Infosys Finacle Digital Banking Report Survey 2018

Banking has reached a watershed moment with changing customer behaviors, disruptive new technologies and a dramatic increase in competitors from within and outside of banking. The most enlightened banks understand that to become truly digital they need to update their systems front-to-back. This will fulfill their business need for product agility, where they can offer the right products, over the right channel, and at the right time.

Positioning for the Future

New competitors, new technologies and increasing customer demands are forcing banks to rethink, adapt or completely change their business models, according to the EIU report. One banker interviewed stated, "If you don't have a digital strategy, your bank is already dead." The two options available are to specialize by market or product, or to leverage fintech solutions with an API (open banking) strategy.

According to the EIU study, 61% of global respondents believe the best strategy is to develop a niche that will retain customer loyalty. This could be to serve a specific local market or to serve a specific consumer or product segment.

The second strategy is to leverage open banking based on API, or application programming interface. In this option, banks can offer indistinguishable products using small on-screen icons on aggregator apps that consolidate financial data from different accounts. A better option would be to be the aggregator as opposed to the aggregated … but few banks have thought through what this option entails.

Technology is now the enabler, which will empower banks to build digital ecosystems and capitalize on the open banking opportunity. IT renovation is key to banks' strategy and, indeed, their very existence; as they will need to redefine their business models in the new API economy.

There is some skepticism whether conventional banks can become the digital platform of tomorrow when faced with emerging fintech firms or GAFA giants. But, while security and trust are a major advantage of traditional banking organizations, it is not as if traditional banks can afford to take data protection or privacy for granted. In fact, this is still a primary challenge for traditional banks as well.

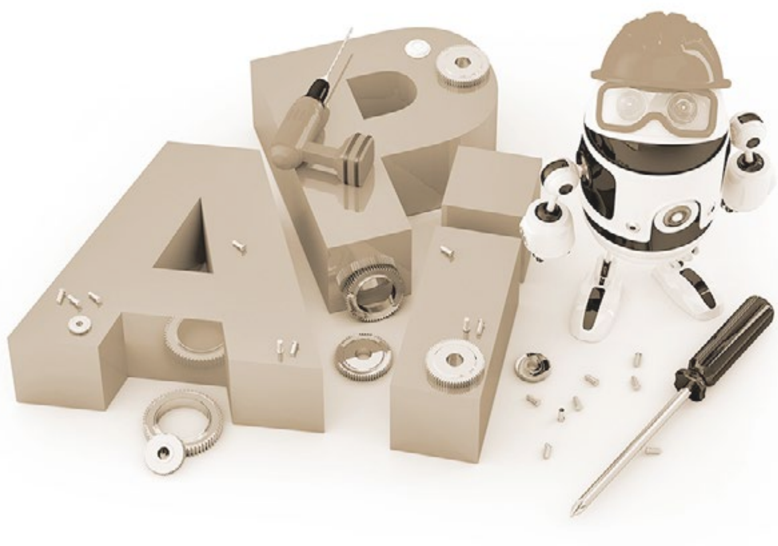
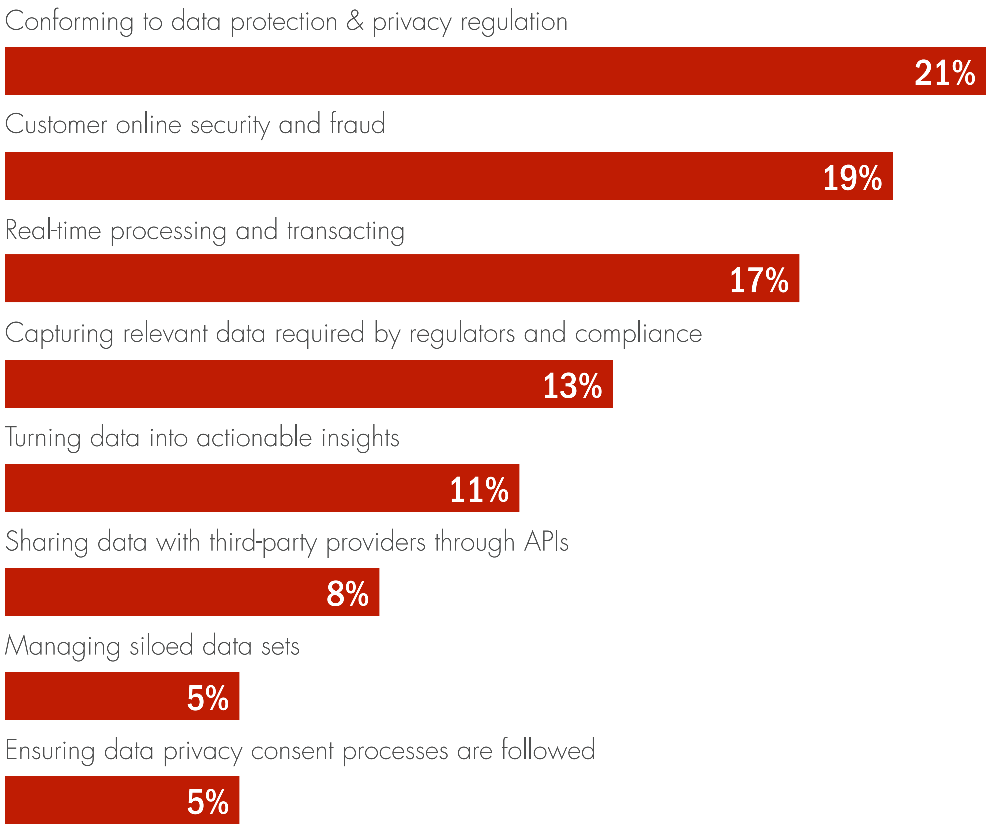


Chart 16:
Data Protection and Security Biggest Challenges Related to Open Banking

Q: What is the biggest challenge your company faces concerning data & third-party access?



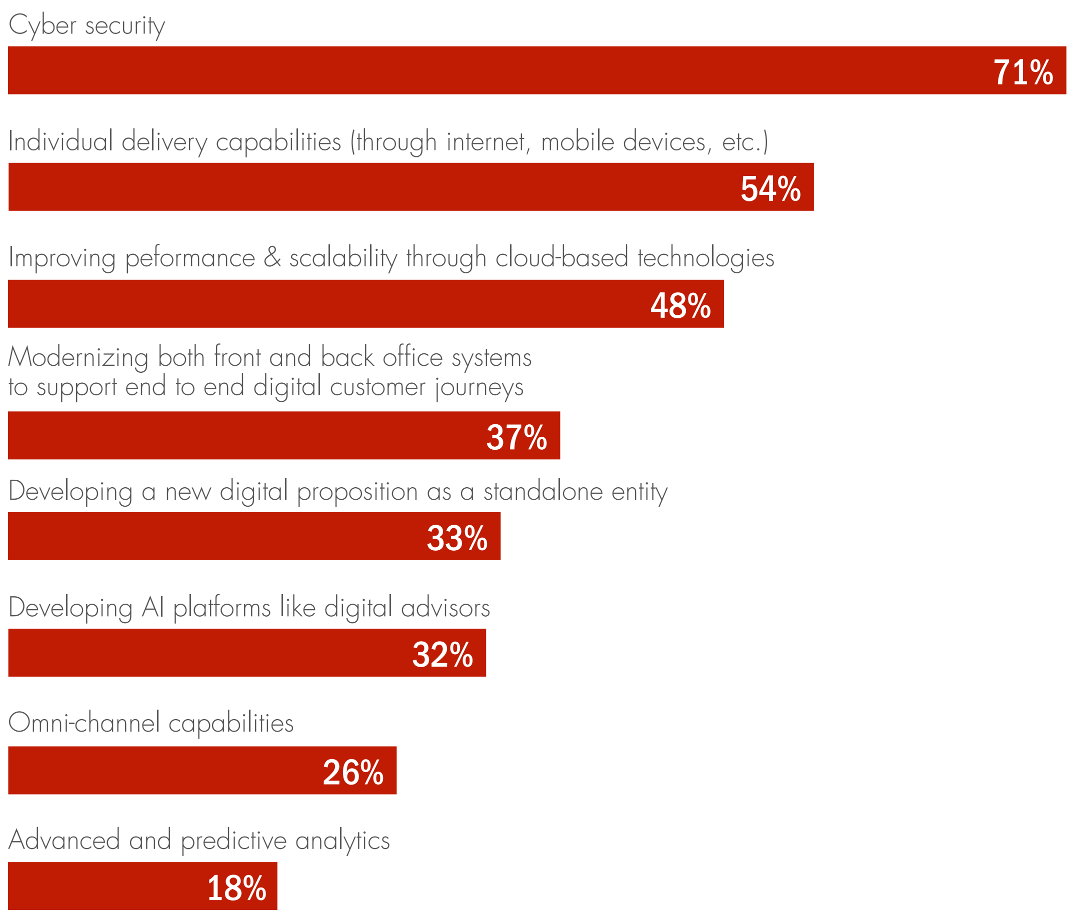
Source: The Economist Intelligence Unit © Efma-Infosys Finacle Digital Banking Report Survey 2018

The impact of open banking and tighter security and data rules is not clear. While 71% are focusing their digital investment on cyber security, only 17% are thinking about the risks from third-party relationships as a result of open banking.

Technology budgets are also being directed to mobile and other internet-connected channels, with mobile being the focus of 54% of respondents. Banks are investing heavily in cloud-based technology as well, with 48% of investment focused there, and also in modernizing front- and back-end systems to ensure that processes run more smoothly and economically (cited by 37% of respondents).

Chart 17:
Cyber Security Remains Top Focus of Digital Investment

Q: Where is your company focusing its digital investment?



Source: The Economist Intelligence Unit © Efma-Infosys Finacle Digital Banking Report Survey 2018

Artificial Intelligence Increasing in Importance

While machine learning and artificial intelligence have been around the banking industry for some time, AI is becoming an increasingly important component of the new technology mix. Moving beyond the behind-the-scene risk and security processes and compliance procedures, AI is now emerging as an important customer experience tool.

Consumers will benefit from these enhanced analytical tools as behaviors are tracked, preferences are learned, and advice is provided in real time that is more accurate (and proactive) than ever in the past. "Survey respondents see most AI benefits concentrated on the existing customer, with more than one in five saying that personalizing the user experience and boosting customer engagement will be the most valuable use of AI for retail banks," states the report.

It is not all rosy for the use of AI in the future, however. Although the banks think that AI holds significant potential for easing processes safely and effectively, they believe customers still have some doubts. According to the survey, AI raises significant issues about the security of customer data (64%), privacy (64%), and how data will be used (60%).

One Size Does Not Fit All

It is clear that the digital revolution is the most important banking trend now and in the foreseeable future. In almost all global markets (with the U.S. being a notable exception), changing customer behavior and digital technologies have surpassed regulation to become the most significant trends impacting banking.

The most important threat to traditional banking organizations may be the big tech firms (GAFA). With Amazon in discussions with JPMorgan Chase and other organizations about potentially offering checking services in the U.S., the potential for banking services to be offered by non-banks should be expected.

While traditional banks still have the advantages of established customer bases, reputation and trust (not to mention significant capital), no organization should rest on their laurels. There is no excuse for inaction. We have already seen outflows from local community banks to larger organizations that can provide advanced digital services.

In the future, the winners will be determined by those that serve their targeted markets the best through a combination of digital and human interactions. The focus on reducing costs while improving customer experiences will prove to be a difficult paradox, only mastered by those organizations that are agile, responsive and technologically advanced.

Impact of Advanced Technology

As the banking industry is in the midst of massive digital transformation, organizations are increasingly using automation to improve efficiency and reduce costs. While the economics are enticing, the real value of intelligent automation may actually be as a driver of increased revenue growth and enhanced customer satisfaction.

Unfortunately, most organizations are still only scratching the surface of potential benefits beyond cost savings. While many organizations have implemented some advanced technologies, most are simply moving forward on an iterative basis as opposed to embracing any technology to the optimal potential.

A great example is with AI and machine learning, where organizations continue to improve their use of these tools in the areas of risk and fraud management (traditional areas of emphasis), but where the tools are far less utilized for improved customer targeting and communication.

The same is true with Open APIs, where most institutions are using these opportunities in legacy fashion as opposed to taking advantage of an expanded banking ecosystem with broader financial services or even non-financial experiences.

When financial services organizations worldwide were asked about the impact of advanced technologies in the next 12 months, Open APIs were thought to have the largest potential impact (with a score of 5.68 on a 7 point scale).

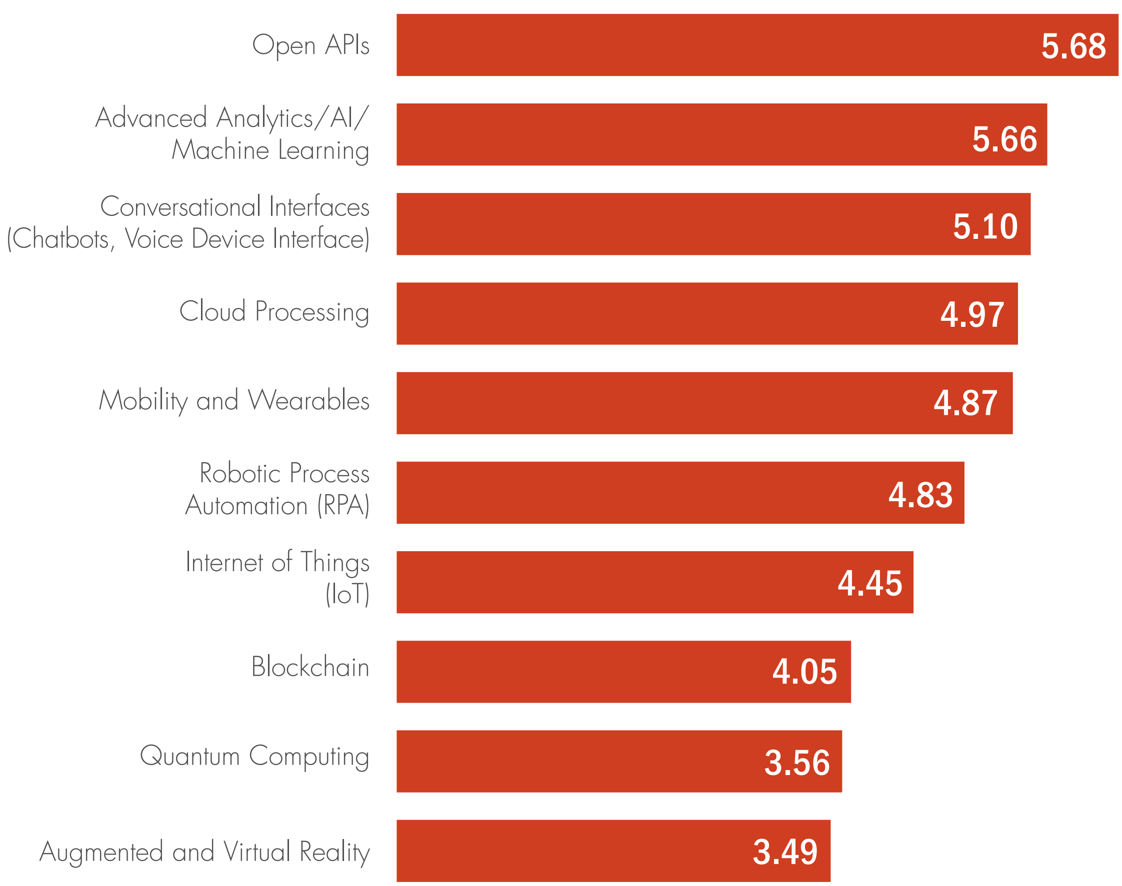
Obviously, this scoring is positively impacted by institutions in the European countries where Open Banking is already being regulated. However, we saw Open APIs as being scored highly by all banks in all regions, reflecting the forward view of most respondents.

While advanced analytics/AI/machine learning and conversational interfaces were the next most mentioned technologies expected to have an impact, other research done by the Digital Banking Report has found that commitment to these technologies is much more aspirational than evidenced in current use. In fact, the relatively slow adoption of advanced analytics is one of the major concerns regarding the ability for many financial institutions to compete in the future.

Finally, it is interesting to note that, despite significant industry discussions around the potential of the blockchain, the perceived impact of blockchain technology in retail banking over the next year is far lower than most other advanced technologies.

Chart 18: Impact of technologies on banking over the next year

On a scale of 1-7 (where 1 is very low and 7 is very high)



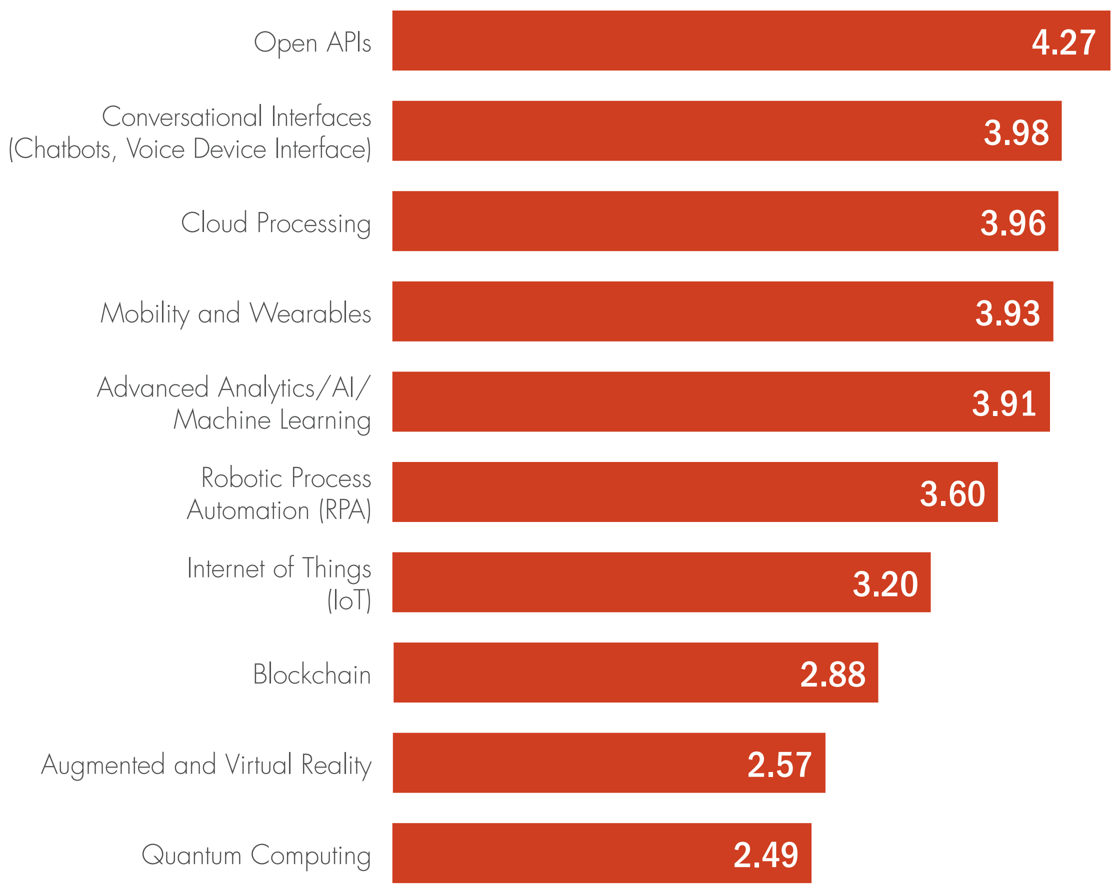
Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Readiness for Implementation of Advanced Technology

Despite the high rankings for the impact of advanced technologies, none of the technology options had a high level of readiness on a scale of 7. The good news is that financial institutions globally believed they were in the best position with Open APIs, conversational interfaces, cloud processing and mobility/wearables.

Of ongoing concern is the relatively low score for the ability to leverage advanced analytics and machine learning. This is an ongoing theme throughout our research, which can inhibit all other technology advancements and innovation efforts.

Chart 19:
Level of Readiness to Leverage Technologies to Deliver Expected Business Outcomes
On a scale of 1-7 (where 1 is very low and 7 is very high)



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Advanced Analytics, AI and Machine Learning

The consumers' buying process is no longer linear or predictable. Consumers often start using one channel and switch channels unpredictably due to individual circumstances. Customers want to interact on their terms, expecting advice and recommendations that are similar to what they receive from other digital partners like Google, Amazon, Facebook and Apple. They want an experience where their needs are not just met, but anticipated.

Despite the challenges, the new advanced analytic reality presents an exceptional opportunity for banks and credit unions to build better customer experiences and deeper consumer relationships. To capitalize on opportunities, banks must leverage the wealth of informational assets at their disposal. They must analyze structured and unstructured customer data, and deliver real-time insights that result in unique and compelling opportunities for customer engagement. Most importantly, they must provide advice and solutions across multiple channels.

Beyond developing great internal reports, financial institutions must apply these big data insights for the benefit of the customer. This includes not only providing real-time advice and solutions, but also anticipating future financial needs of a customer. Financial institutions must also determine the best way to connect with customers to create a win-win opportunity.

As mentioned in our 2017 report, the benefits of advanced analytics include:

- Targeting customers with highly relevant offers across online and offline channels.
- Understanding customers in the context of their relationship with your brand.
- Engaging/using the right channel, at the right time with the right message.
- Predicting which customers may be at risk as well as the best way to retain them.
- Gaining a better awareness of customer needs, intentions and behaviors through social media.
- Maximizing customer lifetime value through personalized offers.

One of the added benefits of advanced analytics is the ability to embed the results of the analysis within both physical and digital delivery channels, as part of business processes and within operational systems. This enables a bank or credit union to deliver a consistent and optimized experience to each individual customer across an entire organization.

The potential of advanced analytics grows exponentially over time. Each iteration, additional data source and performance measurement results in learning that enhances the accuracy of the predictive models. It also allows organizations to refine data sources as opposed to simply adding more and more data.

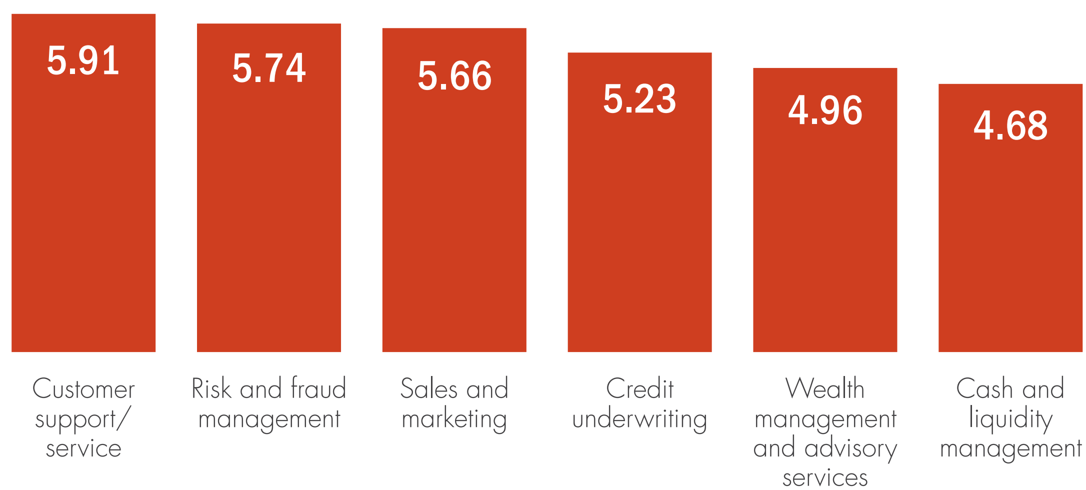
Financial institutions must effectively leverage data and advanced analytics to keep up with consumer expectations and the experiences being delivered already by both fintech firms and big tech organizations. Banks and credit unions must move beyond iterative uses of advanced analytics and AI, implementing uses of insight that will directly impact the humanization of banking.

In what appears to be a conflict between importance and organizational focus, banking organizations worldwide are highly aware of the positive impact of AI, advanced analytics and machine learning in almost all areas of the bank, yet still do not focus on the need to develop these skills or focus investment in these areas. In addition, while organizations state that customer experience and marketing/sales are major areas of AI deployment, this level of commitment is NOT seen in other studies done by the Digital Banking Report.

The high ranking for risk, fraud and credit underwriting is not surprising since these are traditional uses of AI. Bottom line, this is a continued evolution as opposed to revolutionary uses of AI that can impact customer experience.

Chart 20: Level of Transformation Due to AI Technologies by 2022

On a scale of 1-7 (where 1 is very low and 7 is very high)



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Future of Open Banking

The combination of open platform banking and open APIs will change the entire banking ecosystem as we know it, from the products and services offered, to the delivery channels used and underlying partnerships that will shape innovation and customer experiences in the future.

This new era will redefine expectations, impacting the way that consumer insight is leveraged, and the powerful lifestyle outcomes that result. As other industries are already showing, a platform economy is already upon us.

The platform models of the future will transform fintech to 'techfin', with the digitalization of the industry being at the center of this transformation. Now is the time when all key areas of traditional financial institutions need to know what the open platform options are, and the best way to plan for a marketplace banking future.

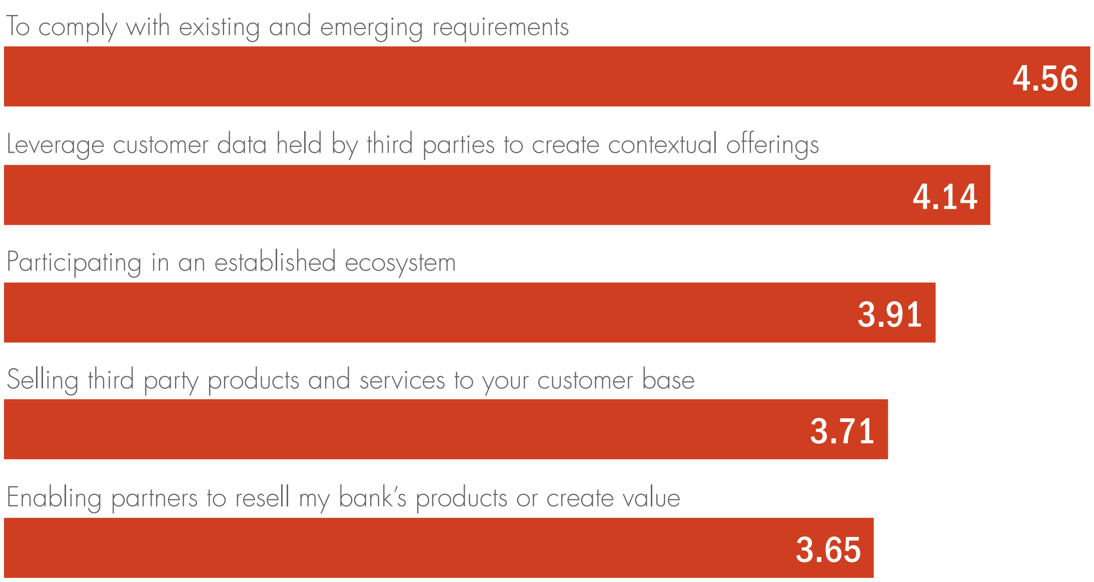
Many of the new 'challenger banks' in the U.K. leverage a platform banking structure to combine some of the best money-related solutions offered by third-parties under one roof. A great example is **Starling Bank**, a 'marketplace' start-up bank that offers a mobile-only checking/current account, including pensions, savings, travel insurance and mortgage brokerage. This is in addition to the benefits of a mobile-only mobile wallet account, such as immediate insights on spending habits, granular and flexible card security, zero fees and interest on the account.

At Starling, the number of partnerships to benefit both consumers and small businesses continues to expand. The bank says it's targeting 25 partnerships in total in 2018 to make customer experiences better. While the interest in open banking in the U.K. is fueled by the open APIs mandated by Open Banking/PSD2 legislation, banks of all sizes globally need to evaluate options that will meet increasing consumer demands.

When asked about how open banking will be used in the next year, none of the options provided were given very high scores on a scale of 7, indicating that no single objective will be the emphasis for banks. It is clear, however, that when it comes to open banking, there is still an evolutionary perspective as opposed to revolutionary innovation. It is also clear that using open banking for helping external partners is the least likely use.

Chart 21: How will your organization leverage open banking in the next year?

On a scale of 1-7 (where 1 is very low and 7 is very high)

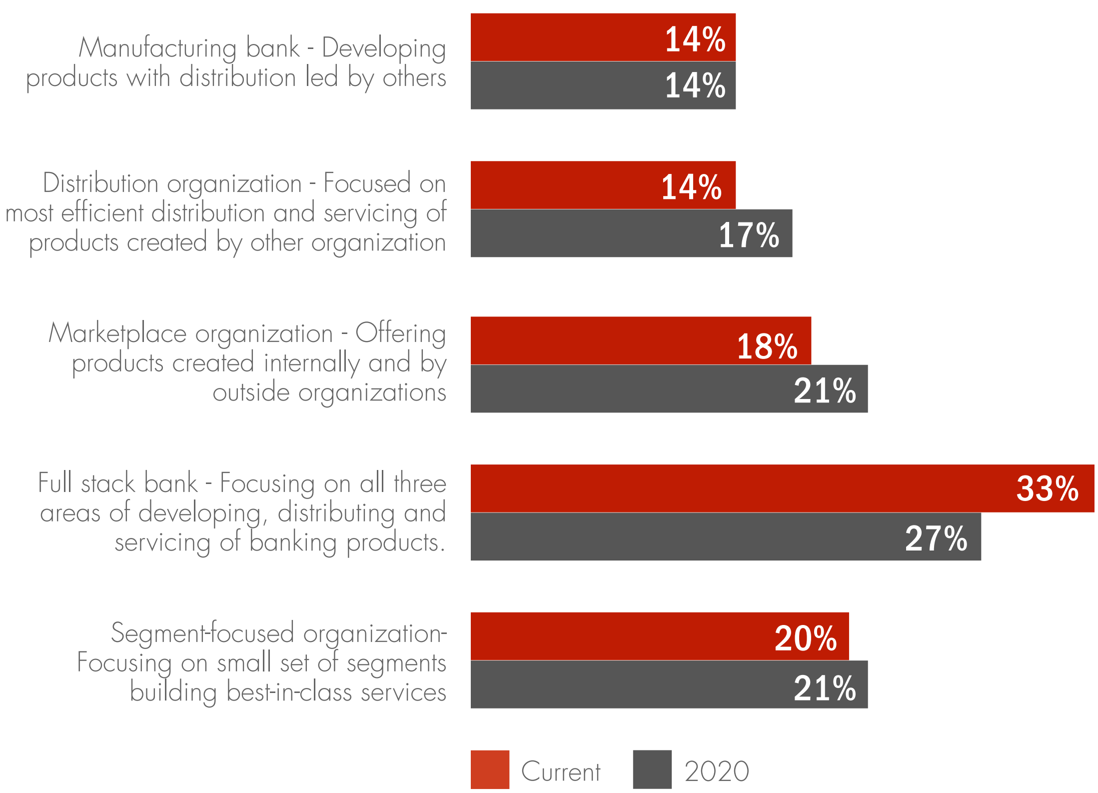


Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

When asked about what was the most likely structure of individual banks today and in 2022, we believe the best way to view would be across time. With this in mind, it appears firms are most likely to move towards cost-focused distributors of services and being a marketplace of internal and external developed services.

There is a belief that there will be a significant pull-back from a full-stack organization, supporting the reality that many firms believe they can no longer be 'all things to all people'.

Chart 22: Current primary business models and projections for 2022



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

A financial institution's transformation to an open API platform banking model will be very disruptive to a legacy financial organization. It requires a non-traditional culture shift on the definition of banking, as well as a change is resource allocation, talent requirements, technology and a vision of the future.

Not only will current products need to be built for highly digital deployment, new solutions in the marketplace will need to be identified and brought under one roof for the benefit of the customer/member. Organizational, functional and technical capabilities will all change. It is this high level of modification to the current way of delivering banking services that requires preparatory strategic thinking today. It is never too early, given the marketplace dynamics and potential competitive threats.

While the largest tech firms (GAFA) are leading the charge towards implementing open API platforms, they may not be the model that most banking organizations should follow. Not only do most financial institutions lack the technical expertise or the financial wherewithal to implement these models and support a vast developer community, the ability to acquire new customers to replicate their success is unlikely.

That said, an open banking platform future is within sight for all financial organizations. For instance, account aggregation is becoming much more commonplace, with firms like Citibank developing completely new digital-only products with this capability. Similarly, traditional banking functions like taking deposits or making payments could become integrated within non-traditional organizations (Starbucks, Amazon, etc.). In the end, all key managers in virtually all financial organizations should already be meeting to determine what their organization may look like in the future and how services will be created, marketed and distributed.

Going forward, all financial institutions should look at the following:

- Embrace an open platform banking model, identifying the capabilities and investments needed to make it happen.
- Cover the basics by targeting specific life-stage moments using external APIs.
- Look for partners aligned with your open platform vision.
- Choose a strategic ecosystem model that is close to your strategic priorities and market positioning.
- Create new business models, revenue models, product development processes, and sales strategies to optimize the value of open banking.

In the end, preparation for the future of open banking will pay off and potentially protect your organization from some competitive threats that are already advancing on your prime customers and members.

Use of Cloud Technology

The cloud provides financial institutions of all sizes the opportunity to boost capacity for handling data, while also providing an increased level of agility, security and scalability for banks. Use cases include data analytics, batch processing and data storage, with the cloud allowing for more flexibility and efficiency.

Cloud computing also provides financial institutions the ability to gain efficiencies and reductions in costs, since the technology only requires banks to pay for the services they use compared to the ongoing costs of existing IT infrastructure.

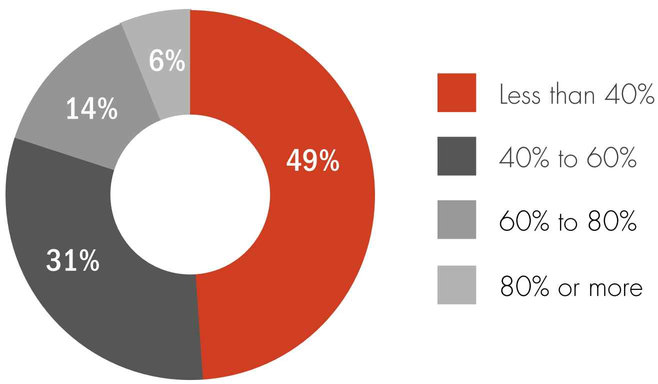
While cloud adoption within the banking industry still has much room for growth, some financial institutions are already moving heavily into this new technology. Some of the hesitancy of other organizations revolves around potential regulatory implications.

The issues include how to provide service continuity for customers in the face of any potential mishaps on the cloud, how personal information is stored, how it is used, issues around the dependence on third-party providers and the overall security of cloud infrastructure.

Reinforcing the findings from our 2017 survey, where there was a lack of commitment to moving to the cloud, close to half of the organizations surveyed believed that less than 40% of the current workload would move to the cloud. An additional 31% of organizations see only 40% to 60% moving to the cloud.

Note: Because the survey went to a wide assortment of individuals in financial institutions globally, the results of a question that is determined in a specific area of a bank could be questioned as to the accuracy. Results of this question should be viewed as a 'perception' as opposed to a clear guidepost.

Chart 23: Percentage of company workload to move to public cloud by 2022



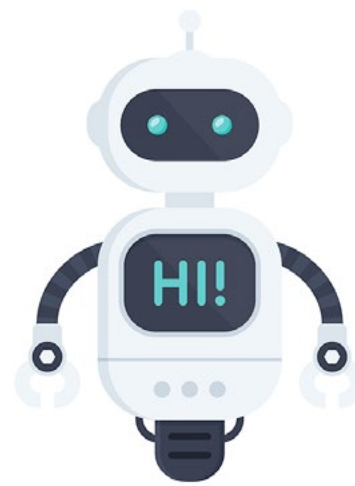
Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Chatbots and Voice Technologies

Messaging platforms that include voice and text-based interfaces are being increasingly used by digital consumers as their preferred method of engagement. Amazon Echo, Google Home and Apple HomePod (as well as other devices) all use technologies including AI, machine learning and natural-language processing (NLP) to enable voice engagement.

An increasing number of financial organizations are beginning to take notice. A human-first approach built around natural conversation allows the consumer to do away with the keyboards and touchscreens that currently intermediate interactions, and simply talk to digital technology as we would to a human.

Conversational technology can use real-time data analysis to create contextual conversations leveraging previous interactions much the way humans do normally. This allows for individualized engagement by a machine using big data stored in the cloud. From providing rudimentary support to advising on more complex matters, conversational AIs will be able to replicate much of what a human customer service agent does, only faster and more accurately.



With these capabilities, 'conversation' could become the third pillar of a financial institution's distribution network, joining mobile banking and a smaller branch network. Using stored data, this type of engagement introduces a new level of personalization, where historical interactions are combined with current internal and external data. This represents a shift in how we think about mobile services – a transition from transactions to interactions.

This transition is made possible by the vast number of devices that we are buying that listen and learn over time. These devices process more and more interactions every day, as we share information about ourselves. These interactions create data and insights about how we live, what we buy, what we like and who we interact with. These insights have the potential to provide value-added benefits proactively, like never before.

There are already more than 33,000 bots on Facebook Messenger and more than 100,000 bots offered by Chinese digital giant WeChat. These bots offer customer support, e-commerce guidance and other interactive experiences.

While a good first step, most bots today have limited capabilities. Some simply replicate already outdated FAQ experience, while others simply replace low level human-based customer service capabilities. The ultimate goal is to move more interactions to voice, supporting sales, advanced customer care and advice, with greater personalization, a better UI, less friction and more automation.

This is a unique example where the technology and consumer acceptance is already out there, but strong use cases have yet to come. Many voice capabilities have had initial success, only to have growth stalled due to lack of value-added capabilities or consumer education.

Organizations will need to use education and value-added benefits to 'sell' them on new ways of interaction. Without education and consumer-centric benefits, it's unlikely consumers will use a chatbot, let alone digital assistants as opposed to current human channels.

Another barrier to transition to conversational engagement is the siloed nature of banking. Conversations/interactions will not move forward if the experience is not seamless, with all insights, from all areas of the organization arranged around the consumer. Traditional segmentation or product ownership silos will only inhibit natural and successful dialogue.

Forward-thinking financial organizations will be thinking how to better engage with conversations, knowing that this capability will be an important component of the overarching brand. Success will be determined by those institutions who can best integrate and automate conversations across new channels – contextually – and with real-time insights.

The financial services industry must be prepared for this transition to conversational banking, developing capabilities with a foundation in voice and text interactions. To the digital consumer, pushing buttons is as frustrating as making a call on a rotary phone, with latent friction and inefficiencies. The best-in-class organizations will enable interactions by voice that extend well beyond rudimentary transactions, to include advanced advice and contextual engagement.

The future of conversational banking will require new talent, new technologies, changes to back-office processes, organizational commitment, and an education of the consumer to be successful.

5
Competitive Trends

Competitive Trends

Improving the customer experience is the top strategic goal mentioned by bankers. Consumers say a seamless experience, single point of contact, rewards and security are essential. Can banks and credit unions compete with challenger banks and big tech firms and potentially monetize a great customer experience like Amazon?

To be competitive in the evolving financial marketplace, banks and credit unions must provide mobile and online banking solutions that exceed customer expectations. While consumers are increasingly satisfied with basic digital services, there are higher expectations around how financial institutions must help people reach their financial goals.

The good news is that, similar to Amazon Prime, meeting higher digital banking expectations could provide a way for banks and credit unions to monetize financial solutions. The key will be to provide an enhanced level of value that digital consumers crave.

The bad news is that, while financial institutions hold a massive amount of data on their customers, very few use this insight in a way that significantly improves the customer experience. Without a differentiated experience, the door is open for those organizations that can combine advanced technologies with real-time insights and contextual messaging and engagement.

According to an online survey conducted by The Harris Poll on behalf of **Computer Services, Inc.** (CSI), an average of 86% of consumers said they were happy with their financial institution's current digital banking offerings. Interestingly, there was only a modest variation of responses when delineated by age or socio-economic status. Respondents aged 65+ having the highest satisfaction level (89%), while the youngest consumers (age 18-34) had a similar satisfaction rate (82%).

Part of this satisfaction level could be the result of how consumers select banking partners. In other words, research shows that younger consumers are increasingly selecting bank and credit union providers based on digital capabilities. They may be satisfied because they selected organizations with the best digital capabilities in the first place, while older consumers (with lower expectations), are satisfied without switching.

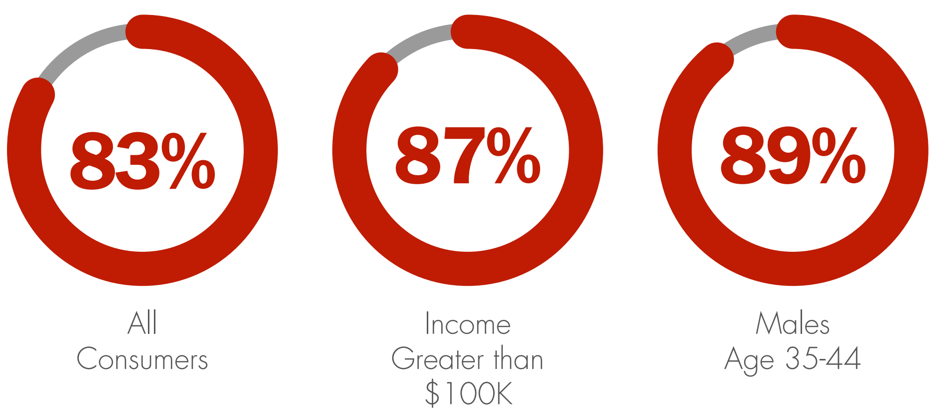
"When it comes to their banking relationships, consumers expect to have easy-to-use digital banking services as well as consistent experiences across all channels," said Steve Powless, CSI's Chairman and CEO. "While the majority are satisfied with their current digital services, that doesn't mean banks can rest on their laurels."

It is no longer enough to notify a consumer after the fact about a major change in their financial status or an upcoming financial opportunity or risk. More than 4 of 5 consumers (83%) want their financial institution to assist them with their financial goals and to anticipate financial needs. The number jumps even higher for wealthier households and men aged 35-44.

This is good news for financial institutions that are investing in data collection and advanced analytics, and it should be a point of concern for institutions that still look at consumers as part of a large segment as opposed to individuals. Consumers do not want budgeting tools – they want financial recommendations and advice proactively and in real time. In the future, this insight could be a way to monetize digital relationships, as long as banks and credit unions see this opportunity as a 'value transfer' as opposed to simply a cross-sell opportunity.

With consumers expecting banks to anticipate their needs, financial institutions constantly need to innovate and educate their customers on the newest tools available to meet financial goals.

Chart 24:
Consumers want their FI to know them/help them with financial goals



Source: CSI © Efma-Infosys Finacle Digital Banking Report Survey 2018

Increasingly, consumers are making decisions regarding which financial institutions to partner with based on a broader perspective of experiences. The combination of data, advanced analytics and new digital technology provides an amazing opportunity to differentiate in the marketplace.

With all the talk about non-bank competition, it is not hard to imagine the discussions that are occurring in banking and credit union board rooms around the country as to whether tech giants like Google, Apple, Facebook and Amazon may become banks.

On one side of the table are the legacy 'career' bankers or credit union executives, who realize that becoming a 'bank' is much harder than simply hanging a shingle with the words 'Google Bank' or 'Facebook Financial.' On the other side of the table are the younger bankers who realize that, with new technology and without the need for bricks and mortar, the barriers to entry for many banking services, such as payments, are lower than ever.

The End of Banking as Usual

As we have seen in the past, by eliminating inefficiencies and transactional friction, high tech competitors can 'eat away at the edges,' delivering a select group of traditional services such as merchant services for small businesses, payment services and even checking accounts (in the form of prepaid cards) directly to consumers and businesses. For many of these segments, the new products are lower cost and can provide a better experience. Continuation and/or expansion of this trend could relegate traditional banks to being nothing more than processors of transactions.

Of even greater concern could be how Google, Apple, Facebook and Amazon (as well as Alibaba, Tencent and an array of challenger banks) integrate and leverage their traditional products to create new customer value in financial services that goes beyond payments. For Google, this could be their mapping or email capability. For Apple, it could be their design or mobile security capabilities. For Facebook, the context of social communication. For Amazon, it may be their digital store or even their new voice devices.

Since each of these firms already use vast customer insight to provide contextual solutions, the logical next step is to use this same insight, combined with transaction behavioral data, to deliver highly personalized financial advice and solutions. In the process, while banks and credit unions may still have credit or debit card accounts associated with these high tech solutions, the big data behavioral insight that traditional financial institutions are used to receiving with transactions would no longer be available. Gone would be the what, where, when and how of payments' insight.

In other words, the core of the customer relationship could be lost to the new high tech players unless traditional financial organizations can redefine their offerings and/or build partnerships with providers outside the financial services industry.

Remember, it is not another bank that people want … it is a better experience. Tech giants could easily become a financial services hub to facilitate the relationship between consumers and traditional providers of financial services. Unfortunately, while not wanting another bank, many Millennials would be open to using one of the high tech giants with only minimal encouragement.

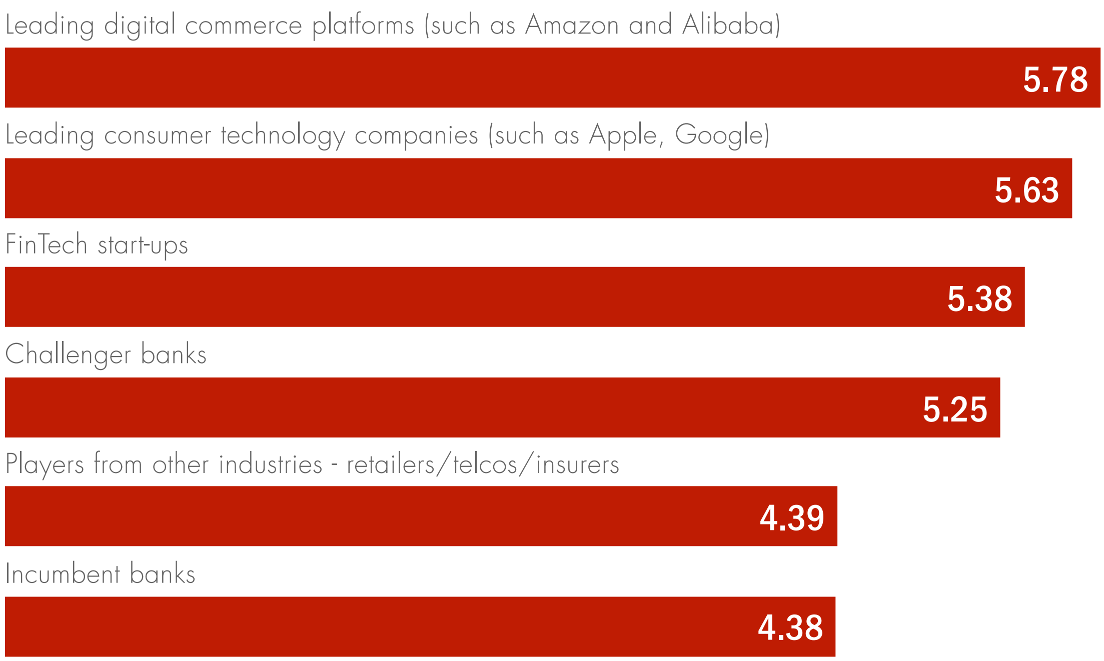
Who Keeps Bankers Up at Night?

In a continuation of findings from the past several Innovation in Retail Banking reports, platform-based competitors (Amazon), TechFin firms and fintech organizations were the highest ranked competitors. Much of this fear is based on the ability of these firms to provide payment capabilities and an exceptional digital experience.

In a shift from last year, challenger banks rose in perceived importance, reflecting the ongoing growth of firms like N26, Starling, Monzo, etc. The threat from non-fintech or banking firms and incumbent banks were seen as least threatening.

Chart 25: Who will be the innovation leaders in banking by 2022?

On a scale of 1-7 (where 1 is very low and 7 is very high)



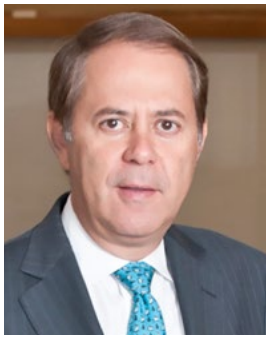
Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

6
Interviews with Industry Leaders

Interviews with Industry Leaders

The last ten years of innovation have made it clear that the speed of change is increasing, with consumers driving much of the change that the banking industry has experienced. With new technologies and increasing consumer expectations, we interviewed industry leaders from all over the world to get their perspectives on the past, the future and the challenges ahead.

The panel of executives included:



Mauricio Minas
Executive Vice President
& Member of the Board
Bradesco Bank
Brazil

Abhijit Singh
CIO/CTO,
Digital Transformation
Executive
ICICI Bank, India

Andres Wolberg-Stok
Global Head
of Fintech Policy
Global Consumer
Banking,CitiBank
United States

Pierre-Nicolas Patouillard
Head of Innovation
International Banking &
Financial Services,
Societe Generale
France

Questions & Answers

What banking innovation(s) do you believe to have been the most important over the past 10 years?

Maurício Minas: The most relevant innovations over the past years were related to customer experience. In other words, innovations that changed the way customers use their bank, do simple transactions, request information and interact with the brand. In recent years, the availability of digital channels such as the Internet and mobile, as well as social media, largely increased the level of banking convenience and transaction speed, which positively influenced the usage and engagement of customers with financial products and brands.

Abhijit Singh: Phenomenal progress and innovation has been observed in financial services over the past decade. There was a time when cell phones were still a rarity, and people could only dream of self-driving cars, and for many, the Internet was only just catching on. A decade later, it's obvious how much the world has changed. Take a look at some of the most dramatic transformations the world has undergone, including ATMs, online banking and mobile payments.

With the passing of this decade, we have ushered into an era where we now have a fully enabled digital customer platform delivering real-time experiences through APIs anywhere, anytime. Today's banking apps have the ability to initiate digital interactions on-demand and provide personalization to the customer. This has improved the meaningfulness of the digital interactions.

Andres Wolfberg-Stok: Thinking about what has been the most important, I could point to the move to mobile banking. It was 2007 when Citi was the first major US bank to offer an app, or the dawn of open banking and APIs, which facilitated collaboration and partnerships across the globe.

In reality, the most important innovation over the past decade hasn't been a single product or feature. It has been the shift towards giving consumers closer and more immediate access to, and control of, their accounts. I believe this is the most important innovation because it makes for better informed and more empowered customers. It's a clear enabler of progress for individuals and for societies.

Pierre-Nicolas Patouillard: The development of remote usage whatever the channel, and notably through the mobile phone, has been the most transformative. It has rejuvenated the way we design interactions with clients (UX excellence; mass customization, etc.), and the way we design our business models (the role and sizing of our physical branch network; the pricing strategy etc.).

Secondly, I would say the implementation at scale of open innovation. It has led to managerial innovation (agile methods, collaborative tools, team hybridization through labs and contests etc.) and has accelerated innovation pace provided that banks got organized to manage partnerships and associated projects with third parties.

Finally, the launch of dedicated business models targeting either a specific service or targeting specific segments of clients, leveraging alternative customer bases, technologies and distribution partnerships.

Questions & Answers

What do you believe will be the most important innovation in banking in the next 4 years?

Maurício Minas: The areas of innovation that have the potential to transform financial institutions and the way they serve their customers include the massive use of AI to impact user experiences, social inclusion and customer engagement as it will allow clients to interact with their banks in a more natural language.

I also see the transformation of banks into a platform of services. Working with open APIs should allow banks to offer a range of solutions for specific customer journeys, including financial and non-financial products from partners and on their own. That brings opportunities to offer frictionless experiences to customers for better engagement and increased loyalty.

Finally, I see the use of blockchain to transform financial services, simplifying business models, with positive impact in the user experience, costs and efficiency. From all disruptive technologies available today, we foresee blockchain as the most transformational.

Abhijit Singh: The financial services industry has seen rapid change over the last decade and will continue to see disruptions in the future too. With regulators acknowledging new technologies, its acceptance will grow much wider. Fintech firms will be in the driver's seat initiating the innovation, and banks will partner with them for improving the financial services value chain.

The blockchain's ledger concept coupled with robotics and AI will shake the way financial services operate. Data analytics to provide rich customer experiences will also be a primary focal point.

Andres Wolfberg-Stok: I think we all expect mobile banking along with other ever-closer digital customer touch-points to continue to grow. There are several interesting explorations under way, from the possible uses of distributed ledger technologies to the platformification of banking, to the dematerialization of relationships as customers no longer must use bank-branded channels to interact with their finances. Today, partnerships, collaboration and integration, especially with unexpected players, are presenting big opportunities for us at Citi.

Pierre-Nicolas Patouillard: Over the next 4 years, the implementation at scale of open banking to position and even bet on the new banking network value chain will be very important. The four models and opportunities are avenues for innovation, including "banks as a platform," "banks as a service," the "invisible bank," and the "bank as a market place" where banks can sell others' products focusing on customer intelligence.

Secondly, the potential ramping up of topical market places and the development of banking services of the GAFA + BATX. Both intend to be the preferred customer interface and will leverage data and communities to succeed in it.

Thirdly, the rise of instant payment and credit that, on one hand, will reconfigure competitive landscape in the (peer to peer) payment activities and that, on the other hand, will push for improvement of alternative scoring for fraud/compliance.

Finally, (smart) robotization will involve a significant human challenge in training and HR development, while having a significant opportunity to further optimize costs.

Questions & Answers

What is the biggest impediment to innovation at your organization? What are you doing to try to reduce the impact of this barrier?

Maurício Minas: The need for speed to innovate and transform our organization requires profound changes in culture, strategy, processes and employee skills. We have made significant progress in organizing our key project teams into agile structures, promoting constant training and spreading innovation programs and culture across the organization.

We have also developed an ecosystem to promote innovation, both inside and outside Bradesco, called inovaBra. It consists of eight different initiatives enabling internal teams, startups, investors, large companies, mentors, educators and partners, in Brazil and worldwide, to work in collaboration and to address business challenges through innovation.

Abhijit Singh: Status quo leadership is the biggest impediment to any innovation. Any innovation in an organization needs all elements of the system to operate at an equally high level — rather than more funds, expenditures, activities or tactical interventions. For innovation to thrive in an organization, there is a paramount need for certain features in its life cycle such as:

- Encouraging out-of-the-box thinking
- Incubating a sense of taking initiatives, especially in start-up like situations.
- Providing an infrastructure which encourages new solutions and processes to exist despite success/failure

But in general, it is critical that organizations seek balance across all domains. The following things are part of a continuous process that we use to reduce barriers:

- Promote appreciation, thereby improving the work ecosystem.
- Be open to trying new things. ICICI Bank has initiated an innovation lab which encourages the employees to think of out-of-the-box solutions.
- #LeadtheNew was initiated to make employees feel dynamic in this evolving work environment and take the lead on their innovations.

Andres Wolfberg-Stok: The pace of change has been a barrier to innovation for us, but we've recognized that we need a new way of working if we're serious about accelerating our capabilities. We have changed our processes and work habits to embrace smaller groups, shorter time-lines, multiple test points, and getting whatever it is we are developing in front of customers through co-creation as quickly as possible. And we redefined what success means so now we can celebrate those times that we fail quickly (and inexpensively) and apply those learnings to our next challenge.

Questions & Answers

We know that agile is a holistic approach. It's about everyone coming together to deliver at speed, to pivot quickly with what we've learned, and to adjust rapidly to incorporate customer feedback. Today at Citi we make decisions in hours, not weeks. There is still work to be done, but this approach enables us to incorporate customer feedback and to iterate quickly to enhance our solutions so we can build for the customer of tomorrow, today.

Pierre-Nicolas Patouillard: The most significant challenges to innovation at our organization is the time to execute. We are deploying transformation projects within our entities to become more agile at scale notably to accelerate the pace to deliver digital projects.

The other challenge comes from regulatory constraints. To assist with this, we involve compliance officers much earlier in our innovation processes.

Banks Need to Become Tech Organizations

Article by: Boris Plantier
The eye of Efma: Banking | Insurance | Startup

Over the past 10 years retail banking has been the scene of intense innovation – and it doesn't look like it's going to stop any time soon. As banks across the world have set out on their digital transformation journeys, we've watched the retail banking experience become faster and more agile, with increasing levels of customer-centricity and intuitiveness that enable banking services to be woven seamlessly into consumers' lives.

Self-service banking

Retail banking has undergone deep transformation in the past 10 years, experiencing a level of change that is unprecedented in the industry. And despite the plethora of innovative ideas that have followed, that transformation was built on a single idea: self-service banking.

Bank branches have shrunk in size and transformed into self-service premises where customers can do most of their transactions by themselves, 24 hours a day, seven days a week, thanks to multi-task ATMs. In an increasing number of countries, branches are even disappearing because customers can now carry out their transactions at home or at work, through their laptop or whenever they have their tablet or smartphone to hand.

Artificial intelligence (AI) has also come to the fore, enabling tremendous improvements to the customer experience by helping each customer to find what they are looking for easily. Questions are answered, information provided, and relevant offers served up in a conversational way – and if the customer prefers a human touch, video services put them in touch with bank staff.

Speed and instantaneity

Thanks to constant improvements in process automation, customers' transactions have speeded up exponentially, and we are now arriving in the era of instantaneity.

During the last two years, we saw the emergence of instant account opening and instant consumer loan approval, and no doubt very soon we will see instant mortgages. The process is already entirely digitalized. In Iceland, Arion Bank simplified the credit assessment process drastically, bringing it from around 10 days to a fully automated four-screen process that takes customers only three minutes to go through. The lending process went from 15-20 days on average to five days. In Australia, fintech startup Tic:Toc offers customers a complete online home loan solution, using a digital decisioning system to assess and approve online applications in real time and providing a cheaper, faster and more responsible home loan application process. And instant payments is coming to revolutionize all facets of the payment chain and serve as the catalyst for a new wave of innovative banking services.

Invisible banking

So, what does the future hold as the industry continues to build on its digital successes? In the near future, the banking and payment experience will become invisible. With internet of things (IoT) technologies, the customer is now able to pay seamlessly, with no need to wait for service.

Inspired by the example of Amazon Go, Amazon's checkout-free store, Barclaycard in the UK created Grab+Go, which transforms a shopper's smartphone into a 'pocket checkout'. Shoppers can scan the items they want to buy as they pick them off the store shelves, enabling them to complete their purchase with a single click. More recently, Barclaycard launched Dine & Dash, a new payment concept that removes the need for diners to have to wait for their restaurant bill.

They can simply 'walk out' – with their bill settled invisibly in the background using their stored payment credentials and the final receipt delivered to their smartphone.

As far as banking transactions are concerned, the customer can now ask for information about their bank account or to do a basic transaction while cooking, thanks to AI voice technology tools such as Siri, OK Google or Alexa. An increasing number of banks are offering this service and in the coming years, the progress that will be made on AI and machine learning will transform these quirky devices into essential, easy-to-use tools for everyday life.

Open banking & third-party collaboration

Open banking is now a reality, and a growing number of banks are collaborating with third-party providers to offer value added services. In light of this, the next big development is likely to be the emergence of digital ecosystems built by banks in partnership with third parties from different industries. These ecosystems will go far beyond financial services. They will be aimed at putting the bank at the heart of every consumer's life, and in doing so they will accelerate the development of invisible financial services.

But to succeed, banks will need to beat the tech giants such as Alibaba, Amazon or Apple. That won't be easy. Banks have never faced such tough competitors in their long history. Increasingly, they will need to become technology organizations themselves, hiring a growing number of tech staff and partnering with – or buying – fintech startups in order to transform themselves into agile and smart tech firms.

"The future of financial services is all in the tech," said Brett King in a recent Efma.com interview and I totally agree with him. But it's still possible that this much-heralded and long-anticipated fight won't happen.

We've watched time and again as the perceived threat of fintechs and non-financial players has been transformed into an opportunity for collaboration, entering new markets and creating new business models. The tech giants, already present in the day-to-day lives of consumers, present a much bigger challenge for banks, on a significantly grander scale. But it's just possible that, in the end, banks and tech giants could embrace collaboration and grow revenue together.

Boris Plantier manages the content on the Efma website, including interviews, articles, videos and awards. Plantier also manages the Efma/Accenture Distribution and Marketing Innovation portal for Efma members and coordinates the content for banking and insurance awards programs.

Boris Plantier

2018 Global Innovation Award Winners

2018 Global Innovation Award Winners

While innovation has become a primary emphasis of many financial institutions, a select few continue to excel at creating market-leading innovations that can disrupt an entire industry. Here is a summary of the best-of-the-best recognized by the Efma innovation awards program.

Every year, there are two innovation award ceremonies that recognize the best-of-the-best in financial services innovation in an array of categories. Both **Efma** (an association of 3,300 financial institutions in 130 countries) and the **Bank Administration Institute** (BAI) review hundreds of applications from organizations worldwide and ask members and judging panels to determine which new innovations stand out from the rest.

While the specific innovations recognized often differ between these competitions, surprisingly a few organizations and geographic regions seem to excel each year. For instance, the top five organizations that have been recognized by Efma over the past six years have been **Intesa Sanpaolo**, **Banco Bradesco**, **CaixaBank**, **DenizBank** and **mBank**.

The Efma Banking Innovation awards program aims to identify and award the most innovative projects in the retail banking sector at a global level. The goal of this program, now in it's sixth year, is to identify and share worldwide best practices in the retail banking distribution and marketing arena.

Innovations in ten categories are recognized, including two overarching awards for Global Innovator of the Year. The categories in 2018 were:

- Best Use of Analytics and Artificial Intelligence
- "Phygital" Distribution and Experience
- Digital Marketing and Communication
- Neobank and Specialized Player Innovations
- New Product Offering Innovation
- Social, Sustainable and Responsible Banking
- Workforce Experience
- Global Innovator of the Year (both Challenger and Established players)

A total of 185 financial institutions from 59 countries submitted 433 innovations for the 8 award categories in 2018. The three criteria used for evaluation included: **Originality** — uniqueness of the strategy; **Impact** — strategic capacity to generate long-term competitive edge and return on investment; and **Universality** — adaptability for use in other markets and countries.

Global Innovator of the Year: Bradesco Bank

Banco Bradesco (Brazil) was named Global Innovator of the Year 2018 for the significant originality and impact of innovations it brought to market in the past year. Not only did it capture the gold award for digital marketing and communications, but the bank also took home the bronze award for workplace experience.

The top three organizations recognized as global innovators by Efma in 2018 were:

1. Banco Bradesco (Brazil)
2. USAA (United States)
3. DBS Bank (Singapore)

Innovation in banking is not universal, and many organizations need to embrace the change that is occurring in the marketplace, take qualified risks and be willing to disrupt current business models. The organizations that received awards this year (not just the top awards, but those who received silver and bronze recognition) are not unfamiliar with receiving kudos for their efforts. These firms are often named when we talk innovation in banking, both as part of the Efma awards program as well as the awards distributed by the BAI.

It all starts with an innovation culture and a passion to innovate.

Banco Bradesco Brazil

Lollapalooza Brazil Bradesco Coverage

Award Category:
Digital Marketing and Communication

Launch date: 2018

One of the more unique gold winners was Brazil's **Banco Bradesco** in the digital marketing and communication category. As a sponsor of the 2018 Brazilian edition of **Lollapalooza**, one of the world's largest music festivals, Bradesco developed a four-phase strategy: promotion, pre-event, event and post event.

The main objective of the multichannel initiative was to allow the public to know about and interact with the festival either in person or virtually. Bradesco enlisted the help of social influencers, including YouTubers, photographers, artists, music specialists, and professional Twitter communicators who co-created content during the entire campaign.

In pre-event phases, posts focused on the activation of the bank's customers and non-customers, who could apply for tickets, and provided guides on how to enjoy the festival in the best way. During the three days of Lollapalooza, social content covered, in real time, everything that happened on the stages including posts on Facebook, Twitter and Instagram.

In the post-event phase, festival creators and the Bradesco team shared — by means of music, videos and pictures — all the highlights of the event. During the communication period, over 53 million users were reached on Facebook and Instagram, 30 million on YouTube, with 655 million impressions, 102 million views, and 3 million clicks. The hashtag #todosnolollaBR was used over 29,000 times.

The sponsorship and associated communication served to link the music universe to the Bradesco brand, in addition to democratizing the access to anything that was happening at the event.

Bancolombia
Colombia
Plink

Award Category:
Analytics and Artificial Intelligence

Launch date: 2018

Plink from **Bancolombia** is the gold award winning analytics and advanced intelligence solution that brings together merchants and consumers, providing value to both — based on the vast amount and richness of data Bancolombia has on Colombian consumers and retail businesses, and their analytics and AI capabilities.

For merchants, Plink provides access to a wealth of information on the health of their business, how their sales are evolving, how they compare with their competitors, who their customers are (demographics, income, profession, etc.), where they live (through heat maps of their customers locations), purchasing habits, etc. This helps merchants make the best decisions on their business.

Plink even includes a platform where offers can be uploaded for targeted delivery. Bancolombia sends the right offers to the relevant customers only, via the Plink app. The monetization of this innovative service comes from merchants. While there is a free model, with a basic tier of reports, more advanced reports and capabilities are available for a fee.

The key benefits of Plink are:

Merchants. Availability of data and insights to improve their businesses on a daily basis, bringing a powerful differentiation for Bancolombia.

Consumer. Plink provides an intelligent platform that delivers relevant and timely offers, with data captured and analyzed by Bancolombia. Plink also helps drive adoption of digital payment alternatives.

Bancolombia. Plink represents the first platform business for the bank, generating an alternative source of revenue, positively impacting non-interest income.

Total implementation time was 12 months, from the original idea, through validations, business case approvals and building the scalable platform and launch.

Bancolombia

Bank Pekao
Poland

PeoPay
mobile banking application

Award Category:
Phygital Distribution and Experience

Launch date: 2017

Winning a gold award for 'phygital' delivery, **PeoPay** is a mobile banking application provided by **Bank Pekao S.A.**, representing the first application in Poland to take advantage of biometrics in transaction confirmations. It allows customers to pay abroad in foreign currencies and enables online shopping to be paid for directly from the phone. It also enables payments in all contactless terminals in Poland and abroad.

The bank took advantage of a hybrid model — combining the PeoPay application functions (using telephone native functions) and the m.pekao24.pl mobile service. The result is an application which contains all important functions of Pekao24 electronic banking and the older PeoPay payment application, preserving ergonomics and responsiveness to customer needs at the same time.

The growing number of customers traveling abroad was an impulse to introduce a unique solution enabling convenient phone payments from currency accounts without additional currency conversions. Some of the more unique features include:

- Approving transfers and withdrawals from ATMs up to a specified limit with a fingerprint.
- Paying by phone abroad directly in the local currency. The customer uses the phone at the terminal (as a card), and the application recognizes the currency of the transaction and collects money from the foreign currency account.
- Paying for internet shopping by the phone without logging into online banking. The customer chooses "I pay with Pekao Bank" on the website of the store opened on the phone, then selects "Pay with PeoPay." The application opens automatically and asks the customer to approve payments.
- The ability to scan the invoice number from a card, invoice or e-mail instead of rewriting. The transfer form with the completed invoice number is automatically opened.

Fidor Bank
United Arab Emirates
Moneysmart.ae

Award Category:
Neobanks and Specialized Players

Launch date: 2018

As the gold award winner in the challenger bank category, perennial innovation leader **Fidor Bank** partnered with **Abu Dhabi Islamic Bank** (a leading UAE retail bank) to launch the Middle East's first financial community and smart bank concept. Inspired by the success of Fidor Bank's community that has over 750,000 community members, **moneysmart.ae** will be ADIB's dedicated community and smart bank. It's highly tailored products are targeted at the Millennial market and only available online and through mobile.

The objectives are to increase financial knowledge among Millennials, help consumers manage their finances and build their wealth, create an active community that can engage, review and co-create the future of banking together with ADIB while differentiating the brand in the highly competitive UAE market.

Fidor provided ADIB with a unique and inclusive digital banking ecosystem that serves as a platform that educates, integrates and reinforces the way customers manage their financial well-being. The platform helps to develop financial discipline to ensure smart savings, effective budgeting, and high-return investments.

The uniqueness of the Fidor moneysmart.ae solution is that it is not a mobile wallet like many neobanks, but a current account with credit solutions up to 120,000 euros. The customer base grows organically through development of the banking community with a social media-like ecosystem. The digital bank is fully empowered using Fidor Bank's operating system, fidorOS — middleware that helps boost the performance of the bank without having to replace its legacy systems.

Alior Bank
Poland

Konto Jakze Osobiste

Award Category:
Offering Innovation

Launch date: 2017

At a time when consumers want the ability to personalize their experience, Poland's **Alior Bank** introduced a new current (checking) account — **Konto Jakze Osobiste** — to its current customers. The gold award winner for new product offering is a personalized bank account that allows account holders to choose the benefits they want … and don't want. These features and benefits can be freely changed through a new online banking platform and new mobile application or at any Alior Bank branch.

The benefits offered have been tailored to the needs and expectations of customers so that they can use them at any time, and in a selected number and configuration depending on the current situation of the customer. For instance, customers who often travel abroad and need quick access to money can customize their account to suit their needs before they depart. Just a few clicks are necessary to activate or cancel a benefit.

The benefits offered as part of the account were selected and developed jointly with customers during quantitative and qualitative research. Thirty different features and functionalities related to personal accounts were verified, with those identified as most attractive being selected.

Some of the benefits customers can choose from include free withdrawals from ATMs in Poland and abroad, free instant transfers (up to five a month), a higher interest rate on a savings account or an interest-free overdraft for ten days. Customers can also choose to participate in a loyalty program or enroll in a travel insurance package with emergency assistance covering car, medical and home insurance.

Some of the early results of the new account include an 11% increase of current account sales and an eight-point increase in current account Net Promoter Score.

Shinhan Bank Japan

IOT Auto Loan

Award Category: Social, Sustainable & Responsible Banking

Launch date: 2018

In an effort to enable more consumers to own a car (which translates to a better potential for meaningful employment), **Shinhan Bank Japan** leveraged internet of things (IOT) and GPS technology to limit risk of loan default. This gold winning innovation for social, sustainable and responsible banking involves installing an IOT device in a newly financed car that can identify the location of the car and deactivate the engine if a customer repayment falls overdue. In this way the bank limits its risk and expands the universe of consumers who can qualify for a loan.

In Japan, there are about 2.5 million of people who cannot purchase an automobile because of their working style and credit records. These consumers include part time workers, people who have less work experience or less established credit, and even those who have previously defaulted on a loan. The challenge becomes even more acute for the people who live in rural areas, where it is even more important to own an automobile for daily life.

As part of the initial test of the program, the bank collaborated with several car dealers, and all of them expressed their happiness and satisfaction with this new auto loan that uses digital technologies to help secure loans and limit risk to the bank.

신한은행
SHINHAN BANK

BAWAG P.S.K.
Austria
TREND_LOUNGE

Award Category:
Workforce Experience

Launch date: 2017

At a time when being a leader in innovation is most important for financial institutions, Austrian gold award winner for workplace innovation, **BAWAG P.S.K**. found that some of the best ideas can come from the people who already work in the bank.

The **TREND_LOUNGE** is an event at BAWAG P.S.K. where employees present their innovative ideas for consumer products and services. The ideas are presented within a three-minute time slot following comments from a jury. Then, more than 130 participants vote online for their favorite idea. The best ideas are awarded.

The TREND_LOUNGE event empowers the Bank's workforce and has increased the awareness for innovation within the company. Furthermore, it has boosted the creativity of the employees and better leveraged the existing potential within the organization. As a result, the firm is constantly improving competitiveness and actively shaping the interaction between organization, technology and social change.

The TREND_LOUNGE takes place three times a year. For each event, up to 130 employees come from the headquarters and from various branches across Austria to voluntarily attend the event. Each TREND_LOUNGE has a theme. These have included customer satisfaction and financial well-being. In each event, up to ten ideas are presented with pre-selection of competing ideas being based on defined basic criteria. Throughout the process, communication and interaction is an essential part of the quality of the ideas presented and, in turn, their successful implementation.

So far, 57 product and service ideas have been developed and presented on stage, with several of the ideas already having been implemented and others to be implemented soon.

Final Thoughts

Are Your Prepared to Embrace Change, Take Risks and Disrupt Yourself?

The banking industry is changing at a pace never before seen. Digital transformation has become an imperative for financial institutions of all sizes. The transformation goes beyond technology, however, requiring people and organizations to 'embrace change, take risks and disrupt themselves'™. Who is up for this challenge?

The most common theme at most banking conferences is that much of the banking industry is falling behind what consumers are expecting and what new competitors in and out of banking are providing. Virtually every session at these events are a call to arms for financial services executives to avoid complacency and realize that the transformation in banking is occurring at a pace far faster than most imagine.

As consumer adoption of the digital lifestyle has gained momentum, it has disrupted businesses in every industry, introduced new competition, and redefined ecosystems. People no longer view banking as a place to go … they expect their financial institutions to know them, look out for them and reward them – in real time – using the channel they prefer.

Banks and credit unions that are focusing their business models around the consumer's digital lifestyle are realizing great value from the digital opportunities. These opportunities are not just for the new fintech or established big tech firms, but are also available to traditional organizations. The key is to use a digital-first approach to connect emotionally with consumers and to build simple, contextual and personalized experiences.

The challenge is whether traditional financial services industry executives and their organizations are willing to let go of the past and move forward. Are you and your company willing to embrace the change that is occurring, take appropriate risks and disrupt yourself before you are disrupted?

Embrace Change

For most banks and credit unions, a culture change is required to succeed in the future. Gone are the days of incremental adjustments to business models. Digital evangelists within companies need to convince management of the benefits of going beyond buying new technology or building new mobile apps. The fundamental change that needs to happen within a business must go much deeper than the consumer interface.

Digital transformation in banking is both costly and complex. It is not an easy journey. It requires commitment from top management to re-imagine business models, build new strategic alliances and develop a digital workforce that may be far different than the team they have today.

As was discussed by many of the speakers at the Financial Brand Forum, it requires banks and credit unions to quickly respond to change – it requires urgency. In fact, many believe that the lack of urgency may be the greatest risk to the banking industry today. Amazon didn't improve the retail experience. It reinvented it … quickly.

Change can't happen all at once. For most financial organizations, they should start on digital customer experiences from the inside-out. There is a need to embrace new security protocols, mobile functionality like digital account opening, cloud technologies and enhanced analytic capabilities.

Finally, organizations need to look at their workforce. As much as 30% of jobs will be less relevant because of robotics and automated technologies. People will need to be retrained or replaced. Because all industries are going to be digitally disrupted, the availability of talent will be in short supply, leading to new partnerships, collaborations and opportunities for those willing to become part of the future.

Paradai Theerathada, an executive development expert, stated, "People need to first change their mindsets to embrace change as an everyday norm and to become open to, if not comfortable with, change itself. Second, they should stay positive and find the courage of their convictions to overcome the paralysis of inaction. Third, they need to find ways to implement ideas." The challenge may be finding an environment that supports this personal growth.

Take Risks

To build something new, an organization (or an individual) must expand their willingness to take on risk. In many cases, you're trying something new that nobody's ever tried before. And, since it is hard to predict the future, there is risk involved. What is interesting about this period of digital transformation, is that this 'risk' is to future-proof yourself and your business.

> "Avoiding risks can be just as damaging to a company (or individual) as undertaking excessive risks."

For instance, many believe that there will be great opportunities around AR and VR in the near future. While still in its infancy, augmented and virtual reality are thought to be the next frontier not just in entertainment, but in communication – especially around voice. There were many examples of voice banking technology at the Financial Brand Forum, with exciting potential.

There was even discussion of the eventual 'demise' of computers and mobile phones as the devices of the future. Planning for a future where the primary engagement device may be a chip, eyeglass or other medium presents risk to the digital banking planning process.

It is management's role to understand the benefits and risks associated with digital transformation – including the risks of inaction. Management needs to realize that avoiding risks can be just as damaging to a company as undertaking excessive risks.

The challenge is that many executives and boards lack an understanding of digital technologies. Their history and legacy is in traditional banking. This can limit the ability to determine the appropriate risk appetite – both the amount and type of risk that should be taken on in order to grow and achieve solid long-term performance.

Digital transformation success requires more than simply pouring time and money into an assortment of consumer-facing digital initiatives, such as developing a new mobile app or redesigning your company's website. Unless digital transformation efforts are built from within and create sustainable competitive advantages, they will likely put your organization further behind consumer expectations and the competitive norm.

For both organizations and individuals, getting out of the normal 'comfort zone' will be imperative for future survival. With change happening so quickly, it will be important to try to predict where the industry may be 2-5 years in the future, as opposed to just playing catch up. This is why it is so important to disrupt yourself.

Disrupt or be Disrupted

Legacy financial institutions (and legacy banking executives) looking to become digitally-enabled face two main challenges. First, the business models and personal skills that have served the industry well for decades have been disrupted by digital innovation and no longer work in the new banking ecosystem that is emerging. Second, attempts to create new, viable models for the digital age will flounder unless people and organizations are willing to disrupt themselves. This paradox has been termed 'the innovator's dilemma' and was first outlined almost 20 years ago by Clayton Christensen.

> "Attempts to create new, viable models will flounder unless people and organizations are willing to disrupt themselves."

Because of the existence of current profitable business sectors and personal successes from the past, there is a normal lack of incentive to identify radically new ways to conduct business. This leads to insufficient decisiveness to commit human or financial resources to experiment with new models.

But legacy organizations and experienced banking executives usually have some promising options to explore when looking to disrupt themselves – mainly because they are sitting on both a wealth of experience and data as a foundation for change. Advanced technology allows access to these insights that can be a powerful springboard for new growth opportunities.

There are many options for organizations hoping to disrupt themselves:

- **Build** – Best when the future model is not very different than the current model and where current experience will apply.
- **Buy** – When the ability to shift is not enough and where outside talent may significantly improve speed to market.
- **Partner** – When the cost of building or buying may be prohibitive and the benefits of learning alternative options is great.
- **Invest** – Where there is a desire to leave an outside partner's model intact, usually to avoid hindering entrepreneurial dynamics.
- **Incubate** – When the synergies of outside organizations or people are better achieved in an accelerator environment.

For individuals hoping to disrupt themselves, the strategies may differ, but many of the benefits are similar. According to Christensen's research on disruptive innovation, when a company pursues growth in a new market, the odds of success are 6 times higher and the revenue potential 20 times greater.

While it is difficult to quantify the impact of personal disruption in the same way, evidence suggests it can yield similar results – significantly improving chances of finding financial, social, and emotional success. But the appeal of not taking risks or disrupting yourself is still powerful.

Friends, family and peers will often encourage you to avoid change or disruption. For those who look to the future with excitement and anticipation, though, status quo is not acceptable. For those people, letting go and grabbing for the next opportunity is a more powerful lure.

According to the World Economic Forum, "Organizations that are leveraging digital technologies to reinvent their business models and processes to establish closer customer connection and drive innovation will be the winners. Digital technologies enable businesses to engage more deeply with customers in the context of who they are, what they prefer and what they need. Companies can use these insights to implement enterprise-wide changes that enable them to quickly and cost-effectively deliver more useful, meaningful experiences."

For many organizations and individuals, the power of digital transformation will only be realized by those who embrace change, take risks and disrupt themselves.™

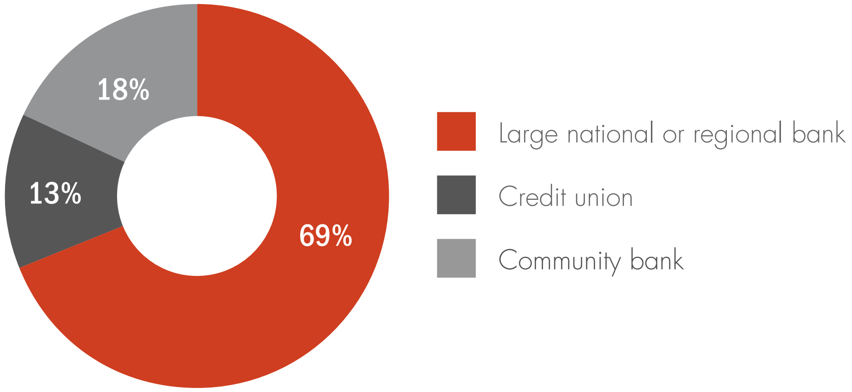
About the Research

The analysis in this report is based on a July 2018 Digital Banking Report survey of global banks and credit unions. The survey used the subscriber lists of The Financial Brand and Digital Banking Report, which includes organizations of all sizes worldwide. We also included organizations that are members of Efma and clients of Infosys Finacle.

No responses from non-financial organizations were included in the results, and only completed surveys were included. The responders were self-selected after receiving a nominal incentive of raw survey results.

Among overall survey respondents, 69% are from large national or regional banks, 18% are from community banks, and 13% are from credit unions. This distribution is very similar to previous research, allowing for valid comparisons based on the type of organization.

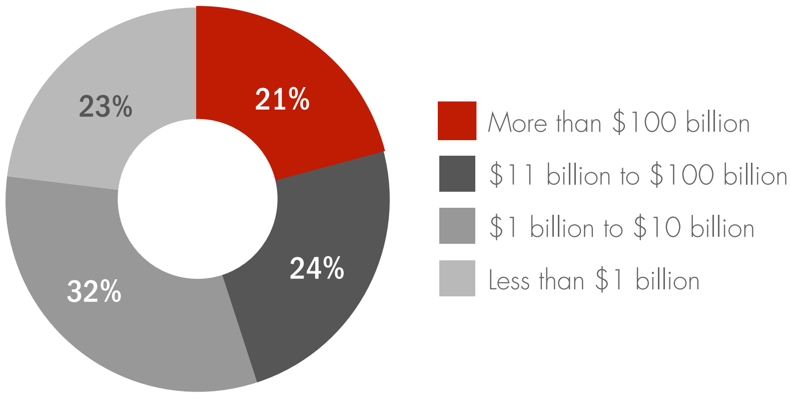
Chart 26: Respondents by Type of Financial Institution



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Roughly one-fifth of respondents are from FIs with more than US$100 billion in assets, with one-quarter having US$11 billion – US$100 billion in assets, and 32% representing firms with US$1 billion – US$10 billion in assets. The distribution by size of organization is comparable to the majority of the previous research done by the Digital Banking Report.

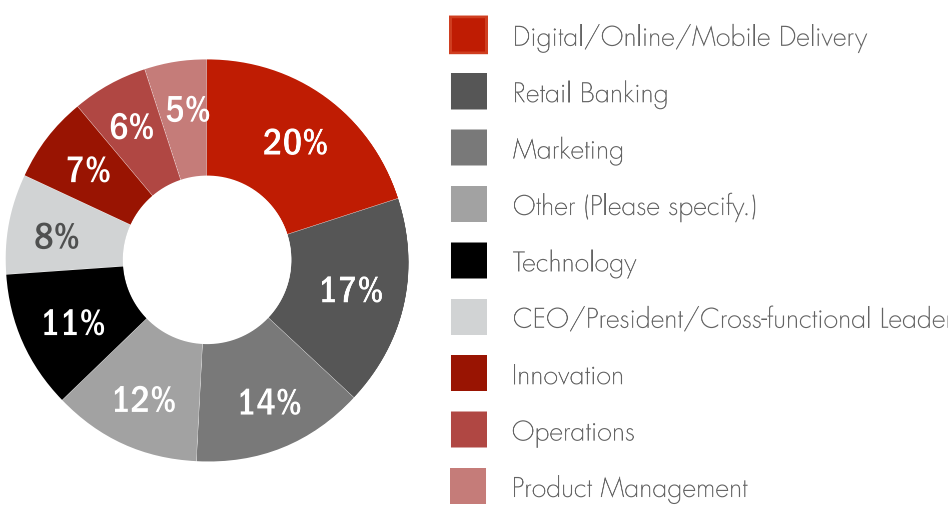
Chart 27: Respondents by Asset Size (in US $)



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

When we looked at the role/department of the respondents, we found 20% owning the digital/online/mobile channels, with another 17% in charge of the retail banking area. 14% of the respondents were marketing executives, with the remaining respondents being from multiple areas of the organization.

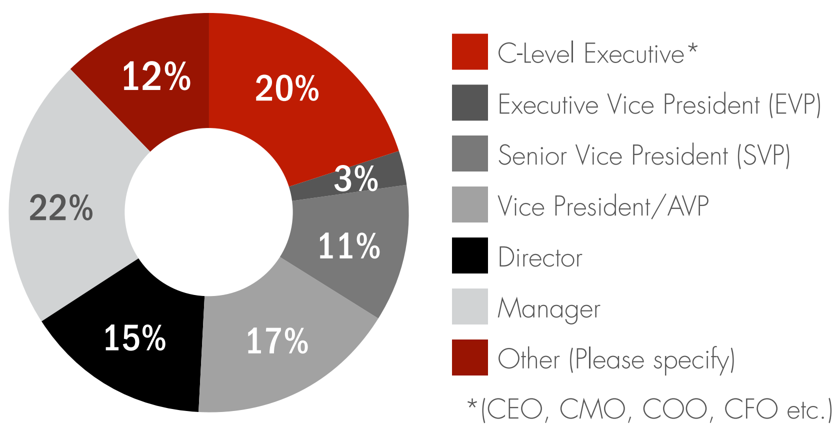
Chart 28: Respondents by Role/Department



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

When we looked at the position/title of the respondents, we found 20% of the respondents were C-level executives, 3% were EVPs, with 28% being SVPs/vice president/AVP level. 15% were directors, with 22% being at the director level.

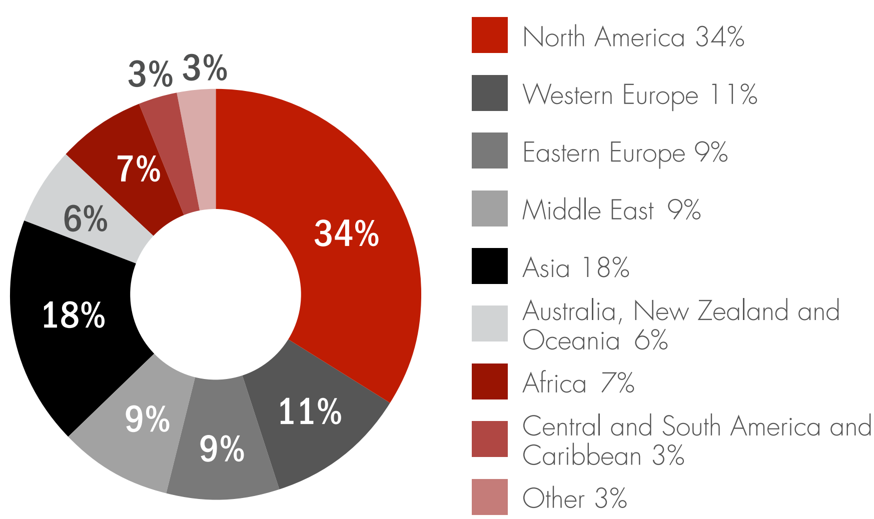
Chart 29: Respondents by position/title



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Finally, the respondents who participated in our research were globally headquartered. While there was an over sampling from North America (34%), 20% were from Europe, 18% were from Asia, with 9% from the Middle East ,as well as 7% from Africa.

Chart 30: Respondents by location



Source: Efma-Infosys Finacle Digital Banking Report Survey 2018

Online Survey Questions

1. What type of financial institution do you work for?
2. What is the asset size of your financial institution?
3. What has been the most significant banking innovation over the past 10 years?
4. In what area of banking do you see the most innovation taking place over the next four years?
5. Does your institution have a Chief Innovation Officer (or someone with a similar title with a full-time job of working on discovering/creating/implementing new innovations)?
6. Does your financial institution have a clearly defined innovation strategy? (Note: A clearly defined innovation strategy would include, for example, having objectives, resources, processes and measures of success.)
7. On a scale of 1-7 (where 1 is very low and 7 is very high), in which parts of the innovation process does your financial institution struggle the most?
8. Did your financial institution increase or decrease the level of investment in innovation in 2018 compared to 2017?
9. How will your organization drive innovation over the next year? Rate the following approaches on a scale of 1 to 7 (where 1 is very low and 7 is very high), based on their level of importance.
10. Please indicate the impact the following technologies would have on banking business in the next year (Scale of 1 to 7, where 1 is very low and 7 is very high)
11. Please indicate the level of readiness of your organization to leverage these technologies to deliver expected business outcomes (Scale of 1 to 7, where 1 is very low and 7 is very high)
12. How will your organization leverage open banking in the next year? Rate the following on a scale of 1 to 7 (where 1 is low and 7 is high), based on their level of importance.

Online Survey Questions (continued)

13. Over what time period do you measure success in innovation?

14. How will the majority of talent for innovation be sourced over the course of the next few years till 2022? Rate the following on a scale of 1 to 7 where 1 is low and 7 is high.

15. What's your current primary business model and what will it be in 2022? (Select one check-box in each column.)

16. Which according to you will be the primary channels your customers will consume your services on by 2022? Rate the following on a scale of 1 to 7 where 1 is low and 7 is high.

17. What percentage of your company's workload will move to the public cloud by 2022?

18. In what business lines do you expect emerging competition to have a significant impact on revenues and profitability by 2022? (Scale of 1 to 7, where 1 is very low and 7 is very high)

19. Which of the below players will be leading innovation in the banking industry by 2022? (Rate on a scale of 1 to 7 where 1 is low and 7 is high.)

20. What will be the level of transformation due to AI technologies in the following areas by 2022? (Rate on scale of 1-7 where 1 is low and 7 is high.)

21. How will your revenue mix change in 2022 as compared to what it is today? On a scale of 1 to 3 indicate the change in the components of revenue.

22. Which of the following best describes your role at your financial institution?

23. Where is your organization headquartered?

24. What is your position/title?

About Us

Efma

As a global not-for-profit organization, Efma brings together more than 3,300 retail financial services companies from over 130 countries. With a membership base consisting of almost a third of all large retail banks worldwide, Efma has proven to be a valuable resource for the global industry, offering members exclusive access to a multitude of resources, databases, studies, articles, news feeds and publications. Efma also provides numerous networking opportunities through working groups, webinars and international meetings. True to its vocation, Efma has recently developed an Innovation Portal that aims to identify and award the most innovative projects in the retail financial services arena.

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About the Author

Named as one of the most influential people in banking and a 'Top 5 Fintech Influencer to Follow', Jim Marous is an internationally recognized financial industry strategist, co-publisher of **The Financial Brand** and the owner and publisher of the **Digital Banking Report.** The Digital Banking Report is a subscription-based publication that provides deep insights into the digitization of banking, with over 150 reports in the digital archive available to subscribers.

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As a sought-after keynote speaker, author and recognized authority on disruption in the financial services industry, Marous has been featured by CNBC and CNN, Cheddar, The Wall Street Journal, New York Times, The Financial Times, The Economist, The American Banker, Accenture and the Irish Tech News and has spoken to audiences worldwide. Jim has also advised the White House on banking policy and is a regular contributor and guest host for the Breaking Banks podcast.

You can follow Jim on **Twitter** and **LinkedIn** or visit his professional website.