

Banking 2012: Revenue Growth and Innovation

Sprinting clear of the pack by 2015

The Accenture logo, featuring the word "accenture" in a white, lowercase, sans-serif font. A white chevron symbol is positioned above the letter 't'. The logo is set against a background of a red running track and a blue sky with trees in the distance.

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Increasing profitability in a changed – and changing – world

The financial crisis of 2008-2009 exposed the underlying shortcomings of the seemingly low-risk, high-return banking model that had dominated many western markets through the mid-2000's. The new landscape that is emerging in the wake of the turmoil has seen banks in North America and Europe recover a degree stability and return to moderate profitability. In doing so, they have been helped by economic tailwinds that are propelling growth in many developing-market banking sectors, which are now home to ever larger numbers of the world's largest banks. However, there are headwinds too – most notably the changes demanded by banking stakeholders, as the public, governments and regulators alike require that the recovery must be sustainable, and that such a crisis

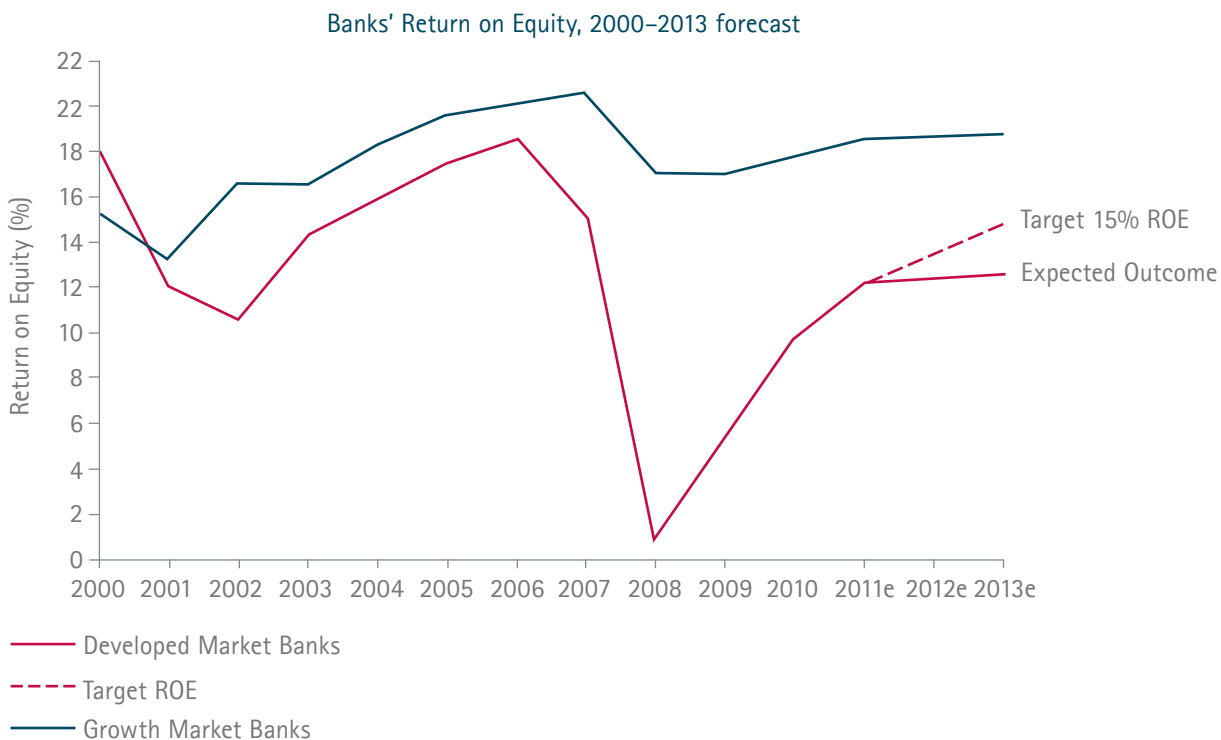
must 'never again' take place. Meeting these demands will pose serious challenges for banks, as they seek to attract much-needed capital and deliver a strong return on equity to investors.

The headwinds are being strengthened by ongoing changes in customer behaviour, with many banking markets seeing customers become more volatile in their relationships and more sophisticated in their buying behaviour. Our Customer 2012 study found that emerging customer behaviour was having a direct negative impact on customer profitability, with almost half of banks having seen customer profitability drop by between 5% and 15%. The perceived breach of trust revealed by the financial crisis saw customers become more open to offers from new providers, while the

adoption of new technologies such as mobile, and new communications channels such as social media, was changing expectations of how services are provided and consumed.

Over the past three years, Accenture has been conducting a study called Banking 2012, examining the basic levers that can increase banking profitability and the operating models required to deliver sustainable profitability in the new environment. In this article, the fourth in the series, we analyse and identify the banks that have been able to outperform their peers over the last three years – namely those that have delivered strong revenue growth and superior returns on equity, thereby earning a market premium for their future growth potential.

Figure 1: Large Banks ROE Development and Forecast



Notes: Accenture Research, based on Bloomberg data for average ROE for 120 largest global banks by market cap; Consensus analyst estimates for 2011 forward.

Not surprisingly, many of the banks with the best results through the last three years are concentrated in high-growth markets and in those markets less affected by the financial crisis. However, the performance of some banks in crisis-hit markets also stand out. And while not all banks are able to enjoy the momentum of the higher levels of growth being experienced in emerging markets, we can draw lessons from both fast- and slow-growth environments to gain insights into what banks can do to deliver superior revenue growth.

The challenge of revenue growth

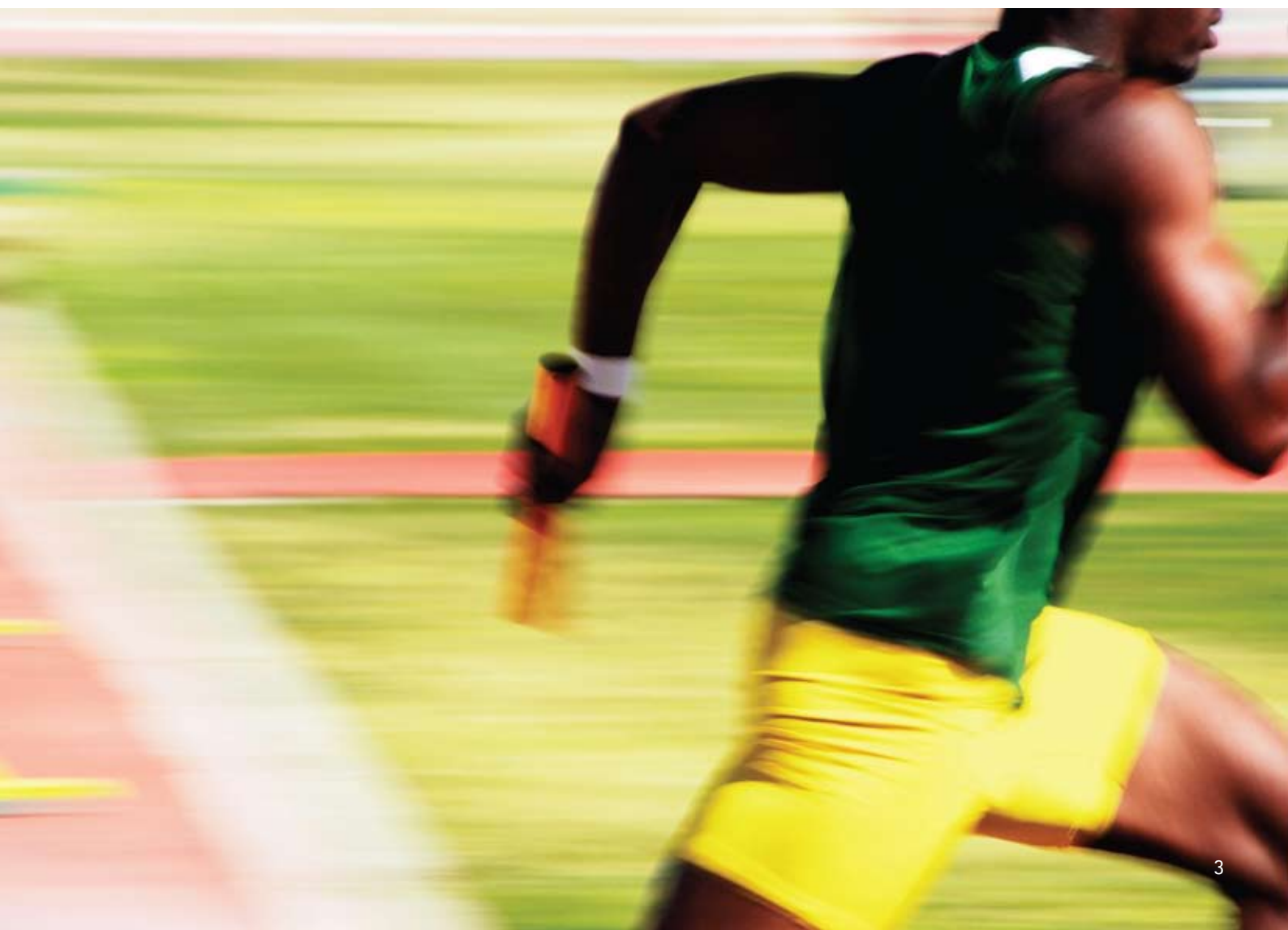
The cheap-money, high leverage banking model that delivered high returns with low risk through the middle of the last decade was decisively ended by the financial crisis. In the run-up to the turmoil, the top performing banks in Europe

and North America were delivering an ROE of 25%+, a very high and – with hindsight – unsustainable level. Through 2008–2009, as liquidity dried up, economies soured and risks flowed back onto balance sheets, banks in developed market saw their average ROE tumble to about 4%, with many banks slipping deep into the red. However, by 2010 the immediate crisis had passed, with average profitability recovering to an ROE of approximately 10%. Even more positively, banks in most growth markets have managed to produce more consistent, profitable returns, with their average 2010 ROE reaching 18%, down only marginally from pre-crisis levels (see Figure 1).

During the recovery phase, as banks restructured and raised capital in the mature economies, many CEOs announced plans to return to levels of ROE of 15%. Our analysis in *Banking 2012* indicates that this figure could only be achieved through significant restructuring of the cost base, improved risk and

pricing capabilities, and – crucially – significant improvements in banks' management of customer relationships. And while many banks are today well underway in implementing their restructuring plans, some are now lowering their guidance in the face of continued headwinds: low business volumes, rising funding costs, and the increased regulatory costs of higher capital levels and liquidity buffers. And at a more global level, continuing concerns over the sustainability of economic recovery in many countries and downside risks such as European sovereign debt issues have added to banks' caution in predicting the size of the recovery in ROE.

As a result, even taking into account restructuring plans and improvements in asset quality, investment analysts' consensus on the near-term outlook for banks in North America and Europe is that their ROE will rise to 12.6% by 2013, as funding and capital continue to weigh against profits. Banks' management teams face significant



challenges in trying to beat these expectations and avoid being classified as a low-return 'utility' industry. However, while some traditional routes to higher profitability are no longer available, such as increasing leverage ratios, banks still do have a number of potential levers to pull.

In fact, many management actions are already priced in to future expectations; so to exceed market expectations, and achieve a higher future level of ROE, management will need to go further. As Figure 2 illustrates, our analysis of the largest banks in North America, Europe and Australia shows that:

- Increasing capital levels and risk weightings to meet the estimated Basel III levels would depress ROE by a further 2.4%
- Reducing cost income ratios to the pre-crisis average would also improve ROE by a further 1.8%

- Normalisation of asset quality to the average levels before the financial crisis would improve ROE by 3.1%. Our analysis also suggests that, to achieve a superior ROE, banks will need to address two fundamental profitability levers;

- Since the majority of the banks' cost base lies in distribution, they need to address the cost of serving their customers. By reducing their cost/income ratio to an average of 52%, banks could boost ROE by a further 1%

- Critically, banks will not just need to grow revenues, but to do so profitably. To reach the 15% ROE target, they will need to boost their yield on average-earning assets by almost 50bps.

A 50bps increase in yield represents a significant achievement – particularly at a time when interest margins are under pressure from rising funding costs and a low interest rate environment, and when fee income is being challenged not just by stiff competition and regulatory intervention, but also, in many markets, lower business volumes. However, our study confirms that in some markets the best performers

are able to outperform their peers by a substantial margin through the combined strengths of their business and operating models.

Generating sustainable revenue growth – and future growth value

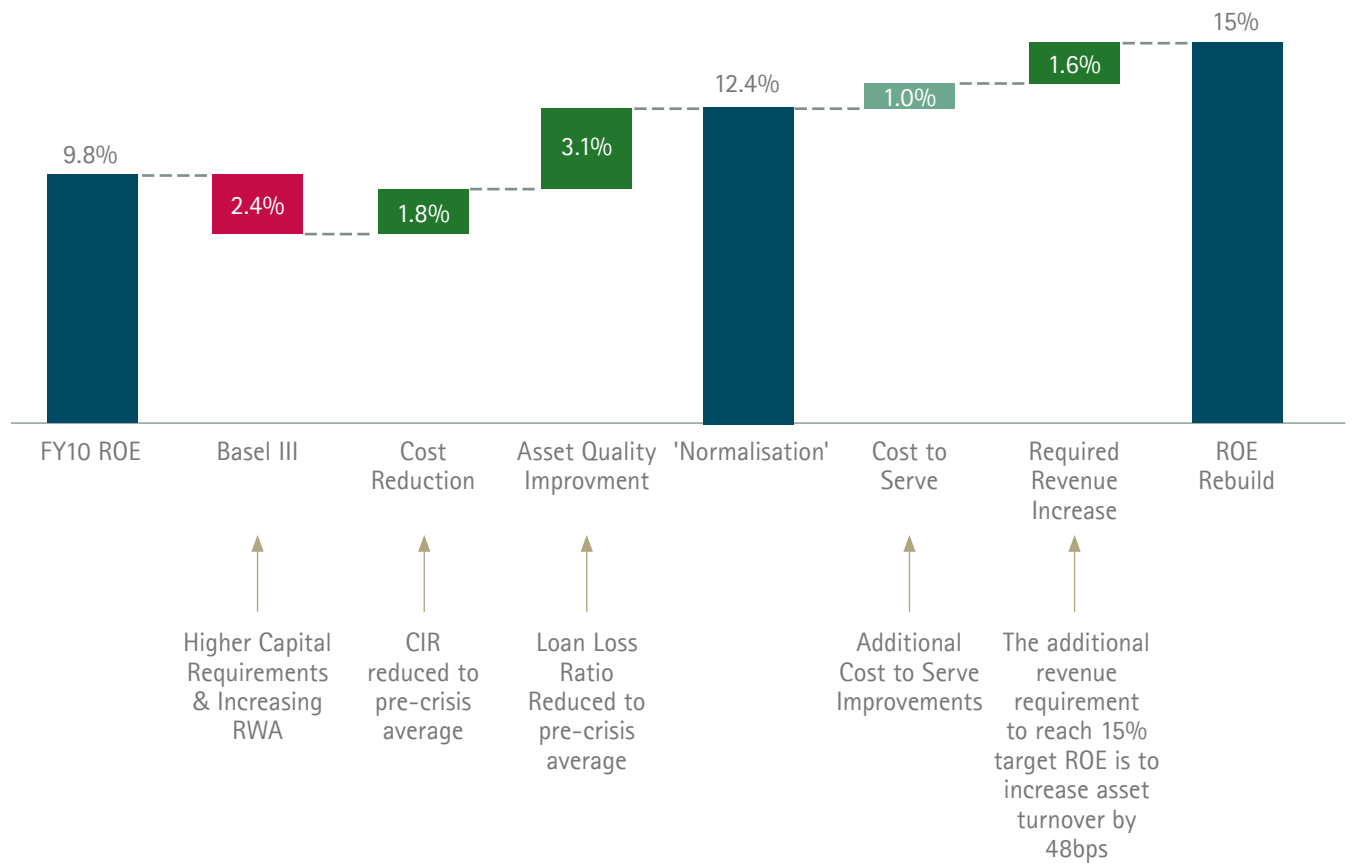
Through the last three years, banks in the developed markets hit by the crisis have struggled to grow revenues consistently. In stark contrast, many banks in growth markets have seen their revenues surge, buoyed up by rapid expansion in their domestic markets. The crisis has led to increased volatility and a difficult trading environment in geographies such as the US and Spain, and in many areas of business – most notably in investment banking revenues, commercial property and mortgages. Growth markets have been much more resilient, fuelling revenue growth in excess of 20% a year, driven partly by credit expansion.

Mergers have also propelled revenues for a number of banks in Europe and US – but there are few examples of banks that have undertaken a larger merger and have been able to sustain revenue growth afterwards. Banks, such as Commonwealth Bank of Australia, ANZ Bank, TD Bank, Commerzbank and Barclays, have successfully sustained revenue growth post-merger. Only a handful of banks were able to grow revenues consistently during the 2007–10 period without undertaking a major acquisition – such as Bank of Montreal, Société Générale, and US Bancorp. Figure 3 illustrates the 'sweet spot' for banks that succeeded in growing revenues consistently over this three-year timeframe.

However, high performing banks do not just grow revenues, but do so profitably and sustainably over time.

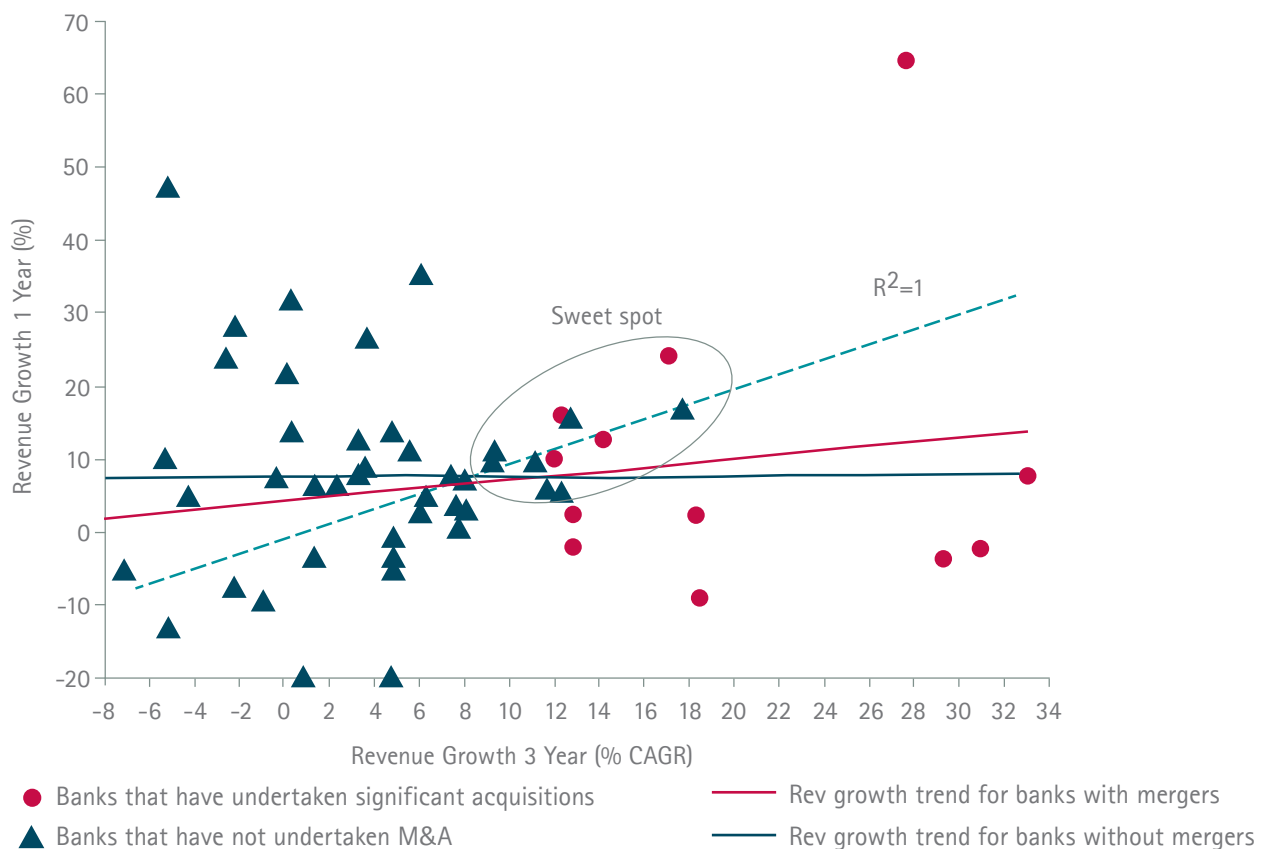
Those that achieve this are rewarded with higher market ratings and valuations [see the panel on page 6 on Future Growth Value].

Figure 2: Developed Market Banks Post-Tax ROE Development



Source: Based on 37 of NA, European, Aust, reporting FY10 results; Accenture Research Revenue Growth Benchmark

Figure 3: Leading Developed Market Banks Revenue Growth 2007-2010



Source: Bloomberg data

How the markets assess a bank's growth prospects: 'Future Growth Value'

In our study, we have used the 'Future Growth Value' (FGV) formula to define the growth expectations that potential investors attach to a company.

Our analysis shows that banks that demonstrate superior earnings quality also attract a higher imputed FGV. Based on 2010 results, we have identified a wide divergence between those banks that are able to generate an optimum level of FGV (between 20% and 70% of Enterprise Value), and those that need either to re-ignite their growth or restructure their current operations (see Figure 4).

Essentially, FGV identifies the market's expectation of a bank's future earning potential above the value of its current operations. We define FGV as the Enterprise Value (EV) of the bank, minus the Value of Current Operations (VCO), which consists of the market value of equity plus the residual value

of current income. So the equation we apply is $FGV = EV - VCO$. We can then interpret the results of this calculation as follows:

- Low Future Growth Value, <20% of EV, suggests that the markets does not value the bank's ability to use capital profitably to generate future earnings – so the value of the bank is based on the income generated by its current operations.
- Optimal Future Growth Value, 20% to 70% of EV, shows that the market believes the bank has a credible growth plan and can invest capital in delivering growth.
- High Future Growth Value, <70% of EV, in a mature bank suggests low profitability, low valuation of the current equity and potentially an increased risk of failure. In many cases, banks that were loss-making

through the crisis and in need of restructuring had a very high FGV, as earnings recovery was priced into their valuations.

Before the crisis, FGV among most of the world's most valuable banks was quite low, indicating that some banks' operational performance was being strained to generate cashflow. During the crisis, profitability and the value of current operations fell further than overall enterprise value, significantly increasing the level of FGV as banks retrenched and restructured and the markets anticipated recovery. By 2010, FGV made up approximately 24% of Enterprise Value (see Figure 5). This is a healthier level, but one that does not indicate a high degree of confidence among investors in the sector's ability to grow revenues.

Figure 4: Selected Banks FGV performance 2010

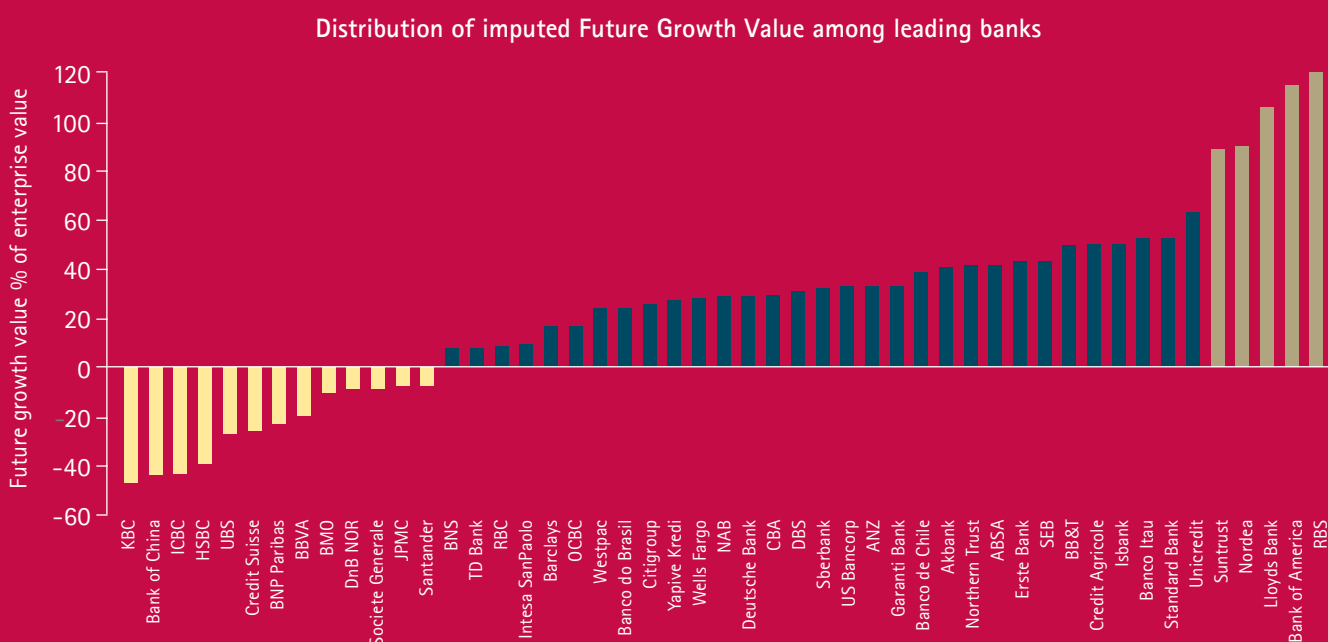
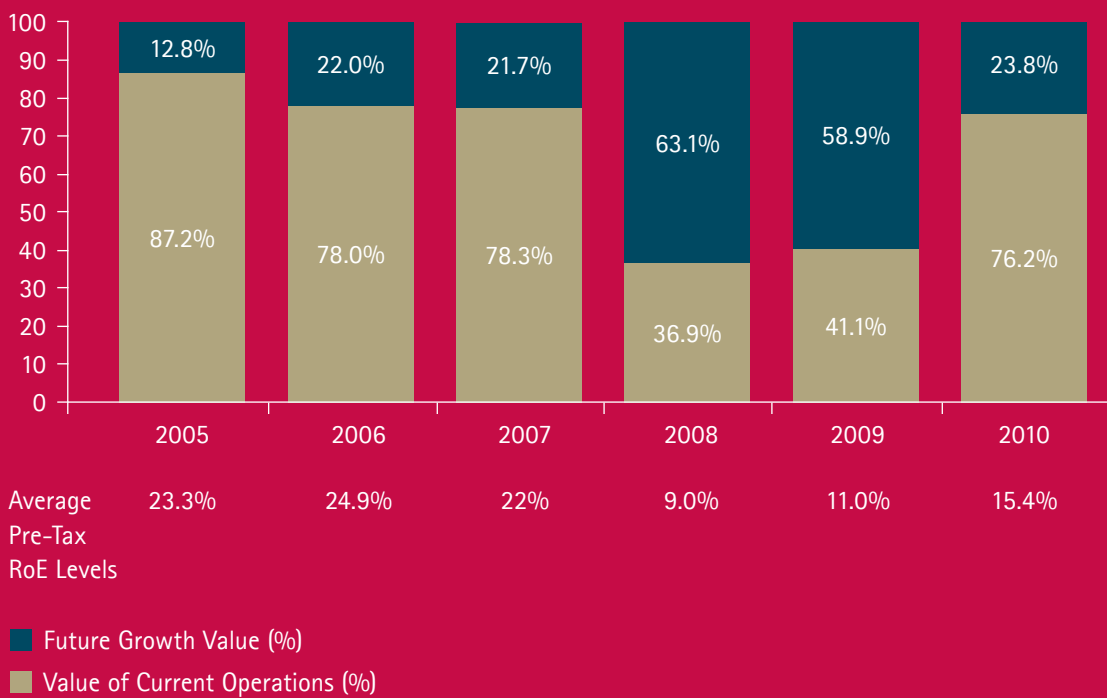




Figure 5: Selected Banks avg. FGV performance 2005–2010

Distribution of imputed Future Growth Value among the World's leading banks



Source: Accenture Research Analysis of the World's 76 Most Valuable Banks, March 2011

Across different markets, we see a number of shared characteristics that tend to differentiate those banks that achieve high performance in revenue generation – specifically superior earnings quality, lower earnings risk, access to superior growth markets, and in some instances a combination of these factors. Figure 6 illustrates four key financial ratios for banks in a selection of developed and emerging markets.

Zeroing in on these ratios, superior earnings quality is typically found in banks that are able to generate higher asset turnover over time or generate earnings at a higher margin due to underlying operational efficiency.

1. High asset turnover

- Banks in growth market often generate a higher return on assets through wide margins and spreads on their core lending and deposit businesses, or through holdings of high-yielding domestic bonds. However, their earning potential is frequently impacted by poor asset quality and low levels of leverage required to operate in less stable financial markets. As markets develop and stability within those markets increases, margins tend to contract.
- In developed markets, where spreads tend to be tighter – especially in Europe – banks rely on a variety of strategies and business models to generate higher returns. There are various options for achieving this:
 - Customer-centric models that focus on generating a high share of customer wallet and substantial cross-sell can sustain both strong interest and fee income – and frequently demonstrate long term outperformance. Wells Fargo generates an asset turnover ratio well ahead of its peers through recurring customer revenues.
 - Focusing on particular high income businesses enables some banks to outperform their peers. However, to succeed in highly competitive business areas they must demonstrate a focus on superior value in their propositions. In the US, Northern Trust generates very strong fee income through a

focus on investment products and its wealth management business.

- US Bancorp combines a strong customer-centric model that delivers solid interest and fee income with additional revenue from its payments services subsidiary, Elavon, making use of a core competence to provide infrastructure services to other financial services businesses.

- At the same time, a number of international banks have grown a mixed portfolio that spans high-margin growth markets combined with lower-return developed markets. This blend enables them to deliver a stronger return on assets than their peers. This category includes banks such as BBVA, Santander and Erste Bank.

2. Operational Efficiency

A number of banks and banking markets outperform their peers in terms of efficient generation of income.

- A number of Spanish banks have leveraged their IT systems, efficient back office processing and low cost distribution techniques to become some of the most efficient banks in the world. In particular, BBVA and Santander have capitalised on global operating and IT models to develop highly efficient global networks.
- In a highly competitive local market, Australian banks are also among the most efficient in the world, with the four major Australian banks' cost income ratios consistently below 50%. Meanwhile, Canadian Banks – in another highly competitive market – are consistently more efficient than their US neighbours.

3. Low earnings risk

In addition to high quality sustainable earnings, banks that have a focus towards lower risk businesses or markets also benefit from a higher market premium.

- Banks that have a higher weighting towards non-lending business activities and solid long-term customer relationships tend to outperform the market in terms of asset quality and suffer less impact from a market

downturn. In North America, RBC and Northern Trust both demonstrated more stable earnings through the crisis than their peers through their resilient asset and wealth management businesses, while in Europe, SEB stands out amongst peers, with a focus on long-term corporate relationships.

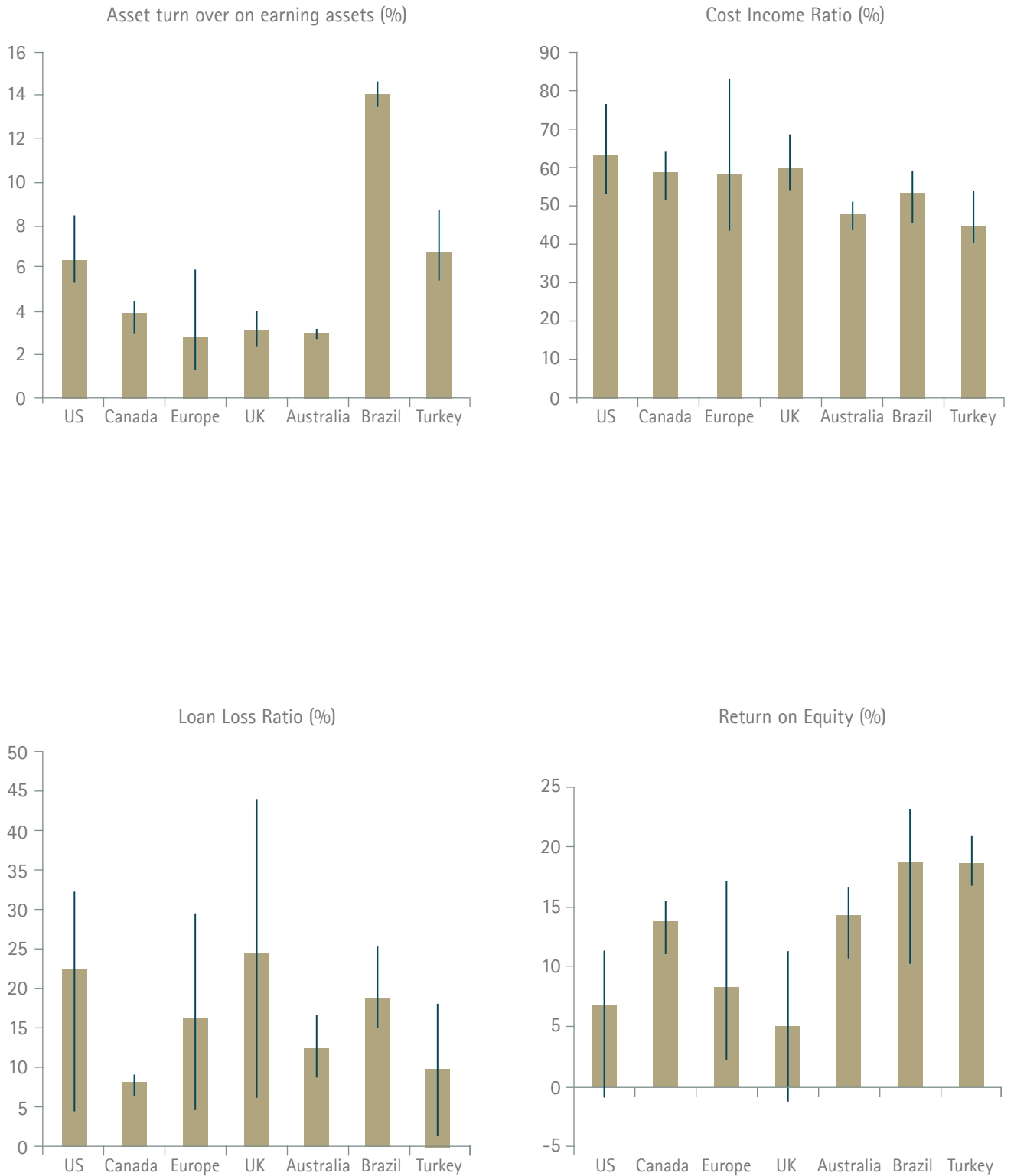
- In addition, banks operating in well-regulated markets that did not suffer the pre-crisis decrease in lending standards – and as a result have ridden out the credit crisis without significant structural impacts – have been able to operate with higher degrees of leverage, without the very high impact of higher loan losses and write-downs seen in neighbouring markets. In particular, Australian and Canadian banks fall within this category, underlining just how successful these banks have been in sustaining high ROEs.

4. Superior market growth potential

As economic prospects have shifted more towards developing markets, many banks operating in “hot” fast-growing economies have benefited from a market premium.

- In particular, banks that have been able to outperform the growth rate of the market as a whole have seen their market premiums increase. Banks such as Bradesco and Banco Itau in Brazil or Garanti Bank in Turkey have been able to expand their lines of business, acquire customers, and grow assets faster and more profitably than most of their domestic peers.

Figure 6: Key Financial Ratios for Banks in Selected Markets, 2010



Source: Accenture Research, based on Bloomberg data for average ROE for 120 largest global banks by market cap

Asset Turnover on earning assets: $\text{Net Operating Income} / \text{Interest Earning Assets}$; The amount of income generated per asset value (unit currency). This measures how efficiently the company uses its assets.

Cost Income Ratio: $\text{Operating Costs} / \text{Net Operating Income}$; measures a company's cost efficiency.

Loan Loss Ratio: $\text{Loan Loss Provisions} / \text{Net Operating Income}$; A key measurement of the level of risk in the bank's loan portfolio

Return on Equity: $\text{Net Income} / \text{Equity Capital}$; Captures the return on investment provided by the financial institution's common equity investors after tax

High performers: the secrets of revenue sustainability

Our examination of how high performers have delivered superior revenue growth over the past five years has helped identify the critical revenue growth levers. The key to success is to be able to generate sustainable profits, with a credible plan to grow revenues in the long term. However, for many banks today, the ongoing recovery from the financial crisis means that this objective is still a tough challenge. That said, we find that those banks that are out-performing their peers tend to demonstrate a core set of five underlying performance factors that lift their performance. These factors are:

- Employee Productivity: the ability of staff to generate sales, acquire deposits and earn revenues
- Customer relationships: the quality of service and relationship between the bank and its customers, frequently

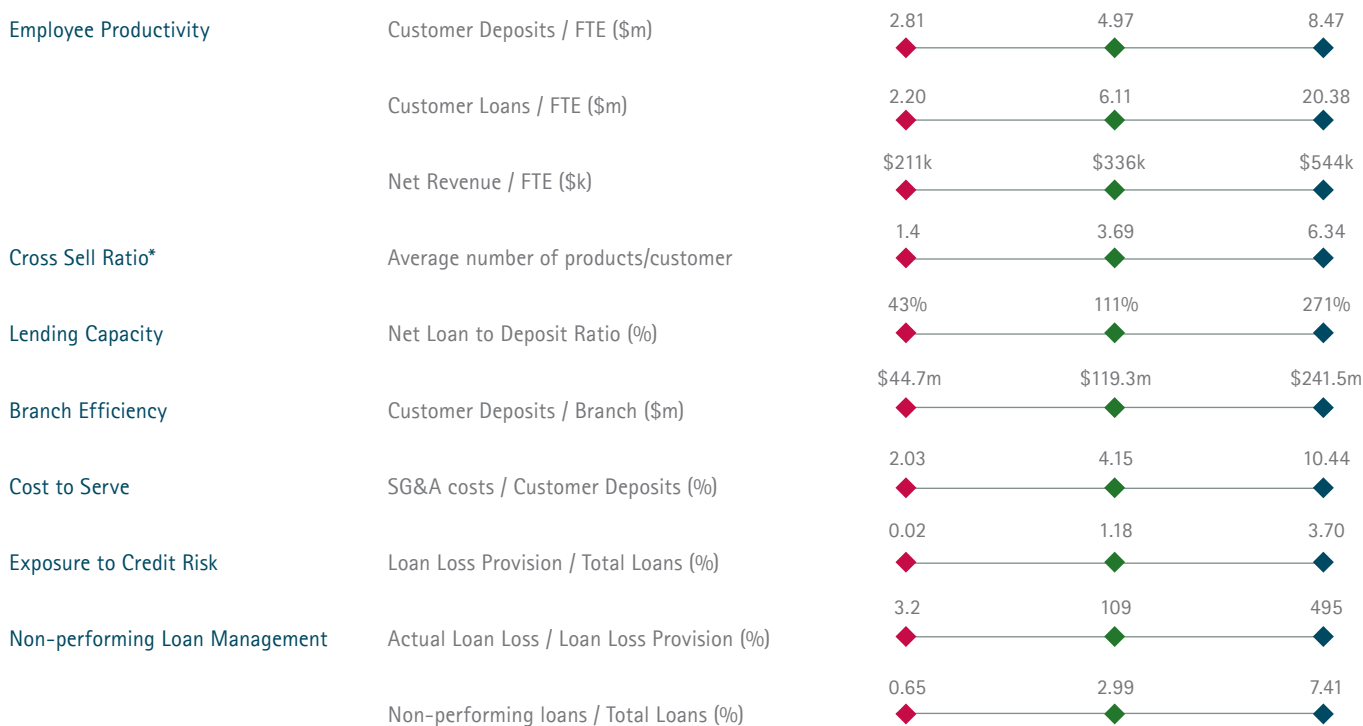
expressed in service quality metrics and the share of customers' business, both in terms of share of wallet and cross-sell, and also the level of attrition

- Cost-to-serve: encompassing the overall cost of providing services to customers, including distribution efficiency and the use of multiple channels to provide services
- Risk management: the rate of non-performing credits, and the ability to recover outstanding loans
- Innovation: the use of technology and new business models to engage and extend relationships with customers, including online, mobile and social technologies.

Many of these underlying factors are interrelated. For example, many banks with well-developed customer relationship models devote more of their staff time to sales and services

activities to win a greater share of their customer business; and many banks with the most efficient distribution systems make increasing use of direct and multi-channel distribution systems to maximise their customer reach. A selection of the operational KPIs used to monitor and optimise revenue growth in developed market banks are detailed in Figure 7.

Figure 7: Selected Revenue Growth Operational Levers – Developed market banks



Notes: Financial metrics based on 35 large European, NA and Australian Banks; x-sell based on Retail Banker International, 2009 data; *based on bank reported ratios, some variance in banks' own calculations.

◆ Min ◆ Average ◆ Max

Two dominant service models

Developing a successful service model is not a matter of pulling on a disparate set of performance levers. Rather, a close examination of the strategic intent and growth models adopted by leading banks around the world shows that most are focused on one of two dominant service models:

- Developing and growing the depth or their core retail relationship banking business

OR

- Expanding the geographic scope or business scope within which they operate.

Each of these models effectively epitomises one of two main themes that are being used to develop revenues: firstly, increasing the value of the customer value proposition; or secondly, growing the business franchise to capture new growth.

A number of banks pursue both of these themes in parallel, but such cases are rare. Each model requires different capabilities and competencies, and the risk of delivering "just enough to fail" is very real. Some larger banks solve this issue by selecting distinct geographies or brands for each strategy – for example developing a customer-centric strategy in domestic markets, while focusing on a growth acquisition model in foreign markets. However, for the majority of banks, their success is built on a dominant focus on one or other of these distinct growth directions.

Increasing customer value

In many developed markets – and in the more affluent segments of many growth markets – the majority of potential customers are within the banking system, and are well provided for in terms of their financial needs. Opportunities to grow through new customer acquisitions in these markets or segments are increasingly limited

and expensive, while the opportunities to grow existing relationships are often not fully tapped. It is common for leading banks in western countries to have customers who hold less than 2.5 products each on average, despite many customers owning an average of up to 9 financial products from various providers. Similarly, it is common for customers to have a low level of savings with the bank that provides their main transactional account. One leading UK bank reported that its current account customers only keep 25% of their savings balances with it. Given this situation, banks that focus on increasing customer value can do so both by increasing the number of customers' needs they meet, and by growing the overall share of wallet and utilisation of these products.

With many banks in each market all trying to compete for more business from their most valuable customers, the goal of developing an effective customer-centric model is becoming ever more challenging. Not only do banks need to maintain high levels of service and access, quality products and services, but they face competition that is becoming ever more innovative. Those that succeed do so by exhibiting the ability to build an intimate understanding of their customers, and then to use this knowledge to engage their customers and tailor propositions around their needs and expectations. Banks pursuing this approach have a growing need to be in the minds of the customer to win in the marketplace.

Traditionally, strong customer knowledge and empathy have often been associated with the 'local branch manager' model that has all but disappeared from most banking markets. The banks that are excelling at building deep customer relationships today are trying to maintain that vital human connection between staff and customer – but are increasingly employing technology and advanced business processes to enable them to do so.

One good example of this approach is Wells Fargo, which has been a leader

in customer centricity in the US market for many years, topping the tables for customer cross-selling.

With a clear goal of meeting all its customers' financial needs, Wells puts a very strong focus on understanding the different needs of customer segments and developing products and services to meet them, ranging from traditional consumer banking to investment and security services.

Recognising that long-term relationships are more productive and result in higher product holdings, Wells Fargo puts an emphasis on delivering best-of-class service. In particular, Wells has developed an innovative multi-channel distribution model that is consistent across different service points, and increasingly gives customers much more information and control over their financial services.

The results are impressive: a focus on stable retail banking relationships helped Wells outperform its peers through the financial crisis. With more consistent earnings and lower loan losses. Striking out from a position of strength, Wells acquired Wachovia in 2008, and is in the process of extending its relationship model to the new acquisition. Between the third quarter of 2009 and third quarter of 2010, cross-sell per household at Wachovia legacy clients improved from 4.65 to 4.91, closing in on the 6.08 cross-sell rate of Wells' heritage households¹

A further example is BankInter, a mid-size private Spanish Bank, which has long been recognised as a technology innovator. What sets it apart from its peers is the way BankInter uses technology to analyse the market, focus its offers on the target customer group, and provide innovative products and services to improve its customers' overall experience.

Following a mantra of trying to do hard things to make its customers' lives easy, BankInter also provides advanced online and mobile banking services – including personalised online portals, online and mobile broking, and mobile product offerings.

The bank has found that as customers use more channels they become more loyal, buy more products, and are more satisfied – and that this makes good business. With a cross-sell ratio ahead of many of their Spanish peers, BankInter's customer relationships are also more profitable.

Underlying this offer is a sophisticated CRM engine – built up on the basis of many years of experience – which analyses sales opportunities personalised to the customer, and delivers these insights to sales agents engaged directly at the point of customer interaction².

Drawing on such examples, our analysis of banks that are successfully increasing the value of their customer relationships identifies these common characteristics:

- A clear view of who their customers are, and the development and use of differentiated propositions and service models to meet different customer needs
- Effective relationship management strategies in place that incorporate not only staff culture and training, but also the underlying systems to support these interactions
- Different business units collaborating to meet the targeted range of customers needs, with leads and opportunities being passed seamlessly to the right part of the organisation
- Products and services designed around customer needs
- A strong focus on ensuring that the bank's distribution systems and processes are easy-to-use and highly accessible to customers
- Many banks in this category demonstrate high levels of costs, as many customer-centric and service-orientated actions today are highly staff-intensive.

These characteristics are underpinned by a core set of organisational capabilities:

- A multi-channel architecture that enables a consistent quality of service experience across all the various customer contact points, and which is connected with the bank's Customer

Relationship Management (CRM) systems

- A strong set of analytical and marketing capabilities, which are increasingly industrialised into a marketing 'factory' that supports management of relationships with customers across all their interactions with the bank
- Digital marketing capabilities that make online and mobile channels more relevant to customers, and which increasingly incorporate social media elements into the bank's customer interactions
- A strong customer-focused culture that permeates both sales and service activities
- The ability to participate in the online and mobile commerce ecosystems that are developing rapidly in many markets – a capability that is becoming increasingly important.

Scaleable and replicable business models

As they leverage these characteristics and capabilities, the best performing banks are aggressive in three ways:

- They strive to expand the reach of the business rapidly to capture more share of wallet from their traditional franchises in domestic or international markets
- They seek to extend the scope of their business model or value chain, either to provide additional services to existing customers or to penetrate new markets
- They work hard to penetrate high-return markets where they can boost their overall profitability

These targets include growth markets where margins and fees are high, or business areas that offer higher returns than traditional banking businesses, such as wealth management. Typically, these banks also leverage their existing cost base by industrialising their infrastructure or operating model. Finding these kinds of synergies in cross-border banking can be

difficult, and only a small number of international banks have proven success at delivering this type of scalable and replicable model.

Banco Santander has grown through a series of successful cross-border deals to become one of the largest banks in the world. During its rapid growth Santander has been able to target expansion opportunities in both high-growth and mature markets, with almost half of its 2010 profits coming from emerging markets. Accenture's analysis reveals four elements of the bank's growth strategy that drive this success:

Strategy: Santander's global management model makes it possible for all its acquired banks to stay focused on the group's core business. As part of this model, all Santander banks have the same emphasis on retail and commercial banking, and enjoy global support in corporate functions. At the same time, the model is executed by local teams, which are given the flexibility to make decisions that make sense in their own markets. **Efficiency:** Santander has a well-regarded approach to achieving efficiency across its global footprint, which it exports to any acquisition it makes. One way the bank drives efficiency is through its targeted distribution model. Via this model, Santander offers customers a unique experience in each geographic region, while still leveraging infrastructure that is shared across all geographies. **Evolution:** Over the years, Santander has enjoyed international success by growing business organically and through mergers and acquisitions. Most recently, the bank has focused on blending its global management expertise with a robust emphasis on localisation. **Execution:** Santander's strong culture of execution has enabled the bank to integrate new units rapidly while generating cost savings and increased revenue. The bank's simple organisational structure creates clear accountability and facilitates quick decision making, which contributes to the power of its growth strategy.³

The key characteristics of banks that successfully grow through scalable business models are:

- A focus on profitable customer acquisition, either by targeting high growth markets and market segments, or through an efficient model that lowers the costs of acquisition
- Developing the business portfolio to increase customer and market penetration, typically by building out from a core business and leveraging Group capabilities
- Industrialised operating models – with limited degrees of differentiation – to achieve scale, particularly in back office processes and corporate services
- Efficient acquisition engines and ecosystems, particularly in their ability to acquire new companies or to form partnerships and alliances.

The core set of organisational capabilities commonly present in banks – like Santander – that are successful at growth through expansion are:

- A simplified business operating model that uses common processes and shared services
- Simplified customer offerings and product portfolios that reduce the complexity of the business and operational platforms needed to support and develop the business
- Low-cost distribution networks, with physical channels streamlined and focused on key sales and service interactions, while self-service and direct channels take on a greater role in transactional and core sales and service
- Common IT systems and platforms that provide lower-cost support to the banking businesses across different products, business units and geographies
- A proven and industrialised acquisition engine, in which the operating model and execution approach have been developed to facilitate merger integration.

Growth considerations in the 'new normal'

Post-crisis, the growth landscape facing banks has clearly changed. As a result, the current market context demands that banks also take into account a set of challenges that will impact the development of their growth models:

- **Capital Efficiency and Risk:** As capital levels rise and the cost of capital increases, banks must ensure that they conserve capital levels and are able to earn above their cost of capital. These considerations may impact decisions such as whether to expand into new markets or compete in riskier business areas.
- **Liquidity and Funding:** As banks adapt to new liquidity rules and higher wholesale funding costs, they are competing to acquire more deposit funding and lengthen maturity profiles. These issues will impact not only how banks choose to grow margins, but also decisions such as whether there are sufficient deposit pools in home

markets, or if they need to look at accessing savings in new markets.

- **Sustainability of revenues:** Taking on board the lessons of the crisis, banks need to ensure that they are accessing revenue pools that offer long-term growth
- **Innovation:** As customers adopt new technologies and behaviours, and as banks and non-banks alike leverage new technologies, channels and business models to capture more of their customers' business, banks need to find new ways to deliver their products and services and connect with customers. The information panel on the next page provides more details.

The innovation imperative

In the wake of the financial crisis, banks around the world are having to adapt to a very different – and rapidly-changing – economic, regulatory and business environment. Ongoing shifts in customer behaviour and advances in technology are changing not only what customers expect of banks, but also how banks and non-bank competitors deliver financial services. These conditions bring several implications in relation to innovation:

- Customers' behaviour varies widely – but as customers become more connected and better informed, there is a trend towards consumers expecting greater control and interaction with the products and services they purchase.
- Technology innovation is driving new capabilities and new ways of delivering services. These innovations range from how data is managed and used, to how companies and customers communicate, to the applications, platforms and infrastructures on which businesses operate.
- Digital ecosystems are emerging, reflecting how technology has provided banks and customers with new ways of communicating and interacting. In particular, social networks offer more opportunities for dialogue, new ways to select providers, and more scope for collective commerce.
- Mobile commerce creates not only a new channel for distribution and payments, but also opportunities for new modes of product and service provision that can incorporate elements such as location-specific services.
- As retailers become more sophisticated in how they manage relationships in-store and online, other industries including banks are employing best practices from retailing to develop more compelling customer experiences.

In response to this dynamic environment, banks themselves are embarking on a new wave of

innovation, exploiting technology and new business practices to transform their operations and performance. We see five key trends now defining banks' innovation agenda:

- More sustainable relationships, giving more control to customers
 - Increased customer education and provision of financial information, ranging from training to advice to online information portals
 - Giving customers greater control of their finances by providing more account information and tools to monitor and control spending and saving
- Making banking simpler by lowering barriers
 - Improving access to distribution and reducing the complexity of interactions, such as store-orientated branches and facilitated self-servicing
 - Simplifying product propositions by reducing product catalogues, while maintaining choice for customers through flexible product options
- More personal service, fostering increased customisation
 - Giving customers the option to customise interfaces and propositions
 - Using analytics to gain a deeper understanding of customers, segment them based on their characteristics and make relevant offers to them
 - Using new communications techniques such as social media and remote video links to humanise digital interactions
- More ubiquitous services, making banking more available but more invisible
 - Rethinking where and how people can use physical channels, from longer opening hours to locating stores and point-of-sale to places where people shop or commute
 - Using mobile and online applications to integrate into customers' commercial transactions
- Behaving less like a bank, by interacting more like a retailer
 - Developing marketing and promotion

techniques drawn from the retail sectors, such as sales and special offers – Extending propositions to non-financial services offerings such as home concierge services, ticketing, and information and digital security.

Innovation will be used in different ways by different banks according to their strategic growth priorities, whether these are focused on increasing customer value, expanding the business, or both. As competition from within and outside the banking industry intensifies, innovation will need to be an integral part of any bank's change agenda.

Mapping out a clear path to growth

In many developed markets, banks are facing challenges around winning back the confidence of investors in their ability to generate sustainable ROEs. Meanwhile in emerging markets, where many banks have established a strong track record of growth, returns will come under pressure as competition heats up and as customers become more demanding.

The optimal path to growth for any bank is highly dependent on a combination of market factors, such as the maturity of home markets and how regulation and the economy will impact growth prospects, and internal factors such as a bank's current strengths, business model and capabilities. While taking these factors into account, banks need to choose between two growth directions: increasing customer value or business expansion. To execute on either of these strategies, banks need to:

- Set a clear vision that will help the bank to determine the interventions, business model and capabilities that it will need to develop
 - Focus on building the right capabilities to enable delivery against their chosen model – and avoid the distraction of investing outside their dominant growth path
 - Reach clear decisions on where and how to innovate to support the goals of their growth strategy, against the background of a rapidly-changing business environment.
- Accenture's analysis of the growth strategies and underlying performance factors that are characteristic of high performing banks' business models, can help banks in any marketplace to clarify what they need to do to define a growth plan, and then to determine how to deliver it.

¹Source: Wells Fargo Investor Presentations, Company Results & Announcements.

²Source: BankInter Investor Presentations, Company Results & Announcements.

³For more information on Banco Santander's cross-border growth strategy see Cross-Border Banking; An Accenture Study of Cross-Border Mergers and Acquisitions in Banking.

To find out more about how Accenture can help your bank sprint clear of the pack by 2015, please contact:

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