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FUTURE-READY BANK

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Creating the conditions for BANKING SUCCESS IN THE DIGITAL AGE.

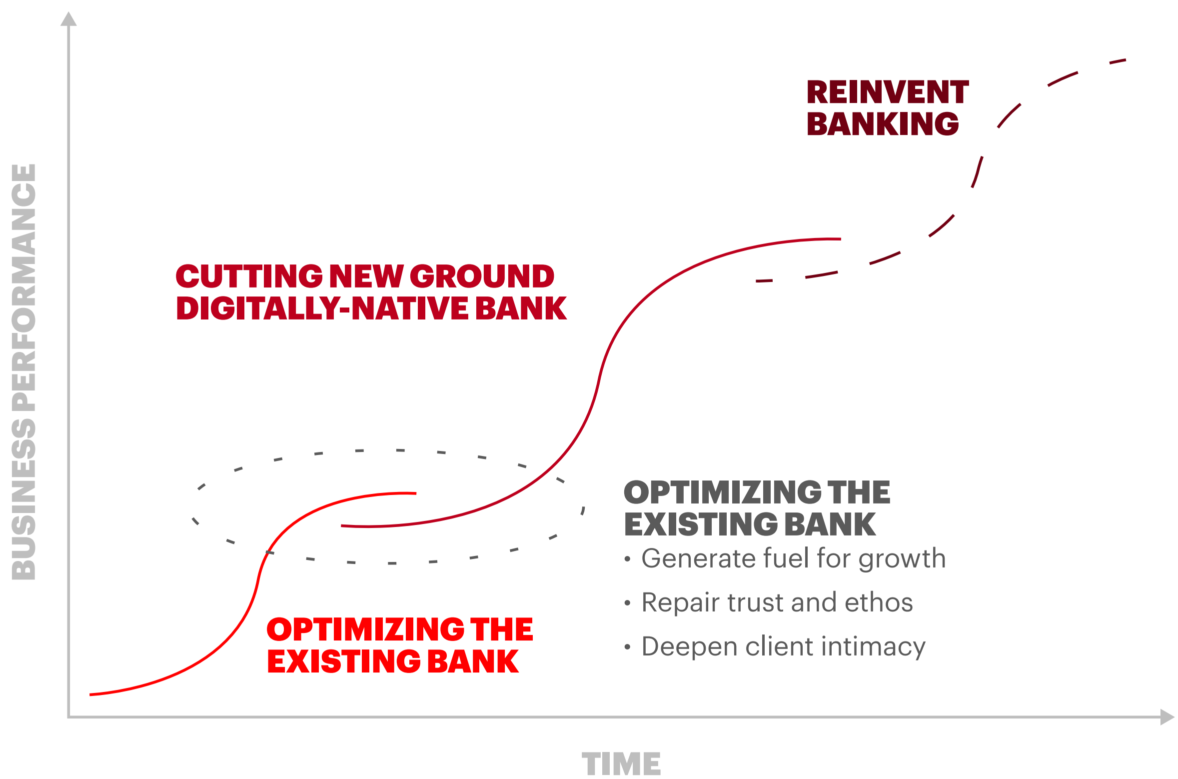
Imagine being asked to invest in a company with a sustained record of return on equity (ROE) less than 10 percent and a price-to-book ratio below one.

The company has a severely damaged reputation and is seen as unattractive, both as a company to work for and as a provider of services. Ask about growth and the response is that there is little prospect of it, while newer, nimbler players are attacking key parts of the business' value chain. The bleak picture being painted of this prospective investment does not stop there. The organization in question has been fined over 30 percent of its market capitalization for bad conduct, and is facing ever more stringent regulatory oversight. And finally, a complex infrastructure, involving thousands of legacy IT systems, is driving high costs and makes it difficult to achieve the necessary fundamental change. Heard enough to want to pass on this investment opportunity?

As unappealing as they sound, these characteristics represent banking in most countries around the world. The few exceptions, like Canada and Australia, are due to specific market idiosyncrasies which do not protect them from the issues facing banks today—such as the effects of massive systems and process complexity, or, in a recent development, the struggle for talent. Millennials show a lack of interest in joining the profession; in 2013, 12 percent of college graduates in the United States considered banking and capital markets as a top industry in which to work. In 2016, only seven percent felt this way.[1] And while an Accenture Strategy survey found that Baby Boomers will pass down as much as US$30 trillion in assets to heirs, only 47 percent is expected to remain with existing firms.[2]

Against this backdrop, there are the challenges and opportunities created by digital disruption. The next evolution of banking, what Accenture Strategy calls the "digitally-native bank," is happening; this bank will interact with clients seamlessly via a range of channels, from branch to machine-to-machine. On the inside, it will be highly automated and streamlined, yet agile and flexible enough to respond swiftly to opportunities and challenges.

Figure 1: From Future-Ready to Digitally-Native Bank



BECOMING DIGITAL NATIVES

Accenture Strategy believes the leap from where most banks are today to becoming a digitally-native bank is almost impossible given the complexity, scale and cost of change required. The future-ready bank is an interim stage with strong economics—our model indicates a cost-income ratio of 40 percent and a ROE in the region of 14 to 15 percent to generate the funding needed for the transformation journey. Critically, the bank will also be significantly simplified, much clearer in its purpose and ethics, and far closer to its clients through the use of integrated "big data" analytics.

Three actions can help banks to become future ready: they need to get fit to be profitable enough to move forward, and get it right sustainably, by redefining their purpose and how they make decisions, to engender trust. And finally, building on that trust, they can get closer to their clients, gaining insight from analytics to retain existing clients and capture new ones.

GET FIT

Banks are no stranger to cost reduction—they have been trying to take out costs for the last 10 years. These efforts, often highly disruptive, have delivered, at best, incremental improvements around 10 percent; whereas what is needed to close the gap to economic viability and strength in the region is 30 to 35 percent for most banks. To return to strength, banks should take a far more radical approach to cost transformation.

Accenture Strategy has worked in the consumer goods sector on closed-loop methodologies, which are now applicable in banking. The method starts with establishing granular visibility and ownership of the cost base of the bank, with specific focus on the "black box" of central functions, which usually account for 55 to 65 percent of the overall cost base, that are then allocated to the business lines. To do this, posting level data from the general ledger is combined with data from other systems, insight and proprietary models, to categorize cost and related activity in a meaningful way. This creates transparency on what it is and who or what caused it. Doing so acts as a foundation for simplification, operative change such as new sourcing models and as part of the closed-loop model, zero-based design. The effort may examine cost, operating models, budgeting and more and helps banks make a quantum leap in their ability to manage cost and profitability.

GET IT RIGHT

Following the financial crisis, banks experienced an onslaught of regulation and have been subject to significant fines. The world's biggest banks have paid heavy fines since 2008 for a range of conduct failings, including money laundering, market manipulation and misselling. The fines amounted to more than 40 percent of their "pre-loss" earnings.[3] Not only is misconduct expensive, but also it is corrosive to the institution's internal sense of purpose and its external standing.

Leaders across the banking sector often describe ethical failure as occurring in high-risk areas of their business (such as on the trading floor), in frontier geographies and through "bad apples" acting outside of established policies and procedures. Yet analysis by Accenture Strategy and Principia Advisory of misconduct-related fines in the United States between 2010 and 2016 found that more than two-thirds of all cases resulted from issues involving entire teams or departments—often acting in accordance with all regulations, policies and procedures—and that the majority of cases arose in departments and geographies perceived as "low-risk."[4]

Accenture, working jointly with Principia Advisory SARL, discovered that a focus on ethics and culture can improve short-term financial performance, as well as provide the foundations for sustained, long-term value creation. Banks need to build mechanisms that enable them to manage their people's competence and intent to make decisions that are right and responsible. Using a quantifiable framework that reveals the critical drivers behind responsible conduct, banks can not only better understand how decision-making can be improved, but also move forward with culture and behaviors that will help to secure the next generation of customers and colleagues.

GET CLOSER

Banks need to become better at growth, which will involve getting much closer to their existing and potential customers. Even to stand still, they must move clients to new channels and better understand customer needs and preferences. Banks can do this by taking advantage of new tools and capabilities, such as customer journey analytics.

Customer journey analytics give companies a view of everything their customers are doing across the entire customer lifecycle, providing rich detail on their use of products and services. By drawing in data from all channels—digital, voice, branch and so on—integrating and enriching it with other sources, banks can provide a far more seamless and insightful service, and actively manage conversion, churn, net promoter scores and other metrics.

Using the insight created by data analytics, banks can view the world from the customer's point of view and develop a better, more effective and sustainable customer experience. They can make smart business decisions at scale that deliver a customer experience that is proactive, predictive and personal. In fact, they can create experiences that compare favorably to those provided by highly-rated digital brands such as Amazon and Google.

LEAP TO THE FUTURE

To become future ready, banks need to fix their profitability, embed a sense of purpose and ethics into their organization and revise their approach to growth to protect the core business and engage customers in new ways.

Leading Banks:

ADOPT A CLOSED-LOOP APPROACH TO COST REDUCTION

Incremental changes are no longer enough. Banks need to gain a granular view of their entire cost base and challenge everything.

MANAGE PURPOSE AND ETHICS

Establish mechanisms to make visible, and measure, the organization's ability to make decisions that are in line with its overall values and purpose.

APPLY NEW DIGITAL TOOLS TO SPUR GROWTH

Take advantage of data already being generated and use analytics to make customer journeys for new and existing clients far more insightful, smooth and effective.

These steps will significantly strengthen those banks that take them and help them create the conditions for a successful future as a digital native.

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About Accenture Strategy

Accenture Strategy operates at the intersection of business and technology. We bring together our capabilities in business, technology, operations and function strategy to help our clients envision and execute industry-specific strategies that support enterprise-wide transformation. Our focus on issues related to digital disruption, competitiveness, global operating models, talent and leadership helps drive both efficiencies and growth. For more information, follow @AccentureStrat or visit www.accenture.com/strategy.

Notes

1 Accenture Strategy U.S College Graduate Study, 2016.

2 Accenture Research, 2015.

3 London School of Economics and the CCP Research Foundation, "Conduct Costs."

4 Accenture and Principia Advisory SARL analysis.