BEYOND NORTH STAR GAZING

How our four winning bank models map to actual market evolution

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ALAN MCINTYRE: New retail and commercial bankers I meet disagree with the idea that regulation, evolving customer expectations and technology innovation are changing the structure of the banking industry. What might surprise them, though, is the speed and the magnitude of that change.

Accenture recently analyzed seven major markets over the 12-year period from 2005 to 2017 to quantify that change. While these new entrants only account for about seven percent of total revenue, they captured the full one-third of the revenue growth in Europe.

In China, Alipay and WeChat together account for 94 percent of the mobile payments market. The UK is the most disrupted of the developed banking markets, with nearly two-thirds of new players capturing 14 percent of total revenue and rising fast.

With this level of disruption, incumbents can no longer stay fixed on their traditional North Star business models. They must pivot wisely and quickly to new models or risk being left behind by a changing industry. But to what should banks pivot? There is no single or easy answer cause the choices have become highly market-specific.

In Accenture's 2017 Winning in the Digital Economy report, we introduced four business models, which we believed would provide stable guidance for banks in the medium term. This year's analysis confirmed the gravitation to these new North Stars. Of the minority of incumbent banks actively pivoting to new business models, most are defaulting to the Digital Relationship Manager model that will allow them to continue to be most things to most people.

In Europe for example, the Digital Relationship Manager model represents about 23 percent of the current banking revenue pool for those entrants who have pivoted. A few incumbents like HSBC, RBS and Santander are also exploring the open platform model where they manage the customer relationship, but offer an array of third-party products and services.

New entrants are choosing models other than the Digital Relationship Manager due to their digital-only nature, freedom from legacy infrastructure and narrow focus. Fintechs and challenger banks like Starling and banqUP are choosing to be Open Platform Players. In the US, three percent of banking revenue now goes to Digital Category Killers like PayPal, Rocket Mortgage, Betterment and now Marcus by Goldman Sachs.

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With the advent of more Open Banking regulations, the Utility Provider model is also becoming attractive. Newcomers aligned to this model include Cross River Bank, Solaris Bank and Clear Bank in the UK. To realign to a new North Star and stay relevant, incumbents will need to do five things.

First, they need to understand the nature of their own market and its competitive outlook. How fragmented is it? What's the level of revenue migration to new players? They then need to use that insight to determine which business model will be successful in that market.

Second, they need to stop doing things that don't align with or economically support that chosen business model. Doing so only drains valuable and scarce resources.

Third, they need to be crystal clear about where incremental revenue growth will come from in their chosen business model. Future value requires strong organic revenue growth, which is likely to be a zero-sum game in most markets given the margin compression that comes from digital innovation.

Fourth, create a technology and operating model, aligned to the destination business model, that removes the legacy constraints and makes for an agile, fast and constantly evolving approach to market.

And finally fifth, shape your chosen business model to take full advantage of your bank's cultural strengths, realize that it's possible to realign the institution and use its current advantages to point in a different direction and still be successful.

Are you and your financial institution ready for these changes—and are you ready to follow a new North Star?

Thank you for watching.

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