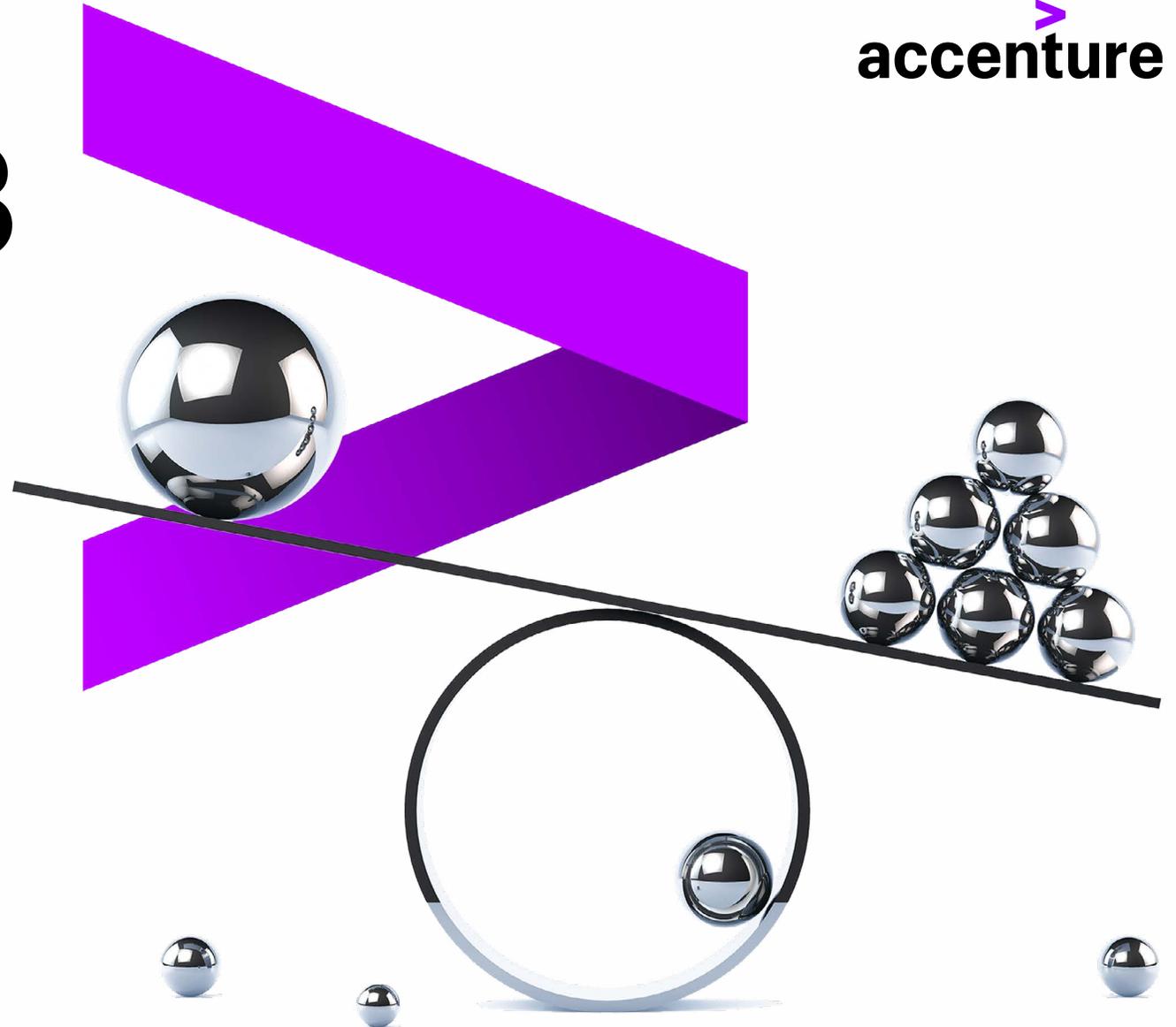


THE TOP 8 BANKING TRENDS OF 2019

From Risk to Reward

accenture



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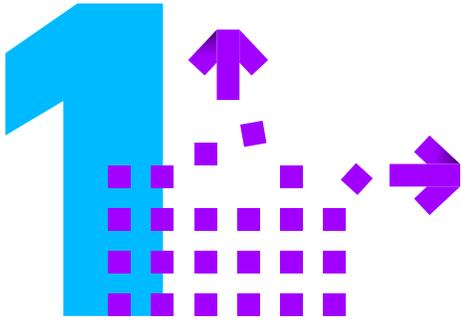


With the release of the Banking Royal Commission report, risk and reward will be important considerations for the Australian Banking Industry as they manage the threats and opportunities to their business and try to gain the trust of consumers once more.

The enclosed trends focus on some major external impacts that will make 2019 a tough year for banking in Australia, laying the foundation for profound industry change.



**ALEX TROTT, BANKING LEAD,
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Unbundling and fragmentation — the cracks are beginning to show

Banking has traditionally been a vertically integrated business in Australia. That industry structure is now beginning to fragment, amid a tumultuous period for the big four banks, with conduct, transparency and culture under the microscope.

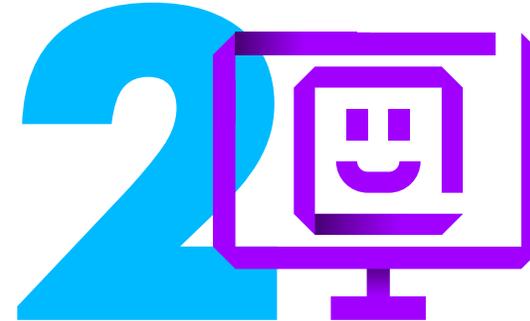
The Royal Commission aside, there are also further regulatory pressures at play, with Open Banking set to begin beta testing with the big four banks from July 2019.

The intent of the Open Banking regime is to create more competition and value for the consumer. This ongoing fragmentation is creating new horizontal business opportunities and encourages the entry of Fintech's and other emerging competition.

Australian 'neo banks' such as Volt are primed to focus on customer acquisition enabled by this newly accessible customer information, following its recent award of a full banking license.

So, in 2019, we will undoubtedly see further fragmentation, specialisation and competition from third parties, but we will also see the banks trying to re-bundle those components through partnerships into attractive and holistic customer propositions.

However, underlying this is the enduring issue of trust and how willing consumers will be to share their financial data.



From products to promise

How far do you trust your bank with your personal information? Asking Alexa, Ceba (CBA's chatbot) or any other AI assistant for banking help has fast become table stakes.

What is likely to emerge in 2019 is a new class of digital advice that focuses on true financial wellness, a step further than current AI assistants which are customer service focused.

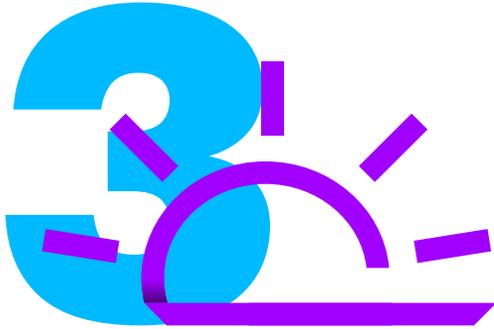
These advisory services will draw both on banking and non-banking data to provide hyper-relevant advice and suggestions. As banks see your payments flow, they not only know what you are spending, but also what others are spending. This will allow them to identify that you are paying more for your utilities than your neighbour, or that you are paying full price for your car lease, rather than taking advantage of current refinancing offers.

All organisations need to be careful to ensure loyalty and trust is improved in all interactions.¹

Achieving a trusted customer-centric banking sector requires banks (and other financial institutions) to institute ethical sales practices, better controls over conduct, and a shift in organisational DNA.

Banks must also adopt a customer-centric approach to win back trust; in part that involves improving the customer experience.²

Of course, banks need to make sure that their own house is in order first by ensuring best advice for their own products. But beyond that, they are ideally placed to promise their customers that they, if given a chance, will make the totality of their financial lives better and more rewarding. That is where the advice trust bar will be set in 2019.



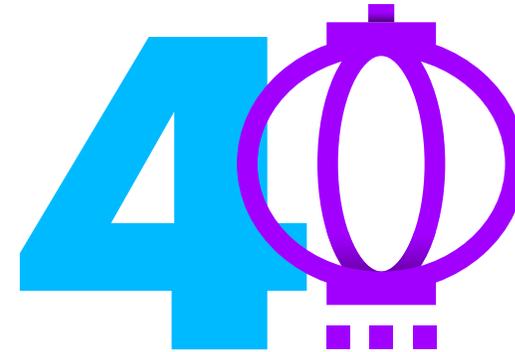
The opportunity or twilight of community banking?

These should be golden days for smaller community or mutual banks. The economy has been booming, interest rate spreads have widened, credit losses are minimal and compliance costs (pre-Banking Royal Commission) were at last coming down.

Profitability is under pressure and will continue to be so, but the existential threat for these banks is now a lack of growth. Being small and local (with a better, trusted brand) isn't the competitive edge it used to be.

The traditional response of smaller banks would be higher levels of mergers and acquisitions to reduce costs, but the new challenge in 2019 is to figure out how smaller banks can offer better digital services without spending billions of dollars.

If they can't, they will continue to lose customers to new entrants or their bigger competitors, and 2019 may see us enter the twilight of the community banking era.



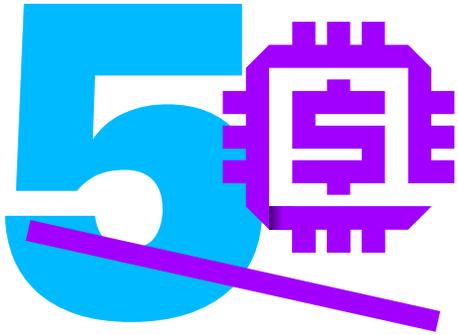
The Chinese are going global

The stunning transformation of retail financial services in China is becoming a well-known story. Between Alipay and WeChat pay, China now has well over a billion regular users of mobile payments who last year conducted two-thirds of all global mobile payment transactions.

Viewing this phenomenon from a seat in the West, it's tempting to say that what's happening in China doesn't affect us. However, with 1.39 million Chinese visiting Australia from February 2017 – February 2018, spending AUD\$10.4B,³ improving the ease of payment is crucial for our economy.

In December 2018, Commonwealth Bank adopted Alipay through Albert and its ePay app, allowing Chinese consumers to use QR code-based payments in Australian stores.

It's only a matter of time before innovations from China also begin to reshape the Australian banking industry.



The tipping point for fintechs in Australia

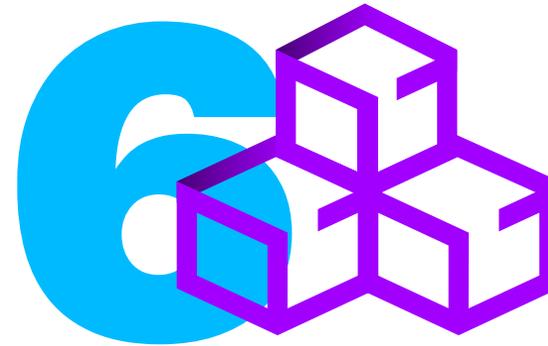
Accenture research shows Australia has a large cohort of financial services consumers considered 'nomads' who are much more open to digital channels than other consumers.⁴

Collectively they control liquid assets of an estimated AUD\$2trillion. Focusing on this market when amplified by a combination of eroded trust in traditional banking and a regulator keen to stimulate competition has enticed fintechs to enter the Australian market e.g. 86400, Tyro and Volt Bank joining UBank and ING Bank.

These banking start-ups, and value add services like Gobbill, AirWallex and Afterpay are signing up new customers, but have more to do to win widespread adoption and trust.

The reaction of incumbent banks has been to upgrade their core digital services, and co-fund the new group of competitors through vehicles such as Reinventure (Westpac) and NAB Ventures (NAB).

Market share data in 2019 will start to give us an indication of whether new entrants have enough momentum to win long term, or whether the immune system of traditional banking will be strong enough to fight off this infection from digital newcomers or absorb them.



The beginnings of build and migrate

One of Accenture's 2018 predictions was that few big banks would risk removing out their antiquated legacy systems, but instead would look to wrap them in digital services that enabled more speed and agility.

While there wasn't a lot of replacement in 2018, we have seen plenty of interest in additions to enable speed of change like Zafin which enables personalised pricing for deposits / lending.

In 2019, we are going to see a lot of build activity on these new systems with banks experimenting with new technical architectures that are digital to the core, like NAB's migration of core applications to the cloud. How the banks adopt these new ways of working to

deliver these architectures will be a key success metric. Not everyone will immediately succeed.

However, so far, these solutions are mostly targeted at relatively simple retail and SME customers. The big question for 2019 is whether we will see any traditional banks take the leap and move from a parallel digital build to a migration of their legacy banking systems to one of these new solutions.

So, 2019 still won't be a year of rip and replace, but it could be a year of build and migrate. The largest mitigating factor will be the findings of the Banking Royal Commission and the risk and compliance overload this could place on these organisations.



Head (and brain) in the clouds

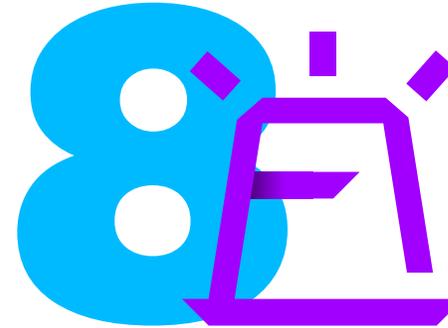
Another prediction from 2018 was that the debate on migration to public cloud was essentially over. What's interesting for 2019 is how quickly the debate has moved on from the cost and scalability benefits of being in the cloud to data and analytics.

At the recent AWS re:Invent conference much of the focus was on what to do with your data once it's in the cloud and, specifically, the analytical tools available from cloud providers.

This move from a bare-iron pitch to the allure of an intelligent brain indicates that the winners in digital banking will be defined by offering creativity and data quality, not the quality of algorithms. Understanding what customers want and will engage

with should dictate where the investment goes, and this can only come from collecting more data to analyse, introducing a paradox with data collection and privacy. While many people assume their individual data set is desirable in its own right, organisations actually want it most when it's part of aggregated data.⁵

We are moving to a world where every banking carpenter will have the same toolbox and be able to access many of the same raw materials. The distinction will come from picking the right piece of wood and knowing how to create something of value from it that will matter in 2019 and beyond.



Welcome, 'platform' police

Our last prediction for 2019 is that the word 'platform' will be banned in at least one bank. Often a perfectly useful term is stretched to the point where it becomes meaningless. Unfortunately, that was the fate of 'platform' in 2018.

A true digital platform business is an easily accessible, two-sided marketplace that makes money by bringing buyers and sellers together, like eBay, Airbnb or Uber, and driving growth through network effects.

Aggregation flips the usual business model in the digital world by becoming demand driven, not dictated by supply side constraints. In the digital world, where distribution costs are effectively zero, controlling demand becomes more important than supply for an aggregator.⁶

In 2019, any bank that wants to talk about being a platform business needs to be very specific about the business model it is trying to pursue and stop throwing the word around.

A pure platform business would be economic suicide for most banks, as it would involve giving up their balance sheet. So, if people in your bank start to talk about 'platform banking', please keep asking them what they mean until you get an acceptable and clear answer. It could take a while.

END NOTES

¹ Trend 1 – Silence is Gold

https://trends.fjordnet.com/Trends_2019_download.pdf

² Accenture A Questions of Trust

https://www.accenture.com/t20181105T065550Z_w_/us-en/_acnmedia/PDF-84/Accenture-A-Question-Of-Trust.pdf

³ Minister for Trade, Tourism and Investment

https://trademinister.gov.au/releases/Pages/2018/sc_mr_180418.aspx

⁴ Accenture Banking as a Living Business

https://www.accenture.com/t20180724T143740Z_w_/us-en/_acnmedia/PDF-32/Accenture-Banking-Living-Business-Australia.pdf#zoom=50

⁵ Fjord Trend 3 – Data Minimalisation

https://trends.fjordnet.com/Trends_2019_download.pdf

⁶ Aggregation Theory - Stratechery by Ben Thompson

<https://stratechery.com/2015/aggregation-theory/>

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