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ARE YOU REALLY A DIGITAL BANK?

Ten key questions to assess digital maturity

Winning in the Digital Economy Series

THE WORLD'S LEADING DIGITAL RETAIL AND COMMERCIAL BANKS HAVE MANY THINGS IN COMMON.

They don't do them all equally well, and commitment to each aspect varies from bank to bank, depending on their starting point, level of ambition and business portfolio (lines of business and geographies in which they operate). Nevertheless, we see patterns emerging that we think allow for an objective assessment of whether a bank is making serious progress on its journey towards becoming a truly digital bank. We know from **our recent industry research** that mastering digital is increasingly associated with both superior operating economics and a market valuation premium, so having the right scorecard to assess digital maturity is important to a bank's Board, C-suite and external stakeholders.

Carl Jung, the father of analytical psychology, observed that "to ask the right question is already half the solution of a problem." When we aggregated the experience of the Accenture Banking practice we came up with ten questions, the answers to which serve as a good yardstick on whether a specific bank should be considered in the digital premier league of the industry.

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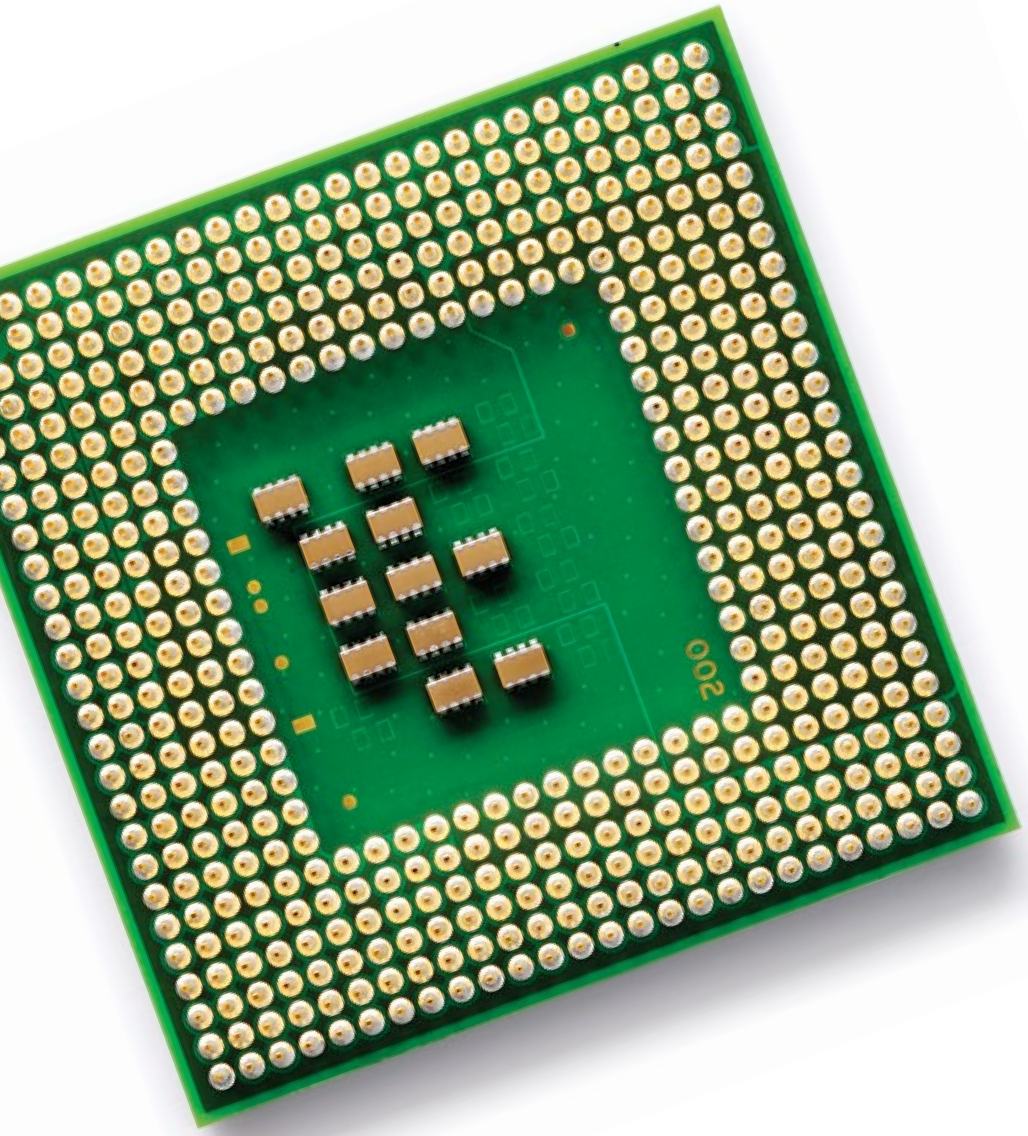
01

Does the bank have a mobile-first distribution model?

Regardless of the bank's other channels for customer interaction (including branches, ATMs, call centers and relationship managers), does its customer engagement strategy start from the mobile experience and then considers how other channels can support reimagined customer journeys. When you design for mobile first, other ways of interacting move from being costly alternatives to differentiating enhancements, and that necessitates that non-mobile channels are staffed from top to bottom with people who understand and embrace the mobile-first approach, rather than resist it because they're worried about their jobs. It also typically means that all channels (physical and digital) should report up to the same customer experience leader, rather than being siloed and potentially competing. In a mobile-first world, traditional regional leaders whose power tends to reside in their feudal oversight of a specific geography or piece of the network can feel threatened, but those power hierarchies often don't mesh well with a mobile-first approach. Mobile first doesn't necessarily mean a reduction in physical locations, but it does mean a change in the role they play in the distribution mix. With pure-digital challenger banks signing up millions of customers, an outstanding mobile experience will be a prerequisite of future success for incumbent retail and commercial banks, but the best-performing ones will also change the terms of competition by using other channels to make their app experiences even better.



02

Is the bank **eradicating back-office manual work through intelligent operations?**

From risk management to customer service, the default processes should be data- and analytics-powered and use all available RPA and AI tools to minimize human touchpoints, drive down the cost-to-serve, improve service levels and cross-sell ratios and enable the servicing of tens of thousands of retail and small business customers per employee. Where humans are still required to intervene, it should be to deploy judgment that is beyond the capabilities of automated processes, with that portion of work shrinking every single day. Where the minimally efficient scale of operations is beyond a single institution, the bank should be using utilities, outsourcers and partners that can help to further lower cost-to-serve. Like in the best digital-native businesses, customers of leading digital banks should be confident that a self-serve approach to problem resolution will be the quickest and most effective alternative compared to dialing a phone or driving to a branch. In most cases, being a leading digital bank should mean absolute headcount reductions in back- office operations and the clarity of purpose to reinvest most of those savings in front-office differentiation, while also recognizing that a slick and engaging back office can be an excellent digital marketing channel in and of itself.

03 Is the bank embracing Open Banking?

Rather than treating Open Banking as an annoying compliance and regulatory issue, the best digital banks are embracing both the import and export versions of it and are thinking about their technology and infrastructure approach with the mindset of a trader rather than a protectionist. An Open-Banking mindset naturally leads to a "platform-as-a-service" approach to core product and service capabilities that allows a bank to support both internal and external users through microservices and APIs. The import side of Open Banking also means building a systems infrastructure that can consume third-party capabilities by connecting to external APIs. A trader approach also has no time for the "not made here" mentality towards products and, hence, the best banks are moving towards offerings that are demonstrably best for the customer rather than the bank. In this world, import/export API calls become an important operational metric and any European bank that is still insisting on pushing its own retail FX service rather than integrating TransferWise is probably still struggling to understand the true impact of Open Banking. As one industry commentator noted, banking is rapidly moving from a plate of spaghetti to a lasagna and the leading digital banks are working out which layers they want to play in and also who owns and operates the points of connection.

04

Is the bank willing to push the boundaries of its business model?

Is the bank actively considering income streams beyond traditional banking where the bank believes its customer relationships give it a competitive advantage? Digital innovations will increasingly compress traditional fee income streams like payment and overdraft charges, so banks need to be willing to use their data and their privileged position in the transaction flow to dip their wheel into other revenue streams and help customers with non-financial-services purchases. The best digital banks are differentiating themselves by repositioning in their customers' lives and rethinking their value proposition to go beyond the digital presentation of traditional bank products and instead be a trusted day-to-day advisor who can improve broader financial well-being. In many cases, this implies material self-cannibalization of short- term product revenue to secure long-term customer loyalty and value. It also means building extensive partnerships with non-financial-services product providers to recognize that both payments and credit are likely to become more and more embedded and invisible in the future and that if banks don't capture the advisory high ground, they could be consigned to commodity providers behind the curtain of someone else's value proposition.

05 Has the bank become a truly data-driven organization?

Has the bank figured out how to get measurable value from AI at scale by separating out data provisioning and management from insight generation and value-realization activities? Not everyone who owns a car needs to drill their own oil well, so the best digital banks are mastering data supply chain and data management as an enterprise capability, balancing centralized data provisioning with decentralized insight utilization to drive increased profitability. The leading digital banks increasingly have a Chief Data Officer with a broad remit and a seat at the top table to ensure that data permeates every aspect of the organization. Banks have a privileged position in the economy in that they act as the scorekeepers and facilitators for everyone else's business. Rather than relying on browser data and probabilistic inferences, banks get to see crystallized intent via payments and money movements. If data is the new oil, then banks have advantaged access to some of the richest fields. The best banks know not only where to drill but also how to refine and use the fuel that those wells provide.

06 Has the bank committed to public cloud as its default infrastructure?

A default public cloud architecture drives a lot of positive behaviors around modern engineering practices, technology development approaches, data management and analytics, and is a clear indicator of a future-oriented mindset that puts the burden of proof on status quo rather than change. While scalability and application rationalization can still be important elements of the business case for public cloud migration, increasingly the most compelling element of the equation is native access to the data management and analytical tools provided by public cloud providers. Even if public cloud isn't currently the right answer for certain applications (and there are lots of situations where it still isn't), the best digital banks continually ask the question, "Why not?". The best digital banks will also address regulator concerns about public cloud and make the case that it should be their default. The less mature may hide behind those regulatory concerns as a reason to slow their pace of change, but we think they'll regret it.

07

Does the bank understand that true enterprise agility is a team sport?

The central challenge with building a digital-first culture isn't just technology development and building a conveyor belt of minimal viable products. It's also about integrating all the HR, compliance, risk, financial planning and control systems to support an iterative and nimble approach to the business. Those that do it right are aggressively moving budgets from run-the-business to change-the-business initiatives through an integrated financial investment plan and governance processes that focus less on fiefdoms and more on enterprise outcomes and winning together. Unfortunately, there is still a lot of lip service being paid to enterprise agility at the C-suite level, leaving many CIO evangelists to wade through the mud of legacy approval and monitoring processes. The path of least resistance then becomes small peripheral projects that allow a declaration of success on enterprise agility without materially changing how the business operates. In contrast, leaders embrace enterprise agility as something that necessitates change in every aspect of how the bank is run and, hence, treat it as a revolution rather than an evolution.

08

Does the bank's business strategy emphasize innovation in the core?

Some banks, unfortunately, are hoping that peripheral challenger initiatives will someday grow to a scale that they will absorb and transform the legacy bank. Yet, without challenging the technology approach, culture, and ambition level of the piece of the bank that houses the bulk of the balance sheet and customers, banks' fintech and innovation initiatives—regardless of how press worthy they are—are likely to remain just gnats on the elephant from a valuation perspective. While many challenger banks are attracting impressive multi-billion-dollar valuations, their tiny balance sheets and income streams often depend on payment processing fees that are continually being compressed, leading to questions about their long-term economic model. A decade from now, the best digital banks will have a strong balance sheet, stable funding and excellent risk management, not just a frothy valuation based on vague future growth plans. For incumbents, that means harnessing the power and strengths of the traditional banking business model to better serve all of their customers, not dismissing those capabilities (and the customers they serve) as irrelevant and outdated. For the best challengers, it means maturing into institutions whose business model isn't radically different from those banks they are seeking to replace, but which is far better executed.

09 Does the bank have a disciplined fintech engagement model?

A true digital bank has clarity around the its buy/partner/copy criteria to ensure its customer offerings always remain relevant. An Open Banking trader mentality can create a flotilla of supertankers and speedboats that can move in formation, with the best ideas and capabilities getting to the front line quickly, rather than being stuck in stage-gate and vendor-assessment purgatory. While it is great to have innovation labs, venture capital investment stakes and consortium memberships, the real litmus test for a bank's engagement with the fintech community is whether it increases the metabolism of change for their customer-facing propositions. The trials of some of the banks that seek to buy innovation by trying to purchase and integrate fintechs also show that the gravitational pull of the traditional bank business model often isn't overcome by a single innovative acquisition, regardless of the strength of its momentum. No bank is going to be the sole source of innovation, so how a bank engages with the broader ecosystem to filter, prioritize and monetize the good ideas of other institutions is going to be key to staying at the forefront of the industry.

10

Does the bank **have a culture and HR approach that values technology and engineering skills?**

Does a tech mindset permeate every level of the organization, from the boardroom to graduate recruits, and create an environment that not only attracts top-tier talent but also allows it to thrive and develop? A diversity of skills and experience is key to not only rapid product innovation but also to designing great customer and colleague digital experiences. Increasingly, leading banks don't have a Chief Digital Officer because digital is their DNA, and not just the provenance of the cool kids in the corner. While many traditional banks are proud of their geographical roots and local connections, leading digital banks need to set up shop in places that can attract the right talent, rather than assuming that the right talent will always come to them. Similar to number eight above, these pockets of talent need to be well integrated with the core business and be working on moving "the big dials" rather than being allowed to focus on a bunch of science experiments with limited relevance to the economic engine of the bank. Also, building a great engineering culture doesn't mean doing everything yourself. The best digital banks still leverage technology partners and systems integrators to accelerate innovation and change. They just use them in different ways and are increasingly replacing low-cost offshore workforces with higher cost technology partners that can co-innovate and provide surge capacity for critical initiatives.

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For many incumbent banks, the answers to these ten question could generate a daunting list of to dos. However, the reality is that we are entering a period of change in the banking industry where new entrants are taking customer share and where the gap between the winners and losers within the traditional competitor set is widening. The metabolism of change for the winners is clearly increasing and we hope these ten questions provide something of a checklist for the direction that those changes need to take, if an incumbent bank is going to force its way to the forefront of the industry.

For another point of view on this subject, we recommend Brett King's recent book ***Bank 4.0***. Post-publication of this Accenture point of view, it was brought to our attention that there are conceptual similarities between the ideas in this document and Mr. King's work, although they were developed independently. Mr. King's ideas represent another experienced take on this emerging area of thought leadership that we think provides a good complement and elaboration of the thoughts expressed in this document.

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