European Financial Services Digital Readiness Report

Is interest in digital yielding returns? European banks and insurers and the quest to stay relevant

High performance. Delivered.
Digital disruption is forcing transformation across all industries, including and especially in financial services. Banks and insurance companies’ traditional business models are under pressure. Low interest rates make income generation challenging and are pushing organizations toward major cost-cutting, and forcing financial services companies to move toward fee-based services. This, combined with an influx of cash into fintechs, is depressing stock prices for traditional companies, making it difficult for banks and insurance companies to fund their own innovation agendas. Online payment processor PayPal currently has a market cap that puts it on the list of the 40 biggest global banks, ahead of 5 top European banks.

Adding to these pressure points is the reality of digital disruption. Customers are seeking seamless, mobile experiences that address their immediate and fundamental needs—to stay healthy, find housing, pursue hobbies. Banks need to find a way to become more relevant to their customers – 90 percent of banking app use is to check balances, while online retailers and digital disruptors like Google and Apple are integrating payment into other experiences, essentially removing the bank from the purchasing cycle.

At the same time, organizations need to balance their digital exuberance with a human touch to optimize growth potential and deliver the experiences customers demand. This requires a strategic mix of digital and non-digital options that allows customers to engage with providers in multiple, highly satisfying ways. Emerging digital competitors are already providing digital experiences, often as part of larger offerings built around consumer tastes and lifestyle.

Faced with these challenges, whilst major European banks and insurance companies appear ready to embrace digital as a potential solution for maintaining and shoring up both revenues and relevance, Accenture research demonstrates they will need to work a lot harder to close the gap between aspiration and application.
Taking stock of the digital landscape

Across Accenture and the industries we serve, executives are engaging in a robust dialogue about digital disruption and what it means for individual companies. Within financial services in Europe, we have heard this digital conversation shift over the past few years. The questions have changed from "What is digital?" to "How do we bring digital into our business?" and "Who is doing digital well?"

Accenture draws upon a wealth of collective experience to answer these questions for each client in ways that will help them drive high performance. Recently, we set out to complement the perspectives we gain through client work with an external view of digital best practices. Using only publicly available information, the Accenture European Financial Services Digital Readiness Report looks at digital transformation from the point of view of a potential customer or investor. As figure 1 illustrates, our research allows us to measure progress and identify best practices across four key areas of the business spectrum: strategy, production and delivery, customer experience, and corporate culture and operations. Or, put more simply: plan, make, sell and manage.

![Digital Readiness Framework](image)

**Figure 1: Digital Readiness Framework**

- **Digital strategy**
  - **See** digital as a key consumer/technology trend for their business.
  - **Plan** their strategies around digitalization and digitization and dedicated budget.
  - **Act** to promote digitalization internally and externally (i.e. CDO, digital teams, cooperate with start-ups...).

- **Digital production and delivery**
  - **Design** innovative product via digital technologies or approaches (open innovation).
  - **Build** products and services with the aid of digital technology.
  - **Run** streamlined activities by using digital solutions like cloud, mobility, analytics.

- **Digital customer experience**
  - **Engage** with customers via digital means (social media, personalized offer).
  - **Sell** products and services through multiple on/offline channels.
  - **Serve** customers by enabling digital secure self-services.

- **Digital corporate culture and operations**
  - **Assess** digital/IT infrastructure and capabilities status (i.e. cybersecurity).
  - **Improve** operating efficiency and effectiveness through digital deployment.
  - **Renew** resources via digital (crowdsourcing workforce, hire new talent).

**Company strategy**

**Company operations**
Accenture’s examination of financial services providers in Europe included 27 insurers and 26 banks headquartered in France, Germany, Italy, Spain and the UK, a summary of which is shown in figure 2, below.

Overall, we found:

**There is no clear leader.**

No one country, industry or company can boast being a digital leader. Digital champions tend to be large global players, and digital maturity is not a question of country or industry but firm strategy and initiatives.

Accenture European Financial Services Digital Readiness research ranked companies across four areas on a scale of 1 to 4. European banks and insurance firms scored, on average, 2.35 on the scale.

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<tr>
<th>BANKS</th>
<th>COUNTRY</th>
<th>INSURERS</th>
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<tbody>
<tr>
<td>Barclays, Lloyds, RBS, HSBC, Santander (UK)</td>
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<td>99% of Total Assets</td>
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<th>BANKS</th>
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<td>63% Market Share</td>
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<td>53% Market Share</td>
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Figure 2: European Banks and Insurance organizations included in the study
In contrast, digital disruptors such as Google, Salesforce and Uber performed better with an average score of 3.5 out of 4.

Figure 3 shows financial services companies in Europe are behind electronics and high tech (EHT) and communications industries, with EHT scoring 2.8 and communications at 2.5.

While some companies included in the index scored well in one area, only three organisations out of 53 scored well across all four areas, and five demonstrated strength across three areas.

Digital is universally embraced, but inconsistently executed.

Top European financial services firms see digital as a key component of their growth strategies, and, in many cases, have devised a partial plan on how to integrate digital activities into their businesses, as per figure 4.
But this often translates into a number of dispersed initiatives instead of a structured and holistic action plan to capture value from the digital market. For example:

**COMMUNICATION**

39%  
Firms have built online and mobile presence for engaging with clients via social media, but only 39 percent have C-level executives participating.

**DIGITAL STRATEGY**

37%  
Most firms include digital as part of their overall corporate strategy, yet only 37 percent have a dedicated budget for digital transformation.

**DIGITAL ECOSYSTEM**

81%  
Eighty-one percent of firms highlight their work with start-ups and universities on digital topics, but fewer than 60 percent have open innovation initiatives or use digital technologies in their product development process.

When viewed through a geographic lens, the research results indicate organisations in each of the five European countries included in the study are at different levels of digital maturity:

**France:** FS organisations have a clear digital agenda and better leverage digital to engage with customers, but fall short like other European players in embracing digital in their internal activities.

**Germany:** FS firms are followers in the dimensions related to digital strategies, indicating a less mature market, with most effort needed to catch up in embracing digital internally (manage dimension).

**Italy and Spain:** FS organisations in these geographies overall need to embrace digital more in their growth strategy, but may be more consistent than others when it comes to implementing their declared digital initiatives. Moreover, they also record poor results in embracing digital in their internal activities.

**UK:** FS firms outperform in the plan dimension but have room for improvement in the execution of digital strategies, the design of new product/services and digitalizing internal processes.

![Figure 5: European Financial Services Digital Readiness scores by geography](image-url)
The stakes are high.

Based on the performance of the organizations included in the index, digital transformation across the four core business areas is fundamental to capture market growth. In fact, banks and insurance companies that achieved a higher score on the Digital Readiness index also tended to:

- Have lower cost income ratios
- Generate higher return on equity
- Strengthen their share price (as shown below in Figure 6)

Recent work by the Accenture Institute for High Performance shows digital business champions to be those organisations who have embraced a strategic approach to their digital transformation while maintaining strong financial performance (High Performance Business Score).

Figure 6: Share price trend of listed players among the top 10 digital readiness participants vs their peer group

Source: Accenture Research, January 2016
Digital transformation needs to happen everywhere in an organization.

The organizations that are farthest down the road to becoming digital champions embrace transformation in all their activities, across the four core business areas: plan, make, sell, and manage. Digital transformers also have a mix of internal and external digital initiatives.

For Spanish bank BBVA, digital transformation is a top priority. The bank recently promoted its Chief Digital Officer to second-in-command, and has been actively investing in and acquiring digital banks and capabilities. BBVA is pursuing digital opportunities while maintaining its brick and mortar infrastructure, enabling the bank to leverage the best of both worlds. While the number of mobile banking customers increased from 500,000 in 2011 to 6.4 million in the first quarter of 2015, the bank’s 3,800 branches will continue to adapt and evolve with a focus on value-added services.

Table:

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<th>Area</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>PLAN</td>
<td>86%</td>
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<tr>
<td>MAKE</td>
<td>89%</td>
</tr>
<tr>
<td>SELL</td>
<td>91%</td>
</tr>
<tr>
<td>MANAGE</td>
<td>47%</td>
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**PLAN**
Digital strategies, collaboration and dedicated leadership are important. Accenture found that 86 percent of European financial services firms include digital as part of their strategy, with 63 percent establishing a Chief Digital Officer.

**MAKE**
A lot of companies—89 percent of those in the index—are focused on developing digital products. Only 60 percent are also developing products digitally.

**SELL**
Financial services firms appear reluctant to use digital technologies for customer targeting. While 91 percent of firms provide marketing content to customers via digital channels, only 62 percent target content based on browsing history.

**MANAGE**
Very few firms indicate plans to digitize the internal processes, which are key to lowering costs and increasing operating efficiency. Forty-seven percent of indexed firms equip employees with internal social network and collaboration tools, and only 23 percent of firms leverage big data analytics to evaluate employees’ competence. Insurance companies have a stronger tendency to tackle both internal and external digitalization efforts, while European banks have thus far focused mostly on external initiatives aimed at customer interactions.

While BBVA plays out its digital ambitions on the public stage through acquisitions and investments, it is also working to transform its organization into a digital-centric operation. Half of the company’s six strategic priorities rely on digital technology for success. And the bank is changing the way people work as well. Teams in IT, marketing, design and products are catalysts in the "revolution of small things." Small, fluid teams work together on small projects with quick turnaround. They focus on constantly improving applications to respond to customer feedback. Improved customer satisfaction scores show that the approach is working.

In its quest to be a digitally driven business, BBVA is sparking transformation across all areas—from top leadership to small teams. As the bank expands its focus and its offerings in digital financial services, it will strive to remain fresh, reliable and relevant for existing and new customers.
Market trends, combined with the Digital Readiness research, tell a story of an industry that needs to change, that recognizes the importance of digital as an instrument of change, but that has yet to find its footing for the level of transformation required to produce sustainable results and high performance. Some of this unevenness can be attributed to the countervailing forces of cost-cutting and digital innovation, and some might be organizational.

A 2015 Accenture study found that 80 percent of financial services executives globally felt their culture and talent were only "somewhat" or "minimally" equipped for the digital age. Just half felt that their procurement processes and technology were up to the challenge. Firms are also worried about protecting earnings while making a big transition, for example from physical offices to online operations.

The mandate is clear, the urgency is high, but the path forward looks fraught with obstacles and pitfalls. Steps financial services companies can take on the journey to digital mastery.

Find your destination

It is one thing to know you cannot stay where you are; it is quite another to figure out where you need to go. Financial services companies that are searching for new or additional revenue streams, or focused on cost-cutting measures may dismiss strategic visioning as a luxury for a calmer time. Yet the turmoil of the current marketplace makes a vision more important—and more opportunistic—than ever. Digital disruption can pave the way for entirely new strategies and approaches—some of which are already reshaping the financial services industry.

Take Discovery, for example. This South African insurer started in health insurance, but took a different tack from the start. Discovery set out to be a wellness partner for its customers, offering incentives for people to manage their health and lifestyle. Discounted gym memberships, premium credits for wearing (and using) fitness devices, in-store savings on healthy foods and an interactive game established Discovery’s Vitality program as a vital aspect of people’s lives. Building on that success, Discovery is moving into financial services and finding new ways to remain relevant to its customers’ lives.

Remaining relevant should be a guiding principle to any strategic visioning. Digital disruptors and new entrants have the potential to relegate banks and insurance companies to back-office utilities, processing transactions, but with minimal customer engagement. To avoid that fate, companies should take some time to establish the role they wish to play in the emerging digital ecosystem.
Embrace multispeed IT

When it comes to technology, digital and legacy are sometimes seen as mutually exclusive. Executives get trapped in linear thinking, believing that they need to take care of their legacy systems before they can move toward digital, or looking for ways to minimize legacy’s role to free up time and money to focus on digital innovation. In truth, successful organizations find ways to generate some digital quick wins, leverage legacy’s power to drive better insights and often fund future plans with short-term successes. This is the power—and the necessity—of multispeed IT. Being able to create disruptive growth outside the core while transforming the core is no easy feat for CIOs and IT organizations, especially as other business leaders are eager for digital solutions that can make a splash in the market. However, when seen as a symbiotic system, legacy and digital can work together to help established banks and insurers maintain their positions in the marketplace.

Sometimes, a quick win can be as simple as making a small change with a big impact. Italian bank Intesa Sanpaolo, won EFMA’s Physical Distribution award for its paperless branch model in 2015. The model digitally produces and stores the bank’s paper documents, minimizes customers’ paper documents, reduces storage costs and enables digital signatures. When the paperless branches were launched, customers were highly impressed with the leap into high tech—even though the change was not that significant for the bank, as it had already been upgrading its processes to go paperless.

Other banks are using technology to bring services online. Using application programming interfaces (APIs), financial services firms can expose data securely and allow programmers and platform partners to add valuable services to online offerings. Europe has already seen several API success stories.

In Germany, Fidor Bank established a middleware with an open API that can connect to existing core banking platforms. FidorOS3 offers a range of services including lending money to friends, sending money via Twitter and arranging an emergency 24-hour loan. Their open API also allows third parties to access all areas of the bank system, unbundle relevant services, and build new services based upon the bank’s platform, facilitating considerable innovation. The bank’s partnership with a foreign exchange specialist offers a product that can be viewed in seven currencies and offers foreign exchange transactions.

French bank Credit Agricole launched an open API in 2012, enabling developers to build apps on top of its services, and now has a range of apps providing expense management, social payment and finance analysis tools to customers.

While financial services firms are launching digital offerings—or even just refreshing existing applications and services—they can also be working on shoring up or replacing legacy applications to maintain the vast amounts of transaction history and processing power that new entrants just don’t have.
1. **Define—or redefine—the business.**
   As customers change behaviors and competition gets fiercer, banks and insurance companies need to be thoughtful about the role they want to play in the evolving marketplace. New revenue pools will replace existing ones with a likely emphasis on service fees, which will create the need to appropriate cost structures. Operating models will become more focused on service level agreements, and firms will start to feel more like technology companies in their skills and focus than the high-touch companies of old. Each organization should map out its own digital transformation course, as cookie-cutter approaches will not facilitate differentiation, crucial to long term viability.

2. **Become integral to the online experience.** Financial services companies need to find a way to be at the front line of the experience rather than an additional step. An auto-insurance company could provide real-time quotes as a potential car buyer looks at different models, then connect to a bank, who could offer a two-tap car loan. As more digital disruptors look to take banks and insurers out of the transaction, remaining connected requires compelling offers, loyalty programs and other incentives for digital customers.

3. **Change the operating model.**
   Enhancing the customer experience can help maintain relevance, but a truly digital financial services firm needs to go further. The increased pressures on cost and the flight of investment toward innovative competitors will not stop, so organizations have to figure out how to do more with less. Robotics can help, as can applications like one tap payments and two tap loans. Digital sales should account for 50 percent—or more—of an organization’s overall sales. Digital financial services firms are already well ahead in this regard, with an average cost/income ratio of 28 to 35 percent and a customer/employee ratio of 2,500/1. The firms in the index average a cost/income ratio of 58 percent and a customer/employee ratio of 300.
The days of the local insurance agent’s office in the heart of the business district, and of the local bank as a hub of family and business activity are long gone. Consumers expect big banks and international insurers to meet their financial services needs, wherever and whenever those needs occur. Now, new entrants are already building financial transactions seamlessly into rich digital experiences, taking banks and insurers out of the loop and out of customers’ sight. With the EU’s upcoming revised Payment Services Directive (PSD2), fintechs will get access to traditional firms’ customer data and individual customer accounts, making it even easier for banks and insurance companies to be relegated to processing transactions. For that reason alone, it is time for financial services organizations to stop thinking about digital and start executing.
An Accenture Research team created the European Financial Services Digital Readiness Report by analyzing the extent of digital transformation of 53 leading banks and insurers in five countries: France, Germany, Italy, Spain and the UK. It uses publicly available information (such as annual reports, websites and press releases) to assess each competitor’s digital operations; this ‘outside-in’ methodology is fundamental to the research process, as it provides a level playing field for comparison whilst not threatening confidentiality. Each organization’s digital activities and capabilities are analyzed using a framework of 117 detailed metrics grouped under 42 themes. These themes consider the use of digital across all parts of the business, from corporate strategy and product design through to sales and back-office operations.

Scores for individual metrics ranged from 1 (basic level) to 4 (best practice). Firm scores represent an average of scores for each component. Country-level scores were obtained by weighting individual player scores by revenues (or gross written premiums in the case of insurers). The European average is a simple average of the country level scores. The resulting benchmarks can help organizations achieve higher performance, assess how digitally competitive they are compared to their peers, and understand how their own industry compares to others.
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