Being digital
Digital strategy execution drives a new era of banking

High performance. Delivered.
Leadership teams of large incumbent banks know they need to move rapidly to react to digital disruption. But while each bank has its own digital journey, executing at the right speed, with the right governance model and mind-set can be a fast track to success.
Digital disruptors are attacking the banking industry, redefining customer expectations and reshaping industry boundaries. From competitors to customers, processes to people, banking leaders who want to lead in a digital economy need to make fundamental changes to how they operate. As one of the world’s largest banks acknowledges: “we must change our execution model to be digital.”

Competitive pressures are being rewritten. On one hand, start-ups are driving fundamental changes in customer expectations and impacting specialized revenue streams. On the other, established, large digital leaders are extending banking services into non-banking digital ecosystems where they are already dominant. Instead of the traditional bell curve response of a typical product or service life cycle, a series of quick-fire innovations produces a “shark fin” business model, where disruptive products or services are embraced and discarded in fast succession (Figure 1).

Digital can transform the business of banking, with the potential to drive up return on equity (ROE) by more than 5 percent for both mature or emerging market banks. But in a climate of such rapid change, time is of the essence. By executing the right digital strategy using two-speeds, three governance roles and a single “being digital” mind-set, banks can fully realize their digital future.
Figure 1. Two-speed change cycles in digital competition

Source: Adapted from Larry Downes, Paul Nunes, "Big Bang Disruption: Strategy in the Age of Devastating Innovation," 2014
Executing at two speeds

By becoming an “everyday bank”\(^2\)—one that offers integrated financial services and non-financial services solutions to meet a range of lifestyle needs— banks have an opportunity to reposition their services and be digital.

But as the nature of competition rapidly evolves, Big Bang digital disruptors\(^3\) are attacking the banking industry, redefining customer expectations and reshaping industry boundaries. (Figure 2)

As competitive pressures increase, banks need to operate at two speeds: One speed is disruptive: The rapid adoption of new options for business growth—such as launching a new mobile payment service and establishing the accompanying ecosystem. The other speed is transformational: fast change required in the core business of banking—reshaping digital customer, enterprise and operational banking strategies.

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**Figure 2. Digital disruption in banking**

- **FinTech start-ups**
- **Large digital leaders**
- **Redefining customer expectations**
- **Redefining industry boundaries**

- Personal finance management
- Investment management
- Data-driven credit rating
- Mobile points-of-sale
- Mobile payments & e-wallets
- P2P payments
- P2P lending
- Dynamic pricing
- Comparison engines
- Mobile insurance
- Mobile banking
- Social media
- Mobile comm.
- Sophisticated data analytics
Speed 1—Disruptive growth options outside the core

Digital startups and digital leaders move fast. It took Apple Pay three days to sign up one million credit cards. The number of total objects stored in the Amazon platform increased by nearly 20 times in just five years. New entrants are now looking seriously at banking as the next industry to be disrupted. While the vast majority of these competitors are not banks, collectively they attack banks in virtually all of the service lines banks offer. Accenture estimates up to 32 percent of bank revenues are at risk from new digital business models.

Banks must respond by disrupting themselves and creating new options for growth outside of their core business. Examples of growth options include:

- Becoming a digital attacker—targeting specific market segments such as young adults
- Launch digital wallet—in-app commerce and digital ecosystems built on value-added services
- Vertical platforms—providing integrated financial or non-financial solutions to serve life needs, such as staying healthy
- “Crowd-everything”—social platforms such as community-based scoring or lending, enabling payments
- Robot advisory—enabling the provision of services previously reserved for high end customers only
- Data monetization—using big data.

Moving at the disruptive speed of entrepreneurs means banks must cope with uncertainty and embrace “entrepreneurial” characteristics such as: using different vehicles (for example, venture fund, research and development unit) to develop required capabilities, “test and learn” experimentation with a “fast fail” mind-set and fundamentally new end-to-end processes. Finally, once the growth options are ready to scale, a strategy will need to be developed around the fit with a bank’s core franchise.
In a move to achieve digital banking, multinational Spain-based banking group BBVA is a good example of a “two-speed” agenda, rapidly creating future options while scaling digital adoption across their core capabilities.

The Spain-based bank put digital at the core of its agenda. It created, among others, BBVA Ventures, a venture fund investing in several start-ups, including SumUp (mobile payment), Radius (customer relationship management), and Taulia (supply chain finance). Further, BBVA acquired US-based online bank, Simple, and big data start-up, Madiva. The partnership with mobile payment start-up Dwolla enables BBVA’s customers to use Dwolla’s real-time network to make money transfers—even if they do not have a Dwolla account, while Truecar offers customers special services when they want to buy a car.

At the same time BBVA is transforming the “core.” For instance, working on a seamless omnichannel customer experience using remote advisory services and optimizing the branch network to introduce smaller, more convenient “self-service” branches, and enable large branches to offer more specialized services.
Speed 2—Transformation of the core

At the same time as adding new disruptive growth options, banks also need to transform their core, addressing three fundamental elements:

**Digital customer strategies**
Customers must be able to choose how to engage with their bank anytime across any device, finding products or services aligned to their needs and expectations.

- What is required? Establish a true omnichannel customer experience; digital channels; new digital products; remote advisory and real-time event management.

**Digital enterprise strategies**
Using new capabilities to evolve to a fully digital, end-to-end enterprise.

- What is required? A capability architecture; process digitization; smart working and digital collaboration tools and adopting a digital culture.

**Digital operational strategies**
IT lies at the heart of banking. Evolving to open architecture and flexible technology platforms is key to create efficiencies now and enable future growth through new business models.

- What is required? A digital IT blueprint enables the evolution of business models through new digital ecosystems—powered by open architecture and fully able to integrate with third parties—providing a unique framework, including different architecture models running at different speeds.

As banks transform their core business, they need to redeploy resources, including capital, people and technology, redefine the boundaries of their operating models, proactively shape and participate in new ecosystems, and address customer, shareholder and regulatory outcomes in equal measure.
Governing with three critical roles

Incumbent banking organizations are highly complex institutions.

Driven by a culture of risk management and compliance, low tolerance of technology faults and a natural segregation of skills, most top tier banks still split the execution of change into formal phases, with a detailed hand over between various disciplines. Recent digital initiatives follow the pattern of the digital evangelists by launching a new customer-centric service with limited integration and low volumes to reduce risk. The reality is that, all too often, digital initiatives do not scale.

A successful governance—built on three critical roles—is essential in balancing new growth options with transformation of the core (Figure 3).

While focusing on their respective diverse roles and approaches, three “entrepreneurs” need to work in a highly collaborative manner, setting the digital vision, selecting the options to be launched, defining the digital capability development strategy and guiding the long-term transformation of the core bank to scale up innovations across the enterprise.
Figure 3: The three roles governing digital bank transformation

Technology entrepreneur
FLEX YOUR PLATFORM
The technology entrepreneur is the architect of the bank’s future capabilities. This entrepreneur introduces new concepts, such as the intelligent enterprise or platform-based thinking, to render the enterprise more open, scalable and flexible across its technology environment.

Banking entrepreneur
RE-ORIENT YOUR BUSINESS
A banker with an entrepreneurial spirit balances risk and business viability by maintaining sustainable banking value. This entrepreneur—typically an experienced banker—understands the relationship between value and risk, and is familiar with the bank’s business model of capital, revenue flows, costs, the regulatory boundaries, and how bank-centric business models operate.

Digital entrepreneur
DELIGHT YOUR CUSTOMER
A role that anticipates customer desires and anticipates trends and behaviors in the digital ecosystem. This entrepreneur brings customer-centric thinking and shapes the banking ecosystem, developing a portfolio of business options while working on revenue digitalization and process digitization agenda.
Adopting a new “being digital” mind-set

To successfully execute digital strategies, organizations need to evolve their culture, externally and internally:

Being digital on the outside
Using digital to improve customer engagement and the customer experience. As evidenced by mBank (see page 14), successful change in digital is rarely about single features, but about embracing the many facets of change in the digital space such as new customer journeys, omnichannel interactions, mobility, context and social-based banking.

Being digital on the inside
Using digital to adapt internal banking practices to deliver and stimulate the "being digital" agenda (Figure 4). Successful internal change is about challenging all aspects of execution and employing successful practices such as involving customers in internal process design, always operating in real-time, embedding analytics in all activities and rewiring governance.

Finally, as traditional structures are replaced with more responsive and agile ones, attracting and retaining top digital talent will become a priority. Sixty-one percent of digital transformers see shortages of digital skills as a top challenge in digital transformation and are concerned about how they can attract and retain top digital talent.

In a world where 90 percent of new jobs will demand excellent digital skills, banks need a workforce that is committed to internal transformation to remove organizational inertia and functional barriers. Digital means new roles are emerging, including augmentation through robotics. Changes in leadership thinking could lead to a strengthening of collaborative practices across the workforce and beyond.
mBank in Poland is a strong example of applying a “being digital” agenda. The bank adopted an agile approach to transform into a next-generation digital enterprise, over the course of just 14 months.

Close cooperation between business, digital and IT entrepreneurs within and outside the bank has fuelled digital transformation and led to non-stop improvements that engage customers on their own terms. mBank made this agile transformation program happen using a multi-release, incremental and iterative approach. Following an initial foray into direct banking in 2000, mBank decided to re-launch with a digital-centric go-to-market approach—including customer experience strategy and digital touch points, leveraging the concept of being digital, enabling the processes behind it which is part of their disruptive DNA. The result was a fully digital bank with more than 200 innovative features including, for example, merchant-funded deals, “30 second” quick cash loans, real-time event-driven marketing, video banking, person-to-person Facebook payments, enhanced Personal Financial Management and a financial products store.
Being digital lies at the heart of the future of banking. To orchestrate a new everyday banking ecosystem that simplifies customers' lives and offers services of unprecedented diversity and value, current execution models must change. By taking advantage of two speeds, three roles and a being digital mind-set, banks can not only satisfy customers and stakeholders, but also reinvent banking as we know it.

Reference
1 Source: Larry Downes and Paul Nunes, "Big Bang Disruption, Strategy in the Age of Devastating Innovation"
3 Source: http://www.accenture.com/ microsites/bigbangdisruption/Pages/home.aspx

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