Digital disruption in Nordic retail banking
1. **Introduction**
   Accenture Strategy analyzed the Nordic retail banking market to find out how much banking revenues are at risk, how well prepared the banking executives are for digital disruption and finally, how the banks should evolve their business models as a result of the changing industry landscape.

2. **Key findings**
   One third of the revenues of Nordic banks are at risk – Nordic banks are no longer well protected by their historically strong brands, large customer base and the adjacent locations and languages – both global and local disruptors are attacking the entire banking value chain across all main product areas.

3. **Drivers shaping the Nordic retail banking industry**
   Banks are facing new and constantly evolving customer demands fueled by seven digital technologies: mobility, social, cloud computing, analytics, interactive, robotics and biometrics.

4. **"Disruption is everywhere"**
   New digital entrants are growing quickly and are very profitable. They challenge the product-focused Nordic banks to change their business models into a service-oriented information technology company, meeting the everyday needs of customers in a more convenient way.

5. **Start shaping the future of banking**
   The Nordic financial services industry is being redefined by the digital revolution, creating a new ecosystem with new rules for which Nordic banks are not yet prepared.

6. **One-third of Nordic banking revenues are at risk**
   An estimate, based on seven disrupting factors, indicates that nearly one-third of Nordic retail banking revenue is at risk by 2020 due to lost market share and pressure on spreads and commissions.

7. **The digital transformation journey**
   - digitalize on the outside, simplify on the inside
   Seven out of eight Nordic biggest banks are concerned about digital disruption but only 2 have a digital strategy in place.
1. Introduction

Digitization is changing industries across the world and altering the way we as individuals and companies operate. Banking is no exception. While the industry has been on a path towards digitization for a number of years, it is the advent of the mobile device that dramatically accelerated the pace of change. Now millions use apps to handle a majority of their transactions. This has changed the way people bank and the ways banks interact with their customers. In this study we look at the challenges and opportunities emerging for Nordic banks through digitization in banking.

Hana Bank in South Korea captured USD 4.3 bn through mobile mortgages in 2 years after launching an augmented reality mortgage app

Four driving factors are rapidly impacting the banking industry

1. Similar to any consumer-oriented industry, banks are facing new customer demands fueled by digital – customer expectations for convenience of banking services are driven by digitalization in other industries

2. The ongoing industry convergence is opening doors to new competition, new ways of doing business and new revenue opportunities

3. Fueled by intensified technology innovation, customer expectations and empowerment are rising rapidly which enables new players to enter the value chain

4. Digital disruptors address customer needs in completely new ways and are growing strongly throughout the Nordics

Challenge # 1: changing customer behavior. People are accustomed to using digital applications in all areas of their life and now expect them to work quickly, efficiently and seamlessly. Customers logging into a bank app anticipate the same level of service they get from using Amazon, eBay or Facebook. That’s forcing banks to accelerate their adoption into the world of the digital consumer. Challenge # 2: digital market entrants that are more relevant to the end-consumer, serving them in a more convenient way.

Industry boundaries are blurring. Companies such as ICA, IKEA, S-Group, Schibsted and Norwegian Airlines are entering financial services. New entrants are creating new business model opportunities in digital ecosystems. We explore how this industry transformation will impact traditional banks who risk losing nearly one-third of their revenues by 2020 if they don’t seize digital opportunities.

Accenture Strategy conducted qualitative interviews with executives from the eight largest Nordic banks across Sweden, Finland, Norway and Denmark to gain insights into their perception of threats and opportunities in the shifting digital landscape. We also spoke with the largest digital disruptors across the region. A separate survey was then sent out to a broader group of banking professionals across the four countries, which was the basis for several of the quantitative insights featured in the study.
2. Key findings

The good news: Nordic banks are running very profitable businesses, especially compared to other European players. The bad news: This has lead to a degree of complacency and a lower sense of urgency for Nordic banks to transform in the digital space. As a result, banks in other parts of Europe have started transforming much more rapidly.

We see four different business models that banks are adapting globally, depending on their ambition level on digital maturity:

**Digital Basics:** Banks that offer the lowest levels of “digital veneer”—perhaps using apps but not deepening relationships through virtual channels—all main products can not be completely purchased and managed in digital channels.

**Seamless Digital:** These banks do provide seamless, omni-channel experiences accessible 24/7 for all main banking products—however they have not adopted advanced analytics to stay relevant for their customers.

**Intelligent Omni-Channel:** These banks include the features of their Digital Basics and Seamless Digital counterparts and have also effectively adopted advanced and predictive analytics. They group their customers into smaller micro segments and can tailor their products and services to the specific need, time and even location of the customer anywhere and anytime they need it.

**Everyday Bank:** This is when banks become the indispensable—positioned to fulfill all their customers’ daily financial but also non-financial life needs, centered around customers key life events.

The majority of the banks' executives agree that a significant change is needed. Yet many lack a solid transformation road map. And banks across the Nordic region have been unsuccessful when it comes to addressing transformational marketplace forces.

- Nordic banks are not fully addressing rapidly evolving consumer behavior and the digital disruptors attacking the entire banking value chain.
- In five to ten years traditional "universal" banks will be gone—the industry will split into utility providers, innovative digital banks (formed from old school universal banks) and digital disruptors.
- Banks agree: Disruption is here. And 78 percent of Nordic banks report being "concerned or very concerned by the threat and 88 percent claim they need to rethink their business model. Yet less than 40 percent have a clear strategy and roadmap in place.
- Nearly one-third of Nordic banking revenues are at risk if banks don’t act—for those that transform to become “Everyday Banks,” significant additional revenue can be gained.
Banks need to rise to the challenge: changing operating models to protect revenue streams and to become more relevant to the end customer.

Regardless of a bank’s digital ambition, there are capabilities required to stay relevant:

1. Grasp the full picture of digital disruption
2. Gather the right digital competence
3. Partner and build “camps” gaining external capabilities from other players
4. Develop and launch new ideas faster
5. Reorganize for speed – build an agile and flexible digital core
6. Understand and leverage consumer insights

Banks need to move quickly. Disruption is already a fact in the Nordics. Just consider the decline in the share of deposits held by banks during the last decade. Or the rise of digital disruptors in investment services such as Avanza, Nordnet, Saxo Bank, Fellow Finance and Invesdor among others. In the payments industry, players like TransferWise, Klarna, iZettle, Paypal, Trustly and Holvi have transformed the space through digital platforms. Lending on the other hand is under attack by innovative companies such Ferratum, Lendo, GF Finance and several peer-to-peer platforms.

To confirm this point, investment in financial-technology (fintech) companies grew by 215% in Europe, both by deals and amount (345 mUSD).

Competition is likely to intensify even more over the coming years as digital disruptors but also global technology giants like Apple, Google, Amazon and Facebook continue to enter the financial services market with more convenient and innovative offerings targeted to their existing large customer base.

To succeed, banks need to transform their back- and front end and become truly digital, by digitizing the outside (channel, customer experience, customer relationship, product and service digitization) and simplifying the inside digitizing core processes such as current account and deposits, payments and credit process digitization including building strong analytical capabilities, cloud computing and workforce transformation into digital age).

Nordic banks are at a turning point: they need to decide the journey ahead in order to avoid being disrupted. To become a utility, a fully digital banks or an Everyday Bank.

Moving in the right direction requires capitalizing on all digital technologies:

- Mobility
- Cloud
- Analytics
- Social
- Interactive
- Robotics
- Biometrics

Examples like iGaranti in Turkey, mBank in Poland, Simple in the U.S., Fidor Bank in Germany and WeBank in China have quickly leveraged their digital operating models to gain significant market impact. Nordic banks that follow suit can build on their existing strengths: trustworthiness, large financial assets, broad customer bases and high digital adoption.
**Decision point**

**Become an "utility"**

- Fulfillment of specific financial need
- Competition on price
- Optimize interactions across channels
- Financial services offerings

**Become an “Everyday” bank**

- My Money, My Housing, My Transportation, My Entertainment etc. – Daily Interactions
- Constantly evolve service model with innovations engaging customers
- New profit pools

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**Banks as service provider**

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<th>FS products</th>
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<tr>
<td>- Fulfillment of specific financial need</td>
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<td>- Competition on price</td>
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<td>- Optimize interactions across channels</td>
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<td>- Financial services offerings</td>
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**Fully digital Bank**

<table>
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<tr>
<th>FS products</th>
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<tbody>
<tr>
<td>- Seamless digital or intelligent omnichannel</td>
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<tr>
<td>- All financial services products through all channels</td>
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<td>- Proactive advice on customers financial needs</td>
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**Banks central in everyday life**

<table>
<thead>
<tr>
<th>FS and non-FS products</th>
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<tr>
<td>- My Money, My Housing, My Transportation, My Entertainment etc. – Daily Interactions</td>
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<tr>
<td>- Constantly evolve service model with innovations engaging customers</td>
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<td>- New profit pools</td>
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In today’s world businesses change seemingly overnight. With companies coming on the scene with break-out innovation that effectively rewrite the rules for entire markets and sectors. It’s a business life cycle model that looks more like a shark fin than the traditional bell curve. Instead of product or service adoption gaining momentum gradually and sustaining over time, companies experience sudden, dramatic success and failures. Established businesses can disappear virtually overnight in the face of such sudden and unexpected competition. In the “face of the fin” there’s no time for a two or three year implementation plan. Companies have to launch fast, fail (at times) and learn more rapidly than the competition.

Digital is creating a new baseline for consumer expectation. Nordic banks are facing challenges that will eventually lead to a structural change in the industry:

- **Becoming digital** on the outside towards customers (channels, offerings, interactive and social customer experience etc.) and on the inside with regards to technological infrastructure and digital capabilities (analytics, cloud computing, new digital workforce)

- **Ongoing industry convergence** is tying payments, retail and telecom together with banking, opening the door to new competition, new ways of doing business, and new revenue opportunities

- **New entrants** are disrupting the market, in many cases coming from different industries, and they are competing in innovative ways adding value to customers and profitably serving traditionally unprofitable segments

- **Customers are more empowered** through social media and the prevalence of information which can give them an information edge over banks’ employees.

The banking industry itself is already in the epicenter of a tremendous change:

- **Expanded regulations** will cost an average bank 2,5 to 3,5 percent pre-tax ROE post credit crisis and the regulatory pressure is not getting lighter

- **An uncertain economic outlook** with low inflation levels across the Nordic countries, and low/negative interest rates is driving real estate prices, shrinking deposit and lending margins and re-defining the earnings logic in payments where net interest income revenues will practically disappear.
Nordic banks name regulation, changing consumer demands and external threat from new entrants as the top three challenges they currently face. They report that evolving consumer expectations will redefine requirements for what retail banks need to take into account to become and stay relevant. Consumers want services that are accessible and seamless across channels – both digital and physical (e.g. branches, internet, mobile, ATM, POS). They are more informed through multiple sources and can easily benchmark prices and ratings for products and services. Consumers also use social media as a powerful medium to spread good and bad reviews more quickly than ever before. They are more open to ecosystem spanning across the traditional industry boundaries, leveraging personal data and user information.

What are Nordic banks doing to address these rapidly accelerating consumer behaviors to translate them into revenues? Today’s customer journey needs to be dynamic, accessible and continuous with digital touch points supported by physical channels. So far, Nordic banks have been poor in addressing most of the above trends and are not creating enough positive experiences for their customers.

Nordic consumers are strong in adopting digital tools and they trust banks more than any other provider—it’s a solid foundation for banks to become more relevant.

% of customers that have a positive banking experience per country
4. New market entrants

Digital disruptors on the attack

Over the last years a range of players competing with traditional banks have emerged into the financial services sector fueled by intensified technology development and rising customer empowerment often thanks to digital. Seventy-eight percent of banking professionals see the new entrants as one of the top three challenges they are facing today. Disruptors themselves believe the main reasons they are a threat to traditional banks is due to their modern technology platforms which allow them to quickly adapt to consumer demands.

Seventy-eight percent of banking professionals see the new entrants as one of the top three challenges they are facing today.

Digital disruptors defined as any non-universal bank player

- 4-Finance
- Lendify
- S-Pankki
- Toborrow
- Lånlet
- Zettle
- Invedor
- Ikano Bank
- Swish
- Saxo Bank
- Komplett Bank
- Avanza
- M Cash
- Kvik Automaten
- Easy Credit
- Tink
- Mobile Pay
- Paynova
- Basisbank
- ICA banken
- Pamo
- Payson
- Seamless
- Swipp
- Holvi
- WyWallet
- Bank Norwegian
- Euroinvestor
- Fellow Finance
- Trust Buddy
- PayPal
- Folkia
- Pivo
- Valyou
- Risicuum.se
- Lendo
- Klarna
- Nordnet
- Trustly
- Netfonds
- Ferratum Bank
New digital players address customer needs in completely new ways. Disruptors are competing on convenience, customer focus and relevant offerings, which 67 percent of the Nordic banks cite as the basis of disruptors’ success. Aggregators are also seen as a threat, especially in lending and investment services, since most don’t have to follow standard banking requirements but can own the customer relationship end-to-end. Leveraging their relationships and convenience, aggregator disruptors allow customers to pick and choose their own product bundled from several service providers. Aggregators are remunerated through fees from both the service provider and the customer.

Thanks to a relentless focus on simplicity and scalability (most disruptors offer only one variation of an open product) and asset light operating models, disruptors manage to sustain their margins. New entrants have proved that there are significant profits to be made in retail banking, where 88 percent of the disruptors show either high growth or high margins. Twenty-one percent of the players are extremely successful with a strong profitable growth. The number of new players is constantly growing and some of the most recent Nordic fintech start-ups are receiving substantial international attention (e.g. Holvi in The Economist, TradeShift in Financial Times and Invesdor in Forbes) highlighting the strong value proposition these players offer.

Nordic banks acknowledge the digital disruption but few are fully prepared to meet customer expectations and address the threat. In fact, 91 percent of Nordic banks see digital disruption coming, but only 21% of Nordic report being ready to seize the opportunity of digital disruption.

91 percent of Nordic banks see digital disruption coming, but only 21% of Nordic report being ready to seize the opportunity of digital disruption.

Accenture believes that disruptors will continue to transform the industry and impact banks significantly over the coming years, unless banks move now.

Customer needs addressed, ordered by #disruptors addressing them in the Nordics**

<table>
<thead>
<tr>
<th>Service</th>
<th>% Addressed</th>
<th>% Addressed by few or none</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting SMEs</td>
<td>9%</td>
<td>91%</td>
</tr>
<tr>
<td>Offering similar services</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>Making better Financial Decisions</td>
<td>27%</td>
<td>73%</td>
</tr>
<tr>
<td>Simplified payment solutions</td>
<td>36%</td>
<td>64%</td>
</tr>
<tr>
<td>Quick financing &amp; exchange</td>
<td>40%</td>
<td>60%</td>
</tr>
</tbody>
</table>

89% of Nordic Banks see changing consumer demands as one of the key challenges they face today.

(*) Online payments using ‘electronic wallets’ (** Sum does not equal 100% since some actors are offering several services
Source: Accenture Research, Indra & Efma: “From the traditional banking system to the customer-centric financial ecosystem”
5. Start shaping the future of banking

**Nordics unprepared for new ecosystems**

Rising consumer expectations, technology innovation and new competition is unlocking new business opportunities in financial services. Banks need to assure that their offerings address customer needs.

Accenture has identified three key principles for how banks can stay more relevant to customers:

- **Bank as access facilitator** – banks should provide a seamless but simplified offering across all channels to access all products and complementary products and services closely related to their own offering.

- **Bank as advice provider** – banks should create value through personalized offerings and specific buying suggestions of services that best match individual need based on deep knowledge by using analytics and purchasing algorithms to better understand customers.

- **Bank as value aggregator** – banks should build a simple and convenient user experience as well as leverage their scale by enabling time and money savings for their customers and partners.

Until now Nordic banks have only scratched the surface of digital, launching “digital lip-stick” efforts without transforming business models. Only five of eight incumbents have incorporated analytics and big data into their organizations and only one universal Nordic bank is leveraging cloud computing.

“Accenture global study indicates banks that embrace digital as an access facilitator and an advice provider offer customers approximately 50 percent time savings in their buying process and 3-4 percent savings on annual consumption. Bank partners and merchants increase in-store traffic by 10 to 15 percent and can double conversion rates thanks to better profiling of their customers through data and analytic engines.”

Most Nordic banks agree that they are not able to fully satisfy customer demands today, but due to their current high levels of return on equity, they feel a lower urgency when it comes to digital transformation than banks in Europe that have started moving more rapidly.

**Digital components incorporated**

To what extent have the following digital components been incorporated into your business model?

- **Mobility**
  - 16 of 21 say they have incorporated Mobility to some extent or more (4/21 – to a great some extent)
- **Social**
  - 11 of 21 say they have incorporated Social to some extent (9/21 – minimal extent)
- **Interactive**
  - 9 of 21 say they have incorporated Interactive to some extent (9/21 – minimal extent)
- **Analytics and Big Data**
  - 17 of 21 say they have only incorporated Analytics and Big Data to a minimal extent or less (9/21 – not at all)
- **Cloud**
  - 18 of 21 say they have only incorporated Cloud to a minimal extent or less (10/21 – not at all)
Despite the potential, most banks surveyed don’t have a transformation roadmap in place that encompasses changing ecosystems.

The study showed that disruption in the payment area is of major concern for Nordic banks. Particularly when it comes to new payment ecosystems. If banks don’t partner with the right players, they’re in danger of losing revenue and failing to capitalize on investments in payment platforms. There has already been a shift of revenues in the value chain from Sale to Pre-sale & Post sale due to promotions, coupons, loyalty program analytics. This shift in revenues has been increasingly demand driven.

Incumbents are, to an extent, hindered by legacy systems. Disruptors, on the other hand, can leverage asset-light operating models and gain advantage faster. Nordic banks are at a turning point: They need to decide the journey ahead in order to avoid disruption. Banks can choose to become a utility, a fully digital bank or an Everyday bank. There is no one right solution, but they need to choose one of these options to fit their overall strategy and operating model. Independent of the target business model, we see the journey evolve through four distinct digital capability steps:

Banks are evolving their digital models, with a few Nordic players aiming towards the everyday bank, where the journey ahead is about moving from being the disrupted to becoming the digital disruptor.

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**Does the digital disruptors require you to re-think your current strategy and business model?**

- **Yes**
  - 50%
- **Disagree**
  - 13%
- **Agree**
  - 38%
- **Strongly agree**

“We see threats in all business areas, both local ones such as Lendo & Klarna, and global such as Google and Apple”

88% say they need to re-think their strategy

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**Digital Basics**
- Traditional FS utility
- Basic sales and transactional offering across digital channels
- I can start purchasing a product on the web and complete via Contact Center
- My Bank proactively calls me before my products expire
- The Bank has all my information aligned across all channels in real time
- My needs drive the way products are presented to me

**Seamless Digital**
- Access facilitator
- Offering complete product set through all digital channels
- I can buy my products online or through mobile without needing to go to the branch
- Products are simple and easy to choose and understand
- I can manage all my financial needs through just one channel

**Intelligent Omni-channel**
- Access facilitator and Advice provider
- Insight driven sales and service engagement across all channels
- I can interact with my Bank everywhere, anytime
- I proactively receive dedicated offerings and product bundles at relevant moments of my life
- I can manage all my financials by myself with specific tools or I can work with my advisor
- My Bank can anticipate my needs and know my history across all channels

**Everyday Bank**
- Access facilitator, Advice provider and Value Aggregator
- Integration of financial and non financial services to improve customer lifestyle
- My Bank is my trusted advisor for financial & non-financial products/services, (i.e. buying the house of my dreams)
- My Bank connects me to a network of providers, giving me the best deals
- I can transact anywhere by simply swiping my mobile
- My Bank help improve my daily life
6. Revenues at risk

Nearly one-third of revenues at risk by 2020

We see seven disruption drivers that banks should be afraid of:

1. Growth in Consumer Peer to Peer Lending
   - Bank consumer credit share -2%
   - Bank deposit share -5%

2. Increasing competition in Consumer Loans from Digital Players
   - Bank consumer loan share: -10%
   - Consumer credit spread -50 bps

3. Escalating growth of alternative digital payments
   - Payments revenues -20%

4. Alternative mortgage financing options
   - Bank mortgage share: -8%
   - Bank mortgage spread: -20 bps

5. Low cost current account and deposit substitutes
   - Bank current account share -4%
   - Bank deposit spreads: -50 bps

6. Short order credit / credit card substitutes
   - Bank credit card share -1%
   - Account Mgmt Fees -0%

7. Direct investment / brokerage portals
   - Bank AuM share -15%
   - AuM commissions -100 bps

Impact of disruption to Nordic banks

<table>
<thead>
<tr>
<th>Deposit &amp; Current Account</th>
<th>Payment &amp; Credit Card</th>
<th>Lending</th>
<th>Asset Management</th>
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Combined revenue at risk:

24% 37% 19% 58%

Seven disrupting factors are impacting retail banking across all product areas, both in terms of market share and pressure on spreads, fees and commissions, including:

1. Growth of consumer peer to peer lending
2. Increased competition for consumer loans from digital players
3. Escalating growth of alternative digital payment options
4. Alternative mortgage financing options
5. Low cost current accounts and better deposit substitutes
6. Short order credit and credit card substitutes
7. Direct asset investment and brokerage portals

Asset management represents the product area at highest risk, with more than 50 percent of current revenue streams projected to disappear due to digital disruption within five years driven by lost market share and intensive pressure on commission fees.

Payments and credit cards are also severely impacted if banks are unable to attract new entrants to use their payment platforms. Accenture estimates that more than one-third of revenues could disappear or be redistributed from interest income and commission fees into infrastructure fees by 2020 these revenues will be captured by online players like Google, Apple, Klarna, iZettle, Paypal, Trustly, Holvi and potentially other global giants like Amazon and Facebook.

Current accounts and deposits have one-fourth of revenue at risk. The change is driven by consumers transferring low-yield deposit volume to alternative options offering higher returns with brands like Toborrow, Marginalen Bank, Svea Ekonomi, Solidum, SBAB, S-Pankki etc.
Lending (mortgage and consumer loans) is expected to have the least impact from disruptors because traditional banks still offer competitive mortgage products at scale, although interest spreads are likely to decrease over time through higher transparency and increased competition. However, here the banks risk losing their customer relationships to aggregators that combine all the offerings from many providers into a convenient user experience where customers can bundle their own mix product as they like.

14–29% can be re-captured by digitizing outside, simplifying inside.

Nordic banks see convenience as the biggest driver for digital disruptors’ success.
7. Digital transformation

The digital transformation journey – outside and inside

Digital ambition needs to be balanced with change both on the outside and the inside throughout the transformational journey, where banks struggle with their legacy systems.

Technology innovation

New technologies

- **Mobile**: smartphones are driving uptake of mobile banking and by 2014 half of the world’s new handsets will be smartphones.

- **Social**: there are more than a dozen social networks with over 100 million users today, with Facebook alone surpassing 1 billion members in 2012.

- **Big data & Analytics**: IDC forecasts that the volume of digital information will grow from approximately 2.4 zetabytes today to 40 zetabytes in 2020.

- **Cloud**: Cloud technology is maturing and service offerings move up the technology stack from data storage and infrastructure to software, platforms and business process.

Digital transformation in banking

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<td>Offerings &amp; Products</td>
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<td>Hosted solutions</td>
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Most Nordic banks lack a clear digital transformation plan. Seventy-five percent lack a clear roadmap for technology and platforms. Twenty-nine percent don’t know how to secure the right digital skills and competence. And 38 percent falter when it comes to leveraging information and insights.

Banks need to transform through four distinct phases:

1. Fix the digital basics
   - Innovate portfolio
   - Create omni-channel basis
   - Create coherent customer experience
   - Migrate network from physical to digital

2. Enable experience excellence
   - Provide an end-to-end customer experience
   - Create visible levels of customer engagement
   - Focused digital interventions (i.e., branch footprint, payments, mobile, POS etc.)
   - Develop analytics for context-based offerings and real-time response

3. Activate real-time and analytics-engine
   - Enable full-scope analytics to understand client needs and context, drive pricing and manage risks
   - Deploy “real-time engine” (e.g. customer insight, offer aggregation, assembly of product, pricing)
   - Define carefully selected human touch points within digital end-to-end experience

4. Extend capability model to the ecosystem
   - Deploy the ecosystem
   - Define governance, business rules and revenue-sharing model
   - Select partners and key players, and define categories in scope
   - Define services to support merchants/ small and medium businesses

Most banks don’t have a clear digital transformational roadmap in place

<table>
<thead>
<tr>
<th>Component</th>
<th>#Agree (%)</th>
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<tbody>
<tr>
<td>Technology &amp; Platforms</td>
<td>25%</td>
</tr>
<tr>
<td>Skills &amp; Competence</td>
<td>29%</td>
</tr>
<tr>
<td>Information &amp; Insights</td>
<td>38%</td>
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<tr>
<td>Organisation &amp; Collaboration</td>
<td>43%</td>
</tr>
<tr>
<td>Innovation &amp; Growth</td>
<td>50%</td>
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Nordic banks need to transform their current operating model around eight core building blocks. Each block supports different features required by the Intelligent omni-channel or the Everyday banking model. These blocks are built on top of all the traditional IT-stacks (application, infrastructure, security, etc.) and are necessary to create a truly digital bank characterized by digitized front-end and simplified back-end.

1. Omni-channel front-end (customers expect seamless experience regardless of channel or device)
2. APIs (Application Programming Interfaces, provide an interface as building block for external parties to add services/fuel innovation)
3. Business service Integrator / bundler (multi-sourcing and integration of external services, particularly central for an everyday bank)
4. Real Time Predictive Analytics (deploy the engine for driving customer insights, targeted offer aggregation and pricing)
5. Transactional Factories / Straight Through Processing ('same-day' settlement or faster to minimize time, cost and risk for the execution of a transaction)
6. Lean Governance (identification and implementation of the most efficient, value added way to provide governance services)
7. Active defense (acting in anticipation to oppose an attack against the banking system and networks)
8. Hybrid Cloud Infrastructure (leveraging a combination of private, community and public cloud solutions)

The level of evolution/focus on each block depends on the Bank’s strategic choices and execution priorities along the transformation journey.
Success through digital requires a shift in mindset. And internal capabilities need to be analyzed and addressed to determine readiness for change. Organizational silos that slow decision making need to be eliminated and a common direction has to be agreed upon when embarking on such a transformation journey. As revealed by our study, nearly all of the analyzed Nordic banks are particularly concerned of three potential roadblocks that might limit their ability to digitize their operating model; First, the high level of cultural transformation required from a product and transaction based business model into an agile, customer oriented information technology company. Second, the inability to transform their workforce's capabilities to meet the constantly evolving needs of customers and technological change. Third, the legacy infrastructure is seen as a key obstacle to accelerate the transformation.

It’s clear from our findings - Banks need to adopt digital. But how should they balance priorities between profitable growth in the short term and the necessary investments for long-term transformation? The challenge should not be underestimated. Most banks expect their value chains to be transformed within the next five years, and nearly all (88 percent) need to rethink their current strategy and business model to compete in the new environment. But less than 40 percent have a clear digital transformation plan in place.

**Turn data into actionable insights**

Respondents identified data and analytics as the most important component of their overall digital strategy. To compete successfully against traditional competitors, and newer ones from outside the industry, banks have to understand exactly what customers’ want and put themselves in a position to meet their needs and even delight them. A primary concern lies in accessing data and then using it effectively. This includes for example the potential not only to price more accurately based on true risks and behavior of an individual customer, but also to enhance the customer experience through personalized interactions and offerings that are relevant and convenient.

**Adopt a solution-based approach**

To be truly customer-centric, banks will have to move from selling products to providing solutions. Understanding what the solutions are will depend on their ability to access and analyze customer and other data. It is about moving from selling mortgages and investment funds into providing access and value for customers to orchestrate their everyday living, catering to financial concerns in the short and long term.

**Develop new partnerships**

Moving from product-centered to customer-solution-centered thinking is only the first step. Banks will need to develop new partner ecosystems and acknowledge they can not master all the parts of the value chain themselves. These partnerships will go further than just finding new distribution channels. They will shift the focus beyond the sale to the customer journey, and beyond the banking product to the ultimate customer need. Banks have several options on how to achieve their future digital business model, where partnering will be crucial to add important capabilities in the new digital context and shorten time-to-market by up to 60 percent.

Innovative players like Apple have benefitted from partnerships through open application program interfaces (APIs.) APIs enable them to introduce new applications to the market quickly, and inexpensively. Similarly, an open banking approach is needed to fuel innovation, increase agility, reduce business risk, and improve customer satisfaction. Companies like Commonwealth Bank of Australia, Standard Treasury and CapitalOne have already started to leverage open APIs to develop services outside their traditional ecosystem.
Aim for the sweet spot where customer value and business value intersect

Accenture believes the big opportunity lies in using data and advanced analytics on what the customers want and combine it with insights on where banks are expecting to achieve value, as illustrated in the value tree for digital business in a typical bank. By doing this banks can prioritize investment in areas that will help meet customer needs while growing revenue. This will enable them to craft a realistic road map for their desired future state while balancing the need to continue meeting current financial expectations.

Create an outcome-based digital business strategy

At one level, “doing things better” is an obvious short- to medium-term digital strategy. However, banks should make investments now within the context of a long-term plan to digitalize, to change their business models to become truly customer-centric, providing solutions rather than just products – doing the right things. A digital business strategy is an outcome-based framework for working from the outside in – from the customer’s experience inward to the bank’s operations – to iteratively explore options and generate the experience and information that are central to strategic agility.

Value levers

Growth through Digitalization (Revenue Levers)

Value of Digital Business

Efficiency through Digitization (Cost Optimization)

Objectives

New Customers

New and optimized products and services

New and optimized channels

New pricing and earnings models

Process efficiency

Asset utilization

Agility

New cost models

Metrics improved

• Customer acquisition/churn
• Cross-sell & up-sell
• Product development

• Sales conversion
• Shorter time to market
• Portfolio management costs
• Revenue per customer
• Customer satisfaction

• Customer profitability
• Cross-sell & up-sell
• Customer satisfaction

• Cross-sell & up-sell

• Revenue per customer
• Process efficiency

• Customer profitability
• Cross-sell & up-sell

• Product development
• Portfolio management costs

• Customer satisfaction
• Process efficiency

• Production costs
• Inventory costs

• Employee productivity
• Training costs

• Customer support costs
• Lower % of time spent on non-selling activities
• % handled by self-service
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About the Authors

Ilkka Ruotsila is the Nordic Head of Banking & Finance in the Accenture Strategy practice. He has 15 years of experience working in management consulting and in banking industry across household and corporate banking, as well as wealth management and capital markets - covering Nordics and Western Europe.

Peter Ekdahl is the managing director Accenture Strategy in the Nordic region. He has 20 years of experience working for Accenture and during this time he has been dedicated exclusively to the financial services sector in regions including the Nordics, United Kingdom and South Africa.

Daniela Vitali is a Manager dedicated to the financial services sector in the Accenture Strategy practice with experience in IGEM and in the Nordic.

Key contributors to the study:

- Joel Engström
  Accenture Strategy, Stockholm,

- Mikael Berg Åkerhielm
  Accenture Strategy, Oslo,

Contacts:

- Ilkka Ruotsila
  ilkka.ruotsila@accenture.com

- Peter Ekdahl
  peter.ekdahl@accenture.com

- Daniela Vitali
  daniela.vitali@accenture.com