

ACCENTURE BANKING
TOP 10
TRENDS
TO WATCH
IN 2018

“MAYBE GOOD. MAYBE BAD.”

Such is the calm refrain in a Chinese parable of a wise elder upon hearing various prognosticative cries from the town’s villagers. It is also a chorus that can be applied to the banking industry for 2018, as the world of banking continues to (r)evolve.

Based on my interactions with bank leaders over the last 12 months and without the benefit of a crystal ball, here are 10 key trends, predictions and best guesses that we think our retail and commercial banking clients should pay attention to in 2018. These 10 are among many topics being driven by a mix of regulatory, competitive and technology issues. Some are continuations of trends from the last few years, while others represent some new dynamics in the industry. Many are also congruent, interconnecting in ways that could cross-amplify their impact on the industry.

The fact that there are exactly ten predictions owes more to comedian David Letterman and the Billboard charts than it does to any fortuitous alignment between the decimal system and the current state of the global retail and commercial banking industry. I will undoubtedly miss the mark some on what will matter most in 2018, and expect you will find plenty within the list to debate. At least, it will be a catalyst for good conversation about the future of banking.

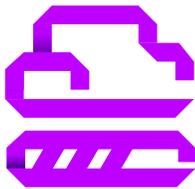
**ALAN MCINTYRE, SENIOR MANAGING DIRECTOR,
ACCENTURE GLOBAL BANKING**



TREND 1

COMMODORE PERRY ARRIVES, USHERING OPEN BANKING INTO THE MAINSTREAM.

It took Commodore Perry's American fleet sailing into Tokyo Bay in 1853 to open up trade in Japan after 200 years of economic and cultural isolation. While the Japanese economy had stagnated, the promiscuous traders of the Dutch East India Company were busy creating the most valuable business ever by establishing and exploiting new commercial partnerships. In banking, PSD2 is forcing European banks to make certain banking services available for third parties to incorporate into their offerings. In other markets, like the U.S., competitive pressures are driving fragmentation of the traditional vertically integrated bank value chain. A decade ago, there were a handful of open APIs exposed by banks to enable third parties to work with them. That number has now exploded to thousands and is growing every week. We are also seeing specialist banks being created for the sole purpose of enabling partners, like retailers and telecoms players, offering banking services. 2018 will be the year in which attitudes toward Open Banking start to separate those who want to differentiate themselves through being good trading partners from those still hunkering down behind trade barriers, seeking to harvest diminishing profits from old business models.



TREND 2

PUBLIC CLOUD MIGRATION IS EVER MORE INEVITABLE.

Twenty-five years ago, banks were debating whether it was safe to execute electronic transactions over the nascent internet, or if they should instead build their own proprietary networks. Twenty-five years from now, the current debate about the safety of using the public cloud for banking will seem similarly quaint. There is already plenty of evidence that the cloud can be as secure as any private data center and the benefits of scalability, increased agility and variable costs are beginning to make the business cases for migration compelling. This year, some banks will continue to swim against the tide and resist the inevitable, but current predictions are that by 2020 more computing power will be deployed in the public cloud than in the totality of private data centers. So, 2018 will be the year in which the cloud conversation in retail and commercial banking becomes predominantly about the "how and when," rather than the "if" or "why".



TREND 3

**THE PROMISE
OF DIGITAL
DECOUPLING
MEANS FEWER
HEART TRANS-
PLANTS AND
MORE BYPASSES.**

Traditional mainframe core banking applications are not well suited to the digital economy. The world of overnight batch processing and four o'clock p.m. transaction cut-offs sits uncomfortably with customers' expectation of real-time banking. One solution is to rip out decades-old technology and replace it with modern, real-time architectures capable of powering a digital customer experience. In other words, a "heart" transplant. For those banks with a five-year time horizon and deep pockets, that could be an attractive option—albeit an expensive and risky one, especially in light of the promise of blockchain as a medium-term replacement for traditional books and records. However, for many banks, the alternative of "freeze and wrap" is becoming increasingly attractive. It is where existing core products systems are retained as books of record while customer engagement and analytics systems are decoupled and powered by a cloud-based data layer that sits atop legacy systems—what is more akin to a heart bypass. Purists might say it's a temporary fix for a chronic disease, but with the emergence of new cloud-based core banking-as-a-service providers along with the power of blockchain, 2018 will be a year in which we are likely to see fewer heart transplants and a lot more bypasses.



TREND 4

**END-TO-END
DIGITAL
ORIGINATION
BECOMES
TABLE STAKES.**

The hype of digital delivery is huge, but the reality is often disappointing. Customers have been conditioned by other digital experiences to expect to be able to sign up for new services with a few clicks on their phone. In some emerging markets, that is how banking is already done. It can be easier to open a bank account in New Delhi than it is in New York, thanks to the advent of the Aadhar digital identification system in India. The reality is that a minority of retail and commercial banking products can be opened through an end-to-end online experience, and an even smaller number available through mobile. Leaders are now incorporating advanced Know Your Customer (KYC) and multi-factor authentication approaches into their digital apps, while laggards still ask you to come into a branch to sign a piece of paper. The evidence in the U.S. is that smaller banks are now losing material share in the millennial and mass affluent segments to big national players because small banks are struggling to deliver a good digital customer experience. In 2018, a failure to provide end-to-end digital origination will start to move from the state of disappointment to more of an existential threat.



TREND 5

**INCREASING
SOPHISTICATION
OF DIGITAL FRAUD
COMMANDS HIGHER
PROFICIENCY AT
SORTING REAL
BANK CUSTOMERS
FROM FAKE ONES.**

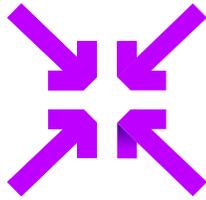
Banks' movement towards better robust digital product origination opens them up to a new type of threat: synthetic identity fraud. In this brave new world, the bad guys are creating new identities using a combination of real and fabricated information, or sometimes entirely fictitious information. Once limited to the credit card market, online deposit and loan origination now allows fraudsters to open digital accounts that pass all the usual security checks. It's a phantom crime that is costing banks billions of dollars and countless hours as they chase down people who don't even exist. Often, a bank doesn't recognize there's an issue until it starts to see suspicious activity in these accounts and then, in a puff of digital smoke, the account is closed and the bad guys have moved on. As the fake-news scandals of the last two years have shown, the power of automation is that deception and misdirection can now be done at scale in the digital world. In 2018, banks will need to get better at sorting the real customers from the fake, without undermining the benefits of a compelling and differentiating digital customer experience.



TREND 6

**THE SWEET SPOT
OF A DIGITAL-
FIRST BANK
MEANS A LOT
FEWER BRANCHES.**

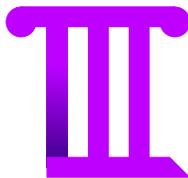
In 1995, there were 34,000 physical travel agent locations in the U.S.¹ Due to the impact of the internet and now mobile, this network shrunk to 14,000 in 2017. The value-add of the physical agent sites now tends to be defined by a negative: "What can't I do on Expedia?" Banks in many developed countries are a decade or more behind the travel agent trend, but are moving in the same direction as the number of bank branches and counter transactions decline globally. In some regions like Scandinavia and the U.K., it is happening faster. Why bank in real life when you can do it online? Unlike Blockbuster video stores, bank branches won't disappear totally. They still play a valuable role in complex advisory sales, being a physical expression of the brand and a place for customers to complain in person. The sweet spot of a digital-first business supported by selected physical locations is now becoming clear for many banks (and, conversely, the advantage of physical locations is becoming increasingly important for many digital businesses). So, the challenge for banks is to orchestrate the right mix of branches and digital offerings as quickly as possible. It means that the sound of the shutters coming down permanently may become deafening in 2018.



TREND 7

**MORE
CONSOLIDATION,
MARKETPLACES
AND
NORMALIZATION
AS BANKS AND
FINTECHS
GET COZIER.**

Despite the tens of billions of dollars of venture capital money piling into the fintech sector over the last five years, the meteor strike that was going to wipe out the banking dinosaurs hasn't happened. What has happened is that fintech lit an innovation flame under incumbent banks and accelerated their evolution. 2018 will likely see more fintech acquisitions as large players buy rather than build—just as BBVA did with Simple, BNP with Compte-Nickel and JPMC with WePay. We will also see more imitation-as-the-sincerest-form-of-flattery, such as Finn by JPMC. More broadly, bank innovation will have more of a business-as-usual feel, as regtechs, paytechs and every other type of banking start-up find ways to play well with established providers. Some of that normalization will come from incumbents being more comfortable dealing with small vendors, while some will come from better intermediation, for example, core banking vendors like Temenos creating app stores that create business-to-business-to-business models for fintechs. While industry dinosaurs will remain dominant in 2018, 2019 and beyond, big tech beasts may appear that indeed present more of an extinction threat to traditional banks. Super predators—some coming from the East (such as Ant Financial and Tencent) and some coming from the West (such as Amazon and Apple)—will likely spend 2018 sharpening their claws.



TREND 8

**REAL
REGULATORY
RELIEF IN AMERICA
ENTICES BANKS
TO FLEX THEIR
INVESTMENT AND
COMPETITIVE
MUSCLES.**

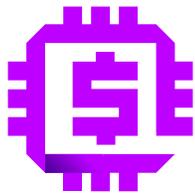
Ten years since the start of the 2008 global financial crisis, the tsunami of regulations for European banks shows little sign of abating in 2018. Compliance with the EU's Markets in Financial Instruments Directive, General Data Protection Regulation, second Payment Services Directive and International Financial Reporting Standards 9 alone will require billions of Euros of investment, all at a time when the pre-tax profitability of the European banking industry is still half of what it was in 2006. In contrast, the regulatory tide in the U.S. is receding, with systemically important financial institution lines being redrawn, liquidity restrictions being eased and consumer-oriented regulation being rolled back in favor of "a more balanced approach". Even before these changes take effect, U.S. bank profitability is already back above 2006 levels, and even with increased capital levels, industry returns are now back above the cost of capital. With regulatory relief, reductions in corporate tax rates and rising interest rates, U.S. banking could very soon be back to pre-crisis returns on equity. The result in 2018 could be that large U.S. banks start to flex their investment and competitive muscles again in a way that we haven't seen in a decade.



TREND 9

BANKS GET SMARTER WITH ARTIFICIAL INTELLIGENCE TO KNOW THEIR CUSTOMERS IN A “BEDFORD FALLS” KIND OF WAY.

Christmas time in the U.S. comes with many reruns of the movie *It's a Wonderful Life*. In it, actor Jimmy Stewart as do-gooder George Bailey stands on the counter of his Bedford Falls savings and loan bank to stop a run on the bank. He's successful because he has known many of the customers his whole life and they trust him. For most bank customers in the real world, that idyllic scenario is far from real life. While customers trust banks to hold their money and personal data, they are skeptical about banks always providing advice and services that benefit them. One of the promises of artificial intelligence (AI) in banking is to reverse this erosion in customer trust and start providing contextual, holistic advice that is truly in customers' best interest. Simple to say, but tough to do. It will mean material cannibalization of existing revenue streams, the end of product silos and a level of radical transparency unfamiliar to most banks. Yet, if banks fail to use digital technology to replicate the banking intimacy in the fictional town of Bedford Falls, then someone else will do it for them and, in the process, bypass banks altogether. In 2018, we are therefore likely to see the first concerted attempts by banks to secure their own long-term future by using AI to always do the right thing for their customers, regardless of the short-term impact on profit.



TREND 10

CRYPTOCURRENCY VALUE COULD MIMIC DUTCH TULIP MANIA.

2017 will be remembered as 12 months in which the value of Bitcoin, the leading cryptocurrency, went from under \$1,000 to nearly \$20,000²—a healthy return for the world's some 3.5 million active bitcoin account holders. It is similar to the Dutch's tulip. Between 1634 and 1637, the price of a tulip bulb in Holland skyrocketed 60-fold.³ A single bulb equaled 10 times the annual wages of a skilled worker and with it, a person could buy a lavish home in Amsterdam. By that measure, a similar speculative fever could see the Bitcoin price rise by another order of magnitude in 2018. However, Bitcoin, like Dutch tulip bulbs, is currently functioning as a purely speculative asset and, hence, is unlikely to defy economic gravity over the medium term. When the bubble bursts, it won't wreck any economy—just as the Dutch economy shrugged off tulips becoming just plants again. Latecomers will lose money, but as always, lessons will be (re)learned. What will continue to matter is the evolution of the underlying distributed ledger technology. At some point (not in 2018), this technology may be used as the basis for cryptocurrencies that can simultaneously function as a store of value, a medium of exchange and a unit of account. Until then, retail and commercial bankers shouldn't worry too much about making Bitcoin-denominated mortgages.

END NOTES

¹ CNN, “The travel agent is dying, but it’s not yet dead,” October 10, 2013.
<http://www.cnn.com/2013/10/03/travel/travel-agent-survival/>

² Fortune, “Bitcoin Hits a New Record High, But Stops Short of \$20,000,” December 17, 2017.
<http://fortune.com/2017/12/17/bitcoin-record-high-short-of-20000/>

³ The Bubble Bubble, “The Dutch ‘Tulip Mania’ Bubble,” June 15, 2012.
<http://www.thebubblebubble.com/tulip-mania/>

CONTACT US

ALAN MCINTYRE

Senior Managing Director, Accenture Global Banking
a.mcintyre@accenture.com

 Read Alan’s blogs

 View LinkedIn profile

 View Twitter handle

STAY CONNECTED

www.accenture.com/banking

 Banking Blog

 Accenture Banking

 @bankinginsights

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With more than 435,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.