MAXIMIZING REVENUE GROWTH IN RETAIL BANKING

THE NEXT CHAPTER IN OUR BANKING AS A LIVING BUSINESS SERIES
Traditional banking industry strategies for growth—which rely heavily on locking in loyalty by pulling customers further into a bank’s orbit with additional products and making it difficult for them to leave—are struggling to keep their promise.

Despite banks’ spending US$50 billion on digital transformation globally in 2017, recent growth rates attest to their struggle to get expected returns from their investments. The average operating income growth rate across the top 100 banks globally by total assets was one percent (based on three-year CAGR, 2014-2017 in U.S. dollars). In developed markets, for example, banks’ return on equity (ROE) in 2017 was well below their cost of equity (COE)—7.3 percent versus 9.8 percent.

Stock markets no longer believe in the long-term viability of banks’ current business models and are indicating such in terms of discounted future growth value (Figure 1). Only a few banks have been recognized for their ability to open up new growth opportunities and investors are eager to pay a premium on top of their current business portfolio to such banks.

**Figure 1. Future Growth Value Analysis**
(Last 12 months to June 2018; % of Enterprise Value as of June 2018)

<table>
<thead>
<tr>
<th>GAFA</th>
<th>FINTECH</th>
<th>DIGITAL LEADERS BANKS</th>
<th>DIGITAL LAGGARDS BANKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>57%</td>
<td>49%</td>
<td>23%</td>
<td>-1%</td>
</tr>
</tbody>
</table>

Source: Accenture Research 4

“GAFA” comprises Google, Apple, Facebook, Amazon; “Fintech” (alternative providers of banking services and financial technology solutions) sample of 40 companies; “Digital Leaders” (financial institutions which have launched a digital transformation program to infuse digital capabilities in their customer experience and operating model) sample of 22 banks (source: Citi, “Digital Disruption: How FinTech is Forcing Banking to a Tipping Point”, July 2016); “Digital Laggards” (financial institutions without a digital transformation program or not yet able to deliver it) sample of 51 banks; Future Value equals enterprise value less value of current operations. Last 12 month (sum of financial numbers from Q1 2018, Q4 2017, Q3 2017 and Q2 2017); Enterprise Value is average value for respective years from 2015 to June 2018.
Even in such a low-growth environment, igniting growth is possible. But only for those banks that truly understand and meet the imperative for customer hyper-relevance, winning at the point where customers and prospects evaluate their buying options. We call this Banking as a Living Business. It is a concept we introduced and described in our 2017 Banking as a Living Business report.

Banking as a Living Business is about being hyper-relevant, efficiently delivering a deeply-personalized, “me-centered” customer experience why, where, when and how the customer wants. It can evolve itself quickly and often to adapt to ever-changing customer needs and behaviors, within and beyond banking. Not surprisingly, 71 percent of C-level banking executives believe business reinvention is required to be successful in today’s context. Living Business can be the industry vision to move forward.5

In this sequel report, we discuss steps banks need to take to maximize revenue growth—making good on every interaction to engage with existing and new customers and convert into sales. This means becoming a Trusted Financial Services Advisor and progressively develop ecosystem plays, namely being an Orchestrator of Ecosystems and being a Participant in Ecosystems "On GAFA*”. The way to do this is to leverage eight key enablers (which we detail later in the paper). Banks can tap into revenue growth well into the future (Figure 2).

Figure 2. Banking as a Living Business: Evolving beyond being a Trusted Financial Services Advisor
The spark for igniting growth is the way in which Banking as a Living Business operates. Using a simple equation, and with extreme simplification, revenue growth is ultimately about multiplying three factors: increasing the number of contacts, improving conversion rates, and operating an appropriate pricing strategy to maximize the unit sale value (Figure 3).

**Figure 3. Drivers that impact bank growth**

SALES = CONTACTS X CONVERSION RATE X UNIT SALE VALUE

- New propositions
- Omnichannel journeys
- Real-time analytics
- Liquid CRM
- Pricing
- Bundling
- ...
- ...

Multiplying business interactions and conversion rates are of great importance to Banking as a Living Business to maximize growth. The ability to improve conversions hinges on a bank being hyper-relevant: able to have the right interaction, on the right channel, at the right time, with the right tone. For this reason, to increase the catchment area and exercise its gravitational pull, Banking as a Living Business creates “ecosystem gateways”, chiefly by orchestrating its own ecosystems as well as participating in those owned by others. In the following pages, we discuss how Banking as a Living Business manages to do so.

**Banking as a Living Business understands and meets the imperative for customer hyper-relevance, winning at the point where customers and prospects evaluate their buying options.**

*The acronym we use to refer collectively to the ever-expanding group of industry-shaping technology and platform titans, including Google, Apple®, Facebook®, Amazon®, Baidu, Alibaba, Tencent, WeChat, Uber and Airbnb.*
Trusted Financial Services Advisor as a pre-requisite

In an Earth-like fashion, the Trusted Financial Service Advisor is the large mass that pulls consumers toward its center while the ecosystems act as interaction gateways that orbit the Advisor (Figure 4).

Banks deliver relevant financial advice and traditional services in best-of-digital ways. Here, banking is a thoroughly modern machine that offers speed, convenience and simplicity in real time on the customer’s preferred channels. Banks can shine brightly in this area, meeting customer expectations in the moment better than others and maintaining that advantage (in terms of conversions and loyalty) even as customers’ needs evolve.

Four key traits of the Trusted Financial Services Advisor distinguish its customer experience and revenue-generation opportunities, and influence how customers see the bank:

1. **Trusted brand across all touchpoints and bank behaviors.** This means consistent delivery of brand values across customer interactions—from branch-based sales associates as brand ambassadors to resources (such as physical space and sponsorships) that engage the community to financial education as the core of a social media agenda.

2. **Focus and dedicated service models** to address priority, high-value customer segments, typically such as affluent/mass affluent, small- and medium-sized enterprises and Millennials. Such segments vary by geography and by player.

3. **Fully-engaging, personalized and value-generating customer experiences** powered by capabilities like digitized customer journeys, real-time contextualized analytics, and insight-generating Personal Financial Management.

4. **Excellence of value proposition and product,** where the bank consciously chooses to excel in and become known as the go-to bank for a specific proposition, typically around traditional bank products such as consumer lending and mortgages, and wealth management.
Figure 4. Trusted Financial Service Advisor at the center of a growth-inducing banking universe

(a non-exhaustive example)

= Network effect where ecosystem interactions provide opportunity to up-/cross-sell services and acquire new customers

Source: Accenture
According to Fortune magazine, U.S.-based JPMorgan Chase is the world’s most admired bank and tenth most-admired company. It achieved such a reputation in part through a digital strategy for retail banking that is essentially making the bank singularly hyper-relevant to a wide cross-section of customers. Or, as the bank describes in its report, “personalization from transactions to integrated experiences” is one of four ways it delivers value.

JPMorgan Chase also found ways to nurture ample contact with its customers. Every month a Chase customer, on average, conducts five ATM transactions, six uses of his ChasePay digital wallet, 32 debit card swipes, 21 credit card swipes, three peer-to-peer exchanges on Zelle®, retrieval of 18 credit card transaction alerts and 15 logins to her m-banking app. ChasePay is another example of how JPMorgan Chase can be hyper-relevant in the moment and not just with personalized product features (such as sign-up bonuses or rewards programs). ChasePay app users can order food through an order-ahead function and redeem personalized offers from participating merchants.

Such examples of the bank’s personalized and hyper-relevant customer experiences help work to convert these interactions into clear economic benefit. Its customers’ card spending in 2017 increased by 14 percent, which translates into a financial performance that is well above industry average. Also, in 2017, the bank’s Consumer & Community Banking division reported a 17 percent ROE and a cost-income ratio of 56 percent.
Orchestrator of Ecosystems to become hyper-relevant

A bank-controlled platform, this ecosystem merges its customer journeys with other providers—for example, obtaining a mortgage with house hunting, legal services or relocation services. These are typically “life moment” areas in which banks have traditionally played an essential yet supporting role, such as starting a family or improving health. The bank acts as an aggregator under a bank-branded platform, consolidating needs and information from multiple accounts. There are various types of non-exclusive financial services-led ecosystem plays a bank may orchestrate—from experiential life needs to space monetization, as shown in Figure 5. Within each play, a number of options will exist from which banks can draw value. For example, in the case of experiential life-needs, the choice is about which needs to prioritize, such as home-owning, mobility, health, retirement, and other important moments in a person’s life.
Figure 5. Eight non-exclusive key plays of an Orchestrator of Ecosystems

- **‘EXPERIENTIAL’ LIFE NEEDS**: Experimental narrative on life needs, such as housing, mobility (car, transportations) and health.
- **‘EXPERIENTIAL’ SPECIALIZED PROPOSITION**: Experimental narrative for specialized propositions, such as start-up businesses and agriculture.
- **MERCHANT-FUNDED REWARDS**: Preferential treatment (such as price or exclusivity) with vetted merchants, drawing on customer volumes.
- **FINANCIAL SERVICES AUGMENTATION VIA FINTECHS**: Augmentation of banks’ existing products with those of fintechs for lending, personal finance management and so forth.
- **VALUE-ADDED SERVICES, TYPICALLY SERVICING SMEs**: Value-added service to small— and medium—sized enterprises through partnership with third-party providers.
- **FINANCIAL AGGREGATION THROUGH APIs**: Aggregation of financial situations at other players through open APIs.
- **PLATFORM OPEN TO THIRD-PARTY DEVELOPMENT**: APIs and SDKs for third-party developers to create new services on the bank’s platform.
- **SPACE MONETIZATION**: Creative use of physical space to support customer and community needs.
DBS bank in Singapore recently launched two online consumer marketplaces that moves the bank beyond a single dimension mobile technology to make banking more interactive and intuitive for customers, and to add value to the customer’s banking experience.

DBS Car Marketplace\(^\text{11}\), a joint venture between the bank and its car-seller partners sgCarMart and Carro, is Singapore’s largest direct seller-to-buyer car marketplace and its first online consumer solution led by a bank. It directs those looking to purchase or sell cars—from start to finish. Sellers can list on both sgCarMart and Carro at once. An on-site car budget calculator provides the estimated loan amount the buyer is eligible for, and then serves them a list of cars based on their budget. If they find a car they are interested in, they can arrange for a test drive online with the seller directly. Finally, both buyers and sellers are fully guided and enjoy free paperwork services for car ownership transfers.

DBS Home\(^\text{360}\)\(^\text{12}\) is the first banking mortgage app in Hong Kong to tap the power of virtual reality to modernize the way people buy a home. In partnership with Century 21, DBS Home\(^\text{360}\) helps homebuyers search for properties, compare prices, assess mortgage affordability and stay abreast of changes that may impact them—all from within a single app.

DBS’s focus on becoming explicitly relevant for different groups of customers has resulted in an increase in digital customers, from 2.2 million in 2016 to 2.5 million in 2017.\(^\text{13}\) That digital activity now accounts for 42 percent of the bank’s operating profit;\(^\text{14}\) in 2017, the bank’s ROE was 27 percent for its digital customers (as DBS defines them), nine percentage points ahead of the traditional banking segment.\(^\text{15}\)
Meaningful Participant in Ecosystems “On GAFA” to accelerate journey to hyper-relevance

Though more aspirational, this way of banking explores growth opportunities and origination of bank products within third-party ecosystems that lie beyond the boundaries of the traditional banking domain. Customers can access their bank, in real time, while on other platforms to make buying decisions and purchases.

Here, banks package and make available financial services on platforms controlled by others. They also package and sell digital services that are native to the financial services industry to help ecosystem participants improve their business. These include algorithms, data and platforms for processes like KYC, risk scoring and digital identification, or even the bank brand itself. The four key ecosystem plays are shown in Figure 6.

Figure 6. Four key plays of a Meaningful Participant in Ecosystems “On GAFA”

- **Leverage GAFA Platforms to Distribute Financial Services Propositions**: Packaging of financial services products (such as cards, loans, and so forth) for sale on GAFA and other retailer platforms.
- **Place Funding on GAFA Platforms**: Placement of (sub-prime) funding on GAFA and fintech platforms for them to provide to end-customers.
- **Sell Digital Services Through APIs**: Offer to customers and other enterprises digital services, such as digital identification, digital vault and so forth.
- **Monetize Algorithms and Platforms**: Make available to other players banking intellectual property, such as algorithms (KYC, risk scoring, physical space and so forth) and platforms.
Fintech Lender iwoca Makes Big Move On Amazon

London-based iwoca offers flexible credit to small businesses across Europe, allowing them to take advantage of opportunities previously only available to their larger peers. Its process is simple, transparent and fast—providing working capital loans in hours rather than weeks. iwoca investors represent incumbent banks and disruptors, such as Intesa Sanpaolo, Talis Capital, Beyond Digital Media, and CommerzVentures.17

The lender is in partnership with Amazon where its revolving credit facilities give businesses selling on the Amazon marketplace in the U.K. access to £1,000 - £150,000 on demand. With over £400 million borrowed, Amazon Seller Central businesses have given iwoca a 9.7 out of 10 satisfaction rating on TrustPilot.

iwoca has similar relationships and integrations with eBay, Shopify, notonthehighstreet.com, PayPal, PayU, Xero Connected, KashFlow App, Funding Options, Funding Xchange and others.

Enablers of hyper-relevance and, thus, growth

Banks will need to focus on and activate eight key enablers of Banking as a Living Business, shown in Figure 7, to stimulate growth and increase ROE. Though some of the enablers are well known, our experience shows that many banks are acting quite lightly, if at all. For example, some large banks in Europe are doing the bare minimum when it comes to creating an API factory capability—a key component in capitalizing on ecosystems—despite the opportunity offered by the European Union’s PSD2 regulation. Fundamental to most of the enablers is access to flexible and scalable data and technology platforms that allow banks to respond to new customer needs, and adapt quickly.
TRUSTED BRAND POWERED BY PHYSICAL, SOCIAL, & FINANCIAL EDUCATION AGENDAS
- Clear brand values: some locations are clear “trust centers”, others disseminate brand value cost-effectively
- Brand ambassadors in physical locations
- Community engagement and financial education at the core of social agenda

MOBILE FIRST! APPROACH
- From mobile as internet banking touchpoint to “leading touchpoint”
- End-to-end unique experiences, target small business white space
- Selling through mobile: from lead generation to sales fulfillment
- Leverage power of AI to drive sales and differentiate service

ANALYTICS/AI-POWERED CONNECTED EXPERIENCES
- Anticipating Zero Moment of Truth through analytics, AI-powered experiences
- Operate as a data-driven bank, operating intelligent marketing:
  - From CRM to real-time liquid CRM
  - From using own data to acquiring/leveraging external data
  - Right-channeling across digital and physical channels

COMPELLING E2E CUSTOMER JOURNEYS
- Design end-to-end journeys, on the bank’s channels, or beyond, to meet ‘hyper-relevant’ needs
- Simplify removing paper and ‘physical’ bottlenecks, compress time-scales typically to real-time
- Rethink connections with other services (bank + beyond) developing ‘experiential’ narratives

DIGITAL PRODUCTS & SERVICES
- Create digital-friendly products—monetizing data, algorithms, even brand, for own Bank purposes, as well as powering APIs to support presence beyond traditional channels

BOTS & AI-POWERED NEXT GENERATION CUSTOMER CARE
- Create AI-/machine learning-powered interactive tools (bots, chatbots, robos) to service and support meaningful interactions fuss-free, in real-time

API FACTORY
- Activate capabilities to export/import APIs: API Design and Build, Service Management, Ecosystem Management, Technology Infrastructure

INNOVATION STRATEGIES TO NURTURE ECOSYSTEM NEEDS, SUCH AS:
- Short-term internal innovation for process improvement and customer satisfaction
- Long-term gains from increased value of equity in the investments

Figure 7. Eight enablers to pursue Living Business ambitions by being hyper-relevant
Top six questions bank C-level executives must answer to be hyper-relevant and grow revenue

Q1: What is the brand DNA and how to bring it to life across touchpoints and ecosystems? How to ensure trust?

Q2: Which personas and value pools to focus on to maximize value creation?

Q3: What ecosystems best engage consumers and generate most value?

Q4: Which customer journeys to focus on (by persona) to bring alive the brand DNA, exploiting the power of ecosystems? How to redesign across physical and digital channels?

Q5: How can banks best leverage (with proper governance and platforms) their unique wealth of data?

Q6: Which technological platforms need to be activated to enable hyper-relevance and fast launch of new, ecosystem-powered value propositions?

Revenue on the table

There is room for banks to achieve double-the-market growth, despite the industry dynamics. What we know from our experience, leading incumbents have a yearly average of a few contacts in branches and tens to hundreds on the web and mobile channels. Our analysis shows that banks, by combining trusted advice with ecosystem plays, can reasonably multiply their number of contacts (via new propositions and trigger-based proactivity) and double or triple their average conversion rates (via advanced analytics that produce hyper-relevant offers). Typically, banks can aspire to achieving a number of key performance metrics, as shown in Figure 8.
Approximately ten percent of global banking revenues annually are now shifting to new providers or going to other banks that have secondary relationships with customers, according to Accenture Research. Based on our analysis, this equates to a $192 billion revenue opportunity for banks that embrace hyper-relevance. Catching this value will enable them to grow at a rate that is double the current industry average and push return on equity (ROE) above the cost of equity (COE) by 2022 (Figure 9).

**Figure 8. Target key performance metrics**
(Three-year average for incumbents in developed countries)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Sales</td>
<td>2X</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>2X</td>
</tr>
<tr>
<td>Customer Engagement</td>
<td>+10 NPS</td>
</tr>
<tr>
<td>New Revenue Streams</td>
<td>+5%</td>
</tr>
<tr>
<td>Customer Acquisition</td>
<td>2X</td>
</tr>
<tr>
<td>Cost/Income</td>
<td>-18%</td>
</tr>
<tr>
<td>Distribution &amp; Marketing Costs</td>
<td>-30%</td>
</tr>
</tbody>
</table>

Source: Accenture Distribution & Marketing

**Figure 9. Return on Equity evolution of hyper-relevant leading banks in developed economies**
(*Europe, North America, Japan and Australia*)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average ROE 2017</td>
<td>7.3%</td>
</tr>
<tr>
<td>Organic Growth (17-22)</td>
<td>3.3%</td>
</tr>
<tr>
<td>Premium for Hyper-Relevance</td>
<td>3.0%</td>
</tr>
<tr>
<td>Cost Reduction</td>
<td>1.0%</td>
</tr>
<tr>
<td>Cost of Risk</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Capital Management</td>
<td>-1.9%</td>
</tr>
<tr>
<td>New ROE 2022</td>
<td>12.3%</td>
</tr>
</tbody>
</table>

Source: Accenture Research 19
Let hyper-relevance drive growth

Based on our experience analyzing the initiatives of or working with leading and innovative banks around the globe, we believe that incumbents can reboot and sustain profitable growth by deciding to become a Living Business and make a wise pivot to get there and win.

Leaders will pursue an aggressive revenue growth strategy to capture market share, making choices and prioritizing interventions and business investments based on the tenets of Living Business: Trusted Financial Services Advisor at its foundation, and progressively develop ecosystem plays, in the form of being an Orchestrator of Ecosystems, and a Meaningful Participant in Ecosystems “On GAFA”. It also means allocating resources and tapping digital technologies—from analytics to AI, to other purposefully enabling capabilities. Done right, these actions create a multiplier effect, multiplying the number of meaningful bank customer interactions and, correspondingly, increase sales conversion. Future-ready marketing, sales and servicing technology platform and organization are also critical to achieve the right level of industrialization.

Accenture is ready with distribution and marketing advice and capabilities to help banks get there, deploying ecosystems and solutions that will generate significant growth.
References

1. Accenture Research analysis on Celent, IDC and Gartner data
2. Accenture Research analysis on S&P Global Market Intelligence data
3. Accenture Research analysis of top 100 global banks in Europe, North America, Japan and Australia
5. Accenture Vitality C-Level Financial Services Survey 2017
6. JPMorgan Chase, Strategic Update, February 27, 2018
7. Ibid
8. Ibid
10. Ibid
11. DBS, “DBS Partners Sgcarmart and Carro to Create Singapore’s Largest Direct Buyer-To-Seller Car Marketplace, August 10, 2017
13. DBS Annual Report 2017
15. Ibid
16. iwoca, https://www.iwoca.co.uk
17. Dealroom, https://app.dealroom.co/companies/iwoca
18. Accenture Experience
19. Accenture Research. Note: the ROE model assumes: 2.8% CAGR 17-22 for revenues, -1.6% CAGR 17-22 for operating costs, 5.1 CAGR 17-22 for loan losses and 3.7% CAGR 17-22 for shareholder equity. The source used is Deutsche Bank “Running the numbers” September 2017. Premium for hyper-relevance assumes 40 percent reduction of churn rate, five percent of customers converted in primary customers (more than one product and recurring income) and five percent of the revenues pool coming from new ecosystems by 2022
Contact the authors

PIERCARLO GERA
Global Managing Director
Accenture Financial Services—
Distribution & Marketing
piercarlo.gera@accenture.com

ALESSANDRO SECCHI
Offering Development Lead
Accenture Financial Services—
Distribution & Marketing
alessandro.g.secchi@accenture.com

LUCA GAGLIARDI
Senior Principal
Accenture Research
luca.gagliardi@accenture.com

Contributors

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

CÉCILE ANDRÉ LERUSTE
Managing Director
European Banking, Accenture
cecile.andre.leruste@accenture.com

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 449,000 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.

About Accenture Research

Accenture Research shapes trends and creates data-driven insights about the most pressing issues global organizations face. Combining the power of innovative research techniques with a deep understanding of our clients’ industries, our team of 250 researchers and analysts spans 23 countries and publishes hundreds of reports, articles and points of view every year. Our thought-provoking research—supported by proprietary data and partnerships with leading organizations such as MIT and Singularity—guides our innovations and allows us to transform theories and fresh ideas into real-world solutions for our clients. Visit us at www.accenture.com/research.