Banks are aware of technological innovations, but respond too slowly

Technological innovations are on the banks' agendas. But prioritisation and implementation are stalled at Swiss banks.

swisscom

BEI Business Engineering Institute St.Gallen | sourcing competence center

Summary

In the year 2020, people in Switzerland will still be commuting between home and the workplace. But by then they will be using contactless payment infrastructure to buy train tickets while passing through the barriers at the train station and paying for their coffee with credit from their e-wallet. Reading newspapers on mobile devices will be the norm, and those still reading a hard-copy will be the exception. New digital marketplaces will be the forum for the products and services people need throughout the day. Car loans and consumer credit will come from specialized platforms, and people will in turn invest themselves through crowdfunding platforms. The money to spend will be saved with the help of playful savings tools and impulse saver apps, because the dream of striking it rich entrepreneurially will become a reality for many through funding and savings platforms. Tips and information about promising investments will circulate on financial community web pages and, thanks to digital assistants, people will be able to get a 360 degree view of how well their finances are doing anywhere and at any time – even if their money is entrusted to various institutions.

Those institutions may be banks, but not necessarily. Money will continue to play an exceedingly important role in the economy – but the way in which it is stored, exchanged, and spent will undergo a fundamental transformation in the coming years, changing the players and intermediate stations in this vertical: innovative start-ups and global Internet companies from non-banking industries will challenge the rules and conditions in the business. Telecom companies will also play a more important role than they did only a few years ago. They will operate research centres and implement business processes for companies other than banks, thus generating internal economies of scale which they can then give back to their partner banks in the form of better conditions. New providers will also be able to exploit innovations quicker without having to deal with legacy obstacles in their own companies that have developed over the course of years or high capital expenditures that have not yet been amortised.

Whether and how banks develop and compete in such an environment depends largely on themselves: they have to adapt their strategies, processes, organisations, systems and corporate culture quickly. However, amongst the 22 banks from Switzerland and other countries surveyed as part of this study, there is a prevailing attitude that innovation is good for business in theory, but in practice, integration of innovations had better not make existing organisations and processes obsolete. How well banks in Switzerland and neighbouring countries are prepared for these impending change processes is subject of the third part of this report.

First, numerous new technological developments which have an impact will be addressed. Their effect is visible on two levels: firstly, they affect directly the traditional core business areas of modern banking because they cover investing, saving and financing, without necessarily be based on the infrastructure of a bank. Secondly, banking of tomorrow will no longer be structured solely on the base of classic tools for client information and loyalty. For banks, technological advancements in these related areas of communication and information, which are so far not part of their core business, will become increasingly important.

Many years of experience have given banks a significant advance in money business. Whether they keep this advantage vis-à-vis the new providers and technological leaders depends on whether they swiftly make the right moves. Most building blocks for change are already in place – those who put them together better and faster will prevail over the long term.

1. Innovations in the core business areas of retail banks

The four most important core business areas of retail banks are payments, savings, investing, and financing. The income from these areas creates the base for more than just retail banking. Savings deposits and loans are also the most important items on a balance sheet. Without cheap and stable funding and without lending transactions, retail banks would hardly be able to survive in their current form, as the fundamental basis for their business would erode.

Payments:

In this area our industry analysts examined 13 innovation topics. **Peer-to-peer payments**, **contactless mobile payments** and **e-wallets** were perceived as being the most relevant. Banks rate the relevance of **payments through social media, payment notifications, scanning of standardised receipts** (with the smartphone camera), **contactless mobile payments with telecom network operators** and **assistants for controlling spending** as of medium relevance. **Group payments, scanning of non-formatted receipts, credit card optimisations** and **virtual currencies** such as bitcoin were seen as less relevant.

The picture is different when it comes to the degree of implementation: here payment notifications and scanning of standardised receipts (see Figure 1) dominate by far.

A detailed analysis of the Swiss banking landscape reveals differences between the cantonal banks and other Swiss banks. **For payments through social media** there are clear differences with regard to relevance. While the big/retail banks across the board affirm the category's relevance, cantonal banks are more neutral, with this service being relevant for only one-third of these banks. With only one exception, none of the banks in either of these groups is aiming for implementation.

The opposite applies in the area of **contactless mobile payments** in cooperation **with telecom companies**. Two-thirds of cantonal banks, but only one institution from the group of other Swiss banks, view this as highly relevant. A clear majority in both groups have no plans for implementation. Here, the payment card data of users are saved on their SIM card as a "secure element". Examples of implementation of this solution are "mpass", offered by the largest German mobile network operators, and Tapit, offered by the Swiss telecommunications service providers. The other big Swiss banks and retail banks assigned a high level of significance (75%) to **virtual currencies** such as Bitcoin, Ripple, Litecoin and Equal Dollars, very much in contrast to the view of cantonal banks. Yet all companies are hesitant about the application.

Both groups designated **P2P payments** and **e-wallets** as highly relevant. However, there were differences when it came to implementation. While 25% of the major/retail banks surveyed offer a corresponding P2P service, another 25% are pursuing its development, and the remaining banks in this group are planning introduction, it is currently a non-issue for 78% of cantonal banks. The picture is similar for e-wallets: 89% of cantonal banks have no plans in this area, while 75% of the major/retail banks surveyed have implementation plans or are already in the implementation phase. The study showed other differences with respect to **assistants for controlling spending**. This service supports clients in making purchase decisions by providing product reviews and price comparisons. The assistants also help the users reach their savings goals (budget control). Capital One has successfully realised such an approach with "Bundle", which searches for and compares products by analysing transaction data in the US using various criteria.

Detailed analysis of Swiss banks indicates that major/retail banks are a step ahead of the cantonal banks in the implementation of many changes. Even though the payments area is not a high-margin business, it offers a very rewarding area of application for innovations, particularly as existing solutions are definitely in need of an upgrade and customers have the most frequent contact with these services. It is possible, for example, to further

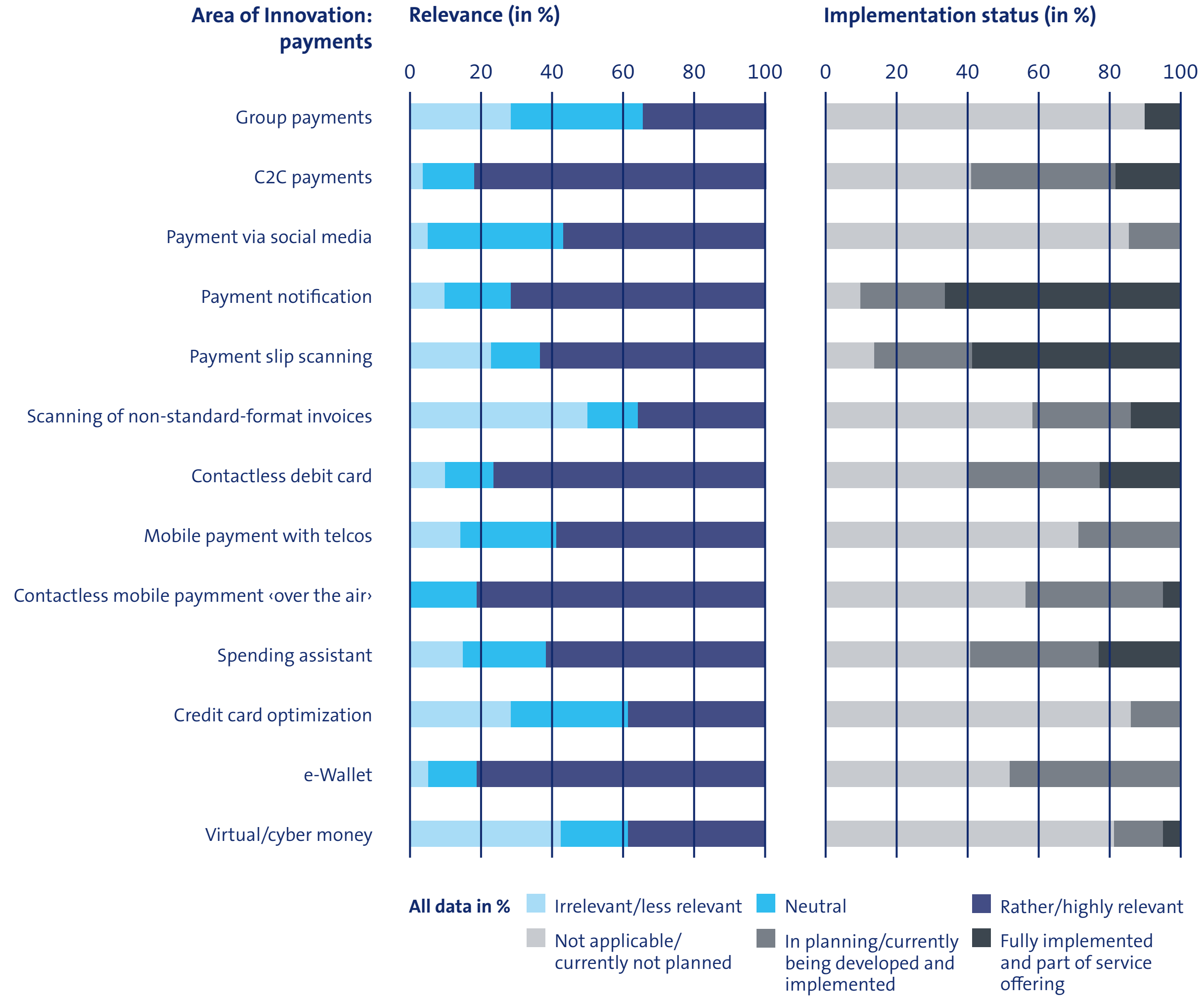


Figure 1: Innovations in payments

increase client retention and networking as well as the attractiveness of offers by integrating white label solutions.

Saving:

Looking at the results across all banks, all innovations seem to show a similarly high level of relevance, and at the same time a low degree of implementation. Examining these individually, however, reveals a number of differences (see Figure 2).

Reward-oriented saving, for example, is based on the idea that people are more likely to follow the savings goals they set if they are rewarded for it. This can be in the form of recognition from friends on social networks (facebook, twitter) or if third parties contribute to savings goals with (small) deposits. Over 50% of banks surveyed view these topics as relevant, while only 19% believed they were not significant. Implementation, however, showed a very different picture, as 67% of the respondents currently have no implementation plans. Yet examples are certainly present on the market, such as "SmartyPig". A comparable concept is also behind **gamified** saving, which uses elements of gaming design to inspire clients to save.

Automatisms based on defined rules, like those used in so-called **additional and impulse saving**, are also an innovation in the area of savings accounts. Here, clients define individual rules for rounding up the amounts of all or only certain transactions (e.g. 1.89 to 2.00 or 10.00). The difference is automatically credited to a savings account. Clients can continuously save by accumulating these small amounts. Lloyds Bank has already successfully placed such a product on the market – its "Save the Change" service. However, barely one-half of banks surveyed believed this was important. The rate of implementation was also low at 14%, as the large majority of respondents (86%) have no plans for such an offering, even though this product could serve to retain clients if they also open a savings account at the same bank.

Playful saving tools for children are another innovation in the area of savings. With these tools children can make purchases online in accordance with rules defined by their parents. Not only can such a tool help teach children how to handle money responsibly, but parents also benefit from greater transparency with regard to their children's spending. They can track their children's transactions and restrict certain types of transactions in advance, such as with the product "Oink". These kinds of platforms also allow legally binding transactions for minors, which increases the learning value for children. Similar to the savings innovations described above, the average assessment of relevance here was 52%. Moreover, only 10% of banks assign no or only little relevance to this subject. But here, too, the degree of implementation is low: 67% of banks surveyed currently have no implementation plans for this type of offer.

Overall, the results show that many financial institutions rate a number of the listed innovations as highly relevant, but significantly fewer companies have plans for implementing them or developing innovative services. Nevertheless, it is also apparent that cantonal banks are generally more restrained in the implementation of such topics, although they see greater potential in them. Since hardly any third-party platforms exist and the time to market efficiency is relatively short, banks can increase visibility and rejuvenate their brand.

Unlike payments, the area of savings is still a bank domain and is currently neglected by non-banks. Although innovations signal an expansion of non-bank activities, they can usually be integrated as white-label solutions into banks' own offerings. The low level of bank activity is thus all the more surprising, as the potential of these innovations is regarded as high. For example, banks can use savings solutions for children to increase the attractiveness of their brand for the next client generation at a very early stage and identify latent client needs through automated recognition and analysis of transaction data with the aid of big data

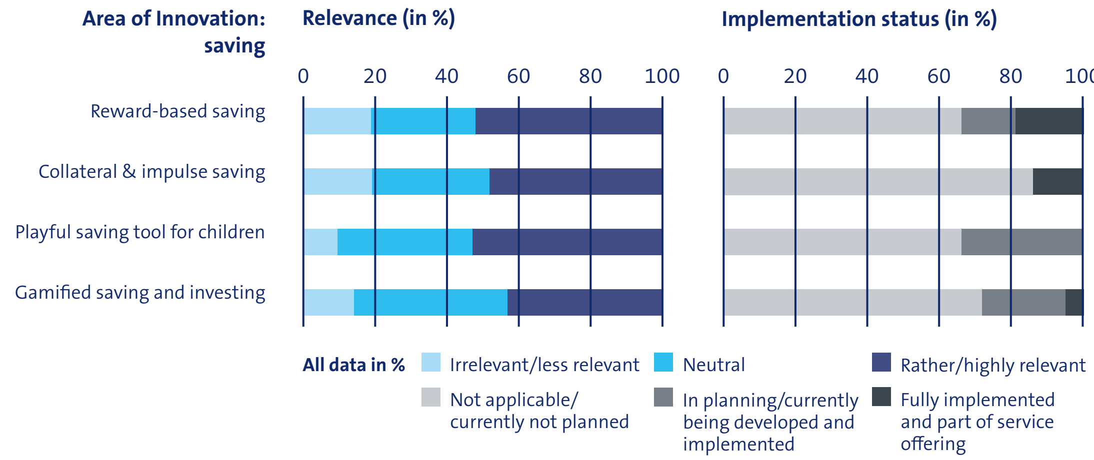


Figure 2: Innovations in savings solutions

algorithms. This would ultimately also serve to bind parents more closely to the bank.

Investing:

Innovative approaches are also seen in the area of investing (see Figure 3).

One example is **tool-based investor profiling**, which supports clients in creating an individual investment profile so they can better assess themselves and their own investment situation. Various questionnaires can be found online for determining the client's personal situation and risk tolerance. After completing the questionnaire, the client receives a tailored investment recommendation with suggestions for an investment portfolio. One innovative example offering many appealing analyses is "Nutmeg". Of the surveyed institutions, 86% view this as very relevant for themselves, while only 10% perceived it as hardly relevant. Here the degree of implementation is also correspondingly high: 24% of the banks have already positioned a similar solution on the market, while another 14% are currently in the implementation stage and 24% have at least plans in the works (total: 38%). However, there are gaps here as compared to the relevance assessment, since a further 38% of the surveyed institutions have no plans for implementation.

Regarding a**utomatic portfolio optimisation**, a high level of relevance (85%) was recognised, taking SigFig as an example, similar to the innovation topic above. However, the degree of implementation is lower: only 11% of banks are currently in the implementation stage, and 37% are in the planning stages for this service (total: 47%). By contrast, automatic portfolio optimisation through online channels is currently not an option for 53% of the institutions surveyed.

Co-investing allows investors to adopt the investment strategies of professional traders and automatically replicate the traders' portfolios for their own purposes. To enable this, traders publish information about their portfolios and transactions, including past performance, on special electronic marketplaces and receive financial incentives in

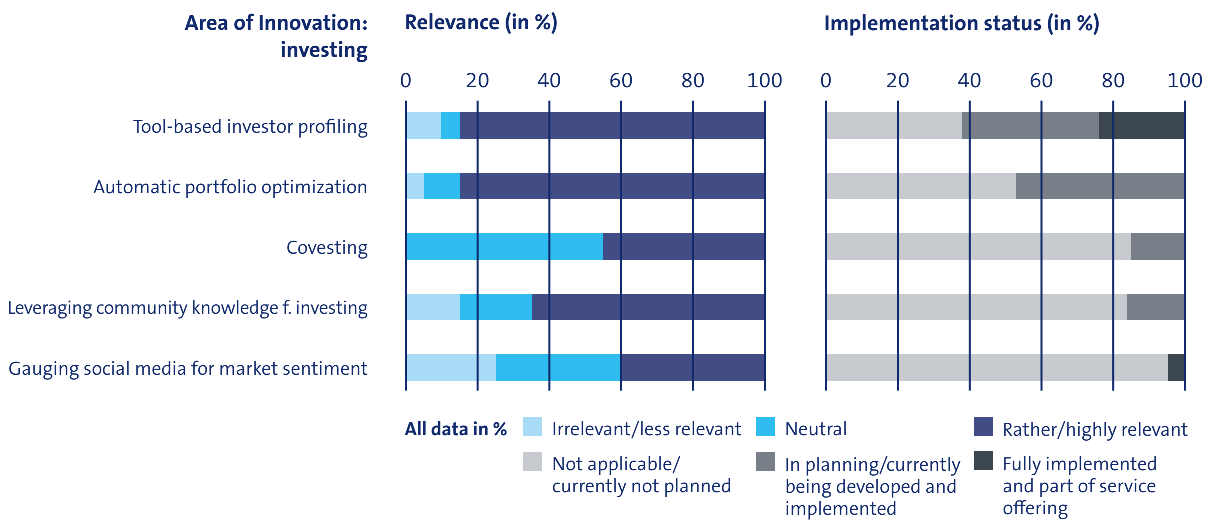


Figure 3: Innovations in investing

return. One example of this is the marketplace "Covester", which enables clients to search for portfolio managers based on user-defined criteria. Compared to the previously described innovations, only 45% of the surveyed banks viewed this innovation as highly relevant, while the other 55% were neutral. As a result, the degree of implementation is also low. Besides covesting, there are other approaches which focus on the exchange of information between users across investment topics. One example of such an investment portal is Wikinvest.

Information portals such as "StockPulse" and "Sentifi" have also emerged, which aggregate investment-relevant information on products, markets and opinions from various social media to produce trend analyses that investors can refer to in their investment decisions. While the surveyed banks rate the **benefit of general knowledge as a basis for investment decisions** as highly relevant (65%), the **assessment of market sentiment through social media** and publishing of the results on information portals were seen as less relevant. Here too, the degree of implementation at present is very low: most of those surveyed have no such activities currently planned (84% and 90%). This may be due to the fact that pioneers like Sentifi have only recently launched on the market.

Innovations such as covesting, the use of general knowledge for investment decisions and the assessment of market sentiment in social media enable clients to independently expand their know-how using a self-service approach. They also give clients access to a large quantity of relevant information and allow for transparent comparison of positions with the portfolios of other clients or "traders". This reduces the need for traditional investment advisory and portfolio management from banks, especially for Internet-savvy clients. Surprisingly, the described approaches currently play a rather minor role both in Switzerland and abroad. However, social trading platforms could open a new sales channel for banks, allowing, for example, an economical offering of strategy

certificates for less affluent clients. The rapidly growing assets currently being invested by private individuals through various social trading platforms have also piqued the interest of more established players. Wikifolio, for example, has entered into cooperations with Stuttgart Stock Exchange, S Broker and OnVista Group. In our view, the strong upward trend in social trading platforms is likely to continue in the next few years.

Financing:

The intensity of innovation in the area of financing is lower – especially compared to all the innovations in the areas of saving and investing. New approaches range from a stronger online orientation in the application and approval process (online-based requests for small loans, mortgages and corporate loans and online mortgage approval) to supplementary services relating to mortgages (property valuation, insurance). Online application and approval of small loans and mortgages are rated by banks as very relevant; the degree of implementation was also relatively high, although considerably lower for supplementary services and corporate loans.

None of the surveyed banks regarded the full online-based application and approval process

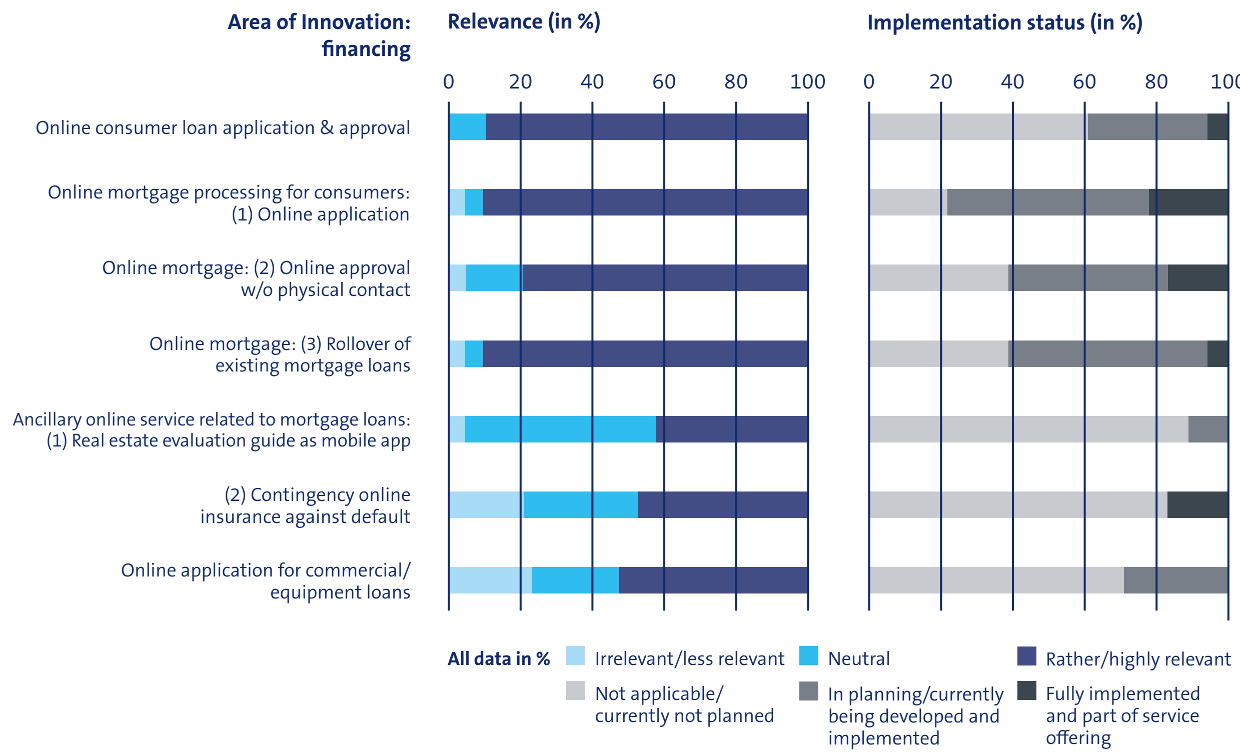


Figure 4: Innovations in financing

for small loans (example: Commonwealth Bank of Australia) as of only minor relevance; 89% rated it high. On the other hand, 61% of institutions have no implementation planned, while 33% are working on implementation and 6% are already on the market (see Figure 4).

As with online processing of small loans, **online applications for mortgages** aim primarily to achieve automated processing of the application and approval process over direct channels. As the example of “Hypomat” shows, the latter is intended to increase the efficiency of the loan process for mortgages. Unlike the traditional process, no physical contact between the bank and the client is required; instead, all documents are exchanged completely online. Frequently this process is used only for renewing first mortgages, and in some cases the legally valid signature has to be provided at the bank branch, which means the process is not actually done completely online. This service was also viewed by 89% of the surveyed banks as relevant. The degree of implementation was higher than for online-based small credit applications: 22% of the respondents have implemented this type of service, almost exclusively through in-house development. Another 17% are in the implementation phase and 39% are still planning implementation (total: 56%). The mortgage area is thus not surprisingly a higher priority than small loans.

Although the relevance of **online-based approval** of mortgages is somewhat lower (79%), it is still very high compared to other innovations. Of the surveyed institutions, 17% have already completed implementation, all of which through in-house development. For 39% no steps are currently planned. The relevance of online-based mortgage repayment without personal client contact was also given a comparatively high rating.

In addition to the online-based application and approval process, banks can also provide supplementary services to their clients. One impressive innovation is **property valuation by means of mobile apps**. For this purpose, the bank’s data must be linked with supplementary details about real estate so customers can be provided with information which is tailored to their individual needs and of interest for their real estate search. One example of this is the “Property Guide App” of the Commonwealth Bank of Australia. This mobile application covers 95% of all properties in the country and augments the data with price information to determine the trend in property prices in given areas and cities. It also simplifies the process of obtaining offers through the app and gives clients the option of arranging a call from a bank advisor. While 42% of all banks recognise potential for such a service, 89% do not currently have plans for such an offer. Only 11% of the respondents are working on implementing this kind of app - some through in-house development and some by obtaining a service from a third-party provider.

Another mortgage service is credit default insurance for mortgage loans concluded online. Here the mortgage and client data are supplemented in such a way that they can provide the basis for offering a client-specific, tailored service. One example is credit default insurance in the event of illness, such as the insurance offered by the Commonwealth Bank of Australia. Of the banks surveyed, 47% viewed this approach as relevant, but only 17% have already implemented an offering. A large majority (83%) currently have no planned activities in this regard.

One last innovation in the area of financing concerns online applications for corporate loans. The example here comes once again from the Commonwealth Bank of Australia, which reproduces the process on its website. The survey results reveal that 53% view this service as relevant, but only 24% have implementation plans and 6% are currently in the process of implementation (total: 29%), predominately through in-house developments.

2. Innovations in potential new business areas of retail banks

Fields of innovation that are not part of the core business areas of banks include digital marketplaces, digital assistants, non-financial services and social communities.

These activities are tremendously important for retail banks for two reasons: firstly, digital marketplaces provide a forum for settling activities such as crowdfunding and SME loans. These transactions can cannibalise classic retail lending, a key source of revenue. Secondly, banks are also losing their direct relationships with clients to digital assistants such as personal finance management systems. The aggregation of account data releases asset information on the deposits for concrete, specific bank addresses. In this way, accounts and custody accounts become freely movable and exchangeable elements in the money business. However, by implementing a proprietary offering, digital assistants can also help banks to fill a digital client interface, helping them to win (back) and retain clients. The number of touch points with clients can therefore even be increased.

Digital marketplaces:

Most of the innovations in the area of digital marketplaces fall into the very comprehensive category of crowdfunding, which can be broken down into four different areas: project crowdfunding, equity crowdfunding and peer-to-peer lending (Figure 5) as well as donations.

The assessment of the responses shows that **equity crowdfunding** has the greatest relevance amongst digital marketplaces: 60% of the respondents assigned it a high degree of relevance, with only 20% considering it to be of less relevance. **Project crowdfunding** was deemed to be somewhat less significant (55% high relevance versus 15% low relevance). Initial implementation plans were pursued

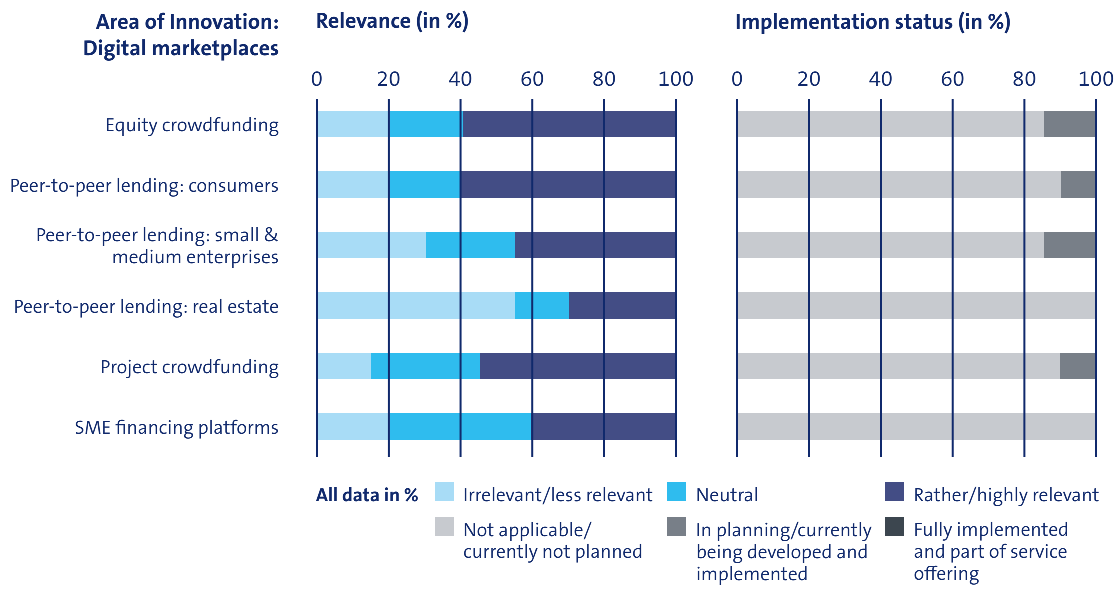


Figure 5: Innovations in digital marketplaces

in both categories: for the latter, overall around 10% of the respondents were in the implementation phase or had corresponding plans, and for equity crowdfunding this figure was even 15%. However, the figures on the status of implementation are very low compared with the attested relevance and the implementation ratings given for innovations in the areas of payments, saving and investing.

The somewhat lower relevance overall for **P2P lending for SMEs** (45% deemed this as relevant, 25% were neutral) compared with the assessment of **P2P lending to private persons** (45% relevant, 30% neutral) is surprising given the respondents' assessments for the planning and development of SME and private client platforms, namely 15% (SME) and 10% (private clients).

SME financing platforms are viewed by 40% of the responding institutions as highly relevant in the next 5 years; another 40% gave neutral responses. Nonetheless, not a single company is planning implementation. The question regarding the most suitable commission scheme for such an SME financing platform was answered by the majority of the surveyed institutions (62%) as a "combination of a fee-based model and a commission fee for qualified leads"; 23% view a purely fee-based model as promising, whereas 15% answered in favour of a commission fee model for qualified leads.

Digital assistants:

Digital financial assistants have recently experienced a boom, not least due to the rapid development of various technologies such as smartphones and the social web. As a result of changing client behaviour, clients are increasingly taking their financial matters into their own hands. Particularly in the financial area, where products are nearly all digitally based, digital assistants therefore play a very important role (see Figure 6).

An initial area of innovation includes so-called personal finance management systems (PFM systems), i.e. tools which create an overview of income and spending for clients and which additionally provide planning tools so that they can set individual financial goals and monitor their achievement. These tools have greatly varying functionalities, depending on the provider. The individual innovations are briefly described below.

The first innovative function is called **account aggregation** (PFM 1). It forms the basis of many PFM systems and allows the various bank accounts of a client to be merged in order to provide an overview of the client's overall finances. The most well known example is the worldwide leading provider "Mint" from the US. Most of the banks surveyed (94%) view this innovation as relevant; at present, it is already being implemented in one form or another by 22%, and another 44% have an offering planned in this area or are working to develop one. A second innovation, automatic transaction classification (PFM 2), automatically categorises income and spending, increasing transparency of the user's cash flows. A well implemented example is "e-cockpit" from PostFinance: the client receives an overview of his or her liquidity, including monthly payment obligations and variable expenses. The aggregate view of accounts and automatic assignment of income and spending to categories forms the basis of the third innovation: planning and budgeting (PFM 3). Especially in combination with the first two functions, clients can be offered significantly more comprehensive options for setting financial goals and aligning these with their sources of income and liabilities. A fourth functionality regards management of a client's (own) credit rating (PFM 4). Based on spending behaviour, clients are warned by the system when a pre-defined threshold is exceeded that jeopardises their ability to meet their financial commitments. One example of the implementation of such a service is "Moven", an exclusively mobile bank. It updates its clients on their own creditworthiness by means of credit score analyses.

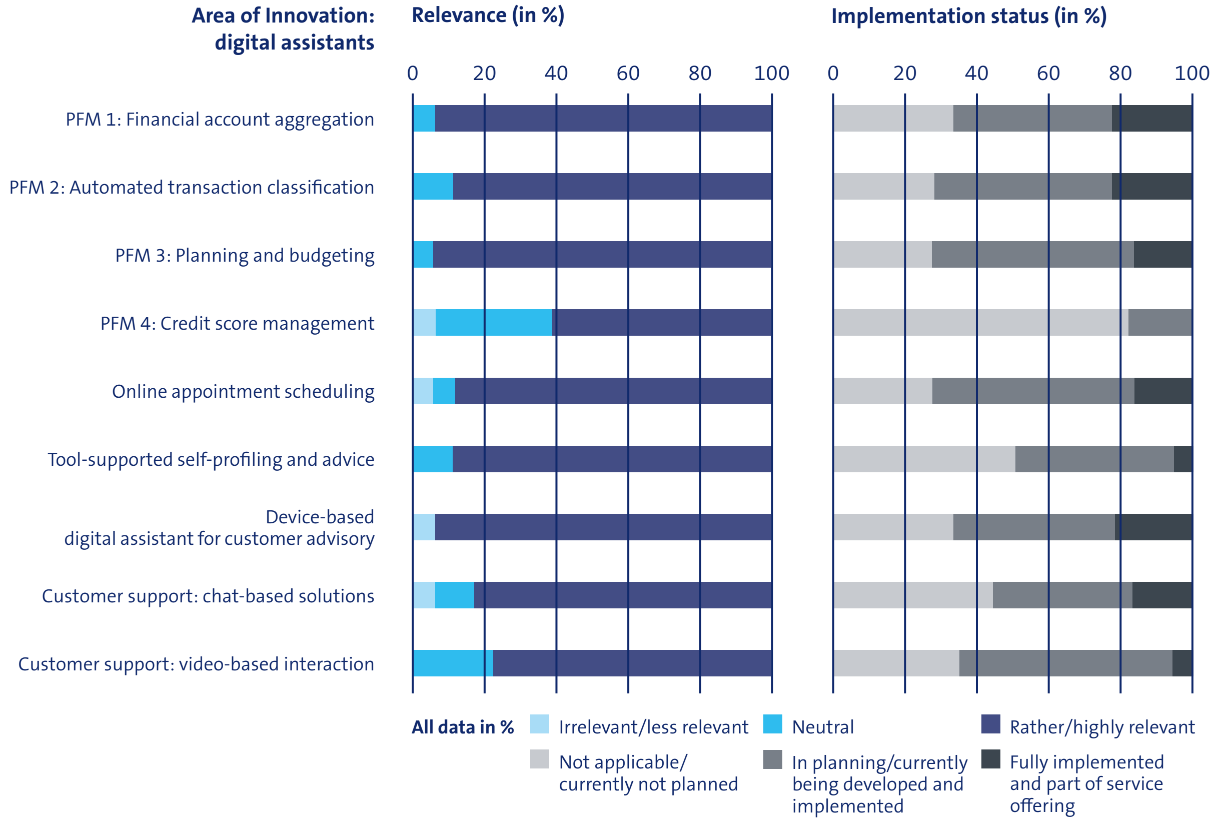


Figure 6: Innovations in digital assistants

Tool-supported self-advisory is a service that goes beyond the PFM tools. After a client has created a profile, which includes a large amount of information on the client's living situation, the bank is able to create individual client scenarios for life events such as buying a home or entering retirement. In this way it can show options for how the client can use the services and products of the bank to best advantage. The company IND Group, which has since been acquired by core banking system provider Misys, offers such a story-based system with the IND Personal Finance Planner. 89% of banks also believe such a service is relevant, but a mere 6% have a functionality like this on offer, while 44% of banks are still in the planning stages and 50% have no intention to go in this direction, despite the seemingly high level of relevance.

Device-based digital assistants for client advisory are applications for tablets which are designed to support the banks' client advisors during a client meeting. They are generally used for the subjects of investing and financing and are integrated into core banking and other client-related systems (e.g. CRM). Here, 94% of banks see very high potential for this innovation. A comparable solution is already in use at 22% of the companies, while another 44% are planning for such a tool or are developing one; however, 33% indicate that they will do without it for the time being.

In addition to use in personal meetings with client advisors, **chat-based solutions for client support** also provide the opportunity for clients to use this electronic channel for contacting the bank, receiving product information and solving technical problems in interaction with the bank. One example of this is the web chat offered by Barclays: 83% of the banks viewed such a function as relevant; 39% have announced plans to implement a comparable service or are working on its development; and 17% already offer their clients this option.

Video-based interaction is an innovation that goes beyond mere text chats and allows moving-image communication between the client and the advisor in real time. This, too, is receiving a lot of attention (78%). Of the banks surveyed, 59% are planning implementation of or are developing a solution, whereas only 6% already provide such an offer at present.

Non-financial services:

This section deals with all services that are not linked or only indirectly linked with concrete financial products of a bank.

Innovations in the area of non-financial services supplement the service portfolio of a bank. They can translate into a more comprehensive client experience and more closely bind the clients to the bank as a result. An appropriately designed offering for transferring financial knowledge can make a significant contribution to raising awareness of financial matters amongst the next generation of clients, while at the same time building trust and thus naturally leading clients to a bank. Various offers can then be used with specific target groups to strengthen client retention.

Services for secure data storage include the safe storage of electronic data and access to it. The SecureSafe solution is one example of such a Swiss offering. Overall, the study showed relevance of 78%, but only 17% of the banks already offer the service and another 22% are planning this type of market presence.

Real estate marketplaces are another service in this category. These are property platforms offered by financial service providers or companies from other sectors (e.g. NZZ Domizil). Banks also view this offering as highly relevant (67%), but 41% have no activities planned in this area.

The **transfer of financial knowledge** includes services that provide clients with insight into financial topics, enabling them to make financial decisions as independently as possible. According to the banks, the transfer of financial knowledge is less relevant (56%) than the other two innovations, and only 33% of the surveyed institutions have incorporated this subject in their planning and development activities, while 67% have no steps planned.

Banking app stores are online platforms operated by technology providers or banks with the aim of offering third-party applications to their clients (B2C) or other banks (B2B) which then enable access to a range of other services. One example in this area is the Crédit Agricole Store, which provides banking apps for the end clients of Crédit Agricole. Banking app stores are rated as relevant by 50% of the companies, but only 17% have it slotted in their project portfolios. According to an estimate by Gartner, around 25% of the world's leading 50 banks will have an app store by 2016.

The study revealed that priorities vary greatly from bank to bank. Overall, cantonal banks tend to be more sceptical of such non-financial services than institutions in the other two groups. This may be due to the fact that setting up certain services such as bank app stores and maintaining the content is not economically viable for many of the smaller companies if they cannot draw on the offerings of

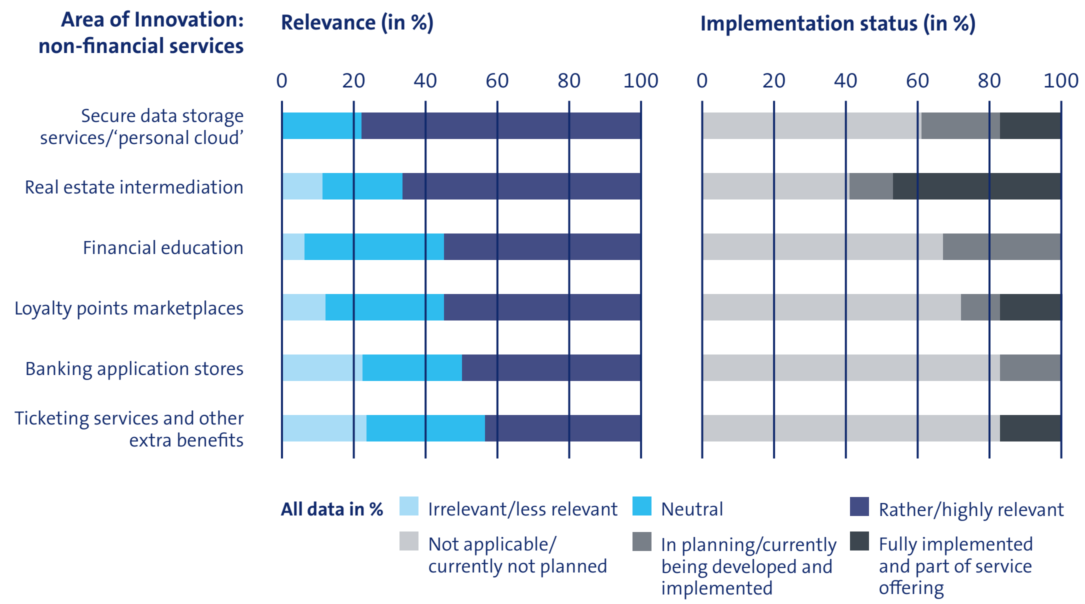


Figure 7: Innovations in non-financial services

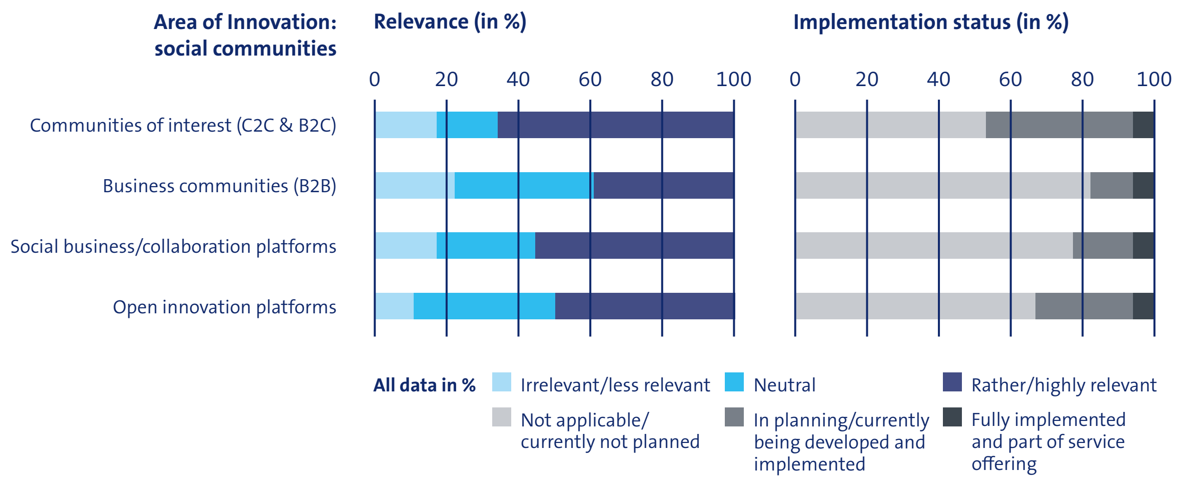


Figure 8: innovations in social communities

service providers that have achieved critical operational size. However, as regards real estate marketplaces, which are considerably easier to realise and significantly more important for the core business of cantonal banks, it is not surprising that cantonal banks not only view these as relevant but are also relatively quick to drive their implementation.

Social communities:

In general it can be said that banks view the use of social media as relevant in almost all areas.

A comparison of the approaches used to create **bank-internal communities** shows that the B2C area is regarded as significantly more relevant than the B2B area (67% vs. 39%, see Figure 8), and this reflects in the planning status of implementation activities. More than 50% of banks view the establishment of their own social communities for certain areas of interest and for the purpose of open innovation and the use of collaboration platforms (social business) as relevant. However, the current state of development of communities other than those focusing on specific areas of interest is still only moderate.

In summary, the surveyed companies see potential for social media or platforms even though their implementation activities are few and far between. This may be due to the fact that concrete innovations in the core areas of payments, saving and financing have higher priority and are being pushed. However, social media examples from other industries show that gaining experience and building up a position in the social media space takes time, and significant results cannot be expected all too quickly. Mistakes made in dealing with social media or within social communities can spread rapidly. On the other hand, the opportunity to work together with clients using an open innovation approach to create products and services raises the prospects for success on the market and shortens the time it generally takes for that success to be achieved.

3. Organisational and structural requirements for retail banks

Not all banks are equally well equipped for innovation. Some technological innovations require extensive restructuring of the business model and product range. Other innovations are regarded by banks as simply an additional sales channel, and internal structures and processes remain largely unchanged.

Banks see the "sweet spot" of innovation as being the area that requires the input of certain resources but does not necessitate fundamental alteration of core processes.

Conversely, it is a challenge for banks if they have to invest heavily only to maintain but not expand core business, because it is hardly associated with real innovations.

Non-bank providers, who have a different "sweet spot", pose the greatest danger to banks: they need hardly consider investments already made or existing organisational structures. They have access to large sums of money for major initial investments and can adapt innovations to core processes from the outset, in part because that is a particular aspect of their strategy. They also have a different opportunity-risk profile than banks. How well and how quickly banks deal with the technological transformation depends on the following four factors.

Strategy: Modern technologies make it easier for new players to enter the market, they open up unprecedented opportunities for gaining insight into the behaviour of clients, and they bring about long-term changes in cost structures. All of these factors call for banks to rethink their business models, portfolios of products and services, price structures, interaction with clients via electronic channels and the future role of their branch networks.

Processes and organisation: Any strategic repositioning within the business environment means the organisation has to have the right prerequisites in the area of management, coordination of channels and organisation-wide availability of information of all types as well as a clear view of future developments, including new market segments, and the products needed for market success.

IT systems: In order to be able to respond in a timely manner and at acceptable cost, banks must fulfil a range of IT system requirements. In this regard, standardisation, flexible interfaces and a sufficiently strong orientation towards the front have high priority so IT can fulfil its new strategic role as a timely and cost-efficient enabler.

Corporate culture: Openness and willingness to change, an adequate level of training and a suitable decision-making culture in particular are the keys to success in mastering these challenges.

As regards the **general strategic overview** across all banks, the survey shows that the companies have already taken measures in nearly all areas addressed and have examined the implications of many innovations and new technological opportunities for the business models they have in place. Moreover, most of the banks surveyed (55%) are planning to structurally adjust their branch networks, have created a strategy for cross-channel management (89%) and have adapted their pricing across channels (67%). Those surveyed have also clarified how traditional and new competitors could potentially use technologies to threaten the business of established players (78%). The picture is significantly less clear when it comes to the issue of how digital technologies should be used to put up entry barriers for potential competitors and to increase the banks' own share of total client spending for banking services. This has been completely or largely clarified according to 44% of the respondents, while 33% gave a neutral response and 22% deny that banks have built up such barriers.

On an **organisational level**, seamless coordination of the individual sales channels poses a major challenge: only 44% believe they have control of the situation, while 50% answered to the contrary. The responses are equally mixed with regard to cross-channel control indicators and tools. These are currently used by only 33% of the respondents. Making client data available across channels is another challenge for banks; at present only 39% responded that they are able to do so. Banks have also only partially addressed the transformation of call centres into video consulting centres and the use of modular service architectures (39% and 22% respectively).

Even greater obstacles reportedly exist on the **system level**. Here, for example, the fact that only 39% of banks have implemented central integration infrastructure for the rendering of services across all channels underscores the considerable need for action. Likewise, most of the surveyed companies still have numerous paper-bound processes, preventing complete digitalisation. Only 33% of banks support their front office processes with standard software, while 44% still work with individual solutions.

There is still considerable room for improvement in terms of a **corporate culture** that supports digital transformation: at present, only 28% believe they are able to experiment with new initiatives and can allow for errors. Furthermore, only 11% of the companies have training programmes designed to enable front employees to adequately support and advise digitally savvy clients.

Overall, the results show that in some areas banks have already created the conditions needed for digital transformation. However, the level of readiness decreases from strategy to process and organisation to systems. The study shows that banks are now primarily working to solve strategic issues and implement initiatives. These include the creation of a strategy for cross-channel management, cross-channel pricing and the evaluation of the role of non-banks in future ecosystems. However, a differentiated view of the structural and process conditions shows that there are still deficiencies. The channels still do not work together optimally, data are not available across all channels and in many cases a cross-channel management and controlling system is also lacking. Many banks are also still not clear as to the future role of call centres and in only very few cases do they foresee expansion into video consulting centres. There is also no basis for service architecture as the foundation for linking processes and services flexibly. The greatest need for action is in the area of systems, since many prerequisites for seamless interaction between channels, clients and bank employees are still not in place. This concerns, for example, the long overdue phasing out of paper processes, the standardisation of software in the back and front offices and the availability of cross-channel integration infrastructure.

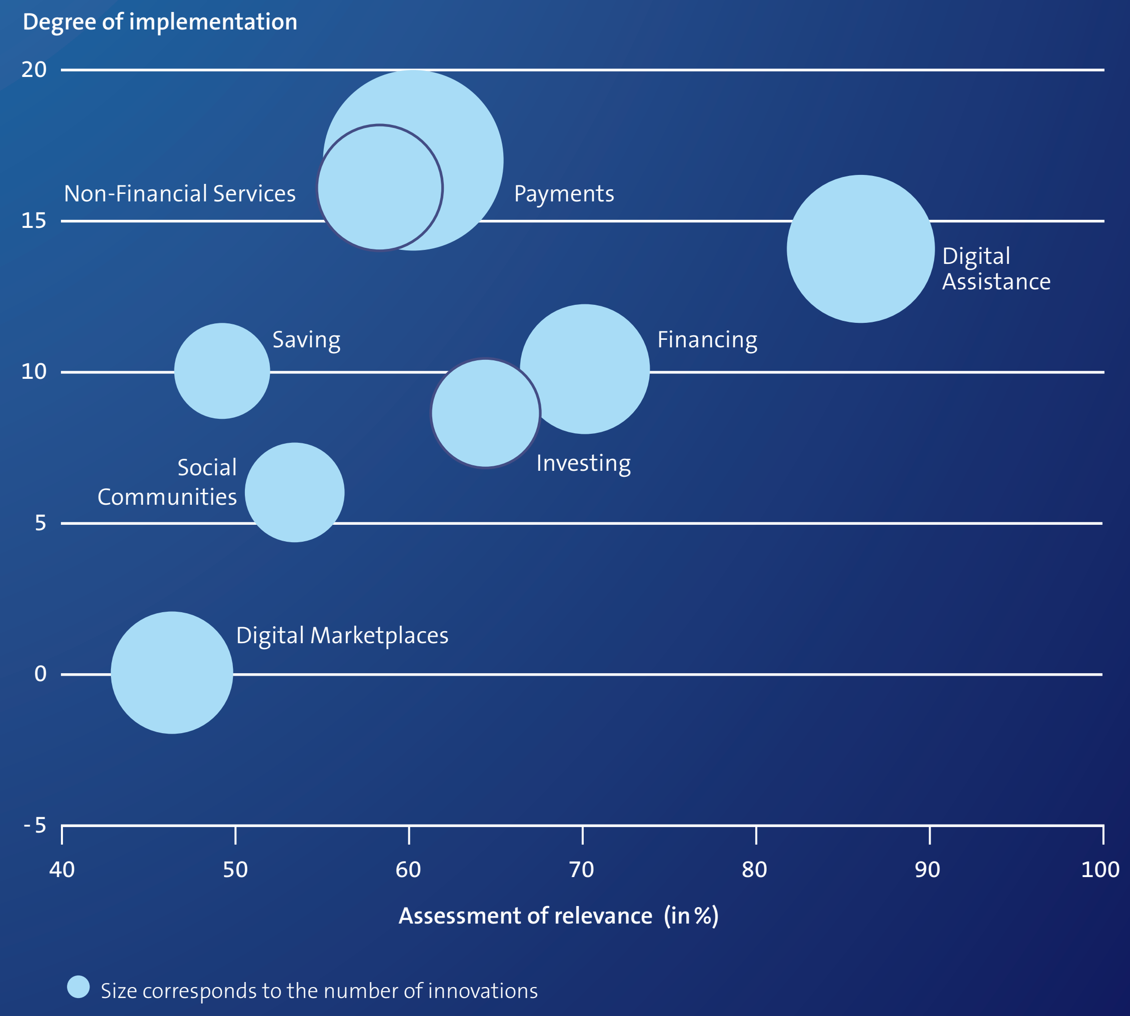
4. Conclusion

Banks view many of the innovative services in the above-mentioned banking and general areas as relevant. However, the extent to which implementation has been pursued, varies greatly. In the area of payments, 8 out of 13 innovations (i.e. 62%) have the status "implemented" or "planned" at 40% or more of the banks surveyed. However, in the area of financing, which offers considerably fewer opportunities, this is the case for only 3 out of 7 approaches (43%), and in the investing area it applies in only 2 out of 9 (22%) cases. There is also a low degree of implementation among banks when it comes to digital marketplaces and non-financial services.

Since innovations often stem from a combination of technology and changing client behaviour, banks view mobile technologies, big data tools and prescriptive analytical procedures in particular as key technologies for the implementation of many of the services described. However, successful positioning on the market requires the ability to adjust and implement quickly.

In summary, results indicate four developments pointing to a transformation in the banking industry. First, another even larger shift in focus seems to dominate the debate as to how to service the clients better. Secondly, there is a trend toward cross-channel interaction which must be answered with suitable service offerings and adequate infrastructure. Thirdly, non-banks increasingly compete with established players, even in their former core areas., ̈In the forth place, new value chain structures are evolving, leading to more cooperation in future amongst players who are not from the banking industry.

Key areas of innovation in retail banking



Publication details

Publisher
Swisscom AG
Alte Tiefenaustrasse 6
3048 Worblaufen

Survey conducted by
Banking Trends & Innovation of Solution Centre Banking at Swisscom in collaboration with the competence center sourcing in the finance industry

Conceptional design of the survey
Johannes Höhener
Dr. Andrej Radović
Dr. Thomas Puschmann

Authors of the summary of the final report
Dr. Falk Kohlmann
Matthias Niklowitz
Dr. Thomas Puschmann

Contact persons
Dr. Falk Kohlmann,
Swisscom,
falk.kohlmann@swisscom.com

Dr. Thomas Puschmann,
Business Engineering Institute St. Gallen AG,
thomas.puschmann@bei-sg.ch

Concept and design
Works Design, Zürich
Sabine Matthiesen, Swisscom

You can order the complete study free of charge at
http://swisscom.ch/bankingstudie_2014