RETAIL BANKING
FUTURE TRENDS
European Market

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We know that in today’s challenging and competitive market, all businesses are striving to do their best, regardless of the industry, where the key focus is to enhance the customer experience and stay competitive. So it is for the financial services industry. The conventional business model is not performing well and there is an ever increasing cost of regulatory compliance, managing customer expectations, resource management, cost of borrowing and falling margins. All while competition mounts from the new Financial Services local and global competition by the likes of Apple Pay, Google Wallet and by the new entrants in the financial services market—29 new banking license applications were in progress in the UK alone last year. The new bank start-up unit was established by Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) in January 2016 to bring focus to the new market entrants and the competition they expect to bring. Finally, In response to competition and the need for differentiation, FinTech firms are making great progress in offering better value for customers in terms of improved products and services along with convenience and flexibility to disrupt the conventional Financial Services business model.

All of these factors are forcing the financial services industry to think radically different to ensure a sustainable business and operating model for their customers and shareholders. The core focus comes down to, how can we increase revenue while keeping down costs and meeting our customers’ needs in the best possible way, a way which differentiates us from our competition.

Unfortunately, there is no “magic bullet” to fix everything, but all of these challenges are prompting the financial services industry to focus more and more on end-to-end business transformation to stay ahead of the game and to deliver the best customer value.

From NCR’s work with global financial institutions we want to help to answer:

**WHAT ARE THE CURRENT AND FUTURE TRENDS OF BANKING IN EUROPE?**

**Simplification and Optimisation of the Operating Model:**

This is one of the key focus area for a majority of financial institutions in Europe, especially tier 1 and tier 2 retails banks. They are focused on streamlining their business to maximize existing resources and the value to their customers. Typically, it starts with the customer in mind i.e. to understand the “moments of Truth” for the customer and deliver the right value to the customer through improved sales and services outcomes. In order to deliver the right value to the customer it requires simplification and optimisation of various components of the operating model e.g. process and technology simplification and optimisation and business capability enhancement.

**CUSTOMER RELATIONSHIP**

“The fight to hold on to customer relationships will be a high-stake struggle. We estimate that in five major retail banking businesses (customer finance, mortgages, SME lending, retail payments and wealth management) from 10 to 40 percent of revenues will be at risk by 2025, and between 20 and 60 percent of profits, with customer finance the most vulnerable” [1]

A core area many retail banks are currently focused on is optimisation and transformation of their distribution channel. Most retail banking executives feel that the branch is still a big asset as it delivers the most value. However, foot fall traffic is declining 10 percent CAGR and one of the top priorities of retail banking executives is to have the right distribution channel mix in place to maximize their existing resources and to deliver the enhanced customer experience.
Focus on Enhancing Customer Experience:

This is one of the key differentiating factors and is the top priority for every retail bank we speak to in the European region. It’s about moving away from transaction management to relationship management with the customer. It’s about understanding customer needs and partnering with them to achieve their short and long term goals in life. It’s about creating a brand supported by the right sales and service capabilities to deliver an enhanced customer value. NCR believes that this is a continuous journey with our customers who are at various levels of maturity with regards to the customer experience design.

CUSTOMER EXPERIENCE

“40 percent of consumers progressive, pioneers and Savvy Seekers) have a high willingness and ability to shift spend rapidly upon a poor experience. They are restless and capable. This dynamic has been ascribed to millennials, but our research shows that “millennial behavior” has been adopted across generations” [2]

Digitisation of the Business:

One of the key transformational trends we have seen across the globe and within the European market is digitisation of the business. However, very few retail banks have taken full advantage of the digitisation of their business yet. Lack of comprehensive business vision and strategy, existing organisational silos and legacy IT infrastructure have proven to be the key challenges most retail banks face in terms of delivering fully digitised business today. Currently, business digitisation is focused on automation and improvements in organisational sales and servicing capabilities. However, it has the massive potential to transform the whole business into something that is streamlined, agile and flexible and will enable future growth and success.
However, in the future, strategically and operationally, Financial Institutions will need to build a very different kind of a retail bank to secure sustainable ROE, revenue growth, better Loan / Deposit and optimised Cost / Income ratios.

These focus areas will be the key to building the next generation retail bank.

Customer Centric Business Model:
Focus on their core business and build a customer centric business model, which means a mind-set shift to a more open, transparent and agile business model which truly focuses on delivering customer value. Create the right business and IT capabilities, with more focus on digitisation, to connect with customers on more personal and emotional level and build a brand which delivers the right financial and emotional value to the customer.

Digitisation at Scale:
This will be one of the biggest influencers for the future retail bank, as this would provide an optimisation and growth engine for retail banks. This would be the true game changer, however, it would require a very different type of strategy development and execution capabilities within the organisation. It would not be a digital project anymore rather it would become embedded into the business as its’ core value with a very clear and strategic vision with the customer at the heart of it and would be enabled by true innovation.

BUSINESS DIGITISATION
“Banks leading in measures of operational and digital excellence reaped the lion’s share of financial rewards. They achieved 50 percent higher average pre-tax profit per customer than the median, while their operating expenses per customer were 30 percent less, a saving largely driven by lower personnel and IT costs”. [3]
Personalisation:

In order to sustain optimal business performance and increase revenues at the same time, personalisation of product and services will play the most important role. Personalisation is part and parcel of “Customer Centric Business Model” and “Digitisation at Scale” which would be enabled by maximizing the power of data across various organisational touch points.

“Personalisation can reduce acquisition costs by as much as 50 percent, lift revenues by 5 to 15 percent, and increase the efficiency of marketing spend by 10 to 30 percent." [5]

Other areas which will influence the future of retail banking include:

- Re-defining the Payments landscape (mobile, digital, FinTech, integration of e-commerce, social media and retail payments, etc.)
- Business and technology innovation
- Advanced Artificial Intelligence capabilities
- Transformed Distribution Model / right mix of existing and future channels
- Continuously changing regulatory requirements, with an emphasis on risk
- Agile IT infrastructure e.g. flexible middle tier for seamless integration with various third party services
- Big Data for better business decision making capabilities
- Employee transformation
- Building the right business model to support a wider banking eco-system (e.g. third party services, inclusion of Fintech), delivering further value through the supplier network.

**DIGITAL TRANSFORMATION**

“By 2020 75% of businesses will have digital transformation underway” [6]

**WHAT DOES THE NEXT GENERATION DISTRIBUTION CHANNEL MODEL LOOK LIKE FOR RETAIL BANKS TO STAY AHEAD OF THE GAME?**

Based on our experience there are quite a few factors which are forcing retail banks to re-think their distribution model, such as:

- Rising operating and regulatory costs
- Eroding sales results
- Declining transaction volume at physical channels (Branch foot traffic is declining 10% CAGR at most banks)
- Diminishing opportunity to cross and up-sell leading to a declining customer wallet share
- Demand on Channel Convergence, prodigious growth in mobile and digital channels
• Introduction of new alternative channels (e.g., video, Skype, social), changing customer behaviour
• And demand for improved and personalised services

Omni-Channel and channel convergence is driving anytime, anywhere banking and in turn is reshaping customer interaction, intensity and expectations. Leading banks will be moving far beyond channel integration to provide customers with an exceptional Omni-Channel experience.

The Next Generation Distribution Channel model will have the following key components to maximize the value delivery:

• **Clear Vision and Strategy:** to bring clarity and set the direction, define and measure key performance indicators to ensure strategy alignment. Integrate the channel experience: understanding customer needs and allow customers to define their own journey

• **Design for the Digital First Vision:** where customers will move seamlessly between digital, mobile, social and physical experiences

• **Enable Each Channel as a Responsive Touch Point:** where customers can access help, advice or additional service as they need

• **Enhanced Digital and Mobile Experience:** move from transactional to relationship interactions, where required, and manage digital relationships at scale

• **Optimise Physical Assets:** utilize multiple branch formats, ATM & branch technology to blur the divide between physical and digital and maximize the relationship and sales value of store assets

• **Enable Customer Centric Shift:** from product centric view to customer centric view to enhance relationship

• **Staff Transformation:** to align to the target operating model and to embed change

• **Powered by Big Data:** to ensure true understanding of customer journeys, interaction touch points, next best action, customer segmentation and portfolio. Truly transform the customer experience

• **Integrated and Agile Technology Infrastructure:** where all channels are inter-connected and provide 360 degrees inside-out and outside-in view to the bank and to the customer
The delivery of a true Omni-Channel experience is unique to each organisation due to their specific business and IT capability maturity level, customer segments, products and services, local political, economic, social, legal and environmental factors. Some of the regional and global best practices can help shape up the Next Generation Distribution Channel model.

**Closing Thoughts:**

The European banking sector is facing quite a few challenges, from new technologies, new and innovative market players, an ever changing regulatory landscape and changing customer behaviors and expectations. Out of the box thinking is required to match the fast paced change environment in the future. Organisations will be required to build very different types of capabilities in order to streamline their business while maintaining steady growth to win customer trust and to manage change in a very fast paced environment. This not only requires FIs to embrace and embed digital as a way of life but also requires a very different leadership style. A leadership style which not only demonstrates the right vision and strategy but understands the ever changing strategy execution dynamics and brings all internal and external resources together to deliver the right value to the organisation, its customers and to the wider eco system.


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Why NCR?

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