

WORLD RETAIL BANKING REPORT 2020



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Preface

Our theme – *Winning with a Sustainable Platform* – seemed particularly timely when we began work on the World Retail Banking Report 2020 late last year. We started by examining the strategies of platform-based newcomers that were creating value within an ecosystem of interdependent suppliers, aggregators, and orchestrators as the decades-old, fully integrated banking model – with one-size-fits-all, in-house developed products – ran out of relevancy steam.

We interviewed executives from banks and FinTech firms as well as FS consumers.

Banks told us that while they were working to keep costs down, they faced growing competition from low-overhead challenger banks that touted flexible, hyper-personalized offerings. FinTechs said they were willing to work hand-in-hand with incumbents so that both could adopt an **Open X** approach to business and leverage the shared economy. Customers said they wanted convenience, personalization, and interaction via channels they use regularly.

You may recall we coined the term Open X in our World FinTech Report 2019 to describe the impending FS era that transcends open banking. The Open X environment fosters a seamless **eX**change of data and resources to **eX**pedite production innovation, to ultimately, improve customer **eX**perience.

In February and March, new words began to enter our lexicon. Novel coronavirus. COVID-19. Pandemic. Government lockdown. Within the global *new normal* during the weeks and months that followed, our examination of the battle for digital customers between incumbents and upstarts became more relevant than ever.

Whether or not they had been tech-savvy previously, now, all bank customers embraced digital-only channels as stay-at-home restrictions made brick-and-mortar branches inaccessible. Consumers are seeking account information, transaction support, and general assurance that their FS firm has everything under control.

Within a world that has shifted to full digital, **Innovative Banking** that cultivates digital transformation, virtual customer service, platformification, and an open, sharing ecosystem is urgently needed – even more than at the dawn of the new decade.

Has your crisis plan been adequate, and is your platform ready to embrace new digital solutions on time and at scale?

As we persevere in fighting COVID-19 and transition to the *next normal*, we hope the World Retail Banking Report 2020 offers you an action path for profitability and sustainability during the uncertainty ahead. We are here to help.

Anirban Bose

*Financial Services Strategic Business Unit CEO
& Group Executive Board Member,*

Capgemini

John Berry

*CEO,
Efma*

Executive summary

Traditional banking models face competition as new entrants' innovative approach to customer experience takes center stage

- Digitally native, non-traditional FS players are testing the old guard by offering a delightful customer experience (CX) and gaining significant market traction.
 - Within today's unprecedented COVID-19 environment, the stakes are particularly high in a fully-digital economy.
- Banks face significant cost pressure today as net interest margin (NIM)¹ declines. And as NIM compression forces banks to transform their cost base – fast – the need to invest in high-powered remote access has never been more urgent.
 - To meet agile new entrants head-on, banks can expedite product innovation – quickly and at a reasonable cost – through the seamless exchange of data and resources that Open X fosters. The goal? Superior CX without sizeable discretionary investments.
- Pulling information from multiple channels and siloed business units depreciates data quality and limits banks' ability to offer timely and hyper-personalized customer engagement.
- Risk aversion, ineffective collaboration, and slow innovation impede growth.

Platform models empower firms to respond to uncertain times effectively and with agility

- Platform-based business models enable firms to create, cultivate, and monetize two-sided network effects.
- Build, buy, or share platform implementation merits needs-based evaluation.
 - **Build:** In-house development through greenfield or brownfield methods.
 - **Buy:** Acquire a platform based on capability-driven requirements or run the acquired platform firm as a standalone business.
 - **Share:** A ready-to-use platform from another firm can significantly reduce implementation time and costs.
- Banks seeking a sustainable platform often face challenges around security, culture, systems, and vision.

¹ NIM: the difference between interest income and the amount of interest paid out.

Transform the bank's core before platform implementation

- Despite legacy system challenges and the advantages of a modern core, banks are reluctant to take transformative action due to high resource requirements and risks associated with inefficient implementation.
 - Core banking transformation requires careful consideration to mitigate the likelihood and impact of risks.
 - And considering the 2020 pandemic environment, many banks may not be able to embark fully on core transformation this year. Instead, low-cost incremental improvements may be advisable for short-duration and low-risk projects.
- **A phased approach** can help banks to achieve time-sensitive goals with minimal risks and measurable outcomes.
 - Incremental implementation will progressively transform the core system and leverage the API network to build an open and scalable platform.
- **An open platform** – powered by a high-performing core – positions banks to orchestrate a customer-centric, blended ecosystem of relevant financial and non-financial services, this is Open X.

COVID-19 has accelerated the urgency for digital transformation

- While banks struggle with operational challenges and branch closures, those that have adopted an open API-enabled platform are delivering virtual (digital) services at scale.
- **Inventive Banking** can help minimize business disruptions by enabling firms to move beyond open banking and to embrace Open X during unpredictable situations.



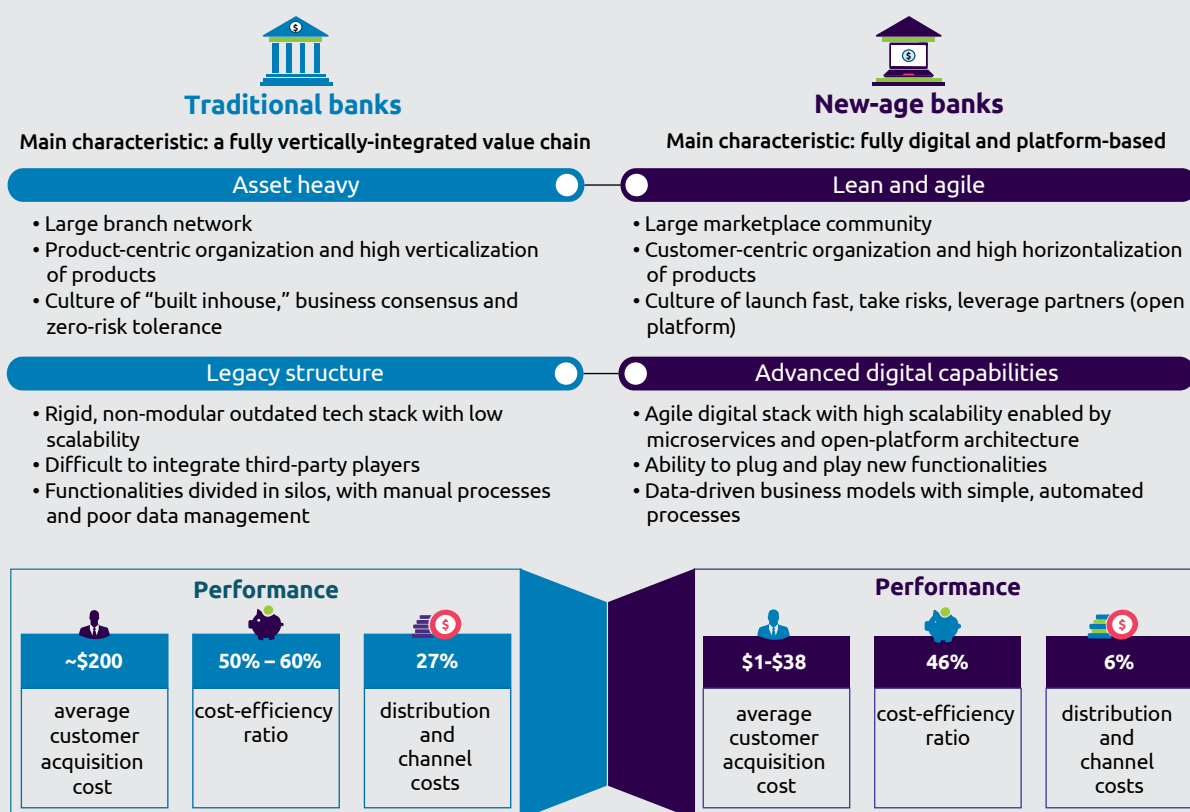
Traditional banking models face displacement as...

Agile new entrants grab the customer experience innovation spotlight

The financial sector is in the midst of historic transformation as nimble, digitally-native non-traditional players test the old guard. New entrants are prioritizing customer experience (CX) and redefining long-held banking principles to gain market traction. And the stakes are particularly high within today's unprecedented COVID-19 *new normal* environment.

With almost 39 million users worldwide, challenger banks and neobanks provide low-cost, hyper-personalized, customer-friendly offerings as a result of their branchless business models, plug-and-play open platform, APIs, and agility with digital stacks that drive efficient operations and low back- and front-end costs (Figure 1).^{2,3,4}

Figure 1. Traditional banks vs new-age banks



Sources⁵: Capgemini Financial Services Analysis, 2020; Business Insider Intelligence.

² A challenger bank is a pure player with mobile-only designed banking experience, usually operating in multiple countries. They have their own banking license. They are cloud native and operate on an open and evolutive platform.

³ A neobank is a subsidiary/affiliate of a traditional bank (usually linked to the same core banking system) that provides online/mobile experience (with possible access to branches). They usually leverage the same banking license.

⁴ Business Insider, "The Global Neobanks Report: How 26 upstarts are winning customers and pivoting from hyper-growth to profitability in a \$27 billion market", accessed April 2020.

⁵ Ibid.



Non-traditional players are gradually disintermediating the banking value chain. While they are not attacking the entire value chain, they are positioned as champions in specific spaces, excel in customer experience, and accelerate time to market.”

— **Véronique McCarroll**

Head of Strategy, Innovation & Partnerships, Mobile Finance Europe, Orange Bank, France



Non-traditional firms have been tackling pain points customers face with incumbents. BigTechs and challenger banks such as N26 offer KYC and onboarding with fully digital and seamless customer experience, and that is pushing banks to rethink, revamp, and reshape their customer journey.”

— **Laurent Herbillon**

Director, Open Innovation, BNP Paribas, France

And as customers seek a true omni-channel experience, traditional banks have to develop new channel capabilities quickly to take on the challenger banks. On the cost side, despite expected dip in discretionary spends, banks should not delay their efforts to build data and cloud capabilities.

Open X offers incumbents the shift from transactional to experiential banking

Incumbents are working to keep costs down while competing with flexible, hyper-personalized offerings from challenger banks. That’s why it is time, now more than ever, to leverage a shared economy by adopting the Open X approach to doing business. The move offers incumbents an opportunity to reduce operational costs and evolve from high fixed investment in IT development to a less expensive variable cost model that relies on utilizing ecosystem specialists.

Banks can strategically showcase their strengths and – at the same time – collaborate with third parties to complement product portfolios, enhance service delivery, and boost revenue.

*Dutch bank **ABN AMRO** collaborated with **Tink**, a Swedish FinTech, to develop **Grip**, a personal finance management app that allows customers to view their consolidated finances, including integrated accounts from other banks. As of August 2019, more than 670,000 ABN AMRO customers use Grip – and as a result, 50% reported an improved perception of the bank.⁶*

Open X:

*seamless eXchange of data and resources + eXpedited product innovation
=
improved customer eXperience*

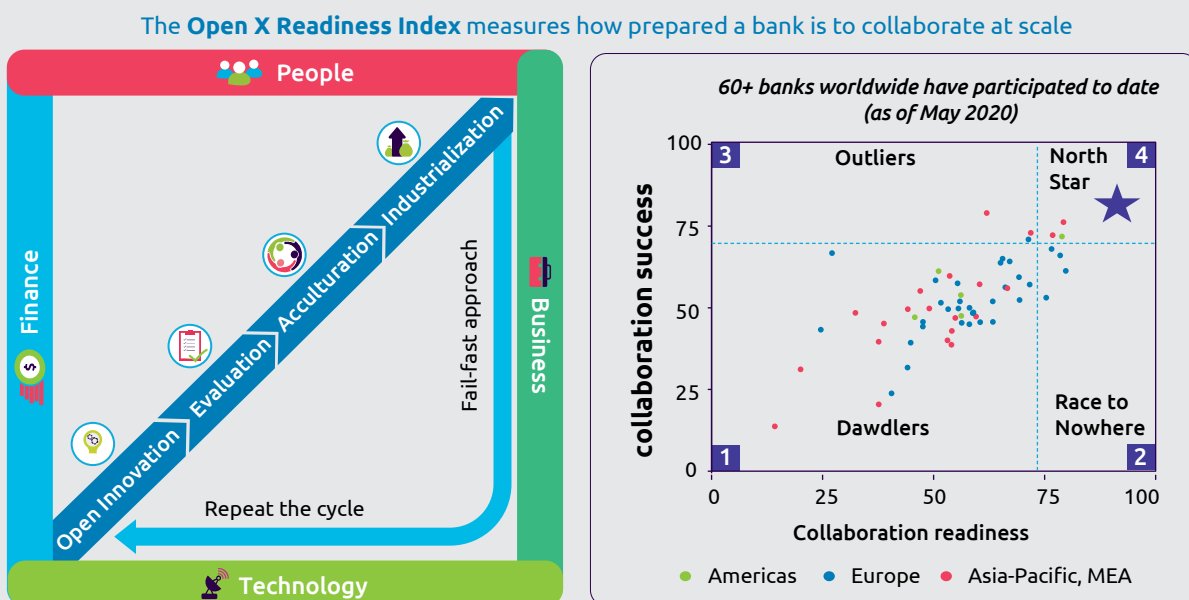
⁶ Tink, “How ABN AMRO built the most popular Dutch PFM app,” August 19, 2019; <https://blog.tink.com/blog/2019/08/20/abn-amro-use-case>.

Capgemini's **Open X Readiness Index**, an ongoing global benchmark exercise, introduced in the *World Retail Banking Report 2019*, measures banks' readiness to collaborate at scale with ecosystem partners (Figure 2). Banks are measured across the four **collaboration pillars** (People, Finance, Business, and Technology), and mapped to the four **stages of collaboration** (Open Innovation, Evaluation, Acculturation, and Industrialization). Around 60 firms across regions have participated so far, with only a handful achieving North Star success.

Most banks can reduce readiness gaps and thrive in the Open X ecosystem by:

1. Boosting data management capabilities
2. Embracing a startup mindset toward innovation
3. Minimizing legacy system dependency – platformification enabled by core system modernization.

Figure 2. Open X to effectively collaborate and enhance customer experience



Note: For detailed methodology, see page 33.
Source: Capgemini Financial Services Analysis.

Most banks do not capitalize on their data-rich advantages

Customer expectations have been evolving over recent years – and now, because of the COVID-19 crisis, they are at an all-time high. Subsequently, the impact of inefficient legacy frameworks on CX has become far too difficult to ignore. Only firms capable of making the most of customer data are now prepared to offer relevant and timely support. New-age players' data-driven, digital-only models empower them to adapt quickly to unforeseen circumstances and to provide

customers valuable fully digital relationships and hyper-personalized services.

Legacy systems make data management tedious. For large banks encumbered by manual processes, pulling data from multiple channels and siloed business units can deflate information quality and restrict its full potential.

The World Retail Banking Report 2020 categorizes banks in terms of their ability to manage and utilize data. Our analysis found that only a small percentage of banks could manage as well as leverage the best

The main challenge will be data quality. Many customers have been onboarded before the world became digital. Banks have the necessary capabilities to process and use the data but are mainly holding back because of the quality challenge.”

— Frans van der Horst
CEO, ABN AMRO Retail Banking, Netherlands

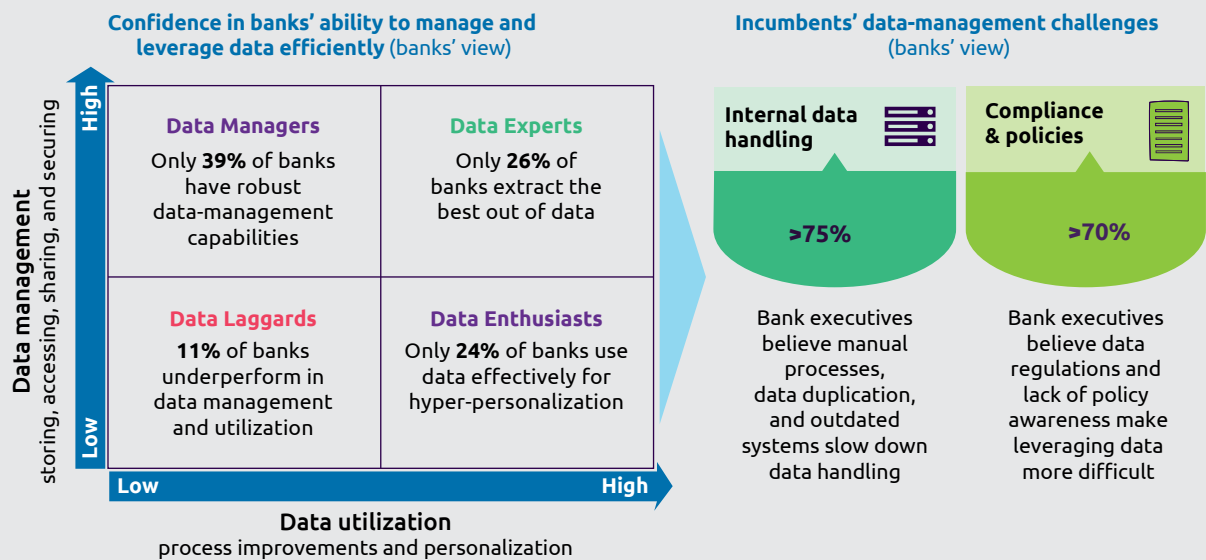
Banks have several large data lakes in silos. The result is low interoperability that affects their ability to process the data to drive insights and use it to customize customer services.”

— Head of Group Strategy Innovation
a large bank in Israel

and most actionable datasets (Figure 3). Most firms fell under the *Data Manager* category ranking high in data management (because they had capabilities to store, access, share, and secure data), but their data utilization was low. Firms often gain data management skills as a result of compliance with stringent regulations across regions. Less than one-quarter of firms (*Data Enthusiasts*) use data to develop

personalized services or process improvements. Within the current scenario, the ability to compete effectively and offer customer intimacy requires an equal focus on both dimensions for a bank to become a *Data Expert*.

Figure 3. Incumbents have work to do when it comes to managing and using data effectively



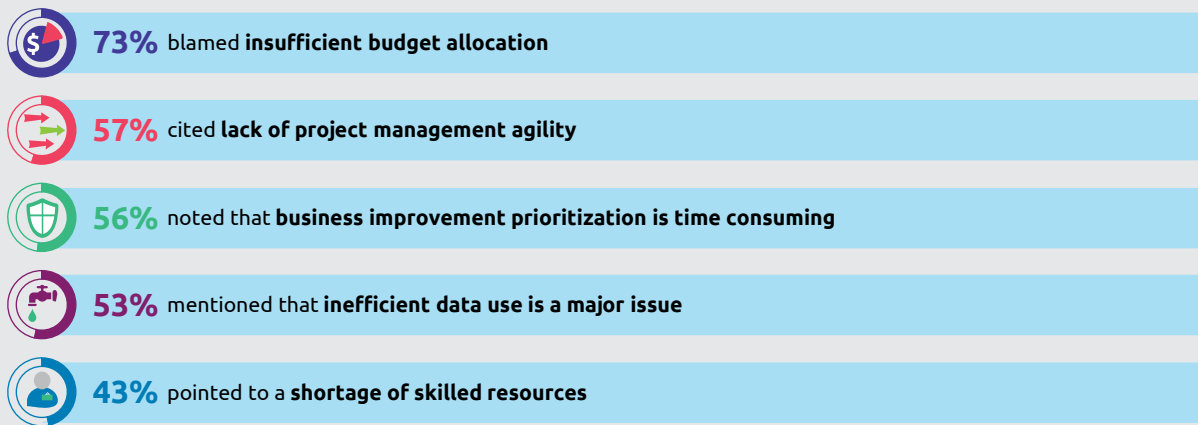
Source: Capgemini Financial Services Analysis, 2020; 2020 Global Retail Banking Executive Interviews and Survey.

Innovate to move digitally forward

In addition to unimpressive data usage towards customer personalization, a risk-averse mindset can undermine innovation and impede incumbents' growth. Banks that cannot utilize good-data-hungry emerging technologies such as AI are at a disadvantage when it comes to developing products that today's increasingly-tech savvy consumers demand.

The bank executives we surveyed identified many obstacles to in-house innovation, and most were linked to leadership's resistance to change and allocate appropriate budget (Figure 4).

Figure 4. Why do bank executives struggle with in-house innovation?



Source: Capgemini Financial Services Analysis, 2020; 2020 Global Retail Banking Executive Interviews and Survey.

Legacy culture is a significant obstacle to in-house innovation. However, some banks are establishing dedicated autonomous teams to partner with startups to rationalize operations or generate new product/service concepts and revenue streams.

Bank executives said this collaborative method offers a fast track to innovation. But are most firms prepared for the fast lane?

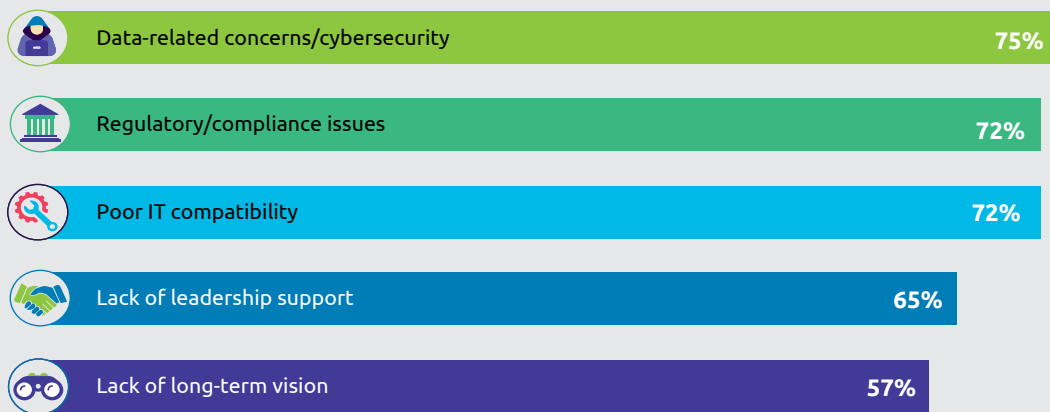
58% of executives said banks that effectively collaborate with FinTech or BigTech partners take less than a year to innovate and launch a new concept

A focus on quick-fixes and workarounds to keep incompatible IT systems operational have slowed collaborative efforts. Bank executives acknowledge that the safety of customer data, cybersecurity concerns, and tighter regulatory mandates are also barriers to effective collaboration with new-age players (Figure 5).

Banks must focus on North Star-level collaboration (ROI-producing partnerships) so that win-win efforts to work at scale with ecosystem players will pay off with reduced time to market, risk, and costs – and product pipelines filled with value-added innovations.

Regardless of a bank's business intent or approach to innovation, a platform-based model can offer light at the end of the competitive tunnel. Platforms enable fast and secure plug-and-play integration to make collaboration with ecosystem partners possible.

Figure 5. Why are banks failing to collaborate effectively?



Source: Capgemini Financial Services Analysis, 2020; 2020 Global Retail Banking Executive Interviews and Survey.



Start now to plug and play

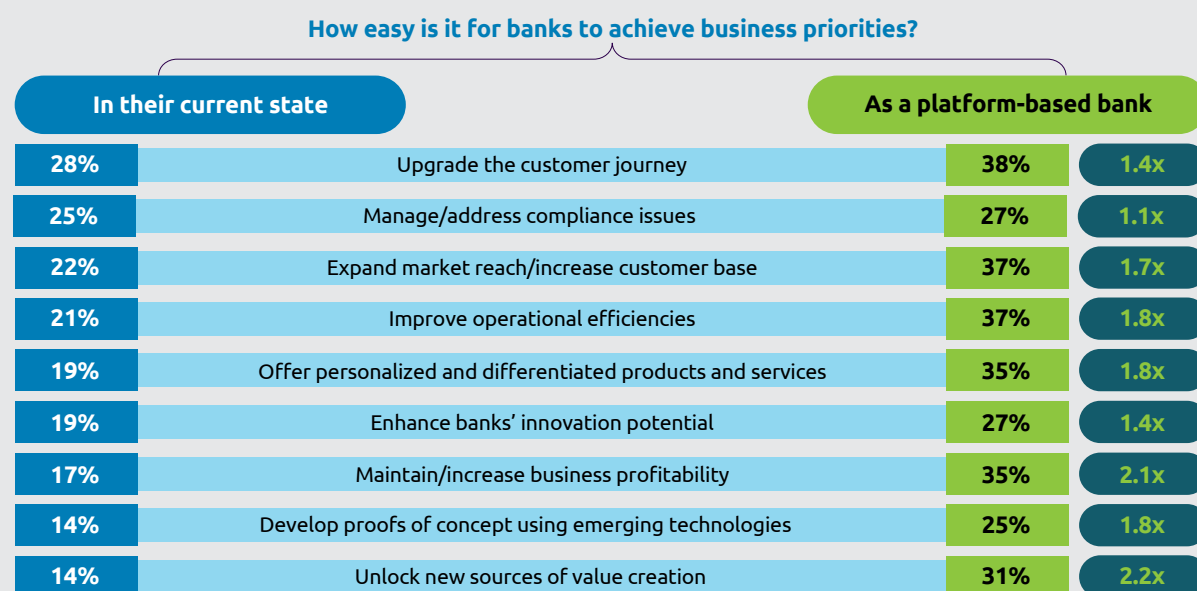
Platform models offer agility during uncertain times

In the age of disruption, the traditional banking model – based on operational scale and broad deployment of universal products is fast losing its mojo. **Agility and personalization are now golden tickets** when it comes to quick response to regulatory mandates, aggressive competition, emerging technology, and always-shifting customer expectations – and let’s not forget unforeseen events, such as the coronavirus pandemic.

The decades-old integrated banking model with one-size-fits-all products developed in-house is fading as platform-based new entrants create value within an ecosystem of interdependent producers, suppliers, and distributors.

Not all platform businesses are startups. Seven of the world’s 10 most valuable companies are platform-based, including Apple, Amazon, and Microsoft.⁷ In a 2019 study, Harvard Business Review identified and analyzed 43 publicly-listed platform companies (from Forbes Global 2000), some in operation for 20 years, and found them to be more efficient than their counterparts.⁸

Figure 6. Platform-based banks meet business priorities more efficiently than traditional banks



Note: Multipliers indicate the positive rate of change in ease of achieving the strategic priorities.

Source: Capgemini Financial Services Analysis, 2020; 2020 Global Retail Banking Executive Interviews and Survey.

⁷ The Genius Works, “‘Platform’ companies now dominate markets, fundamentally disrupting how value is created, time for a business model revolution,” Peter Fisk, June 2, 2019; <https://www.thegeniusworks.com/2019/06/the-platform-economy-time-for-a-business-model-revolution-in-europe>.

⁸ Harvard Business Review, “A study of more than 250 platforms reveals why most fail,” May 29, 2019; <https://hbr.org/2019/05/a-study-of-more-than-250-platforms-reveals-why-most-fail>.

*Platform-based firms can achieve
2X operating profits, higher
market values and steady growth*



In the short- to medium term, successful platformification will help to create new value sources and drive business growth. Platform models will diversify revenue pools, add more services and partners, and create a new digital ecosystem.”

— Laurent Herbillion
Director, Open Innovation,
BNP Paribas, France

Across geographies, banks seek to improve the bottom line by prioritizing business initiatives to increase sales or reduce expenses. And, now, bank executives recognize that accomplishing business priorities can be less challenging (in terms of time and resources) for firms that adopt platformification.

Platform-based banks derive value from a **two-sided network** effect whereby incremental customer growth attracts more suppliers (or service providers) and vice versa. Challenger banks, such as Tide, Monzo, Starling, and Revolut, are leveraging a two-sided platform network to gain market traction.⁹ Platformification is based on creating, cultivating, and monetizing network effects.

Iconic firm adopts transformational platform model for 21st-century growth^{10,11}

*Founded in 1920, US-based **Pitney Bowes** may be known mostly for postage meters, mailing equipment, and services. The traditional, vertically-integrated company handled end-to-end production of its meters, associated services, and add-ons. By 2000, however, the company realized that the established mail market was in decline thanks to digital technologies; and in 2008, the global recession created even more acute problems for the company. Post-recession, Pitney Bowes executives decided to embrace a digital transformation strategy by leveraging mobile, data, IoT, and other emerging technologies. The company aimed to become a platform-based business to build a digital footprint, accelerate speed to market, and expand its client base and opportunities for innovation through a broader ecosystem.*

*The company partnered with **Google Cloud** to build an API-driven platform that allows third-party developers to leverage Pitney Bowes’ data to innovate new products. Pitney Bowes’ transformative platform model enables the firm to use modern technologies to deliver e-commerce and shipping solutions, establish extensive partnerships, improve customer experience, and optimize its operations.*

*In Q4 2017, **Pitney Bowes** grew its revenue for the first time in nearly a decade.*

⁹ Finder, “Starling forges new functions and joins rival offering payments to people nearby,” September 4, 2018; <https://www.finder.com/uk/starling-forges-new-functions-and-joins-rivals-offering-payments-to-people-nearby>.

¹⁰ Google Cloud, “From stamp machines to cloud services: The Pitney Bowes transformation,” September 25, 2019; <https://cloud.google.com/blog/topics/customers/from-stamp-machines-to-cloud-services-the-pitney-bowes-transformation>.

¹¹ Alfresco, “Customer Insights: How Pitney Bowes is Reinventing its Business with Platform Thinking and Digital Technologies,” June 11, 2018; <https://www.alfresco.com/blogs/power-platform/customer-insights-how-pitney-bowes-reinventing-its-business-platform-thinking>.

Platformification is not a one-size-fits-all process

Traditional banks must weigh various platform approaches to align with their business goals. The aim should be a hybrid platform that empowers both innovation (to enable third-party services to be added to core products) and transactions (to facilitate the exchange of information, goods, and services). Banks can build, buy, or share platform capabilities (Figure 7).

Build: There are two approaches to building a platform. The first is a **greenfield approach** in which the platform is made from scratch and often spun off from the existing traditional model. Spinoffs draw on the resources and experience of the parent institution while operating independently. Free from technological legacy, greenfield spinoffs can deliver significant results quickly.

United Overseas Bank (UOB) adopted a greenfield approach to platformification. In 2019, the Singapore-based bank launched a platform-based mobile-only



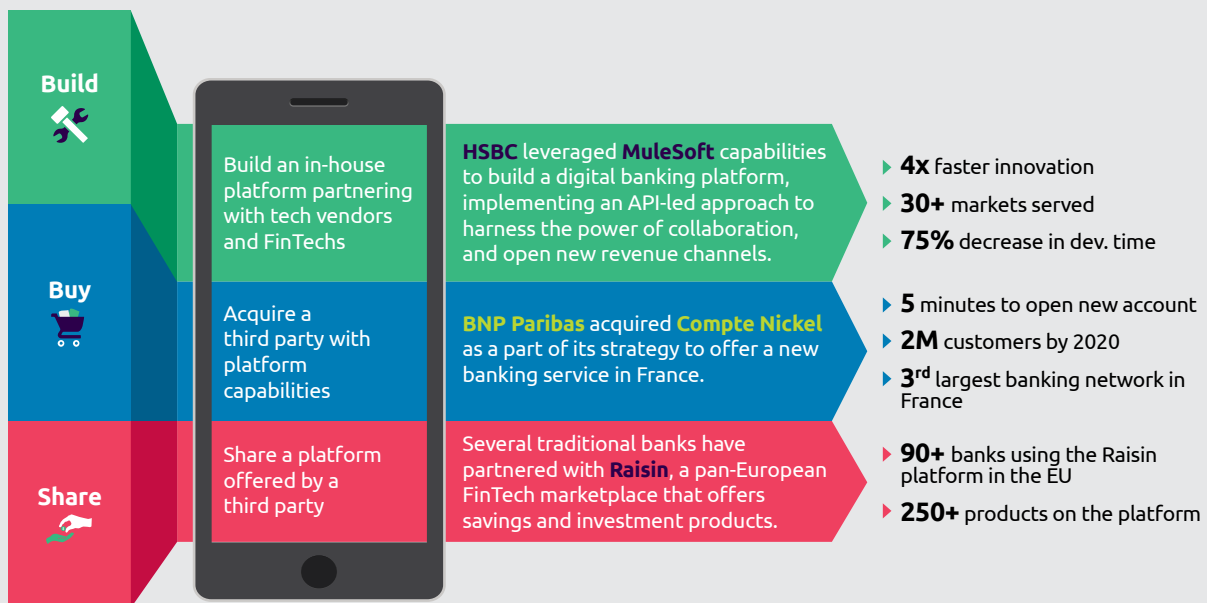
To embrace platformification, banks will need a hybrid approach that includes transforming a few core technologies while leveraging partnerships to manage risks and shareholder expectations effectively.”

— **Adizah Tejani**

Digital Innovation Lead, HSBC, Retail Banking and Wealth Management, UK

bank, **TMRW**, to tap digitally savvy customers and expand its customer base to three-to-five million by 2024. TMRW is integrating emerging technologies, such as biometrics (fingerprint and facial recognition), predictive analytics, and machine learning, to improve customer experience and achieve a cost-to-income

Figure 7. Build, Buy, Share strategies earn quantifiable platform results



Source^{12,13,14}: Capgemini Financial Services Analysis, 2020; MuleSoft, BNP Paribas, Raisin.

¹² MuleSoft, “HSBC builds the bank of the future with MuleSoft,” November 20, 2019; <https://www.mulesoft.com/press-center/future-digital-banking-platform>.

¹³ BNP Paribas, “BNP Paribas completes the acquisition of Compte-Nickel,” July 12, 2017; <https://group.bnpparibas/en/press-release/bnp-paribas-completes-acquisition-compte-nickel>.

¹⁴ Raisin; <https://www.raisin.com/bank/>, accessed April 2020.

ratio of 35%. The company reported an 80% rise in revenue per customer and a 70% decline in customer acquisition costs from March through November 2019.^{15,16,17}

The second method is the **brownfield approach**, whereby the bank transforms its current pipeline model through substantial legacy infrastructure enhancements and upgrades to IT capabilities. Ultimately, success is dependent on well-managed and prioritized cultural change.

DBS took a brownfield approach to platformification. The Singapore-based multinational bank chose a two-phase implementation that began with digital innovation (2009–2014), and then the transformation in 2015 to a platform bank and ecosystem player. The in-house IT team went from 85% outsourcing to 85% insourcing. DBS changed the culture of its legacy workforce by establishing an innovation group that reported directly to the CIO. The bank invested in reskilling and upskilling its legacy workforce, work environment, and project approach to create a startup culture throughout the enterprise.¹⁸

Irrespective of the platform approach, bank staff will need to be reskilled, and professionals with new talent sets recruited.

Buy: Banks looking to accelerate the pace of change use acquisition as a strategic tool to become platforms; however, integration and culture clash can be daunting. Firms can handle a platform purchase in one of two ways.

A capability-driven approach may suit banks looking to acquire and integrate new products, channels, and capabilities within the existing model. For instance, **Deutsche Bank** acquired India-based FinTech **Quantiguous Solutions** to accelerate the

*Tier-I banks often prefer **build and buy** platformification approaches*



Unlike traditional banks with a layered structure within an extremely complex architecture, Bankia opted for a more innovative platform model, decoupling the distribution layer (customer-oriented) and the production layer (product-oriented). This new model allows Bankia to distribute third-party product lines into its structure and distribute its own products via third-party platforms.”

— **Manuel Gonzalez**

Director Digital Channels, Bankia, Spain

development of its open banking platform.¹⁹ Global banks also leverage their venture arms to invest in FinTechs for future integrations. **Citigroup**, through its **Citi Ventures**, backed four blockchain, three capital market, and three payments and settlement startups during 2017–2019 as part of Citi’s broader strategy to build an open banking infrastructure.²⁰

¹⁵ Nikkei Asian review, “Singapore’s UOB to launch digital bank in Thailand,” February 14, 2019; <https://asia.nikkei.com/Business/Companies/Singapore-s-UOB-to-launch-digital-bank-in-Thailand>.

¹⁶ Finextra, “UOB app-only bank TMRW introduces fingerprint and facial recognition for account opening,” December 9, 2019; <https://www.finextra.com/pressarticle/80880/uob-app-only-bank-tmrw-introduces-fingerprint-and-facial-recognition-for-account-opening>.

¹⁷ Finews.asia, “UOB’s TMRW Sees \$10 Billion Market,” January 13, 2020; <https://www.finews.asia/finance/30691-uob-s-digital-bank-sees-10-billion-market>.

¹⁸ MIT CISR case study, “DBS: From the ‘World’s Best Bank’ to Building the Future-Ready Enterprise,” Sia Siew Kien, Peter Weill, Mou Xu, March 2019; <https://www.pegacom/system/files/resources/2019-05/mit-cisr-digital-transformation-dbs.pdf>.

¹⁹ Deutsche Bank, “Deutsche Bank acquires India-based FinTech start-up Quantiguous Solutions to accelerate the bank’s Open Banking strategy,” May 15, 2018; https://www.db.com/newsroom_news/2018/deutsche-bank-acquires-india-based-fintech-start-up-quantiguous-solutions-to-accelerate-the-bank-s-open-banking--en-11578.htm.

²⁰ CBInsights, “Where Top US Banks Are Betting On Fintech,” August 20, 2019; <https://www.cbinsights.com/research/fintech-investments-top-us-banks/>.

Banks may also leverage their reach and scale by running an acquired company as a standalone business (acting as a holding company). Global financial services group **BBVA** acquired **Holvi**, a Finnish online business banking service, and **Simple**, a US-based neobank. Both digital banks operate independently leveraging the scope and scale of BBVA.^{21,22}

Share: As the platformification trend gains momentum, some incumbents have scrambled to quickly transform their business model by adopting ready-to-use-platforms that significantly reduce implementation time and offer a low-cost option.

Several new shared models allow banks to transform at their own pace. More than 90 banks – such as Alior Bank, Euram Bank, and Hauck & Aufhäuser – share **Raisin's** platform to distribute over 250 products to customers.²³ Similarly, **OakNorth**, a UK unicorn that lends to small- and medium-sized enterprises,



Platformification helps non-traditional players to scale and connect easily with external providers with the help of APIs.”

— **Thomas Courtois**

Executive President, Nickel, France

outsources its self-built platform to firms such as **Customers Bank** (US) and **NIBC Bank** (Netherlands) for credit risk analysis, quick underwriting, and loan processes.^{24,25}

²¹ BBVA, “BBVA acquires Finnish banking startup Holvi,” March 7, 2016; <https://www.bbva.com/en/bbva-acquires-finnish-banking-start-holvi/>.

²² BBVA, “BBVA acquires Simple to accelerate digital banking expansion,” February 2014; <https://www.bbva.com/en/bbva-acquires-simple-to-accelerate-digital-banking-expansion>.

²³ Raisin, “Learn more about our partner banks,” accessed April 28, 2020; <https://www.raisin.com/bank/>.

²⁴ FinTech Futures, “US-based Customers Bank adopts OakNorth’s lending platform,” Ruby Hinchliffe, April 8, 2020; <https://www.fintechfutures.com/2020/04/us-based-customers-bank-adopts-oaknorths-lending-platform/>.

²⁵ NIBC Bank, “NIBC Bank and OakNorth strengthen their partnership,” July 2, 2019; <https://www.nibc.com/about-nibc/newsroom/newsroom/nibc-bank-and-oaknorth-strengthen-their-partnership-by-signing-five-year-agreement/#>.

Adequate preparation for the platformification journey can mitigate organizational snags

To create a scalable platform, firms must carefully build a foundation around four pillars – People, Finance, Business, and Technology – that work in concert to create harmony and ensure efficiency.

The bank executives we interviewed said, vision, systems, culture, and security stood out as the most imposing concern surrounding platformification.

Vision: More than half of the bank executives surveyed said their firm did not focus on a strategic roadmap with adequate budgeting. This revelation indicates underlying *market myopia* – short-sighted, inward thinking wherein a firm focuses on itself versus market dynamics and customer expectations.²⁶ By 2030, 80% of traditional financial services firms will close, become commoditized, or exist formally but will not compete effectively, Gartner predicts.²⁷

Systems: When it comes to IT systems, bankers across the world are loyal to the *if-it-ain't-broke, don't-fix-it*



A change in mindset and a change in technology are needed to move forward into platformification. By collaborating with various ecosystem players, the learning curve can help banks to scale up toward becoming a platform.”

— **Carlos López-Moctezuma**
Global Head of Open Banking,
BBVA, Spain

commandment. Incumbents avoid legacy system transformation, and instead, create complicated, non-linear systems, propped up extensions and patchworks. Workarounds make emerging technology adoption difficult, limit straight-through processing, and lack real-time processing capability. Performance issues and rigidity of aging systems constrict platform development.

Figure 8. Platformification faces obstacles



Source: Capgemini Financial Services Analysis, 2020; 2020 Global Retail Banking Executive Interviews and Survey.

²⁶ BBVA Harvard Business Review, “Marketing Myopia,” Theodore Levitt, 1960; <http://125.22.40.134:8080/jspui/bitstream/123456789/4090/1/Marketing%20Myopia%20Article.pdf>.

²⁷ Gartner, “Gartner Says Digitalization Will Make Most Heritage Financial Firms Irrelevant by 2030,” October 29 2018; <https://www.gartner.com/en/newsroom/press-releases/2018-10-29-gartner-says-digitalization-will-make-most-heritage-financial-firms-irrelevant-by-2030>.



Platformification is going to be the next big milestone. Platforms in banking, payments, and lending are going to be a standard in the coming years. However, the market is slow in adopting the change due to legacy systems.”

— **Pierre Ramadier**

CEO Wealth Management, Bank of the West, US



Banks sometimes consider legacy systems as an excuse – and sometimes as an explanation – because of factors such as culture, data security, and regulations.”

— **Michel Paulin**

CEO, OVH Cloud, France

Culture: Incumbents often struggle with cultural friction during the platformification journey. Banks that select a *build* approach may face cultural discord as they work to reskill a legacy workforce. Banks that *buy* a platform must integrate two – often disparate – cultures. And when power struggles ensue, guess who wins? The “culture eats strategy for breakfast” aphorism attributed to legendary management consultant Peter Drucker colorfully describes how corporate personality clashes can significantly impede platformification.

Security: The FS industry is among the most exposed to cyberattacks. Moreover, game-changing regulations, such as Europe’s PSD2 and GDPR, are testing banks’ cybersecurity capabilities.

PSD2 regulation has spurred several new types of transactions that open the door to additional cybersecurity challenges.²⁸ As platformification empowers more and more banks to become active participants in the open FS ecosystem, multiplying digital devices will prompt network traffic vulnerabilities.

An agile, risk-friendly work environment, with a data-centric business model, and scalable systems is necessary for banks to achieve platformification goals. Adequate preparation to overcome concerns will also help to mitigate potential issues or business interruption.

While vision and cultural harmony are critical, modern core banking technology is essential to surmount system and security challenges and to deliver successful platform-based banking experiences.

²⁸ Pymnts.com, “How PSD2 And Open Banking Impact Security,” October 29, 2018; <https://www.pymnts.com/news/security-and-risk/2018/gdpr-psd2-open-banking-data-regulation>.

First things first

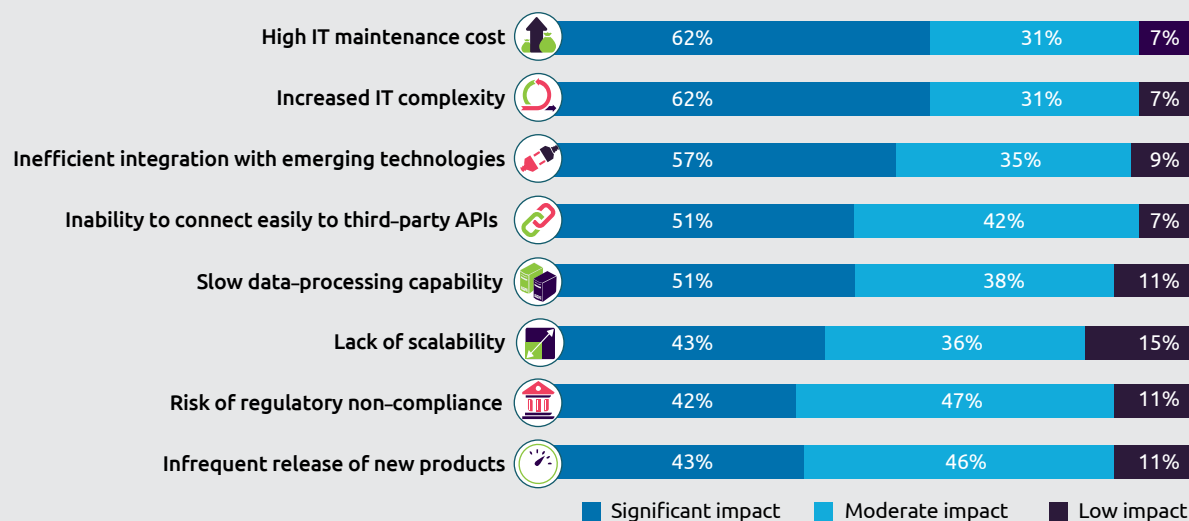
Transform the bank's core to create a sustainable platform

Near-term wins versus long-term growth is an age-old dilemma for banks. Generally speaking, firms tend to choose short term benefits. And as a result, they layer new and sometimes less compatible business models over existing systems, which leads to ever-increasing complexity and high maintenance costs.

Complex legacy layers limit straight-through processing from the front- to the back office. And that affects customer experience and operational excellence. Moreover, banks' proprietary systems complicate the adoption and integration of emerging technologies – such as artificial intelligence, robotic process automation, and APIs. As an unfortunate but now well-known conclusion, a layered legacy system reduces the overall capability to innovate and improve value for customers and shareholders (Figure 9).

UK-based challenger bank Monzo, (founded in 2015) collaborated with AWS Cloud to deploy a modular core banking system with container orchestration and over 1,000 microservices. Apart from keeping IT costs low and scalability high, the modern core helped Monzo develop a platform with plug-and-play capabilities to seamlessly integrate APIs and emerging technologies such as AI.^{29,30} Among the results, Monzo now offers experience-led banking and was able to increase its customer base from 50,000 in 2016 to four million in March 2020.^{31,32}

Figure 9. Impact and issues of legacy core banking systems



Source: Capgemini Financial Services Analysis, 2020; 2020 Global Retail Banking Executive Interviews and Survey.

²⁹ AWS, "Monzo Case Study," <https://aws.amazon.com/solutions/case-studies/monzo/>, accessed March 28, 2020.

³⁰ Computer World, "How Monzo built a bank with open infrastructure," April 12, 2019; <https://www.computerworld.com/article/3428056/how-monzo-built-a-bank-with-open-infrastructure.html>.

³¹ Finder, "Monzo statistics," February 2020; <https://www.finder.com/uk/monzo-statistics>.

³² Altfi, "Breaking: Monzo sails past 4m customers, but growth rate slows", March 2020; <https://www.altfi.com/article/6256-breaking-monzo-sails-past-4m-customers-but-growth-rate-slows>.

Transform and modernize the core and the rest will follow

Core banking transformation is a critical future-proofing strategy for incumbents working to attain operational excellence and to retain relevance within the impending Open X ecosystem. **A modernized core adds scope to address topline customer expectations** while effectively managing compliance and risks.



Banking-as-a-Service is the way forward, where a layered architecture and partner interaction goes through APIs."

— **Michiel Kwaaitaal**

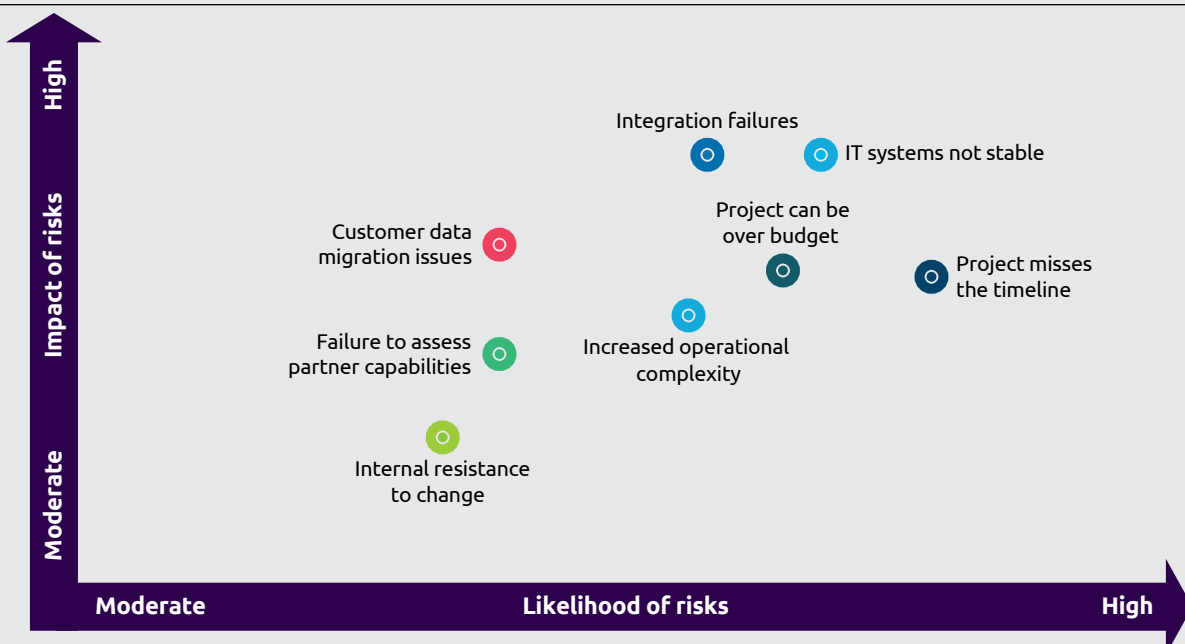
Head of Payments, Rabobank, Netherlands

Benefits of a modern core	
Profitability through innovation <ul style="list-style-type: none"> Optimize IT expenses Faster speed to market 	Customer centricity <ul style="list-style-type: none"> Increase digital engagement with customers Reduce onboarding and product origination times
Operational efficiency <ul style="list-style-type: none"> Faster turnaround time with integrated end-to-end processes Lower cost, higher profit 	Risk and compliance <ul style="list-style-type: none"> Boost staff productivity with fewer false-positive alerts Mitigate fines and sanctions

Despite the benefits of a modern core, some banks are reluctant or slow to transform aging systems because of expense and time demands. Moreover,

transformation risks such as integration failure or an implementation instability can negatively affect business continuity (Figure 10).

Figure 10. Risk likelihood and its impact associated with core banking transformation



Source: Capgemini Financial Services Analysis, 2020; 2020 Global Retail Banking Executive Interviews and Survey.

Inefficient implementation could severely impact firms that operate 24/7. Therefore banks must select a core modernization process that prioritizes continuity.

54% of banking executives prefer progressive core banking modernization³⁵

A large European bank initiated a project to move the bank systems (including ~5 million customer data) from multiple, third-party legacy systems to a single new platform. Failure to assess supplier capabilities and inadequate new-system testing led to botched migration of banking data and payment records of ~1.9 million customers. Instead of projected cost savings of ~€180mn, the bank paid hundreds of millions in compensation and suffered reputational damage.³³

Of the various approaches to core banking transformation, progressive modernization supports risk management effectively and is attractive to risk-averse banks that seek a shorter payback period.³⁴ A progressive approach can be designed to align with business priorities to suit individual banks (based on their scale and scope of operations).

Progressive core modernization is a phased process determined by product type or line of business. Banks often start with the most critical functions to be upgraded and incrementally transform their complete legacy system into microservices.



To build platforms and deliver services beyond banking, the foremost thing is to use an API as a product-first strategy to become a preferred partner for third parties. Secondly, we will need to be “orchestrators of various digital components” to solve customer issues and penetrate new ecosystems. Modernizing the core banking system is key to achieving these.”

— **Laurent Herbillon**
Director, Open Innovation,
BNP Paribas, France



A truly modern core banking system comprises independently deployable and upgradeable components or microservices supported by open APIs. This enables banks to realize timely commercial benefits in terms of progressive renovation and to improve their speed to market and overall commercial agility.

Cloud-native features enable banks to realize the full benefits of cloud deployment and SaaS delivery.”

— **Cormac Flanagan**
Product Director, Temenos Transact,
Switzerland

³³ The Register, “Big bang: Great for creating the universe, but not as an approach to IT migration, TSB told,” November 19, 2019; https://www.theregister.co.uk/2019/11/19/tsb_slammed_for_big_bang_it_approach_behind_disastrous_migration/.

³⁴ Temenos, “Successful migration is all about choosing the right route,” November 8, 2017; <https://www.temenos.com/news/2017/11/08/successful-migration-is-all-about-choosing-the-right-route/>.

³⁵ Everest Group Research, “Core Modernization for Building Future Banking Experiences: Perspectives for Mid-market Banks in North America,” accessed May 2020; Data based on mid and small banks surveyed in North America.

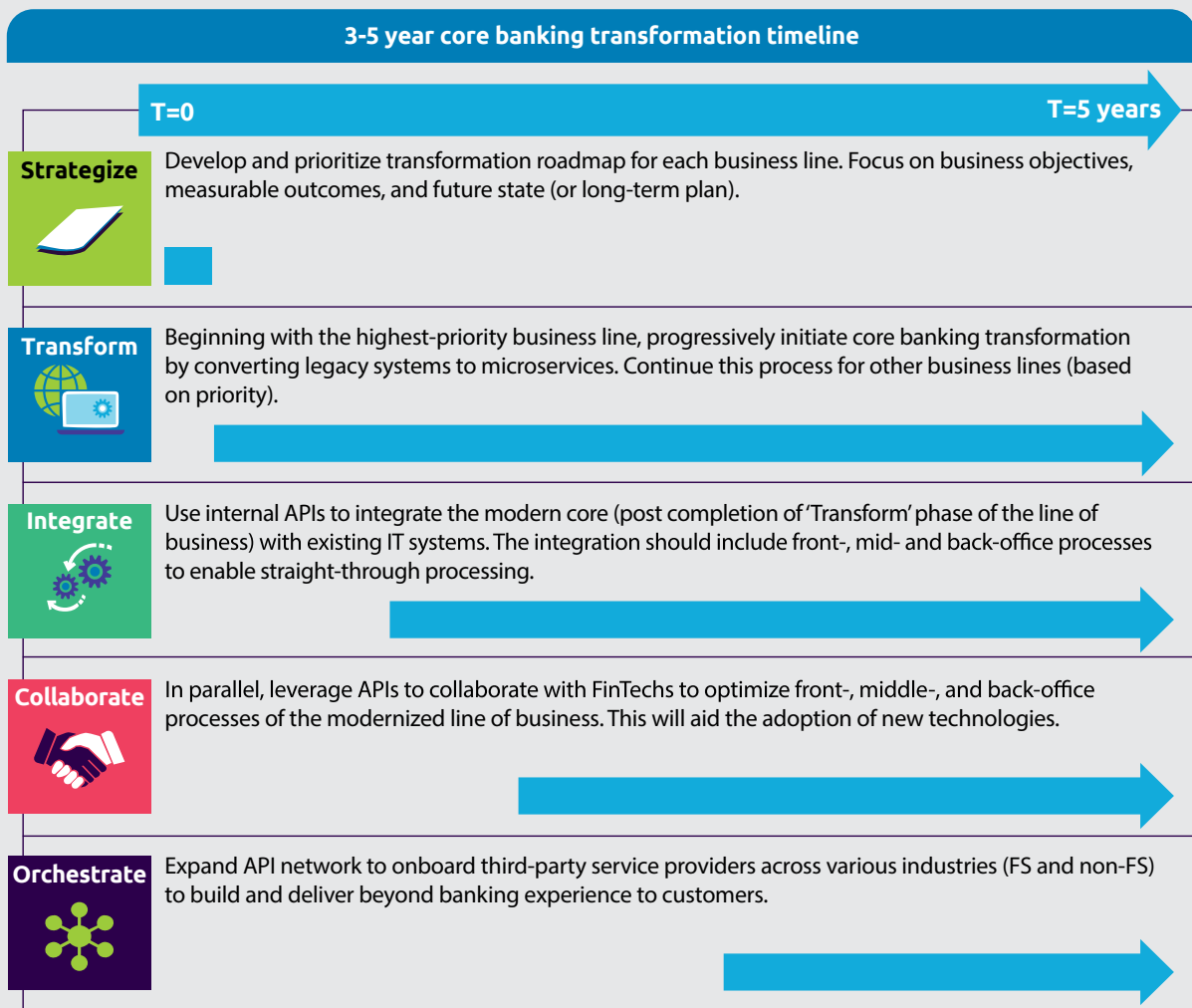
Core banking transformation is a long journey. Start progressive modernization now.

Irrespective of the core banking transformation approach, the process can take up to five years, depending on its size and complexity. This timeframe creates a more significant challenge for some banks that put other digital initiatives on hold during this period to mitigate unexpected risks that could jeopardize business as usual (including innovation). Slow-to-act banks may lose the platformification race to peers and new-age competitors.

To remain relevant now while also preparing for the future, a **two-pronged approach to core banking transformation and platformification** is the way forward (Figure 11).

1. Progressively modernize the core banking system via solutions such as resilience-by-design and a shift to the cloud
2. In parallel, develop an API network that drives collaboration with ecosystem partners, to enable new products/services and revenue streams

Figure 11. A progressive core-banking transformation and platformification approach



Source: Capgemini Financial Services Analysis, 2020.

A large bank in Europe undergoes a significant transformation to become an ecosystem player to improve operational efficiency and customer experience

Business case: In its efforts to lay a foundation for long-term, sustainable growth, a large bank in Europe sought a scalable and modern infrastructure. The bank had been running its operations on several legacy systems dating back to the 1990s. The bank had several business applications with varying levels of overlap, complex and expensive infrastructure spread across thousands of servers, and a high-cost code-based legacy system with long testing cycles, and limited flexibility.

The bank strategized a five-year digital transformation roadmap to reduce the cost-to-income ratio to below 50% (from ~60% in 2017) and to automate middle- and back-office processes.

Implementation: The bank collaborated with **Temenos** to deploy cloud-native, cloud-agnostic Temenos Infinity and Temenos Transact that delivers end-to-end, front-to-back capabilities along with analytics, digital channels, payments, and financial crime prevention. The bank adopted a progressive approach to core banking transformation.

In parallel, the bank prioritized its API and cloud strategy in partnership with Capgemini and **MuleSoft** for compliance adherence amid rapidly changing regulatory specifications.³⁶ A relevant infrastructure on the cloud was created, and the solution was integrated with core banking systems.

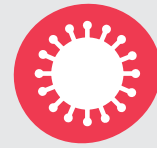
The bank is also managing cultural change by reskilling more than 10,000 employees. In 2018, the bank invested approximately €14 million in employee learning and development and reported a 5% incremental improvement in staff-engagement scores. The bank continually transforms the way it works by investing in new capabilities and agile working practices.

Results: At the end of the first phase in 2018, the bank **reduced its operating expenses by 3%, and created a single customer view of over two million customers.** The bank also began to test loan and deposit origination on the new platform and moved its mission-critical digital assets to a public cloud. With an open banking platform, the bank can offer new products, aggregate services, and deliver superior customer experience. For example, customers can now see all their accounts and activities through a single web interface, something that was impossible with the legacy environment.

The bank is also expanding into a new ecosystem by embedding its financial products in the journey created by other entities – whether it is a real estate agency, car dealership, or moving company. These new distribution channels and revenue streams will be key to future growth and competitive differentiation.

³⁶ MuleSoft is a trademark of Salesforce, Inc. and is used here with permission.

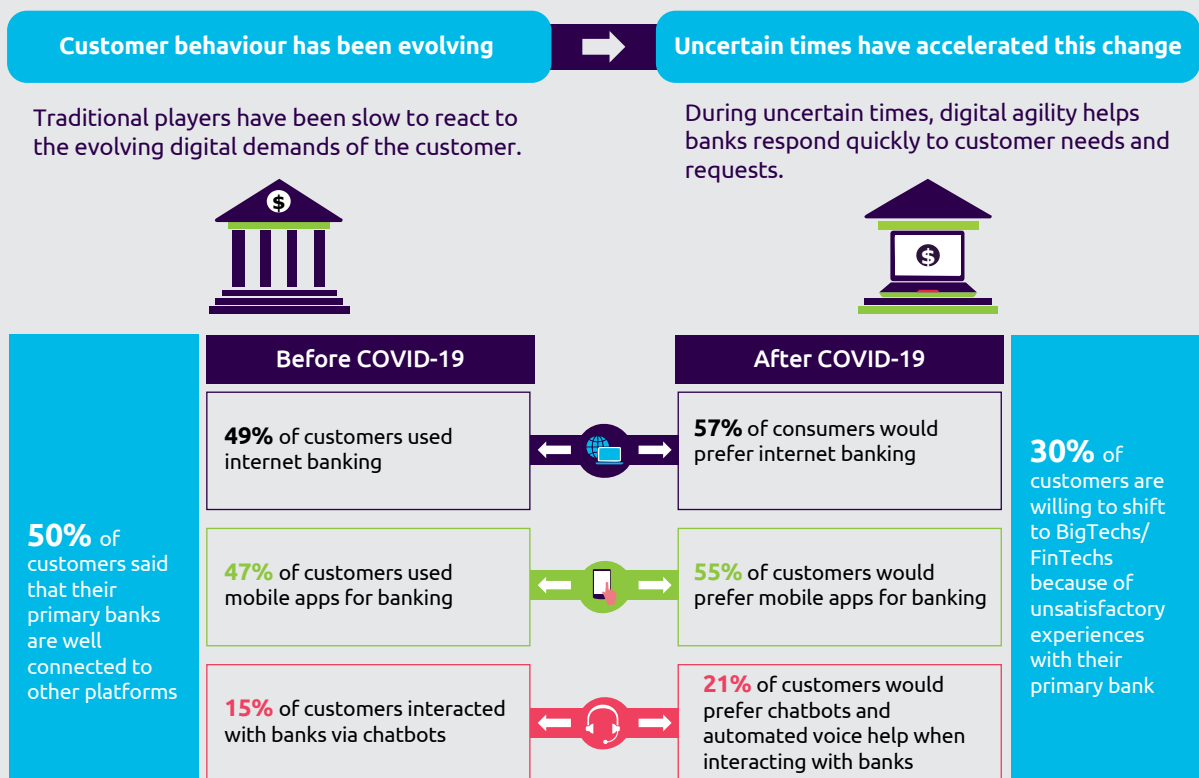
COVID-19 accelerates digital transformation urgency



The unpredictability of current pandemic environment is motivating consumers to embrace digital interaction across all segments. Even branch-loving customers are digitally interacting with their banks these days – a routine that may soon become commonplace (Figure 12).

While traditional players struggle with operational challenges and temporarily closed branches, banks with open API-enabled platform-based models are delivering virtual (digital) services to homebound customers implemented by employees working remotely.

Figure 12. Navigating uncertain times: COVID-19 is driving customer behavior changes



Source: Capgemini Financial Services Analysis, 2020; Capgemini COVID-19 Consumer Survey.

Change the approach to banking – make it inventive

Inventive banking can help banks minimize business disruptions.⁴⁰ It enables the agility to move beyond open banking to embrace Open X for adaptability during unpredictable times. Since the pandemic's Q1 onset, banks have faced disruption that requires long-term preparation:

- **Customer centricity:** Transform pain points to delightful customer experience
- **Operational resilience:** Business intuition with Business awareness
- **Business awareness:** Drive collaboration to reality

Customer centricity: During today's uncertain times, banks have the opportunity to mitigate customer pain points and deliver unforgettable CX. As customers are using multiple digital channels to access banking services, digital demand has surpassed the physical demand. However, end-to-end customer journeys are not integrated and digitized. Only **22%** of banks offered a save-and-resume feature in their account-opening process, according to a survey by digital customer acquisition and onboarding specialist Avoka. And **seven out of 10** said that having to re-input data when moving between channels was a major cause of customer dissatisfaction.⁴¹ Banks have been providing multi-channel (more than one mode of interaction but not integrated) rather than omnichannel banking (seamless across all channels, including interaction transition).

Operational resilience: Uncertain economic environment may diminish consumer spending and provoked a reduction in interest rates. Resilient banks will consider ways to optimize costs to maintain shareholder trust while shoring up their topline. Banks will have to optimize mid- and back-office costs while ensuring business continuity. During the COVID-19 outbreak, remote work has affected multiple

*Indian multinational **ICICI Bank** is well-prepared to maintain operations and serve customers during a crisis.^{38,39} To offer customers digital banking services from a single platform, in March 2020, the bank launched ICICISStack, digital banking services powered by APIs to ensure uninterrupted customer experience in the wake of the COVID-19 outbreak. ICICISStack offers nearly 500 services to cover most customer requirements fully – and all in one place. The list includes digital account opening, loan solutions, payment solutions, etc.*

To maintain an emotional connection with customers, ICICI Bank leveraged the WhatsApp's platform to provide seamless banking to retail customers that allows them to complete a host of banking transactions without having to visit a branch and reach out to customer care in case of any query.

processes, hampered by reduced workforces and resources. Banks are overwhelmed by an avalanche of customer queries, resulting in significantly higher response times.⁴² Inventive Banks, however, are operationally ready and prepared to leverage the potential of intelligent automation to optimize their workflow.

³⁸ India Today, "ICICI Bank joins WhatsApp, customers can manage account on WhatsApp chat," April 1, 2020; <https://www.indiatoday.in/technology/news/story/icici-bank-joins-whatsapp-customers-can-manage-account-on-whatsapp-chat-here-is-how-1662213-2020-04-01>.

³⁹ ICICI Bank, "ICICI Bank launches 'ICICISStack', India's most comprehensive digital banking platform," March 17, 2020; <https://www.icicibank.com/aboutus/article.page?identifier=news-icici-bank-launches-icicistack-indias-most-comprehensive-digital-banking-platform--20201703152015920>.

⁴⁰ Three-staged transformation from a traditional to an Inventive Bank begins with platformification to enable and accelerate the design and build of next-generation bank products. Next, a gap analysis determines which competencies should be bolstered and which ecosystem players might help address weaknesses. The goal is to provide customers with digital and experience-centric offerings. Finally, an end-to-end strategy supported by design, build, and operational expertise can help realize the value of the innovation to deliver it at scale for industrialization.

⁴¹ W.UP, "Digital onboarding: How to lose a customer in 10 minutes," April 13, 2018; <https://wup.digital/blog/digital-onboarding-banking-customer/>.

⁴² Bloomberg, "Three hours on hold? Banks inundated with nervous callers," March 17, 2020; <https://www.bloomberg.com/news/articles/2020-03-17/three-hours-on-hold-bank-phones-inundated-with-nervous-callers>.

Business awareness: During unpredictable times, escalating customer needs requires quick business decisions. Across the US, there are more than 30 million small-to-mid-sized businesses. Even if 10% were to shutter due to an epidemic or weather emergency, three million businesses would close. And this is precisely why NIM compression may have a devastating impact on bank revenues this year. Acknowledging potential risk makes pragmatic business sense, and raises the importance of additional sources of revenue. An Inventive banking approach encourages firms to assume the role of **supplier, aggregator, or orchestrator** and realize maximum value through collaboration and boost quick and reliable decision making.

Using **Alibaba's Tmall platform** in Hong Kong, **HSBC** is offering seven-day approvals for trade financing loans of up to USD500,000 and supporting new economic enterprises by using big data to simplify approvals.⁴³

Firms can reach out to underserved populations during crises, which may inspire future customer loyalty. FinTechs that have launched services to address the needs of the underserved can offer collaborative expertise. For example, in the UK, FinTech startup **Tully** launched a network to help those financially impacted by the COVID crisis by providing access to relief payments from lenders and service providers.⁴⁴

Agility and preparedness are essential. Digital is the future – it boosts business-as-usual profits and will help firms remain afloat during uncertainty.



⁴³ Fintech Futures, "HSBC joins Alibaba to offer Hong Kong's online merchants quick loans," March 24, 2020; <https://www.fintechfutures.com/2020/03/hsbc-joins-alibaba-to-offer-hong-kongs-online-merchants-quick-loans/>.

⁴⁴ Fintech City, "Tully launches network to help those financially impacted by coronavirus," March 28, 2020; <https://thefintech50.com/fintech-covid19-coronavirus/2020/3/28/template-ynwag-anlc6>.

Partner with Capgemini

APIs enable open banking platforms

The Open X framework unlocks a world of new business models to financial services firms through effective collaboration with an extensive ecosystem of businesses (from FS to non-FS firms) enabled by open and evolutive platforms, allowing partners to exchange revenue-generating services by accessing each other's data, unique knowledge, existing customer base, and specific distribution channels.

The API economy can become a competitive advantage for financial institutions, allowing them to provide customers more compelling experiences, relying on transaction-based business models through third-party solutions rather than via substantial – and usually lengthy – in-house investment. Open API strategies are transforming once tightly closed banking systems into openly connected institutions that empower firms to offer capabilities beyond banking by leveraging FinTech partner solutions.

Capgemini can help banks strike a balance between offering traditional banking products through existing channels and going completely digital. Our assessment frameworks and API-based value creation models offer an end-to-end solution to bring together all the necessary elements to leverage an open ecosystem through standardized APIs.

The Capgemini API-based value creation models help financial institutions.

- **Unlock new revenue streams** by identifying and prioritizing the correct API monetization opportunities
- **Manage APIs** by leveraging prebuilt APIs for open banking (AISP, PISP, PIISP), API lifecycle management, API monitoring, API traffic management, API analytics
- **Be compliant** by keeping customer data secure and protecting banks from legal and liability issues
- **Accelerate time to market** through a modern, scalable, and resilient API platform
- **Tap into future innovation** by engaging with a diverse ecosystem of partners
- **Experiment before launch** by providing an API sandbox.

Core banking modernization

Legacy systems are costly to maintain, not compatible with the latest technological developments, and as a result, hamper superior customer experience. Furthermore, obsolete systems add other inefficiencies and significantly increase the banks' time to market for new products and offerings.

At Capgemini, we work with the most advanced and market-leading banking software providers to help banks modernize their core banking systems. These solutions help banks significantly reduce their IT costs, accelerate time to market, create data-focused customer-centric propositions, and boost the ability to scale.

Each software provider brings advantages, and we help clients find a fit for purpose system that is most appropriate for them. We also help clients select the right implementation option to replace or modernize their core.

Once the right partner and implementation option are selected, we work with clients in their business, operations, technology, and data workstreams, to help the program succeed.

With more than 20 years of core banking transformation experience, we understand the challenges banks face. We offer comprehensive services and solutions that can help clients build modern and scalable infrastructure via a modular and agile core.

Key solutions:

- **Help reduce operational costs** by using the cloud's cost-elastic capabilities
 - By harnessing the scalability of the cloud, banks can **respond quickly to new market opportunities** in an agile, cost-effective manner
- Help clients transition to a **continuous delivery model**, where **speed to market is accelerated** and upgrade cycles shortened
- Provide an API-based, modular approach that will support the adoption of future technology. Modules enable banks to **engage with external innovation teams** and companies more quickly and meaningfully while leveraging internal innovation functions better because less time is needed to deliver new system functionality to market.

Capgemini has various Core Banking **tools and accelerators** that can help shorten project implementation timelines and cost, which makes implementation more efficient.

Innovation as a service with scaleups

The offering aims to support corporate clients that seek to solve business problems through results-driving collaboration with high-potential startups we call scaleups.⁴⁵

The outcome of this engagement is a quick and affordable go-to-market plan: six to nine months (not years) and an affordable opening investment, usually limited to an initial set-up cost and then with a pay-per-use model.

To identify the best scaleup to work with (thus effective collaboration), Capgemini has developed the Capgemini scaleup qualification program, an end-to-end methodology to evaluate scaleup maturity to collaborate with corporates effectively.

- The methodology evaluates the maturity of the scaleups across the four pillars of effective collaboration: People, Finance, Business, and Technology (this section includes Privacy).
- The 360 degrees qualification process takes a month and goes through web-scraping, ScaleUp self-declaration, interviews with Capgemini SMEs, and client feedback.
- So far, more than 70 scaleups have qualified from across the world and all FS business lines.



⁴⁵ A ScaleUp is a mature startup that has raised more than EUR1 million in funding or is profitable, has a full-time employed top management team, and has sustainable business traction (>EUR 200K revenue per year).

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Elias is responsible for Capgemini's global portfolio of financial services thought leadership. He oversees a team of strategy consultants and sector analysts who bring together a wide range of strategic research and analysis capabilities. He brings a large expertise in effective collaboration between banks and startups, having launched his own fintech in 2014 after more than 20 years in banking and payments.



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Colin is a digital leader, creative innovator and passionate about the development of new financial services to match changing customer needs. He has spent more than 25 years at the leading edge of technology and change in FS, retail and media, working with clients as they seek to reinvent every aspect of their operations and culture to revolutionize customer engagement and thrive.



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Methodology

Scope and research sources

The World Retail Banking Report 2020 draws on research insights from the 2020 Global Retail Banking Executive Survey and Interviews, Capgemini COVID 19 Consumer Survey, and the Capgemini Open X Readiness Index.

Capgemini COVID 19 Consumer Survey 2020

The report also includes insights from a survey of 11,200 consumers across 11 countries – China, France, Germany, India, Italy, the Netherlands, Norway, Spain, Sweden, the UK, and the US – to capture the impact of pandemic on financial services sector.

Global Retail Banking Executive Interviews and Survey

The report includes insights from focused interviews and surveys with over 80 senior executives of leading banks across regions.

Capgemini Open X Readiness Index

The Capgemini Open X Readiness Index is an ongoing global benchmark exercise based on 98 data points to **evaluate FS firms' readiness to collaborate at scale** with the startup ecosystem across **the four pillars of collaboration** (People, Finance, Business, and Technology) and **the four phases of collaboration** (Open Innovation, Evaluation, Acculturation and Industrialization).

Each parameter is assigned an appropriate weightage to derive a score for each bank. All results are mapped on a scatter plot (by rebasing score on 100).

- X-axis: Bank's readiness to collaboration
- Y-axis: Bank's collaboration success

60+ firms worldwide have participated so far (as May 2020), and have been plotted across **four readiness stages:**

- 1. Dawdlers:** Poor or insufficient preparation/readiness contributed to mediocre success
- 2. Race to nowhere:** Banks that had overall readiness but did not achieve success
- 3. Outliers:** Exceptions, firms that achieved success without substantial collaboration readiness
- 4. North Star:** Banks that were highly prepared and ready for collaboration were most likely to attain success.

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