

WORLD RETAIL BANKING REPORT 2021



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Preface

What will the post-pandemic world look like for retail banks?

With low interest rates, closed branches, increased risk of SME bankruptcies, consumer delinquencies, and eroding market share, traditional banks are ready to innovate to maintain and grow business. Customers, some of whom banks may have previously overlooked, want to be treated as unique individuals. They also want to count on their bank, as their trusted financial partner to support their lifetime needs beyond simple transactions. What a journey ahead!

Our World Retail Banking Report 2021 — *Sustainable Experiential Banking* — details a wide range of innovative responses to today's *what's-next* environment and outlines strategies and a road map for building the requisite business capabilities to keep pace with ongoing, full-throttle transformation.

One thing is certain, the days of quick fixes are over. In today's time-is-money climate, stop-gap solutions offer few guarantees aside from siphoned budgets. Pandemic realities have revealed that banks must align their priorities and mentalities with customer lifecycle needs to create long-term business value. And that means transforming the banking core to enable operational excellence and insightful management of compliance and customer expectations.

About 18 months ago, industry frontrunners began making way for Open X ecosystems that enabled them to share resources and data to accelerate innovation and deliver superior customer experience. Then, the catalyzing impact of COVID-19 forced firms to actively prime for open-platform-banking. Time has come for *Banking 4.X*—a boundary-busting era in which banking is embedded into customers' lifetime experiences and made *invisible*. Optimized to withstand financial and non-financial threats, resilient and agile Banking 4.X platforms will help client interactions evolve from delivery of transactional services to more high-impact, trusted, and personal advisory support.

Full adoption and enthusiastic support of cloud, versus slow migration, is a conspicuous Banking 4.X trend. That's because reshaped distribution models — embedded finance enabled by Banking-as-a-Service and data-driven customized approaches — offer incumbents access to a broader customer base and novel monetization opportunities. BaaS and data centricity are key pillars enabling financial institutions to champion inclusion by nimbly modifying their products and approaches to meet the needs of unbanked, underbanked, and vulnerable populations. A path to long-term growth that also meets a societal and governmental ask across the globe.

We believe 2021 will herald the arrival of inclusive, efficient, and experiential Banking 4.X, a time marked by evolving customer expectations, hyper-personalized engagements, and strategically relevant products and services.

Anirban Bose

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

Capgemini

John Berry

*CEO,
Efma*

Executive summary

Pandemic fallout catapults banks to the brink of a new era

VUCA challenges intensify sector issues.

- As operational costs soar and revenues languish, firms consider cost rationalization.
- IT transformation and budgets slashed to offset rising workforce and customer service costs.
- Banks scale back non-core business and exit low-performing geographies to become lean, and responsive.
- Faced with an increasing disconnect between their priorities and customer expectations, banks are actively realigning investments in growth areas.

Banking 4.X takes off in 2021...fasten your seatbelts.

- As the banking industry transitioned from Banking 1.0 era to Banking 4.0, which saw open banking make way for **Open X** ecosystems that enabled an e**X**change of resources and data to e**X**pedite innovation and deliver superior customer e**X**perience.
- Welcome to *Banking 4.X*, which will shatter traditional industry boundaries as firms become virtually *invisible*, and banking – and other valuable services – are embedded for convenient access within consumer lifestyles. *This is the new Open X accelerated by lockdown!*
 - Banking 4.X is an experience-driven, platform-based optimum channel banking resilient to financial and non-financial threats, built around long-term, sustainable growth where human interactions evolve from servicing to advising.

Banks unlock new value by leveraging ecosystem capabilities

Open ecosystems create new value streams via Banking-as-a-Service (BaaS) platforms.

- Embedded finance, enabled by BaaS, offers traditional banks access to a large customer base, new data sources, and monetization opportunities.
- A BaaS approach, strategically defined and powerfully deployed, well supported by the management, and enriched by the right mix of partners and products, is the recipe for maximum benefits.
- A BaaS platform model powered by a data-centric approach can help firms champion financial inclusion by modifying offerings and approaches, becoming more accessible and economical for the underbanked/unbanked – all while positioning the business for long-term growth.

A robust digital foundation is essential to convert BaaS potential to reality.

- Transform the banking core to enable operational excellence and insightful management of compliance and customer expectations.
 - Migrate to the cloud – from IaaS to PaaS, SaaS, and BPaaS.
 - Optimize internal API networks to eliminate silos, sync operations, build plug-and-play capabilities.
 - Extend APIs externally to power collaborations and push new business frontiers.

The Banking 4.X WOW factor can amplify value

Customers are still frustrated by cross-channel friction, despite bank efforts to deliver an omnichannel experience.

Banking interactions are shape-shifting as customers demand intuitive, integrated, omnichannel experiences that are intelligently personalized and on-demand accessible – anywhere, 24/7.

- As frontrunners transform to Banking 4.X, they will keep customers at the heart of the journey by tracking behaviors and sentiment through smart data analytics.

The key to Banking 4.X success? Harvest customer behavior to hyper-personalize engagements.

- Leverage AI to orchestrate data ecosystems and mine and derive contextual high-impact insights.
- Transformation moves beyond digital channels as banks reimagine branches as experience centers.
 - Branches connected to society and synchronized with digital channels offer a consistent omnichannel experience with an emphasis on financial inclusion.
 - Deploy intelligent assistants and self-service kiosks to support bank staff, so employees focus on value-added services instead of transactional activities.
 - Customers are offered experiences beyond usual transactions in Banking 4.X branches.
- Building an overarching digital and technology-agnostic CX layer will offer consistent, secure, and superior experience across the banking ecosystem.

Pandemic forced sweeping changes within a compressed timeframe

Prevailing VUCA environment intensifies banking-sector issues

The financial services (FS) industry was already struggling through a rough patch. Then, the ultimate *black swan*, COVID-19, upended the world and created an unparalleled VUCA (volatile, uncertain, complex, ambiguous) environment. Today, as the economic fallout continues, banks struggle to prioritize between short and medium-term agendas. Executives are juggling major priorities to maintain business continuity while preparing for an anything-can-happen future, particularly against the backdrop of a significantly altered operating model amplified by new-age players actively empowering the clients.

Of the executives we interviewed from traditional banks, 25% said competition from similar firms was cause for concern, while 66% cited new-age players as a competitive threat. From 2010 to the close of 2020, ~320 neo and challenger banks across regions attracted more than 39 million customers.^{1,2} The global neo and challenger bank market is on track to USD578 billion valuation by 2027, a nearly 47% CAGR (2018–2027).³ These new-age players are luring millions of customers away from incumbents and forcing them to improve the customer experience in an over-speed mode.

Figure 1. What's making retail banking executives lose sleep?



Sources: Capgemini Financial Services Analysis, 2021; World Retail Banking Report 2021 Executive survey, N=122.
 Question: Which of the following factors are causing business disruptions in the banking sector?

¹ [Exton Consulting](#), "Neobanks 2021 – shifting from growth to profitability?," Nov 2021.

² [Business Insider](#), "The Global Neobanks report," Jan 21, 2021.

³ [Crowdfund Insider](#), "Super-Size: Digital Bank Market to Top \$578 Billion by 2027," Mar 7, 2020.

The traditional retail banking environment has become even more demanding because of macroeconomic issues such as rising unemployment and housing costs, growing mortgage delinquencies, political upheaval, the focus on green agendas, bankruptcies, stressed corporate profits, and declining global GDP (-4.9% YoY in 2020).⁴

As banks navigate this unwieldy environment, operational costs are surging. Lockdowns forced banks to close branches and call centers quickly. Closures stressed many firms' fragile, early-stage digital capabilities and forced diversion of IT funds to business continuity efforts and disaster recovery. Cybercriminals seized on several vulnerabilities, as banks withstood a massive 238% uptick in cyberattacks from February through April 2020, draining incumbents' capital budgets.⁵

Amid the disruption, banks' credit costs and non-performing assets (NPAs) were higher than usual.⁶ Although final 2020 results have yet to be tallied, Asia-Pacific banks' non-performing assets and subsequent credit losses were expected to increase by USD600 billion and USD300 billion, respectively, putting the explosive issue of bank bailouts back on the table.⁷

Comparatively, US and European banks are in solid liquidity and capital buffer positions. Still, an increase in defaults will require higher provisioning – another unexpected burden on balance sheets and P&Ls.⁸ Some banks in Spain, Turkey, and Malaysia face an asset-quality slump (as government aid phases out) and expect a potential profit hit in 2021, even though their NPAs have decreased.^{9,10}

In addition to stretched cost bases, banks are struggling to revive top-line growth. Persistently low interest rates are directly undermining retail banks' interest income. COVID-19-induced rate cuts, loan moratoriums, and consumers' diminished appetite for new credit are quashing revenues even more.



The low-interest-rate environment is looking like it is going to continue for a while. To survive and sustain, banks need to bolster their technology investments and speed-up modernization initiatives to reduce cost-to-acquire and cost-to-serve customers."

— Manohar Chadalavala,

Global Head, Servicing & Transacting Journey, Retail Innovation & FinTechs, Standard Chartered, Singapore

Large and medium banks took different approaches to weather the storm. Compared with large banks, it can be a herculean task to run mid-size, regional, or community banks and credit unions during a crisis.

Global banking recovery to 2019 levels will be slow, uncertain, and highly unequal across geographies. 2021 might not be easy for most banks. For most regions, resurgence won't happen until 2023 or beyond.¹¹



Credit unions face short-, mid-, and long-term concerns. In the short term, there is anxiety around business continuity. In the mid term, the concern is about keeping the bank running and launching new products that will resonate with customers. Over the long haul, it is about where they will be five years from now and what success will look like."

— Arcady Lapiro,

CEO & Founder, Agora Services, US

⁴ IMF, "World Economic Outlook," Jun 2020.

⁵ ZDNet, "COVID-19 blamed for 238% surge in cyberattacks against banks," May 14, 2020.

⁶ A non-performing asset (NPA) is a past due loan or bank advance for which there has been no interest or principal payment. Generally, debt is classified as an NPA when payments have been outstanding 90+ days.

⁷ S&P Global, "For Asia-Pacific Banks, COVID-19 Crisis Could Add US\$300 Billion To Credit Costs," May 22, 2020.

⁸ Acuity, "COVID-19 impact on US and European banks' non-performing loans and loan loss charges," May 8, 2020.

⁹ The Banker, "Spanish banks 'face asset quality slump' in 2021," Nov 5, 2020.

¹⁰ Fitch Ratings, "Malaysian Banks to Confront Asset-Quality Issues as Moratorium Phases Out," Nov 6, 2020.

¹¹ S&P Global, "Global Banks Country-By-Country 2021 Outlook: Toughest Test For Banks Since 2009," Nov 17, 2020.

Retail banking sector rationalizes costs to hedge dwindling profits

Pandemic aftershocks rattled IT spending first and hardest. As banks continued to assess IT priorities, Gartner estimated a ~5% decline in worldwide 2020 IT investments, as contract sizes, terms, and deal types took a hit.¹² Some firms scaled back large transformation projects.

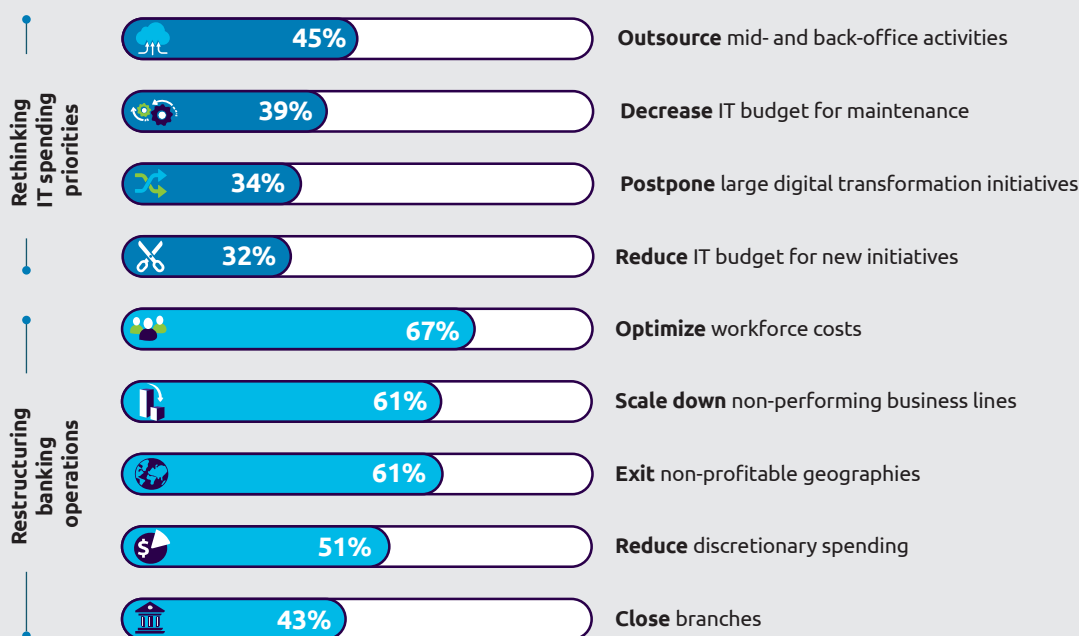
HSBC paused its open banking project *Pulse*, a financial forecasting app for SMEs in the UK. Amsterdam-based **ING** pumped the brakes on *Maggie* – a plan to standardize customer experience and integrate product offerings.^{13,14}

Other banks have been selling off or outsourcing their IT function to trim costs further. **Deutsche Bank** sold its retail banking IT unit, Postbank Systems, to an IT services company intending to reduce annual costs by EUR6 billion by 2022.¹⁵

Beyond IT spending cuts, banks are restructuring operations to become lean and responsive. In 2020, more than 80,000 banking industry layoffs were announced, the most significant retrenchment in five years, as incumbents practice workforce cost optimization.¹⁶

More than 30 big banks globally announced staffing cuts, with European banks making up around 75% of expected total layoffs.¹⁷ **Banco Santander, Deutsche Bank, and US Bank** are anticipated to follow in 2021 and beyond.¹⁸

Figure 2. Bank executives cut costs on all fronts in a profit-sensitive environment



Sources: Capgemini Financial Services Analysis, 2021; World Retail Banking Report 2021 Executive survey, N=122.

Question: On a scale of 1 to 7, rate the cost optimization initiatives your bank plans to adopt in 2021, with 1 indicating the initiative is not a priority and 7 indicating a very high priority. Figure 2 represents responses of executives who rated an optimization initiative of 5 or higher.

¹² Gartner, "Gartner Forecasts Worldwide Banking and Securities IT Spending to Decline 4.7% in 2020 Before 2021 Rebound," Aug 12, 2020.

¹³ Financial News, "HSBC quietly pauses open banking project Pulse," Jul 14, 2020.

¹⁴ FinTech Futures, "ING pumps brakes on digital banking plans, plans 1,000 job cuts," Nov 6, 2020.

¹⁵ Computer Weekly, "Deutsche Bank to sell retail banking IT unit to TCS for €1," Nov 10, 2020.

¹⁶ Fortune, "The incredibly shrinking banking sector is heading for near-record job losses this year," Sep 16, 2020.

¹⁷ New Europe, "Europe's banks announce 60,000 job cuts," Dec 9, 2019.

¹⁸ Bloomberg, "European banks' next wave of cost-cutting begins," Aug 13, 2020.

Non-core businesses and less profitable markets are also under scrutiny as part of belt-tightening efforts. **Wells Fargo** plans to divest its USD10 billion private student loan book and private-label card business.¹⁹ **ING** said it would exit South America and Asia by Q4 2021 to focus entirely on Europe.²⁰

Profitability pressures and a change in regulatory tone (e.g., European Central Bank attempting to make it easier for banks to pursue deals) may lead to more retail banking restructuring, especially in Europe.²¹

In December 2020, shareholders gave **Caixa Bank** and **Bankia** the green light to merge, creating Spain's largest bank by assets to help cushion the blow from

pandemic-induced bad loans.²² EU banking sector merger and acquisition volumes were up 27% year over year to USD37 billion during the second half of 2020. Before 2022, the region expects four to six large deals in the space, as banks aim to reduce costs and build scale.²³

As digitalization prompted branch closures, the pandemic accelerated the trend. Many banks will now repurpose remaining branches as *experience centers* or community hubs. In November 2020, **Santander** announced plans to close ~1,000 branches (or 32% of its branch network).²⁴

Société Générale eyes significant cost savings via retail banking networks merger

In December 2020, the boards of **Société Générale** (SocGen) and **Crédit du Nord** approved a plan to merge their retail banking operations in France to bolster customer satisfaction, operational efficiency, and commercial ambition. The initiative will include cutting costs, streamlining IT systems, and reducing branch numbers.

The new retail entity will serve about 10 million clients, including businesses and individuals. The consolidation

would bring cost savings of around EUR450 million. At the combined retail business, Société Générale expects its cost base to fall by more than EUR350 million by 2024 and EUR450 million by 2025 compared with 2019.

Société Générale will merge central functions and have the two entities operate on SocGen's more advanced IT system, which will drive most of the expected cost savings by 2025. The merger enables full harmonization between the banks, reducing technology spending. The merged division will cut branches by about 600 to 1,500 by the end of 2025, especially in urban areas.^{25,26}

¹⁹ [Bloomberg Quint](#), "Wells Fargo to Sell Student Loan Book to Apollo, Blackstone," Dec 19, 2020.

²⁰ [Economic Times](#), "Dutch bank ING to cut 1,000 jobs by the end of next year as virus crisis hits," Nov 5, 2020.

²¹ [ING](#), "Bank consolidation to continue picking up in 2021," Oct 30, 2020.

²² [Majorca Daily Bulletin](#), "Big changes ahead in Spain's Banking Sector, CaixaBank-Bankia merger finalized," Dec 27, 2020.

²³ [Bloomberg](#), "Europe's Big Banking Mergers Are Coming in 2021, BofA Says," Dec 18, 2020.

²⁴ [Crowdfund Insider](#), "Banco Santander Is Reportedly Planning to Shut Down Up to 1,000 Branches, May Cut 4,000 Jobs," Nov 16, 2020.

²⁵ [Reuters](#), "SocGen, Credit du Nord green-light retail bank merger -paper," Dec 6, 2020.

²⁶ [Fitch Ratings](#), "Societe Generale and Credit du Nord Merger Long-Term Positive for Cost Efficiency," Dec 9, 2020.

Looking beyond shareholder value: A societal crisis

While banks rationalize their cost base to become leaner, the risk is to ignore the already vulnerable and underserved population. As banks shift away from non-profitable areas, underserved communities and neighborhoods – already with fewer banks – lose them faster. For instance, in the United States, from 2016 to 2020, ~17,500 branches were closed, and fewer than 7,000 opened. These actions resulted in a skewed variation, with well-off communities having a higher number of branches than underserved ones.²⁷ This trend makes banking and banks less accessible to vulnerable populations.

A 2020 Brookings study identified a similar pattern in which Paycheck Protection Program (PPP) loans sponsored by the US federal government and disbursed by banks failed to reach people of color and the underbanked population.²⁸

Access to essential financial services is fundamental to economic and social development. Over the last few years, firms have made significant progress to expand financial access, but the number of globally unbanked/underbanked adults remains close to 1.7 billion.²⁹ In the United States, 16% of adults are underbanked while 6% were unbanked, according to the Federal Reserve.³⁰

Why are individuals unbanked? Unfortunately, the list is long – financial instability, poor access to bank branches, no financial identity, high banking fees, overdraft penalties, and inability to make requisite minimum deposits. Consumer vulnerability is also rising because of financial exclusion, low digital/financial literacy, discrimination (based on nationality,

race, gender or sexual identity, religious or other affiliation), major life events (divorce, bereavement), and health conditions/disability.

The pandemic intensified the struggle of unbanked and underbanked populations. For many, lockdowns, economic crisis, and job loss forced a switch to alternative (and often disreputable) financial service providers that charge exorbitant fees.

The UK's Financial Conduct Authority (FCA) reported that 24 million people in the country displayed one or more vulnerability characteristics before the pandemic. Now, the number may rise considerably.³¹

Most banks cannot quickly adapt their models to identify vulnerable customers in need of service during scenarios such as a pandemic. Branch closures and limited retail operations complicate matters even more. (*Beginning on page 20, see details about serving unbanked/underbanked populations.*)



A part of the US population is in a vulnerable position in terms of financial wellness and has a need for better money-management tools and frequent financial education communication. They are open to evolving and growing provided the appropriate resources can empower them."

— Thomas P. Novak,
VP and Chief Digital Officer,
Visions Federal Credit Union, US

²⁷ [City Monitor](#), "Bank branches are closing, and they're leaving the most disadvantaged areas behind," Oct 23, 2020.

²⁸ [Brookings](#), "New data shows small businesses in communities of color had unequal access to federal COVID-19 relief," Sep 17, 2020.

²⁹ [CB Insights](#), "Where Challenger Banks & Incumbents See The Next Digital Banking Opportunity," Jan 5, 2021.

³⁰ [Forbes](#), "The Costs Of Being Unbanked Or Underbanked," Jul 28, 2020.

³¹ [International-Adviser](#), "More than 24 million vulnerable clients in the UK, says watchdog," Jul 29, 2020.

Banks forced to accelerate digitalization face practical dilemmas

COVID-19 compelled many banks to innovate quickly and digitalize and transform core functions on the fly, which sparked predicaments. Consider that 42% of the bank executives we polled said they are not sure how to integrate and streamline mid-, back-, and front-office functions effectively and 46% said they are unsure how to embrace open banking, orchestrate the ecosystem, and become a truly data-driven organization. More than 40% executives said they are not confident about going beyond digital to offer superior customer experience, and they are conflicted about the future role of bank branches.



Community banks face major challenges – both in meeting customers' expectations for digital experiences and evolving the community bank business model to compete effectively with non-banks by increasing customer wallet share."

— **Sunil Sachdev**,
SVP & GM, Community Segment,
Bank Solutions, Fiserv, US

Conversely, retail banking customers faced with pandemic-driven realities now expect on-demand, fully digitalized experience, hyper-personalized services, and around-the-clock assistance. Customers who struggled to reach their bank during lockdowns want a consistent omnichannel experience with improved support services.

Moreover, today's customers demand transparency, ethical conduct, and socially responsible bank behavior. Many also expect adherence to social purpose and values and a commitment to sustainable growth over short-term profitability. World Retail Banking Report 2021 Voice of the Customer (VoC) survey found initiatives such as green products, renewable energy use, advocating climate risks, and following sustainability goals are important for more than half of the customers. Generally speaking, one in three customers will accept up to a 1% fee increase for green banking products.



Customer expectations have changed dramatically in the last few years. The demand for a hyper-personalized and consistent experience — across physical and digital channels — is unprecedented."

— **Joaquin De Valenzuela Muley**,
Senior VP and Business Line Director,
Temenos Infinity, Spain

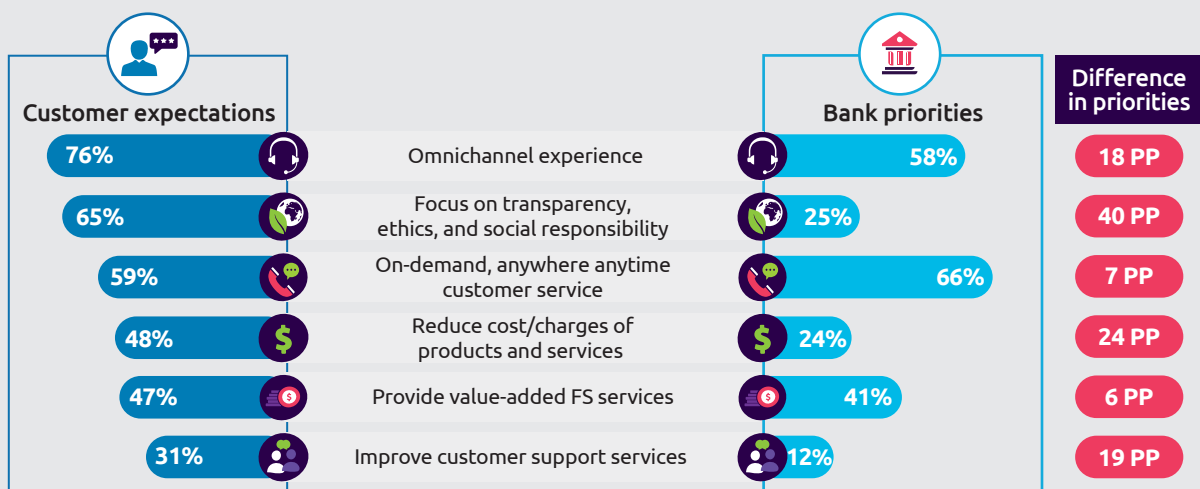
Our 2021 executive survey indicates a disconnect between customer expectations and bank priorities. While banks become increasingly vocal about delivering superior CX, they appear less focused on improving support, reducing the costs of banking products and services, and offering sustainability initiatives. Or, they are not effectively promoting their efforts in these areas. In the post-COVID-19 era of fierce competition and high customer expectations, reviewing priorities and realigning investments in growth areas will be essential for bank success.



The pandemic accelerated banks' digital transformation agendas without changing original priorities that were already strongly in our DNA. Caring for and empowering people – employees and customers – are of utmost importance now. Banks must proactively provide an easy, simple, and smart solution being sure to always be a step ahead on the ethical management of data. Trust, security in open banking ensures customer the full engagement."

— Lavinia Liberali,
Head, Digital Channels Tribe, ING, Italy

Figure 3. The gap between customer expectations and bank priorities continues to widen



Sources: Capgemini Financial Services Analysis, 2021; World Retail Banking Report 2021 Voice of Customer survey, N=8,559; World Retail Banking Report 2021 Executive survey, N=122.

PP: Percentage points

Question to customers: What are your top expectations from your primary bank?

Question to executives: Select your bank's top priorities when it comes to delivering superior customer experience.

³² [American Banker](#), "Are banks prepared for employees to work off-site indefinitely?" Aug 10, 2020.

Ready or not, Banking 4.X makes its 2021 debut

New pandemic-driven realities are splitting retail banking into pre-, and post-COVID-19 eras. Banking-as-usual is evolving into a digital-first, seamlessly-integrated banking experience via coexisting digital channels and modernized branches.

A shift to enhance the customer journey by enriching last-mile delivery will also occur. Product-centric innovation will give way to customer-centric intelligent transformation. Not surprisingly, the most successful incumbents within the new reality will be those with resilient risk models based on data (rather than traditional credit history) and smart analytics. These new ways of working will morph into a hybrid model in which a permanently or partially remote workforce will be the norm.

Figure 4. Banks prioritize digital-first experiences in the post-COVID-19 era



Source: Capgemini Financial Services Analysis, 2021.

JPMorgan Chase and **UBS Group** said that a significant portion of their remote workforces might continue off site indefinitely or on a rotational basis.³²

With an eye on broader customer needs, the new era will see banks keen to create micro-ecosystems by collaborating with non-FIs to offer integrated, contextualized experiences beyond traditional banking offerings.

Commitment to putting customers and communities first will come into sharp focus. A push to capitalize on the environmental, social, and corporate governance (ESG) wave will continue to gain ground. **Citi, Deutsche Bank, Goldman Sachs, HSBC,** and

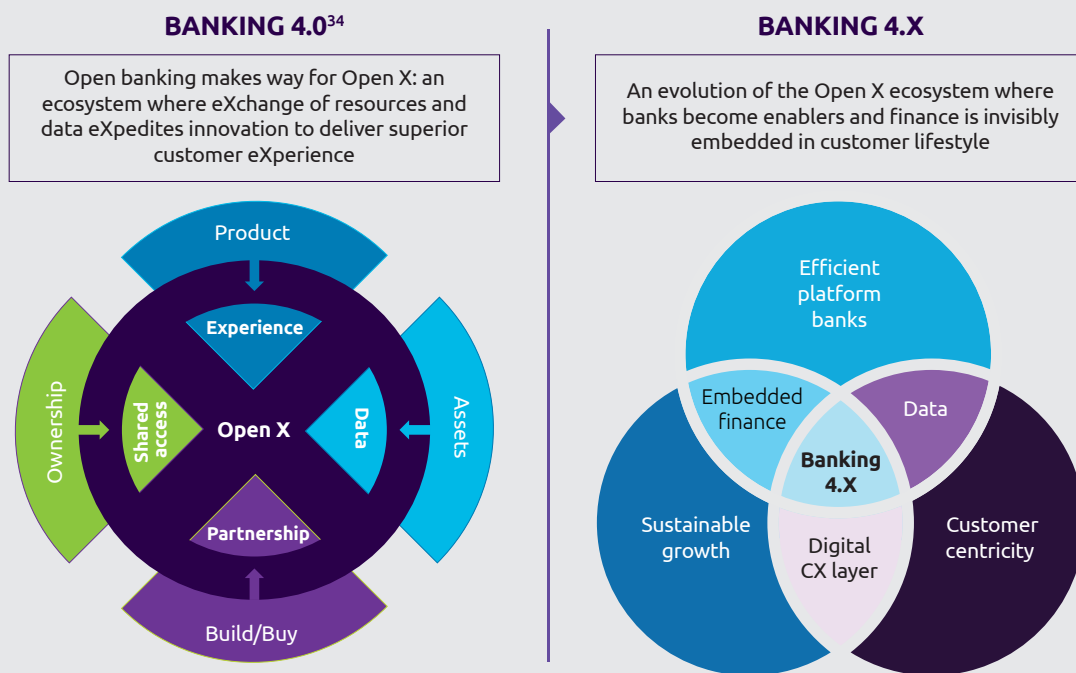
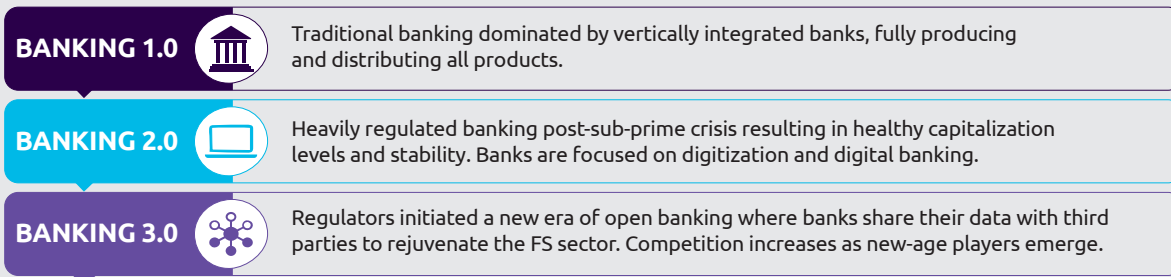
JPMorgan created teams in 2020 to focus on ESG and sustainability.³³

The sheer magnitude of disruption wrought by COVID-19 has sparked the industry's next big evolutionary wave. A transformative shift in the Open X ecosystem is enabling FIs to invisibly embed banking within the customer lifestyle.

During the banking 2.0 era, traditional vertically-integrated banks were shattered by the 2008 global recession as regulators tightened their grip on the extent of financial risk banks could assume. The rationale was to ensure sufficient capitalization for firms in the event of future market upheaval.

³³ [Private Equity News](#), "Banks snap up ESG hires as Covid-19 turns \$3tn market into 'competitive necessity'," Nov 20, 2020.

Figure 5. The banking 4.X era: how we got here



Source: Capgemini Financial Services Analysis, 2021

As incumbents began to focus on progressive bank digitalization, open banking regulations (such as PSD2) marked the beginning of the intensely competitive Banking 3.0 era in which incumbents opened their data so third parties could create new products and services.

In 2019, Capgemini coined the term Open X to describe open banking evolution, where data, shared capabilities, and third-party partnerships cumulatively offer a superior customer experience.

Now, pandemic fallout has banks catalyzed a new era – Banking 4.X. Platform-based business models will mark the path forward, and incumbents must weigh various approaches to support their business goals effectively.³⁵

Platformification offers immense opportunities for banks to integrate with third-parties and extend the spectrum of financial and non-financial services.”

— Benjami Puigdevall,
CEO, Imagin (a division of CaixaBank), Spain

³⁴ The World Retail Banking Report 2021 and its key findings are not derived from or associated with the work from author Brett King and his book Bank 4.0 (Copyright © Marshall Cavendish 2018). Brett King is not connected with Capgemini's thought leadership, and King's work on defining the industry term Bank 4.0 was not used in the preparation of this research.

³⁵ Capgemini, "World Retail Banking Report 2020," June 2020.

Banks unlock new value by leveraging ecosystem capabilities

There are two types of platforms – enablers of transactions and innovation. The former facilitates the value exchange – as when Google Search connects users to content producers. The latter facilitates value creation, such as when Android enables third parties to create new phone apps.

Now, hybrid functionality is in demand. Banking-as-a-Service (BaaS) platforms facilitate value creation as well as value exchange. With BaaS, firms share their core capabilities with third parties as consumable application programming interfaces (APIs).

The BaaS platform model has been around for a decade. Yet, it did not achieve mainstream adoption until open banking regulations (such as PSD2 in Europe) mandated incumbent firms to open their APIs to support new-age players (FinTechs, challenger banks, neobanks). In 2020, 61% of European financial executives said they felt positive about the open banking movement (compared with 55% in 2019). Only ~8% held a negative attitude (compared with ~14% in

2019), according to a survey commissioned by Tink.³⁶ More and more incumbent firms recognize and realize the benefits of leveraging ecosystem capabilities through BaaS platforms.

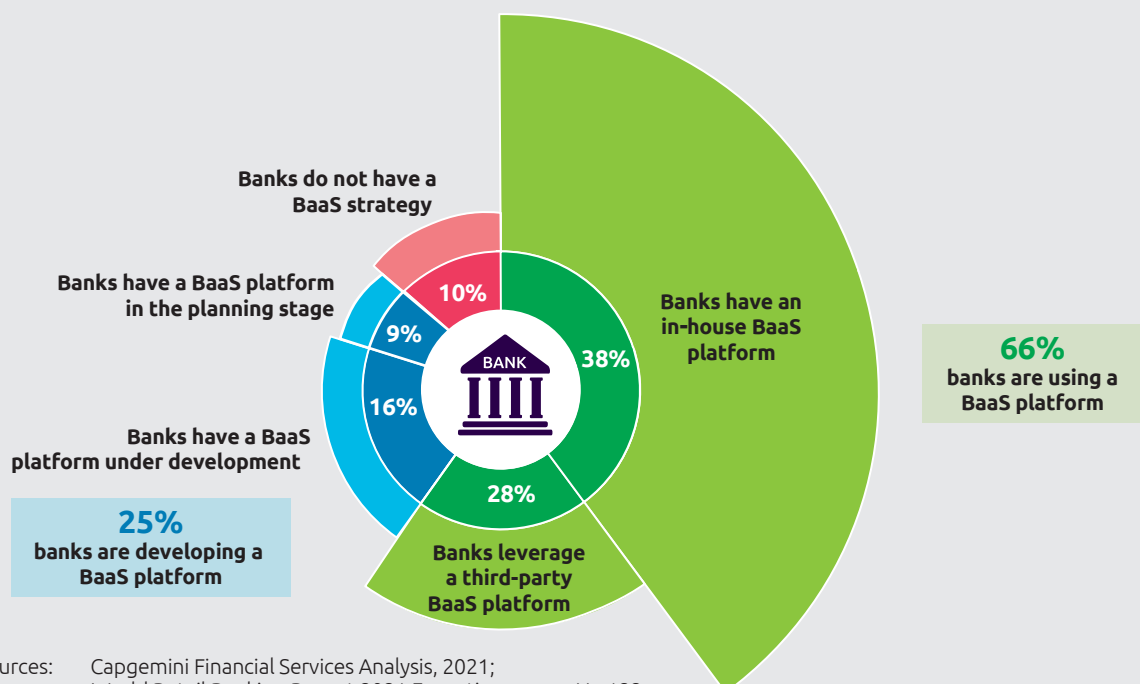


The top two priorities of a BaaS strategy are designing innovative products and reaching more customers. Therefore, banks need to forge partnerships with FinTechs to effectively and efficiently develop customer-facing solutions and leverage these partnerships to acquire new customers."

— Charles Potts,

Senior VP and Chief Innovation Officer,
Independent Community Bankers of America
(ICBA), US

Figure 6. Open banking has accelerated the adoption of Banking-as-a-Service (BaaS)



Sources: Capgemini Financial Services Analysis, 2021;
World Retail Banking Report 2021 Executive survey, N =122.

Question: What is the status of the Banking-as-a-Service (BaaS) model in your organization?

³⁶ Tink, "Open banking attitudes and FinTech partnerships," 2020.

Competitive environment morphs to collaboration, thanks to BaaS

For decades, traditional banks closely held financial services, acting as exclusive keepers of banking products and services. Now, the BaaS model is driving the democratization of delivery and offerings. The World Retail Banking Report 2020 revealed that partnering with new-age players to innovate could help banks go to market faster. BaaS bolsters the innovation process by quickly infusing the market with new business concepts and ideas.

Within a BaaS relationship, a fully-licensed, regulated incumbent offers its banking stack (infrastructure, capabilities, data, and products) to new-age firms (neobanks, challengers banks, FinTechs) and other non-banking entities such as retailers, e-commerce platforms, or mobility service providers.

Through BaaS, traditional banks enable third-parties to embed financial products and services in their customer journeys. We estimate that embedded finance, the seamless and invisible integration of

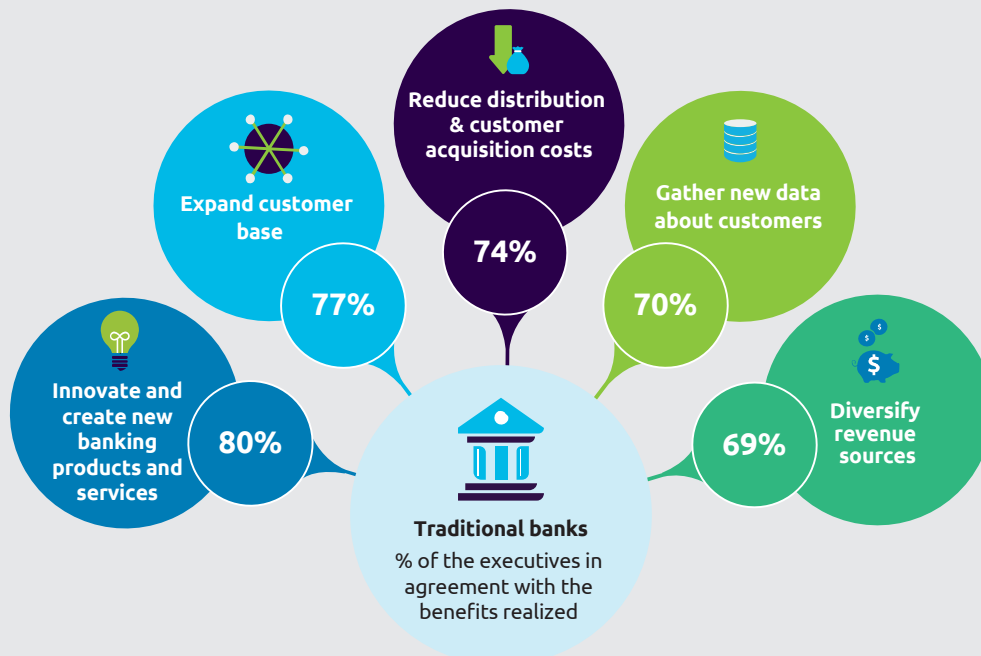
banking products and services within customer journeys, is probably the most significant opportunity to offer incumbents vast digital growth opportunities – an addressable market worth more than USD7 trillion by 2030, roughly double the market value of the world’s top 30 banks today.³⁷



We see embedded finance as a tremendous opportunity. It offers a fundamentally different business avenue, as it shares risks and solutions – and ensures active third-party participation. Innovation is on the rise, and our employees are thrilled.”

— Aalishaan Zaidi,
Global Head, Personal Banking,
Consumer, Private and Business Banking,
Standard Chartered, Singapore

Figure 7. Incumbents can leverage BaaS to realize significant benefits



Sources: Capgemini Financial Services Analysis, 2021, World Retail Banking Report 2021 Executive survey, N= 122.
Question: What are the potential benefits of using a Banking-as-a-Service model? Rate benefits on a scale of 1 to 7, with 1 being no benefits and 7 being significant benefits. Figure 7 reflects responses from executives who rated a benefit at 5 or above.

³⁷ [Simon Torrance](#), “Embedded Finance: a game-changing opportunity for incumbents,” Aug 10, 2020.

Why does BaaS offer such profit potential?

For incumbents, third parties offer targeted and low-cost distribution models. US-based **Customers Bank** offers white label products through its digital, mobile-only subsidiary **BankMobile**, enabling a new customer/account acquisition cost to less than USD10 versus traditional banks' USD100 per new account.³⁸

- San Diego-based **Axos Bank** entered a white-labeling arrangement with **N26** in 2019 that enabled the German challenger bank to operate in the United States. Federally-chartered Axos manages consumer and business banking products through its low-cost distribution channels and affinity partners customers' money, while N26 focuses on interface and customer experience (CX).^{39,40}
- In India, **ICICI Bank** co-brands with the Amazon Pay credit card, which gives it low-cost access to (and possible acquisition of) **Amazon's** vast customer base. In October 2020, 20 months after its launch, Amazon Pay became the first credit card to acquire more than a million customers in less than two years.⁴¹

Embedded finance, enabled by a BaaS platform, helps banks promote their financial products and services to a broader market. But it is also a way to attract new customers. How? By targeting and signing on the clients of partners.

- **Standard Chartered** launched its BaaS platform, nexus, in early 2020. Through nexus, digital platforms and ecosystems such as e-commerce, social media, or ride-hailing companies can offer their customers loans, credit cards, and savings accounts co-created with Standard Chartered but promoted under their own brand. Nexus enabled Standard Chartered to partner with a major Indonesian e-commerce platform. And because Indonesia has an exceptionally high e-commerce adoption rate, the move gives Standard Chartered a low-cost opportunity to reach unbanked populations and attract customers in a high-population market.⁴²



The BaaS model is very relevant during this time, and it will offer immense participation opportunities for banks in broader ecosystems. Some non-banking players want to monetize their customers, and incumbents can help them with banking solutions and capital."

— **Aalishaan Zaidi,**

Global Head, Personal Banking,
Consumer, Private and Business Banking,
Standard Chartered, Singapore

³⁸ [BankMobile press release](#), "BankMobile Technologies and Megalith Financial Acquisition Corp. Agree to Combine to Bring a Digital Banking Platform to the Public Market under the New Name BM Technologies," Aug 6, 2020.

³⁹ [Tech Crunch](#), "N26 reaches 5 million customers, including 250,000 in the US," Jan 27, 2020.

⁴⁰ [N26 press release](#), "N26 Celebrates One Year Anniversary with Nearly 500,000 Customers In the U.S. Market," Aug 26, 2020.

⁴¹ [Mint](#), "Amazon Pay ICICI Bank credit card is fastest to cross 1 million milestone," Oct 28, 2020.

⁴² [Standard Chartered Newsroom](#), "We've launched Banking as a Service," Mar 12, 2020.

BaaS is reinventing the retail and consumer lending landscape

Today, retail lending struggles with lengthy origination times, clunky onboarding, rigid and opaque risk management, and lackluster customer experience. Open banking and BaaS can potentially disrupt the retail lending landscape by transforming two critical areas.

Processes: As part of our World Retail Banking Report 2021 Voice of the Customer survey, 59% of loan-seeking consumers said the approval process could be challenging. However, banks leveraging a BaaS platform can collaborate with FinTechs seamlessly to augment and improve their lending value chain capabilities (from lead generation to loan disbursement) and optimize the time, effort, and costs involved. Using social, contextual, and alternative data, FinTechs innovate credit risk models to create data-centric credit scores that make approvals quicker and easier.

- FinTech lenders **Braviant Holdings (US)**, **Destácame (Chile)**, and **Tala (US)** are helping billions of consumers globally to build their financial identity.^{43,44}

Products: 60% of customer survey respondents told us they found loan repayment terms too pricey, and 75% said they want more accessible channels and flexible loan products. With BaaS models, loans are more accessible, less costly, and more personalized. Several new concepts have emerged recently in retail and consumer lending – installment credit at the digital point of sale and P2P lending methods are gaining traction among millennials.

- **BBVA USA**, **PenFed Credit Union**, and **WebBank Credit Union** have partnered with US-based P2P lender **Prosper**. By December 2020, Prosper had disbursed more than one million loans valued at USD18 billion.⁴⁵

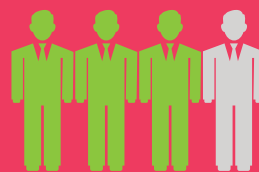
What's more, traditional banks, including **BBVA and Standard Chartered**, and startups such as **Solarisbank**, **Fidor**, and **Green Dot** have created new monetization models around their BaaS platforms. Such models enable incumbents to monetize their banking stack – via revenue-sharing agreements, one-time setup charges, subscription fees, or a combination of these. The result? A steady revenue stream fed by diverse sources.

Overall, banks that embrace BaaS can expect higher-than-average returns on equity and assets (RoI and RoA) based on cost synergies and alternative income sources.⁴⁶

The BaaS platform creates a networked aggregation of values by helping incumbents orchestrate a rich, diverse, and experiential ecosystem for customers. The most successful banking ecosystems offer a broad

spectrum of financial and non-financial products and services. Embedded finance brings banking (not banks) closer to consumers.

Ultimately, however, the success of the BaaS platform depends on customers' willingness to trust non-banking entities to fulfill their financial needs.



3 in 4 banking executives on average said they are interested in partnering with other sectors to offer beyond banking products and services to customers.

⁴³ [Built in](#), "13 FinTech lending companies upending the credit card, mortgage and loan industries," Mar 25, 2020.

⁴⁴ [BBVA](#), "FinTech innovation and financial inclusion," May 29, 2018.

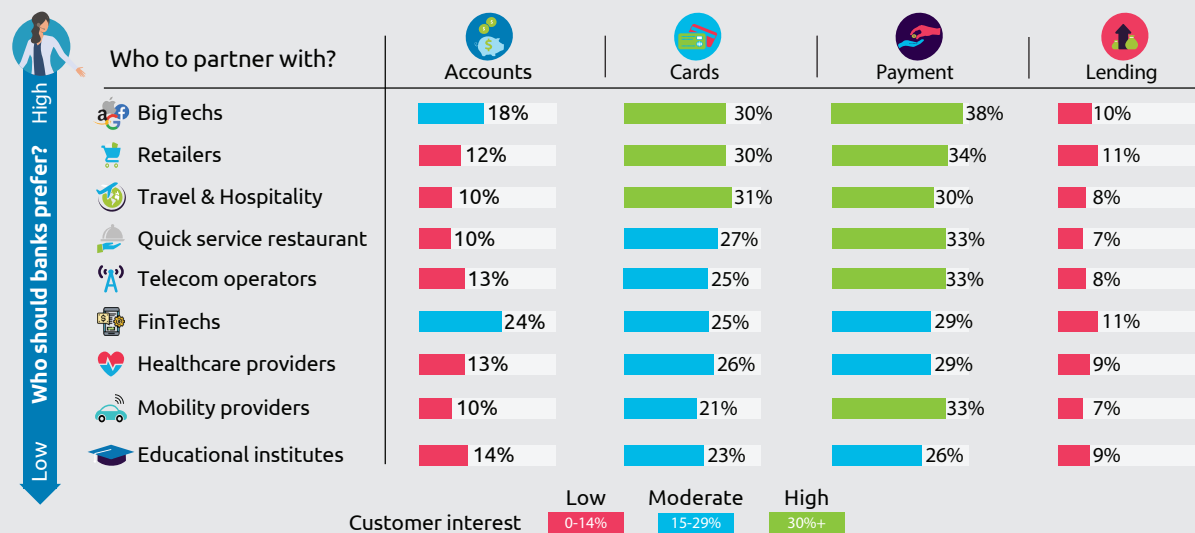
⁴⁵ [Prosper](#), "2Q 2019 financial results," Aug 13, 2019.

⁴⁶ [Andreessen Horowitz](#), "The Partner Bank Boom," Jun 11, 2020.

- **Apple's** co-branded credit card powered by **Goldman Sachs** reported 3.1 million signups within a year.⁴⁷ Could a brand other than Apple accomplish similar success and positive customer response? BaaS partnerships create the most value for firms with a high Net Promoter Score, and market trust.⁴⁸

Not every sector is ideally suited to dovetail with financial products and services. As market competition continues to heat up, banks will be wise to strategically select complementary industries and best-fit products and services to reap the most benefits.

Figure 8. Customers consider financial service options beyond banks



Sources: Capgemini Financial Services Analysis, 2021; World Retail Banking Report 2021 Voice of Customer survey, N=8,559. Question: Which of these banking services and products – from non-banking firms – would you be interested in using?

How will Google serve its Next Billion Users?

Google's Next Billion Users (NBU) division was created in 2015 to reach customers in emerging markets where digital infrastructure was either underdeveloped, costly, or inaccessible to poor and vulnerable people. An NBU product, launched in 2017 in India, aims to boost financial inclusion – **Google Pay**. By 2020, the digital wallet platform and online payment system extended its scope and scale of operations beyond India to Australia, Canada, Japan, Russia, Singapore, Ukraine, the UK, and the United States.

Google plans to relaunch Google Pay with an integrated Google Plex checking account. Leveraging its core assets – data, third-party relationships, and technological superiority, Google offered a compelling partnership pitch to banks and credit unions.

So far, 11 financial institutions (three big banks, four community banks, two credit unions, and two digital banks) say they will partner with Google for the 2021 launch of the Google Plex checking account and join the Google Pay ecosystem. Google Pay will promote its lifestyle products and services – and personal financial management tools – to act as an experiential interface that connects banks and customers.^{49, 50}

⁴⁷ [Forbes](#), "One-button FinTech? Where and how embedded finance will work," Sep 27, 2020.

⁴⁸ Net Promoter Scores are used in customer experience programs. NPS measures customer loyalty. NPS is often considered the gold standard CX metric.

⁴⁹ [Forbes](#), "Google Plex: The mobile banking app every bank wants," Nov 30, 2020.

⁵⁰ [Business Insider](#), "The head of Google's Next Billion Users group explains how its work in emerging markets is shaping the search for the company's next blockbuster product," Aug 13, 2020.

BaaS opens bank doors to underserved customers

The unbanked and underbanked population is a latent market with pent-up demand for financial services. Platform-based banks (especially mid-size, credit unions, and community) could champion the financial inclusion cause, and this population, through the strength of their specialized roles. Banks that mix and match *Supplier*, *Aggregator*, and *Orchestrator* roles will unlock latent market potential.



Financial inclusion has two major components — trust and technology. The idea is to make banking accessible, affordable, and scalable with integrated technology platforms, keeping in mind the culture of each community.”

— **Rohit Mahna**,
SVP and GM, Financial Services,
Salesforce, US

Banking-as-a-Service enables firms to fill business model gaps and address three core challenges related to the unbanked/underbanked segment.

- **Accessibility:** Reaching out to impoverished areas might seem unprofitable to financial institutions. Banks can leverage BaaS platforms to bring banking closer to far-flung consumers quickly and economically. For instance, traditional banks in African countries partnered with telecom operators to bring banking (not banks!) within reach. Today, Africa is a mobile money account leader, with 21% of its population owning an account.⁵¹
- **A data-centric approach to credit risk:** The traditionally rigid risk assessment approach is through credit reporting. According to World Bank data, 3.9 billion people globally (68% of adults worldwide) find themselves locked out of the formal economy because they lack credit history.⁵² How can banks turn the situation around and simultaneously add new revenue streams?

Incumbents can collaborate with FinTech BaaS specialists to recalibrate and innovate existing credit risk models using behavioral and contextual customer data. Data-centric models decode everyday customer behavior to assess actual and potential financial accountability. Banks can use credit scores based on alternative data (collected from internet behavior, cell phone or utility bill payments, work/residential history) to integrate unbanked and underbanked segments into the financial mainstream. In the UK, ~1.23 million people are unbanked, and ~10x are underbanked. FinTechs, such as Loqbox, collaborate with incumbent institutions and other third-party organizations to help customers build a financial identity.⁵³

- **Cost of banking:** In Q3 2020, the global average cost of sending money (remittance) was 6.75%. Among all remittance service providers, banks were the most pricey, at 10.89%. United Nations’ Sustainable Development Goals (SDGs) set a 2030 target to reduce the cost of sending money to 3%.⁵⁴ Firms can cut banking costs by leveraging a BaaS platform to distribute and serve customers through cost-effective third-party digital channels. And efficiency savings achieved through digital transformation can be passed on to customers to lower costs even more.



To improve financial inclusion, banks and FinTechs must focus on three things. Facilitate quick, economical, and seamless onboarding in real-time. Emphasize customer experience by communicating through the right channels and offering products consumers, need. And complement core bank products with value-adding services for customer delight.”

— **Arcady Lapiro**,
CEO & Founder, Agora Services, US

⁵¹ [T_mob](#), “Banking the unbanked: How telecom companies can close the gap,” Apr 22, 2020.

⁵² [PCM](#), “Financial identities for world’s unbanked would add \$250 billion to global GDP,” Jan 6, 2020.

⁵³ [Policy Exchange](#), “FinTech for All,” Jan 14, 2020.

⁵⁴ [The World Bank](#), “Remittance prices worldwide,” Sep 2020.

A robust digital foundation can transform BaaS potential into reality

As more bankers recognize the benefits of a BaaS platform, we expect the number of firms offering BaaS products/services to grow exponentially. The question is – will all banks realize equally significant benefits?

The World Retail Banking Report 2020 explored the barriers to platform-based business model adoption: *Security, Systems, Culture, and Vision*. The most prominent platform productivity inhibitors were legacy systems and under-developed data capabilities, followed by security and compliance concerns.

As incumbents hurry to transform, the most successful firms will prioritize building a digital foundation with a modern digital core banking system, cloud computing, and API networks.

Large tier 1 banks have been digital transformation frontrunners. However, mid-size and community banks and credit unions lag when it comes to digital maturity. Many incumbents avoided digital transformation by creating complicated, propped-up extensions and patchworks. Performance issues and rigid aging systems constrict BaaS platform development.

The first step to building a digital foundation is to transform and modernize the core banking system – progressively. An enabling core supports operational excellence and addresses top-line customer expectations while effectively managing compliance and risk. A robust digital foundation nurtures a sustainable platform.



In the VUCA world, cloud-native platforms, modern technology stacks, and microservices-based architecture enhance banks' ability to look at products with features to solve problems rather than projects."

— Sean Coppinger,

Global Head, Risk, CFCC, Legal, and Finance
Technology, Standard Chartered, Singapore

Overcome cloud skepticism to design and develop a next-gen bank

The banking sector has been slow to adopt the cloud. A 2019–2020 CIO survey revealed that only 16% of financial services firms had adopted the public cloud, compared with a market average of 24%.⁵⁵ Regulations around data centers, cybersecurity concerns, and third-party risks have stoked skepticism.

Major cloud service providers have tried to bridge the gaps and address concerns. But now, pandemic urgency is forcing banks to prioritize cloud adoption to manage business continuity.

Our World Retail Banking Report 2020 survey found that 32% of bank executives were ready to pilot cloud computing, while 56% said they would implement cloud at scale by 2022. Bankers recognize the potential of the cloud as an economic and value driver (Figure 9).



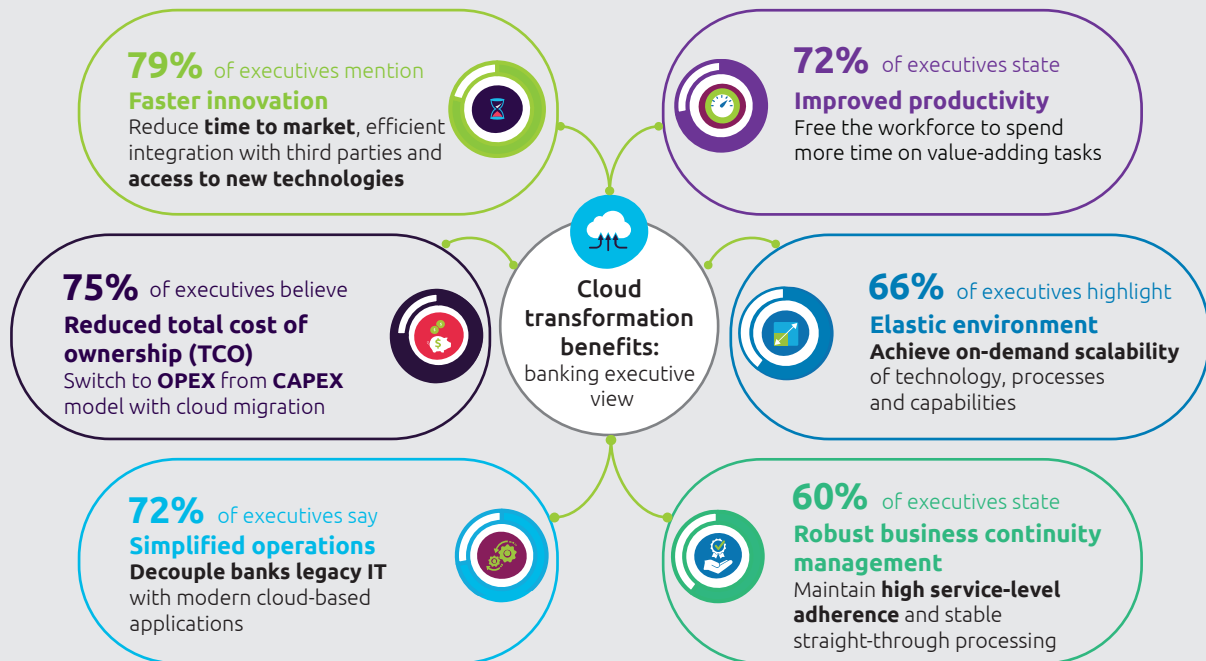
Mid-sized banks are adopting lean, agile, and cloud-native models to reduce IT infrastructure costs and convert to a pay-as-you-use structure, which enhances their ability to scale up or down, depending on need."

— Niranjan Ramaswamy,

VP, Product & Strategy, Fiserv, US

⁵⁵ [Banking Dive](#), "Bank of America-IBM Cloud collaboration lands BNP Paribas," Jul 23, 2020.

Figure 9. Execs are impressed by the cloud's impact on TCO and time to market



Sources: Capgemini Financial Services Analysis, 2021; World Retail Banking Report 2021 Executive survey, N=122.

Question: Rate how well the following perceived benefits support your bank's cloud transformation on a scale of 1 to 7, with 1 being not at all important and 7 being very important. Figure 9 summarizes the input of executives who rated a benefit's importance at 5 or above.



Our microservice-based cloud-native platform offers us significant benefits, including improved time to market or time to value, better elastic agility, and enhanced scale-up potential."

— Sean Coppinger,

Global Head, Risk, CFCC, Legal, and Financial Technology, Standard Chartered, Singapore

A global FI takes a cloud-first approach to reinvention

Bank of America strategized its digital transformation roadmap in 2012. Revamping legacy systems and cloud adoption was a priority. Fast forward to October 2019. The bank was running 80% of its workloads via an internal cloud. And as a result, the number of BoFA servers shrank from 200,000 to 70,000, and data centers were reduced from 60 to 23. The bank now saves ~USD2.1 billion annually thanks to its move to the cloud. Now, the bank aims to advance its cloud journey by embracing a public cloud. This shift could help Bank of America to save an additional 25–30% of operational costs. The progression to a public cloud will also offer higher storage capacity and computing power, greater flexibility to access a range of applications, and efficient integration with new and emerging technologies, such as AI and blockchain.^{56,57}

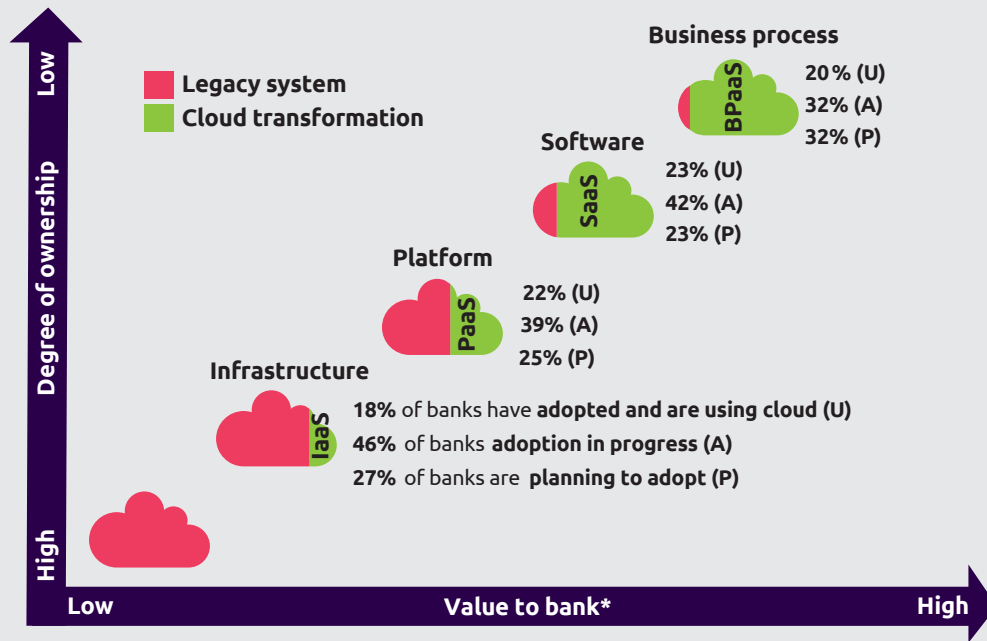
⁵⁶ [The Wall Street Journal](#), "IBM, Bank of America team up on public cloud aimed at banks," Nov 6, 2019.

⁵⁷ [CIO Dive](#), "Bank of America prioritized internal cloud. Now it's evaluating third-party providers," Oct 17, 2019.

Cloud transformation success stories from banks suggest that migrating to the cloud is simply the first step. Banks will have to strategically ramp up cloud maturity to ensure they realize migration potential.

Correlating cloud models (IaaS, PaaS, SaaS, and BPaaS) with business priorities will create a nimble, resilient future-proof organization.

Figure 10. Various stages of the cloud transformation journey



Sources: Capgemini Financial Services Analysis, 2021; World Retail Banking Report 2021 executive survey, N=122.

Question: Where are you in your cloud-adoption journey?

*Note: Value to bank indicates benefits that banks could potentially realize by switching to the cloud. Legacy systems' value is low because it inhibits collaboration and innovation – and does not significantly contribute to business continuity management.

Cost-efficiency is not always the sole rationale behind the most beneficial cloud adoption strategies. Indirect benefits – a positive impact on innovation, the creation of an elastic operating environment, and robust business continuity management (BCM) – may, ultimately, exceed cost considerations.

Each cloud adoption step enhances the possible value banks could realize.

- Infrastructure-as-a-Service (**IaaS**) increases performance while reducing cost. And it boosts IT system scalability – whenever, wherever, and however, availability is required.
- With Platform-as-a-Service (**PaaS**), legacy system decoupling increases as incumbents relinquish all except data and applications. At this stage, the bank realizes all the benefits of IaaS and access to a digital platform,

which reduces application development lead time. Banks can innovate and launch new services faster.

- Next, Software-as-a-service (**SaaS**) decouples IT systems, applications, and data from legacy system confinement. A SaaS model offers all the benefits of IaaS and PaaS with improved data management. With SaaS, banks can quickly integrate new technologies, upgrade existing systems, and scale innovative concepts. It increases interoperability and allows internal IT teams to focus on high-value tasks that enable business value.
- Finally, the last stage of cloud adoption is Business-Process-as-a-Service (**BPaaS**), when all IaaS, PaaS, and SaaS benefits are realized. Banks can also outsource their business processes. From IaaS to BPaaS, banks move from reducing technical debt (scaling down legacy systems) to decoupling from the legacy environment (system, technology, people, and process).

Robust cloud maturity allows banks to swap out cumbersome and costly mid- and back-offices for cloud-powered, on-demand, scalable, optimized backends. A bank that decouples its legacy mid- and back-office can focus on what matters most – customers!

Scale API networks to accelerate the transformation journey

APIs' strategic value began to be appreciated in early 2000 when platform firms Amazon, eBay, and Salesforce launched commercial APIs to give third parties open access to their businesses.

Since then, organizational perception of APIs has changed from that of a connector to a business enabler. Banks now recognize the exponential prospects of the API economy.

Today, APIs act as a growth engine in two ways:

- **A catalyst to digital transformation:** APIs are the central nervous system of banks. They synchronize operations by eliminating functional and data silos.



3 in 4 banks on average use APIs to enhance internal operational capabilities.



We have laid out our API strategy well. We are investing significantly in internal APIs, enabling APIs in our mobile capabilities, and establishing an entire API gateway to revolutionize how we interact with other applications."

— Manohar Chadalavala,

Global Head, Servicing & Transacting Journey,
Retail Innovation & FinTechs, Standard Chartered,
Singapore

Banks are leveraging APIs to modernize applications and rearchitect monolithic legacy systems into microservices for greater business agility.

- **Opening new business frontiers:** The API economy is significantly disrupting how financial products are created and distributed. Banks are reinventing commoditized banking services and products. And they are developing new monetization models to diversify sources of value. APIs allow banks to share data, enjoy efficient plug-and-play interfaces with third parties, and personalize their offerings.



1 in 3 banks on average monetize APIs to unlock new value.

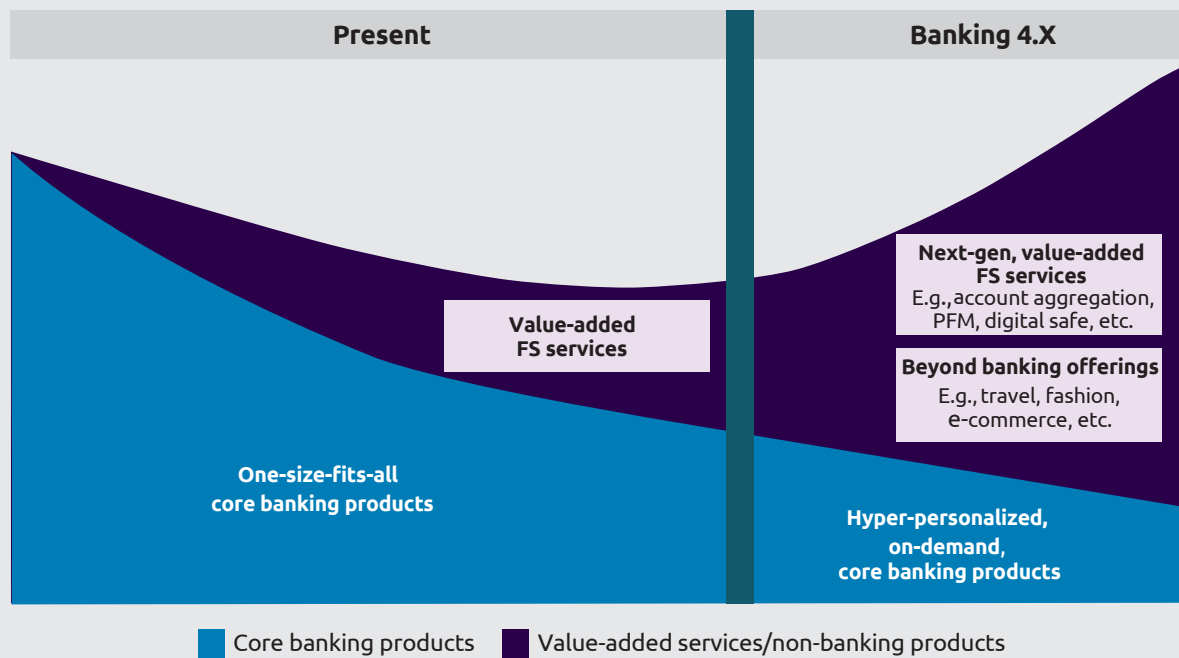
The Banking 4.X hallmark: A flexible BaaS platform that unifies value – sustainably

Banks with a robust digital foundation (a modular, scalable, and secure microservices environment) powered by a modern core, cloud infrastructure, and APIs can integrate siloed, disparate, and less productive business lines and customer journeys on a single platform. And the result is a unified value proposition.

By overcoming legacy mindsets and adopting BaaS, FIs can move beyond core banking products and innovate new offerings.

In the Banking 4.X era, core products (loans, accounts, cards, mortgages) will evolve to become simpler, instant, and on demand. In tandem, banks will expand the core to include P2P lending, mobile payments, and robo-advisory options.

Figure 11. The importance of value-adding services will increase in Banking 4.X



Source: Capgemini Financial Services Analysis, 2021.

Note: Area represents the shift in focus from core products to services

Bank focus will shift to next-gen value-added services (personal finance management, home buying support, broader advisory and legal services, loyalty, multi-bank aggregation, electronic safe) and beyond banking products and services (travel, mobility, fashion, entertainment).

Platformification will create new business frontiers for incumbents, but as banks unlock new value, will they retain it over the long term?

It's no secret that poor CX turns off retail bank customers. So it seems counterintuitive that only 44% of the bank executives we interviewed said they planned to take periodic steps to understand customer needs more thoroughly.

Banking 4.X will demand a reset. To retain and build upon platformification value, front-running firms will harvest data aggressively to create experiential customer journeys through intelligent and personalized engagement.

Customer experience will retain and amplify value in Banking 4.X

Banks have included CX improvement goals in their strategic plans for years. And as customers become increasingly vocal about their distaste for old school processes, action, not lip service, is required. No one likes to download, print, sign, scan, or fax anymore – not just millennials and Gen Y. Now, the days of putting CX on cruise control have come to a screeching stop thanks to COVID-19.

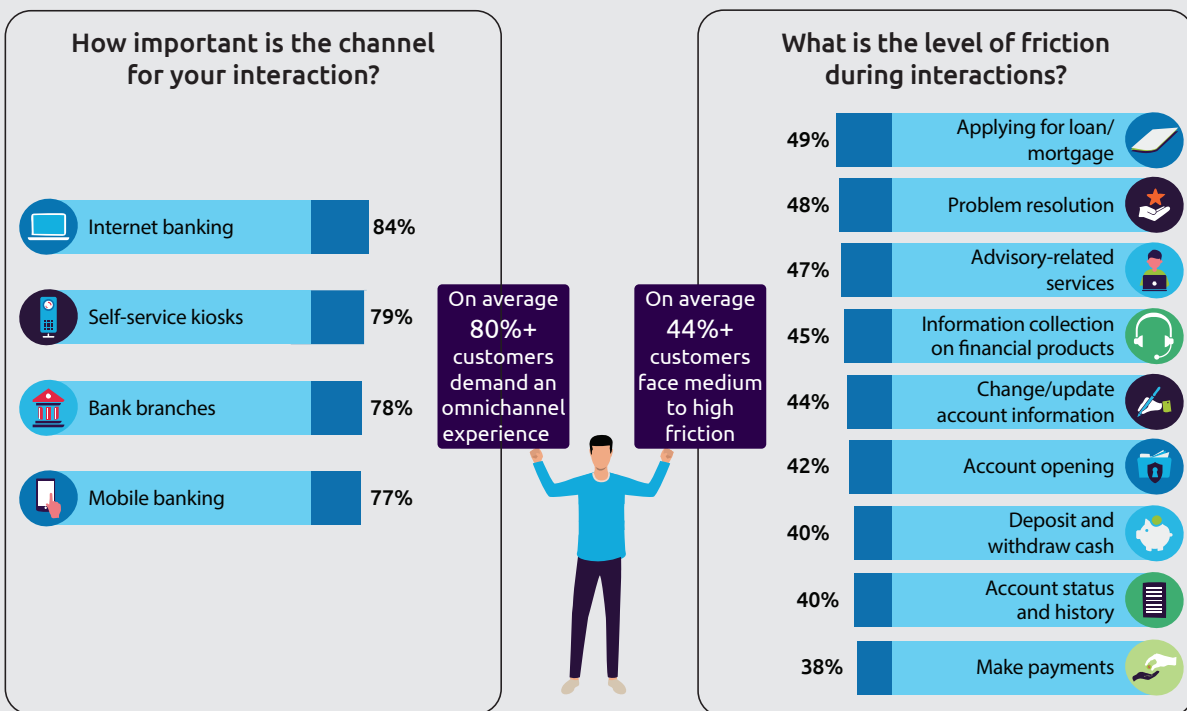
All along, new-age players have demonstrated that the way products and services are delivered can be as valuable as the offerings themselves. Regardless of their size and scope, most banks are now making sizeable customer experience investments – although much work remains.



Banks struggle with multi-channel customer engagement. They face redundancies, data silos, and long manual processes that lead to higher costs, revenue leakage, and poor customer experience. New-age players like FinTechs and challenger banks excel in these areas.”

— Marc Andrews,
VP, Financial Services and Insurance
Industry Market Leader, Pegasystems, US

Figure 12. Banks are struggling to deliver frictionless CX



Sources: Capgemini Financial Services Analysis, 2021; World Retail Banking Report 2021 Voice of Customer survey, N=8,559.

Questions: On a scale of 1 to 7, rate the importance of different channels while interacting with your bank – 1 indicates not important, and 7 indicates extremely important. Figure 12 (left side chart) represents responses of customers who rated importance of 5 or higher.

On a scale of 1 to 7, rate the level of friction or difficulty you experienced with your primary bank in the last 12 months for each interaction listed – 1 indicates very low friction or difficulty, and 7 indicates very high friction or difficulty. Figure 12 (right side chart) represents responses of customers who rated level of friction 4 or higher.

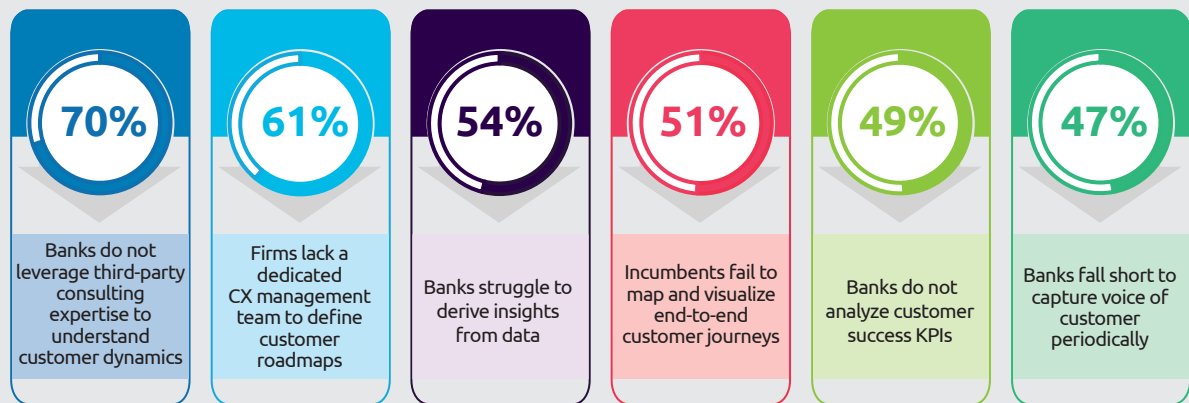
Interactions evolved quickly sparked by pandemic catalysts. And now frustrated customers demand empathic end-to-end communication featuring synchronized digital and physical channels. As banks race to digitalize journey touchpoints, consumers are in the driver's seat. Customers want convenient bank access – on demand, anywhere, anytime.

Bank customers say they want intelligent interactions that are contextual and personalized to their needs. One-size-fits-all no longer cuts it. They expect tailored products, services, and recommendations. What's more, 81% of individuals interviewed for the 2021 VoC

said anytime, anywhere accessibility and on-demand banking could motivate them to switch to a new-age financial institute.

Customer-journey starting and endpoints are unpredictable because they do not take a linear – point-A-to-point-B – path. Most journeys are multi-dimensional and influenced by cognitive, emotional, sensory, behavioral, and relational factors. And this is why, in the 2020 World FinTech Report, we encouraged banks to connect and map these disparate customer interactions through comprehensive journey itineraries.⁵⁸

Figure 13. Fewer than half of banks periodically capture voice of customer insights



Sources: Capgemini Financial Services Analysis, 2021; World Retail Banking Report 2021 Executive survey, N=122.

Question: How frequently does your bank take the following steps to understand customer needs? Figure 13 represents the percentage of executives who responded "not periodically" or "not in a planned way."

Mapping customer journeys help capture the impact at every touchpoint. It organizes uncoordinated processes spread across various functional silos from end to end. The benefits of customer journey mapping extends beyond enhancing customer experience. By placing the customer at the heart of the transformation process, banks can beef up engagement, improve conversion rates, boost customer lifetime value, gain visibility to risks and friction areas, and improve process efficiency.

Personalize engagements! Convert data into rich narratives to create moments of truth

As Banking 4.X debuts, intelligent data becomes a priceless commodity and deriving powerful insights from data is gaining renewed focus now. Open banking offered banks unprecedented opportunities to create, retain, and increase value by harvesting data. Dozens of banking and non-banking firms have been encouraged to collaborate to create partner synergies that enable and empower better customer service. In a data ecosystem, firms share and manage information to create value more significant in magnitude than they could do individually.

⁵⁸ Capgemini, "World FinTech Report 2020", Apr 21, 2020.

Credit bureaus (Equifax, Experian, TransUnion) make up a data ecosystem that shares information with banks to build and assess customer creditworthiness. Leading Japanese bank **MUFG** built a refined version of a data ecosystem with South-East Asia ride-hailing company **Grab**. In February 2020, MUFG invested USD706 million in Grab to help it evolve from a mobility service provider to a one-stop shop with a foot into financial services, food delivery, e-commerce, and wallet services. Meanwhile, MUFG aims to strengthen its position in South-East Asia and spur growth. Together, the firms built a lending-score model based on data from each other's customers. The data ecosystem will also benefit Grab as customer's income, spending habits, and lifestyle statistics will help it target consumers with hyper-personalized offerings.^{59,60}



Our partnership with Grab allows us to access information and data regarding its drivers (how the drivers operate, their spending patterns, complaints, etc.), enabling us to provide individualized services per customer."

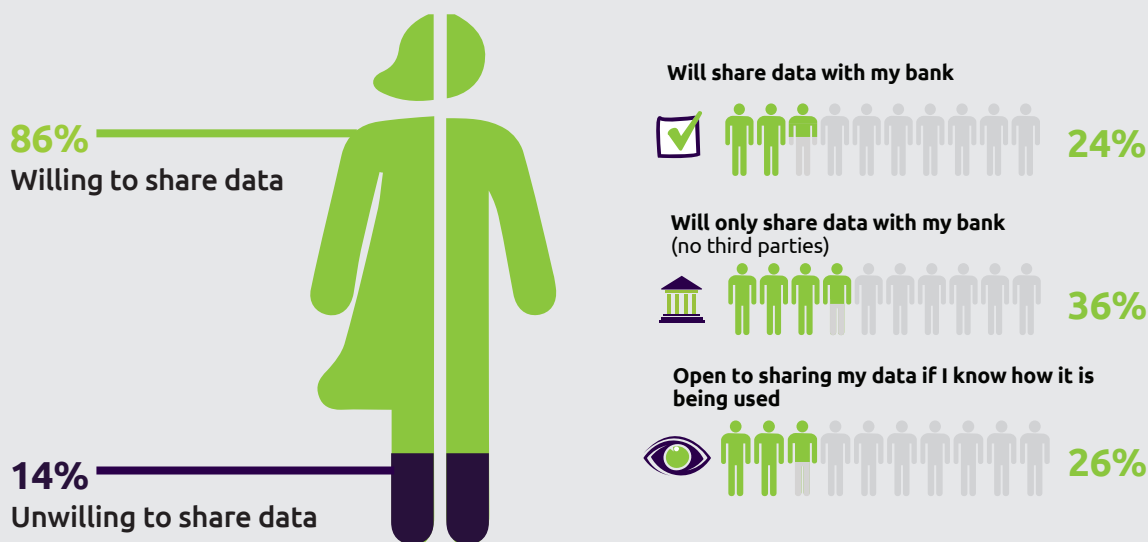
— Nobutake Suzuki,
President and CEO, MUFG Innovation Partners Co. Ltd., Japan

Data ecosystems will drive bank platform success by:

- Extending core offerings and building new products and services around customer data
- Optimizing operations to include robust demand forecasting and pricing strategies
- Leveraging multi-firm data ecosystems in which several groups share their data about individual customers so that banks can more accurately identify financial fraud and reduce risk significantly.

In addition to partner data, consumers are also more inclined to share their data with banks. 86% of our 2021 VoC survey respondents said they would share their data to gain a better, more personalized experience. However, only a quarter of customers are open to sharing data without caveats. Customers want to know how their data is being used and who are using their data. Banks must enhance their consent management capabilities to ensure that all services rendered on open banking are secured and compliant with evolving regulations.

Figure 14. Customers will share data to personalize their banking experience



Sources: Capgemini Financial Services Analysis, 2021; World Retail Banking Report 2021 Voice of Customer survey, N=8,559. Question: As a customer, how willing (or open) are you to sharing your data to receive better and personalized services?

⁵⁹ [Bloomberg](#), "Grab raises \$850 million to expand into financial services," Feb 25, 2020.

⁶⁰ [Nikkei Asia](#), "MUFG bank decided on Grab tie-up based on three surprises," Apr 27, 2020.

How can banks make the most from this data? In last year’s World Retail Banking Report, only a quarter of global bank executives said their firm could manage and utilize data to gain powerful and deep customer insights. They said manual processes, siloed operations, underdeveloped digital capabilities, and regulatory barriers were holding them back from becoming data experts.⁶¹

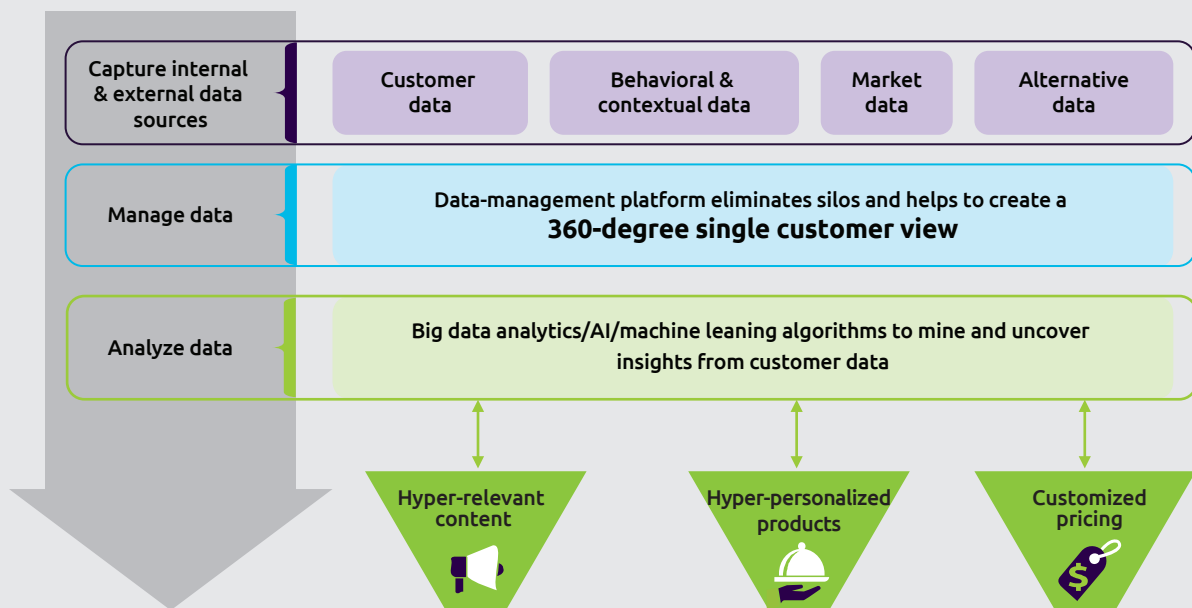


In addition to data, we are using Grab's AI technology to improve our customer-facing services and enhance our internal value chains, such as compliance and reporting and anti-money laundering.”

— **Nobutake Suzuki**,
President and CEO, MUFG Innovation Partners Co. Ltd., Japan

In the previously mentioned MUFG/Grab data ecosystem example, the Japanese bank was motivated to align by more than access to a large volume of data. Grab’s advanced AI abilities also held appeal. Grab’s vast data volume led it to reach high AI maturity, further enhancing the data’s empirical value. Banks can transform from laggard to expert via three data stages: Capture, Manage, and Analyze.

Figure 15. Data harvesting captures, manages, and analyzes diverse sources of information



Source: Capgemini Financial Services Analysis, 2021.

⁶¹ Capgemini, “World Retail Banking Report 2020,” Jun 11, 2020.

Capture data from various sources: Banks have a vast pool of transactional data on customers, including credit cards, payments, deposits, and withdrawals. Vast transactional records help financial institutions target customer segments, and adding behavioral and alternative data layers can enrich informational context. Digital devices, the internet of things (IoT), smart home devices (Amazon Echo, Google Home), and wearables (digital watches and goggles) can collect customer data around health, eating/shopping habits, fitness, retail preferences, and emotional state/mood. In addition to behavioral information, firms can leverage non-banking alternative data around payday loans, rent, utilities, social media activities, and geo-spatial data.

South Africa-based **Discovery Bank** calls itself a behavioral bank. Instead of service charges based on income and repayment practices, the bank tracks its 4.4 million customers' habits to understand and price risk throughout their lives. Discovery tracks daily activities (vaccinations, gym routine, healthy grocery purchases) to reward customers. The bank's "5-3-80 model" is based on the premise that five behaviors link to three risks that account for 80% of why people do not meet their financial obligations.⁶²

Manage unstructured data: By eliminating silos, banks can consolidate individual customer data across business lines. An October 2020 Financial Brand survey found that only 6% of banks have a single source of trusted and related customer information across all businesses and systems, while 59% of banks develop a single customer view (SCV).⁶³ A real-time SCV helps banks track, tag, measure, and serve customers across the customer journey. A large, single data source improves the efficacy of AI-powered decision engines, data analytics models, and machine learning algorithms that harvest customer insights. As a result, banks can create up-selling/cross-selling opportunities,

proactively act on customer grievances, monitor the customer journey for friction areas, reduce fraud risks, and provide contextual recommendations to customers. Every customer interaction represents a moment of truth – an opportunity to create a long-lasting positive impression on the customer. The upshot is higher customer satisfaction, increased loyalty, higher customer lifetime value, and a positive impact on Net Promoter Scores.



Data can help reduce silos with intelligent platforms that build value around customers, not products. The result is a personalized 360-degree view for end users that enables banks to become a one-stop shop in consumer lives."

— Rohit Mahna,
SVP and GM, Financial Services,
Salesforce, US

Analyze data: Generally speaking, banking products and services are generic. However, data is the key to differentiation. Banks armed with the right capabilities can create micro-segments by analyzing customer environment, lifestyle, personality, preferences, needs, and wants. The goal – building a personalized *segment of one* for the customer based on insight-driven personalization and a predictive or prescriptive approach. More and more banks, particularly tier I firms, are investing in their data capabilities to deliver hyper-relevant content, hyper-personalized products, and tailored pricing. However, the most strategic banks will extend the scope of this transformation beyond digital channels.

⁶² [American banker](#), "The bank that watches your every move," Jan 1, 2019.

⁶³ [The Financial Brand](#), "Banking providers still aren't ready for Big Data," Dec 3, 2020.

Engagement engine helps Australian bank achieve personalization at scale

Commonwealth Bank of Australia (CBA) is one of the country's largest by market capitalization. One in three Australians calls CBA their primary bank. To sustain market dominance, the firm focuses on deep personalized relationships with each of its nearly 16 million customers.

How? CBA partnered with Pegasystems to implement the US-based enterprise software applications provider's *Customer Decision Hub* and create an engagement engine that intelligently suggests and personalizes the next-best conversation with each customer – whether in the branch, on the phone, online, or using a mobile device. The decision hub framework enables CBA to connect conversations across 18 channels and run 200 machine learning models with 157 billion data points at a response rate of 200 milliseconds (occurring 20 million times daily).

The engagement engine significantly boosted CBA customer experience, which led to a 12+ point lead in its Net Promoter Score over the competition, a tenfold increase in lead volume, a threefold increase in lead conversion rates, and 13% growth in in-branch applications. The bank was ranked #1 in retail customer satisfaction for 22 consecutive months.⁶⁴



Banks must analyze their contextual customer data and create an aggregated 360-degree view by eliminating silos within the organization. Interactions often prove to be a better guide to learning about customer needs versus wants. Using data helps banks improve lead volume, conversion rates, and revenue per customer, resulting in higher customer lifetime value."

— **Marc Andrews,**
VP, Financial Services and Insurance
Market Leader, Pegasystems, US

⁶⁴ Pega, "Commonwealth Bank of Australia: Exceeding customer expectations with personalized conversations," accessed Jan 2021.

Reimagining branches as experience centers

COVID-19 left customers and businesses with little choice but to shift to digital engagement and relegate physical channels to memory. Bank branches had already been declining globally, and the pandemic accelerated closure announcements across regions.

Nevertheless, 37% of our VoC survey respondents said branches are a significant banking channel. Although 55% of customers told us they prefer making transactions via digital channels, they say they like branch availability, too. Only 14% said branches were no longer relevant to them.

So why do customers visit bank branches? On average, two in four customers visit a branch to resolve issues they cannot settle to their satisfaction via digital channels or to complete a banking process. Around one in three customers visits a branch for value-added services. In contrast, a quarter of customers said they visit branches because they find digital channels challenging. Moreover, 39% of customers visit a branch because they prefer to conduct banking transactions face to face. What does it all mean? Although branches may pose considerable operational costs, they remain relevant for customers. The branch also offers a tangible brand presence in communities and acts as an institution of trust. The question remains, how can banks strike a balance between branch volume and value?



Branches should be about high-value services as ancillary to banking services in key moments in life, such as purchasing a home, structuring financial estate, etc. Let's redefine the role of the branch based on end-user relationships, not day-to-day activities, but for big moments in life."

— **Arcady Lapiro,**
CEO & Founder, Agora Services, US

As digital transactions gain traction, opportunities arise for banks to transform branches from cost centers to value amplifiers. Consider these five Cs – Connection, Convenience, Connoisseur, Concierge, and Captivation – to transform branches into experience centers.

Connection signifies branches in synchrony with digital channels that emphasize financial inclusion and serve vulnerable populations. Through connection, branches plug into their customers and the reasons they visit. **Convenience** represents customer ease versus process orientation. Branches might feature personal bankers augmented with AI assistants and self-service kiosks to boost expedience and reduce customer stress.

Connoisseur brings to mind a range of value-added services and expert financial content readily available to branch visitors. The **Concierge** concept suggests a

branch's role in leveraging ecosystem partners to offer customers a range of desirable products and services beyond banking. Finally, as branch locations become a place to meet, greet and treat each other through contemporary aesthetics, events, workshops (yoga, Ted Talks, concerts, coffee), and more – customer **Captivation** results.



In the digital era, banks should transform and reposition themselves, but remember to carry forward the powerful legacy of customer trust and values. Future bank branches will be experience centers, where the focus is on blending with customer lifestyles and generating meaningful content.”

— **Benjami Puigdevall**,
CEO, Imagin (a division of CaixaBank), Spain

DBS offers a *phygital* banking experience that retains the human touch

As the pandemic pushed customers to switch to digital channels, retail banking preferences quickly evolved. In November 2020, Singapore-based DBS announced plans to transform about one-third of its branch network across Singapore as customers sought quicker, socially distanced, and more personalized branch services and shift their banking to digital platforms in light of COVID-19 conditions.

The plan includes self-service kiosks (video- and branch-teller machines), so customers may complete complex transactions safely and securely. On-site DBS digital ambassadors will help and guide customers.

The new branches will offer wealth-planning managers to provide personal financial wellness consultations.

The first branch is leveraging opportunities to combine banking and non-banking products/services through its location in a large Singapore shopping center and sharing space with a retailer. DBS is also considering additional shared-space opportunities with merchants, hotels, and F&B outlets.

DBS is also committed to supporting and serving less digitally-savvy customers, including the elderly. The branches will organize workshops and literacy programs to teach digital banking basics and educate about the rise in scams and other potential risks and threats. DBS aims to explore several public outreach programs to remain inclusive and accessible to all customers.^{65,66}

Incumbents are prioritizing building capabilities to enhance digital-channel reach. Branch transformation is happening in pockets, with changes often conducted in silos. Superior, newly installed digital channels are running the risk of operating in isolation.

This challenge will become more pronounced in an ecosystem model in which multiple banking and non-financial players come together to serve a single customer.

⁶⁵ DBS, “DBS rolls out branch transformation to boost convenience and accessibility for customers,” Nov 12, 2020.

⁶⁶ The Straits Times, “DBS rolling out 24/7, self-service banking at a third of its branches,” Nov 12, 2020.

The glue that binds the ecosystem – an overarching CX layer

As part of the dawning Banking 4.X era, firms will enable from behind the scenes, as banking becomes ubiquitous and embedded in customers' lives. Yet, banks will remain the ecosystem focal point. Strategic incumbents will prepare now to balance various ecosystem stakeholders (banking, non-banking, BigTechs, FinTechs, etc.) and build experiential customer journeys.

Ecosystem participants will contribute business knowledge as well as technology. A technology- and core-agnostic digital layer can seamlessly integrate various participants with a range of middle- and back-office workflows. This overarching digital layer will ensure consistent customer experience delivery from all ecosystem partners.

How? A digital CX layer integrates several banking channels to create a unified, seamless experience. It does not matter where the journey starts or ends; the customer can conveniently navigate and switch between channels.

Along the route, the bank presents customers with core products (accounts, payments, lending, cards, etc.), and value-added services (personal financial management, account aggregation, card management.) Meanwhile, integrated partners offer a variety of complementary, non-banking products. All this via a secure and protected journey.

With a robust digital CX layer, incumbents can offer a secure, consistent, continuous omnichannel experience emphasizing one-to-one relationships driven by advanced data capabilities.

Digital banking software solution makes credit union a place where (members') dreams come true

With headquarters in Burbank, California, **Partners Federal Credit Union** (Partners FCU) serves nearly half of the Walt Disney Company cast and employees in the United States. Most members fall into the millennial demographic (aged 25–40).

The credit union's digitally savvy members expect anytime, anywhere, *intelligent* financial services. Executives sought to expand the CU's customer base and grow assets to USD2 billion by creating robust digital channels. However, the institution's mobile app struggled with a 20% abandonment rate, poor UX, several workflow issues, and long development times for new features/services.

The credit union needed a solution to gain more digital control and product flexibility while empowering its developers with cutting-edge features and capabilities. The new technology had to enable the CU's mobile app to deliver consistent omnichannel service.

Partners FCU selected Temenos *Infinity Retail* digital banking software solution based on its ability to satisfy members more significantly and make product innovation more flexible.

The institution went from design to launch in August 2019 in less than seven months.

In addition to core banking functions, the app offers various interactive features such as coupons from local and national merchants and an education portal where members can access money-management seminars or download podcasts. The app also features a built-in survey tool to capture customer sentiment – a powerful feedback loop.

The digital CX layer has enabled Partners to provide an omnichannel experience, on demand, anywhere, and anytime. Moreover, the new solution is facilitating the CU to offer banking as well as *beyond banking* products and services, which underpins Partners' growth strategy and strengthens its market position against its market peers.

Since launching the Mobile Banking app, Partners averages 1,800 new users each month, resulting in a 20% increase in remote deposits and a 64% increase in mobile Visa payments. And the old app's 20% abandonment rate? The Mobile Banking app reduced it to just 3%. What's more, the app's rating on iTunes shot up from 2.2 to 4.6 stars out of 5, indicating that user satisfaction was headed in the right direction – up.

The Temenos solution enabled the CU to increase innovation pace by 4x while boosting customer feedback response. The new technology helped Partners shrink innovation cycles to less than 90 days (from more than a year) and command control over development cycles. On average, Partners FCU now develops, tests, and generates three new mobile-app builds each month, continuously innovating and responding to member demands.

In June 2020, executives announced that the institution had more than 180,000 members and had hit its goal of USD2 billion in assets, which put Partners FCU in about the top 2% of all federally insured US credit unions.⁶⁷



Hyper-personalization is the key to customer centricity. For that, you need real-time actionable data. Banks need to bring CRM and transactional capabilities together and adopt a digital CX layer to offer a superior customer experience. Temenos Infinity, based on microservices architecture, helps banks achieve this through integrated and streamlined approach."

— Joaquin De Valenzuela Muley,
Senior VP and Business Line Director,
Temenos Infinity, Spain

⁶⁷ [Partners Federal Credit Union](#), "\$2 Billion in Assets," Jun 25, 2020.

Lead and create sustainable long-term value

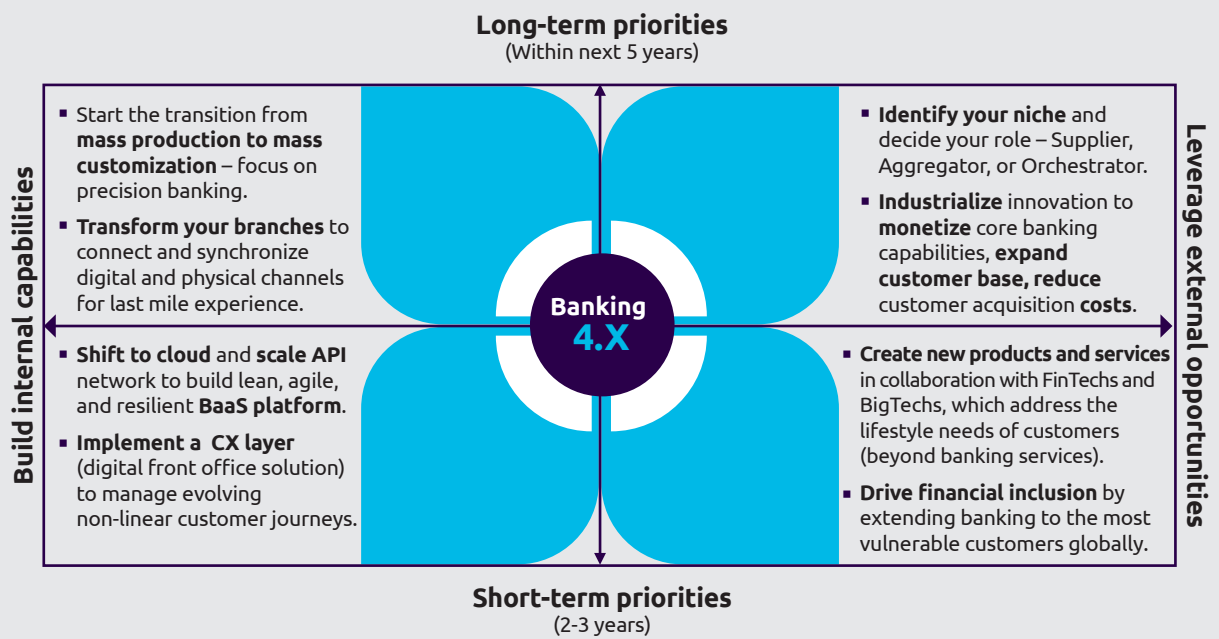
Like it or not, today's VUCA – volatile, uncertain, complex, and ambiguous – environment filled with black swans, political challenges, and a cautious economic outlook have moved retail banking goal posts.

Sooner than later, profit-conscious stakeholders will call upon risk-tolerant, innovative, collaborative bank executives to lead decisively to create sustainable long-term organizational value.

But where to begin? Start with the Banking 4.X roadmap to outline your firm's path to:

- Building a digital foundation
- Driving inclusive innovation
- Becoming an experiential platform
- Evolving as an Inventive Bank

Figure 16. How to create sustainable long-term value?



Source: Capgemini Financial Services Analysis, 2021.

Partner with Capgemini

APIs enabled 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:

- **Unlock new revenue streams** by identifying and prioritizing appropriate API monetization opportunities.
- **Leverage pre-built APIs** for open banking (AISP, PISP, PIISP) and API lifecycle management, monitoring, traffic management, and analytics.
- **Support compliance** 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.
- **Provide an API sandbox** to allow pre-launch experimentation.

Customer data platform

Data-driven personalization is now the essence of every successful customer-centric financial services firm. Remote transactions have made personalization particularly important as competition intensifies. A data-driven approach can boost business growth, attracting, retaining, and creating value for new and existing customers.

Many firms struggle to deliver personalized omnichannel CX because they cannot effectively leverage their customer data. Only 24% of global banks considered themselves data experts (able to manage and utilize data), according to World Retail Banking Report 2020 findings. Manual processes, outdated systems, duplicate efforts, and evolving regulations slow down banks' data capabilities.

Capgemini's Customer Data Platform (CDP) offers a unified, always-on customer view and sequenced customer journeys dynamically adjusted for channel, content, and consumer preferences. Actionable insights from CDP empower banks to deliver personalized real-time campaigns with better ROI and superior omnichannel CX.

Capgemini's CDP can help financial institutions with:

- **Targeted campaigns** that boost customer acquisition, improve retention, and drive value-based engagement that aligns with customer lifecycle moments
- **Operational efficiencies** such as improved customer segmentation, geo-targeting, enhanced speed to market to deliver superior ROI and marketing budget optimization
- **Consistent experience** through relevant messaging 24/7 across all channels, with tailored offerings and real-time hyper-relevant content to drive customer satisfaction higher.

Temenos Infinity Offering via Capgemini's Temenos CoE

Temenos Infinity for retail banks offers solutions covering customer lifecycle phases – from acquisition to digital transactions and long-term customer retention – through a single integrated experience. In addition to customer experiences across all digital channels, Temenos Infinity offers wearables and conversational banking solutions.

Capgemini's dedicated Temenos Center of Excellence (COE) offers services across all areas of Temenos Infinity, enabling us to provide superior and efficient delivery. In addition to creating innovative, value-adding Infinity implementation accelerators, we offer advisory support, help with requirements and business analysis, implementation, and quality assurance, right through post-go-live application support and maintenance.

The Infinity platform enables banks to:

- **Increase agility** – Get to market fast with an extensive repository of ready-to-go features while aligning Temenos Infinity's open and flexible platform to their digital banking architecture.
 - Simplify connectivity to the core banking system and leverage advanced microservices and APIs to create personalized banking apps.
- **Create a smart digital experience** – Data analytics and AI offer actionable insights to boost customer satisfaction thanks to frictionless, personalized, and secure banking experiences.
 - Drive stronger customer engagement and loyalty through a multi-channel strategy: native mobile apps, web apps, and branch and advanced interfaces.
- **Offer beyond banking** – Create a branded digital ecosystem and aggregate data from external providers to offer customers value-added services and open innovation.
 - Leverage Banking 4.X ecosystems and FinTechs through easy integration of third-party systems or pre-built integrations from the Temenos Marketplace.

Ask the Experts



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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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Methodology

Scope and research sources

The World Retail Banking Report 2021 draws on insights from two primary sources – the **Global Retail Banking Voice of the Customer survey 2021**, and the **Retail Banking Executive surveys and interviews 2021**. Together, these primary research sources cover insights from 33 markets: Australia, Belgium, Bhutan, Brazil, Cambodia, Canada, China, Denmark, France, Germany, Hong Kong, Iceland, India, Italy, Japan, Malaysia, Mexico, Mongolia, Myanmar, the Netherlands, Norway, Portugal, Russia, Saudi Arabia, Serbia, Singapore, South Korea, Spain, Sweden, Switzerland, UAE, the United Kingdom, and the United States.

2021 Global Retail Banking Voice of the Customer survey

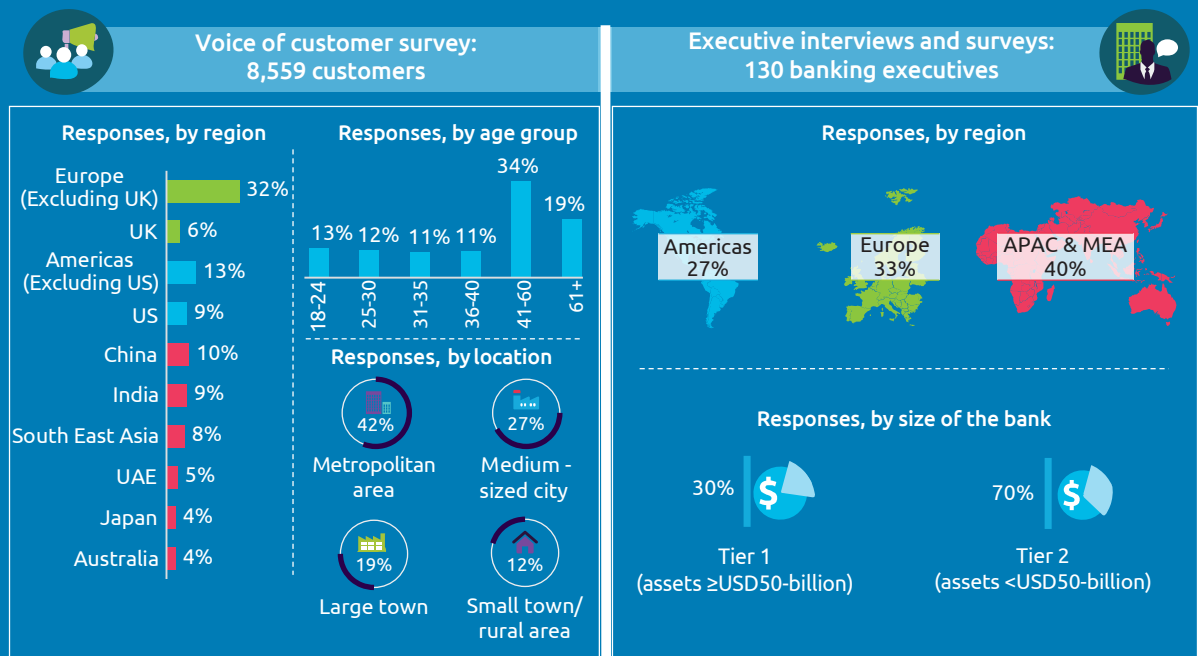
Our comprehensive Voice of the Customer survey polled over 8,500 banking customers in 24 countries.

The survey questioned customers on their personality dimensions such as lifestyle, employment, banking behavior, expectations from banks, channel preferences, satisfaction levels, and friction during banking interactions. Participants were also asked questions on their willingness to share customer data, affinity towards digital-only banking, and their interest on availing services from non-banking firms.

2021 Global Retail Banking Executive surveys and interviews

The report includes insights from focused interviews and surveys with over 130 senior executives of leading banks and non-banking firms across regions. These markets together represent all the three regions: Americas (North America and Latin America), Europe, and Asia-Pacific & Middle East (including Japan).

Research Methodology



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