

RETAIL BANKING TOP TRENDS 2024

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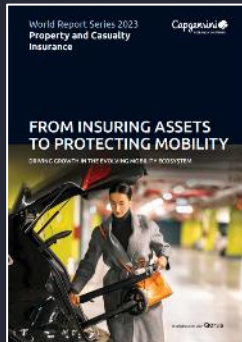
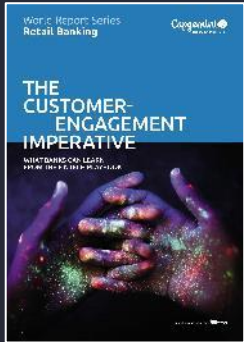
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TOP 10 TRENDS IN BANKING BY SUB-DOMAINS

Customer First

WEALTH MANAGEMENT

Increasingly influential **affluent segment** can boost the top line for wealth management firms

Fixed-income investing is back as a **safe and profitable** vehicle for wealth growth and stability

Generative AI-based client engagement enriches the **client experience**

Wealth management firms are capitalizing on the ongoing **intergenerational wealth transfer**

Wealth management firms are strategically **embedding social equity and inclusion** to drive business outcomes

After high-profile collapses, **rebuilding trust** is crucial for **digital assets'** next growth phase

Asset tokenization enables a more **efficient** financial system

Intelligent automation is a powerful **efficiency enabler** across the entire value chain

Digitalized client journeys are boosting productivity and streamlining operational costs

Reliable and traceable ESG metrics are now a must

Enterprise Management

RETAIL BANKING

Banks compete for **customer deposits** as they navigate through business turbulence

New-age players are switching gears from **hyper-growth** to **profits**

Banks pamper **affluent customers** with **personalized products** and services

Banks expand ESG data use beyond **compliance** to **strategic decision-making**

Digital operational resilience is a top priority as **cybersecurity threats** increase

Cost control is necessary to **hedge** against **economic volatility**

The next **wave of innovation** in cloud lies in **edge computing, sovereign cloud, and cloud marketplaces**

Banks explore **generative AI** to elevate **productivity**

Data is evolving from a proprietary asset to a **shared, open resource**

Decentralized finance continues to evolve; banks need to be ready for soon-to-come **regulatory frameworks**

Intelligent Industry

PAYMENTS

Real-time treasury empowers corporate clients' **decision-making** and **cash management capabilities**

Card alternatives – **pay by bank** and **BNPL** – are on the rise

Cloud-native composable platforms enable back-end reimagination

Digitalization will streamline **accounts payables/receivables processes**

Local and regional payments initiatives may challenge the dominance of **card schemes and interconnected payments networks**

Regulatory initiatives spark **payment innovation** and **robust security**

Instant payments offer a **potential efficiency boost**

Central banks embrace **CBDC** to maximize **financial inclusion**

Tokenization opens new frontiers for **value creation**

AI upside for payment services includes **productivity and client satisfaction**



RETAIL BANKING TOP TRENDS 2024 – PRIORITY MATRIX

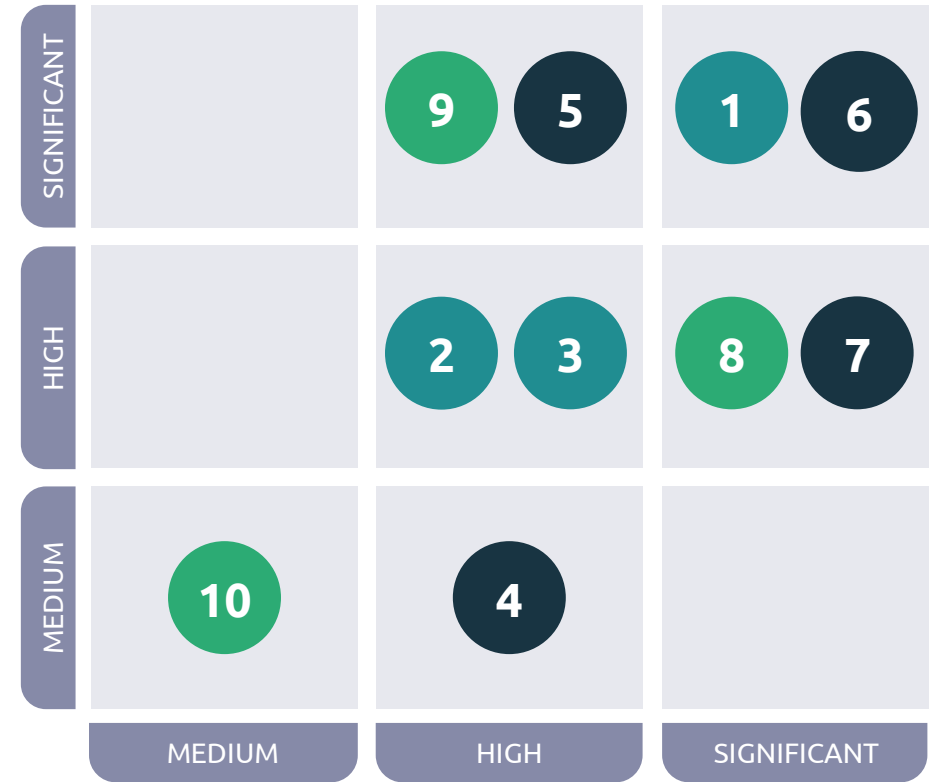
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- 1 Banks compete for **customer deposits** as they navigate through business turbulence
- 2 New-age players are switching gears from **hyper-growth** to **profits**
- 3 Banks pamper **affluent customers** with **personalized products** and **services**
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- 6 **Cost control** is necessary to **hedge** against **economic volatility**
- 7 The **next wave of innovation** in cloud lies in **edge computing, sovereign cloud, and cloud marketplaces**
- 8 Banks explore **Generative AI** to elevate productivity
- 9 Data is evolving from a proprietary asset to a **shared, open resource**
- 10 Decentralized finance continues to evolve; banks need to be ready for soon-to-come **regulatory frameworks**

Adoption priority 2024



Business impact 2024

The Priority Matrix presents Capgemini’s view of 2024 trend prioritization in an operating environment considering:

- Softening inflation and high interest rates, coupled with stagflation trends
- Geopolitical instability
- Dynamic regulatory activity
- Intense competition and increased focus on customer centricity due to the impact of new-age players
- Operational cost overruns and high capital lock-in

▪ **Adoption priority** The criticality of adopting a 2024 trend to maximize value creation because of its sector importance.

▪ **Business impact** The effects of a trend on the sector’s 2024 business as it relates to customer experience, operational excellence, regulatory compliance, or profitability.

Circumstances will vary for each firm depending on business priorities, geographic location, and other factors. For more information, don’t hesitate to contact us at banking@capgemini.com.



FROM 2023 TO 2024, WHAT HAS CHANGED AND WHAT HAS NOT?

TRENDS 2024	
1	Banks compete for customer deposits as they navigate through business turbulence
2	New-age players switching are gears from hyper-growth to profits
3	Banks pamper affluent customers with personalized products and services
4	Banks expand ESG data use beyond compliance to strategic decision-making
5	Digital operational resilience is a top priority as cybersecurity threats increase
6	Cost control is necessary to hedge against economic volatility
7	The next wave of innovation in cloud lies in edge computing, sovereign cloud, and cloud marketplaces
8	Banks explore Generative AI to elevate productivity
9	Data is evolving from a proprietary asset to a shared, open resource
10	Decentralized finance continues to evolve; banks need to be ready for soon-to-come regulatory frameworks

TRENDS 2023	
1	Smart branches feature experiential banking and convenience to spark customer connection
2	Incumbents scout for mature FinTechs to complement capabilities, boost bank profitability
3	More banks commit to driving circular economy sustainability
4	Banks step up and own customer experience with embedded finance
5	Financial wellness advice can help customers navigate the cost-of-living challenges
6	CMOs leverage actionable data insights to guide customer centricity
7	Digital identity to unlock efficiency gains for banks
8	Banks unlock value at scale by migrating workload to the cloud
9	A boom in synthetic data will catalyze data ecosystem growth
10	As banks explore decentralized finance, they remain cautious

New trends

- In the face of challenging macroeconomic conditions, banks are vying for customer deposits and focusing on being lean while navigating through a turbulent landscape marked by high interest rates.
- Open banking, driven by the democratization of data, and generative AI are deeply impacting the banking industry amid customer demand for increasingly innovative products and tailored services.

Trends evolution

- Defined standards for ESG data are enabling banks to leverage it increasingly to unlock strategic value for their business.
- Cloud computing combined with edge devices can balance faster processing, data sovereignty, and cost savings.
- Decentralized finance has seen muted activity, but regulations in 2024 could give a boost to the sector.

Deprioritized trends

- Instead of full-fledged smart branches, new cost-effective formats such as shared banking hubs have emerged.
- Although well-capitalized incumbents still have an opportunity to acquire FinTechs, more M&A activity has been seen among struggling regional banks.
- Banks continue to invest in embedded finance, digital identity, and synthetic data, but prevailing economic conditions have brought forth more urgent challenges.



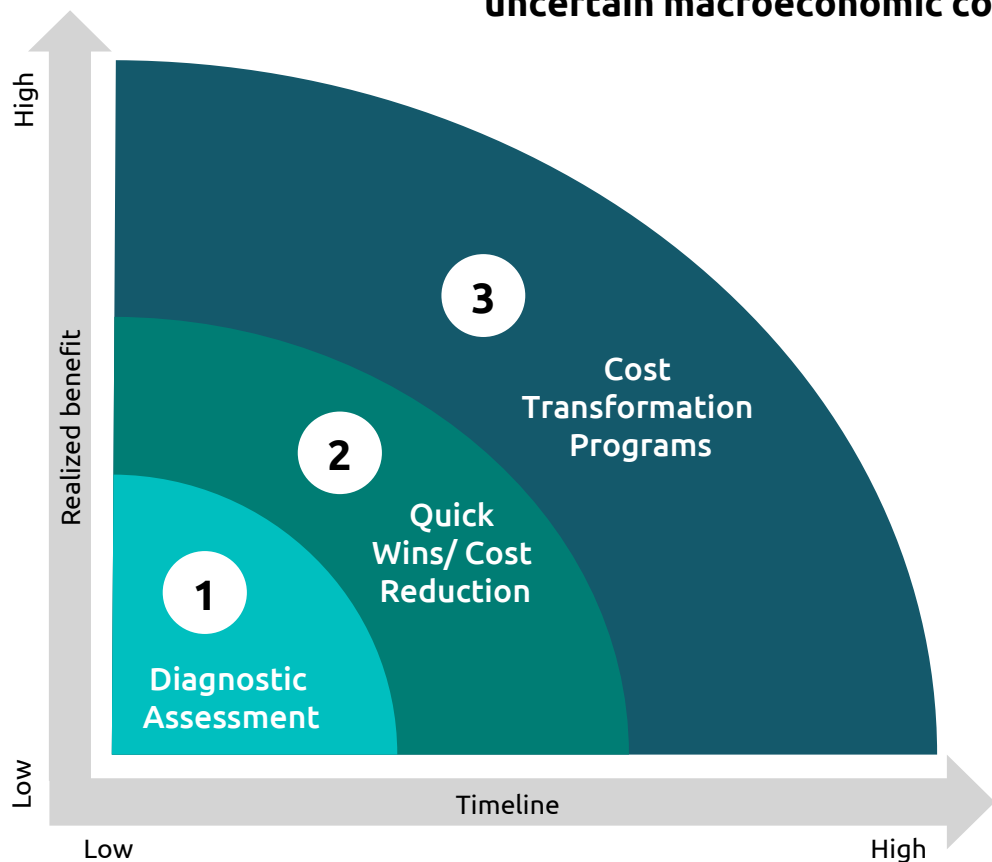
COST CONTROL NECESSARY TO HEDGE AGAINST ECONOMIC VOLATILITY

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Banks are prioritizing cost control and lean budgets as they face uncertain macroeconomic conditions and a global slowdown



- 1 Identifying biggest cost drivers and benchmarking against industry to identify areas of improvement
- 2 Opportunities that can show results quickly by stopping cash outflows and generating savings to fuel long-term cost reduction initiatives
- 3 Long-term, sustainable cost savings from embedding industry-specific best practices in operations

	9 5	1 6
	2 3	8 7
10	4	



Announced a large cost cutting plan after the acquisition of Credit Suisse to **reduce costs by USD 10bn** by the end of 2026

Source: Capgemini Research Institute for Financial Services analysis, 2023

Cost reduction initiatives have also **catalyzed innovation** as new formats, such as **shared banking hubs**, have emerged, and banks have continued to focus on leveraging technology to **automate processes** and **reduce operating costs**.



BANKS COMPETE FOR CUSTOMER DEPOSITS AS THEY NAVIGATE THROUGH BUSINESS TURBULENCE

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Increasing retail deposits is crucial for resilience in the banking sector



Five successive quarters of outflows

Deposit outflows were prevalent for five successive quarters since Q2 2022, and it was accelerated by the failure of three U.S. banks – Silicon Valley, Signature, First Republic.



Higher cost of deposits

High interest rates have increased funding costs, and deposit costs have risen more sharply for regional banks as compared to incumbents as they started offering higher rates to attract more deposits



Higher interest rates and offerings to attract depositors

Apart from higher interest rates on savings accounts and certificates of deposit, banks also started offering signing bonuses for new accounts and regular deposits



Opportunities for M&A

The Fed has navigated bank collapses by encouraging the acquisition of smaller, struggling banks by larger incumbents; regional banks could also merge to shore up depositors' confidence and stabilize their deposits

	9	5	1	6
	2	3	8	7
10	4			



Offered a **5% annual percentage yield on one-year CDs** in Q1 2023, which was unthinkable of in 2022

Source: Capgemini Research Institute for Financial Services analysis, 2023

With the traditional stickiness of deposits being challenged, 2024 will likely see **higher cost of deposits for banks** as they raise more money from the market, potentially impacting their bottom line.



THE NEXT WAVE OF INNOVATION IN CLOUD LIES IN EDGE COMPUTING, SOVEREIGN CLOUD AND MARKETPLACES

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Three frontiers of innovation for the cloud



Edge computing, by enabling real-time data processing and data sovereignty, will enhance the speed and dependability of bank services and bolster data security



Sovereign cloud provides benefits such as increased security, control, and compliance with data regulations, thus also bolstering customer confidence



Cloud marketplaces are enabling financial institutions to swiftly adopt innovative cloud-based solutions, through easily accessible services from different providers

	9 5	1 6
	2 3	8 7
10	4	



Partnered with HPE GreenLake, an **edge-to-cloud platform** that delivers cloud services that can run on-premises, at the edge, or in a co-location facility

Source: Capgemini Research Institute for Financial Services analysis, 2023

Innovations in cloud will **empower** banks to establish a technology infrastructure that is **agile, secure, and efficient**, while also leading to a balance between **faster data processing, data sovereignty, and cost savings**.



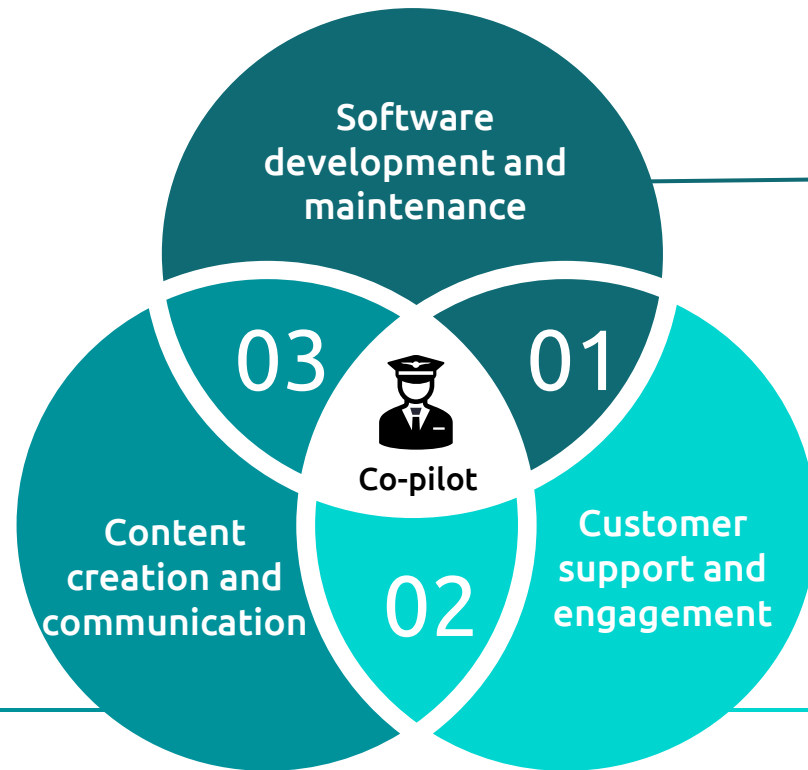
BANKS EXPLORE GENERATIVE AI TO ELEVATE PRODUCTIVITY

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Banks are embracing generative AI and conducting pilots to explore the potential impact across multiple business functions



1. Generating and testing software code
2. Enhance system development and maintenance operations
3. Fortify work process resilience

1. Real-time content filtering
2. Content auditing
3. Generating and summarizing business documents

1. Communication monitoring
2. Summarize customer conversations automatically
3. Gen AI-enabled chatbots acting as financial advisors

	9 5	1 6
	2 3	8 7
10	4	



Launched a **generative AI chatbot** across:

- code writing,
- transcribing calls,
- pulling out specific information,
- summarizing documents

Source: Capgemini Research Institute for Financial Services analysis, 2023

As generative AI use cases proliferate, banks will build capability-enhancing solutions, to boost employee productivity, data security and governance.



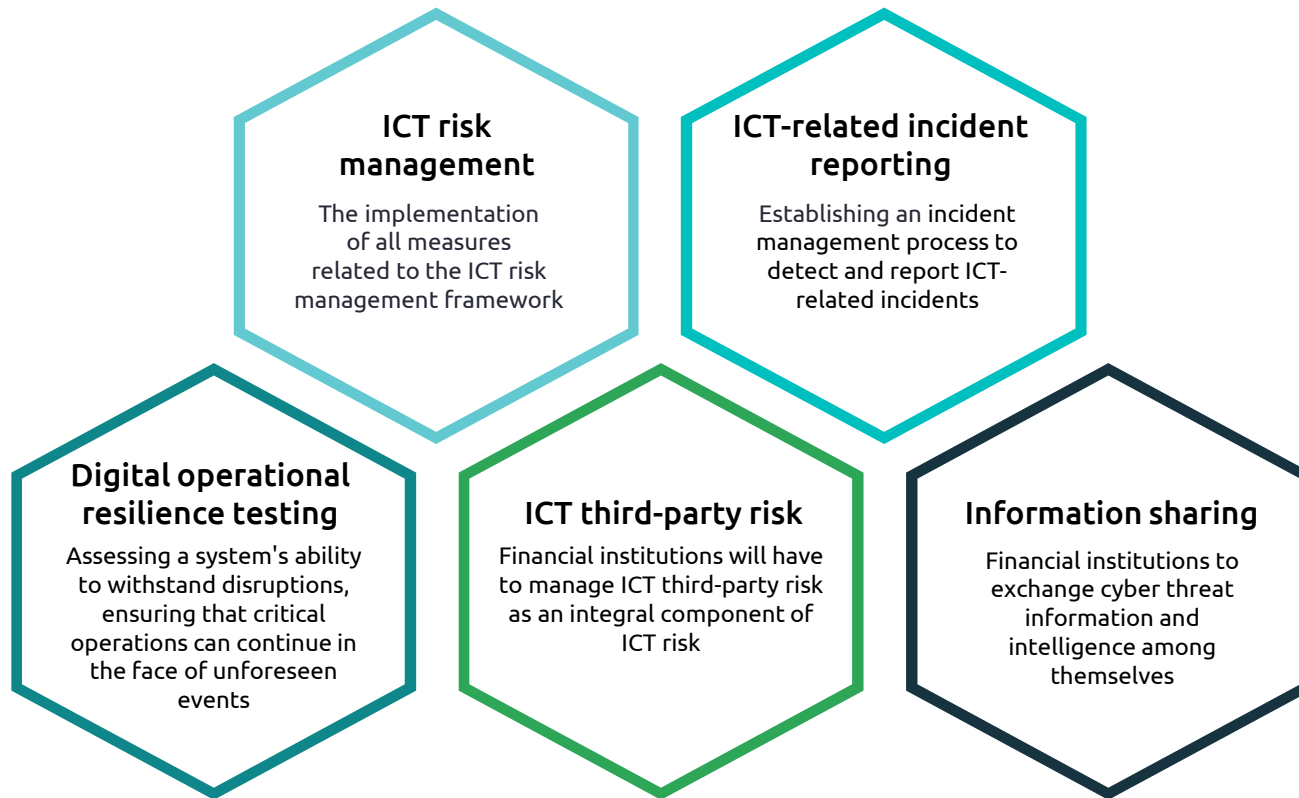
DIGITAL OPERATIONAL RESILIENCE IS A TOP PRIORITY AS CYBERSECURITY THREATS INCREASE

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Five pillars of digital operational resilience



With the risk horizon broadening, frontrunners are prioritizing digital operational resilience to ensure **uninterrupted financial services, protect sensitive customer information, and comply with government regulations.**

	9	5	1	6
	2	3	8	7
10	4			



Partnered with Quantexa, a global decision intelligence leader, to **strengthen risk detection and investigation capabilities**

Source: Capgemini Research Institute for Financial Services analysis, 2023

Investment in operational resilience safeguards a bank's **financial stability, reputation, and the trust** of its customers. It **mitigates** risks associated with **cybersecurity threats, system failures, and regulatory non-compliance.**



DATA IS EVOLVING FROM A PROPRIETARY ASSET TO A SHARED, OPEN RESOURCE

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Banks are shifting from guarding proprietary data to embracing open banking for a competitive edge



Proprietary data of customers is no longer a source of competitive advantage amid increasing consumer adoption of open banking applications



Open banking has been pioneered by the EU, and now emerging regulations and frameworks in the US, Middle East are accelerating adoption globally



Open finance is the next step, and it is beginning to take shape, with the PSD3 in the EU and the Consumer Data Right Act in Australia marking the first steps



Open data will eventually expand the scope beyond financial data fostering greater transparency, innovation, and competition

Low

Data ecosystems start to emerge on the back of cross-industry data integrations

High

	9 5	1 6
	2 3	8 7
10	4	



Expanded its European open banking capabilities in 2023 with a **new account owner verification tool** in partnership with Algoan, a Paris-based Decisioning as a Service specialist

Source: Capgemini Research Institute for Financial Services analysis, 2023

With progressive regulations and increasing consumer adoption, the gradual shift toward open data will help retail banks increasingly become **lifestyle partners** by **embedding in non-financial customer journeys**.



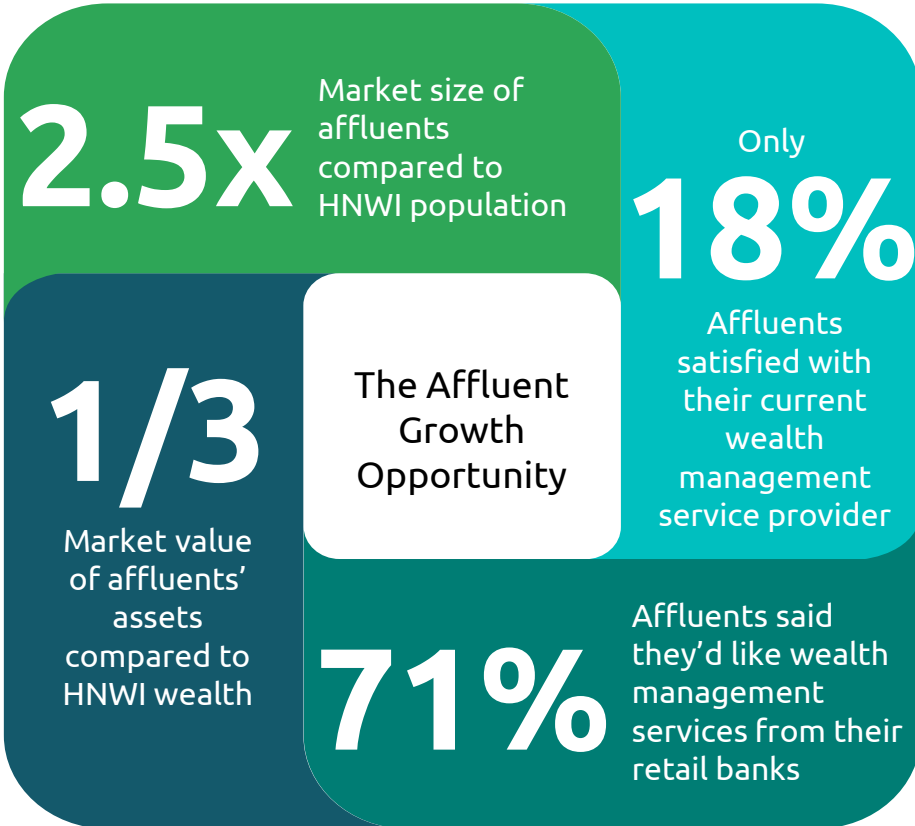
BANKS PAMPER AFFLUENT CUSTOMERS WITH PERSONALIZED PRODUCTS AND SERVICES

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Banks establish early relationships with affluent customers through exclusive benefits and experiences



To build long-term relationships with affluent customers, Retail banks are offering:

- ✓ better interest rates
- ✓ waived fees,
- ✓ a higher degree of personalization,
- ✓ **Value-added services** such as financial planning.

	9 5	1 6
	2 3	8 7
10	4	



Introduced a **new set of tiers based on average monthly balances**, with higher tiers equating to more benefits and services

Source: Capgemini Research Institute for Financial Services analysis, 2023

Betting on the likelihood of affluent customers garnering more wealth later, banks are developing **products, services and experiences tailored** to their specific needs in a bid to secure their **long-term loyalty**.



NEW-AGE PLAYERS ARE SWITCHING GEARS FROM HYPER-GROWTH TO PROFITS

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Neobanks and challengers are working to meet revenue challenges through deeper customer engagement, product diversity, and new business models



Launch Phase

Emphasize targeted marketing for customer acquisition. Most focus on a limited number of core offerings and providing convenient, frictionless digital experiences.



Growth Phase

Prioritize increasing customer base through strategic geographical and product portfolio expansions, while simultaneously contending with regulatory requirements.



Profitability Phase

Monetize through cross-selling higher-margin products, form ecosystem partnerships, and prioritize brand loyalty to foster lasting relationships.

	9 5	1 6
	2 3	8 7
10	4	

Revolut

Launched an **in-app marketplace** allowing customers to book their travel experiences directly, offering up to 10% cashback and zero booking fees

Source: Capgemini Research Institute for Financial Services analysis, 2023

Amid lower funding and increasing competition, expect new-age players to **recalibrate growth ambitions** and **prioritize profits**. Banks and FinTechs will have to **diversify their products, offer lifestyle services, and create super apps** to become the primary bank for their customers.



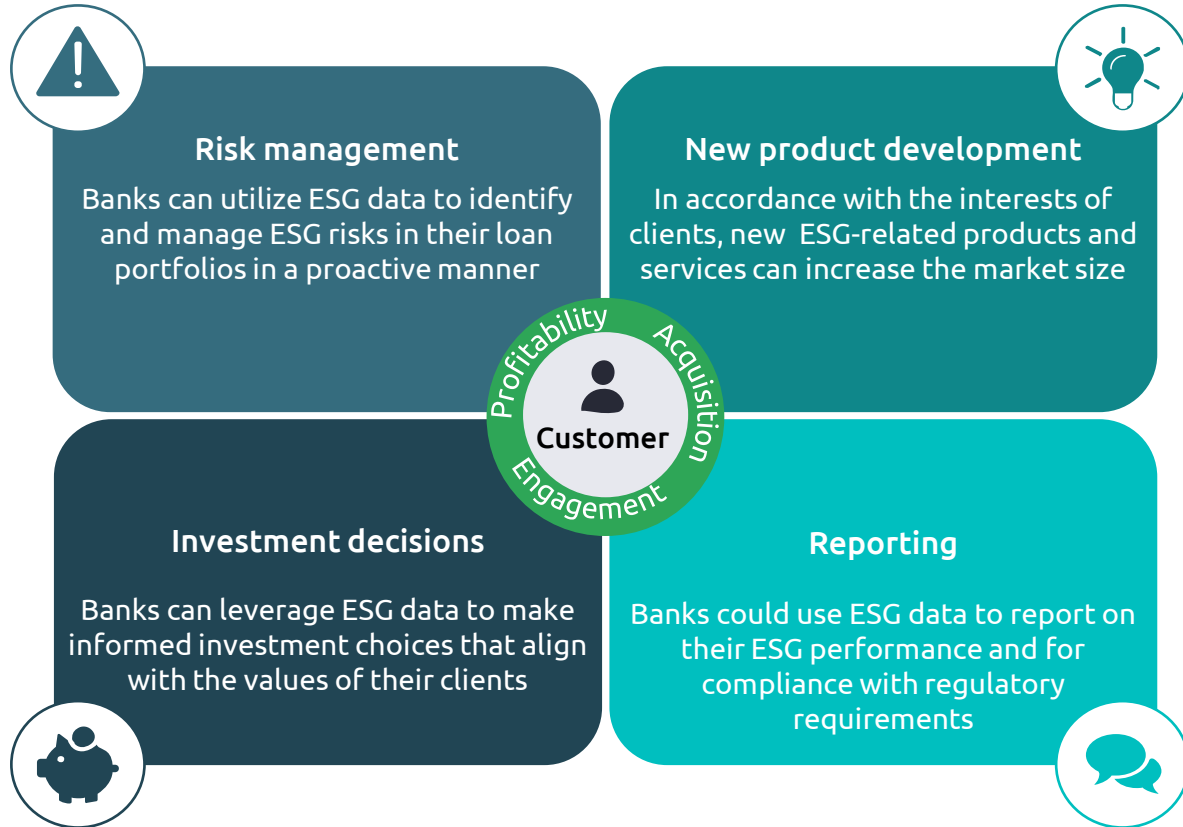
BANKS EXPAND ESG DATA USE BEYOND COMPLIANCE TO STRATEGIC DECISION-MAKING

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Strategic areas where banks can leverage ESG data



ESG data has become highly sought-after by investors, regulators, and consumers.

ESG data hubs are becoming pivotal in democratizing sustainability information access.

	9 5	1 6
	2 3	8 7
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Launched a **sustainability-linked current account** for corporate clients

Source: Capgemini Research Institute for Financial Services analysis, 2023

Enhancements in ESG data tools are increasing **transparency** and **comparability**, enabling banks to expand their **portfolios** with **environmentally friendly products** and **services**.



DECENTRALIZED FINANCE CONTINUES TO EVOLVE; BANKS NEED TO BE READY FOR SOON-TO-COME REGULATORY FRAMEWORKS

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Six key drivers for DeFi growth



Lower Energy Consumption

The Ethereum Merge transitioned Ethereum from proof-of-work to proof-of-stake and has significantly reduced the energy consumption



Interconnecting of Blockchain Rails

Banks have continued to explore blockchain interoperability to integrate different blockchain networks



Bridging DeFi and TradFi

Convergence via partnerships, platforms and innovations is making DeFi more institutional-grade, and TradFi more open and digital



Layer 2 Scaling

Layer 2 scaling solutions can provide faster and more cost-effective transactions



Modular Blockchains

Modular blockchains that allow for specialized sidechains provide flexibility and interoperability



Regulatory Frameworks

The US Senate proposed a bipartisan bill to impose bank-like regulations on DeFi

	9 5	1 6
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Became the first bank in Asia to complete an **intraday repurchase transaction on a blockchain-based network**

Source: Capgemini Research Institute for Financial Services analysis, 2023

Although banks have continued experimenting with Defi use cases cautiously, **enhanced security prompted by regulatory mandates**, as well as **successful pilots** could lead to **renewed consumer confidence** and foster **wider global adoption**.

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