

Is digital transformation picking up momentum in retail banks, and what is the impact of Covid-19?

4th European
Retail Banking Survey

Roland
Berger



We recently conducted the fourth Roland Berger Retail Banking Survey. The poll has been conducted since 2013 to canvass opinions at European banks, with a focus on retail banking.

It shines a light on recurring topics and shows the progress of developments, as well as highlighting new topics that banks are currently focusing on.

Some 60 European retail banks of various sizes from 11 countries took part in this edition of the survey. The focus was on Covid-19, digital maturity, business models, new working methods and digital implementation.

We have summarized the most important study findings in five key statements, and from them derived three recommendations for banks.

Results and recommendations



→ Covid-19 will not radically change retail banking – but it is a catalyst and an accelerator of digital transformation

Almost all banks sent large numbers of staff to work from home during the pandemic, 70% closed branches, and most realized that more digital interaction is possible. But branch closures were largely temporary and any workforce reductions small.



→ Digital maturity continues to rise – the focus lies on existing products and processes, with innovative technologies only selectively on the agenda

While customers of 90% of the surveyed banks can already take out simple products such as consumer loans quickly and (almost completely) through digital banking, and more than 90% of survey participants have plans to increase their spending on digitalization within the next five years, groundbreaking new innovations are being pursued on only a selective basis, and have been implemented by less than one-third of respondents.



→ Value chains are becoming more fragmented – but business models are unchanged

As in our last survey, the vast majority (over 80%) of banks want to continue to occupy the customer interface in the future, even though the experience of other industries shows that this is where competition is greatest. As a result, actions aimed at achieving an alternative strategic positioning or standing out from the crowd with a specific product or technology focus will likely continue to be neglected by most.



Agile working continues to gain importance and change the demands on the workforce – but it is not seen as an overarching new principle

The majority of survey respondents are focusing agile change on selected business units ("change the bank"), with few banks aiming for a completely agile organization. The need for employees with matching profiles (data analysts, omnichannel experts, Scrum specialists) is growing significantly, whereas there is little increase in demand for more classic change roles (business analysts, project managers).



The conditions for implementing digital solutions have improved – implementation hurdles are lower

Internal resistance (especially staff and cultural resistance) has decreased significantly since the time of the last survey. Furthermore, many banks have ended the "trial and error" phase, so innovation labs and startup programs tend to be less relevant now.

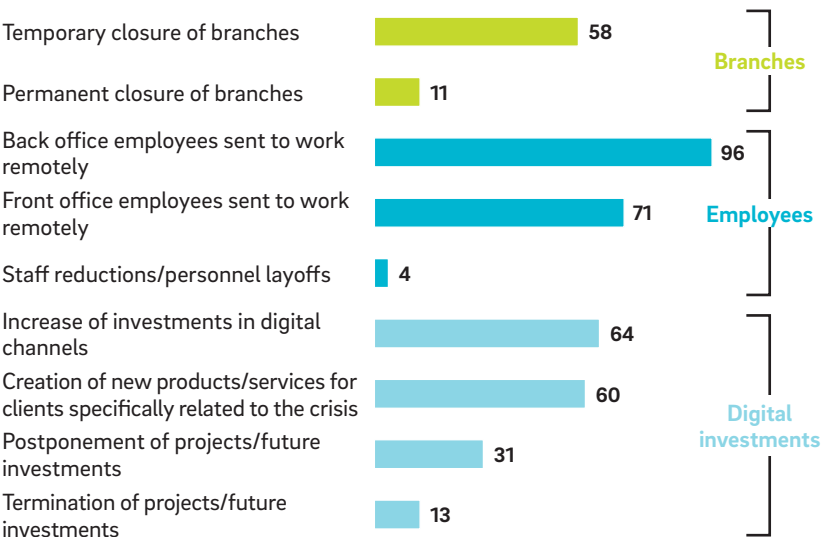
Covid-19 will not radically change retail banking – but it is a catalyst and an accelerator of digital transformation

Back in the first lockdown, banks had to react fast and take severe measures. They closed branches and sent staff, especially those in the back office, to work remotely. Banks were forced to react fast and work with more digital processes in order to be able to continue operating at all. Some 90% of banks in the survey expect half to one-quarter of their workforce to continue working from home going forward. In addition, 60% said they had developed new products to be able to serve their customers during lockdown. To facilitate this and also to optimize processes, 64% of study participants increased their digital investments. In spite of the above, the pandemic will not result in any radical change. Although some German banks are planning significant branch closures, similarly extensive cuts are not planned in other countries. Some 80% of banks anticipate less than a 20% reduction in branch numbers, at least in the near to medium term. Nor do respondents expect extensive layoffs. Thus, the pandemic is merely acting as a catalyst for digital transformation and accelerating existing trends.

SHORT-TERM REACTIONS TO THE COVID-19 CRISIS

Short-term actions have accelerated the existing development path for retail banks

Initiatives taken by banks in 2020 [% of mentions]



Source: Roland Berger

Digital maturity continues to rise – the focus lies on existing products and processes, with innovative technologies only selectively on the agenda

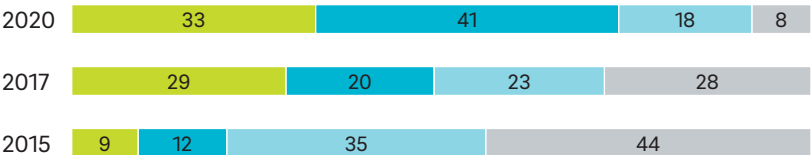
Although the level of digital maturity in the European retail banking sector has risen, the focus has remained mainly on digitalizing existing products and processes. Now, 90% of respondents are able to let customers take out consumer loans quickly and (almost completely) through digital banking.

SPEED OF TAKING OUT PRODUCTS THROUGH DIGITAL CHANNELS

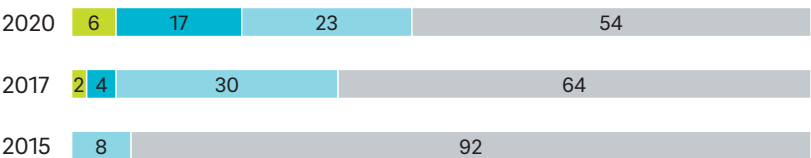
Ability for customers to take out products digitally has increased, esp. for more complex products

Process speed per bank product [% of mentions]

Taking out a consumer loan



Taking out a mortgage



Immediately Same day Within 1-2 working days More than 2 working days

Source: Roland Berger

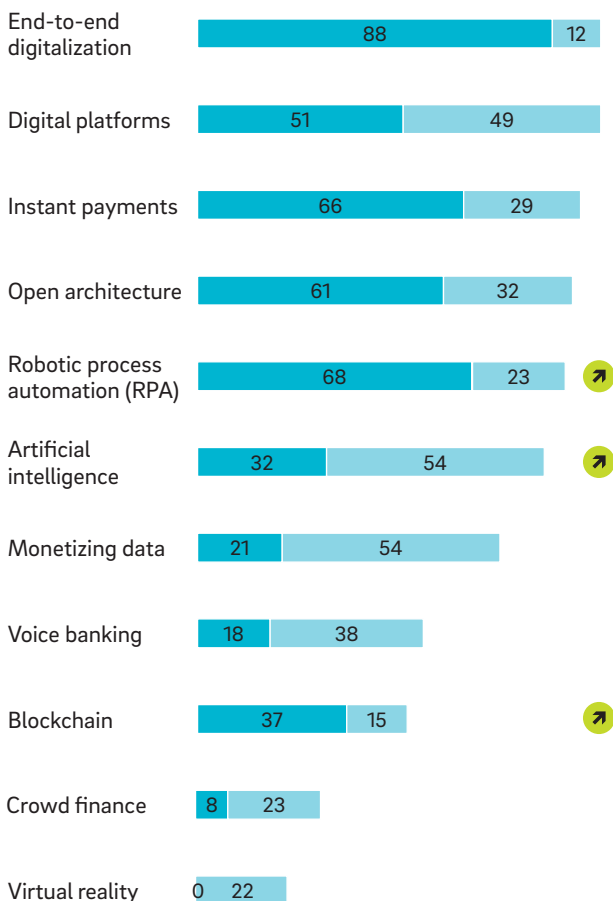
The use of innovative technologies such as artificial intelligence (AI) or blockchain is significantly less pronounced. Although these have gained in importance, most survey participants are still reluctant to actually implement them. Other innovations haven't seen any change in their level of implementation since the last survey.

THE KEY INNOVATION TRENDS IN RETAIL BANKING

Innovation focus still lies on digitalizing the existing business model

Maturity of innovation trend
[% of mentions]

Change since 2017



No substantial changes in the prioritization of innovation trends since 2017

Main focus still on E2E digitalization and platforms

RPA, artificial intelligence and blockchain have grown in importance

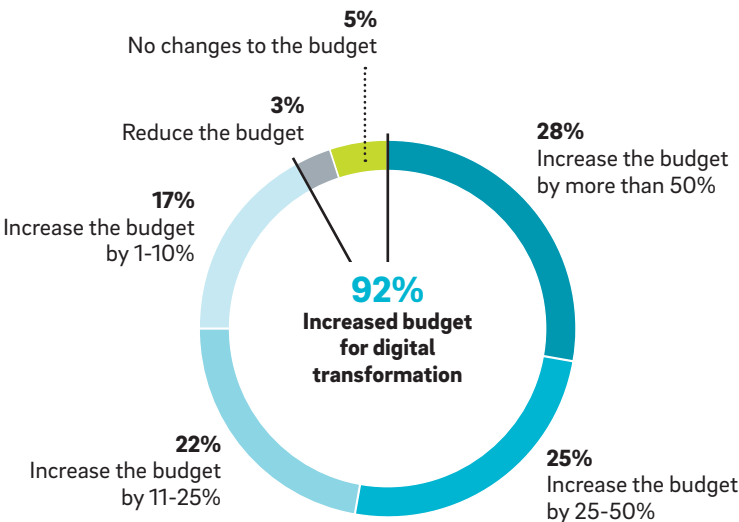
■ Already decided on or implementation begun
 ■ On the strategic agenda

Source: Roland Berger

European banks are keen to invest more in digital transformation in the future. Around 92% plan to increase their budget for this, in some cases dramatically. Success here will be determined by where the investments are directed. Today, about 70% of IT budgets on average are spent on keeping the day-to-day business going, improving core processes, and meeting regulatory requirements.

INVESTMENT BUDGETS FOR DIGITAL TRANSFORMATION

Nine out of ten banks plan to increase their budgets for the coming years



Source: Roland Berger

During our survey, we interviewed the Head of Artificial Intelligence at a northern European bank about the use of AI at their bank. The list of AI use cases currently comprises customer interaction/chatbots, marketing automation/recommendation systems, churn prevention, and compliance. The top priority going forward is personalization of the bank's offering with the help of AI solutions. The aim is to micro-segment customers so that each can be offered a personalized customer experience and tailored products on the basis of their data profile. Besides personalization, AI also offers possibilities to further automate decisions and accelerate processes. However, for these to be rolled out across the board, there will need to be better availability and usability of data, more clarity on regulatory demands, and targeted make-or-buy decisions. Naturally, banks should focus on what truly differentiates them from their rivals and not try to build everything themselves.

Spotlight on regulation

The growing prevalence and potential usefulness of new technologies like AI and blockchain increasingly raises the question of a reliable regulatory framework. If European solutions are going to be applied at scale, Europe will need its own regulatory framework. The European Commission has launched several legislative proposals in order to create a clear framework and standards for the application of such technologies:

The EU's Digital Finance Package was adopted in September 2020. It includes strategies for the digitalization of financial markets as well as legislative proposals for the EU-wide regulation of crypto assets, dubbed MiCA (Markets in Crypto-Assets). The focus lies on the regulation of distributed ledger technology (DLT) and digital assets with the aim of protecting users and investors.

In April 2021, the Commission also published the first draft of the Artificial Intelligence Act (AIA) to regulate artificial intelligence. The goal is to make Europe the global center for trustworthy AI. The AIA will categorize AI systems on the basis of four risk categories and define the appropriate requirements depending on the risk classification. Its use will go beyond banking and cover all aspects of life.

Even though the development and/or implementation of the regulatory framework is currently incomplete, banks should already be laying the foundations for putting these new possibilities into action (building up skills and experience, testing initial use cases).

Value chains are becoming more fragmented – but business models are unchanged

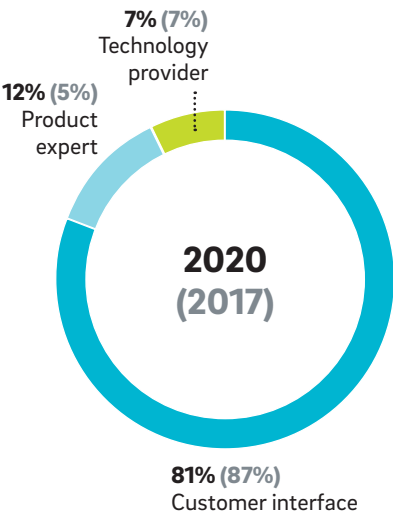
Despite increasing digitalization, the majority (81%) of respondents will continue to position themselves as customer experts and focus on occupying the customer interface. In addition, almost all of the banks in the survey plan to participate in the platform economy. To what extent and how strategically they will tackle this remains to be seen. So far, only a few banks have built platforms themselves or with partners. The consequence of this is that a stringent strategic focus with a more ambitious design tailored to the bank itself often fails to materialize.

Banks are thus missing the opportunity to make themselves stand out from their rivals and to realize their desired positioning while they still can. One suitable example which has increased in relevance over the past years and still offers an opportunity to position oneself at the client interface is sustainability/ESG.

FUTURE STRATEGIC POSITIONING

Positioning at the customer interface remains top

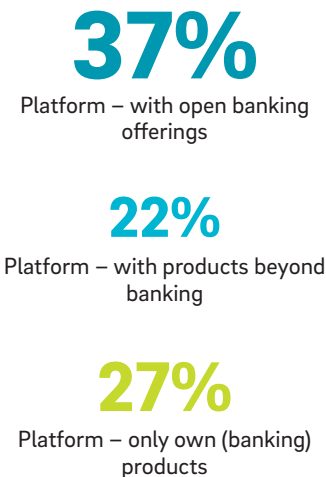
Comparison: 2020 vs. 2017
[% of mentions]



PLATFORM-BASED POSITIONING

Banks are focusing more on a holistic offering

Future business model strategy
[% of mentions]



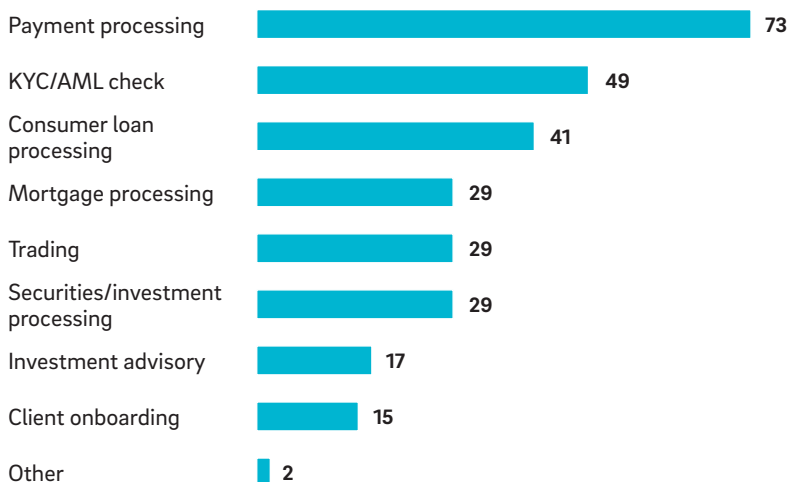
During our survey, we interviewed the CEO of a Swiss regional bank on how banks can successfully defend their position as the interface to the customer: "What is clear is that customer demand for digital channels is growing strongly, and as a bank we have to fight harder and harder to be the customer interface – whether that's physical, hybrid or digital. So, we decided to pursue an ecosystem approach built around linking environmental sustainability with financial investments and real estate financing. This venture was deliberately set up as a standalone company to ensure that it can have separate branding, reach additional customer segments, achieve short go-to-market times and be independent of legacy IT. The ambition is also for third parties to participate in the venture – which is why it's important that it's independent from the parent company. When it comes to digital solutions, we need both standard solutions to keep costs under control and the ability to individualize and tailor our offering to the customer. A lack of personalization is the mistake most banks are making."

The growing fragmentation of value chains continues. The top priority is outsourcing payment processing (73%), followed by compliance processes. However, most banks are still outsourcing individual processes on a selective basis only and have no intention of changing their business model.

OUTSOURCING OF BUSINESS PROCESSES

Fragmentation of the value chain is on the increase

Processes that will be fully or partly outsourced in the future
[% of mentions]



Source: Roland Berger

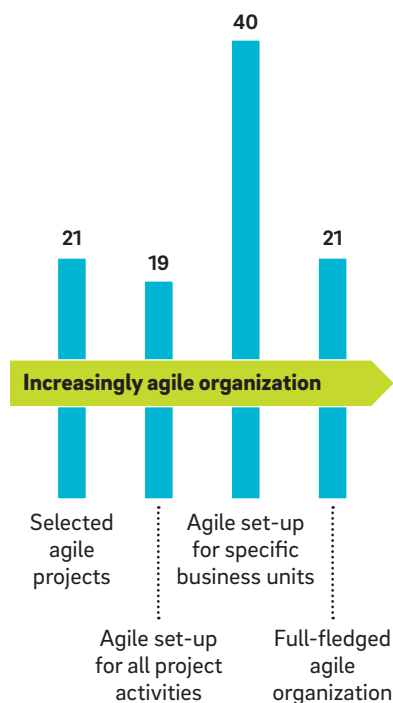
Agile working continues to gain importance and change the demands on the workforce – but it is not seen as an overarching new principle

Agile working is becoming increasingly important for retail banks, as for so many other companies. More than 60% of the respondent banks plan to implement agile working in selected business units ("change the bank") or individual projects. By contrast, only 21% are aiming for a completely agile organization. Agile working requires the adjustment of organizational structures. In most cases (52%), matrix structures will replace traditional set-ups and thus enable teams to work together across functions.

AGILE MODELS FOR RETAIL BANKS

There is no "one size fits all"

[% of mentions]



ORGANIZATIONAL PRINCIPLES OF AGILE STRUCTURES

Matrix structures are growing in importance

[% of mentions]

52%

Matrix structures

25%

Customer segments

14%

Products

5%

Sales channels

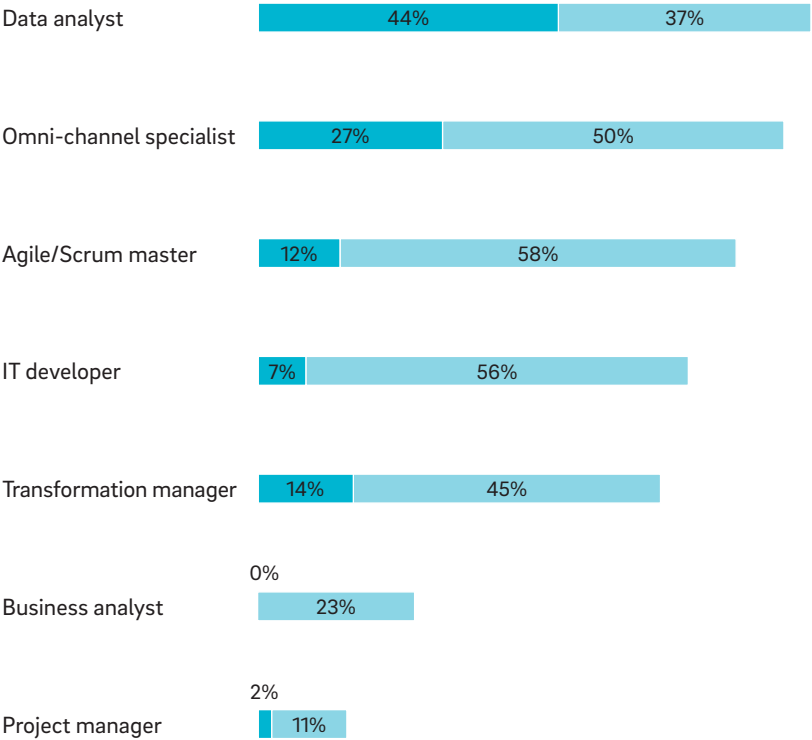
5%

Other

This will lead to a change in job profiles. Whereas classic project managers and business analysts have been the roles banks have sought in the past, there will be a sharp rise in the need for data analysts, omni-channel specialists, Agile/Scrum masters and IT developers in the future.

FUTURE IMPORTANCE OF ROLE PROFILES
Agility and customer centricity are also becoming evident in the required skill profiles

[% of mentions]



Will significantly increase in importance Will increase in importance

Source: Roland Berger

That said, finding company-specific solutions will be the key to success. Depending on the type or size of bank and the project at hand, a different approach may be suitable, and the degree of agility may vary – there is no one-size-fits-all solution.

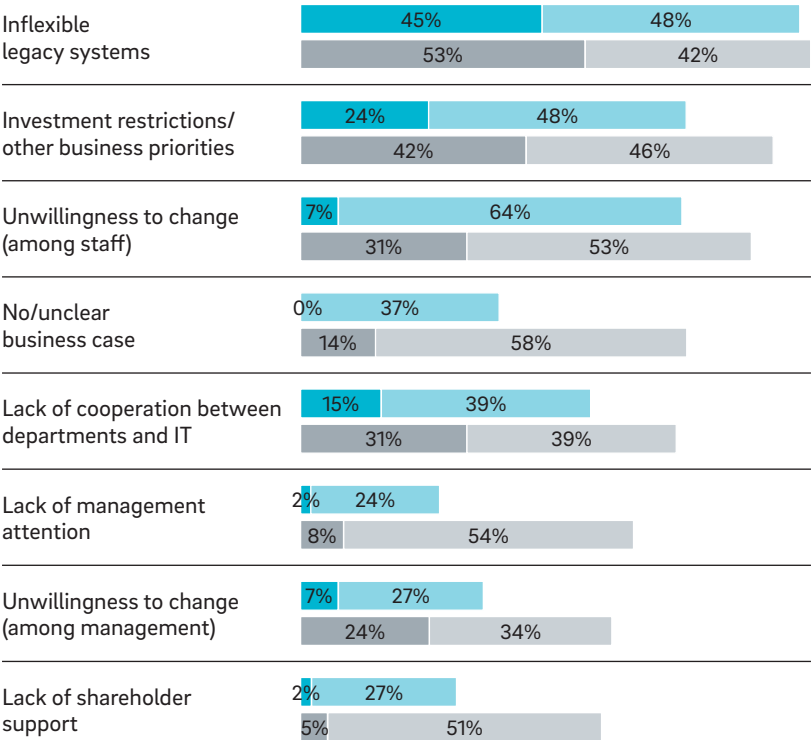
The conditions for implementing digital solutions have improved – implementation hurdles are lower

Compared with the Retail Banking Survey 2017, there is now less internal resistance to digital transformation, especially from a staff and cultural perspective. Nevertheless, the biggest obstacle to implementation remains inflexible, outdated IT infrastructures: Legacy IT continues to make the integration of modern, digital solutions challenging and slows down the speed of transformation.

OVERARCHING BARRIERS TO INNOVATION

Marked reduction in internal innovation barriers – Legacy IT remains the top challenge

Innovation barriers in the organization – Comparison: 2020 vs. 2017
[% of mentions]



2020 Critical risk Possible risk 2017 Critical risk Possible risk

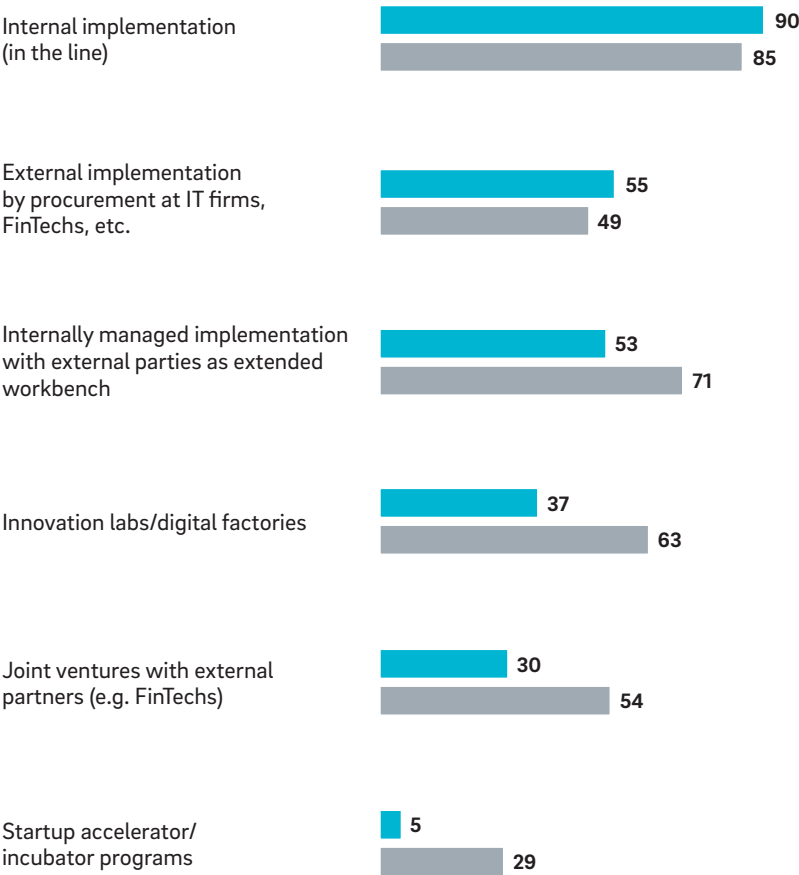
Source: Roland Berger

Furthermore, banks have now ended the "trial and error" phase and are often relying on their own internal implementation models and capacities. In contrast, some previously widespread approaches, such as startup collaborations or the creation of innovation labs, are tending to become less relevant. Product and IT managers are increasingly working closer together to jointly drive digital services and solutions forward.

IMPLEMENTATION MODELS

Innovative implementation models are becoming less important

Relevance [% of mentions]



2020 (Very) important 2017 (Very) important

Source: Roland Berger

Recommendations



1

Consider your desired positioning and challenge your current strategy

As we have seen in other industries, being positioned exclusively at the customer interface in a digital market exposes you to cut-throat competition. Banks that fail to drive their digital transformation forward across all areas of the organization and do not add supplementary offerings and services will find it increasingly difficult to maintain such a positioning. You should, therefore, deliberately challenge this strategy, asking yourselves what measures are necessary to achieve this and whether the necessary resources are available. Alternatively, you can consider other positioning options. And as a bank you will need to take more consistent action to avoid having your business overtaken by BigTechs or FinTechs.



2

Deliver innovations on a broad scale and break new ground in the process

Even though staff and cultural resistance to innovations has decreased, banks still continue to focus on individual digital projects and existing products and processes. You need to take a comprehensive approach to your bank's digital transformation and build new, innovative solutions along the entire value chain to deliver a leading customer experience.



3

Learn the lessons of the Covid-19 pandemic

The pandemic has shown that remote working and more intensive digital interaction with customers is possible. The key is to make targeted use of the insights you have gained as the new normal for your bank in order to further expand on the progress you've already made.

Your contacts



Sebastian Steger

Partner

Bertolt-Brecht-Platz 3

10117 Berlin

sebastian.steger@rolandberger.com

+49 30 39927-3488



Sven Kuonen

Principal

Hardstrasse 201

8005 Zurich

sven.kuonen@rolandberger.com

+41 43 336-8606

Participating experts from our European offices

BELGIUM

Axel Bohlke

axel.bohlke@rolandberger.com

ITALY

Edoardo Demarchi

edoardo.demarchi@rolandberger.com

FRANCE

Christian Heinis

christian.heinis@rolandberger.com

NETHERLANDS

Frank Schrijver

frank.schrijver@rolandberger.com

SPAIN

Victor Zambrana

victor.zambrana@rolandberger.com

SWEDEN

Pontus Mannberg

pontus.mannberg@rolandberger.com

SWITZERLAND

Philippe Blaser

philippe.blaser@rolandberger.com

ROLAND BERGER is the only management consultancy of European heritage with a strong international footprint. As an independent firm, solely owned by our Partners, we operate 50 offices in all major markets. Our 2400 employees offer a unique combination of an analytical approach and an empathic attitude. Driven by our values of entrepreneurship, excellence and empathy, we at Roland Berger are convinced that the world needs a new sustainable paradigm that takes the entire value cycle into account and enables us to meet the profound challenges of today and tomorrow.

Publisher

Roland Berger GmbH
Sederanger 1
80538 Munich
Germany
+49 89 9230-0

This publication has been prepared for general guidance only. The reader should not act according to any information provided in this publication without receiving specific professional advice. Roland Berger GmbH shall not be liable for any damages resulting from any use of the information contained in the publication.

© 2021 ROLAND BERGER GMBH. ALL RIGHTS RESERVED.