

Your Future, Now





Five Trends Shaping Your Future

In partnership with insight and innovation consultancy FreshMinds, we undertook extensive research into the medium term future of the retail banking sector. The scale and impact of sector change is summarised in the following five trends.

1

The competitive threat from challenger banks, FinTech and new market entrants will reach unprecedented levels.

Retail banking will become increasingly competitive and dynamic, elevating the risk of losing vital market share. In 2015, total pre-tax profits for challenger banks rose by £194 million while the big five saw a drop of £5.6 billion¹. While traditional banks are encumbered by their past, the new breed of retail banks are starting from scratch; centred on the customer, technology and agile innovation.

The competition will be emboldened by changing consumer demands and technology. Regulation will continue to open up the market to competition, from the UK's open banking reforms to the European Payment Services Directive (PSD2). Both initiatives will force retail banks to share their customer data with third parties such as retailers and technology companies.

As competitors eat into market share, traditional retail banks need to drive efficiency while changing the business model to focus on the customer and areas where they can gain distinct competitive advantage. A PwC report calculated that banks need to reduce costs by 15-20% and in some cases by as much as 30-40% in order to remain competitive². As a result, successful banks of the future will be a lot leaner and relentless in their pursuit of efficiency and productivity. In parallel, traditional retail banks will accelerate transformation strategies and invest in customer service, technology and data analytics.

Life will not be free-wheeling for the so called challengers, who are within themselves a varied group. In an increasingly congested market not all will thrive, resulting in a dynamic and ever changing marketplace.

¹KPMG: A new Landscape. Challenger banking annual results.

²PwC: Reshaping your cost base for today's market realities

The continued rise of the challengers

The Challenger Landscape in Retail Banking

Example companies in each category

THE ESTABLISHED CHALLENGERS

- ALLIED IRISH BANK (UK)
- ALDERMORE BANK
- BANK OF IRELAND UK
- CLOSE BROTHERS
- THE CO-OPERATIVE BANK
- CYBG
(CLYDESDALE AND
YORKSHIRE BANKS)
- FIRST DIRECT
- HANDELSBANKEN
- MASTHAVEN BANK
- METRO BANK
- ONESAVINGS BANK
- PARAGON BANK
- SECURE TRUST BANK
- SHAWBROOK BANK
- TSB
- VIRGIN MONEY

DIGITALLY LED

- ATOM BANK
- BABB
- FFREES
- FIDOR BANK
- IAM BANK
- MONZO
- N26
- REVOLUT
- STARLING BANK
- TANDEM
- ZOPA

SUPERMARKET BANKS

- ASDA MONEY
- JOHN LEWIS FINANCE
- M&S BANK
- SAINSBURY'S BANK
- TESCO BANK

SPECIALISTS

- BANK OF LAMBETH
- BRITISH BUSINESS BANK
- CAMBRIDGE & COUNTIES BANK
- CHARTER SAVINGS BANK
- CIVILISEDBANK
- COCONUT
- COMMUNITY SAVINGS
BANK ASSOCIATION
- HAMPSHIRE COMMUNITY BANK
- HAMPSHIRE TRUST BANK
- LINTEL BANK
- MONESE
- OAKNORTH
- REDWOOD BANK
- THE SERVICES FAMILY
- THINKMONEY
- TRIODOS BANK

FINTECH COMPANIES OFFERING BANKING RELATED SERVICES

- AZIMO
- CURRENCYCLOUD
- CURVE
- DIPOCKET
- FAIRFX
- FUNDING CIRCLE
- IWOCA
- IZETTLE
- KABBAGE
- KANTOX
- KREDITECH
- LENDINVEST
- LOOT
- MARKETINVOICE
- POCKIT
- SOLD0
- TIDE
- TRANSFERWISE
- YOYO WALLET

THE NEXT WAVE?

Large digital platform companies and other non-banking corporates, many of whom are already active in the payments sector, could extend further into retail banking.

2

Retail banking services will become highly bespoke and personalised, as set product portfolios become a thing of the past.

Increased choice, digital accessibility and regulatory changes that make it easier to switch providers will empower customers to become more demanding. A new breed of customer will demand seamless digital delivery, excellence in customer service and greater personalisation. Banks that do not provide the best customer experience risk losing revenue and customer loyalty. Four of the top five reasons why banking customers consider switching to a non-bank provider relate to customer experience³.

Outside of challengers and new market entrants, we expect to see large scale restructuring and cultural change as traditional retail banks completely re-wire operations away from product silos and towards customer-centricity. Product focused organisations are generally one size fits all, fixed around silos and rigid. Customer-centric organisations are flexible, cross-functional, innovative and put the customer at the centre of the organisation, viewing everything from their perspective.

Challengers and new entrants will have to ensure they sustain a relentless customer focus in order to secure growth and trust. Gleaning valuable customer insights from the vast quantities of data that banks hold will be fundamental to success, resulting in this part of the back-office coming to the forefront. Accordingly future in-demand skills will include client-insight and analytics personnel.

67%

of global banking customers would share more data with banks in return for new benefits.



Source: Accenture global study of nearly 33,000 financial services customers across 18 markets.

3

Retail banks face an innovation imperative and will respond through widespread restructuring, partnerships and acquisitions.

The retail banking ecosystem is expanding, creating an intensely competitive marketplace where each player is pulling out the stops to acquire loyal customers. To survive and flourish retail banks must continually innovate, developing differentiated services and solutions that meet ever-changing customer needs. In response, we anticipate seeing an increase in the following innovation strategies;

- Greater collaboration between banks, FinTech, academia, customers and even other industries. Perfect marriages include incumbents who have scale, brand and vast amounts of valuable customer data combining with FinTech companies who have the tech know how, excellence in customer services and ability to attract young digital talent.
- Greater funding of promising FinTech companies with options to take equity-stakes.
- In-house innovation initiatives such as staff incentives, the creation of firm-wide innovation strategies and the provision of 'lab' space to encourage and nurture new ideas.
- Acquisition of tech-savvy companies by mature banks in order to directly access innovation and remove competing products from the market place.

86%

of incumbents expect to increase FinTech partnerships in the next three to five years.



Source: PwC Global FinTech Report 2017.

4

Direct, digital access to customers will place further pressure upon existing branch networks and shift attention towards investment in technology, process infrastructure and tech talent.

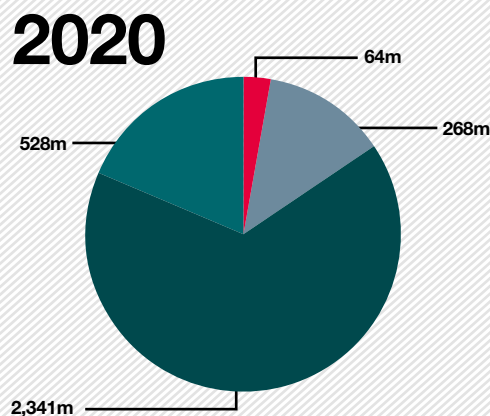
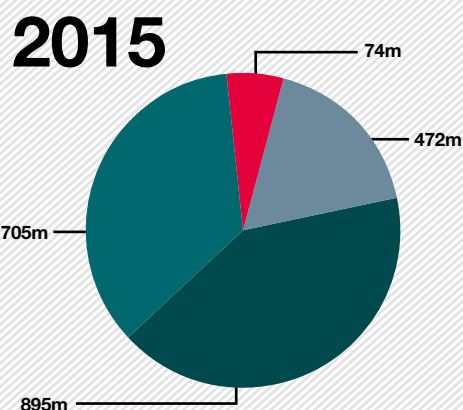
Mobile and online banking will become the primary distribution channels for retail banks. In 2010 there were 86 million mobile consumer-bank interactions, in 2015 this rose to 895 million and by 2020 it is projected to be over 2 billion⁴. This will require a seamless digital experience as customers demand access via multiple devices 24 hours a day.

Traditional retail banks will accelerate their digital transition, forced to undergo radical transformations of their back-end IT infrastructure in order to optimise their operations to the new digital landscape. A shift to digital will demand a greater proportion of digital talent in a highly competitive market. All industry players will have to look at their talent attraction and retention strategies, and in particular how they can compete with technology companies, for the best employees.

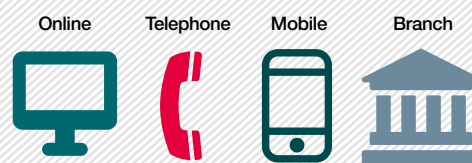
Banks have already significantly reduced their branch networks and this will further accelerate. That does not mean the branch is dead, but its form and function will pivot towards being a place for showcasing the latest technology, offering information and advice focused on higher value products and incorporating more collaborative areas for customers.

Over the near term branches, could actually offer retail banks operational advantages through direct engagement with customers on new ideas and in meeting demand for a branch presence in poorly connected regions.

Consumer-Bank interactions by distribution channel 2015-2020 (Millions)



Key



Source: BBA.org

⁴ Source: BBA.org

5

Banking process automation and artificial intelligence will gain momentum, delivering cost savings and improved operating efficiency whilst also offering opportunities to differentiate in an increasingly competitive marketplace.

Faced with the rising costs of regulatory compliance, separation of retail and investment banking divisions and IT transformation, banks will use robotic process automation and artificial intelligence to deliver the next wave of cost savings and operating efficiency. Robotic process automation involves the automation of processes using software. It generally requires a human to input instructions. Artificial intelligence is technology that learns from its experience and feedback and has certain cognitive abilities. Applications vary from automating manual, time-consuming processes to conversing with customers in the form of chat bots.

We believe that the workforce will be redefined as a result of such technological advances to focus on higher value work, with new teams created to manage and develop automation and artificial intelligence tools.

The advance of robotic process automation and machine learning offers banks a unique opportunity to gain a competitive advantage through analysing the vast amounts of data that can be produced via these technologies to deliver differentiated and personalised customer solutions and services.

75%

of costs at financial services firms could be cut by robotic process automation.



Source: KPMG: Rise of the robots.



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