EMEA Digital Banking Maturity 2018

How to become a Digital Champion and why only a few succeed?
Digital banking has become mainstream

Average occurrence of the word “digital” in annual reports of the 20 biggest European banks

Source: Deloitte analysis on the basis of annual reports of the 20 biggest European banks
What defines Digital champions?

Digital champions offer a wide range of functionalities relevant for customers and a compelling User Experience.
To determine who is a true *Digital* champion, we assessed digital channels from customers’ POV

**a wide range of functionalities**...

3rd edition of proprietary Deloitte benchmarking framework of digital banking functionalities used in “mystery shopper” approach on real current accounts

**relevant for customers**...

Customer research\(^1\) focused on identifying the most important banking activities and preferred channel (branch, internet, mobile) for each activity

**with a compelling UX**.

Supplementing analysis leveraging User Experience Questionnaire\(^2\) and fulfilled by each banks’ core customers\(^3\)

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1. Customer research (CAWI) covered 8,274 respondents from 28 out of 38 benchmarked markets.
3. Customers who declared the examined bank as their main bank.
We have identified 826 functionalities covering the entire digital Customer Journey

...a wide range of functionalities...

28
Information gathering
Access to information on the products overview and pricing dedicated to specific groups and needs from various sources, including public websites and social media.

31
Account opening
Assessment of account opening experience, including available channels and identity verification methods.

40
Customer onboarding
Guidance of customer in the first steps of onboarding process and platform accessibility.

396
Day-to-day banking
Availability of spectrum of everyday banking functionalities facilitating managing the account and making transfers.

322
Expand relationship
Cross-sell of the additional products and services, such as overdrafts, loans, saving accounts, term deposits, investment funds, insurance and others.

9
End relationship
Account closing process assessment including available channels, retention offers and others.

826 functionalities
We have weighted the functionalities based on customer research

Research of more than 8,000 EMEA banking clients provided us with insights into customer preferences regarding 26 activities mapped across Customer Journey and 3 banking channels. Such approach enabled us to not only define importance of Internet (56%) vs. mobile (46%) channel on EMEA level, but also prepare country-specific weights.

1. Customer research (CAWI) covered 8,274 respondents from 28 out of 38 benchmarked markets.

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1. How often are you performing the following banking activities?

2. Which of the channels is/would be your preferred choice for each of the following banking activities?
Size matters.

**REAL** current accounts investigated thoroughly by Deloitte proprietary framework based on customer research.

**REAL** insights, without vague truisms.

- 826 Functionalities benchmarked
- 238 Covered markets
- 38 Customer journey steps
- 3 Digital channels
- 136 Mystery shopper researchers
- 10 Assessed FinTechs
- 10 Assessed banks
- 826 Customers surveyed
- 38 Covered markets
- 6 Customer journey steps
- 6 Digital channels
- 10 Assessed FinTechs
- 10 Assessed banks
- 826 Customers surveyed
- 38 Covered markets
- 6 Customer journey steps
- 6 Digital channels
- 10 Assessed FinTechs
- 10 Assessed banks

**REAL** insights, without vague truisms.

Current accounts investigated thoroughly by Deloitte proprietary framework based on customer research. **REAL** insights, without vague truisms.
EMEA is highly diversified from the point of view of digital maturity
EMEA markets can be divided in 4 groups in terms of their overall digital banking maturity

% of digital functionalities covered according to customer needs

<table>
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<tr>
<th>Digital champions</th>
<th>Digital smart followers</th>
<th>Digital adopters</th>
<th>Digital latecomers</th>
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Note:
To achieve comparable data, country averages are based on the results of the top 5 biggest banks in given market in terms of assets.
Country flags within the 4 categories are shown in alphabetical order according to English names of each country – the position of the flag within the group does not imply the score against other countries from the same group.
EMEA banks focus in digital mostly on informing and onboarding clients, more product offerings are needed

% of digital functionalities covered according to customer needs

Note:
Score based on all 826 functionalities (6 Customer Journey steps) according to EMEA country customers preferences
Internet banking usage is highly correlated with internet access, but it does not explain digital maturity.

Source: Deloitte analysis, Eurostat
Market pressure from customers and competitors created *Digital champions*
No digital maturity without market pressure...

Market pressure on the banking sector

Analysis of results revealed that market pressure is a key driver of Digital Banking Maturity:

- **Customer pressure** – expectations regarding level of service which should be available in digital channels
- **Competitor pressure** – digital “arms race” ignited by a number of banks which decided to leverage their digital channels as key competitive advantage
PSD2 and FinTechs will increase the market pressure

**A** Foreign *Digital champions* as attackers

Digital champions will compete for highly demanding clients fuelled by implementation of PSD2

**B** FinTechs as challengers of status quo

Banking sectors which will not live up to market pressure will face competition not only from other countries, but also FinTechs
FinTechs challenge incumbents as high entry barriers dropped considerably
FinTechs *Digital* maturity is being curbed by limited offer of banking services

If we look at **total score**, on average FinTechs are benchmarked lower than incumbents... …as majority of FinTechs still offer only **selected banking products**, which is not satisfying more **complex customer needs**... …yet situation looks completely different if we focus on **core products in mobile channel**, where FinTechs shine.

1. Functionalities related to current account and debit card.
Cooperation with partners enables FinTechs to expand product portfolio with speed not seen before

N26
- Feb 2016: International transfers
  - TransferWise
- Jul 2016: Investment funds
  - Dimensional Fund Advisors
- May 2017: Term deposits
  - WeltSparen
- Jun 2017: Saving accounts
  - Raisin.
- Dec 2017: Consumer credits
  - Younited Credit

Revolut
- Mar 2017: Personal loans
  - Lending Works
- May 2017: Pensions
  - PensionBee
- Oct 2017: Mobile insurance
  - Allianz
- Jan 2018: Travel insurance
  - Thomas Cook
Open and Beyond banking will decide who will be the future Digital champions
Vast majority of functionalities are around digitalisation of traditional banking products

**I. Digitalisation**
Transformation of traditional banking products and services from brick-and-mortar into internet and mobile. The services in most of the cases come from banks with limited presence of strategic partnerships with external companies. Banks which are only focusing on this step try to maintain the status quo: old banking world in new channels.

**II. Open Banking**
Platform-based business approach where data, processes, and business functionalities are made available within an ecosystem of customers, third-party developers, FinTech startups, or partners. The services provided are financial, and may come from banks as well as from third parties.

**III. Beyond Banking**
Platform-based business approach where multiple services are provided to customers in an integrated and coherent suite through an ecosystem of different service providers. The services provided can be of any type (e.g. mobility, security, delivery, home security), and banks can participate by providing niche and tailored financial services that consistently integrate the suite of services.

826 functionalities
695
110
21
Yet digital champions already achieved a strong position not only in Digitalisation, but also Open and Beyond banking.

- **Digital champions**
- **Digital smart followers**
- **Digital adopters**
- **Digital latecomers**
- Bank's score

**Digitalisation of traditional banking services**

- **Focused on Open and Beyond banking (1%)**: A few banks which differentiate themselves from the mainstream by focusing on Open/Beyond banking.
- **Focused on digital supremacy (10%)**: Leaders trying to future-proof their strong position in Digitalisation by expansion to Open/Beyond banking.
- **Not focused on digital (37%)**: Basic digital functionalities fulfilling only simplest customer needs related to core banking products.
- **Focused on Digitalisation (52%)**: Digital offering reaching plateau phase as most of banking services are already transferred to digital.

[Graph showing the relationship between digital focus and bank's score]
Incumbents and FinTechs will have to answer two key questions

1. What role do banks want to play beyond their traditional value chain/core business?
2. What role do banks want to play in the emerging ecosystems?

Deloitte “Bank of the future” model

**Today’s Bank**
- Banking Provider (very limited cases)

**Banking Provider**
- Banking Platform

**Banking Platform**
- Exponential Platform

**BEYOND BANKING**
- **OPEN BANKING**
- **CURRENT BANKING products & serv.**

**CONNECTED CUSTOMER**
- Control of client relations, distribution channels, ecosystems

**CONNECTED ECONOMY**
- Scope of products & services

**OWN PLATFORM**
- PLATFORM OWNED BY OTHERS

Tomorrow

Today
Available strategic options depend on current position and aspirations to become a platform [1/3]

Deloitte “Bank of the future” model

Digital latecomers

1. Digital latecomers will need to move from their comfort zone of current banking status quo and become banking platforms if they do not want to stay behind more digitally mature incumbents and FinTechs.

2. However, given the high investment needs necessary for the development of banking platforms, some players may decide to focus their business model on specific products and services and in consequence they will become a banking provider.
Digital champions

1. Digital champions should leverage their current strong position to expand Beyond Banking and develop their own exponential platform before other incumbents and FinTechs will try to fulfil this space.

2. To do so, they will need to work closely with financial and non-financial services providers as level of complexity of this strategic movement will require deep integration with external partners.
Available strategic options depend on current position and aspirations to become a platform [3/3]

Deloitte “Bank of the future” model

FinTechs will need to face pressure from two sides:

1. to not stay behind digital champions, they will need to develop further in the direction of exponential platforms,
2. to meet customer demand for more complex banking products, they will need to expand their services in area of traditional banking services.

Collaboration with incumbents and other specialized FinTechs is a critical success factor to face both challenges. Examples of N26, Revolut and others are showing that FinTechs have such capabilities, however they will need to work hard to maintain this flexibility with a growing scale of the business – an issue which was a stumbling block for digital maturity of many incumbents.
Executive summary

1. Deloitte Digital Banking Maturity objectively distinguishes Digital champions from laggards
   To achieve this, we conducted a comprehensive benchmarking of functionalities and customer preferences in 248 financial institutions from 38 EMEA markets.

2. EMEA is highly diversified from the point of view of digital maturity
   We can distinguish four groups of banks: digital champions, smart followers, adopters and latecomers. Internet banking penetration is highly correlated with internet access, but it doesn't explain digital maturity.

3. Market pressure from customers and competitors created Digital champions
   In the nearest future, PSD2 and FinTechs will increase market pressure which will create new opportunities to digital champions.

4. FinTechs challenge incumbents as high entry barriers dropped considerably
   FinTechs digital maturity is being curbed by limited offer of banking services, but cooperation with partners enables them to expand product portfolio with speed not seen before.

5. Open and Beyond banking will decide who will be the future Digital champion
   Vast majority of identified functionalities are around digitalisation of traditional banking products, yet digital champions already achieved strong position in Open and Beyond banking.

6. Incumbents and FinTechs need to be ready for connected economy and connected customer
   Available strategic options for digital laggards, champions and FinTechs depend on their current position and aspirations to become a platform.
Reach out to us if you are interested in receiving more information on the results of the local market or your institution.

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Digital Banking Maturity
A new model for a new age

THE CREATIVE DIGITAL CONSULTANCY

Deloitte Digital

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- Creative
- Technology & Operations
- Change
- Insights from Data
- Agile, Fast, Ambitious

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