EMEA Digital Banking Maturity 2018

How to become a Digital Champion and why only 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 research1 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 Questionnaire2 and fulfilled by each banks’ core customers3

1. Customer research (CAWI) covered 8,274 respondents from 28 out of 38 benchmarked markets.
2. M. Schrepp, A. Hinderks, J. Thomaschewski, www.uex-online.org, used upon a permission of the authors.
3. Customers who declared the examined bank is their main relation bank.

DBMaturity scoring

An exhaustive overview of digital channels maturity focused on functionalities and customer preferences.

Supporting analysis to understand what banking customers are thinking about their mobile banking app UX.
We have identified 826 functionalities covering entire digital Customer Journey

...a wide range of functionalities...

- **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.
- **Account opening**: Assessment of account opening experience, including available channels and identity verification methods.
- **Customer onboarding**: Guidance of customer in the first steps of onboarding process and platform accessibility.
- **Day-to-day banking**: Availability of spectrum of everyday banking functionalities facilitating managing the account and making transfers.
- **Expand relationship**: Cross-sell of the additional products and services, such as overdrafts, loans, saving accounts, term deposits, investment funds, insurance and others.
- **End relationship**: Account closing process assessment including available channels, retention offers and others.

826 functionalities
We weight functionalities based on customer research

Research of more than 8,000 EMEA banking clients provided us insights on 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.

How often are you performing following banking activities?

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

1. Customer research (CAWI) covered 8,274 respondents from 28 out of 38 benchmarked markets.
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
- 10 Assessed FinTechs
- 136 Mystery shopper researchers
- +8k Customers surveyed
EMEA is highly diversified from point of view of digital maturity
Benchmarked markets can be divided in 4 groups in terms of digital banking maturity

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<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. Countries within the 4 categories are in alphabetical order – the position of the flag within the group does not imply the score against other countries from the same group.
Internet banking usage is highly correlated with internet access, but it doesn’t explain digital maturity.

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

A - Foreign Digital champions as attackers
Digital champions will compete for highly demanding clients fueled 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

![Diagram showing product expansions by N26 and Revolut](image-url)
Open and Beyond banking will decide who will be future Digital champion
Vast majority of functionalities are around digitalization of traditional banking products

Ⅰ Digitalization

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 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 from 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 strong position not only in Digitalization, but also Open and Beyond banking

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

**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 Digitalization 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 Digitalization (52%)**
Digital offering reaching plateau phase as most of banking services are already transferred to digital
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?
Available strategic options depend on current position and aspirations to become 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.
Available strategic options depend on current position and aspirations to become platform [2/3]

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 platform [3/3]

**FinTechs**

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 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 future Digital champion.

   Vast majority of identified functionalities are around digitalization 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.
A new model for a new age

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