

# Are EMEA banks prepared for the new world of banking?

## Benchmarking of 248 financial institutions

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"Digital" is an oft-repeated mantra in banking that in the space of a few short years has progressed from the fringe to the core of banks' strategic agendas.

This shift is visible in the annual reports of Europe's 20 biggest financial institutions, where "digital" was mentioned an average of once per report in 2011 but 55 times per report in 2016. The reasons for this shift are clear: changing consumer preferences driven by technological advancement, competition from FinTech start-ups, and changing regulations, with the European Union's Payment Services Directive (PSD2) coming into force in January 2018.

**Many banks consider themselves to be leaders when it comes to digital, but what is the reality?**

All banks have been forced to invest in digital capabilities, but they are at differing

stages of development. What has been lacking until now is objective data. That's where the Deloitte Digital Banking Maturity project comes in, providing information on the position of each bank with respect to its digital offering, comparing apples to apples by reviewing the full spectrum of products and functionalities, mapped against consumer preferences in each market.

The Deloitte Digital Banking Maturity project, a joint effort on the part of Deloitte member firms across EMEA, is a comprehensive and objective assessment of financial institutions' digital maturity in three critical areas. **A functionality review** was conducted of 248 financial institutions across 38 countries. A team of 136 "mystery shoppers" opened current accounts and evaluated each bank's internet and mobile banking channels to map their offering against 826 functionalities. In parallel, **a customer survey** was conducted, of more

than 8,000 clients of banks in the same 38 countries, to understand customer needs and preferences for each market, and to be able to map each bank's functionality against consumer expectations in their market. These findings were supplemented by an **evaluation of mobile user experience (UX)** by customers according to the User Experience Questionnaire (UEQ) framework.

The results of this study—to our knowledge the most comprehensive of its kind for the banking sector, consisting of over 197,000 data points—provide a wealth of nuanced information about each bank and each country's banking sector.

**Size Matters**

**Real** current accounts investigated thoroughly via the Deloitte proprietary framework based on customer research.

**Real** insights, without vague truisms.



**What makes a digital champion?**

Following this methodology, we were able to **separate the true digital champions from smart followers, adopters, and digital latecomers.**

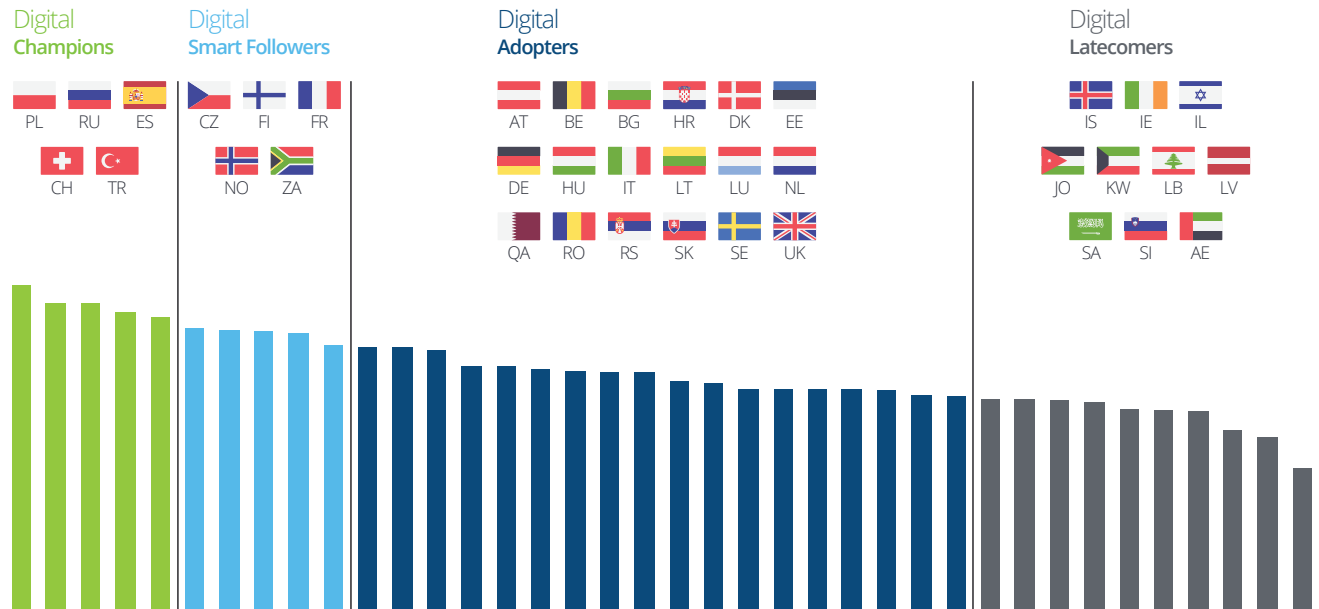
- Digital champions are banks which
- 01** provide a broad variety of digital functionalities to their customers
  - 02** meet or exceed customer preferences in their market
  - 03** deliver a modern and intuitive mobile UX.
- These banks score in the upper range of each of our three assessments

**Which country's banking sector is the most digitally mature?**

To provide a snapshot of the results and identify some broad trends in digital banking, we compared the five largest banks by asset size of each country. Interesting patterns emerge in this EMEA view that allow us to make some qualified statements about what drives digital banking development. ➔

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**Benchmarked markets can be divided in 4 groups in terms of digital banking maturity**



**EMEA's digital banking leaders are a product of their environment**

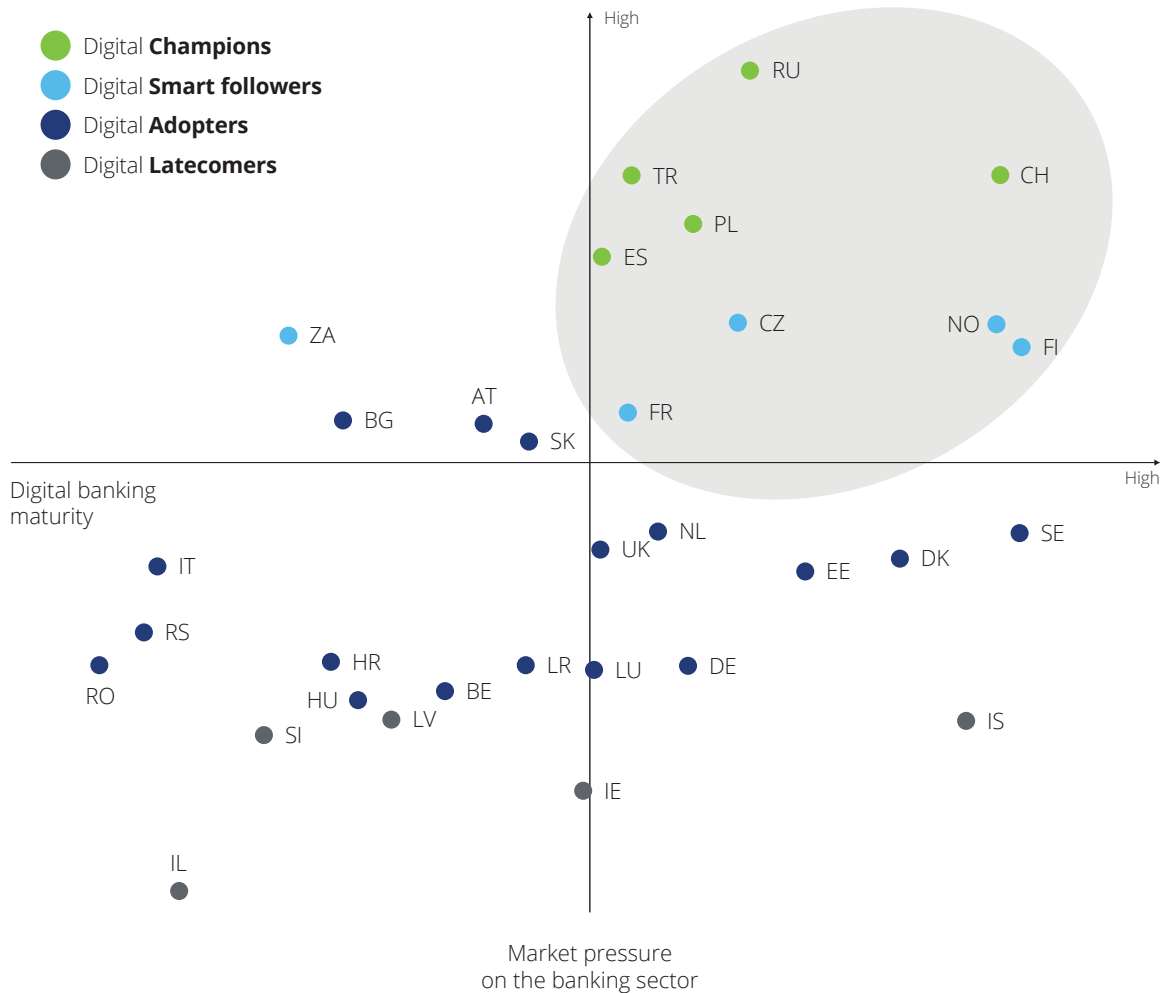
**The two key environmental factors driving digital banking maturity are:**

**01. Customer preferences:** When customers expect digital and omnichannel functionality from their banks, it becomes a competitive factor, which compels banks to deliver it.

**02. Market pressure:** When other banks in the market make the move into digital and leverage it as a key differentiator or area of competence, it puts pressure on competitors to keep up.

These factors are often correlated, but not always. In some countries (e.g., Poland), market pressure has driven banks to develop digital capabilities at a faster rate than customers expect. These banks are investing in their future competitiveness, under the belief that customer preferences will inevitably catch up.

**Digital Banking maturity**



**From digitization to the new world of Open Banking and Beyond Banking**

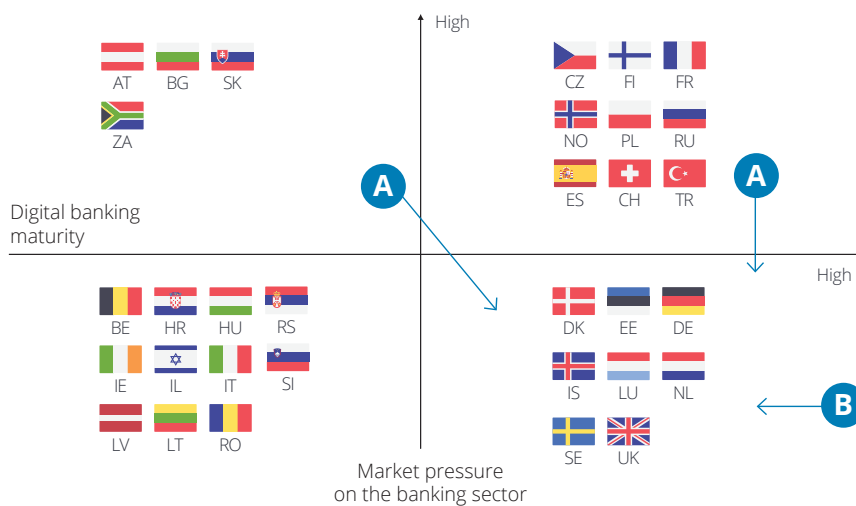
While the survey focuses on digitization—the transformation of traditional banking products and services from brick-and-mortar into internet and mobile—**there is growing pressure on banks to enter a new world of banking**, as a result of changing regulations (mainly PSD2) and competition from FinTechs. The digital champions identified in the survey are also leaders in both **Open Banking** (expanding traditional banking products and services

with new value-added services, mostly delivered by third parties) and **Beyond Banking** (introducing non-financial value-added services delivered by third-party providers into their banking digital channels).

Maintaining a competitive edge in **Open Banking and Beyond Banking will be critical to determining the digital champions of the future**. PSD2 will change the dynamics of competition in many markets by removing boundaries

and allowing both banks and FinTechs to compete for incumbents’ customers in their home markets. PSD2 is creating an environment in which digital champions have an opportunity enter and capture market share in neighboring markets, particularly those where there is a gap between customer expectations and incumbents’ digital capabilities. This creates a risk for incumbents that have not kept pace with their customers’ preferences for digital services.

**PSD2 and FinTechs will increase market pressure**



**A Foreign digital champions as attackers**  
 Competition between digital champions for highly demanding clients will be increased by the implementation of PSD2

**B FinTechs as challengers of the status quo**  
 Banking sectors that fail to withstand market pressure will face competition not only from other countries, but also from FinTechs

**What should banks and FinTechs be doing now?**

Digital banking maturity has become a lynchpin for the medium-term development of the EMEA banking landscape as it evolves toward Open Banking and Beyond Banking. For banks, surviving and thriving in this new era will necessitate a complete understanding of their competitive landscape, encompassing how their functionality compares to their competition as well as how they measure up to customer preferences.

**For digital latecomers, now is the time to move out of the comfort zone of the traditional banking status quo and start transforming** into a service platform if they do not want to be left behind by more digitally mature incumbents and FinTechs. However, the significant investment required for this transformation may steer some banks to focus on providing only a

few banking products and services as a specialized banking provider.

**Digital champions should leverage their strong current position to expand from a banking platform** into an exponential platform before other incumbents and FinTechs fill this space. To achieve this, they will need to work closely with financial and non-financial service providers as the level of complexity of this strategic shift will require deep integration with external partners.

FinTechs offering everyday banking services will face pressure from two sides: in order to not be left behind by digital champions, they will need to develop further in the direction of exponential platforms; to meet customer demand for more complex banking products, they will need to expand their services in the area of traditional banking. Collaboration with both

incumbents and other specialized FinTechs will be a critical success factor. The recent examples of N26 and Revolut demonstrate that FinTechs have these capabilities. It will be critical to maintain flexibility while scaling up their business—an issue which has been a stumbling block for the digital maturity of many incumbents.

**Strategic decisions need to be informed by data**

For EMEA banking executives who want to seize the opportunity presented by PSD2 and Open Banking, reliable information is essential to create a game plan. Deloitte’s EMEA Digital Banking Maturity study provides a comprehensive picture of their market and where banks stand relative to their competitors in the digital space. As such, it is an essential ingredient for any bank’s strategic planning in the post-PSD2 world of Open Banking. ●