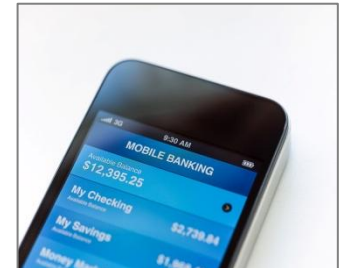




Global Trends in Digital Banking – *How to win?*

Bogazici University Banking Lecture

October, 2014



THE BOSTON CONSULTING GROUP



Key messages

Digital channels within banks have grown continuously and significantly – outpacing all other channels and changing the traditional sources of competitive advantage for banks

Banks around the world have experimented with different Digital service models since the late 90's – but no clear winning model with a broad product offering has emerged

However, as Digital continues to grow and evolve, recent observations indicate that broader offering Digital banks are showing promising signs of future success

As Traditional Banks move to capitalize on Digital trend, it's critical to align on specific strategic vision and objectives, core value proposition and operating model before acting

Agenda

Share perspectives on the Digital banking landscape

Review a Digital banking case study

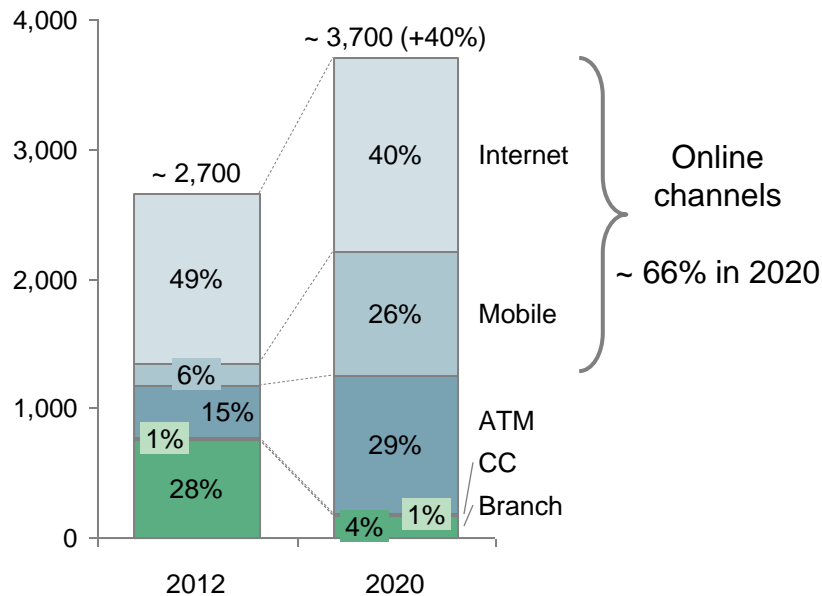
Digital channels gaining momentum, outpacing Traditional

Global snapshot of channel mix

Service & transactions

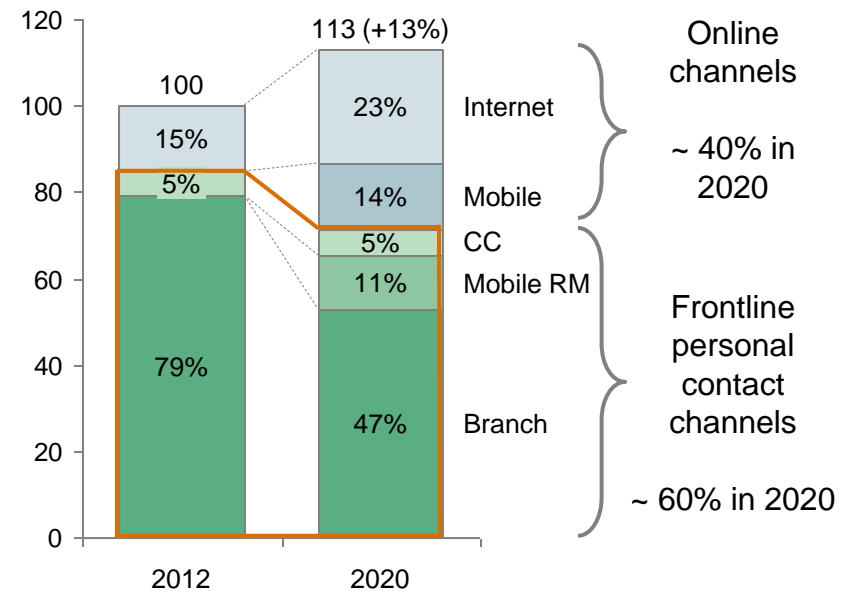
On a 100 sales & advice contacts basis

Service contacts p.y. (100 index)



Sales & advice

Sales & advice contacts p.y. (100 index)



Source: BCG estimates on BCG cases material (cross-section of major banks across geography)

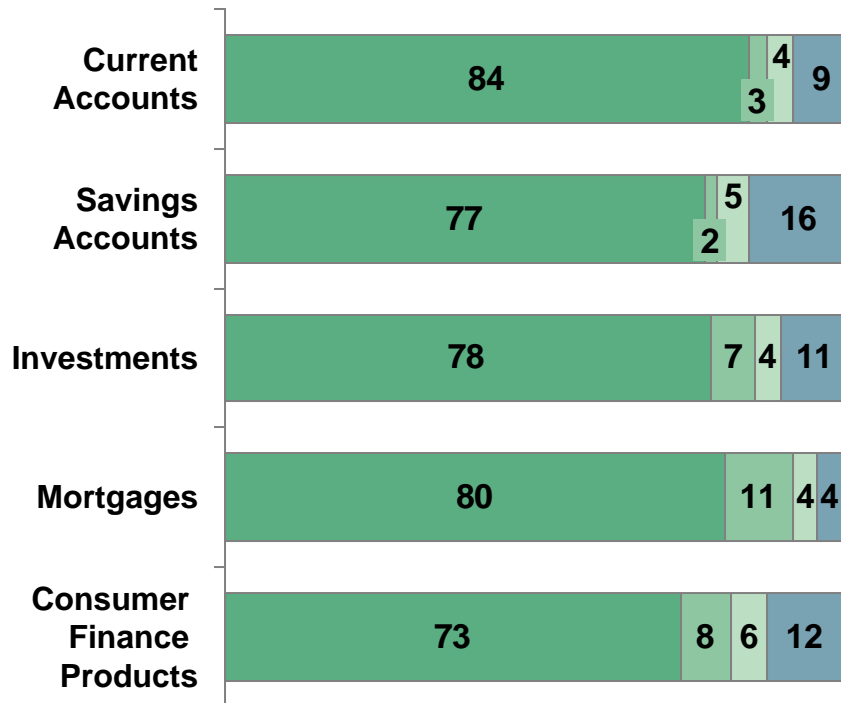
Consumer expectations are also massively shifting to digital

EU snapshot of consumer expectations

Branches Agents/Brokers Call centre Direct channels¹

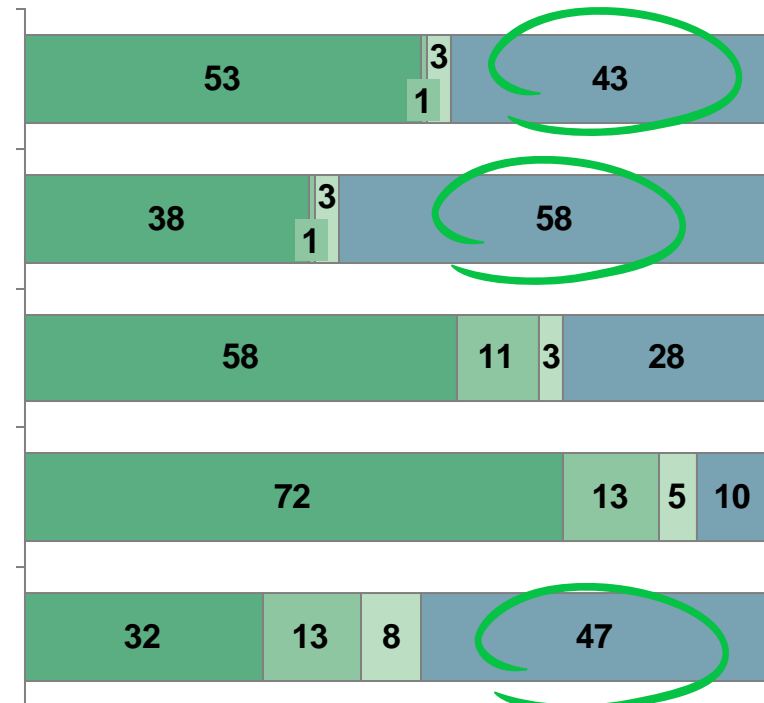
Current sales still driven by branches...

Current sales breakdown by channel (2010 % of sales)



... but consumers already expect dominant channel to shift in near-future

Expected dominant channel in 5 years (% of respondents)



1. Includes Internet, ATM and mobile; Note: Current: 2010, Future: 2015 Expected; European market; Source: EFMA online survey across 150+ European banks

Many 'myths' to dispel about Digital Banking

Digital banking Myths

Myth #1: The Branch is dead

Myth #2: Customers want an omni-channel experience

Myth #3: Traditional banks attacked by new digital players

Myth #4: Banks must become like Facebook or perish

Myth #5: All traditional products need to be available online

Myth #6: Digital banking requires Big Data

Digital Banking realities

Reality #1: The need for branch-based advisory services will continue to remain important. Digital frees up branch staff to focus on advisory sales

Reality #2: There are natural cross-channel customer journeys which should be enabled. Attempts to enable all possible cross-channel journeys drives complexity and cost

Reality #3: New players, until now, typically focus on non-traditional products, with opportunities for banks to participate (and expand their offerings)

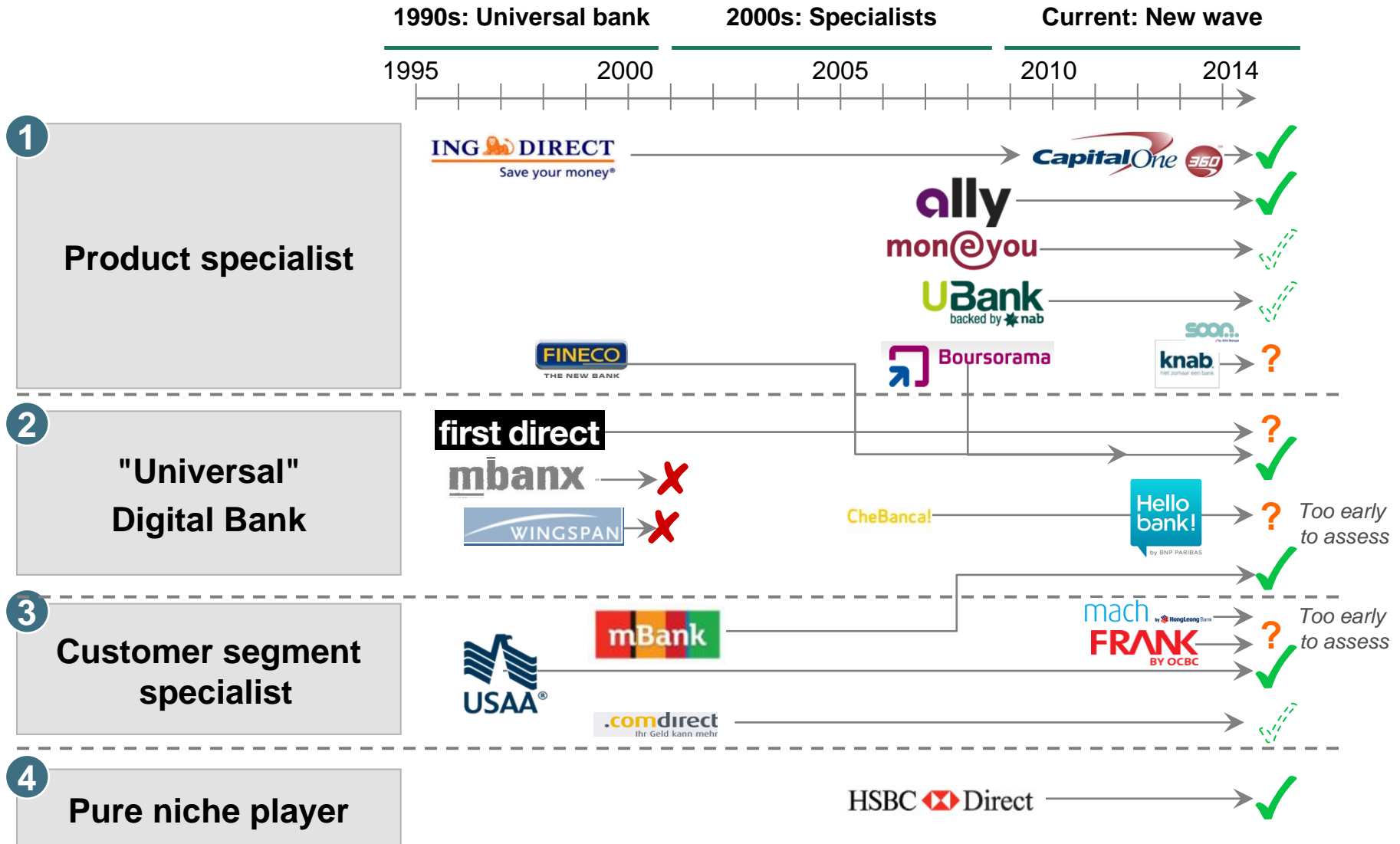
Reality #4: Most social media initiatives have disappointed. Banks must harness the power of social media to drive customer reviews and build customer advocacy

Reality #5: Products portfolio need to be aligned across the bank to avoid cannibalization. Also, complex traditional products online may result in a poor customer experience

Reality #6: The challenge is to ensure customer data is consistent, coherent, and at the frontlines to drive more productive conversations

To date, three waves of digital banking trends

Successful direct models have been "surgical"—focused on narrow offerings and segments



Objectives & Vision: Few potential paths banks may pursue

Offense

1 **Acquire High-value customers**

Attract new high-value customers with rich services

2 **Acquire Mass customers**

Attract broad / Mass customers with simple direct offer

Defense

3 **"Occupy the land"**

Build capabilities and take position to fend off new entrant

4 **Retain existing clients**

Provide customers "counter-offers" to competitive offers

Low cost channel migration

5 **Migrate to low-cost channel**

Design separate channel to lower cost position

Actively push low-value customers to lower cost channels

Many factors impact choice of strategic objectives, e.g., market share, brand, cost position, competitive landscape

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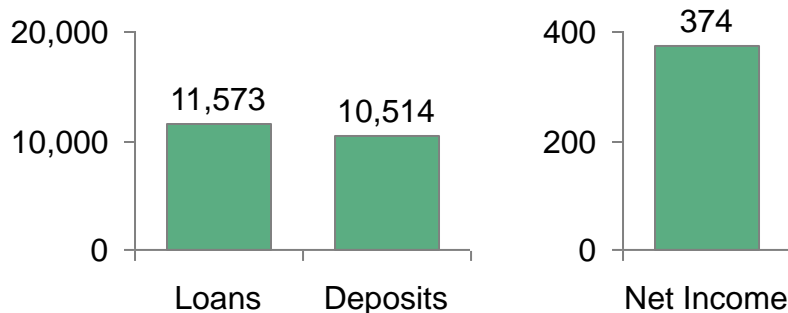
Case study: mBank is the biggest Polish online bank and part of third largest Polish bank, BRE Bank



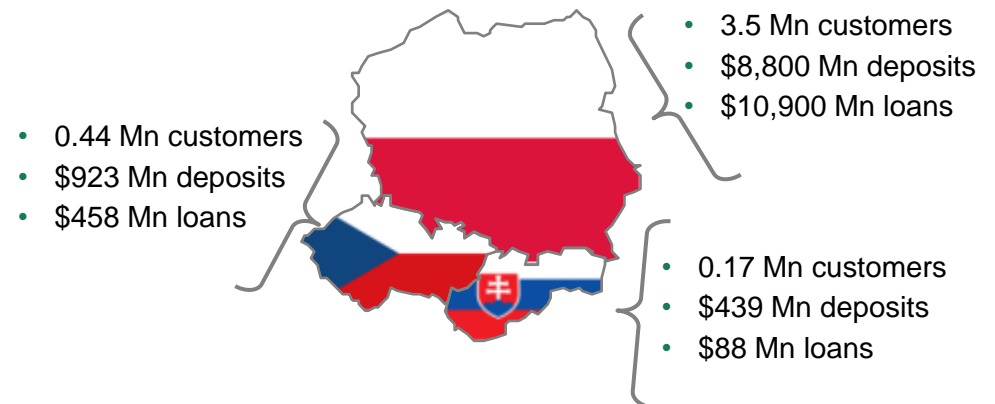
- **The third Polish banking group** with comprehensive financial offer tailored to the needs of corporate clients, Private Banking clients, and retail clients
- Member of Commerzbank Group
- **~6,000 employees**
- **BRE Retail banking** (mBank, MultiBank, mBank Czech Rep. & Slovakia) serves **total 4.1 million customers**

- **First Polish pure-play online bank** founded in 2000
- Currently **#3 retail bank and the biggest online bank**
- **Full retail and SME product range** available behind single login
- Launched in Czech Republic and Slovakia in 2007
- \$10.2 billion deposits & \$11.4 billion loans at the end of 2012

Business results [2012 EOY, USD in million]



Results by country (2012 EOY, USD in million)



Case study: mBank heritage was pure Digital bank

Key capabilities and design choices

Customer value management

- Universal products and services
- Focused on key customer needs

Distribution

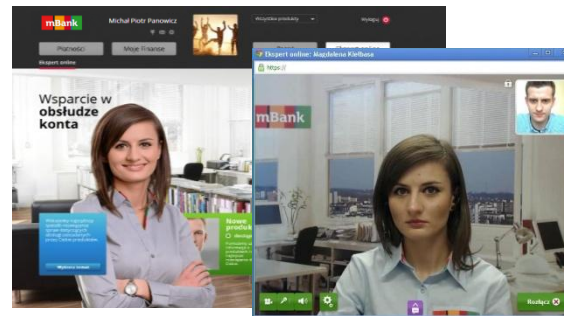
- Channels work together in concert
- Customer service guided to Digital channels

Operations

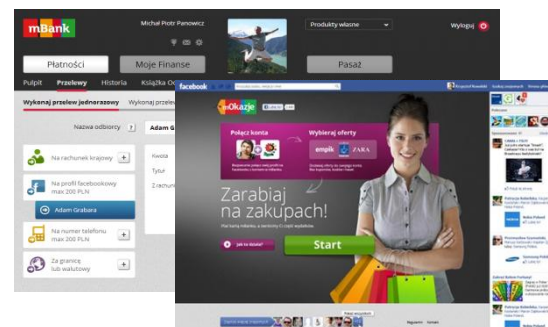
- Modeled after ING Direct model
- Designed for low-cost
- Today's mBank "close to a start-up"

Overview of mBank design

Convenience



24/7 video service

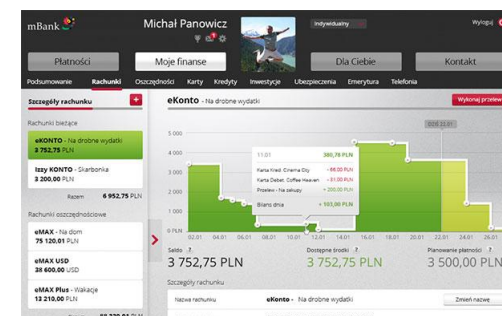


High functionality and social media integration

Low-cost



Free ATMs, free concierge service



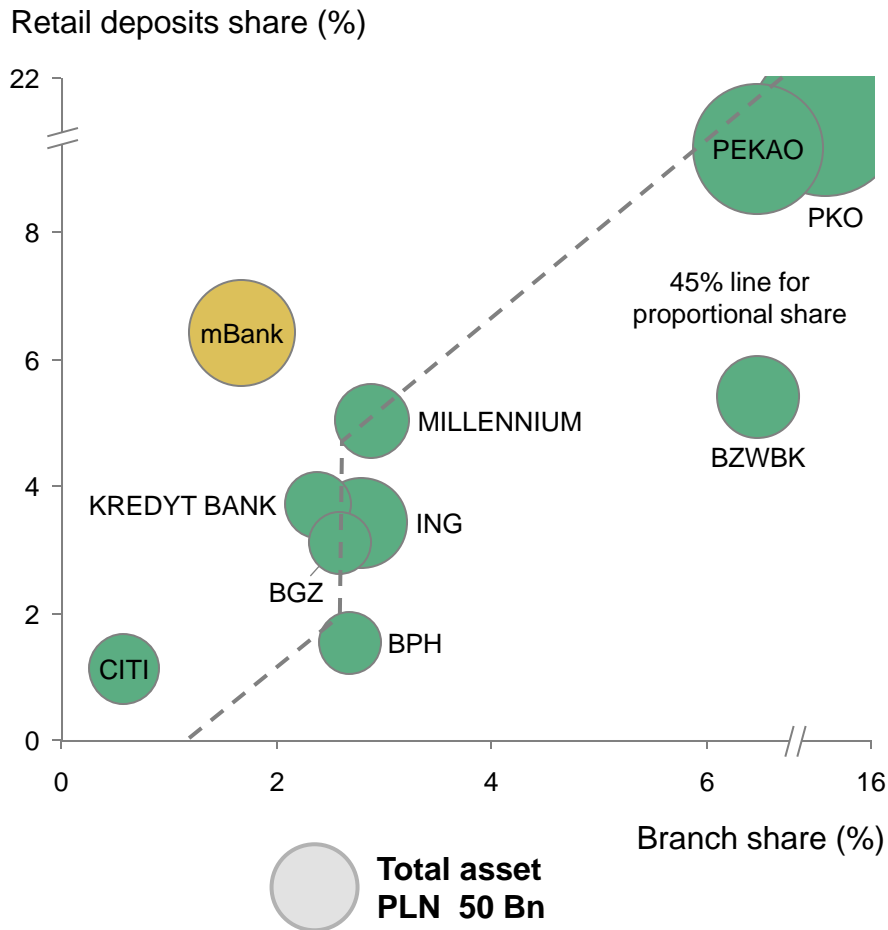
Range of free-tools online, including payments, budget tools, analysis

Case Study: mBank changed the "rules of the game"

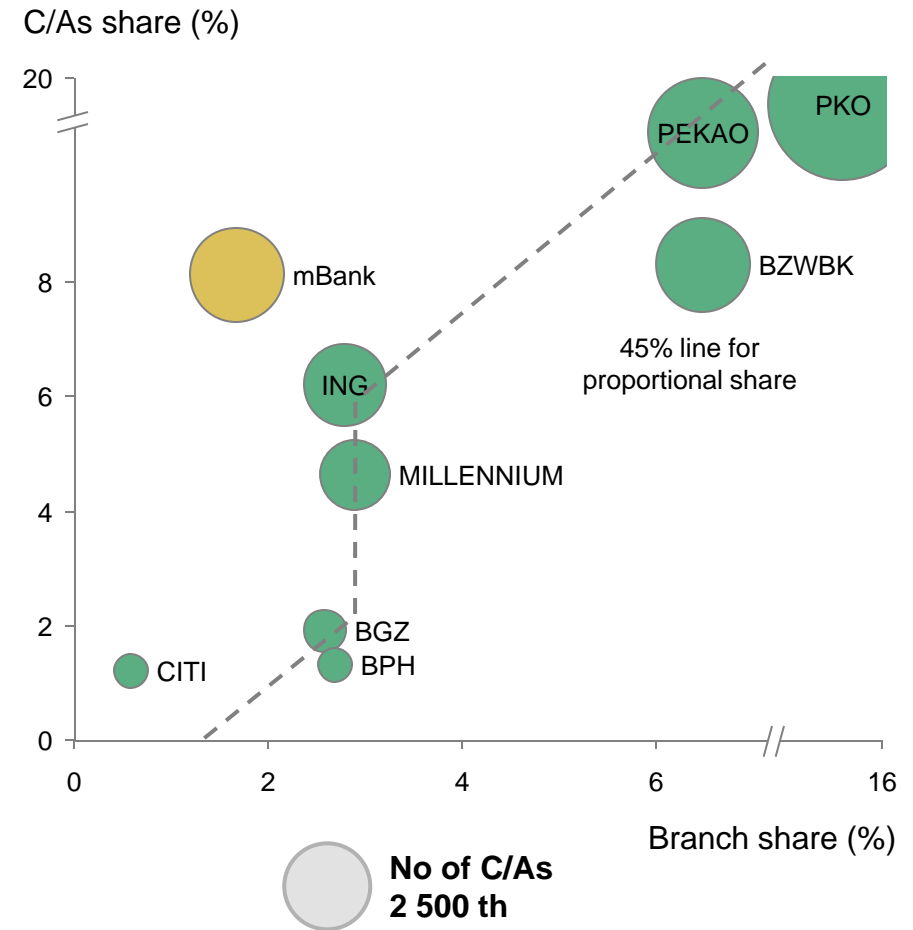


Successful in beating the "s curve" - low cost deposit share significantly higher than branch share

Retail deposits



Current (Checking) Accounts



Case Study: mBank success based on few key factors

Key success factors	Description
Well defined, attractive target segment	<ul style="list-style-type: none"> • Focused in segment selection; did not try to pursue all segments • ~20-35 years, students - High potential: modern, educated, open for novelty • (Such) customers grow in professional life/ wealth – currently mBank with probably the most attractive, mass affluent customer base
Consistent, differentiated positioning and marketing	<ul style="list-style-type: none"> • Distancing from "traditional banks" (like Apple vs IBM) • "Do not pay for "bricks" of traditional banks, get better offer" • "Why to pay for no choice of investments – get all funds at no fees"
Broad (like traditional bank) offer & ALWAYS better deal	<ul style="list-style-type: none"> • By leveraging scale/ power on suppliers (funds, insurance), analytical advantage (one-to-one pricing), process convenience (loans) • Often beyond banking e.g. insurance, experimented MVNO, etc. • Creates very high recommendation levels/ NPS
Best-in-class "feel & look" transactional (core) banking products	<ul style="list-style-type: none"> • Believe: Customer transact daily (getting loans occasionally) - this is how they build satisfaction, advocacy and stickiness • Transactions as great source of Information and Touch points allowing best offer (e.g. preapprovals, discounts, real time/ relevant offer)



Thank you

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