WORLD RETAIL BANKING REPORT 2015

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Preface

Retail banking customers today have more choices than ever before in terms of where, when, and how they bank—making it critical for financial institutions to present options that appeal directly to their customers' desires and expectations. Now in its 12th year, the *2015 World Retail Banking Report (WRBR)*, published by Capgemini and Efma, offers detailed insight into the specific types of experiences customers are seeking when they engage with their banks, making it an invaluable resource for developing strategies to combat an ever-widening array of competitors.

Drawing on one of the industry's largest customer experience surveys—including responses from over 16,000 customers across 32 countries, as well as in-depth executive interviews—the 2015 WRBR sheds light on critical performance metrics for the industry, such as the likelihood of customers to leave their bank or purchase additional products. Our survey, now in its fifth year, also uncovers surprising detail on the types of customers who are attracted to different channels, and the specific types of services that draw them to one channel over another. The unprecedented level of detail offered regarding customer preferences and behaviors—by product, channel, geography, and lifecycle stage—is intended to enable banks to decode customer preferences on the way to delivering highly improved experiences.

This year's report also draws attention to the pressing problem of the middle- and back-office—two areas of the bank that have not kept pace with the digital transformation occurring in the front-office. Plagued by under-investment, the middle- and back-offices are falling short of the high level of support found in the more advanced front-offices, creating a disjointed customer experience and impeding the industry's ability to attract, retain, and delight customers. Moving forward, banks must put greater focus on transforming their middle- and back-offices, along with their front-end interfaces, to create truly enhanced experiences for the customer.

We hope you'll find our latest report useful in helping you understand the many factors that go into providing an enriched experience throughout the customer lifecycle. Through this multi-dimensional look at customer experience, we expect banks will be better prepared to develop their own plans for achieving higher levels of positive customer experience, putting them in place to compete against both traditional and new players in the banking arena.

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Stagnating Customer Experience and Deteriorating Profitable Customer Behaviors

Bank's efforts to provide enhanced services are falling short of customers' desires and expectations leading to stagnation of Customer Experience Index (CEI) over past two years.

- The CEI witnessed a marginal drop of (0.8) percentage points from 73.5 in 2013 to 72.7 in 2015.
- The largest regional decreases in CEI compared to 2013 occurred in Middle East & Africa, followed by North America. Central Europe, fueled by large CEI gains in Russia, Turkey, and Czech Republic, registered the largest increase in CEI.
- Across all regions, Gen Y customers registered lower customer experience levels than customers of other ages, reflecting the high expectations Gen Ys have of banks' digital capabilities.

Globally, the percentage of customers having a neutral experience from their banks declined, shifting to the extreme ends of positive or negative experiences.

- North America was the only region in which positive customer experience levels decreased, though it continued to have the highest level of overall positive experience by a slight margin.
- Eight of the ten countries with the highest increases in negative customer experience levels were in Western Europe; five of them posted negative experience increases of more than 10 percentage points.
- The high rate of negative experience among Western European countries led to that region having the highest regional level of negative experience, surpassing Asia-Pacific for the first time.

Banks are failing to elicit customer behaviors that can help them either save costs or improve revenues by providing referrals and buying additional products.

- Alarmingly for the banks, there was a significant increase in the percentage of customers who were unlikely to buy additional products or refer someone to their banks.
- Customers around the world reported increased likelihood to leave their bank within the next six months.

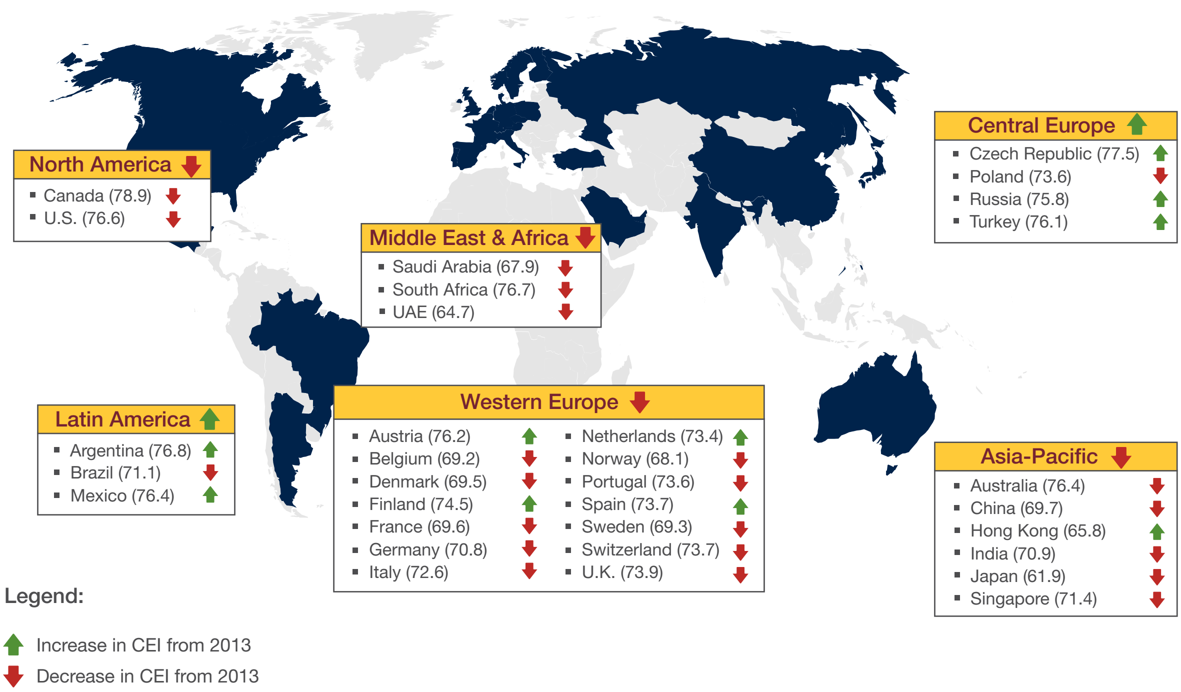
Overall Customer Experience Levels Stagnated, but Extreme Ends of Positive and Negative Experiences Increased

Retail banks around the globe witnessed stagnation in their ability to improve the customer experience. Capgemini's CEI,[1] now in its fifth year, found retail banks' average customer experiences slightly drop from 72.9 in 2014 to 72.7 in 2015 (see Figure 1). The CEI's stagnation reflects the influence of a wave of more agile competition, combined with banking touch points that continue to lag customers' heightened expectations.

Since 2011, Capgemini has tracked customer sentiment toward banks globally, using an exhaustive measure that tracks physical interactions between banks and their customers, and how those interactions match up against customer perceptions and expectations. This year's CEI was calculated based on results from a comprehensive Voice of the Customer Survey of more than 16,000 respondents across 32 countries in six geographies. These customers provided input on their experiences across 80 different retail banking touch points spanning the full range of products, lifecycles and channels.

Unlike more basic measures of customer satisfaction, the CEI identifies the factors most important to customers and tracks satisfaction specifically along those dimensions. The resulting data offers a granular, multi-dimensional view of customer experience that is aligned to customer values. By grouping these experiences into positive, negative, and neutral categories, and tracking them over time, the CEI offers insight into how the global customer experience is improving or deteriorating.

Figure 1: Customer Experience Index, by Country, 2015



Country boundaries on diagram are approximate and representative only
Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

[1] Please refer to the Methodology section on Page 33 for more details

While the overall CEI experienced a modest decline in 2015, a handful of countries registered significant change. Banks in Spain and Russia had the greatest success in improving CEI over the past two years, with each expanding by 4.8 points. Turkey followed with an increase of 3.9 points, while Czech Republic and Mexico each had an increase of 3.5 points.

The positive outcomes for Russia, Turkey, and Czech Republic helped propel Central Europe to the largest gain in overall CEI. Central Europe's expansion of 2.8 points compared to 2013 was twice as high as the increase of 1.4 points in Latin America, the only other region to register a gain. Within Central Europe, Poland was the only country that did not register an increase along the CEI.

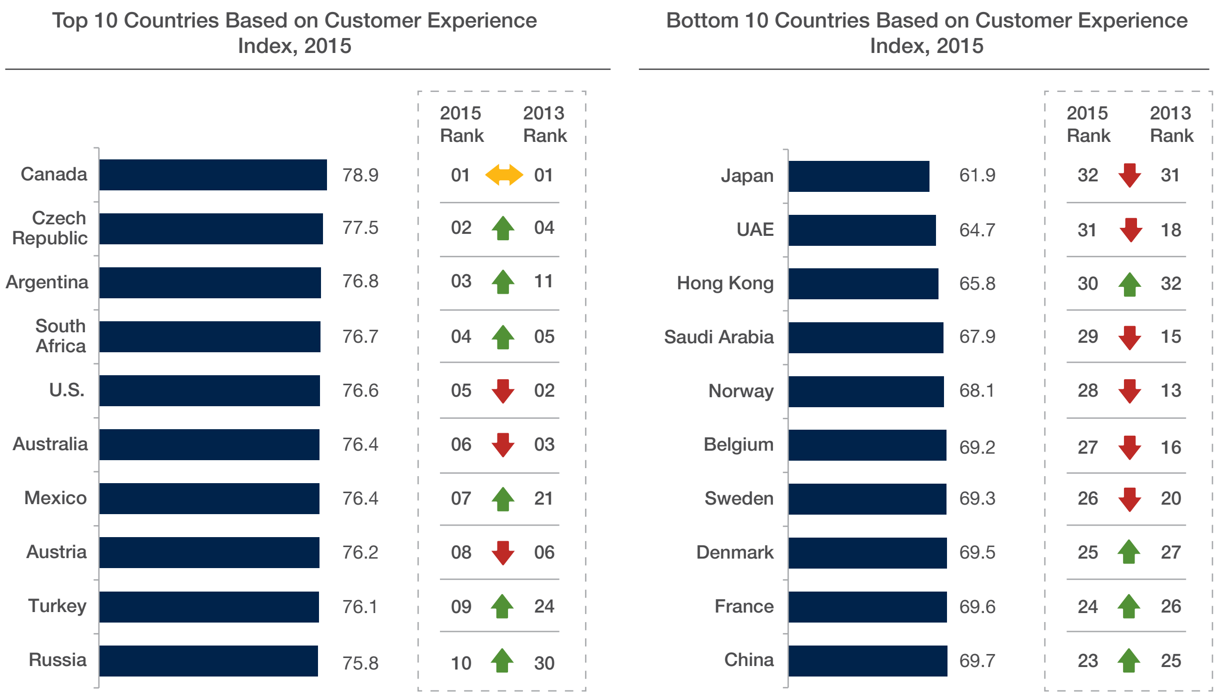
At the other end of the spectrum were four countries that experienced large drops in 2015 along the CEI scale compared to 2013. United Arab Emirates led the way with a decrease of 8.3 points. The other three were in Europe, with Norway dropping by 5.9 points, followed by Belgium and Germany, each with a decrease of 5.0 points.

The large drop by the UAE helped mark Middle East & Africa as the region with the biggest decrease in overall CEI, with a drop of 4.0 points. North America followed with a decrease of 2.6 points. Within North America, both Canada, the top country on the CEI scale, and the U.S., ranked fifth, experienced decreases in overall CEI of 1.8 and 2.9, respectively (see Figure 2).

Continuing the trend from last year's report *(2014 World Retail Banking Report)*, within every region, Gen Y customers were found to have lower customer experience levels compared to those in other age groups. For example, the CEI for North American Gen Ys was 72.2, compared to 80.1 for customers of other ages within the region (see Figure 3). Similarly, Latin American Gen Ys had a CEI of 70.8, compared to 77.2 for all other Latin Americans.

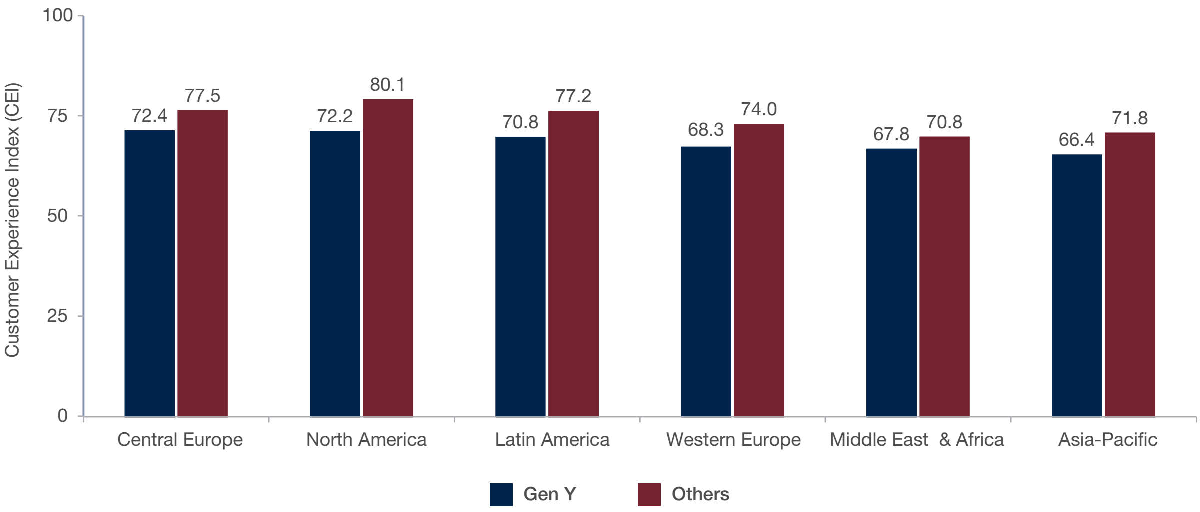
The more subdued customer experience levels for Gen Y likely reflects the high importance of digital technology to that demographics' lifestyle. Gen Y, born between 1980 and 2000, have never experienced an adult world without the aid of digital connections. Accustomed to instant access and seamless transactions in most aspects of their social and professional lives, Gen Y brings very high expectations to their banking interactions. This

Figure 2: Top 10 and Bottom 10 Countries Based on Customer Experience Index, 2015



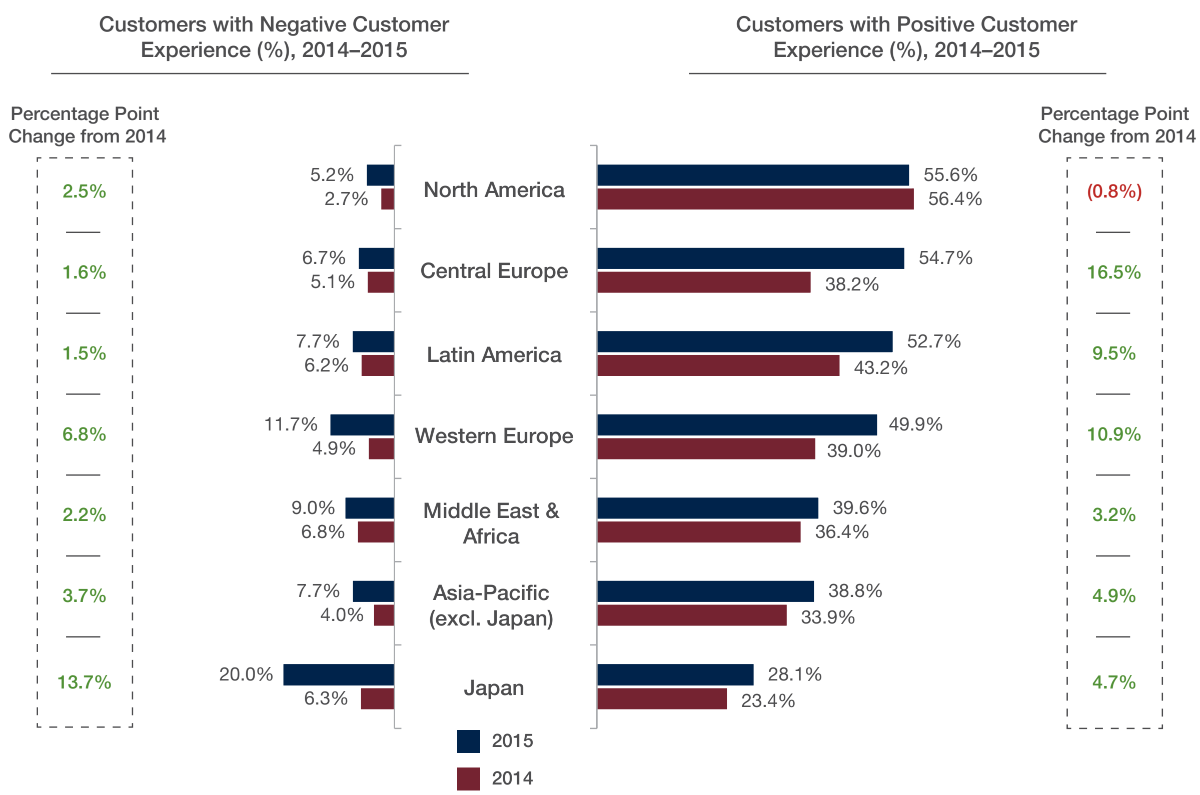
Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

Figure 3: Customer Experience Index for Gen Y Customers vs. Others, by Region, 2015



Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

Figure 4: Positive and Negative Customer Experience Change, by Region (%), 2014–2015



Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

year's lower customer experience levels for Gen Y are in keeping with those from a year ago, underscoring the inability of banks to keep up with Gen Y expectations.

This year's survey found that movement from neutral experience to the extremes of positive and negative experiences has increased, signaling the persistent flux of customer attitudes and the importance of steering them in a positive direction.

In almost every region, the percentage of customers with positive experiences expanded by a significant amount. Central Europe had the biggest increase, jumping from 38.2% to 54.7% (see Figure 4), bolstered by large increases in Turkey (24.4 percentage points) and Russia (23.6 percentage points). The increase in percentage of customers with positive experience in Turkey, can be partly attributed to the upgrading of the core systems and significant efforts made in the back-offices. Latin America was the region with the next-highest boost in positive experience, going from 43.2% to 52.7%.

The only region that did not follow this pattern was North America, where the percent of customers with positive experiences declined from 56.4% to 55.6%. While North America continues to have the highest levels of positive customer experience overall, narrowly beating out Central Europe, the slight decline points to the possibility that return on investments in the front-office and digital channels are struggling to keep up with evolving customer expectations.

Western Europe witnessed a significant increase in the percentage of customers with negative experience from 4.9% in 2014 to 11.7% in 2015. Eight of the top ten countries with the highest increases in negative customer experience were in Western Europe, with five of them posting negative-experience increases of more than 10 percentage points: Denmark (11.0 points), Germany (10.9 points), Netherlands (10.5 points), Belgium (10.2 points) and Sweden (10.0 points). Only Japan, with an increase in negative experience of 13.7 percentage points, surpassed them.

The increasing incidences of negative experience throughout Western Europe led to that region surpassing Asia-Pacific for the first time in terms of having the highest levels of negative experience. The 11.7% of customers in Western Europe with negative experience reflected an alarming increase from 4.9% a year earlier, and outpaced the 9.1% in Asia-Pacific by a healthy margin. This can be partly attributed to the increasing customer expectations, due to the proliferation of FinTech and Internet/technology firms.

Growth of Low-Cost Channels Fails to Displace Branch Usage

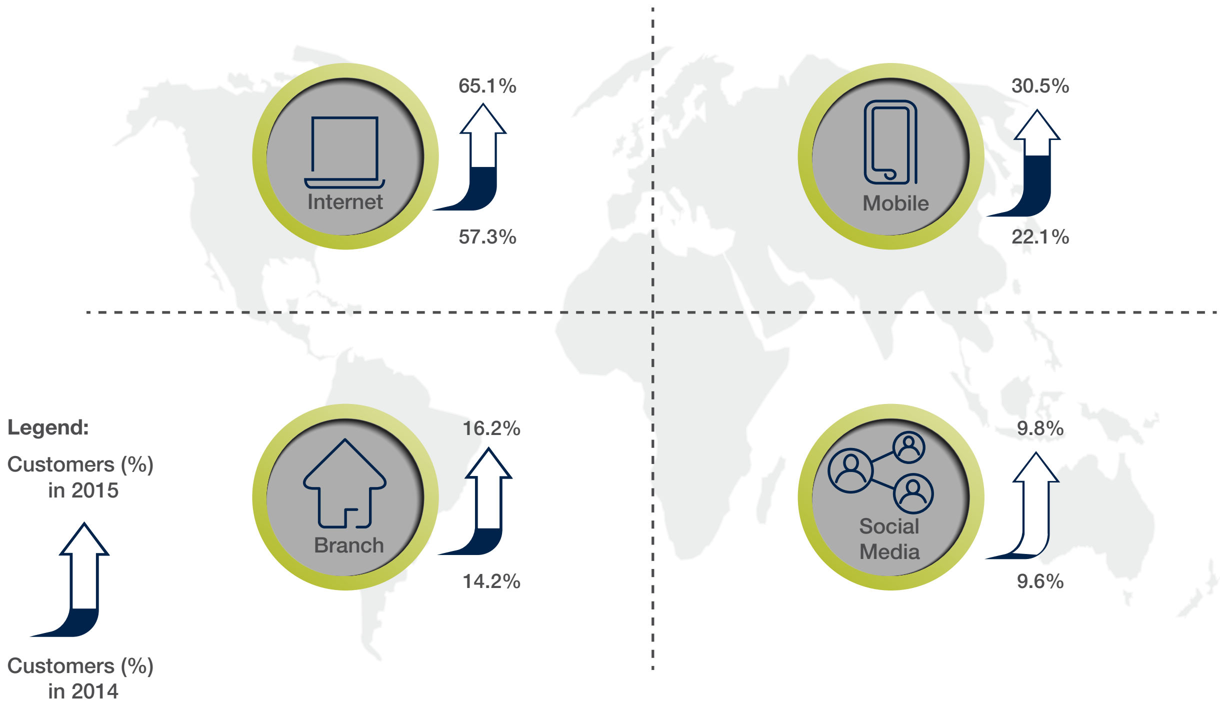
Banks have long sought to decrease their distribution expenses by building low-cost digital channels that would replace brick-and-mortar branches. Over the years, they have succeeded in drawing significant numbers of customers to the newer channels (see Figure 5). But our research shows many customer segments are not convinced that the new channels offer the same breadth and depth of service that can be found in the branch.

The Internet has quickly become the most-favored channel by customers in all regions. Already high levels of Internet usage rose further throughout the last year, resulting in all the regions having at or close to two-thirds of their customers accessing banking web sites at least weekly. Mobile's popularity also rose in every region—including by double-digit levels in the regions of Latin America, North America, and Central Europe—over the last year. Across most regions, mobile usage is at or close to one-third of customers accessing it at least weekly.

Despite the significant leaps to high rates of usage for both the Internet and mobile, the impact on the branch was minimal. Banks continued to fall short in their goal of steering customers away from the branch. In fact, branch usage rose modestly in North America and Europe, while decreasing only slightly in Latin America and barely at all in Asia-Pacific. In effect, the banking industry's great effort to minimize the use of expensive branches by replacing them with lower-cost channels still leaves work to be done.

While customers have quickly adapted to the idea of tapping into the Internet and/or mobile devices to check their balances, in the customer view, the branch remains as the channel of last resort to handle practically any other type of matter. Even when it comes to simple products like current accounts and credit cards, our research found customers still overwhelmingly conduct the application process in the branch versus via the Internet or mobile.

Figure 5: Customers Using Channels at Least Weekly (%), 2014–2015



Note: Question asked, "How often do/will you use the following channels for your banking needs? - Never, Couple of times a year, Monthly, Weekly, or Daily"
Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

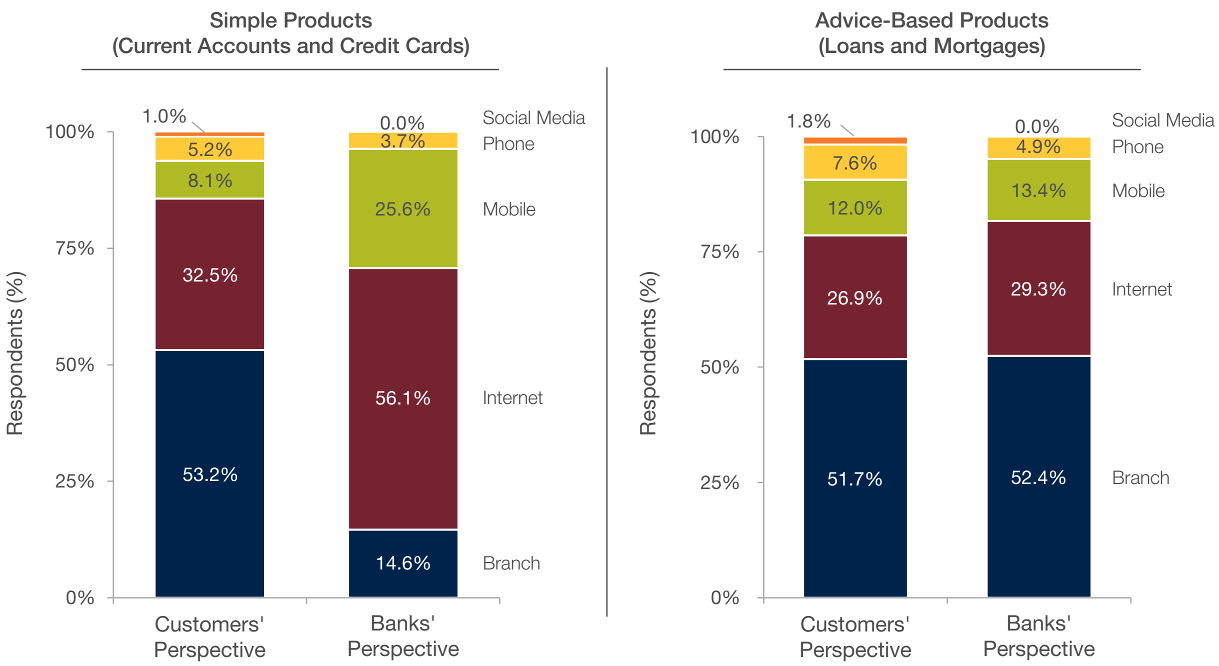
In fact, customers want to turn towards the branch in equal measure, whether they were applying for simple products or ones that required more advice and guidance. A full 53.2% of customers said they would want to use the branch when applying for a simple product; that amount was even more than the 51.7% of customers who said they would want to use the branch to acquire a more complicated, advice-based product (see Figure 6).

This finding is a stark contradiction to the banks' preference that customers use the branch mostly to execute more complex interactions involving products like mortgages and personal loans. Bankers were amenable to the idea of customers using the branch to apply for advice-based products; 52.4% of them said they would prefer customers to use the branch to get such a product. But they did not expect or want customers to use the branch to apply for simple products. In fact, 56.1% of them said they would prefer customers use the Internet to acquire simple products. That compared to only 32.5% of customers who said they would want to use the Internet for simple purchases.

The divergence between how banks and customers view the roles of the branch and Internet for simple product purchases underscores a perception problem facing the industry. Our research found that, while convenience was a primary driver for customers to turn to digital channels, customers still perceived the branch to be offering better service than what could be found on the digital channels. The challenge for banks going forward will be to convince customers that the levels of service and support to familiarize, they can obtain via the Internet and mobile channels are every bit as good as what they can get through the branch.

Despite the overwhelming propensity of customers to turn to the branch for any type of product purchase, there were certain demographics and geographies where change was evident. Gen Y customers, for example, indicated higher usage of the mobile channel to apply for a product, at a rate of 12.3%, compared to only 7.5% for customers of all other ages (see Figure 7). We also found the Internet to be especially popular in certain geographic pockets. In Netherlands, for example, 40.3% of customers said they applied for a product via the Internet, compared to only 33.2% who did so in the branch. These shifts in consumer behavior—isolated for now—indicate a coming wave of transformation in how customers view and use channels. With customers expected to move to the newer channels in ever-greater numbers, banks will be tasked with meeting their ever-rising expectations.

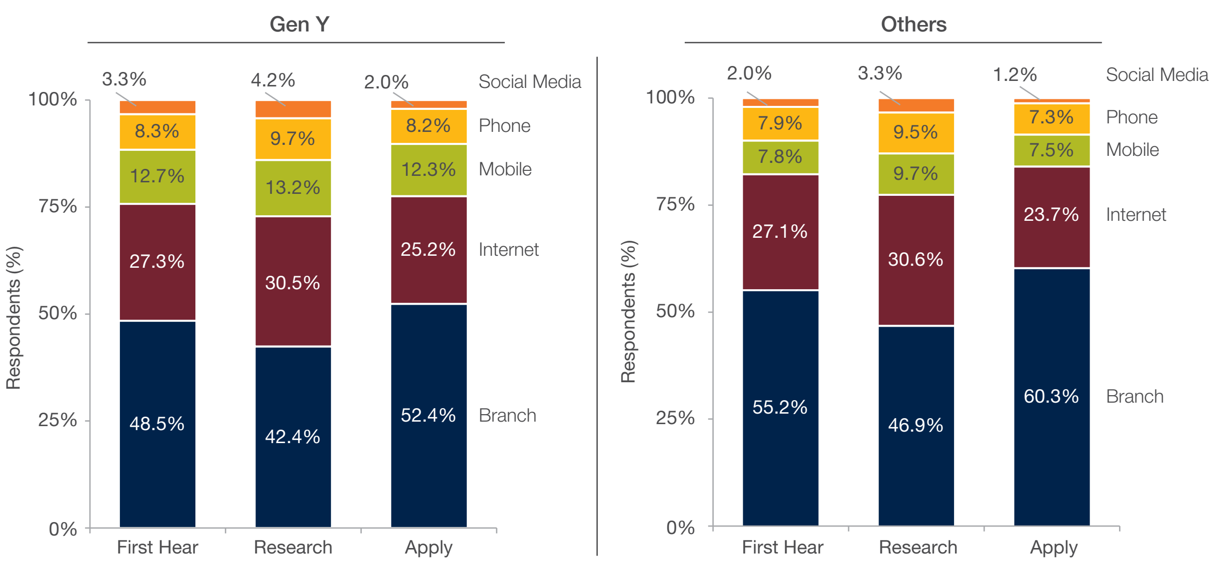
Figure 6: Channels Want to be Used to Apply, by Product (%), 2015



Note: Question asked, "Which channel did you want to use for applying the Product? Branch/Face-to-face, Internet-PC, Internet-Mobile, Phone, or Social Media", "Which channel would you prefer for your customers to apply for the product? (Please check the relevant boxes in the below mentioned table) - Branch / Face-to-face, Internet-PC, Internet-Mobile, Phone, or Social Media"

Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services; 2015 Retail Banking Executive Interview Survey, Capgemini Global Financial Services

Figure 7: Channels Customers Used, by Lifecycle Stage (%), 2015



Note: Question asked, "Where did you first hear about the product"?, "Where did you research/get advice about the product"?, and "Where did you apply for this product"?

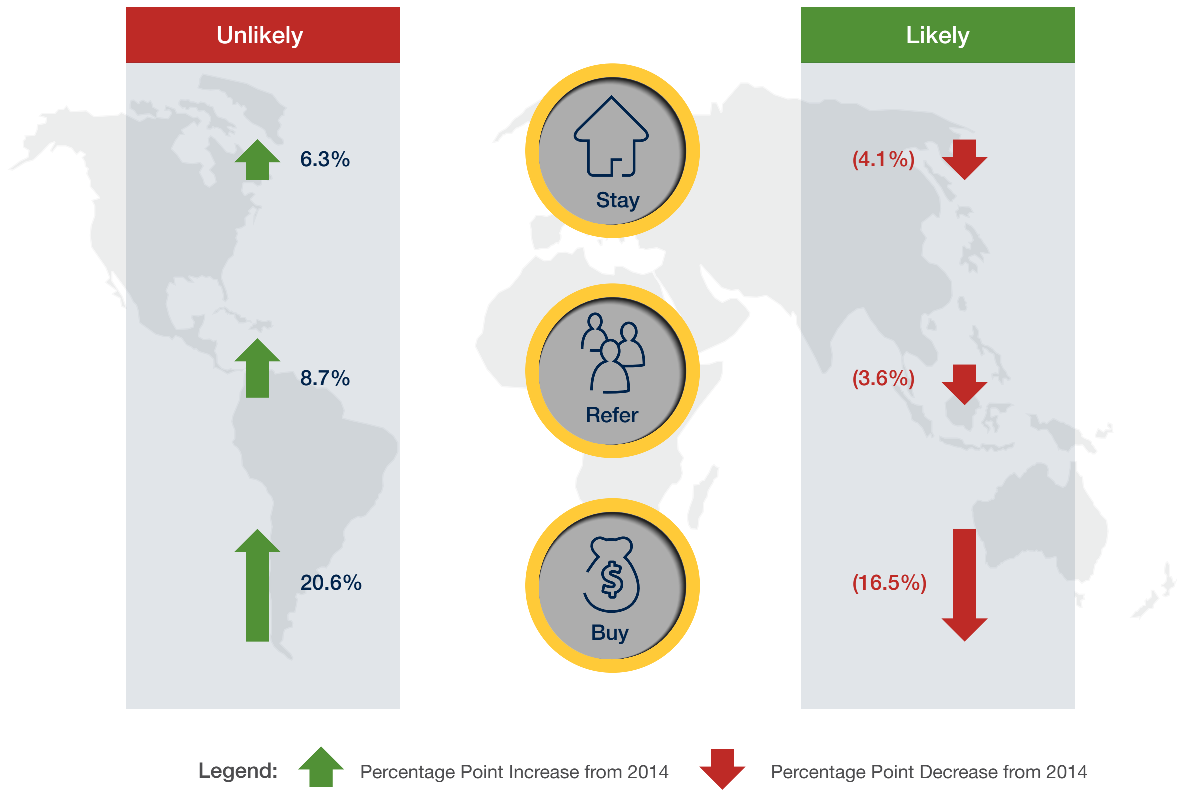
Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

Customer Behaviors Impacting Banks' Profitability

The ability to drive top-line growth by retaining and cross-selling to existing customers has long been a vital source of profits for banks. Also critical is the ability to cultivate loyal customers who refer the bank to others, thus drastically reducing the cost and effort of acquiring new customers. However, the outlook for these profit-enhancing activities is diminishing. Our survey found that all of these customer behaviors are becoming much more challenging for banks around the world to achieve (see Figure 8).

Banks in every region of the world witnessed a significant increase in the percentage of customers who said they are likely to leave their primary bank in the next six months (see Figure 9). In line with this increase, the average number of banks that a customer engages with has slightly increased from 1.5 to 1.6 in 2015 over 2014. Also, this change is more pronounced for younger age groups compared to older customers. The rates were highest in Middle East & Africa and Asia-Pacific (15.1%), followed by Latin America (14.0%), North America (10.7%) and Central Europe (10.5%). At the same time, in every region of the world, the number of customers who said they were likely to stay decreased, with the percentage reaching the lowest point in Asia-Pacific (43.3%) and remaining the highest in North America (61.9%).

Figure 8: Likelihood of Customers to Stay, Refer, and Buy from Their Primary Bank, 2015



Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

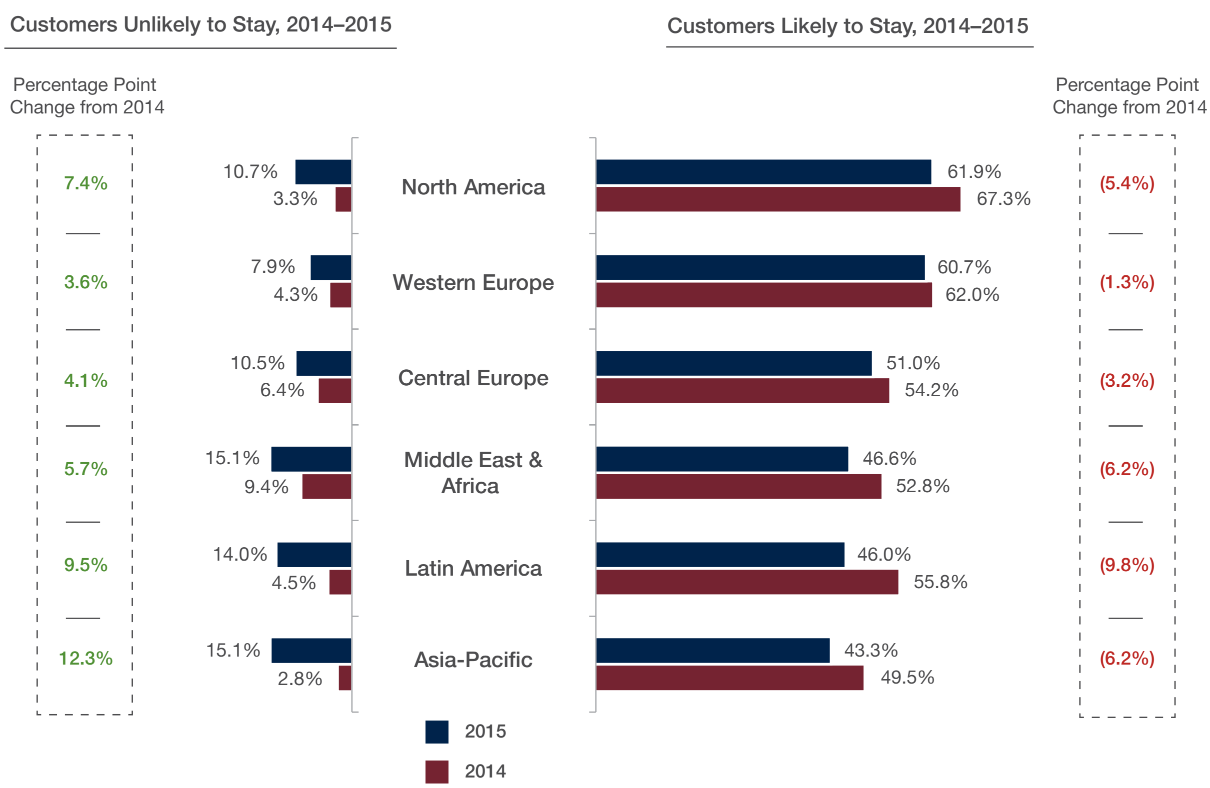
Across all regions, Gen Y customers were the most likely to switch banks. The difference between Gen Y customers and Others was particularly stark in North America, where only 47.3% of Gen Y customers said they were likely to stay with their bank in the next six months, compared to 69.8% of Others (see Figure 10). As the wealth and influence of Gen Y customers increases, their increased tendency to switch banks may have important implications for profitability.

Customers with an inclination to switch have many more options to which they can turn. Retailers and grocery-store chains with large volumes of traffic and high brand recognition have begun offering simple, inexpensive financial services products. In addition, a growing legion of start-up banks are taking advantage of Internet and mobile technology to offer a range of flexible and attractive financial products that reflect the increasingly digital lifestyles of today's customers. Traditional banks, bound to their legacy systems and siloed ways of doing business, are finding it difficult to keep up with all the new competition.

In addition to the growing number of options, bank customers are finding that the logistics of leaving one bank and opening an account at another is easier than ever. Many banks in the U.S. now offer "switch kits," designed to reduce the hassle of moving accounts, including direct deposits and automatic payments, from one bank to another. In the U.K., the Payments Council is upholding participating banks to an "account-switch guarantee," which stipulates the appropriate timeframes and specific actions banks need to take to ensure consistent, reliable switches. Similarly, the European Commission has published a proposal that aims, in part, to establish formal procedures that would aid consumers in switching their bank accounts quickly and easily.

Besides being more inclined to leave their banks, customers were also less likely to refer others. In every region of the world, there was substantial increase in the percentage of customers who said they were not likely to refer a friend. The increase was most pronounced in Asia-Pacific (10.5 percentage points) and Western Europe

Figure 9: Customers' Likelihood to Stay with Their Primary Bank in the Next Six Months, by Region (%), 2014–2015



Note: Question asked, "How likely are you to change your primary bank within the next six months (please rate on a scale of 1 to 7, where 7 is 'highly likely' and 1 is 'highly unlikely')"

Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

(9.7 percentage points). In Middle East & Africa, one-fifth of customers said they were unlikely to refer others, an increase of 9.5 percentage points.

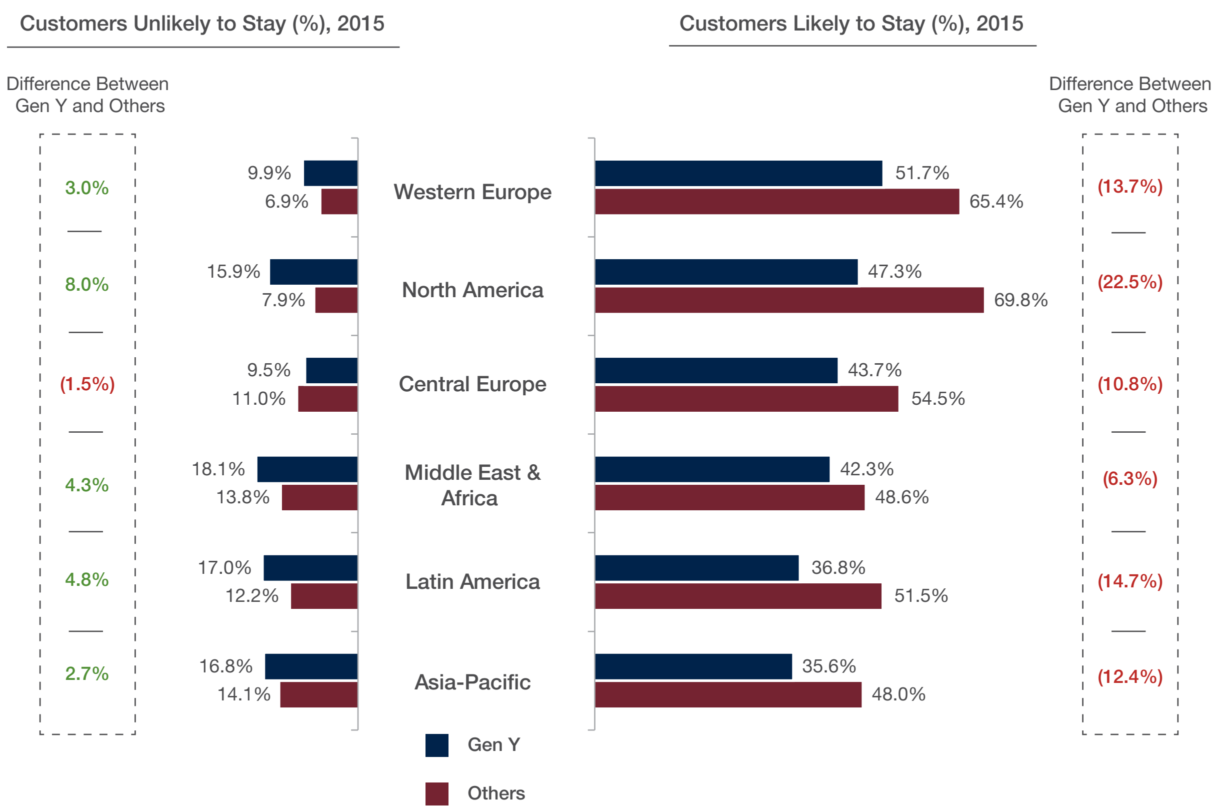
A decline in referred customers is a counterproductive trend for bank marketers. Referred customers are highly desirable because they require fewer marketing resources, causing them to generate more revenue at lower cost. In effect, banks that have fewer referred customers will likely experience a detrimental effect on bank profits.

Perhaps the most foreboding finding of our 2015 survey was the large decrease across the globe in the likelihood of customers buying another product from their primary bank. Every region experienced a double-digit expansion in the number of customers who said they were not likely to purchase another product from their bank (see Figure 11). Astoundingly, more than one-third of customers in Western Europe (35.3%) said they would not do so, up from only 9.6% a year earlier. North America had the next highest percentage, at 27.1%, up from 5.7%. Except in Latin America, the percentage of customers who said they were unlikely to purchase an additional product was greater than the percentage that said they were likely.

The declining rate in propensity to buy underscores the ubiquity of banking alternatives available to consumers. Rather than regard their banks as one-stop shops, consumers can turn to any one of a number of providers, including brand-name retailers, crowd-funding web sites, peer-to-peer lenders, and Internet/mobile service providers, to fulfill their financial needs. At the same time, aggregation services are increasingly available to help consumers view all of these disparate financial relationships through one convenient portal.

These non-bank providers for the most part bring a capability that many banks lack: an expertise in interacting and connecting with customers, particularly through digital touch points. The best-in-class services

Figure 10: Likelihood of Gen Y and Other Customers to Stay with Their Primary Bank in the Next Six Months, by Region (%)[a], 2015



a. The number represents the percentage of Gen Y customers who are likely or unlikely to change their primary bank in the next six months

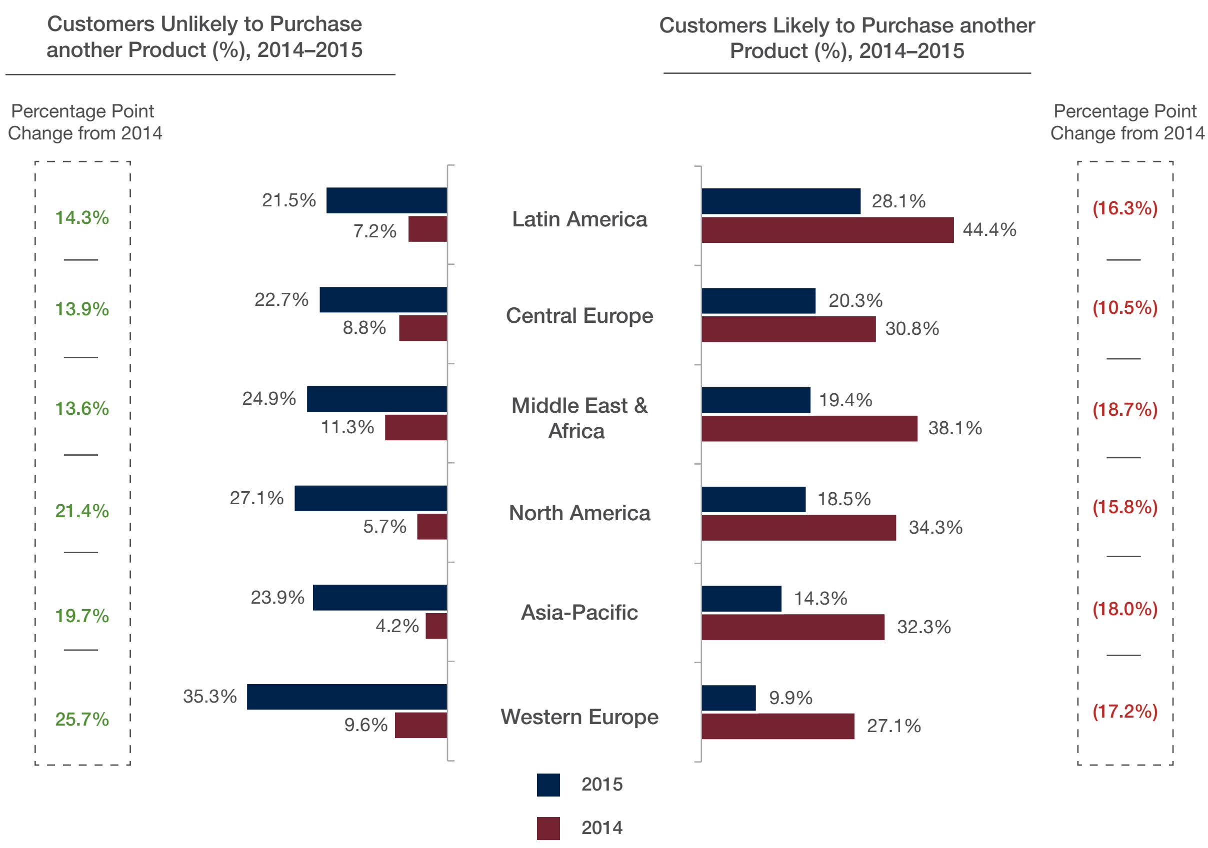
Note: Question asked, "How likely are you to change your primary bank within the next six months (please rate on a scale of 1 to 7, where 7 is 'highly likely' and 1 is 'highly unlikely')"

Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

of the non-bank specialists often feature greater flexibility and price transparency than what banks can offer. As such, the non-banks are continually able to meet rising customer expectations, while also pushing those expectations ever higher.

Banks, unable to keep up with the growing set of more nimble competitors and fueled customer expectations, are losing ground. The notable deterioration across all three behavioral sets linked to profitability underscores their marked regression. Customers are less likely to stay with their banks, refer others to them, and purchase additional products. Not only are these behaviors likely to constrain profits, but, left unchecked, they raise the alarm of growing disintermediation between banks and their customers. A solution is for banks would be to focus on dramatically improving the customer experience, putting it on par with that of the non-banks angling for their customers.

Figure 11: Customers' Likelihood to Purchase another Product from Their Primary Bank, by Region (%), 2014–2015



Note: Question asked, "How likely are you to purchase another product from your primary bank? (Please rate on a scale of 1 to 7, where 7 is 'highly likely' and 1 is 'highly unlikely')"

Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

Competitive Threats Disrupting the Banking Landscape

Increasing disintermediation taking place in the banking arena as customers look towards alternative entities for their banking needs.

- While banks still hold a majority of products across all regions, other entities have made significant inroads in North America and Western Europe.
- While banks acknowledge the threat from these entities, the threat impact is much higher than what banks perceive as customers are more likely to hear, research, and apply for different banking services using non-traditional avenues.
- Disintermediation levels have increased considerably as bank is no longer where customers go but what customers do and they can complete their entire banking lifecycle without ever approaching a bank.[2]

FinTech firms are making significant inroads into the banking sector and they have the potential to disrupt the market.

- Internet and technology companies have carved out a significant presence in the area of credit cards and payments.
- Among all entities, banks themselves perceive that customers are most comfortable with Internet/technology firms, significantly higher than the comfort level they have with banks.
- While the threat from Internet/technology firms is not expected to materialize in the next 36 months, they are perceived to pose the highest future threat to the banks.
- The potential of the FinTech firms to disrupt the market comes from their agility and ability to leverage technology, derive insights from data, and develop simple and intuitive offerings.

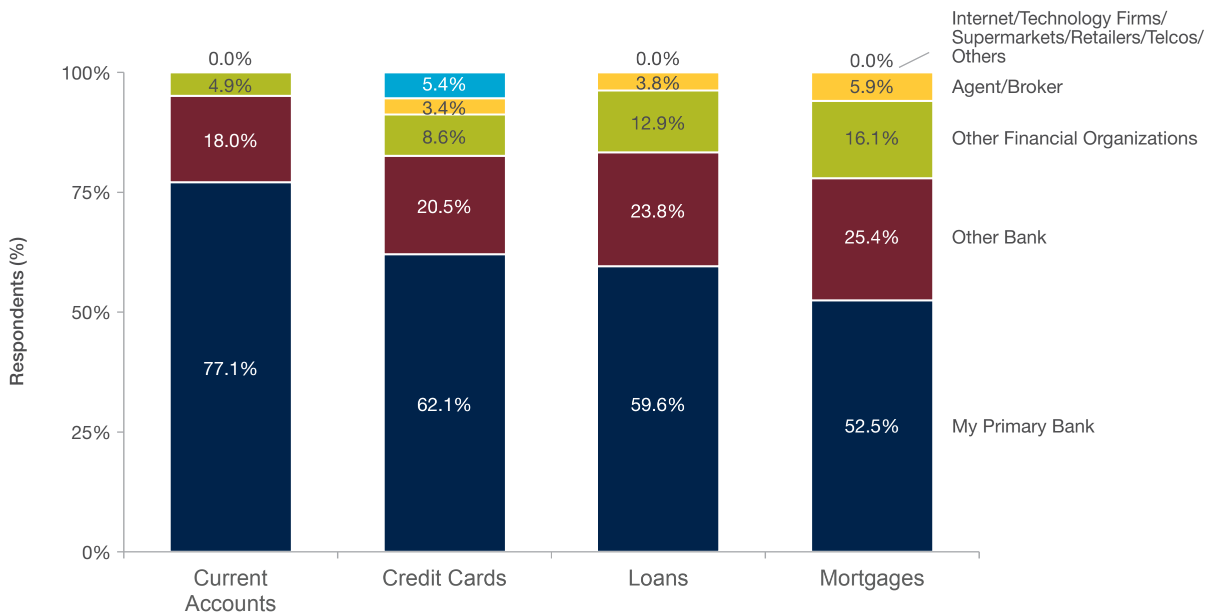
[2] King, Brett. Bank 3.0: Why Banking Is No Longer Somewhere You Go But Something You Do. Singapore: Marshall Cavendish, 2013.

Growing Competition across Products and Lifecycle Stages

The increasing competition from the more nimble competitors has not been restricted to the driving customer expectations and influencing customer behavior. Over the last few years, there has been an increasing proliferation of new entrants across products and lifecycle stages. However, banks have been moderately successful in holding their ground, as a majority of customers still held their products with their primary banks. Most customers (77.1%) maintained their current account at their primary bank (see Figure 12), but they were not as loyal to their primary banks when it came to other products. Only 62.1% had their credit card at their primary bank; 59.6% their personal loans, and 52.5% their mortgage.

For the most part, customers engaged with other banks or financial services providers at a relationship level, when they strayed from their primary bank. The main exception was in the area of credit cards, where Internet and technology firms have carved out a significant presence. That result is not surprising, given the focus that technology firms such as Google and Apple have placed on developing new consumer-oriented payment products. In effect, banks seeking to bolster themselves against coming competition should pay particular attention to the vulnerable payments area.

Figure 12: Entities with Whom Product Is Held, by Product (%), 2015



Note: Question asked, "Who is your product with? My Primary Bank, Other Bank, Other financial organizations, Agent/Broker, Supermarkets/Retailers/Telcos/ Others, Internet/Technology Firms (Google, Amazon, Apple, PayPal), I don't know"
Agent/Broker, Supermarkets, and Internet/Technology Firms are not applicable for Current Account; Supermarkets and Internet/Technology Firms are not applicable for Loans and Mortgages

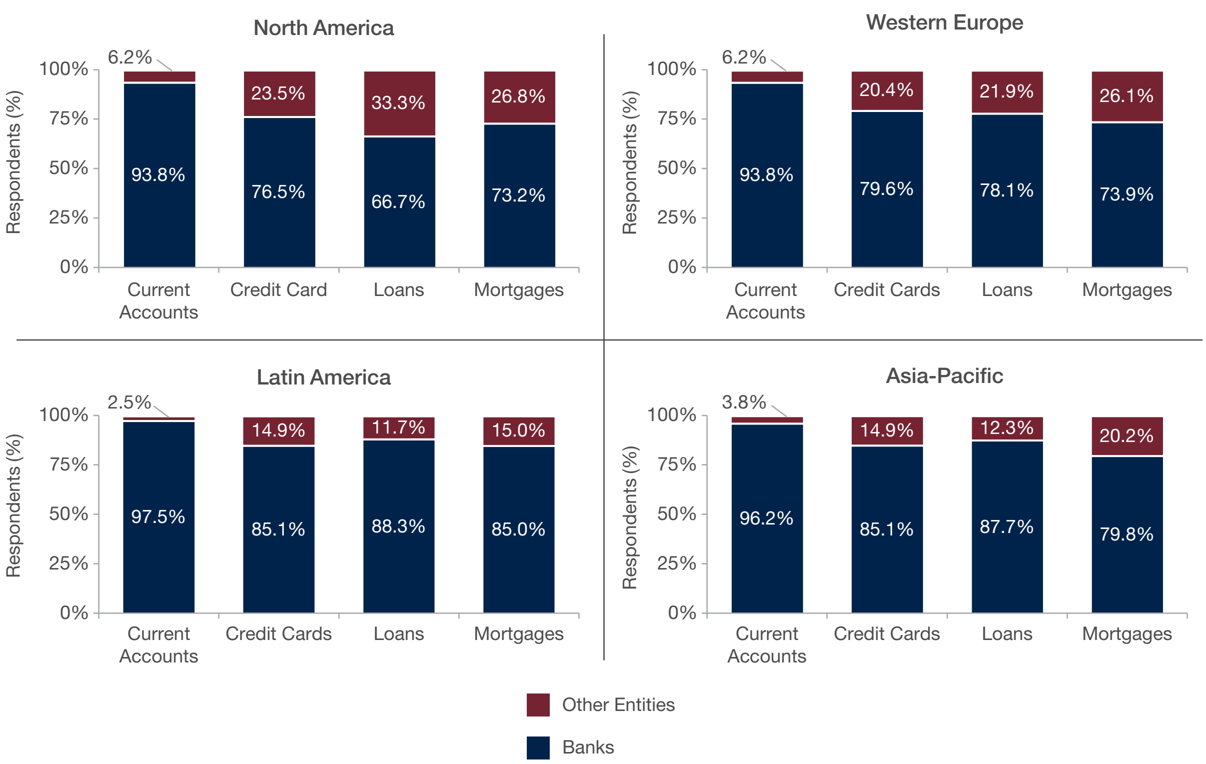
Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

Viewed regionally, we found that entities other than banks had made the greatest inroads into North America and Western Europe, compared to Latin America and Asia-Pacific (see Figure 13). In North America, for example, 23.5% of credit cards were held by entities other than banks. That compared to only 14.9% in Latin America and Asia-Pacific. This difference may indicate the emergence of a higher level of non-bank competition throughout North America and Western Europe.

Certainly in North America, the diversity and range of non-bank competitors vying for a piece of the banking business is vast. In addition to new near-field communications-based payment systems from Google and Apple, banks in the region are contending with card and checking account products from the retailing behemoth, Walmart; a Starbucks-branded pre-paid card system; and the popular LendingTree online lending exchange, among many other entrants. Banks in other regions are not immune either. India's largest mobile network operator, Airtel, lets customers use their phones to pay bills, shop and transfer money. M-Pesa, a highly successful mobile money transfer service in Africa, is now adding savings and loan products. And in the U.K., Zopa, founded in 2005, is succeeding in making peer-to-peer lending mainstream.

In the course of finding out about, researching and applying for products, customers were far more involved with other entities besides banks than bank executives realized. When it came to simple products like current accounts, 30.6% of customers said they first heard of the product from a non-bank entity, while only 19.5% of bankers thought customers had done so (see Figure 14). A similar type of disparity was evident in all stages of the product lifecycle, including researching and applying for products.

Figure 13: Entities with Whom Product Is Held, by Region and Product (%), 2015

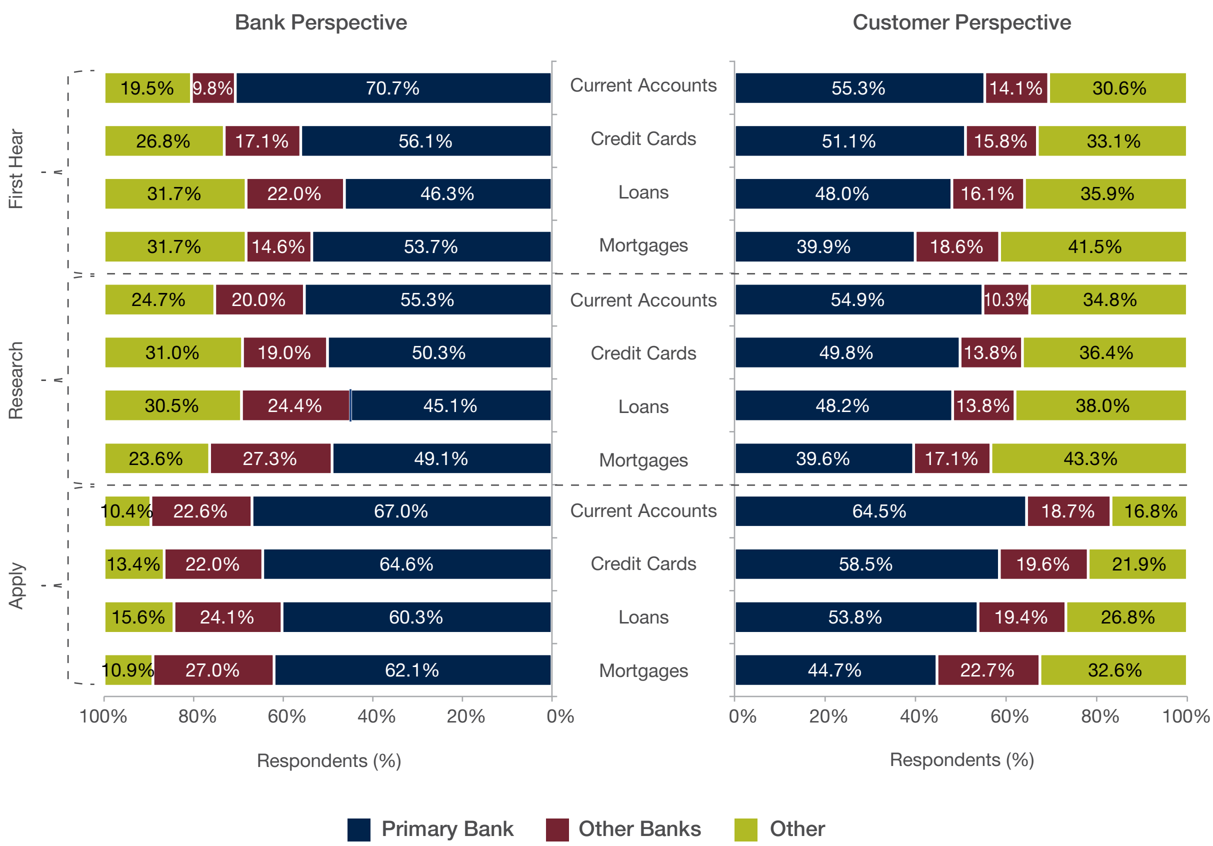


Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

Customers turned to non-traditional entities in even greater numbers when it came to more complex, advice-based products. When researching mortgages, for example, 43.3% of customers said they turned to other entities. However, only 23.6% of bankers thought customers had done so. In some countries, the percentage of customers using other entities was alarmingly high. In the U.S., for example, 52.7% of respondents first heard about loans from other entities, 55.3% used them to research loans, and 48.0% applied for loans from them. In United Arab Emirates, 64.8% of respondents first heard about mortgages from other entities, 59.1% used them to research mortgages, and 43.2% applied through them. Across the lifecycle stages, other entities such as price comparison web sites and aggregators are starting to play a major role. Now, customers can hear, research, and apply for the product leveraging the services provided by the new players without ever needing to interface with the bank.

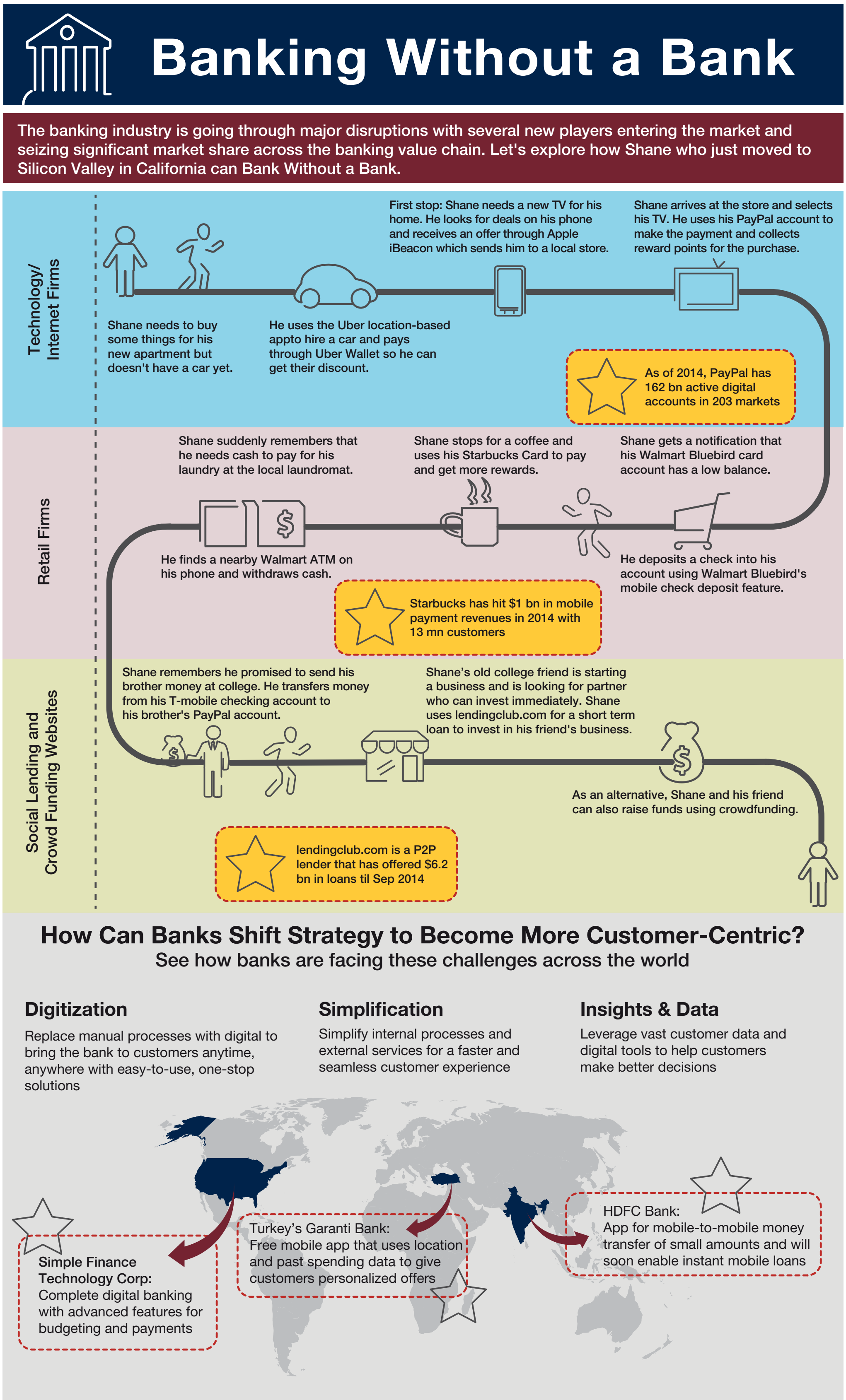
As entities other than primary banks continue to make inroads into the various lifecycle stages of acquiring financial services products, banks cannot remain idle. With every incursion by a non-bank into the financial services sales process, banks run a higher risk of becoming disintermediated from their customers. While in the past, the banking industry has been confronted by different types of competitors, eager to separate customers from their primary banks, the emerging threats are across the banking value chain from alternate players both big and small with substantial financial backing (See Figure 15).

Figure 14: Entities Customer Currently Used, by Lifecycle Stage and Product (%), 2015



Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services; 2015 Retail Banking Executive Interview Survey, Capgemini Global Financial Services

Figure 15: Banking Without a Bank



Source: Capgemini Financial Services Analysis, 2015; Lending Club Statistics, LendingClub.com; Stats, Kickstarter.com; www.paypal-media.com; "Starbucks hits $1B in mobile payment revenues in 2013, analysis says", Computerworld, February 2014

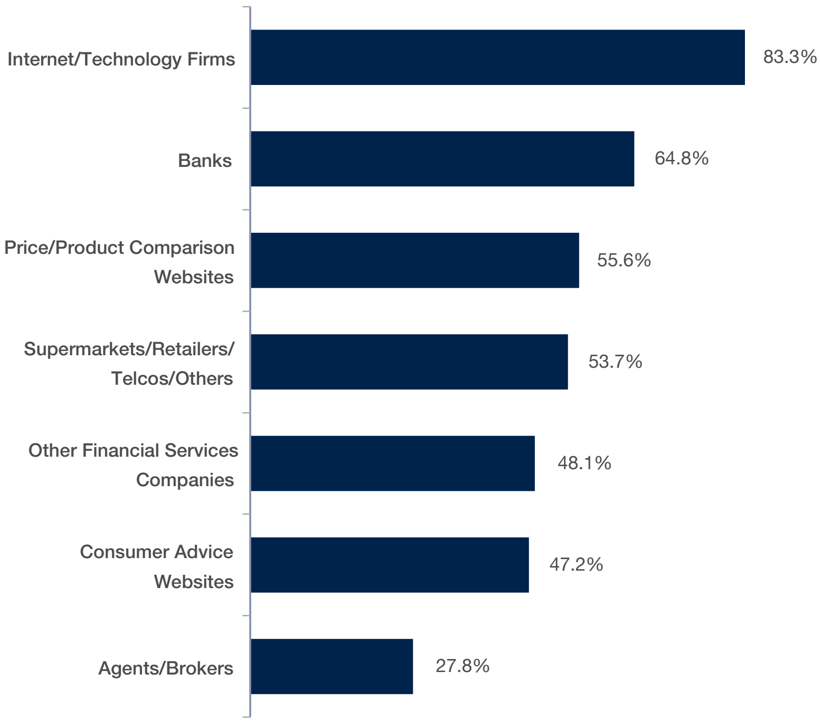
Threat from FinTech Firms As They Gain Customers' Trust

Today, banking executives find the most threatening of these competitors by far are Internet and technology companies. Our poll of bank executives shows that 83.3% already view customers as comfortable with conducting their banking through Internet and technology companies (see Figure 16). That's higher than even the 64.8% who think customers have high comfort levels banking at banks. Not far behind are price/product comparison web sites (55.6%) and retailers (53.7%), indicating that the field of competitors facing banks extends far and wide.

Internet and technology companies have a considerable lead over banks because of their impressive success at winning over the hearts and minds of customers. They have developed devices and services so useful and intuitive that users have come to see them as indispensible to their daily lives. Banking executives understand that a move by any one of these companies into the financial services space would present an enormous challenge, given the comparatively staid nature of today's banking apps and web sites.

Along with the higher customer comfort levels, Internet and technology companies are also perceived to pose the highest threat to banks. However, the threat is not expected to materialize within the next 36 months (see Figure 17). While the gestation period is longer, the threat these firms present is unknown, making it difficult for banks to develop strategies for mitigating the risk they present.

Figure 16: Banks' Assessment of Customers' Comfort Level in Banking with Different Entities (%)[a], 2015



Q. "What comfort level do you believe your customers have in banking with the below entities"?

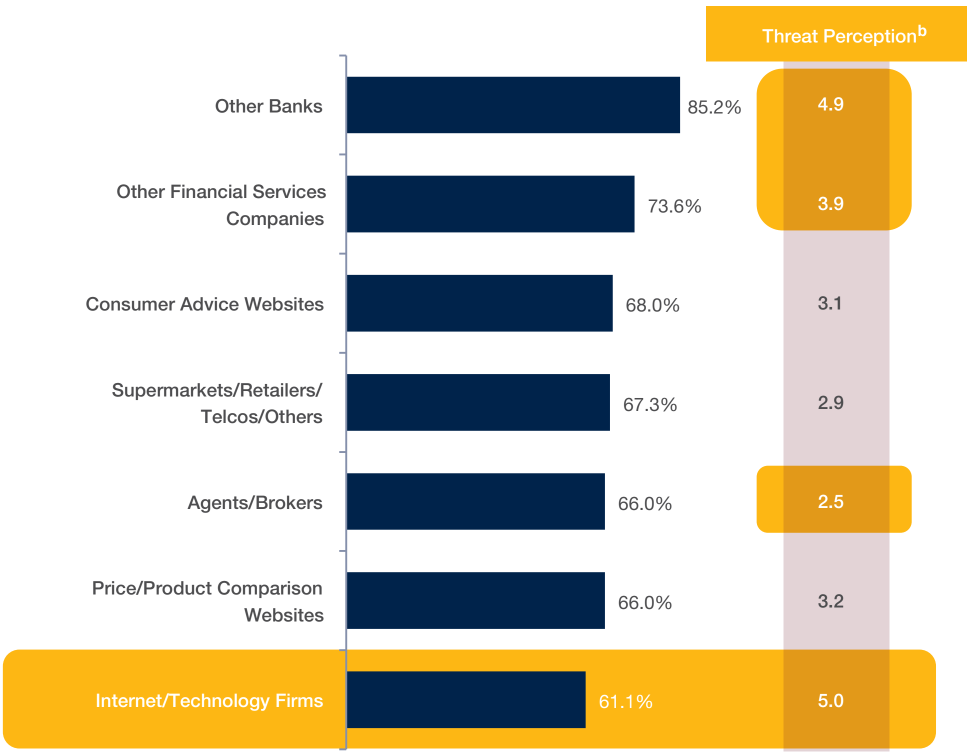
a. Percentage here refers to the banks who perceive the customers to have a comfort level of more than 4 on a scale of 1-7 (with 7 representing the highest comfort level)

Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Executive Interview Survey, Capgemini Global Financial Services

What banks do know is that many technology firms have a better feel for the customer experience and how to optimize it. They are also capable of using their expertise in innovation to re-invent banking in brand-new ways. In addition, they are not burdened by the legacy systems or siloed businesses that tend to slow banks down. With the increasing activity of FinTech firms in the banking space, banks have been trying to approach these challenges in a myriad of different ways. Some of the large banks have set up their own venture capital funds to invest in this burgeoning sector with some having capital upwards of $100 million.[3] Also, some banks have started incubation programs for these firms and some have started acquiring new firms or setting up their own subsidiaries.

While the banks adopt different strategies to counter the rising threat from the new competitors (i.e., FinTech and Internet/technology firms), they should be mindful of the potential of these new players to disrupt the banking landscape. This potential is not only driven by their financial abilities but also their ability to understand the customer by leveraging data, being more nimble and not burdened by legacy challenges, and delivering better customer experience using intuitive and simplified systems and processes.

Figure 17: Threats from Other Entities that Banks Consider to Materialize in 36 Months (%)[a], 2015



Q. "Which entity/entities do you believe poses/pose the greatest threat to your current business and in what time period, do you think these entities will start having a significant impact on your current business"?
a. Percentage represents the banks that perceive the threats to materialize within 36 months
b. Threat perception is calculated as the average of responses provided by banks (with 7 referring to the highest threat perception)

Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Executive Interview Survey, Capgemini Global Financial Services

[3] "Banks Lure Fintech Startups With Venture Funds", *The Wall Street Journal*, August 2014

Lagging Middle- and Back-Office Investments Drag Down Customer Experience

There is an immediate need to transform the middle- and back-offices before the gains in customer experience levels from front-office investments reverse out.

- Customer experience figured prominently as a driver of investments in the front-office, but not in middle- and back-office investments. Consequently banks cited much lower levels of digital maturity in their middle- and back-offices, compared to the front-office.
- Over the next three years, investments in middle- and back-offices are expected to decrease, while the already high level of investment in the front-office is expected to rise.
- This could have an adverse impact on customer experience levels as our research finds that majority of customer dissatisfaction emanates from back-offices leading to increase in negative experience levels which have already risen from past year.

While banks face several challenges to digital transformation of their middle- and back-offices, a well-structured roadmap can help them overcome these challenges.

- Cost, followed by organizational drive and priority, are the biggest challenges to digitally transforming front-, middle-, and back-offices.
- A clear focus on Digitization, Simplification/Agility, and Insights and Data towards transforming their middle- and back-offices can help banks create a truly enhanced experience throughout the customer life cycle.

Need to Bring the Focus Back to Middle- and Back-Offices

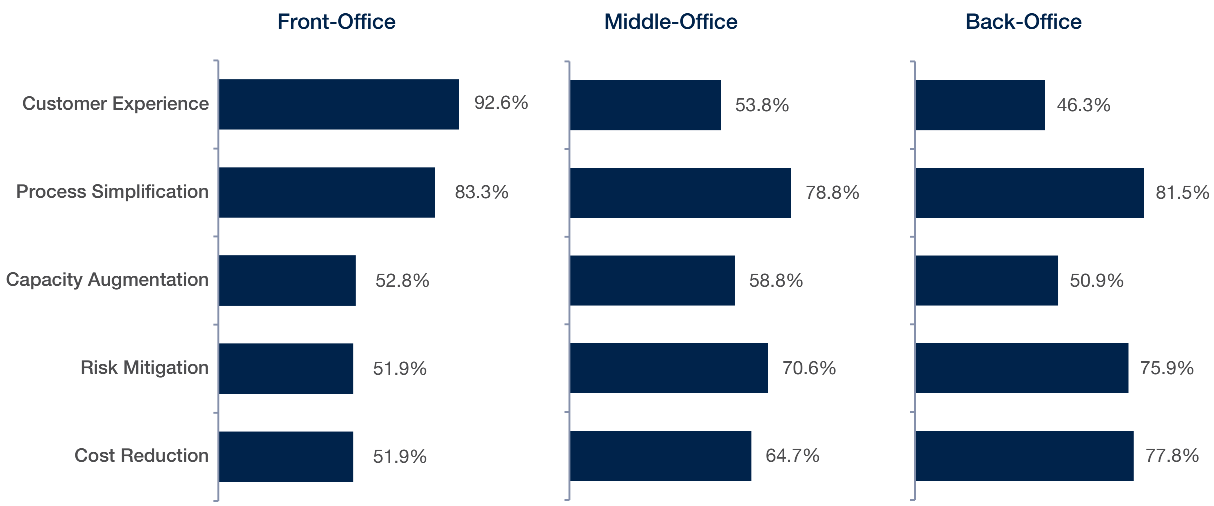
In seeking to improve the customer experience, most banks have identified front-end touch points, such as mobile applications and Internet web sites, as the primary focal points for investment. Accordingly, 92.6% of bank executives cited customer experience as the main driver behind front-office investments (see Figure 18). Similarly, based on the research of Capgemini with the MIT Center for Digital Business, 94% of banking executives see an opportunity in digital transformation, but a significant portion of the investments are toward enhancing the customer experience through channels.[4] While these types of investments are appropriate, they obscure the need for banks to also invest in middle- and back-office processes aimed at improving the customer experience.

Bank executives were most likely to make middle- and back-office investments with the intention of simplifying processes, mitigating risks and reducing costs. Customer experience figured minimally. Only 53.8% of bank executives cited customer experience as a primary driver in middle-office investments, and 46.3% in back-office investments.

In downplaying the role of customer experience in middle- and back-office investments, banks have ended up with much lower levels of digital maturity in those areas, compared to the front-office. This can lead to banks losing out on a potentially large opportunity to enhance the customer experience by digitizing their operations. Ad-hoc improvements in middle- and back-offices, made without an eye to enhance the overall customer experience, have resulted in nearly 85% of those areas having only basic to mediocre digital capabilities, according to bank executives (see Figure 19).

Compared to the front-office, where 31.5% have advanced levels of digital maturity, only 13.2% of middle-offices and 14.8% of back-offices do. Also, over the last couple of years, several banks across the globe have been fined significantly for issues such as wrong application of interest rates, errors in reporting, and accounting mistakes with the cumulative fines running into billions of dollars. Some of these errors have been attributed to manual processing in middle- and back-offices. While these fines may not amount to a significant part of their revenues, the loss of reputation and credibility has

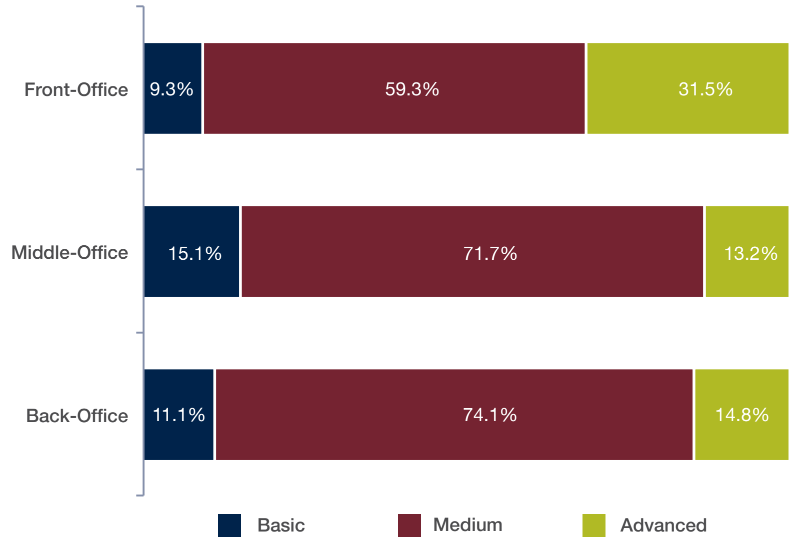
Figure 18: Primary Drivers for Making Investments in Digital Transformation of Front-, Middle-, and Back-Offices of a Bank (%)[a], 2015



Q. On a scale of 1-7, please rate the below drivers for making investments in digital transformation of your front-, middle-, and back-office capabilities?
a. Percentage refers to the banks that have provided a rating of more than 4 on a scale of 1-7 with 7 referring to highest importance and 1 referring to least importance
Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Executive Interview Survey, Capgemini Global Financial Services

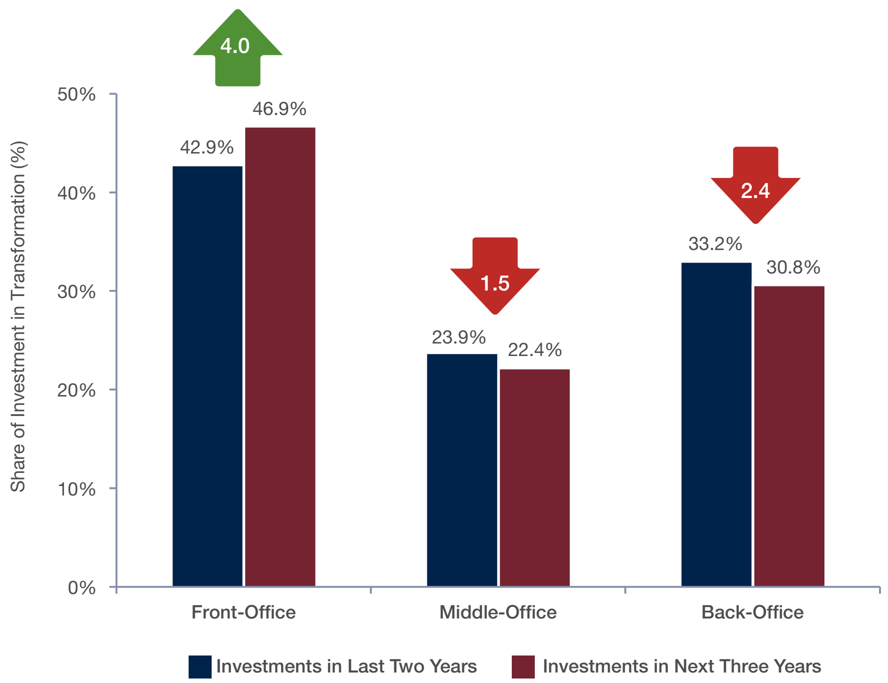
[4] "Backing up the Digital Front: Digitizing the Banking Back Office", Capgemini Consulting, 2013

Figure 19: Digital Capabilities of Front-, Middle-, and Back-Office Services in Banks (%)[a], 2015



Q. "How do you rate the digital capabilities of your front-office, middle-office, and back-office services"?
a. Percentage here refers to the assessment of banks' digital capabilities on a scale of 1-7, with 7 being the best quality and 1 being the worst quality
Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Executive Interview Survey, Capgemini Global Financial Services

Figure 20: Break-Up of Firm's Investment in Transforming Front-, Middle-, and Back-Offices for Last Two Years and Next Three Years (%), 2015



Q. What has been the break-up of your firm's investment in transforming front-, middle-, and back-office capabilities in the last two years?
Q. What will be the break-up of your firm's investment in transforming your front-office, middle-office, and back-office capabilities over the next three years?
Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Executive Interview Survey, Capgemini Global Financial Services

a significant negative impact on the customer experience and can be detrimental to the bank in the long run unless these issues are addressed as a priority.

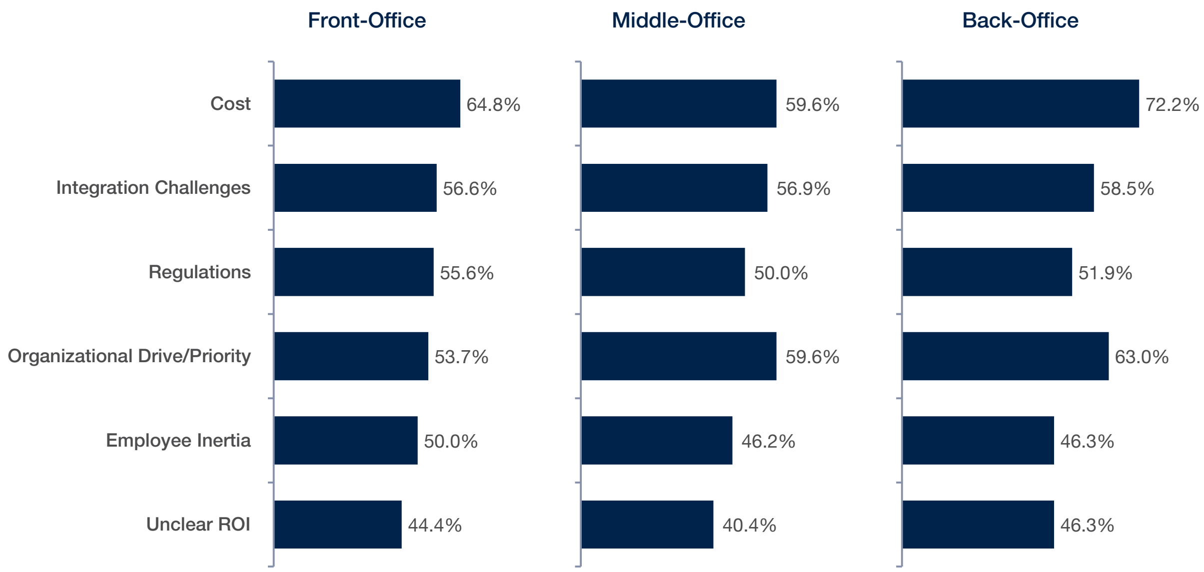
Despite the need to boost middle- and back-office investments aimed at the customer experience, bank executives predicted their investments in those areas would go down. Over the next three years, investments in the middle-office are expected to decrease by 1.5 percentage points to 22.4% of the total investment in transformation, and those in the back-office by 2.4 percentage points to 30.8% (see Figure 20). Investments in the front-office, already high at 42.9% are expected to rise another 4.0 percentage points to 46.9%.

The overall lack of attention to the customer experience in middle- and back-office investments may have dire consequences. The fact that customers rarely, if ever, have contact with the back-office should not obscure the reality that many of the service issues they encounter are attributable to problems that occur there. Slow processing times, errors, and exceptions are among the back-office issues that contribute greatly to reduced service in the front-office and in turn, a poor overall experience for the customer. Based on our research data reported in "Backing up the Digital Front: Digitizing the Banking Back Office" in 2013, 60% of customer dissatisfaction emanates from the back-offices, 10–20% of negative experiences at the contact center are due to execution issues at the back-office, and less than one-third of the executives feel their back-offices are agile enough to adapt to external changes.

The Way Forward

The complexity of projects aimed at improving the customer experience was not lost on bankers. They delineated numerous challenges to digitally transforming the front-, middle-, and back-offices, with cost rising to the top and the drive and priority of the organization coming in second (see Figure 21). Other difficulties cited were the ongoing presence of inflexible legacy systems, which impede upgrade efforts, and the difficulty of building a business case for long-term goals such as digital transformation.

Figure 21: Challenges to Digital Transformation of Front-, Middle-, and Back-Offices (%)[a], 2015



Q. What challenges do you face in taking up digital transformation of your front-, middle-, and back-office?
a. Percentage here refers to the banks that consider the factors as a big challenge i.e., those who have rated above 4 on a scale of 1-7 (with 7 referring to the biggest challenge)
Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Executive Interview Survey, Capgemini Global Financial Services

To overcome these challenges, banks need to develop a well-structured roadmap that outlines a gradual approach to digital transformation. One way to address the issue of cost, for example, is to initiate projects in a phased manner, focusing first on easily achievable goals as a lead-up to the ultimate objective of improving the customer experience. Standardizing processes, for example, boosts efficiency by reducing costs, as well as leads to better reporting and control, improving risk management. At the same time, it sets the stage for better access to customer information, a critical element of enhancing the customer experience.

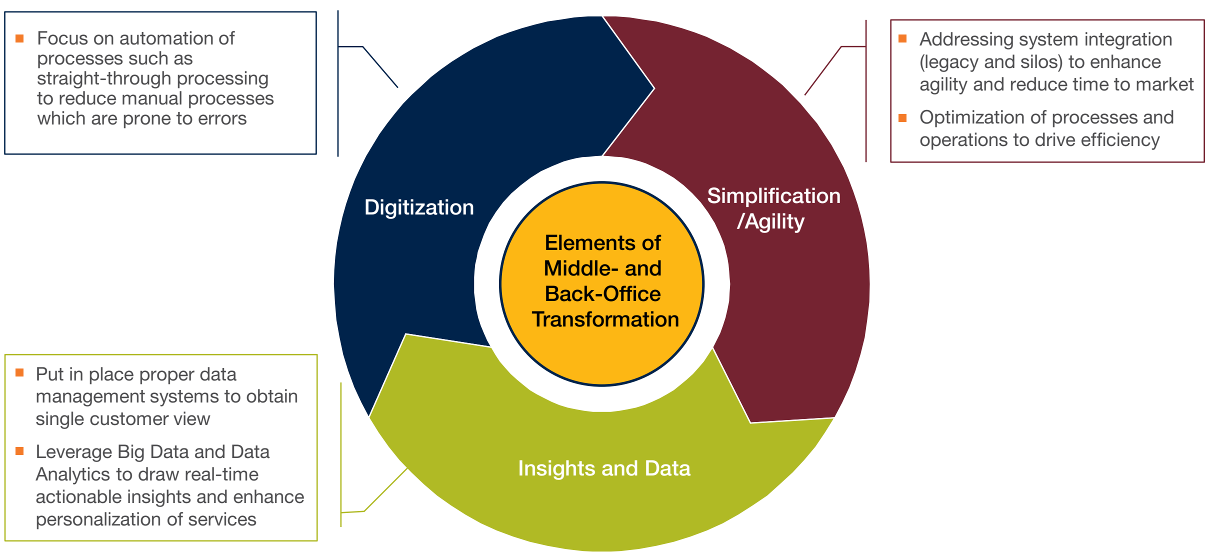
In any project involving the transformation of middle- and back-offices, banks should set their sights on three main goals (see Figure 22): Digitization–replacing manual processes with digitized routines, Simplification/Agility–simplifying multiple systems into fewer to enable faster time to market, and Insights and Data–putting in place the ability to capture and manage customer data effectively.

Digitization is clearly the first step toward achieving the goal of transformation. While digitization would often be used in the context of customer-facing interactions—via the front-office, it is equally important to back up those front-office digitization drives with similar efforts in the middle- and back-offices. Banks should aim to automate the different processes in the back-end, thereby realizing the goal of real-time straight-through processing. This digitization can help them on-board the clients quickly, complete the payments immediately, and process the loans swiftly. Completing all these activities effectively and in a timely manner goes a long way in creating better customer experiences and in enhancing the brand image of the bank.

However, it would be a massive exercise both in terms of investment required and the complexity involved for a bank to truly digitize and transform their core banking system. The majority of banks do not have the capacity to make all of the required improvements concurrently. For example, a bank might invest heavily in new channels; however, the core systems that figures out the risk are still running on decades-old technology that simply cannot be ripped and replaced. Given the high cost of implementing a new core banking system, business problems are often not addressed comprehensively and a componentized solution provides the best chance of success.

The transformation roadmap includes a prioritization of individual solution components, which augments the chance to accomplish long-term goals. This component-by component transformation approach avoids the high-risk rip-and-replace approach and achieves a steady stream of return on investment. Banks that use a progressive approach to drive transformation have

Figure 22: Elements of Middle- and Back-Office Transformation



Source: Capgemini Financial Services Analysis, 2015 achieved tangible results in shorter timeframes than banks that waited until the end of a long transformation period.

The challenge would be to manage the integration of these old legacy systems with the new generation of customer-oriented technologies existing in the industry. This integration should be less about the technologies involved and more about future proofing and driving faster time to market for the firms. This ability to blend the new technologies with the old through simplification would enable agility. Firms that can simplify their legacy platforms to effectively support the business and technology changes at the front-end would be able to truly differentiate themselves from their competitors and well placed to deliver enhanced experiences for their customers.

While digitization and simplification will help in improving existing processes and achieving operational efficiencies, the true value lies in leveraging these enhancements to understand customer needs, both expressed and latent, and in proactively providing the products and services to address these needs. Understanding the needs starts with having a Customer Relationship Management (CRM) platform in place that provides a 360-degree view on who the client is and what type of products they have today. The next step is to gain insight into what a client is actually doing with these products and derive actionable insights from this data. In order to facilitate this, tools from the Big Data suite need to be implemented. Insights derived from a bank's data via analytical tools should be combined with the 360-degree view in the CRM platform and translated and pushed into the channels that clients are actually using.

To achieve this, banks will have to get their CRM platform properly connected to the Customer Information File (CIF) in their back-office application. According to the Enterprise Architecture, this is one data object ideally supported by one system. The reality for most banks is, however, that their CIF is spread across various systems—often the result of several mergers and acquisitions. This means that all types of automated processes are in place to select, combine and merge data before it is ready for use by the CRM platform. This makes simplification of the CIF a critical step in enhancing the bank's ability to derive actionable insights from the customer data.

Progress in any one of these areas is likely to have considerable impact on the other two. Often, for example, an effort in systems integration can lead to positive results that go far beyond just a more simplified data center. A systems integration project at one large European bank, for example, led to reduced maintenance costs, improved time to market for new loan products, and a 50% increase in straight-through processing rates. In addition, during the process, the bank adopted a more flexible channel architecture intended to support Internet-based sales, leading to a further reduction in operation costs. In effect, the effort to simplify systems also had the outcome of improving digitization rates and adding to customer insight.

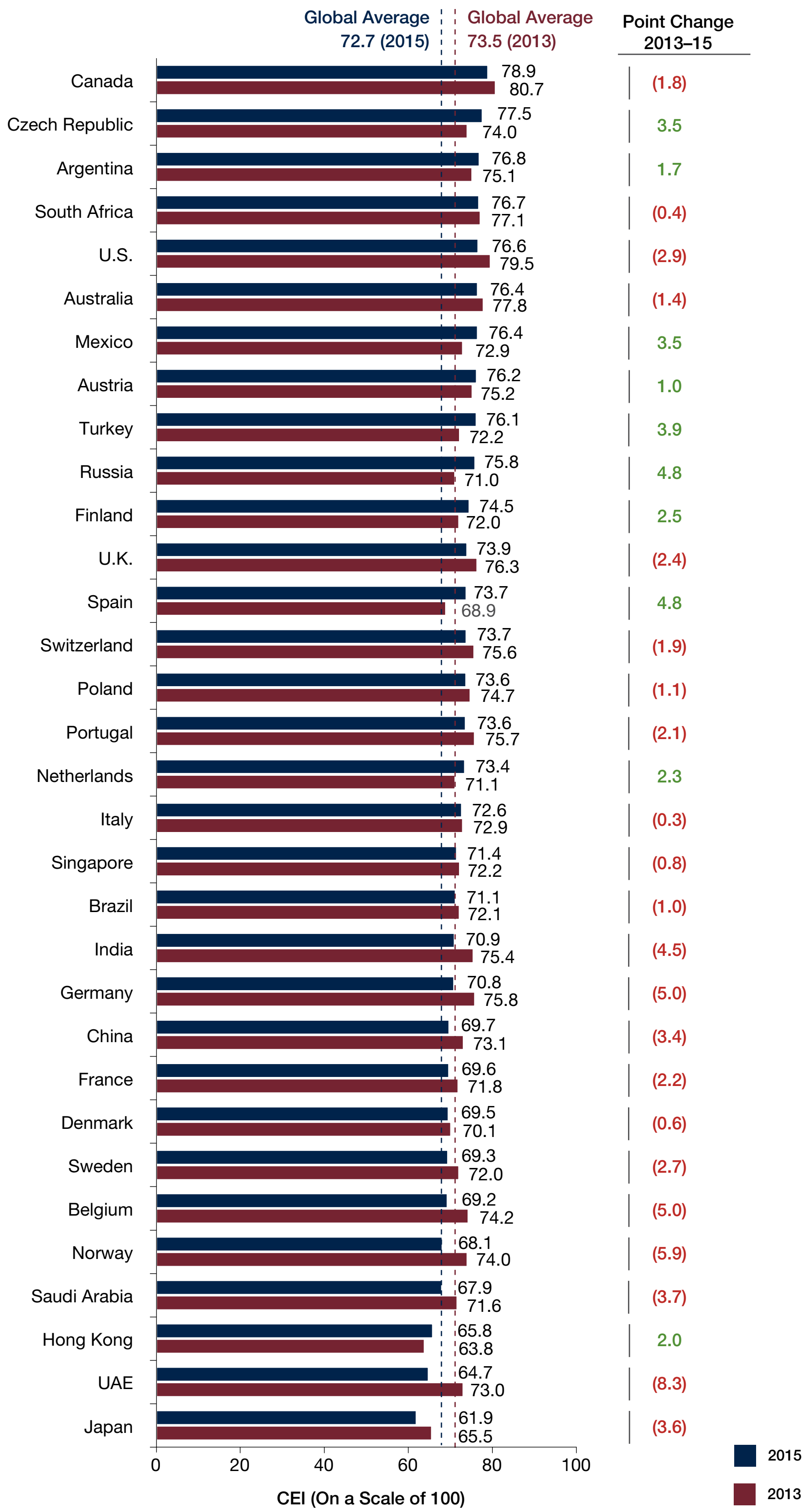
Conclusion

Banks across the globe are witnessing a stagnation of customer experience levels due to rising customer expectations driven by the proliferation of Internet/technology firms. Also, there has been deterioration in the profitable customer behaviors. While banks have been focusing on their front-office digital capabilities, they have not been able to meet rising customer expectations and are losing on the perception battle. Banking executives perceive customers to be more comfortable with Internet/technology players and there is a trend of customers opting for non-banking players across the lifecycle stages.

However, all is not lost for the banks. In order to compete with the non-banking entities, banks need to prioritize transforming their middle- and back-offices and they need to critically address the areas of Digitization, Simplification/Agility, and Insights and Data. By adopting a structured approach toward transformation, banks can enhance their abilities to provide an enriching experience throughout the customer lifecycle. With the increasing competition and changing customer behaviors and preferences, the banking industry is at an inflection point, the threat of disintermediation is real and imminent.

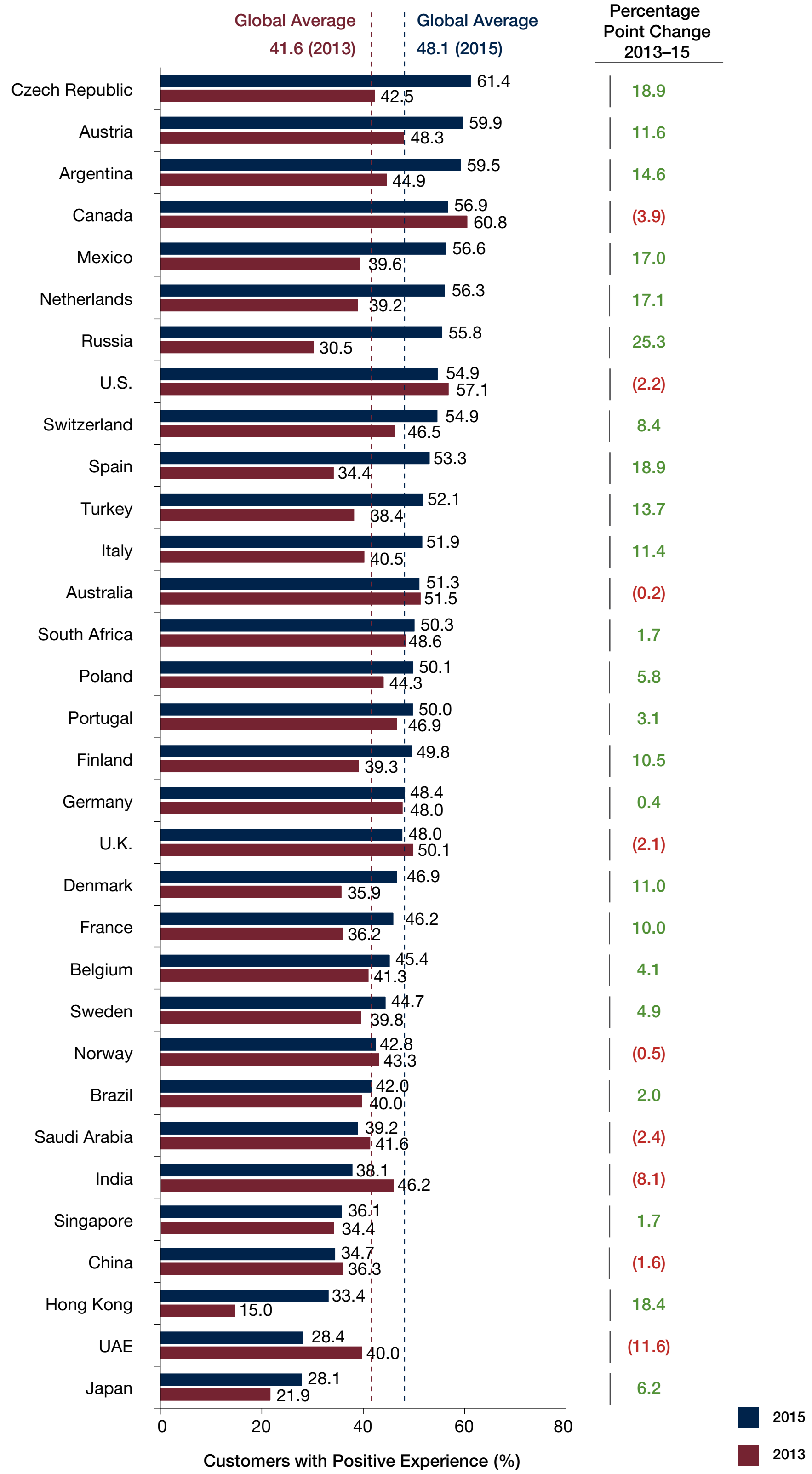
Appendix

Figure 23: Customer Experience Index, by Country, 2013–2015



Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

Figure 24: Customers with Positive Experience, by Country (%)[a], 2013–2015



a. Positive experience denotes an integer CEI score of more than 79

Source: Capgemini Financial Services Analysis, 2015; 2015 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

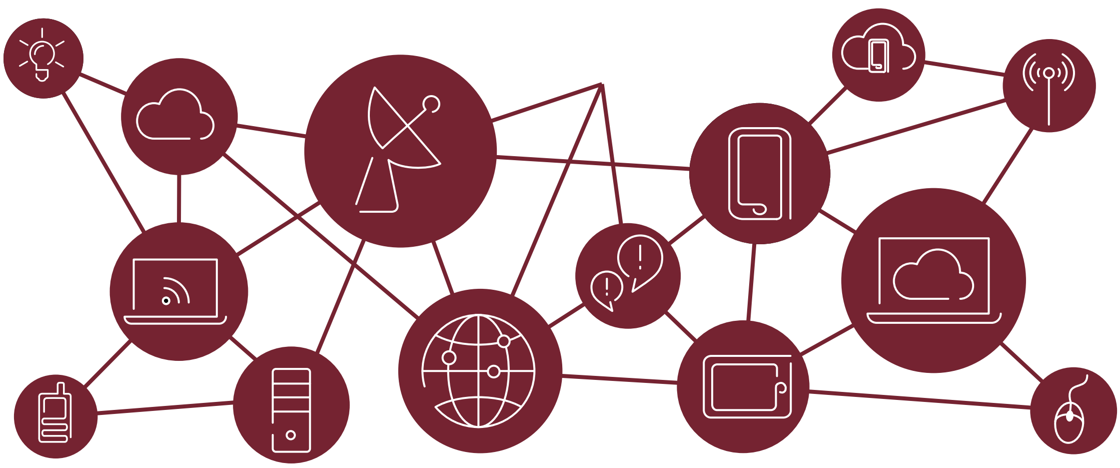
Methodology

2014 Global Retail Banking Voice of the Customer Survey

A global survey of customer attitudes toward retail banking forms the basis of the tenth annual World Retail Banking Report. Our comprehensive Retail Banking Voice of the Customer Survey polled over 16,000 retail banking customers in 32 countries. The survey sought to gain deep insight into customer preferences, expectations and behaviors with respect to specific types of retail banking transactions. The survey questioned customers on their general satisfaction with their bank, the importance of specific channels for executing different types of transactions, and their satisfaction with those transactions, among other factors. The survey also questioned customers on their likelihood to stay, refer a friend, purchase another product from their bank, why they choose to stay with/ change their bank, and other issues. We supplemented these detailed findings with in-depth interviews with senior banking executives around the world.

Capgemini's Proprietary Customer Experience Index (CEI)

The responses from the global Retail Banking Voice of the Customer Survey, which analyzed customer experiences across 80 data points, provide the underlying input for our proprietary CEI. The CEI calculates a customer experience score that can be analyzed across a number of variables. The scores provide insight on how customers perceive the quality of their bank interactions. They can be dissected by product, channel and lifecycle stage, as well as by demographic variables, such as country, age, investable assets and comfort level with technology. The result is an unparalleled view of how customers regard their banks, and the specific levers banks can push to increase the number of positive experiences for customers. The index provides a foundation for banks to develop an overall retail delivery strategy that will increase satisfaction in ways that are most meaningful to customers.



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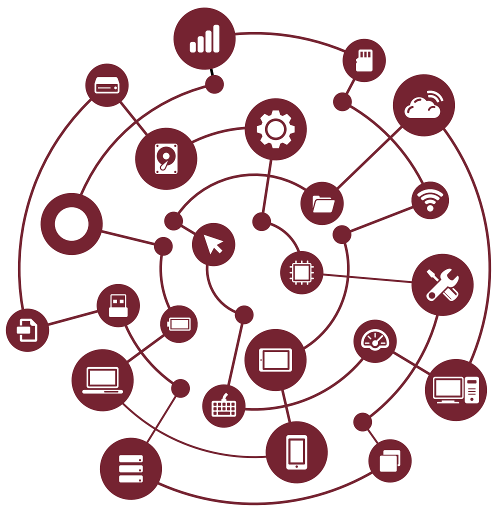

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