Eyes wide shut
Global insights and actions for banks in the digital age

Findings from PwC’s Global Digital Banking Survey

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As part of our ongoing series of research illuminating the future of banking around the world, PwC developed Retail Banking 2020, which takes an in-depth look into how the banking landscape will change between now and the dawn of the next decade. Through our proprietary research and insights derived from numerous client conversations, we identified six priorities that banks should embrace for success in 2020. They include:

1. Developing a customer-centric business model.
2. Optimising distribution.
3. Simplifying business and operating models.
4. Obtaining an information advantage.
5. Enabling innovation and the capabilities required to foster it.
6. Proactively managing risk, regulations and capital.

We also determined that digital trends impact all six priorities. PwC’s Global Digital Banking Survey provides perspective on where banks stand today and how they view their goals and progress in the shorter term. The balance of this paper looks closely at what we learned and reveals how banking’s digital leaders perceive their evolution against today’s new realities and challenges. We consider these findings within the context of the longer term winning practices spelled out in Retail Banking 2020.

*Digital banking channels include online, mobile and social media*
Executive summary

PwC’s Global Digital Banking Survey

We conducted the survey against a complex and challenging backdrop: Retail banks around the world face a new reality. Cost-cutting can get you only so far. Regulatory expectations remain high. And recent attempts to raise fees for basic services unleashed a backlash of consumer ire.

We concluded that it is time to retire unwieldy, passé business models that are not cutting it anymore and to instead find profitability in ways that align with today’s evolving marketplace. In our view, the choice for banks is clear: Drive revenue growth through customer-centric engagement – helping to increase the value from customer relationships.

What tools can help banks achieve this goal? It is hard to miss in today’s environment: Digital. Digital is everywhere and customers want it. It is estimated that online and mobile bill payments will account for roughly 55% of all bills paid by Americans in 2016.1 And they are willing to pay for those options: Additional PwC research shows that consumers are willing to pay a 12% premium for mobile banking services.2

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1 Ron Shevlin, How Americans Pay Their Bills: Sizing and Forecasting Bill Pay Channels and Methods, 2013-2016, AITE, September 2013.
We know what banks want to achieve. We know how they can achieve it. What we want to explore further is how close banks are to achieving their digital goals, both now and over the next few years. So we asked 157 senior IT executives, CIOs, CTOs and other heads of technology spanning 14 primary markets for their thoughts on digital banking’s potential for today – and tomorrow. This paper presents the findings of our study and examines the implications of our findings for banking technology executives.

At a high level, we learned that security and regulatory concerns, inadequate focus on the customer and insufficient focus at the board level might compromise banks’ ability to deliver on the digital promise. Are their operations truly positioned to strategically meet the objectives for success in 2020?

**How do senior IT executives define success?**

Senior IT executives responding to our Global Digital Banking Survey are driven primarily by their desire to see increased revenue growth per customer, as well as lower costs (both service costs and cost per transaction).

As shown in Figure 1, about one-third (32%) of respondents cite revenue growth per customer as the primary metric their organisation uses to measure return on investment in the digital channels market. Costs are also a concern, with a combined 37% citing either service costs or cost per transaction as the primary metric. With 21% of survey takers citing customer satisfaction as their primary measure of a digital channel’s return on investment, it is second only to revenue, which is cited by 32% of respondents. This indicates a shift in thinking; more executives now see revenue, whereas in the past most saw only a cost centre.

**What are the expectations for revenue growth in the near term?**

Technology executives view digital channels as a high-growth area, as shown in Figure 2, with the majority of respondents (69%) expecting between 1% and 10% revenue growth within the digital channels market over the next two years and 23% expecting more than 10% revenue growth.

What we wanted to know is this: Are bank leaders truly positioning themselves for success with the right support from the top, sufficient customer focus, the right tools and technology approach, and harmonised, well-trained talent? We will study their prospects next.

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**Figure 1: Which primary metric does your organisation use to measure return on investment in the digital channels market?**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue growth per customer</td>
<td>32%</td>
</tr>
<tr>
<td>Customer satisfaction scores</td>
<td>21%</td>
</tr>
<tr>
<td>Service costs</td>
<td>20%</td>
</tr>
<tr>
<td>Costs per transaction</td>
<td>17%</td>
</tr>
<tr>
<td>Number of active participants in the digital community</td>
<td>10%</td>
</tr>
</tbody>
</table>


**Figure 2: What percentage of revenue growth within the digital channels market do you anticipate over the next two years?**

<table>
<thead>
<tr>
<th>Percentage Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater than 15%</td>
<td>29%</td>
</tr>
<tr>
<td>Between 11 and 15%</td>
<td>15%</td>
</tr>
<tr>
<td>Between 6 and 10%</td>
<td>8%</td>
</tr>
<tr>
<td>Between 1 and 5%</td>
<td>40%</td>
</tr>
<tr>
<td>Less than 1%</td>
<td>2%</td>
</tr>
<tr>
<td>None</td>
<td>3%</td>
</tr>
</tbody>
</table>


**With 21% of survey takers citing it as their primary measure of a digital channel’s return on investment, customer satisfaction is second only to revenue. This indicates a shift in thinking for banking executives, who are now looking beyond the cost-center nature of non-branch channels.**

Six priorities for 2020
In our view, banks should build their customer experience initiatives through digital activities to differentiate their business in the market and reap the benefits of this evolving consumer age. Socially engaged banking can help improve cross-selling, brand value and the customer experience – while positioning banks for the market shift towards ‘the age of co-creation’, where consumers help develop the personalised products and services they want and for which they are willing to pay a premium.

Achieving strong digital engagement through an enterprise co-creation platform

Enterprise co-creation is the systematic development of communities of individuals, stakeholders and enterprises that work together to create value through engagement platforms designed to enable mutually valuable interactions and experiences.

Successful co-creation platforms have several key advantages for banks:

• Increased engagement with stakeholders.
• Greater brand recognition.
• Increased revenue.
• Reduced costs.

Yet, as shown in Figure 3, the most frequently cited primary objective when interacting with customers using digital channels is to quote products and services. Only 9% of respondents indicate that their primary objective is to capture ideas and co-create.

We will examine the importance of co-creation in more detail when we discuss innovation later in the paper.

Customer experience is the second most important driving factor in a short-term digital channel strategy, following only revenue growth

As shown in Figure 4, 41% of respondents indicate that expanding market share and regional footprints is the most important factor driving their organisation’s short-term digital channel strategy, with another 30% citing improving customer experience as the most important factor. This is a shift from the days when thoughts of cost centres were more dominant.
Customer centricity

“The winners of 2020 will develop a much deeper, holistic understanding of their customers. They will need to acquire, integrate, and analyse multiple sources of internal and external data. They will be able to understand their customers’ needs, and be present with a relevant solution at the time of need. They will simplify their product sets. And they will redesign their core processes from a customer point of view.” – Retail Banking 2020

Retail Banking 2020 findings: Awareness is growing, but a significant gap exists in preparedness. More than one-half (61%) of bank executives say that a customer-centric business model is ‘very important’, and 75% of banks are making investments in this area. Yet only 17% feel ‘very prepared’.

Source: PwC, Retail Banking 2020: Evolution or Revolution?, www.pwc.com/RB2020

30% of respondents cite improving customer experience as the most important factor driving their digital channel strategy for the next two years, second only to expanding market share.

PwC’s Global Digital Banking Survey, 2013
Distribution: Digital channels will continue their ascent

Today’s retail banks have evolved in recent years to offer a multichannel experience, enabling customers to interact with their bank in a variety of ways (such as online, at a branch and through a call centre). However, the customer experience may be inconsistent across channels. The preferred model for customers – the omni-channel experience – enables customers to interact with their bank seamlessly across channels, regardless of the transaction type or where they are in the process.

In our view, the creation of an omni-channel model is an enterprise-wide mission that transcends any one C-suite member or business unit. A successful omni-channel transformation is about more than just IT:

- The processes, organisation and products/services that surround your technology matter.
- A rip-and-replace approach is not necessary. Success can be achieved incrementally and your legacy infrastructure can play a role during the transition.

In developing their omni-channel strategies, banks should consider how their world is changing and will continue to change. Ongoing, sustainable channel harmonisation requires flexible platforms that can be modified or expanded as new channels emerge, flexible processes that can respond easily to change, and adaptable organisational strategies and structures.

The role of the branch is drastically changing, but it still has a role to play

Considering the world outside of retail banking, today’s customers can conduct basic transactions on their own, thanks to the proliferation of self-service kiosks at airports, retail stores, grocery stores and beyond. In-person interactions are reserved only for more complex transactions. The same holds true for banking. We see consumers increasingly using digital channels for simple transactions, seeking out advice and perusing educational tools. They reserve branch visits for more complicated transactions and problem resolution.3

Senior banking IT executives foresee a continued decline in branch activity by 2016, as more transactions become digital. As shown in Figure 5, survey respondents anticipate a 25% decline in customers using the branch and a 13% decline in phone banking. They anticipate that online, mobile and social media will continue to grow, with mobile growth reaching an impressive 64% over the short term.

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3 For a discussion of how banks can ‘reboot’ their branch strategies to align with changing consumer and economic realities, please refer to PwC’s Rebooting the branch: Branch strategy in a multi-channel, global environment, www.pwc.com/ssi.
**Banks are progressing towards multichannel platform integration**

As shown in Figure 6, a total of 43% of respondents indicate that online and mobile channels are currently operating on a common multichannel platform. Fewer banks have integrated social media, with only 19% reporting integration of online, mobile and social media on a common platform.

As the pace of change continues to gather momentum, keeping up with customer desires, regulatory challenges and an expanding universe of pressing needs will largely depend on a bank’s ability to connect the dots between its desired digital destination and its actual capabilities.

**Figure 6: Which of the following channels are integrated on a common multichannel platform within your organisation?**

<table>
<thead>
<tr>
<th>Channels</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online and mobile</td>
<td>43%</td>
</tr>
<tr>
<td>Online and social</td>
<td>22%</td>
</tr>
<tr>
<td>Social and mobile</td>
<td>20%</td>
</tr>
<tr>
<td>Online, mobile and social</td>
<td>19%</td>
</tr>
</tbody>
</table>


**Senior banking IT executives foresee a 25% decline in branch customers by 2016, yet still anticipate that the branch will remain the second most used channel, trailing only online banking.**

PwC’s Global Digital Banking Survey, 2013
Distribution

“By 2020, all banks will be direct banks, and branch banking will be changing fast. Leaders will offer an anytime, anywhere service, fully utilising all banking channels in an integrated fashion. They will be reimagining their physical footprints, introducing new branch formats, expanding physical points of presence through third-party partnerships, driving sales, and cutting costs. As transactions and sales shift to digital channels, branches that cannot create incremental value will need to close, or be transformed.” – Retail Banking 2020

Retail Banking 2020 findings: 59% of respondents expect the importance of branch banking to diminish significantly as customers migrate to digital channels, and 48% expect branch banking to change significantly by 2020. Yet only 16% of respondents view themselves as ‘very prepared’ for this shift.

Source: PwC, Retail Banking 2020: Evolution or Revolution?, www.pwc.com/RB2020
As shown in Figure 7, senior banking IT executives around the world share the view that legacy core banking system challenges, along with the regulatory environment, present the greatest impediments to achieving digital objectives.

Although new features and functionalities help banks meet customer needs, without a deep transformational adjustment, banks may fall short in their bid to deliver the digital experience that today's consumers seek.

To overcome IT challenges and create a digital banking programme that has the potential to contribute significant revenue growth, leadership should make a strong, upfront commitment to a wide-ranging transformational shift. This includes operating model adjustments, cultural and skills alignment, and technology simplification.

Simplifying the bank's architecture and platforms can enable better functionality and improved experience across digital channels. These improvements can spur innovation, as well as boost revenue and efficiency through channel ubiquity (a surge in digital banking channels such as mobile kiosks and social media). They can also free the bank to improvise on revenue models (such as social media-based gift cards and payments) and reduce the costs associated with disjointed legacy platforms.

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**Simplification of business and operating models:**

**Banks are still struggling to overcome legacy system complications**

Banks have traditionally operated on legacy core banking systems that have evolved into complex core ecosystems with multiple stand-alone applications and integration points. This evolution is the result of ongoing compromises in the drive to achieve speed-to-market while keeping costs under control.

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**Figure 7: Top barriers to the success of your organisation's digital channel strategy**

1. **Complex and legacy core banking systems**
2. **Regulatory environment**
3. **Lack of budget**
4. **Culture of organisation**
5. **Lack of talent/skills shortage**
6. **Lack of commitment from board/CEO**

Business and operating models

“Banks have developed staggeringly complex and costly operating models. Often, each product has separate operations, technology, and risk management processes. And banks typically have a multitude of products, many not even offered to new customers, all of which require some kind of operational customisation to serve... Few have tackled the difficult and expensive work of integrating, optimising, and simplifying their platforms.”
– Retail Banking 2020

Retail Banking 2020 findings: A majority of banking executives (53%) believe that simplification is very important, and 70% are making some level of investment in simplification. Yet, only 17% feel well-prepared.
Source: PwC, Retail Banking 2020: Evolution or Revolution?, www.pwc.com/RB2020

Complex and core legacy banking systems are the number one barrier to the success of a digital channel strategy in all regions.
PwC's Global Digital Banking Survey, 2013
Respondents are sanguine on the budgetary front

One-half of the survey respondents anticipate short-term budget boosts for digital channels, analytics and IT, as shown in Figure 8. But will monetary investments alone buy the digital revenue victories banks seek without the other key ingredients to success that digital channels demand?

Marketing leads digital use

As shown in Figure 9, marketing is the group that most frequently uses digital channels, a finding that is mirrored in our Retail Banking 2020 report. Using customer analytics in product management and customer service can help banks achieve:

• proactive service
• problem resolution, and
• insight into customer needs.

Information advantage: A fundamental lack of adequate tools and applications for many respondents

In our view, the ability to extract meaningful insights from large data sets is becoming a competitive advantage. Digital dexterity requires a combination of structured and unstructured data sources, both internal and external to the bank. As a result, banks cannot expect that monetary investments will automatically buy adequate insight, nor will they guarantee sourcing for data held outside the bank. One of the ways to derive value is to tap into the capabilities of those who can translate the mass of data into meaningful, actionable business insights. Banks that lack this capability will not be prepared to compete in a digital environment.

Figure 8: In your opinion, do you expect that the budgets for IT, analytics and digital channels will increase, decrease, or stay the same over the next two years?

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Decrease</th>
<th>Stay the same</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital channels</td>
<td>3%</td>
<td>38%</td>
<td>57%</td>
</tr>
<tr>
<td>Analytics</td>
<td>6%</td>
<td>40%</td>
<td>51%</td>
</tr>
<tr>
<td>IT</td>
<td>7%</td>
<td>42%</td>
<td>50%</td>
</tr>
</tbody>
</table>


Figure 9: To what extent do the following functional groups in your organisation use digital channel analytics?

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Not at all</th>
<th>Some extent</th>
<th>To a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>4%</td>
<td>44%</td>
<td>50%</td>
</tr>
<tr>
<td>Customer service</td>
<td>9%</td>
<td>46%</td>
<td>43%</td>
</tr>
<tr>
<td>Information technology</td>
<td>10%</td>
<td>47%</td>
<td>42%</td>
</tr>
<tr>
<td>Product management</td>
<td>10%</td>
<td>65%</td>
<td>23%</td>
</tr>
<tr>
<td>Risk</td>
<td>26%</td>
<td>50%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Capabilities are perceived to be lacking
As shown in Figure 10, only 14% of respondents agree that they have significant capabilities when it comes to the tools and applications they need to conduct business on digital channels.

Securing data and maintaining data quality rank highest among data collation challenges
As shown in Figure 11, nearly one-half (45%) of senior technology executive respondents see the need to secure data as chief among the digital banking challenges.

Figure 10: Overall, to what extent does your organisation have the tools and applications it needs to conduct business on digital channels?

- We have significant capabilities: 4%
- We have most capabilities: 14%
- We have some capabilities: 33%
- We have limited or no capabilities: 48%


Figure 11: In terms of collating large amounts of data from digital channels, which of the following areas presents the greatest challenge to your organisation?

- Securing data: 45%
- Maintaining data quality: 2%
- Storing data: 7%
- Reporting: 41%
- Other (e.g. analysis, data mining, extraction of information): 5%

“Customers (and banks themselves) now generate exponentially more information than ever before. Leading players will harness both structured and unstructured information – from traditional sources (such as credit scores and customer surveys) and from non-traditional sources (such as social media, and cross-channel bank customer interaction data). They will ‘wire’ their own operations to build the information rigor more typical of the manufacturing industry. And they will collect and purchase other behavioural data (such as mobile location and purchase data) – particularly as customers grow accustomed to forgo some degree of privacy for proven value. Leading players will develop advanced analytics capabilities to integrate this vast library of data, analyse it, and create actionable insights.” – Retail Banking 2020

Retail Banking 2020 findings: 57% of bank executives consider these capabilities to be very important. Three-quarters of institutions are making investments. Yet, only 17% believe they are very well-prepared.

Source: PwC, Retail Banking 2020: Evolution or Revolution?, www.pwc.com/RB2020

Only 14% of survey respondents indicate that their organisation has ‘significant capabilities’ in terms of the tools and applications they need to conduct business on digital channels.

PwC’s Global Digital Banking Survey, 2013
In our view, ongoing innovation is fast becoming one of the most important prerequisites for the success of financial institutions worldwide. Leading innovators do not view innovation as a one-time ‘quick fix’, but rather as an ongoing approach that will yield lasting results. They may even be willing to incur a short-term loss to achieve a long-term gain.4

**Senior IT executives are planning to embrace co-creation within the next two years**

As shown in Figure 12, a total of 44% of the senior technology executives we surveyed are targeting sophisticated digital capabilities such as co-creating within the next two years. This is a sharp increase from the 8% who currently use this approach.

“**Innovation is the key element in providing aggressive top-line growth and for increasing bottom-line results. Companies cannot grow through cost reduction and reengineering alone.**”

Source: Rob Shelton, Making innovation work

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**Innovation: Prerequisite for long-term success**

In our view, ongoing innovation is fast becoming one of the most important prerequisites for the success of financial institutions worldwide. Leading innovators do not view innovation as a one-time ‘quick fix’, but rather as an ongoing approach that will yield lasting results. They may even be willing to incur a short-term loss to achieve a long-term gain.4

**Figure 12: How would you define your organisation’s overall approach to digital channel strategy around mobile banking and social media today? And in two years time?**

<table>
<thead>
<tr>
<th>Level 4: Co-creating products and services</th>
<th>Currently</th>
<th>In two years time</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8%</td>
<td>44%</td>
</tr>
<tr>
<td>Level 3: Advanced services provided</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>40%</td>
</tr>
<tr>
<td>Level 2: Some services provided</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8%</td>
<td>39%</td>
</tr>
<tr>
<td>Level 1: Limited services provided</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3%</td>
<td>10%</td>
</tr>
</tbody>
</table>


**Talent and leadership issues may stand in the way of innovation**

In our view, a lack of alignment between business goals and digital strategy reflects an overall lack of leadership engagement – and that spells trouble for innovation goals. Innovation and strategic collaboration begin and end with connection and commitment at the top. Yet, almost half (49%) of survey respondents indicate that their digital strategy is either under development or fails to align with corporate strategy.

At the same time, IT staff is poised to see digital strategies into the new ‘now’. They might, however, be lonely revenue hunters, as bank leadership and non-IT staff’s digital banking skill sets lag. As shown in Figure 13, most CIOs identify IT staff skills as ‘expert’ and executive and non-IT staff capabilities as only ‘moderate’.

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4 For a discussion of how banks can achieve breakthrough innovation, please refer to PwC’s Breaking the rules: Achieving breakthrough innovation in financial services, www.pwc.com/fsi.
Innovation

“Innovation will be the single most important factor driving sustainable top and bottom-line growth in banking over the next five years. Innovation is doing things differently. Not just new products or a new customer experience, but doing things differently across the entire business model, including transforming the business model itself.” – Retail Banking 2020

Retail Banking 2020 findings: Innovation within the banking industry is considered to be somewhat important or very important by 87% of respondents. Yet, in stark contrast, only 11% believe they are very prepared.

Source: PwC, Retail Banking 2020: Evolution or Revolution?, www.pwc.com/RB2020
Collaboration between IT and information security is more common than it is between IT and other groups

Without collaboration and communication among functional units, the risks to financial institutions may inhibit optimal outcomes from their investments in the evolution of digital banking. In addition, without visibility into digital investments across the C-suite, banks may stumble into other long-term problems, such as hampered business analytical efforts, new product and service development, or M&A integration.5

Figure 14: In relation to digital channel initiatives, how would you describe the collaboration between the following departments in your organisation?

![Collaboration Diagram]

- **Between IT and information security**: Limited 7% Moderate 32% Extensive 60%
- **Between IT and risk**: Limited 18% Moderate 45%
- **Between IT and marketing**: Limited 11% Moderate 37% Extensive 52%
- **Between IT and strategy**: Limited 15% Moderate 34% Extensive 50%
- **Between IT and business leader**: Limited 13% Moderate 33% Extensive 50%


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The integration of risk and compliance within digital channels should be improved

We found that less than half the banks surveyed have risk and compliance embedded in the entire lifecycle – with just over 23% at level 1, where mobilisation comes only on the heels of regulatory and customer complaints, as shown in Figure 15. Although 47% do cover the entire life-cycles, as they should, a more lax approach among the rest of the pack leaves room for improvement.

Security concerns remain paramount

Additionally, financial institutions remain deeply concerned about security risks associated with digital channels. Banks are ripe targets for criminals looking to breach global operating models and capture data flowing to third-party service providers to reap its riches. As consumers eye the spectres of identity theft and mobile application security breaches, we anticipate that the regulatory focus on data protection will only intensify, reinforcing the importance of enterprise-wide collaboration.

As shown in Figure 16, more than one-half (62%) of respondents indicate that they are concerned ‘to a great extent’ about the security risks associated with digital channels.
Risk and regulatory compliance

“Beyond maintaining a strong, independent risk management function that is focused on the core financial risks that banks face, sufficient oversight of operational and reputational risk will be critical.

• Cyber security is now top of mind as new technologies like mobile exposes customer data to greater risks.

• Vendor risk will need to be managed more closely. Banks have hundreds of partners, and are seen as responsible and accountable end-to-end.” – Retail Banking 2020

Retail Banking 2020 findings: Executives in all regions, unsurprisingly given the last five years, consider risk and regulatory compliance to be the biggest priority, with 64% stating this is very important. Again however, very few (only 22%) consider themselves very prepared. The biggest obstacles to addressing these issues are the level of financial investment required and technology constraints.

23% of all respondents indicate that risk and compliance is embedded into their organisation’s digital strategy for customer or regulatory complaints only.

Source: PwC, Retail Banking 2020: Evolution or Revolution?, www.pwc.com/RB2020
3

Digital preparedness
In sum, we see Asia-Pacific banks leading the way, based on these key trends:

**Asia-Pacific bank leaders:**
- Anticipate the highest revenue growth from digital banking while investing less than their global peers.
- Have digital banking on the board agenda on a regular basis, resulting in a high degree of alignment.
- Have integrated multichannel platforms, advanced tools and technologies, extensive collaboration between the CIO and other important functions, and highly skilled IT staff.

**European bank leaders:**
- Expect moderate revenue growth from digital banking while making an average degree of investment.
- Are the most advanced in executing the digital banking strategy of co-creating and growing market share.
- Trail in integrated digital banking platforms, advanced tools adoption and CIO collaboration, relative to Asia-Pacific, but lead other regions among non-IT staff skills that support digital banking.

**North American bank leaders:**
- Expect the least revenue growth from digital banking while leading in overall IT investments.
- Have corporate boards that are not as focused on digital banking as those in Asia-Pacific and Europe, resulting in a lack of strategic alignment.
- Are distracted by the evolving regulatory environment, which draws significant investment away from revenue-generating initiatives.
- Have an opportunity to redirect investments to boost the impact of digital banking through integrated platforms, focus on co-creation, improved internal collaboration and enhanced digital banking skills.
What can we learn from Asia-Pacific?

In comparing views and objectives among Asia-Pac, Europe and the Americas, we found that Asia-Pacific appears poised to prosper, with leading practices, top-down vistas and holistic approaches well under way. So, what can banks around the world learn from Asia-Pacific to position themselves for success?

PwC’s Retail Banking 2020 found that “over 60% of executives in Asia and the developing markets view open innovation as very important. However, only 40% of European executives and 28% of US executives agree.”

Similarly, our Global Digital Banking Survey findings show a higher degree of expert-rated skills among not only IT staff, but also executives and senior management – an indication that bodes well for the ability of Asia-Pacific banks to collaborate, innovate and effectively apply digital strategy.

Information technology can flourish when it is supported by leadership from the very top of the enterprise and enterprise-wide collaboration. This starts with an ongoing dialogue between the C-suite and the CIO.

When business leaders see the business strategy reflected in the IT strategy, they are more likely to see their goals through to fruition – a critical imperative today, both in the short term and into the next decade.

Here is how some of these differences pan out.

Business goal alignment and board involvement

The disconnect between digital and business objectives indicates lax leadership engagement, an impediment to innovation. Nearly one-half of survey respondents tell us their digital strategy is immature or not aligned with the overarching bank strategy.

The degree of board involvement is an important ingredient to successful implementation. Digital channel strategies are routinely included on board agendas in Asia-Pacific banks. This helps banks in the region further develop their digital strategies while making sure those objectives align with the overarching corporate agenda.

In contrast, digital discussions appear less often on European and Americas board agendas, which increases the chances of misalignment between corporate and digital strategies. European banks have recognised this and are pushing digital banking strategies for board approval. As a result, in the next two years, banks in this region are expected to make the most progress in their approach to digital channel strategies for mobile banking, social media and product co-creation.

Overall, only 41% of respondents indicate that the issues and strategy relating to digital channels are routinely included on their firm’s board agendas. Amid such fractious elements, innovation will be difficult.

Almost half (49%) of global respondents indicate that their digital strategy is either under development or fails to align with corporate strategy.


Advanced strategies and ROI

Because co-creation can be a crucial connection point with today’s consumers – who yearn to have a say in their products – we found a significant desire to move towards a product/service co-creation strategy in an effort to improve customer experience. We see a number of disconnects that may thwart such ambitions. Again, we see Asia-Pacific poised to eclipse the other regions as a result of its relatively higher degree of sophistication.

A good understanding of customer wants and needs along with the right internal checks and balances can help banks devise the right digital banking strategy. This understanding can also help banks to deliver a differentiated customer experience and game-changing results.

Banks in the Asia-Pacific region expect to achieve the greatest revenue growth through digital banking – while investing the least – among the three major regions we assessed. Despite spending the most on their IT budgets, the Americas banks are not seeing commensurate results. Asia-Pacific
and European banks are gaining more ROI, a reflection of more advanced strategies that enable them to boost revenue with the budgets they have.

**Technology, tools, and apps**

Globally, many survey participants (48%) report that their firms have only some of the tools they need to do business on digital channels. Conversely, only 14% report having significant capabilities and 33% say they have most of the capabilities they need to get the job done. However, our survey shows that Asia-Pacific banks are more mature than North American banks in terms of the tools and applications they need to conduct business on digital channels. This gives Asia-Pacific banks the edge.

Overall, customer activity on digital channels is expected to increase, while branch and phone business will decrease, over the next two years. Online channels will likely see the greatest increase, followed by mobile and social media. Asia-Pacific banks recognise these trends and have taken steps to intensify their already robust focus on integrated platforms, which include a mix of online, mobile and social media.

**Skills**

The relatively high skill set among Asia-Pacific banks’ senior executives and IT specialists enables these banks to improve and grow their digital channel offerings.

This growth is primarily achieved through the banks’ comprehensive and standardised training, as well as strong collaboration among IT and all of the other major departments within the organisation.

Note, however, that some of the fundamental advantages Asia-Pacific banks enjoy – a growing economy and the ability to fund a digital banking strategy more quickly than their global counterparts – can be offset by talent availability challenges, which have emerged as their second greatest barrier to success.

**Collaboration**

Collaboration is also crucial to maturation. From the boardroom to the cloud and at all points in-between, it is critical that digital banking strategies, challenges and status are communicated consistently across the institution. We see room for improvement in this regard. And as our survey results confirm, again, Asia-Pacific bank leaders report better progress than their peers.

The next section will take a deeper digital dive, sharing a framework that can help banks embrace the strongest approaches to a digital banking strategy and unleashing the potential of digital banking and customer relationships.

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**Asia-Pacific’s mature tools and applications and its high degree of expert-level skills set the region apart.**

58% of IT staffs in the region are deemed ‘expert’ and 37% of executives and senior management also are considered ‘expert’, compared to 22% for North American banks and 31% for European banks.

How PwC can help
A framework for action and advancement

Our framework, which can be an enabler of long-term digital banking success and sustainability, includes foundational, differentiating and leading capabilities. In this section, we delve more deeply into each of these three tiers so you can assess where your bank sits today, as well as compare your status with your desired state – and with the competition.

PwC’s framework includes foundational, differentiating and leading capabilities.

- **Leading**
  - Co-creation of products and services
- **Differentiating**
  - Integrated multidigital channel platform
  - Talent management
  - Customer analytics
- **Foundational**
  - CIO collaboration
  - Data quality management
  - Digital IT strategy
  - Robust security
  - Integrated risk and compliance

Source: PwC
**Foundational capabilities**
This is a set of behaviours and capabilities that banks should develop to lay a strong foundation for digital banking. Here is what it takes:

- Internalise and prioritise digital banking as a top goal from the board on down.
- Build a CIO-centric culture of collaboration and consistency from the top down.
- Assess, design and implement security assessment programmes, processes and controls.
- Test security mechanisms with real-world exercises to understand weaknesses in the network and application infrastructure, prior to a hack attack or attempt.
- Use a comprehensive, structured data quality framework to limit technical risk, produce improved data output, and support business and IT alignment.
- Conduct detailed compliance, risk and control assessments.
- Integrate risk and compliance in the entire digital lifecycle.

**Differentiating capabilities**
To begin to differentiate themselves, banks should have employees with more sophisticated digital skills, an integrated multidigital platform and advanced customer analytics to tap into customer behaviours. Here is what it takes:

- Use a talent assessment framework to identify skills gaps and transform the bank, such that learning, recruiting, and culture enable innovation and collaboration.9
- Expand the human capital strategy to recruit from think-tanks and tech-savvy firms.
- Facilitate focused, on-the-job training, mentoring and peer coaching, and promote a culture of collaboration and innovation.
- Develop an innovation centre of excellence to impress the importance of imagination, creative thinking and inventiveness more deeply into the bank’s culture.
- Target and overcome legacy system challenges with streamlined, future-state IT approaches.
- Build and deploy secure customer-facing applications to reap the benefits of a digital presence.
- Use communities-of-interest and voice-of-the-customer opportunities to promote information sharing.
- Use sophisticated data analytics to build an understanding of customer behaviours, needs and trends.

**Leading capabilities**
To evolve as market leaders, banks should seek out and cultivate employees with more sophisticated digital skills and a strong co-creation agenda. Here is what it takes:

- Develop a co-creation strategy roadmap to pave a path for programme implementation and to illustrate how value will be delivered. Communicate this roadmap across the enterprise.
- Develop a platform and alleviate gaps between the current state and the future state of the architecture needed to support a robust customer engagement and omni-channel ecosystem.
- Build communities through customer workshops and engage key internal and external stakeholder communities to drive growth.
- Govern the process by facilitating engagement among key stakeholders to establish a culture of innovation and coach teams towards meeting objectives on time and within budget.

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9 For a discussion of how banks can use talent assessments to identify skill gaps and transform the organisation, please refer to PwC’s The right stuff: How financial services institutions can use talent assessments to improve returns on human capital, www.pwc.com/hsi.
Along with a well-defined digital banking strategy and collaboration between the CIO and bank leadership, banks should build a solid foundation that can help enable them to integrate a risk and compliance structure, as well as a unified security approach. To be competitive, investment is crucial. A simplified technology platform, training, customer analytics programme and innovation can help ensure long-term viability. Banks can derive inspiration from the leading digital channel practices that banks in other regions have mastered.

Bank leadership and CIOs should approach the challenge with a sense of urgency, collaboration and cohesion to gain the differentiating and leading capabilities that will secure the long-term success of a digital banking platform. The race is on to reach the top tier, as winners might well take all. Banks must deliver, or customers will walk.

As we have noted throughout this paper, senior bank executives, as well as their IT peers, do not feel well prepared to meet the challenges of the changing world. What steps can financial institutions take to raise their game? In our view, senior IT executives can begin by considering the following questions:

- Are those driving the digital strategy aware of, and aligned to, the bank’s overarching business strategy?
- Do you have a pragmatic multichannel/omni-channel strategy and a roadmap that is approved by the board?
- Are you assessing threats and vulnerabilities regularly to prevent any impact on customers that may result in losses and brand dilution?

If the answers to these questions make you lose sleep, they may also make you lose market share and customer loyalty.
**How PwC can help**

Banks can benefit from tapping into outside resources to help them successfully execute on multiple fronts. PwC delivers robust know-how to help banks take their digital banking strategy to the next level. We help clients achieve long-term competitive advantage.

<table>
<thead>
<tr>
<th>Capability</th>
<th>Issue</th>
<th>Services offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital IT strategy</td>
<td>Digital banking is not delivering desired revenue growth and customer engagement.</td>
<td>Assess the maturity of the digital banking IT strategy and help align the IT strategy with the corporate strategy. Compare the IT strategy with leading industry practices. Help define an actionable roadmap.</td>
</tr>
<tr>
<td>Integrated multidigital channel platform</td>
<td>Application and channel architecture makes incremental costs and effort unsustainable.</td>
<td>Current state assessment of digital channel applications and their integration with core banking systems. Help define integrated digital channel target state, based on the industry and regional leading practices.</td>
</tr>
<tr>
<td>Co-creation of products and services</td>
<td>Extend the usage of digital technology platforms for co-creation.</td>
<td>Assess the maturity of co-creation capabilities of digital banking platform to drive co-creation. Identify gaps and help develop roadmap.</td>
</tr>
<tr>
<td>Robust security</td>
<td>Constantly emerging threats make digital banking security fragile, which impacts customers’ trust.</td>
<td>Focus on identifying gaps and produce a remediation roadmap that includes mobile and web security assessments. A robust programme should include use of social media, automated fraud detection, network security, internal governance and customer awareness/education.</td>
</tr>
<tr>
<td>Customer analytics and data quality management</td>
<td>Digital service offerings and customer insights are only as good as the data they use.</td>
<td>Assess the data quality framework’s ability to include new data from online, mobile and social channels. Identify and align valuable data within the enterprise data ecosystem.</td>
</tr>
<tr>
<td>Talent management and CIO collaboration</td>
<td>Special digital banking skills are required, along with collaboration among groups.</td>
<td>Conduct a catalyst workshop to raise the awareness of digital banking across key functions and with stakeholders. Develop plan for greater collaboration among groups. Develop executive education around digital banking. Develop plan to close the talent gap.</td>
</tr>
</tbody>
</table>
It’s hard to take big-picture trends and priorities, and translate them into tangible actions. It’s even harder to be unreasonably aspirational, yet realistic in what can be achieved. Designing your fiercest digital competitor is a concrete way to tackle these abstract ideas – and identify how and where you need to change, to thrive in 2020.

PwC has worked with dozens of clients to re-imagine their companies in a practical, results-oriented way. In a way that leverages the ambitions and insights of your top team, and helps build real alignment as to the path forward. In a way that doesn’t take six months and millions of dollars.

Imagine a series of facilitated workshops where your business and functional leaders are asked to think differently, to move beyond the incremental and imagine what could be. And then translate these insights into realistic actions. Actions that have been debated and agreed across business and functional silos. This is ‘Designing your fiercest competitor’.

- **Catalyse provocative thinking.**
  We analyse industry trends and drivers, and assess their importance – to ensure a shared understanding of the industry landscape. We develop aggressive and disruptive scenarios – and then use them to provoke your leadership team into re-imagining the business.

- **Design your fiercest digital competitor(s).** We ensure participants take an end-to-end perspective, and define their fiercest competitor – a competitor with disruptive strengths that ruthlessly exploits your weaknesses. We design this competitor in a variety of different future scenarios. We define a fiercest strategy (value proposition, sources of sustained advantage, where to compete) and a fiercest operating model (organisation, processes, technologies, culture), so that you fully understand how these new players will win.

- **Make it real.** Finally, we translate the insights gained from designing the fiercest competitor into tangible actions for your own business. First, teams gain a heightened sense of priority – and decide to accelerate existing initiatives and abandon others, so as to focus scarce resources in the most critically competitive areas. Second, teams imagine new third-party partnerships. And finally, teams begin to develop ideas for disruptive business designs – ways to change their own strategy (where to compete) and operating model (how to compete) – to attack the market in similar ways to the fiercest competitor.

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**Part 1: Fiercest digital strategy**
Discuss industry perspectives, gain insights on market challenges and potential disruptions
**Result:** Quickly get past biases that may distort your market view and cause you to miss potential competitors

**Part 2: Fiercest business model**
Design the Fiercest Competitor and strategies for a new business model
**Result:** Rapidly assess impacts to your business model, and determine the best strategic path forward

**Part 3: Closing the gap**
Make the organisation become the Fiercest Competitor
Learn to quickly work through business model challenges
**Result:** Avoid polarising viewpoints while quickly identifying and resolving the root causes of problem areas

**Part 4: Prioritised path forward**
Turn the discussion takeaways into action items
Gain expertise in roadmaps, mobilisation and execution
**Result:** Work through challenges and prioritise the solutions as part of a long-term go-to-market strategy
About the survey

PwC’s Global Digital Banking Survey was conducted in the autumn of 2013. The global survey included 157 respondents across 14 primary markets. Answers were aggregated into the Americas (US, Mexico, Brazil, Canada), Europe (France, Germany, the UK, the Netherlands, Spain, Switzerland), and Asia-Pacific (China, India, Australia, Japan), as well as by asset size. Some responses were reported for North America (US, Mexico and Canada). Approximately half (45%) of survey respondents were C-suite executives, such as CIO, CTO and COO. The remainder were senior IT executives, heads of technology, or heads of IT. Approximately 60% of respondents work in organisations with assets of more than $US100 billion.
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