Why Read This Report

In the age of the customer, banks will either reinvent themselves or be forgotten — reduced to what one executive calls “dumb money pipes.” Digital business leaders will need to make tough choices and take bold actions over the next five to 10 years to stave off the serious threats that banks face. This report outlines Forrester’s vision of digital banking’s future, one dominated by firms, both banks and non-banks, which predict and anticipate people’s financial needs to provide personalized experiences that are simple, ubiquitous, empowering, and reassuring.

Key Takeaways

**Banks Will Either Reinvent Themselves Or Be Forgotten**

Banks are relevant to customers today, but digital disruption, disintermediation, and changing regulations threaten to reduce some banks to low-margin utilities, without relevance in people’s everyday lives.

**Successful Banks Will Enable Customers’ Financial Well-Being**

While banks today vary in the quality of their digital offerings, their product sets, services, and business models are mainly all the same. This will start to change, and banking itself will begin to fracture as individual banks find new revenue streams, explore new business models, and establish new brand positioning. But all successful banks will have a common attribute at their core: enabling financial well-being for customers.

**Ecosystems Will Be Mission-Critical**

Gone are the days when banks could essentially go it alone in serving their customers’ needs. Digital banking strategies should focus on building financial ecosystems to provide more relevant and expansive services.
The Digital Banking Imperative
Vision: The Digital Banking Strategy Playbook

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Banks Will Either Reinvent Themselves Or Be Forgotten

Banks and their customers have entered the age of the customer, which Forrester defines as:

A 20-year business cycle in which the most successful enterprises will reinvent themselves to systematically understand and serve increasingly powerful customers.

In the age of the customer, the only way banks can achieve sustained growth is by accepting this new environment, embracing digital business transformation, and reinventing their organizations and business models by finding a position of value and relevance in customers’ everyday lives. Banks, credit unions, card issuers, lenders, private banks, and other banking providers that fail to embrace digital business transformation will either cease to exist — through acquisition or collapse — or become low-margin utilities, forgotten by the customers who use their basic services as commodities.

The Good News: Bank Brands Are Relevant Today

Despite some dire predictions, banks today aren’t Blockbuster in 2007. Many banks worldwide, infused with new capital, have recovered remarkably well from the global financial crisis. Our research shows that banks:

› **Have played an important role in people’s lives for decades.** For more than a century, banks in developed markets have played a central role in meeting customers’ financial needs. Although banking services have expanded beyond the branch — starting with telephone banking and ATMs — little has changed in banking business models or in banks’ roles in customers’ lives.

› **Still see solid retention rates and market share.** Attrition rates at large and midsize banks in Canada and the US have remained steady over the past five years. In the five largest European markets, just 7% of online adults have switched their primary bank in the past year, and retention is higher than average in some places: In the UK and Germany, just one out of every 16 bank customers has jumped ship. And while disruptors like Square and CoinJar have made inroads by targeting niche areas of the financial services value chain, incumbent providers continue to sustain market share when it comes to customers’ primary banking relationships. In Canada, for example, fewer than one in 30 online adults actively uses a third-party, non-bank company for their banking needs.

› **Are still trusted by most customers.** Banking is a bit like the US Congress: Surveys show that people have little love for the group as a whole, but individuals tend to think fondly of their own representative — or bank. For example, banks come top in Forrester’s most recent Customer Experience Index (CX Index™) across a range of developed markets. Across North America, a greater share of online adults say “I trust financial services companies to treat me fairly and honestly” today than did so four years ago. In China, more than six in 10 online adults feel this way. And while Europeans show less trust in financial providers as a group, they have largely positive views of their own banks: Nearly two in five say that their primary bank “does what’s best for me.”
› **Have other competitive advantages relative to other firms.** In addition to ongoing trust among customers, banks have key advantages, such as plenty of capital, large customer bases, government-backed insurance, mountains of data, and solid (if largely antiquated) technology systems.

**The Bad News: Banks Face A Bleak Future As Low-Margin “Dumb Money Pipes”**

Banks have a lot going for them. Yet banks face massive disruptive threats from all sides. Forrester foresees a potentially bleak future for banks — but one that is neither inevitable nor impossible. Whether this bleak future comes to pass depends on the decisions of digital banking leaders over the next 10 years. But failure to act could see a future in which:

› **Many more banking services become commodities.** One bank executive argues that “we’ve been on a slow but slippery road to commoditization” since the establishment of deposit insurance — such as the Federal Deposit Insurance Corporation (FDIC) in the US — which “made it so that, for most people, one bank is as good as any when it comes to the basic job of keeping your money safe.” The internet eroded the advantages of branch distribution. Most banking products are commodities. That makes it increasingly hard for banks to differentiate. Banks have instead differentiated through a mix of rates, fees, advice, and additional services.

› **Thousands of disruptors enrich people’s lives by meeting their financial needs.** In the past, sustained growth meant owning the land, the manufacturing capacity, or the means of distribution. More recently, thriving meant owning the information. But in the age of the customer, winning means owning the customer relationship and experience. Established banks have front-end relationships with customers today and still control most banking experiences, but thousands of disruptors are getting between banks and their customers in small ways — by zeroing in on specific parts of the value chain. In the US, Splitwise makes shared finances easier by tallying up who owes what and enabling groups to “settle up” with one click. China’s Rong360 helps individuals and microbusinesses find the financial product that best suits them.

› **Disruption drives disintermediation.** Successful disruptors don’t win by going head to head with traditional companies. Instead, disruptors often find ways to create new value, coming between existing brands and their customers in the process. Disruptors like New Zealand’s Harmoney and Moven in the US are happy to let established banks provide the underlying products and services, such as deposit taking and payments processing, while they manage the customer relationship on the front end. That threatens banks with disintermediation. For now, banks, credit unions, card issuers, and payment networks still profit from these transactions, but the relationship with the customer is eroding as disruptors and other non-banks get between banks and their customers.

› **Changing regulations amplify the force of disruption.** Regulation, inevitably, plays a big role in defining the strategies that banks can pursue. A growing number of regulators are seeking to promote increased competition and transparency, amplifying some of the forces banks face. Directives like Basel III make some banking services more expensive by forcing banks to set
Aside more capital. The European Union’s Directive on Payment Services (PSD2) obliges banks to open up customer data to third-party companies. Other regulations, such as the EU’s MiFiD II, Canada’s CRM2, and the growing role of the CFPB in the US, also help disruptors and other new entrants by increasing transparency and exposing the true costs of financial services.

Commoditized banks fade into low-margin “dumb money pipes.” Already, one in three US online adults agrees with the idea that “all banks are basically the same” (see Figure 1). Ten years from now, people in their 20s who have grown up in the age of the customer could ask, “What’s a bank for again?” For these potential future customers, banks exist only in the background, unseen in their everyday lives (see Figure 2). Disruptors such as Alipay, TransferWise, and Xero are previews of this potential future: Customers do not consider or care about the back-end funding or the brands involved in these transactions. Instead, they think of Venmo as how they send money to share a lunch with coworkers or Qufenqi as the brand that helped them finance a new gadget.

FIGURE 1 Some Customers already See Banks As Commodities

All banks are basically the same.
(On a scale of 1 [strongly disagree] to 5 [strongly agree])

Base: 4,606 US online adults (18+)
Source: Forrester Data Consumer Technographics® North American Financial Services Survey, Q1 2016 (US)
For decades, banks and other financial providers have had a close relationship with customers, with firms playing an important role in people’s everyday lives.

Unless banks reinvent themselves, the future could look like this:
Banks Will Stay Relevant By Enabling Customers’ Financial Well-Being

The physician and author Atul Gawande delineates a new role for medical providers: “We’ve been wrong about what our job is in medicine . . . we think our job is to ensure health and survival. But really it is . . . to enable well-being.” Likewise, the role of banks must evolve. As banks reinvent themselves to thrive in the age of the customer, those that remain relevant will enable financial well-being.

Your customers see technology as a way to make their lives easier, better, and more efficient. Today, they orchestrate their own digital experiences by choosing devices and apps, finding websites, and opting in to services that create value for them in a “personal value ecosystem.” Forrester defines the personal value ecosystem as:

A set of digitally connected products and services that individuals combine to help satisfy their needs and desires.

Empowered customers are seeking better, personalized experiences, but product-oriented strategies still handicap many banks. Instead of thinking about products, digital executives at banks need to focus on customers and deliver products, services, and experiences that are:

› **Simple.** Banking experiences need to be as easy and convenient as possible.

› **Ubiquitous.** Banking products and services need to be available to the customer through her touchpoint of choice.

› **Personalized.** Banking products, services, experiences, and advice need to be tailored to each individual customer.

› **Empowering.** Banking experiences need to help the customer take action.

› **Reassuring.** Banking services need to give the customer confidence that she can achieve her objective — often by providing human help whenever and wherever it adds value.

**Personalization Will Act As The Keystone That Enables Financial Well-Being**

Personalization will play a crucial role in next-generation experiences that enable financial well-being — and, as a result, improve business outcomes. To steal a concept from the field of architecture, personalization will act as the keystone: the most essential piece of a structure, which holds all other components together and allows the structure to bear and sustain weight (see Figure 3).

Firms will deliver personalized and contextually relevant interactions by combining profile data about who customers are, historical data about what they have done, and situational data about what’s happening in their lives now. When digital banking leaders get personalization right, they will then be able to offer digital services that are as simple as each individual customer needs them to be; ubiquitous in that they are present on any and all touchpoints that each individual will want them; empowering for each individual customer; and reassuring, with human help provided at the moment each individual client seeks it.
Successful Banking Strategies Will Focus On Customer Outcomes

Digital business strategy professionals who can pivot their approach to a fundamentally outside-in, customer-outcome mindset will create new opportunities for growth. Your company’s ability to create value for its customers will depend on how effectively you can digitally augment your core capabilities and realign them to deliver the outcomes your customers really desire, rather than the products you’ve traditionally sold. The path to success will differ by bank, but leading firms will share certain key commonalities, such as:

› **Obsessing over enhancing customers’ lives and enabling their financial well-being.** Leading banks will focus their strategy, energy, and budget on processes that enhance knowledge of and engagement with customers and prioritize these over maintaining traditional competitive barriers — an approach Forrester calls customer obsession. Deniz Guven, a digital business executive at Turkey’s Garanti, is clear about the path forward: “Our focus is to design a customer-centric digital ecosystem in which customers can easily and simply meet their financial needs and purposes.” The goal is to be a trusted guide and advocate for the customer; to achieve this, a bank will need to build ecosystems in which the customer doesn’t always buy the bank’s own products — something few banks do today.

› **Focusing on personal value ecosystems.** Digital banking leaders should identify the most important ecosystems for their customers and prospects and ensure that their bank is part of these ecosystems.\(^{21}\)
Designing product, services, and experiences for different audiences. Banks will need to focus on specific segments and audiences and design services that deliver the outcomes each particular audience needs or wants. This principle holds true whether a bank is a supplier of services to third parties or a customer-facing brand that sells services directly to the customer — though the strategy and execution will differ greatly depending on the audience. For example, E-Trade’s approach to its direct-to-consumer banking products is distinct from its approach to its trading API, which it sells to many fintech companies. Successful banks will define their audience clearly — whether that’s debt-laden students, small-business owners, or affluent Gen Xers — and focus their efforts accordingly.

Serving Customers Well Will Drive Banks To Work With More Partners

To win in the age of the customer, your bank must deliver compelling, engaging experiences for customers that meet or exceed their expectations. But you cannot consistently deliver value against rapidly evolving customer expectations by tweaking the customer touchpoints. Instead, you must engineer a connected web of services and business capabilities designed to adapt to your customers’ changing expectations. The set of interconnected business capabilities that you need to deliver adaptive, world-class customer experiences is itself an ecosystem — a customer experience ecosystem. Forrester defines this as:

*The web of relations among all aspects of a company — including its customers, employees, partners, and operating environment — that determine the quality of the customer experience.*

Here’s the challenge: Most banks serve only one small slice of their customers’ overall ecosystem, inherently limiting their opportunity to meet their customers’ end-to-end needs. Instead, digital business strategy professionals must take an outside-in approach that focuses on customer outcomes. To do this, you must re-envision your bank not as a set of products and services but instead as part of the personal value ecosystem. This notion challenges the nature of your bank’s relationships with both your customers and suppliers, but it enables you to:

- **Increase the value you provide by digitally enhancing existing services.** By understanding your customers’ underlying needs, you can reposition and extend how you add value for them, fueling new revenue streams. To begin with, focus on how digital assets enhance the outcomes that your customers most value. For example, banks have offered cash deposit services to business customers for decades, but Poland’s Idea Bank digitally enhanced this by designing an Uber-like service for small-business clients: Using a mobile app, businesses request a “mobile ATM” in the form of a car that comes to the client for far more convenient cash deposits.

- **Create new sources of value through digital partnerships.** By focusing on the customer’s desired outcome, it’s possible to uncover opportunities to achieve those outcomes in new ways by partnering with other companies already in the customer’s personal value ecosystem. US bank USAA built its Auto Circle service by partnering with TrueCar and other companies to
improve the entire carbuying journey for customers. In the UK, Barclays partnered with Zoopla for its “Homeowner” app — enabling customers to interact with estate agents and use custom calculators inside the app.²²

› Use data and analytics to help customers toward their desired outcomes. Because your bank collects data from across hundreds of thousands or millions of customers, you have access to a potential treasure trove of insight. Mining the data you already collect and combining it with external data opens up new digital business opportunities. Commonwealth Bank of Australia offers its business clients customer and business insight through its Daily IQ analytics app.²³ Wells Fargo has rolled out a data monitoring and management service that helps people “Take control of your identity.” The bank offers this, for a monthly fee, to both existing Wells Fargo customers and non-customers alike.

The Vertically Integrated Banking Model Will Break Apart

For a century, most banks have created value and profits in roughly the same ways. While some specialist banks, such as private banks, card issuers, and credit unions, focus on a defined set of products or customers, the majority of banks conform to the same universal banking model, manufacturing a range of products for a wide, or universal, customer base.²⁴ It is this universal banking model, with implicit cross-subsidies between profitable and loss-making customer segments, product lines, and distribution channels, which makes banks vulnerable to digital disruption. Digital disruption is asymmetric: Most disruptors seek to win profitable customer segments and product lines by undercutting established banks; few aim to replicate their costly banking infrastructure.²⁵

Banks Will Embrace Ecosystems To Deliver Customer Value

Historically, value chains have been proprietary, slow to change, and predicated on contractual or technical lock-in. But with customer expectations changing rapidly, new customer experience ecosystems must be highly agile, embracing technologies like mobile, cloud, and application programming interfaces (APIs).²⁶ These digitally enabled customer experience ecosystems are more flexible, scalable, and dynamic, and they focus obsessively on delivering customer value through digital assets. This means that:

› Linear value chains are becoming dynamic. Digital businesses don’t operate in a traditional linear value chain (see Figure 4). Instead, they thrive by breaking down traditional barriers and connecting disparate entities — customers, suppliers, internal teams, or external partners — in a complex web (see Figure 5). These porous businesses embed partners and even customers deeply into their internal business processes: For example, Italy’s Widiba crowdsourced design features for its services with an online design challenge, while Poland’s ING Bank Śląski crowdsourced ideas for online banking. Building a dynamic customer experience ecosystem helps these firms rapidly create new sources of value for customers.
› **“Modular” businesses “plug and play” new capabilities.** To adapt to customer expectations, businesses must continuously evolve their customer experience ecosystem. This requires business agility and demands more complex service orchestration across multiple partners. PayPal has embraced this by creating a more flexible technology architecture, using APIs to insulate rapidly changing customer touchpoints from back-office systems. For PayPal, this means atomizing business processes and enabling development teams to consume each other’s services, mainly via these internally published APIs.

› **Ecosystems challenge traditional operating model assumptions and constraints.** Ecosystem-enabled operating models shift the boundaries of what used to be “your business” and make your firm porous. US brokerage TD Ameritrade built its VEO offering as an open ecosystem aimed at financial advisors, integrating services from more than 100 other firms, including CRM from Wealthbox and planning from PIEtech. Vodafone’s M-Pesa payments service connects customers in a peer-to-peer (P2P) network, substituting for traditional infrastructure like ATMs or bank branches in developing communities.

› **Ecosystems continue to develop, regardless of what incumbents do.** Many disruptors like Fidor Bank, Kreditech, and Xero, spurned by the incumbents or keen on enhancing their product experiences, have started building their ecosystems with other disruptors. As each ecosystem participant plays a distinct role, this will gradually limit the roles available to incumbents.
Current Business Models Will Evolve, And New Ones Will Emerge

The combination of advancing technologies, new regulations, and digital disruptors makes business model evolution and new business models inevitable. No bank will be able to serve all the diverse requirements of its retail and corporate customers alone. Fast-moving banks and new entrants will take advantage of the fragmenting value chain to source services from, and create new business opportunities with, partners that are in touch with target customer segments. As vertically integrated value chains gradually start to fragment over the next five years, tightly integrated universal banks will become looser federations of business units. Banks will have to choose which core competencies to focus on, resulting in the evolution of ecosystem-based banking business models. We see several emerging banking business models:

- **Financial-advice-as-a-service firms.** These companies will use software to manufacture personalized financial advice at scale, which will be delivered to customers through both digital touchpoints and human advisors. Financial advice will move to fee- or subscription-based models as new regulations and legislation gradually discourage or outlaw product commissions. Wealthy customers are likely to pay a fee based on assets under management, while companies and mainstream customers will either pay a subscription fee or pay as they go for specific financial
advice. Firms like LearnVest already offer popular financial advice apps and offer ongoing financial advice for $19 per month. For these firms, having direct relationships with customers and access to a wide choice of products will be essential to success.

› **Banking product manufacturers.** These companies will manufacture and sell their own products and services. These banks will construct and sell credit and savings products both directly to their own customers as well as through third parties. They will seek efficiency and economies of scale by distributing their products through a wide variety of other firms. In Germany, Commerz Finanz uses APIs to open up its consumer credit agreement process, enabling electronics retailers like Media-Saturn Group to offer loans at the point of sale. For banking product manufacturers, having direct relationships with customers, curators, or marketplaces will be essential to success.

› **Banking curators.** Instead of only offering their own products, these companies will combine a current or checking account with a curated set of third-party products. These companies will enable their customers’ financial well-being by using services from product providers with which they have explicit agreements. They can offer customers a broader range of products and services than if they tried to produce everything themselves, while avoiding the costs of manufacturing products. Germany’s N26 bank incorporates money transfer services from TransferWise and investment services from Vaamo. For curators, selecting the right supplier for each product will be essential to success.

› **Banking marketplaces.** Banking marketplaces will build the infrastructure to enable multiple third-party providers to offer products — an “app store” for digital banking — letting customers choose products from multiple suppliers in an open environment. Third-party providers can connect to the platform so long as they comply with certain basic security and other standards. Fidor, for example, gives customers the freedom to combine services from multiple providers on the FidorOS API-driven platform to build their own account. For banking marketplaces, having multiple relationships with suppliers of the same product will be essential to success.

› **Banking-as-a-service companies.** These companies expressly set out to offer modular B2B capabilities as services to other financial services firms. The service is built to enable easy incorporation of a specific function into a third-party ecosystem — “app developers” for digital banking. They supply a specific banking component along with the processes needed to manage that component, such as know-your-customer (KYC) solutions, identity verification, fraud detection, or securities custody. Dwolla’s FiSync didn’t design its money transfer protocol to compete with banks but to be a service used by them. Capital One UK built an internal API, then realized it could sell it to comparison sites — and thus began to sell software. Denmark’s Saxo Bank licenses its trading engine to other firms through B2B APIs, gaining revenue from its trading platform and enabling its institutional customers to innovate on top of its platform. In a pure form, the supplier will be a utility in this model. For banking-as-a-service companies, ease of integration will be essential to success.
Bank-as-a-service companies. Bank-as-a-service companies supply a complete suite of modular component parts that could support a white-labeled bank. It is a holistic collection of banking-as-a-service components — a software development kit for digital banking. Economies of scale will enable these service providers to spread the costs of strong security and regulatory compliance across a large volume of business. Germany’s solarisBank has developed such a modular-based banking toolkit and is a fully licensed digital bank designed to power an array of fintech services; digital businesses can select the components of the platform they require. Similarly, Sutor Bank, a German private bank founded in 1921, has built a suite of interfaces to give startups access to its banking platform. For bank-as-a-service companies, breadth of services will be essential to success.

Different Providers Will Pursue Different Strategies

Each bank will need to formulate its own vision of the role it aims to play in customers’ lives. Instead of trying to serve all customers, more banks will focus on building curated ecosystems to serve the needs of distinct customer segments. Becoming the curator of a wider ecosystem means guiding customers to the products and services that best suit their needs, even if that means guiding them to another company. Leading banks will work with a wide range of partners to build financial ecosystems for different customer segments:

Business or corporate banking specialists. Some banks will transform into business and/or corporate banking specialists, with a few even abandoning or limiting their retail arms. Digitally savvy and, in particular, digitally transformed corporate customers will expect bank services that fully integrate with their systems through APIs. This will mean supporting business clients beyond lending or even payroll services. Turkey’s DenizBank built Kumsal, a cloud-based suite of services for businesses, such as marketing and operations tools. South Africa’s Nedbank is starting to monetize its data by providing merchants with “market intelligence services” — using data scrubbed clean of personal information, of course.

Small-business specialists. Other banks, or business units within them, will specialize in serving small-business customers. Many will find that they are years late to the party. Disruptors like cloud-based accounting platform Xero, small-business lender Kabbage, and payment service provider Stripe have partnered with hundreds of other service providers to create a large ecosystem of small-business services. Leading financial firms are already building new partnerships. Australia’s Westpac steers certain small-business loan applicants to fintech startup Prospa for loans under $50,000. MasterCard has partnered with Kabbage to extend loans to small businesses through MasterCard’s acquirer network.

High-net-worth-client platforms. Many high-net-worth individuals will value a platform that aggregates their overall financial position and helps them manage their complex financial needs, along with an advisor with access to the same information. Private banks and wealth management firms will compete to deliver this type of curated ecosystem for them. Credit Suisse, for example, is working with Singapore start-up Mesitis to give its private banking clients a single view of their portfolios across institutions.
› **Personal financial coaches.** Many banks will focus on their role as personal financial coach in retail customers’ lives. They will put digital money management at the heart of digital banking, help customers understand their financial situation, and use context to help customers make better financial decisions. Digital banks and independent digital money managers like Digit, Soon, and Trim have put financial coaching at the heart of what they offer customers. TD Bank has invested in digital money management systems, partnerships with startups like Moven, and the use of “nudge” theory to help clients make better decisions about their money. Likewise, Clydesdale Bank’s new “B” offering centers on financial coaching.

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### Recommendations

**Digital Banking Leaders Need To Act Now To Avoid Irrelevance**

If banks fail to stay relevant to customers’ everyday lives and businesses, they will become back-end suppliers only — the plumbing behind the scenes in customers’ financial ecosystems. Instead, non-bank companies will own the front-end experience, anticipating customers’ financial needs, solving their immediate needs, and finding new ways to enrich their lives. The decisions and actions of executives at banks over the next decade — especially the strategies they develop over the next five years — will decide which banks lead and which fall behind.

**You Don’t Need To Predict The Future To Innovate**

Stories of astounding business success are often a mix of truth and mythology, and the story of Steve Jobs leading Apple to become the most valuable company in the world is no exception. Jobs and other Apple execs did not triumph because they were modern prophets, able to see the future when no one else could. For example, Jobs didn’t foresee apps as the way users would connect with content and brands on smartphones; he saw browser-based interactions as the centerpiece of the iPhone. Apple’s success came not from flashes of brilliant fortune-telling but from an obsession with identifying what people want and need, finding new ways to meet those needs, and iterating to constantly improve. It is this rigorous, disciplined approach that will give rise to sustained growth in the age of the customer. So digital leaders at banks should:

› **Stop stressing about the future.** Brainstorming and articulating a clear vision of the future is essential, but the future is inherently mutable. Nailing down a concrete and inflexible list of exactly what customers and prospects might want in the future is likely to be futile. Likewise, unyielding adherence to outdated planning cycles will inhibit a bank’s ability to adapt to a shifting landscape and find new ways to add value to customers’ lives.

› **Start obsessing about customers.** Digital banking strategy leaders will adapt to their evolving market by obsessing over customers, identifying opportunities, experimenting with new ideas, and learning from success and failure.
What It Means

Foundational Digital Initiatives Will Be Mission-Critical For Reinvention

For every customer-facing digital experience, digital leaders at banks will have invested in two or more foundational digital initiatives. These foundational digital initiatives will include:

› **Digital core banking, including APIs.** Banks must update their application landscapes to support digital business transformation and cope with the challenges of disruption. That will require application development teams to develop a new digital core banking target-state architecture that supports the emerging needs of banking. This new digital “core” separates customer interactions and data. Combined with modern architectural approaches, this decoupling will support constant change and reduce risk. APIs will play an important role by packaging data and business assets to enable and control access within and outside the bank. These fundamental shifts will enable banks to build and take part in wider digital ecosystems.

› **Systems of engagement and the architecture needed to support them.** Systems of engagement are a broad class of business technology that empower customers, partners, and employees with context-rich apps and smart products to help them decide and act immediately in their moments of need. Digital business teams will work with their application development peers and others in the technology organization to put in place the flexible and agile processes and systems needed to enable next-generation digital banking.

› **Systems of insight and the data infrastructure that enables them.** Banks are drowning in data but starving for insights. To turn mountains of data into insights-driven actions and services that anticipate and exceed customers’ needs, digital banking teams need systems of insight — the business discipline and technology to harness insights and consistently turn data into action. Banks will need to re-engineer or rebuild their data infrastructure and data governance.

› **Adaptive algorithms and AI, including machine learning.** Despite impressive advances in artificial intelligence (AI) over the past five years, AI technologies are not yet ready to just “plug in” to a bank’s digital platforms. But the promise of machine learning, neural networks, and other types of AI mean that bank executives should experiment with the services that AI enables. Many leading Chinese banks, for example, have rolled out customer service bots on third-party messaging platforms. Adaptive intelligence — the real-time, multidirectional sharing of data in order to derive contextually appropriate, authoritative knowledge that helps maximize business value — will help banks improve back-end processes.
Engage With An Analyst

Gain greater confidence in your decisions by working with Forrester thought leaders to apply our research to your specific business and technology initiatives.

Analyst Inquiry
To help you put research into practice, connect with an analyst to discuss your questions in a 30-minute phone session — or opt for a response via email.
Learn more.

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Supplemental Material

The Forrester Data Consumer Technographics® North American Financial Services Survey, Q1 2016 (US), was fielded in December 2015 and January 2016. This online survey included 4,606 respondents in the US between the ages of 18 and 88. For results based on a randomly chosen sample of this size, there is 95% confidence that the results have a statistical precision of plus or minus 1.5% of what they would be if the entire population of US online adults (defined as those online weekly or more often) had been surveyed.

Forrester weighted the data by age, gender, broadband, income, and region to demographically represent the US online adult population. The survey sample size, when weighted, was 4,606. (Note: Weighted sample sizes can be different from the actual number of respondents to account for individuals generally underrepresented in online panels.) Lightspeed GMI fielded this survey on behalf of Forrester. Survey respondent incentives included points redeemable for gift certificates.
Companies Interviewed For This Report

We would like to thank the individuals from the following companies and many others who generously gave their time during the research for this report.

Banamex  
Bank of America  
Bank of Montreal (BMO)  
BBVA  
CaixaBank  
Capital One  
Chase  
CIBC  
Citi  
Commonwealth Bank of Australia  
DBS Bank  
DenizBank  
Discover Financial Services  
EverBank  
Fidelity Information Services (FIS)  
Fidor Bank  
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M&T Bank  
MX Technologies  
National Australia Bank (NAB)  
NextIT  
OCBC Bank  
Salesforce  
Solstice Mobile  
SunTrust  
Turk Ekonomi Bankasi (TEB)  
Union Bank  
USAA  
West Monroe Partners  
Zions Bank

Endnotes

1 See the Forrester report “Winning In The Age Of The Customer.”
2 See the Forrester report “The Digital Business Imperative.”
3 Forrester’s eFS Benchmark is a subscription-based service that uses banks’ own data to anonymously monitor behaviors among banking customers. Source: Forrester’s eFS Benchmark and interviews with bank executives.
4 The five largest national economies in Europe — as measured by GDP — are Germany, the UK, France, Italy, and Spain. Source: IMF World Economic Outlook (WEO), April 2016 (http://www.imf.org/external/pubs/ft/weo/2016/01/).

The data on how many customers have switched banks comes from the Forrester Data Consumer Technographics European Financial Services Survey, H1 2016. The exact wording of the survey question is as follows: “Have you switched your main bank in the past year (i.e., moved your main current account)?” and the base is online adults (16+) who are banking customers in each country (and in the five countries combined).
CoinJar, an Australian startup, provides a financial platform that lets customers buy, sell, send, and receive traditional and digital currencies using blockchain technology. CoinJar seeks to counter Bitcoin volatility by allowing users to peg their Bitcoins to other fiat currencies through its “Hedged Accounts.” CoinJar also has an open API, easing the platform's integration with third-party systems. Square, meanwhile, pioneered mobile point-of-sale by targeting the underserved market of small merchants. See the Forrester report “Brief: Digital Disruption Brews In Financial Data, Digital Identity, And Payments.”

When we survey consumers about who they have deposit relationships and/or credit relationships with, just 3% say they use a company other than a banking provider. Source: Forrester Data Consumer Technographics North American Financial Services Survey, H1 2016 (Canada).

For example, see the Forrester report “The US Customer Experience Index, 2016” and see the Forrester report “The UK Customer Experience Index, 2016.”

Based on the percentage of survey respondents who select either a “4” or a “5” on a 5-point scale from 1 (strongly disagree) to 5 (strongly agree). Source: Forrester Data Global Consumer Technographics Online Benchmark Survey, 2016; Forrester Data North American Technographics Online Benchmark Survey (Part 1), Q2 2012 (US, Canada); and Forrester Data North American Technographics Online Benchmark Survey (Part 2), Q3 2012 (US, Canada).

This is based on a survey of metropolitan Chinese online adults. Source: Forrester Data Consumer Technographics Asia Pacific Survey, H1 2016.

Forrester has tracked a measure we call customer advocacy in Europe and North America for more than 10 years. Source: Forrester Data Consumer Technographics European Financial Services Survey, H1 2016.

While building on prior periods of economic power like the ages of manufacturing or of information, the age of the customer is not merely a shifting of market power from one type of resource to another. Instead, the age of the customer represents a fundamental transition of power away from institutions and organizations toward customers, who now have the information, tools, and systems that they need to get what they want, when, where, and how they want it. But rather than a shifting of gross power into the hands of groups or collections of customers, this power shift is diffuse, spreading itself broadly. Thus, power that a few hands once held becomes more pervasively available and persistently commanding than before — helping all people, everywhere, acquire more of the resources that they need to get more of what they want. See the Forrester report “Leadership In The Age Of The Customer.”

Digital disruption has arrived in retail financial services. Banks, insurers, and wealth management firms are besieged by a wave of disruptors that aim to use digital tools to deliver superior customer experiences at a fraction of the cost. Digital executives at incumbent firms understand and are well positioned to respond to this threat. In this report, we map out the disruptors to help digital executives think through and articulate the dangers of disruption to their colleagues and explain why incumbent firms should act now. See the Forrester report “Digital Disruption Hits Retail Financial Services.”

To illustrate this point, imagine asking a random person on the street which bank they use: More than four-fifths of those asked could instantly name their primary bank. If, instead, one asked someone walking out of a Starbucks how they paid for their no-foam macchiato, the answer is likely to be “my phone” or “my Starbucks app.”

The aim of PSD2 is to open up the payments market across Europe, making it easier for new companies to enter existing markets, and for companies of all stripes to innovate. PSD2 forces existing players to share more of their data in an effort to open up bank account aggregation, eCommerce marketplaces, loyalty programs, digital wallets, and more. See the Forrester report “Brief: Turn PSD2 From A Burden Into A Catalyst.”


Venmo is a mobile payment company — now owned by PayPal — that facilitates P2P payments without the need to share bank account information. Qufenqi is a Chinese electronics retailer that lets buyers pay in monthly installments.

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We first articulated these principles in 2011. See the Forrester report “Next-Generation Digital Financial Services.”

This is harder than it might sound. Too often, vintage banking applications lack the capabilities needed to personalize products to individual customers. Worse, the application landscape at many banks typically consists of too many banking applications that do not sufficiently support banking products and services via metadata, thus driving heterogeneity, complexity and cost. See the Forrester report “Banking Of The Future: How Banks Will Use Digital Capabilities To Remain Competitive.”

See the Forrester report “Use Digital Money Management To Deliver Personalized Financial Coaching.”

Personal value ecosystems are the set of digitally connected products and services that individuals combine to help satisfy their needs and desires. See the Forrester report “The Digital Business Imperative.”

Like USAA, Barclays designed this digital service, in part, by zeroing in the customer’s journey: In other words, the firm focused on how to help people find a new home, rather than just buy a mortgage.


For more information about the broader topic of digital disruption in financial services, see the Forrester report “Brief: Digital Disruption Brews In Financial Data, Digital Identity, And Payments.”

Banking is far more vertically integrated than adjacent industry sectors, such as investment management and insurance.

Note that digital disruption is asymmetric. Most disruptors are trying to win profitable customer segments and product lines by undercutting established banks. For example, many disruptors are pursuing opportunities in lightly regulated, high-margin businesses like retail payments and currency exchange. Few disruptors seek to replicate costly banking infrastructure like payment networks and transaction processing. If these disruptors succeed, banks face the threat of being left with highly regulated, high-cost, low-margin business areas. For example, P2P currency exchange platforms like CurrencyFair, TransferWise, and Walutomat.pl match customers with one another to facilitate currency exchanges, offering better exchange rates than retail banks and international money transfer firms do and saving customers millions of dollars in transaction fees. See the Forrester report “Disrupting Finance: P2P Currency Exchange.”

The problem for application development teams at those banks that have already “gone digital” is that, in some cases, they defined the scope of digital transformation in banking too narrowly. They focused entirely on front ends — the systems of engagement — without considering whether they had the digital business processes in place to support them. In many cases, their transactional solutions have failed to deliver the (near) real-time support that their new front-end solutions need. See the Forrester report “Upgrade To Banking Platform 3.0 To Meet The Challenges Of Banking Of The Future.”

PayPal decoupled its systems of record behind internal “capability” APIs, giving developers a consistent set of reusable services from which to build. These APIs are atomic and are the building blocks of the business. PayPal developers then use these internal APIs to assemble a layer of “engagement” APIs that feed PayPal’s customer apps, partners, and collaborators. See the Forrester report “Four Ways APIs Are Changing Banking.”

APIs are perhaps the most critical technology in digital business design. They have the power to unlock new revenue streams, transform how you design and deliver change, and extend your value proposition via dynamic ecosystems of value. See the Forrester report “Unlock The Business Value Of Your API Strategy.”

See the Forrester report “Disruptors Belong In Your Digital Ecosystem.”

The power of APIs is the way they package business assets and data, making them accessible within and outside an organization. By allowing business activity to flow within and between organizations in real time, APIs can transform how you design and deliver change, unlock new revenue streams as a business development tool, and extend your value proposition by enabling you to consume services from, and supply services to, partner organizations. See the Forrester report “Four Ways APIs Are Changing Banking.”
The fragmentation of the financial services value chain has been a key, but not very prominent, driver of the future of banking. However, dealing with collaborative competition and preparing for disruptive financial services offerings create the need for a different value chain; banks with leaner and more flexible business processes; leaner, more flexible firms and organizations in the financial services environment; and the full industrialization of financial services. See the Forrester report “Banking Of The Future: How Banks Will Use Digital Capabilities To Remain Competitive.”

Digital financial advice platforms like LearnVest deliver free or low-cost investment and other financial guidance to consumers who are planning for goals such as home ownership, education, and retirement. They use software to create recommendations specific to the individual. They hope to appeal to consumers who cannot — or choose not to — get person-to-person advice. See the Forrester report “Disrupting Finance: Digital Financial Advice.”

Forrester also spoke with a bank that is looking at the potential to design flexible, dynamic financing products that consumers can access in real time while on eCommerce websites and apps.

Fidor makes money traditionally through interest, fees, and commission, but it also monetizes its FidorOS technology platform, charging for integration, software licensing, and maintenance, as well as having an option for revenue sharing. Source: “Fidor TecS Company Presentation,” SlideShare, November 28, 2014 (http://www.slideshare.net/FICoba/30-fidor-ostecscompanypresentationsmall).

Capital One UK built QuickCheck as an internal API service to allow customers to check credit card eligibility but then realized that the API itself was marketable to its business partners. It sounds simple, but it was a completely different way of thinking. Instead of the product being a collection of terms and conditions and a plastic card, Capital One pivoted to recognize a piece of software as a product. In the process of achieving one business goal, the solution became a value-add product, contributing to the bottom line in its own right.

Saxo Bank white-labels its trading platform to other institutions that don’t have their own. APIs allow the bank to take the things it is good at (its core business assets and capabilities), connect them with its partner ecosystem, and create new types of customers and new streams of revenue. See the Forrester report “How APIs Reframe Business Strategy.”

While many banks fear being reduced to a utility, some will choose this strategy, as custodian banks like BNY Mellon and State Street did years ago. These banks and service providers will gather high volumes in nondifferentiating areas like clearing and settlement, payment processing, securities custody, and fraud protection — enabling them to be more efficient and cut transaction costs. These banks will invest heavily in digital operational excellence.

SolarisBank is the latest of several “banking as a platform” services to hail from Germany. Fidor, Figo, and the Open Bank Project also provide APIs to deliver banking services to developers, allowing them to build them into their own front-end applications and web pages. See the Forrester report “Four Ways APIs Are Changing Banking.”

The bank also provides business development advice. By positioning itself and its services in this way, it creates distribution for its services and a place in multiple futures — as startup success is built on its banking platform.

Business banking has held an odd position inside many banks for the past 20 years. As one digital business leader put it, “Everybody talks a lot about improving business clients’ experiences — since they are something like twice as profitable or a bit less than that — but since no other bank is doing much here and serving business clients is so complex, it also ends up on the back burner.”

Some banks have heavily invested in APIs; some haven’t — yet. Digitally savvy and, in particular, digitally transformed corporate customers will notice. They will expect bank services that fully integrate with their solutions. What were custom web services will now be APIs — sitting on top of real-time banking solutions that are available 24x7. See the Forrester report “Use APIs And Components To Prepare For The Banking Industry’s Increasing Pace.”

Why are some established financial services firms forming these uneasy alliances with disruptors? Because they have come to terms with the emerging competitive landscape marked by digital ecosystems of value. See the Forrester report “Disruptors Belong In Your Digital Ecosystem.”
The Digital Banking Imperative
Vision: The Digital Banking Strategy Playbook

44 See the Forrester report “Use Digital Money Management To Deliver Personalized Financial Coaching.”

45 Over the past few years, a wave of new digital banks like Fidor Bank, Hello bank, Jibun Bank, Moven, and Widiba have launched, competing to win customers with better digital customer experiences than those offered by established banks. These digital banks have embraced mobile and social technologies to create differentiation, using digital platforms to offer simple, convenient, and more personalized customer experiences combined with relevant guidance and advice. See the Forrester report “Disrupting Finance: Digital Banks.”

46 The website touts B as a new kind of current account that is “Powered by Clydesdale Bank & Yorkshire Bank” — rather than the more traditional language in which functionality on a bank’s website is “powered by” an outside technology company. Source: You and B (https://www.youandb.co.uk/).

47 Application development and delivery (AD&D) teams at banks must update their application landscapes to support digital business transformation. Forrester introduced the concept of banking platform 3.0 to help AD&D teams in banks cope with the challenges of disruption and develop a target-state architecture that supports the emerging needs of banking. See the Forrester report “An Introduction To Digital Core Banking.”

48 Digital core banking typically involves elements of systems of engagement, systems of record, and systems of insight. See the Forrester report “Upgrade To Banking Platform 3.0 To Meet The Challenges Of Banking Of The Future.”

49 Born out of the need to connect systems and data together in an increasingly complex, online world, the API owes its success to many of today’s most accessible and social technology companies, such as Amazon, Facebook, Google, and Twitter. Now, APIs are shifting business strategies at leading banks like Denmark’s Saxo Bank and helping transform digital banking design. See the Forrester report “Four Ways APIs Are Changing Banking.”


For more of Forrester’s research on systems of engagement, see the Forrester report “Brief: Systems Of Engagement Take Center Stage.”

51 When considering their future-state initiatives for customers and employees, AD&D teams, along with digital business leaders, will aim to create a technology environment that supports flexibility. This will give them a competitive advantage as yet-to-be-developed tools and technologies arrive on the banking scene. See the Forrester report “Architecting Banking Systems Of Engagement.”

52 Demanding customers and competitive pressures require firms to treat insights — not just data — as a business asset. Forrester’s research into firms across industries — such as Ford Motor, General Electric (GE), and USAA — as well as digital insurgents like Netflix and LinkedIn reveals that these leaders are fusing a new business discipline with technology to create systems of insight. See the Forrester report “Digital Insights Are The New Currency Of Business.”

53 Source: Interviews with large banks in North America, Europe, and Asia Pacific, 2015 and 2016.

54 Don’t worry. You don’t need a Ph.D. in computer science to use machine learning in your apps. AD&D professionals are already starting to use machine learning to make their apps a whole lot smarter by continuously adapting the user experience, predicting outcomes, and revealing new insights. See the Forrester report “A Machine Learning Primer For BT Professionals.”

55 Many companies are betting on bots — chat-based software built to simulate human conversation and help consumers complete tasks. But while bots and the technologies that enable them are evolving rapidly, the customer experiences they offer today are often either poor or uneven. Digital leaders at most banks should hold off on launching customer service or chatbots on messaging platforms. Instead, digital teams should work with their technology partners to focus on foundational digital initiatives that will enable better bots and artificial-intelligence-based services in two to three years. See the Forrester report “Bots Aren’t Ready To Be Bankers.”
To understand the ever-changing behaviors of perpetually connected customers, firms need to become collaborative, sharing their data and insight as much as they consume those of others. See the Forrester report “Introducing Adaptive Intelligence.”

Already, a cluster of leading banks are embracing digital business transformation, while too many other providers continue to tackle digital banking as a series of one-off, check-the-box projects. Many banking executives still think of “digital” as touchpoints or technologies rather than thinking more strategically how they can create and exploit digital assets to simultaneously deliver new sources of customer value, improve customer experience across touchpoints, and increase their operational agility. See the Forrester report “The State Of Digital Banking, 2016.”
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