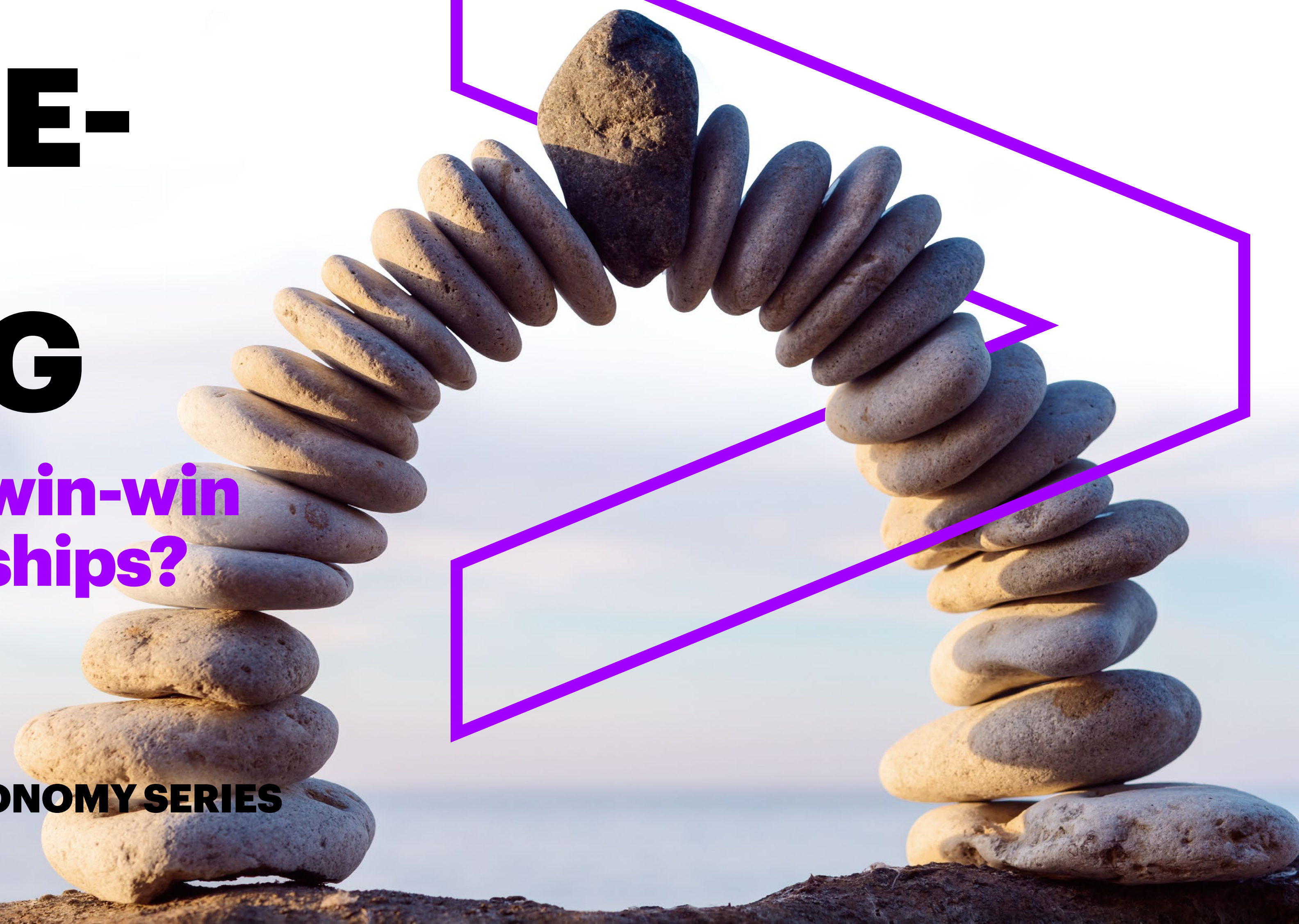
PURPOSE-DRIVEN BANKING

Can trust create win-win banking relationships?



WINNING IN THE DIGITAL ECONOMY SERIES

accenture

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FOREWORD

There was a time when banks were pillars of the community. Customers relied on them to keep their money safe and help them weather economic storms. In the 1947 film *It's a Wonderful Life*, George Bailey, the beloved community banker of Bedford Falls, knows his customers personally, looks after them for most of their lives, and is trusted by them to do the right thing, even when times get tough.

This intimacy—and the trust associated with it—started to wane in the 1980s, when shareholder pressure made profit maximization the overriding management priority. Accompanying this shift was the introduction of technology that allowed customers to transact remotely, creating distance in what had often been a truly personal relationship.

Although customers still trusted banks to keep their money safe and protect their personal data, they became increasingly skeptical about whether banks would always provide advice that was in their best interests. When data-driven "segment of one" personalization did emerge, it was used more to market banks' products than improve customers' financial well-being.

Trust in the banking sector was shaken by the 2008 financial crisis, while subsequent mis-selling scandals across multiple markets only served to reinforce many consumers' suspicions that their and their banks' interests were divergent if not opposed.

New entrants to the retail banking market saw an opportunity to not only create innovative digital propositions, but also to change the tone and nature of their customer interactions. They emphasized a collaborative, empathetic, "we're in this together" brand position that has resonated with many customers, resulting in more than 20 million[1] accounts being opened with challenger banks operating in the UK.

This left incumbent retail banks little choice but to invest heavily to digitally transform and modernize their businesses. We studied the impact of this in our 2019 Digital Banking Leadership study,[2] and found that while digital leaders among traditional banks have increased their margins through improved efficiency, they have yet to achieve the strong top-line revenue growth associated with the best digital brands in other sectors. The best of incumbent retail banks now deliver efficient, highly appealing digital customer experiences, but consumer surveys still show pronounced skepticism that the interests of banks and their customers are truly aligned.

We believe the winners in the retail banking business, over the next decade, will be those that use innovative technology not only for efficiency but also to restore the customer intimacy that characterized the Bailey Bros. Building & Loan Association. It will entail offering customers broader choices and more appealing services, better tailored to suit their needs and aspirations in a business model that emphasizes win-win rather than win-lose. Successful banks will be seen as trusted partners with the privilege of earning an economic return that is compatible with doing what is right for their customers.
We call it purpose-driven banking.

In this report, we discuss purpose-driven banking and the kind of trust that banks must earn and accumulate to win in an increasingly competitive digital economy. We highlight important initiatives that will grow trust, stem the leakage of revenue to new entrants, underpin new advice propositions, and help banks capture an average nine percent incremental revenue growth globally.

To succeed, they must understand which customers need which products and services, and why. They will also have to convince those customers that the bank's intent in offering advice is sincere and mutually beneficial.

In the 2020s, we are not advocating that banks return to the low-tech, high-cost Bailey Bros. model of banking. Instead, they should find ways to connect with their customers that go beyond efficient-but-soulless digital transactions and create meaningful digital relationships. This will lay the foundation on which real advisory trust can be built, financial wellness enhanced, and long-run, win-win partnerships established.

Alan McIntyre
Senior Managing Director
– Accenture Banking

Julian Skan
Senior Managing Director
– Accenture Banking, Europe

DIFFERENTIATE ON MUTUAL BENEFIT

Fierce new competitors in banking typically know why they're here. They have a clear mission to fill a market gap, and a purpose that entails giving customers something that doesn't yet exist.

Take the simple idea that small businesses shouldn't need a bulky, hard-wired terminal if they want to accept card payments. Square built a business on that notion, and in the third quarter of 2019 reported a net revenue of US$1.27 billion, up 44 percent year over year.[3]

Similarly, Google set out to improve the data and analytics capabilities of customers' checking accounts. It has partnered with Citi and Stanford Federal Credit Union to launch a checking account linked to Google Pay[4] that will use data to add value to their consumer products.

Nubank, a new Brazilian digital entrant with more than 15 million customers and a valuation that exceeds $10 billion,[5] claims to offer "fair, uncomplicated, and transparent" financial services. It promises to treat people as humans, not numbers, and to help them reinvent their financial lives.[6]

In the UK, a hotbed of new-entrant activity, rapid customer acquisition has yet to translate into profitability, but it has certainly generated the type of positive viral marketing and customer advocacy to which most incumbent banks aspire.

Such intense competition will be the new norm in banking. It will erode traditional banks' market share and continue to threaten their revenue and margins. In markets that are overbanked, and where traditional competitive boundaries are breaking down, differentiation will be crucial not only for profitable growth but even survival—at least as an entity that does more than just provide the balance sheets behind the more appealing customer propositions of others.

At the same time, there are increasing calls in the broader commercial arena for corporations to rediscover their purpose—one that advances the well-being of consumers and society as well as of shareholders.

According to S&P Global, more than 90 percent of the last two years' environmental, social, and governance (ESG) ratings of financial institutions have been negative.[7] In response, CEOs at the recent US Business Roundtable, including those from Bank of America and Citigroup, released a statement saying that corporations should have a purpose that goes beyond the needs of shareholders, to drive investments in employees and customer value.[8] France has gone further by mandating that companies prioritize social and environmental objectives alongside their corporate interests, and encouraging them to include social objectives in their corporate purpose.[9]

Based on our decades of work with industry leaders, we believe that a bank can differentiate itself and grow its business through a two-fold, win-win approach: remove the inefficiencies of its current processes and share the efficiency benefits with customers to build trust and sustainable profits.

THE PURPOSE-DRIVEN TRUST OPPORTUNITY

Consumer trust is the foundation of retail banking. While consumers trust banks to protect their data and process their transactions, they are much less confident about banks looking after their best interests—only 43 percent trust their bank to look after their long-term financial well-being (Figure 1). It may be cold comfort, but levels of consumer trust are even lower when it comes to other service providers. Disenchantment may be widespread and growing, but banks have a lead on other organizations as they work to rebuild consumer affinity.

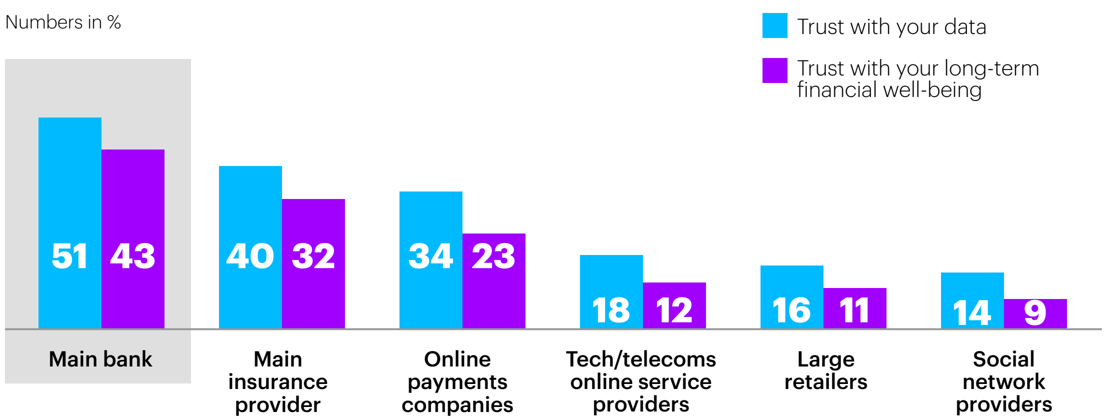
There is certainly ample scope for them to do so through practical advice and assistance, but their traditional offerings may need to be revisited. Based on our research, we made three key observations on why the next era of bank advice must be new and different.

The first is that most people struggle with money (Figure 2). Only 25 percent of retail banking customers have sufficient savings to cover six months of living expenses and are, as a result, unprepared for unplanned life events such as losing their job (Figure 3).

Figure 1. Banks' opportunity to grow consumer trust

Q. To what extent do you trust the following providers?

A. A lot.



Source: Accenture Global Financial Services Consumer Study, 2019

Figure 2. Consumers are struggling with money

42% find it challenging to manage their money, mainly because they lack financial information and are confused by complex rules.

only 25% have enough savings to cover six months of living expenses.

28% of people do not optimize the amount of taxes paid.

64% of consumers seek general financial advice.

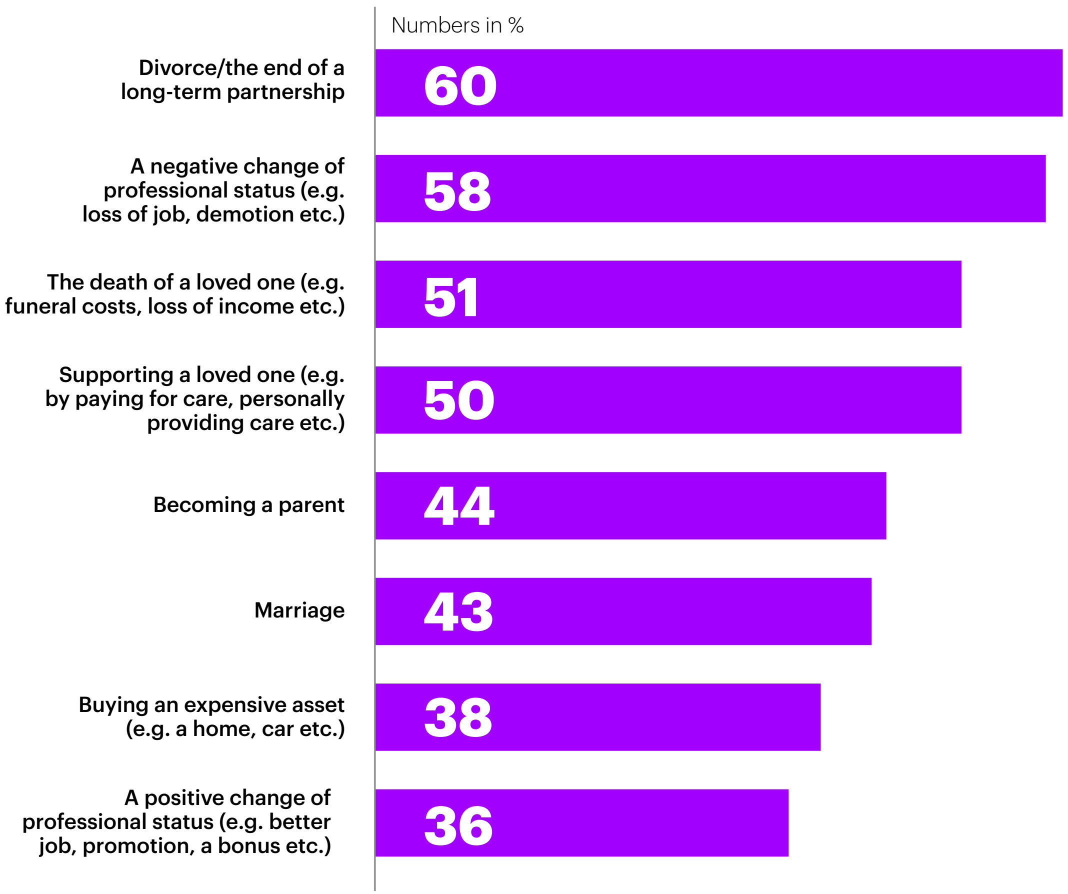
only 29% are net savers (spend less than they earn).

32% do not have sufficient savings to fulfill long-term financial goals (e.g. for retirement, buying property etc.).

Source: Accenture Purpose-Driven Banking Consumer Survey, 2020

Figure 3. Most consumers are financially unprepared for major life events

Percentage of people who experienced these events and recall being financially unprepared for it.



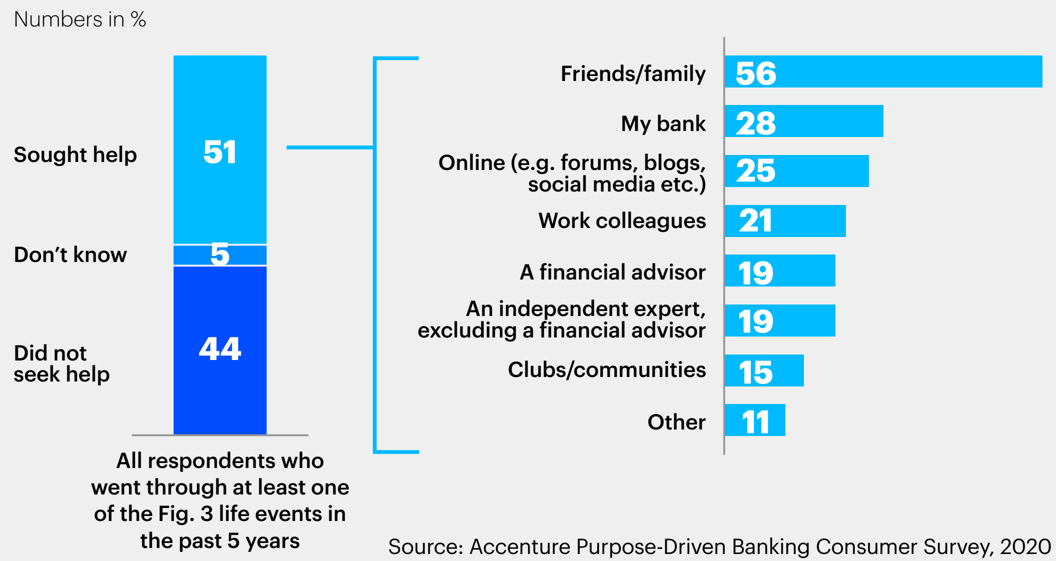
Source: Accenture Purpose-Driven Banking Consumer Survey, 2020

There is abundant opportunity for banks to step in and provide their customers with better, more personalized advice and support that help them deal with not only the volatility of day-to-day life but also the broader changes that affect almost everyone from time to time.

Our second observation is that despite their difficulty in managing their money, consumers are reluctant to seek help. As Figure 4 shows, only one in two ask for advice when confronted by a financial setback, and of those who do, fewer than one in three turn to their bank.[10]

Figure 4. Consumers are disinclined to ask for financial help

Q. Did you seek help in dealing with the financial implications of a major life event? If so, to whom did you turn?



Source: Accenture Purpose-Driven Banking Consumer Survey, 2020

Our third observation is that the economic profile of the customers in need of advice is changing. According to Credit Suisse Research,[11] in 2018, 2.9 billion adults worldwide had a net worth of less than US$10,000 while 47 million adults had more than $1 million. The former group typically cannot afford bank advisory services and the latter group is already well served by financial advisors. That leaves 2.2 billion adults globally in the $10,000 to $1 million range who are generally underserved by financial advice.

The need is greatest among the 1.7 billion in the $10,000 to $100,000 range. These we call the "Neglected Middle". Banks should consider them the primary target for new and improved advisory services.

Banks that can show they are working more sincerely in customers' best interests could become trusted—and profitable—advisors. The economic logic is simple. Better advice means better customer decisions, which over time creates more wealth—wealth that banks then have an opportunity to help their customers manage. Compare that to the widely held caricature of banks that spring hidden fees on customers, push high-cost consumer loans at every opportunity, and generally profit from their customers' ill-advised financial decisions.

DON'T CONFUSE ENGAGEMENT WITH TRUST

Banks have invested a great deal in building out innovative banking services that are intended to increase customer engagement.

CASES IN POINT

AI chatbots that facilitate mobile dialogs with customers in real-time are being launched, for example Neo by CaixaBank.[12]

Banks are looking to expand the functionality of their mobile wallets. For example, DBS plans to integrate its rewards offering and expand its merchant partnerships for PayLah! with the aim to more than double its user base to 3.5 million customers by 2023.[13]

Such initiatives are driving up transactional engagement, like checking balances and making payments. According to *The Financial Brand*, 42 percent of consumers say they use their bank's mobile app more now than they did 12 months ago.[14] Our research shows that half of mobile banking users worldwide log in at least once a week,[15] so there is no lack of engagement with banks.

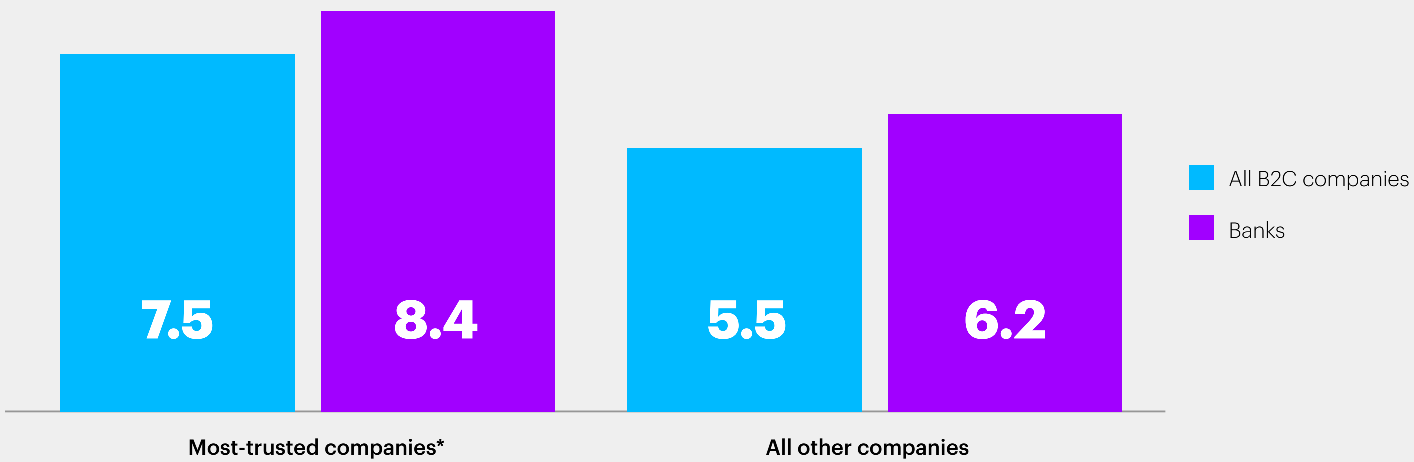
However, transactional engagement does not necessarily build emotional connections and establish the type of advisory relationships with customers that are clearly needed. It's a common misconception that frequent app usage leads to better money management—for example, realizing when one is likely to become overdrawn and taking preemptive steps. However, our research[16] found no such correlation. The reality is that transaction features are becoming table stakes. Not only is there very little evidence that these innovations build trust in banks' advisors; they are also easily replicated by competitors.

There is, however, a clear positive relationship between trust and revenue growth. Companies that underpin a distinctive and relevant purpose with differentiated levels of trust generally achieve positive financial results.

Our analysis of the Arabesque S-Ray Trust score data, for example, shows that business-to-consumer companies in the highest Trust score quartile also show the highest revenue growth: 7.5 percent for all industries and 8.4 percent for banks (Figure 5).[17]

Figure 5. Trusted companies achieve higher revenue growth

Annual revenue growth rates (%, 2018 v 2017)



* Companies within the top 25 percent of the Arabesque S-Ray Trust score.

Note: Analysis of 3,800 banks and other B2C companies based in 12 countries. The Trust score is calculated as the average of the quarterly Trust score between 2016 and 2017. Companies with bottom and top 10 percent revenue growth values were excluded from the analysis

Source: Accenture Research analysis of S&P Capital IQ data and Arabesque's S-Ray Trust score.

But the business case for becoming a purpose-driven bank that is trusted by its customers is predicated not only on the upside of higher revenue growth. There is also downside risk if banks fail to shift towards a more balanced relationship with their customers.

In the markets we analyzed, on average five percent of traditional banks' total retail revenue is at risk if they fail to address their trust deficit (Figure 6).[18]

The figure is potentially higher in certain countries if local threats materialize. This comes from the loss of "bad revenue" derived from services that have hidden or obscure fees, or that result directly from customers' poor financial habits and decisions. Recent banking scandals in various markets prompted regulators to insist on the simplification of some fees to protect vulnerable customers who are unable to understand the fine print and find themselves paying exorbitant rates of interest. These "gotcha" moments reinforce the win-lose perception that undermines customers' trust that their bank has their interests at heart.

In the US alone, these fees amount to billions of dollars for each of the leading banks. Not surprisingly, many new entrants have adopted Jeff Bezos's position that "your margin is my opportunity", so their value propositions include greater transparency and fairness.

CASES IN POINT

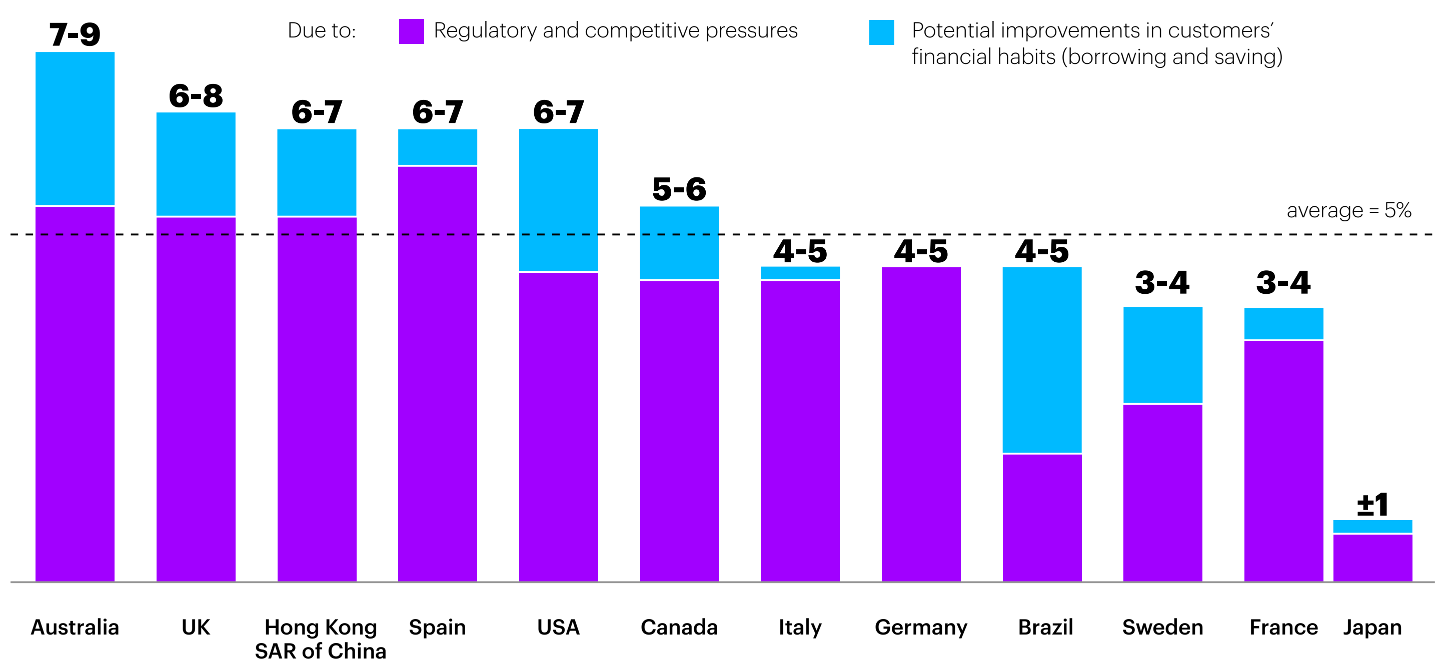
Chime, a leading new entrant in the US, offers features like fee-free overdrafts and no hidden fees. These aim to protect its customers from the downside of bad decisions and help them get ahead.[19]

TransferWise claims to have saved its 6 million customers a total of £1 billion in retail foreign exchange fees in the course of its 2019 financial year.[20] It emphasizes its "modest profit" and the importance of responsible and sustainable growth.

This downside risk is particularly real in markets like Australia and the UK, where there is high dependency on credit card debt and transaction accounts (incurring, for instance, foreign exchange fees and cross-border consumer payment fees). Banks in these countries are vulnerable to targeted propositions that seek to eliminate those fees. Contrast such high-risk markets with those like Japan, where retail overdrafts are uncommon and banks' P&Ls are driven more by net interest margin.

Figure 6. A sizable portion of retail banking revenues are at risk

Numbers in %



Source: Accenture Research analysis

To prevent the erosion of these at-risk revenues, incumbent banks will need to increase their transparency, simplify the structure of their fees and offerings, and build trust that they are acting in their customers' best interests.

Banks that shift from selling products to providing trusted solutions and advice will gain more than just financial value. While the narrow business case for being purpose-driven is strong, the broader argument is even stronger. Banks that become purpose-driven and create win-win partnerships will also:

Increase their brand value, leading to greater share of wallet and customer acquisition;

Improve their operational metrics, such as lower NPL risk, better capital-to-risk-weighted assets, cheaper funding sources, and reduced compliance risk due to less mis-selling; and

Strengthen their ability to attract talent. Our research shows that 75 percent of millennials would take a pay cut to work for a socially responsible company.[21]

THE PILLARS OF PURPOSE-DRIVEN BANKING

So, what can be done to create a foundation on which customer trust can be built? As retail banks strive to develop more purpose-driven businesses, we believe there are two sets of strategic actions they should consider taking in parallel (Figure 7):

PILLAR 1

Immediate changes to protect and grow market share. Transforming the core business within a time span of two to three years will not only help retain but also attract new customers.

Banks that aspire to being purpose-driven should start to implement Pillar 1 immediately while also investing time and resources in planning for Pillar 2. We explored the potential impact of both on growth. The former will reinforce banks' advisory trust, but its effect will plateau and won't be enough, on its own, to enable them to deliver the sustained organic revenue growth their shareholders expect.

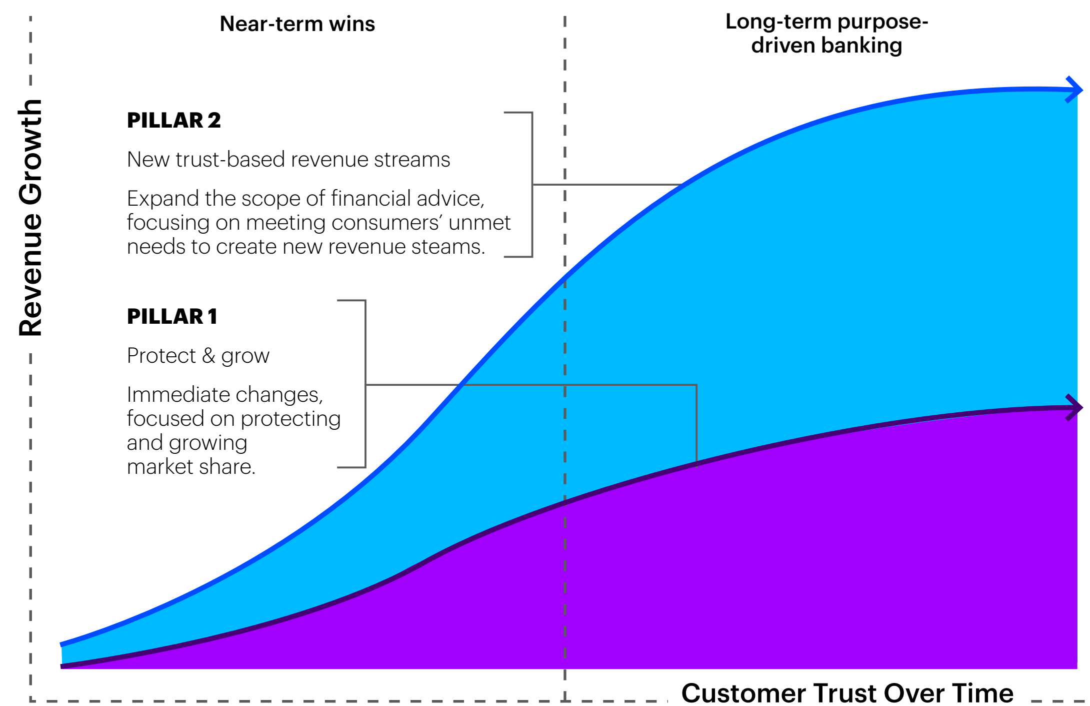
PILLAR 2

A steady shift to expand the scope of financial advice. The focus should be on addressing consumers' unmet needs and creating new revenue streams. Full maturity can be achieved within three to five years.

Hence, there is a strong case for banks to also implement the somewhat riskier but higher-return Pillar 2 initiatives. Together they offer a promising path to recapturing customer intimacy and creating win-win partnerships that will endure over time.

Figure 7. Two sets of actions banks should consider to create a foundation for customer trust

Two strategic pillars, operating in parallel, to future-proof both banks and their customers



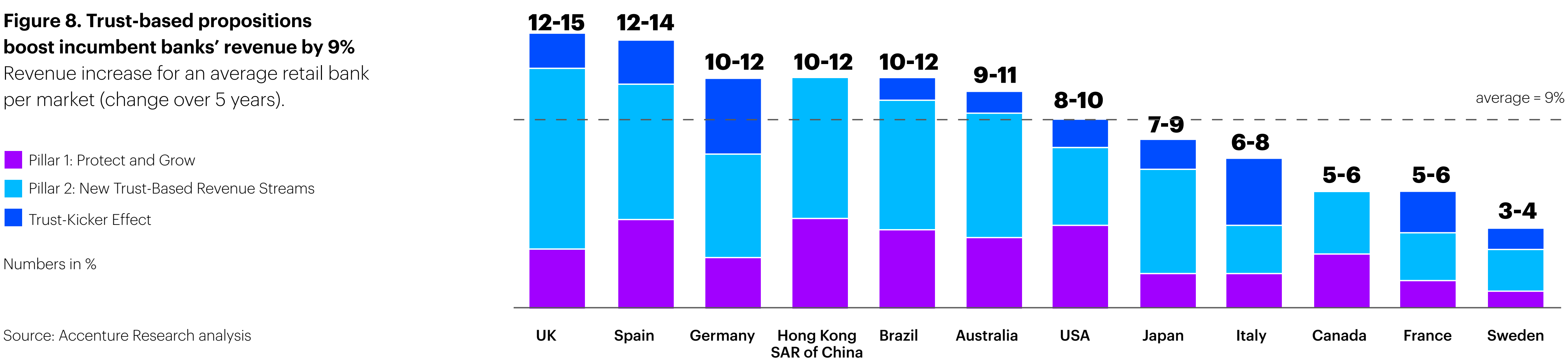
Our analysis indicates that the combined set of trust-based propositions—such as helping customers optimize their daily spend, rationalize their product portfolio, or take advantage of tailored life-planning advice—can generate an average nine percent revenue uplift for incumbent banks (Figure 8).

The opportunity is greater in markets that have larger addressable "Neglected Middle" customer bases and greater concentrations of innovation-seeking customers, such as in the UK and Spain. In contrast, the opportunity is smaller in France and Sweden, which have relatively more skeptical, conservative customers.[22]

Banks that rebuild advisory trust through both growth pillars will generate an added bonus: a trust kicker. This factors in the potential revenue uplift achieved by banks that become one of the most trusted players (as measured by Arabesque S-Ray Trust score) in their respective marketplaces. The potential is greatest in Italy and Germany, whose banks currently have low scores. Trust also serves as a sustainable defense against customer attrition.

In the majority of countries we analyzed, increases in trust-based revenue are more than enough to compensate for the revenues under threat, indicating that there is an attractive business case that is worth investing in.

Figure 8. Trust-based propositions boost incumbent banks' revenue by 9%
Revenue increase for an average retail bank per market (change over 5 years).



Source: Accenture Research analysis

PILLAR 1: PROTECT AND GROW

Pillar 1 encompasses the steps banks can take immediately to improve their understanding of how to enhance customers' everyday financial lives. It goes beyond basic transparency (showing fees and charges, without algorithm bias) to offering more tailored propositions that help customers spend more wisely, manage their debt, and save money. One example is drawing customers' attention to unnoticed spend in the form of micro-transactions and unused subscriptions.

The journey towards purpose-driven, trust-based banking begins by prioritizing short-term investments that address a customer's "cost of bad decisions". This will stem the leakage of revenue to new competitors that target those decision points.

CASES IN POINT

A growing number of banks are developing trust-based customer propositions aimed at improving customers' financial health. Erste CEO Andreas Treichl says his organization is committed to transforming in the next 10 years from a bank to a financial health company—"that's something completely different!"[23]

Discovery Bank uses its Vitality platform to reward customers who adopt and maintain the five key behaviors it claims are essential for financial health. It tracks these behaviors and provides frequent reinforcement and advice.[24]

Monzo highlights the difference between good and bad debt and seeks to increase customers' financial IQ, helping them make smart decisions about small-value loans.[25]

RBC uses predictive technology in its automated savings solution NOMI Find & Save. It learns customers' transaction patterns, finds spare money they're unlikely to miss, and then automatically saves it for them.[26]

Most banks, however, are at an early stage of this execution journey, with no proven, tangible results for either themselves or their customers. There is also plenty of evidence that while some parts of a bank are helping customers make good decisions, others are still profiting from their bad habits.

A first step for banks aiming to move in this direction is clarifying which customer segments to pursue. Within the "Neglected Middle"—the medium-income group underserved by financial advisors—we believe there are two primary target segments:

Strugglers. These consumers live paycheck-to-paycheck and struggle to keep their heads above water. Pillar 1 advice will help them avoid drowning in fees and debt.

Technique Improvers. These consumers need help to become stronger swimmers. Pillar 1 advice would enable them to garner sufficient resources to reach their goals, like buying a house.

Banks can implement Pillar 1 initiatives to attract and serve these segments through three core tactics:

Use behavioral analytics to better understand customers so as to create interventions and offerings, such as automatic investment solutions, that can positively change their relationships with money.

Redefine how the customer value proposition is designed by deploying a multi-disciplinary team of research, marketing, strategy, and retail product specialists who, together, compile and present holistic solutions.

Reach beyond traditional bank offerings and expand customer choice by partnering with third-party providers (such as insurers and merchants) that serve customers' needs from different angles.

By starting with such actions, a bank can build trust as well as use it to control the speed at which threatened revenues are lost. However, executing Pillar 1 initiatives is likely to enable the bank to do little more, economically, than tread water. To capture the upside of purpose-driven banking, it should develop and scale new trust-based revenue streams.

PILLAR 2: CREATE NEW TRUST-BASED REVENUE STREAMS

There are many ways banks can capitalize on greater levels of advisory trust to create new revenue streams. While much of Pillar 1 aims to save Strugglers from drowning, Pillar 2 provides the advice that benefits Technique Improvers. The demand is beyond dispute: 55 percent of the consumers we polled said they would be willing to pay for additional bank services that were of value to them.[27]

Yet, banks have struggled to detach advice from products. Most tend to think of advice as either what is needed to sell a product or a wealth management offering that generates fees.

Many, in drafting their product advice, also overestimate customers' basic financial literacy. Some fund financial literacy efforts, but mostly in the hope of equipping consumers to buy products more quickly. A new, trust-based approach would dispel flawed assumptions and could help customers understand both the issues at hand (like an overdrawn account) and their financial consequences.

Pillar 2 is about genuine mutual benefit and winning together—banks will profit from helping Technique Improvers solve more complex financial problems.

In many ways, it is less about banks' provision of advice, and more about customers' adoption of advice in ways that improve their financial well-being. But as we have reiterated, without the proper foundation of a trust-based relationship, any form of financial advice is unlikely to succeed.

When banks get it right, there is an amplification effect. Not only does the trusted advisory relationship increase their share of wallet; it also grows the size of the wallet over time. Our analysis shows that an advice proposition that emphasizes "benefiting together" has the potential to increase revenues by an average of five percent globally. The challenge, then, is finding the right advisory propositions to create this win-win relationship.

FINDING THE RIGHT ADVICE MODEL

Our research and experience suggest that true trust-based advice models need to redefine the advisory practice and become broader than most current commercial offerings. They should be:

- **Stand-alone and impartial,** without necessarily leading to product sales.
- **Able to identify what is best for customers.** A comparison of offerings should yield the best-value option, even if it means recommending another provider's products.
- **Strong enough to challenge the classic banking orthodoxy** that advice cannot be profitable when provided to all customers.

We believe banks can explore and offer at least three distinct advisory propositions when making this shift:

1. **A Digital Financial Helper** that improves customers' financial literacy relevant to their immediate need. Tools like AI assistants can enable banks to make sense of "information everywhere" (such as that which is available from the UK's Money Advice Service) and answer customers' queries effectively in plain human language.

2. **An Online Advisor** that provides personalized customer recommendations on a regular or constant basis. Probably subscription-based, this service would give customers full access to their data and maintain a dialog about their needs and goals. The customer acts (or authorizes actions) based on the Advisor's recommendations.

3. **A Financial Wellness Visit** to conduct financial "health checks" and provide advice based on a customer's circumstances. Engagements would be human-led, repeated a few times a year, and provided affordably and at scale. A number of players are testing this approach with a mix of robo-advisory and a stripped-down independent financial advisor (IFA) model. However, it has yet to be confirmed that it can maintain the right balance of technology-driven advice and personalized human interaction at a price that Technique Improvers can afford.

Market testing is critical to determine the effectiveness of these propositions from all key perspectives: financial, technical, regulatory and customer receptiveness.

Banks should experiment with the scope of the intended advisory services. Further testing should be done based on the advisory proposition that the banks want to explore—for example, for the Financial Wellness Visit, it would be key to determine which price points can deliver the required margins. A starting point could be ring-fencing a small group of advisors and reskilling them to offer this new service to a sample of Technique Improvers.

THE ‘BENEFITING TOGETHER’ MENTALITY: FIVE KEY SUCCESS FACTORS

There are five key features and capabilities, essential to success across both Pillar 1 and Pillar 2 initiatives, that banks need to adopt to shift toward a “benefiting together” mentality:

1. A BEHAVIOR-INFLUENCING DIGITAL EXPERIENCE

This includes simple interfaces that transition to more engaging tools and interactions, like AI-enabled nudges or human conversations, and are tailored to a customer’s psychology. These will allow banks to present choices and information smartly and guide customers towards optimal money decisions. While many designs for digital user experiences have improved markedly over the last few years, the right navigation, tone of voice, information content, and demonstrated benefit of engagement remain elusive—even for the best digital banks.

2. A BROADER SET OF KPIs

These should align the bank’s organization around its purpose and trust mandate. For example, DBS differentiates between the profitability and share of wallet of its digital as opposed to its non-digital customers.[28] The new KPIs should also move banks beyond NPS as their sole measure of customer satisfaction, as it may be an inadequate measure of customer trust. Standard Chartered’s virtual bank in Hong Kong, for example, aims to acquire customer “heart share”, measured by a combination of digital NPS, mobile app rating, member-gets-member conversion score, and survey results.[29] Finally, banks will want to think about how to communicate with and educate shareholders to focus not only on short-term revenue targets but also on life-time customer value.

3. SMART USE OF TECHNOLOGY AND DATA ENABLERS

These will provide contextual insights automatically and intuitively, enticing consumers to turn to them first for advice. Open Banking, while stirring up competitive intensity, can give banks a more comprehensive picture of individual customers. The explosion of external data and the introduction of machine learning tools are generating greater insights and next-best actions. But as the low traction of existing account aggregation services has shown, customers need to be persuaded that there are benefits to having all their data in one place.

4. GO-TO-MARKET PARTNERSHIPS

Among banks’ new and fierce competitors are opportunities to partner with tech companies like Flybits, Personetics and Google, and to capitalize on the data and innovation power these digital innovators possess. This will allow them to accelerate the introduction of new products and services. Winning together doesn’t just refer to the bank-customer partnership; it can also refer to banks extending their alliance partnerships to get to the right advice model more quickly and effectively.

5. DRIVE AND SUSTAIN A CORE CULTURAL SHIFT TO BUILDING CUSTOMER TRUST

Banks cannot fake this if they want to succeed, and CEOs need to create an environment where changes are implemented to propositions, channels, front- and back-office staff, the customer experience and many other areas. The change must be deep, authentic and consistent. It must also be protected from “purpose washing” and “intent capture” down the line by those looking to cash in on the trust advances in trust-breaking ways.

GIVE YOUR CUSTOMERS REASONS TO BELIEVE

Despite widespread skepticism, banks can give their customers good reason to believe they are putting their best interests first. Those that do will first prioritize their customers' financial well-being as their purpose. They will then develop and execute trust-building initiatives that differentiate their business, nurture customer affinity, and grow.

Capabilities and tools are available to help banks implement Pillar 1 initiatives that can ignite purpose and build customer trust, while concurrently exploring Pillar 2 strategies to increase the revenue pie. However, the call to action differs from country to country.

Banks in markets such as the UK and Hong Kong, where high revenue growth is attainable even amidst high revenue loss, could benefit by executing both pillars immediately—there is an arms race to reap first-mover competitive advantage, especially for Pillar 2 propositions.

In contrast, in countries such as Sweden and Canada where the benefits of Pillar 1 and Pillar 2 may not be sufficient to compensate for revenues at risk, banks should actively look for options beyond advice to defend their positions and grow their businesses. Examples might include becoming intermediaries for non-financial products.

Embracing this opportunity requires bold leaders that are willing to adopt a data-driven approach to prove our hypotheses in their specific markets and context, and then bring their many capabilities to bear under a common purpose. We believe these organizations, if they execute effectively, will be rewarded with bountiful gains in customer trust and economic value.

We would welcome the opportunity to work with these leaders, to transform their organizations and redefine banking. If you're one of them, give us a call.

ABOUT THE RESEARCH

This report is based on two research studies. The first is a quantitative customer survey of 14,900 banking customers in 12 markets: Australia, Brazil, Canada, France, Germany, Hong Kong SAR of China, Japan, Italy, Sweden, Spain, the UK and the US. Conducted in November and December 2019, it asked respondents about their preferences and attitudes on a variety of issues: their relationship with their main bank, money management, their financial habits, their readiness to deal with the financial impact of key life events, and their willingness to pay for new value propositions.

The second is a quantitative analysis of the retail banking revenue pools which, in each of the 12 markets surveyed, might be defined as "under threat" due to pressure from digital challengers and regulators, and improvements in customers' financial habits. We also analyzed the potential revenue uplift which we expect will result from the initiatives that we describe in the Pillars of Purpose-Driven Banking section of this report.

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CONTACT THE AUTHORS

Alan McIntyre
Senior Managing Director – Banking
a.mcintyre@accenture.com

Julian Skan
Senior Managing Director – Banking, Europe
julian.skan@accenture.com

Kim Kim Oon
Managing Director – Accenture Strategy, Banking
kim.kim.oon@accenture.com

Cécile André Leruste
Managing Director – Banking, Europe
cecile.andre.leruste@accenture.com

Francesca Caminiti
Director – Accenture Research, Banking
francesca.caminiti@accenture.com

Mauro Centonze
Manager – Accenture Research, Banking
mauro.centonze@accenture.com

CONTRIBUTORS

Dariusz Orynek
Manager – Accenture Research, Banking
dariusz.orynek@accenture.com

Emily Burns
Manager – Accenture Strategy, Banking
emily.h.burns@accenture.com

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