Innovation in Retail Banking

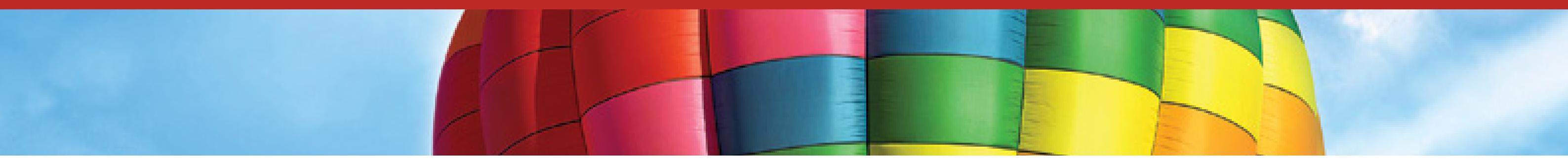
September 2013, 5th Annual Edition

Simplify Technology to Innovate

Efma

Infosys Finacle

Contents



Preface

Efma and Finacle from Infosys are proud to present the fifth annual study of innovation in retail banking. This year's study examines the global innovation trends, identifies how banks can overcome barriers to innovation and improve their innovation capabilities.

While the global economy is gradually recovering, banks around the world are still under pressure to find new sources of revenue growth and control their operating costs. Some improvements have been made in customer satisfaction in recent years but at the same time customer expectations are continually changing. Consumers get experiences from other companies, whether it is on their mobile phones or in their physical interactions, which banks are expected to match. Essentially, banks need to run just to keep up.

The evidence from our survey of over 150 banks is that banks are reacting to this challenge by increasing their focus on innovation and increasing their investment in innovation. Two of the main barriers for most, though not all banks, are their legacy systems and their organisation silos. The larger the bank, the more likely these factors are to hinder innovation but of course there are exceptions. Innovation can be used to help banks simplify their business, making it easier to deliver excellent customer service and at the same time reduce or contain costs.

We are always confronted with the challenge of identifying what is an innovation in retail banking. An innovation in one country may have already been well established in another country. A good example is the functionality to allow transactions through a Facebook login, which was introduced first in Turkey in early 2012, but eighteen months later is being introduced in many other countries for the first time by different banks.

We believe that banks need to measure themselves against both their immediate, domestic competition, and also against global standards. By taking a global view of innovation, we are able in a small way to give banks an idea of where they stand on the global stage.

There seems to be a global convergence of innovation practices and focus so it is harder to distinguish between geographic regions. There are probably more differences in approach between large and small banks than there are regional differences. Another contrast can be found between developing markets and developed markets but even there the overlap is quite high – for example some of the most innovative banks in social media can be found in places like India, Brazil and Nigeria which are still developing countries.

We hope that you find this study useful and look forward to continuing to monitor developments in retail banking innovation on your behalf in the future.

Patrick Desmares
Secretary General
Efma

Haragopal M
Global Head – Finacle
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Executive summary

More banks have an innovation strategy than ever before
There is clear evidence from our survey that more and more banks have an innovation strategy – 60% in 2013 compared to 37% in 2009. An innovation strategy should include for example, objectives, processes, prioritisation and measures of success.

Innovation investment is also increasing
When we began our research, in 2009, more banks were decreasing innovation investment than increasing. However, there has been a dramatic change in the last few years and now 77% of banks say they are increasing investment, and only 5% of banks are decreasing investment.

Most banks believe they are becoming more innovative
A large majority of 76% of banks say they are becoming more innovative, whereas only 6% say they are becoming less innovative. As before, we find that banks believe they are most innovative in channels, and least innovative in processes.

Performance metrics are focused on revenue and customers
The most common metrics used for assessing the benefits of an innovation are revenue growth and customer satisfaction. Measurement of profitability from innovations is less common but this may reflect that for some innovations it can be hard to directly measure.

IT systems and culture are typically the biggest barriers to innovation
For all sizes of banks, IT systems are the number one barrier to innovation. Organisation culture and organisation silos are also important, particularly for large and medium size banks. Smaller banks tend to suffer less from cultural issues and organisation silos, but find regulation a significant barrier.

The impact of business process capability on innovation capability is also key
Apart from the broad organisation-level factors like culture, the most important capability that banks can develop to improve their overall innovation capability is to increase their business process speed, agility and efficiency.

We have identified several other factors which can improve innovation capabilities
Other capabilities which themselves would improve a bank's overall innovation capabilities are the ability to personalise products, seamless multichannel integration, and having a single customer view. Banks are working on all of these capabilities but have some way to go. For example, only around 21% of banks currently allow customers to do some form of product personalisation, and only around 35% of banks have a real-time single customer view of products and transactions.

Open innovation should be an important capability but effectiveness currently is low
Overall, the experience of open innovation techniques has not been particularly good for banks – the average effectiveness score on a scale of 1 to 7 is just 3.6. The most effective has been partnering with IT companies or other suppliers and the least effective has been investment in start-ups.

Silo based IT systems can be a particular problem
Particularly for large banks, silo based IT systems have a significant impact on time to market, cost of innovation, and functionality of innovation. For example, on a scale of 1 to 7, large banks say that the impact of silo based IT systems on time to market is more than 6 out of 7. The average time to market for new offers at large banks is around 12 months, whereas for small banks it is only around 6 months.

IT change can also be a significant factor which slows down innovation
Banks going through either legacy system changes or mergers consistently report that innovation is difficult because of other IT development priorities.

Enterprise-wide systems and componentised deployment of systems can address these issues

Most banks (78%) believe that Enterprise-wide systems such as for payments or origination would have a beneficial impact on innovation capability. Most banks (58%) also believe that the ability to deploy new systems in components would have a beneficial impact on innovation capability.

We measured the current status of innovation deployment in mobile and online and found that:

- On average, out of 10 mobile and online innovations surveyed, banks have deployed around 2. For larger banks the figure is closer to 3 and for smaller banks the figure is closer to 1.
- Mobile P2P payments have been deployed by 29% of banks and mobile NFC payments by 23% of banks. Mobile location-based offers have been deployed by 18% of banks, and a further 51% of banks have this in plan.
- Direct only banking has been deployed by 23% of banks, but only 21% of banks have this in plan, so the majority have no plans. 21% of banks allow self-configuration of products online. Gamification has been used by just 9% of banks.

There are common themes across regions but some differences still exist:

- The focus on mobile and social is evident in banks from countries across the world and from countries at different stages of economic development.
- Innovation performance at European banks is improving but is still lagging behind innovation performance in other regions.
- The innovation performance of banks in Asia Pacific is this year higher than the other regions, with innovative banks in countries ranging from New Zealand to the Philippines.

Innovation case examples

Innovation cases highlighted in this report

Bank	Country	Innovation
ActivoBank	Portugal	Mobile P2P payments using QR codes
Al Hilal Bank	UAE	Innovation strategy and development of a new "children's" branch
Alior Bank	Poland	Online video chat service, as part of a new digital only bank
Axis Bank	India	Mobile bank account for financial inclusion, operated in partnership with telco
Barclays	UK	Innovation strategy and new services such as online configuration of current account product
BBVA	Spain	Corporate venturing as an open innovation initiative, and gamification
BNP Paribas	France	Digital only banking launching in four countries across Europe
Bradesco	Brazil	Development of a "branch of the future" and social media services
Capitec Bank	South Africa	Innovation in technology and processes to create a simplified business model
China UnionPay	China	Mobile NFC payments launched in partnership with several banks
Davivienda	Colombia	Innovation strategy and the development of a mobile money platform
Ecobank	Togo	Innovation strategy and the development of several cross-border products and services in Africa
First National Bank	South Africa	Development of innovation processes focused on an internal competition
Green Dot	United States	Digital only banking focused around the mobile phone as the key channel
Grow Financial	United States	Gamification using the external wall of a traditional branch
GT Bank	Nigeria	Integration of bank account with social media for information and transactions
Hana Bank	South Korea	Development of a series of innovative mobile money services
Kiwibank	New Zealand	Setting up "online relationship managers" for all customers
Knab	Netherlands	Start-up bank which is aiming to disrupt the banking industry in the Netherlands
Kotak Mahindra	India	Innovation in the online account opening process to enable rapid growth
Moven	United States	Start-up mobile money service which is aiming to disrupt the banking industry in the United States
Noor Islamic	UAE	Open innovation strategy through an external competition
Paypal	United States	Mobile voice commands for processing of payments
TEB	Turkey	Open innovation strategy and development of an innovation culture
U.S. Bank	United States	Mobile innovations, including mobile photo bill pay and voice commands
UBank	Australia	Online value-added services using anonymised customer information
UniCredit	Italy	Innovation structure and process and examples of process and technology innovation

Introduction

Financial services as an industry has some unique characteristics which make it different to other industries and could lead to the conclusion that innovation is less important than elsewhere. For example, regulation can make it difficult for new entrants to the industry since the regulatory authorities, while striving to ensure markets are competitive, are primarily concerned with the stability of the payments and financial system as a whole. Customers also exhibit high degrees of inertia, staying with their main bank over a long period of time even when products and services are not as attractive as they could be.

Nevertheless, we have witnessed several examples of innovative new entrants in specific markets over the last decade, which have caused the incumbents to "up their game". One of the best examples is Capitec Bank in South Africa which has established itself as the fourth largest retail bank in the country by innovative organic growth.

An interesting feature of the approach taken by Capitec is that it is innovation based on simplification. Simple products, simple infrastructure and simple business processes. While the established competition in South Africa carried the typical legacies of major banks, Capitec was more agile and able to expand rapidly across the country. Of course the competition has reacted to Capitec's success but it is not easy to react quickly to business model innovations. Later in the report we note that one of the key capabilities that banks believe will help their innovation efforts is business process speed and agility.

The benefits of innovation

It is difficult to find academic research in support of innovation in financial services but there is strong evidence that companies in general with good track records of growth are highly innovative. Rita Gunther McGrath[1], who is recognised as a leading expert on innovation, wrote recently in the Harvard Business Review – "Growth outliers do a tremendous amount of experimentation and innovation. They develop and deploy new technologies, move into new markets, explore new business models and even open up new industries. They take on acquisitions and aggressively seek input from people and organisations quite unlike their own."

George S. Day, Professor of Marketing at Wharton Business School, has recently published a book on innovation called "Innovation Prowess"[2]. In an interview with Knowledge@Wharton, Day explained that growth leaders have two characteristics. The first is a "growth-seeking discipline" which illustrates innovation is a skill that can be built with practice – it is also a replicable and disciplined skill. The second is what he calls innovation ability – this means being risk-tolerant and experimenting, being good at open innovation, partnering and sharing. It also means following the philosophy of "start small, but think big", fail fast, or scale quickly.

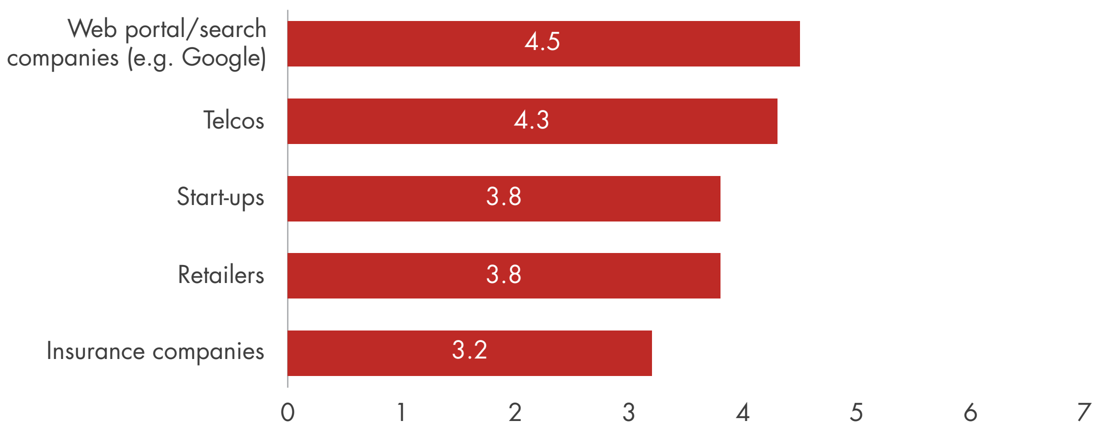
[1] "How the Growth Outliers Do It", Harvard Business Review, Jan-Feb 2012

[2] "Innovation Prowess: Leadership Strategies For Accelerating Growth", Wharton Executive Essentials 2013

Banks cannot ignore threats to their business from new types of competitors. In our recent survey we asked banks what types of companies they saw as the most significant threat. Figure 1 shows that it is web portal or search companies like Google which are expected to be the biggest threat, although on a scale of 1 to 7 (where 7 is high), the threat is only perceived to be slightly above the average. The views on competitive threats are largely the same in all regions, except that in the Middle East & Africa it is the telcos who are seen to be the largest threat. This is probably because the level of Internet use is still relatively low whereas most people have mobile phones.

Figure 1: Perceived threats to the banking industry

On a scale of 1 to 7, where 1 is low and 7 is high



Source: Efma-Infosys Innovation Survey 2013

New entrants to the banking industry

Knab (Netherlands)

Knab was launched in the Netherlands in late 2012 by Dutch insurer Aegon. Knab is a digital only bank (online and mobile) with a focus on personalising the customer experience. Key features include:

- Sophisticated personal financial management tools, including aggregation of data from accounts with other banks, and budgeting and forecasting capabilities.
- Access to independent financial advisers who are screened by Knab and provide services to customers who can also rate their experience.
- A personal archive which saves and manages all customer information online including e-mails, chat, financial statements, agreements and even recordings of telephone conversations with the Knab service desk.

Marieke Verloop, who is Director of Marketing at Knab, explained in the *Efma Journal* that the philosophy introduced by the bank is a revolutionary one which sets a new standard for all banks of the future. Knab's competitive advantage is that traditional banks, especially in the short term, will not be able to copy the same degree of customer focus.

Moven (United States)

US start-up, Moven, is focused on customer engagement. It is not a bank, but a financial management service with banking services provided by an FDIC registered institution. The service is based around the mobile phone, using mobile contactless technology. At its heart are the personal financial management tools, which have a couple of unique features:

- Integration with a customer's Facebook social timeline so that the customer can understand the impact of their social life on spending.
- Real-time updates of the spending profile as the customer carries out transactions in retail stores, alerting customers to spending trends.

Julianna Young, Director of Behaviour Design at Moven, explained at Efma's Customer Conference in April 2013 how consumers were increasingly using innovative apps on their mobile phones (such as taxi and dating services) and that Moven was focused on how to develop the banking experience to take advantage of the new opportunities available on the mobile phone. According to Young, "the power of mobile is in providing information in context by leveraging geolocation technology and delivering real-time information to help customers make real-time decisions".

Types of innovation

There are different types of innovation, which can make it difficult for banks to focus and prioritise their activities. On one dimension there is the scale of innovation which might typically have three levels:

- Incremental
- Step-change
- Radical or disruptive

Another type of innovation is business model. According to recent research by Raphael Amit (Wharton) and Christoph Zott (IESE), "business model innovation can consist of adding new activities, linking activities in novel ways or changing which party performs an activity"[3]. For example, Amit and Zott have described the differences between the business models of Apple and HTC in the mobile phone market – the latter has excelled at product innovation but has not innovated its business model in the same way as the former and hence has fallen a long way behind in terms of business performance.

Radical, disruptive or business model innovation remains quite rare in retail financial services and new entrants in banking or payments who have tried this generally remain small relative to established competitors with large customer bases. The incumbents typically have time to assess new innovations and respond in their own time – a strategy which probably would not work in more technology focused businesses.

In banking, we could say that an incremental innovation is something like the biometric point-of-sale security system being introduced by UniCredit in Italy (see Page 42). With this system, customers can validate their identity when making a purchase, without using a PIN number, and hence it is much more secure. This is a useful innovation but unlikely to radically transform the industry.

A step-change innovation may be something like the mobile only bank account launched by Green Dot in the United States (see Page 36). Clearly we have had telephone only banks and online only banks in the past, so this is just a further development along these lines. However, the mobile is such a different device for many reasons. It changes the way customers interact with their bank and can radically change the functional possibilities in banking.

So far in banking we have not seen a disruptive use of technology that has fundamentally changed the economics of the banking business, in the same way that it has in say the music business, where services like iTunes and now Spotify and other similar services have had a dramatic impact on the large music companies.

Consumer and technology trends

One of the starting points for many innovation strategies is to have a good understanding of consumer and technology trends. It is hardly controversial to say that the biggest consumer trends of the last few years have been social and mobile.

Facebook's monthly active users have grown from 360m at the end of 2009 to 1,056m at the end of 2012, a growth rate of 43% per annum. Although overall growth is now slowing, mobile usage of Facebook has continued to be very fast, and mobile users now represent 64% of all active users.

[3] "Creating Value Through Business Model Innovation", MIT Sloan Management Review, Spring 2012

Gamification is also a related trend to social, and we are starting to see more banks experiment with the opportunities it presents. For example, Grow Financial, which is a credit union in the United States, installed a giant video screen outside a branch which allows passers-by to play a game and win money using augmented reality and a motion reactive video mirror.

In retail banking, a good example of the impact of mobile can be found in South Korea. The number of mobile banking subscribers on smartphones was negligible at the end of 2009, but by the end of 2012 was 24m. This represents nearly 60% of the population over the age of 14 (though some may have multiple subscriptions). There are two key drivers to this – one is the growth in the number of smartphones in use, and the other is the availability of banking services which make use of smartphone functionality. Ericsson is forecasting that the number of smartphone subscriptions worldwide will increase from 1.2bn at the end of 2012 to 4.5bn at the end of 2018[4]. The growth in mobile banking will therefore continue to be very strong for the foreseeable future.

Probably the hottest technology trend of relevance to retail banking is the increasing ability to store and analyse large amounts of data of different types from different sources, in a cost effective way. So called "big data" projects are still relatively rare in retail banking but many banks are now starting pilot projects and consider this to be an important area for development in the next few years.

In the next section of the report, we report on the key innovation trends, for example innovation investment and performance levels, and the metrics banks are using to measure success.

The main focus after that is to look more closely at the barriers to innovation in retail banks. Why is it that banks find innovation difficult and what can they do to improve their innovation performance? In the face of growing competition from new entrants, and rapidly changing consumer and technology trends, banks will have to improve their innovation capabilities in order to protect their markets and profitability, and to prosper in the long run.

Following up from last year's study, we also examine the deployment of different innovations in mobile and online channels, and later in the report, we assess some of the innovation issues on a regional basis – comparing Europe, Middle East & Africa, Asia Pacific and the Americas.

[4] Ericsson Mobility Report, June 2013

Interview with the author

Michael Pearson, an experienced banker and consultant, and an expert on retail banking strategy and innovation, has conducted the research for the Innovation in Retail Banking study in each of the last five years. Michael was asked by Efma and Infosys to describe some of the trends he has seen developing in that time.

What are the biggest changes you have seen in the last few years?

The first year of our research, in 2009, was in the early stages of the worst financial crisis in a generation. Needless to say, many banks were focused only on survival so innovation was not a high priority. Since then, with a few ups and downs, we have seen a steady increase in the focus on innovation as banks started to consider how they need to adapt to a changing world, and create opportunities for revenue growth in the next five to ten years. Many more banks now have dedicated innovation resources, whether that is in the Marketing department, the IT department, or centrally managed within Retail Banking.

What are the main characteristics of the most innovative banks?

We have seen many of the same banks coming up with innovative developments for several years now. It is clear from talking to these banks that there is 100% support for innovation from the Chairman or Chief Executive. This is particularly important in large, complex banks where innovation is difficult to embed in the culture, and where organisation silos are often a barrier to innovation. Together with senior management support, the leading banks have a clear idea of what their innovation objectives are and what process they are going to use to drive innovation. Once they have this in place, it will still take a few years before significant progress can be seen so consistency of purpose and effort are important.

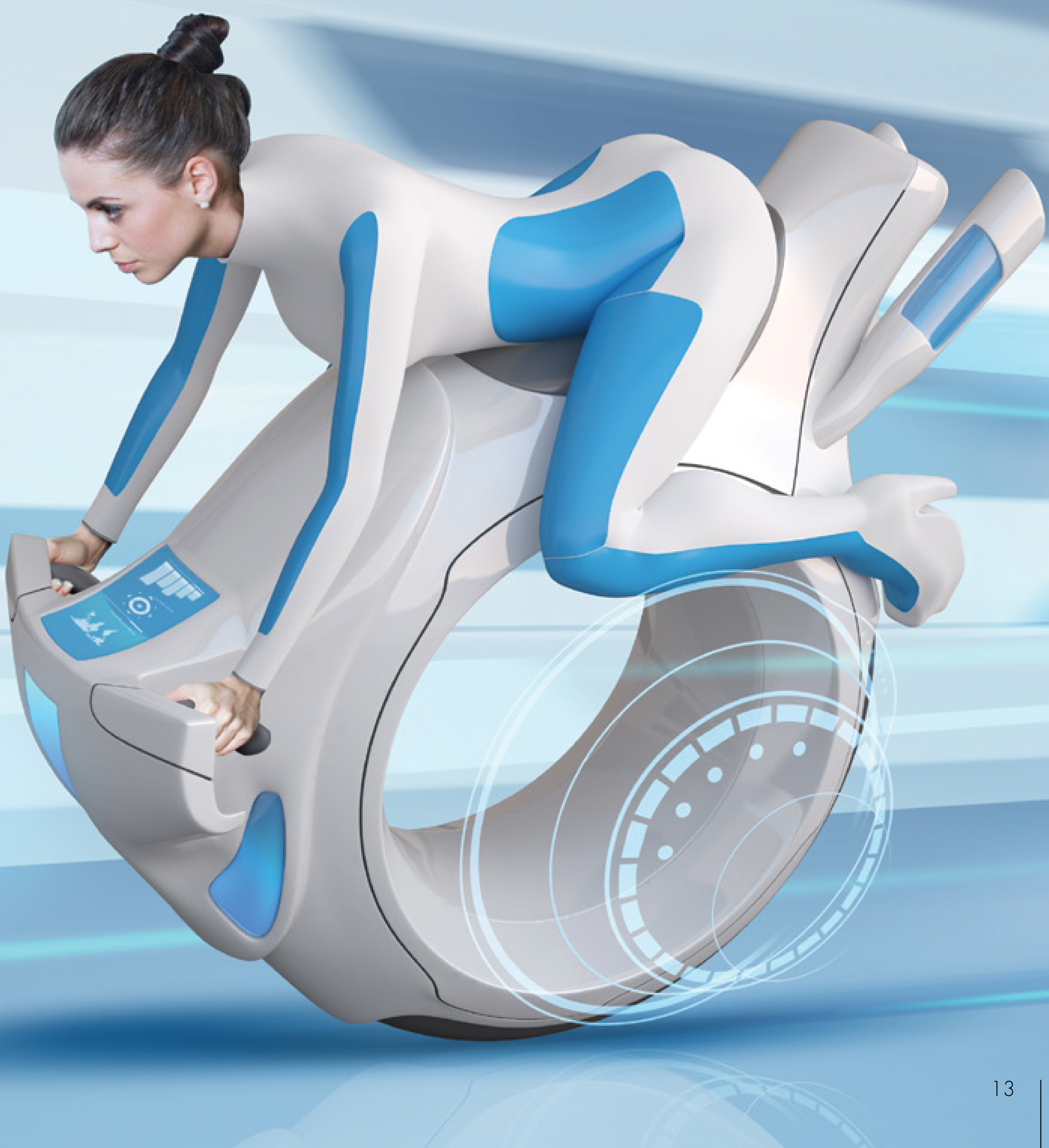
What are the main geographical differences when it comes to innovation?

The biggest differences are between the more developed and the less developed countries, rather than regional. We see common factors across the world in the developed countries, where growth is relatively slow and the focus tends to be on creating customer loyalty and cross-selling rather than customer acquisition. In the developing countries, relatively poor infrastructure tends to mean that innovation is required in business models and it is not just incremental innovation in products and channels. Clearly, the mobile phone is part of the innovation arsenal in developing countries because of its ubiquity relative to the use of the Internet.

What do you see as the main challenges for the next few years?

The biggest challenge in the next few years is going to be how to innovate to create completely new revenue streams, particularly in mature markets. Incremental innovation is fine and important, but banks need to be able to be slightly more radical and experimental. Given the general culture of risk aversion and the lack of entrepreneurial skills in most banks, this will not be easy. Combined with this will be the need to get to market with innovations more quickly. This depends on a lot of factors, but flexibility of IT systems is clearly going to be one factor which will help.

1 Innovation trends



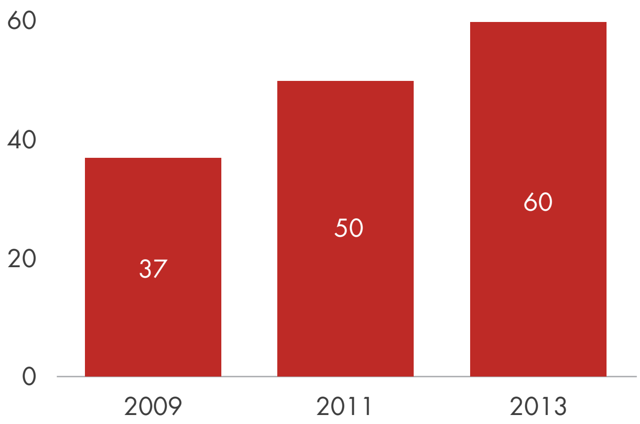
Innovation trends

One of the most significant trends we have noticed over the last five years is that more and more banks have an innovation strategy, by which we mean a clear set of objectives, processes and performance metrics for innovation (see Figure 2). Because of the wide range of areas in which banks can innovate, and the different types of innovation that are possible, having an innovation strategy which allows a bank to prioritise its resources is essential.

A good example of a bank with a clear innovation strategy is TEB in Turkey. Speaking at the Efma Banking on Innovation conference in 2013, Nilsen Altintas, Head of HR and Innovation at TEB, explained the processes the bank has adopted to drive innovation through the organisation. This includes starting "open innovation" contests as early as 2007, and setting up an internal innovation lab for employees to work on innovation projects.

Figure 2: Incidence of innovation strategy at banks

Percentage of banks with an innovation strategy



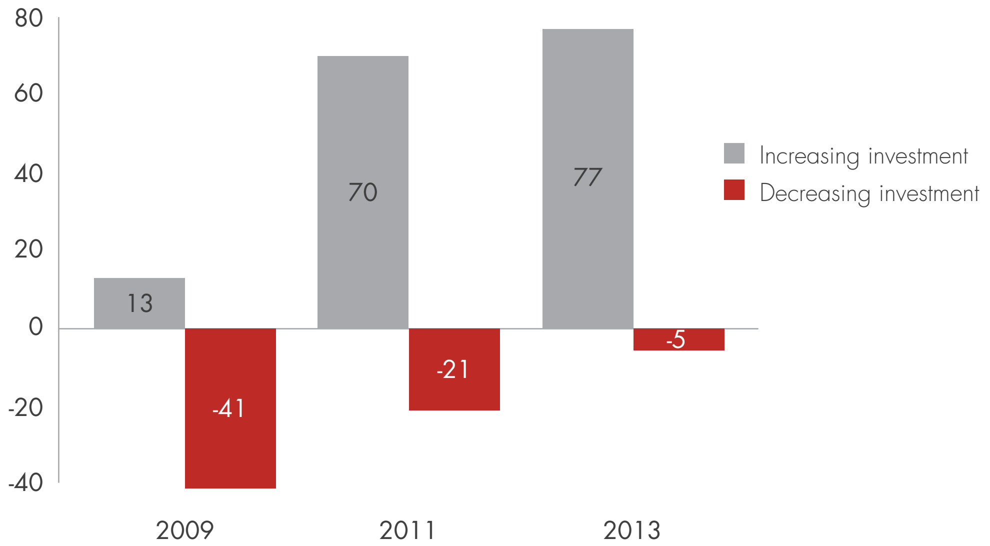
Source: Efma-Infosys Innovation Surveys 2009-2013

Further evidence of the growing importance of innovation for banks is the fact that innovation investment is also increasing (see Figure 3). At the height of the crisis in 2009, more banks were decreasing innovation investment than increasing, but now there is a strong balance increasing investment. Overall, 77% of banks told us they were increasing investment, and only 5% of banks told us they were decreasing investment. As has been the case in previous years, the proportion of banks increasing investment in Europe is much lower than the average, at just 58%, although the balance increasing versus decreasing is still very positive.

Although investment is increasing, only around half of banks have a committee for prioritising innovation investment according to our survey. In our opinion, this is something that more banks should consider, because with limited resources it is critical that investment is targeted in the right areas and matches the strategic objectives of the bank.

Figure 3: Investment in innovation by banks

Percentage of banks increasing or decreasing innovation investment

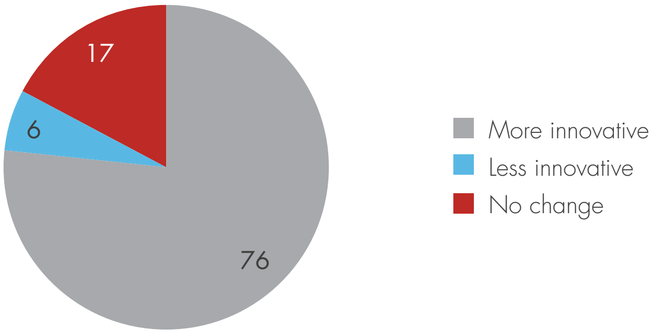


Source: Efma-Infosys Innovation Surveys 2009-2013

Measuring innovation performance is one of the more difficult challenges. On a self-assessment basis, banks tell us that their overall innovation performance is improving (see Figure 4). A large majority of 76% of banks say they are becoming more innovative, whereas only 6% say they are becoming less innovative. Again, the picture in Europe is not as good as the global average – only 54% of banks in Europe feel they are becoming more innovative.

Figure 4: Change in innovation performance of banks

Percentage of banks becoming more or less innovative on a self-assessment basis in the last 12 months

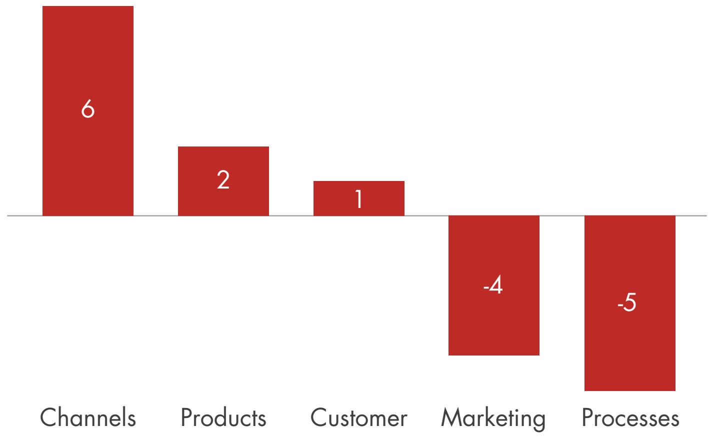


Source: Efma-Infosys Innovation Survey 2013

We have had consistent results over the last five years showing that banks believe they are more innovative in channels than in other areas of their business. Figure 5 shows the variance from average innovation performance (again on a self-assessment basis) in each area. Innovation in channels has the highest positive variance and innovation in processes has the highest negative variance, meaning that banks do not feel that process innovation is a strong area for them. These are relatively small variances from the average, but are indicative of the general perception at banks that channels are their strongest area for innovation.

Figure 5: Variance in innovation performance by area

Percentage variance from the average performance score which is measured on a scale of 1 to 7



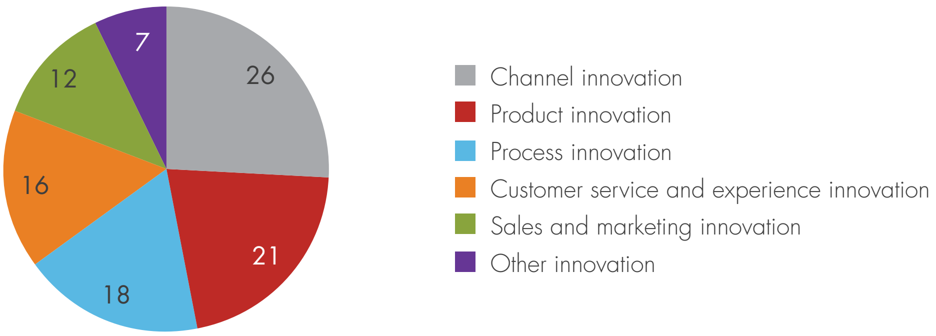
Source: Efma-Infosys Innovation Survey 2013

Note: The 6% positive performance variance for Channels is derived from the performance score for Channels, which is 4.65 (out of 7), relative to the average performance score for the 5 areas, which is 4.39 (out of 7). The difference of 0.26 divided by 4.39 is the performance variance of 6%.

Planned IT investment in innovation is also biased toward channels according to the results of the survey (see Figure 6). Approximately 26% of planned IT investment in innovation is for channels and 21% is for products. Surprisingly, process innovation is the next most important area with 18% of planned investment.

Figure 6: Mix of innovation related IT investment in different areas

Q. What proportion of planned innovation related IT investment is currently directed toward each area?

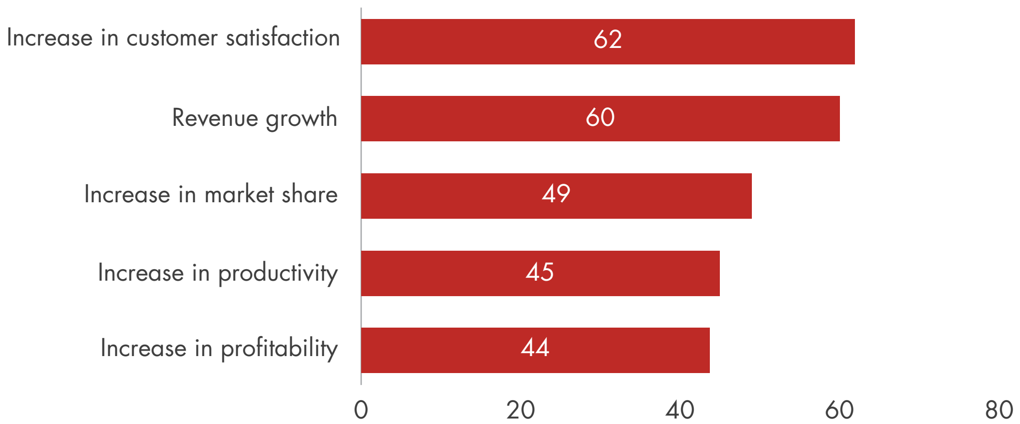


Source: Efma-Infosys Innovation Survey 2013

The most common metrics used for assessing the benefits of an innovation are revenue growth and customer satisfaction (see Figure 7). Measuring the increase in profitability from an innovation is less common which may be due to the fact this can be difficult to measure for many small innovations, such as a new mobile phone app for locating branches, or a new personal financial management tool which is designed to drive longer term customer loyalty. However, we could argue that if it is possible to measure revenue growth then it should be possible to measure profit growth and that banks should focus more on improving their performance metrics. In the longer term this will help them to prioritise and gain support for innovation investment decisions.

Figure 7: Use of metrics to measure innovation performance

Percentage of banks using each of the metrics (multiple answers possible)



Source: Efma-Infosys Innovation Survey 2013

2 Innovation capabilities

Innovation capabilities

To understand how banks can improve their innovation capabilities, we started by finding out what the main barriers are. We asked banks to rank six of the most common barriers and you can see the results in Figure 8. The highest barrier for all sizes of bank was IT systems. For large and medium sized banks, culture was the second highest barrier, but for small banks it was only the fourth highest barrier. Regulation appears to be a more significant issue for smaller banks.

Another notable difference for small banks is that organisation silos were a much lower barrier to innovation than it was for large and medium sized banks. This was confirmed in our interviews where several small banks clearly indicated that they could relatively easily take decisions at a senior level with a clear view across the organisation. Larger banks need organisation silos in order to operate efficiently but this can hinder innovation. For example, one large US bank we spoke to has a retail bank, but a separate home loan organisation and a separate credit card organisation. At the same bank, the digital and mobile channel management has its own organisation silo. In their case, the need to collaborate across silos was definitely impacting time to market.

Figure 8: Ranking of barriers to innovation, by size of bank

Where 1 is the highest barrier and 6 is the lowest barrier

	Large banks	Medium banks	Small banks
1	IT systems	IT systems	IT systems
2	Culture	Culture	Regulation
3	Organisation silos	Organisation silos	Financial
4	Regulation	Regulation	Culture
5	Management priorities	Management priorities	Management priorities
6	Financial	Financial	Organisation silos

Source: Efma-Infosys Innovation Survey 2013

Note: Size of bank is based on rankings from The Banker magazine: Large is 1-50, Medium is 51-300, Small is >300

These are very broadly-defined barriers so we also asked banks about some more business-specific factors which could impact their overall innovation capability. Figure 9 shows the ranking of five such factors, with the highest ranked having the most impact on innovation.

Figure 9: Factors impacting innovation capability

Where 1 would have the highest impact and 6 would have the lowest impact on innovation

Q. Which of the following would have the most impact on your bank's innovation capability?

1	Increase business process speed, agility and efficiency
2	Increase customer centricity
3	Reduce complexity and cost due to disparate array of multiple systems
4	Increase agility to reconfigure business model
5	Reduce organisational silos

Source: Efma-Infosys Innovation Survey 2013

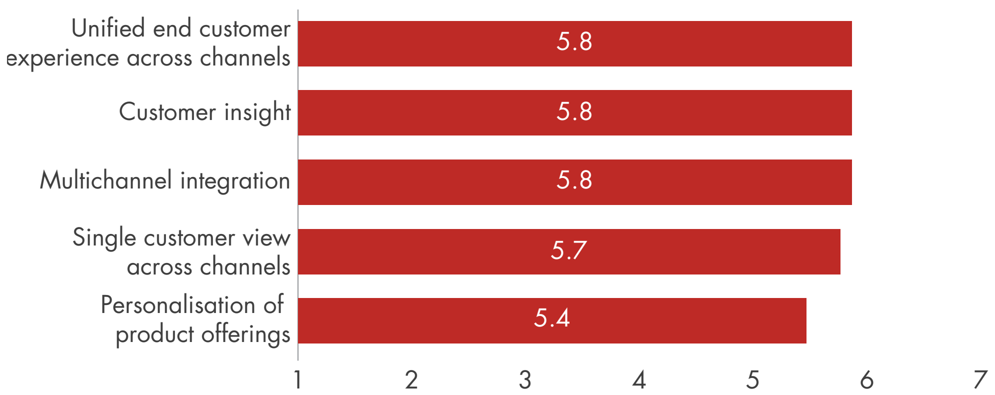
What's interesting is that although increasing business process speed, agility and efficiency is seen to be a critical factor, process innovation is the area where banks feel their innovation performance is relatively weak. We might conclude from this that banks should be focusing more on innovating the enabling technologies and processes which will in turn allow them to deliver more innovative solutions to customers. The example of Capitec Bank we mentioned earlier illustrates how simplified technology and processes can support a low-cost and effective business model.

There are other even more specific capabilities which can support a bank's overall innovation capability. In the survey, we suggested a series of options and found that the most significant capabilities were having a unified end customer experience across channels, multichannel integration and customer insight (see Figure 10).

Figure 10: Importance of other innovation capabilities

On a scale of 1 to 7, where 1 is low and 7 is high

Q. To improve your innovation capabilities, how important are the following factors or capabilities?



Source: Efma-Infosys Innovation Survey 2013

Customer insight is understandably a critical capability, and something we have discussed in earlier studies, one of which looked at customer-focussed innovation. However, we should remember that not all great innovations come from asking customers what they want and sometimes a new vision is required, identifying an opportunity that would not be apparent to a customer today.

The other two capabilities at the top of this list relate to channel integration, which is clearly an issue for banks as channels have proliferated and as customers have come to expect banks to have a "joined-up" approach. While it is possible to innovate just in one channel (for example a simple mobile payments app), most of the more substantial innovations require all the channels to be co-ordinated from launch, and this is complex for banks which still have channel silos.

The two other factors in the top five according to the survey were having a single customer view across channels and having the ability to personalise products:

- The survey found that 21% of banks currently enable customers to do some form of product self-configuration online. One example of an interesting personalisation capability is the Features Store from Barclays (see Page 35).
- Other Efma research has found that only about 35% of banks currently have a real-time single customer view of both products and transactions[5]. Many banks are now working on this, but some major banks have chosen not to invest in this capability in order to focus on other priorities.

In the following two sections, we take a closer look at some of the ways in which banks can address the impact of culture and technology on their overall innovation capability.

[5] The Global Retail Banking Digital Marketing Report 2013 (Efma, Wipro Technologies)

3 Developing an innovation culture

Developing an innovation culture

Developing an innovation culture in banking, particularly in larger organisations, can be difficult. Banks need to have a strong focus on risk management and have many regulations to take into account when they develop something new. This is not an unregulated industry!

Banks which have been able to develop a culture of innovation, like First National Bank (South Africa) and TEB (Turkey) have done this with the drive and support of the most senior management and over a period of time. It does not happen overnight. Engaging as many staff as possible in the innovation process, even in a small way, is a key part of this. Celebrating successful innovations and rewarding contributors (with financial incentives or awards) also raises the awareness.

Innovation departments can play a role in developing the organisation culture but there is still a wide variance in the use and structure of innovation departments, even in the most innovative banks. One bank from the Middle East we spoke to does not have an innovation department but is setting up an informal "innovation board" involving key people from across the organisation in order to galvanise the innovation agenda.

One of the hardest things for banks is dealing with failure. All of the advice about encouraging entrepreneurial behaviour says that it is important to accept failure and not let it be a stigma for the individuals involved. We have heard from several banks that this has not been the case in their organisations, and consequently individuals are not always keen to be involved in innovation initiatives.

The role of open innovation

Another way to help build an innovation culture is to open up more to the outside and to pursue more open innovation – working with partners, working with start-ups, crowdsourcing ideas for example. This year we asked banks how effective those open innovation activities were and found that a lot more progress needs to be made.

Respondents rated the effectiveness of several open innovation techniques on a scale of 1 to 7 (see Figure 11). The results were broadly similar for all sizes of bank and we found that:

- Partnering with IT companies or other suppliers was the most effective, with a score of 4.2 out of 7. We have seen examples in the past of where this approach can work well, such as at ING's customer experience centre in the Netherlands[6].

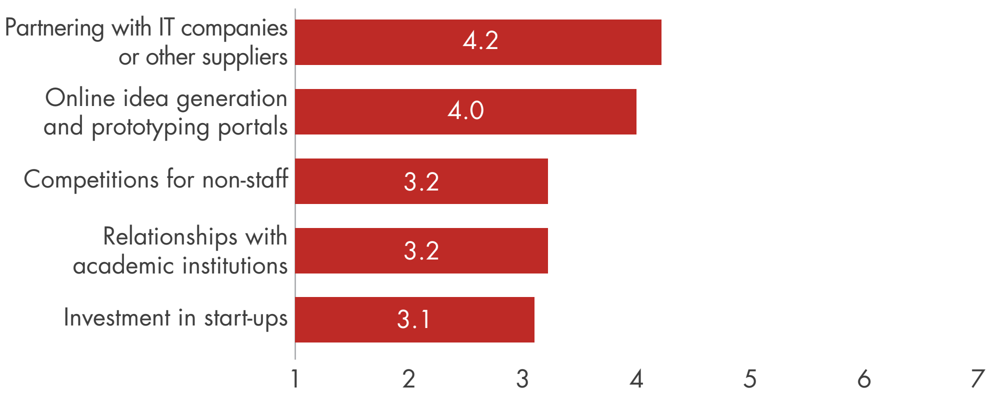
- Online idea generation and prototyping portals (internal or external) have been very popular in the last few years, but effectiveness is only just 4.0 on the scale of 1 to 7, so about average. A recent example has been Ideas Bank from Royal Bank of Scotland in the UK which allows people to post ideas which are then summarised and ranked. Of course, this is not just about innovation and is unlikely to generate really radical and disruptive ideas but it is a start on the journey toward more open innovation.

- Competitions for non-staff are growing in popularity but these score well below average on effectiveness, at just 3.2 out of 7. We have heard about "hackathons" organised by banks like Barclays in the UK. TEB in Turkey has been running an innovation competition for non-staff for several years and this has been growing in popularity and the most recent competition generated over 10,000 ideas. Noor Islamic in the UAE has also been running an open innovation competition with a prize of US$20,000 (see box).

- Investment in start-ups was judged to be the least effective of the open innovation techniques in use. This is clearly a difficult area to master, but most technology firms have a corporate venturing arm which is integral to their innovation activities, and there is no reason why at least the larger banks should not be doing this. A recent example has been BBVA Ventures which launched a US$100m fund for investing in start-ups with the potential to disrupt the financial services industry (see box).

Figure 11: Effectiveness of open innovation at banks

On a scale of 1 to 7, where 1 is low and 7 is high



Source: Efma-Infosys Innovation Survey 2013

[6] Innovation in Retail Banking 2012 (Efma, Infosys-Finacle)

Open innovation case examples:

Noor Islamic (UAE)

Noor Islamic Bank is a leading Islamic bank based in Dubai, which has a history of innovative developments. As part of a "Bank of the Future" initiative, in 2012 the bank set up a competition called "Shape Your Bank". The objective was to generate ideas from the public on how their banking experience could be improved. Four winners were selected and received an iPad as a prize, and an overall winner was awarded a prize of $20,000. An example of a winner was a family card, enabling the main card holder to more easily monitor and control the family finances covering spouses and children.

Another part of the initiative was to showcase the bank's own futuristic vision at a technology exhibition in Dubai, and get feedback from consumers. According to Hussain Al Qemzi, Group CEO of Noor Investment Group and CEO, Noor Islamic Bank: "Noor is known as a bank that is modern, forward looking and innovative, that is why we are presenting our own vision of 'The Bank of the Future'. We hope it will spark others to create innovative ways of banking which we can incorporate into our plans to develop products and services, in line with the needs of contemporary customers."

BBVA (Spain)

In January 2013, Spanish bank BBVA set up BBVA Ventures to invest in start-ups which are transforming the financial services industry. The US$100m fund is based in Silicon Valley and headed by an experienced corporate venture capitalist. The initiative builds on earlier investments by BBVA in start-ups and funds including:

- SaveUp – applies gaming technologies to encourage savings, debt reduction and financial education
- Ribbit Capital – a fund targeting investments in radical financial services businesses worldwide

According to Jay Reinemann, executive director of BBVA Ventures: "Investing in start-up companies committed to new business models enables BBVA to learn and anticipate the emerging challenges facing the financial services sector." By making strategic investments in venture-backed start-ups, BBVA aims to facilitate internal education and awareness of developments in technology and emerging business models in areas that are strategic for the bank. Some of these areas include mobility, customer loyalty, e-commerce, payments and data analytics.

Announcing the new initiative, Carlos Torres, Head of Strategy and Corporate Development for the BBVA Group said: "We believe the model of BBVA Ventures provides the most efficient and effective access to emerging trends and disruptive innovation, which ultimately maximizes shareholder value."

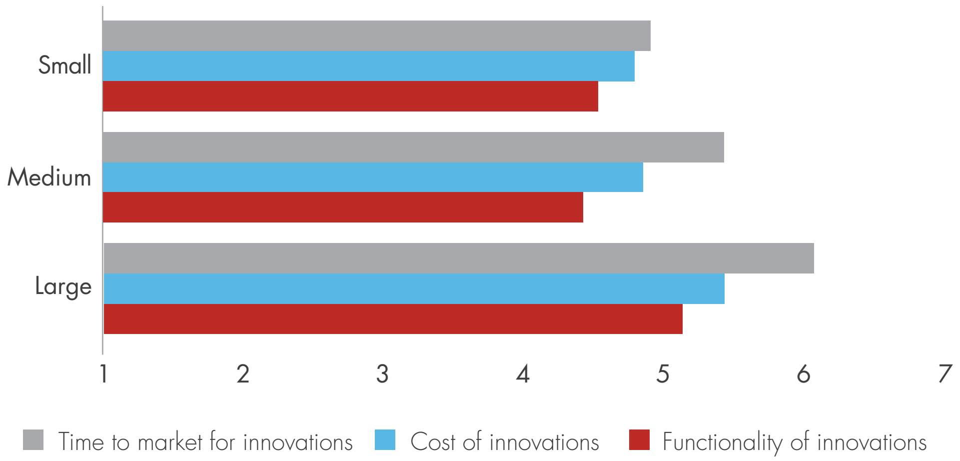
4 Simplifying IT to innovate

Simplifying IT to innovate

We have already noted in Section 2 that IT systems are the most significant barrier for banks of all sizes. Digging deeper, we found that one of the main problems with IT systems was that they are silo based, typically by product but also by channel, which makes integration difficult. Banks told us that silo based systems had the most impact in terms of time to market, cost of innovations and functionality of innovations (see Figure 12). This was most dramatic for large banks, where on a scale of 1 to 7, the impact of silo based IT systems on time to market was more than 6 out of 7. On all dimensions, large banks were affected more by silo based IT systems than small banks.

Figure 12: Impact of silo based IT on innovation capability, by size of bank

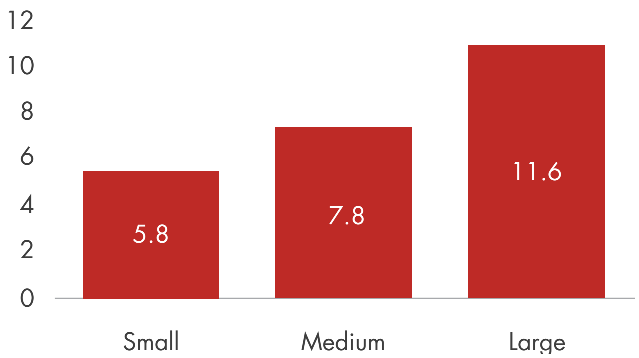
On a scale of 1 to 7, where 1 is low and 7 is high



Source: Efma-Infosys Innovation Survey 2013

Figure 13: Time to market for new offers, by size of bank

Approximate average time to market in months



Source: Efma-Infosys Innovation Survey 2013

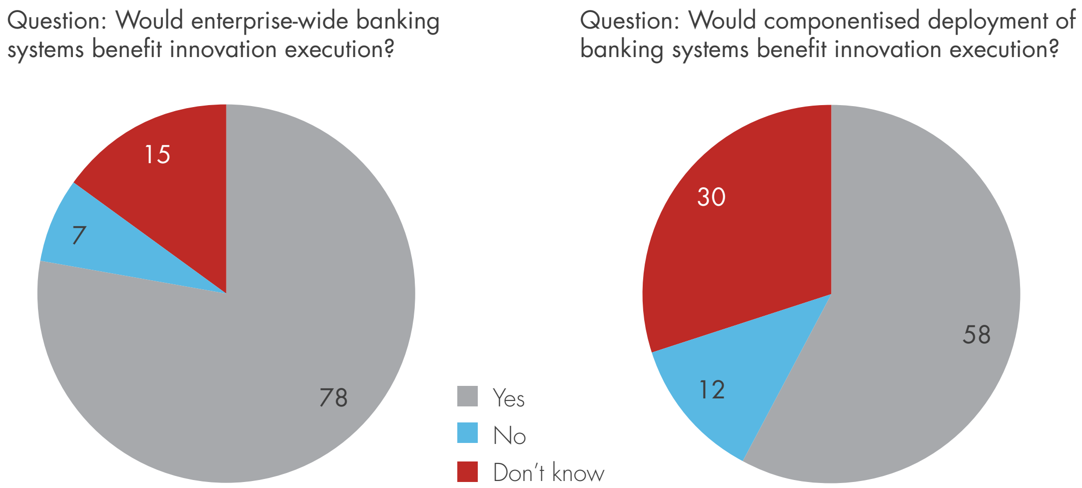
The impact of this on time to market can be seen in Figure 13. For large banks the average time to market for a new offer is approximately 12 months, whereas the average time to market for small banks is only around 6 months. We accept that there can be some degree of interpretation as to what is a "new offer", but the responses to the survey clearly shows a big difference in perceptions.

The other problem we found with IT systems was that, at times of change, it is extremely difficult to prioritise work on innovation. The two most significant types of change that this relates to are where a bank is going through a legacy systems replacement, or where it is going through a merger with another bank. Several banks we spoke to were in one of these "change" situations, and confirmed that it was hampering their ability to innovate compared to other banks in the market.

A good example of this comes from one of the developed markets where there are five major banks operating. One of the banks completed the replacement of its legacy systems a few years ago and is now capitalising on that, launching a string of innovative products and services. Another major bank in the same market is currently going through a systems replacement and is struggling to prioritise innovative projects.

Hence, with silo based systems and change programmes identified by banks as creating barriers to innovation, we asked banks whether enterprise-wide systems and componentised deployment of new systems would benefit innovation execution, and the clear answer was "yes" (see Figure 14). By far the most important systems that would benefit from enterprise-wide capability were found to be payments and deposits, followed by account origination.

Figure 14: Factors which could improve innovation execution



Source: Efma-Infosys Innovation Survey 2013

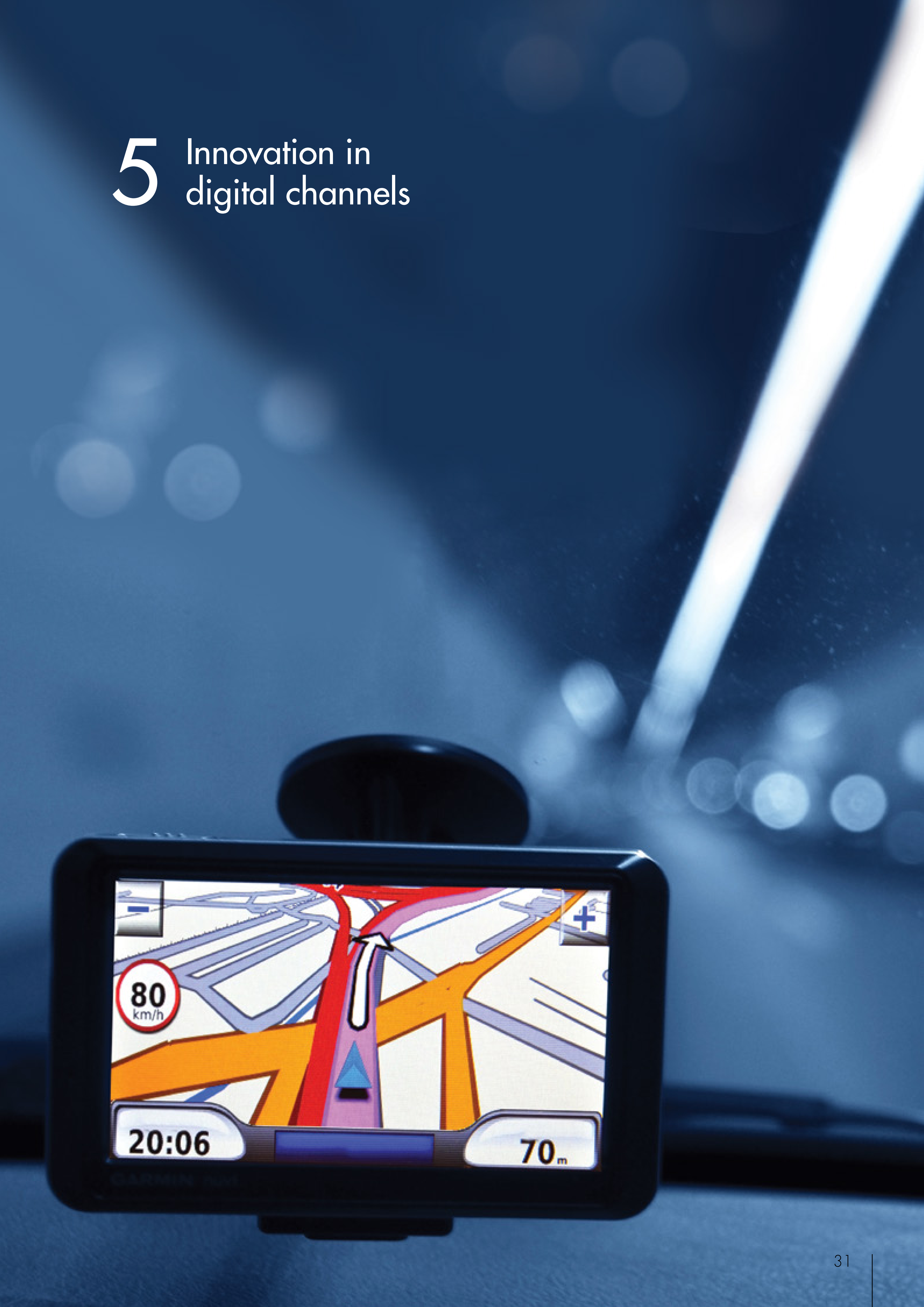
We have carefully examined the difference in responses between different sizes of bank, and between developing and developed markets, and found no meaningful variations from the averages shown here. This is itself an interesting result because it shows the commonality of the issues for banks whatever their status and wherever they are.

We cannot say that all banks find IT systems to be a barrier to innovation, and there may be lessons to learn from those who do not. Around 20% of the large and medium size banks in our survey ranked IT systems as only the 5th or 6th highest barrier. Those banks were from a range of countries like Canada, Austria, Malaysia and Spain. Typically, they felt that organisation silos and senior management were the main innovation barriers, followed by culture.

This could be because they have very up-to-date and flexible systems, or it could be that their innovation activities are focused on areas which do not have a high IT dependence. For example, one bank we spoke to launched a very successful consulting service for SMEs which is very innovative but very low tech. Another bank explained that they could launch products based on “middleware” or the information layer of their systems, hence avoiding any more complex work on core systems.

Another relevant factor we found was that, where the CIO also has business experience, there should be a better understanding of business needs, which helps to focus projects and prioritise. This is relatively rare because of the complexity of the CIO role but is nevertheless indicative of the need for close cooperation between business lines and IT. One bank we spoke to explained how outsourcing of IT can also be an issue because it makes communication and prioritisation much more difficult.

5 Innovation in digital channels



Innovation in digital channels

In this year's survey, we measured the deployment of a range of mobile and online innovations at banks, and also their future plans for implementation of these innovations. Of course, this raises the question of what in fact is really an innovation. Strictly speaking, an innovation should be something completely new but in the context of retail banking we could say it needs to be new to a specific country. For example, an innovation introduced in Australia first, might be introduced in Argentina a few years later but still be an innovation in the Argentinian market.

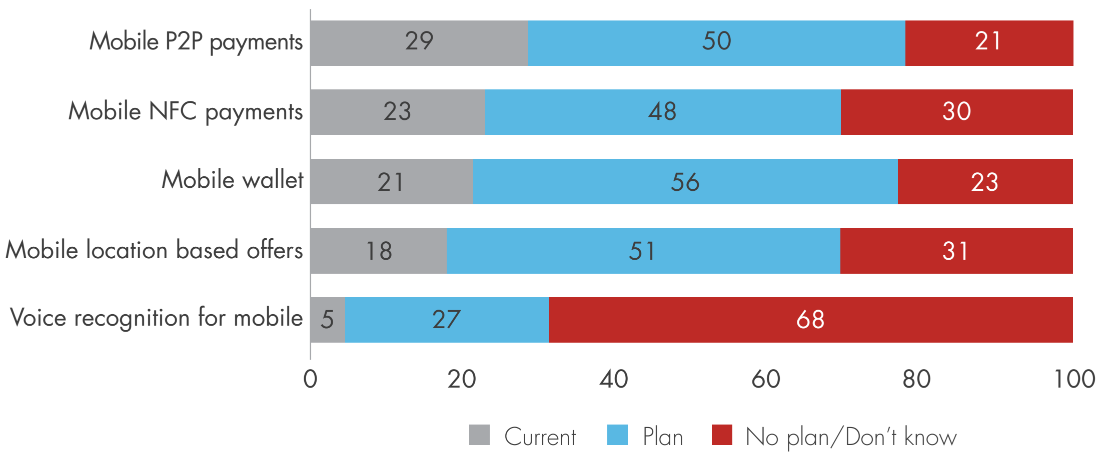
What we are measuring here is some developments that have been innovations in the relatively recent past – like mobile NFC payments – which are now quite common though on a small scale, as well as some developments that are only just emerging, such as voice recognition for mobile, applied to banking or payments.

Mobile

The five mobile innovations surveyed are shown in Figure 15. The most commonly deployed is currently mobile P2P payments (29% of banks) and the least commonly deployed is voice recognition for mobiles (5% of banks). Mobile wallets of some kind are deployed by only 21% of banks but 56% of banks have plans for mobile wallets in the next few years.

Figure 15: Deployment of mobile innovations

Percentage of banks at different stages of deployment



Source: Efma-Infosys Innovation Survey 2013

Examples of banks who have recently introduced these innovations are:

- Mobile P2P payments – ActivoBank was the first bank in Portugal to launch the facility to make a P2P payment with a QR code that can be transmitted by email, Facebook, Twitter or directly from mobile to mobile.

- Mobile NFC payments – China UnionPay, a bank card scheme, has recently launched an NFC payments service with eight banks in China including Bank of China and Bank of Shanghai; NFC enabled phones from China Mobile will be able to link to bank cards and make contactless payments.

- Mobile wallet – Hana Bank from South Korea launched the Hana N Wallet in 2012 with the objective of acquiring younger customers. The wallet includes a range of innovative features and uses the customer's mobile phone number as the account number.

- Mobile location-based offers – The Barclaycard subsidiary of Barclays has launched a "bespoke offers" service, targeting offers at consenting customers based on their demographics and preferences. Offers can also be location targeted.

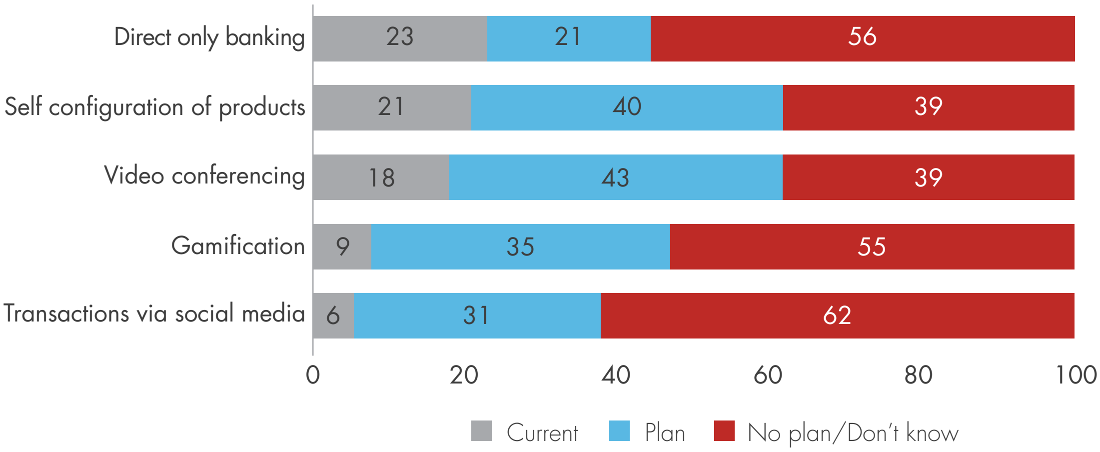
- Voice recognition for mobile – Paypal has integrated with a new voice-activated virtual assistant called Sherpa which is available in beta on Android phones. The payment service is initially allowing small P2P payments using voice commands.

Online

The five online innovations are shown in Figure 16. We have included direct only banking as an online innovation, though in fact it is likely in the most recent forms to be both online and mobile, and may in fact be mobile centric (see box). Direct only banking is an interesting case because although it has been developed by 23% of banks, only 21% of banks have this in plan, so the majority of banks still do not intend to introduce a direct only banking offer. Gamification is one of the hot innovation topics and so far only 9% of banks have introduced some kind of gamification into their business, with a further 35% having this in plan.

Figure 16: Deployment of online innovations

Percentage of banks at different stages of deployment



Source: Efma-Infosys Innovation Survey 2013

Examples of banks who have introduced these innovations are:

- Direct only banking – BNP Paribas launched the digital only bank, Hello bank!, in Belgium in May 2013. The bank is one of the first to be designed specifically for the mobile channel where a customer can open an account in four simple steps.

- Self-configuration of products – Barclays has developed the "Features Store" for its core current account product. This allows customers to create their own package of features to attach to the current account such as insurance, mobile apps and rewards packages.

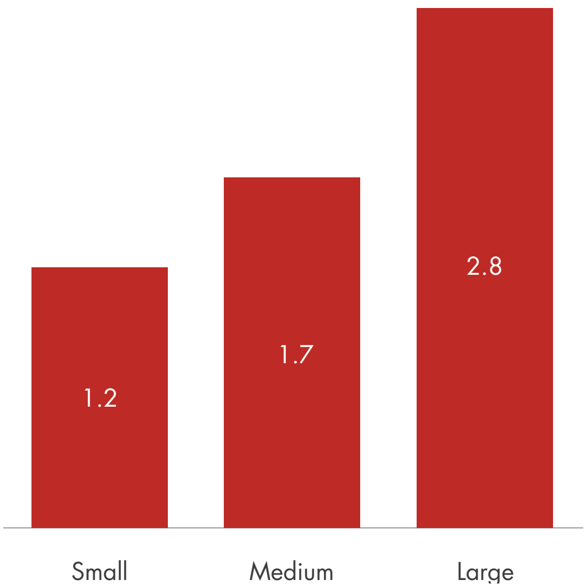
- Video conferencing – Alior Bank from Poland in 2012 launched the innovative Alior Sync which is a digital only bank and includes video chat services for customers.

- Gamification – BBVA launched the BBVA Game in 2012 as a first step to test the water with gamification. The online game has attracted over 120,000 players and there has been a significant increase in overall satisfaction with the bank's online services among those customers.

- Transactions via social media – In January 2013, Guaranty Trust Bank launched the first service of its kind in Nigeria, which allows GTBank Social Account holders to transfer money, purchase airtime, pay bills, and confirm their account balance on Facebook.

The average bank has so far deployed just 1.8 out of the 10 mobile and online innovations in our survey. However, it is very interesting to note that large banks have deployed 2.8 out of 10 on average, whereas small banks have deployed just 1.2 out of 10 on average (see Figure 17).

Figure 17: Average deployment of mobile and online innovations, by size of bank
Number of innovations deployed out of a total of 10 in the survey



Source: Efma-Infosys Innovation Survey 2013

Direct only banking

BNP Paribas – Hello bank! (Belgium, Germany)

Hello bank! was launched by French bank BNP Paribas in Belgium and Germany in May 2013. Launches in France and Italy were being planned for later in 2013 and the stated target was to achieve 1.4m clients in the next five years. Accounts can be opened from a mobile phone or online in just four steps and the focus of the proposition is on four key values:

- Simple – native mobile app as clear and intuitive as the best digital apps, with tasks needing just three hand movements.
- Smart – attractive rates on savings and no fees on cards, plus the benefit of access to the BNP Paribas branch network.
- Human – interactive support by chat, email, tweet or voice phone for extended hours, six days per week.
- Safe – high level of security.

According to Francois Villeroy de Galhau, BNP Paribas Group COO: "Hello bank! is fully geared to the new social habits that are now transforming people's relationships with their bank. Hello bank! offers a fresh approach to banking aimed at all those who live the mobile experience."

Green Dot – GoBank (United States)

Green Dot Corporation from the United States, the parent company of Green Dot Bank, launched GoBank in June 2013 to the general public. Green Dot is a technology focused bank, headquartered in California, which is a leading provider of prepaid debit cards. It claims that GoBank is the world's first bank to be used entirely from the mobile phone (although there is also an online service). Setting up an account takes just a few minutes and some of the interesting features of the service are:

- Pay what you want fee model
- View your balance without logging in
- Real-time advice on spending
- Send money instantly via email or text message

According to Steve Streit, founder and CEO of Green Dot Corporation: "GoBank seeks to reinvent the traditional checking account in two key ways. Firstly, GoBank is a feat of technology that brings traditional bank accounts into the era of the app. Secondly, GoBank is a feat of consumerism that offers consumers a wide array of features and services with fair, simple and transparent pricing. We're very proud of the product and are hopeful that consumers will be attracted to GoBank's high tech/low price proposition."

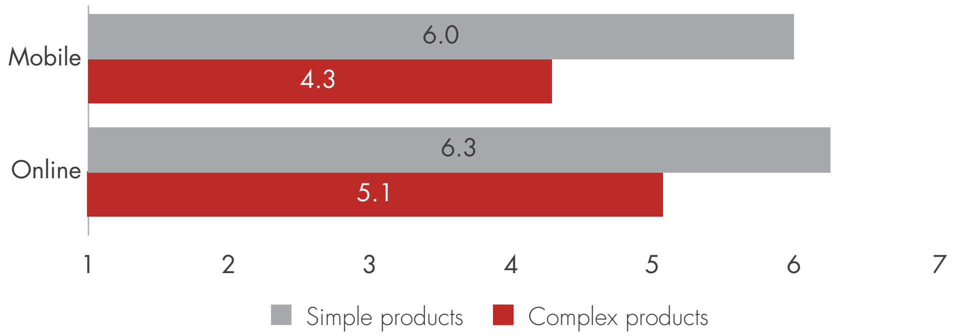
One of the challenges for banks is how to make better use of digital channels for sales and not just service. This point was emphasised by one of the large Australian banks we spoke to. In India, Kotak Mahindra has made this a focus of their innovation efforts, developing new processes for online account origination which enables them to open an account more quickly and efficiently. This is a good example of product, channel and process innovation combined.

In another Efma survey, we asked banks how effective they expected digital channels to become in the next few years for sales of simple and complex products (see Figure 18). Clearly for simple products digital channels will become even more important for banks, but sales of complex products (particularly on mobile devices) will be more difficult.

Figure 18: Effectiveness of digital channels for product sales

On a scale of 1 to 7, where 1 is low and 7 is high

Q. How effective do you expect digital channels to be in the next 5 years for product sales?



Source: Efma Digital Channels Survey 2013

There are new areas of innovation opening for banks because of the capabilities of online and mobile, and the data that can be collected and used about customers. American Express has started to package and sell anonymised and aggregated customer data to commercial customers. Barclays has recently changed some terms and conditions of customer accounts to allow it to do the same thing. These developments have sparked lots of debate about privacy and customer data.

In Australia, UBank (part of NAB) and Commonwealth Bank have both launched online services which pull together anonymised customer data and allow customers to identify trends and compare their spending with other people. The PeopleLikeU site from UBank allows users to search by area, gender, age, income and living factors to identify trends and insights and compare their habits to those of peers.Users can also check to see where people choose to spend their money and time in different cities, carry out financial health checks by comparing their circumstances to their peers, and predict their futures by adjusting age and income.

A regional view of the key trends

This is a global study of innovation in retail banking and we have surveyed and interviewed banks from all over the world. There are many common approaches to innovation across countries and regions but there are also differences due to a range of factors including culture, regulation, industry structures etc. Figure 19 shows some of the key innovation measures from the survey by region, and a commentary on each region follows.

Europe

Europe continues to be the weakest region when it comes to innovation. Although 58% of banks say they have increased innovation investment in 2013 compared to 2012, this is the lowest percentage increase of the four regions. While 54% of banks say they are becoming more innovative, this is also the lowest percentage of the four regions.

The innovation performance self-assessment for Europe is slightly more positive because it is at least higher than the level in the Americas. The overall score for innovation performance was 4.17 on a scale of 1 to 7, where 7 is high. Channel innovation is the strongest area for European banks, but Process innovation is particularly weak.

Similar to other regions, IT systems are the highest barrier to innovation in Europe, followed by financial, which is probably a reflection of the continuing economic crisis in many parts of the region. Perhaps surprisingly, regulation and organisation silos are the lowest barriers to innovation.

Two examples of innovative banks we have identified in the region are:

- *Barclays (UK)* – A good example of a large, established bank in a mature market which has come through the financial crisis in reasonable shape and is looking for growth in retail banking. Richard Exton of Barclays, speaking at the Efma Banking on Innovation Conference in 2013, explained how the bank has significantly improved its innovation capability and processes, and can now launch new products and services in around three months.

- *BBVA (Spain)* – In spite of the difficult financial problems of Spain, BBVA continues to demonstrate its commitment to innovation with for example its gamification initiative, BBVA Game. The bank's new corporate venturing initiative, BBVA Ventures, aims to facilitate internal education and awareness of developments in technology and emerging business models in areas that are strategic for the bank.

Middle East & Africa

A total of 80% of banks in the region are increasing investment in innovation, comparing 2013 to 2012. It is one of the few regions where the focus of this increasing investment is slightly more toward Customer Service and Experience rather than Channels. This perhaps reflects the recognition in banks that service levels have not been high enough compared to global benchmarks and changes need to be made.

Overall, 78% of banks in the region say they are becoming more innovative, and the innovation performance self-assessment score is 4.22 on a scale of 1 to 7, making it the second most innovative region behind Asia Pacific.

The main barrier to innovation is IT systems, as was the case in Europe, but the equal second most important barriers are culture and organisation silos. The least important constraint on innovation is financial.

Two examples of innovative banks we have identified in the region are:

- *First National Bank (South Africa)* – FNB was the most innovative bank in the world in 2012 according to the BAI-Finacle awards. Speaking at the Efma Banking on Innovation Conference in 2013, Paul Steenkamp from FNB described how the bank organises its innovation activities, and explained the importance of having an entrepreneurial culture and a decentralised organisation (something which the other banks in South Africa do not have). The bank is moving into its next phase of innovation process development and rewarding people for how innovation projects are managed and not just on the result.

- *Al Hilal Bank (UAE)* – Al Hilal is a government owned Islamic bank based in Abu Dhabi which has developed a series of innovations in recent years. One of the bank's latest innovations is the child-oriented Seghaar branch which is encouraging financial literacy. According to Mohammed Jamil Berro, CEO of Al Hilal Bank: "Today's children are tomorrow's investors, spenders and consumers. Given their significant social and economic impact on the future, it would be very beneficial to equip them with the proper financial knowhow and skills."

Asia Pacific

In Asia Pacific, a remarkable 95% of banks in our survey were increasing innovation in 2013 compared to 2012. The biggest area of increase was in Channels and the lowest area of increase was in Sales & Marketing. Relatively speaking, the region is experiencing higher growth rates than the other regions, and in this environment banks are in a stronger position to increase their innovation investment.

Overall, 80% of banks said they were becoming more innovative, with Products being the area of strongest increase, slightly ahead of Channels – for Europe and the Americas it is the other way round with a greater focus on innovation in Channels.

The region is the most innovative when we look at the innovation performance self-assessment scores. The overall score was 4.81 on the scale of 1 to 7, with innovation levels in Channels and Customer Service & Experience being particularly high.

The highest barrier to innovation is again IT systems and the second highest barrier is regulation. The lowest barrier is financial.

Two examples of innovative banks we have identified in the region are:

- *Axis Bank (India)* – one of the largest private sector banks in India, Axis Bank has been a leader in innovation in financial inclusion. In 2012, the bank launched a partnership with Bharti Airtel to extend banking and payments services to India's unbanked population. The Airtel Money Super Account is a no-frills savings account provided by Axis Bank, which allows cash deposits, money transfers and cash withdrawals, and pays savings account interest rates.

- *Kiwibank (New Zealand)* – the fifth largest bank in New Zealand, Kiwibank was launched in 2002 and is owned by New Zealand Post. It is a challenger bank to the big four. A recent innovation has been the designation of an "online relationship manager" for each customer, available on desktop, tablet or mobile app. The relationship managers are able to respond to queries within 24 hours, according to the bank.

Americas

We found that 73% of banks in the Americas were increasing investment in innovation in 2013 compared to 2012. This is less than for banks in Middle East & Africa and Asia Pacific but is more than Europe. By far the biggest area of increase for the Americas was in Channels, with Products in fact being the lowest area of increase.

Interestingly, 86% of banks said they had become more innovative in the last 12 months, though this may be from a lower base than in other regions. Again Channels was the areas of highest increase, with 71% of banks saying they had become more innovative.

The innovation performance self-assessment scores were the lowest in the Americas out of the four regions – just 4.08 on a scale of 1 to 7. Innovation performance in Channels was the highest, and innovation performance in Products was the lowest (a big difference from Middle East & Africa where innovation in Products is the strongest area for banks). Overall, it is clear that the focus in this region is on channels.

In contrast to the other regions, the main barrier to innovation was culture rather than IT systems, which was only the third largest barrier. Regulation was the second most significant barrier. The least important barriers were senior management and organisation silos.

Two examples of innovative banks we have identified in the region are:

- *U.S. Bank (United States)* – the fifth largest commercial bank in the United States, U.S. Bank has launched several innovations in the last few years, the most recent being mobile photo bill pay, which allows customers to add a new payee simply by taking a picture of a bill or statement. The bank has also started to offer voice control for its mobile banking apps.

- *Bradesco (Brazil)* – Bradesco is the second largest retail bank in Brazil and has recently introduced several innovations into the Brazilian market. In 2012, the bank launched a branch of the future, called Bradesco Next, which contains a range of innovative features such as biometric identification of customers for transactions and videoconferencing with remote advisers. The bank has also recently introduced a Facebook banking application.

The four cases we have selected to highlight this year – one from each of the four regions in our global study – illustrate the different approaches and focus of banks at different stages of development and in different contexts, both in terms of their own competitive situation and in terms of their markets. The cases of UniCredit and Davivienda in particular illustrate the benefits of having structured approaches and processes for innovation. The case of Hana Bank illustrates the benefits of having a strong focus on an innovation theme – for Hana Bank this was mobile money. The case of Ecobank shows the benefits that can be achieved in terms of product and service innovation by having an advanced technological infrastructure operating across multiple geographies.

Figure 19: Key innovation metrics by region

In each box, green shading denotes a higher figure and red shading denotes a lower figure

	Europe	Middle East and Africa	Asia Pacific	Americas
Percentage of banks increasing investment in 2013 vs 2012				
Products	36%	70%	86%	46%
Channels	75%	75%	95%	93%
Customer service and experience	71%	80%	90%	60%
Sales and marketing	31%	55%	52%	47%
Processes	42%	65%	76%	47%
Overall	58%	80%	95%	73%
Percentage of banks becoming more innovative in the last 12 months				
Products	35%	75%	75%	71%
Channels	73%	70%	71%	87%
Customer service and experience	56%	60%	62%	53%
Sales and marketing	36%	55%	67%	53%
Processes	36%	55%	57%	60%
Overall	54%	78%	80%	86%
Innovation performance level on scale of 1 to 7, where 1 is low and 7 is high				
Products	4.26	4.75	4.80	3.87
Channels	4.56	4.35	5.00	4.53
Customer service and experience	4.26	4.40	4.95	4.20
Sales and marketing	3.98	4.05	4.71	4.13
Processes	3.87	4.20	4.57	3.93
Overall	4.17	4.22	4.81	4.08
Barriers to innovation, ranked from 1 (high) to 6 (low)				
Management priorities	3	4	5	6
Culture	4	2	3	1
IT systems	1	1	1	3
Regulation	5	4	2	2
Financial	2	6	6	4
Organisation silos	6	2	4	5

Source: Efma-Infosys Innovation Survey 2013 Note that innovation performance is a self-assessment by the banks responding to the survey

Innovation case studies

UniCredit (Italy)

UniCredit is one of the largest European banks. It is based in Italy and has operations in 22 countries. The bank takes a structured approach to developing innovations across what is a complex business, including for example:

- Structured pipeline processes – strong processes for identifying trends, defining priorities and use of open innovation.
- Tools to engage employees – internal networking and collaboration tools and communities involving significant numbers of people.

The bank has a three-pronged approach to innovation. There is an innovation team in the business line of retail banking, an innovation team in the central services group (technology and operations), and a specialised R&D team looking at more radical solutions. These teams collaborate through regular meetings.

The bank is actively testing and piloting new innovations. Two recent examples of innovations developed at UniCredit are:

- SSB Keepod – a productivity tool for staff and a cost saving device, the Keepod allows an employee to carry all their necessary applications with them and recreate their workspace at any low cost workstation.
- Biometric Point-of-Sale Security – developed by the UniCredit R&D team this unique form of identity can be connected to the customer's current account for payment or used to register for a retailer's loyalty program, replacing the need for a credit or debit card and PIN.

According to UniCredit CEO Federico Ghizzoni: "We innovate to compete more effectively and to grow. The market demands it, and our customers even more so. That is why we are striving to establish a new way of banking, investing resources in the development of leading edge solutions able to deliver new products and services."

UniCredit recognises that innovation is a critical component of its strategic plan. It is the foundation for the continued improvement of its service and the interaction with customers, in terms of products, financial solutions and communication, and for the way it interfaces with its customers using all the means offered by technology to best meet their needs.

Source: UniCredit Presentation at Efma Banking on Innovation Conference 2013; UniCredit website

Davivienda (Colombia)

Davivienda is the third largest bank in Colombia and operates in four other Latin American countries, with a total of 738 branches and 5.7m clients. The bank is a subsidiary of the Bolivar Group which also has construction and insurance activities in Colombia.

In 2011, the bank launched the mobile money platform, DaviPlata, with the objective of increasing financial inclusion in Colombia. In just two years, DaviPlata has grown to have 1.7m users making it the third largest mobile money platform worldwide. The majority of these users are new to the banking system.

However, what is interesting about Davivienda is its approach to innovation. Together with its parent, the bank has developed an innovation system which includes tools, principles, procedures and guidelines. The system was adopted by the Bolivar Group in 2007 and since then more than 600 "innovation coaches" have been trained, as well as over 7,000 employees. Hundreds of innovation projects have been conducted using the methodology, of which DaviPlata was one. Important aspects of the program to develop the innovation culture were:

- Investing in external professional support
- Thousands of man-days on training
- Special budgets for developing and implementing new projects
- Dedicating important company events to various aspects of innovation

According to Juan Carlos Rojas Serrano, Executive Director at DaviPlata, the bank has created a culture that "allows anyone trained or not trained in our innovation system, from any type of position, to stand up and propose ideas, real breakthrough ideas, without fear of going beyond his or her boundaries – it is a democracy of ideas".

For DaviPlata, the innovation challenge was to develop a service that could be used by any kind of customer (banked, unbanked or under banked) and, at the same time, be very user friendly. The bank wanted to develop "bottom of the pyramid" products and services that were "cool", friendly, modern, and viewed by all customers as the best of the best.

DaviPlata is essentially a mobile wallet that can be activated by any person using their SIM card on their cell phone. The transactions allowed include the innovative feature of making cash withdrawals at an ATM using a one-time password. The language used in the user interface was one of the most radical ideas, completely changing the tone used to communicate with clients. The other critical innovation was in the business model – the service was free.

Another important point to note is that DaviPlata was deployed as a completely independent unit within the bank, with its own areas of operations. This gave it the freedom to develop outside the normal bureaucracy which even a bank with an innovation culture has to have.

Source: Davivienda Annual Report; DaviPlata - "Self-Service" Financial Inclusion, Management Innovation eXchange, May 2012

Hana Bank (South Korea)

Hana Bank is part of Hana Financial Group and one of the largest retail banks in Korea. The bank has won many awards for innovation, particularly in digital banking. In 2012, the bank won the 'Innovation in Banking Technology Award' from the Asian Banker Journal for its self-developed e-wallet called "Hana N Wallet'.

South Korea is a hotbed of technology development with several leading global companies based there. A reflection of this keen interest in technology is found in retail banking, where the number of mobile banking subscribers on smartphones was 24m at the end of 2012, having been negligible three years earlier. Some of the digital products developed by Hana Bank in this dynamic environment are:

- 2009 Hana N Bank – first smartphone banking service in South Korea
- 2010 Hana N Money – personal financial management tool, pre-installed on Samsung phones
- 2012 Hana N Wallet – open to all customers and non-customers that own a smartphone
- 2012 Smart E-Statement – radical redesign of the bank statement for online and mobile

The award winning Hana N Wallet uses the mobile phone number as the account number and includes multiple money transfer functions such as sending a remittance to several people at the same time, and sending a mobile gift card. The wallet can also be used to withdraw cash at an ATM without a bank card.

The bank's latest development, the Smart E-Statement redefines the online and mobile statement, making it more of a conversation and containing fun elements. The user interface is radically different from a traditional statement, and is designed for people who are more used to mobile banking apps and short-text messaging.

Hana Bank is very clear that innovation is central to its strategy and about how it contributes to long-term success: "HFG's legacy as a thriving financial institution with a consistent track record in performance is based on the spirit of innovation we have long practiced in many areas of management and business. HFG pursues constant innovation because it is the catalyst to growth, developing new values through solutions that meet new customer and market needs in value-adding new ways."

Source: Hana Financial Group Annual Report 2012; Hana Bank website

Ecobank Transnational (Togo)

Ecobank Transnational is an African bank which operates in 33 African countries, more than any other bank. Although the bank is headquartered in Togo, its largest market is Nigeria. Overall, the bank has around 10m customers and 1,200 service locations. In 2013, the bank won the African Banker Innovation in Banking Award.

The bank's pan-African footprint puts it in a unique position to develop cross-border products and services at a scale which cannot be matched by competitors. Recent developments include:

- RapidTransfer: Africa's first and only instant cross-border money transfer service, which enables diaspora customers to quickly and safely transfer funds to relatives in their home countries.
- Regional Card: Ecobank's own network card operates across 33 countries so customers can affordably access their money.
- Diaspora Account: A multicurrency deposit liability and transactional product for Africans living outside their home country i.e. non-resident.
- Mobile Money: The first cross-border solution in the industry was launched in 2012 in 11 countries and by the end of 2012 had 350,000 customers.

According to Albert Essien, Group Deputy CEO: "By leveraging our pan-African franchise, empowering our talented staff and utilizing 'best of breed' systems and processes, we will continue our pursuit of exceeding our customers' expectations. We are very proud of this high profile acknowledgment and remain committed to embracing innovation to provide world-class customer service".

Ecobank has also been innovative in the area of microfinance. For example, in Ghana, Ecobank set up a joint venture with Accion Investments and the IFC which won African Banker's 2011 "Microfinance Project of the Year Award" for creating a platform for financial inclusion for the unbanked, under-banked and low income earners.

Source: Ecobank Transnational Annual Report; Ecobank website

Conclusion

It is clear from our research over the last five years that banks are taking innovation more seriously. They are developing innovation strategies, adopting new approaches and investing more in innovation. This may be partly due to the gradually improving economic situation in many regions, and partly due to the increasing threat from new competitors and new business models.

The key challenges for most banks, as they try to boost their innovation capabilities, are either with their IT systems or with their culture, or with both. Organisation structures are also an important issue, particularly for larger banks. We have seen from our survey that enterprise-wide systems can be a significant innovation enabler, and that systems which provide the capability for product personalisation, for multichannel integration, and a real-time single customer view would also be beneficial.

The problem for many banks, particularly large and medium sized banks, is making the transition from legacy IT systems and at the same time continuing to innovate. We have heard several banks tell us this is an issue. One solution is to deploy new systems in components in a gradual and seamless way, avoiding the need for a "big bang" replacement with its inherent risks. We also recognise that many banks are working around any issues they may have with their IT systems, but ultimately this limits what innovations they can introduce and how quickly they can act.

Ultimately, many of the problems come back to complexity, whether that is organisation complexity or infrastructure complexity. We have noted several examples of where innovative banks have simplified products and processes. Often these are smaller, challenger banks, or self-contained organisations within larger banks.

We have found plenty of banks who have been able to address the issues around innovation culture and there are really no excuses for banks not to improve in this area. Changing culture needs strong leadership at the top of the organisation, it needs dedicated approaches to be developed, and it takes time because culture change does not happen overnight. It probably takes around five years to see significant change and a few banks we have identified are well down this road.

A few of the highlights from our survey of banks are:

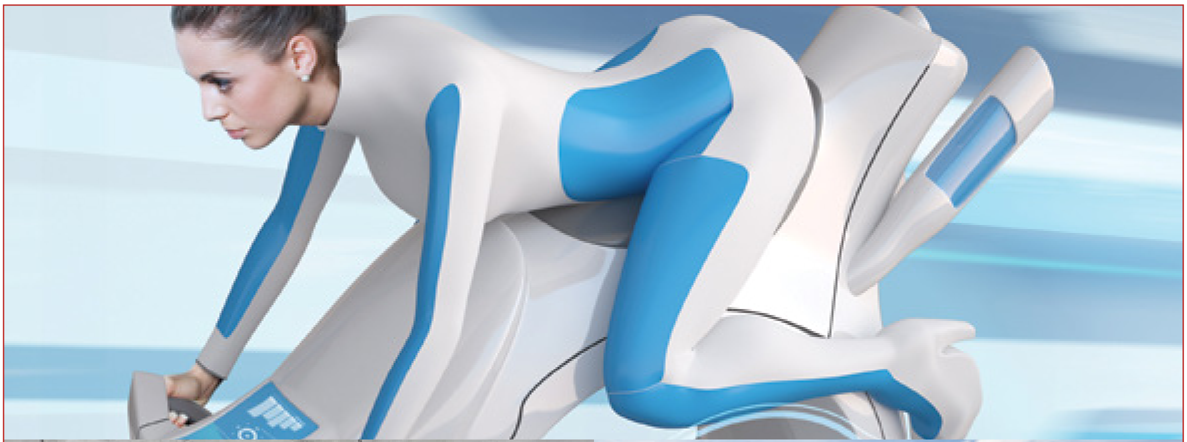
- 77% of banks say they are increasing innovation investment, and only 5% of banks are decreasing investment. This positive trend is evident in all regions, though Europe slightly lags the rest of the world.
- 76% of banks say they are becoming more innovative, whereas only 6% say they are becoming less innovative. As is the case for investment, Europe is lagging the other regions of the world when it comes to improvement in innovation performance.
- On average, out of 10 mobile and online innovations surveyed, banks have deployed only around 2. For larger banks the figure is closer to 3 and for smaller banks the figure is closer to 1. On average, banks have a further 4 of these innovations in plan for deployment.

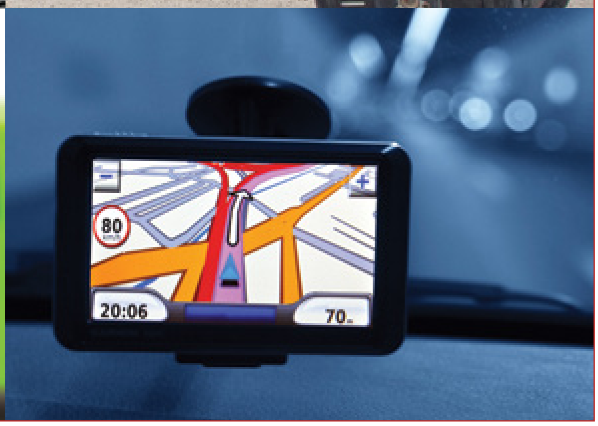
In the next few years we will see a consolidation of the social and mobile trends, but for many banks that will just be a question of catching up with innovations that other banks have already deployed. We are still waiting to see whether any really radical or disruptive innovations emerge, either from the established players or new players. In the absence of any significant new innovations, we expect revenue growth in most of the mature markets to continue to be quite low.

Our research highlights several of the most important areas where banks can focus on to improve their innovation capabilities:

- In terms of culture this means developing processes to engage the whole organisation in innovation activities, and making effective use of open innovation so that the bank’s natural risk-averse culture has some challenge.
- In terms of technology this means investing in the capabilities to launch products and services more quickly, across multiple channels, and with features like the ability for customers to personalise products. Enterprise-wide systems can support these capabilities, and a componentised approach to deployment of these systems can reduce risk and make the exercise more practical.

The most innovative banks demonstrate that developing these innovation capabilities – culture and technology – requires leadership from the very top of the organisation and persistence over a meaningful period of time.

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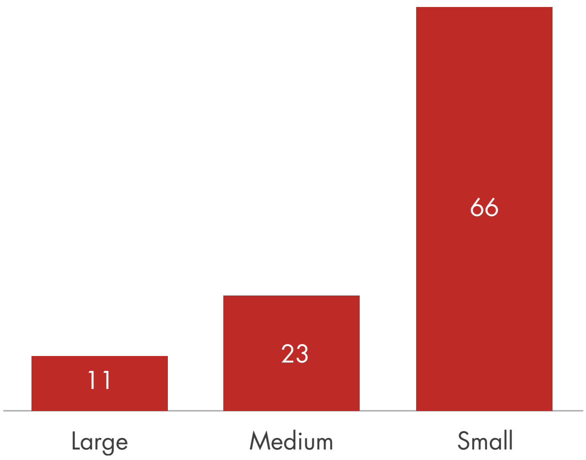
About the research

The online survey was conducted over the period May-July 2013 and comprised 22 questions. Responses were received from over 150 banks and from different regions of the world.

Figure 20: Percentage of respondents by size of bank

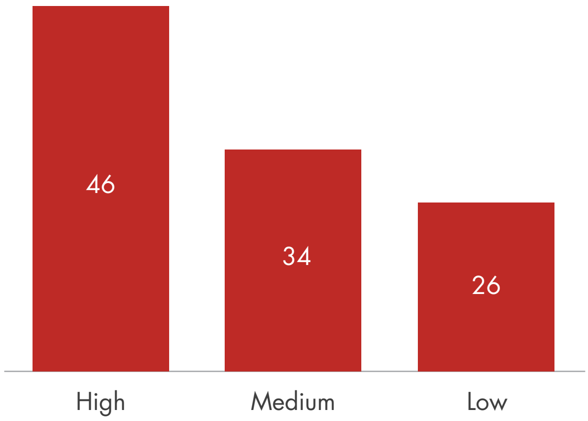
Size of bank is based on rankings from The Banker magazine. Large is 1-50, Medium is 51-300, Small is >300



Note that approximately one third of the small banks responding to the survey were subsidiaries of large or medium size banks.

Figure 21: Percentage of respondents by country income level

Country income level is based on GDP per capita on a PPP basis. High is >US$30,000 (e.g. France), Medium is US$15-30,000 (e.g. Malaysia), Low is <US$15,000 (e.g. Nigeria)



Online survey questions

1. Does the bank have a clearly defined innovation strategy?
2. Does the bank have an innovation committee for prioritising innovation investment?
3. Do you expect your bank to increase or decrease the level of investment in innovation in 2013 as compared to 2012?
4. How significant is the threat of disruptive innovation from different actual or potential competitors? (Scale of 1 to 7, where 1 is low and 7 is high)
5. Does the bank have an innovation department (or dedicated innovation resources) and if so, where is it located? (Multiple answers allowed)
6. Which approaches to "open innovation" does the bank use and how effective are these? (Scale of 1 to 7, where 1 is low and 7 is high)
7. Do you think your bank has become more or less innovative in the last 12 months?
8. How do you rate your bank's innovation level in each of the following areas? (Scale of 1 to 7, where 1 is low and 7 is high)
9. Which of the following metrics are used by your bank for measuring innovation investment and performance?
10. Please rank these barriers to innovation in your bank? (Rank from 1 to 6, where 1 is the highest barrier and 6 is the lowest barrier)
11. How do siloed IT systems affect the following features of the innovations you introduce and the innovation process? (Scale of 1 to 7, where 1 is low and 7 is high)
12. Which of the following would have the most impact on your bank's innovation capability? (Rank from 1 to 5, where 1 is the highest impact and 5 is the lowest impact)
13. How long does it take to define and implement a new offer across different banking channels/ touch points?
14. To improve your product innovation capability, how important are the following capabilities? (Scale of 1 to 7, where 1 is low and 7 is high)
15. To improve your channel innovation capability, how important are the following capabilities? (Scale of 1 to 7, where 1 is low and 7 is high)
16. To improve your customer service/experience innovation capability, how important are the following? (Scale of 1 to 7, where 1 is low and 7 is high)
17. Approximately what proportion of planned innovation related IT investment is currently directed toward each area? (Enter % with total being 100%)
18. Would componentised deployment of banking systems benefit innovation execution?

19. Would banking systems that work across the enterprise accelerate innovation execution?

20. Which of the following banking component systems is a priority for Enterprise-wide development at your bank?

21. What are the hurdles that you face or may face in componentized deployment of banking systems?

22. Which of the following innovations have you deployed or intend to deploy?

- Mobile NFC payments
- Mobile wallet
- Mobile location based offers e.g. shopping vouchers
- Banking transaction capability through social media (e.g. Facebook or Twitter)
- Gamification elements in products or services
- Online video conferencing
- Online self-configuration of products
- Direct only banking
- Cashless branches
- Mobile relationship managers
- Branch videoconferencing
- Printing of new account debit cards at branches
- Cash withdrawal from ATM without card
- Biometric identification of customers at branch or ATM

About us

As a global not-for-profit organisation, Efma brings together more than 3,300 retail financial services companies from over 130 countries. With membership from almost a third of all large retail banks worldwide, Efma has proven to be a valuable resource for the global industry, offering members exclusive access to a multitude of resources, databases, studies, articles, news feeds and publications. Efma also provides numerous networking opportunities through work groups, online communities and international meetings.

For more information: www.efma.com

Finacle from Infosys partners with banks to transform process, product and customer experience, arming them with 'accelerated innovation' that is key to building tomorrow's bank. Today Finacle is the choice of 168 banks across 81 countries and powers operations across 49,600 branches globally. Our solutions address the core banking, e-banking, mobile banking, CRM, wealth management, treasury, and Islamic banking requirements of retail, corporate and universal banks worldwide. Keeping up with global trends, Finacle also offers new-age solutions like digital commerce for enabling cashless transactions and financial inclusion for banking the unbanked. With these offerings Finacle enables banks to stay ahead of changing customer demands, competition and mounting global regulations as they transform into tomorrow's banks.

For more information: www.infosys.com/finacle

About the author

Michael Pearson is a strategy and corporate development expert with 25 years' experience working for and advising financial institutions worldwide, developing new ventures, and investing in start-ups. Michael founded Clarus Investments in 2006 to invest in early stage ventures, with a particular focus on financial services and then set up Clarus Insight to report on trends and developments in financial services and strategic management. Michael is also the author of the Efma report "Strategic Insights and Best Practices in Retail Banking" and provides advice on strategy to entrepreneurs and financial services firms in developed and emerging markets. Michael has an MBA from Harvard Business School.

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Innovation in Retail Banking

September 2013

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