

The banking sector, in the midst of a transformation

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Abstract:

The banking sector is in the midst of a period of transformations. Facing stiff competition in its historical markets and business lines, it must understand and respond to the challenges of reinvention, while also developing its status as a trusted third party. In this era of commoditisation and lack of trust, banks and the banking profession in general must transform themselves and adapt to the abrupt and accelerating digitalisation trend, while making their services “people first”. New services, new products and new solutions all present challenges to the banking sector. It must face up to these challenges to avoid the current perilous era that raises the very real risk of banks going out of business. A local basis, commitment and trust are the strong fundamentals that banks must emphasise on their markets and with their clients.

Transformation of business lines, digitalisation of practices, processes and the client relationship... these are challenges that strike at the core of our modern economies. All stakeholders are affected, and the banking sector is no exception. These genuine revolutions are challenging the way we understand the banking business. They are forcing us to transform our way of doing business. Banks cannot merely stand on the sidelines and watch these changes occur or they will inevitably see their business decline.

This danger is real, and we see it every day. Many companies that could be described as historical players with very sound positions on their markets and a very strong brand reputation have literally come under attack from new players who have placed digital technology at the heart of their business models and offered new products and services. Thus, consumers have discovered new choices and have thoroughly changed their approach and their expectations. The product alone is no longer enough; a service-oriented approach is increasingly decisive. In all, digital technology – to state it simply – has prompted companies to enrich their value propositions.

As a result, we must take a close look at the actual turning points connected with these transformations that occur over the short and long term. We must understand the kinds of new services on offer and their effect on market players. Lastly, we must put forward a sustainable and global model that combines digital technology and a human approach.

The turning points of transformation

These days, there is hardly one article, speech or debate that does not mention the word “transformation”. It’s as if we were faced with a concept that came out of the blue to instantly strike our economies at a given moment, with no before or after. But nothing could be further from the truth. Transformation is a perpetual concept, but it nevertheless has brief periods of sharp acceleration, combined with longer-term management considerations.

An internal process already well under way

Let’s note one fact that is all too often forgotten: this concept of digital transformation, although it has become increasingly important and is accelerating in a way that has seldom before been seen, is nothing new per se. The computerisation of the banking sector began more than 40 years ago. So we must be careful to avoid tunnel vision: the technological revolution is not only an issue for us today. One difference today, however, is the way that a change creates a new client relationship. To give a very simplified description, the first IT revolution affected banks’ internal operations. The focus was more on streamlining processes, doing away with paper and achieving productivity gains than on the client relationship. This is the genuine turning point that has been under way for nearly 20 years with the beginning of the Internet era...

The era of digital acceleration

Google was founded 20 years ago, nearly to the day. Who could have predicted what would happen next? We have witnessed an intense succession of technological revolutions seldom seen before. In 20 years, our entire relationship to information, work, daily life and privacy has been turned upside down. In short, everything has accelerated. Whereas in the past a company might take years or decades to win market share in a country, now a few months may be enough to take over an international market. Everything must be measured on a new scale. The geographic, industrial, financial and human scales are monumental. Everything is bigger and everything moves faster. To take just one example, Chinese e-commerce website Alibaba generated \$30.7 billion in sales in barely 24 hours on “Singles Day” in China. By comparison, this is more than Latvia’s annual GDP. What holds true for the retail sector is also true for tourism and hotels, the energy sector and, inevitably, financial services in the broad sense. The banking profession can no longer be considered the same as it was 20 years ago. We have gone through a period of revolutions.

The era of segmented markets

What are the consequences of these accelerations on a global economic level, and more specifically, with regard to the banking sector? We note the creation of market segments that are interconnected but also potentially self-supporting: data management, payment management, application management, client relationship management. Pure players can operate on any of these segments. For the banking sector, this amounts to being attacked from all sides on its historical captive markets. Nevertheless, there is one important difference: the French “universal banking” model is currently the only one that covers all of these segments. This is a decisive competitive advantage but not an end in itself. Instead, it is a commitment that must be upheld over time.

New services for new players?

The “commoditisation” era

If we had to define the major contribution of digital revolutions, we would probably speak about “agility”. I would prefer to speak in terms of “commoditisation”, i.e. streamlining of processes, daily tasks and access to services. Let’s look at the very concrete example of an ordinary bank transfer. Twenty years ago, to send a bank transfer, you had to make an appointment, go to your bank’s branch office and possibly wait for a teller to be available. Today, you can arrange a transfer at the touch of a button on your mobile phone, tablet or computer. The transaction has not changed, the service is exactly the same, yet everything has changed. The consumer’s relationship to the service is now obviously viewed in qualitative terms, but especially, in terms of agility. This is undoubtedly the main indication of the digital revolution.

A perilous era

Thus, access to technology has become commodified in a way that facilitates or enriches a product range and related services. However, behind the apparent simplicity from the client’s standpoint lies the very high complexity of information systems. All banks are making significant IT investments, accounting for more than 7% of their net banking income on average.

This situation has definitely reshuffled the cards and allowed new players to emerge with new services. To take two examples from the French market: online banks and new mobile-only banks accounted for 25% of new accounts opened in 2018 – admittedly a very costly achievement for these players, and also a sign of an accelerating trend towards people using more than one bank. Similarly, in the mortgage business, more and more borrowers (currently nearly 30%) use a mortgage broker. Faced with this new situation, the banking sector must cope with a major challenge. It must reinvent its range of services to respond to new competition, while maintaining its status as a trusted third party in the eyes of its clients. This status is in no way guaranteed. The financial services market has been shaken up by the arrival of new players and new technologies. Without listing these changes one by one, we can mention the broker revolution, fintechs, the big data era, the threat of global web giants (Google, Amazon, Facebook, Apple, etc.), and the emergence of blockchain. We cannot mention new technologies without referring to new services and new market approaches. Industrial models including a banking dimension are not only entirely possible, but are already visible. We must therefore acknowledge that the banking business, as we have known it, is currently facing competition on its historical core businesses.

High entry barriers

However, regulations implemented after past financial crises – especially after the 2008 crisis – have secured the sector by setting high entry barriers. But a bank can also become a commodity provider that rents its balance sheet to third-party providers who, in turn, maintain the client relationship.

An era of reinvention

The current trend should not be focused on management but on reinvention. Regarding a brand’s track record as a sufficient foundation for ensuring its long-term survival is a pipe dream and a dangerous illusion. It is an illusion because it is literally based on a view that has no actual grounds. It is a pipe dream because it is not rooted in actual fact. And it is dangerous because it would inevitably

lead to a decline in the banking sector's position. In recent years, how many brands, companies and sectors have disappeared or at least seen their positions undermined? Therefore, only one response is possible: focusing fully and entirely on the future.

The bank's status as a trusted third party must be reinvented

Reinventing the client relationship

In the wake of technological transformations, what if the client relationship ultimately remained the true foundation for the banking profession? How does a bank use its desirable status as a trusted third party? Where does a bank derive its legitimacy? Probably from listening to clients, being located close to them, and having its own regional coverage via a large network of branch offices. Reinventing the client relationship must involve more than simply digitalising it. Instead, banks must strengthen human support for high value-added subjects and be as attentive as possible to the expectations of their client base which, while admittedly more mobile, is still looking for a trust-based relationship. This requires striking a true balance in which human support and digital technology, far from being in opposition to each other, must be combined to deliver a richer, augmented client relationship.

Reinventing service

Reinventing service means offering a new business model that takes full stock of the strength of innovations and meets clients' new expectations. The challenge is twofold: keeping a certain number of branch offices, and creating expertise units with an intelligent regional coverage. Banking services must fully join the "commoditisation" era and harness digital resources to make things easier for clients. Reinventing service also means broadening the scope of activity and offering more comprehensive support that fulfils all the consumer's needs.

But reinventing service does not, under any circumstances, mean rejecting the specific features and strengths of our business models. At a time when issues related to privacy rights and data processing are increasingly in the public eye, the banking sector's DNA, which makes bankers a trusted third party, is an unparalleled advantage. These days, as we hear more and more talk about digital disruption, fintech or blockchain, banks obviously must invest in the digital revolution, but they must also clearly mark out its scope, set its boundaries and establish the conditions for ensuring total security for their clients. This is an ethical viewpoint and a source of bankers' pride in their profession. Thus, we must embrace these new digital venues and new business possibilities and include them in our range of services so that we can continue to offer our clients the same high level of quality and professionalism in addressing these new challenges.

Reinventing the banking profession

New technology means new skillsets. It is easy to see that the banking profession has changed, not necessarily in its fundamentals, but in the answers it provides to its clients. This revolution must also affect the profile of banking professionals. Either in terms of their background, continuous education or their business scope, today's banking professionals must be agile, first and foremost. They must have excellent people skills and also be up to date on the digital revolution. They must know how to handle daily transactions and also offer expertise on specific issues. This is what clients expect and are looking for. Banks need to offer their clients a complete range of services combining several areas of expertise, driven by multidisciplinary teams and pools of high-level experts.

In fact, the banking sector is currently fully able to meet the challenges of the digital revolution. Banks have undertaken far-reaching transformations, while maintaining their single-minded focus on clients' real needs. Digital technology will not replace all human interaction. Human beings are still social creatures (and thankfully so!). Therefore, we must not think in terms of black and white, digital service vs. mortar-and-bricks bank branches. Instead, we must lay out the path towards true convergence and offer a global model in which digital technology has an integral part. Therefore, we should look to the future with much optimism and lofty ambitions. We are living in an era when the banking sector, more than ever before, must assert its status as a trusted third party in society.