

Atos' Vision on becoming a Networked Bank

Surviving and thriving
in Banking

Opinion Piece



Content

Networked Banking	3
How did it come to this?	4
Price of failure vs. Value of success	5
How to get there?	7

Networked Banking

A vision that must become the reality for big banks

There are some who would say banking is at a crossroads. They would say that traditional financial services providers caught up in a product-centric business model have a choice: Take a new path towards digital transformation or keep on going in the same direction as before.

The experts behind Atos Now Banking believe the banking world does not have a choice. Those traditional players that continue to treat people only as a customer number, or rely on potential customers to ask the bank for products, will not only be overtaken but will fall by the wayside.

What is clear is that an unstoppable digital imperative is forcing the banking world to move in one direction. The drivers are manifold, with everyone aiming to reach the same goal of a profitable, customer-centric business model. But new, progressive players are going to arrive there first. That is because they 'know' their customers. Whether the head of a young family or a retiree, they can offer you personalized banking any time, any place and anywhere. And they can push products based on your personal profile because they use their data effectively and in real-time. And that is just the beginning.

We know that for any big banks that can follow the same customer-centric path to success the rewards will be significant. In all likelihood, executives who convince their big banks to evolve will make a nine-digit difference to the bottom line - reaching the top quartiles for profitability, competitiveness, efficiency and engagement ahead of their rivals.

Atos Now Banking

With Now Banking, Atos provides the support enterprises need along their digital transformation journey by creating customer-centric financial business models for the future. Establishing closer connections to customers, data, and emerging technologies, Atos Now Banking enables Financial Services providers to operate with real-time speed, agility and security. Learn more about **Atos Now Banking** at atos.net/banking

How did it come to this?

The requirement for a truly customer-centric digital business model is not exclusive to Financial Services. It is happening everywhere you care to look. From Retail to Transport, Public Services to Media, digital transformation is in full effect. But looking at banking in particular, there are five key areas that are subject to the most significant change:



Changing customers

- » Whether born and raised on Amazon service models or simply getting used to Uber-style, on-demand availability, your customer expectations have changed. They want to be known and they want contact to be personalized. They are 'impatient' and expect financial advice based on what they need right now. And they want seamless and smart financial products that enhance rather than interfere with their lives.



Changing industry

- » The pressures for return on equity (ROE) and low cost-income ratios have always been there. But now big banks cannot rely on volume and market share to support small margins. The disaggregation of payments and loans, among others, means that traditional players that are losing customers to new entrants cannot afford to run with high costs. Capital has to be invested wisely and shareholder value protected with high-fee income streams. And this will only come through innovation.



Changing competition

- » Put simply, new entrants are taking market share. But they are doing it across the financial services spectrum. The result is that simply protecting core markets is not a viable long-term strategy. Financial Technology (FinTech) companies - whether start-ups or backed by alliances - are being joined by the likes of Google and Apple in providing basic banking services. And whether it is peer-to-peer lending from LendingClub, loans from Kabbage or payments from bitpay, the 'disintermediation' of the value chain means banks with the wrong approach will struggle to stay relevant.



Changing economics and regulation

- » Regulation and compliance have become big risks for brand reputation. Strict new laws - at home and abroad - mean risk management is now a competitive differentiator. In an era of low trust in large banks, meeting and being seen to be meeting statutory obligations plays a big role in customer choices. These choices are also influenced by a demographic shift as a new, digital-only customer emerges. At the same time, a change in the economic landscape means emerging markets will soon become core markets for those banks savvy enough to establish themselves swiftly.



Changing technology

- » Where to begin? According to IDC *, in 2004 the average number of monthly interactions between a customer and a primary bank was 1.8. In 2015, it was 12.6 and by 2020 it is set to be 51.1. By the end of the decade, the Internet of Things (IoT), microapps and mobile banking will account for 77% of these interactions. Phone banking and the branch combined will account for no more than 4%. But this is just half the story. In a recent retail banking review, Deutsche Bank suggested that you could now launch a bank for as little as \$50 million. Atos supports this view that new technologies, such as webscale computing, mean that you can launch and then expand operations simply and cost-effectively. And with a revolution in the blockchain model and smart machine process automation (not to mention cognitive intelligence), to say that technology will be *the* basis for future success is to risk understating its importance. Technology is breaking down the barriers to entry in financial services and intensifying competition in a way no one thought possible just a few years ago.

With all these changes converging at once, banking executives have a job on their hands to steer their banks forward. They have to oversee a shift in mindset from the old world to the new. They have to direct their entire operations towards customer-centricity. They have to decide the best roadmap for success. And they have to do all this at speed.

Faced with an increasingly interconnected and digital world, the question for any banking executive is not 'Why change?' but 'How?'

The answer is Networked Banking - a vision for financial services built on an ecosystem of partnerships.

It combines traditional banking expertise (in areas such as risk management) with digital innovation from new FinTech collaborations. It revolves around providing the customer with what they want, when they want by working with them.

Banks will need to embed themselves in consumer and commercial value chains, providing customers with real-time, proactive offerings. For example, combining a consumer product purchase with a finance loan, loyalty scheme and an insurance product all in a single compelling package.

To do this, Networked Banking takes advantage of smart technologies and Big Data analytics to create personal, highly profitable relationships. It also introduces dynamic new interactions between financial and non-financial offerings that will extend and open up markets.

Each node in this network plays an important role in establishing revenue and driving growth. Connecting them together effectively has become a competitive necessity. And introducing Networked Banking in the new era of customer-centricity will mark out the winners from the losers in the digital era.

* IDC FI survey 2004 and 2015 & 2020 IDC Financial Insights estimates

Price of failure vs. Value of success

Those banks that fail to become a networked bank face major risks.

- » **First**, the gap in profitability and cost-income ratios between your bank and new entrants will continue to widen and you will risk losing market capitalization.
- » **Second**, you will miss out on competitive differentiation if the new products you do develop are too slow to market.
- » **Third**, if you are not quick enough to adapt to the 'Age of the Client', those clients (or customers) will go elsewhere. This is because they want hyperconnected services just like their hyperconnected relationships.
- » **Finally**, without the partnerships to help you innovate into the future any increase in the bottom line might only be temporary and overall quality of earnings will suffer.

But those institutions that do succeed in building a Networked Bank will profit across their operations.

- » **First, they will establish an ecosystem of partnerships with organizations that can offer differentiation.** Their customers will be able to rely on the bank as the 'face' of a rich, personalized combination of financial and non-financial offerings. In Retail, for example, customers that arrive in-store would be able to bypass the till, pay for their goods as they pick them off the shelves while also extending their credit facility.
- » **Second, the Networked Bank will experience the super-agility it needs to meet emerging consumer demands.** For example, within-hours straight-through processing of a mortgage application to meet a homebuyer's need for an Agreement in Principle in response to a quick-fire property market.
- » **Third, the Networked Bank will have the real-time operations to serve customers at any time of day or night,** wherever they are in the world. Not just cash withdrawals or money transfers but customized financial management and advice.
- » **Fourth, the Networked Bank goes beyond the static enterprise.** With innovation from within the bank and across the partnership ecosystem, its operating model can easily adapt to ongoing digital transformation and leap on new opportunities.
- » **Fifth, the Networked Bank keeps costs down.** Partly because of the digital technologies it uses. And partly because of its role as an aggregator of services from its ecosystem of partners. It can reap the margins of success across multiple markets without committing the up-front capital. The savings it makes reduce its cost-income ratio, support extra return on equity and can be used to fund innovation.
- » **Finally, the Networked Bank benefits from a disaggregated value chain.** It can establish itself as the expert in some fields while demonstrating that its partners are the experts in others. It can provide more transparency into these roles and re-establish the trust lost in big banks following the most recent financial crises.

The imperative is that big banks must change but there is no guarantee that they will. Some within the enterprise may feel there is too much to achieve in too short a period of time. So, once the vision of Networked Banking is accepted, what can your bank do to actually get there?

How to get there?

Networked Banking answers the key questions raised externally by the digital imperative:

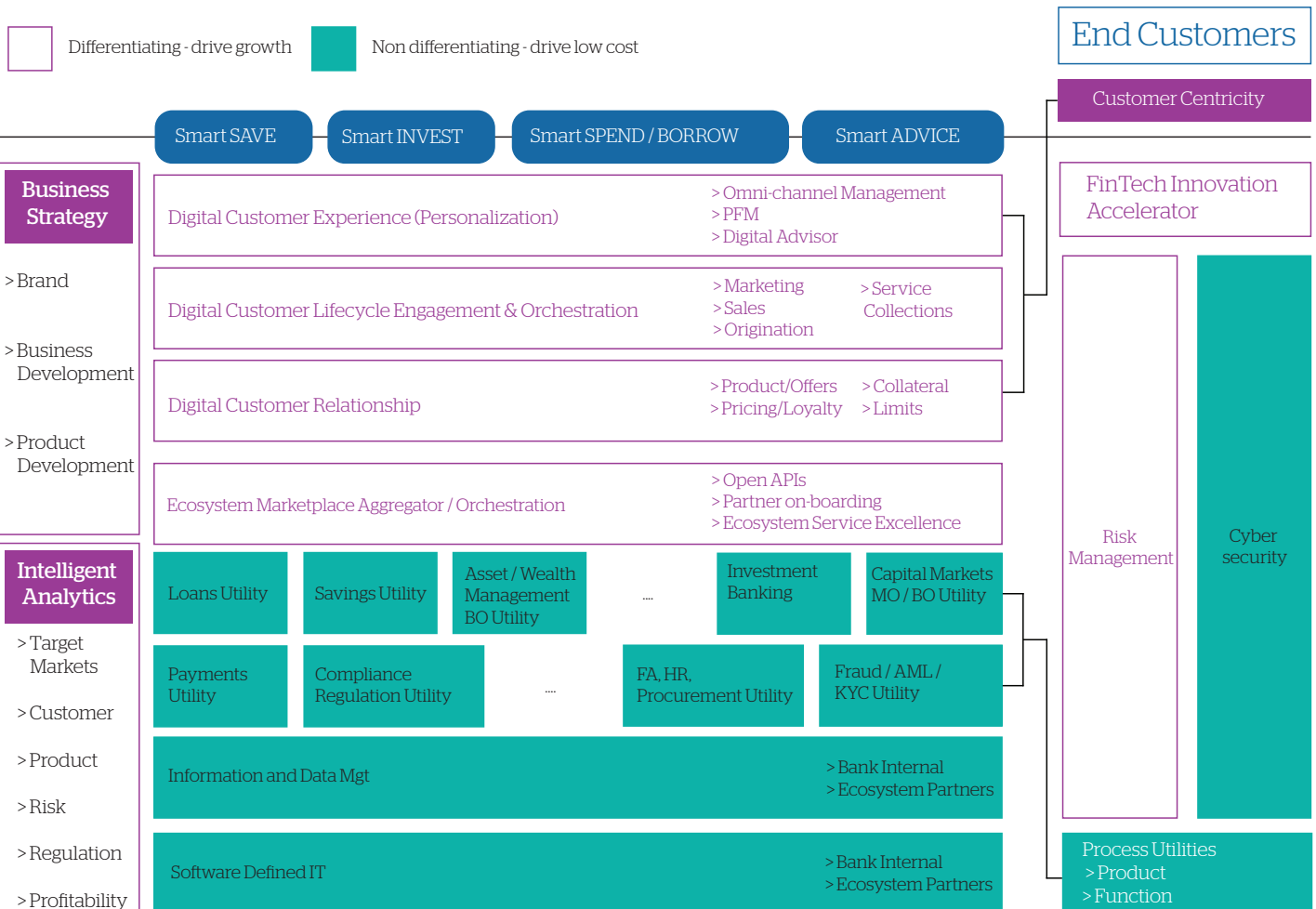
How will you:

- » Innovate every day?
- » Launch products within 24 hours?
- » Pitch these products to customers in real-time?
- » Achieve straight-through processing around-the-clock?
- » Enrich client datasets with external information?
- » Incorporate cloud, mobile, social, data science and the Internet of Things as well as Robotic Process Automation?
- » Utilize partner expertise for differentiation?

But Networked Banking also provides a target business model and roadmap for answering the questions raised internally about how to successfully change the bank.

The Networked Banking target business model - as represented by the diagram below - is about more than just an end point. It is about practical, operational transformation on your digital journey.

Atos' Networked Digital Bank Vision The business model for success



It is important to recognize that this transformation can have two effects. The first is to lower the costs of existing banking processes so that the cost-income ratio of your bank becomes more favorable (the green elements in the diagram). The second is to encourage significant growth through differentiation so that your bank can lead in the future (the white elements in the diagram).

Encouraging growth depends on using your digital data to provide a seamless and 360° customer or user experience. It also means reinventing your business model to quickly take advantage of new digital opportunities and revenue streams.

Lowering your costs means using technology to streamline and modernize your operations for better efficiency, quality and productivity. It also means ensuring trust and compliance across your business - keeping back-end processes safe and secure to prevent them affecting your front-end successes.

Building a Networked Bank

Instead of attempting to do everything at once, building a Networked Bank should always begin with your most pressing priority. Whether that is a revenue, cost saving or market innovation imperative.

Based on your non-differentiating and differentiating priorities, **there are six clear transformation scenarios - or starting points - identified**, which can help kick-start your journey to the target Networked Banking operating model:



Better, more profitable relationships

On-boarding customers in a way that enhances profitability and encourages loyalty, with dynamic products, real-time pricing and 360-degree offerings.

Improving process efficiency

Accelerating best-in-class cost income ratios while allowing for KPI-based operations, new platforms and industry-scale innovation.

Introducing new technologies

Lowering the cost of IT with on-demand technology, speeding up time-to-market for new products and better utilizing Big Data analytics.



Enhanced customer experience

Delighting customers with next generation personalized interactions and allowing them to manage their financial affairs as they choose.



Focusing on Cybersecurity

Accelerating best-in-class cost income ratios while allowing for KPI-based operations, new platforms and industry-scale innovation.



Bringing in new partners

Embedding banking services within consumer goods and services and integrating offers with retailers, automotive companies or consumer good suppliers.

These are just examples of potential starting points for your own bank's transformation journey.

What is clear is that standing still is no longer an option. There is no crossroads or choice of direction to ponder. Other enterprises will simply overtake you.

By choosing your starting point based on your most pressing priorities you can steal a march on other big banks and rebuild a successful banking enterprise on an ecosystem of partners and highly profitable customers.

With a step-by-step approach to operational transformation you can achieve that top-quartile positioning. And you can add that nine-figure growth to your bottom line.

You can if you start now.

Their destination is the same as yours should be: A customer-centric business model that puts your bank in the top quartiles for engagement, profitability, competitiveness and efficiency. Knowing where to begin is critical and Networked Banking provides the critical link - giving you the operational transformation you need to effect change.

This change is all about where you want to be in the market. It is about staying relevant through a choice of technologies that align you to your customers, partners and regulators. It is also about how you can differentiate through digital - choosing the role you will play and what your brand will become known for in the customer-centric era.

Journey together with Atos Now Banking

Networked Banking is a radical new approach to Financial Services but is the only way to guarantee future success. To achieve your goal of becoming a Networked Bank faster, you will need the support of an expert partner that can guide you along your transformation journey. By working together with Atos Now Banking you will not only survive the massive upheaval in Banking today but you can be sure to thrive tomorrow.

Discover more at atos.net/banking

About Atos

Atos SE (Societas Europaea) is a leader in digital services with pro forma annual revenue of circa € 12 billion and circa 100,000 employees in 72 countries. Serving a global client base, the Group provides Consulting & Systems Integration services, Managed Services & BPO, Cloud operations, Big Data & Cyber-security solutions, as well as transactional services through Worldline, the European leader in the payments and transactional services industry. With its deep technology expertise and industry knowledge, the Group works with clients across different business sectors: Defense, Financial Services, Health, Manufacturing, Media, Utilities, Public sector, Retail, Telecommunications, and Transportation.

Atos is focused on business technology that powers progress and helps organizations to create their firm of the future. The Group is the Worldwide Information Technology Partner for the Olympic & Paralympic Games and is listed on the Euronext Paris market. Atos operates under the brands Atos, Atos Consulting, Atos Worldgrid, Bull, Canopy, Unify and Worldline.

For more information, visit:
atos.net/banking

Please contact:
marketing@atos.net