

Trends in the Global Banking Industry

**Key business and technology trends in the banking
sector and their implications**

Contents

1	Highlights	3
2	Introduction	4
3	Emerging Banking Trends	7
4	Global Trend 1: Focus on Next-Generation Remote Banking Solutions	8
5	Global Trend 2: Drive towards Core Banking Platform Replacement	10
6	Global Trend 3: Increased Role of Business Intelligence and Analytics in Transaction Monitoring	12
7	Global Trend 4: Focus on Enterprise Payments Hubs in Payments Processing	14
8	Regional Trend 1: In Europe, Implementation of CRM to Enhance Channel Capabilities	16
9	Regional Trend 2: In Asia and Other Emerging Markets, Enhancement of Multi-Channel Technology Capabilities	18
10	Regional Trend 3: In the U.S., Rising Importance of Remote Deposit Capture	21
	References	23

1 Highlights

The banking industry has experienced mixed results in the post-crisis period from 2008 to 2010. Industry growth has slowed considerably; the growth rate of assets of the top 1000 banks globally¹ in the post-crisis period remained 2.7%, compared to the double digit growth rates witnessed during the pre-crisis years of 2006 to 2007. On the other hand, when looking at risk management and profitability, there has been significant recovery. Profits have returned to pre-crisis levels and the solvency of the industry has witnessed significant improvement with growth of 3.8% registered in capital adequacy ratio during 2007 to 2010.

The dichotomy in the growth prospects of banks from developed markets versus those from the emerging markets has also been highlighted by the crisis. Driven by buoyant economic prospects, the banking industry in the emerging markets remained profitable even during the worst phase of the crisis. This contrasts with the performance of banks from developed markets which registered huge losses during the same period. Even in coming years, banks from the emerging markets are expected to drive the growth of the global banking industry.

The industry has also entered a period of enhanced regulation. More stringent capital adequacy and risk management standards are now being imposed upon banks, along with a corresponding increased strain on their traditional business models and operating margins. Looking forward, certain key priorities have emerged for the banking industry, prominent among them are: restoration of customer confidence; addressing issues such as low efficiency of existing channels; ageing technology; high operating costs and the existence of complex processes. Technology, including the development of consumer-centric solutions, is increasingly being seen as a key to meeting these priorities.

As a result, certain major trends are seen emerging in the banking industry. Remote banking solutions are increasingly being adapted and used as tools for providing greater convenience to customers as well as driving operational efficiency.

- Replacement and upgrades of legacy core banking systems continues to be a strategic priority for banks.
- Payment processing hubs have evolved from concept into reality and are seen as a tool for driving better customer experience and increasing business opportunities.
- Business intelligence and customer relationship management (CRM) are emerging as vehicles for delivering customized offerings and driving greater consumer-centricity.

¹ Based on total assets

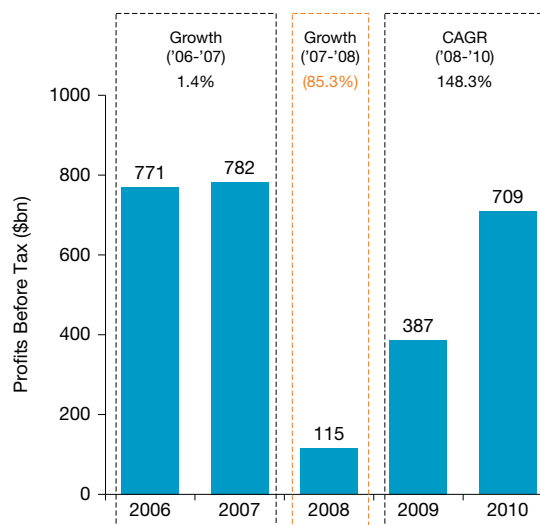
2 Introduction

Although lower impairment charges boosted profits in 2010, the increase in financial market risk and volatility in H2 2011 may adversely impact profitability.

The financial crisis put a sharp halt to the rapid asset growth that the banking sector had witnessed in the pre-crisis period. From 2006 to 2007 the growth rate of assets for the top 1000 banks was 24.2% compared to 6.8% during 2007-08. Even during 2008-10, the growth rate remained relatively flat at 2.7% reflecting the devastating effect the crisis had on the banking industry².

Profits before tax (PBT) of the banking sector also witnessed a sharp decline during the crisis, with the PBT of top 1000 global banks declining by \$667 billion between 2007 and 2008. With the economic situation improving during 2009 and 2010, the banking sector recovered some of its losses with the PBT of the top 1000 banks increasing by \$594 billion between 2008 and 2010.

Exhibit 1: Profits Before Tax (\$bn) of Top 1000 Global Banks (by Assets), 2006-2010³



Source: Capgemini Analysis, 2011; Banker Database, Sep, 2011⁴

² The Banker Database, Sep 2011, retrieved from www.thebankerdatabase.com

³ CAGR stands for cumulative annual growth rate and represents the year-on-year percentage growth that takes place in an underlying indicator

⁴ Years represented here stand for the financial year. For example, 2008 represents the period from Jan 2008 to Jan 2009 i.e. one complete financial year

The financial crisis has also highlighted the sharp differences that exist between the performance of the banking sectors of emerging and developed markets. The banking industry in emerging markets of Asia Pacific and Latin America remained fairly resilient during the crisis and registered growth rates of 31.4% and 40.1% respectively on the parameter of PBT as a percentage of total assets during 2008-10. In sharp contrast to this, banking industry in the developed markets registered losses during the crisis with the profits of the European and North American banking sectors declining by 143.2% and 174.9% between 2007 and 2008⁵.

This dichotomy in the performance of the banking industry from emerging versus developed markets underscores the rising importance of banks from developing regions on the post-crisis financial landscape. Given the huge growth potential that the emerging markets present, this trend can be expected to grow even stronger in the future.

Increased regulation of the banking industry has been an important result of the financial crisis; the signing of the Dodd Frank Act in the U.S. and efforts to put in place a more robust regulatory framework for the financial markets in Europe are indicators of this new regulatory age. The impact of such heightened regulations will not be limited to additional compliance cost which will be imposed on banks. It will also have an impact on the way banks organise and conduct their business.

Risk management has emerged as a key priority area for the banking industry. The past year or so has seen banks taking an increasingly conservative approach to conducting their business and managing risk. As a result, risk management has also become the key priority area for technological and infrastructure spending. In the future, we may expect additional activity on the part of banks to boost their risks management capabilities. Also, in order to contain fraudulent practices, fraud protection techniques like background checks, anti-money laundering and know your customer (KYC) forms are expected to rise in importance in the future.

⁵ The Banker Database, Sep 2011, retrieved from www.thebankerdatabase.com

As banks restructure their capital to meet the capital requirements imposed by the Basel norms, the Tier 1 capital to assets ratio is expected to increase even further.

2.1. Financial Performance of the Banking Industry⁶

The growth rate of the banking sector decreased drastically due to the financial crisis. From 2007 to 2010 the total assets of the banking industry⁷ grew at a moderate rate of 4.1%. The highest growth was registered by Latin American banks whose assets grew at a CAGR of 28.1% during 2007-10. During the same period, the assets of the banking sectors in Asia Pacific and North America grew at rates of 16.3% and 6.9% respectively while the assets of European banks declined at a rate of 3.3%.

From an operational efficiency viewpoint, mixed results were witnessed during the post-crisis period. Driven by an improvement in the economic situation, the return on assets of the banking industry improved across all regions during 2008-10, with the highest growth of 1.5% being registered by the banks from North America. During the same period, the loans to deposits ratio of the banks from emerging markets grew impressively with growths of 8.2% and 5.7% registered by banks from the Latin American and Asia Pacific regions respectively. However, banks in the developed markets of Europe and North America saw declines of 3.3% and 6.0% respectively.

The cost to income ratio of banking sector improved impressively, with decline in cost to income ratio of 17.7%, 10.4% and 3.9% witnessed in North America, Europe and Latin America respectively. Implementation of Basel guidelines on capital adequacy mandating the reduction of operational costs played an important role in the improvement of the cost to income ratio.

Capital positions have been a strong regulatory focus over the past couple of years and during 2007-10, tier 1 capital as a percentage of assets of the banking industry increased significantly. The highest growth (1.7%) was registered by banks in the North American region. The European banking sector registered the second highest growth (1.0% increase). However, with a tier 1 capital to assets ratio of 5.2%, it still lagged behind the banking sectors from other regions. With the imposition of the capital requirements proposed by Basel III norms, the required tier 1 capital ratio for the banks will increase from the current 4% to 6%. In order to ensure compliance with this requirement, banks have begun restructuring efforts to convert their hybrid capital (a part of tier 2 capital) to core capital which has resulted in a decline in the tier 2 capital to assets ratio for banks across regions.

Banks have also realized that Basel III will have impact on the product offering and the pricing of their products. Systems will need to be implemented to support these new or restructured products, and banking channels should be developed to offer these products to customers in an attractive way.

⁶ All numbers highlighted in this section are based on Capgemini analysis which was conducted on the data retrieved from the Banker Database of the top 1000 global banks (based on assets). Numbers pertaining to specific regions are based on the data available in the Banker Database for banks from that region which figure among the top 1000 banks (based on assets)

⁷ Numbers pertaining to the "banking industry" refer to the aggregated performance of top 1000 global banks based on assets

3 Emerging Banking Trends

Changing customer demands across the globe have increased the pressure on banking firms to come up with innovative solutions in order to remain competitive.

The banking sector is undergoing a period of major upheaval and restoring customer confidence, badly shaken during the financial crisis, has emerged as a key priority. More assertive customers are increasingly demanding higher quality of service and ease of use from their banks. In addition, evolving regulatory reforms around capital and risk management also need to be addressed.

The damage suffered during the financial crisis has turned improvement of operational efficiency into a strategic necessity. Addressing issues such as low efficiency of existing channels, ageing technology, high operating costs, and existence of complex processes has become an immediate priority for the industry.

The importance of technology in enabling the banking sector to deal with changing customer demands, improve operational efficiency, and enhance regulatory compliance is increasingly recognized by banks across the globe. This is evident by the expected growth in IT spending by the banking sector which is predicted to grow at a healthy rate of 3.8% during 2009-13 to reach \$63.6 billion in 2013⁸.

We see the following global technology trends which are expected to drive an increased investment in technology:

- Increased focus on next-generation remote banking solutions
- Drive towards core banking platform replacement
- Increased role of business intelligence and analytics in transaction monitoring
- Increased focus on enterprise payments hubs in payments processing

In addition, three regional trends are emerging:

- In Europe, more prevalent implementation of CRM to enhance channel capabilities
- In Asia and other emerging markets, enhancement of multi-channel technology capabilities
- In the U.S., the rising importance of remote deposit capture

⁸ According to Capgemini analysis conducted on the data obtained from: IT Spending in Financial Services: A Global Perspective, Celent, 26 Jan 2011

4 Global Trend 1: Focus on Next-Generation Remote Banking Solutions

Next-generation online and remote banking solutions are expected to enable customer self-service and reduce costs.

4.1. Background and Key Drivers

The rapid rise in internet services and the increasing propensity of young consumers to use internet and mobile applications for carrying out transactions has made next-generation remote banking solutions a key priority area for banks.

The potential gains from leveraging the power of the internet encompass: personalized services for customers; enhanced customer experience through the use of Web 2.0 online banking sites; improved productivity and usability of web-based banking application through the use of rich internet applications (RIAs); and improved flexibility, scalability, and computing capacity.

Cloud computing and virtualization are other technologies which are seen as potential tools for lowering infrastructure, maintenance, and energy costs. Improved security, greater reliability, enhanced flexibility and functionality, and increased economies of scale are some other potential benefits which banks feel can be derived by harnessing remote banking solutions.

The major drivers for an increased focus on next-generation remote banking solutions are:

- Increased customer comfort level in using internet-based services for carrying out financial transactions.
- The impact of new regulations on traditional sources of fee income for the financial services industry means banks are looking to recoup some of the lost income by charging for web-based value-added services.
- The internet is increasingly being seen as a tool for data collection and facilitating cross-selling of products and services.
- Increased competition is pushing banks to look at remote banking solutions as a means of differentiating themselves from their competitors through increased customer retention (defensive) and wallet share (offensive).
- The expense of person-to-person interaction has pushed banks to offer more services to customers through the online channel.

4.2. Analysis

Driven by the potential gains to be derived from adopting remote banking solutions, banks are rapidly increasing their investments in these channels, with a significant portion of bank's IT budget being spent on the online channel. Even the banks which are implementing new or upgrading existing core banking systems are doing this with a focus on enhancing online channel functionalities in their products. In addition, banks are looking to provide enhanced web interface functionality to their customers through the use of RIA technology.

Driven by the customer demand for functions like transaction categorization and alerts, budgeting, and reporting, online banking is rapidly evolving into personal financial management. Mobile internet banking is being adopted on a rapid scale in the mature markets and is expected to grow at a rapid pace in emerging markets in the coming years.

The trend towards increased adoption of remote banking solutions is acknowledged by the leading IT vendors. Most of them are of the opinion that online applications, RIA technology, and Web 2.0 will play a critical role in determining the competitive and market position of banks in the near future.

In order to meet regulatory requirements some banks have adopted cloud computing in a private cloud in their own data center. Transferring this private cloud to a public cloud is a huge step. The industry needs to develop a certification mechanism similar to SAS 70 to convince the bank, its accountant, and regulators that the processes and data are handled in a compliant way.

4.3. Implications

In the coming years, it is expected that there will be a transformation of remote banking solutions from being “good to have” to being “must have” functionalities for banks. They will transform from being tools which provide a bank with a competitive edge to being standard offerings essential for retaining customers and growth in wallet share.

Banks will therefore have to constantly assess their remote banking solutions to ensure they are on par, or superior to, those from competitors in terms of ease-of-use and relevancy to the customers’ needs. Online banking solutions for corporate customers, online payment functionalities, and online customer service interactive training may emerge as key areas of focus for banks in the near future. Adding new customer-relevant functionalities to their internet banking platform and improving customer support and sales functionalities will also emerge as key areas of focus on an ongoing basis.

From a technological perspective the focus has to be on coming up with solutions that emphasize customer experience, usability, and navigation, while allowing customers to take care of their core banking requirements.

To be successful, banks need a system architecture that can integrate seamlessly with the mid- and back offices. This architecture has to ensure that regardless of the channel used, a customer will always get a 360° view of banking services.

5 Global Trend 2: Drive towards Core Banking Platform Replacement

Rather than slowing renewal activity in core banking, the financial crisis served to accelerate it through new reforms.

5.1. Background and Key Drivers

Due to the financial crisis and the strain it caused on banks' financial resources, many long-awaited core-banking migration and replacement activities were put on hold. As the effects of the crisis subside, these pending replacement activities have started to gain priority, especially for the banks in North America and Europe.

Maintenance of legacy systems still occupies a large part of most banks' IT budget. For example, in 2010, nearly 79% of the IT budget of the banking sector was spent on maintenance projects⁹. Reliance on legacy systems has resulted in most institutions suffering from poor data consistency, low data quality, and limited visibility of data across the enterprise which in turn have led to regulatory, compliance, and customer management issues. The dependence on legacy systems also adversely affects the operational efficiency of banks and their ability to attract and retain customers.

The key drivers for the move towards core banking platform migration and replacement are:

- Increased need for business agility that will cut turnaround time for implementing new business rules and industry regulations.
- Heightened consolidation activity in the banking industry has made standardization and homogenization of merging banks' platforms necessary.
- Development of new and more agile core banking solutions and their adoption by competitors has made upgrading core banking systems a competitive necessity for banks.

5.2. Analysis

In regions like Asia and Eastern Europe, core banking functionality is rapidly transitioning into a "must-have" capability for banks. Increased core banking platform upgrades are occurring across North America and Western Europe. The core banking packages being offered today have richer functionality and are platform independent, allowing for easier integration.

For example, with master data management (MDM) functionality, banks just have to implement the core banking package since the design and build activities are performed by the vendor, thus reducing costs for individual banks. Such core banking packages act like plug-and-play systems which banks can transition to with minimal disruption of operations.

⁹ Capgemini analysis conducted on the data obtained from: IT Spending in Financial Services: A Global Perspective, Celent, 26 Jan 2011

The process of core banking modernization, however, comes with some major challenges. Though package solutions have come a long way in terms of functionality, implementation in tier one and tier two banks remains extremely complex. Additionally, tremendous industry consolidation; increased customer transaction demands; and data management issues have led banks to feel increasingly limited by the capabilities of their core banking systems. According to a survey conducted by Capgemini in 2008 to understand the usage of core banking systems by banks, it was found that almost all of the top retail banks globally were still using legacy systems dating from the 1960s and 1970s despite the growth that had taken place in packaged banking solutions over the last three decades.

In order to overcome these challenges, it is necessary for banks to work with their technology partners to develop systems that deliver a competitive advantage and enable them to prosper in this new environment. Banks which are willing to tackle the planning and governance challenges faced by the replacement of their outdated core banking solutions can expect to derive significant benefits—including meeting compliance demands, having greater control over their data management issues, and gaining a single view of their customer base.

5.3. Implications

With tight timeframes for Basel 2.5 and Basel 3 implementation, banks must take measures immediately despite uncertainty about specifics such as selecting vendors and systems; making budgetary allocations; and defining timelines for the transition. In fact, activity has already been witnessed on this front, with banks across the globe stepping up efforts to replace their legacy core banking systems with customer-centric and flexible systems.

From a technological perspective, the dependence of core banking vendors on their system integration partners to act as extension of their bandwidth for new functionalities is expected to increase. As a result, greater due diligence will have to be conducted by banks while selecting their vendors. Some specific areas where banks should pay special attention when selecting IT vendors may include their training and certification and MDM capabilities.

Product and customer rationalization will reduce the implementation risks. Banks should focus on those customer groups that will bring margin and have a clear risk profile.

6 Global Trend 3: Increased Role of Business Intelligence and Analytics in Transaction Monitoring

6.1. Background and Key Drivers

The transaction history of a customer contains valuable information about their purchasing and investment preferences. Though this transaction-related data is available with banks at an individual customer level, lack of appropriate business intelligence (BI) and data analytics capabilities has resulted in a less than optimal use of this data in providing customized rewards, products, and investment solutions to customers.

There is a growing realization among the banks that they are sitting on a treasure trove of information about their customers. By using this information, banks can not only meet their customers' financial needs more effectively, but can also derive a major competitive advantage in a marketplace which is becoming more and more competitive and globalized. This realization has resulted in a drive towards increasing the role of BI and analytics in transaction monitoring.

Key drivers behind this trend are:

- The growing belief among CIOs that BI can improve decision making and operational efficiency if deployed successfully. The information generated from enterprise applications is at an all-time high, and BI can help turn this information into an asset to support better decision making.¹⁰
- Compliance with regulations such as the Sarbanes-Oxley Act, Basel II, Basel III, Solvency II, and Dodd-Frank Act, which require solid data management will drive compliance-related BI growth.
- BI tools that enable transaction monitoring and behavior analysis are key components of a larger, enterprise-wide fraud prevention solution—something all banks should have in place.
- BI is increasingly being seen as a key enabler for consumerization—developing products and solutions which are geared towards meeting specific consumer needs.

6.2. Analysis

Rapid strides are being made in the use of tools like BI, analytics, and performance management systems. The capability of BI platforms is no longer limited to query reporting and online analytical processing (OLAP) functionalities, but now include a much more comprehensive suite of dashboards, visualizations, and scorecards. New technologies such as visualization, in-memory analytics, and service-oriented architecture (SOA) are simplifying the development and use of BI applications. Overall, the use of analytics by banks to monitor transactions and customer behavior is also showing an upward trend.

New regulations will drive changes in analytics, business intelligence, master data management (MDM), and reporting.

¹⁰ CIO Priorities: Business Intelligence and Decision Impact, Gartner, <http://www.gartner.com/technology/cio-priorities/business-intelligence.jsp>

The drive towards increased use of BI and analytics is not without challenges. Financial services institutions should evaluate not just the core BI capabilities being offered by vendors, but also their BI strategies and roadmaps. BI tools must be selected to fit underlying applications, frameworks, and architectures already in place. Financial firms must clearly identify where their priorities lie:

- Unification of information spread across heterogeneous IT systems, or build completely new business information systems; and
- The importance of real-time usage and analytics.

The better a bank can match requirements to appropriate BI solutions, the more gains the bank can achieve from BI. The use of BI as a tool for fraud prevention will require the development of systems which can analyze cross-channel activities, determine patterns, and continuously learn from the data analyzed so as to help prevent future attacks.

6.3. Implications

As the use of BI and analytics gains greater importance in driving business strategies the nature of products and services developed by institutions can be expected to become increasingly customer-centric. The marketing and selling approach is also expected to become more contextual in nature, with directed marketing efforts gaining pre-eminence over more generic marketing efforts which are the norm today. In addition, the profitability and operational efficiency of financial firms is expected to improve as fraudulent practices, which put a major strain on an institutions' cost structure, will be reduced by effectively using business analytics.

From a technological perspective, the priority for banks will lie in finding IT partners that can help them cope with both the explosion in data volumes and the heterogeneous nature of their systems and databases. Banks should strive to identify partners that can offer enhanced analytical banking capabilities and also link them to their underlying transactional banking.

7 Global Trend 4: Focus on Enterprise Payments Hubs in Payments Processing

Redesigning payment processing into payment hubs can enable banks to implement revenue- and cost-focused strategies.

7.1. Background and Key Drivers

There is a growing realization in the industry that redesigning payment processing into payment hubs can enable banks to implement revenue- and cost-focused strategies.

Banks operating in silos by payment types, geographies, and channels have resulted in operational inefficiencies and high costs. There is a need for finding a way to address the problems emerging from multiple payment engines, currently the norm at many large banks, by bringing down the number of payment platforms to a more manageable and efficient level. Establishment of payment hubs is being seen as a possible way of achieving this aim.

The key drivers behind the increasing focus on establishing enterprise payment hubs for payment processing are:

- Competition from banks and non-banks offering innovative payment services; e.g. mobile payment, contactless cards, and faster payments
- Emergence of new payment standards and regulatory requirements such as ISO 20022 and SEPA
- Reduced revenues from commoditization of payments services and increased costs from redundant infrastructure
- Globalization that has resulted in customer demands for consistent offerings and services across geographies

7.2. Analysis

The adoption of payment hubs has increased significantly during the past few years. Many banks have already put them in place while many others have concrete plans of doing so in the near future. This rapid adoption is driven by the prevalent view among banks that governing payments at an enterprise level can provide better customer experience and improve business opportunities. Payments represent a significant percentage of a bank's revenues. Payments products represent a portfolio in which different products are in different stages of their lifecycle. By establishing payment hubs, intelligent trade-offs for allocating limited investment resources can be made.

Even from an infrastructural viewpoint, significant benefits can be achieved by establishing payment hubs. In the current scenario, the internal payment systems are spread over multiple business lines giving rise to complex linkages. Establishment of payment hubs has the potential to eliminate infrastructural bottlenecks that emerge from these linkages and better drive efficiency. Payment hubs also facilitate easier performance measurement and monitoring; enable provision of customized, enhanced value-added service offerings; and reduce the cost and time required for responding to regulatory changes.

Investing in enterprise payment hubs is therefore emerging as a valuable option for banks across the globe. Before making the investment, banks should evaluate the coverage of their products and services, key target segment, focus geographies, and the potential volumes that can be gained in order to plan the scope of their payment hub.

7.3. Implications

With the adoption of payment hubs the flexibility of banks to shift payments to lower-cost platforms, whether in-house or outsourced, will increase.

8 Regional Trend 1: In Europe, Implementation of CRM to Enhance Channel Capabilities

CRM helps in strengthening customer relationships and in being prepared to better meet changing customer needs.

8.1. Background and Key Drivers

In the aftermath of the financial crisis, the importance of multiple channels as vehicles for increasing the trust and loyalty of customers has come under renewed focus. Though self-service channels remain a key focus area for banks because of the convenience they provide to customers and the potential that they have for improving the bank's cost-structure, there is an increasing belief that they will complement—but not replace—the traditional branch channel through which banking operations have been historically conducted.

Despite increased use of e-commerce, when it comes to financial instruments retail clients prefer the branch channel over others for specialist advice like mortgages and private banking. Plus, branches continue to be an entry point for resolving serious customer problems. In such a scenario, banks are looking at customer relationship management (CRM) as a tool to help leverage the full potential of their channels as a backbone for building the 360° customer view and improving operational efficiency.

Some of the key drivers behind the implementation of CRM in European banks are:

- CRM provides an improved ability to devise strategies for retaining profitable customers and increasing the business derived from them
- The relation-based approach can be leveraged to push customer-specific products and drive sales
- CRM can be used to reduce the total cost of ownership for banks
- The growth of social media allows banks to interact directly with customers and will become an integral part of CRM

8.2. Analysis

The recent past has witnessed increased efforts by European banks to improve their distribution network, make their sales force more specialized, and centralize back office operations. European banks are investing in channel management to optimize profitability. CRM plays a key role for achieving this objective of increasing profitability. Analyzing the product life cycle management helps banks focus on profitable clients, achieve a better volume-client-product combination, and develop a superior distribution and multi-channel approach.

CRM provides increased knowledge of customers that helps banks better cross-sell and up-sell their products, which in turn increases the effectiveness and efficiency of sales efforts. It also helps banks to better identify customer preferences regarding distribution channels. CRM also helps banks better understand the needs and expectations of their clients, increasing their ability to come up with customized products and services which directly address client needs. In addition, CRM helps banks better segment their customers on the basis of pre-determined parameters and to prioritize them in order of their importance to their business. This allows the bank to follow a customized and personalized approach when selling products and sending communications to clients.

Social media is expected to allow banks to achieve the objective of higher consumerization. The potential for social media is immense; it can be used to listen to the voice of the customers and identify their needs, helping banks come up with products and solutions which directly address those needs. It can also be used as an effective sales channel for reaching a wide or targeted customer base and delivering customized offerings. Given the potential social media presents to boost marketing and product development efforts, many banks are considering social media as an integral part of their CRM efforts.

8.3. Implications

To fully leverage the benefits of CRM, European banks are focusing their attention on enhancing CRM capabilities to improve customer insights, tailoring product offerings for each channel to the needs of the customer and empowering branch officers.

From a technological perspective, banks are expected to focus on identifying and establishing relationships with IT vendors who can deliver modular, multilingual, customer-centric CRM applications that enable them to leverage ready-to-deploy CRM functionality for competitive differentiation.

9 Regional Trend 2: In Asia and Other Emerging Markets, Enhancement of Multi-Channel Technology Capabilities

Changing consumer preferences for multichannel banking are driving IT investments into online and mobile channels.

9.1. Background and Key Drivers

Asian banks are enhancing their IT systems to meet the needs of innovation and growth in remote channels. While the mature markets of Japan, Korea, and Singapore excel in mobile internet banking, in emerging markets such as the Philippines, SMS banking and mobile remittances are becoming a part of personal finance. Driven by the huge costs involved in undertaking infrastructural expansion, banks in the developing markets of Latin America and Africa are increasingly relying on innovative means like correspondent banking (using retailers as mini branches) to increase market penetration.

The key drivers behind the enhancement of multi-channel technology capabilities by banks in emerging markets are:

- Evolving customer preferences and the fact that customers have become more receptive to remote banking channels
- The rapid pace of technology which is enabling the development of remote banking channels
- The rise of mobile devices as key for business banking

9.2. Analysis

Many Asian banks are making huge investments in online and mobile channels. With the growth of smartphones equipped with browsers, a large potential has emerged for their use as a virtual wallet. Smartphones can perform the functions of cash, checks, debit, and credit cards in addition to other features such as an address book and a calendar.

Another development in this field has been the rise of mobile contactless systems based on near field communication (NFC). These systems offer a much faster and secure way to initiate payments with a mobile phone than SMS or other mobile network-based technologies. The trend towards enhancement of multi-channel capabilities is also driven by the desire of banks to tackle competition by enhancing all customer touch points including internet and mobile banking, call centers, and ATMs.

Mobile banking is on the rise in the Asia Pacific region because it is seen by banks as a tool for growing the card business; acquiring more customers; increasing the penetration of banking services to the unbanked segments; and reducing the supply chain costs by making some common transactions like ticket booking, mobile-based. Increasing mobile phone penetration, wider availability of mobile broadband, cheaper data plans, and the advent of smartphones has created the right environment for banks to adopt mobile banking.

Banks are also looking at mobile payments as an important service for their customers who want transactions across various payment models: business-to-consumer, business-to-business, consumer-to-consumer and person-to-person and remittance. From a volume of €28.7 billion in 2008, mobile payments are expected to increase to €140 billion by 2013; most of this growth is expected to be driven by emerging markets, which are estimated to account for 60.6% of the total market volume by 2013¹¹.

¹¹ As of 2011, Japan and Korea remain the leader in mobile payment adoption among the Asia Pacific countries. Thailand and Malaysia have emerged as important mid-markets while countries like China and India present a huge potential for its rapid adoption

A major driver of this trend is the low penetration of banking services in the emerging markets. In such a scenario, mobile payments are seen as an effective and secure medium of making cashless payments. In fact, in South Asia mobile payments transactions have already reached one billion transactions per year. Going forward, worker remittances are expected to be a major driver behind the growth of mobile payments as they can provide migrant workers an easy and cost-effective way of sending funds home¹².

Correspondent banking—using retailers and post offices as mini branches—is also seen as a key driver for mobile banking services in markets like Latin America and Africa where there is low penetration of traditional banking networks. These alternate channels have the potential to bring banking services to unbanked segments without requiring large investments for infrastructure.

9.3. Implications

The channel capabilities of banks in emerging markets are expected to undergo a major change in the coming years. Going forward, we may find more and more banks from these regions offering their customers an entire suite of channel offerings including branch, mobile and online banking. This may especially be true for more densely populated regions. Significant investment in IT systems will be required and we have already started witnessing trends in this direction.

¹² *World Payments Report 2010*, Capgemini

10 Regional Trend 3: In the U.S., Rising Importance of Remote Deposit Capture

10.1. Background and Key Drivers

Remote deposit capture (RDC)¹³ began in 2006 in the United States and is still in the early stages. Between 2009 and 2010, the number of banks planning an RDC solution for mobile has more than doubled from 35 to 83. The number of financial institutions piloting mobile RDC has tripled from 10 to 35, reflecting the rapid adoption of this technology¹⁴.

The key drivers behind the rising importance of RDC in U.S. banks are:

- Broad viability of RDC for small businesses and consumers.
- Cost savings and convenience made possible by remote deposits.
- Growth in the use of smartphone technology.

10.2. Analysis

New markets and service models are quickly developing to handle RDC products. RDC is increasingly being seen as a tool for increasing the convenience for customers in handling their financial transactions, and thereby increasing their loyalty towards the bank.

For example, consider the case of mobile deposit capture where a customer can take pictures of the front and back of a check, convert them into images that meet Check 21 standards using RDC software, and send the check to the bank for deposit, saving time and effort. With the increasing penetration of smartphones, RDC is poised for high growth. Remote capture services have become an important offering provided to business customers and bank managers are realizing the potential this technology has to create a unique value proposition.

10.3. Implications

Going forward, we should expect an increase in the number of launches of new RDC products such as multiple bank-neutral solutions. From a technological perspective, banks will need to integrate RDC solutions with some existing applications to effectively leverage sales channels and provide enhanced user benefits.

Remote Deposit Capture solutions need to handle the image and data capture requirements for multiple channels.

¹³ Remote deposit capture refers to the ability of a customer to make a deposit to his or her account from a remote location

¹⁴ According to Celent financial institution survey conducted in August 2009 and September 2010. Source: Top Trends in Retail Banking 2011 Asia, Europe, and North America, Celent, 24 Jan 2011

References

1. *World Payments Report 2010*, Capgemini, <http://www.capgemini.com/insights-and-resources/by-publication/world-payments-report-2010/>, accessed on 10th Sep 2011
2. *2011 Retail Banking Voice of the Customer Survey*, Capgemini, <http://www.capgemini.com/services-and-solutions/by-industry/financial-services/solutions/banking/wrbr11/>, accessed on 10th Sep 2011
3. *The Banker Database*, www.thebankerdatabase.com, accessed on 10th Sep 2011
4. “*2011 Edelman Trust Barometer® Key Findings Presentation*”, Edelman, <http://www.edelman.com/trust/2011/uploads/Edelman%20Trust%20Barometer%20Global%20Deck.pdf>, accessed on 15th Sep 2011
5. “*Top Trends in Retail Banking: Asia, Europe, and North America*”, Celent, January 24, 2011, <http://www.celent.com/reports/top-trends-retail-banking-asia-europe-and-north-america>, accessed on 15th Sep 2011
6. “*Top Trends in Corporate Banking: Asia, Europe, and North America*”, Celent, January 24, 2011, <http://www.celent.com/reports/top-trends-corporate-banking-asia-europe-and-north-america>, accessed on 15th September 2011
7. “*Top Technology Trends in Retail Banking for 2010*”, Celent, January 27, 2010, <http://www.celent.com/reports/top-technology-trends-retail-banking-2010>, accessed on 15th Sep 2011
8. “*IT Spending in Financial Services: A Global Perspective*”, Celent, 26 January 2011), <http://www.celent.com/reports/it-spending-financial-services-global-perspective-1>, accessed on 15th Sep 2011
9. “*Driving Profitable Growth in Payments*”, Booz & Co., <http://www.booz.com/media/uploads/BoozCo-Driving-Profitable-Growth-Payments.pdf>, accessed on 15th Sep 2011
10. “*Trends 2010: North American Retail Banking eBusiness and Channel Strategy*”, Forrester, http://www.forrester.com/rb/Research/trends_2010_north_american_retail_banking_ebusiness/q/id/55567/t/2, accessed on 15th Sep 2011

11. “*TCS Service Offerings in Cloud Computing*”, TCS, http://www.tcs.com/SiteCollectionDocuments/White%20Papers/Innovation_Brochure_TCS_Service_Offering_Cloud_Computing_09_2009.pdf, accessed on 15th Sep 2011
12. “*2011 Trends to Watch: Financial Markets Technology*”, Ovum, <http://www.marketresearch.com/Ovum-Plc-v2725/Trends-Watch-Financial-Technology-6060834/>, accessed on 15th Sep 2011
13. “*Magic Quadrant for International Retail Core Banking*”, Gartner, 13 Sep 2010
14. IDC, <http://www.idc.com/>, accessed on 15th Sep 2011
15. *American Banker*, <http://www.americanbanker.com/>, accessed on 15th Sep 2011
16. “*From convenience to necessity: The evolution of CRM in retail financial services*”, Efma, Dec 2009, http://www.efma.com/index.php/content/publications_studies_surveys_efma/detail/EN/1/262/1-5FJUO, accessed on 15th Sep 2011
17. *CIO Priorities: Business Intelligence and Decision Impact*, Gartner, <http://www.gartner.com/technology/cio-priorities/business-intelligence.jsp>

About the Author

Saurabh Kumar Choudhary is a Senior Consultant with the Market Intelligence team in Capgemini Financial Services and has over three years of experience specializing in banking and capital markets.

The author would like to thank **Erik Van Druten, William Sullivan, Ritendra Sawan, David Wilson, Rishi Yadav** and **Anuj Agarwal** for their overall contribution on this publication.

For more information, visit www.capgemini.com/banking or e-mail banking@capgemini.com.



About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies.

Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, the Collaborative Business Experience™.

The Group relies on its global delivery model called Rightshore®, which aims to get the right balance of the best talent from multiple locations, working as one team to create and deliver the optimum solution for clients.

Present in 40 countries, Capgemini reported 2010 global revenues of EUR 8.7 billion and employs around 112,000 people worldwide.

Capgemini's Global Financial Services Business Unit brings deep industry experience, innovative service offerings and next generation global delivery to serve the financial services industry.

With a network of 21,000 professionals serving over 900 clients worldwide, Capgemini collaborates with leading banks, insurers and capital market companies to deliver business and IT solutions and thought leadership which create tangible value.

For more information please visit www.capgemini.com/financialservices