



Reaching the next level of innovation in banking: Talking to CEOs

Five ways bank CEOs can drive innovation

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The past 10 years have brought unprecedented innovation to the banking sector — from new customer channels and propositions through to new back office technologies and automation.

But, according to bank CEOs from around the world, the pace of technological disruption has only just begun to pick up true momentum. In a recent survey by KPMG International, almost half of the bank CEOs who responded said they expect major disruption in the sector over the next 3 years as a result of technological innovation.

The good news is that most bank CEOs seem to have the right attitude towards innovation. More than two-thirds of respondents in our survey told us they see technological disruption as more opportunity than threat. And 63 percent said they believe they are already actively disrupting the sector.

Perhaps not surprisingly, therefore, bank CEOs also say they have big plans to support and encourage innovation over the coming years. Around seven-in-ten of the 120 bank CEOs we surveyed say they plan to increase investment into their digital infrastructure, emerging technologies and product and service innovations.

CEOs also told us they were investing in a range of technologies, led by analytics and automation. Most (81 percent) told us they plan to increase investment into data and analytics (D&A) over the next 3 years while 72 percent suggested they would increase investment into internet of things (IoT), and 66 percent said investment would go to cognitive technologies.

Brushing back the bravado

Our survey also indicates bank CEOs are increasingly concerned their organizations may not be ready for the type of innovation that is occurring or (more importantly) the disruption in operating and business models that is to come.

Our respondents noted a range of — more traditional — barriers to innovation; the complexity of implementing new technologies was ranked as the top barrier while concerns about budget availability was ranked second. Many were also worried about attracting the talent and experience necessary to support the commercialization of emerging technology, which only amplifies the challenge of digitally-driven transformation.

This data suggests that, going forward, establishing the right path of change will become a critical differentiator. Consider, for example, the fact that 43 percent of the bank CEOs responding to our survey were willing to admit they are concerned about the quality of their sensory capabilities and their ability to respond to rapid disruption. Or that half said they are worried about the integrity of the data they were basing their decision on.

A new innovation race emerges

Our experience suggests that banks will need to overcome these challenges quickly if they hope to participate in the next level of innovation. Indeed, while the past 10 years have certainly delivered massive innovation and change, it is becoming increasingly clear that the next 10 years will bring a new level of innovation, characterized by the development of new business and operating models.

That will require banks to develop and secure significantly different skills and capabilities, not only to manage the new operating models, but also to sustain a more active innovative program. They will need to be more aware and agile to respond to changes in the market. And they will need to trust their data if they want to make fundamental changes to their underlying business and operating models.

Becoming an innovation leader

My experience working with global banks suggests there are five things the leaders are doing differently to drive innovation:

- 1. They are enhancing their capabilities.** Leading banks are at the forefront of the global war for talent, ranging far outside of their traditional hiring grounds to identify and secure a variety of new skills and capabilities. At the same time, they are also forming smart partnerships with outside organizations that bring vastly different skills to the table.
- 2. They are focusing on the customer.** Leading banks recognize that the next level of innovation is centered on the customer rather than a competitive arms race. They are working to break down siloes within the business in order to expose a single view of their customers and enable deep new insights on their customers' needs, desires and expectations.
- 3. They see innovation as an organizational priority.** Leading banks believe that innovation is a shared responsibility, a board-level priority and an organizational imperative. The innovation strategy is driven by the CEO rather than CTO office and is supported by engaged and encouraged employees and innovation teams.

4. They are unlocking their data. Leading banks understand the value of shared, accessible and trustworthy data and are therefore prioritizing cloud enablement and open architecture wherever possible. Those defending against platform plays recognize the urgent priority of this more than others.

5. They are partnering with unconventional parties. As we first reported in *Forging the future*, most banks are now working with new fintech startups and large technology companies. But partnerships with less conventional players such as massive grocery chains, business service providers or even other banks are becoming commonplace to inspire, commercialize and maintain innovation across the organization.

From talk to action

Banking CEOs truly believe their organization can actively contribute to the disruption of the sector. And they seem willing to put investment and resources behind achieving deeper innovation. But they also recognize the next step will be a big one.

Since fundamental business and operating model disruption is already upon the banking sector, leaders of banks around the world need to consider what it will take to reach the next level of innovation.

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