

GLOBAL RETAIL BANKING 2021

The Front-to-Back Digital Retail Bank

January 2021

By Thorsten Brackert, Chaojung Chen, Jorge Colado, Bharat Poddar, Muriel Dupas,
Andy Maguire, Holger Sachse, Sam Stewart, Juan Uribe, and Monica Wegner

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we help clients with total transformation—inspiring complex change, enabling organizations to grow, building competitive advantage, and driving bottom-line impact.

To succeed, organizations must blend digital and human capabilities. Our diverse, global teams bring deep industry and functional expertise and a range of perspectives to spark change. BCG delivers solutions through leading-edge management consulting along with technology and design, corporate and digital ventures—and business purpose. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, generating results that allow our clients to thrive.

Contents

05 | The Challenge Starts Now

07 | Revenues Are Under Pressure

11 | More Customers Are Becoming More Digital—More Quickly

15 | A New Paradigm for Costs

17 | Front-to-Back Digital Value Streams

22 | A Stacked Operating Model

29 | The Need to Act Now



Three Challenges Define the Future for Retail Banks



The amount of time it will take for global retail-banking revenues to return to 2019 levels



The increase in the use of mobile banking worldwide during the COVID-19 crisis—and further increases will follow



The efficiency of leading retail banks, compared with that of the typical retail bank

Source: BCG analysis.



The Challenge Starts Now

Retail banks around the world reacted to the COVID-19 crisis with speed, dexterity, and purpose, while remaining true to their environmental, social, and corporate governance goals. When customers stayed home, banks closed or converted branches, redirecting their resources and customers to remote and digital channels. As it became clear that an economic crisis loomed as well, banks promptly took steps to improve their financial position. To help financially stressed customers weather the crisis, banks offered them loan deferrals or moratoriums. And they did it all in the span of a few weeks.



That was then. Now, as the [new reality starts to take shape](#), banks face further challenges. The pandemic shock has accelerated changes already underway and sparked new ones. Institutions' revenues are under pressure, and global banking revenue pools have already taken a significant beating. Under the most optimistic scenario, those pools are not expected to return to precrisis levels until 2022.

Customers are moving to digital channels faster than they have in the past. Online banking use has risen by 23%, and mobile banking use is up by 30%. These changes are likely to be permanent, accelerating the migration to digital channels by three to four years over precrisis trends.

As customers move online, banks' position at the intersection of the customer and financial services is coming under attack. A stacked industry landscape, with different types of players competing at each level, is taking shape. Non-bank insurgents are making strong inroads in distribution, threatening to commoditize many banking products.

Perhaps above all, retail banks need to rethink and realign costs—starting now. Current cost structures are not sustainable.

Retail banks must become digital—from front to back—and they must organize around value streams, a series of value-adding activities that lead to the overall result that customers need. While most banks have prioritized select digitization measures (often focusing on front-end functions that will have the most customer impact), they have not put an equivalent effort into cost and risk control (the back-end or internal processes). As a result, customers' digital experience has improved, and they are enjoying new options and features, but banks' fixed costs, which are largely tied to terrestrial assets, remain in place. Without addressing costs, banks will struggle to monetize their current investments.

This report examines what retail banks need to do.



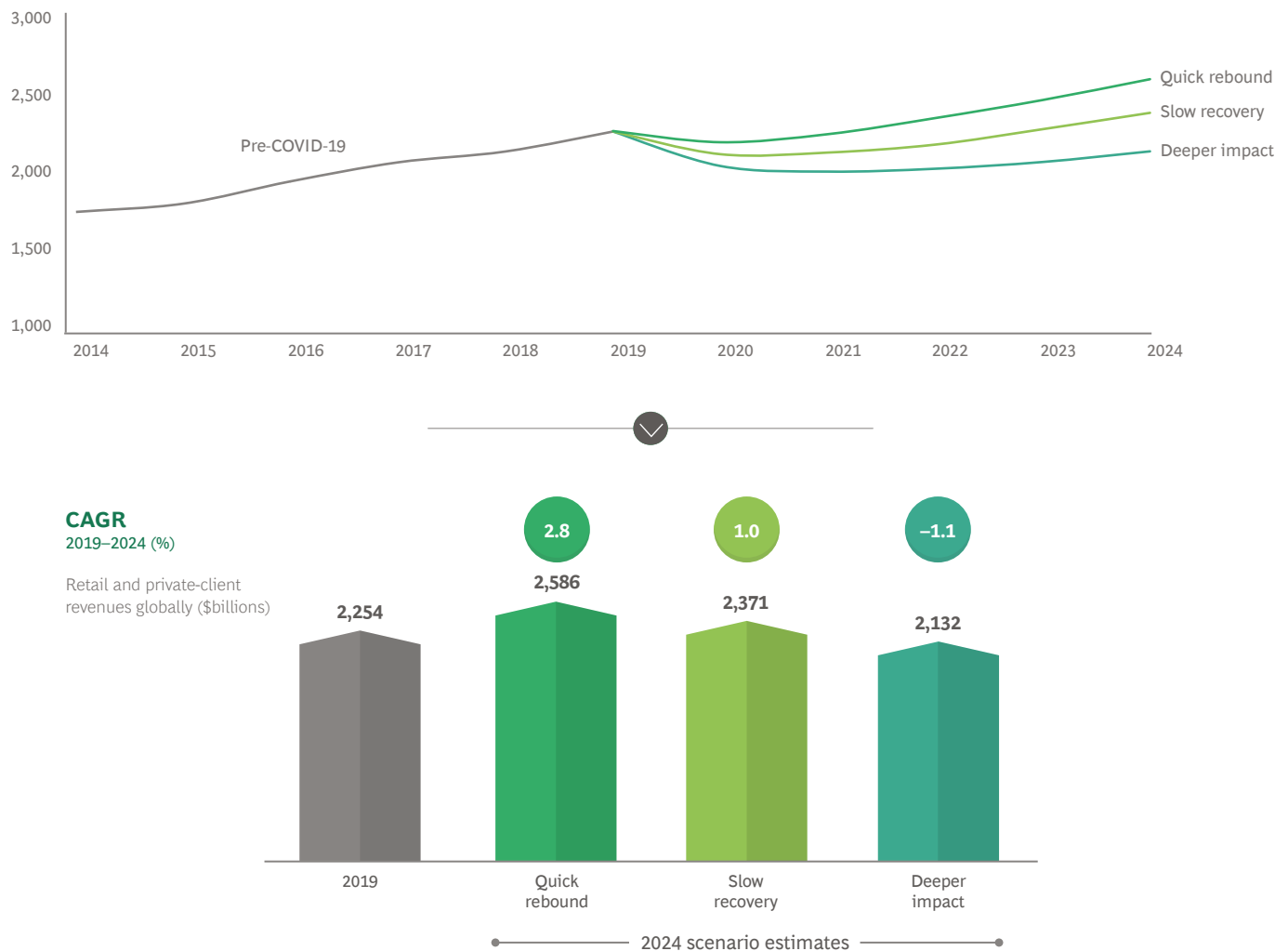
Revenues Are Under Pressure

The new reality greets banks with trouble at the top line. We plotted three revenue scenarios for retail banks using different global GDP forecasts.

A Quick Rebound. Under this scenario, GDP reverts quickly in a V-shaped recovery, returning to 2019 levels in 2021. Employment recovers to pre-COVID-19 levels. Global trade picks up and overcompensates for short-term output losses, while consumer confidence returns to precrisis levels. Large-scale loan losses don't materialize, thanks to government support and the recovering macroeconomic environment. Banks can make up their revenue losses by 2022.

Subdued Revenue Growth Is Anticipated During the Next Four Years

Retail and private-client revenues globally (\$billions)



Source: BCG's banking pools, September 2020.

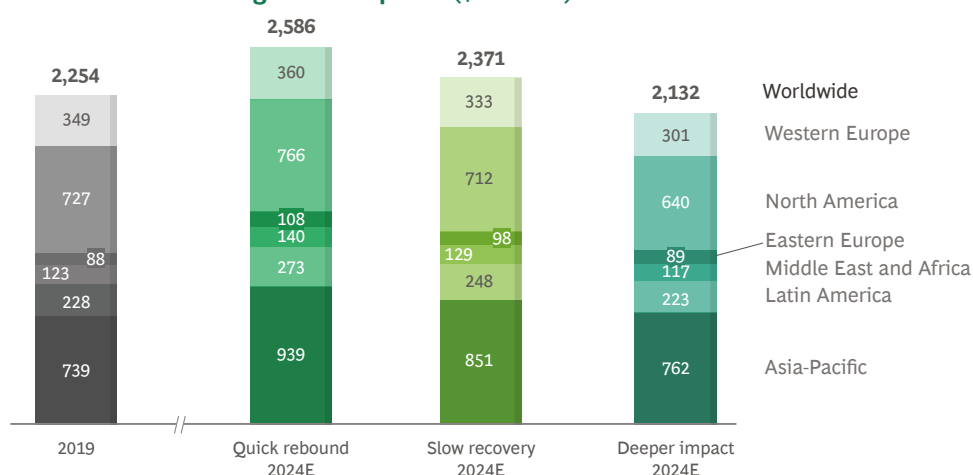
A Slow Recovery. In a slow recovery, a deep decline in the GDP growth rate in 2020 reverts to the prepandemic rate following a U-shaped rebound. GDP returns to 2019 levels in 2022. Employment improves, but stubborn pockets of unemployment continue in deeply affected sectors. Global trade slowly regains momentum, although many barriers remain in place. Consumer confidence partly recovers, but it remains volatile as uncertainty lingers. Banks experience sector-specific loan losses and some impact on unsecured retail lending.

A Deeper Impact. Under this scenario, the coronavirus remains prevalent, resurfacing in multiple waves. Recessionary conditions are hard to overcome in many regions. GDP follows an elongated L trajectory, with high or rising unemployment rates over multiple years. GDP does not return to 2019 levels until 2024. Global trade takes a structural hit, and geopolitical tensions rise. Consumer confidence declines in the face of repeated lockdowns. Corporate and retail lenders experience large-scale loan losses.

From a regional perspective, there's bad news for banks in developed markets. In the latter two scenarios, the revenue outlook is between modest and bleak. Even with a quick recovery, retail banks in developed markets face a slow climb back to 2019 revenue levels.

The Most Profound Revenue Declines Are Expected to Be in Western Europe and North America

Global retail-banking revenue pools (\$billions)



CAGR for revenue scenarios, 2019–2024

Regions	Quick rebound (%)	Slow recovery (%)	Deeper impact (%)
Western Europe	0.6	−0.9	−3.0
North America	1.1	−0.4	−2.5
Eastern Europe	4.1	2.2	0.1
Middle East and Africa	2.5	0.8	−1.1
Latin America	3.7	1.7	−0.4
Asia-Pacific	4.9	2.9	0.6

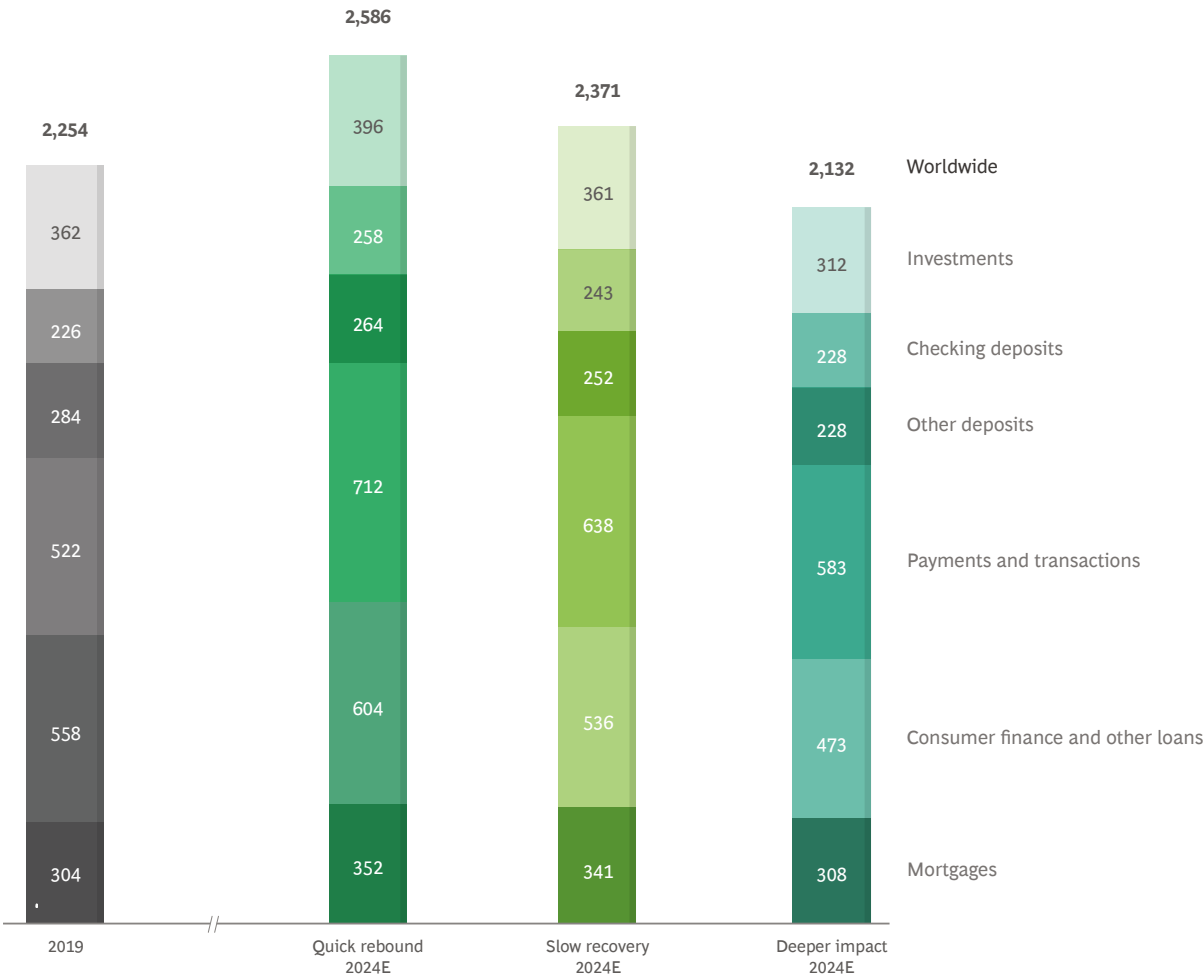
Source: BCG's banking pools, September 2020.

From a product standpoint, revenues from consumer finance loans and other lending will take the largest hit. New business will be hard to come by. The positive impact of e-commerce will be partially offset by a decline in consumer spending, especially on big-ticket items. Nonperforming loans will weigh on the ability to generate future growth. The expected long-term run of rock-bottom interest rates will affect both deposit holdings and returns.

In addition, an increase in contactless mobile payments may lead to a long-term shift away from credit card usage—a change that could be exacerbated by a shift from credit to debit cards as consumers grow more cautious and banks limit credit lines.

Revenues from Consumer Finance and Other Loans Are Expected to Take the Biggest Hit

Global retail-banking revenue pools (\$billions)



Source: BCG’s banking pools, September 2020.

Note: Because of rounding, not all numbers add up to the totals shown.



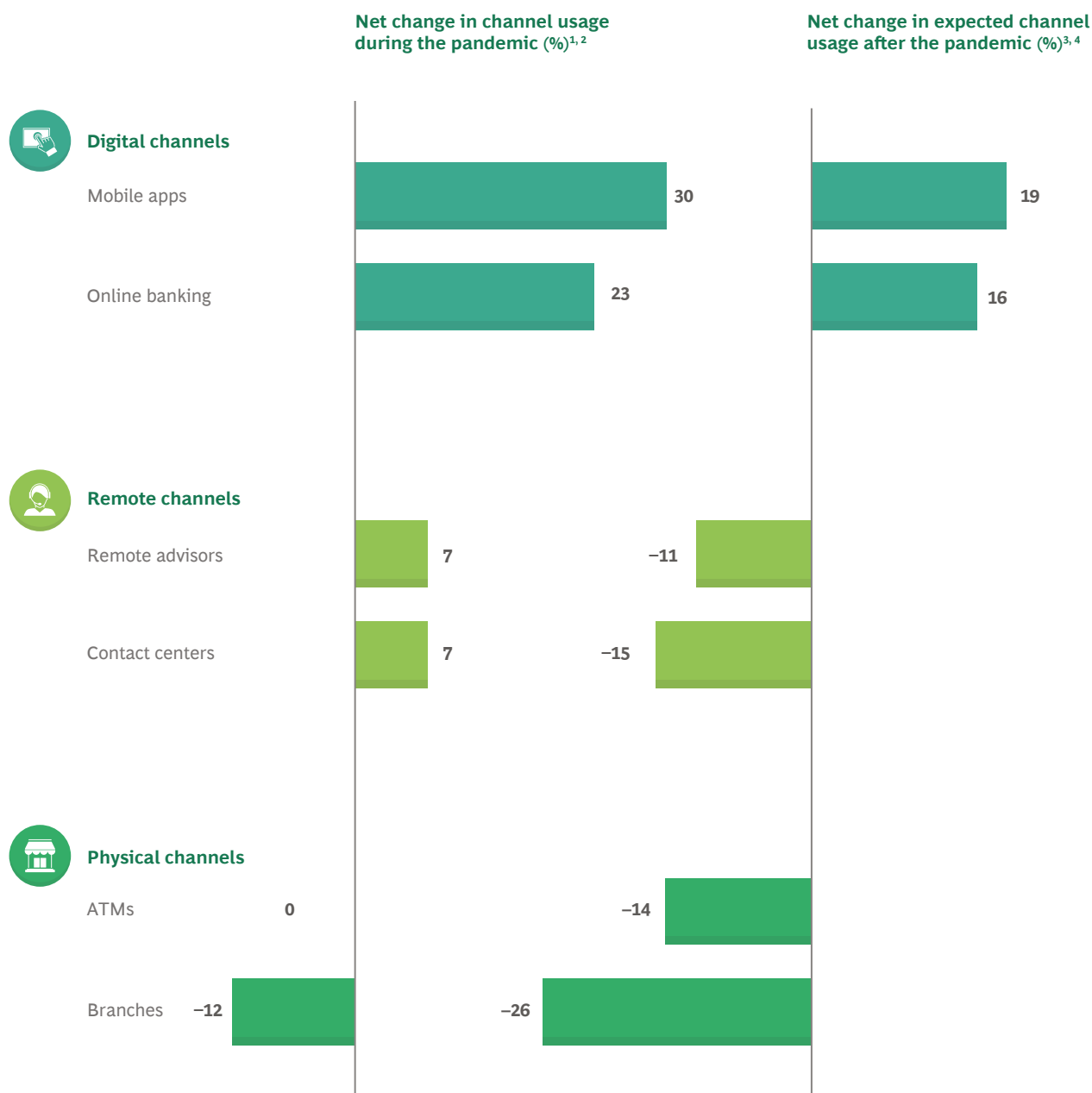
More Customers Are Becoming More Digital— More Quickly

The pandemic is incentivizing customers' shift away from traditional branches to digital channels. According to BCG's most recent retail-banking survey, an average of 13% of respondents in 16 major markets used online banking for the first time during the pandemic (12% for mobile)—and in some markets, the percentage is substantially higher. Cashless payments are also receiving a major boost during the crisis. More than 20% of respondents told us that they have increased their use of digital payment solutions, such as those provided by internet banking and third-party apps, and more than 10% said the same about credit and debit cards.

Branches are feeling the brunt. Our survey showed a 12% net reduction in the use of branches during the pandemic. Lockdowns and social-distancing regulations restricted access to branches and forced many customers to sign up for online or mobile banking for the first time, and most of them liked what they found.

More important, the shift to digital channels is likely to be permanent. On the basis of our survey, we expect an additional net increase of 19% in mobile banking and an additional net reduction of 26% in branch usage after the pandemic. Less digitally adept banks may soon find that both new and more-experienced users choose online banking over visiting branches. The danger is that digitally aware customers will defect to more digitally advanced incumbent competitors or nimble and innovative challengers.

COVID-19 Is Driving Increased Use of Digital Channels



Source: BCG's Retail Banking Excellence COVID-19 Pulse 2020.

¹Net change is the percentage of respondents who increased their usage minus the percentage of respondents who decreased their usage.

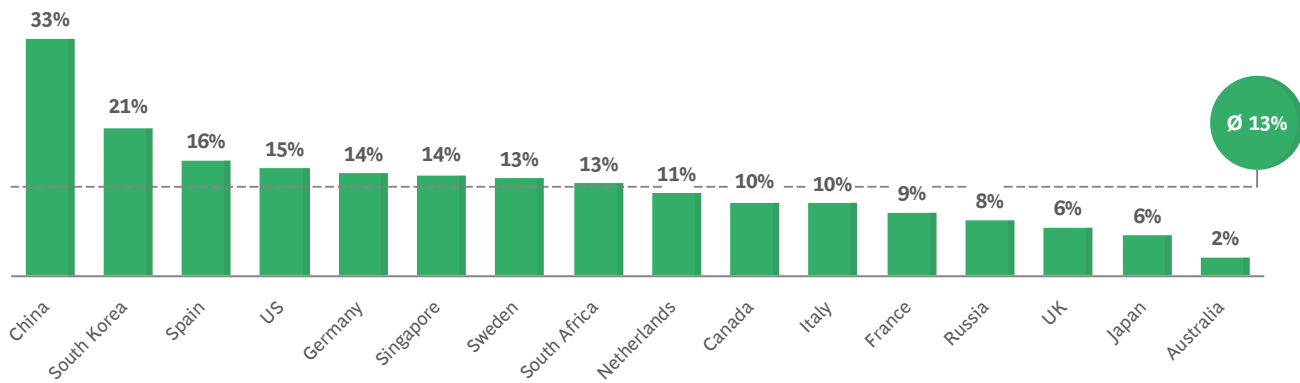
²Survey statement: For each channel that you used in the last three weeks, please describe your shift in the usage compared with last year.

³Net change is the percentage of respondents who expect to increase their usage minus the percentage of respondents who expect to decrease or discontinue their usage.

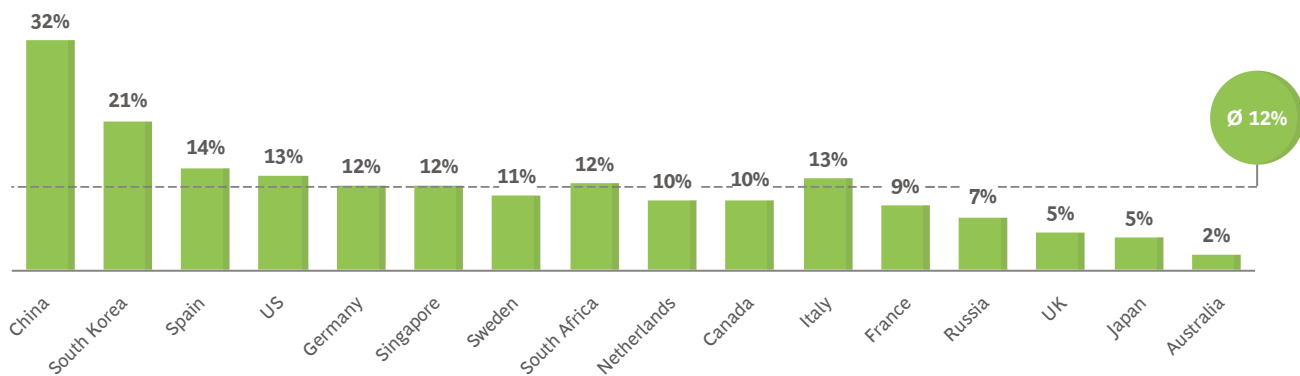
⁴Survey question: How likely are you to use the following channels post COVID-19?

Many Customers Are Using Digital Channels for the First Time

Respondents who enrolled in online banking for the first time because of the COVID-19 crisis (%)¹



Respondents who enrolled in mobile banking for the first time because of the COVID-19 crisis (%)¹



Source: BCG's Retail Banking Excellence COVID-19 Pulse 2020.

Note: Percentages were rounded.

¹Survey question: Have you enrolled (signed up) in online and mobile banking for the first time as a result of the COVID-19 crisis?

As we observed in our [2019 retail banking report](#), banks' traditional competitive advantages, including large bases of sticky customers, are coming under significant pressure. Digital networks are undermining physical networks' role as a barrier to entry, threatening legacy banks' captive pools of data and scale in their markets.

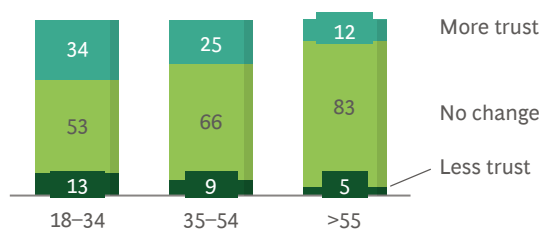
Our survey shows that the coronavirus has accelerated this trend, and customers are reconsidering all kinds of behaviors and business relationships. While a healthy number of survey respondents continue to have trust in their banks, a significant percentage—about one-quarter—said that they are planning to switch banks during next six months. Younger customers are especially likely to make a change, and they are also more likely to be comfortable depositing money into digital banks.

Customers, Especially Younger Ones, Are Willing to Switch Banks

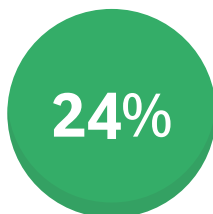
Respondents whose trust in their bank has not changed since the start of the pandemic¹



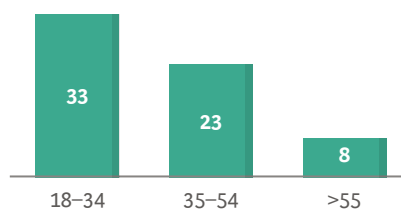
Responses by age group (%)



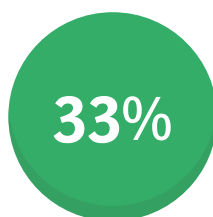
Respondents who are planning to switch to another bank during the next six months²



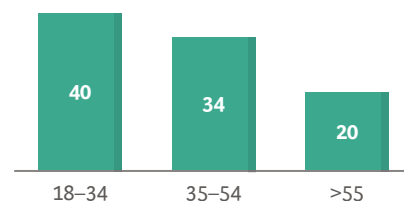
Responses by age group (%)



Respondents who feel comfortable depositing money in a digital bank³



Responses by age group (%)



Source: BCG's Retail Banking Excellence COVID-19 Pulse 2020.

¹Survey question: Has your trust in your bank changed since the start of the COVID-19 crisis?

²Survey question: Do you intend to switch your main banking provider in the next six months?

³Survey question: On a scale of 1 to 5, how safe do you feel with a traditional bank vs. a digital bank (a bank without branches)? 1 = I feel safest putting my money in a traditional bank; 5 = I'm comfortable with putting my money with a digital bank. Respondents who chose 4 or 5 were classified as feeling comfortable depositing money in a digital bank.



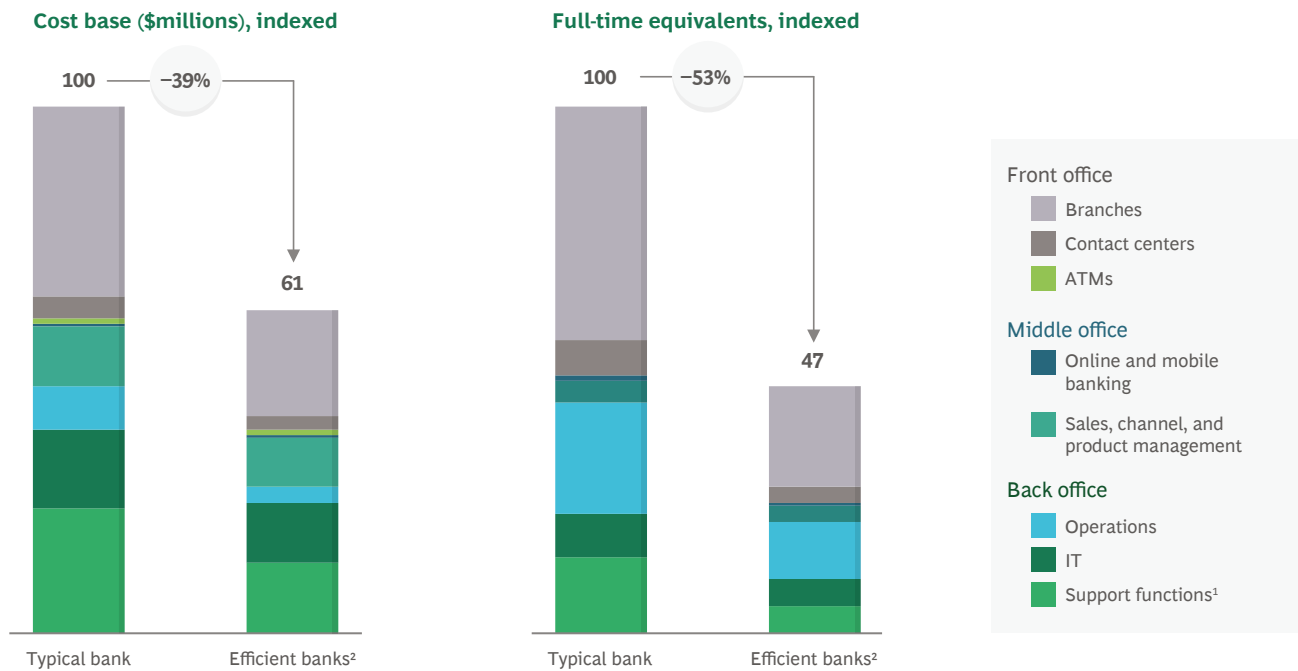
A New Paradigm for Costs

The bank of the future cannot operate with the cost structure of the present and remain competitive. Our analysis shows that the operating costs of the best banks are already about 40% lower than those of the typical bank, and they have roughly 50% fewer employees. These banks make larger and more sales, and they do so with branches that are less transaction focused. Specifically, the top banks open 69% more accounts per branch full-time equivalent (FTE) and conduct 80% fewer branch transactions per customer, compared with the typical bank.

The best banks run more efficient contact centers, with representatives handling, on average, 10% more inbound calls than those at the typical bank. The top banks also handle 65% of calls without a human involved, compared with 45% for the typical bank.

The Best Banks Already Operate Far More Efficiently Than the Industry as a Whole

Retail bank with 4 million customers



Source: BCG's Retail Banking Excellence COVID-19 Pulse 2020.

Note: Based on our analysis of a group of leading global banks. ATM = automated teller machine.

¹Includes risk, compliance, and legal functions.

²The average for the top 25% of banks in the sample.

But even the best banks focus their digitization efforts on certain aspects of the business and do not excel across the board. They are only at the early stages of applying advanced technologies, such as artificial intelligence, to their business and the entire value chain.

A theoretical bank of the future that is modeled on the most efficient functions of today's most efficient banks (the top 25% of our sample by function) could operate with costs that are 69% lower than those of today's typical bank. In practice, of course, no single bank will be this efficient across the organization. But banks that are not planning now for a major step change in their cost structure will find themselves at an unsustainable competitive disadvantage—perhaps sooner than they think.



Front-to-Back Digital Value Streams

Despite years of investments in digitization, most retail banks have struggled to improve the customer experience, grow revenue, build their sustainable capabilities, reduce costs, and enhance the quality of their controls. The main problem is typically a lack of coordination. Many digital initiatives take place in silos, resulting in limited, isolated, incremental changes and stranded or duplicated efforts.

A New Integrated Approach

Retail banks can achieve their goals by identifying value streams—a series of value-adding activities that they can undertake to produce a result that customers want—and redesigning, digitizing, and integrating them from front to back.

A Typical Retail Bank Has Fewer Than Ten Potential Value Streams

Joining	Borrowing	Getting funds fast	Saving
Opening a new account to make transactions, such as paying bills	Buying a home	Making a large purchase, such as buying a car or a boat	Securing a loan quickly
			Saving for a child's education or for retirement
Optimizing financial well-being	Making transactions	Addressing fraud and disputes	Requesting service
Understanding, organizing, or managing finances, as well as renegotiating debt	Paying bills and making other transactions (including ordering checks)	Dealing with fraudulent transactions and identity theft	Resolving service needs (such as updating account information) and issues (such as closing an account)

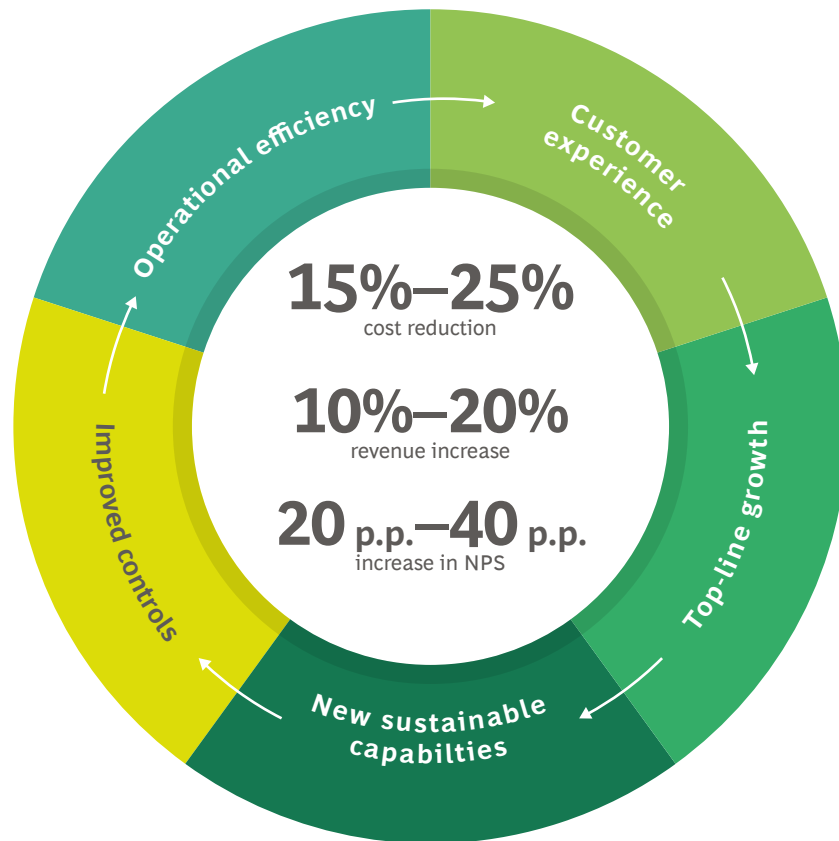
Source: BCG analysis.

Successfully implementing an integrated approach requires:

- Bold Business Goals.** Setting ambitious targets, rather than objectives for incremental improvements, and using end-to-end metrics, instead of siloed functional or service-level agreement metrics, help ensure visibility and coordination at the top of the organization.
- A Reimagined Customer Journey, End to End.** Taking into account a customer's full circumstances, including underlying nonfinancial needs, is important to identifying relevant products and solutions. Banks should design processes and solutions from scratch (as opposed to trying to adapt those currently in use) and use digital and artificial intelligence (AI) tools to eliminate work and duplication of capabilities across products and customer segments.
- Simplified and Automated Processes.** Optimizing processes across sales, operations, and service functions simplifies work and eliminates rework.
- Improved Risk Controls.** Building risk and compliance procedures into products and services when they are designed (rather than adding them later) is a best practice. Risk and compliance teams should jointly solve problems and develop user-friendly and efficient control solutions.
- Transformed Technology.** Tying technology, digital, and data investments to use cases eliminates duplications across silos and helps integrate the design and delivery of products and services to reduce waste.
- Integrated Teams.** Bringing people from various functions together to work with a joint purpose and on a common value stream can avoid backlogs across digital and nondigital channels.

In our experience, front-to-back value stream redesign can typically deliver a reduction in costs of 15% to 25% and an increase in the consumer advocacy or net promoter score (NPS) of 20 to 40 percentage points.

The Value Stream Approach Creates Impact by Pulling Multiple Levers



Operational efficiency

Benefits include:

- Better change delivery
- Greater productivity
- Increased automation
- Reduced cycle times
- Reduced IT and operating expenses

Customer experience

Benefits include:

- A higher level of customer engagement
- Increased customer loyalty
- Addressing customer dissatisfaction

Top-line growth

Benefits include:

- Lifting sales productivity
- Improved conversion rates
- Deeper relationships and more personalized offers
- A greater share of wallet

New sustainable capabilities

Benefits include:

- Greater employee engagement
- Faster decision making
- A cadre of experienced journey practitioners
- Greater empowerment to working teams
- Exposure to new ways of working

Improved controls

Benefits include:

- Systems-driven checks
- Greater visibility of risks
- Enhanced compliance and risk monitoring while reducing redundancies
- Proportionate controls, further upstream rather than downstream

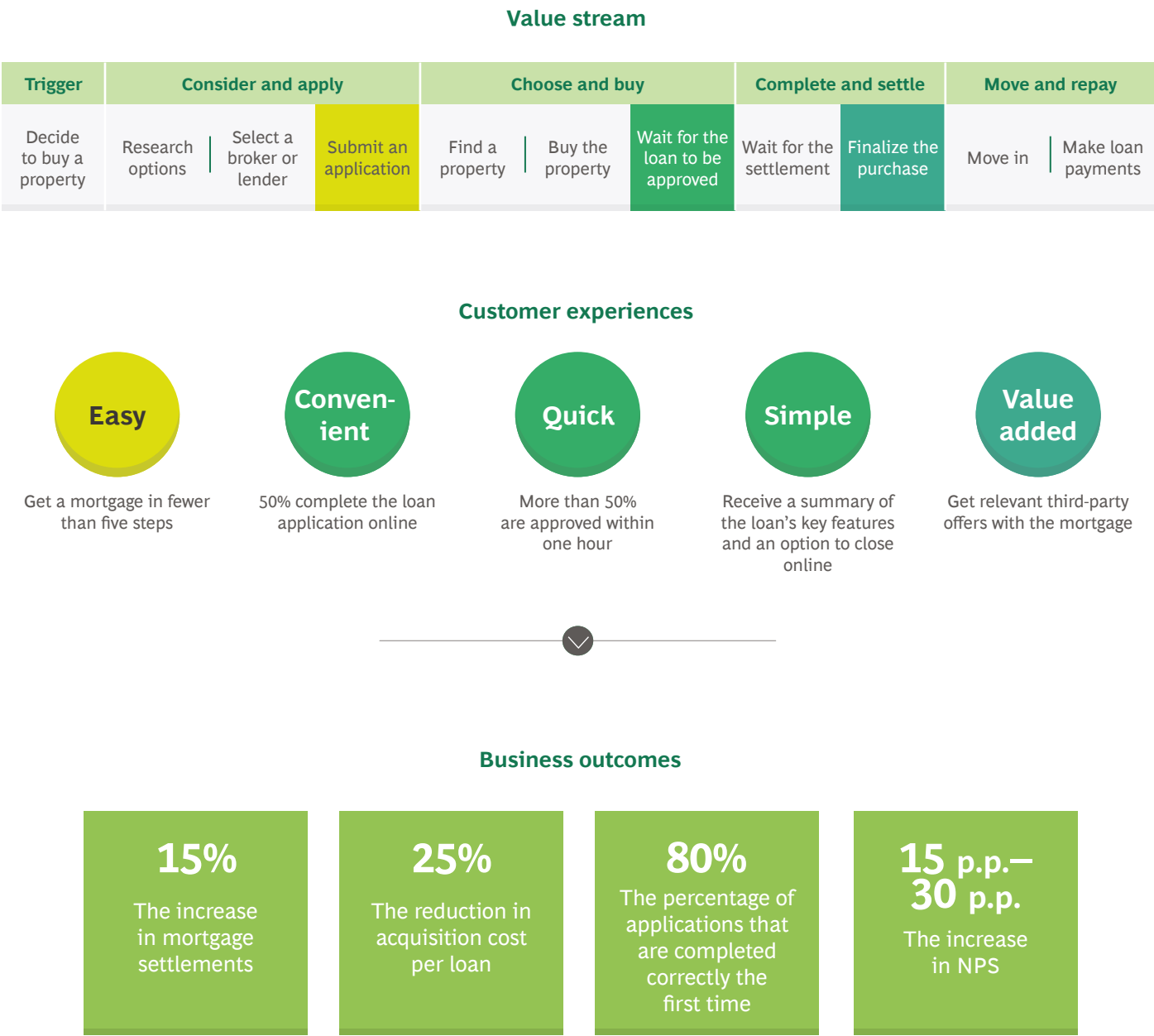
Source: BCG analysis.

Note: p.p. = percentage point; NPS = net promoter score.

Home buying is a good example. Most mortgage applications could be simpler, completed online, and approved more quickly. In fact, in our experience, redesigning the process can reduce it to fewer than five steps. In addition, by digitizing and integrating not only front-end customer interactions but also the back-end processes, typically half

of a bank’s applicants can apply online and more than 50% of those applicants can receive approval within one hour. A best-practice bank can achieve a 15% increase in mortgage settlements, a 25% reduction in the cost of acquiring a loan, and an NPS increase of 15 to 30 percentage points—accomplishments that would not otherwise be possible.

Evaluating the Mortgage Value Stream Reveals Significant Benefits



Source: BCG analysis.

Note: Based on our analysis of best-in-class banks; p.p. = percentage point; NPS = net promoter score.

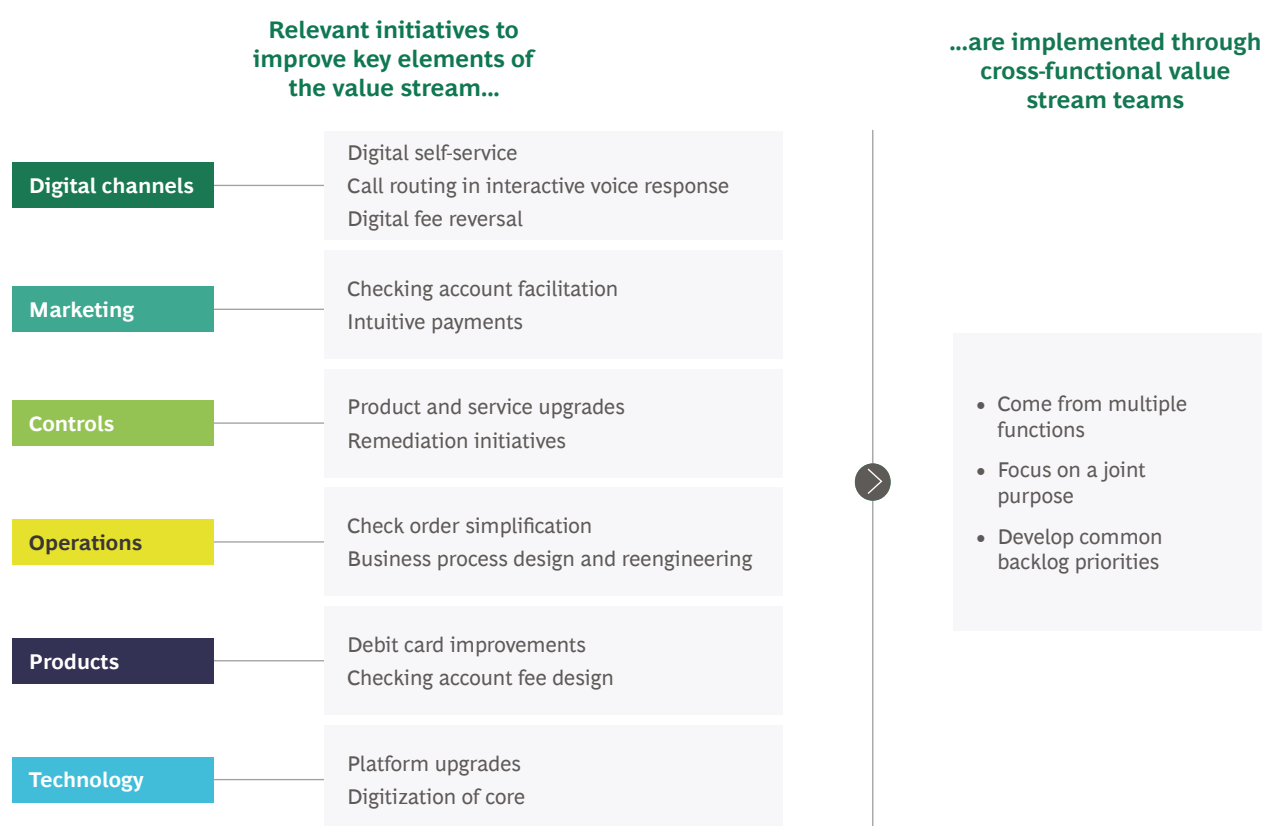
Value Streams as Drivers of Change

Value streams are vehicles for change. By organizing around a value stream, banks can consolidate digitization initiatives, form integrated cross-functional design and delivery teams, and have a single view of investments in current and reimagined products and services. Critical new capabilities, such as data-driven customer engagement, can be built as part of the digitization program and leveraged across the appropriate value streams. Management can prioritize the backlog of in-process digitization initiatives according to an objective, consistent assessment of their desirability, viability, and feasibility.

Leading banks are already organizing solution delivery around value streams and taking customer engagement to the next level. These banks have rethought their functions end to end from a customer's perspective in order to define a limited number of critical value streams. They have assigned cross-functional teams that use agile ways of working to each value stream, and they have given those teams responsibility for product management and change, including product revenues and delivery.

Banks Should Organize Solution Delivery Around Value Streams

Value stream example: Joining the bank



Source: BCG analysis.

At one European bank, customer-facing teams, known as tribes, have value stream responsibilities such as customer onboarding, financial planning, mortgages, and customer servicing; noncustomer-facing tribes have responsibilities to support back-office functions (such as finance transformation and risk transformation) and to build underlying cross-group capabilities (such as biometrics and machine learning).

Another European bank implemented agile across all development efforts. This affected 25% of the bank's FTEs, including value stream tribes, channel or platform tribes, and enabler tribes that are supplemented by segment teams and select centers of excellence. By implementing agile, the bank broke down silos, speeding the time to market and increasing development efficiency.



A Stacked Operating Model

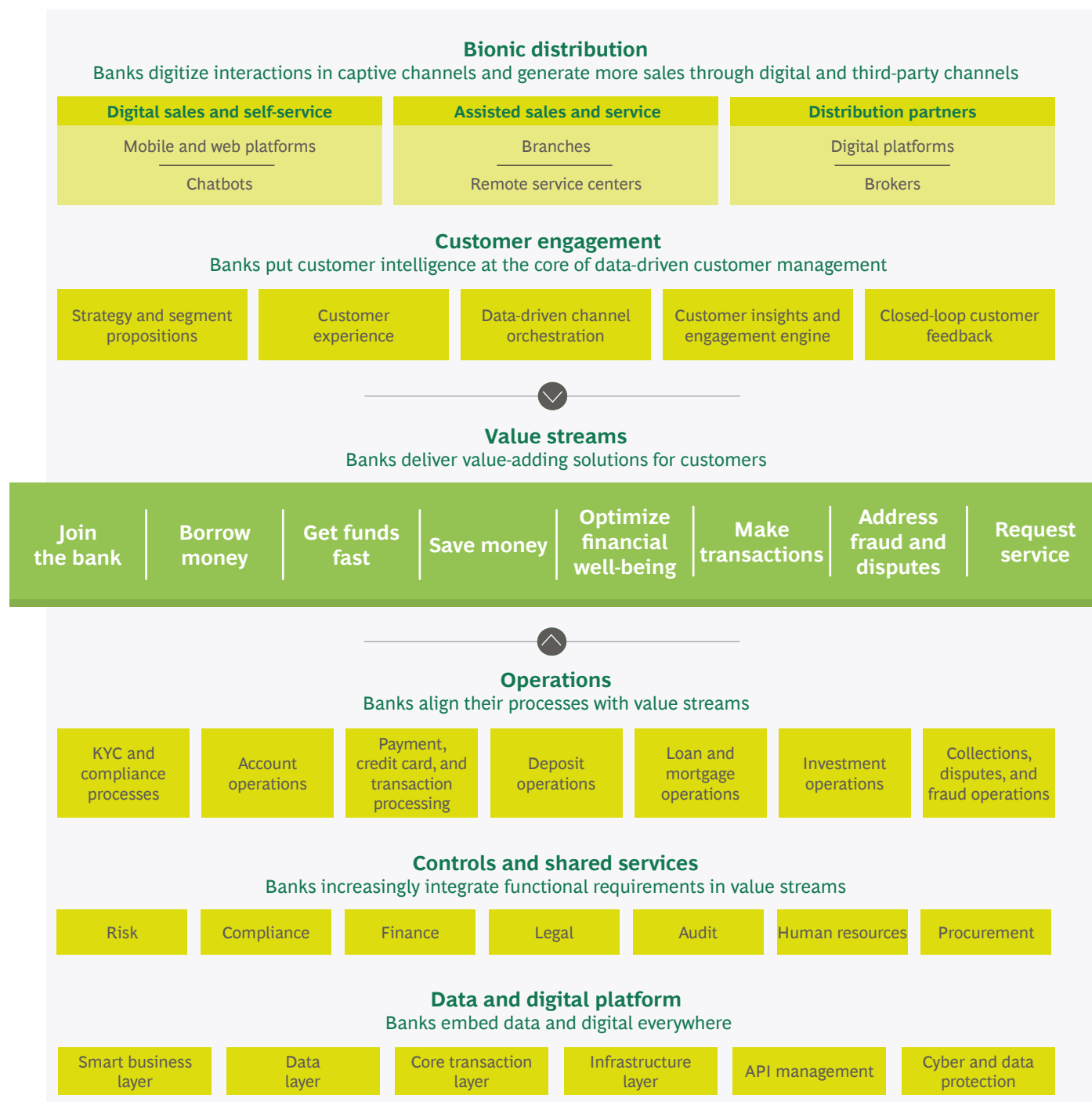
By digitizing their main value streams, banks will fundamentally change the way all functions operate, including distribution, relationship management, risk and compliance, and IT. Banks can accelerate the impact and optimization of select capabilities, such as customer engagement, but they will fully address their revenue, cost, and control challenges only with an operating model that is based on front-to-back value streams and built around new capabilities and ways of working. After banks successfully digitize all major value streams, a new operating model will emerge.

The value stream-based organization will leverage the existing functional capabilities of the bank by breaking down silos and focusing on outcomes. This is a major change: success requires strong alignment and coordination of the development of the value stream components on the one hand and the functional capabilities on the other.

The resulting front-to-back digital operating model will be stacked, much like technology architecture, and it will allow a bank's capabilities to work together much more effectively. At the top of the stack, bionic distribution provides a higher level of customer engagement and service in both captive and third-party channels. The key challenge for this layer is to enable digital sales and reinvent relationship management through digital and remote channels. The customer engagement layer puts customer intelligence at the core of data-driven customer management, which will

be key to understanding customers' preferences, increasing digital marketing effectiveness, and orchestrating the cross-channel customer experience. The operations layer is aligned with a bank's value streams and the processes that they need to function properly. As with the other layers of the stack, **accelerated digitization will be critical** for controls and shared services. The foundation is the data and digital platform (DDP), including a single "democratized" data layer that enables ready access to data by all of the higher layers.

The New Stacked Operating Model



Source: BCG analysis.

Note: KYC = know your customer; API = application programming interface.

Bionic Distribution

As customers become more comfortable using a mix of digital and physical channels, some will use one channel for some services (say, paying bills) and another channel for others (such as seeking advice or exploring new products). Customers will access the bank through the bank's own channels and through third-party platforms. This has big ramifications for both sales and relationship management.

DIGITAL SALES

Allowing customers who prefer purely digital interactions to buy products digitally will be critical for banks to secure relevance. Too many bank apps are currently designed for

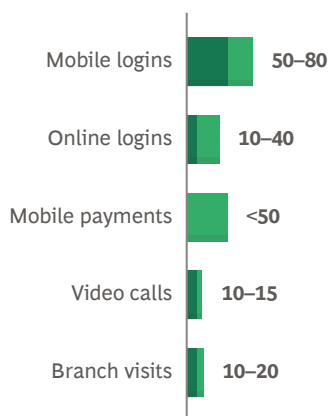
just making transactions and accessing account information. There is huge potential in allowing customers to not only research but also buy products using a bank's mobile app. Successfully driving business to digital platforms requires digitally closing core product sales as well.

We are already seeing the kind of results that digital sales can produce, including total sales increases of up to 75%. One market-leading European bank sells about 90% of its products remotely, and it acquires about 60% of its customers through digital channels. The bank leads its national market in both new-customer growth and retail revenue and deposit growth. A leading UK bank increased its share of digital sales from 41% to 69% over three years.

A Digital Bank Will Have More Customer Interactions, Driving Sales and Loyalty

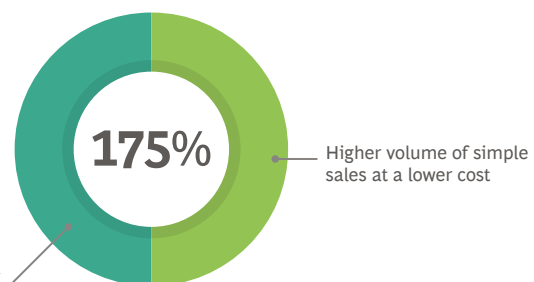
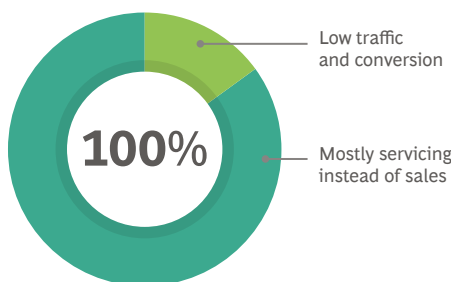
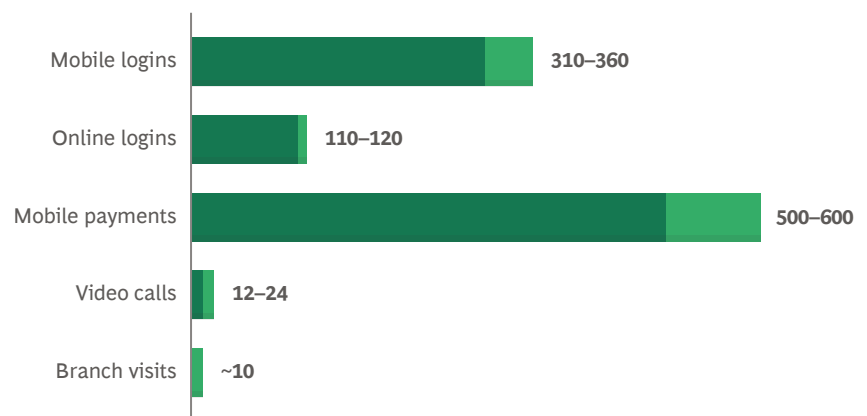
Typical bank today

Number of customer interactions (per year)



Digital bank of the future

Number of customer interactions (per year)



■ Digital sales ■ Assisted sales

Source: BCG analysis.

ASSISTED SALES AND SERVICE

While pushing to digitize, banks also need to strengthen the human side of customer interactions so that people add more value when they are actively involved. The distribution network must evolve beyond branch walls and traditional working hours, and advisors need to be able to serve customers both in the branch and through remote channels. Advisors will need new forms of technological support, including laptops and mobile devices that recreate a virtual in-branch experience, analytics and AI that facilitate personalized commercial opportunities and client analysis, and video calls, screen sharing, and online chat that enable engaging with clients in new ways and in the channel of the customer's choosing.

Customer Engagement

Customer engagement is about putting customer intelligence at the core of data-driven customer management. To do so requires building a comprehensive database of a customer's needs, behaviors, and preferences and using this data to fuel analytics and AI algorithms that maximize the value (for both parties) of every interaction between the customer and the bank.

Segmentation—dividing customers into categories, typically on the basis of income, assets under management, or demographics—should be shifted from an inside-out approach to an outside-in method that is rooted in the customer's needs.

This shift pushes banks toward a data-driven orchestration of digital and remote channels that encompasses different types of interactions and experiences for different needs. Human energy is focused on the highest value-adding activities—maximizing client value and optimizing the sales funnel for the bank. The data-driven customer engagement capability enables taking relationship management from a physical customer-to-advisor relationship to a digital-led and human-enriched customer-to-bank relationship.

A leading bank is already assigning each of its customers a set of new behavioral lifestyle segments. It is identifying the top three products for each customer on the basis of an individual propensity score. Then it is creating personalized texts, images, and web templates for each product and preparing all of these creative treatments for online, mobile, and email channels. The resulting outreach program uses value-based prioritization and machine learning algorithms. The new approach has resulted in a significant increase in key metrics. For example, for every 100 client leads generated in branches, the bank reaches out to 51 and schedules meetings with 17. Some products, including life insurance and investments, have seen a 25% increase in purchase rates and purchase value. The number of cash and revolving loans has also increased.

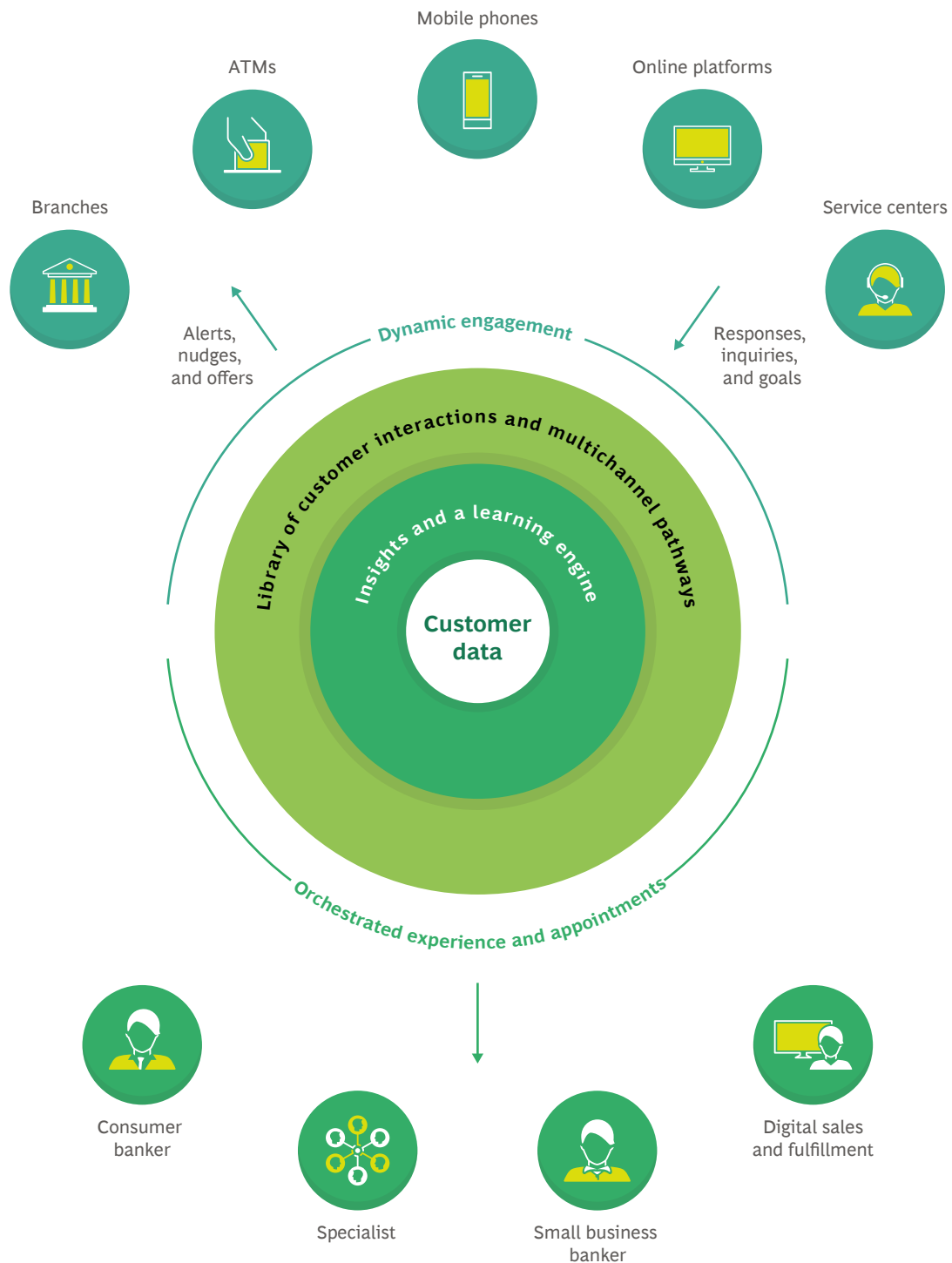
Operations

The ambition for retail banks is to have operations execute the majority of activities automatically. Human involvement will be concentrated on exceptions, complex tasks, and special customer service. Operational control, predictability, efficiency, and customer focus will make operations a competitive advantage. Operations will be organized around value streams, and it will adopt agile ways of working and use new levels of digitization.

Self-managing teams (some focusing on standard activities, others with specialized skills) are at the core of value stream-focused operations. All teams will be able to resolve most customer requests from end to end without any handovers, and the teams will have the autonomy to manage the full backlog of their day-to-day activities as well as prioritize their continuous-improvement initiatives. With this autonomy comes clearly defined accountability for outcomes that will be measured in terms of reliability, efficiency, and customer experience.

Operations will benefit from the front-to-back digitization of value streams. In addition, banks can make a step change in predictive capability and resource utilization by adopting machine learning that can, for example, provide real-time prioritization of backlog by using historical data for projecting turnaround time, which will provide new levels of transparency for both customers and managers. Dynamic case allocation based on complexity and customer promise will ensure that this transparency leads to major improvements in performance. Demand forecasting tools will power shift planning. Digital twins of the operations unit will enable simulations and midrange planning to deal with fluctuations in both demand and supply.

Data-Driven Channel Orchestration Maximizes the Value of Each Interaction for the Customer and the Bank



Source: BCG analysis.

Note: ATM = automated teller machine.

A Data and Digital Platform

Orchestrating the progression of customer interactions across digital and nondigital channels relies on accurate, close-to-real-time customer data. This in turn requires a modern technology architecture that is modular and scalable. These architectures differ from today's systems in important ways. First, they are built around democratized data platforms that can be easily accessed throughout the organization for multiple purposes. Second, they are cloud-based (as opposed to on-premise infrastructure) and accessed through standardized application programming interfaces. The smart business layer is uncoupled from the core IT layer (the data layer is now the connector) and built to support each value stream.

Modern DDPs deliver clear benefits, including increased agility, higher efficiency, and reduced time to market. For example, having more customer touch points and more intimate interactions through seamless journeys deliver greater convenience and relevance for employees and customers alike. Putting all relevant data in one place unlocks AI and advanced analytics, helps develop products and services in weeks rather than months, enables data-driven decisions, and leads to better service through a single integrated view of the customer.

Core systems are interoperable, which reduces risk through the reuse of proven solutions and reduces time to market by unlocking existing functionalities. The infrastructure is global and can be programmed anywhere, further increasing speed and agility.

Smart business layer

Enables omnichannel experiences independently of a customer's device, location, or interaction channel

Provides a standardized set of services and creates a single point of entry into real-world business functions

Data layer

Stores data from legacy and next-generation data assets in a single source of truth for use by all

Provides business and predictive analytics for data-driven decision making

Core transaction layer

Encapsulates the legacy technology within the modern stack by allowing existing assets to support the digital journey

Progressively reduces the legacy debt by keeping the use of legacy assets to a minimum

Consists of hybrid environments with best-of-breed SaaS solutions and legacy components

Infrastructure layer

Uses public-cloud providers to scale operations and reduce costs

Employs internal and external private clouds to improve service level and enable automation

Source: BCG analysis.

Note: SaaS = software as a service.

The Data and Digital Platform Enables Omnichannel Management and Advanced Analytics



API management

Oversees the creation, publishing, monitoring, security, and pricing of internal and external APIs across all layers

Cyber and data protection

Protects assets with a defense-in-depth approach

Quickly recognizes and reacts to internal and external attacks

Source: BCG analysis.

Note: API = application programming interface.

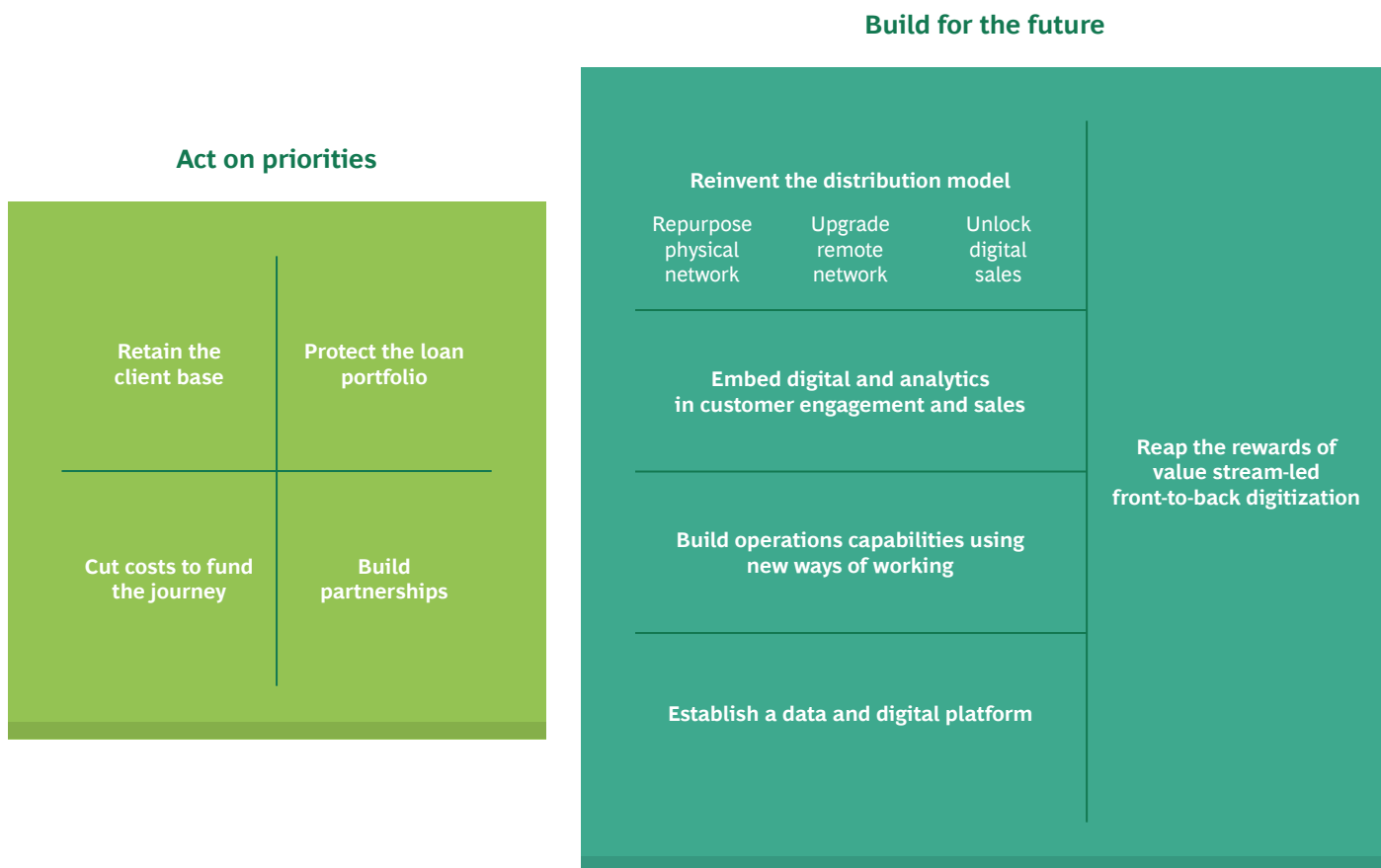


The Need to Act Now

Some banks have digitized individual value streams, and some have implemented parts of the digital operating model, but none have yet fully digitized front to back. Archetypes and examples from leading banks can serve as orientation for what to aim for, but the overall winning model has to be created.

Banks need to move with urgency on two fronts simultaneously: acting on immediate priorities and building for the future.

Retail Banks Need to Act on Immediate Priorities and Start Building for the Future Now



Source: BCG analysis.

The first involves shoring up the current client base and protecting the loan portfolio. Banks also need to address their cost structures to generate the funding that will pay for the transformation journey, and they need to begin the process of fundamental change that will reset the cost base for the future.

The second front entails building a new operating model component by component and achieving significant impact. But to deliver full benefits for customers, while also addressing costs and internal controls, the best approach is to digitize one value stream and then move to the next (or tackle several simultaneously).

Organizational change takes time, as does building digital capabilities. Most banks are looking at a journey of several years. Some have already embarked and are moving more and more quickly as they gain skills and experience. Those that have yet to construct a vision of a digital future, and draw the roadmap to achieve it, have no time to waste.

**Banks need to move with urgency
on two fronts simultaneously:
acting on immediate priorities
and building for the future.**



About the Authors

Thorsten Brackert is a partner and director in the Frankfurt office of Boston Consulting Group. You may contact him by email at brackert.thorsten@bcg.com.

Chaojung Chen is a managing director and partner in the firm's Tokyo office. You may contact her by email at chen.chaojung@bcg.com.

Jorge Colado is a managing director and partner in BCG's Madrid office. You may contact him by email at colado.jorge@bcg.com.

Bharat Poddar is a managing director and senior partner in the firm's New York office. You may contact him by email at poddar.bharat@bcg.com.

Muriel Dupas is a senior sector manager in BCG's London office. You may contact her by email at dupas.muriel@bcg.com.

Acknowledgments

The authors are grateful for the insight, research, and expert support from our many BCG colleagues in the Financial Institutions practice. In particular, we thank BCG's Banking Pools team and BCG's REBEX team. The authors are also grateful to Philip Crawford for marketing support and David Duffy for writing assistance. They thank Katherine Andrews, Kim Friedman, Abby Garland, Shannon Nardi, Trudy Neuhaus, and Design Studios Madrid for editorial and design support.

Andy Maguire is a managing director and senior partner in the firm's London office. You may contact him by email at maguire.andy@bcg.com.

Holger Sachse is a managing director and senior partner in BCG's Düsseldorf office. You may contact him by email at sachse.holger@bcg.com.

Sam Stewart is a managing director and senior partner in the firm's Sydney office. You may contact him by email at stewart.sam@bcg.com.

Juan Uribe is a managing director and partner in BCG's New York office. You may contact him by email at uribe.juan@bcg.com.

Monica Wegner is a managing director and partner in BCG's Sydney office. You may contact her by email at wegner.monica@bcg.com.

For Further Contact

If you would like to discuss this report, please contact one of the authors.

For Further Reading

[How Banks Can Succeed with Cryptocurrency](#)

A Focus by Boston Consulting Group, November 2020

[Global Payments 2020: Fast Forward into the Future](#)

A report by Boston Consulting Group, October 2020

[Five Strategies for Mobile-Payment Banking in Africa](#)

A Focus by Boston Consulting Group, August 2020

[ESG Commitments Are Here to Stay](#)

An article by Boston Consulting Group, June 2020

[Financial Institutions Can Help Break the Cycle of Racial Inequality](#)

An article by Boston Consulting Group, June 2020

[Global Wealth 2020—20th Edition: The Future of Wealth Management—A CEO Agenda](#)

A report by Boston Consulting Group, June 2020

[What's Next for US Banking Consolidation in the Post-Covid-19 World](#)

An article by Boston Consulting Group, June 2020

[Climate Should Not Be the Virus's Next Victim](#)

An article by Boston Consulting Group, May 2020

[Global Asset Management 2020: Protect, Adapt, and Innovate](#)

A report by Boston Consulting Group, May 2020

[A New Outlook on Pricing and Revenue Management for Banks](#)

An article by Boston Consulting Group, May 2020

[Unlock Value in Banking with E2E Process Transformation](#)

An article by Boston Consulting Group, May 2020

[Get Ready for the Future of Money](#)

An article by Boston Consulting Group, April 2020

[Global Risk 2020: It's Time for Banks to Self-Disrupt](#)

A report by Boston Consulting Group, April 2020

[Women in Wealth: Managing the Next Decade of Women's Wealth](#)

A Focus by Boston Consulting Group, April 2020

[Reinventing Corporate and Investment Banks](#)

A Focus by Boston Consulting Group, March 2020

[Alfa-Bank's Michael Tuch on Transforming Customer Journeys](#)

A video interview by Boston Consulting Group, February 2020

[For Banks, a Long Way to Excellence in Digital Sales](#)

An article by Boston Consulting Group, February 2020

