Accenture Banking

Top 10 Trends for 2022

Setting course beyond the watershed

accenture

Powerful forces combine to shape a new post-digital era of banking innovation

In our long and varied history there have been many watershed moments; events that in hindsight changed the way we lived, worked and thought about things. From the ability to control fire to Gutenberg's invention of the printing press, and from the Industrial Revolution to the creation of the internet, seminal events have caused undeniable shifts in the trajectory of most, if not all, sectors of society.

For banking, COVID-19 is a watershed event in real-time. While it is often difficult to recognize a turning point in the moment, rather than with the benefit of hindsight, the evidence in this instance is so striking that it is hard to refute.

Before the pandemic, banks were mainly in reactive mode. Aware that their marketplace was changing, they explored the potential of digital technology to enhance their systems, processes, products and experiences. The outbreak of the virus forced them to become proactive, and to question many long-held assumptions about their customers, their employees and even their purpose. They discovered it was possible to transform their operating systems far more quickly and radically than could ever have been predicted, and in the process adopted a mindset that will shape their future evolution.

Banks today are more intentional than reactive; more willing to challenge than respect conventions; more open to changing and partnering than reinforcing their monolithic structures. Tragic as the pandemic has been, it will serve as a beneficial tipping point for banks by forcing them to accelerate their digitalization, question the future relevance of their business models, and accept that the world expects them to play a more positive role in addressing the needs of their customers, their markets and the planet itself.

From now on, the focus of banks' digital innovation will be less on enhancement—becoming the best possible digital version of their old selves—and more on invention. Less on being functionally correct and more on being human. Less on the art of incremental progress and more on the art of the possible.

The signs are all around us. The most obvious is the abundance, efficiency and potency of the digital tools we have at hand. Used in combination, there appears to be little they cannot do. Another telling sign is the way industry outsiders are driving much of the innovation. They are devising ingenious ways of employing the technology, finding niches within the banking value chain where they can shake things up, and collaborating with unlikely partners to exploit vulnerabilities in the traditional banking edifice.

Unconstrained by conventions, a traditional mindset or practical impediments, they are reimagining banking starting from a blank slate.

It would take a brave person to forecast what banking will look like in 20 years' time. After all, it took little more than 10 years for the railway system in Britain to spread from a few isolated lines to a 14,000 km network connecting virtually every city, town and village. All that was needed was steam power, vision and enough incentive.

In this report we have summarized what we believe are the 10 most important trends that are driving the disruption of banking and shaping the industry and its marketplace in a post-COVID world. Each is a game-changer in its own right. Together, they are an unstoppable force that is highlighting the demarcation between the past and the future of banking. Unable to ignore or deflect them, banks are looking for some way to harness them. Welcome to the art of the possible.

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Michael Abbott
Senior Managing Director,
Global Banking Lead

1

Everyone wants to be a super-app

Twenty years ago, everyone had a phone. And a day planner. And an iPod for music. And a camera. And a road atlas in their car. Today, these items all live in one pocket-sized device. Similarly, you used to have to go to multiple websites to find the news, communicate with friends, book an appointment with your dentist and do your shopping. To an increasing degree, super-apps offer all that and more in one place.

Banking is no exception. A wide range of financial services are being folded into these big online platforms, enabling a new form of "social commerce." Mobile banking apps are certainly complex, but only a handful of features account for most of customers' usage: checking balances, paying bills, reviewing transactions. For this reason, mobile banking is just four or five APIs away from being integrated into almost any other platform.

Many fintechs are calling themselves super-apps in the hope of boosting their valuations, but these are mostly just platforms offering an array of financial services. The list of true super-apps is short—but impressive. In China, Alipay turned payments into a juggernaut centered on e-commerce.

In the United States, Amazon is extending its commerce footprint into banking and payments through partnerships with incumbents and fintechs. Paytm (India), Grab (Southeast Asia), WeChat (China) and Kakao (South Korea) are other Asian examples.

In the coming year, banks will face a critical decision: should they become a super-app, collaborate with one or keep away from the fray? Each has advantages and risks.

Competing for the status of super-app requires massive investment with no guarantee of gaining the necessary traction.

Becoming a super-app has obvious benefits. A super-app maintains ownership of the customer relationship while gaining important new revenue streams. However, competing for that status requires massive investment with no guarantee of gaining the necessary traction. Lifestyle super-apps compete in a winner-takes-all game where there is natural aggregation toward a small number of powerful players. Banks would need to be realistic about their chances of success in this arena.

The second option is to work behind the scenes. As back-office providers of unbranded commodity services within a super-app, banks could enjoy huge volumes. But they are likely to find themselves in a price-sensitive market where they have few levers to influence their growth if new revenue fails to meet expectations.

Finally, banks could choose to remain independent of the emerging super-apps. They will have to resign themselves to the gradual but almost inevitable shrinking of their share of traditional transactions as customers find more of their financial needs accommodated elsewhere. As the super-apps increase their domination of human interaction, these banks will need a clear and decisive strategy for life on their own.

>30

There are well over 30 platform businesses worldwide that can be described as super-apps or aim to become one.[1]

640%

Banks' mention of super-apps in their annual reports and other public communications has increased more than six-fold between 2019 and 2021.[2]

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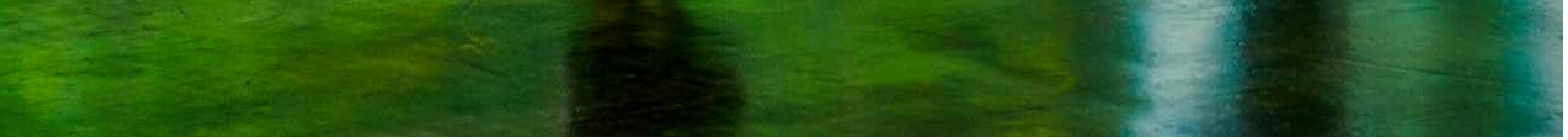
The Future of Banking

2

Green gets real



The world is finally getting serious about the environment, and 2022 will be the year banks start to play a decisive role. It won't be long before investors think about businesses in a very different way, examining not only companies' ROE and CI ratios but also the carbon effect of their income statement and balance sheet. Regulators will drive banks to cut through their customers' "greenwashing", identify and report on lenders' environmental, social and governance (ESG) performance, and shift their credit from the polluters to those that are a force for the recovery of the planet.

Many banks have made sustainability pledges, committing to net zero carbon emissions in their own operations. However, they will play a much more significant role by facilitating the funding needed for the world to change its ways and arrest climate change.

Putting the squeeze on commercial clients with poor ESG scorecards will win the support of environmental activists and many consumers. However, oil, gas and other fossil fuel companies don't just provide steady and predictable power; they also provide banks with steady and predictable revenues—something regulators and shareholders want to preserve.

New ESG reporting rules could represent the biggest regulatory change to the global banking system since the Basel Accord coming out of the 2008/9 recession.

Once these rules are implemented, banks and their customers will no longer be able to call themselves "green" without independent substantiation.

Shareholders and consumers are also demanding more transparency, including assessments of the effect that divestment from fossil fuels would have on businesses.

There will be significant costs as banks become guardians of our planet, but the returns are sure to make it more than worthwhile.

All these forces are pushing the industry in one direction: banks in 2022 will be under urgent pressure to obtain data and create mechanisms to accurately measure progress on their and their customers' ESG goals. This will not be easy and will add to banks' already considerable compliance burden. They also face a difficult decision. Do they embrace this new imperative and reap the very public rewards of being a front-runner—at the risk of shrinking the business? Or do they manage their transition more cautiously, staying just ahead of regulatory requirements in a bid to maximize both shareholder value and public kudos? Each strategy will involve different trade-offs between short- and long-term value creation.

Banks—some enthusiastic, others reluctant—are being urged to become vital guardians of our planet. There will be significant costs associated with this new role. But the returns—in the form of employee motivation, customer support and trust, shareholder endorsement and regulator collaboration—are sure to make it more than worthwhile being on the side of the angels.

$150 tn

Bank of America's estimate of the investment needed for the world to achieve net zero carbon emissions within the next 30 years.[3]

$3.8 tn

Financing provided to fossil fuel companies by 60 of the world's biggest banks between 2016 and 2020.[4]

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Sustainable Lending: An action plan for banks

3

Innovation makes a comeback

In the decades before and after the turn of the 21st century banks relied on the unrelenting introduction of new products to drive growth. From reward cards and no-fee checking to adjustable-rate mortgages, debit cards and instant credit, this flowering of innovation has benefitted customers and banks alike.

The 2008/9 financial crisis caused not only an economic recession but also a recession in innovation. Banks turned their attention away from the art of the possible to getting the basics right: fixing their core processes, building fortress balance sheets, making their digital solutions work. One consequence is that their contribution to gross domestic product has diminished over the past decade. Another is that many banks are drowning in a sea of sameness. A quick review of the digital apps of the top 10 banks in North America shows that all but one of them score either 4.8 or 4.9 out of 5 for customer satisfaction.[5] Innovation in financial services has once again accelerated. But this time the innovators tend to be the challenger banks, fintechs and industry outsiders like the bigtech platforms.

They are identifying market segments that traditional banks are under-serving, like SME advice; customer pain points that banks regard as unavoidable, like running out of money a few days before payday; and parts of the value chain that can be separated from the whole, reinvented and reinserted.

Banks are having to rediscover their creative mojo, forming a clear view of where in their operations and offerings innovation will matter most.

Digital has become a necessity but can no longer, on its own, drive revenue growth or ensure differentiation. Banks are having to rediscover their creative mojo, forming a clear view of where in their operations and offerings innovation will matter most. They are also being more realistic than ever in their assessment of their abilities and economics, and are partnering to buy rather than build product innovation when this makes sense.

They are doing this on three levels:

At the industry level, they are investigating collaboration on platforms. In payments, for example, after years of losing market share to P2P fintechs, North American banks created a common brand called Zelle, which now handles almost double the payment volumes of PayPal's Venmo.[6]

At the line-of-business level, banks are reassessing the segments they previously regarded as too costly to serve—and asking: "why not?" Any bank could have developed Square, but none did because all viewed merchant accounts as unprofitable. Nubank, another example, launched in 2013 to help the roughly 50% of the Latin American population that is unbanked, with no credit histories. It now has almost 50 million customers and was listed on the NYSE in December last year with a valuation of $41.5 billion.[7]

And at the foundation level, a growing number of banks are thinking about their technology as a product and a potential new revenue stream. Two of the world's largest banks have embedded their treasury services via APIs into Stripe, which in turn is embedded in Shopify to enable the e-commerce company to serve its merchants.

Becoming inherently innovative demands fundamental change in the culture, people and practices of most banks. However, the upside is huge, and as banks start to move their core functions into a Cloud First model, they will gain an unprecedented boost in their ability to innovate and respond with speed and agility.

-16%

Traditional banks in the US saw their income, as a share of GDP, shrink from 4.6% to 3.85% between 2009 and 2021.[8]

8 years

The time it has taken the fintech Chime to become the fifth-largest bank in the United States, with an estimated 12 million customers.[9]

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Banking as Usual

4

Fees … a magical mystery tour

When it comes to banking fees, customers have been taken on a mystery tour. In the old days they paid a monthly fee for deposit accounts and were charged for other services. These fees had one thing in common: they were clearly transparent to the customer. Then the industry shifted to an expansive set of invisible fees for things like overdrafts, late payments and returned checks. Enticed with "free" services, customers consistently underestimated the all-in cost of their banking services.

As 2022 unfolds, banks increasingly find themselves competing for customers against a growing cadre of fintechs and digital-only challenger banks that are loudly offering services that are—at least from the customer's perspective—magically free. Just one example is buy now, pay later (BNPL) credit. Customers who were accustomed to paying high credit card fees took to the offering with gusto; today Klarna's 90 million customers make a total of 2 million transactions every day.[10]

The honeymoon has been marred somewhat by the revelation by the CEO of buy now, pay later lender Affirm[11], among others, that some BNPL providers charge hidden origination, transaction and late payment fees. Other fintechs have deepened the mystery, and tarnished the magic, with features like a "donation fee" for your banking app with a slider that won't go below $1; and punitive fees if you miss a BNPL payment. It's no surprise that customers have become skeptical and mistrustful.

But now the fees tour has departed for another spin. More and more traditional banks are rediscovering their empathetic nature, and new digital banks are appearing with lean cost structures and an array of free services. Capital One, for example, has dropped its traditional overdraft fees. And PNC has launched a low-cash mode that lets the customer choose how they want to handle a transaction that exceeds their balance.

It won't be easy for banks to be more open about their fees, but they have little choice—hidden fees erode consumer trust, dispel the magic, and expose banks to severe competition.

What's more, many of the apps provided by new digital competitors are specifically designed to help customers manage their finances better, avoiding penalties and interest charges. N26 warns its customers—many of whom have conventional bank accounts—about 13 hidden fees and how to avoid them.[12] UK-based Wise was founded by two Estonians working in London to enable quick, easy and inexpensive cross-border transactions that "avoid sneaky bank exchange rate markups and high fees".[13] It also allows customers shopping online to reduce costs by paying in the currency of the country they are buying from.

Competition and the transparency of digital are pushing banks and fintechs to become more overtly purpose-driven and put customers first. All are feeling the growing pressure to structure and present their fees in ways that are simple, clear and fair.

Many are harnessing the cloud, artificial intelligence, data analytics and related technologies to offer personalized advice at scale—a potentially high-margin offering which, in the absence of trust, will fail to gain traction.

It won't be easy for banks to be more open about their fees, but they have little choice. Regulations aside, hidden fees erode consumer trust, dispel the magic, and expose banks to severe competition from rivals that are better equipped to do battle on this front. The fees tour goes on, and it could be a bumpy ride.

+56%

The average overdraft fee in the US increased from $21.57 in 1998 to $33.58 in 2021.[14]

9%

The average increase in retail revenue which Accenture analysis forecast incumbent banks could achieve by rebuilding customer trust and introducing innovative advisory services.[15]

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Purpose-Driven Banking 2020

5

The digital brain gets a caring heart

Between 2018 and 2020, the proportion of consumers who have full confidence in their bank to look after their long-term financial wellbeing dropped from 43% to 29%.[16] Why? There are many reasons, but it hasn't helped that bankers have stopped engaging customers in real conversations.

Digitalization was welcomed, by banks and customers alike, as a means of taking care of everyday transactions with the minimum fuss, cost and delay. However, while becoming digital organizations, many banks have become functionally correct but emotionally devoid. Add COVID-19 with its branch closures, its financial effect on vulnerable consumers and businesses, and the urgent need to overhaul operations, and it's easy to understand how customer relationships became strained and even fractured.

Banks have a right to feel aggrieved. They've invested heavily to provide better, faster and more convenient services—and now find it more difficult than ever to win the loyalty of their customers. The problem is that digital on its own seldom differentiates the bank, makes the customer feel special or builds authentic relationships.

Digital banking has become functionally correct but emotionally devoid. Banks have to find a way to put humanity back into banking.

In 2022, banks are looking for ways to get back to having meaningful conversations. They realize they have much to gain by restoring humanity and empathy to what might otherwise have become a cold and impersonal business. A deeper understanding of customers' financial and emotional circumstances, and the ability to predict and respond to their intent, would go a long way to rebuilding affinity and loyalty. So would a change in their public stance, with banks moving away from their traditionally aloof neutrality and taking a stand on issues their customers care about. Measures such as these would, in turn, create new opportunities for sustainable growth and expansion.

While technology has contributed to the breach between banks and their customers, it can also be the solution. Two-thirds of millennials want to text with their bankers, but hardly any banks offer that service. At a more sophisticated level, artificial intelligence and other new technologies can read customers' moods and can aggregate data to predict their intent and needs. These platforms will help deliver more personalized interventions and advice, which would both benefit from and further strengthen lasting, trusted relationships.

50%

The proportion of banking customers who interact with their bank via a mobile device or website at least once a week, compared to 32% before the pandemic.[17]

7 out of 10

Those who would welcome a digital experience that includes human advice on simple (72%) and complex banking products (68%).[18]

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Global Banking Consumer Study 2020: Making Digital Banking More Human

6

Digital currencies head for college

Until now, digital currencies have been the unruly teenagers of money. They're volatile, they have little respect for tradition, and they can be swayed by a good tweet.

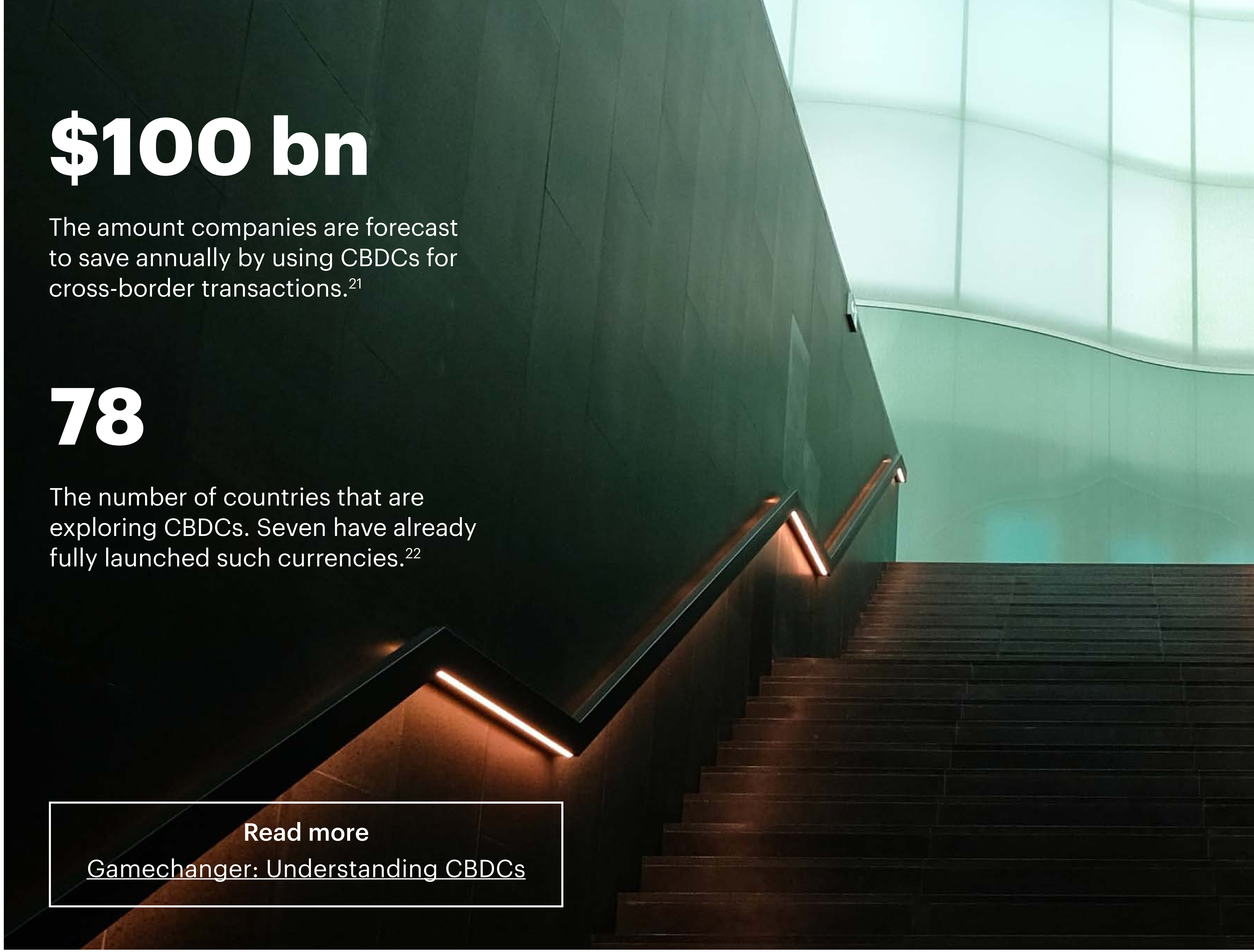
But 2022 will be the year digital currencies go to college. The titans of finance have moved from mostly ignoring currencies like Bitcoin and Ethereum to accepting they are here to stay. At the same time, central banks are getting smarter about the potential of central bank digital currencies (CBDCs). As of November last year, seven countries had already launched their currencies—six in the Caribbean and Nigeria—while no fewer than 17 other countries were piloting CBDCs.[19] The latter included Switzerland and Singapore for cross-border payment and settlement, and China in a trial that involved 140 million consumers and a spend of US$9.5 billion.[20]

These investigations and experiments will gather momentum and we will all learn more and get smarter. Some will start to graduate. The focus will be to identify real use cases that generate proven economic benefits. Only time will tell if these tests will truly advance digital currencies from being primarily assets that store value to actual currencies.

Central banks will not allow digital currencies to muscle in on the economic landscape without being scrutinized and controlled.

Regulation will also come into sharper focus in 2022. Digital currencies have progressed beyond the hype phase and central banks will certainly not allow them to muscle in on the economic landscape without being scrutinized and controlled.

In the year ahead, we can expect to see many of the bigger players—central banks, private banks and industry interest groups—engaging with each other and sharing data, experiences and opinions. There is little doubt that the results of this engagement will show that CBDCs are very different from Bitcoin, and much more applicable to the global banking system.



$100 bn

The amount companies are forecast to save annually by using CBDCs for cross-border transactions.[21]

78

The number of countries that are exploring CBDCs. Seven have already fully launched such currencies.[22]

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Gamechanger: Understanding CBDCs

7

Smart operations put zero in their sights

The banking industry is approaching a paradigm shift as artificial intelligence and machine learning start to surpass human capabilities in some specific and narrowly defined tasks. In 2022, applying these technologies to an expanding list of middle- and back-office operations should allow banks to reimagine their businesses for a world in which banking revenues are increasingly decoupled from workforce headcount.

Banks have always been committed to improving their operations. However, for the longest time, their approach has been incremental. That's about to change. In the months to come, more banks will use the cloud and APIs to leapfrog to technologies with capabilities far beyond those achievable in the past—and in some cases far beyond the capacity of even the most skilled humans.

For example, banks can now acquire text and speech analysis applications that are more accurate and exponentially faster than any human analyst. They achieve this thanks to their ability to learn. Their models have been trained for more than five years on trillions of samples.

Vendors are using these technologies to create new solutions, such as platforms that vastly accelerate auto loan applications by extracting data from thousands of document types and formats. Similar solutions have eliminated 50–60% of the workload in commercial loan applications by synthesizing income statements, balance sheets and footnotes into unified and adjusted statements.

This new level of operational performance has been dubbed 'zero operations' by some, as it is characterized by a steady progression toward minimal waste, latency, error and cost.

This new level of operational performance has been dubbed “zero operations” by some, as it is likely to be characterized by a steady progression toward minimal waste, latency, error and cost—with their elimination being the ultimate goal.

The paradigm shift brought on by these advances will far exceed the effect of robotic process automation. The combination of cloud computing and AI/ML with design thinking and classic Six Sigma rigor could allow banks to revolutionize their middle and back offices, and to fundamentally rethink their businesses. That process has officially begun.

60–70%

An estimate of the percentage of manual tasks that can be eliminated from the commercial lending process by ingesting income statements, balance sheets and footnotes into unified and adjusted statements.[23]

500,000

The approximate number of asset servicing documents from which BNP automatically captures data, allowing the bank to automate end-to-end processes such as tax documentation.[24]

Read more
Intelligent Operations

8

Payments: anywhere, anytime … and now anyhow

It has become clear that the next revolution in payments will come from open networks. Over the past decade, the payments industry has been revolutionized to a point where consumers take it for granted that they can pay, and get paid, anywhere and at any time. We are now on the verge of also enabling them to pay in whatever way they choose.

Services like Square, PayPal, Alipay, and Venmo have permanently changed the game. Yet these platforms all have something in common with each other, and with banks: they operate on closed networks. Even Visa and Mastercard are, in a sense, closed—Visa doesn't accept Mastercard and vice versa.

That's likely to change as networks start to open up and interact. This is being driven partly by regulators that prefer open, standardized platforms that lower barriers to entry, much in the way that the European Commission is considering forcing manufacturers like Apple to abandon custom device-charging connectors in favor of a universal connector.

Payments innovators too are throwing their weight behind open, standardized platforms, as this would allow them a level playing field on which to develop new "anyhow" solutions without having to worry about a plethora of network relationships in the background.

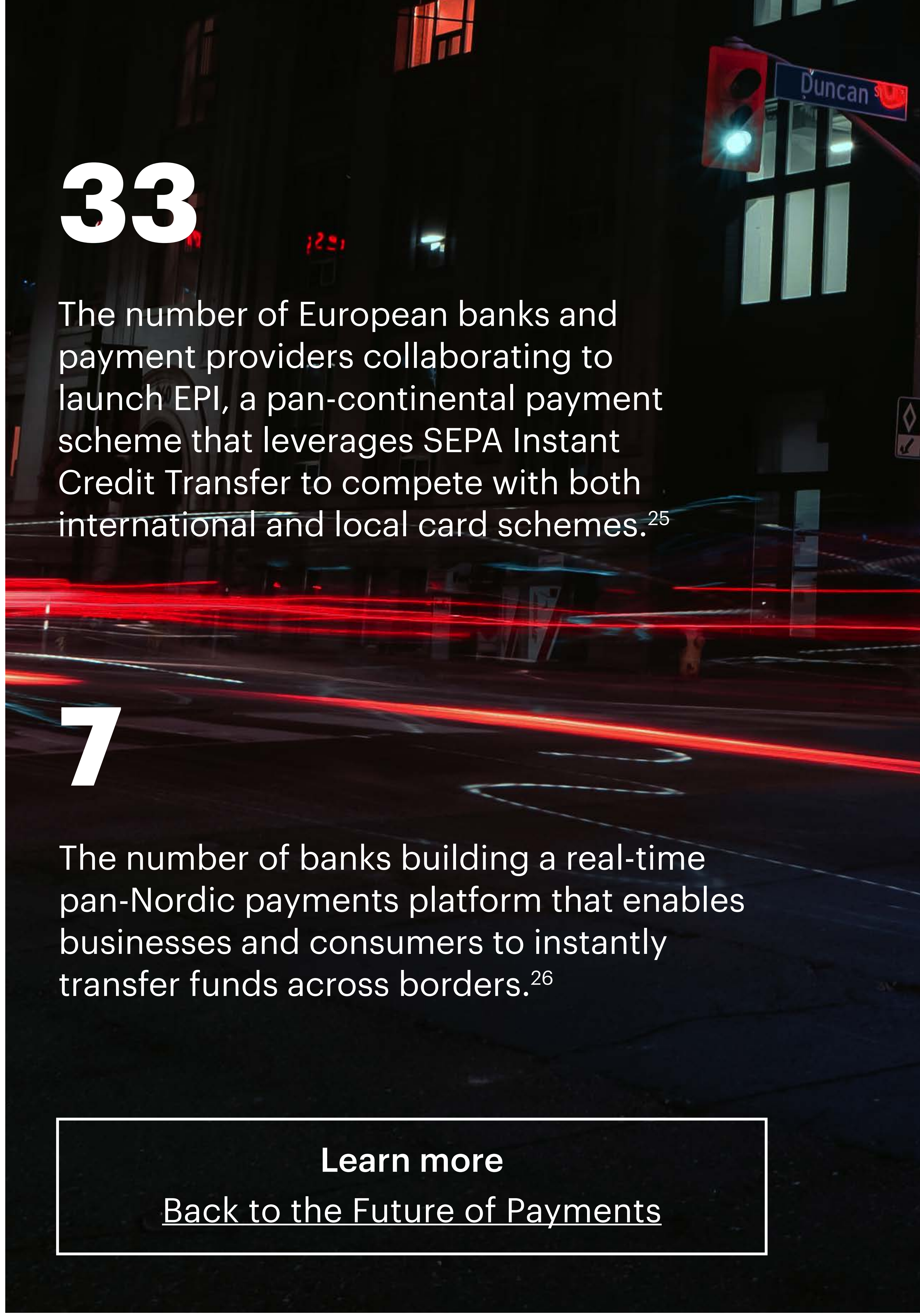
> Open regional systems will drive innovation and mergers, force better coordination between investments and innovation, and empower a once-submissive consumer base that has found its voice.

We're already seeing this in China, where the government has issued an ultimatum to internet companies, forcing them to accommodate rival links and payment services on their sites. In India, new legislation demands that all licensed mobile wallets must be capable of connecting to each other and, from April 2022, that merchants accept payments from all wallets.

These regulations should be a wake-up call for the banking industry. Open regional systems will drive innovation and mergers, and force better coordination between investments and innovation. They will also intensify a trend that started with the rise of digital payment platforms: the empowerment of a once-submissive consumer base that has found its voice.

In 2022, banks will have to find new ways to satisfy these increasingly demanding consumers—who will also demand payments anyway they want it. To do so, they must be prepared to take on a measure of risk as they innovate. At the same time, they will need to reinforce their resilience and security. These measures will all have to be taken in a high-pressure environment where priorities such as modernizing infrastructure and complying with payments-related policy and regulatory changes cannot be put on the back-burner.

As banks re-imagine their payments offerings, they will have to start preparing for a future where they compete and cooperate with rival banks, fintechs and other players in a world of open payments networks.



33

The number of European banks and payment providers collaborating to launch EPI, a pan-continental payment scheme that leverages SEPA Instant Credit Transfer to compete with both international and local card schemes.[25]

7

The number of banks building a real-time pan-Nordic payments platform that enables businesses and consumers to instantly transfer funds across borders.[26]

Learn more

Back to the Future of Payments

9

Banks get on the road again

Last year, one of our top trends was "Go big and stay home" as banks spent the pandemic rationalizing their portfolios and making deals close to home. In 2022, like many consumers weary of lockdown, banks will once again feel the stirrings of wanderlust—and go looking for growth abroad as well as at home.

Banks that dust off their passports are unlikely, however, to pursue traditional M&A deals. Most will be very selective, focusing their cross-border search on digital banks that have the agility to go on the offensive. A good example is JPMorgan Chase's acquisition of the UK robo-advisor Nutmeg in mid-2021, in preparation for entering the country's retail banking market.[27]

In North America, expect to see the continued wave of consolidation as regional banks look to expand both their scale and geographic footprint. Most recently, U.S. Bank acquired MUFG Union Bank to boost its competitiveness on the west coast; PNC bought BBVA's United States business to extend its reach into the south and south-west, and M&T merged with People's United to expand its network, products and services.

After hitting the 10% deposit limit at home, bigger United States banks will be applying for visas and going abroad for growth. JPMC has taken a 40% stake in Brazil's full-service digital bank C6, and National Bank of Canada has acquired full ownership of Cambodia's fast-growing Advanced Bank of Asia.

Europe is seeing a predatory wave of cross-frontier incursions—when you run out of space at home, the grass on the other side of the border can look very appealing.

Changes could also be seen in Europe. For years, European Union (EU) bank valuations have lagged the world. EU regulators are now seeking to shore up the sector by subtly encouraging consolidation—one measure has been their support for "badwill," the accounting technique that allows banks to offset their restructuring costs when they take over a rival at a price less than tangible book value.

EU passporting, which allows EU banks to operate in any country in the union, has given rise to a predatory wave of cross-frontier incursions—when you run out of space at home, the grass on the other side of the border can look very appealing. One example is BBVA, the Spanish bank which for decades operated in Italy as a wholesale bank. In October 2021 it announced the launch in that country of a fully digital retail banking business which offers free services.[28]

While 2022 could be a year of cross-border mergers in Europe, potential participants will still struggle with the perennial challenge: identifying sufficient cost synergy.

The most interesting place in the banking world will be Asia. Banks in this region are likely to apply some of the most innovative new growth strategies. Already we've seen SCB in Thailand invert the bank, creating a new holding company (SCBx) that is essentially a technology services group consisting of the fintechs acquired over time. The bank is expected to provide most of the short-to mid-term revenue, while the technology businesses are expected to generate long term growth. The group's ultimate goal is to unlock the value of its technology while at the same time increasing the size of its addressable market by creating products that can span the ASEAN region. The stock jumped almost 20% on the news.[29]

X2

At the beginning of 2021, North American (1.3) and growth market banks (1.4) had price-to-book-value ratios more than double those of European banks (0.6).[30]

43%

The drop in the number of M&A and private-placement banking deals, from almost 1,400 in 2010 to just under 800 in 2021.[31]

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Merging M&A and Cloud Journeys

10

The war for talent intensifies

The pandemic has put digital at the top of the to-do list of every CEO in every industry. This has disrupted the supply chain for banks' most critical asset: talent. The dire shortage of the technology, engineering, data and security experts needed by banks to realize their digital aspirations may get the headlines, but it tends to hide a much wider problem: banks' appeal as first-choice employers of all kinds of talent has faded.

The unmet demand for technical experts is a serious concern, but this cadre makes up only a small proportion of the talent that banks urgently need. And the cause of the shortage is similar: while the new generation of workers value freedom and flexibility and want to feel valued and respected, when they join a bank they invariably find a traditional, rigid, hierarchical structure and a formal, bureaucratic, top-heavy culture. They want to perform meaningful work in a purposeful organization that is committed to doing good; all too often they are disappointed.

Banks by and large are succeeding in recruiting young talent, but are failing to retain them. They are investing in skills acquisition, but this makes them a prime hunting ground for employers in other sectors.

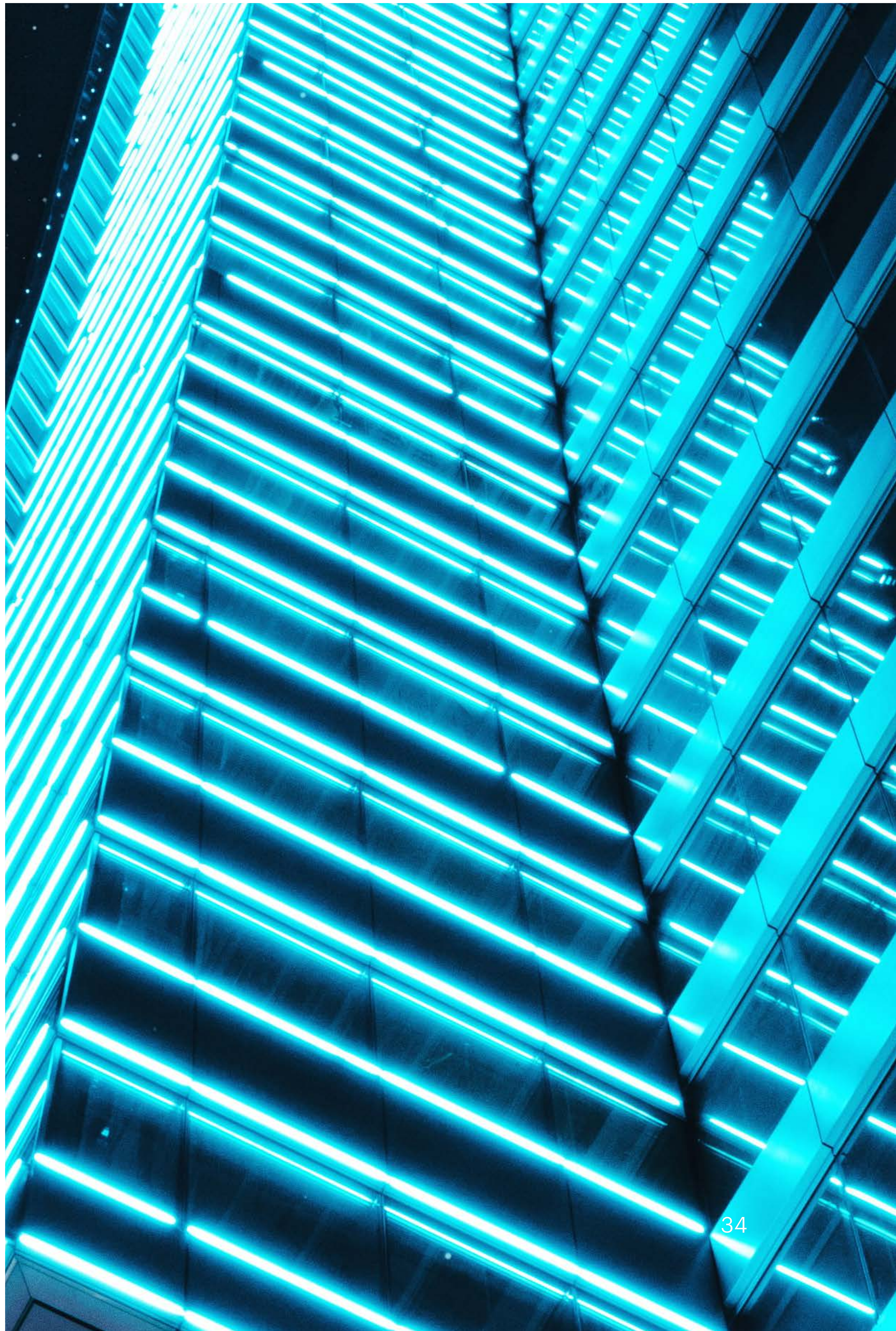
Culture is a critical factor, not only for retention but also to ensure strategic integrity. For example, it is futile expecting bank employees to show empathy and humanity to customers when they themselves feel ignored and unappreciated. Also key is having appropriate work practices. To achieve the full benefits of their migration to the cloud, banks need to organize their teams and work in ways that are more agile and collaborative.

> Leading banks have come to realize that a radically different way of thinking and working is needed.

Leading banks have come to realize that a radically different way of thinking and working is needed. Instead of tackling each of these issues as discrete challenges they are developing an integrated plan that holistically addresses the work and talent component of their business and operating models. Starting from the demand side, they are creating a blueprint of the skills they will need in the short, medium and long terms and across all levels of the business. The strategy to meet that demand is increasingly innovative, spanning hiring (from conventional as well as new talent pools), reskilling (with new technologies and more employee ownership), redeployment (creating talent marketplaces) and borrowing (from partners and service providers).

Banks are reorganizing their structure to better suit their strategy, reshaping their culture to increase their affinity with customers and employees, and making their work practices more fluid and collaborative with more tech augmentation.

In 2022, banks will continue to grapple with the effects of COVID-19. It is unlikely that the clock will ever be turned back fully with regard to remote working. During the height of the pandemic, Accenture's survey[32] of more than 9,000 employees revealed that only 13% disagreed that their output had increased as a result of working from home (with 26% unsure). The CIO of a major bank concurred, noting: "My CEO is never going to let go of that productivity!" There seems little doubt that the commandment "thou shalt work from the office" will have to be bent, if not broken.



This won't be without its challenges. Allowing employees to work in a remote or hybrid environment will appeal to many, but it will also raise expectations around relational wellbeing (especially trust and inclusion), emotional wellbeing (mental health), financial wellbeing (the type of work and opportunities for growth), and the very purpose and responsibility of the organization. All of these are proven to have a big influence on performance.

The most progressive banks have started to transform themselves as employers. But the obstacles are daunting. There has always been a gap between what executives think employees need and how these employees believe the organization should support them. During the pandemic this gap widened—in banking more than in most other industries.[33]

And as long as most banks have only one or two board directors with tech experience,[34] they will struggle to position themselves as employers who can offer candidates what the big digital platforms can.

Easing the disruption of the talent supply chain will be one of the biggest challenges facing banks in 2022. It's certainly no longer an employer's market. Many banks are already paying a talent penalty for being stuck in the past and failing to compete in the areas that employees today value most. But those that can identify and implement the far-reaching changes that are needed stand a much better chance of competing in an increasingly volatile marketplace.

>80%

The share of new hires by Bank of America's technology and operations unit who, in the last 12 months, were appointed from within the company.[35]

69%

The percentage of companies that are digitally fluent—a notion that embraces the firm's foundations, workforce, operations, leadership and culture—that are considered by employees as a great place to work.[36]

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Is the Talent You Need Hiding in Plain Sight?

Conclusion
The watershed poses a critical question

There's a lot going on in banking at the moment. The pace and extent of disruption has steadily increased, giving executives a lot to think about.

Until now, banks have been able to rely on their size and momentum to weather the squalls. But there's a strong argument that both are no longer the assets they used to be; that in certain respects they have become handicaps. This, in a nutshell, is banking's watershed moment.

Banking's business model has remained fundamentally unchanged for centuries. By keeping the ship pointed in the right direction, bank CEOs gained the space to enhance their operating model and deal with the occasional problems that arose. The approach was conservative and reactive: don't rock the boat.

Almost two years into the pandemic, it is crystal clear that this approach could take banks into the doldrums. We may not know for sure what banking will look like a decade or two from now, but we're pretty confident that the leaders will be doing different things. And they'll be doing them in completely different ways: they will be proactive, forward-looking, nimble rather than solid, and flexible and inclusive rather than rigid and self-sufficient. They will shape themselves continuously to the needs of their customers, their employees and other stakeholders, having abandoned the old "take it or leave it" approach.

They will have a purpose greater than simply delivering a return on equity. And their greatest assets will be their ability to identify opportunities and innovate efficiently.

When you put it like that, the demarcation is plain to see; it's hard to argue that the watershed is just a trick of the light or a matter of perspective. And if we're right, the next question is unavoidable: **What needs to change?**

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