

# The banking universe... where to compete on the value chain spectrum!

**D**isruptions in banking are pushing banks to take more explicit strategy decisions.

Many banks have recognized that they need a truly differentiated strategy as the industry's economics have come under pressure from new technology and entrants with disruptive business models. Instead of trying to play catch-up, banks need to identify ways of creating new value and firmly protect any newly acquired market space.



One key choice, with implications for the business model, involves where to compete on the value chain spectrum. Banks may focus their energies on creating products or they can be inclined to concentrate on their distribution framework. Credit institutions pursuing a manufacturing-intensive strategy aim to build world-class solutions for specific product needs and client segments, including other Credit Institutions. Succeeding through this model hinges on attaining large-scale product leadership and technological expertise. Distribution-focused banks tend to offer a full product suite, tailored to particular industries or customer profiles with a combination of non-bank, white-label solutions and partnerships with other supporting stakeholders such as emerging technology firms and big data experts. Success with the distribution model hinges on customer analytics, strong customer relationships, channels that are simple and easy to use and economies of scope achieved by gaining a larger share of the customer's wallet. Most banks however tend to choose a hybrid of the two, based on their relative strength in individual products, customer segments, and their ability to take advantage of a robo-advisory approach. Worth mentioning is the fact that Robotic Process Automation (RPA) is evident in the local banking scene, with big players enjoying a good ROI within months of implementation.

Whether opting for a manufacturing-intensive strategy, a distribution-focused model or a hybrid of both, requires banks to place an onus on the following strategic drivers, when reviewing their business model:



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## 1. Embrace the Digital Customer Experience

Digital banking penetration is at an all-time high, consumers are increasingly using banking services offered by non-banking companies and *fintech* firms. However, that does not mean banks have lost their relevance in the community they serve. The entrance of these new competitors only serves to light a fire under banking pioneers that innovation has now become a necessity to remaining competitive. Digital transformation is definitely at an inflection point. International stats are showing that as much as 80% of financial transactions are digital, 40% of which are being channelled from mobile devices. Successful strategies need to be based on a clear understanding of how digital creates value and careful prioritization by top management to choose among a myriad of potential digital investments. Banks and Financial Institutions need to be forward thinking in order to accommodate the every growing customer expectations. Stats, already, show that 50% of bank customers expect relevant information to be available at their fingertips<sup>1</sup>.



## 2. Redesigning the operational model for the new age

Just as banks have been relearning the art of strategy to build competitive advantage, they also must develop operating models uniquely suited to their strategy which can flex as new priorities emerge, rather than models based on generic industry benchmarks. Banks will have to rethink the role, structure and processes of critical functions such as IT, risk and compliance and finance to build an adaptive operating model that will sustain growth and profitability. They must literally reimagine, the structural operational procedures to optimize change<sup>2</sup>. With the right capacity planning, banks can distribute their resources optimally, ensuring that they are near and long term ready, driving new forms of competitive advantage and value.



## 3. Transforming big data into actionable insights

Across all industries, analytically driven companies realize financial growth three times higher than their less analytical competitors<sup>3</sup>. Digital draws on big data and advanced analytics to extend and refine decision making. Such analytics are being deployed by the most innovative banks in many areas, including sales, product design, pricing and underwriting, and the design of truly amazing customer experiences. As banks empower their operations with big data analytics and infuse it into the existing banking sector workflows, they power their organisation's business models - According to Oracle, the ability to offer users what they need can bring you up to an 18% higher annual revenue<sup>4</sup>. Big Data serves as a strong catalysts in facilitating this insight.

<sup>1</sup><https://www.globalbankingandfinance.com/embracing-digital-transformation-the-future-of-banking/>

<sup>2</sup>Marous, J., The Financial Brand, <https://thefinancialbrand.com/62711/top-10-strategic-priorities-for-banking-in-2017>, 2017

<sup>3</sup>Fernandez Naveira C., Jacob I., Rifai K., Simon P., Windhagen E., McKinsey & Company, <https://www.mckinsey.com/industries/financial-services/our-insights/smarter-analytics-for-banks>, September 2018

<sup>4</sup><https://easternpeak.com/blog/big-data-in-the-banking-industry-the-main-challenges-and-use-cases/>



## 4. Reshaping bank workforces

Banks need leaders who understand the kinds of transformation that are possible and can manage change effectively. As the workforce changes and new skills become increasingly important, bank leaders are equally being forced to think differently about how talent fits into their strategy from the top down. With the rise of emerging technologies in this sector, the workforce must be adept and knowledgeable about this development. There needs to be a paradigm shift in the way individuals seeking a career in this sector are brought up to speed on the skills base required to be fluent with change. Banks need employees with the skills to understand how these technologies can be effectively applied, and they need agile and adaptive workforces to navigate these changes.

For CEOs, the good news is that there's a new kind of promise in the banking industry...transformation technologies are more readily accessible, powerful, and economical than ever before. However, developing an explicit banking strategy and driving a value driven centered transformation may be a laborious task. It requires an unusually high level of coordination of cross-bank initiatives spanning prioritisation, resource allocation, and collaboration in execution. Banks need to rapidly acquire or imitate high-value initiatives and move to embracing an agile model aimed at addressing the multiple strategic challenges posed by digital advances and new entrants. Doing so could position them to compete effectively and capture an emerging, long-term growth.



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