Use Banking Industry Scenarios to Generate New Value in the Digital Platform Age

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Banking and investment services CIOs agree with the business: The industry's status quo is unsustainable. But they disagree on what value to create in the future and how to do it. Gartner's four scenarios will help CIOs prepare for financial services operating and business models through 2030.

Analysis

Banking and investment services (BIS) leaders in both business and IT are unanimous in their conviction that the status quo for this industry is unsustainable and that "something must change." Competition is tough, and the markets are unforgiving. BIS firms will continue to confront a raft of issues such as:

- Challenger banks and new entrants from other industries will eat into their market share.
- Margins for traditional products will decline as products become commoditized.
- Compliance with new regulations will become increasingly expensive.
- Cost-income ratios will suffer from the rising cost of capital.
- Customers will demand the superior experiences offered by other industries that are more innovative and more responsive to their needs.

What BIS firms often lack is a willingness to: (1) re-engineer the business; (2) define what value the bank of the future needs to offer; and (3) embrace a new way of delivering that value. That means not just new revenue streams, but new ways of doing things.

New ways of doing things, via autonomous adaptability and the use of ecosystems, is exactly what Gartner focused on when developing these future scenarios (see Note 1).

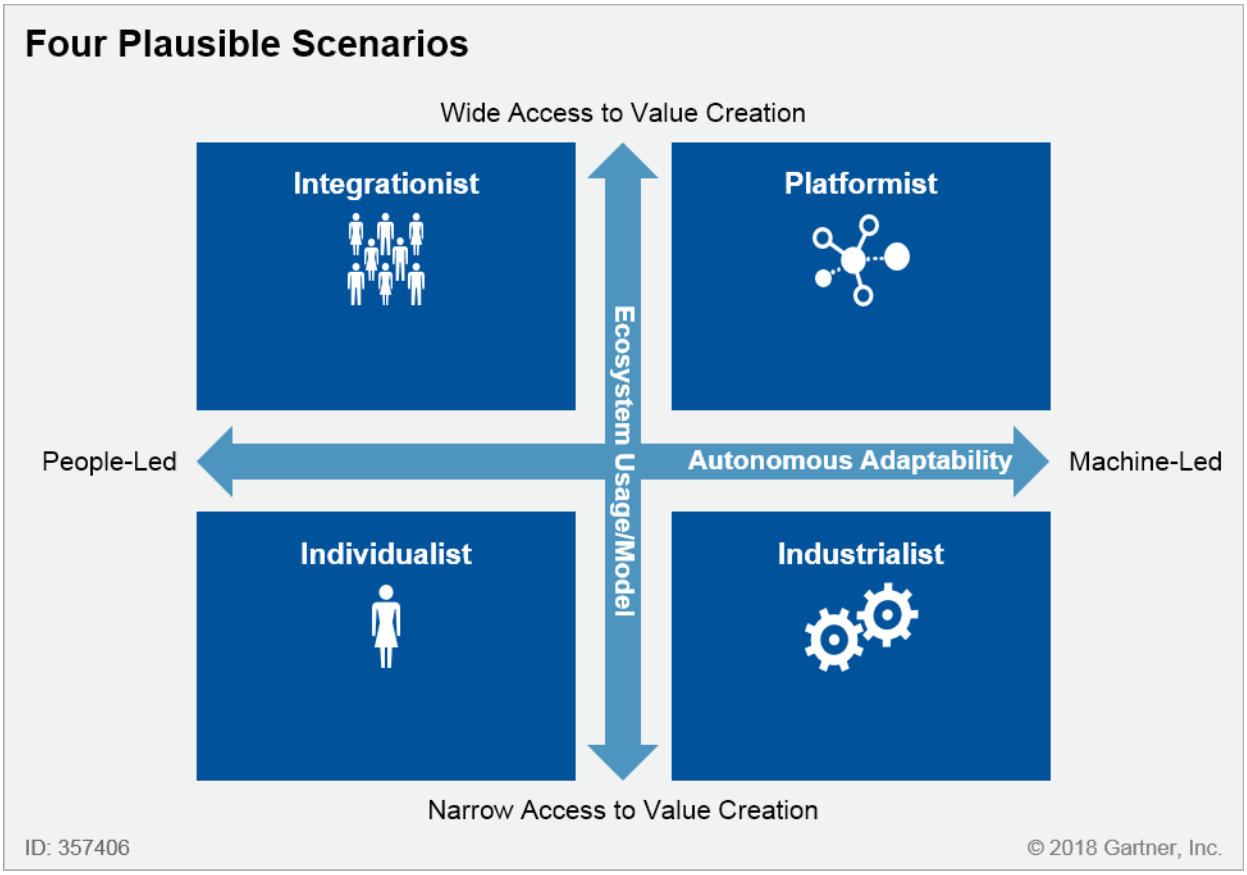
Purpose of the Banking Industry Scenario Series

In this five-part research series, we have applied the global business network scenario planning methodology to help BIS CIOs address the range of future uncertainty (see Notes 1 and 2). Instead of a straight-line extrapolation from the present, which tends to reinforce conventional wisdom, this scenario planning methodology looks at a wide range of social, political, economic, environmental

and political (STEEP) forces that will impact this industry significantly for the next decade and beyond.

An analysis of these forces provides a framework for the creation of a set of scenarios or stories that depict possible, plausible conditions for the future through 2030. These four scenarios (see Figure 1) provide a narrative — a rich basis for discussing the future of the BIS industry and the implications that varying degrees of autonomous adaptability and usage of ecosystems will have on business and IT strategies.

Figure 1. Four Plausible Scenarios



Source: Gartner (July 2018)

This collaborative effort by Gartner's core BIS team and allied units includes this introductory document and four others, each dedicated to a different scenario. Each of the four scenario documents evaluates the scenario, discusses the factors that make it suitable for specific types of BIS firms and suggests the ways that CIOs can respond to that scenario.

Internal Factors and External Drivers

Internal factors driving these evolving futures include:

- The degree to which a BIS firm embraces empathy
- How trust (or rather the lack of it) impacts a bank's ability to create value
- How the move to an open or closed model impacts a bank's ability to create value
- How the move to a centralized or decentralized model impacts a bank's ability to create value
- The degree to which a bank can leverage a banking ecosystem to create value more quickly

External drivers propelling these evolving futures include:

- How industry inertia (e.g., due to regulations) means that BIS firms can't change as fast as the world around them, impeding their ability to add value, create new revenue streams, change their value proposition and change their business operating model (BOM)
- How banks will prepare for the growing gap between the real rate of return on wealth versus the rate of real GDP growth, and how they will prepare for growing elasticity of substitution between capital and labor
- How technologies such as blockchain may accelerate the disintermediation of banks (people need banking services, but maybe not from banks)

The Focal Issue

> Based on those internal factors and the external drivers, Gartner has formulated this question to help CIOs address the key focal issue facing today's BIS firms: What value can BIS firms create in the future — and how can they create it?

This includes critical issues such as where new streams of revenue may come from; how to monetize data; how to improve the experience and value for the customer (not just for the BIS firm); and what are the key investments to make in people, processes and technology.

Note that much of Gartner's research does already advocate the move to banks as platforms and the adoption of technology such as analytics, AI and rule engines for an autonomous capability. But what we are recognizing here is that other scenarios, in conjunction with the "platformist" one we have promoted, will likely also exist in the future.

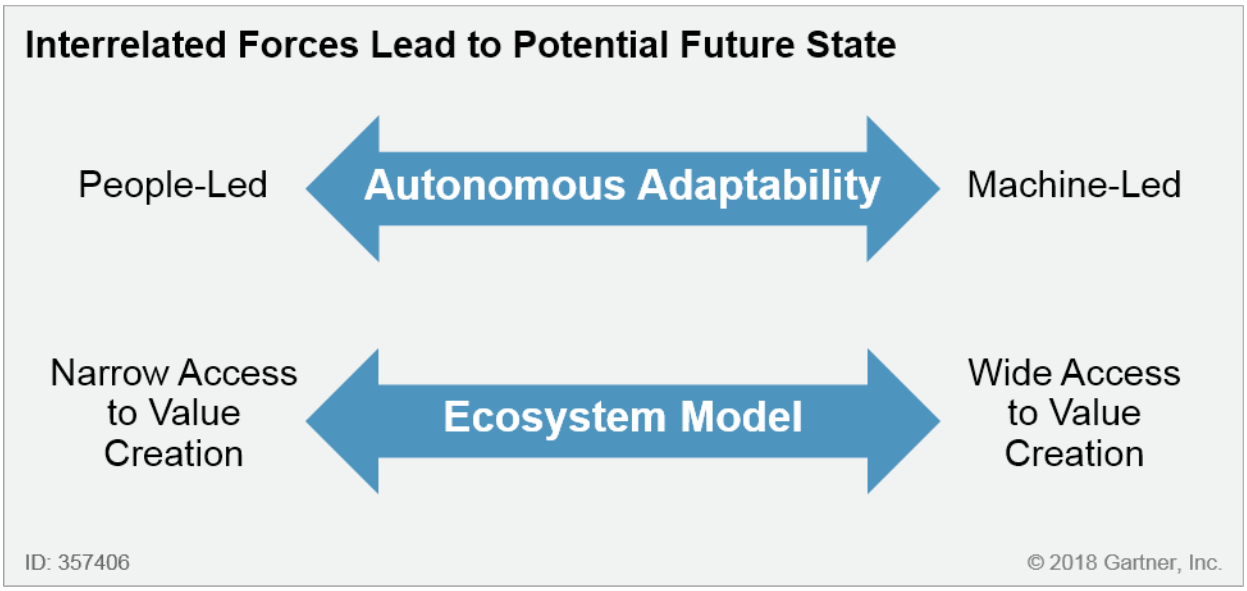
The Axes Used

Autonomous Adaptability

Technologies such as robotic process automation (RPA), advanced analytics and the many forms of artificial intelligence (AI) can exist to augment humans or to replace them. In addition, the processes

these technologies can model may be largely static or continuously variable. Gartner uses here a spectrum of "autonomous adaptability" ranging from people-led to machine-led. Autonomous adaptability (shown on the x-axis in Figure 1 and as the topmost arrow in Figure 2) is one of the key ways that things may be done differently in the future.

Figure 2. Interrelated Forces Lead to Potential Future State



Source: Gartner (July 2018)

The key to understanding autonomous adaptability is that it has the capability to become *self-sufficient in the decision process.* That capability has a number of consequences:

1. An increased and more sophisticated level of *automation*. This is nothing new — BIS firms have been seeking greater efficiency by automating manual tasks for many decades. The goal for automation has always been to perform well-understood tasks at greater speed and with more accuracy. Automation in the past has been typically "dumb" — it was predefined, and the desired outcome was well-known. Automation was, therefore, usually applied to existing tasks in order to do them better — that is, faster, cheaper and more accurately. But in the future, it can move beyond dumb automation and also make its own decisions.
2. Being able to adapt to *continuous variability*. Advanced forms of AI such as machine learning and deep learning, when allied with very large datasets, can be applied to situations that are unfamiliar. For example, a new and unexpected pattern in customer behavior is detected, and an exploratory approach is needed, perhaps by trying out many small variations to find out which works best. The implication here is that this is a continuous process of incrementally trying out new approaches and learning from the results in order to evolve toward the best solution.

At its radical, machine-led extreme, autonomous adaptability is the combination of those two things. One is letting machines loose to sense what is happening "out there," figuring out by

themselves what kind of response might be needed. Two is then automatically trying out numerous, different variations on a theme to find the best one for today's situation. This could be as tactical as chasing a particular debt or as strategic as finding a new ecosystem to participate in. It will not be a one-off task — it will happen continuously and in near real time. Each time, the machines will learn from their past experiences, and their next actions will evolve accordingly.

By contrast, at its conservative, people-led extreme, autonomous adaptability will be much more constrained. Machines and technologies will be used to augment the decisions made by, and the tasks performed by, humans. Humans will remain in charge, both tactically and strategically, making periodic changes that must be planned and then deployed.

Ecosystem Model

Ecosystems come in many shapes and sizes. BIS firms can be the central generator of innovation and the repository of intellectual property (IP), or they can act as the orchestrator and beneficiary of IP from a broad and changing set of ecosystems. Gartner uses here a spectrum for the "ecosystem model" that reflects how access to value creation may vary from narrow to wide. This model (shown on the y-axis in Figure 1 and the bottom arrow in Figure 2) is the other key way that things may be done differently in the future.

At one extreme, "wide access to value creation" implies that a BIS firm will work with *many* ecosystems to find and deliver value. Ecosystems can be of many different types, and a BIS firm may play a different role within each of them. There are four main models for which ecosystems can be used:

1. Collaboration (e.g., around a decentralized service)
2. Orchestration (e.g., of a value chain)
3. Creation (e.g., of new products)
4. Matching (e.g., of supply and demand)

Much of the innovation and product design will happen outside the bank, driven by fintechs and other vendors and suppliers. The set of all the included ecosystems will change dynamically as it meets evolving needs — new ecosystems may be added to the set and old ones removed, as needed. Relationships will be formed and dissolved far more rapidly than is currently the norm. Typically, the IP will exist outside the BIS firm, and two key decisions for the CIO will be (1) whether to pay a premium for exclusive rights to the IP, and (2) how to perform due diligence on these partners. Most interestingly, the value proposition of the BIS firm may change to include running *many* business models — those of its partners and third parties, not just the BIS firm's own business model — on its own digital platform. A highly scalable and versatile digital platform like this (powered by open APIs) could be, in time, the BIS firm's biggest revenue stream.

At the other extreme, "narrow access to value creation" implies that a BIS firm will seek to remain at the core of everything. It will work with a *single* ecosystem (or with no ecosystem at all) that is designed to support the single business model controlled by the BIS firm. The ecosystem will

evolve relatively slowly, in synchrony with the BIS firm's own business model and value proposition. The bank will largely create its own IP and its own sources of value internally.

Research Highlights

Scenarios for the Transformation of the BIS Industry

Scenario A: The Integrationist

The integrationist scenario will develop where the BIS firm's capability to adapt is largely led by people (not machines), with relatively low levels of automation. It is also where the BIS firm seeks to add value by participating in a wide set of decentralized ecosystems. For a detailed analysis of this scenario, see "Banking Industry Scenarios in 2030 — The Integrationist Bank: Integrating People With Technology."

Integrationists still put a premium on the personal relationship between the BIS firm and its customers or consumers. Yet, they recognize that in a fast-changing world, they need access to IP from a wide and dynamic pool of partners and collaborators in order to deliver new products and services. Integrationist firms will have broken the cultural barrier that used to keep all IP behind their own firewalls and hosted on their own premises — they will have learned how to "let go." Innovations can be introduced rapidly, but without losing the "personal touch."

Critical Success Factor: The integration of people with technology — in particular, how collaborative platforms can be used to augment human talent. This implies an ability to expand personal connections through wide access to value and an expanded ecosystem of fintechs, products and services.

Key Differentiator: Human talent. This means that (1) technology is there as an enabler that supports people, and (2) the IT support has heightened agility via a bimodal and partner-focused approach.

Leading Indicator: This best indicator that this scenario is on the rise is that it becomes common for the income statements (as issued by BIS firms) to measure — and then list publicly — the value that comes from the various ecosystems they use.

Scenario B: The Platformist

The platformist scenario will develop where the BIS firm's capability to adapt is largely led by machines (not people), with relatively high levels of automation. It is also where the BIS firm seeks to add value by participating in a wide set of decentralized ecosystems. For a detailed analysis of this scenario, see "Banking Industry Scenarios in 2030 — The Platformist Bank: A Power Utility Model."

This scenario is the most radical alternative we can foresee. It seeks to derive most of its IP from outside the BIS firm itself. And it also expects that machines will drive much of the internal change in terms of how it autonomously adapts to changing markets and changing customer expectations.

This scenario turns the traditional world upside-down — instead of IT being the supporter of the value proposition, the digital platform *is* the value proposition. Businesses will choose to run their business models on this firm's platform because it is the best in terms of reliability, scale, access to value, ease of integration and agility.

Critical Success Factor: "Be a better platform," that is, a platform that is autonomous and ecosystem-led. The CEO will drive a digital-first approach, and the CIO must create an open digital platform. People are there to support the technology via an innovation-focused culture. This is not a static digital platform. By applying AI techniques such as machine learning, it will constantly learn (from its successes and its mistakes) and evolve, and will make its own decisions about its future steps. Business value will be driven by value exchange that is enabled by open APIs and microservices. The product set will focus on creating new streams of revenue and will be constantly evolving.

Key Differentiator: Financial connections ("give — take — multiply").

Leading Indicator: When there is (1) growth in regulations that promote open banking; (2) growth in the use of cryptoeconomics and the gig economy; and (3) a decline in digital trust.

Scenario C: The Industrialist

The industrialist scenario will develop where the BIS firm's capability to adapt is largely led by machines (not people), with relatively high levels of decision-making capability. It is also where the BIS firm seeks to add value by participating in a single, centralized ecosystem. For a detailed analysis of this scenario, see "Banking Industry Scenarios in 2030 — The Industrialist Bank: A Power Utility Model."

The industrialist scenario is really the extrapolation of a trend we already see. It is a focus on efficiency and cost optimization largely based on existing products and services in a narrow ecosystem (or no ecosystem) that the bank orchestrates to support its own business model. Fundamentally, it wants to get better at what it already does by reducing costs, increasing speed and improving accuracy. It does not put a premium on customer relationships (which can be delegated to other organizations) or on customer experience (which will be commoditized). In many ways, it resembles a budget airline — give people the bare essentials at the lowest cost.

Critical Success Factor: Cost-efficiency and a uniform, global offering. There will be aggressive use of AI, cloud and RPA to drive a secure and scalable service. People are there to support the technology, but through continuous improvement of existing IT capabilities and an iterative approach to innovation.

Key Differentiator: The CEO will focus on driving higher scalability, while the CIO is focused on advanced automation. The product set will remain largely traditional.

Leading Indicator: Financial aggregators and digital financial advisors will begin taking a rapidly increasing share of customers' wallets. Additionally, there may be regulations that ban banks from offering nonbanking products and services.

Scenario D: The Individualist

The individualist scenario will develop where the BIS firm's capability to adapt is largely led by people (not machines), with relatively low levels of machine-led decisions. It is also where the BIS firm seeks to add value by participating in a single, centralized ecosystem or no ecosystem at all. For a detailed analysis of this scenario, see "Banking Industry Scenarios in 2030 — The Individualist Bank: People Matter."

The individualist scenario is the most conservative scenario. It is where almost every BIS firm started as it already exists, and it will persist through to 2030. Many BIS firms are moving out of this "traditional" scenario as they seek to disrupt and transform themselves — but some will remain here. This scenario puts a premium on the personal relationship between the BIS firm and its customers or consumers. It also believes that it is best at developing and running the IP behind its own products and services and products, with only limited help from a small band of suppliers. In many ways, it resembles a premium airline — give people a superior and predictable experience, but at higher cost.

Critical Success Factor: The ability to deliver a customer service that is "live and local." It will give skilled bankers access to the tools and information needed to allow them to support customers with complex banking needs.

Key Differentiator: There will be a "people first" culture, where technology exists to support people, not the other way round. This places an emphasis on tools to support the staff, especially those in customer-facing roles, where a degree of personalization is needed and a "one-size fits all" approach does *not* work. The branch will remain as a key component of a multichannel approach. The BIS firm will maintain its own private platform that is low-cost, stable and dedicated to a traditional product set.

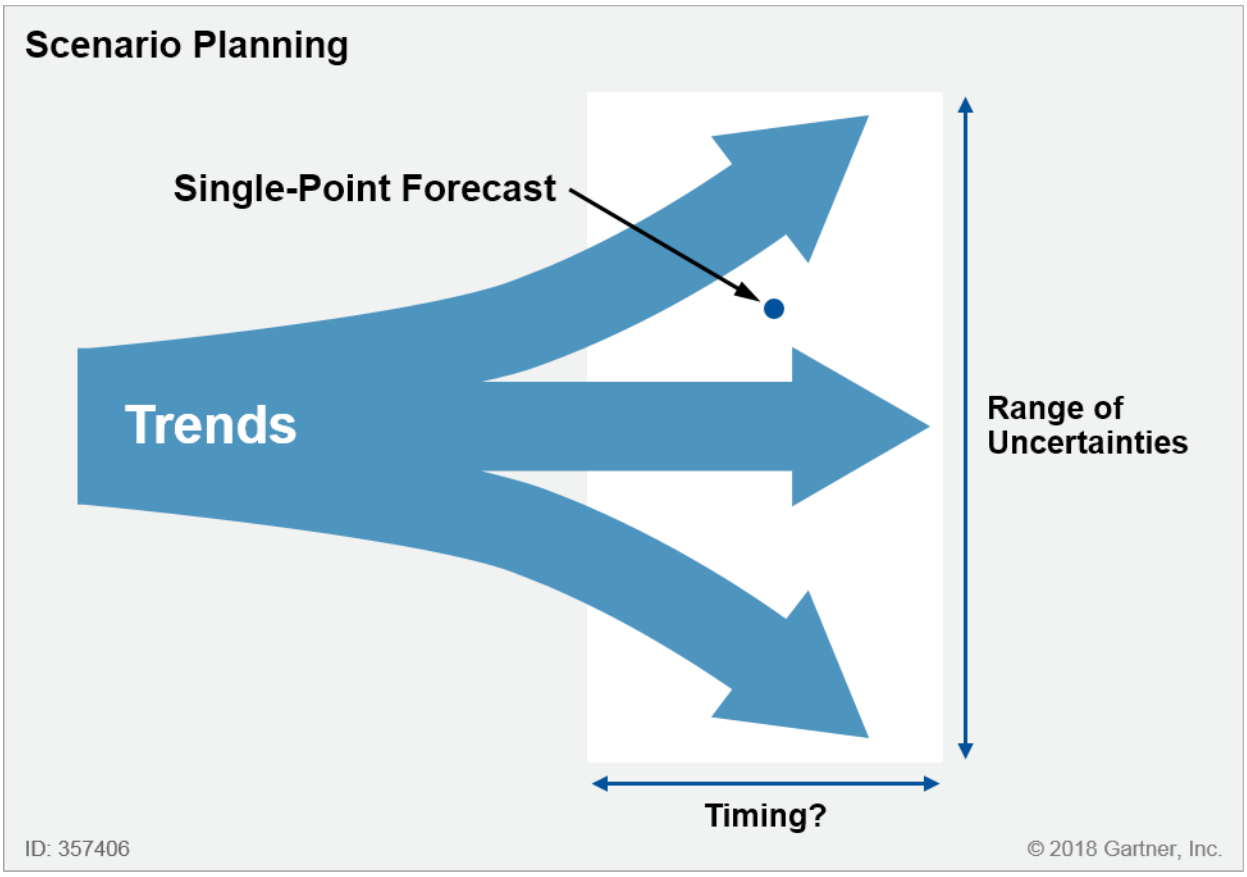
Leading Indicator: We see tolerance for longer lines at branches for the more complex products and service issues.

How to Use These Scenarios

Use these scenarios as a starting point for strategy discussions (see Figure 3). The scenarios are meant to:

- Offer a framework for creating stories describing a plausible future outcome.
- Provide a mental model for exploring how BIS firms could respond and react to both anticipated *and* unanticipated changes.

Figure 3. Scenario Planning



Source: Gartner (July 2018)

Each of the four scenarios is weighted equally, and the intention of scenario panning is not to favor one over the others. This is not a static picture — BIS firms may start in one scenario and finish in another. It may well be a wandering journey. Other firms will follow different paths and not end up in the same place. This same observation applies to your different lines of business and to your subsidiaries in other markets or other countries.

Suggested Next Steps

BIS CIOs working to design the operations and architectures for the digital bank should:

- Map where your organization is today in the scenario matrix; then determine where you want to be and when. This opens the door to discussing the differences between quadrants, exploring what skills will be needed and plotting a path to get to your destination. This should not be an either/or discussion about now or the future, but rather a dynamic, ongoing discussion to plot a route — and any necessary adjustments — from one scenario to the next.

- Use these scenarios as a way to think about agility. Socialize them within your organization. Include scenario planning as a complement to other planning processes in order to help IT and business leaders prepare and develop reasoned responses to potentially abrupt or disruptive changes. This is one way that scenarios improve the resilience of the organization and can increase competitive advantage.
- Mine the various scenario possibilities to help IT and business leaders to anticipate and recognize the signposts that can indicate upcoming external changes (e.g., evolving consumer demands or regulatory trends) or internal shifts (e.g., newly acquired subsidiaries or planned technology upgrades). Clarify your role in shifting your organization's culture of innovation as these scenarios develop.

Remember that in large organizations, different scenarios may play out in different geographies and lines of business. Proactively explore these in more detail for the insights they may yield.

Note 1 Definition of Ecosystem

A digital business ecosystem is a marketplace of functions and information. This network construct involves multiple value forms exchanged for the benefit of all participants. Business ecosystems can help organizations to:

- Develop and sell products.
- Complement existing services and capabilities.
- Optimize and enhance business operations.

Business ecosystems can take different forms such as:

- The cloud platform-led ecosystem that is orchestrated through the use of common infrastructure
- The application-suite-led ecosystem that is orchestrated through a suite containing most of the solution features
- The experience-led ecosystem that is orchestrated through the definition of expected experiences across use cases and user personas
- The industry-led ecosystem that is orchestrated through jointly defined business requirements by industry members seeking standards-based interoperability

Note 2 Scenario Planning Facts

To keep this approach in proper perspective, remember a few facts about scenario planning:

- It isn't new. It is a proven business discipline that simply adds a new framework to the process of strategic thinking.
- The scenarios described in this five-part research series represent four different assumptions about the business environment. They are not forecasts, but rather presentations of plausible views of how the future might emerge.

- The four scenarios are distinct, but not mutually exclusive. A company can be involved in more than one scenario at a time, particularly if it operates across different regions or different industry sectors.
- There is no right or wrong, good or bad to these scenarios. They are neutral.
- Scenarios are less concerned with predicting the future and more concerned with understanding the business environment and the BIS firm's corporate culture, and the risks and opportunities that both present.
- It is unlikely that only one scenario will prevail. It is more likely that aspects and influences of each scenario will coexist and persist within the operating environment.
- The application of the four scenario alternatives can support decision making at many different levels within a BIS firm's organizational structure, not just within the executive suite.

For additional background on scenario planning, see P. Schwartz. "The Art of the Long View: Planning for the Future in an Uncertain World." Currency Doubleday. 1991. Updated. Crown Business. 1996.

More on This Topic

This is part of an in-depth collection of research. See the collection:

- Scaling Digital Leadership — Keep the Momentum Going

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