Dare to be different

Why banking innovation matters now

Retail banks can’t assume that the growth and returns of the recent past will continue. Amid a throng of banking competitors – including new market entrants, forward-thinking incumbents and non-banks – banks need to differentiate themselves in ways that are not easily duplicated. To restore confidence and realize strong future returns, banks must set the stage now. It will require uncommon innovation to stand out from the crowd and adapt successfully to marketplace demands.

The value of innovation

As part of the IBM Global CEO Study 2006, we conducted in-depth, consultative interviews with 765 CEOs, business executives and public sector leaders from around the world.¹ Fully half of the 84 banking CEOs interviewed expect extensive industry change over the next two years, with another quarter predicting moderate change. Banking respondents see innovation as vital to manage and profit from the expected influx of new client expectations, new market entrants, new products and new technology.

Of three innovation types – products, services and markets, business and enterprise models, and operations – the findings indicate that, across all industries, business model innovation had a much stronger correlation with operating margin growth than the other two types of innovation.

Profiting from a broader view of innovation

For many banks, a past focus on product innovation has tended to serve only as a temporary differentiator because it is typically easy for competitors to imitate. By expanding their view to include business model innovation, leaders are aiming to improve financial returns and make it tougher for competitors to emulate them quickly. Figure 1 provides an overview of how the nature of innovation is changing.

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¹ Source: IBM Institute for Business Value.
Already, successful innovators are reshaping the industry – by looking beyond products and services to develop new business models and discover new ways to gain operational effectiveness. Through creative partnering, for example, banks can increase their footprints and delivery capabilities, and address evolving customer needs faster and less expensively than if they only look internally.

In addition, industry boundaries are blurring:

- Outside players are stepping into spaces that normally fall within the realm of banks, such as payment handling
- Nimble banks are seizing new growth opportunities by expanding into complementary industries (also described as adjacent spaces) that can benefit from banking services, such as providing a link among healthcare service providers, insurers and a bank.

Change is also evident across the retail banking business as new technologies are applied to tackle critical business issues and meet customer needs in innovative ways. For example, to accept and make payments, banks and non-banks (such as telecommunications companies) are bypassing legacy infrastructure through partnering and the smart use of technology, such as allowing customers to make payments via contactless cards or mobile phones.

Already, successful innovators are reshaping the industry – by looking beyond products and services to develop new business models and discover new ways to gain operational effectiveness. Some outstanding retail banks have focused on uncommon differentiation for many years with strong financial results. But, to restore confidence in future returns, banking leaders must set the stage now for meaningful innovation.

**Prime business areas**
Successful banks must continue to use new and existing capabilities to seize opportunities inside and outside of traditional banking confines. Among the business areas holding great promise for banks are: retail payments, mortgages, customer experience, under-banked customers and adjacent spaces.

**Creating the environment**
Profiting from the pressure to be distinctive requires a sturdy innovation infrastructure that helps banks merge appropriate opportunities with capabilities. As a result, companies can begin to consistently execute in innovative ways. It isn’t enough for banks just to do something better. A robust innovation infrastructure can distinguish your bank by consistently enabling better value differently.

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