

# Retail Banking Evolution in the Age of AI

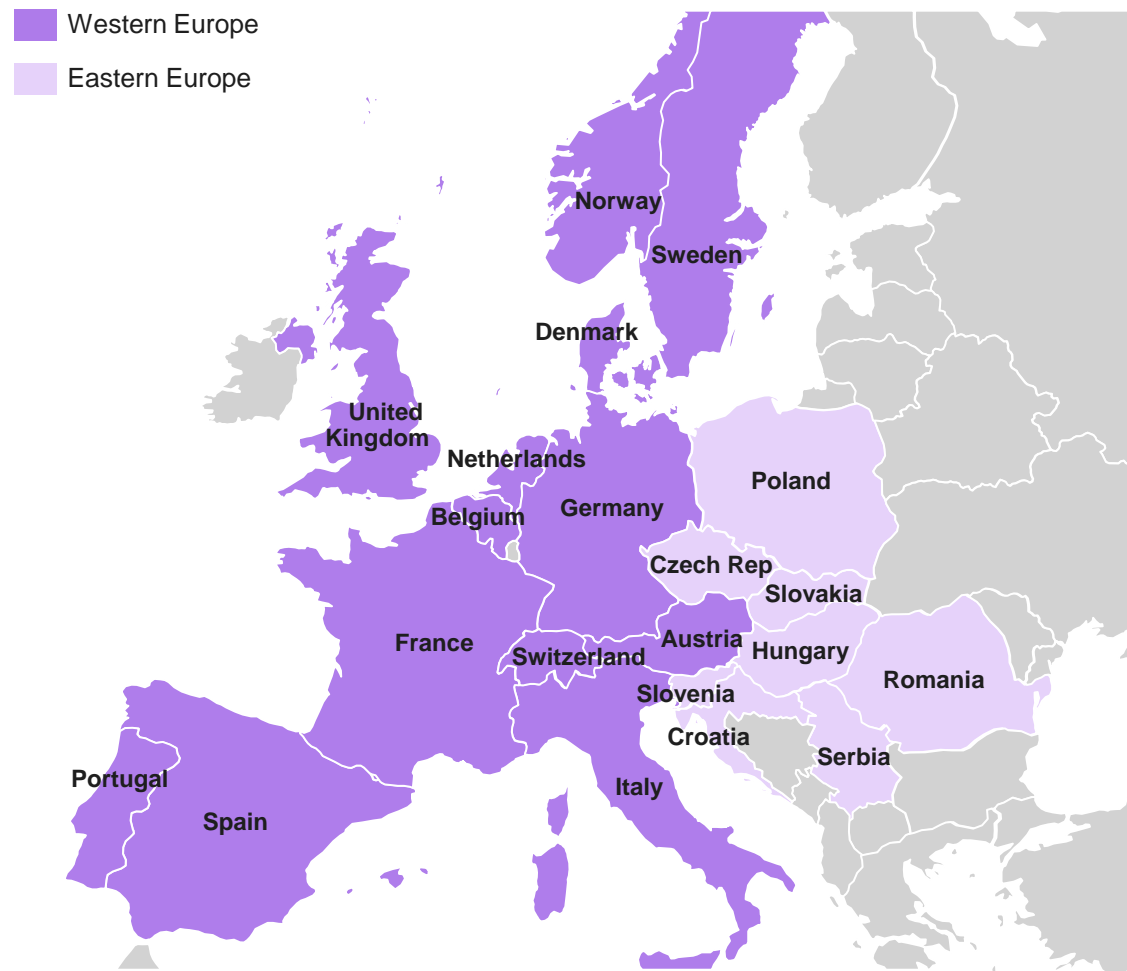
Technobank 2024

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KEARNEY



# The 2024 Retail Banking Radar tracks 89 retail banks in 21 European markets



**89**  
retail banks  
across  
**21**  
European markets<sup>1</sup>



**60-90%**  
local retail  
banking  
coverage



**600 m**  
retail banking  
clients<sup>2</sup>



**80 k**  
branches



**12+**  
dimensions  
analyzed around  
income strength,  
operational  
efficiency and risk  
management



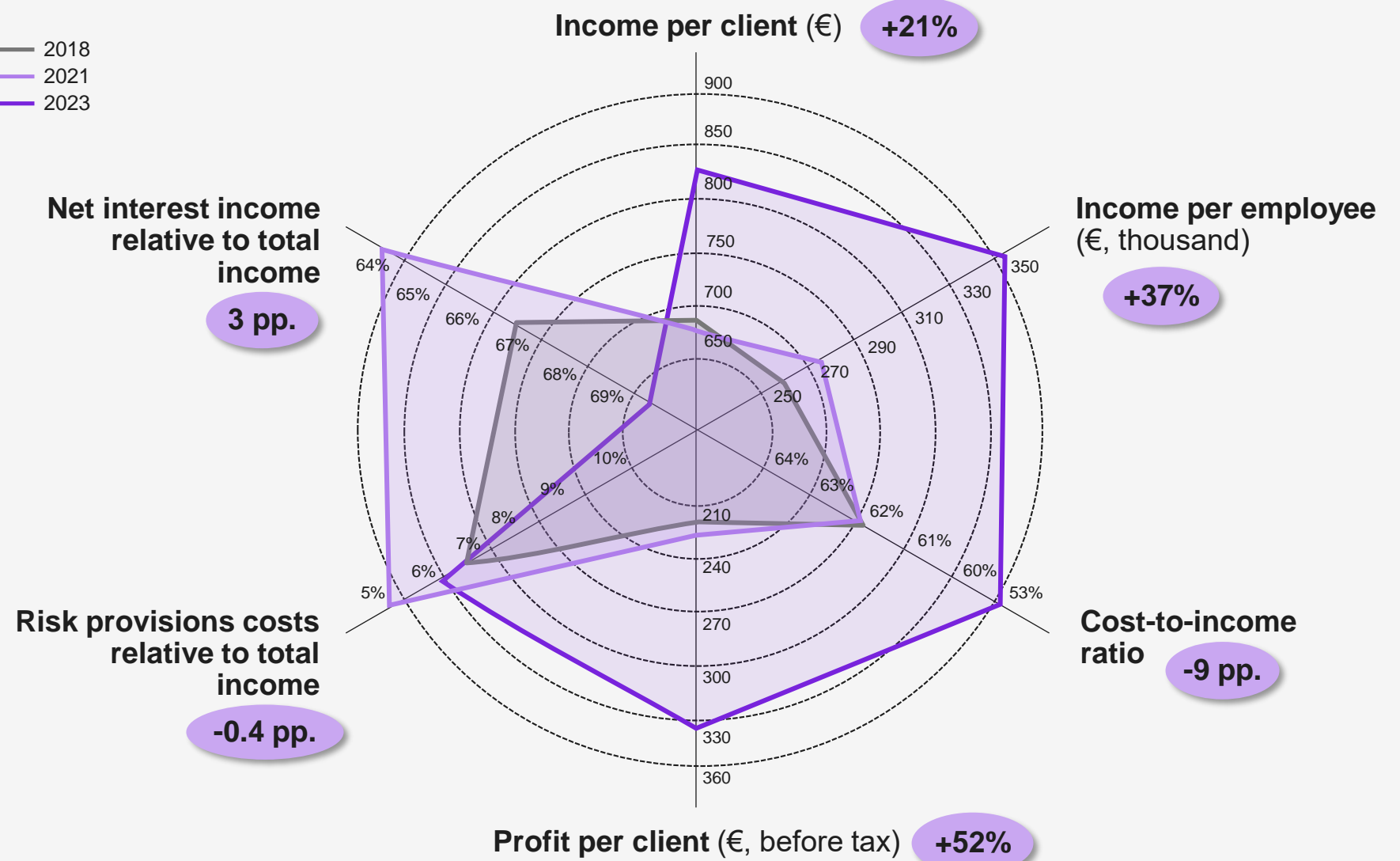
**18**  
years of annual  
records database  
built from official  
bank reports from  
2008 to 2023<sup>3</sup>

1: 51 banks in 13 Western European markets and 38 banks in 8 Eastern European markets  
2: Retail banking segment includes individuals with assets under management up to €1 million and small businesses with annual turnover of up to €5 million (definition varies by bank)  
3: 2023 data is mostly based on actual annual figures, partially on forecasts based on Q3 2022 results  
Source: Kearney 2024 Retail Banking Radar

2023 was a record year for the European retail banking sector in terms of income and profitability

### Retail Banking Radar Indicators Overall Europe (Europe; 2018-2023)

— 2018  
— 2021  
— 2023

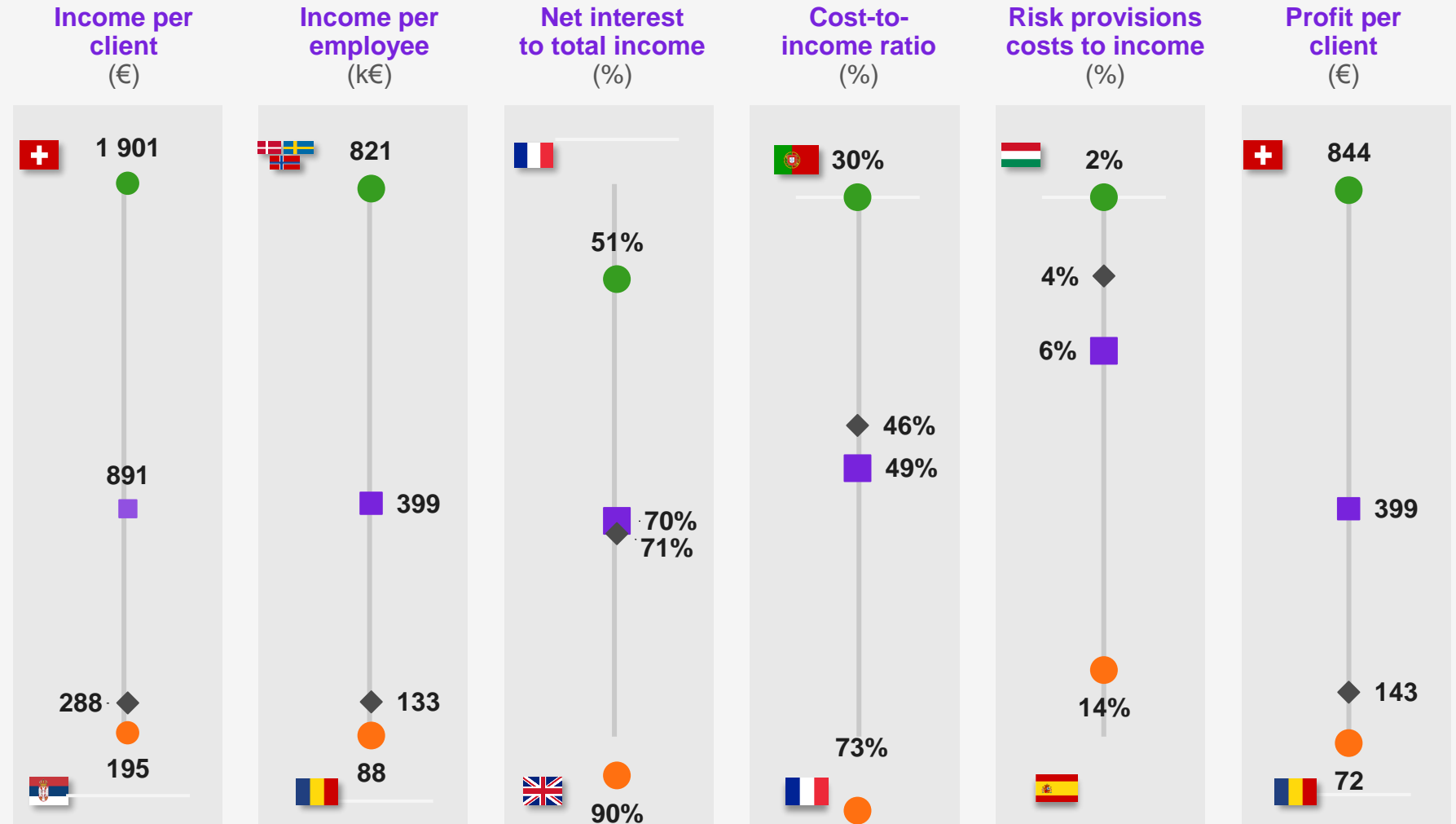


XX 2023 vs 2018

1. When analysing changes of indicators denominated in Euros, we applied 2018 constant exchange rates to present growth in real terms  
Source: Kearney 2024 Retail Banking Radar

Country differences within the European retail banking industry remain significant

## Retail Banking Radar: Country View (2023f<sup>1,2</sup>)

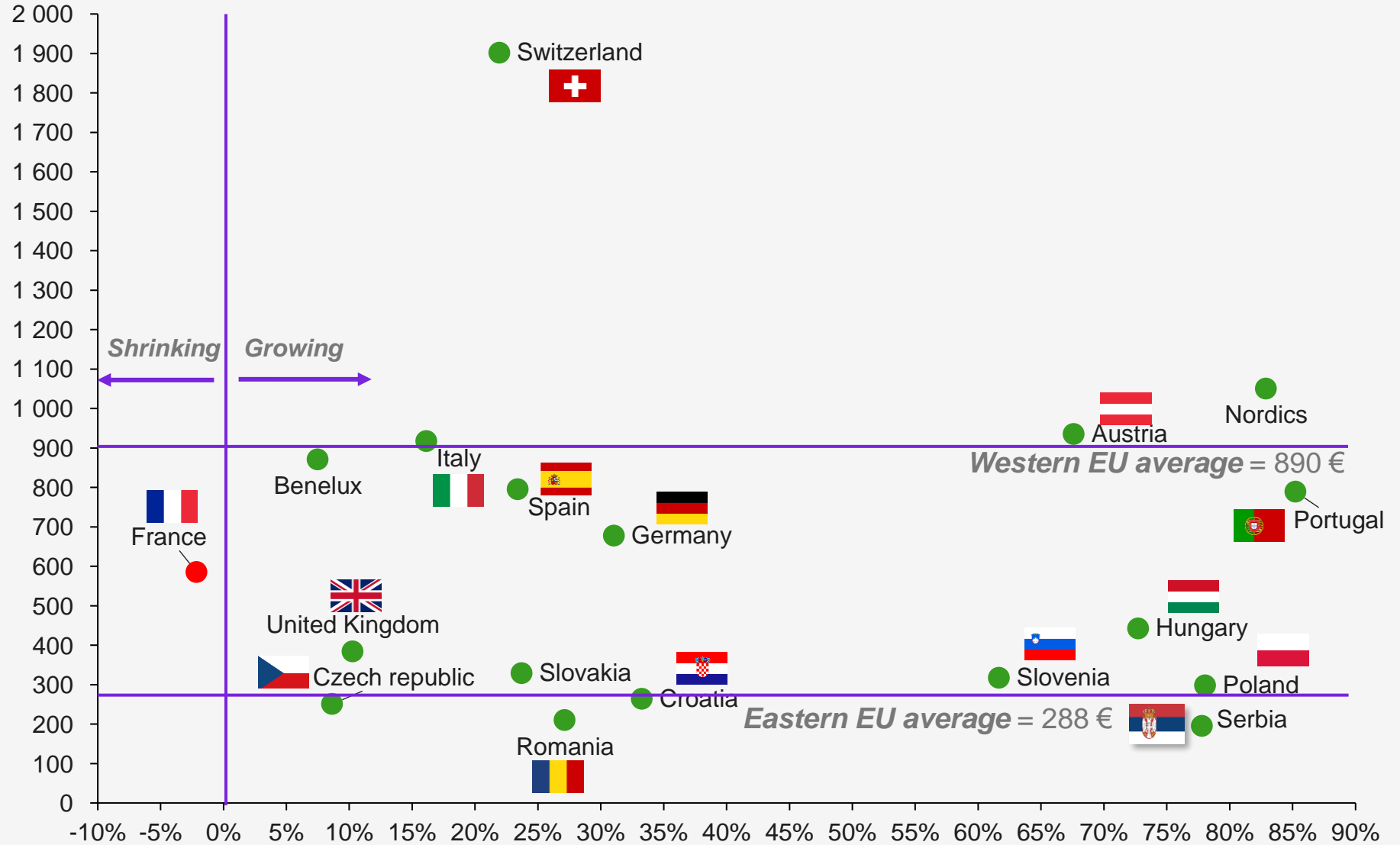


■ Western European average 
 ◆ Eastern European average 
 ● Best performer 
 ● Worst performer

1. 2023 data is partially based on actual annual figures, partially on forecasts  
 2. When analyzing changes of indicators denominated in Euros, we applied 2023 constant exchange rates to present growth in real terms  
 3. Central Europe includes the Czech Republic, Hungary, Slovakia, and Slovenia. Southeastern Europe (SE Europe) includes Croatia, Serbia and Romania  
 Source: Kearney 2024 Retail Banking Radar

# Countries with higher income per customer are not necessarily the fastest growing in the European context

## Income per customer 2023 (€)

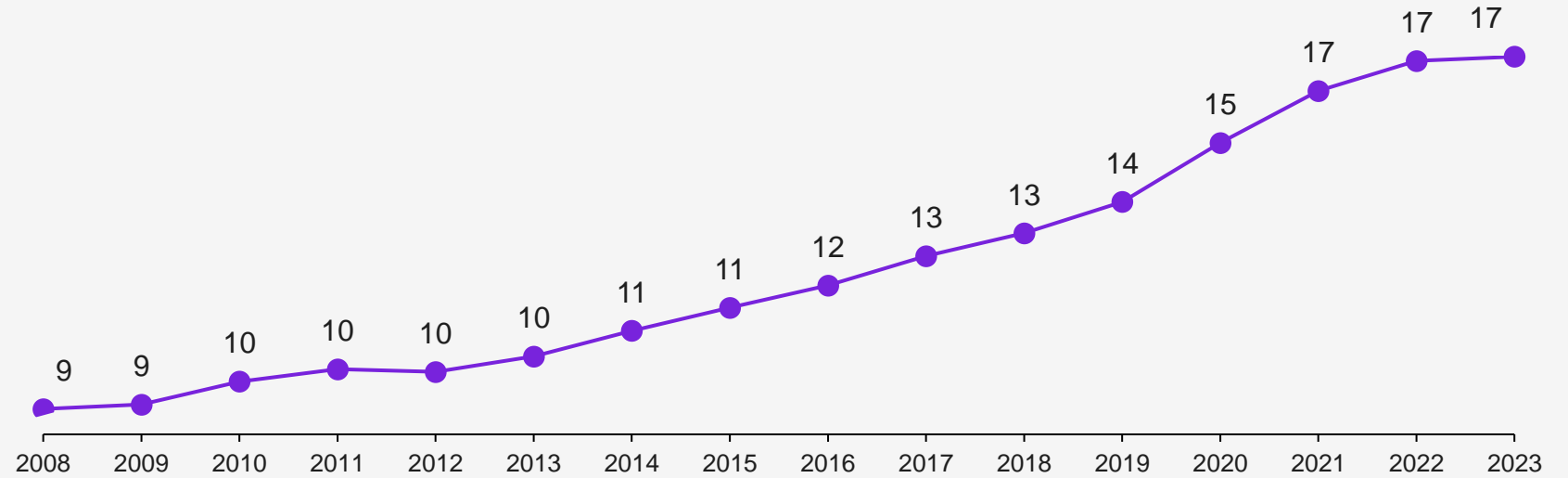


Note: In France, six out of seven largest retail banks have experienced a decline in their income-per-customer ratio. Among them, Société Générale has contributed the most to this decrease. This is mainly due to the big growth in client numbers in its digital bank Boursobank that hasn't been accompanied by a symmetric growth in business volumes and income.  
Source: Kearney Retail Banking Radar 2024

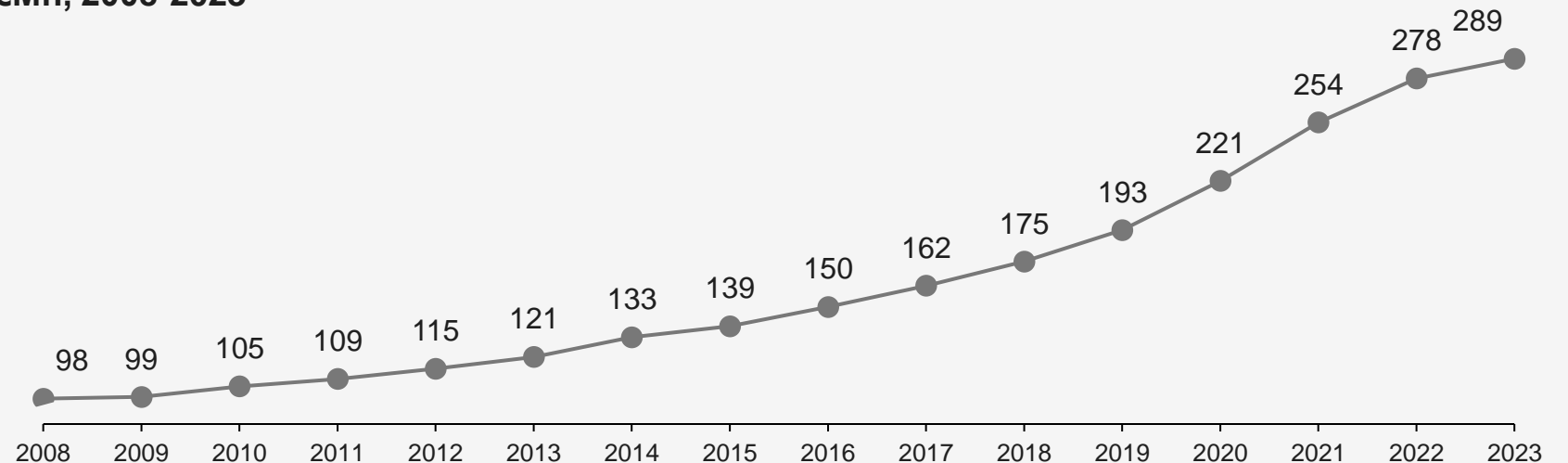
**Growth rate 2018-2023**

**Business Volumes per employee and business volumes per branch experience significant growth in the past years**

**Evolution of business volumes per employee  
€Mn, 2008-2023**

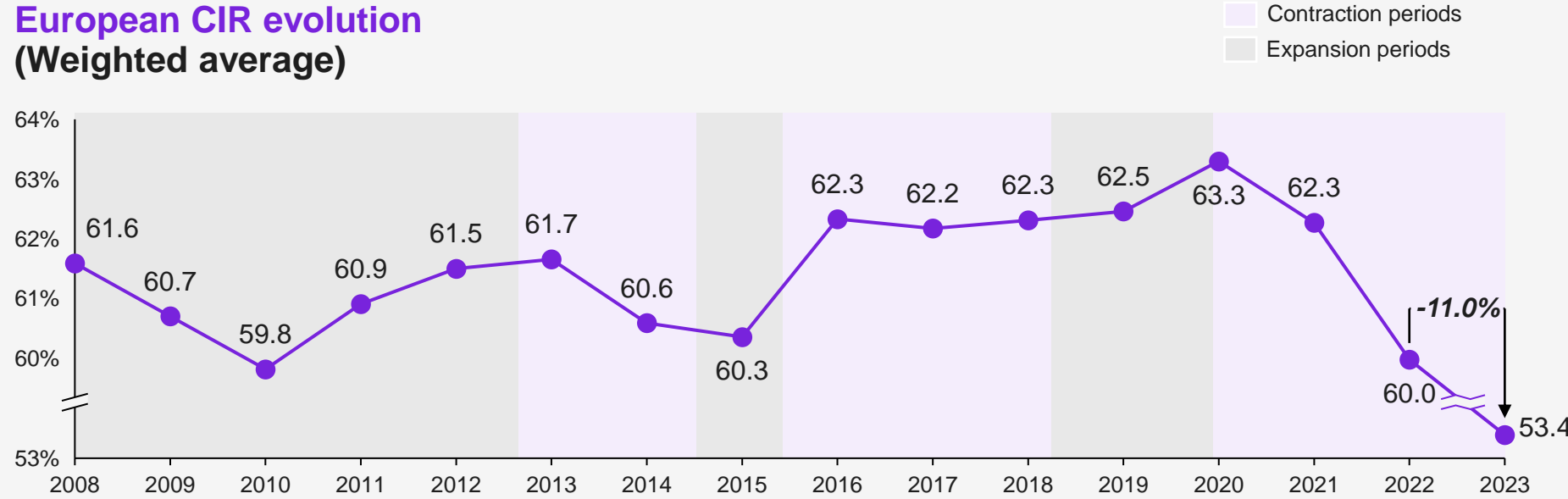


**Evolution of business volumes per branch  
€Mn, 2008-2023**



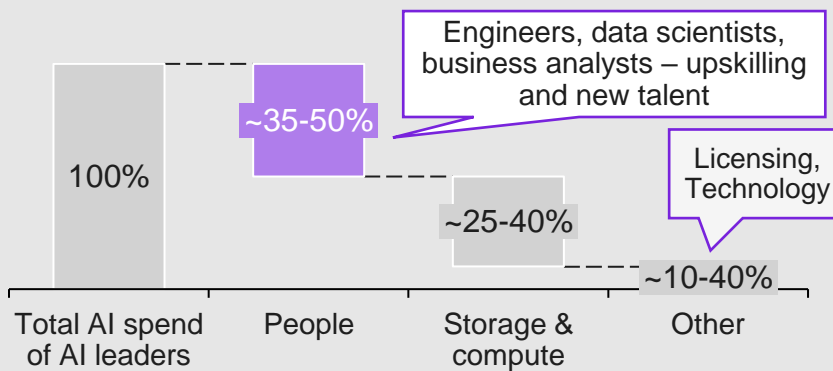
Europe hit the lowest cost-to-income ratio in the last 16 years – just the right time to invest for the future

### European CIR evolution (Weighted average)



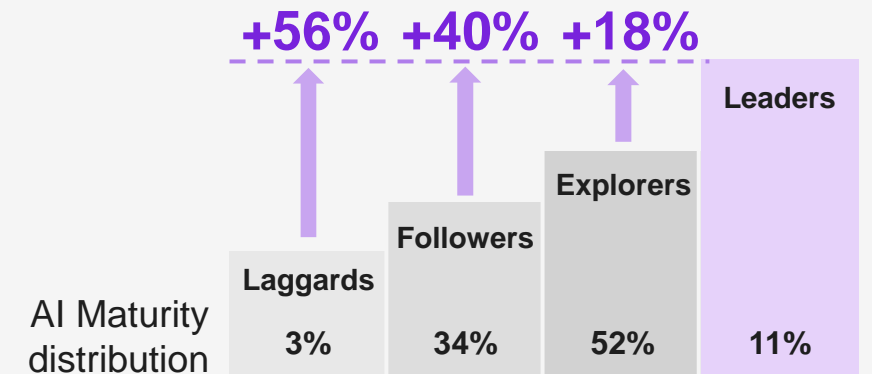
### AI investment is ramping up with leaders investing early

**6x Growth** - Expected increase in AI spend in the next 3-5 years



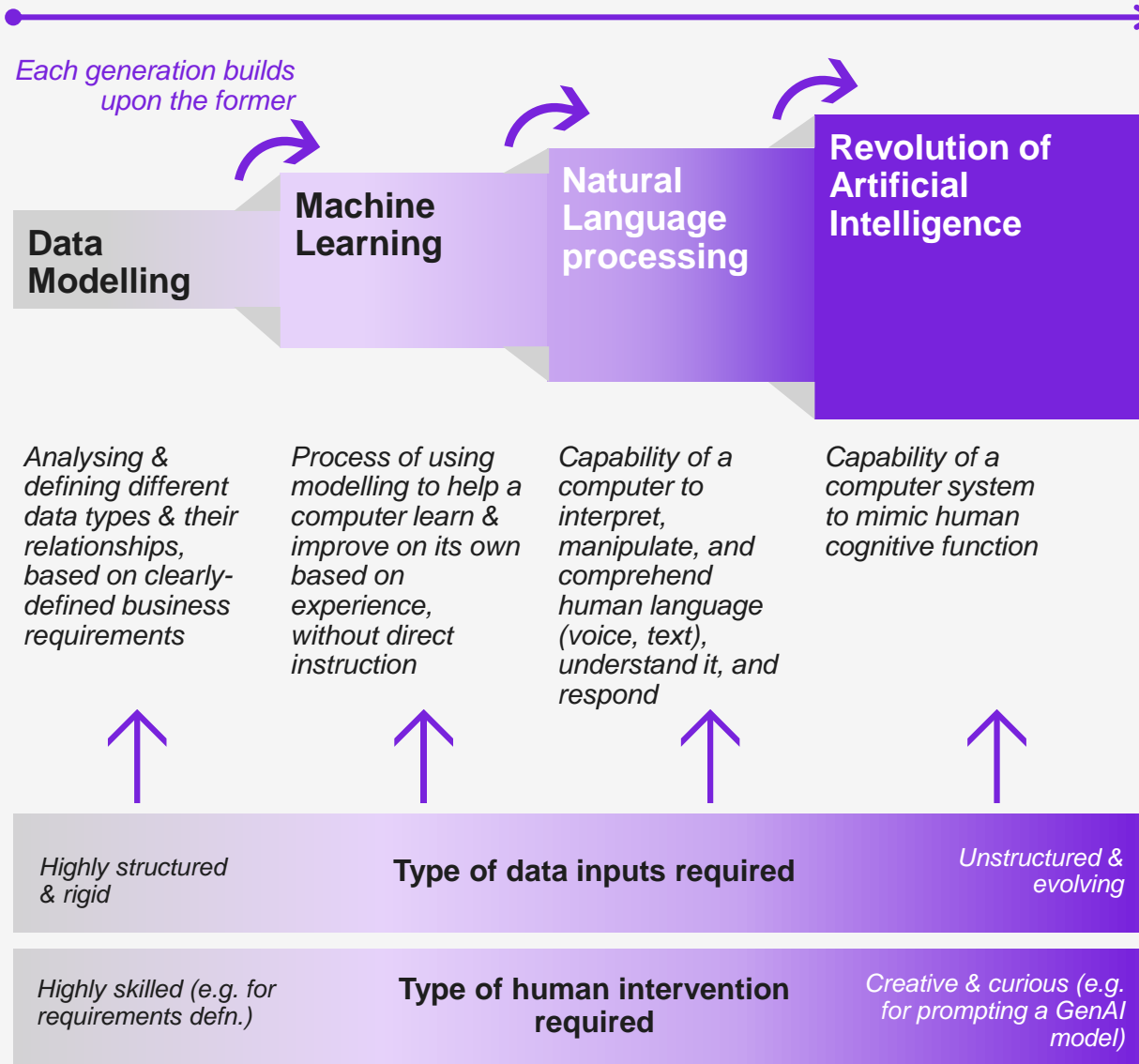
### Delaying action on AI readiness program will have long-term negative impact

#### Potential % profit gap



AI is revolutionising how companies manage their customers, operations and value-creation.

## Evolution of analytics maturity



What will the Artificial Intelligence revolution mean for companies?

AI revolution will mean...

- Fewer people needed & different focus for human work
- Rapid/ real-time business activities
- New governance & risks

AI revolution will not mean...

- Headcount reduction for oversight & decision making
- Guarantee of quality/ reliable outputs
- Fundamentally de-risked operations

“ Just as electricity transformed almost everything 100 years ago, today I actually have a hard time thinking of an industry that I don't think AI (Artificial Intelligence) will transform in the next several years. ”

**Andrew Ng,**  
Founder & Lead for Google Brain Project



# Banking sector is highly impacted by AI/Gen-AI innovations.

## Zoom on IA/Gen-AI key figures...



**+19%** CAGR of the AI overall market from 2023 to 2032 <sup>(1)</sup>



**56%** of companies are in the early phases of exploration



**37%** of organizations have reported using AI in some form. **85%** of executives believe that AI unlocks competitive advantage



**47%** of executives believe that the AI/ Gen-AI applications will improve employee productivity for at least **40%** <sup>(4)</sup>

## ...in the banking sector



**+80%** of worldwide major banks have implemented AI/Gen-AI solutions in front office functions <sup>(5)</sup>



**+3% to +5%** of additional revenues yearly generated through AI/Gen-AI <sup>(6)</sup>



**94%** of AI/Gen-AI worldwide patents were generated by 5 North American banks <sup>(7)</sup>

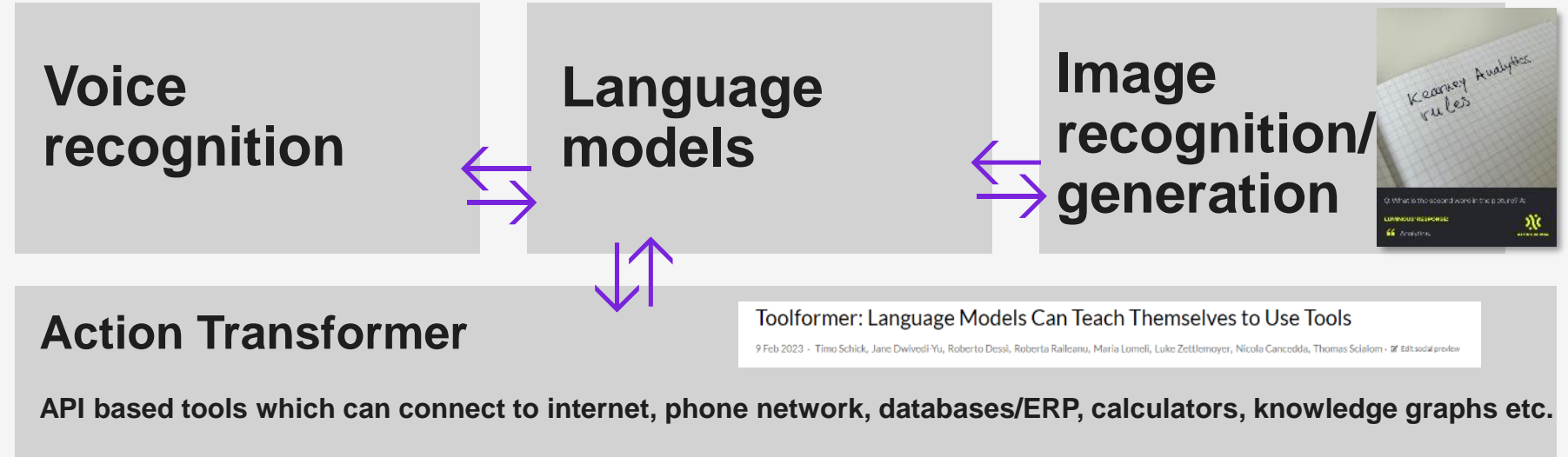


**36%** of surveyed executives expect their companies to **allocate between \$1-20 million on AI/ GenAI** over next three years

(1) : Precedence Research, 2023/ (2) : Aleia, 2023 / (3) : Le Monde informatique, 2023 / (4) Microsoft study, 2023, (5) : L'Usine Digitale, "Artificial intelligence: which banks are investing the most?", 2023 / (6) : ITRNews, Artificial intelligence can boost revenues in banking and insurance, 2023 / (7): BotNation survey based on 1 984 professionals and 2 041 individual, 2022  
Source : Kearney Analysis,

The future can be promising but also scary.

Creating a digital assistant system that goes beyond text or image generation joining you through every step/part of your strategy, decisioning, operations.



“Read all my emails and draft responses.”

“Which latest media news and clients reports can most impact our portfolio from risk perspective?”

“Where do we lose money / leave money on the table, given the evolution of cx/up-sell by different segments in the last 6 months?”

“...assist in risk assessment by generating realistic simulations and scenarios to assess the potential impact of different investment decisions. .”

Generative AI has application potential in a wide range of use cases.

Selected applications across key themes.

## Customer Centricity



### Banking Concierge

Resolves all customer banking queries in native language

### Personalized Communication

Recommends custom CC offers, loan products, and spend reports

### Virtual Investment Advisor

Recommends products based on customer requirements, risk,...

### Payment Assistant for MSMEs#

Sends payment reminders and facilitates automated transactions for MSME customers

## Growth Enablement



### Content Generation for Marketing

Creates marketing content

### Sales Co-pilot

Automatically captures lead information and provides real time guidance

### Next Best Offer

Recommends products based on customer profile, history in real time based on prompts

### Smart Account Management#

Automates manual tasks, assists in serving B2B accounts better

## Operational Excellence



### Knowledge Mng.

Prompt based real time insights about loan offerings, customer transactions etc.

### Loan Origination Bot

Voice-based customer onboarding in native language, fills and verifies KYC forms automatically

### Process Automation

Automates smart recruiting, code recommendations, audit reporting with insights

### Wholesale Lending Reports#

Narrative insights on disbursements to priority sectors, balance sheet, deposit,...

## Risk & Compliance



### Augmented Credit Evaluation

Generates synthetic data to assess credit worthiness of thin file borrowers

### Regulatory Compliance

Helps draft compliance policies and controls, and seamlessly answer compliance questions

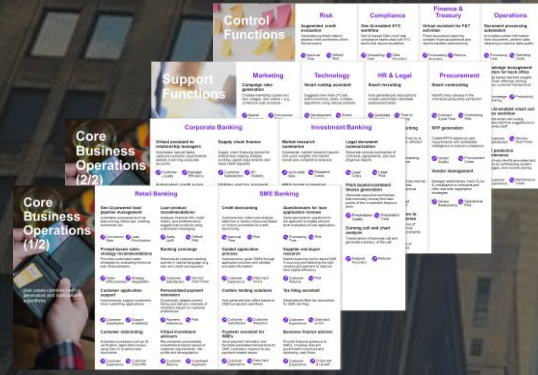
### Compliance Trainings

Generates realistic scenarios related to compliance challenges to train employees

### Early Warning Systems#

Analysis of unstructured data such as financial/cash flow reports, news, social media content to identify weakness in certain sectors

# - Use cases specific to wholesale lending  
Source: Kearney



# We estimate biggest value potential leveraging GenAI by creating value in sales/growth, capturing value in big cost elements like IT, and in specific places enhancing customer experience or employe productivity (in turn impacting sales/cost).

## Net income breakdown for a 'typical' bank.

'Typical' = Operating income: 1 bn EUR in Retail, 1 bn EUR in Companies

Business line	Product group	NII	NFC	FX & Other income	Total operating income	Salaries	Net income (Profit)
Retail	Daily banking <sup>1</sup>		372	274	643	512	-328
					149		1
					421		261
					236		96
	Savings & ... <sup>2</sup>				1443 (index)	792	0
					871	241	361
						47	4
	Short term loans	1000					514
	Long term loans	570					388
	Savings & ... <sup>2</sup>					6	-13
					285		1274
					2519 (index)	717	1245
					2300	19	2255
					6138	1528	3384

...but due to high operating costs usually it is not profitable per-se. Apparent need to work on cost cutting / capturing value, esp. in people/salaries. Ex. GenAI concierge...

**Daily banking** usually contributes well to operating income in Retail.... Use GenAI to enhance **cx/up-sell** (ex. Next Best Offer), or **drive habit/behaviors** (personalized reminders/incentives, virtual investment advisor, etc.) **5-18%+ NFC uplift.**

**Daily banking** for companies usually brings NFC. Use GenAI for ex. for business finance advisory, payments assistant,... for large companies ex. reconciliation assistant, trade finance automation, etc. **4-7% NFC uplift**

**Short term loans for companies.** Focus on increasing penetration, retention + identifying new customer profiles. Uses like customer lending solutions generation, guided application process, credit decisioning, can enhance process experience and in turn sales. **3-9% NII uplift.**

**Mortgage.** Use GenAI brings usually high profitability to enhance Sales (co-pilot), Next Best Offer, augmented credit evaluation (thin file cases). **2-8% NII uplift** (while improving CIR on Mortgage)

**Consumer loans / unsecured lending.** Similar to Mortgage. Focus on increasing penetration + identifying new customer profiles. **4-12% NII uplift** (while improving CIR on product)

**Trading (treasury)** activity can usually yield high income and profit, utilizing available funds from retail/companies. GenAI can help enhance investment decisions. **3-6% NII uplift.**

Biggest capture value potential in:  
 - optimizing IT costs. **Savings 4-35%+**  
 - reducing personnel costs in G&A. **Savings 5-50%+ dep. on function**  
 - Network salaries is big cost chunk, but TBD if optimization can be achieved directly with GenAI  
 - marketing spend optimization: **Savings 2-6%+**

Cost category	Retail	Companies
Total cost	2754 (index)	1463
Salaries	1528	717
- Network	832	379
- IT	185	82
- G&A	150	71
- Credit admin	80	40
- Prod. & Seg.	7	1
- Ops	5	1
- Call Center	2	1
- Risk analysis	2	1
- Control funct.	2	1
- Coll. & WO	2	1
- Treasury	2	1
IT costs	221	95
Marketing	142	62
Other Opex	477	209
- Network	265	117
- G&A	97	42
- Prod. & Seg.	67	30
- Others	48	21
Depreciation	386	163
- Network	174	70
- IT	120	51
- G&A	58	25
- Prod. & Seg.	25	12
- Others	10	4

Opportunities in Credit Admin, Risk Analysis, Collections or other areas can exist. BUT value potential rather low relative to top-line opportunities (i.e. use GenAI to enhance cx/up-sell of loans vs. ops incremental optimization)

**LEGEND:**

Create value
Capture value

1. Daily banking = current accounts, cards, transactions, other client facing operations  
 2. Interest expense subtracted from interest income. Rapport of interest income and interest expense depends on loan to deposits ratio of the bank and of the business line. Income (NII) from placing extra funds on the market is reflected in Treasury under Trading income.  
 Source: Kearney



# AI/Gen-AI has proven impact from several cases and across banking businesses

## Key examples, references, of AI impacts on the banking sector

	Category	AI/Gen-AI areas of implementation	KPIs description	Impact
1	Client portfolio	Targeting larger number of new customers in SME sector in order to sell them credit card accounts	Number of SMEs targeted in marketing campaign	<b>X3</b>
2	Client portfolio	Developing a smart pricing approach, an advanced analytics model clustering clients and predicting price increases to boost revenues	Revenue optimization through price positioning	<b>+[10%-15%]</b>
3	Client portfolio	Deploying a decision-support system for sending marketing communications to personalize messages, levers and cinematics	Conversion rate	<b>+[5%-10%]</b>
4	Client portfolio	Automating content creation with a relational charter in a GEN AI tool	Number of differentiated contents per campaign	<b>x100</b>
5	Process evolvment	Improving of risk management to detect fraud	Fraudulent transactions reduction	<b>-50%</b>
6	Process evolvment	Optimizing customer complaint management	Evolution of # complaints customer thanks to the accuracy of RPA's answers	<b>-90%</b>

Revenues impacts
  Costs impacts

# Example: STARK is the Kearney Gen AI solution that provides quotation of new IT projects, breaking down in elementary building blocks, classifying and quoting them.

New IT project document (e.g. functional analysis or technical specification)

## 1. Breakdown

Any new IT project document is broken-down in “building blocks”, the recurring elementary components required to develop new capabilities (e.g. create new table, review a form in a web page, deliver a new report, ...)

## 2. Classification

Any building blocks is then classified based on type (i.e. input transaction, elaboration, output transaction or data model changes) and complexity (i.e. high, medium, low, based on number of processed variables)

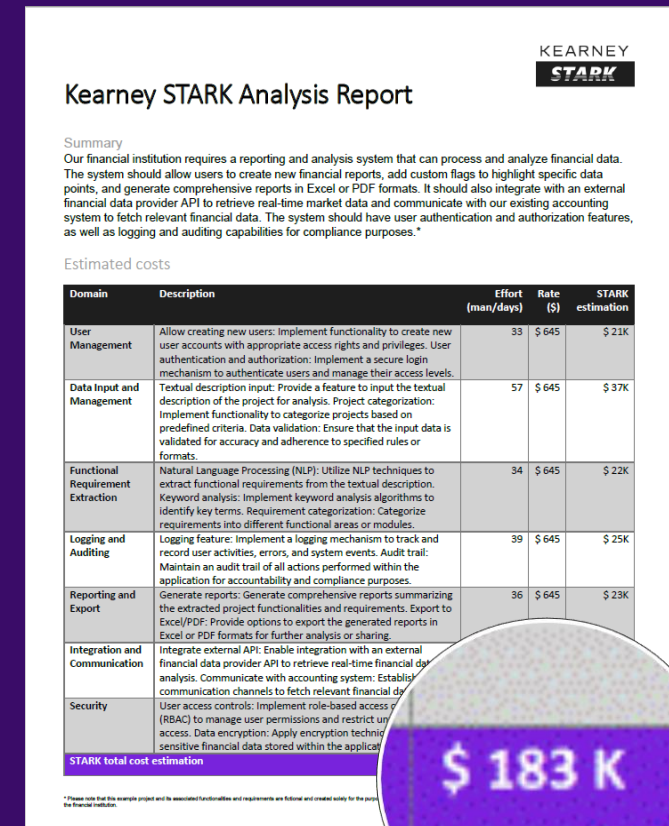
## 3. Sizing

Sizing estimated with two models:

- **Model 1 - Historical client productivity:** sizing based on historical size of similar building blocks in past client projects
- **Model 2- Standard productivity:** sizing based on industry average IT productivity

A third model can select one of the two output based on specific conditions (e.g. model 1 for functional enhancements, model 2 for transformative projects)

### Illustrative report of sizing a new IT project



The image shows a sample report titled "Kearney STARK Analysis Report". It includes a summary, a table of estimated costs, and a total cost estimation of \$183 K. The table lists various domains like User Management, Data Input and Management, Functional Requirement Extraction, Logging and Auditing, Reporting and Export, Integration and Communication, and Security, each with a description, effort in man/days, rate in dollars, and STARK estimation in dollars.

Domain	Description	Effort (man/days)	Rate (\$)	STARK estimation
User Management	Allow creating new users: Implement functionality to create new user accounts with appropriate access rights and privileges. User authentication and authorization: Implement a secure login mechanism to authenticate users and manage their access levels.	33	\$ 645	\$ 21K
Data Input and Management	Textual description input: Provide a feature to input the textual description of the project for analysis. Project categorization: Implement functionality to categorize projects based on predefined criteria. Data validation: Ensure that the input data is validated for accuracy and adherence to specified rules or formats.	57	\$ 645	\$ 37K
Functional Requirement Extraction	Natural Language Processing (NLP): Utilize NLP techniques to extract functional requirements from the textual description. Keyword analysis: Implement keyword analysis algorithms to identify key terms. Requirement categorization: Categorize requirements into different functional areas or modules.	34	\$ 645	\$ 22K
Logging and Auditing	Logging feature: Implement a logging mechanism to track and record user activities, errors, and system events. Audit trail: Maintain an audit trail of all actions performed within the application for accountability and compliance purposes.	39	\$ 645	\$ 25K
Reporting and Export	Generate reports: Generate comprehensive reports summarizing the extracted project functionalities and requirements. Export to Excel/PDF: Provide options to export the generated reports in Excel or PDF formats for further analysis or sharing.	36	\$ 645	\$ 23K
Integration and Communication	Integrate external API: Enable integration with an external financial data provider API to retrieve real-time financial data analysis. Communicate with accounting system: Establish communication channels to fetch relevant financial data.			
Security	User access controls: Implement role-based access control (RBAC) to manage user permissions and restrict user access. Data encryption: Apply encryption techniques to sensitive financial data stored within the application.			
<b>STARK total cost estimation</b>				<b>\$ 183 K</b>

# We are working on enhancing accuracy of repayment models for EMEA bank with the help of Kearney's Voice Analytics

## ① Call centre agent called customer



Called customers on **WD-3** due to recurring late payments



“Following standard SOP if you don't pay in the next 2 days, we will begin billing fines”




Customers are responding but agent not able to determine if they are truthful

## ② Call audio uploaded to voice analytics platform

KEARNEY | Client GTP> conversation follow up Decision

### Client Follow up Intelligence

Upload customer conversation audio  
Please upload a wav or mp3 file to analyze the customer conversation and decide next steps

  
**UPLOAD FILE**  
Uploaded File name: 4507.wav

**Analyze**



Voice analytics analyzes key words, tonality, silences/ pauses, redactions and translates these into customers' sentiment/ emotions

## ③ AI generates insights including follow up actions

**Client Sentiment Insight**

**Client Concerned**

The client initially expresses frustration about the decrease in the value of their investments. He returns in the p...  
By the end of the situation, requ...

**Follow up C...**

Dear Monica,  
Thank you for reasons why tr...

The overall stock market experienced a significant decline in early 2020, mainly due to the following factors:  
- The Federal Reserve announced a faster-than-expected tapering of its bond-buying program, signaling a possible interest rate hike in the near future.  
- The geopolitical tensions between China and Taiwan escalated, raising fears of a military conflict that could disrupt global trade and stability.  
These events created uncertainty in the market, resulting in a sell-off of risky assets and a flight to safety. However, these events are likely to be temporary and do not change the long-term outlook for the economy and the market. Consider seeing reductions month over month or even year over year on ETFs, how... reductions in value in the medium to...



**Client sentiment insights:**

- “Initially very anxious”
- “Will do anything to not get the car repossessed”
- “Understanding at the end of call”

**Follow up Communication Draft:**

“Sir, as our goodwill, we can offer you a restructuring of your loan by lowering down your instalment”

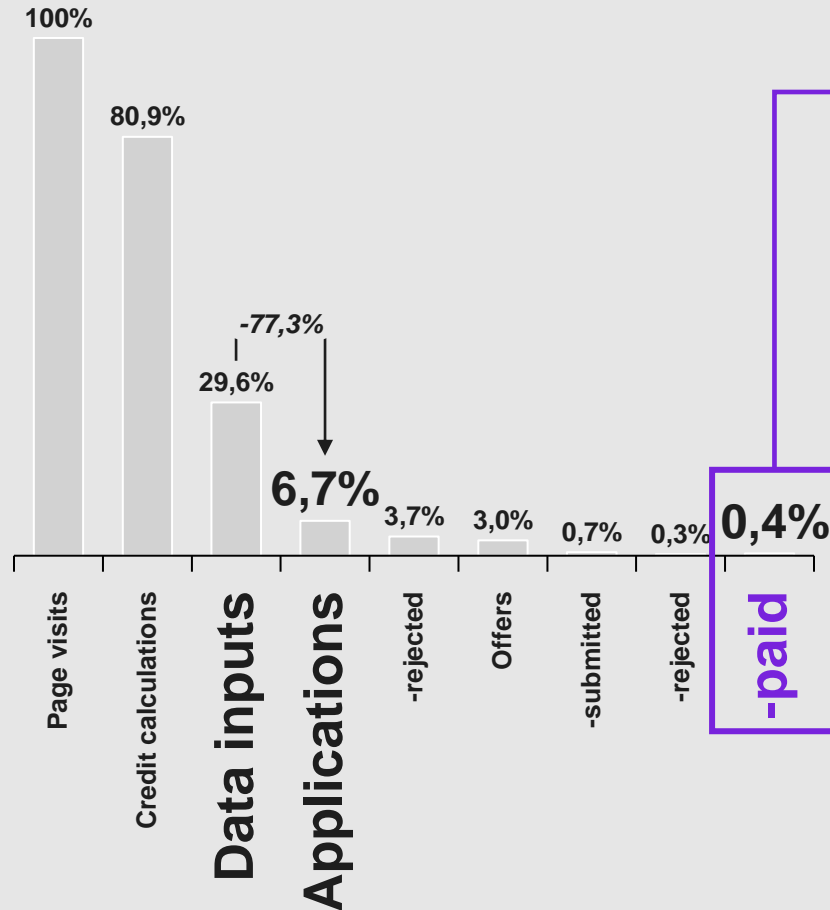
# genAI enabled customer center as key for increasing sales performance substantially

Benefit of integrated channels and proactive customer management

**Example:** Online consumer loan purchase, Germany

## Conversion rate by sales approach

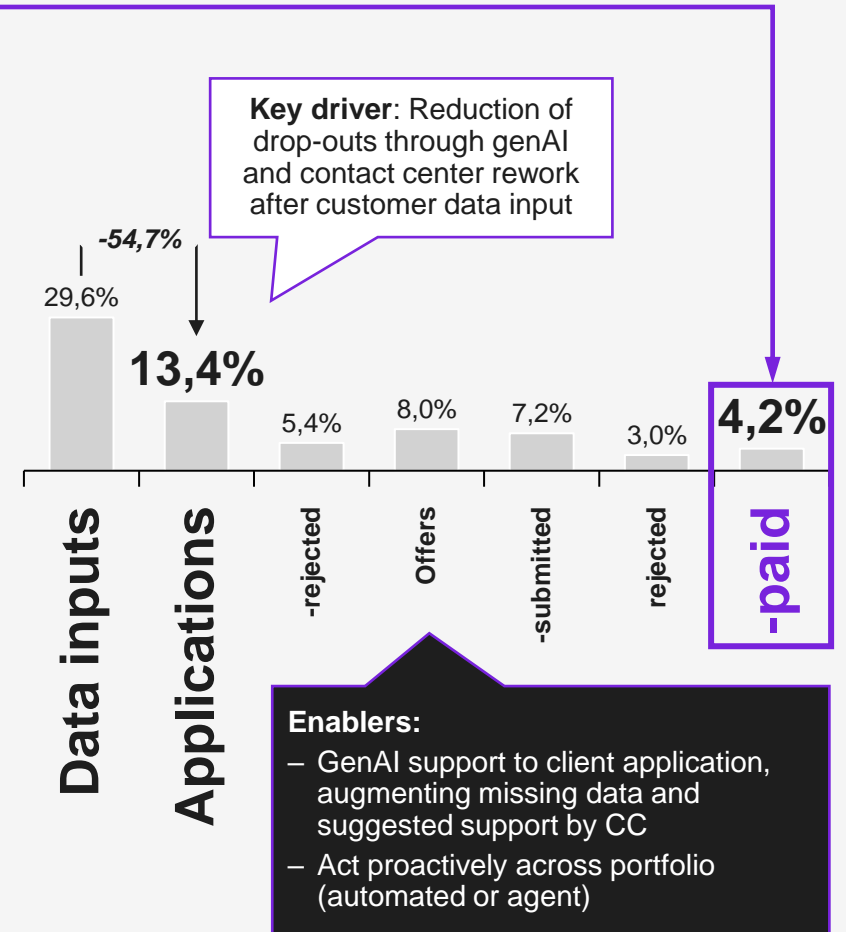
Online channel without contact center



Source: Kearney

Online channel with genAI enabled contact center

**~10,5 x higher conversion rate**





# Organizations often forget about the fundamentals when wanting to bring “cool” AI use cases to life

## The “cool” part



### State-of-the-art use cases

There are vast use cases based on real-life advanced analytics and GenAI solutions, the application of which enhances value

Share of conversations

70%

## The “hard” part



### Capability foundation

Organization & Cultural Management | Data Readiness | Governance | Processes Transparency | AI Literacy | IT infrastructure & Tools

30%



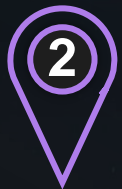
Early adopters solely focusing on the fun parts are often **learning the hard way that they are missing a mature capability foundation – scaling use cases to bring exponential value for the future becomes difficult**

# Guiding principles as you drive your AI journey!



## Ruthlessly prioritise value creation

**Evaluate business processes** to identify biggest areas to add value (enhancing customer service, streamlining operations, optimisation market strategies, etc.)



## Challenge teams to get creative with AI

**Encourage a culture of innovation** by not just improving AI literacy, but urging employees to explore new ways to leverage AI to stay ahead of the curve and unlock AI's full potential



## Assess internal capabilities and drive towards bigger capability uplift

**Evaluate internal AI capabilities**, resources, and skill sets. Consider factors such as cost, time-to-market, and potential for long term competitive advantage. Assess organisations appetite for change



## Bring the wider organisation along the AI journey

**Communicate effectively** to explain why change is happening and the benefits; **provide training and support** to aid employees to work effectively with AI



## Use Gen AI responsibly

**Ensure proper governance** with experienced and trained experts who can verify and challenge the results of Gen AI and provide the proper context



# Thank you

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## Key Kearney Differentiators in AI

**1 Dividend-driven mindset**

- Outcome focused, creating value impact
- Speed and Scale



**2 Real business impact – No PowerPoint**

- Day 1-readiness to get our hands dirty
- Bootcamp approach with real data and real impact



**3 Business proximity and business-led**

- Use case identification with a value chain lens
- Use case activation incl. implementation via Realization layer and partners to make it “real”



**4 Best-of-breed for the client, with the client**

- We help clients get the true “scaled value” and not just POC solutions. We bring powerhouse of ecosystem partners



**5 End-to-end transformational – from Tech to People**

- We integrate tech with the people, process and scaled value thinking delivering more sustained value and a true end-to-end transformation



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