

# Inside Tomorrow's Retail Bank

Retail banking is on the threshold of change—propelled by industry trends, technology tools, branch networks, new competitors, and today's more empowered, energetic, and engaged retail bank customers.



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The transformation in the retail banking industry is not the result of a technological revolution, economic shocks, or changing customer needs—or at least not any one of these alone. Taken together, these factors and others are fundamentally changing the way financial services are delivered to customers.

In this paper, we discuss the transformation, describing and analyzing general trends in the world of retail banking and their influence on banks, their customers, and their competitors. Our analysis is based on personal interviews with top executives and representatives from banks, near-banks, and innovative companies, and a survey of industry insiders across Europe (see sidebar: About the Study).

Our findings in summary:

- **Trends.** Five trends in retail banking are having a tremendous impact on financial services customers and the retail bank business model.
- **Customers.** Banks have to face both the demands of elderly, financially strong but technology-averse customers and the requirements of a tech-savvy Facebook generation with different expectations; these customers expect trust, convenience, empowerment, and emotion.
- **Technology.** Banks are struggling with technology-induced changes, including integration across channels, new forms of payment, and the use of data.
- **Branch.** The points of sale for financial services include more digital approaches along with traditional branches, while advisory and sales are going mobile.
- **Competitors.** Numerous non-bank players are moving into market niches, forcing retail banks to take a fresh look at their competitors.

The following discusses these and other threats, as well as the wealth of opportunities for incumbents that prepare now for the coming transformation in retail banking.

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## About the Study

**A.T. Kearney in conjunction with the Research Center Finance and Information Management (FIM) at Augsburg University performed this study to analyze future challenges in retail banking that result from changing customer expectations, technological innovations, new or changing points of sale, and competitors. The findings offer insights into expectations**

**about possible scenarios for the next decade and provide recommendations for how to face the challenges of a new era. We conducted 20 interviews with traditional and emerging retail bank and financial services executives throughout Europe. These interviews were supported by additional literature research and findings in an online survey of approximately 1,000 industry**

**insiders with both research and practical experience in the financial services industry. Thus the qualitative research results are supplemented with market expectations.**

# 1. Five Trends in Retail Banking

Five major trends are redefining the way banks inform and interact, transfer money, advise and sell, and shape the competition.

## **Trend 1. Inform and interact: mobile Web meets social media**

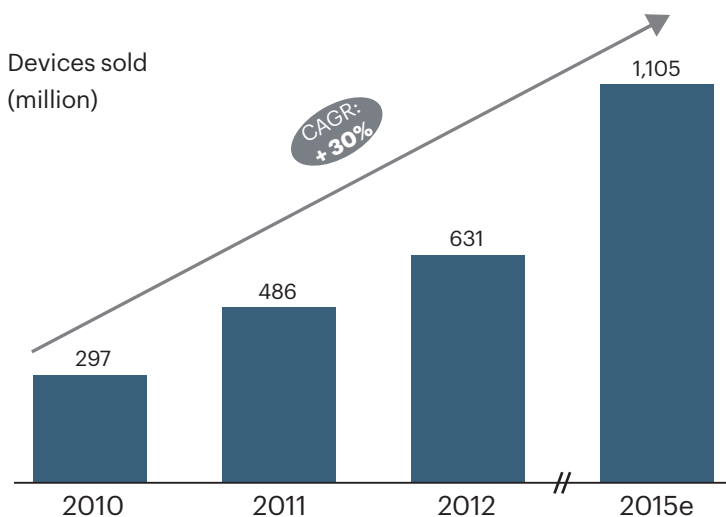
The Internet changed the way people and companies interact, but the omnipresent mobile Web is revolutionizing those interactions. Online communication is no longer a one-way street where industries broadcast their products to customers who may or may not buy them. As more customers use online and mobile channels, the challenge for a broad range of industries, including banks, is to find clever ways to get in touch with their customers (see figure 1).

The availability of mobile broadband Internet and smart devices and the broad use of Web applications can be used to incorporate customers deep into the value chain. Smartphones and tablets have merged computing power with mobile broadband data connections. Many more ideas and applications are emerging.

Successful companies offer customers access to information anywhere at any time. In addition, listening to the opinion of the crowd and inviting customers into product development and services is standard operating procedure. However, naively offering everything to everyone causes information overflow. Clever techniques to analyze information to offer the right product at the right time are the keys to success. More companies are using sentiment analysis to cross-sell products more effectively, to track customer opinions, and to monitor employee behaviors. However, companies must avoid a Big Brother image if they want to build or maintain a trusting relationship with their customers.

All in all, acceleration, digitization, and increased mobility have created a hyper-connected world on the move. Online communication and online content dominate other media, including television, and nearly every industry is affected.

Figure 1  
**Smartphone sales are soaring worldwide**



Sources: Gartner Research; A.T. Kearney analysis

A generation ago, the ability to broadcast a message to a large number of people was restricted to a few people communicating via radio or TV. The levers and hurdles to share experiences were easy to control. The rise of social media such as YouTube, Facebook, and Twitter changed this in two major ways: First, everybody today has the ability to broadcast a message to millions of people around the world. Second, the crowd can immediately respond. Even spontaneous annoyances shared on Twitter or Facebook are instantly available to hundreds or thousands of people. More than simple entertainment, social media is a powerful tool, as seen by the 2011 Arab Spring civil uprisings.

Social media augments communication between companies and their customers. The crowd can immediately research and compare products and exchange experiences with industries, companies, their employees, products, and services. Indeed, 65 percent of users access their preferred online social network daily, and the average time spent on a social network is three to four hours, according to TNS Infratest. Equally important, by readily sharing nearly everything about themselves in online chats and blogs, the crowd—including current and future financial consumers—provides an enormous amount of personal information, offering deep insights into customer behaviors, sentiments, and needs, and opens up new possibilities for using customer intelligence.

### **Trend 2. Transfer money: payments reloaded**

Digitization, mobility, changing lifestyles, and e-commerce are the impetus for new approaches in payments and account management. The rise of new methods and the penetration of Internet-connected mobile devices with innovative capabilities—such as near field communication (NFC), which allow users to quickly exchange text, images, URLs or other data between devices, or quick response codes (QR code), which can store much more data than a standard barcode and can quickly transfer this information into a mobile device—have set the basis for dramatic changes in online and offline payments. A variety of small companies demonstrated innovativeness and profitability with solutions that threaten an important aspect of retail banking: traditional money transfer. Quick and safe electronic and mobile payment methods, combined with electronic wallets and innovative account management tools, are challenging the role and dominance of cash, credit, and debit cards. A recent study by ECC finds that 35 percent of consumers would like to use their mobile device as an e-wallet.

One could argue that profit margins are likely to stay low despite the fact that some customers are willing to pay fees for convenience. Although competitors such as PayPal demonstrate that e- and m-payments—when done right—can be highly profitable, income is not the only thing at risk. Losing e- and m-payments means losing regular customer contact and a glimpse into spending behaviors. In particular with mobile payments, a dramatic increase in the amount of data revealing payment behavior for purchased products, favored locations, method, and frequency offers new possibilities. Maintaining open access to payment data, and intelligently distilling and using it, will be key challenges for the financial services industry.

### **Trend 3. Advise: segregation of customer groups**

New technology and social media have opened up new ways for people to get in touch, be it with another person, a digital assistant such as Apple's Siri, or a shop to buy everyday goods. From a company perspective, there is a need to provide online and, even more importantly, mobile channels to interact with customers. Unfortunately, there is even more to come. Customers can be separated into two major groups. First, there is Generation Facebook, which

consists of heavy social media and mobile Web users (digital natives) and the so-called digital migrants, who are older but open-minded adopters. This group is relatively weak concerning their financial possibilities—for now. Second, there is the large, financially strong, and attractive group of elderly people with many digital deniers who require different approaches.

This picture is valid for today and, for demographic reasons, for the near future. However, for nearly every industry, the more powerful and much more interesting group in the long run is Generation Facebook and the digital migrants. Digital deniers will diminish over time, while the tech-oriented digital natives are likely to challenge and influence a range of industries with their needs, wishes, expectations, and behaviors.

This will force banks to reconsider their customer relationship approaches and the ways to interact with customers. Because some new competitors are better prepared for this change, their approaches might heavily cross existing business models and challenge established players for customers.

#### **Trend 4. Sell: the point-of-sale (r)evolution**

The question of where and how to sell products and services will be asked again and again—triggered by customer mobility, new possibilities of customer interaction through Web 2.0 applications, the ever-increasing migration of transactions into the Web, peer-to-peer approaches, and the capabilities of mobile devices. For the retail banking industry, this threatens the attractiveness of the traditional branch and its value for customers and banks. Our findings suggest that nearly every service offered by a branch today could be dispensable tomorrow, replaced by innovative technology or made available online. For instance, today, 58 percent of customers visit a bank to withdraw money from the ATM, 24 percent to view their account, with the remaining visits for personal contact (7 percent), to perform transactions (9 percent), or for other reasons (2 percent).

Most industries, including retail banking, are under pressure to reinvent the point of sale regarding setup, form, appearance, location, and product range to attract customers to visit them and provide an adequate purpose.

The point-of-sale revolution will heavily affect customer relationship management, the integration of technological innovations into multi-channel management, and the role and arrangement of traditional retail banking branches.

#### **Trend 5. Drive competition: a changing playing field**

The last trend shifts the focus from the relationship between the consumer and the provider toward competition in the industry. Technological developments and changes in customer behavior and expectations along with failures and other priorities of traditional players set the ground for new approaches in many industries. An increasing number of new players, be it start-ups or established players from the non-banking field, bustle around in several aspects of retail banking. The days in which banks were the only provider for banking products are over. In today's environment, even start-ups are trustworthy enough for customers to commit their money. A variety of new players now compete to become part of customers' financial habits. This is massively transforming the industry because new players are often more innovative and flexible. Announcements by large Internet companies such as Google, Amazon, and Facebook engaging in payment or account management will shake the financial services industry.

New competitors draw heavily on emerging changes in customer expectations and behaviors and the possibilities of new technologies, thereby influencing the traditional role of the point of sale.

These are the overarching trends identified from our research. Based on our interviews and the online survey, the following illustrates how these trends might change the future of retail banking regarding customer relations, technology use, points of sale, and the competitive landscape.

## 2. Customers: Two Very Different Groups

Retail banking is likely to become more customer-centric than ever before. Lumping all customers together or segmenting them by basic principles such as age, sex, income, or stage of life will not be good enough for technology-driven customer approaches. Retail banking will be dealing with two core customer groups and their specific, unique expectations:

- **Digital deniers.** A growing group of elderly customers will remain important for a certain time, especially because of their financial muscle. Although retail banking might be technology-dominated, universal players still have an interest in serving this type of customer as long as they exist.
- **Generation Facebook.** A group of technology-friendly customers, made up of Web residents who intuitively use and cut their teeth on or adopt new technologies quickly

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Not innovation but changes in consumer behavior will alter the banking business model. **Sven Eggefalk, SEB**

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### What Customers Want

Retail bankers are usually ahead of their customers when it comes to terminology such as credit line, mortgage, interest rate, call money, cash account, credit card, and building loan contract. They were even ahead in technological knowledge during the introduction of ATMs and online banking. But those days are gone. Today, bank customers are far ahead of their banks regarding the use of technology.

Generation Facebook has grown up with online social networks, smartphones, and apps. They

speak a different language than bankers, using words like online collaboration, liking, multi-touch, friending, Twitter, crowd sourcing, peer-to-peer, augmented reality, tagging, cloud, and QR code. These are concepts that customers will teach bankers or simply expect them to know.

Customers who use email, SMS, and Skype will not be satisfied with slow customer service, days to answer questions, snail mail communication, or a requirement for in-person authentication. In fact, many banks today still do

not use email to communicate with their customers, while the Facebook Generation already considers email outdated. Customers who use PayPal and e-wallets in other areas of their lives will not accept two to three day transaction times from their banks.

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From our survey, we know that successful players in retail banking are increasingly focusing on Generation Facebook. Those in the Facebook customer group have grown up handling and exploiting technological trends but never experienced what retail banking products are good for. They live in a digital and wealthy world. They are demanding, and touted even though they are not necessarily the financially strongest group right now.

Retail banking must offer adequate solutions for both types of customers but be flexible enough to react to anticipated changes in customer attitudes. Business models that are limited to one customer group won't work. Marking different customer groups as irrelevant might be acceptable today, but it will soon become negligent. In addition, it remains unclear how fast the older generation is adopting new technology. Hence, differentiation remains even more important (see sidebar on page 5: What Customers Want).

Although retail banking has two different types of customers, both groups have four basic demands from their banks: **trust, convenience, empowerment, and emotion.**

### **Trust**

Obscure, complex, and expensive products—along with poor advice during a worldwide financial crisis—massively damaged customers' trust in banks. This is even more dramatic as 97 percent of our survey respondents say trust will likely or very likely be the most important attribute in retail banking. In a digitized world, reestablishing trust is both a huge challenge and an immense opportunity. Retail banks walk a thin line; they must embrace social media without being condemned by disappointed customers expressing their anger on YouTube or Facebook.

Even though customers are increasingly disclosing private information online, our research indicates the general need for privacy, including in regard to financial issues, will remain the same. Furthermore, a generation of skeptical, empowered, and self-confident customers is expected to demand increased transparency in banking.

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Systems, scorecards, and apps do not bring competitive advantage. You must care about the customer. **Hugh Chater, Royal Bank of Scotland**

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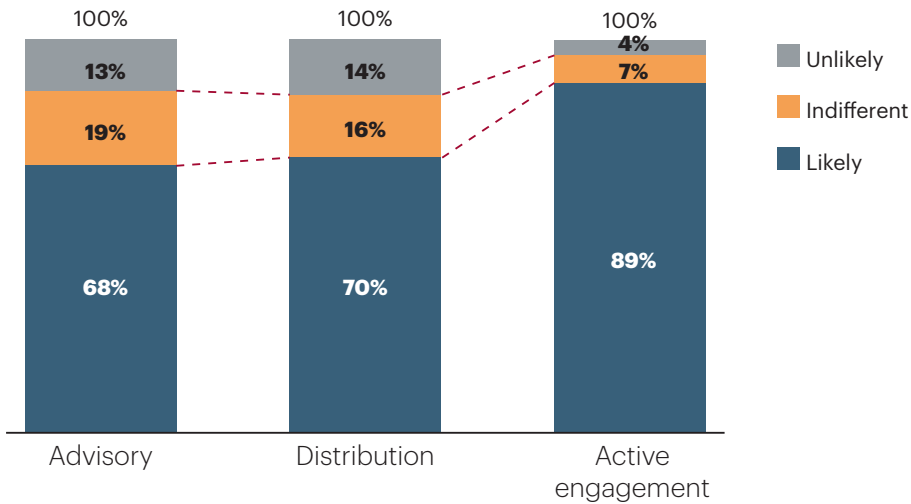
For traditional players, the importance of trust can be both boon and bane: boon as it might discourage customers from switching providers and thereby constitute a major entry barrier for new players, bane if banks fail to regain and establish customers' trust. Institutions that want to play a major role in retail banking will have to battle for customers.

On one hand, characteristics such as a banking license could become a determining factor for establishing trust. On the other hand, customers are prone to trust what they read in online social networks more than what they hear from bank employees. Although social media serves as a helpful tool, it does not replace personal face-to-face contact, especially when it comes to once-in-a-lifetime financial decisions.

Trust might also be gained with easy to understand and fair retail banking practices that stand both the test of time and the chatter on comparison social media sites. Transparency across

Figure 2

**Social media will be a major success factor in retail banking**



Source: A.T. Kearney and Research Center Finance and Information Management (FIM), June 2011

products, channels, advisory, and communication are critical success factors as the industry meets the challenge of comparison, evaluation, discussion, and critical judgment that new media provides.

Protecting customer data and providing reliable technology support are crucial to uphold a picture of reliability and trustworthiness. In a world where customers share their data and thereby reveal their behaviors, wishes, and needs, the ability to ensure privacy and security remains a major issue.

**Convenience**

Dealing with a retail bank is often more burden than pleasure for customers. With scarce time available and a new dimension in user experience from crowd feedback and open-source applications, there is more demand for convenient, quick, and efficient product delivery channels. To provide customers with reasons to engage in banking or visit a branch, banks should aim to be as appealing as possible to avoid scaring off customers.

Customers want autonomy and will demand solutions that allow personal financial management anytime anywhere. They will not accept banking that stops at national borders or is limited to traditional channels. Already, some retail banks provide widgets that offer a 360-degree view of a customer’s personal financial situation, present outlooks on the future, and are totally adaptable to the customer’s specific information demands. To remain the preferred choice, banks must be compatible with daily routine tasks, reached easily via various channels, and offer simple products and tools to make them easy to understand.

Customers want convenience, and that requires quick, simple, and reliable service that is available everywhere at any time. Successful players simplify services such as savings, fixed deposits, transactions, micro credits, or payments and make the handling more intuitive. Additionally, retail banking should be offered wherever the customer is. Integrating mobile services and actively

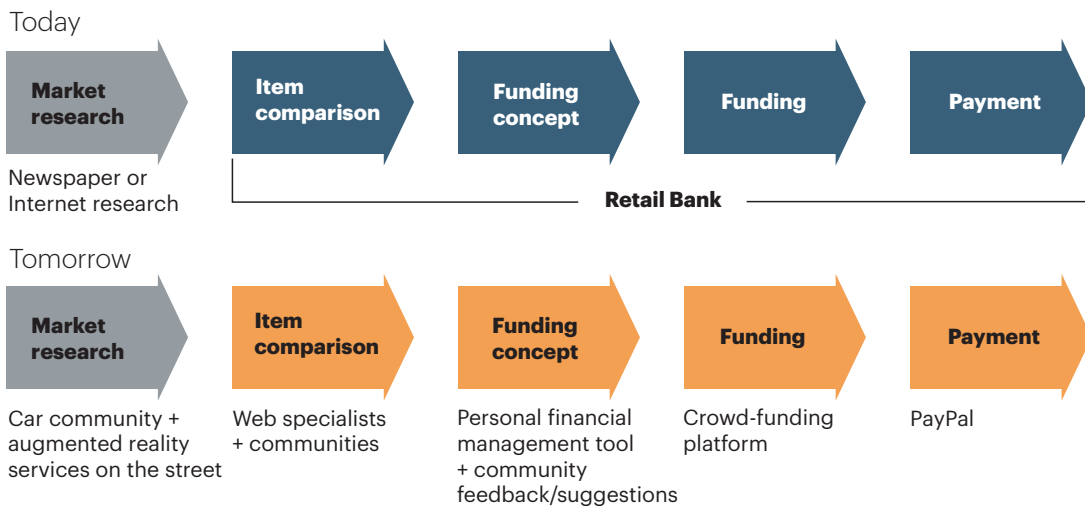
engaging with online social networks will be essential and may become standard (see figure 2 on page 7). Services should be available for mobile devices across borders and allow for real-time transactions. Then, customers might be willing to pay even more for banking services.

## Customers want banks to be more transparent. Social media are an investment into the bank’s reputation. **Markus Gunter, DAB bank**

However, technology support alone does not ensure convenience and customer satisfaction. Products and advisory processes have to be adjusted to customer requirements and the possibilities offered by emerging technologies.

Successful players must enable convenience along the value chain and in between all of its elements, including employee training on new technological aspects and new customer approaches.

Figure 3  
**A wide range of tasks executed by banks today will be handled by customers tomorrow**



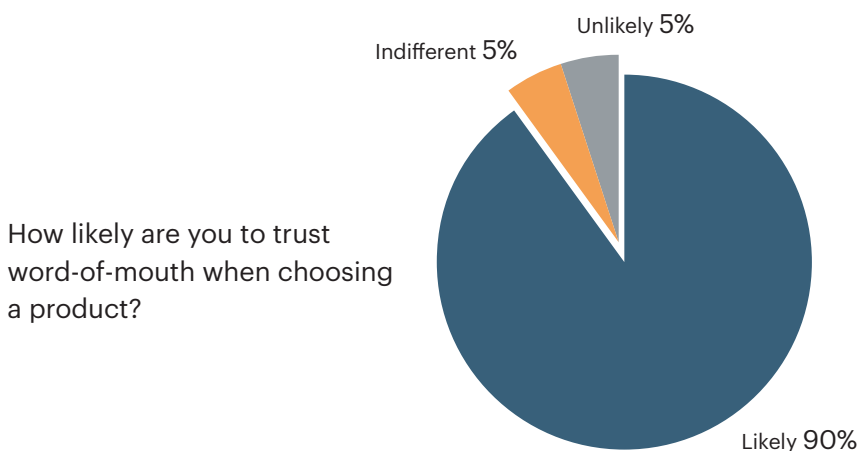
Source: A.T. Kearney analysis

### Empowerment

Some industries—such as automotive, airlines, sports, and fashion—readily integrate customers and use the wisdom of crowds to create value. These companies let customers design parts of cars, check themselves into flights, and even make suggestions for product design on a grand scale. Crowd sourcing and intense customer integration into the value chain and product development are already a reality. Customer integration via crowd sourcing and the wisdom of the crowd will demand a radical rethinking of the customer’s role in retail banking.

Figure 4

### Attention shifts from personal contact to online platforms by 2025



Source: A.T. Kearney and Research Center Finance and Information Management (FIM), June 2011

A wide range of tasks executed by banks today will be handled by customers tomorrow. Customers will likely take over significant aspects of business processes. Software applications, online social networks, and platforms that analyze, discuss, and give advice to optimize the financial situation will be available. This will shift parts of the traditional banking value chain to customers. Figure 3 illustrates this with the purchase of a car.

Product evaluation is very likely to be subject to more word-of-mouth marketing and peer-to-peer platforms, thereby empowering customers. Technological innovations regarding authentication, identification, or paperless communication could replace personal contact when opening an account or complex authentication procedures (see figure 4).

### Listening in on the Virtual Flash Mob

For customers, online social networks open up new possibilities for their negotiating power with companies. The interconnectedness of hundreds of millions of users enables immediate and easy virtual mobilization of a powerful crowd that has the power to create and spread their opinions rapidly and massively. Similar to a real-world flash mob, online social networks can gather people and incite the masses either for or against single companies or even whole industries.

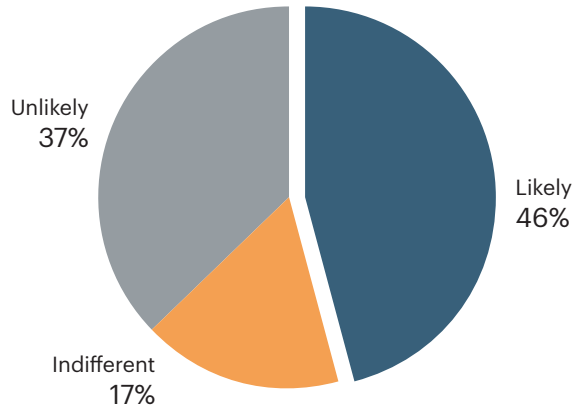
Consider a few examples. United Airlines fought massive damage to its image after a customer's guitar was broken in the luggage hold during a flight. The customer, a country music singer, vented his displeasure by writing a song about United's bad customer service, posted it to YouTube, and let millions of people share his bad experience. It led to almost 30,000 posts. Another customer described her bad experience with Bank of America's credit card customer service on YouTube, also reaching millions of people and forcing

Bank of America to react. Even Nestlé stopped purchasing palm oil from a favored supplier after Web activists disclosed the supplier's working and environmental conditions. In the United States, online social networks set the basis for the Occupy Wall Street movement against the financial services industry.

For those that form tomorrow's retail bank industry, not being engaged in online social networks or familiar with their power presents a potential threat.

Figure 5

**In 2025, will banks offer emotionally charged products like Apple does today?**



Source: A.T. Kearney and Research Center Finance and Information Management (FIM), June 2011

We believe data gained from discussions within online social networks and Web-based dialogues such as blogs can replace cost-intensive market research campaigns. Listening and reacting to the customer’s voice—providing them with the possibilities to air both compliments and complaints—can result in more satisfied and loyal customers. It can also do some damage if complaints are not handled properly (see sidebar on page 9: Listening in on the Virtual Flash Mob).

Successful banking embraces change and exploits customer power by integrating customers in the product development processes. Incentives for innovative ideas and improvement suggestions from the crowd both empower customers and add value for banks.

Actors in the retail banking market will be better off accepting customers and online social networks as equal partners instead of seeing customers as requesters of product development, brand development, or process enhancement. Customers are demanding the opportunity to shape banking.

**Emotion**

In the past, personal computers and mobile phones were considered helpful and necessary tools for getting work done, but their purchase and use was rather boring and unemotional. This has completely changed, mainly because of Apple and products such as the iPhone and iPad. Electronic devices are now emotionally charged and trendy.

In financial services, the situation is similar. Although money is fully loaded with emotion, customers consider dealing with financial issues boring and time consuming. To awaken customer interest in and enthusiasm for financial services, emotions can play a major role in retail banking. Customers need to connect with a financial service brand to enjoy engaging in financial issues. The first step is offering products that make the customer feel good and cared about. Additional steps might include eliminating the financial services black box by integrating the customer into the process with others in a group, such as peer-to-peer community banking, and surprising the customer with advanced and personal service. Tailored, situational, and targeted group-specific advertising persuades customers to build a personal relationship with a financial services provider.

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However, our survey finds dissension on whether the industry will be able to emotionally charge retail banking. A majority of our survey participants (54 percent) either thought it unlikely or were indifferent when asked about banking's ability to spruce up its boring image (see figure 5). Retail banking has four central starting points to create emotion:

- **Develop an emotional relationship with the customer.** Personal face-to-face contact and customer care from specialized branches and advisors is required. Customers want to believe that somebody is taking care of them and their loved ones. This requires that banks have a profound knowledge of customer needs, interests, and personal situations. Similar to the bank employee who in the past regularly checked a customer's account and made personalized offers on this basis, new technological advances allow for mass individualization and customer contact. Successful customer care must go way beyond birthday, Christmas, and New Year's notifications.
- **Make banking fun and entertaining.** New approaches seamlessly integrate financial issues into the daily routine anywhere at any time, such as payment, ad hoc loans, and financial analysis. Similar to online social networks where users share their private experiences, successful retail banking approaches might use the principles of sharing experiences, opinions, or goals, such as saving for a first car. Platforms can, for example, allow customers to set themselves a personal savings goal and share their achievements with their friends.
- **Apply peer-to-peer approaches** in investment advisory, loan origination, and crowd funding for innovative projects. Trading competitions are also effective because they bring products and customers together with an opportunity to emotionalize retail banking by creating identification and possibilities for sharing financial goals and financial services success stories.
- **Incorporate customers into products** such as socially responsible and regional investments that create a strong identification and an emotional bond between customers and banks.

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Without involving the customer in product development, retail banking will never be emotionally charged. **Matthias Kroener, FIDOR Bank**

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We expect both groups of customers to transform into partners that interact with financial institutions on equal footing. As we will see in chapter 3, technology is giving this banking evolution a boost.

### 3. The Power of Technology

Retail banking business models are based on the widespread use of technology. However, despite the extensive optimization and cost reduction in back offices and transaction processing through industrialization and technology leverage, most players miss out on innovative technology use in front-end design, product presentation, and customer relationship management. In the consumer's mind, ATMs and online banking are the industry's latest technological innovations—and these needed decades to become widely accepted. These times are over. ATMs reached 50 million users worldwide after 18 years, but the Internet cleared that hurdle in just seven years and media tablets in only one year.

# Technological innovation has a chance to make financial services more attractive.

**Stephan Mietke, Bundesverband der Banken**

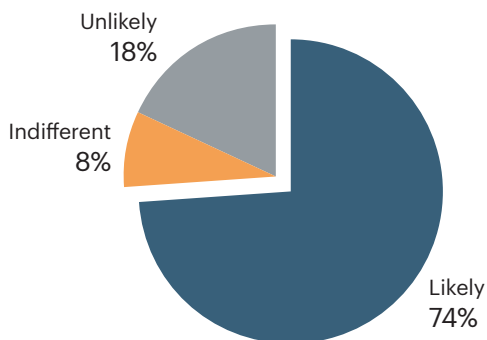
The role of technology in retail banking is likely to be much more linked to knowing what the customer thinks and needs, getting in touch, dealing with money, and selling tailored products. With that evolution, banking follows other industries, such as retail, which long ago shot ahead in leveraging technology to analyze consumer behavior. This behavior is also heavily affected by technological trends that change the interaction between businesses (B2B), between consumers (C2C), and between the two (B2C plus C2B).

Overall, technology affects retail banking in three central aspects with groundbreaking changes and possibilities to **contact the customer**, endorse **new payment methods**, and recognize the **possibilities of big data**.

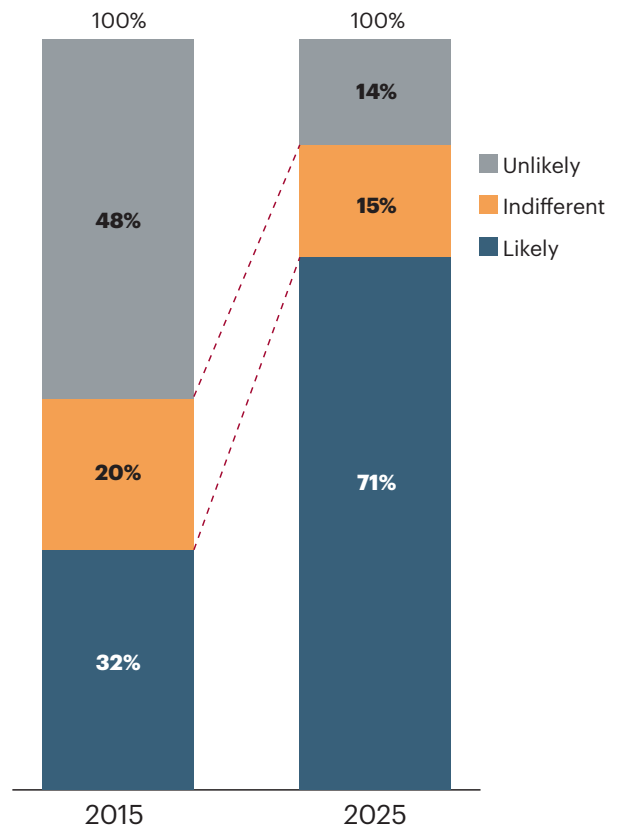
Figure 6

**By 2025, study participants think mobile and social networks will play a larger role in retail banking**

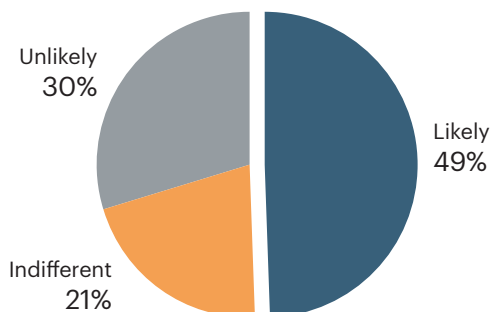
Will mobile devices partly replace the branch?



Will social networks become the major distribution channel for retail banking products?



Will online social networks play a big role as a marketing channel?



Source: A.T. Kearney and Research Center Finance and Information Management (FIM), June 2011

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## Contact the customer

Contacting the customer in retail banking will be more and more a matter of multi-channel management. That means that **mobile Internet** and **social media** will extend the traditional channels such as branches, call centers, online banking, and ATMs and that a **holistic view across all channels** will become more important.

- The **mobile Internet** can revolutionize retail banking as much as ATMs did. It upgrades mobile phones into a smart device and a fashionable business and personal accessory. The mobile Internet and corresponding devices will play a central role as both tool and channel, significantly altering customers' habits in managing daily banking services. Mobile banking with payments, ad hoc financing, and product comparison may become standard. Today's role of credit cards, debit cards, ATMs, cash, and physical account statements is also expected to be weakened or even replaced.

Mobile devices are likely to become a key channel for acquiring customers (see figure 6). Additionally, integrating banking services such as ad hoc funding into the customer's daily routine unleashes cross- and up-selling potential. Various new combination business models have the potential to threaten traditional banks.

- Tomorrow's most important communication platform is **social media**, which has huge potential in a multi-channel strategy. Even though the industry opinion on the importance of online social networks in the future is divided, most experts anticipate online applications such as social networks and blogs to become important for marketing, customer contact, advisory, and product distribution. Although most of our interview partners contend that social media cannot replace personal contact, they expect to add valuable input to existing channels of customer contact.

The industry can use "talkativeness" in social media to partly outsource product recommendations and advisory and receive unfiltered feedback and valuable proposals for existing and new services. And there is an opportunity to use social media to replace scatter losses of traditional marketing campaigns.

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## Social media is not a channel for publicity but for us to listen and react to the customer's voice. **Guido Poffé, KBC Bank**

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Combined with apps for handling banking quickly and easily, social media could reduce customer aversion to banking. Many customers have a strong emotional inclination toward their mobile device and online social networks. The inhibition level to use those channels will thus be lower compared to, for example, entering a branch.

As such, this allows banks to build up profound knowledge about customers, including sentiments, wishes, and needs. As shown in figure 6, a majority (71 percent) of our survey participants believe that social networks will be the major distribution channel for bank products.

- Successful players in tomorrow’s retail banking world will need a **holistic view across all channels**. Seamless integration of mobile applications and services into existing channels and products is an important prerequisite for a successful future in customer relationship management. As such, it adequately accompanies customers through their daily routines between their virtual and real worlds. Retail banks will need to find suitable answers for new channels to cater to all customers. However, a bank’s engagement in social media should be approached cautiously. Customers might reject an overstated presence or flashy product broadcasting. Social media is likely to reach acceptance in advisory with a significant time lag when compared to mobile devices.

**Endorse new payment methods**

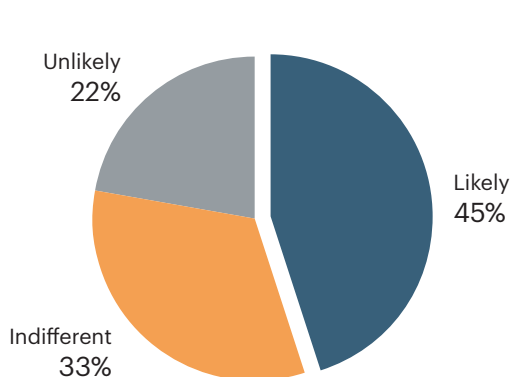
Customer loyalty, contact, emotion, convenience, and data ownership are inextricably linked by one question: What is the future bank customer’s preferred way to pay? Our study finds the top five most important point-of-sale payment methods by 2025:

- Smart phones with NFC chips in combination with e-wallets (26 percent)
- Mobile payments via online payment systems such as PayPal (22 percent)
- Debit card (14 percent)
- Credit card (12 percent)
- Cash (5 percent)

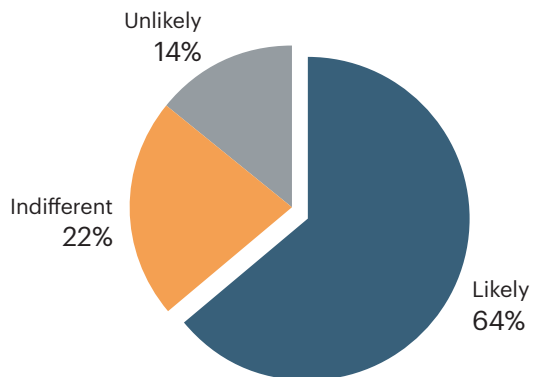
Although there appears to be some uncertainty in the industry about the future of tools such as e-wallets, mobile devices are likely to be the future wallets, mobile ATMs, and financial management tools (see figure 7). Previous A.T. Kearney research identified the key features of payment: convenience, guarantee, speed, control, insurance and trust, flexibility, reporting, and privacy.<sup>1</sup>

Figure 7  
**Specialized payment providers and the Internet threaten the existing card system**

Do you think e-wallets will completely replace credit cards by 2025?



Will new technologies change the current credit card system?



Source: A.T. Kearney and Research Center Finance and Information Management (FIM), June 2011

<sup>1</sup> “Finding the New Klondike,” A.T. Kearney issue paper on new paradigms in the European payments business

Payment solution providers, especially those offering e-wallets or online payment capabilities, will steadily accompany the customer. Odds are that traditional banks will face major difficulties in catching up with innovative solutions. Customers are increasingly handling their e-commerce via other providers. Bank involvement is only in the background and might even become dispensable. A broad adoption of NFC is expected to widen the market for cashless methods and gradually replace cash, credit cards, and debit cards. Indeed, 64 percent of study participants believe the combination of Internet and NFC could threaten the credit card infrastructure, which was once a competitive advantage.

The shrinking importance of cash and the rise of e-currencies exacerbates the threat for today's banks of being excluded from future developments and new payment possibilities. Indeed, 21 percent believe cash will be abolished or play a minor role by 2025; while 78 percent estimate that cash usage will be 25 percent by that time. Therefore, we expect the dominance of banks and credit card institutions to diminish. Established banks are advised to catch up in providing solutions that go beyond credit cards, debit cards, and mobile banking. To play a dominant role in retail banking, banks must start addressing the market challenges and competition.

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Payment is the bedrock of the business-to-customer relationship; lose payment, lose the relationship. **Philippe Meersschaut, KBC Bank**

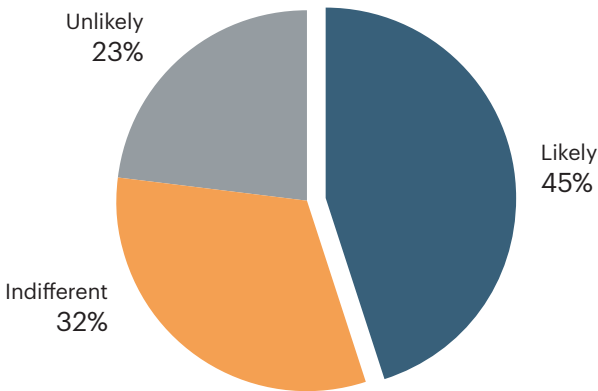
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**Recognize the possibilities of big data**

Data ownership and the ability to use data are two of the most valuable assets for retail banks, according to our findings. Because of digitization and increasing mobility, the amount of available data from social media, mobile transactions, payments, and location-based services will dramatically increase. As a result of less physical contact and fewer personal relationships, access to and knowledge of how to use customers' digital trace will be one of the most critical factors in capturing market share (see figure 8).

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Figure 8  
**By 2025, market share will depend on the ability to gather client data**



Source: A.T. Kearney and Research Center Finance and Information Management (FIM), June 2011

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Other industries have shot ahead of traditional players in terms of customer intelligence. They apply customer intelligence to re-arrange mobile phone tariffs, place tailored advertisements based on customers' e-mail content, and optimize product placement in stores based on customer behavior analysis.

Therefore, the retail banking industry is well-advised to defend its access to data and, more importantly, to understand how to distill and use data. Two kinds of data are most important, according to the research:

- Data describing the **financial background** (74 percent) and data derived from former purchases (77 percent), such as creditworthiness and payment behavior, offer cross- and up-selling potential. Knowing customers' financial situations and habits further simplifies credit analysis and scoring.

The mobile device will be a central data collector. Several players have data access and try to extend it, including Internet companies such as Google or telecommunication providers, payment providers, and merchants. Unless banks play a significant role in payments, they risk not having access to critical types of data and thus limiting their role to a transaction-based accounting and settlement institution.

- Data describing **customer wishes, needs, concerns, and private behavior** (51 percent) offer a basis to establish services that focus on trust, loyalty, and transparency in customer relationship management. Such knowledge can be crucial in attending to customers, and offering tailored services and trustworthy advice. Additionally, successful firms know about their customers' opinions on products, services, and the company's reputation. On this basis, banks might optimize their product range, service quality, and marketing and image campaigns.

To analyze and process this type of data, 53 percent of respondents believe sentiment analysis is likely to become a key technology for automated extraction of sentiments from social media. When asked about the use of sentiment analysis, the top three responses include: to derive customer opinions on existing products (91 percent), gauge customer interest in new products (89 percent), and assess the bank's reputation (89 percent). Many industry players, however, are still not convinced that sentiment analysis can help improve service or develop more tailored products.

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The ability to process data and distill relevant information will be a key differentiator in retail banking. **Martin Kolouch, Raiffeisen Bank**

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In our opinion, those who want to play a creative and customer-oriented role in retail banking should consider engaging in social media to gain relevant data and insights into customer sentiments. To avoid exclusion from the "data club," players should position themselves in the platforms that are relevant to their customers and be prepared for an era of big data. For traditional banks, the capability and reputation in trust, privacy, and data security are strong assets. Here, the ability to ensure data security can define a competitive advantage and a successful business model regarding customer intelligence. Those that want to play a major role tomorrow should recognize the signs of the time by using new technological standards in customer interaction and integrate them into a holistic view on channels to offer convenient services.

This is most likely to affect the branch, today's main point of contact; it is likely to experience an ultimate transformation.

## 4. A New Role for the Branch

The point of sale in retail banking is very likely to transform branch offices. Most services that today are offered in a typical retail banking branch will either not exist tomorrow, will be handled by the customers themselves, or will migrate into the Web. Indeed, 34 percent of study participants believe branches will be completely replaced by self-service counters or digital channels.

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There is a clear evolution from a branch-based service model to an online one.

**Diviesh Vithlani, Swedbank**

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Although branches are very likely to have a reason to exist and might even play an important role, banks that want to serve all relevant customer groups are well-advised to rethink the branch's appearance as well as its size, location, and role within the retail banking business model. Additionally, in accordance with its adaptation to potential challenges, the number of branches is in question.

We therefore take a look at the ingredients of the **digitized and mobile branch** before we move on to the key **role of the future branch** establishing an anchor point for the relationship between the bank and the customer.

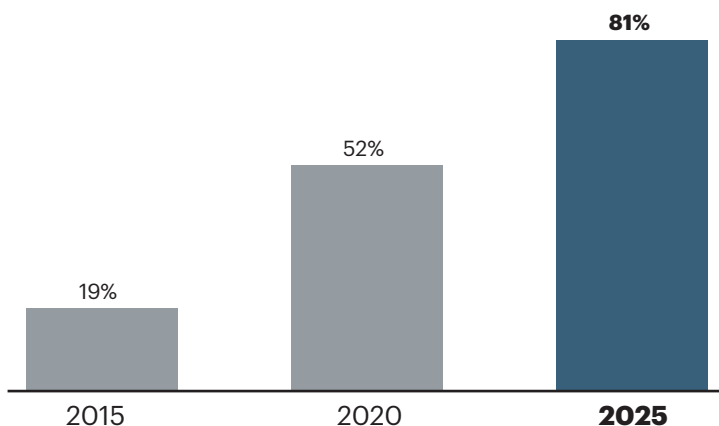
### The digitized and mobile branch

Nearly every process or function that is exclusively offered by branches today will be available online tomorrow. The emergence and rising popularity of biometric technology, which can

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Figure 9

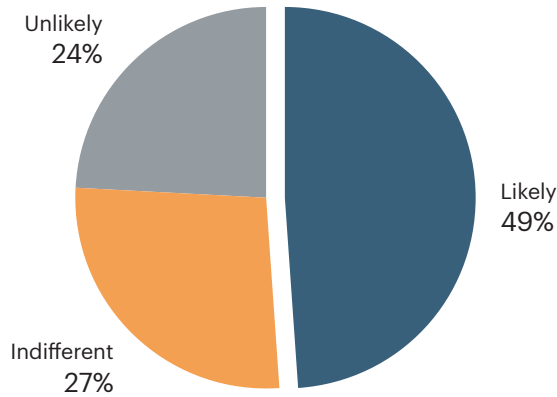
### Biometric authentication (very) likely replaces other means of authentication



Source: A.T. Kearney and Research Center Finance and Information Management (FIM), June 2011

Figure 10

**Augmented reality will play an important role in retail banking by 2025**



Source: A.T. Kearney and Research Center Finance and Information Management (FIM), June 2011

confirm a user’s identity by analyzing characteristics such as fingerprints and voice patterns, may allow for handling nearly every banking process that requires authentication online or even via a mobile device (see figure 9 on page 17). Consequently, the relevance of personal contact for standard branch services is likely to shrink.

Furthermore, advances and standardization in paperless banking will simplify the migration of former branch-specific tasks to the Web and boost the emergence of a digitized and ubiquitous branch. While secure electronic mailing will constitute 27 percent of bank transactions in 2015, 82 percent of banking is expected to be electronic by 2025. Even advisory and more intense customer care could partly migrate to the mobile Web, say 68 percent, while 50 percent believe Web-based apps will be the bank agent’s most important sales, advisory and research tool (see sidebar: Apps and Widgets: The New Bank Branch).

As a consequence, bank employees may get some work done as they travel to the bank branch or put hours in at home, and apply mobile devices and Web-based applications for counseling sessions and investment advice. Video conferences for spontaneous, on-the-way advisory are likely to become more standard.

Location-based services such as augmented reality—the joining of real-world information with digital content—is expected to play an important role in retail banking by 2025 (see figure 10). Augmented reality might allow services to be combined on the way and in real time in areas such as real estate offerings, product comparison, credit scoring, and financial funding.

**Apps and Widgets: The New Bank Branch**

**Apps and widgets, the smaller graphic forms of apps, that exploit various “cloud” services are powerful banking tools, enabling customers to handle nearly every financial service issue in this format. Next to personal contact**

**and communication via email, SMS, video chat, or online social networks, future widgets will include simulation and calculation tools. Instead of providing static documents that often contain outdated information, such as**

**interest rates and stock market prices, intelligent widgets use the cloud for an up-to-date retail banking experience that is accessible everywhere at any time.**

In addition, augmented reality and the use of tablets create new possibilities for customer advisory as product presentation becomes more illustrative, interactive, transparent, and comprehensible (see sidebar: Augmented Reality: An Extraordinary View). Retail banks will be able to demonstrate and explain complex products without face-to-face contact. Consequently, customers will become more independent of branches and their employees, of limited hours and physical locations. So what will be the added value of branches for customers and banks?

## Even Generation Facebook customers want to meet face-to-face when buying a house.

**Ellen Ploeger, NORDEA**

### **The future branch's key role: establishing emotion and trust**

Several interviewees hypothesized that, regarding sales and advisory, the branch's role will be limited to complex products or long-term and high-volume investment strategies. Compared with digital channels, future branches offer added value both for banks and for customers to justify their existence. Therefore, 45 percent of study participants expect branches to break out from being just another channel to become flagship stores that physically represent the bank's message and make it tangible.

To resist the threat from digital channels, to differentiate, and to add value, branches are likely to experience a radical change in their look and feel. Branches should make customers feel comfortable by offering personal advice and support in addition to mobile banking, with 43 percent thinking separation of advisory and sales between the branch and remaining channels is promising for establishing trustworthy, emotional relationships.

To give customers a sound reason to visit a branch, banks should make their branches inviting and welcoming places. Instead of locking out customers by placing ATMs outside in the cold

### **Augmented Reality: An Extraordinary View**



Augmented reality provides a variety of possibilities to simplify products or processes by combining real-world environments with Web- and location-based information. For example, some LEGO stores provide screens with cameras where children can hold an unopened box and see themselves with the assembled toy. Other applications serve as a digital tour guide, leading tourists through city streets and providing them with information about local places of interest. Applications that

locate a customer's bank branch or an ATM are already standard. Augmented reality complements a view on real estate by providing information about the home, business, or property, a means to finance an offer and to make appointments with the broker and the bank.

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and thereby avoiding customer contact, the idea is to give customers both a reason and an opportunity to enter the branch. Successful players will focus on the environments that customers prefer rather than expect customers to follow branches' narrow operating hours.

Overall, the point of sale will move closer to customers and their needs, behaviors, and daily routines. This will give branches a reason to exist in a world where digitization and changing customer behaviors open up the field for new competitors to take a piece of the pie.

## 5. The New Competitive Landscape

In the past, banks were mainly concerned with regulatory issues, back-office processes, and cost effectiveness and less so with customer needs. Changing demographics, shifting customer behaviors, and technological innovations are inviting new competitors to enter the market. The incumbents could be facing serious competition from banking rookies such as Google and Amazon, smaller companies with a technological focus such as PayPal, and new concepts such as community banking.

To avoid being surprised and surpassed by emerging competitors, those that are willing to hold steady in retail banking will need to identify **the aspects of retail banking at stake**, recognize who the **new competitors** will be and find promising approaches to **head off the threat**.

### Aspects of retail banking at stake

New competitors will likely concentrate on single aspects of retail banking rather than on building up a new universal bank that offers a broad range of services. The key aspects can be classified into five categories:

- **Personal financial management.** Few providers are able to offer a broad range of retail banking services. Instead, along with a bank account, customers are offered various savings and investment opportunities, often realized by cooperating with specialized providers that cannot compete with a branch network of traditional banks. They often purely apply Internet banking, but their service range exceeds that of direct banks and addresses those customers who look for a broad range of banking services but do not need branches. Examples: MINT, FIDOR, BankSimple, meniga
- **Savings and investments.** Traditional savings and investment advisory is perceived as expensive, obscure, and product-oriented. Hence, specialized providers exploit the possibilities of Web-based services and the principle of peer-to-peer advisory for personal savings and investment advisory that are convenient, fair, and emotional. Customers allocate their portfolio on their own, compare investment or savings strategies, and even compete among themselves for the best performing portfolio. Players should expect that customers' willingness and capability to switch their savings and investments might increase dramatically. Examples: Kickstarter, Covestor, c-crowd, yavalu, eToro, ayondo, investTor, SmartyPig
- **Payments.** Supported by the trends already depicted and by merchants' acceptance of new payment solutions, specialized providers are attacking the incumbents—offering convenient solutions and thus poaching customers and their data. Examples: PayPal, liqpay.com Vanilla, Paymo, Google Wallet, Boku, Square, sofortbanking, Click&Buy, Moneybookers, M-Pass, Computop

- **Personal and corporate funding.** Instead of choosing a traditional bank to fund a project, obtain a short-term loan, or finance construction, customers are increasingly using specialized providers that apply a peer-to-peer approach. These providers not only offer transparency regarding the matching of available projects with lenders and borrowers, but also lower fees and interest rates. And they can be more appealing than anonymous projects as investors know the objective, location, social component, and can even make an emotional connection. We see this as a niche approach that might gradually influence the business. Examples: smava, Prosper, Cashare, RaiseCapital, Kickstarter, Funding Circle
- **Electronic currency.** Digitization of life and the migration of various aspects into the Web are driving the emergence of electronic currencies that are exchanged electronically and exist online only. Their importance and relevance will gain significance within the next decade as online social networks—tomorrow’s virtual marketplace—could draw on virtual currencies. If 700 million Facebook users traded with their own currency, it could be one of the world’s most important currencies next to the dollar, euro, or yen. Yet 48 percent of our study participants view the broad acceptance of electronic currency hindered by major security and regulatory issues. Examples: Facebook credits, Google in-app payments, Bitcoin, Q coins, payoff.com, virtual gold for online gaming

Our findings suggest that peer-to-peer lending and community banking will own more than 30 percent market share by 2025, allocated to mortgages (8 percent), corporate loans (7.5 percent), investment products (7 percent), real estate loans (5 percent), and private venture capital (5 percent).

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Once Apple, Samsung, and others charge a fraction of financial transactions, the industry changes. **Miguel Montes, Banco Sabadell**

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### **Who will be the new competitors?**

Companies that successfully integrate digital and mobile approaches into banking or incorporate banking aspects into a digital or mobile business model will dominate retail banking. Alongside traditional banks, companies in three industries—hardware manufacturing, Internet and telecommunications—will potentially play a significant role in retail banking. The following offers brief discussions of each:

- **Hardware manufacturers.** Only 38 percent think hardware companies will capture a more significant role in retail banking. These companies provide mobile devices for retail banking and therefore a direct, physical contact with customers. Web-based services, such as Apple’s iCloud, position tracking via the integration of NFC chips, or voice command services enable access to data that describe user behaviors. This opens up enormous potential for personalized services, possibly also in retail banking. In addition, their huge customer base and use of app stores (there were more than 25 billion app downloads onto Apple devices in 2011) provide a promising distribution platform for retail banking services.

- **Internet companies.** About 88 percent believe Google, Amazon, and Facebook along with specialized Web-based financial service providers will play a bigger role in bank services. They already base their core business model on the Internet. At the same time, multi-channel customer care for those companies is rather standard, perfectly positioning them for a digital and mobile world. Gaining just a percentile of the customer base, which oftentimes exceeds half a billion users, for a banking service can immediately turn a large Internet company into one of the world's leading retail banking service providers with transnational services.
- **Telecommunications providers.** 49 percent of study participants think telecom players will play a central role in banking because they already provide the technical infrastructure for broadband Internet access, network coverage, mobile services, and other forms of data transfer. To avoid being just the data logger or network provider and to become established in new markets, telecommunications providers are looking for data-intensive business models such as banking to get into. The importance of mobile and Web-based services within the cloud will open up various opportunities for providers to participate in payments, authentication, and transactions, or to become a bank's favored partner for innovative retail banking approaches.

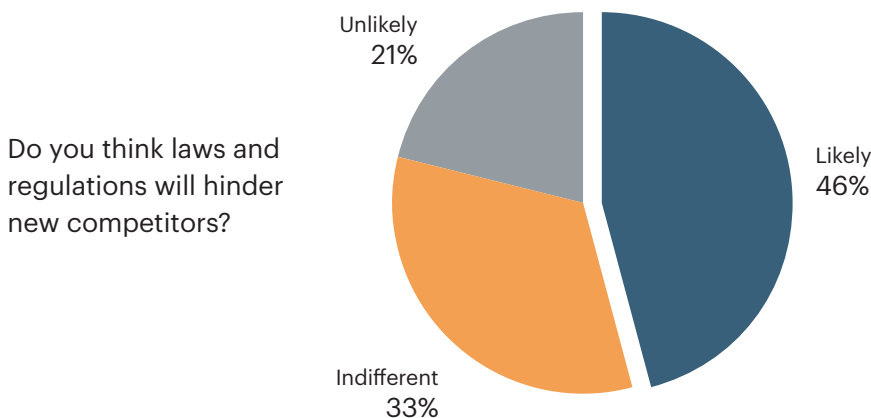
### Promising approaches to head off the threat

To avoid falling behind new competitors in retail banking, successful players will have to find ways to incorporate new approaches and competitors into their business models. The most promising business model for the future is neither a traditional approach with a full range of services offered in various channels nor a pure Web-based, community-oriented approach. The future leaders in retail banking will have a business model tailored to the needs of individual customers. Our findings point to the following as the most promising retail banking business models:

- A holistic view on banking with intensive customer contact (68 percent)
- Marketing-oriented retail banking without own products (48 percent)
- Pure direct banking (66 percent)
- Community banking (32 percent)
- Regional retail banking (45 percent)

Figure 11

### Regulation and country-specific laws will make it difficult to establish broad new banking business models



Source: A.T. Kearney and Research Center Finance and Information Management (FIM), June 2011

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Incorporating technological developments and creating a new role for customer integration into services will be prerequisites for success. Various players are already pushing ahead in their ability to meet customer demands and to react to influential trends. But many new players lack banking or security experience and licenses for financial services—so far. To defend their market share and customer base, banks need to quickly combine their new competitors' Web 2.0 capabilities with their experience in financial services. Today, only 12 percent are confident that banks react quickly enough to stem the threats.

Country-specific regulation could hinder new competitors from broadly establishing their business models (see figure 11). Our study participants identify a clear ranking among the strategies for banks to react:

- Cooperate with new competitors that apply the principles of Web 2.0 (66 percent)
- Acquire new competitors that apply the principles of Web 2.0 (60 percent)
- Build up own channels that apply the principles of Web 2.0 (61 percent)
- Lobby for new regulations that make it more difficult for new competitors (56 percent)
- Concentrate on core business (53 percent)

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## Working together with cooperative and international systems could solve banks' problems. **Georg Schardt, Payment Network AG**

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In summary, the competitive landscape in retail banking is likely to become more colorful. Recognizing what is at stake and identifying the most powerful competitors are prerequisites for addressing the challenge.

# The Action Agenda for Retail Banks

The potential changes described so far can spell trouble for retail banks that have not read the telltale signs. Without facing the challenges and putting effort into a transformation, established players risk becoming *démodé* in the eyes of customers, outdistanced by new entrants, or even made extinct. At the same time, these changes and challenges are excellent opportunities for the incumbents to adapt their business models for a sustainable competitive advantage. Therefore, our recommendation is to devise a preemptive action plan to cope with the winds of change as follows:

## 1. Address changing demographics

Generation Facebook customers might not be the main target for retail banks in terms of today's financial capabilities, but they will be in the future. Today's most profitable customers are seniors. Financially strong and technology-averse, these customers must be addressed adequately now although they are destined to vanish or merge into the type of customers who demand completely new approaches to retail banking. In the long run, Generation Facebook and digital migrants will be the dominant and most attractive customer group.

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### Action agenda: Demographics

- Preemptively address the differences regarding the two major groups' expectations
  - Care about older, technology-averse but financially sound customers
  - Identify success factors for courting Generation Facebook
  - Provide solutions for digital migrants in a digitized, hyper-connected and mobile world
  - Empower customers by integrating them into product development
  - Focus on emotions in retail bank products and make banking an experience
- 
- Respond to customers' newfound mobility and the needs of an accelerated life
  - Identify concepts used by Internet companies to link to customers and connect those same concepts to banking

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## 2. Focus on the need for convenience

Tomorrow's key financial services customers will make fewer compromises. They will not accept banking that is slow, laborious, or isolated from other daily routines and very likely will see convenience as a major issue when choosing or dropping a financial service provider. Thus, banks must recognize and preemptively address changing expectations of convenience in services, products, and processes.

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### Action agenda:

#### Convenience

- Provide simple and reliable service anywhere at any time
- Configure banking services around customers' most personal devices and daily routines
- Be where customers are, both physically and virtually: in social media, shopping malls, and entertainment centers
- Adjust to the habits of Generation Facebook in your interaction model
- Provide a seamless banking experience by synchronizing multiple access channels
- Align virtual and physical infrastructure with services, processes, products, and customers' tools.
- Regain the lead in innovation and use technology such as augmented reality to offer convenience
- Give customers reasons to visit your physical points of sale



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## 3. Leverage technological innovations

Leaders in retail banking will leverage mobile devices as central tools for standard services as well as ad hoc financing or loans. Beyond that, new devices have the potential to support complex processes, such as advisory or high-volume loan origination. The mobile device will become the digital branch and the starting point for interacting with customers through other channels. There are many more ideas banks can leverage to incorporate new devices into their business models to connect with customers, provide new services, and learn about their habits and needs.

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## Action agenda: **Devices**

- Put the mobile device at the center of the customer experience
- Transfer standard services—such as transactions, payments, account management, and ad hoc financing or loans—from branches to mobile devices
- Create mobile apps that enable direct and personal contact, including mobile advisory tools, transactions, and payments
- Expand mobile opportunities, and think outside the box regarding their use, such as transaction command with integrated authentication



- Use technological devices to prevent customers from migrating to emerging competitors
- Be visible in the mobile world and exploit customers' use of mobile Internet to interact with them via social networks

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## 4. Exploit the wealth of data

The intelligent use of data will gain enormous importance in retail banking. Leading banks will access and distill relevant data to provide customers with added value at the point of contact. Protecting customer data and privacy will continue to be the key to building solid customer relationships. Approaching the customer with a tailored privacy solution can propel a financial institution into another dimension.

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## Action agenda: **Data**

- Apply profound knowledge of customers' situations, behaviors, wishes, and needs
- Use social media data to gauge customer sentiment at various points in time
- Exploit the possibilities of sentiment analysis to distill and analyze data
- Respect data privacy and capitalize on strengths in data storage and protection
- Create added value for customers by transforming intelligence into tailored solutions



- Make inroads in remote and proximity payments to give customers reasons for a business relationship and to continue to gather transaction data
- Make data owners from other industries your preferred partners

## 5. Focus on trust

Trust will likely grow in importance for financial product decisions of significant emotional value. Therefore, playing this tune to the bank's advantage with the combination of virtual and physical sales channels and the institution's stability is a necessity and will be a key differentiator for tomorrow's financial services.

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### Action agenda: **Trust**

- Create transparency across products and channels as the basis for a trusting relationship
- Offer more pull than push approaches and more easy-to-understand, simple products
- Reinvent the branch as a trust builder with "reliability" as bulwark against the competition
- Listen and react to the crowd in social media in a consistent way
- Provide platforms for customers to help shape the retail bank experience



- Use technology to personalize services and make customers feel appreciated
- Cooperate with best-practice players in specific areas to unite competencies

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Overall, there is a good chance that banks, the home team on the playing field of providing financial products to a changing world, will identify the "phoenix" characteristics hidden within their business models. Immediate action is the key: The new bank agenda implies exploiting existing strengths and eradicating weaknesses, integrating innovative interactions and business models, and keeping emerging competitors at bay while partnering with complementary players. If executed successfully retail banks will shine in their next generation.

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