intelligent environments

Interact in the Digital World

Opinion piece

How can financial institutions increase their profitability by better targeting more profitable digitally engaged customers?

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Introduction

The banking industry has reached the point of no return when it comes to digital.

The traditional players have invested billions in digital. Yet there is no end in sight. Instead they are faced with ever-evolving digital strategies that require a continuous rethink of their business models, modus operandi and skillset requirements.

While banking executives come to terms with the growing investment that digital requires, they are also beginning to realise the opportunities to reduce cost, acquire more profitable customers, increase retention and grow revenue.

However, this comes amongst a backdrop of new tech-savvy challengers threatening to erode their market share. In September alone we witnessed the UK launch of two new digital challengers, Fidor and Monese, while another, Secco, announced its intention to enter the fray.

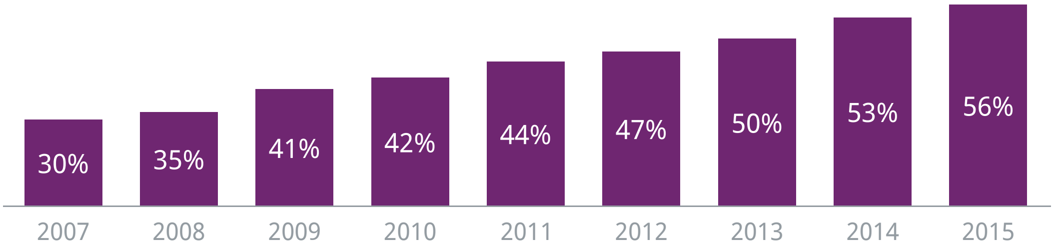
Digital satisfaction is failing

Despite the huge investment in digitisation, customers remain underwhelmed. Cap Gemini's 2015 World Retail Banking Report showed a sharp increase in negative customer experience levels.

> "...in Western Europe five [out of eight banks] ... posted negative experience increases of more than 10 percentage points."

The story so far

A large section of society is already deeply engaged with digital banking. The latest data from the ONS shows that 56% of UK adults regularly use internet banking:



While recent research by the BBA found UK customers will check their current account on their mobile 895,000,000 times in 2015, double the number of branch interactions.

In response, banks are pursuing a number of different digital strategies:

Digital add-on
Offering a digital layer on top of existing customer services
(e.g. HSBC, Lloyds etc)

Digital-only
Designed for digital – with the end-to-end experience designed around smartphones and tablets
(e.g. Atom & Starling)

Digital/ Branch hybrid
A digital-first strategy that is supported by a small scale branch and telephone service
(e.g. yet-to-launch Lintel Bank believes that in offering these they provide customers with reassurance as well quick and easy customer support)

Virtual Front-End
Branded digital services that are, or have the autonomy of, a startup yet act on behalf of an existing bank
(e.g. Moven, Simple & Russia's Instabank)

Despite not benefiting from the economies of scale of a larger player, a recent study by KPMG found that the UK's new entrants boast better returns on equity, faster growth and similar cost-to-income ratio to the Big 5 banks. The opportunity can be exacerbated by digital-only players who are not burdened with legacy infrastructure. Atom, for example, is predicting a cost-to-income ratio below 30%.

According to McKinsey, traditional banks could themselves remove 20-25% of their cost base by further shifting processes and services to digital.

Evidence of lack of satisfaction

Intelligent Environment's own research shows that for 82% of customers the strength of a financial institution's digital offering is one of the primary considerations in choosing them. Yet, as the 2015 World Banking Report reported, many traditional financial institutions are not meeting customer needs and expectations.

Generation Y customers, in particular, registered lower satisfaction than customers of other ages, reflecting the high expectations Gen Y's have for digital banking capabilities, noting the high importance of digital technology in that demographics' lifestyle.

As Forrester points out, "empowered customers have new expectations set by digital experiences with other industries. They demand more from digital channels, yet still expect personal connections at key points along their customer journey."
The success of Atom and Starling relies upon their ability to reset the bar for banking.

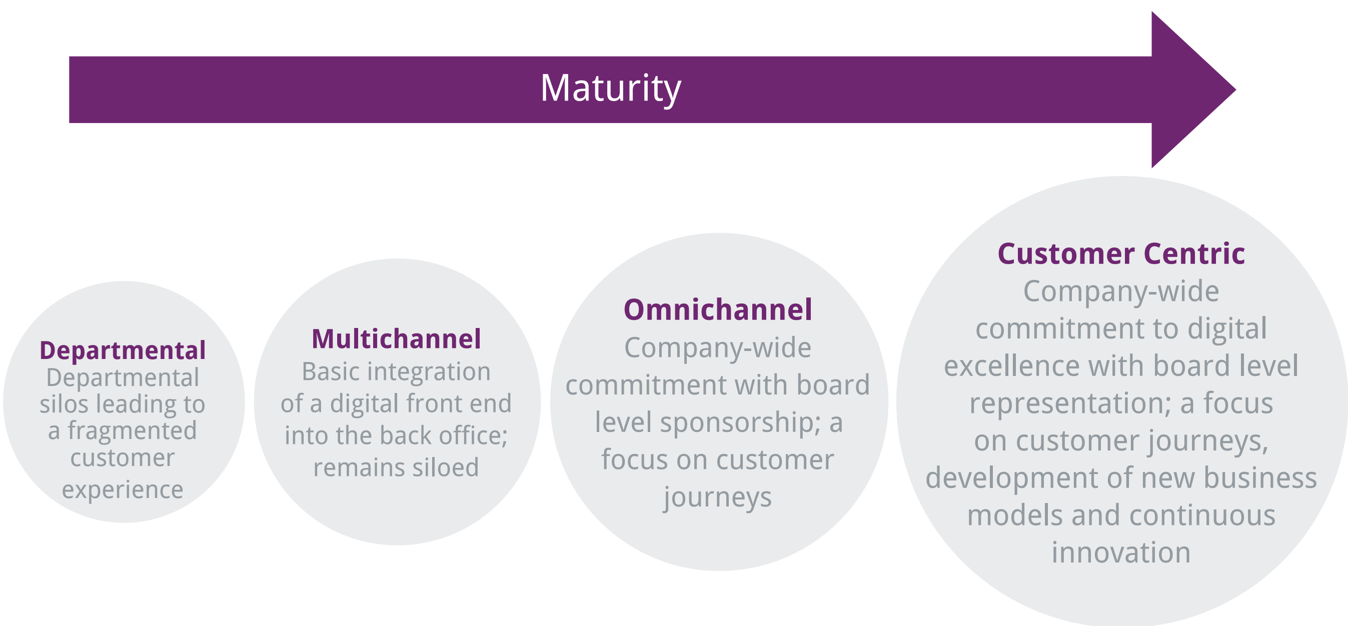
Unfinished business

McKinsey estimates that across Europe, retail banks have only digitised 20 to 40% of their processes, leading to digital offerings that are 'relatively shallow'.

By focussing on the lowest hanging fruit, many basic banking functions remain untouched by digital.

Intelligent Environments, for example, is hoping to further capitalise on the demand to digitise the Collections and Recoveries experience. An area of banking that one commentator described as "stuck in the pre-digital age".

More than that, though, banks are discovering that the business of digitisation is not a project, or even a series of projects. It is a transformation that requires a rethinking of the organisational model, taking into account the new skills and flexibility required. There are increasing levels of organisational maturity:



With digital platforms ever-evolving, as soon as one new disruptive technology has been embraced, another appears on the horizon. Right now our clients are coming to us to help then make sense of a range of emerging opportunities including cloud storage, wearables, biometric security, social media, augmented reality and image/ camera based banking.

'Going digital' means acquiring the skills and flexibility needed to innovate over and over again – along with incentives to encourage adoption to ensure these innovations have a real impact on the top and bottom lines.

Doing digital well

When it comes to digital banking then, success is all about the scope and quality of the digital offering. Banks must develop and execute the broadest possible digital strategy that both creates customer value and increases operational effectiveness.

The costs of building digital infrastructure are high, but the rewards of getting it right will be greater still:

- Increased customer acquisition through differentiation and relevance.
- Improved service efficiency and cost reduction by right-channelling interactions.
- Raising retention rates by staying relevant to customers.
- Earning revenue through cross- and up-selling.

The following steps can help you achieve this:

1. **Be more customer-centric**
   Put the customer first and last, and focus on delivering experiences rather than features: address the customer journey end-to-end.

   For example, simply offering a service that allows customers to digitally apply for a mortgage is not enough. It will not be long before customers no longer tolerate an experience that starts digitally but is quickly immersed in a world of paper, envelopes, photocopies and stamps.

   Or take the debit or credit card holder. Is there any reason why they should have to wait a week for a piece of plastic to arrive in the post when a digital version could be uploaded to their smartphone in less than a minute?

   An effective digital on-boarding process not only reduces the cost of doing business in one interaction but retains customers in these lower cost channels.

2. **Embed a digital culture**
   Digital affects every aspect of your business, from customer acquisition and retention to long-term brand identity. It's no use letting just one department take on responsibility for digital success. You need a company-wide commitment to digital. Apps, for example, don't sell themselves. Once the developers have finished creating and testing them, your marketing department needs to promote them and encourage customers to download them, while customer service staff need to be able to help people to use them. Without the latest adverts promoting Apple Pay, for example, most consumers would be none the wiser as to which banks support it.

3. **Think and act like a challenger**
   To win in the digital world, traditional banks need to start to thinking like digital leaders. To amaze their customers they need to stop looking at their peers for a lead and

focus on the technology sector that's setting customers' expectations.

Take opening an account as an example. By using mobile functionality – such as turning a smartphone into a document and ID scanner with optical character recognition (OCR) – one can a replace slow and error-prone processes whilst improving accuracy, friction and risk management.

4. **Partner for success**
   You can't innovate quickly in isolation; you need to work with technical experts who can help you forge an understanding of what's possible and how your challenges could be met by new and emerging trends and technologies.

   Increasingly, that means cooperating with potential competitors and organisations from outside of the banking and financial services sectors. It also means cooperating on industry standards like FIDO (Fast IDentity Online) so that investment can be focused in areas that add value and create a common customer experience.

   The alternative is fragmentation and sluggishness. Take a great product like Paym; it has yet to realise its full potential because every bank has given it a different name and embedded it in their customer journey differently.

Conclusion

Digitisation is already disrupting traditional retail banking. The new digital-only players are set to radically influence the way we bank. Their potential for significantly lower operating costs and profit potential, combined with a favourable regulatory environment, threaten to erode the market share of traditional retail banks.

We agree with McKinsey, most banking executives are thinking about digital too narrowly. There is much further to go in leveraging digital to offer a more immediate, simple and contextual customer experience.

Those who are willing to fully embrace this will not only cut costs but, more importantly, offer an engaging and relevant proposition to a group of customers who are largely unsatisfied by an industry that is not keeping up with the pace set by others around them.

About the Author

Simon Cadbury, Director of Strategy & Innovation
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Simon is a product marketer and strategist with 18 years' experience working for a range of major international brands.

Simon's role is to work with Intelligent Environments' investors to set and deliver the company's mid and long term strategy, as well as overall responsibility for the product development and management of Interact; the company's core product offering.

Simon joined in 2013 from Lloyds Banking Group where he was responsible for payment technology and also sat on the Credit Card divisions leadership team.

Prior to this he worked on the launch of a number of firsts in new technology – the Blackberry (BT Cellnet), BT Openzone (BT Retail), 3G Live! (Vodafone Australia) and Sky HD (BSKYB).

About Intelligent Environments

Intelligent Environments is an international provider of innovative mobile and online solutions for financial services providers. Our mission is to enable our clients to always stay close to their own customers.

We do this through Interact®, our single software platform, which enables secure customer acquisition, engagement, transactions and servicing across any mobile and online channel and device. Today these are predominantly focused on smartphones, PCs and tablets. However Interact® will support other devices, if and when they become mainstream.

We provide a more viable option to internally developed technology, enabling our clients with a fast route to market whilst providing the expertise to manage the complexity of multiple channels, devices and operating systems. Interact® is a continuously evolving technology that ensures our clients keep pace with the fast moving digital landscape.

We are immensely proud of our achievements, in relation to our innovation, our thought leadership, our industry wide recognition, our demonstrable product differentiation, the diversity of our client base, and the calibre of our partners.

For many years we have been the digital heart of a diverse range of financial services providers including Atom Bank, Generali Wealth Management, HRG, Ikano Retail Finance, Lloyds Banking Group and Think Money Group.

For further information visit www.intelligentenvironments.com