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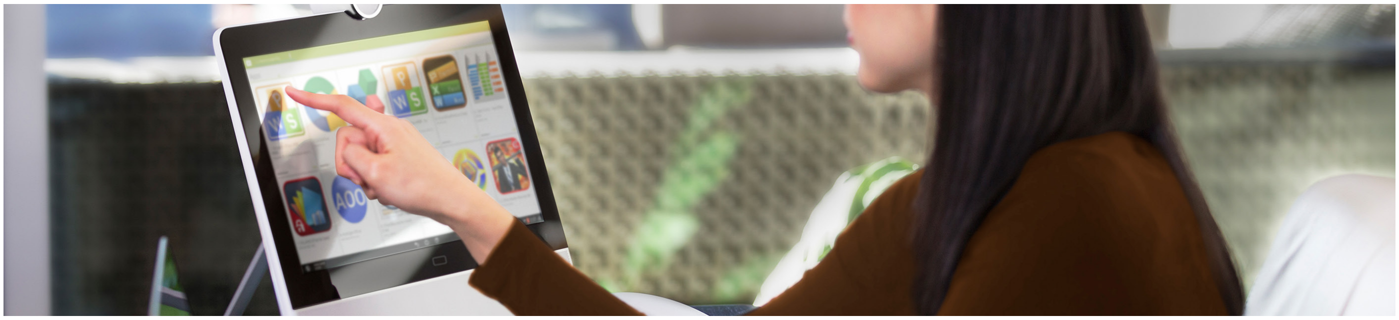
Reimagining the Digital Bank

How U.S. Banks Can Transform Customer Interactions To Increase Profitability



Executive Summary

Today's consumers are already deeply immersed in a digital lifestyle. Whether ordering a book or planning a vacation, consumers are choosing companies that interact with them online and through their mobile devices. They now expect experiences that are not only convenient, but also highly personalized based on deep knowledge of their likes, dislikes, and even their future plans.

Yet according to a Cisco Consulting Services primary research survey of 7200 retail banking consumers in 12 countries, customer expectations for financial services are not being met. (This paper focuses exclusively on the U.S. survey results.) Many customers — and not just tech-savvy Gen Y ones — feel disconnected from their financial services institutions. They state that their banks do not know them personally, and are providing advice only on the bank's terms — in the branch, during banking hours — if at all. **According to our survey, 43 percent of U.S. customers believe their primary bank does not understand their needs; 31 percent feel their bank is not helping them reach their primary financial goals.**

Banks understand the digital imperative — the need to provide personalized advice and service that are both scalable and profitable. Many have made important strides with omnichannel investments, particularly in streamlining transactions. The next step of the journey is for banks to evolve the kinds of dynamic, personalized interactions that consumers now demand, and to deliver the right interactions to the right customer segments.

Solutions enabled by the Internet of Everything (IoE) — the networked connection of people, process, data, and things — will be the key to making this transition from convenient transactions to personalized, value-added interactions. As banks apply IoE-driven intelligence to achieve specific business and personal objectives, they will open the door to novel, interactive banking solutions that will transform the customer experience.

The Internet of Everything may be fueling disruption across the industry with new competitors and consumer behavior. But by leveraging IoE-enabled capabilities — particularly in the areas of video, mobility, and analytics — banks can also make IoE the solution.

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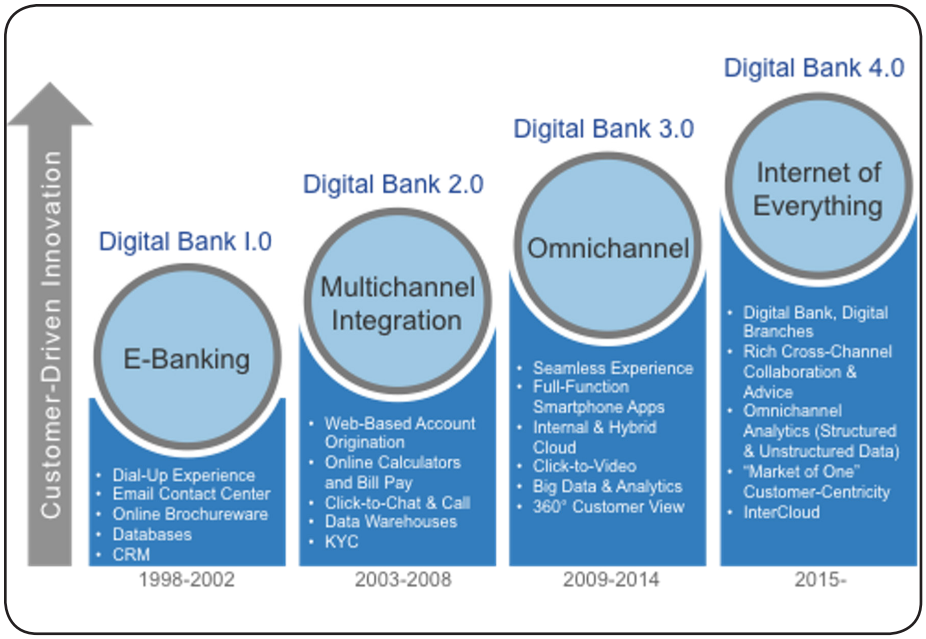
About the Cisco Study

To better understand the new opportunities for retail banks and the kinds of experiences that customers most demand, Cisco Consulting Services undertook a comprehensive, three-pronged global research project, blending quantitative and qualitative insights:

1. **Survey** of 7200 smartphone users, ages 18 and up, in 12 countries: Australia, Brazil, Canada, China, France, Germany, India, Japan, Mexico, Russia, United Kingdom, and United States. All respondents had at least one banking product and household incomes of $20,000 or more (or local equivalent). Approximately 90 percent had savings and assets of $20,000 or more (or local equivalent).
2. **Video interviews** with industry thought leaders (analysts, authors, industry pundits) to illuminate qualitative insights: Chris Skinner, author, *Digital Bank*; Brett King, founder/CEO, Moven; Adam Nash, CEO, Wealthfront; and Jerry Silva, research director, Global Retail Banking, IDC Financial Insights.
3. **Economic modeling** of the costs and benefits of applying IoE-enabled technology, based on research into Cisco's own customer engagements.

Figure 1
Interactive, personalized capabilities will enable "Digital Bank 4.0"



Source: Cisco Consulting Services, 2014

As Internet of Everything-enabled solutions create more personalized interactions, **Digital Bank 4.0** will become a reality (see Figure 1). Through their omnichannel strategies (Digital Bank 3.0), banks have worked hard to make transactions more convenient and consistent. By developing IoE solutions that leverage video, mobility, and analytics, banks can make transactions so convenient and automated that they appear virtually invisible to the customer. But the real value to customers will come from the personalized services they receive as part of, or in addition to, that transaction. A simple payment with a mobile phone is transformed into a service that helps the customer receive, organize, and redeem offers from his or her favorite retailer. A visit to a "typical branch" or the online banking site is transformed into a meeting with a highly qualified financial planner about the customer's retirement strategy. Online and mobile services can provide tailored advice, even without an advisor, through analytics. In short, IoE can help financial services companies deliver the types of personalized interactions that the world's most innovative customer-facing companies – including emerging competitors – are beginning to offer.

For banks, personalized interactions present enormous opportunities across multiple demographics and levels of technology adoption. Cisco Consulting Services calculated the upside for a typical bank that becomes as digitized as its customers: a **5.6 percent bottom-line increase**. For a financial institution with $10 billion in annual revenue, this represents a **$392 million annual profit increase** opportunity. That is, if competitors – some from outside the traditional realm of banking – don't fill the void first.

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"If banks aren't digital ... they're going to be dead in the water."

Chris Skinner
Author, *Digital Bank*

Our economic analysis also identified specific IoE-enabled solutions that help banks close the digital gap and capitalize on this opportunity:

- Video Mortgage Advice ($134 million)
- Video Advisor ($131 million)
- Automated Advisor ($112 million)
- Branch Recognition ($65 million)
- Mobile Payments ($26 million)

Customer Expectations Are Not Being Met — Across Generations

The alienation of Gen Y (defined as 18- to 34-year-olds) is a concern for banks. According to Cisco's study, more Gen Y'ers make decisions alone, without external help, than any other age group (60 percent, compared to 51 percent for all others). **They are nearly twice as likely to be frustrated with their primary bank as all other age groups (59 percent to 34 percent).**

However, age alone does not explain consumer attitudes toward banking. If banks are to truly see the big picture, an understanding of digital behavior — across all age groups — is critical.

In looking beyond the usual assumptions concerning demographics, a cluster analysis[1] of the 603 U.S. respondents to Cisco's survey revealed four distinct segments defined by digitally driven behavior (see Table 1 on next page):

- The **Young & Restless** are known for their openness to any and all mobile, digital experiences with their banks. Their median age is 32, and 85 percent of this group would move their money to seek a greater degree of digital interaction.
- **Easy Does It**, with a median age of 42, seek fast and efficient service, online or in the branch. They are in their prime earning years, but **69 percent would move their money for more personalized experiences**.
- **Going Solo** has a median age of 37. They feel the lowest engagement with their banks, but seek a stronger relationship. They are quite open to such interactive experiences as branch recognition and outreach (in which the bank recognizes their smart device and proactively offers personalized services upon entering the branch), along with video advice (involving face-to-face interactions with remote experts regardless of where and when customers request help and advice). **Sixty-six percent would move money for greater interactive experiences.**
- **Value Hunters** have a median age of 52. They are the least likely to explore other options; nevertheless, **48 percent would consider moving their money for greater interactions**, especially if those interactions offer cost savings (with a personalized spin) and convenience.

[1]Grouping a set of individuals so that individuals in the same group (or cluster) are more similar to each other than individuals in other groups (or clusters).

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Table 1
Digital behavior drives banking opportunities with distinct customer segments




	Young & Restless	Easy Does It	Going Solo	Value Hunters
% of respondents	20%	30%	17%	32%
Engagement w/ banks	Highest	High	Low	Medium
Median age	32	42	37	52
Preferred interaction	Mobile	Online	Branch	Branch, Online
What they want from bank interactions	More interactions, personalized advice, mobile options	Fast and efficient advice—not just online	Tailored advice, better branch interactions	Special offers, savings
Will "move money" for IoE interactions (%)	85%	69%	66%	48%
Win them with these IoE interactions...	Any IoE interaction, especially mobile payments	Most IoE interactions, esp. automated advisor, video mortgage advice	Start with video advice, branch recognition	Mobile payments, branch recognition (esp. offers)
Why banks must win them	Young, growing banking needs, will move money and not look back	Middle-aged, prime earning and asset years, want scalable services	Least satisfied, lowest engagement, but open to strong relationship	Lowest churn risk, but want from banks what they get elsewhere as consumers

Source: Cisco Consulting Services, 2014

Banks can better engage with these segments by understanding their needs and behavior, and then focusing on the IoE-enabled solutions that resonate best with each group. Banks that fail to connect with all of these segments risk leaving value on the table and missing out on key opportunities.

IoE-Enabled Technologies Can Help Close the Gap

Technology is already integral to customers' lives, and many are expecting new kinds of experiences from their banks, supported by video, analytics, and mobility capabilities.

Already some companies in financial services and retail are applying these solutions to win customer engagement. For example, U.K.-based Nationwide Building Society has deployed a remote advisor solution that connects rural banking customers with remote financial experts. As we shall see, this concept resonated among our survey respondents.

Video

Many customers have long looked to their banks for financial guidance and advice, with mixed results. Our survey showed that a wide range of customers is interested in a "remote advisor" service that connects financial experts to customers via high-quality video from the branch or from anywhere else on a mobile device. They favored this service for financial planning, problem resolution, and stock and fund

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"It's now possible in software for us to offer personalized attention to hundreds of thousands, even millions of investors simultaneously..."

Adam Nash
CEO, Wealthfront

selection. **Fifty-four percent were interested in meeting with remote financial experts via video outside a bank; another 39 percent were interested within the branch.** IoE-enabling solutions allow for much greater scalability and personalization.

Using video for specific areas of expertise also drove interest. **Fifty-four percent of U.S. respondents were interested in the mortgage advisor concept, and 42 percent would likely choose a financial institution that offered this service** for their next mortgage. Video-based advice – especially from the branch – is an excellent way for banks to build relationships with the "Going Solo" segment, which prefers the branch to virtual channels, and wants better access to highly qualified financial professionals.

Analytics

Not everyone, however, believes that personalization requires a human touch. Firms such as Wealthfront and Nest Wealth already use simple, self-reported behavioral cues to create an automated investment portfolio. For our survey, we tested interest in a service that we called "automated advisor." **Nearly half (48 percent) of U.S. respondents were interested in receiving advice from an automated advisor** that applies data analytics to personalize investing. The "Easy Does It" segment was especially interested in the "automated advisor" concept because it brings the convenience of online banking to investing – tailored advice on which investments to select, and automated execution of trades and account rebalancing.

Mobility

Starbucks is paving the way in using mobility to allow customers to place orders in advance, avoid lines, and pay – all with a few swipes on their mobile device. Such solutions could also apply within a banking context. Moreover, customers expect them.

Our survey reinforces that banks need to consider similar mobile payment strategies if they are to capture high-value customers. **Seventy-two percent are interested in using a mobile payment system that delivers their most-wanted features.** In a finding that stresses the impracticality of using simple age-based segments, our survey showed that mobile payments are the most popular interaction for both our youngest (Young & Restless) and oldest (Value Hunters) segments. Value Hunters want a mobile payment system that will collect and redeem personalized offers – presenting an opportunity for banks to move this segment to a broader range of digital interactions. Young & Restless love all mobile interactions, and want a mobile payment system that provides budgeting apps and alerts along with deals.

For mobile payments to work, however, it is critical that they be secure. **Reassurances around security and privacy were seen as the No. 1 incentive to adoption (38 percent)**, while fears around security were the No. 1 inhibitor (50 percent). The No. 2 incentive was convenience and ease of use. Respondents, however, are quite open to new security solutions such as fingerprint authentication (81 percent), voice recognition (66 percent), and facial recognition (65 percent).

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"When we look at Google, Facebook, Oracle, we think of these as not only technology companies, but as organizations who are investing an incredible amount in research and development. Well, it turns out that the big four banks in America actually invest more in technology than those technology companies. But we're investing it in the wrong place…"

Brett King
Founder/CEO of Moven

U.S. smartphone penetration is expected to surpass 50 percent by the end of this year, and this explosion in usage has transformed many areas of consumers' lives. We asked customers how they felt about entering a branch and instantly being recognized on their smart device as they are offered personalized benefits. We found that Branch Recognition is clearly resonating with respondents, but it is a **"give-to-get"** story, with customers expecting added incentives to drive engagement.

Among the incentives cited in our survey, free Wi-Fi was No. 1 (71 percent). From the bank's perspective, of course, free Wi-Fi also opens the door to new data streams, which, when properly analyzed, can support the kinds of personalized experiences that consumers demand most. Free Wi-Fi was matched by offers and savings (71 percent), which could include links to local retailers. Sixty-nine percent favored the ability to schedule a document pickup or drop-off. The two segments that prefer branch interactions – "Going Solo" and "Value Hunters" – were especially interested in Branch Recognition, the former for the ability to be recognized and served faster in the branch, and the latter to receive special offers from nearby merchants.

A Vast Opportunity for Digital Bank 4.0

Cisco predicts that $14.4 trillion of value (net profits) will be at stake globally for private-sector companies over the next decade, based on their ability to harness IoE – with $3.7 trillion of this value arising from improved customer experience. For retail banks, this includes the kinds of personalized interactions that we documented in our survey.

A unique value proposition arises from banks' deep understanding of each individual's financial needs and the ability to offer a new dimension in services and convenience. As we have seen, there is an opportunity to capture a 5.6 percent upturn in profits when banks take the following steps:

1. Dynamically apply IoE-enabling technologies to better address behavior of new, digitally driven customer segments
2. Deliver more personalized and convenient services to meet "anytime, anywhere" demands of customers
3. Integrate physical and digital channels to deliver services on-demand

To begin the process of transformation, banks will need to take stock of their current strengths and weaknesses – particularly those areas in which they are offering advice and see an opportunity for more personalized service – to determine where new investments will have the greatest impact.

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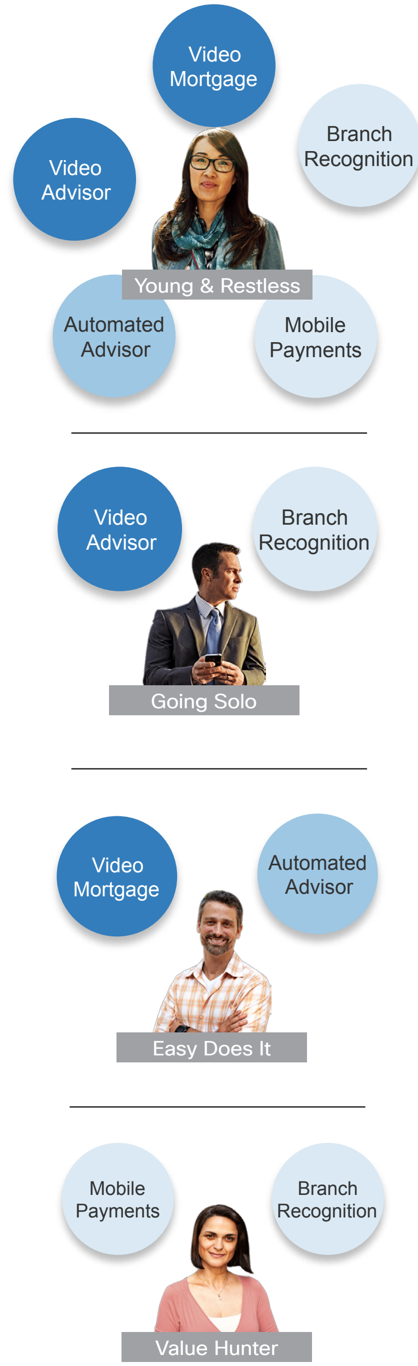
Figure 2
To capture IoE value, banks must address new, digitally driven customer behaviors



Source: Cisco Consulting Services, 2014

Yet banks will also need to explore the needs of specific customer segments, particularly in terms of digital behavior and levels of adoption. Figure 2 maps the new banking segments and their preferred banking experiences to the related IoE-enabled solutions.

"Young & Restless" is the most receptive to new technology solutions. But clearly, banks must look at all segments based on their digital behavior – and respond accordingly with the personalized solutions that suit them best.

In addition to revenue upside through customer experience, our economic analysis reveals how IoE solutions can help banks achieve significant operating efficiencies through automation, technology adoption, improved employee efficiency, and lower customer acquisition costs (2.7 percent overall cost savings). The majority of these benefits (56 percent) result from increased revenues – while operating cost reduction accounts for 44 percent. By adopting an agile model, companies can further save 7 percent on IT costs.

Once banks leverage Internet of Everything-enabled solutions to offer personalized interactions, they will become that much harder to disrupt. Competitors will be challenged to match the value proposition that arises from a bank's deep understanding of each individual's financial needs, allowing that bank to offer a new dimension in services and convenience – and to capture profits along the way.

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