Next-gen Web: Tools for Building Strong Customer Relationships in Retail Banking

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Introduction

Where once retail financial institutions established the rules for conducting business with their customers, the advent of new, web-enabled technologies has led to a reversal of this situation—a new environment dubbed “Next-generation Web” by the Cisco Internet Business Solutions Group (IBSG).

In this Point of View, based on IBSG’s original research and deep relationships with the global financial services industry, we explore how technology has changed consumer behaviors and expectations with respect to banking. We examine technologies that constitute the Next-generation Web, and how these capabilities play out in the real world of retail banking.

In particular, banks need to understand that it is possible to develop customer relationships through the web experience, and that such relationships will be even more critical to success in an environment where trust in banks is fragile.

Finally, we discuss next steps banks can take to use Web 2.0 technologies to differentiate themselves in the market, retain customers, attract new ones, and protect and extend competitiveness.

Technology Has Changed Consumer Behavior

Most industries envisioned Internet technology as a means of decreasing costs and increasing efficiencies. They did not anticipate that this technology would permanently alter consumer behavior and expectations. In essence, the tables have been turned; businesses implemented web technologies to serve their own needs, but consumers have embraced technology to the point where consumer demands now are driving business transformation.

Over the past 15 years, the web has evolved dramatically. First-generation web technologies allowed the publication of static content, essentially moving materials previously published on paper to the web. The second stage of evolution, led by new business models such as Amazon.com and eBay, introduced online commerce, giving consumers the ability to search, view, and purchase products over the Internet. Financial services institutions saw the opportunity to lower costs by allowing consumers to manage their accounts online. The third stage added interactions, with sites such as LinkedIn, Flickr, and MySpace introducing social networking and content sharing.

In the fourth and current stage, "Next-generation Web," the consumer is actively involved in building relationships with online businesses. Consumer-generated reviews of products and services are having a huge impact on businesses. As 3G mobile technologies come more into play, consumers expect the online capabilities of their mobile devices to mirror those of their computers. In short, consumers are now using the web to tell organizations how, when, and where they want to do business.

Retail banking has been slow to embrace this new, consumer-driven environment. Somehow, even though people are able to meet and form real relationships with others via the web, retail banks are struggling to build strong customer relationships using the Next-generation Web. As a consequence, banks are facing threats from a myriad of web-based newcomers: P2P (peer-to-peer) lenders such as Zopa and Prosper, or payment services from organizations such as PayPal.

Retail banks must do two things: 1) discover how they can continue to be relevant to consumers and 2) learn how to translate this knowledge into economic returns.

Let's examine how retail banks can use Next-generation Web technologies to their advantage, strengthening their differentiation and creating enduring relationships with customers.

What Do Consumers Want?

In the past, consumers wanted banks to be secure, accurate, and accountable. That hasn't changed, but today's consumers want a great deal more. Cisco IBSG research with consumers who have broadband web access indicates that respondents spend more time on the Internet than they do watching television—even when considering only personal time.[1] The research shows that respondents most frequently use their Internet time to read other consumers' reviews of products and services, and to visit social networking sites such as MySpace and Facebook. These activities are followed closely by viewing user-generated content such as blogs or videos, comparison shopping, and chatting. A quarter of respondents in Western Europe watch television programs online.

From this and other data, it is easy to see that consumers are more likely to resort to peers for advice and information on products and services; they are more interested in relationships than mere transactions; and they view the web as the primary vehicle for a number of lifestyle choices and activities. No longer content to consume passively what is offered to them, consumers wish to take an active part in the development of products and processes.

1. "Third Annual Cisco IBSG E-commerce Survey: Mobile Emerges as Growth Channel for Retail," Cisco IBSG, May 2008.

For example, Del Monte invited 400 devoted dog owners to join its online community called "I Love My Dog" and asked them for their opinions on products. As a result, Del Monte's new bacon-and-egg flavor Snausages Breakfast Bites owe their look, taste, and product packaging to input from this community. Dell's' "Ideastorm" site has created an online community of users who propose product ideas, brainstorm with each other, and provide feedback on Dell products. These companies actively involve customers in the product development process—at a fraction of the cost of traditional market research. As a consequence, they are creating proactive relationships with customers that ensure greater brand loyalty and differentiation.

Consumers have also come to expect a high degree of personalization. Pickuradvisor, a new venture started by ING in India (now being rolled out in Hong Kong), allows customers to view financial advisers' bios and photos, and then "test drive" a specific adviser to ensure compatibility. My Virtual Model allows women to create a model that looks like them, and then try on clothes virtually. Clothing retailers, such as Land's End in the United States, offer My Virtual Model to their customers to personalize the online shopping experience.

In banking, this means that consumers increasingly want more control over their relationships with the bank. Banking's fastest-growing segment is composed of connected consumers who want to choose when, how, and where they do business. They don't want to visit the branch to obtain access to full-service banking services; they want to access full-service banking from their computers or mobile devices, reserving branch visits for resolving only the most complex issues. And they want to feel they are being recognized as individuals, not just as account numbers. Banking services built on next-generation Web capabilities allow customers to feel more in control of their finances—especially important during the current episode of economic and financial uncertainty. Banks that fail to respond to the needs of the connected consumer will lose market share and value.

It's important to note that this new breed of consumer is not necessarily young. The number of people 55 years of age and older doing banking on the web grew 350 percent between 2001 and 2006 in the United Kingdom, reaching 3.6 million—more than 20 percent of total web banking users, according to APACS, the U.K. trade association for the payments industry. And the over-55 age group spends more time on banking sites than younger segments.[2]

2. http://www.apacs.org.uk/media_centre/press/08_24_07.html

Defining Next-generation Web

The web has moved from being a provider of purely static information to a medium for interactions across a range of media. No longer merely a set of technologies, Next-generation Web is the juxtaposition of a rapid improvement in connectivity (faster and cheaper); the emergence of new enabling technologies and applications (mobile, presence, etc.); and changing consumer behavior as more people become familiar and confident with the web.

The new tools offer pick-up-and-play functionality that is rich, fast, selective, and convenient, providing users with control, choice, personalization, and social interaction. For example, Ralph Lauren customers use a solution called Microsoft Surface to "window shop" the company's products, while AT&T customers employ the same tool to comparison-shop product prices and features. Because images can be moved, resized, and rearranged easily, Microsoft Surface is both easy and fun to use.

In the financial services arena, Switzerbank allows clients to select a private banker by watching videos. Commonwealth Bank's "Know Your Money" is a Flash-based interactive financial guide. The Royal Bank of Canada site features an avatar named "May" who speaks in English, French, or Cantonese when providing step-by-step interactive advice. First Direct, a division of HSBC Bank, offers podcasts on a variety of financial topics.

To the consumer, Next-generation Web is all about personalization, control, and choice. But to businesses seeking to implement Next-generation Web, it's about technologies and the change in processes and behavior needed to take advantage of those technologies. Which technologies underlie the capabilities that consumers have been so quick to embrace?

Video has become a convenient and comfortable way for consumers to receive information and interact with businesses and individuals. SNS Bank in the Netherlands now sells 33 percent of its mortgages by using live video advice versus just 10 percent by phone.[3] Monabanq is a 100 percent virtual French bank with 200,000-plus clients and 200 remote advisers. Each customer is assigned an adviser with whom they meet via web conferences. Secure exchange of digitized documents enables the full range of transactions, and electronic signatures enable clients to buy new products without visiting the branch. The bank sends validation of purchases to customers through email and SMS (Short Message Service).

High-speed Connectivity: Consumers expect to access services wherever and whenever they desire. For example, Forrester Research estimates that by 2010, 75 percent of households will have broadband connectivity, and 81 percent of individuals (in the United Kingdom) will have Internet-enabled mobile devices.

3. "The Banking Industry Is Using Video to Better Meet Customer Needs," Clare Scholey, Forrester Research, Jan. 30, 2008.
4. *Ibid.*

Device Convergence: The lines continue to blur among computers, phones, PDAs, televisions, and other devices. According to industry reports, global smartphone shipments are expected to grow from 72 million units in 2008 to 410 million units in 2010, moving from 7 percent of the global handset market to 28 percent. Mobile phones now combine the functions of telephone, computer, television, ATM, MP3 player, game console, and shopping mall—and most consumers never leave them at home.[5]

Mobile Is a Growing Factor

Cisco IBSG's 2007 E-commerce Survey found that one of the most important changes in consumer behavior is increased mobile access to the web.[6] Today's mobile banking users, however, typically are limited to accessing only basic information over their mobile devices. Mobile phone technologies offer a much wider range of capabilities than most banks are currently deploying:

Browser-based: A mobile banking solution accessed by typing or selecting a previously used URL via a mobile device's browser. This method does not store any information on the handset, and is most similar to traditional online banking conducted on a personal computer. The Apple iPhone has made such access easier for consumers, and some U.S. banks have already provided specially adapted websites.

Downloaded Software: Many banks offer downloadable software to access online banking on mobile phones. In the Far East and parts of Europe, it is common for phones to be preloaded, a trend that is currently on the rise in the United States. For example, the Firethorn mobile banking solution will be installed or preloaded onto phones sold by AT&T. This is a differentiator in the United States, where the trend is relatively new, but does not create differentiation in global markets, as such solutions have been in existence for many years in Japan, Korea, Spain, and elsewhere.

SMS: This method entails sending text messages to a number (a short code) designated by a bank. (Think of a short code as simply a unique phone number for text messages.) The financial institution publishes the number for customers, just as it does for its toll-free voice line.

Mobile payments, in particular, are a tremendous opportunity for banks. In the United States, payments volume is nearing $1.5 trillion, and is predicted to grow at 10 to 13 percent per year.[7] While mobile payments constitute only a small percentage of this total market today, it is a fast-growing segment.

5. "Mobile and WiFi Phones and Subscribers," Infonetics, 2007.
6. "Third Annual Cisco IBSG E-commerce Survey: Mobile Emerges as Growth Channel for Retail," Cisco IBSG, May 2008.
7. Presentation to UBS Global Financial Services Conference, Visa, May 28, 2008.

Risks and Constraints in Next-generation Retail Banking

From the consumer's point of view, there are certain risks associated with Next-generation Web-based banking. Most objections center on operational risks and financial / governance concerns. Though consumers may not be aware of it, the proliferation of wireless devices does expose them to a certain level of risk if they have not taken appropriate precautions in protecting their home-based wireless networks, or if they are using a wireless public network without protection such as a VPN.[8]

According to recent research conducted by IT security firm RSA Security, almost 90 percent of U.S. bank account holders want their financial services providers to monitor online banking sessions for signs of irregular activity, similar to the way they currently scrutinize credit card transactions. The same research also revealed that nearly 60 percent of adults would like their banks to contact them when something suspicious is detected.[9]

Almost three-quarters of U.S. bank customers believe that user name and password login security is inadequate, and that financial institutions should replace such systems with stronger authentication for online banking, according to the RSA survey.

According to *SC Magazine*, "When presented with several options, including hardware tokens, watermarks for mutual authentication, and risk-based authentication, the majority of respondents (74 percent) selected risk-based authentication as their preferred method. Risk-based authentication involves a behind-the-scenes assessment of the user's identity based on factors including logon location, IP address, and transaction behavior—which can be supplemented with out-of-band phone calls or secret questions for high-risk transactions."[10]

A certain segment of the population will always resist online banking because of perceived invasion of privacy, and there is also the possibility of a "brandalism" backlash by consumers—the groundswell trend of posting negative comments about brands on blogs and social networking sites (which, of course, are not subject to any sort of fact-checking). Congestion on the web, causing slow access and interference with video streaming, are other elements that may cause consumers to abandon or avoid online banking activities.

In any case, the march to the Internet is inevitable. Consumers are already in love with the convenience and efficiency of doing business online, and understand that whatever technical difficulties they may encounter today, there will be advancements to remedy these difficulties tomorrow.

A more serious consideration for banks is the constraint represented by governance and competition for financial resources. CEOs tend to observe that as the web develops in importance, leaders of other channels become less supportive. This is true whenever

8. Virtual Private Network.
9. "Consumer Online Fraud Survey," RSA Security, January 2007.
10. "Better Web Banking Security Demanded," William Eazel, *SC Magazine*, April 2006.

a new channel is introduced, and is not unique to the web. CEOs who place customer-centricity above other considerations, and who encourage collaboration across organizational silos, will experience fewer issues among the channels.

CEOs may also complain that the customer interface is driven by IT and not by the marketing or sales staff. Acknowledging that this is indeed a sea change in banking business models, marketing and sales must be introduced to web IT skills so that the web channel is properly supported. IT requires new performance measures to reflect their new responsibilities in supporting channel, sales, and marketing activities.

CFOs are likely to have a separate set of concerns. Typically, they may believe that most Web 2.0 developments create no incremental revenue, and are actually increasing transaction volumes and risk. While this may appear to be true in the initial stages of Web 2.0 integration with banking business models, online users are growing fast. Customer retention through deployment of Web 2.0 tools *prevents the loss of revenue,* which is just as important as the creation of new revenue. This holds especially true for younger customers, who are dedicated web users today, will only increase their use as time passes, and represent the highest lifetime value to the bank.

CFOs may also perceive that investments in other channels represent a better case for investment, with proven results. Again, banks must listen to what their customers want. A customer-centric business model that examines changes to lifetime value will cast a more favorable light on investing in the web channel.

The Next-generation Web Opportunity for Retail Banks

It has long been known that building a relationship between the consumer and the brand is essential to customer retention and satisfaction. It is somewhat ironic that technology, far from depersonalizing the banking relationship as might have been expected, actually offers the potential to create stronger, more effective relationships with customers.

Customers are embracing e-commerce. The spectacular growth of online shopping indicates that consumers are enthusiastic about e-commerce—and also that retail businesses are investing heavily to remain competitive.

Large banks have market power, but often are relatively less visible in the Internet channel; this risks diluting overall market share as online sales continue to grow. In banking, profitability and customer retention are strongly influenced by the online experience. Online banking attrition rates in the United States are 36 percent lower than attrition among offline users, and 80 percent lower for regular online bill payers.[11] As proof of concept, Bank of America found that among its online customers, profitability increased 19 percent, deposit balances grew18 percent, loan balances rose by 30 percent, and retention improved by 24 percent.[12]

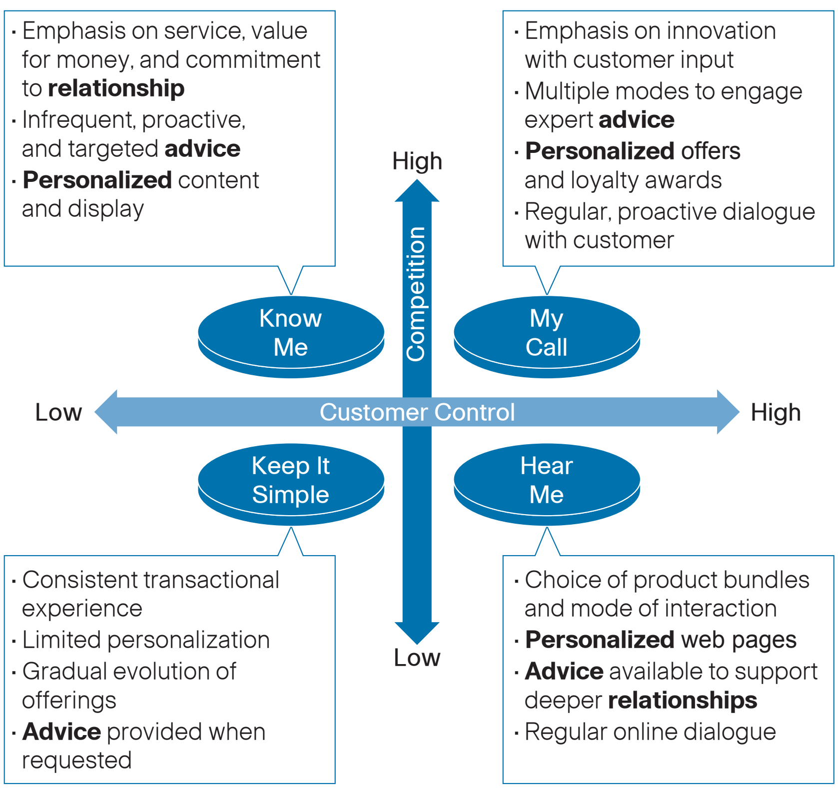
11. "The E-bill Effect: The Impact on Customer Attrition from Banks that Offer E-bill," Aspen Analytics, *NetBanker*, April 2008.
12. First Quarter Report, Bank of America, April 2008. These figures were the results of three years of going online with combined-access and bill-pay customers.

Today, some leading banks are showing signs of stronger Internet focus, but the opportunity exists for others to leapfrog the competition by creating a rich, interactive, and personalized online experience for customers. To achieve this, web-based banking models require richer and more flexible online platforms than we have seen in the past.

Next Steps for Banks

Figure 1 shows four plausible future scenarios for Internet banking, built using hypotheses tested with Cisco IBSG retail banking customers. This illustration is based on a model used in "Retail Futures" by the Retail Forum for the Future, sponsored by Tesco and Unilever. The original model had "Customer Control" as one axis and "Economy" as the other. We believe that "Competition" is a more valid key variable for web-based retail banking, due to the uncertain but potentially strong impact of emerging competitors.

Figure 1. Four Plausible Scenarios for Internet Banking



Source: Cisco IBSG, 2008

In the "Know Me" quadrant of this model, the emphasis is on service, value for money, and commitment to the relationship. Customers demand personalized offers that recognize the relationship, and the bank uses the web and integrated mobile devices to help engage with all customers and web intermediaries. Overseas players, recognizing that relationship is the critical factor, move beyond pricing.

In the "My Call" quadrant, the emphasis is on innovation with customer input. Customers seek involvement and peer dialogue, with product personalization that matches their own specifications. If customers seek financial advice, they turn to diverse technologies for instant access through all media. The bank is proactive about seeking regular, personalized dialogue with customers. There are many new competitors in this quadrant, but the regulatory environment is benign.

In the "Keep It Simple" quadrant, customers have limited appetite for personalization, preferring swift service and consistent transactions to the use of newer technologies. If they want advice, these consumers will ask for it. In this area, regulators will increase consumer protection rules, and new competitors will focus on price as a differentiator—and stay small as a consequence.

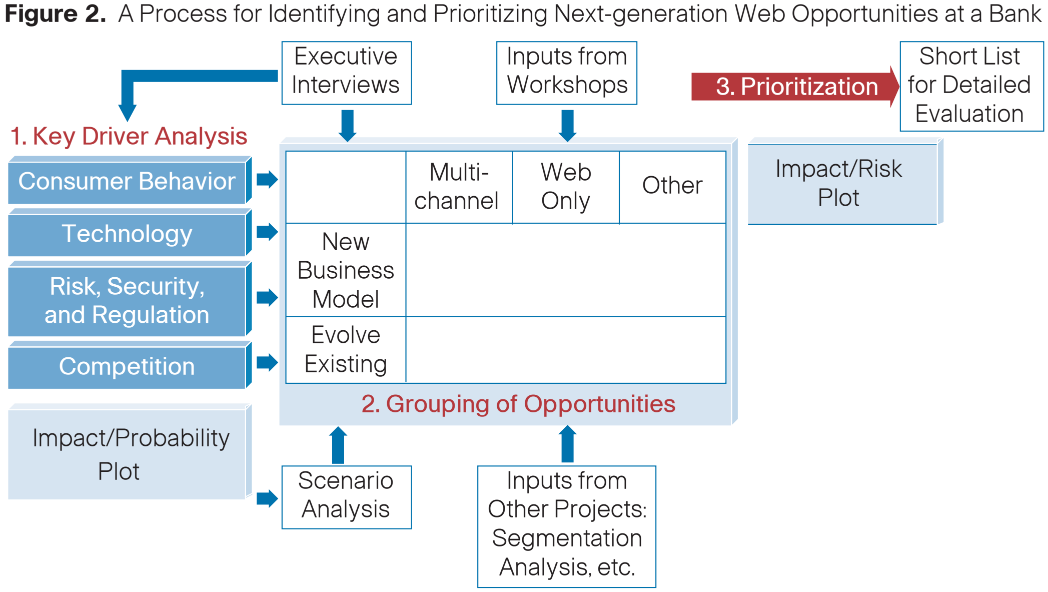
In the "Hear Me" quadrant—perhaps the most likely future scenario—choice and personalization are key. Customers expect to configure their own content, and also demand personalized advice and relationships. They will use a variety of media to conduct online dialogue as they seek information and advice. New domestic players in this quadrant will start to build relationships, but will remain small.

Banks will take different views on the most appropriate online scenarios within which they must operate, but the common factors will be advice, relationship, and personalization.

Identifying Next-generation Online Banking Opportunities

Deciding where to invest among the myriad opportunities merits careful analysis and consideration. A process for identifying and prioritizing the most likely opportunities is shown in Figure 2.

Figure 2. A Process for Identifying and Prioritizing Next-generation Web Opportunities at a Bank



Source: Cisco IBSG, 2008

It can be seen that a short list of opportunities is created, categorized by whether they are pure Internet or multichannel, and by whether they represent a new business model or the evolution of an existing model. A standard impact/risk analysis is then used to prioritize the opportunities further.

One possible example of an opportunity—meeting customers' expectations of a deeper, web-based relationship—is the creation of a web-based financial advice center for customers. The advice center acts as an extension of the bank's online presence with a physical "self-service" location and face-to-face, high-definition (HD) video, such as Cisco TelePresence.

How the advice center is configured depends on the market:

- Roving mobile facility incorporated in modified bank vehicle for rural areas
- Transportable kiosk for high-potential areas with no branch (such as a college campus)
- Extension of branch lobby, accessible after hours
- Dedicated room in a business branch or branch with a high percentage of affluent customers

The advice center could offer extended business hours, with a staff member greeting and helping customers. It might incorporate Internet access with secure video, web collaboration with relevant experts, document scanning/printing, and signature capture for document signing. The center would appeal to personal customers seeking high-value, complex products in locations remote from a full-service branch, as well as small-business customers needing to contact relevant advisers at their convenience.

The advisory center example is just one of many new opportunities that Next-generation Web capabilities offer to banks seeking to gain leadership in this new age of consumer-driven e-commerce. Careful analysis of the opportunities and the market, combined with some imagination and the will to effect transformation, will lead retail banks to the development of myriad new revenue streams and customer-retention opportunities.

For more information about how retail banking institutions can take the lead in using Next-generation Web capabilities to build stronger customer relationships, please contact:

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Notes

More Information

The Cisco Internet Business Solutions Group (IBSG), the global strategic consulting arm of Cisco, helps CXOs and public sector leaders transform their organizations—first by designing innovative business processes, and then by integrating advanced technologies into visionary roadmaps that address key CXO concerns.

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