Banks are no longer just competing with each other, they are also at war with a growing number of retailers and innovative start-ups that employ social media tactics to offer sought-after services. The Banker brought together a panel of banking experts to discuss the issues. This round table was sponsored by Cisco, but independently written and edited. Writer Duygu Tavan

Banking is no longer about offering plain vanilla transaction services; that much is all too clear to bankers. Some time between the rise of social media and the banking crisis, banks have fallen behind the innovation curve. Retailers and start-ups are stepping into this space, not just responding to customer needs but also shaping their expectations of service quality.

**Pace of Change**

“The fastest growing financial services institutions in Europe, for instance, are retailers, grocery store chains and automotive companies, and they have adopted the omnichannel [approach] in a more aggressive way than the banking industry has,” says Ralph Silva, director at research specialist SRN.

In the retail world, a customer can order an item online and pick it up in the store. They can go into a store and ask for a particular item to be delivered to their home (or in the store). This type of service is no longer just multichannel or cross-channel; it is omnichannel – a seamless and integrated experience for consumers without restrictions. It is exactly this type of offering that is lacking among banks. Indeed, there is little choice for banks but to change their strategy.

The fragmented approach banks have taken when adding new and alternative channels has resulted in silos of service that rarely connect the individual channels to create an integrated banking experience. As Matthew Timms, multi-channel managing director at Santander, puts it: “Banks have been good in the past at setting up multiple individual channels. Now we are looking at how customers can go across the channels.”

**Omnichannel Objective**

But banks can again create valuable customer relationships and offer an omnichannel banking experience, according to the panel. Key steps in achieving this include using big data to identify customer needs and tailoring products accordingly, creating strategies to differentiate themselves in the marketplace, and making use of available technologies.

According to Cisco, there are four pillars of omnichannel banking: the next generation of branches, mobile channels, social media and videos. Integrating these into one web of channels is not the big issue, according to Deniz Güven, senior vice-president of digital channels at Garanti Bank in Turkey. The issue is the brand of the bank itself.

“People want to see the portfolio manager in the branch. The personal touch is important. But you can put a portfolio manager service onto your internet banking or mobile banking and enable a video service to create a new service. This would help create a new customer habit, and migration to new channels would be natural and not mandatory,” says Mr Güven.
At Garanti, for instance, 1 million customers did all their transactions on digital channels last year, according to Mr Güven. “They didn’t feel the need to go to a branch for their daily financial needs. But, on the other hand, the role of the branch is changing. So in the omnichannel era, branches will have a new and different role.”

**DIGITAL EFFICIENCY**

This is an issue that all panelists could agree on, with Mr Timms adding that digitising the branch was a critical strategy. But banks also have to ask themselves how they can transfer the in-branch customer relationship to digital channels, as well as implement into the branch the ‘digital efficiency’ of dealing with customers.

When Cisco surveyed 5300 consumers across eight countries – Brazil, Canada, China, France, Germany, Mexico, the US and the UK – it found that one-third of them visited the branch frequently despite their use of alternative channels.

Cisco also found that more than one-fifth of people (22%) would switch banks if their bank decided to close all branches and go ‘virtual’. But these people were in no way consumers who solely used the branch – 82% of consumers who would change banks if there were no more branches were also active users of virtual banking channels, the survey found. In developed markets, there was particular enthusiasm for ‘digitised branches’, while in emerging markets Cisco found “enthusiasm for anything new and innovative”, according to Angus Hislop, global head of retail banking, internet business solutions, at Cisco.

“We found that 83% of customers want a branch where they can access a wide range of expertise. More than 30% were happy if that expertise was digitised through a video or some form of internet connection. That kind of experience is what customers now expect because they’re starting to get that service at the retailers, in their day-to-day lives,” says Mr Hislop.

Such a cross-channel integration and update will require an update in products as well. However, as Mr Hislop highlights: “A mortgage application, for instance, is a complex process because it’s designed to be done at a branch. If you want to encourage the use of digital and cross-channels, you’ve got to think carefully about the product design and the supporting processes.”

**IDENTIFYING CUSTOMER NEEDS**

Such omnichannel integration will not only be intensive in terms of product and strategy, but banks will need to identify exactly what the customer wants and how they expect that service to be delivered.

At a time when non-financial services organisations are adding financial components to their portfolios, such as store credit cards with loyalty schemes and mortgage services, and social media enables services 24/7, banks have no other choice but to up their game.

“Omnichannel services provide banks with the opportunity to take the financial services as a foundation to build into people’s lives by helping them do what they want to do. Respecting the customer’s preference for certain products or channels is crucial,” says Mr Silva at SRN.

**THE NEW RULES**

But how does a bank identify a customer’s personal needs and wants when the old rules of categorising customers by age groups and demographics no longer apply?

“Usually banks’ segmentation models are based on demographics, but I believe we have to have a new segmentation model based on behaviours. The user can be aged 80 or 18. There are no demographics. The state or the city is not important,” says Mr Güven. For him, there is now a new generation and segmentation: “generation C”, who are connected customers that have different attitudes and habits.

In fact, segmentation is now about behaviour, says Shailesh Grover, director of customer experience and operational excellence at Barclays. “Your segmentation [should be] based on behaviour as opposed to age groups. If you offer a compelling experience it is irrespective of whether it is one or five channels. If it is simple, you’ll see high adoption irrespective of whether the person was used to using cheques in the past or mobile in today’s world.”

Such an attitude among banks stands in contrast with previous strategies. As Mr Timms points out, in the 1990s and 2000s, banks focused on migrating customers from the branch to online services because the cost of running the digital channel was lower.

“This has definitely been disproven as a strategy,” says Mr Timms. “When [Santander] looked at the data we found the customers that used more channels were actually far more valuable and far more profitable because they’re far more engaged with the [bank’s] brand. Now banks see the value in engaging effectively with the customer at all the touch points and looking at optimising the branch footprint based on customer requirements.”

Mr Grover agrees, saying that Barclays
now engages customers at all stages – from the design of a product to the pilot stage – to make sure a new product meets customer expectations.

STANDING OUT
But responding to customer expectations brings up another hurdle banks need to overcome: differentiating themselves from their competitors, which may not only be other banks. As Mr Silva says: “We’re at war with retailers, with mobile phone companies, automotive organisations, all trying to take our business.”

Although retailers tend to downgrade their activities in difficult economic times, the “fantastic experiences” they provide raises customer expectations of the service levels of banks, and banks need to react to this, says Mr Hislop.

Likewise peer-to-peer lending, an innovation introduced by start-ups, sets a high benchmark for traditional banks. According to Mr Hislop, another growing area is advanced advice, where a number of new players offer wealth advice, although because they lack the brand they also lack the scale.

“There’s one thing that we have that [the new players] will never have, and that is advisory services,” says Mr Silva. “If we want to differentiate this industry, if we want this industry to survive, we need to focus our technologies on delivery of advisory services. In the past 25 years, we’ve put technology in place to increase the efficiency of a transaction. I think in the next 25 years, we’re going to see omnichannel technology put in place to increase the efficiency of relationships.”

Santander, for example, has built its differentiation strategy on its 123 current account, which offers cash back to customers. In the UK, for a monthly fee, this account offers 1% cash back on water bills, council tax and Santander mortgage payments, 2% on gas and electricity bills and 3% on mobile phone, landline, broadband and paid-for TV packages, as well as up to 3% interest.

A differentiation strategy does not necessitate new innovation. Barclays, for example, modified the concept of its PINsentry device – which resembles a calculator and creates a one-off password for online banking – for mobile banking. “People love the security [of PINsentry] but do not find it convenient to carry yet another device. So on the back of customer feedback we added to the Barclays mobile banking app a mobile [version of] PINsentry. And customers love it,” says Mr Grover.

As Mr Grover puts it, it is all about the right experience for the individual customer and “making the basics great”. But he also emphasises the importance of the time to market, saying Barclays works on a six- to eight-week delivery lifecycle, from idea inception to delivery to the customer.

THE PERSONAL TOUCH
Such initiatives can help drive loyalty among customers, says Paul Jameson, global director for financial services at Cisco. But to continuously deliver a personalised service can be expensive, so banks that manage to deliver personalised services across segments and channels, and sustain a profitable business, will be the differentiators, he adds.

Of course, a clear option would be to acquire capabilities, instead of branches, for instance, and meet a demand for a certain service by acquisition. “Such a strategy would increase products per customer, which of course is one form of growth, as well as your organic growth in just acquiring customers,” says Mr Jameson.

Garanti Bank did something similar. Its peer-to-peer money transfer service, which works by tapping two iPhones to each other, is actually a solution by a company from San Francisco. For Mr Güven, such non-traditional service providers are “really important” and he says that if banks collaborate with such start-ups as part of their customer service strategy, success will follow.

Another differentiating strategy, according to Mr Silva, is moving from “point of sale” to “point of decision”. About a decade ago,
You’ll see high adoption irrespective of whether the person was used to using cheques in the past or mobile in today’s world

Shailesh Grover  ● ●

90% of customers’ financial services decisions were made in the evening over dinner and executed the next day at the bank, says Mr Silva. But thanks to the speed of delivery and new technologies that enable on-demand services, such as video streaming and next-day delivery, consumers now expect to be able to execute decisions at any time. Having an omnichannel strategy can thus be the key differentiator. A person can start a process online, for example an application for a mortgage, and then continue in the branch.

Maximising technology use

Another critical part in creating an omnichannel service is to virtualise what Mr Jameson considers to be the most important element of the banking business – the expertise. “We need to digitise our communication channels and expertise to make it available everywhere. Banks don’t need to build everything in house, but you also have to maintain your own special source. That’s a key decision: what kind of in-house expertise should [banks] leverage?” says Mr Jameson.

It is highly likely that new technologies will continue to make headway into everyday lives, and emerging and existing technologies will be augmented, subsequently changing consumer behaviour.

“As long as we keep [working] at our core [strengths], creating a personalised relationship that adds value, enhances banking needs, maintains security and helps customers with life choices, banks will succeed. I think we will adopt new technologies as consumers adopt them,” says Mr Timms.

At Garanti, services that are based on and evolve with customer behaviour are called ‘living services’. “[The concept of] living service is a beyond-the-omnichannel strategy. In the omnichannel there are different channels and we are trying to integrate them all to make a unique brand for our customers,” says Mr Güven.

He adds that services such as the driverless car by Google and other digital services, such as a chip with personal bank or medical data implemented in a person’s arm, will eventually shorten the time taken to alter consumer behaviour and expectations. For Mr Silva, this does not necessarily mean that the retail and other non-banking industries are effectively “doing the right thing”. But they are changing the behaviour of people who then have certain expectations of banks, he says.

Easy access

Retailers such as Amazon and Apple have set the bar high for banks. More than 80% of Apple’s revenue comes from streams other than in store, says Mr Grover, but customer engagement mostly started in store. Once a customer account has been set up, the relationship does not need to be ‘renewed’ with new verification processes, instead that relationship deepens, he says.

But because of banks’ siloed channels, an existing customer may have to go through another verification process for a new product because the onboarding may have taken place on one channel, but not integrated into another. “There is no reason why you cannot have one method,” says Mr Grover.

The criteria a customer has to meet to get a certain bank product, such as a credit card, often overlaps with the criteria for other products, he adds. A basic account application process is, for instance, similar to a credit card application process. In fact, according to Mr Grover, up to 80% of the criteria are similar. “[Amazon and Apple offer] different models [from banking] but they set examples that can be leveraged,” he says.

Using existing customer data may sound logical, but as Mr Timms points out, banks have not yet leveraged this big data efficiently enough – an area that will continue to grow in importance as banks seek to manage customer data more efficiently. “We may have lost some of the trusted [customers] following the crisis but they wouldn’t want their personal data with anybody else,” says Mr Timms.

The results of a Cisco survey back this up. According to Mr Hislop, banks are nine times more trusted than the next best organisation, but Mr Jameson highlights the fact that consumers appreciate that Amazon knows what they want.

“Amazon is focused on behaviour and understanding it, and is delivering services based on behaviour. Banks have been tracking on product use and transactions. But they have to look at the retail model. The channel itself is irrelevant – it’s about what is valuable for consumers,” says Mr Jameson.

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