FINASTRA

WHITE PAPER

DIGITAL BANKING: FIVE SIMPLE WAYS TO MAKE YOUR CUSTOMER FEEL SPECIAL

How to differentiate your online and mobile banking to stand out in a crowded market

THE FUTURE OF
FINANCE IS OPEN

CONTENTS

EXECUTIVE SUMMARY

The US retail banking market is fast paced and highly competitive. Consumers are demanding a cutting-edge experience. ‘Good enough’ is not good enough.

There are 173 million smartphone owners in the US. That’s 74% and growing. There are over 1,900 financial apps in the iTunes App Store… beginning with the letter A. That’s a 40% increase in one year alone.

How can you truly differentiate your online and mobile banking to really stand out in this crowded market?

This white paper explores five ways you can better engage with your customer—to create stickiness and engender loyalty.

Care. A Lot.

In 2015, just 28% of Americans had 'a great deal' or 'quite a lot of confidence' in banks—a massive decrease, down from 60% in 1979[1]. 26% of US consumers in 2015 had little or no confidence in banks. So what has changed?

Over the years, banks have become more digital and less human in serving their customers. They might be more efficient, but relationships are not about efficiency. For the non-digital 'native' customer the interaction can be less than fulfilling. When a problem occurs in the digital world, the customer is often faced with the frustration of resolving it solo, without the safety net of a human to talk with.

Banks need to spruce themselves up a bit and show they care. The Capgemini & EFMA 2014 World Retail Banking Report[2] found customers with positive experiences were three times more likely to stay with their banks and three to five times more likely to refer others or buy more products themselves.

EFMA 2014 World Retail Banking Report
Your customers with positive experiences are:

3x → **3–5x**

Three times more likely to stay with your bank

Three to five times more likely to refer others or buy more products themselves

Banks have to find a way of speaking to the customer in a style that does not frustrate them. We know banks have the appetite to do so—analyst firm Aite Group recently reported that 82% of banks want their online offering to be 'stellar.'[3]

This means demolishing the imprecise technique of dropping customers into meaningless demographic boxes. Instead, banks can adopt a fresh approach by making informed decisions—not assumptions—and promoting products as timely and relevant financial advice, at the point of need.

1 Americans Confidence in Banks 1979-2015 Trend,Gallup, JUNE 22, 2015

2 'World Retail Banking Report', Capgemini & EFMA, April 24 2014
3 'U.S. Online Banking Vendors and Their Consumer Online Banking Solutions', Aite Group, July 29 2014

Think Dating Based on Personality, Not Zip Code

The typical 'mass marketing' approach hits many customers based on volume of effort, not information. It also misses many, leaving the bank short of opportunities. Or worse, banks' marketing attempts can force fit a customer into an inappropriate product, wasting a genuine sales opportunity while undermining the customer's confidence in the bank. In an era of big data availability, such a crude modeling of customers must be replaced by one that targets more customers, more efficiently—in a way that resonates.

To improve upon traditional customer relationship management, the finance industry can take a few pointers from behavioral economics. The work of David Laibson, the Robert I. Goldman Professor of Economics at Harvard University, famously used behavioral economics to mathematically represent the habitual opening of gym membership that follows a new year—but is not backed up by exercise.[4]

By looking at what people do—rather than assuming what they will do—a firm can build a long-term relationship with a client.

The modeling is a bit more of a workout for a bank, which is trying to match millions of customers, in a variety of circumstances, with a range of products, in such a way that generates sales. Structuring the client relationship well requires intelligent analysis of many sources of information and tested methods of matching product to need.

There are five simple ways to make your customer feel special:

1. Get a better picture of your customers
2. Help them out: be advisors
3. Remove frustration
4. Try to be interesting. And relevant.
5. Pay attention to how they are

4 'Paying not to go to the gym', American Economic Journal, Stefano DellaVigna, Ulrike Malmendier, June 1 2006

Get a Better Picture of your Customer (But Don't Spy Through the Keyhole)

In 2014 report from analyst house Celent, 'Don't Be Creepy: Analytics and the Client Experience'[5], the author Isabella Fonseca said, "The findings show the importance of segmentation. Segmentation drives the need for analytics, while analytics drives ever more sophisticated segmentation strategies. The ultimate goal of analytics is to arrive at a segmentation of one. But that will be an iterative process, fraught with trial and error."

1.8bn

Number of mobile users is set to rise from 0.8bn in 2014 to 1.8bn by 2019

Source: Mobile Banking 2015, July 2015, KMPG

Segmenting customers by similarities in their records is based upon many simplifying assumptions and is inflexible. Your customers are talking to you and about you. They're providing a wealth of information—but are you listening?

Javelin Strategy conducts an annual benchmarking survey to identify the 'Digital Banking Experience Leaders'[6] and they found that mid-sized firms were achieving good performance results—despite having far fewer resources than their larger rivals. For example SunTrust Bank, whose Tier 1 Capital is proportionally about 10% that of JP Morgan, was named 'Digital Banking Experience Leader for Online Banking.'

"These results show that banks should be paying more attention to specific customer-satisfaction ratings when planning digital innovation," said Jim Van Dyke, CEO of Javlin Strategy. "Banks could find opportunities to reprioritize their investments in their digital capabilities, achieving both higher customer satisfaction and revenue on the same amount of technology investment. Banks need to separate faddish bells and whistles from the features that truly lead to greater value with customers."

How many times have you been in a dialog with your bank, and the representative has attempted to demonstrate the bank's supreme knowledge and understanding of your personal finances and individual needs, but failed miserably and sounded more textbook than trusted advisor?

In this digital age, there is no excuse for this. There is a bounty of information available from a multitude of sources that can provide useful insights—without crossing the line to become an invasion of privacy.

How can you better analyze your customers and their behavior, and apply this correctly, to create a smarter and more dynamic model for segmentation?

Better segmentation will result in more useful, more relevant advice being targeted at your customers. This in turn will result in a better customer experience—where customers receive 'advice' rather than product promotion. Good customer experience has many definitions, at Finastra, we define it as frustration-free finances.

5 'Don't Be Creepy: Analytics and the Client Experience', Celent, August 22 2014

6 '2014 Digital Banking Experience Leaders', Javelin Research & Strategy, July 29 2014

Help Them Out: Be Advisors

The proportion of bank revenues and customer deposits at risk through consumer frustration are considerable. Consultancy CG42 has identified 15% of US bank customers with US$363 billion in deposits, generating US$20 billion in annual revenues are 'frustrated and shopping'[7]. A further 11% are 'just frustrated' but carry an additional US$264 billion in deposits and US$15 billion in revenues. That makes 26% of consumers who are 'at risk'—or potential customer acquisitions for your bank.

Do you push products? Or do you offer advice?
The most successful sales organizations are often those that make the subtle sales pitch. When in your online banking, if you receive a pop up advert for '12 months 0% APR' for a new credit card, in the majority of cases, that will be an irritation.

If it reads 'Holli, you have been pre-approved for 12 months 0% APR', that could be mildly interesting, if your name is Holli—let's presume it is. But if Holli receives an SMS or push notification, alerting her that she is about to exceed an overdraft limit, and is pre-approved for a 12 months 0% APR credit card—this is useful advice at the time of need. This is a mix of segmentation, and contextual marketing. In the debris of the credit crisis, it is even more important to be seen as providing value-add to your customers.

Another simple way to add value to your customers is through online and mobile personal financial management (PFM) tools. Are your customers able to create savings goals? Can they allocate or tag their outgoings to create meaningful account overviews and categorization? Can they see their spending history plotted on a map, which could help identify fraudulent activity? PFM tools not only provide valuable information to your customers: it is a two-way information flow and you can reap massive amounts of data from your customers too. This information can of course be fed back into customer segmentation.

If these tools provide a useful—and financially beneficial—experience then consumers are more likely to stick with the provider, make recommendations to their peers and take more services from the same financial institution.

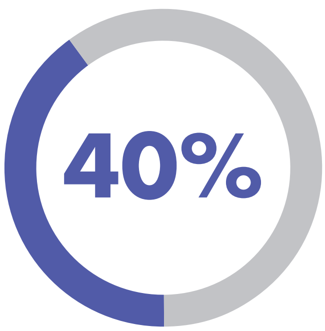
How many Barriers do you put Between your Customer Wanting a Product, and Getting a Product?

There are multiple sources of frustration for the customer. The most common are caused by lack of clarity around product conditions and fees, often leaving the customer uncertain as to how much they will be paying to maintain a product. Tied to this is the level of bureaucracy that a lot of financial services require, with physical or online forms to be filled in and a considerable waiting time for applications and approvals before the customer can start to use financial services.

Your customers are used to buying a product online with one click and being preauthorized via firms like Paypal; that is the measure of experience that many customers now expect from financial institutions.

The reality is that financial services are rarely online enough. Typically, banks will still need to make a call or ask for a paper to be signed—something offline. That is a serious source of 'friction' in the customer experience. Even where banks achieve a good degree of functionality on their websites or mobile apps, often there is an array of applications preventing a process from being simple and fast. For a customer to move between investment management, paying bills and loan repayment can be cumbersome. In some cases up to 15 clicks might be needed to pay off a monthly loan.

A simple set of online and mobile banking customer processes are needed, that generate the least possible amount of friction with the fewest number of steps and buttons to be clicked through. Remove everything that is supplementary information in order to create the straightest line to the point the customer wants to reach. This philosophy affects all services from how to spend money in the most frictionless way to paying your bill in a **maximum of three clicks**.



North American consumers aged 18–34 would bank with Google

Source: Accenture, March 2014

of millennials don't care if their bank went out of business

Source: Millennial Disruption Index, Anne Hubert, Scratch, Viacom, May 2015

7 '2013 Retail Banking Vulnerability Study', CG42, July 18 2013

Remove Frustration

The underlying design principle for customer interaction is the reduction or ideally elimination of friction.

40%

of people will abandon a web page if it takes more than three seconds to load.

Source: Econsultancy, 2013

of retail banking executives think UX is the most important factor in the digital transformation of the front office

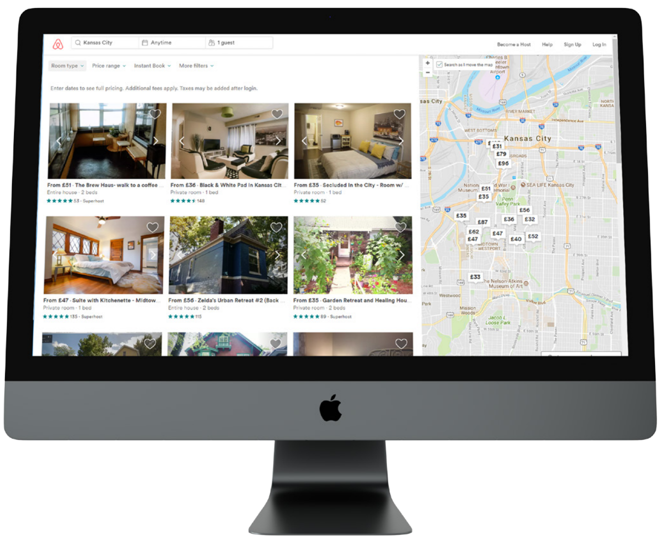
Source: Capgemini Financial Services Analysis 2015, Retail banking executive interview survey

Engage in very early user testing of systems to break down bottlenecks and barriers to process, using an iterative development approach.

Examples of the importance of the user interface are visible with many online firms: online private accommodation sourcing firm Airbnb's browser application and Uber's mobile application are far better than any existing accommodation or taxi application as measured by customer experience. The user interface itself does not entirely determine customer experience. The user interface is focused on a set of screens that allow the user to book a room next time they go to Paris, but customer experience is about removing the frustration points.

The accommodation business is challenged by the payment process. The owner of the house is a private citizen so they cannot take card payments. Airbnb takes the payment with the booking, so there is no friction later around the deal. Uber resolves the frustration of calculating how much a taxi fare will be by fixing it according to the pickup point and drop off point.

If a firm can build a business based purely on other peoples' couches and recalcitrant taxi drivers and an excellent user interface, how simple would it be for firms to build a business based purely on a high demand product—like loans—and an excellent user interface? Ask Lending Club or Prosper.



Airbnb browser experience

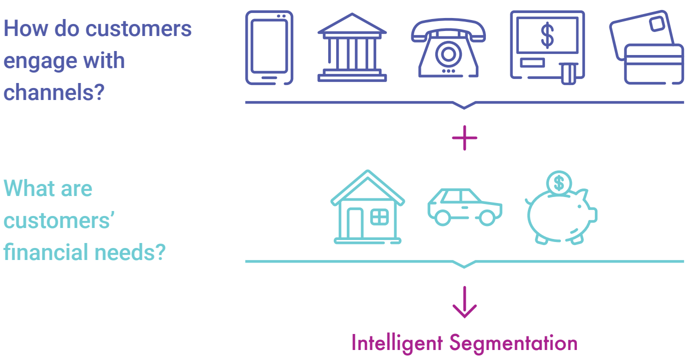
Try to be Interesting. And Relevant.

If your customer turns up to the digital bank only to make occasional payments, they are just being nice—they don't really like you. Becoming relevant to their lives will improve your relationship, create stickiness and make your bank an essential part of your customers' financial lifestyles.

As with most other industries, banking customer service is now a largely digital experience. This can create a positive environment for both push and pull services, offered according to analysis of quantitative data. Many famous examples of this exist in the retail sector, such as Amazon's 'People who bought this also bought…' and 'Recommended for you because you purchased…' sales promotions. Have you considered how to incorporate these tactics in online and mobile banking?

If a retail bank has one million customers, there are ten different customer types within that number, who use the service in ten different ways. Where the bank can begin to evaluate customers' needs is through the way that they interact with the bank. There are variations in how regularly customers use services, in the amounts they send or receive, in the number of transactions during a session, the number of products they are using, etc. Likewise, the device they use: computer, tablet, phablet or phone, is an important consideration in defining the customer need.

By looking at how customers use digital banking, the branch network, call centers, ATMs and cards, and then taking into account other variables, such as product ownership, their spending patterns and their savings—and then analyzing how customers engage with their digital devices and social media—it is possible to begin to segment the customers more intelligently and precisely.



While superficially this might seem similar to the marketing segments that have been used historically to identify customer groups, the focus is on their interaction with financial services rather typical than demographic characteristics.

This results in a 'persona template', which can be used as a more effective model for presenting and offering services via an interface than consumers' age or marital status, while avoiding the extreme costs of a personalized service.

For the customer, this removes many of the potential frustrations. If they do not have investments then they will not see investment tools in their online dashboard; if they have extensive investments and check them every day then that could be the most important tool on the dashboard. This creates a totally different experience and unique content for different clients.

The return on investment is not purely based upon the elimination of customer frustration and resulting customer satisfaction increase. It delivers sales, creating new revenues. By setting out personas, a bank can determine the product and service offers that are directly relevant to a particular customer, and more. This increases the likelihood of being clicked by the customer. It is parallel to the Amazon model without crossing the line and being intrusive, a chief concern in Celent's 'Don't Be Creepy: Analytics and the Client Experience' report.

Pay Attention to How They Are

Big data is opening up all kinds of data trends and analytics for businesses to monetize, but the real value to banks could be in the small data. Banks can use small data in order to personalize services, to the extent that a customer event can be tagged to a relevant business action.

For example: If a customer has a credit card for shopping and uses it to withdraw money from an ATM, the consumer is hit with a large fee. While if the consumer switched to a debit card it would be free. Banks rarely recover any of this fee income from the charges, as it is paid to the credit card firm.

Imagine how your customer would feel if you sent them a notification to their smartwatch or smartphone, informing the customer of the credit card's fees and how a debit card could help them better manage their finances?

Smart technology allows that alert to be actionable so the customer can click on it and have the option to go to that product application page online, make a call where to order it or even just press a 'yes' or 'no' button to receive the card. Additional services can be based upon this one interaction, whether lending or advising something which is in context very relevant, personalized and actionable alerts.

This level of financial advice will not only create new cross-sell opportunities for your bank, but importantly create a more loyal customer base that come to see your institution as trusted advisors.

CONCLUSION

Ovum predicts Retail Bank IT budgets to grow at 4.3% CAGR globally between 2014 and 2018. US firms will make the largest investments reaching US$58.5 billion by 2018, with the objective of improving customer experience and digital banking.

4.3%

Retail bank IT budgets annual growth rate 2014

Banks using data to intelligently segment customers and provide the right tool based on those segments, will open up new opportunities and increase revenues. There are big opportunities here.

With 26% of customers frustrated by their banks, a smart offering—not necessarily from a big player—can reengage with customers and gain significant market share. The US$627 billion in deposits at stake and the US$35 billion in associated revenues, would go some way to shoring up capital reserves just as they come under pressure.

Some channels—for example using mobile banking for sales—are effectively unused, despite mobile banking being the fastest growing channel for interacting with customers. Lenders, including JP Morgan—the biggest US bank by assets—are leaning on mobile and online offerings to win loyalty while lowering the cost of retail services. The firm's mobile users rose 24% from 2013 to reach 16.4 million. Bank of America, the second largest US lender, has reported that its mobile customers have grown by 19% to 15 million. Yet according to data from Efma, a staggering 87% of banks make less than 10% of product sales (by volume) through mobile channels.

The trigger that can turn this around for banks and ensure digital channels are profitable sales channels is relevant, actionable alerts and persona-led banking. Retail banks need to switch from mass marketing particular products, to providing advice-based, contextual product offers—at the time of need for consumers. **Is your bank doing everything possible to provide the right service, to the right customer, through the right channel—at the right time?**

About Finastra

Finastra unlocks the potential of people and businesses in finance, creating a platform for open innovation. Formed in 2017 by the combination of Misys and D+H, we provide the broadest portfolio of financial services software in the world today – spanning retail banking, transaction banking, lending, and treasury and capital markets. Our solutions enable customers to deploy mission critical technology on premises or in the cloud. Our scale and geographical reach means that we can serve customers effectively, regardless of their size or geographic location – from global financial institutions, to community banks and credit unions. Through our open, secure and reliable solutions, customers are empowered to accelerate growth, optimize cost, mitigate risk and continually evolve to meet the changing needs of their customers. 48 of the world's top 50 banks use Finastra technology. Please visit **finastra.com**

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