Integrated Service Delivery for Retail Banks

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Multi-Channel Integration: The early days

When I first started my banking career in 1986, one of the key initiatives that retail banks around the world were working on was how to "dove-tail" the newly created "auto-banking" lobbies into their large network of "brick-and-mortar" branches. In those days, these self-service banking lobbies as some banks called them were no more than 2 ATMs, a rates information terminal, brochure stands and in some cases, a fixed line telephone for customers to report lost credit or ATM card. For security and servicing reasons, these lobbies were mostly located next to branches that operate typically 9 am to 3 pm banking hours. With experience, these lobbies were setup in non-branch locations as an extension of their banking services when rental of branch premises and other considerations made it non-viable to establish full-pledge branches at those locations.

From the mid-1990s, with the popularity of call centres and the advent of internet banking, hotline to the call centre and internet/self-service banking kiosk became popular additions to these self-service banking lobbies. More savvy banks begun to market these as self-service lobbies or many referred to them as "customer touch points" to supplement cost laden branches that could not offer 24-hour banking services. With rapid expansion in these self-service banking fronts, customers benefitted from greater accessibility and convenience to banking services that were not previously available. Banks on the other hand saved on lower setup cost and were also able to deploy these auto-lobbies quickly to expand their footprint compared to traditional branches which were costly to setup and operate due to higher recurring costs such as rentals and staff cost.

Over time, banks were however inundated with several major challenges. The prominent ones include disparities in customer service standards across different channels, non-uniformity of customer user interfaces, slow fulfillment of online service requests, higher costs of capital investment and operating costs to manage emerging technologies and the difficulties of integrating new technologies with existing legacy systems in the banks. There were also anecdotal examples of banks that were so successful in migrating customers to these self-directed channels that they had to start new campaigns to attract customers back to their branches to garner new sales. Multi-channel integration became the popular initiatives championed by banks' consultants and advisors since then. With increased bank mergers and acquisitions happening during the late 1990s and early 2000s; the challenges of integrating multiple delivery channels from these merged entities became even more complex and difficult.

Fast Forward

The global financial crisis has not only brought about a world-wide recession since 2008 but increased pressures for governments and their people around the globe. Likewise, banks are facing the worst crisis in the history of banking. Not only the competition is tougher, customer expectations are higher, their loyalty is lower, and regulations far more wide-reaching and prescriptive. As banks start to comprehend the significant impact on their profitability and the ways to conduct their businesses going forward, a "new normal" emerged that challenge and force banks to reinvent themselves to meet the complexities of the marketplace.

It has been more than 30 years since the introduction of auto-lobbies where previously these were "nice-to-have" services but have now evolved into essential facilities that are demanded by customers. According to Greg Kelly[1], a principal with Deloitte Consulting LLP in Chicago, "… multichannel integration has been the "Holy Grail" for many banks, particularly the top 20 (in the US), but such institutions face a number of impediments, including legacy batch-based systems, siloed business operations and cultures and the lack of a single repository or an "abstraction layer" that can access customer information…" However, he noted that banks are now starting to move down a more comprehensive, integrated path (by) creating a layer underneath the channel–a business orchestration layer taking into consideration all of the needs of the channels. "But few have been able to attain that" Kelly surmised.

Next Generation Customers

Industry experts shared that banks' survival hinges on their abilities to renew their operating models and develop innovative services that differentiate themselves from the competition. According to Accenture's Wayne Busch[2], managing director for banking in North America. He explained that a core transformation strategy is fundamentally about identifying and developing the necessary capabilities to "simplify yet differentiate at the same time." If banks are able to build upon their core strengths and unique characteristics, this would allow them to continue satisfying existing account holders while attracting the next generation of customers who are tech-savvy and frequent users of mobile applications and social media.

According to Ernst & Young's Global Consumer Banking Survey 2012[3] that covered 28,500 customers in 35 countries, social networks are becoming important sources of banking information, especially in emerging markets:

- Globally, 44% of customers use social networking sites as sources of information on banking products and services.

- Customers in emerging markets are particularly likely to use social media to interact with their banks. For example, 81% of Chinese customers use social networks to find out more about banking products and services, 73% to access their accounts and 70% to comment on service received.

- In Turkey, 78% of customers use social media to find out about banking products and services, 67% to access their accounts and 53% to comment on the service they receive.

The report noted that overall, social networks are also magnifying customer voices, increasing their power to act as advocates or critics.

With the rapid adoption of smart phones and connected portable devices like tablets by the average consumers, online and mobile banking are increasingly emerging as the preferred banking channels for the next generation customers and the existing tech-savvy customers. However, the E&Y report showed that customers want to see improvements in online and mobile banking. In fact, greater confidence in security would encourage 78% of young people to make greater use of mobile banking which could lead to a huge potential cost reduction.

While the report noted that improving online and mobile banking is identified as the second most important driver of increased satisfaction by customers around the world. Customers have not yet accepted mobile banking as a trusted distribution channel. For this to change, banks need to make a range of improvements to availability and service quality.

Some banks have begun to re-engineer their existing user interfaces across different delivery channels with the clear objective to deliver an integrated multi-channel experience to their customers who now own the devices compared to the past where banks controlled the user interface and access capabilities of these bank owned devices. To do this entails "demolishing" channel silos, vigorous review of their existing operating structures, processes and core banking systems, integrating disparate customer databases and the incorporation of social media analytics that provide insight into online behavioral patterns of their customers. However, more need to be done especially in understanding how new technologies like the social media and customers' expectation of online and mobile security measures are affecting how customers will interact with, transact and commit on financial services with banks.

Non-Traditional Competitors

As banks work on their transformation programmes to drive customer acquisition through new methods of customer engagement from "push" to "pull" across the physical and the online worlds; they need to examine critically how to protect their existing customer base from the growing threat of non-traditional competitors.

Competition from non-traditional competitors is not new in the finance and banking industry. Telcos and mobile phone manufacturers became the earlier entrants to the banking space from the late 1990s. I recalled the first generation of mobile banking service could only be offered via the SIM toolkit that was under the control of telcos. Banks offering mobile banking then had no choice but to work with the telcos and in many cases on exclusive tie-ups thereby alienating some of their customers who took up mobile subscription from other telcos. Soon, network, service and content providers jumped on the internet and mobile internet bandwagon to offer various forms of financial services and electronic payments. Many readers would recall the offering of digital money and its equivalent in the likes of digicash and digital wallets. The most widely-known centralised e-money payment system that is increasingly popular and gaining traction is PayPal.

In recent years, the number of non-traditional competitors to banks has increased many folds. Many big and small retailers, gaming companies including telcos, Microsoft, Apple, Facebook, etc offer some forms of loyalty programmes as a defensive strategy because everyone knows that the winner is the one who owns the mind and wallet share of the customers. PayPal has a comprehensive payment solution and over 100 million active users[4] of its digital payment service while Apple was reported to have 400 million active users[5] in iTunes with credit cards. On the other hand, Facebook reported 995 million monthly active users with 543 million monthly active users on mobile. Given its huge penetration of the mobile devices market share, enormous personal data collected from its mobile users and the credit card linkage, Apple could emerge as a major game changer.

The Journey Ahead

As the world acclimatize to a low growth environment, banks must adapt to tightened regulations, embrace new technologies, meet diverse customer expectations and manage increasingly uncertain economic conditions. For retail banks, they have to deal with two distinct sets of customers – the conventional and the electronic Y-generation. Both sets of customers have different needs and require different modes of service delivery. Although the conventional customers still form the larger segment and are overall more profitable, the growing new-age customers will progressively emerge as the key contributors to the banks bottom-line.

The seamless delivery of enhanced and secured customer service across multiple channels including those on the customer devices will require breaking down of siloed operations, core systems transformation, consolidation of disparate customer databases, behaviour analytics of social media data and innovative product development. While virtual channels are important, physical branches with personalised advisory services will continue to play a key role for more complex financial services that could not be duplicated by the non-traditional competitors that thrive solely on cost effective electronic based services.

References:
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[2] Part 6: Seven Key Attributes for Core Transformation, Achieving High Performance in Core Banking: American Banker Series,
http://www.accenture.com/us-en/Pages/insight-american-banker-core-banking-transformation.aspx

[3] Ernst & Young, Global Consumer Banking Survey 2012, http://www.ey.com/GL/en/Industries/Financial-Services/Banking---Capital-Markets/Global-consumer-banking-survey-2012--Adapt-business-models

[4] PayPal's Vice President of Mobile was reported in Feb 2012 saying that the company has 106 million active users:
http://www.usatoday.com/tech/columnist/edwardbaig/story/2012-02-28/mobile-payments-mwc-isis/53285554/1

[5] Apple's Tim Cook announced in Jun 2012 that Apple has over 400 million active users in iTunes that are linked to credit card accounts:
http://bits.blogs.nytimes.com/2012/06/11/apples-stash-of-credit-card-numbers-is-its-secret-weapon/

[6] Facebook monthly active users as reported in Jun 2012: http://news.cnet.com/8301-1023_3-57480950-93/facebook-over-955-million-users-543-million-mobile-users/

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