Virtual Banking for Real?

By Wilson Aw

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In the concluding article of this 3-part series, we looked at where Self-Service Banking will be heading in the future and discussed whether Virtual Banking is for real?

A Long History

This article carries a high-level strategic analysis of self-service banking (SSB). Strategy is "strategos" in Greeks, for "**direction**". If we get the direction right, we will be on the right path.

Lets apply this to a question I was intrigued with since many years ago: **"Virtual banks become real and Real banks become virtual?"**

As Sherman's first article in the series alluded to, since the early 80s, banks have started to siphon off routine transactions to SSB. Customers are encouraged to contact the bank in a variety of ways at times & situations convenient to them instead of visiting the branches. Thus, **banks have started to embark on the road to virtual banking long ago, not just recently**.

The Evolving Media & Value Delivery

We need to realize that when it comes to convenience level, it is relative. Internet Banking is more convenient than ATM; ATM is more convenient that queuing up in the branch for cash withdrawal. Customer expectations also change. And we have Patrick's 'Rise of the Machines' – the next time you are at the ATM, take a closer look. Thus, **what is convenient now may not be accepted as such in the future. Thus, virtual banking will always be a continuous process**.

Banks previously exclusively own the ATM network. That was powerful. Think about that. Then, telephone banking came along, banks found that they do not own the device or data link but only the value delivered through the device. With the Internet, **banks no longer own the device or software or delivery or even the majority of value delivered through the device**.

The Foundation of Virtual Banking

10 years ago, the industry started to realize 2 competitive advantages that they can potentially garner. The first is **virtualisation** - ability to create digital representations of people, places and objects e.g. video-conferencing, virtual malls, digital art gallery. Second, **interactivity**, not just static.

With these, the aim is the very important concept of **"Better Than" in Virtual Banking.** For instance, video-conferencing is supposed to congregate people "as if" they are in the same place. But this is not enough. To satisfy customers, it has to be "better than" being there. Maybe, in the sense of being able to be at 2 or more places at the same time, or being supported by other colleagues or "Help" systems in his own office during the video-conference.

The Virtual Banking Equation

We are now ready to summarise the factors influencing virtual banking in an equation, with 6 **key** factors highlighted:

Virtual Banking = f [Appeal of branches, Standard of Living, Customer Expectation, Cost Structures, Culture, Influence of Foreign Banks…..]

Factor 1: The appeal of bricks & mortar is still very strong. It is unlikely that branches will be replaced totally. But there will be future rationalisation and reduction in the number of branches once the economic boom slows down and branch/labour costs rise. The remaining core branches will be very focused in customer servicing, high value-added services & difficult problem solving.

Factor 2: Stages in the economic development and standard of living. For developing countries where bread-and-butter issues dominate, basic banking services to satisfy basic needs will still rule. There are instances where the bargaining power is in the hands of the banks in some developing countries where they can charge relatively high fees for basic ATM services. This can be a temporary anomaly where demand for service out-strips supply. On the other end of the spectrum are the more advanced countries where virtual banking is likely to take off sooner than expected.

Factor 3: Customer expectations are higher where standard of living is higher and they demand for the best in terms of convenience, choices and more. The recent article in Digital Life "You can BANK on IB" reported the increasingly higher expectations of online banking customers (which virtual banking offers). With higher education & training, consumers are more receptive to technology and changes. This is another pre-requisite for introducing virtual banking.

Factor 4: Cost structures*.* Land costs, labour costs are much lower in most parts of developing world. Especially relative to technology costs of self-service banking & virtual banking. Thus a changing cost structure as a country progresses will see a turning point where it becomes more economical to automate & 'virtualise' banking, essentially reducing branch & people costs. The length of time before this turning point is reached is becoming shorter and shorter.

Factor 5: Culture. There may exist cultures that emphasized a high content of personal touch & face-to-face customer service; or a varying degree of this for different cultures. Whether video-conferencing can substitute real customer contact remains a question. For some higher value-added service, customers may feel they need to see someone face-to-face even if it can be delivered via SSB.

Factor 6: Influence of foreign banks. Local banks in developing countries rely more on branches & less on SSB than the technologically-advanced foreign banks. The latter target a small group of affluent and educated consumers with advanced internet banking and SSB facilities. The local banks target the masses and depend on volume rather than value e.g. lower deposits and spending per credit card. But for the country as a whole, virtual banking is not going to hit prime time until the majority or masses are ready for it. In the mean time, as the country progresses, the foreign banks will try to reach out to a larger segment of the population who are getting more affluent by offering less exotic alternatives whereas the local banks try to lure the top end of the market by offering more & more SSB.

The Conclusions: Virtual Banking for Real?

Full Virtual Banking? It is **unlikely that full virtual banking will ever materialise** i.e. no physical branches & only remote and self-service banking. More probable will be a rationalisation of branches to function as sales & service centres and virtual banking fills in the gap. What will happen? Majority of transactions & relationship will occur via virtual banking vis-à-vis branches. Virtual Banking is still far from being a reality. Many factors highlighted earlier (cost structures, customer expectation etc) will determine the speed at which a country moves towards virtual banking. Some countries may surpass others due to its size & the speed of arriving at common standards. But as long as there are countries being left out, virtual banking implementation is not complete. Virtual banking is supposed to transcend geographical boundaries.

Now, that is the roadmap. Back to the question: **what should we do with the ATMs? I guess you have the answer now. Remember, the direction, not the path!**

The writer is a Vice President at a Singapore bank and a certified Financial Risk Manager, with previous experiences developing strategies for retail banking and e-business. The article is contributed in his personal capacity.