P E R S P E C T I V E

A Compelling Case for Channel Innovation

Finacle from Infosys

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Technology is indeed a great leveler. The commoditization of banking services is living proof: banks that have shifted from legacy to modern core banking systems are pretty much on equal footing in terms of the products, services and experience they offer. So, how can banks build competitive advantage in a market where product differentiation is becoming blurred while customers are becoming increasingly fickle? The answer lies in innovation, which ironically, is enabled by the same technology.

Banking innovation can work at the product, channel, process and business levels, to name a few. While the relative importance of each is open to debate, there is no denying that channel innovation has impacted banking behavior the most. Going forward, in all likelihood, it will be a bigger influencer with the self-service culture, taking firm root as Gen-Y starts to dominate markets. Any change in delivery processes or distribution infrastructure is immediately reflected in the customer experience. Hence, channels will remain a high priority area for banking innovation.

While the primary goal of channel innovation strategy is to enhance customer engagement and experience, it can also create collateral advantage by way of improved agility, cost optimization and efficiency. Indeed, it may not be an exaggeration to say that innovation holds the key to survival in the long run.

Channel innovation enhances customer engagement and experience:

As banking customers evolve, their needs grow diverse. Therefore, banks must fine-tune their segmentation strategy to create sub-segments reflecting subtle differences among customers who are otherwise grouped together. Indeed this is an imperative, rather than an option, as customers demand that banks recognize their individual needs and create offerings to satisfy them. By analyzing historical customer data along with tacit intelligence gathered from various channels during the course of interaction, banks can gain valuable insight into evolving customer preferences, which may be used to refine their product and service offerings.

When it comes to banking channels, customers' expectations are no different – already, the once "innovative" Internet banking is considered mundane. Some banks have taken the lead, improving their customers' Internet banking experience by allowing them to personalize their pages to a certain extent. Others have been more innovative, delivering services to the unbanked through non-banking channels. A good example is the offering of money transfer services through the pawnbroker network to Hispanic customers in the U.S., in the hope that this would lead to a formal banking relationship in the future.

Social networking platforms are growing in importance as a source of influence, if not a mode of commerce. Not only do they enable regular transactions but also innovative ones such as peer to peer lending. Leading banks are leveraging viral marketing techniques and advocacy to create favorable word-of-mouth around their offerings through a win-win arrangement which generates credible publicity for banks and rewards or recognition for advocates.

Channel innovation improves agility:

Banks are chanting the agility mantra to survive in a dynamic market full of impatient customers and are looking for means to respond faster to environmental cues and changing demands. Direct banking is one example of how channel innovation can help banks crash time to market. In the post recession scenario, the appeal of direct banking as a quick market entry strategy has only increased. However, a short lead-time is not the only advantage of this channel. Since direct banks entail minimal investment up-front and rely on outsourced services, they enjoy significant cost advantages which they pass on to their customers, who repay the gesture with high business volumes.

Besides facilitating the quick delivery of customized products and services, channels can also provide insight into customer behavior. Analytics tools can process transaction data gathered from different touch points to understand present customer activity and predict new trends. These tools are also capable of analyzing "non transactional" data, including that which is available through unstructured sources, to enrich the banks' understanding of their customers. Banks can leverage this insight to align their business model more closely with customer expectations and thereby reap the benefits of improved cross-sales opportunities, customer retention and profitability.

Channel innovation optimizes costs:

Channel innovation provides several avenues for cost optimization, of which direct banking, discussed earlier, is one. The outsourcing of channel management to third party vendors by using performance-based contracts relieves banks of channel-related fixed costs. Large, diversified institutions which prefer to manage their own channels could resort to sharing channel management services within the group and its subsidiaries by leveraging a single back-end to provide different customer services. This improves utilization of existing resources and preempts the need to duplicate infrastructure within the group.

In parallel, business processes can be fine-tuned to enable greater sharing of services. In the case of multi-national operations, business processes can be re-located to low cost regions, which, in time, will also deliver higher efficiency on account of specialization. Further, technology can improve the efficiency of transaction processes by reducing dependence on human intervention or enabling self-service for even complex transactions. For instance, the queries of mortgage applicants can be addressed through interactive help services delivered online, rather than at a branch. Therefore, banks need dedicated human resource to serve only those processes that cannot be consummated off-site-for instance, physical verification of documents or the identity of account holders. Direct banks which may not have the required physical infrastructure to perform such activities could enter into a third party outsourcing arrangement with the local postal network or similar agencies. An evaluation of each of the banks' touch points can highlight similar opportunities for innovation of delivery processes.

Banks can also cost optimize the delivery of products and services. For example, rather than spend big advertising dollars, they can leverage social networking platforms to identify and nurture advocates who can spread the good word within their peer group.

Channel innovation raises efficiency:

Channel innovation must not only improve the efficiency of internal banking processes but also enhance customer productivity and convenience. In today's open environment, banking customers have several options to choose from. All other things being equal, the quality of experience could prove to be the deciding factor which swings customer preference in favor of a particular bank. Technological innovation can take customer experience to new levels of personalization and convenience. The following example is illustrative: banks can configure their Internet banking solutions to allow customers to design their workflows for maximum efficiency. Users can customize their landing page or set "favorite" options, so that they can consummate frequently used transactions with fewer clicks.

Pioneers of customer experience innovation in retail, automobile and other sectors could provide inspiration to banks to adopt similar measures. The retail industry has led e-commerce from the front, setting standards for others to follow. Amazon is an outstanding example of how to leverage the Internet for distribution, among other things. By encouraging customers to review and recommend books they have created a culture of peer advocacy and credible word-of-mouth, which traditional advertising methods find hard to match. Similarly, the automobile industry has enhanced its ability to cater to specialized individual needs by enabling prospective customers to place requests for customization online. Banks, which are traditionally innovation-followers (constrained by legacy, regulation or size) are slowly recognizing the potential of innovative channels such as Web 2.0 platforms.

Banking channels can also contribute to efficiency by improving customers' money management processes. A large Australian bank offers monetary incentives to customers who pay utility bills using their website. Several banks provide online tools to enable their customers to better manage their finances. Moreover, transaction data collected via these tools highlight cross-sales opportunities for these banks. The mobile phone is gaining importance as a medium of financial transaction, as it seamlessly combines the important benefits of speed, convenience and security. Audio-video remote advisory services, hitherto available at kiosks and ATMs will also be delivered on mobile and internet channels, making the helpdesk accessible to customers more than ever before.

In Summary: Channel Innovation Creates Sustainability

As banks around the world recover from economic upheaval, there's a strong need to innovate on existing ways of doing business, in order to safeguard long-term sustainability. Channel innovation, which has changed the face of banking in recent years, must continue to spearhead the charge. There is much to be gained from innovation including improved customer engagement, agility and efficiency. Not to mention, that even banks' long term future might depend on how well they innovate.

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