

P E R S P E C T I V E

The Future of Retail Banking Lies  
Within its Channels



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In a market chock full of similar products, delivering a strong customer value proposition is one of the most important ways in which a bank can create a space for itself. Post-crisis, the balance of power has shifted clearly towards the banking consumer, who is demanding greater convenience, functionality, value, transparency, and above all high quality service and experience from his bank, and is willing to switch his service provider for these, if need be.

The banking consumer has also started to behave differently, and nowhere is this more apparent than in channel usage. A study conducted in April this year found that being able to use self-service channels was the biggest priority for 2 out of 3 banking customers. A similar proportion interacted with their bank over multiple channels, mostly a combination of the branch, Internet and mobile. And more than half – regardless of age or channel preference – felt that technology-led channel innovation was important.

How are retail banks reacting to this news? An examination of the current and emerging trends in banking gives a preview of how banks are reinventing themselves – and their channels in particular – to strengthen their proposition to customers.

### Through Channel Innovation

#### The Makeover of Branch Banking

After some years of depressed spending, investment in branch technology is on an uptrend. An analyst firm estimates that banks' global technology expenditure will cross US\$ 130 billion by 2015, of which investment in branch technology will be a significant component. That's understandable considering that approximately 80% of sales still originate at the branch.

However, given the pressure to show a return on every investment, banks are being choosy about how they deploy their money. They will no doubt put some into branch maintenance, but the focus is on technologies that can improve in-branch customer experience.

One of these is the use of an RFID chip – embedded into a contactless card or other device – that alerts an advisor in the branch the

moment a client walks in, enabling him to quickly attend to the visitor.

Other in-branch experience improving technologies include enhanced ATMs/Kiosks that automate a number of functions including cash deposition and also make transacting more secure by way of biometric authentication.

In future, more branches may use monitoring technologies to see what's going on in real-time. These will also be useful to gather information about branch traffic and congestion, average wait time, peak business hours etc.

Natural user interfaces – which respond to human gestures – could become a common sight within next-generation branches, as banks install very large interactive walls or windows that several visitors can browse through simultaneously for information, or as in the case of the Microsoft Surface, find, simulate and manipulate financial data on a “tablet” sans pen and paper.

#### Much More than an ATM

In the survey mentioned earlier, multi-functional ATMs ranked at the top of customers' wish list for branch innovation. For some time now, banks have been trying to equip their ATMs with higher capability. Spanish bank BBVA's redesigned sleek new ATM, which has made the user experience simpler and more intuitive, is perhaps the best indicator of what all ATMs will be like in future.

Some of the ATM services that banks are either testing or rolling out include: scanning of checks so that the machines can accept them minus the envelope; payment of direct taxes; acceptance of donations to charitable causes; railway ticketing; audio/voice enablement to assist visually challenged users; and audiovisual conferencing with “3D” advisors. Here, it is worth quoting the example of Gambia's GT Bank, which has innovated on its ATMs in such a way that customers can make cash deposits without using a debit card. Users need only click a button, confirm their account details and feed in the cash. The machine sorts out the various denominations, totals the cash and credits the account immediately.

## Innovation in Other Channels

An interesting example of innovation in mobile banking – which is witnessing more action than any other channel – is that of the Smartphone check deposit, which allows users to deposit checks from anywhere by transmitting their images to the bank, using an Smartphone.

Other promising mobile banking applications include those that facilitate trading, auto accident claim filing, and loan calculations, to name a few. The future is headed towards M-banking with the phone doubling up as wallet, credit card and bank branch.

## Through IT Enablement

### Banking on the Cloud

Cloud computing enables banks acquire and reuse IT resources more efficiently, with minimal upfront capital investment. With cloud computing, banks incur lower ongoing technology costs, need only pay for resources that they use, can scale capacity up or down at will, and roll out new applications faster.

That being said, cost saving is not the only benefit of cloud computing, which also gives banks an opportunity to break apart their own value chain and re-configure the business in real-time through dynamic sourcing from several service providers as well as provide customers easier access to services and a more engaging experience. Already, many institutions, such as Wells Fargo, Bank of America and Citibank are enriching customer experience by incorporating social media into their customer interactions, a subject we will return to later in this paper. Other non-banking players, like peer-to-peer lending platform Zopa, are showing how the cloud can be used to fulfill traditional banking transactions.

Although issues of data security, privacy and regulatory compliance have reined in the growth of cloud computing so far, it is still one of the technologies to watch out for.

## Through Financial Inclusion

### Banking the Unbanked

With prime urban markets becoming saturated, banks are looking at generating business from

hitherto untapped segments. Globally, it is estimated that about 2.5 billion people still lack access to formal financial services. While there's enormous potential in excluded markets, tapping it is neither easy nor viable with a traditional branch banking model.

Banks, especially those in South Asia have circumvented the absence of a physical network by employing microfinance institutions, NGOs and individuals with strong local connections as agents or business correspondents, devolving the entire responsibility of acquiring, on boarding and serving customers upon them. They have set up fixed or mobile kiosks in the vicinity of customers, which act as mini branches. Now, the emergence of low cost, ubiquitous mobile technology is giving a further boost to the financial inclusion agenda of banks not just in Asia, but the world over.

However, it is also enabling non-banking players, namely mobile operators, to enter the financial domain. In most markets, these companies have leveraged their enormous reach into financially excluded markets to successfully deliver basic mobile banking/money transfer services and some are now experimenting with innovations, such as mobile wallets. This is creating some pretty interesting dynamics in the area of mobile financial services and opening up the possibility of new business models. As a result, the future may see many instances of banking institutions collaborating with network operators to extend mobile banking services in financially excluded regions.

## Through Social Media

Social networking is arguably the biggest agent of change in consumer banking behavior. Even cursory observation shows how much it is a part of daily life. Today, social communities exert enormous influence over brand reputation, public opinion and purchasing decisions. Although banks, for the most part, are yet to leverage the potential of social media, they might not be able to resist its pull for long. Going forward, we can expect a wider participation by banks in popular social media. In future, social networks could be seamlessly connected to banking channels, and perhaps even evolve into one.

## Conclusion

Times continue to be tough for banking institutions as they grapple with low consumer confidence, intense competition and regulatory restrictions in a market that is yet to recover from the crisis. On top, customers are flexing their muscles by demanding better service and experience from their bank and leaving them for another when they don't measure up to expectations. In a highly commoditized market, it is these aspects – and not product and price – that differentiate one bank from the other. And the onus of delivery rests almost entirely with the banking channel.

Which is why, channel innovation will continue to play a crucial role in the future of banking. It could take many forms – a high-tech branch, a more intelligent ATM, a social media channel, on the cloud banking and a mobile phone that replaces both cards and currency, to name a few. Some of these may succeed more than others, but collectively they will reinvent the business of retail banking.

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