

PERSPECTIVE

Go Direct for Deposits



Like most Americans, your customer is in a hurry. She is at your branch during her lunch break, waiting in queue to make her deposit or ask about a loan. And as she waits her turn, she frets, wishing the service were better and that she had a more convenient way to get her banking chores done. When she finds out about the customer-friendly e-options the bank across the street offers, she might be tempted to cross over and park her money there. After all, customers are just a click away from the competition.

These days, banks are traversing a rocky road and need every deposit that a customer may make. They face both economic and business hurdles. The International Monetary Fund forecasts that the US economy will stagnate in the second half of 2008 and sees no growth for the economy this year. Oil prices are up 40% since January, heaping pressure on an economy already weakened by falling home values and the declining dollar. Oil prices have risen more than six-fold since 2002. Combined with rising food costs, the spiraling oil prices promise to squeeze US consumers. The consumer has very little to save and, consequently, banks are getting lesser money to put in their coffers.

Even in these trying times, bank customers continue to be discerning and demanding, asking for exemplary service, convenience and tailored products. As they face the economic reality of slowing growth, high prices and lower wages, customers are more savvy than ever and willing to switch their business if they do not get value for their money.

If banks are to attract deposits, they must fulfill customer needs and offer more than what they seek. Just like drug stores or grocery shops, banks need to be accessible and always available. However, they must keep costs low to ensure competitive advantage in a sluggish economy. Only then do banks have the chance of gaining and retaining deposits.

Banks are asking themselves: How can we cut costs and increase deposits even as growth slows, inflation soars and customers demand more?

Branching Out

Branches were set up as primary customer touch points, and, as the need for convenience increased, banks turned to ATMs. However, both require the bank to invest heavily in infrastructure

and manpower, while customers need to travel physically to transact business. With the advent of direct banking, banks have a service delivery mechanism that ensures several advantages – both for the bank and customers.

Direct banking offers financial institutions economies of access. Customers can reach the bank in cyberspace at any hour and from anywhere, thus offering them absolute convenience. On their part, banks can ensure customer delight in a cost-effective manner.

With the industry's ability to grow deposits constrained, direct banking can help the bank optimize its network in response to market changes and business requirements. It can help bring about innovation and flexibility, allowing banks to change in accordance with customer demands and competitive challenges.

Designed as a customer-focused, sales-generating profit center, direct banking can offer efficient service and innovative measures that can help banks delight customers, widen the customer base and generate deposits.

It is not appropriate to conclude that branches need be supplanted in this process. The branch remains an important channel. According to a survey of 2000 Americans, the use of direct banking does not lead to a substantial decline in visits to branches.

However, direct banking increasingly enjoys both high traffic and volumes. It has been found that 33% of US customers regularly use direct banking services. Expanded broadband penetration and familiarity with the Internet are boosting the growth of direct banking. By 2010, the number of direct banking households in the US will grow to 62% of total online households in the US.

According to researchers, online core deposits of \$162 billion in 2006 were less than 4% of core deposits across America. But the amount is expected to swell to \$377 billion by 2010

Banks need to take advantage of the opportunity and use direct banking to cast the net wide for deposits by seamlessly cementing brick and click. Let us examine how direct banking can help banks answer the critical question of increasing deposits and lowering costs.

Delight your Customer

As the pressure to grow deposits in a difficult banking environment increases, banks need to focus on building customer relationships. Making customers happy by fulfilling their needs is directly proportional to deposit generation – customers who are satisfied with the bank's products and services will forge a stronger bond with the bank and make greater investments.

How are banks to make this possible? Banks need to realize that customers are changing and becoming more demanding and tech-savvy. In the process, they are redefining the rules of the game. Shifts in demographics, incomes, attitudes, and behavior, in addition to easily accessible information, are empowering customers to demand greater responsiveness and transparency from their banks. Not only do customers want personalized products, but they are willing to exercise the freedom of choice and go to another bank that gives them a better deal.

They also ask for convenient and efficient banking. Customers will require flexible solutions that are customized to their needs. They will want to purchase products via varied channels and get a real-time overview of their accounts and transactions at all times. They will demand speed in processing transactions, simplicity when comparing products, and convenience when performing day-to-day banking activities. All this will have to be provided at the best possible cost and through exemplary service.

In such a situation, banks need to fulfill customer needs and ensure customer satisfaction to increase their wallet-share. They need to ensure that customers get a one-stop shop of banking products that are customized and offered at competitive prices.

Banks must maintain a single view of the customer who should experience a consistent look and feel across all channels. The key to success is to increase the number of banking channels without compromising service levels.

Banks have realized the importance of meeting customer needs. According to a study, 97% of bankers surveyed agreed that customer experience was critical to their survival. Moreover, they recognized that they are not fulfilling customer needs, especially when it comes to direct banking. Less than one-third of respondents gave their

interactions a vote of confidence. Most importantly, banks agreed that they did not have an effective customer experience strategy — nearly half of the banks say this was a major problem.

Thus, even as banks know a customer-centric approach is essential to grow deposits, they are unable to understand how they should go ahead and create customer delight.

As a result, banks have begun to rethink what, where and how to serve an increasingly informed and demanding customer base. Banks must gain greater insight into the drivers of future customer behavior and link their operations and processes to the goal of maximizing customer satisfaction and increasing profits.

With e-finance penetration among Internet users expected to increase from between 40 and 50% in the US according to estimate, banks need to look at the direct banking option to meet customer demands. According to a report, banks are discovering that their direct banking customers are much less likely to jump ship to another institution. A rich Internet banking platform improves not only the stickiness of the site, but more importantly, the stickiness of the bank itself.

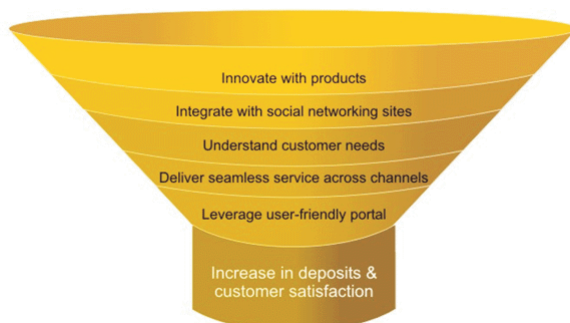
Ensuring customer-centricity – which can be seen as customer profiling, customer service and improving cross selling to grow deposits – is all about re-engineering bank processes and products to improve the customer experience.

So what must a bank do to turn customers into bigger depositors?

- Banks can put in place innovative products that offer higher returns such as multi-currency deposits, product bundles, customer rewards and relationship pricing. Not only will this help grow the customer base but it will also help serve as a clear differentiator. Moreover, the individualized offerings will make the customer feel special. For example, take into consideration the customer empowerment that will ensue from a depositor being enabled to define the tenor of his or her CD (Certificate of Deposit), without mandating the need for significant product change or IT change from the bank's perspective. Banks can integrate with social networking sites such as Facebook as well as bring more social networking aspects into

the bank's online banking channel to get more customers.

- Banks should understand customer needs and employ creative solutions within their budgetary constraints. For this, retail banks need insightful metrics on each customer's needs, attitudes, and finances to allow them to gain a 360-degree view of their customer. Only by integrating information and procedures across channels with flexible technology and an open organizational culture can financial institutions satisfy today's customers. Armed with this approach, they can be confident of providing a great experience which can help capture the fickle interest of today's tech-savvy customer.
- Banks can use the Web to improve customer communication and differentiate themselves from competitors. What is required is a seamless customer experience across channels where all channels complement and supplement each other. For example, a customer might use the direct channel to learn about refinancing a mortgage. She could call the bank where a call center can provide the information she needs and help her set up an appointment. Or, if she is comfortable about the direct banking route, she can do the job online. Thus, even as direct banking offers great convenience, branches can continue as long as customers feel the need to establish human contact with the bank.
- The bank should have an extremely user-friendly portal that helps customers, allows them to finish banking chores without any hassle and encourages cross-selling opportunities. It can be equipped with online financial simulators and personal finance tools.



Thus, direct banking offers convenience, ubiquity, transaction speed, efficiency and effectiveness. Banks must rethink the role of direct banking within this context, and leverage it to serve their clients and strengthen relationships. Doing so ensures customer satisfaction and growing deposits.

Be Innovative and Agile

Given the increasing competition in the banking industry, rapid technological evolution, and the race to grow deposits, how do banks meet these challenges? There's only one route to achieve this — through product innovation and organizational agility put in place through direct banking.

While providing direct banking facilities is now on the agenda of several banks, the range of services on offer and the efficiency with which they are offered is what will help differentiate one bank from its competitor.

Direct banking can ensure that products developed for the customers reach them as per their needs. Moreover, it ensures new products reach the market fast. These and other advantages offered by direct banking ensure that the customer base is widened and the possibilities of deposit generation are increased. This is essential if banks are to succeed in an unpredictable marketplace. Banks must anticipate trends and develop the ability to deliver rapidly.

Investing in an appropriate IT landscape is a prerequisite to improve the decision-making process. Leveraging Service Oriented Architecture (SOA) for IT can help banks bundle and cross-sell products while facilitating service customization. With SOA, banks can use data mining techniques to analyze customer behavior, thus creating innovative and differentiated products. Not only can this help enhance customer satisfaction, but it can also grow deposits and attract new customers.

SOA provides banks a 360-degree view of the customer allowing them to enjoy real-time banking anywhere and at any time. This technology can help banks identify prospects and interested customers and educate them through short message service alerts. Further, the architecture enables integration and thus simplifies the IT landscape, allowing banks to respond to a dynamic business environment – strategically and tactically.

Thus, banks need to modernize and transform their core banking systems or run the risk of paying a heavy price in terms of higher costs and lower profits. Faced with this reality, many banks are looking to replace their outdated back office systems. According to a survey of European banks, 53% of respondent banks had core system replacement initiatives in place and 27% were planning to do so, while 9% reported already having completed such a renewal.

Decrease Costs

With intensifying competition, a steady fall in interest rates, and demanding customers, revenue opportunities have become very thin for banks. In such a scenario, a bank must put in place a cost-effective structure to increase growth and profits. Only then can any deposit growth help sustain the bank's margin.

Banks need to keep fixed costs low even as they restrain infrastructure growth, if they seek to deliver on the retail promise. This can be ensured through a scalable technology platform and automation. To serve the evolving needs of the marketplace and changing regulations, banks require scalability to welcome new customers, agility to create appropriate banking products tailored for different clients, and readiness for direct banking initiatives, including the Internet and mobile. These are integrated with branches, call centers and ATMs. Above all, the automated process needs to be error-free and secure to ensure customer satisfaction and credibility.

In addition to driving down 'per transaction costs', a direct banking initiative helps increase efficiency, especially enabling smaller players to compete effectively with large conglomerates.

The direct banking agenda also offers banks the opportunity to leverage cloud computing. This technological trend effectively leads to 'virtualisation' of technology. It enables software running on individual servers to be moved from one data centre to another. It is the most cost-efficient manner to meet business imperatives like the need for data back-up. It also sets the context, to migrate 'virtual machines' wherever computing power is cheapest, or energy is greenest.

Direct banking customers also use more self-service and paperless features, reducing the bank's total cost of service. Moreover, a bank can market and sell products, increase revenues, satisfy end users, and build lasting relationships – all with minimal demand on the bank's existing infrastructure and resources.

Conclusion

According to an online banking report in the US approximately 45 million Internet users will access direct banking services in 2008. The market for direct banking is large and the opportunities ever-increasing. What is critical for banks is that they capitalize on direct banking to help grow deposits.

The best approach for most banks and their customers would be a brick-and-click strategy. It offers the advantage and cost-effectiveness of direct banking with the reassurance of physical branches. A seamless integration between the two will make it convenient for customers to better manage their deposits and, possibly, park more funds with such banks.

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