P E R S P E C T I V E

Multi-channel Integration: Transforming Channels for Profits

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For a long time, banks, for customers, meant bank branches only. They rearranged schedules around branch timings, and sought to spend minimal time waiting in queues, because all transactions, even the routine ones, necessitated a visit to the branch. Then the ATM appeared with its promise of 'anytime money', and online and mobile banking followed later. They liberated customers, enabling them to perform a range of transactions at all hours and from anywhere.

Even as the new delivery channels grew in strength and popularity, the older channels did not die. Customers did not restrict themselves to one channel; instead, they began using a mix of these channels to access their accounts. Most continue to utilize a combination of channels to fulfill their banking needs, sometimes even for the same transaction. For example, a customer may pay a bill through her mobile phone and use the online route to check whether the amount has been debited correctly from her account. The customer may be attracted by the convenience and speed of online banking but may still want the human dimension of a visit to the branch, preferring to transact with ease using the internet, but meeting a bank representative to apply for a loan.

Studies indicate that customers across every age not only still use the branch, but a majority say they visit a branch at least once a month. Several apply for or buy products at a branch because they "want to speak with a person". At the same time, research has also found that a number of banking customers in the US use direct banking services. Expanded broadband penetration and familiarity with the internet are boosting direct banking. By 2010, the number of direct banking households in the US will grow to 56.2 million, or 62% of total online households in the US.

According to a survey of American consumers, 32% said they used the branch most often, 26% preferred the online route, 26% opted for ATMs, 5% favored the telephone and 5% said that traditional mail was their choice. Thus, channels are not an alternative, but a complement, and a customer's approach to channel transactions is additive, not substitutive. Banks need to transform their channel strategy around the idea of channel chains, where a combination of channels performs complementary roles for customers.

That's easier said than done. Banks are trying to operate in tough times, seeking to increase earnings when resources are limited, competition is fierce and customers are demanding. In such a situation, spending money for future returns may be the last thing on their agenda.

However, bankers must realize that as customers choose to interact with banks over a variety of channels, providing them a rich, unified and consistent experience is critical. Managing and integrating disparate channels will not only enable a bank to delight customers, but also allow it to differentiate its services, respond to a dynamic market and increase efficiency. Importantly, in this day and age of thin margins, banks can achieve between 10% and 25% annual cost savings in IT and operations through multi-channel integration. Seeing its advantages, banks have embarked on the journey to transform through integration. Several major banks worldwide are currently engaged in or planning channel integration projects. In fact, multi-channel integration in US banking is tipped to become a key growth story in distribution technology. Total channel technology spend by year-end 2008 is expected to increase by $3.3 billion over the 2004 expenditure, creating a $16.5 billion opportunity for vendors.

Let us understand why spending on multi-channel integration is essential and how it will help banks come out on top.

Customers

Industries across the board have raised customer expectations for service. Moreover, customers themselves are technologically aware and willing to use competition in the marketplace to their advantage. Hence, consumers in today's 24-hour society expect and are able to eat at a café in the small hours, go grocery shopping at midnight and to register a complaint at whatever time of day they wish and through whichever means they can access – e-mail or phone. Why should they expect any less from banks?

Customers want to transact their financial business on their own terms. In an age of instant gratification and personalized service, they want access to their money anywhere, and they want it now – every time they ask for it. They want exemplary service, tailored products and a rich and positive experience from the bank. Unfortunately, it is not the simplest of tasks to fully satisfy this demanding breed of customers. This is underscored by a recent survey of customers of top US financial institutions which reveals that 58% of clients feel that their bank does not do what is in their best interest. A primary way by which a bank can delight customers is by seamlessly integrating its multiple channels.

Today, the customer hops between different channels, depending on her convenience, location, time of day and the transaction being made. The quality of her experience is affected by the consistency of service the bank provides. By ensuring that each channel offers the same products and displays the same information, channel integration creates a better user experience.

Integration also provides banks with a holistic and actionable view of customers, their interactions, accounts, transactions, and products, by converging isolated back-office systems into a single hub. This allows banks to mine customer data and leverage the information to offer customers tailored financial services that fulfill their needs.

Streamlining the experience

As customers interact with their banks over a variety of channels, they demand a consistent experience and the same information, updated in real time, regardless of the channel. For instance, a customer withdrawing funds from an ATM or making a deposit at a branch needs to see those transactions when she logs into her online banking account. Banks must offer their customers the right products and services, integrate products and services across channels to enable a broader portfolio to customers, deliver products and services seamlessly through a variety of channels, and provide high quality, personal service.

Consider the case of a client who fills up an online form for a loan application, only to be told that she has made a mistake. She tries again, but is told by the bank that she does not 'qualify'. Growing frustrated, she calls the bank and repeats her story from the beginning because there is no record of her application. If, however, the phone banker knows about her application or if the bank portal is clearer about the requirements a customer must meet, she will not feel that the bank's service is inadequate – and need not take business to another financial institution.

Studies find that consumers are interacting with their bank more than in previous years, regardless of the channel. Every one of these customer interactions delivers a message about the bank's competency. By ensuring uniform information and interactions across channels, multi-channel integration leads to customer delight and fosters customer loyalty.

Integration also introduces much needed intelligence into the bank and empowers it to provide a compelling customer experience that strengthens profitability. With the help of such consolidated data, a bank can:

- Cross-sell and up-sell: A bank can present relevant and personalized offers, thus ensuring higher acceptance rates, greater share of wallet and new opportunities to drive organic growth
- Ensure stronger retention and loyalty: Being able to rapidly identify and solve the problem for a customer, means that they can be retained more effectively. Higher customer loyalty translates into greater profitability and higher customer value
- Deliver compelling customer experiences: Being able to seamlessly engage the customer across a spectrum of channels means her experience will be an excellent one. This contributes to impressive brand identification and referrals

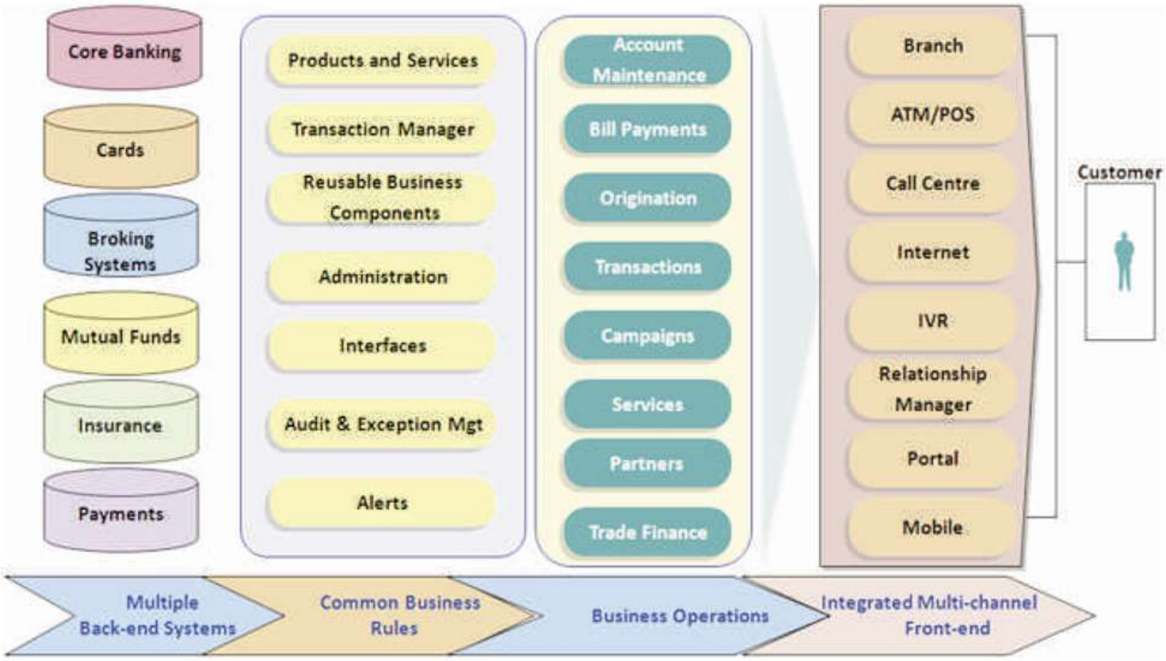
Thus, if banks want long-term sustainable profits, they need to deliver rich customer experience across all channels.

Costs

With intensifying competition and demanding customers, revenue opportunities have become very thin for banks. In such a scenario, banks must adopt a cost-effective landscape to increase growth and profits.

As bank systems become more complex, the cost of developing and maintaining multiple delivery systems becomes more prohibitive. At the same time, banks are trying to devise cohesive strategies for customer service and sales. Banks are concluding that multi-channel integration can address many of these challenges, and many have initiated long-term projects to enable real-time, uniform access to data across all channels.

An Integrated Multi-Channel Environment



Multi-channel integration can help a bank lower costs since it involves a scalable technology platform, automation and cutting of duplication. Access to up-to-date, centralized information is essential to ensure cross-selling effectiveness, since it provides front-office employees the right information. Additionally, real-time processing of information allows simplification of many operations required for reconciliation and should reduce back-office workload.

As products change, a big expense is tied to rolling out the product separately across channels. However, integration ensures that the change is made only once across all channels.

Moreover, multi-channel integration provides customers the option of using more cost-effective channels which are also user-friendly and convenient. Multi-channel integration ensures that fewer employees are needed. And integrating product delivery on self-service channels such as the internet ensures that banks can deliver additional expertise to customers, leaving bank staff free to focus on customer relationships. Thus expert staff costs can become a variable cost to the bank branch and such staff can be sourced from a virtual shared service.

With integration, 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.

Agility

Banks must balance multiple objectives: maximize return, mitigate risk and increase agility. All of this has to be accomplished in the midst of an unprecedented amount of change and competition. If banks are to take on competition and succeed in an unpredictable market, they must anticipate trends and develop the ability to deliver customized products rapidly. Only then can they take advantage of new opportunities.

In this era of shifting customer loyalty, a bank can maximize its competitive advantage by offering differentiated, customer-focused products. And it must offer these products before its competitors. After all, a bank is competing in a world where the competitor can offer a new product to existing customers in a click.

How can a bank ensure that its offering is different from the bank around the corner, it is innovative, and it meets the varied needs of individually diverse customers? With multi-channel integration, a bank can first understand customer behavior. It can then go a step further by offering these customers tailor-made services with decreased time-to-market. This is because the product can be rolled out across different channels quickly, without many changes.

Technology

Aligning the business plan with the right kind of technology is pivotal to banking transformation. Thus, as banks move to an integrated multi-channel architecture from inflexible, siloed legacy systems, banks make the most important technology investment. After all, integration of the delivery channels helps a bank realize its transformation objectives.

Firms need to build integrated channels that facilitate customer information and process flows. Only then will banks be able to achieve the operational efficiencies they had hoped for. The best approach for this is service-oriented architecture (SOA).

Leveraging SOA for IT enables bundling and cross-selling of products in addition to services customization. With SOA, banks can use data mining techniques to analyze the customer behavior, thus creating cheaper, innovative and differentiated products. Not only will this strengthen customer satisfaction, but it will also increase repeat purchases and attract new customers.

With SOA, banks can introduce value-added components to existing offerings. These include personal financial planning tools in consumer online banking sites, real-time reporting and analytics for corporate cash management solutions, and budgeting and forecasting tools to complement their payments processing businesses.

SOA allows technology integration and thus simplifies the IT landscape, allowing banks to make their technology environment more responsive to dynamic business challenges – either strategic or day-to-day. It helps provide real-time data, greater efficiency and better risk management and compliance. Integrated into business processes, these streamline business processes to allow growth.

However, IT architectures have become very complex and expensive to maintain. Outdated core systems are creating cost and process inefficiencies, as well as slower time-to-market for new products. Legacy core systems are inflexible, making simple product changes onerous, entailing long periods of costly development and product testing. The core will either have to be replaced or modernized to make it flexible enough to meet the needs of today's market – an expensive proposition. Banks can choose to take an incremental approach to channel transformation through integration or adopt a broader, enterprise-level strategy. An incremental approach will yield immediate financial improvements, while the enterprise approach will result in larger cost reductions over time.

Conclusion

Customers are critical to a bank's success. If a bank knows it customers and is able to fulfill their ever-increasing expectations, it is well on the road to success. For that, a bank must have the capability to serve the customer's varied needs through a customized and consistent banking experience at every touch point.

Transformation through multi-channel integration is key to achieving this. Not only does it help in satisfying customers, but it also helps to reduce costs and increase agility, thus helping a bank attain sustainable growth.

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