

P E R S P E C T I V E

Incremental Innovation: 7 Small but Sure Steps to Success



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Why Banking Innovation?

Innovation is a powerful weapon of differentiation for financial institutions. In recent years, banks have innovated on their products, processes and channel infrastructure to achieve multiple objectives such as raising operational efficiency, improving customer convenience and accelerating business growth.

Big-Bang or Small Steps?

Any bank seeking to innovate is faced with two choices: launch a big-bang change or innovate in increments. The latter approach works well when the primary objective is to create a quick and visible impact on customer experience.

Mostly when banks want to enhance experience, they are really seeking to resolve the biggest pain points of users and simplify the processes that they go through. However, it is crucial that customers recognize the efforts of their bank and actually perceive the improvement in experience. Speed is the key here – customer discontent can turn into delight only when banks take swift corrective action to alleviate a problem. Left to fester, small complaints can turn into major issues and in the worst scenario, drive customers away. Incremental innovation provides banks this much needed agility. Using this approach, they can take a series of small, yet effective steps to bring about continuous improvement, all along engaging with their customers and making them feel cared-for.

Even as banks innovate to improve the banking experience of all users, they recognize that the benefits of their initiatives will mostly be enjoyed by their younger customers, who are willing to try new technologies, products and processes. In contrast, the older generation of customers will likely stay with familiar products and channels.

The biggest advantage of incremental innovation is that it takes fewer resources, especially when launched over a modern core banking platform. At times, incremental innovation may not even be about changing a solution, but rather, presenting it in new ways. Since the changes are small, they can generally be implemented quickly, at low cost. More importantly, incremental innovation poses

smaller risk of business disruption. Besides adding value to customers, incremental innovation can bring about improvement in banking productivity and business growth.

Thus, incremental innovation focuses on building on banking growth.

7 Steps to Success

So how do banks decide what and how much to innovate? The following list of incremental banking innovations propose some answers:

Step 1: Direct Banking

The advent of Internet banking laid the foundation for incremental innovation in the form of direct banking. While Internet banking enables users in a specific country to fulfill basic transactions and stay in touch with their relationship managers, direct banking comes into play at the account opening stage itself, allowing customers to complete sign-up formalities with a couple of clicks. Customers need neither meet with a bank representative nor call a contact centre to start an account! What's more, direct banking knows no geographic boundaries, and banks are increasingly employing this channel to enter new markets quickly, without investing in physical infrastructure. The wonder of this innovation is that it can be implemented anywhere by leveraging the existing technical environment and data centre and exporting whatever is required online.

Step 2: Online Interface with a Human Touch

While most banks provide contact centre helpdesks, the customer service agents are often overloaded, forcing callers to wait minutes or try again later. This problem can be quickly resolved using "Push-To-Talk", an easy to implement technology that enables customers to place an online request for a bank representative to call them back at a time of their choice. Alternatively, banks that have online channels can provide a web chat facility by pre-bundling the same with an application server that is exposed to the customer. Or they can go a step further by turning it into an audio-visual chat in which customers can see whom they're talking to. Using unified communications

technology, banks can extend this feature into a remote audio-visual advisory service, whereby they can share screens with callers and guide them through the discussion. Thus, a problem solving mechanism is elevated into an advisory solution through the effective combine of 'tech' and 'touch', delivered through incremental innovation.

Step 3: Product Bundles

This incremental innovation calls for creativity rather than effort or investment. Banks can derive additional sales from their existing product portfolio by proposing bundled offers that promise the right package to the right customer at the right time, through the right channel. For instance, a customer with a fresh home loan may be offered home insurance at a preferential tariff. An airline ticket booking through credit card might signal the need for traveler's cheques and travel insurance. Making the right offer at the right time through the right channel goes a long way in simplifying the product acquisition process for customers.

Step 4: Partner Portals

What's more, banks need not do it alone – by analyzing the primary needs and interests of their customers and accordingly tying up with a few well chosen partners such as hotels or retail stores, they can earn additional revenue through the sale of linked financial products each time these partners originate new business. This can be implemented by setting up a partner portal featuring information on all the offers from the banks and their partners. In this way, banks get to participate in banking as well as non-banking transactions and their portals become an indispensable part of their customers' lives.

Step 5: Personal Financial Management Tools

Certain banks offer financial management tools as an add-on service. By punching in various data pertaining to their financial transactions, customers can use these tools to draw up budgets, plan investments, and compare different retirement schemes and so on. Instead, banks can innovate by making these tools a regular part of

their Internet banking offering, so that customers are spared the effort of manual data entry because the system does it on their behalf. The tools can be further enhanced with basic graphical and advisory capability.

Step 6: Digital Marketing

Rather than carpet-bombing customers indiscriminately with marketing messaging, banks can rely on digital marketing techniques to improve effectiveness as well as reduce costs. Analytics can help banks better segment their customers and predict future behavior on the basis of past trends. This insight can direct marketing and communications strategies at the right targets. For instance, a customer who trades often on his demat account would be delighted to receive stock alerts via SMS or a microblog.

Now, banks have a new and powerful tool in the form of Web 2.0 technology. They must create an adequate presence in social media whereby they can engage with interested parties, gather feedback, resolve queries and seek new ideas. Establishing an online community or a ratings mechanism on the banks' portal are some examples of incremental innovation in the digital space. Extending this concept, banks can test market new products and services to a limited number of loyal customers and ask them to provide their feedback or issue testimonials in online communities. Going forward, this type of innovation could spur co-creation. For instance, they can seek their customers' viewpoint about a proposed product bundle. Should they find that customers react positively only to a part of the offering, they can quickly re-design the bundle. By acting in this manner, banks can demonstrate that they value their customers' opinion, which will go a long way in cementing relationships.

Step 7: Unified Relationship Statement

Today, customers juggle with as many statements as banking accounts, receiving one for loans, another for savings and a third for credit cards! Apart from being inconvenient to manage, separate statements do not provide customers with a bird's

eye view of their financial position at any given time. If banks can innovate to produce a single monthly statement that reflects a banking relationship in entirety, it would provide much value to the recipient. With a consolidated statement, banks can present a picture of the net worth of each customer and suggest ways to improve that number. This type of advice would be particularly appreciated by average, small-ticket customers who are ordinarily not eligible for privileged banking and hence have a genuine need for guidance while taking financial decisions.

All Round Advantage

Besides benefiting customers, these incremental innovations can positively impact cost efficiency, productivity, growth and customer retention at banks. The cost of servicing customers comes down significantly in unassisted channels; if online channels can be personalized with a human touch, by introducing a remote advisory service for instance, they will attract more customers and drive down costs in the bargain. Likewise, better customization of product offers through “right bundling” can improve cross-sales. Collaboration with customers can not only throw up new ideas but also prevent banks from going wrong with a new strategy.

Technology has been the single largest enabler of banking innovation in recent years. On the flip side, legacy systems and outmoded processes can pose the biggest hurdle. If an innovation cannot be implemented quickly, it will likely lose impact; worse, it allows the more fleet-footed competitors to get ahead. Modern core banking platforms empower banks with the flexibility to introduce frequent changes and launch them with agility. Moreover, since the cost involved is low, banks can earn a return on their investment right from the start.

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