

P E R S P E C T I V E

Optimizing Channel
Transformation



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Although the world is going through economic pain, there is also, emerging from this turmoil, new and innovative means of addressing business challenges. A case in point is the surfacing of truly enabling technology-led strategies, in response to the evolving business climate.

Progressive banks believe that now is an opportune time for introspection and revalidation of business and technology strategies as well. A closer look at the strategies driving their delivery channels is on most banks' agendas. This typically translates into two mandates for channel transformation:

- Evaluation of the various channels of delivery, and prioritisation as per banks' business objectives
- Redesign of the scope and functionality underlying the delivery of products and services through each channel

Transformation of Delivery Channels

In the first phase, banks will need to plot a roadmap for transformation such that channels steadily progress from being fully assisted to becoming self-assisted, semi-assisted and finally non-assisted. Banks' vision for channel transformation may envisage a shift away from the branch towards the internet, call centre or kiosk. However, it is extremely important to ensure that the channel transformation strategy meshes with the larger business strategy for the bank, and supports the achievement of broader business goals.

This is best explained through an example. A bank that is aiming for large-scale, rapid customer acquisition cannot have personalised branch banking at the core of its delivery strategy. While partnering with another agency or institution could be an option, it may not be desirable from a regulatory or tactical perspective. The internet immediately presents itself as an ideal medium in this case, with its power to reach out to millions of users in no time. On the other hand, a bank that is mainly seeking to divest its branches of routine transactions can invest in a wider ATM and kiosk network to drive this objective.

Transformation of Functionality within a Channel

As mentioned at the outset, banks must transform the functionality or transactions associated with each channel. For example, a bank may choose to implement functional transformation in its internet channel in a phased manner, starting with enabling basic functions relating to simple products and moving upwards to include more complex transactions. As a result, the customer gets to 'create' products (such as a savings account), rather than simply managing them.

The same reasoning applies to business customers as well. By enabling self-service as an option in respect of the regular transactions of SME clients, banks will have taken a further step towards moving more and more transactions away from assisted channels.

Channel Strategy to Support Optimisation of Core Components Mix

Channel transformation cannot work in isolation. Banks look for ways to optimise the mix of their core components, namely, Customer-Product-Channel-Pricing, such that it generates profitability for themselves as well as benefits for their customers. A strategy of offering all options of product, channel and price to all customers is not viable for banks, and worse, will only confuse customers. Similarly, a single channel expected to service everyone will soon crumble under the burden.

The key drivers for each line of business (retail, corporate and SME, among others) will determine which channel is best suited to serve it. Fortunately, a lot of research has already been conducted on this subject, resulting in the establishment of benchmarks that banks can aspire to, in a bid to optimise their core component mix.

Channel Strategy to Align with the Banks' 4E Framework

Any transformation must finally result in better customer experience. Therefore, channel strategies must be aligned with banks' larger goals of 'Educating', 'Empowering' and 'Embracing' customers and 'Extending' relationships.

Self-service channels such as the internet and kiosks are ideally suited to educate customers on new products, services and processes. Banks can empower customers to take greater charge of their banking transactions by providing them with online decision-making tools such as interest rate calculators. That said, these initiatives are in vain unless the bank is able to ensure successful on-boarding of customers – and channels play a vital role in fulfilling the embrace. Finally, the bank must leverage its existing customer and partner relationships to build advocacy. Going forward, Web 2.0 powered platforms could possibly play a huge role in building a community of satisfied customers and partners, who will extend banks' reach.

Key Success Factors in Channel Transformation

The simplicity and convenience of offerings, viewed from both the channel and customer perspective, is a critical success factor in channel transformation. Moreover, any transformation approach must be holistic and integrated.

Sound process design, which considers both customers' and channels' requirements, is the first pre-requisite for the successful rollout of any product or service. However, a well-designed process, if difficult to implement or use, has little value. Therefore, after being designed, processes must be simplified and further rationalised in accordance with the channel of delivery.

Finally, processes must be viewed from a bank-wide perspective; they must remain largely consistent across the breadth of the organisation, so that customers and employees alike are not faced with differing experiences on the same channel when they move across locations or departments.

Banks must also consider the appropriateness of human resources deployed to support every offering-channel combination. A call centre executive, trained to handle simple retail customer queries cannot be expected to serve the needs of SME clients which mostly use trade finance products.

Optimising Core Component Mix, Bearing Success Factors in Mind

Mass retail customers have simple needs, mainly in the form of savings accounts or deposits. In theory, they can be served by all channels, and indeed, most banks offer their retail clients an array of options. The key driver in this segment is transaction volume. As banks look to effect channel transformation, they are finding that ATMs and kiosks are best placed to handle this business.

Wealth creation is the principal objective of the mass affluent. Typically, they look towards the bank for advisory services, delivered on a one-to-one level that also guards their privacy. Clearly, it is the 'Total Relationship Value' that drives this category. Banks will have to deploy well-trained relationship managers, who may even have to deliver their services at the customers' door.

Corporate customers present a different set of challenges, since multiple individuals with vastly differing needs interact frequently with the bank. These needs range from the simple and routine to the highly sophisticated. Thus, a combination of channels supported by a multi-disciplinary talent pool needs to be dedicated to serve this segment.

Channel Strategy can play a Proactive Role in Enabling Banks to Mine New Business Opportunities

The ATM network, which is a very important component of retail service distribution, can be further leveraged to promote other products and services of interest to this segment, for example, mobile recharge cards or gift vouchers.

Interactions at the call centre can be a source of insight into specific customer behaviour. If a certain customer calls regularly with the same type of query – for example, balance enquiry – there is an opportunity for the bank to proactively deliver that information via another channel such as the mobile, at a nominal charge.

Developments in mobile technology, which could result in handsets functioning as a Near Field Communication Device, also open up possibilities to right-sell and offer more than pure banking in the future, particularly to wealthier customers.

The kiosk can play a huge role in serving the unbanked community. Understandably, personalised channels that serve educated urban folk only serve to intimidate rural or low income consumers. What they need is an impersonal channel that can guide them step by step in a language they understand. A kiosk that provides audio instructions in the vernacular language could well be the answer.

Another possibility is to create a bank-on-the-fly, that is, a channel that has no physical presence, but reaches out to where customers with cash in hand are likely to congregate. A typical example is that of a bank executive visiting the local weekly 'bazaar', equipped with a laptop or any other device required to log in a transaction.

The social networking phenomenon is catching up with enterprises, and banks are no exception. It is not inconceivable that in the future, Web 2.0 based platforms will be used by banks to enhance their delivery channels. Tools such as instant messaging and chats can speed up decision making and problem solving, and make channels more responsive. Interaction within a closed-loop community of top customers and partners can help generate insight regarding optimal product and process design and fuel innovation – in effect, the channel can play a much more strategic role.

Channel portability is a visionary concept today, but may provide banks the leading edge in future. Just as number portability catalysed the mobile business wherever it was made available, a 'banking channel-product-service' portability that allows the seamless movement of a customer's account from one bank to another could change the rules of the game. Faced with the threat of greater churn, banks will have to become more efficient and competitive; but the ones that are ahead of the pack can reap big benefits.

Since the internet and mobile play an important multi-dimensional role in people's lives, their usage does not go down during a downturn. This means that the internet and mobile banking channels are inherently protected against recession. This makes the value proposition of new-age channels even more compelling.

What's in Store for Channels?

Technology will open up hitherto unheard of possibilities. Analysts expect that mobile devices will replace desktops in the United States by 2011. Given the ever growing importance of the mobile channel, banks must seize the opportunity to enable it with powerful functionalities such as international transactions or peer-to-peer payments.

Television too can progress beyond tele-shopping, to become a transaction channel in future. Convergence technology that has created interactive television (delivered over Wi-Fi, Broadband etc) can facilitate information exchange and buying and selling.

The mobile phone, increasingly used to order gifts or make purchases in some countries, offers banks the opportunity to operate 'virtual branches'. Banks can tie-up with the vendors and service providers to create an additional revenue stream.

The Government represents another large untapped opportunity. Banks need not restrict their activities to B2B or B2C transactions. Large scale Government to Business (G2B) or Government to Consumer transactions (G2C), such as tax refunds, can be facilitated via automated channels.

Banks can enlarge their reach by leveraging their partner portals more efficiently. Rather than operate the portal in silos, with limited access given to individual partners, banks must take a fresh look at how they can encompass the entire partner ecosystem. This opens up opportunities for all participants (such as brokers, agents, vendors and suppliers) to cross-sell products to a single customer. The customer is also benefited from the added convenience of concluding multiple transactions at a single point of contact.

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