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WHAT'S NEXT FOR BANKS AFTER DIGITIZATION?

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Abstract

Digitization is changing the landscape of the consumer banking industry by transforming services and creating new ways of working. Amidst such disruption, banks must also prepare for the next wave of evolution brought on by emerging technologies. This paper takes a holistic look at digital transformation and examines some important capabilities that banks must leverage to win post-digitization. It also provides recommendations on how to monetize data, innovate continuously and stay secure .

Introduction

The onset of digital is unleashing waves of change in consumer banking. Lean and agile operating models are enabling the emergence of wholly digital banks without a single brick-and-mortar branch. Faced with tough competition from new players, traditional banks are striving to retain their edge by devising new ways to their deliver services and products to their customers. While adopting digital can help banks sustain their position, they must also understand that digital transformation is becoming an umbrella term that includes more than just online banking [1]. To stay competitive in the market post-digitization, banks need a clear and holistic strategy that evaluates the performance of their direct competition and new players, as well as emerging technological trends. Here are some ways banks can sustain growth with digitization and beyond:

1. Be the disruptor, not the disrupted

Collaborate to deploy new capabilities

There is a slew of disruptors in the market who are redefining banking-as-usual. FinTech companies use cutting-edge technologies to offer innovative financial products and services. E-commerce players like Amazon, Alibaba and Flipkart have rolled out payment wallets. Google, Facebook, and Apple are providing new channels to serve their customers. Even ICT companies, mobile device manufacturers and technology companies are innovating faster than banks.

Collaborating with these disruptors will infuse in banks a whole new set of digital capabilities. From a customer perspective, cross-industry collaboration will empower users to log onto external sites/platforms, choose relevant banking services, forge relationships, create accounts, and more, thereby generating value for all players in the ecosystem. From the bank's perspective, such partnerships will help them reconnect with customers, achieve speed-to-market for new products, eliminate redundancies, and increase efficiency.

A quick look into the market reveals how collaboration drives business value. One of the Big Five banks in Canada is partnering with a leading Canada-based credit score monitoring company to create digital borrowing experiences through one-click online lending for loans up to US $35,000 [2]. Another example is how a US-based bank is partnering with a startup to enable the bank's customers to digitally apply for an automobile loan and receive approval within minutes instead of days. Finally, a leading US bank and a bank holding company have signed deals with mortgage-software startups to migrate their loan applications online.

Here are some recommendations for banks looking to collaborate with external vendors [3]:

- **Forge strategic partnerships** with disruptors to upgrade service and product portfolios and transform existing business models
- **Develop capabilities** for implementing blockchain and open and API banking that connects banking applications, thereby boosting efficiency
- **Collaborate with social networking sites** such as Facebook to offer embedded services, extend customer reach and improve customer acquisition
- **Focus on hiring the right skills** to create an in-house culture of collaboration and innovation

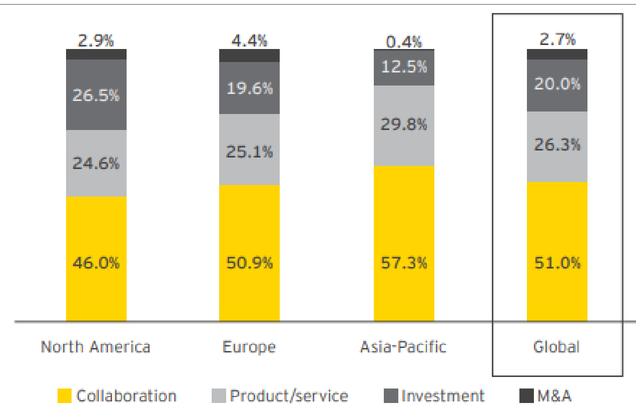

Fig 1: Region-specific research indicating how collaboration is the preferred engagement strategy [4]

2. Monetize data

Analyze and capitalize on data for better products and services

On the one hand, non-financial players have access to agile solutions and emerging technologies such as intuitive analytics, data-driven recommendation engines, flexible pricing models, etc. On the other hand, banks have large customer bases, regulatory expertise, extensive networks, access to funding, and huge volumes of critical customer data. Marrying these two capabilities provides deep insights into customer behavior, preferences and journeys. Consider how a Dutch multi-national bank is partnering with a Europe-based online wealth manager and leading robo-advice firm to provide complete digital investment solutions for the bank's customers [5]. The ready-to-use solution leverages advanced computing power and artificial intelligence to deliver extreme personalization for consumers.

An industry reports shows that North American banks prefer investment in FinTech companies over product development. Further, a number of major US banks have already invested in FinTech start-ups. Conversely, the Asia Pacific region is more focused on developing products in-house, particularly in the digital payments space to serve the under-banked customer segment [6].

Here are some recommendations for banks looking to improve their bottom line by embracing the power of data [7]:

- **Capitalize on key relationships** with competent start-ups to gain deep insights and monetize customer data
- **Analyze customer behavior** using emerging technologies to understand their behavior and preferences
- **Leverage data-driven analytics** to design relevant products and services at competitive prices, thereby promoting customer trust and loyalty
- **Establish a reputation** of being open to innovation by deploying customer-centric products and services

3. Innovate continuously

Always invest in innovation

Traditional banks have several advantages over non-core banking players. These include established technological and operational infrastructure, regulatory compliance processes and frameworks, risk comprehension, scalability, customer interfaces, and, most importantly, customer trust. This places them in a strategic position to leverage new technologies and experiment with innovation. Unfortunately, most digital investments are usually dedicated only to sales, marketing and product departments. To become a true disruptor, banks must refocus their investments across the banking ecosystem. Consider how banks are best-positioned to streamline the home buying experience by connecting home buyers with real-estate agents, insurance providers, security agencies, etc [8].

Thus, banks need a clear roadmap on how to invest and innovate. Innovation can help banks revamp traditional banking processes, adapt to the digitized enterprise and generate further business. In fact, several global banks have developed corporate investment vehicles over the last five years for investments to the tune of US $100 million. A Spanish banking group is using a cross-functional approach that leverages flexible technologies and open innovation to build the right foundation for digital transformation. Further, the group continues to experiment with new ways to generate, test and execute ideas through innovation committees, venture funding, partnerships, acquisitions, etc. Another example is that of a leading Middle East bank that upgraded its business strategy by introducing digital initiatives such as enabling digital touchpoints, designing seamless customer experiences and developing innovative financial solutions. This has helped the bank increase revenue, improve customer satisfaction and achieve business outcomes.

Here are some ways banks can ensure their strategy supports continuous innovation:

- Establish dedicated R&D teams to track market trends, discover new technology updates and analyze potential partnerships
- Reframe the internal organizational culture to encourage new ideas, develop intellectual property and discover new revenue streams
- Engage with external technology-driven players who can provide holistic solutions for enabling innovation
- Find ways to couple transformation with emerging technologies such as artificial intelligence, robotics, Internet-of-Things, augmented reality, virtual reality, blockchain, drones, and 3D printing
- Create dedicated investment options based on the business model and organizational goals to prioritize implementation of emerging technologies [9]

4. Beef up security across all digital touchpoints

Prepare, defend and recover

Security is the topmost concern for banks adopting digital transformation initiatives. As data moves online and is shared across multiple players, channels and systems, it becomes increasingly vulnerable to cyber theft and attack. The sources of such attacks can range from devices such as mobile malware, channels like unsecure WiFi and even systems such as third-party apps. Hence, banks need a clear cyber security strategy to deepen customer trust and loyalty. More importantly, cyber security cannot be a siloed department. It must be integrated across the business, embedded into new services, assessed continuously when developing new products, and monitored frequently through employee training programs [10].

Here are some recommendations for banks looking to safeguard customer data from malicious individuals and groups:

- Find the right technology partner to incorporate layered security systems across channels and players
- Mount a 360-degree defense that has one-stop visibility into security protocols with real-time alerts on potential intrusions, ongoing breaches and abnormal activity/behavior
- Implement a robust crisis management strategy that allows banks to recover post-event and return to normal operations with the least impact on customer-related services
- Conduct frequent tests of cyber defenses, track adherence to security procedures, re-evaluate existing processes to plug vulnerabilities, and monitor employee cyber education, risk habits and behavior to eliminate weak links in the security defense

Conclusion

Digital is changing the game for consumer banking by infusing new capabilities, transforming product design and re-engineering processes. Additionally, it opens the doors to new opportunities presented through emerging technologies such as automation, analytics, artificial intelligence, machine learning, blockchain, and more. Thus, digitization should not stop with just enabling digital touchpoints; it should extend further by helping banks discover ways to continuously improve their services and products. Collaborating with FinTech companies, capitalizing on partner relationships, monetizing data through clear customer insights, innovating continuously, and implementing strong cyber defense mechanisms are ways by which banks can succeed in the post-digitization era.

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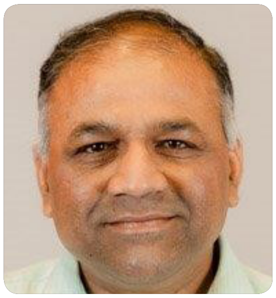

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