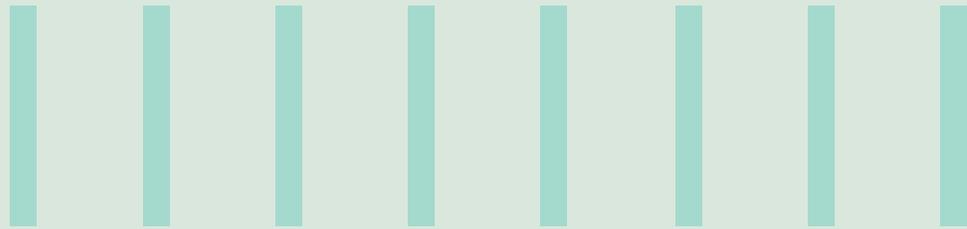




DIGITAL-ONLY BANKING – A SOARING WAVE IN CONSUMER BANKING



“How is your experience with your current bank?” Surprisingly, even today, for most of us, the first picture that flashes in our minds when we think of our bank is that of a branch – its long queues, the paper work behind the deposit or withdrawal of cash, and so on.

Charlotte, a smartphone-habituated millennial who recently moved to Connecticut, saw her banking expectations take a backseat. She was shocked at how regularly she had to visit her new branch and was forced to submit a variety of documents, just to open an account. Travelling issues, time mismatches, and busy branch staff - all added to her woes and delayed the process of opening the account. Banks run a high risk of losing customers if such issues aren't addressed.

Thus, it is the need of the hour for banks to ascend with the next wave in banking, which scales the entire bank down to the size of an iPad, tablet, or smartphone, and promises the convenience of having an entire bank on our fingertips. That is the world of digital-only banking and it is one we can soon move into.



Digital-only banks - a new hot spot!

A digital-only bank provides banking facilities exclusively through digital platforms, such as mobile, tablets, and the Internet. It offers basic services in the most simplified manner, with the help of electronic documentation, real-time data, and automated processes.

New entrants such as Atom Bank in the UK, Fidor Bank in Germany, BankMobile in the US, and ICICI Pockets (India's first digital bank on a mobile phone), are starting to provide some of the best-selling features of digital-only banking, which include:

- Signing up for a new account by simply uploading a photograph and providing minimal information
- Peeping into account balances by sliding the app-bar's login screen
- Photo bill payments
- Ordering ATM cards and resetting the ATM PIN through the app
- Hashtagging the expenses to ensure they are highlighted

Digital-only banks - its building blocks

Looking at the high-end banking expectations of the Millennial Generation, digital-only banks emerge as an influential choice for these customers. Digital-only banks' key differentiating building blocks – real-time data analysis, Agile-based technologies, and ongoing innovation – place them poles apart from their traditional counterparts.

Real-time data analysis

High dependence on smartphones and a requirement of data on the move are some of the key traits of the new generation. Tapping into these characteristics, digital-only banks are trying to leverage 'real-time intelligence', to provide personalized customer information like spending alerts and geo-based offerings. For example, sending alerts to consumers about their spending habits and warning them that certain purchases may be out of their budgets are services that are well-appreciated. Such personalized services will improve consumers' saving habits and thereby enhance customer loyalty in the long run.

Agile-based technologies

Unlike traditional banks, the new digital-only banks don't carry the burden of legacy IT platforms, which are quite complex and expensive to operate. These banks mostly have a cloud-based infrastructure, rather than on-premise infrastructure. Recently, Fidor adopted application programming interface (APIs), opening its application to third parties. It also partnered with Bitcoin exchanges and has integrated the Ripple block chain payments protocol. Such features enable these agile technology-based banks to deploy newer customer solutions faster.



Ongoing innovation

Innovation centered on customer experience is fundamental to the rapid expansion of these digital-only banks. New digital-only banks leverage their agile infrastructures to provide innovative services, such as geo-location-based real-time alerts and biometric-based service offerings, which become their unique selling points when compared to traditional banks. Atom Bank – built on the FIS platform – is deploying biometric security and an in-app account opening feature, thus innovating to stay ahead of the competition.

Why digital-only banks are attractive?

Digital-only banking is not only simple and convenient for the next-gen customers, but also offers a superior customer experience by analyzing consumer needs using social and geo-related insights. It is not just the customer value that makes digital-only banks worthy; there is also a commanding case in their cost-effective operating model. Potential benefits to consumers include:

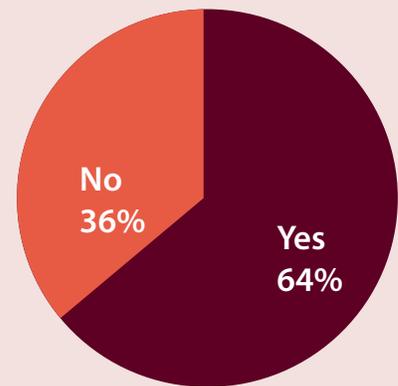
- Virtual high-speed banking services, just a click away - All banking-related hassles tend to vanish with the advent of digital-only banks, where consumers can simply click and upload their documents in a bank's soft locker, open bank accounts, and transact right from their homes. Speed, convenience, and enhanced customer experience are the key factors that are driving consumer inclination towards digital-only banks.
- Low transaction fees - Banks with no physical presence tend to pass on their minimal operating costs to their banking customers, thus making them cost-efficient and indispensable for the next-gen consumers.

The attractiveness of digital-only banks is also exemplified by the findings of a recent internal survey, conducted among 35 Infosys employees:

- 48% of Infosys respondents feel it is the superior mobile banking experience that makes digital-only banks popular among them. 15% said they would use such banks due to the benefit of their low processing fees

Are you confident to transact via digital-only banks?

- 33% are inclined towards digital-only banks for their combined value-added services, such as wearable banking, in the future
- Underpinned by these benefits, 64% feel fully confident to transact via digital-only banks, thus making a commanding case for digital-only banks

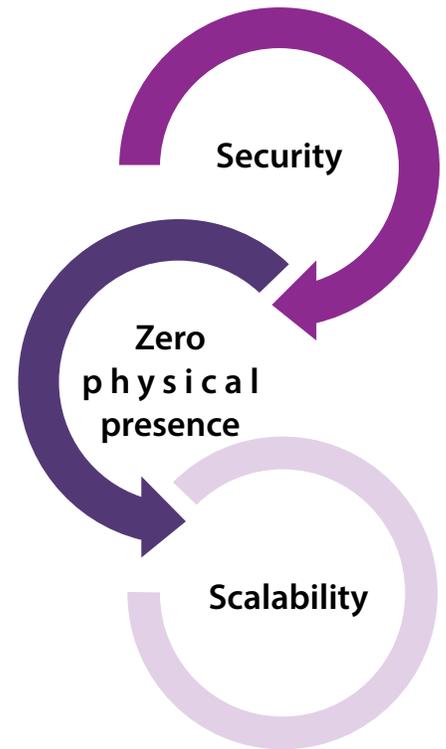


Key concerns related to digital-only banks

Although digital-only banks have shown significant potential among the new-gen consumers, there are some concerns regarding these banks, which if not addressed soon, can hinder their acceptance in the future. The primary ones include:

- Security – Banks are becoming more prone to frauds and malpractices, and with the advent of digital-only banks, this risk is understandably magnified. The customers of digital-only banks are posed with various challenges, such as phishing, hacking of passwords, and vishing, which puts the security of their banking transactions at risk and hence limits rapid adoption of digital-only banks.

- Zero physical presence - Absence of branch / the lack of human touch can, in the long run, induce alienated feelings in consumers, forcing them to reduce transactions via such banks, or shift to traditional banking counterparts. Protecting and maintaining customer relationships in the digital-only space requires huge efforts. Such banks are hard-pressed to identify new means to maintain and enhance their customer relationships.
- Scalability – Digital-only banks face the challenge of scalability with respect to traditional banks. They have limited offerings, which restricts customer growth.



36% of Infosys respondents felt that transactions via a digital-only bank impose certain challenges. Thus, they aren't very confident about moving to such banks. Nearly 49% respondents expressed their concerns over security issues as the primary challenge in using digital-only banks, followed by issues regarding the lack of a personal touch, and absence of a bank branch.





Digital-only banks - what next?

It is not certain, how soon such banks will thread a success story. However, they are definitely on the next high-rise wave in global banking. The players who jump into this first, will be the ones best placed to reap maximum benefits. Traditional banks becoming digital-only banks would mean a complete paradigm shift. To catch up with the new entrants in digital-only banking, traditional banks can either acquire digital-only firms that can then run as their digital-only subsidiaries, or they can build

partnerships with technology innovators who can help them launch their own digital-only banks.

Showing promising results in their nascent stage, digital-only banks are bound to expand across the length and the breadth of their current offerings by providing newer services, such as loan application processing and personal financial management, in the future. To add a flavor of personalization, such banks can also aim to provide customized financial products

and services. Furthermore, to meet the sky-rocketing expectations of the Millennial Generation, digital-only banks can strategize to offer innovative solutions like wearable devices banking (for example, smart watch banking).

However, a lot of the sustenance of digital-only banks in the longer run depends on how effectively they can overcome the security concerns that are preventing a major chunk



of prospective users from adopting them outright. Although digital-only banks are already testing biometric techniques, they need to continue their investments in such tools to fight rising banking frauds and malpractices, thereby assuring customers a secure banking experience. Ultimately, to ignore the upsurge of the digital-only bank would be to dismiss the banking needs of the next-generation consumers

and could be detrimental to the growth of present-day mainstream banks.

Eventually, there will be a healthy co-existence of digital-only banks with current mainstream banks. While digital-only banks offer the convenience, speed, accessibility, and cost advantage of smaller day-to-day financial transactions, it's very difficult to conceive a world where even big life-changing events, such as buying a house, a luxury vehicle, and long term investments

can happen without that personal touch or the interaction between human beings – the banker and the customer. Thus, mainstream banks will definitely have to buckle up to match the pace of the dynamic offerings from digital-only banks, while continuing to offer the physical banking services they have been providing for ages, in new and innovative ways. That's the near future of the global banking world!

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Shivani is currently a Client Solution Manager for financial services at Infosys. In her nine-year career, she has gained a wealth of experience in financial services market research, which includes industry / market trend analysis, peer analysis, company analysis and competition analysis.

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