INNOVATIVE TRENDS IN RETAIL BANKING

CONTENTS

THE NEW
MADE NEWER

The Distribution & Marketing Innovation Awards is a joint initiative from Accenture and Efma, introduced in 2012 to identify and celebrate the most innovative projects in Retail Banking at a global level. The fifth edition of the program, with its closing ceremony held in Rome, was once again an exciting event for banks seeking to showcase their most innovative projects, to network and benchmark with their peers, and to find new ideas for advancing their innovation agenda.

A close look at the projects submitted for awards indicates that the program has become an important asset, both for those pursuing innovation within the industry and for industry analysts. With more than 180 banks competing and approximately 480 innovations submitted at the worldwide level, the program is now a recognized, powerful engine for tracking the evolution of the industry, illustrating where banks are placing their bets and discovering whether previous initiatives have proven successful.

Looking at banks' 2017 innovation efforts from an analytical perspective, it is clear that trends spotted in 2016 – from the role of bots as a new interaction model, to the spread of niche-specific value propositions or the open approach fostered by the Revised Payment Service Directive (PSD2) – remain vital. But, while trends identified last year are still important, banks have brought innovation to a new level and new concepts are emerging. Trends that emerged in 2016 have now reached a greater level of maturity, while those already established are producing tangible results and creating new revenue streams. We are seeing "the new made newer", an acceleration of banks' innovation efforts and a consolidation around specific areas of interest.

SOME EXAMPLES OF HOW INNOVATION TRENDS HAVE EVOLVED, MATURED AND SPREAD INCLUDE:

CHATBOTS.

These bots – which previously played a pivotal role in automating customer service and easing digital interactions – are now being used to boost customer acquisition and generate new leads, contributing to improvement in banks' bottom lines. (Or "BOTtom" lines, if you prefer.)

NICHE BANKING.

Traditional customer segmentation criteria are being refined, with banks moving towards the concept of lifestyle and mindset segmentation, letting them identify new, underserved micro-niches and shape dedicated propositions.

SME REINVENTED.

Small and medium enterprises (SMEs) are now essential to banks' digital transformation paths, with incumbents collaborating with FinTech ecosystem players to offer value-added services and improve the core offering.

OPEN BANKING.

This trend has evolved into a structured approach resulting in the creation of real, new value proposition interfaces for third parties.

WORKFORCE.

The human element of banking is joining forces with artificial intelligence, powering up to deliver a consistent, “wow the customer” experience.

PERSONAL FINANCE MANAGEMENT SOLUTIONS.

After years of low adoption rates, personal finance solutions have gathered momentum by shifting their focus to coaching customers rather than educating them, thereby turning transactions into actions.

IN THE CONTEXT OF THE EFMA AWARDS, LET’S LOOK AT EACH OF THESE TRENDS IN MORE DETAIL.

TREND

#1.

THE BOTtom LINE

The merger of artificial intelligence and conversational interfaces has led to the rapid growth of bots over the last few years, affecting nearly every industry. Bots support a new model interaction leading many observers to talk about the "age of the bots".

Many banks started testing bots to automate customer service and make it available 24/7 on customer-preferred channels such as Facebook Messenger or WhatsApp. This delivers benefits both for the bank and for its end customers. Customers no longer need to search through FAQs, navigate through Intelligent Voice Response or wait for the first available customer service representative. Early examples of bots in the banking industry were a low-cost alternative to human-based customer service, enabling customers and prospects to locate the nearest branch or ATM, get information about exchange rates and banking products or monitor their latest transactions.

Now, forward-looking banks are leveraging bots for a wider purpose: boosting their BOT-tom line and generating business.

Emma from OCBC is a good example of a trend that sees banks turning bots into helpful acquisition and lead generation engines.

Emma, OCBC's AI-powered virtual assistant for home and renovation loans, guides customers and prospects via a conversational approach through which they are invited to provide income and debt information to get an estimate of the eligible loan amount. With its human-like conversation skills, Emma can mimic the actions of a specialized loan advisor, asking questions to better understand the query and then providing information about the loan offering, interest rates or ongoing promotions, along with all documents required at every step of the application process.

Finally, Emma can collect the user's contact information and forward it to a mortgage specialist -- along with the complete chat logs -- to offer a personalized customer experience in the follow-up, fostering sales fulfilment. With all these features, Emma has been a powerful lead generation platform for OCBC, with more than 20,000 chat sessions registered in the first three months.

UBank, one of Australia's leading digital-only banks, has been moving into the digital mortgage space by leveraging artificial intelligence and conversational interfaces. RoboChat by UBank offers real-time support during the mortgage application process, easing the interaction during the customer journey and reducing both the time needed to complete the application and the likelihood of people clicking out of the process.

What makes RoboChat unique, however, is its ability to talk and act as a real bank advisor, thanks to hours of "tone-of-voice" training to ensure a seamless customer experience across physical and digital channels. According to a recent statement from UBank, this is just the beginning, as more improvements will be made to make RoboChat more human; these include a tone analyzer that will let RoboChat better understand the sentiment behind conversations and to respond accordingly.

Another interesting example of how bots can boost banks' bottom lines comes from Rafa, a Facebook Messenger-based chatbot developed by Union Bank of the Philippines using the latest Natural Language Processing technologies. Besides delivering instant customer service and handling general information requests, Rafa guides customers through auto loan and credit card inquiries and the related application processes. Rafa provides information about products and helps users identify the most suitable, based on information (such as available budget or desired model) gathered during a friendly conversation. Once the user has identified the right product, Rafa redirects him to the application form on the bank's corporate website, delivering a seamless experience for the end user and generating new sales leads for the bank.

These innovations illustrate how banking bots have been evolving into powerful engines for delivering business generation benefits, thanks to a wider algorithm library embracing Customer Relationship Management (CRM) information, a brand-consistent tone of voice and the development of protocols to activate sales processes or human support when needed.

" This is just the beginning, as more improvements will be made to make RoboChat more human; these include a tone analyzer that will let RoboChat better understand the sentiment behind conversations and to respond accordingly. "

A recent statement from UBank

TREND

#2.

NICHE IS NICE

Banks in all geographies and all segments have become obsessed with identifying and addressing niche customers with a dedicated value proposition. In the last few years - as highlighted in Accenture research [1] – new digital entrants have joined the most forward-looking incumbents to use innovative technologies to shape niche-specific products and services. These banks are developing new customer touchpoints and relationship models in a cost-effective way, something that was always difficult to do in a physical-first distribution model.

Recently, we have seen Santander reaching out to the under-18 audience (as well as their parents) with the 1|2|3 Mini program, which is a gamification-based digital experience fostering financial education and a youth-dedicated offering. CaixaBank has also launched imaginBank to serve Millennials through a digital-first proposition built around the needs of a tech-savvy, always-on generation.

There are now numerous other initiatives in this field. Danske Bank, KBC, Alior, and Bank Mobile – to name a few – have entered the niche banking game just this year. The way that players identify niches has changed, as well. Many banks have initiatives aimed at targeting demographic-based clusters such as young people, Millennials or older people, but some banks are now targeting customers based on lifestyles, values, aspirations, mindsets and underserved needs. Banks including Standard Bank, Bradesco and Travelex are leading the way in this area.

Purple by Standard Bank is an example of this big leap. Having previously targeted younger people and travelers with dedicated propositions, Standard Bank launched Purple, a new and fully-owned division that addresses the needs of entrepreneurs and their accountants via an ecosystem of dedicated financial and non-financial services, touchpoints and paperless processes to make customers' lives (and work) easier.

[1] Accenture Global Distribution & Marketing Consumer Study 2017

Purple has been shaped, developed and tested according to traditional Design Thinking principles that call for a deep understanding of end users' needs, encouraging co-creation in every step of the design and development journey.

Through Purple, accountants and entrepreneurs have been onboarded and invited to share their deepest requirements and pain points. Ethnographic researches established that, on the one hand, entrepreneurs want to focus on managing and growing their businesses with no need to worry about paperwork and red tape, while, on the other hand, accountants need to handle their clients' financials with accuracy and pace without struggling to retrieve sensitive data and crucial information. The outcome is an ecosystem enabling both parties do their jobs more effectively, with accountants able to quickly access important documents - now stored in one single place - and to use a power of mandate to initiate banking operations on behalf of their entrepreneur clients. On the other side, business owners benefit from streamlined processes and innovative interaction touchpoints as well as a dedicated product suite addressing both their business and personal needs.

Ditto by Travelex is another noteworthy example of the niche banking revolution. The new digital-only bank is designed to meet the needs of those people dealing with multiple currencies, from frequent business travelers to border workers, expatriates or tourists. Ditto's proposition seeks to solve the needs of those people who get frustrated with inconvenient currency management procedures, expensive international money transfers and withdrawals, and the long times required to open a foreign currency bank account. Thanks to in-depth research into travelers' expectations and lifestyles – as well as deep expertise in Forex and payments, Travelex succeeded in designing "the bank that travels with you", a bank that lets customers forget about currency exchange issues and allows them to pay, transact and live seamlessly anywhere in the world via a mobile app.

Another example comes from Brazil, where Bradesco recently launched Next, a digital business model targeting the hyper-connected generation. This target audience prefers sharing to consuming, and searches and compares prices before deciding on anything. This calls for real-time, digital solutions completely integrated into customers' daily routines. The hyper-connected are, more than ever, influenced by daily interactions with "experience champions". Meeting these expectations is a great challenge, and so the bank put together a multidisciplinary team including anthropologists and scientists to conduct research to understand the lifestyle and behaviors of the selected target, then to develop an extended ecosystem to provide best-of-breed banking features and non-financial services offered by partners such as Uber or local retailers.

These initiatives indicate how banks are clustering their customer base with advanced criteria, where human-centric Design Thinking pillars and CRM tools play a pivotal role in helping banks identify new niches. But when it comes to select a niche to serve, estimating the potential customers' willingness to pay is crucial, as the specialization effort can be costly. Prospects should be ready to recognize the value behind the proposed solution and be willing and able to pay for it.

TREND #3.

SMALL AND MEDIUM ENTERPRISES REINVENTED

The innovation game is not limited to individual customers. Banks have also concentrated their efforts on the small and medium enterprise (SME) segment. Over the last decade, the value proposition for business customers has been commoditized -- with a focus on core vertical products -- due to the diversified needs of customers and the intrinsic complexity of each business.

To bridge this gap, many tech companies started to verticalize their services, using technology to scale their offerings and gathering deep insights into such a data-rich segment. This led to the development of accounting solutions, invoice management apps, analytics platforms and other digital-only finance tools such as the XERO accounting platform.

Recently, however, banks have come to understand the potential of such a market. They are slowly evolving their standardized value-added services offerings. With a trend toward decreasing revenues from core business pools, they need more than the traditional core business customers to keep on growing and retain customers. For banks, value-added services represent a valid ancillary market, and banks have started offering their business customers products and services such as business financial management (BFM) solutions, as well as digital transformation accelerators such as eCommerce set up or digital marketing campaign management.

Given the overall effort, banks' return on this investment could be hard to identify in the short term, but some forward-looking players seem to have found a way to capitalize on their spending. They are taking a "GAFAA" (Google/Amazon/Facebook/Apple/Alibaba) approach, leveraging insights and data derived from these new services to boost their core business.

There is a solid business case for many value-added services if they are integrated into a broader value proposition, where they can help generate leads or increase customer "stickiness".

Banks have found that there is a solid business case for many value-added services if they are integrated into a broader value proposition, where they can help generate leads or increase customer "stickiness".

Loans are a good example, since accounting tools - when provided by banks - can serve as valuable data sources to improve risk scoring calculations for lending decisions.

National Australia Bank (NAB) is in the process of building a strong ecosystem with highly specialized players, integrating, for example, with accounting specialists like XERO and myob. NAB uses data, insights and other information generated from these tools to perform an accurate assessment of business performance and to get better in risk scoring calculation. NAB's QuickBiz Loan is a platform that allows business customers to request unsecured business loans that the bank would not otherwise be able to provide via traditional scoring methodologies. The positive impact on customer satisfaction is quite clear.

Poland's mBank created a disruptive process for the start-up of new companies. With mPower Business Starter, entrepreneurs can generate their own digital signature, open a business account and register the new company with the proper bureau via a single interaction on just one interface. The bank reduced the time to open a new company and set up a business account to 10 minutes by combining services from governments, banks and accounting firms.

In Russia, Sberbank has leveraged its digital expertise to create a marketplace combining traditional banking services such as automatic deposits with non-financial services to help customers with their everyday business needs. The platform includes an online store, a content management system and different solutions made available via an API approach, such as BFM, e-invoicing, counterpart trustworthiness checks and accounting services.

TREND
#4.

TRANSFORMING THE WORKFORCE

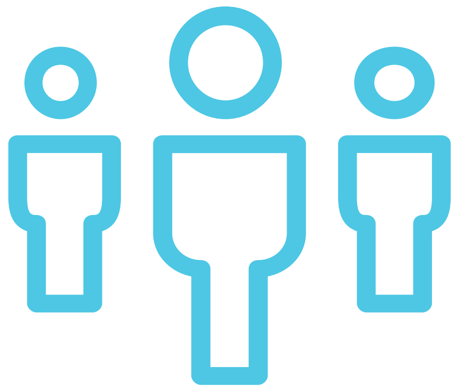
Digital transformation means effecting change through new skills and a renewed corporate insight, with technology helping organizations to be more customer-centric. Digital transformation also reshapes workplaces, offering hyper-personalized experiences that are better tailored to the needs of employees, customers and partners. Innovation is becoming a tool that fosters workforce empowerment through the creation of a better environment that helps employees build customer relationships through new working processes and new behaviors.

Banks are investing in intelligent tools to support frontline employees, creating personalized scripts to deliver during face-to-face meetings. This is consistent with the new banking mantra of providing a great experience at every "Moment of Truth".

Artificial intelligence (AI) is the key technology behind the evolution of working processes, and the challenge of integrating human work with AI applications is a paramount concern for the industry. The good news, however, is that structured applications and pilots are starting to produce interesting results, both in terms of savings in eliminating repetitive tasks and in sharpening the focus on customer service.

Banks strive to foster an agile digital culture that prioritizes constant adaptation, learning and innovation. By focusing on the idea of continuous learning processes, innovative banks are working to blend two different strategies - offering efficient, one-time courses and interactive platforms that provide continuous training to employees at all levels.

ChatMe&mAIA from mBank, for example, blends artificial and human intelligence to provide help to users on a 24/7 basis. mBank replaced standard marketing communications with interactive chats run by an AI bot that provides a human-like experience. Inspired by Siri, Cortana and Facebook Messenger, the service comprises a complex event



processing mechanism that analyzes user behaviors in real-time, providing AI support accessible through any channel, including the mBank mobile app, desktop banking and branch advisors. No matter where the customer starts the conversation, internal and invisible-to-the-customer processes address the query to the most appropriate agent, whether digital or human. Thanks to this hyper-personalization, ChatMe&mAIA had an outstanding impact on customer satisfaction and sales growth.

On a different level, Intesa Sanpaolo developed a Netflix-inspired digital learning service with two digital channels: a learning portal and a mobile app. With the goal of empowering an extremely diversified workforce while remaining up-to-date with the latest trends, the Italian bank developed a new learning service that is flexible, user-friendly, easily accessible and customized to address specific individual needs. The learning portal, Apprendo (Italian for "I learn"), targets all employees with digital training content that is internally produced, while the mobile app, "Management Academy", is an ad hoc created smartphone app designed for Group Executives to train, inform and enable networking in an individual, digital and comfortable way. A dedicated algorithm suggests the best content for each skill the manager wants to develop, creating a highly customized experience.

OCBC Bank, in Singapore, implemented a one-stop portal for all HR-related inquiries from employees. This comprehensive application uses an AI-powered chatbot that has been integrated with real-time HR information. All employees have specific information at their fingertips, without the need for large internal help desks with their calls and issue tickets.

By using artificial intelligence and natural language search (NLS), India's Kotak Mahindra Bank designed an AI bot which can immediately answer analytical questions from senior management. The response includes the most relevant analysis and data and is also accompanied by the most likely follow-up questions, with a link to a detailed dashboard with all pertinent details. The aim of the project is to guarantee instant reports for faster decision making, thus reducing and/or optimizing the data review processes. To accomplish this, the project uses machine learning algorithms for better comparative analysis and actions. Kotak and other players active in this area expect reduced response times, lower error rates and shorter time-to-decision.

TREND

#5.

VPI – VALUE PROPOSITION INTERFACE

Application programming interface (API) is an ever-present topic in the banking industry today, and many believe it will become even more important with the introduction of the Payment Service Directive or PSD2.

While API is central to many discussions, value proposition interface (VPI) may become even more important, changing the way banks open their boundaries to deal with changes in technology and demand. Some players are moving from opening their APIs to designing a structured ecosystem for third parties to convey their propositions via the bank's digital properties. This creates a sort of marketplace for banking products, something that banks cannot do without properly managing the "FinTech invasion".

The established view of the impact of financial technology (FinTech) on the banking industry is that new players will compete fiercely with banks in vertical areas such as payments, foreign exchange and remittances. However, thanks to open infrastructures, some clever incumbents have turned to orchestrating FinTechs, rather than competing on equal terms with them.

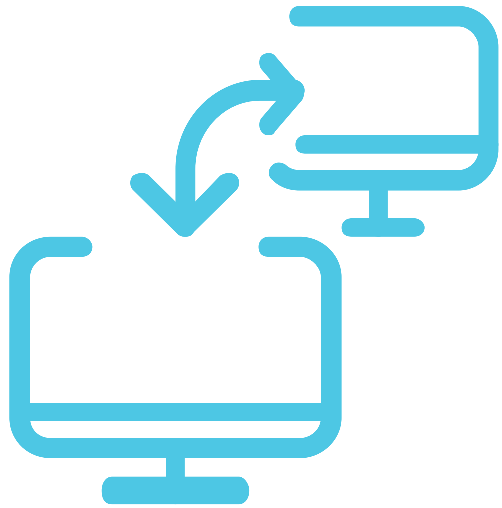
These banks can now direct customers seeking the most advanced personal financial management app or Facebook-powered payment options to their own marketplace, helping customers transact business in a safe and trustworthy environment. The new, open systems favor an easy integration of "bricks" from qualified third parties.

First Direct has partnered with UK-based FinTech Bud, a platform that allows users to aggregate all their digital financial services in one app and search the market for the best financial services products for their individual needs. First Direct customers will benefit by gaining access to a broader range of financial services, while the bank will use its own proprietary algorithms to recommend the most suitable solution across different offer areas, including those from FinTech and insurance technology (insurtech) companies. Customers seeking to transfer money internationally, for example, can use TransferWise capabilities, but the bank does not need to bring these capabilities in-house.

Digital attackers pursuing a similar strategy include Fidor, with its Finance Bay platform serving as a one-stop shop for trusted FinTech, InsurTech and TradeTech apps. Fidor makes it easy for customers to access all products and services they need right from its banking platform.

Of course, all apps offered on Finance Bay go through a thorough review for quality and compliance, with final approval from Fidor. This supports a trusted and quality-driven marketplace.

Fidor is not the only "new" player building a powerful ecosystem via API, joining forces to compete with traditional banks at equal terms. Marketplace from Starling Bank puts products from other FinTech providers within "an easily browsed ecosystem" accessible from the bank's app. Interesting services on-boarded so far include Flux, the itemized receipt and rewards-focused mobile app. Banking users can scroll through transactions and see the retailer's name, amount spent, expense date and location, as well as items bought, VAT and any available loyalty stamps. Moneybox, a roundup micro investing app, is another add-on, allowing Starling to let customers round up their purchases to the nearest pound and invest the change in the stock market or transfer them into pension funds.



Thanks to open infrastructures, some clever incumbents have turned to orchestrating FinTechs, rather than competing on equal terms with them.

TREND
#6.

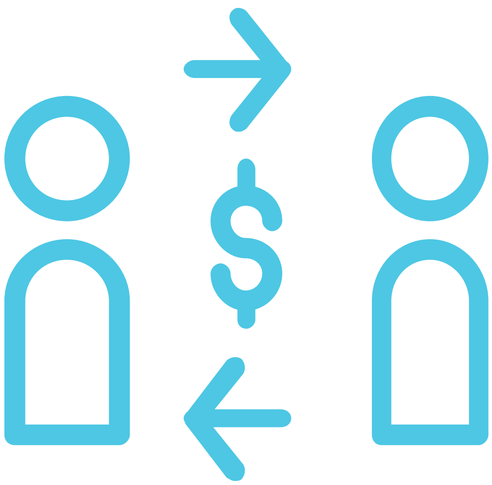
TRANSACTIONS FOR ACTIONS

Money and personal finance management (PFM) tools are another area shaken up by major banking players in 2017. PFM is nothing new for banks and their customers, but, despite its being available on almost every internet banking platform worldwide, adoption rates for PFM are far from exceptional. Perhaps that is because, to date, these tools have been largely focused on showing numbers to customers rather than crunching these figures and turning them into actionable advices.

However, customer-focused banks are changing course. They are now concentrating on the next phase in the evolution of personal finance, turning information-collecting tools into companions and coaches. This requires the shaping of a coherent coaching dialogue, based on tailored alerts and behavioral notifications, to guide customers towards healthier financial choices and actions. The focus is no longer on putting together good information and waiting for someone to look at it; information is now shown with the goal of proactively changing customers' everyday behaviors, with figures and insights contextually delivered.

The potential benefits from pursuing such a strategy include enhancing customer engagement and retention through ongoing "non-sales-only" interactions with the brand, as well as opening new potential fee-based revenue streams by charging for certain types of high-value alerts, such as overdraft probability notification and management.

Russia's Sberbank leverages customer information in new and powerful ways with its Tips tool. Tips combines algorithms predicting future spending with interpretation of lifestyle to give customers tailored, proactive suggestions about how to make smarter financial decisions that align with their profiles and with their deeper needs and goals. Rather than just telling customers that they are spending too much or too fast, Tips suggests where and how to spend in the future to obtain a sustainable, enjoyable lifestyle without damaging the customer's financial health.



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All Tips alerts are actionable, with a clear call-to-action helping customers make smart choices.

Santander introduced Money Plan, a new mobile app that aggregates bank accounts, cards and other financial products in a unique platform, allowing users to receive timely, holistic advice to improve their personal finance management. Money Plan is one of the top-rated apps of the bank and plays a key role in helping the bank understand specific customer needs and behaviors. Among its most relevant features, the app includes a unique view aggregating all banking accounts held by the customer – including those at other financial institutions – helping the customer set savings goals. Money Plan also delivers personalized alerts and suggestions aligned with each profile.

Finally, Royal Bank of Canada introduced a new module called NOMI (a play on “know me”). It uses predictive analytics and artificial intelligence to provide timely insights (“nudges”) to specific customers. For example, customers will receive alerts related to debt, such as big increases in credit card balances or use of cards at unusual merchants. The NOMI app also provides monthly snapshots detailing fluctuations in utility bills and other spending items affecting everyday life.

CONCLUSION: SIX EVOLVING TRENDS, ONE UNVEILED EVOLUTION. THE HUMAN EXPERIENCE AGE

The Efma awards represent “the new made newer” and show banking to be a global industry that has embraced the digital revolution. But banks are doing more than just keeping up with changing times or defending themselves from digital disruptors. They are bringing their innovation efforts to the levels of maturity that justify investments made. The proven relevance to their core business justifies further investment, with new lenses available (data generated or obtained) to assess ideas and potential initiatives.

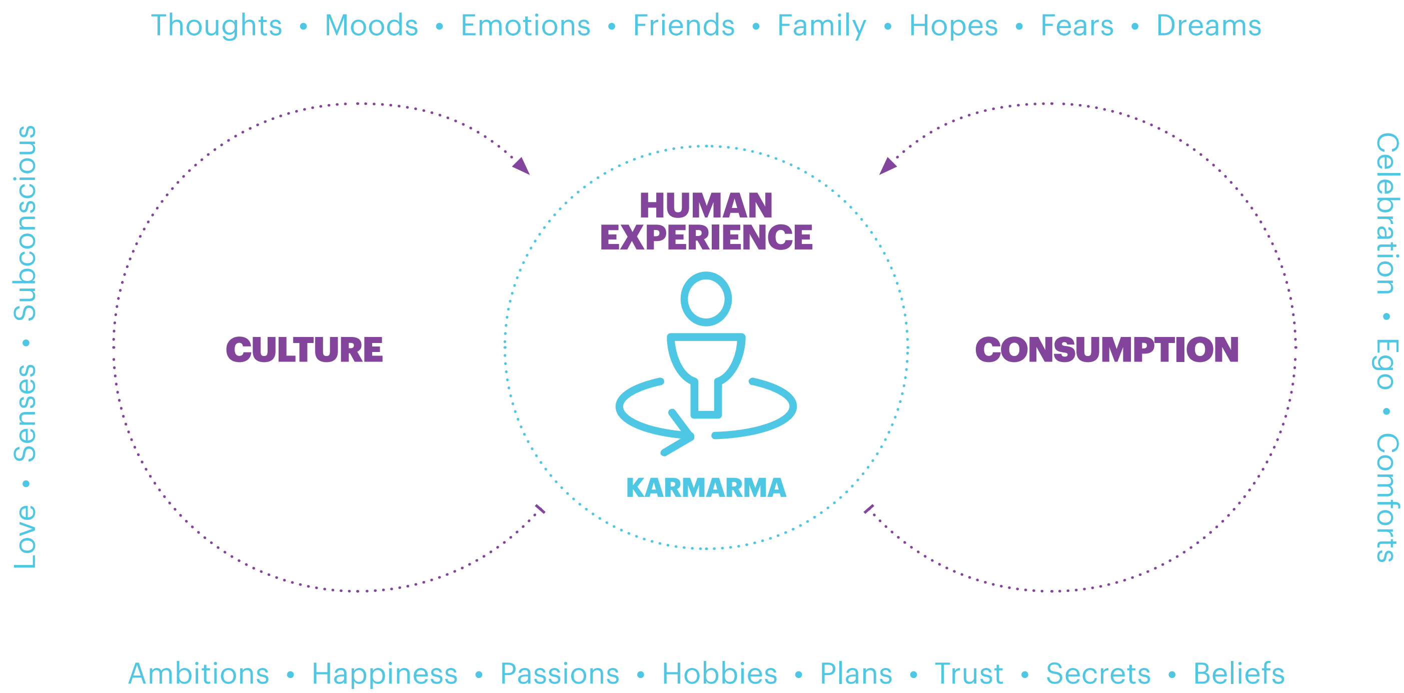

Figure 1

In addition to the six trends we have outlined, we can also see a new and possibly even more differentiating scenario. Some industry pioneers are trying to re-design their offerings and overall value propositions with an understanding that what they convey to the market must be in line with something more than a financial need. They are thinking about customers' values and dreams, their aspirations and their deepest goals. DenizBank did it by looking at seniors, Credit Suisse by thinking of babies.

Indeed, it is becoming clear that some banks are putting the "human factor" at the heart of their agendas. We found a powerful example from Emirates NBD, which launched Liv., a bank for Millennials, with an appealing interface encompassing both digital banking services and "lifestyle-oriented" features to deliver a very distinctive experience for new generations. The result is a lifestyle-based bank that – as they say – makes customers "Liv. more".

For some organizations, banking is becoming a destination for the human journey, not just a starting point. People live their own lives and banking is just a small part of those lives. The customer experience is becoming the human experience.

Karmarama, an agency within Accenture Interactive, has explored and further developed this concept (figure 1). They explained that people are customers during just one percent of their life, while they are "only human" for the remaining 99 percent. If banks, or any other companies, limit their effort to the one percent, they will miss the big sphere of feelings, dreams and ambitions.

The human experience approach tells banks that it's time to give a brand-new meaning and shape to people. The business impact from this shift is just around the corner, as explained by Richard Thaler, the 2017 winner of the Nobel Memorial Prize in Economic Sciences: "In order to do good economics, you have to keep in mind that people are human." Focusing on the human element represented in customers, ecosystem partners and employees provides banks with the energy to make this great leap forward.

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