A QUESTION OF TRUST

Improving conduct and customer outcomes
Blending Customer Experience (CX), Artificial Intelligence (AI) and Advanced Analytics to improve conduct and customer outcomes in response to the Australian Banking Royal Commission.
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Banks can expect wholesale regulatory changes when the Royal Commission issues its report next year – coinciding with a time of low customer trust and burgeoning competition.

But banks must do more than focus on risk and control: lessons learned from the UK’s banking sector a decade ago show they must also improve the customer experience (CX), incorporating design thinking, advanced analytics and artificial intelligence (AI) to better balance compliance agendas while enhancing customer relationships.

Meanwhile, the advent of open banking, the New Payments Platform (NPP), fintechs and challenger banks make the environment even more challenging for traditional banks. How they respond is crucial.

Should banks fail to meet customer expectations, they risk being replaced in the transaction loop.

Applying Accenture’s FORM process will see banks offer a hyper-relevant customer experience that can compete with those offered by new competitors, and drive conduct agendas.

A successful process will also see banks meet these new risk and control needs, winning back customer trust.

KEY FINDINGS
A LOSS OF TRUST

The hearings at Australia’s Banking Royal Commission have reverberated far beyond the financial services industry whose conduct it has been investigating. The Commission’s final report is due next February.

If press accounts are any guide it will make for grim reading for the country’s banks.

The Royal Commission has had two important consequences:

• Firstly, customer trust in the financial services sector is at its lowest level in years. At the start of 2018 it had declined to 49 percent, making it the second least-trusted business sector in the country, according to the Edelman Trust Barometer for 2018 (see diagram below). It will surely have sunk further;

• Secondly, systemic change of the banking industry is inevitable.

Unsurprisingly banks are acting, but many will respond by slashing discretionary spending, deprioritising customer experience in favour of more rigorous controls. In our view this is misguided: although addressing control issues is essential, it is only half of what is needed. Banks must also adopt a customer-centric approach to win back trust; in part that involves improving the customer experience.

Those that fail to do so could face an existential crisis. If that sounds overly dramatic, it has happened before: the experience of the United Kingdom’s banking sector in the aftermath of the global financial crisis a decade ago provides valuable lessons.

Trust declines in all 15 sectors
Percent who trust each sector, and change from 2017 to 2018, in Australia

Source: 2018 Edelman Trust Barometer, TRU_IND. Please indicate how much you trust businesses in each of the following industries to do what is right. Again, please use the same 9-point scale where one means that you “do not trust them at all” and nine means that you “trust them a great deal”. (Top 4 Box, Trust), industries show to half the sample. General Population, Australia.
A LESSON FROM ABROAD

The 2008 global financial crisis hit retail banks hard. In the UK several were bailed out by the government using tens of billions of pounds of taxpayers’ money.

All that took place against a backdrop of long-running mis-selling that helped erode customers’ trust in banks.

To deal with these parallel crises, the UK’s banks responded in four ways:

• They implemented vigorous controls and cost-cutting measures, in part to offset the impact of deposit withdrawals;
• They extended customers’ journeys to ensure multiple, and often overlapping, compliance checks;
• Many withdrew entirely from mass-market advisory work;
• And many put on indefinite hold their plans to transform the customer experience through digitisation. The funding that was originally allocated to those areas went instead on regulatory projects.

It hasn’t worked out well. To be sure, they are on a sounder financial footing. But nearly a decade on, the UK’s banks are still viewed poorly: a 2017 YouGov poll found just 36 percent of people trusted banks to work in the best interest of their customers. More than half did not.

In the meantime, challenger and digital banks such as Metro and Starling (see call out: The Rise of the Challengers), along with fintechs and GAFA firms (Google, Apple, Facebook and Amazon, among others) have moved in on banks’ traditional territory with a relentless focus on the customer experience.

The mistake the UK’s banks made was to focus on stability and regulatory controls while they shelved plans to improve the customer experience. That meant banking processes became even more onerous, time consuming and difficult to access – all which exacerbated the loss of trust in the sector.

And while their efforts to deleverage did stabilise the sector (the UK’s banks are around three times stronger now than they were ten years ago), that approach left them vulnerable, allowing others to erode their market share across a broad range of categories.

A decade later, this is the very mistake Australia’s banks may be about to repeat – in a world where fintechs and digital banks are more competitive, where open banking and the New Payments Platform will upend their businesses, and where customers’ expectations of service are driven to an even greater extent by GAFA-type firms.
Their vulnerability is particularly acute considering:

- Australia’s banking sector profitability guarantees greater competition: banks’ profits comprise 2.9 percent of the country’s GDP, which is the highest proportion amongst major developed economies and three times more than the ratio in the UK.⁶
- The regulator is deliberately eroding barriers to entry. APRA is adopting ‘phased’ licensing frameworks for start-ups seeking banking licenses – they will need $3 million in capital (plus wind-up costs) versus the current requirement for $50 million of tier 1 capital.⁷,⁸
- Open banking will drive competition from a new range of players and a stronger fintech sector, with third parties able to access data, levelling the playing field for challenger banks in a way similar to the UK. The scope for competition under Open Banking by mid-2019 includes credit, debit, deposit and transaction accounts; by February 2020 it will expand to include mortgages.⁹
- Australia’s Fintech sector is larger and more mature now (see call out: Australia’s burgeoning fintech sector).

In short, Australia’s banks risk disintermediation – being cut out of the transaction loop – should they fail to improve the customer experience, because if they don’t offer more, others will. The fact that 38 percent of Australians say they would consider banking with Google or Amazon should not go unnoticed.¹⁴
**The Rise of the Challengers**

What happened in the UK provides more than one lesson for Australian banks. Take the advent of challenger banks such as Metro, Starling and Revolut, for instance. Metro, the oldest, was launched in 2010, with the others founded in 2014 and 2015 respectively.

More than 50 institutions have been granted a UK banking license since 2008.\(^3\) By focusing on the customer experience these upstarts are carving up a lucrative market: challengers registered significant increases in market share. Ratings agency S&P estimated the aggregate loan books of challenger banks to be worth just over £300 billion at end-2016. Their combined year-on-year loan growth rate was 10 percent in 2016.\(^4\)

In 2015, according to an article in the Journal of International Banking Law and Regulation, the total lending volume of challenger banks in the UK had increased by 31.5 percent, compared with a decline of 4.9 percent for the Big Five lenders. What is more, this growth was achieved with relatively low expenses: they had an average cost-to-income ratio of only 48.5 percent, compared with 80.6 percent for large banks.\(^5\)

In short, these nimble banks are eroding the market share of big banks. And this is to say nothing of the impact fintechs are having in areas such as international transfers, as they provide hyper-relevant services to customers who are at ease with the digital experience accessed via their mobile devices.

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**Australia’s burgeoning fintech sector**

The fintech sector is larger and more mature than ever with circa 300 fintech firms listed in the Australian fintech directory.\(^10\) The sector attracted more than a third of investor spend in start-up organisations according to Startup Muster report in 2017.\(^11\)

By May this year, more than 100 fintech firms had applied for accreditation to use Open Banking, with 20 given authorisation.\(^12\)

The financial services industry is estimated to be at risk of disruption over the next five years – and with fintechs keen to take as much of that as they can – banks have their work cut out for them. A recent study by Frost & Sullivan showed that the Australian fintech sector could take $10 billion in aggregated revenues away from the big four Australian banks, while contributing $3 billion of new revenue to the Australian financial services sector by 2020.\(^13\)
This approach ensures that processes are controlled, minimising the risk of “free form action” from staff – which has been a principal cause of problems across the industry.

Designing innovative customer-focused experiences is paramount. To achieve relevance and accuracy to delight the customer, while also satisfying regulatory requirements, needs advanced analytics, machine learning and AI. Using these tools, banks will be able to capture complex patterns across their businesses and compare them to historic problems. They will also be able to continuously learn and flag possible issues identified through the analysis and then address in real-time.

Moreover, virtual assistants and AI tools can be used by front line banking staff to guide and support them to do the right thing for customers and the bank. And while there is an increased focus in addressing front line conduct amongst employees, banks should further consider how they can use advanced analytics and AI to empower customers in the self-service arena.
A QUESTION OF TRUST

FORM AND FUNCTION

Australian banks need to understand why customers flock to their competitors, and ensure they start offering that sort of functionality. In crafting an approach, banks should take heed of the Royal Commission – because at its core the Commission’s purpose is to deliver better outcomes for customers.

If banks focus on delivering those better outcomes they will not only satisfy the regulator and their customers, they can start to win back some of the trust they have lost. If, on the other hand, they cannot win in the consumers’ minds the battle for everyday services, then their brand will become disintermediated.

GAFA companies are among those looking to take advantage. Take Google and Apple, whose respective Google Pay and Apple Pay products are major players in the digital payments sphere. With insight into customers’ spending and lifestyles it is companies like these that will be able to create highly personalised, time-relevant financial offerings.

Should banks fail to design appropriately for their customers, GAFA firms will be among the first to own the customer relationship – and relegate incumbents to being mere providers of credit.

The solution is that banks factor in those outcomes and design a human-centred approach to improve the customer experience throughout the journey.

That means creating solutions where the following intersect:

- people’s needs;
- business and operating needs;
- application of advanced analytics and AI;
- legal requirements and technical feasibility.

Specifically, banks should adopt a human-centred approach like Accenture’s FORM methodology. This is based on design thinking principles to:

- discover customer needs through dialogue with real users
- use insights driven by relevant data
- design solutions collaboratively with cross-functionally skilled teams.

FORM can help Australian banks create the optimal solution for customers while also meeting the need for controls (see diagram on next page).
The process involves the following steps:

**DISCOVER**
Take learnings from the Royal Commission to discover what went wrong, how and why. Analyse internal and external data to derive further insight.

**DESCRIBE**
Using this insight, define new strategies and the future experience and conduct. Infuse expertise from risk functions as well as design thinking specialists to create concepts that are both in line with recommendations from the Royal Commission and regulators, as well as attractive and understandable for consumers.

**CO-CREATE**
Leverage blended teams across business, risk and technology to design journeys, processes and content holistically. Test and learn obtaining feedback from customers, internal users and the regulator where appropriate.

**SCALE**
Deliver transformative solutions through collaborative and agile ways of working, enabling rapid scaling across the business functions that use them and the customers that need them in a controllable environment ensuring excellence in experience, conduct and controls.

**SUSTAIN**
With the new solution in play, recalibrate, improve and realise value. Continuous improvement in a customer centred and compliant fashion is embedded in ways of working across the organisation.

At the end of this, the bank will have a hyper-relevant customer experience that can compete with offerings from fintechs and other digital players – and that meets the regulatory risk and control requirements.
The rise of challenger banks and fintech firms, to say nothing of the GAFA companies, that are muscling in on the banking space has reshaped customer expectations. In little more than a decade, the once-staid world of finance has become a fast-moving market focused on satisfying diverse lifestyle experiences while balancing conflicting regulatory changes.

And with a highly profitable banking sector, it is certain that competition in Australia will increase. Should banks not apply the lessons learned from abroad, this array of upstart brands will do so.

Those banks that refocus their attention today on meeting customer demands will be the winners of tomorrow: delighting customers and regulators, and regaining lost trust.
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