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Banking at a digital crossroads

By **Juan Pedro Moreno**

Banking has reached a crossroads. As the digital revolution transforms virtually every aspect of our lives, so it is shaking the foundations of the banking industry.

For banks there is both opportunity and threat. Numerous new competitors such as PayPal and Google are coming up with innovations in the digital banking space. In the process they are eating away at parts of the banking value chain. Google has launched a plastic debit card to accompany its Google Wallet, which is used by millions of consumers, and PayPal is the number one online payment method in many countries. Even retailers like Starbucks are stealing a slice of the payments pie with a loyalty card that handles nearly one-third of its US transactions.

The risk for banks is that these new digital competitors will consign them to a limited role as utilities, which just provide basic banking services to customers.

By contrast, the opportunity for banks is to use digital communications tools such as smartphones and tablets to capitalise on the significant advantage they already enjoy in the digital world. Banks have vast amounts of information at their disposal about consumer transactions and spending habits. By combining this data with personalised information from other sources such as social media they have the chance to provide a valuable service to clients when they are making transactions.

Instead of just enabling customers to pay for something, they can move further into their commercial lives by helping them reach the decisions on what to buy, when and where. In this way they can become trusted and indispensable to many of the everyday activities of today's consumers.

Take, for example, the second biggest investment in most consumers' lives: buying a new car. One of the main Spanish Banks, BBVA, is already making information about the real selling price of cars available to its US customers, as opposed to the list price, alongside offers of auto loans and insurance. The aim is to ensure customers can negotiate the best deal.

According to the bank, the next step in other markets may be not just to provide the pricing information but for the bank itself to help negotiate the best price with the car dealer to reduce the hassle of car buying for its customers.

While digital technology has enabled a host of new competitors to offer new, innovative banking services to consumers, the other side of this coin is the profound changes in consumer behaviour that technology has brought about. Young, tech-savvy consumers, who have grown up in an era of smartphones and tablets are less loyal and more demanding than ever – already one-fifth of customers change some or all of their retail banking products each year. The trends are even higher in emerging markets.

These customers expect to be able to buy things or put money into savings accounts using cheap, accessible digital technology. They expect data instantly – as quickly as they can pull a mobile phone from their pocket and tap in a query. Within five years, at least three out of every four customer interactions with banks will be online or mobile. Less than 5% by some estimates will be taking place in branches.

When it comes to financial or other transactions, digital consumers expect their service providers to know and understand them, to offer suggestions based on past behaviour and to steer them toward the best pricing. Transactions should be easy, instant and enjoyable.

All this poses a huge challenge for banks, not least because financial services are not intrinsically inspiring and many customers do not enjoy interacting with their bank.

The real challenge is not about making existing banking products and services available in mobile and digital form but about how banks can reinvent themselves to be part of this new digital age forming much closer relationships with customers. At present a typical bank holds only about 40 conversations a year with the average customer.

The aim is to become an "everyday bank" that interacts on a daily basis with customers.

Pingit, the new mobile payments app from Barclays Bank in the UK, which makes it possible to send and receive money instantly and scan items in shop windows using a mobile phone, is an example of the kind of digital service that customers look for today. It has been downloaded by nearly 2 million customers in less than two years and attracted more new customers to Barclays than any of its other online channels.

Meanwhile in Australia, CBA offers customers buying a home an app that allows them to simply point their smartphone camera at residential properties to bring up property details, recent sale prices and information on local neighbourhoods – as well as estimated monthly payment amounts on CBA mortgage loans and insurance. The app covers 95 per cent of residential properties in Australia and averages 20,000 property searches per week.

However, much of the most exciting innovation is happening outside the developed markets.

The strategy banks such as these are following is not to start selling lots of non-financial products but to play a much bigger role in customers' transactions. This can involve helping them find the best deal by providing the intelligence needed to reach a decision; steering them towards discounts and special offers on products or services they like; and making sure they can make transactions speedily and effortlessly and access credit if they need it.

For instance, the Turkish bank, Garanti's iGaranti mobile app provides customers with alerts about special offers for their favourite shopping brands and notifies them based on GPS if they are close to a store with a special offer. It provides savings suggestions; and estimates the amount of money customers will have in the account for the rest of the month based on past spending habits. It can also be used for money transfers and card-less cash withdrawals and is integrated with Facebook and Twitter.

In China, Standard Chartered offers similar mobile services to consumers.

Such strategies require a very different mindset and culture from the past – often working in collaboration with digital players. Customers are now in the driving seat and it is they who now decide how and when they will do their banking, instead of being told by banks what is available.

Although significant investment will be required by many banks, investing in a digital future will not only expand the customer relationship, it will enable them to make big reductions in operating costs through automating systems and processes – such as online application and processing of mortgages. Most important, though, it will allow traditional banks to combat the encroaching competition from other industries.

With their existing access to huge amounts of data and information and the emergence of entirely new tools which can be used to help their customers make decisions and run their lives in the digital world, banks do have a significant advantage over the new competition. But to capitalise on that advantage they need to adjust and change. If they fail to do that, the future will belong to others.

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