

PERSPECTIVE

Future-ready and Futuristic: The Business of Retail Banking



Scenario 1: Whenever required, a bank's customer can summon a holographic thought manager and obtain investment advice. The image also pops up to remind the customer that a payment is due.

Scenario 2: Customers can choose the products they want, across banks. The bank will provide aggregated services, including those from other banks. The bank will, therefore, become a repository of banking customers' collective needs and levy micro charges each time a customer makes a transaction.

The stuff science-fiction is made of? Perhaps not. These scenarios may well move to the realm of reality sometime in the immediate future. After all, using a mobile phone to check an account statement, withdrawing pre-approved loans from the ATM and transferring funds online may have seemed like science-fiction a few years ago, but are now tangible facts. As banks combine business strategy with technology, they are set to become both future-ready and futuristic.

The banking world is being shaken and shaped by relentless forces altering the business landscape – increased globalization, cut-throat competition, innovative technology, shifting demographics and changing customer needs. Seeking to attain growth and improve customer experience while meeting these challenges, banks are changing.

As the imperatives of banking change, they will reshape the industry's core parameters. In the process, the bank as we know it today will be transformed and must align accordingly its products and services, the experience it provides to customers, the role of the channels it adopts, the branch and the back office.

This article seeks to explore banking of the future and its characteristics to better understand how a bank can ride the wave of change and use the gathering momentum to advantage.

Retail Banking in the Future

Driven by forces that are often beyond their control, the banking industry in general and retail banking in particular are undergoing a major transformation. Banks are introducing enterprise-wide changes, spanning the dimensions of people, process, and technology, to deal with the challenges and retain their competitive edge.

What impact will these changes have on the bank? What will the bank of the future look like? In this section, we examine the future bank with reference to customers, services, channels, the branch and the back-office.

Customers of the Future

With increasing globalization, converging regulations and consolidation, banks are witnessing intense competition. Regional banks are becoming national banks, national banks are becoming multi-national banks and multi-national banks are becoming global banks. Financial institutions with global ambitions are looking at a worldwide market and national players in emerging markets are taking on the banking titans. As new banks, till recently restricted to their geographies, enter the marketplace, the customer of the future will have more choice.

Not only will customers of the future be more demanding and tech-savvy, but will want convenient and efficient banking. With Internet penetration increasing even in emerging economies, information will be more readily available and products will be accessed more easily.

Customers will require flexible solutions customized to their needs. They will want to purchase products through varied channels and access real-time overviews of their accounts and transactions at all times. They will demand speed in processing transactions, simplicity when comparing products, and convenience when performing day-to-day banking activities.

All this will have to be provided at the best possible cost and through exemplary service. If not, customers will exercise their 'right to choice' and go to another bank. Even today, customer attrition rates for the best banks are at 7 to 9 percent per year.

As a result, retail banks have begun to rethink what, where and how to serve an increasingly informed and demanding customer base. Banks must gain greater insight into the drivers of future customer behavior and link their operations and processes to the goal of maximizing customer satisfaction and increasing profits.

Growing Demands

The customer of the future will demand a one-stop shop for:

- Financial needs
- Non-financial advisory services that are an extension of financial assistance in services such as travel needs, education planning, health, financial supply chain eco-system, and so on.

The customer of the future will also be defined by age and income. While the population is graying in developed markets, the emerging economies will have young customers who will readily use technology for transactions. The graying population will seek more retirement-related and savings products while younger customers will seek more loans and cards.

Forecasters predict that demand for financial services in China and India will be boosted by rapid rates of growth in GDP, disposable income and savings. Emerging economies such as India and Indonesia also have a fast-growing high-net-worth individual (HNWI) population. Latin America has 300,000 high-net-worth individuals with \$3.7 trillion in investible assets.

Banks must also concentrate on serving 'unbanked' consumers - the 'next billion'. Hence, while banks traditionally market their products to comparably affluent people, they must now think creatively to address the needs of others.

Tech-driven Products and Services of the Future

As the customer of the future becomes more demanding, banks will have to focus on innovation and efficiency to ensure growth. Technology will be the key enabler in providing innovative products and services that help meet varied customer requirements.

Technology will change banking products and services fundamentally. Mobile payments, cashless transactions, contactless and pre-paid payments and online product developments are changing the way financial transactions are carried out. In many emerging economies, the mobile phone has transformed basic financial services. With such payment services gaining popularity, banks can

lose their monopoly as centers for money transmission. The activity will be carried out by a variety of providers. Organizations such as Paypal exploit the fact that money is largely electronic, providing a platform independent of traditional banking services. In such a scenario, what product can a bank offer? Banks must invest in the infrastructure required to process transactions, becoming trading platforms that support the future of multiple currencies and payment methods.

The second key impact of technology on banking products and services will be the proliferation of distribution channels. In the future, a number of different channels will erode the branch's predominance. Channels such as the mobile phone, ATMs and Internet have already become common. The global ATM market is expected to reach two million installations by 2011. A significant number of online banking households will also soon be using mobile banking.

Wallet-less Society?

As technology becomes all-pervasive, the era of a cashless world may not be far away. With credit cards, direct PC links to financial institutions, debit cards, online banking and smart card technology, consumers no longer need to carry cash in their wallets. Biometric scanning has taken cashless transactions a step further. RFID tags in the wristwatch can help pay for groceries and a key-chain transponder can help pay for your car's fuel bill, automatically deducting the amount from your bank account. The future may also include an embedded microchip in the hand that would allow consumers to buy and sell without paper or even plastic money. While this makes the future bank's business more convenient and efficient, questions of security and privacy will need to be resolved to make such transactions more acceptable.

As a result of such trends, banks will act as:

- Product Formulators: Banks can have divisions that focus on products such as mortgage or savings.

Call your ATM

A customer contacts the bank with a cell phone to withdraw money from the ATM. The bank initiates the transaction and the ATM spits out the cash, without a card being used, as soon as she arrives.

Remit Cash via Mobiles

MasterCard will operate a system in which remittances will be sent as text messages. For people without bank accounts, the credit can be converted into pre-paid cards which can then be used to buy things.

- Customer Gateways: Banks can capitalize on superior customer knowledge and efficient delivery channels to sell a range of products through varied delivery channels of the customer's choice.
- Industry Services: Support functions will be seen as peripheral activities and spun off to either separate divisions or to third party providers.

The bank will therefore be truly customer-centric, placing the customer firmly in charge of her financial services.

As banks take to technology to deliver innovative products and services, fraud and security concerns are paramount. Banks will invest more heavily in IT and human resources to combat fraud such as phishing and identity theft.

Channels of the Future

With customers seeking effective service and the best products, banks need to become better retailers – providing the best service with maximum efficiency. Hence, as customers demand a range of choices – from automatic cash-dispensers and mobile banking to card payments and online banking, a bank needs to provide all this, and more, to retain and gain its customer-base.

Channeling Resources

- Data needs to be real-time and consistent
- Sales and servicing will be carried out from any channel
- Customers can initiate a transaction in one channel and consummate it in another
- Customers can have issues in one channel and expect not only that every other channel is aware of it but can also resolve the problem, if necessary

Therefore, a bank must plan its next-generation delivery strategy with such requirements in view. It must have multiple, secure and scalable channels to satisfy customers and create value. The challenge will lie in coordinating the channels to offer the same services, of the same quality across channels so that the channels complement each other.

As technology advances and markets expand, a bank must embrace new ways of reaching customers to meet the changing demands of the marketplace. The channels of the future will help customers have complete access to the bank anytime, anywhere and allow bankers to sell the right products to the right people in the right way and at the right time.

In the future, the scope of channels will be expanded and new channels will come into existence. For example, even a point-of-sale terminal in a shop could become a channel for the customer to have an interactive transaction with the bank. More use of channels like mobiles, portals and web kiosks, will not only become the order of the day, but the bank will also deliver most capabilities of the branch and its varied products through these channels.

Online banking channels will be closely integrated with portals where transactions will initiate and these will be tied to payment mechanisms which are supported by the bank through their online payment channels. Channels may also be coupled with technologies which will make customer collaboration with a service representative seamless.

Millions of unbanked customers, who lack access to computers and self-service channels, may be reached by the bank using selling agents who will carry the bank on their PDA or mobile applications.

A CEO of a large, diverse corporation may be able to gain a multi-entity view of the corporation's relationship with the bank through a single dashboard provided through online banking. The complete view will enable him to manage the relationship more effectively.

The technology underlying these channels needs to be robust if the channels are to:

- Create a single view of the customer across channels to help improve customer insight, provide efficient service and increase profits
- Meet customer requirements, allow customers to move seamlessly from channel to channel and deliver consistent, personalized service
- Help lower costs

Branch of the Future

As customers take to online banking and banks opt for technology solutions, one might be forgiven for thinking that the branch is an endangered entity. Nothing could be farther from the truth. The branch will remain, albeit changed beyond recognition. The branch of the future will become a retail outlet, a 'store' as it were, offering a range of financial products and advisory services. While customers will increasingly bank online, the reassurance of face-to-face transactions is essential for certain customers and certain transactions.

Banks will soon feel the pressure to obtain more out of their branch network, particularly in the light of the fact that branches are an expensive overhead. To ensure that their investment is worthwhile, banks will need to change how branches are being run by making branches more relevant. Branches will have to deliver an improved and personalized customer service, providing customers with solutions, not products. They need to provide high-value service and transactions and forge enriching relationships. The challenge will be to acquire sophisticated segmentation and learning skills to understand customer behavior, and thus deliver customized service.

The Agile Bank

UK communications giant British Telecommunications has set up a fully functional branch of the future. In the Agile Bank, customers will be identified using RFID tags. On entering the branch, the customer will immediately be faced with a self-service area. The machines there will offer a variety of services – from cash deposit to printing cinema tickets. The ATM screen will be personalized to suit the customer's interests – streaming share prices, for example. As the customer approaches the teller, a radio frequency smart card reader on a plasma screen will identify them and play targeted video advertising. At the teller desk, the customer will face a screen display similar to the one on an ATM. To undertake a transaction the customers identify themselves by inserting their smart card. Using a wireless web-pad, connected to the bank's systems, on-the-floor staff will be able to begin to service high-net-worth individuals.

The customer of the future may visit the branch only when she requires specialized service otherwise unavailable through a channel or needs to make high-value transactions which require physical verification of documents due to regulatory reasons.

Branches will become the common meeting place where the bank acts as an intermediary between parties involved in complex deals. The branch will host suppliers and dealers, buyers and sellers under one roof and help settle transactions seamlessly.

Banks are thinking innovatively to leverage their branches to sell more products and services. BBVA, Spain's second-largest bank by assets, believes it can wield its vast financial firepower to buy products more cheaply than consumers and distribute them through its branches at a profit. Customers will see tangible value in routing finance for purchases, through BBVA.

Coffee and Cash

At ING Direct Cafes in the US, customers can enjoy a coffee in a relaxed atmosphere and bank at the same time. The cafes are designed to be bright and clean, giving a fresh, crisp feel, with waiters acting as bank salesmen.

Umpqua, a small and fast growing bank, has plush chairs in its 144 branches where customers can sip free Umpqua-branded coffee, leisure-shop at a shoppe peddling books and music, while also accessing computer terminals to surf the internet and, even sign up for a yoga class.

Banks are also investing in technology to free staff from time-consuming activities so they can concentrate on selling new services. Bank of America's new branches use palm-identification software to give customers access to security-deposit boxes without the assistance of an employee.

In an \$800 million project in Britain, HSBC is building branches with a 'self service' section, focusing branch operations on the highest-value transactions and automating the rest.

With out-of-the-box combinations of technology and products, branches of the future can increase traffic and trigger growth.

Back Office of the Future

The bank of the future needs to react much faster to market changes and roll out new products quickly and efficiently, thus meeting varied customer needs across markets. That means that lethargic legacy systems must go to ensure agility.

Hi-tech Know-how

Upgrading technology to track risk exposure accurately and swiftly will be crucial. CRM will move away from assembling data on the customer towards anticipating how customer needs evolve.

To enable this, the bank's back office needs to be robust, have flexibility and ensure standardization of products and services across geographies and legal frameworks. A bank must enjoy global connectivity, and re-align reporting and approval processes to monitor enterprise risk from a centralized point. It will introduce rationalization in process and practice, bring in re-usability across geographies, increasing transaction speed and reducing costs. The challenge will lie in automating and aligning processes to maximize efficiency.

The centralized back office of the future will be up and running on a 24X7 basis, agnostic to the time zone, location, and actual customer delivery or customer touch point. The back office, servicing transactions across entities will bring down back-office transaction costs. It will provide the capability to process transactions in least-cost geographies, thus allowing banks to harness economies of scale.

Collaboration between back office and front office will be tighter, thus decreasing the transaction turnaround time, and also increasing the throughput. Payments processing and trade activities will become more streamlined, bringing down cycle time for such transactions – thus increasing customer satisfaction – and costs.

A centralized back-office will help banks focus on mass customization versus mass marketing, enabling banks to tailor products to meet varied group needs within the mass market. Banks must use the centralized back office to understand customer behavior by analyzing the vast amounts of data they already hold.

Conclusion

While crystal-ball gazing is never the best way to formulate business strategy, an understanding of present trends and future possibilities can help meet challenges. As banks change for the future, they need to prepare for a competitive marketplace by transforming processes and infrastructure, and most importantly, their thinking. They need to become agile and proactive. The bank of the future must have a networked IT landscape, increased automation, niche products and better understanding of customer needs to succeed. Customers are likely to enjoy better services at lower costs as banks compete to serve them better.

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Author

Rajashekara V Maiya,
Product Manager,
Infosys Technologies Limited.



Infosys Technologies Limited, Plot No. 44, Electronics City, Hosur Road, Bangalore - 560100. India • Tel.: +91 80 28520261 • Fax: +91 80 28521747
e-mail: finaclemktg@infosys.com • www.infosys.com/finacle

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