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viewpoint

Keeping you connected to today's financial services market

The 'Omnichannel' Nirvana and the Future of Retail Banking

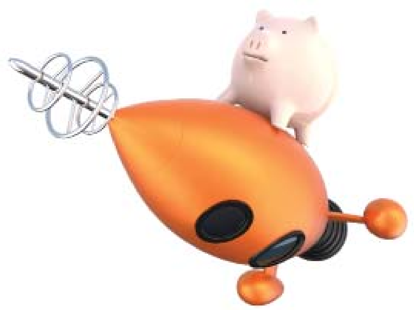
It's a bright sunny day. I step off my hoverboard and walk into WHSmiths. I pick up the latest copy of Glamour Magazine, scan the barcode and pay by touching my phone on the automatic reader before grabbing a pre-ordered coffee paid for with my mobile App. As I sit and read about the latest Bikini diet, I receive a £50 payment text from my friend for the dinner I had with her last night.

Is this a scene from the latest science-fiction movie? Perhaps the hoverboard and the appearance of the sunshine - but the rest? No.

In this fast-paced time of 'now is too late', how we interact with each other and retailers in relation to our money is rapidly changing with technology advancements continually increasing expectations of speed and simplicity.

As bank branches continue to decline and technology enables transactions take place in other ways at times and places to suit consumers, what is happening to our relationship with our bank? How do customers really want to service their accounts? And do we really need a current account at all?

These are all things current banks, and potential new entrants need to consider if they want to keep our custom.



"Most banks use business and information systems that are dinosaurs. Like many companies, these banks risk eventual extinction if they do not keep pace with competitors who take better advantage of emerging opportunities afforded by information technology."
(Gates, 1996)

Changes So Far

In the early 20th century, banking was a reputable career. The face-to-face engagement with the public, the reassurance that the hard cash in your hands would be safe when handed over to a vault for safe keeping and the signed and stamped banking pass book was evidence that it still existed.

The bankers were boss, dictating when they wanted to open and close – including their own custom Bank Holidays, and customers were...grateful.

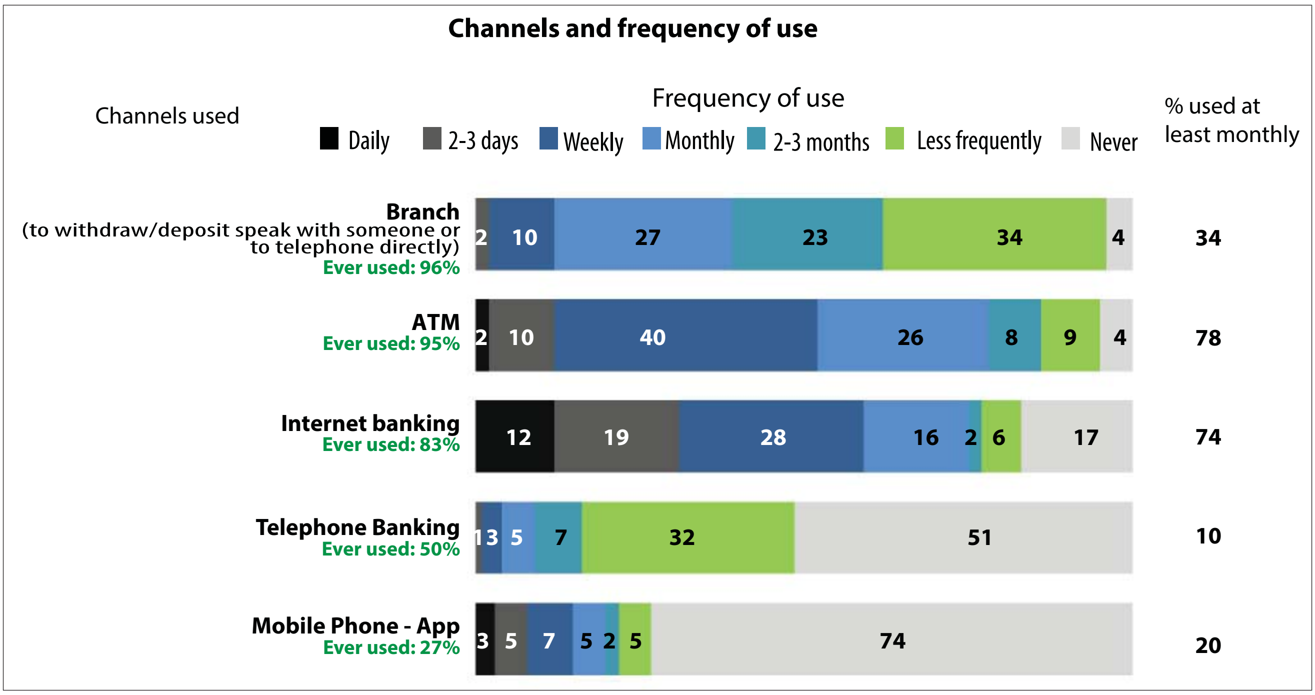
There has been much advancement since, with credit and debit cards and the internet revolution all shaping the way we bank today. The changes so far have been mutually beneficial in cost savings to banks and increased convenience to customers.

Over time, our expectations of service providers have been lifted to where we expect an element of self-control, efficiency and choice – moving from being a nice change of pace to becoming a driver of choice and selection. We became empowered. We were in control.

But, perhaps if a bank isn't giving customers the tools to manage their accounts in a way they want, things may be different. If you wanted to PingIt, and you weren't with Barclays, or your Lloyds branch is your preferred channel, but they become TSB, or if you wanted to buy your Christmas shopping but the RBS system was down – would this be enough to tip the balance? How DO we as customers want to interact with our bank?

Current Channel Usage

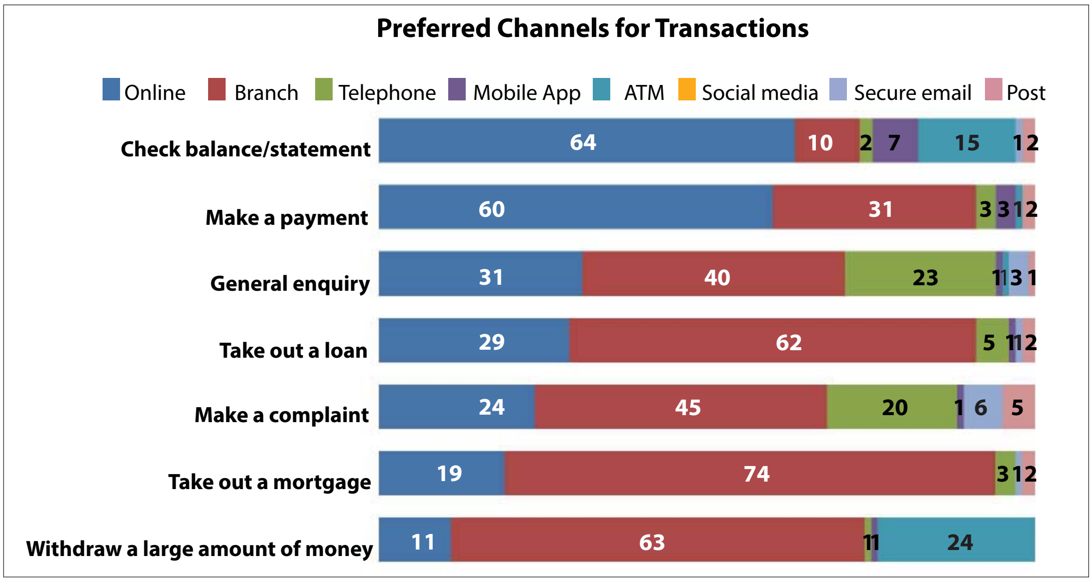
The branch remains the channel most used by customers at some point of their lives (96%) with ATMs (95%) and Internet banking (83%) closely behind. However, those using a branch are mostly visiting only a few times a year or less, a basic right but an expectation. The Internet, mobile apps, social media and other such advancements are not special anymore – they are just part of everyday life. Your bank balance is purely numbers on a screen, payments are automated, plastic is cash, and credit is king.



whereas around three quarters use an ATM at least once a month or are logging on to internet banking in the same duration.

Today, more people access the internet via a mobile device than a PC. Tablets alone will pass PC sales in the next few years. We live in a world where being connected is not only

Despite customer behaviour around cash significantly changing, the branch generally still lags as a dominant 'transactional' banking place favoured for larger purchases such as mortgages or loans or for its human interaction for enquiries or complaints. With transactional behaviour rapidly shifting to online or mobile, this puts existing branch networks under pressure.



We're already seeing changing approaches to using the space for maximum interaction and offerings out of the banking 'norm'. Metro bank has recognised that customers need to bank in their own time, and boasts 7 day opening early and late. For those in Slough, they can also bank at a drive through.

Virgin Money has launched three 'Money Lounges' to make banking more than just about money, with places designed to be somewhere to relax or for informal meetings including complementary refreshments, WiFi and use of iPads.

Allied Irish Bank has launched 'The LAB', a one off interactive branch with the aim to provide a learning and research environment showcasing the digital banking experience. As well as the ability to conduct the usual ATM related services, customers can also use the usual other channels under the one roof with telephone banking, internet banking terminals, Facebook and Twitter as well as secure video conferencing to customer advisers, and access to devices with mobile and tablet Apps and new products or services such as contactless payments.

This is quite a cunning idea to help and teach those not as familiar or comfortable with technology to try out such as internet banking or mobile and tablet banking apps with advisers on hand to guide customers through the process and how to get the most out of their bank. A customer that feels supported and comfortable with their bank and the facilities they offer are more likely to feel bonded.

But how do channels impact on the bonds with customers?

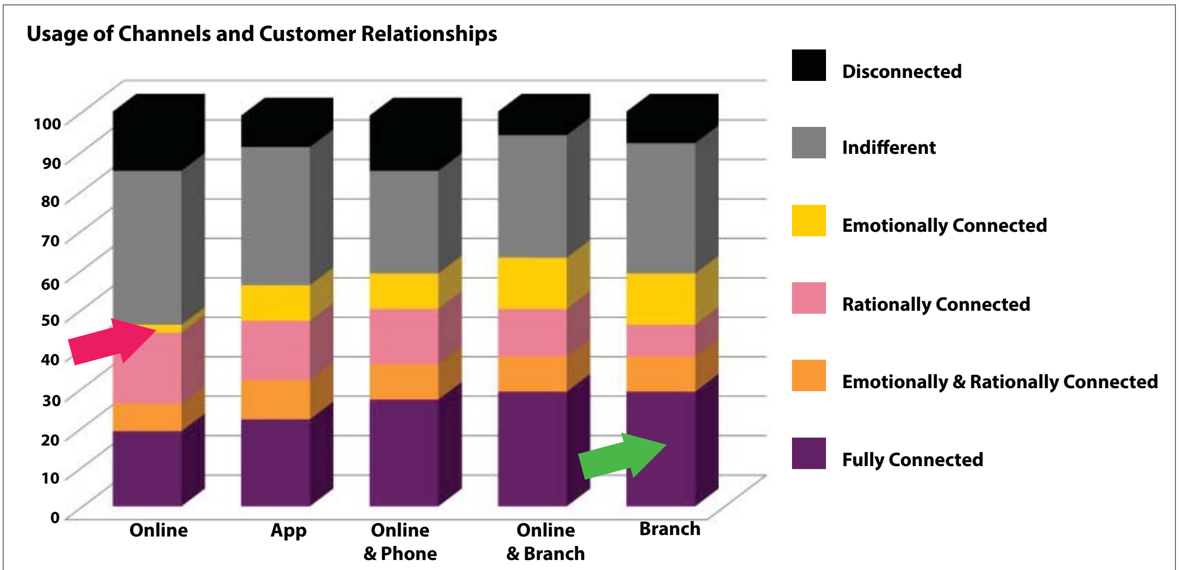
Customer Relationships and the Links to Channels

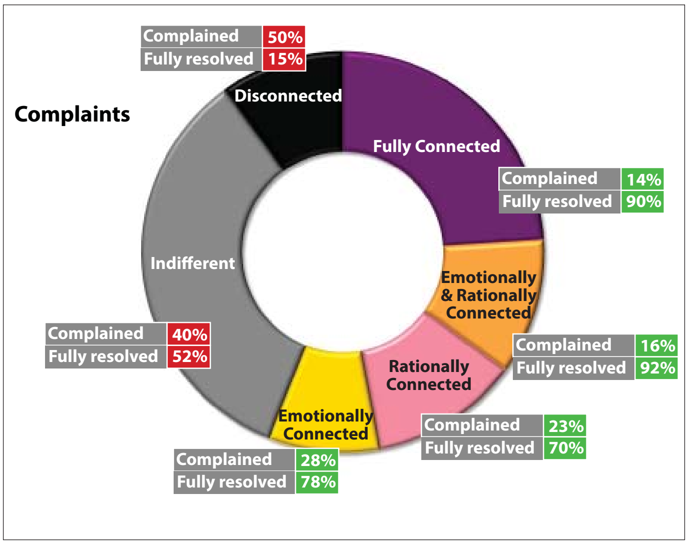
Using Harris Interactive's proprietary customer relationship model incorporating Rational, Emotional and Intentional attachments to a brand, we know that customers who are more connected have a stronger affinity to their bank, and are more likely to recommend (NPS) and less likely to switch.

Using both channel preference and behavioural data for different types of banking transactions we identified five different types of customers: those who use online relatively more than other channels, those who use Apps relatively more, and those who relatively use more traditional banking channels – Online & Telephone, Online & Branch and those largely favouring the Branch for their transactions.

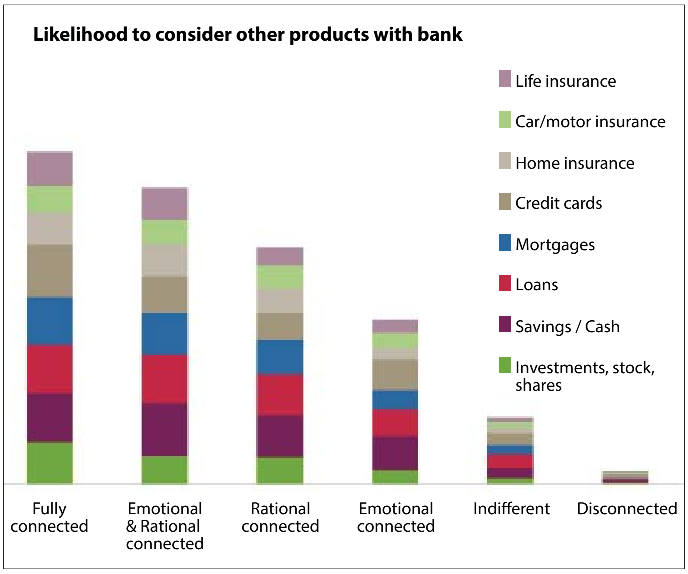
As highlighted in our web broadcast in October 2013 we can see that the human interaction of a branch or telephone banking is where strong connections are made. This bond also means money for banks as these customers will be spreading positive word, are less costly from complaints, and are much more likely to consider other products on offer from their bank brand.

Conversely, those using online relatively more than others are much less emotionally connected with their bank, and are more disconnected or indifferent which indicates that currently banks are struggling to re-create the same levels of customers endorsement online – which is dangerous territory and carries a high risk of switching and complaints.





Our research highlights that around 13.3m customers have ever made a complaint to their bank, with just under half feeling these weren't fully resolved. This amounts to a cost of up to £100m depending on the scale/complexity of the complaint, a charge which is largely attributable to disconnected or indifferent customers.



The branch is important in high-end decisions, such as mortgages and loans, but these transactions are few and far between in a customer's life relative to other interactions. The challenge today is for banks to move from a retail model that focuses on transaction processing to one that more effectively meets the needs and wants of customers in order to increase bonds and retain or onboard customers, thereby increasing their potential value. Nearly three quarters (74%) state that they would like to see a return to 'old fashioned banking' with a more personal service with 43% wanting a closer relationship with their bank.

'Mobile' has been the word of advancement for quite some time, but is this channel pulling its weight? It's perfect for checking your dough on the go, but again, it's functional. Without this basic functionality customers would be unhappy, but can it be used to become indispensable to the customer, helping to fulfil more emotional needs?

Sarah Hicks, MD of Digital Banking at Santander explains: *"Relationships can be built through guiding money management not just transactions, and by building an omnichannel offering - incorporating SMS, online, mobile and the more traditional methods into one seamless approach.... People are emotionally attached to their devices and can do different things on different devices... The key is how to engage on different devices – and data is pivotal in [offering] suitability of products and seamlessness of service... It's no good me starting my application form online and then going into the branch next day and saying you have to start again...designing those sorts of journeys with the right back end processes...[for continuity of data]...are big challenges for the banks..."*

Many customers do see banking channels purely as transactional. What banks need to do is encourage customers to expand into other services such as using information on how they manage their money to help customers plan and budget, and to be seen as supporting them in doing so.

Unlike generic online Personal Financial Management (PFM) tools, banks know their customers' transactions and products, and are best placed to 'advise' based on the data they hold – especially in the wake of the RDR making advice out of the reach of many. PFM is a good example of building relationships and helping customers, and many banks are now offering such services.

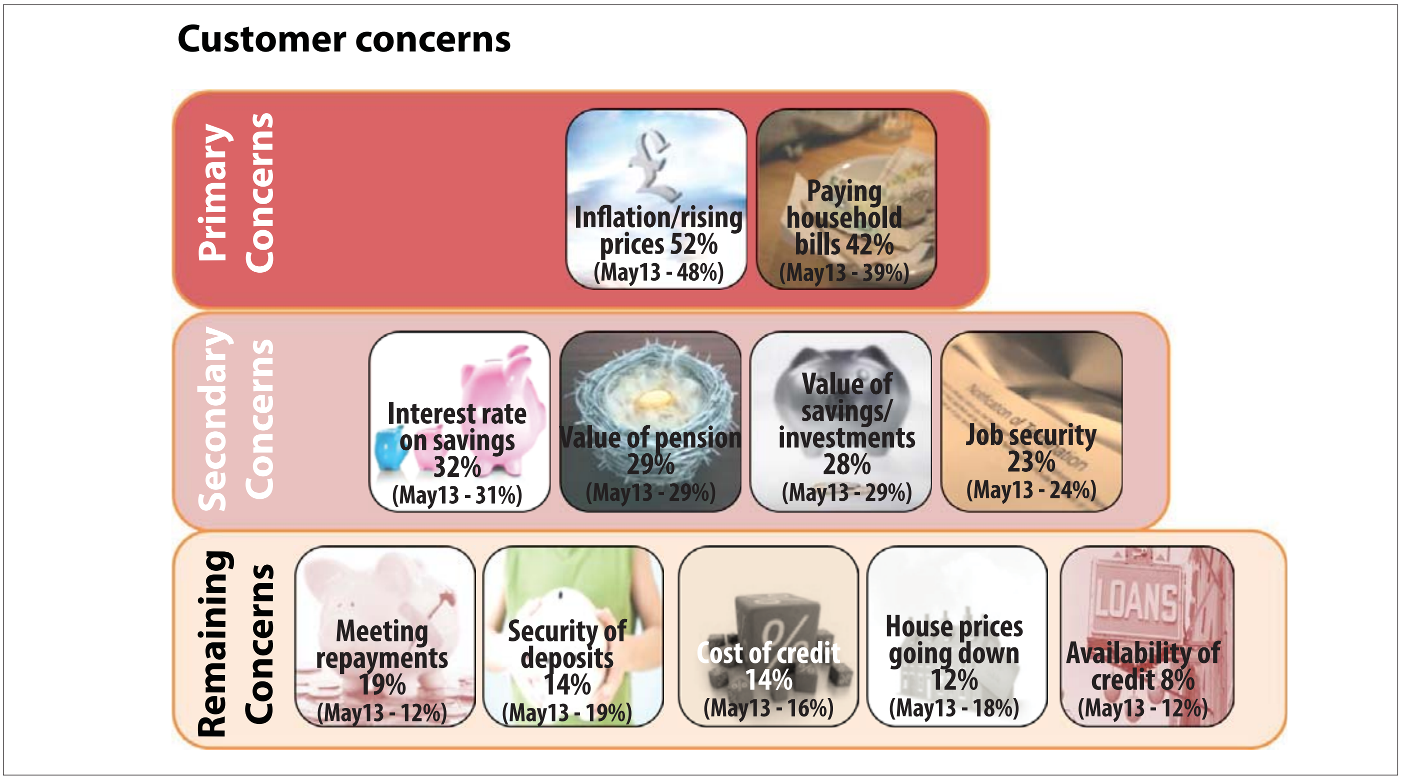
But what information are customers willing/wanting to receive? I, like many of us, see unsolicited messages as an irritation, even more so when they're irrelevant to me.

Research from FICO suggests customers ARE open to communications that a provider initiates so long as they are relevant, with over a two-fifths (41%) agreeing, which indicates that banks could take advantage of the personal data they own to target relevant and timely messages, as long as these do not deliver a hard sell.

Provide customers with clear product information which doesn't need an expensive adviser's explanation, and offer easy to apply processes as well as transparency - especially regarding such as credit, and engage with customers in the absence of proper advice. Banks have the data – use it to put up the right messages when customers log in or phone at different stages of the life journey. Banks need to use data to be aware of customers' issues and guide them, such as giving the tools to help customers with cash flow, by setting goals etc. The new value is not being a 'bank', but rather understanding customers and the role banking products and services play in their lives.

positioned fast moving non-banking competitors.

There are many such non-bank organisations providing what are effectively basic bank accounts already. Once we have a stored value account and it's connected to our mobile – this



Technology advances

All this may build banking relationships, but with the changing scope of the financial services arena, will this be enough to make customers more engaged with their banks and finances and keep customers loyal to banks?

Other than the threat of changing customer behaviours, there is a larger and increasing threat - the increasing number of alternatives to traditional financial services.

Not only are there new entrants to retail banking itself (Metro Bank, Virgin Money, The Post Office), there are new players that are taking ownership of the customer experience that lurk at the fringes of 'banking' such as PayPal, Google Wallet and such as Peer-to-Peer lenders like Zopa etc.

The core issue is that customer behaviour is changing in line with technology but largely banks are staying the same in relation to their processes for applications and channel offerings. Why, for example, can I sign up to PayPal or Google Wallet completely electronically but my bank still requires a signature? This gap was a window left wide open for better

is a far better banking service than a basic current account, and businesses don't need a banking licence to power a value store.

The scrabble to implement mobile wallet accounts was taken up by a wide range of companies from mobile operators, handset manufacturers, mobile OS creators, app developers and banks.

Mobile phones then started incorporating contactless technology using NFC (Near Field Communication) in 2011 to enable transactions. It was anticipated that linking your mobile, a device you feel emotionally bonded to, to your money would rapidly take seed, however it was recently announced that O2 is withdrawing its offering in March this year after reviewing when they feel this technology will go mainstream, which indicates that banking in the UK may be running before we can walk.

It's true that current accounts in themselves do not keep the bank's P&L afloat, but the relationship and links to other products customers own, and the transactional data they hold on these people do. Losing this information to non-banking organisations will limit opportunities to benefit from this knowledge by offering other services which customers may value.

There is one more threat to banking and the channels that we know today – virtual currencies. Bitcoin for example was introduced in 2009. Today, Bitcoins can be exchanged for products and services, or other currencies, with growth amongst merchants being driven by lower transaction fees than credit cards. Indeed, earlier this month, the first Bitcoin storage service to insure against loss and theft of the digital currency launched in London. Could this be the first virtual bank?

But how far will this go, and what do we, the banking public, really want? Whilst red-brick banks have the advantage of knowing their customers, they need to move with the times in terms of delivering a joined up omnichannel offering and building the nirvana of a customer relationship. But could this be all too little too late? We all need the utility of banking, but increasingly we don't need a bank to provide that utility. As Bill Gates said in 1994, "*Banking is necessary; banks are not.*"

This edition was researched and written by:
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Sources:

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2. http://www.harrisinteractive.com/uk/Insights/Viewpoint-WebcastSeries.aspx

3. UK Harris Poll: Finance and the Economy, 29th Oct – 4th Nov 2013

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Timeline of Money:

BC

Before 9000 BC – Bartering
9000-6000 – Cattle
1200 – Cowrie Shells
1000 – Base metal coins
700 – Precious metal coins
321 – Cheques (primitive)
118 – Leather money

AD

806 – Paper money
1717 – First pre-printed cheque
1816 – the Gold Standard Money era
1920s – Charge cards
1950 – Credit cards
1966 – Debit cards
1994 – Mass online shopping
1997 – Mobile payments
2002 – PayPal
2009 – Bitcoin introduced
2011 – NFC on mobile phones

Source:

http://infographicsmania.com/money-evolution-timeline/
confirmed elsewhere and added to.