Bank Transformation – The Next Steps

BANK TRANSFORMATION – THE NEXT STEPS

Since the introduction of ATMs in the 1960s banks have continued to transform the way they deliver financial services so that a slimmed down and redesigned branch network now forms part of an omni-channel delivery. What are the factors that have underlined this transformation, has it been effective and what are the challenges that are driving a new phase in the transformation of service delivery?

For nearly three hundred years the nature of branch banking remained fundamentally the same, as did the somewhat imposing and impressive nature of the branches that were found in high streets everywhere. The branch was where business was conducted. It accepted deposits and loaned out funds. The design of the branch reflected the security it provided.

The introduction of ATMs not only provided a more convenient way for consumers to access their cash, it became the catalyst that enabled banks to reassess their business model and the role and effectiveness of their legacy branch networks.

The delivery of a limited range of services 24/7 at locations convenient to their customers enabled a new approach to service delivery that combined self-service with personal interaction. The volume and nature of branch transactions and the availability of a cheaper alternative delivery mechanism provided opportunities for change. The challenge was how best to reduce costs while continuing to deliver effective customer service.

DRIVERS
FOR CHANGE

Cost reduction has undoubtedly been a key factor in driving change and this has been exacerbated by the financial crisis of 2008 which increased pressure on bank margins and caused them to revisit their business model. But there have been other technological developments that have enabled a new type of branch such as Teller Automation with Teller Cash Dispensers (TCDs) and later Teller Cash Recyclers (TCRs) that have enabled a more open plan branch design.

In this context, the challenge for banks in reviewing their branch networks has been how to best meet customer needs while optimising efficiency and reach at a time of declining branch footfall. In response to this, McKinsey and others suggested the adoption of a 'hub and spoke' approach that would deliver multiple branch formats physically distributed to better serve consumers. At its most simplistic this would involve flagship branches, a ring of satellite branches (with a focus on relationships and sales) and an outer ring of self-service centres with a focus on transactions.

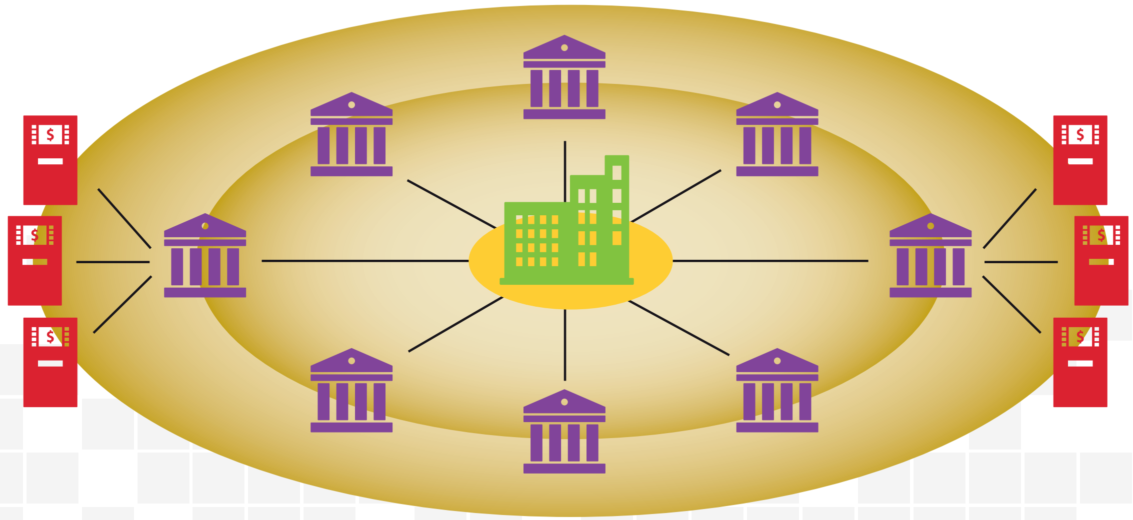
Did it work? Given existing infrastructure the approach has been difficult to implement and where it has been adopted evidence suggests that it has been more effective in meeting the needs of small businesses than of consumers. This evidence also suggests that customer expectations of what services a branch should offer differ from those of a bank.

Legend

Hub
Flagship Branch
Focus on Experience & Innovation

Spoke – Ring 1
Satellite Branches
Focus on Relationships & Sales

Spoke – Ring 2
Self-Service Centres
Focus on Transactions



THE 'SHIFT': WHEN BANKS TOOK THEIR EYES OFF THE CUSTOMER...?

2006

The Introduction of Cutting Edge Phones

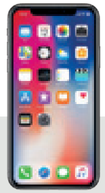
These cutting-edge phones allowed consumers to have access to email, messages, and phone calls within the palm of their hands.

2012

The Debut of the Smartphone Ecosystem

This period signified the marriage of smartphones and everyday life. In this period, the market for apps expanded exponentially. At this juncture of 2010s, digital services were beginning to become embedded into the everyday life of most consumers.

2019



Consumers, Smartphones, and the market today

Today, digital services have expanded beyond just being used for consumer entertainment. With apps becoming commoditized, Big Tech & Fintechs have created digital products that aligned with the high expectations of consumers. Being that consumers have access to virtually anything 24/7, apps have integrated themselves profoundly into the lifestyles of their users.

2000 | 2005 | 2010 | 2015 | 2020

2007

The iPhone: The Coveted Commodity

Once iPhones were introduced, consumers now had access to their iPod, the Internet and the new messaging app 'iMessage' all in one place. At this point, consumers' expectations rose, and this was where the potential of smartphones was realised…

2008

The Global Financial Crisis

The crisis impacted everyone but had the most severe effect on one party: Banks. Attempting to survive the crisis, banks began to reduce and reformat their operations to last during this period – amid this phase, they cut staff, branches, and overheads. But they forgot one important thing: how to increase revenue. At this point, the first mobile "ring" to the hub & spoke model was introduced.

During this **'shift'**, the following buying personas were introduced into the financial industry:

Digital First – These buyers prefer to use **technology first** but are not opposed to face-to-face transactions at a local branch.

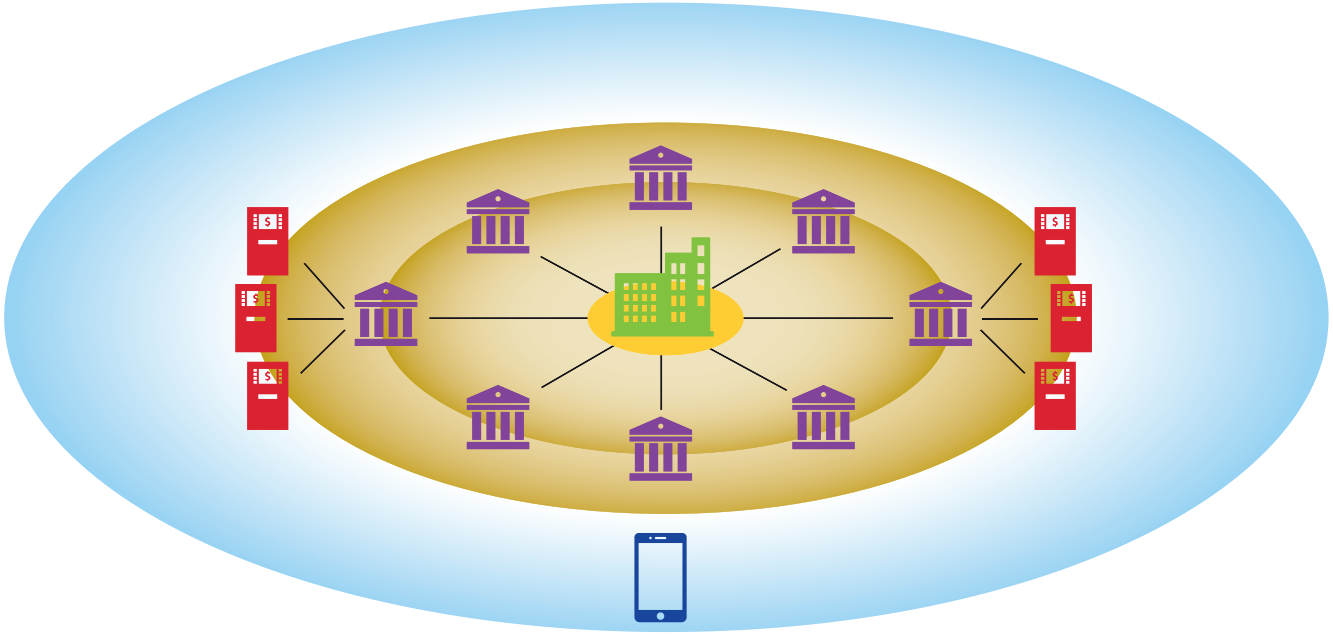
Digital Only – These buyers **only want to use technology**. They do not prefer face-to-face interaction at a local branch because it isn't convenient for them.

Source GLORY

A NEW APPROACH TO TRANSFORMATION

Perhaps such a model would have been accepted given time, but other factors have changed customer expectations and behaviour and these will guide the next level of transformation.

While the banks have been focused on reducing costs and changing the branch infrastructure, the smartphone has changed the way we live and with it our expectations of service delivery. We live in an increasingly digital environment. Mobile services are embedded in people's lives, but the banks have not taken full advantage. In terms of Transformation they are now playing 'catch up' but they have a key competitive advantage.



TRANSFORMATION
IN THE DIGITAL AGE

Digital transformation involves fundamentally changing business models and the enterprise. It should not be confused with digitizing existing services. To take an example from the entertainment sector, rather than simply changing formats, think of how streaming services like Spotify have transformed the way music is consumed with new business models.

In a banking context, Internet banking is just a digitised form of traditional branch banking but without the warmth of human interaction. And mobile banking is just Internet banking, but without all the functionality.

What do fintechs and Big Tech companies do that is different from the banks, and what are the lessons to be learned? Fintechs have found a role bridging the gap between the banks and digital capabilities, but typically they can do one or two things well. In contrast, Big Techs continue to push the boundaries of digital but are limited by the potential of increased regulation. Rather than competing aggressively, they continue to rely upon services provided by banks.

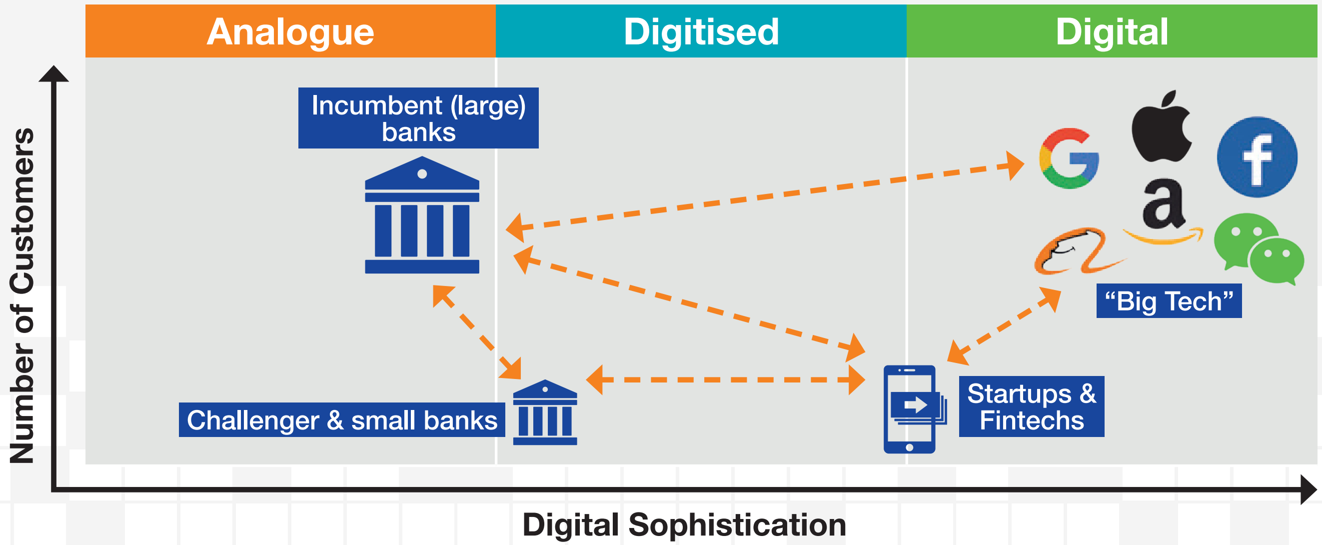
THE COEXISTENCE OF BANKS,
BIG TECH & FINTECH FIRMS

Going forward where does this leave the banks? What new opportunities are available as they seek to transform the way they do business? When you compare their current situation with that of the Big Techs and the way they use data then one thing is obvious – banks need to get closer to their customers.

People's expectations have been changed by Big Techs. They use our data to enhance our lifestyles and the indications are that consumers have become used to and accepted this situation. Consumers have become more comfortable with sharing large amounts of personal data in exchange for 'free' benefits. To take just one example, what happens when you arrive in a new country? You immediately receive information on your mobile phone regarding places to visit, the weather, restaurant recommendations and local events. **What is the business model behind this?** Put simply, consumers are the product. Big Techs use aggregated customer data as a product that can be sold to advertisers.

For banks the opportunity is different but no less exciting. If you look at the current situation Celent reports that more than a half of bank customers believe that 'my bank doesn't know me'.

As banks build for the future, we cannot understate the importance of using the technology available to them to build customer trust. A recent study by SLD entitled 'The Future of the Retail Bank' emphasises that banks need to move away from a 'transactional' relationship to one that offers trustworthy advice – **and the branch has a key role to play in building this relationship**. SLD highlights the importance of 'understanding the needs of customers today and tomorrow' and stresses the need to leverage AI and big data to deliver better service.

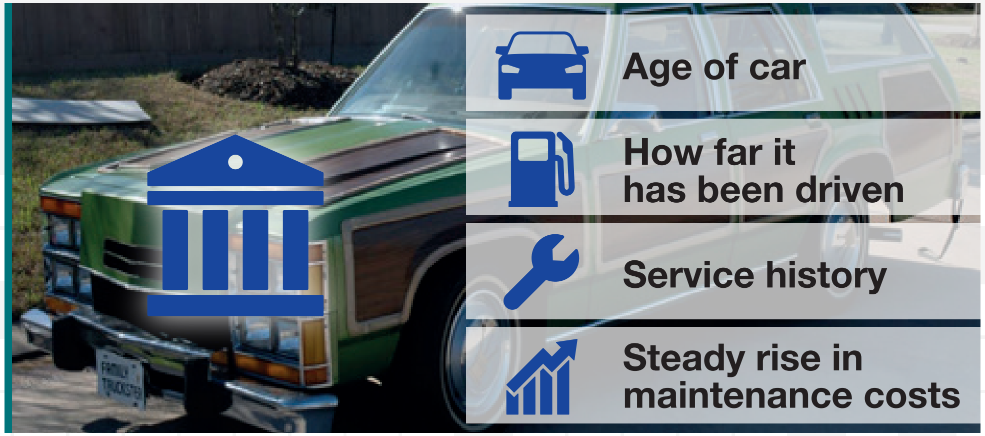


INTEGRATED LIVES: BIG TECH KNOWS ME… AND SO DOES MY BANK

In contrast with Big Techs, banks must use customer data to benefit the customer. This is a fundamental difference and gives the banks a key competitive advantage. They have a unique position when it comes to trust and responsibility for such data.

As banks continue to evolve, there is now an opportunity to become a consumer centric or **Responsive Bank** – one that provides services that fulfil customer life events. In this respect the bank branch has an important role to play as the ‘custodian’ of the relationship.

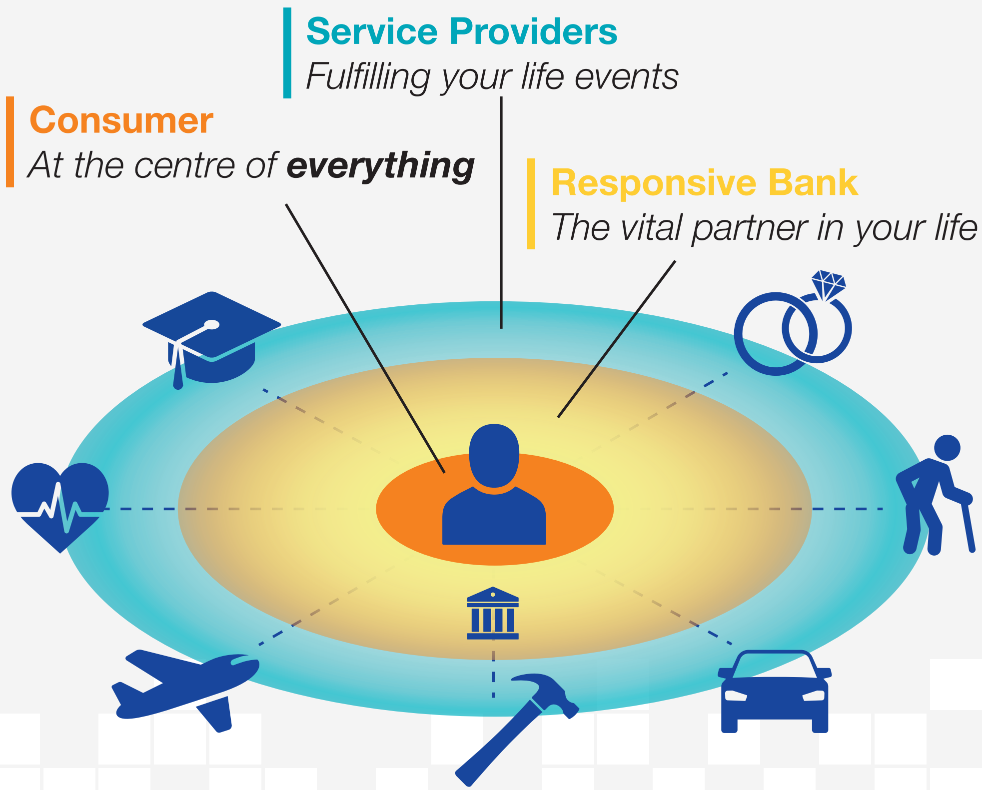
How would this work? Let’s take a simple example, car purchase. When you think about it your bank potentially has all the information available to help you make an informed choice. With the data available to it the bank can make use of AI and provide a link to a service provider. It knows when your car is serviced and how much it costs, it knows how often you buy fuel (and therefore has a good idea of your annual mileage) and pay check data and credit rating information will show what models you can afford. In its role as a trusted partner the bank can identify potential purchases. It might even interact with service providers on your behalf and arrange a test drive from the bank branch – and of course it can provide the finance. There remains a role for the branch in this digital environment. As Celent has highlighted, ‘the future of banking is human’. The branch could become the channel to harmonise interaction between customers and service providers.



THE RESPONSIVE **BANK**

Increasingly, we are seeing digital only or digital first customers and these represent an important target market. Banks need to service the needs of the new consumer and digital transformation brings a more profitable means of anticipating and delivering the personal services they require. With digitised banking a lot of the focus is on efficiencies and reducing costs. With fully integrated digital services, there is a path to revenue generation and higher margins. This involves rebuilding relationships based on trust. It's about digital and physical working together as part of a consumer centric omni-channel delivery model.

Digital has the power to transform and drive change that not only affects the branch, but also across the entire bank. Of course, there remain barriers in the form of legacy systems and regulation, but the impact of branches integrated with digital provides the banks with new opportunities to build customer relationships based on understanding and trust. Both physical and digital channels will have key roles to play as banks continue to evolve and transform in response to the changing expectations and transactional needs of their customers.



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