

Trends in Retail Banking Channels: Meeting Changing Client Preferences

**Key emerging business and technology trends across retail banking channels
that can be leveraged to address changing client preferences**



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1. Highlights

Advancements in technology continue to transform the lives of banking customers. As a result, direct channels such as mobile and the internet are becoming increasingly important in retail banking. The evolution in technology around touch-mode and mobility has enabled the customer bank on the go in a real sense. Also, the number of customers who prefer to perform daily banking activities on an anytime/anywhere basis is increasing. The *2012 Retail Banking Consumer Survey* by Capgemini found that more than 60% of customers worldwide are expected to use mobile banking in 2015 and more than 90% will likely be using online banking.¹

In developed economies, banks operate in highly competitive environments and are increasingly challenged to differentiate through products and pricing. They seek out innovative technologies to help them build a stronger relationship with their customers and increase customer loyalty, while controlling operational costs. This is the key reason that top banks across the globe are investing in mobility.

Banks are looking at newer avenues such as mobile remote deposit capture (RDC) and mobile marketing to provide value-added services to customers and increase revenues by charging nominal fees for the services. The increased preference for social media by customers is driving banks to leverage social media and social analytics tools to strengthen decision-based marketing. At the same time, banks are exploring the potential of social media tools for increasing workforce collaboration and productivity. The focus on multi-channel integration to provide a seamless experience to customers is as strong as ever. However, development of mobile strategies presents new opportunities and challenges for banks.

¹ Data from 2012 Retail Banking Voice of the Customer Survey, Capgemini and World Retail Banking Report 2012, Capgemini and Efma, 2012

2. Introduction

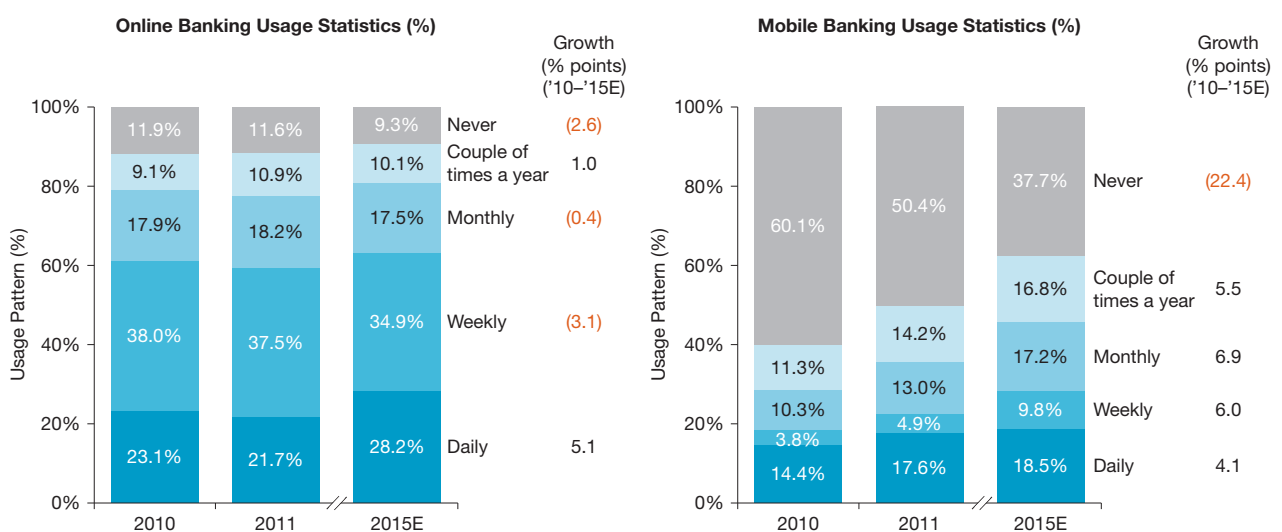
2.1. Financial Performance and Background

Retail banks across the globe are expected to undergo a digital transformation in the coming three to five years as customers increasingly prefer using digital channels (online and mobile) to interact with their banks. In the last decade, banks leveraged the internet to reach out to a larger pool of customers at a low cost. They offered basic banking services online (such as account status and fund transfers) to their customers. Also, banks have extended their services to promote both online and mobile channels and improve their distribution mix. These efforts are expected to result in a radical change in how retail banks use different channels to reach out to customers.

In 2010, 60.1% of customers had never used mobile banking, but that number is expected to fall to 37.7% by 2015E as shown in the following exhibit. Customers are expected to shift to online and mobile channels for their daily transactions over the next three years.

Though the direct channels will gain prominence, branches will not move out of the equation. Other additive channels will act as catalysts to drive overall sales and cross-selling of products, and branches may be required to complete some part of the transaction. Banks will need to tailor their branch network with new and different branch formats to match customer profiles and needs in each location (everything from unmanned, fully-automated teller machines to full service branches). These changes will help banks transform their distribution profile, reduce costs by up to 30-50 percent, and increase sales.

Exhibit 1: Global Online and Mobile Banking Usage Statistics (%), 2010, 2011, and 2015E



Source: Capgemini Analysis, 2012; 2012 Retail Banking Voice of the Customer Survey, Capgemini; and World Retail Banking Report 2012, Capgemini and Efma

2.2. Key Market Trends and Challenges

The usage pattern of traditional banking channels is changing, driven by advancements in technology, innovative offerings from non-banks, and changes in consumer preferences. Banks across the globe are transforming their branch networks to focus more on sales and advisory services. Digital channels such as ecommerce portlets or social banking applications are being designed to offer an enhanced experience to customers with increased ease of use and multiple options to serve banking needs.

The number of channels and different platforms for digital delivery are expected to grow rapidly, leading to increased complexity in processes. Banks will be challenged to integrate the backend systems for providing a seamless experience to customers using multiple channels.

At a regional level, banks in North America and the Asia-Pacific region are leveraging the mobile channel for marketing purposes. Banks offer discount coupons to customers based on their real-time location which can be redeemed by using mobile banking. Banks are also linking their rewards programs to mobile banking as the customers view, purchase, and redeem rewards directly from their smartphones. In Europe, faster than expected multi-channel adoption by customers is leading banks to increase their investments in channel integration and branch transformation. Banks in Asia are developing mobile contactless payment solutions to monetize the channel and increase revenues.

The underlying factor driving the key trends in banking channels is to enhance the customer experience by offering seamless channel integration² and provide tailored solutions and services. Social media integration is also on the priority list for banks to get useful insights into their customers, and to increase customer loyalty by providing them service support.

Key Channel Specific Trends

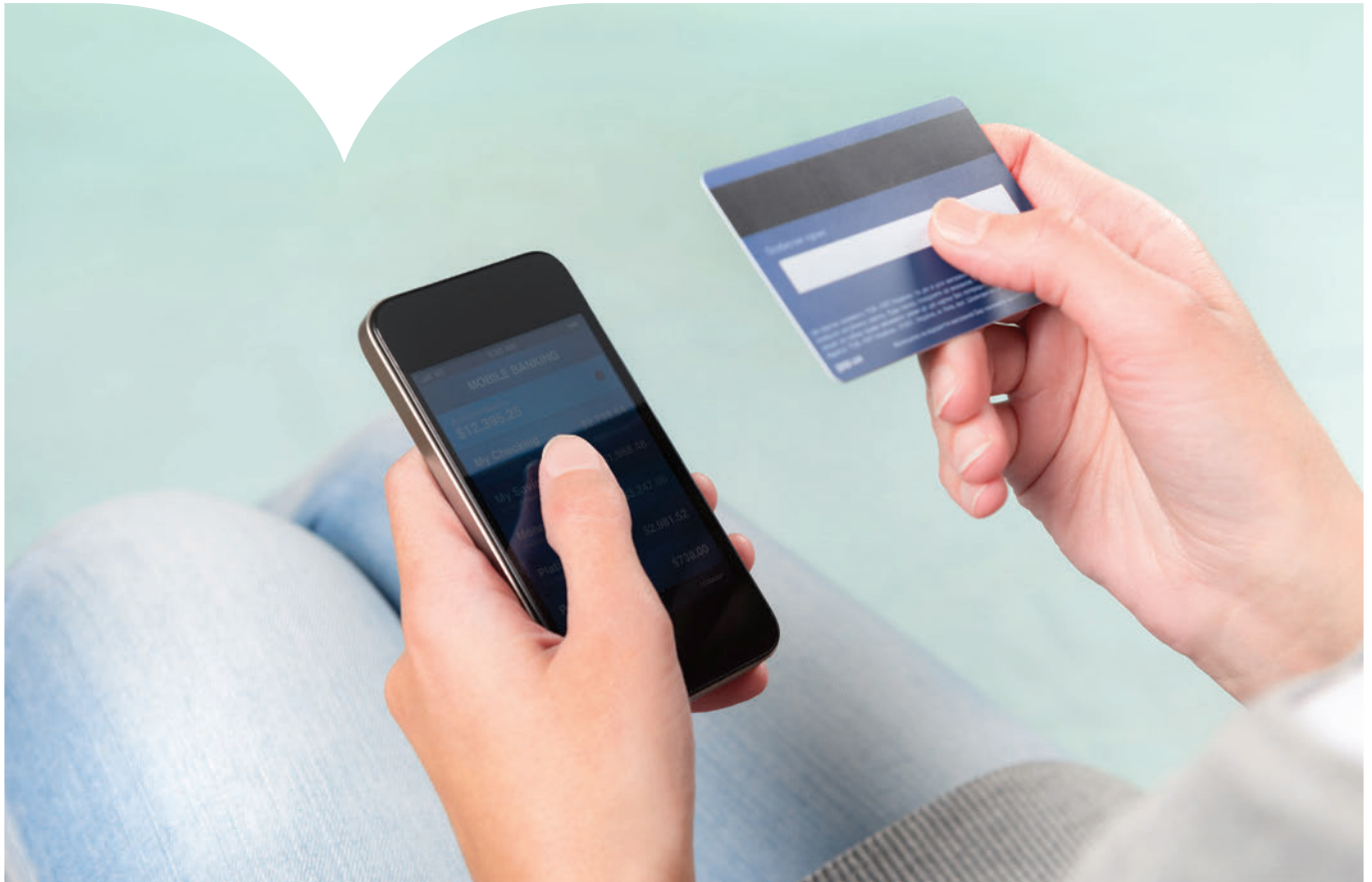
In addition to the trends mentioned in last publication '*Trends in Retail Banking Channels: Improving Client Service and Operating Costs*', we observed the following key channel-specific market trends for retail banks globally:

- Banks are exploring virtualization to increase operational efficiency in branches by providing enabling tools (such as interactive touch screens) to create a paperless environment and facilitate straight-through processing.
- Banks are increasingly installing image ATMs to achieve the dual purpose of increasing customers' convenience while also reducing operational costs (as the banks manage to shift a significant number of deposit transactions from branches to ATMs).
- Banks are leveraging the increased popularity of mobility to better engage their customers and market their new products through innovative mobile applications (with interfaces similar to games).
- Banks are developing online banking dashboards with a common framework for internet, mobile, and tablets to make online banking device agnostic. The rise in adoption of tablets and smartphones has blurred the distinction between online and mobile channels.

Each of these trends and challenges has multiple business and technology impacts for retail banks globally. This paper summarizes the key technology trends across channels in the retail banking industry.

² Banks are investing in applications, systems, and processes to create seamless integration of channels so that customers can shift from one channel to another without worrying about any loss of data for a given interaction. For example, customers may want to initiate a request through ATM and then follow-up through mobile or online banking with a consistent experience across both channels

3. Emerging Technology Trends in Retail Banking³



The banking industry is becoming highly competitive as the traditional differentiators such as large branch and ATM networks, phone banking, priority banking, and online banking no longer offer a competitive edge. Nowadays, customers across all segments expect highly personalized, convenient, and reliable service, along with 24/7 accessibility. Banks need to leverage technology to provide quick and personalized service to customers through various channels, while ensuring a consistent experience across all channels.

³ The technology trends covered in this document are not exhaustive in nature and only current prominent trends have been analyzed

These changes have led to the emergence of four key technology trends in the retail banking channels:

- Increased spending on mobility to enhance the customer experience.
- Increased focus on mobile remote deposit capture and mobile marketing to gain the competitive edge.
- Increased leverage of social media and social analytics tools to strengthen decision-making and increase workforce collaboration.
- Increased emphasis on seamless multi-channel integration to better serve customers.


Note that several technology trends covered in our last publication *Trends in Retail Banking Channels: Improving Client Service and Operating Costs*, though still relevant, have not been analyzed again here except for the trend on increased emphasis on multi-channel integration. These include:

- Increased online market presence using advanced technology platforms such as Web 2.0 and social networks.
- Investment in enterprise mobile financial service solutions to drive innovation and reduce costs.
- Increased push towards web-based activities to put the online channel on an equal footing with branch networks.
- More emphasis on seamless multi-channel integration to better serve clients and gain competitive edge.
- Increased spending on customer analytics tools to improve customer relationships.



Trends in Retail Banking Channels: Improving Client Service and Operating Costs

4. Trend 1: Increased Spending on Mobility

 *In 2011, a high number of technology initiatives by banks were directed at improving channel capabilities with mobile banking being the top priority.”*

4.1. Background and Key Drivers

The mobile channel is rapidly becoming an essential part of the banking channels mix, as customers are actively shifting from laptop and PCs to mobile. This has been aided by the increasing availability and affordability of high-end smartphones and tablets across the globe. The online channel has already become a strategic tool through which banks can deliver better customer engagement and service. Banks now want to take customer engagement and service up a level with the help of mobile banking to provide customers with a true ‘anytime, anywhere and any device’ service.

Retail banks are focusing on optimizing their distribution channel mix so as to provide an enhanced customer experience and remain competitive in the market. Banks are now investing to shift day-to-day financial transactions to self-service channels such as online and mobile. At the same time, advisory-based channels (such as the branches) are being enhanced to increase sales and handle more complex client needs.

4.2. Analysis

The increasing processing capability of smartphones is blurring the line between online and mobile transactions, driving banks to invest more in both these digital channels. In 2011, the world’s top banks continued their investments in IT initiatives for mobile financial services, while also increasing their investments in online and physical customer touch-points.

Investments were directed at taking mobile initiatives well beyond basic functionality, i.e. balances, transfer, into extended functionality, i.e. mobile check capture, person-to-person transfers, and advanced money transfers. While global IT spending on retail banking channels is expected to grow, banks are expected to set aside nearly \$9.3bn and \$3.7bn for investments in online and other channels (including mobile) respectively⁴.

⁴ “Banks pour one-third of digital investments into mobile.” Forrester Research Inc., June 20, 2012

“In 2011, a high number of technology initiatives by banks were directed at improving channel capabilities with mobile banking being the top priority.”

While investments in other areas (such as outsourcing, internal operations, analytics etc.) are also being budgeted, banks are highlighting mobile channels more to showcase their commitment to serve their customers in a better way.

Banks in Asia are investing heavily in technology, as can be seen from recent IT initiatives. on customer experience and payments. In 2011 and 2012, Asia's largest banks (excluding Japan) focused 75% of their IT initiatives in these areas.⁵ Investments are directed at enhancing customers' shopping experience by developing mobile applications to offer dynamic and location-based coupons, discounts, and rebates. Simultaneously, banks in Asia are investing in branches, self-service terminals, and traditional online channels.

4.3. Implications

Increased focus on mobility is likely to have a significant impact on the way banks interact with their customers. In 2014, retail banks are expected to spend about 30% more on online and mobile channels than in 2010 to improve customer experience and differentiate themselves in the highly competitive banking industry. To get maximum returns on their spending, banks need to clearly chart out top investment priorities in digital channels for the next three to five years, and leverage the best solutions available in the market.



⁵ Top Asian Banks (Excluding Japan): IT Plans and Investments, 2011 and 2012," Ethan Wang, 31 July 2012

5. Trend 2: Increased Focus on Mobile Remote Deposit Capture and Mobile Marketing

5.1. Background and Key Drivers

Recognizing changing consumer preferences and lifestyles, retail banks are developing capabilities that allow consumers to carry their bank in their pocket. Functionalities such as balance check, fund transfers, and payments using mobile technology have become must-haves for banks. Banks are looking at newer avenues such as mobile remote deposit capture (RDC) and mobile marketing to provide value-added services to their customers, while simultaneously reducing operational costs.

These new features enable banks to promote the use of mobile banking by their customers. Cost-to-serve for customers using mobile banking is lower than that for non-adopters. Mobile bankers make fewer branch visits and frequent lower-cost channels. It makes sense for banks to increase their base of mobile banking customers. Moreover, these features act as differentiators and enable banks to attract new customers.

5.2. Analysis

Consumer mobile RDC is in a nascent stage, but is expected to grow rapidly as banks across the globe are planning to launch mobile RDC solutions for customers.

According to a 2011 survey by Celent, the percentage of banks that were planning or considering a mobile RDC solution more than doubled to 66% in 2011 from just 26% in 2009, in part due to the influence of the highly advertised launch of Chase Mobile Deposit in 2010.⁶

In a highly difficult regulatory environment, banks can increase revenues by monetizing their mobile channel through mobile RDC. Banks can charge a nominal fee to customers, who will be happy to pay a small charge for the convenience offered. Mobile RDC is expected to be part of mobile banking initiatives by different banks, though sales and marketing efforts may be slow and cautious as banks balance business objectives and compliance risk.

Initially the banks targeted niche businesses (from which banks can charge hefty fees) for mobile RDC, but the trend is changing. In the survey mentioned above, 81% of respondents reported targeting the mass market.⁷

⁶ Celent: "The State of Consumer RDC 2011: Mobile Takes Center Stage," Bob Meara, November 21, 2011

⁷ Ibid

Banks are creating applications to leverage mobility for marketing and providing unique value-added services to customers. For example, Hana bank in South Korea offers four mobile services - Hana N Bank (mobile banking), Hana N Money (personal financial management for existing and new customers), Hana N Plaza (private banking services by industry), and Hana N CBS (services for corporate clients). The bank offers Hana N Coupons (real-time location-based discount coupons) in collaboration with e-commerce sites which can be used for online shopping by connecting to a Hana Bank account through mobile. Personal financial management services users who are not Hana Bank customers can also use this coupon service. They are asked to create an account with Hana Bank at the time of purchase. This service not only creates a distinctive picture in the minds of existing customers, but also wins the interests of new customers and sets Hana Bank ahead of its competition.

Banks are also leveraging mobile channels to increase sales of their new products by engaging their customers through 'gameification' (i.e. mobile applications in form of games). For example, ING Direct designed a mobile application 'Small Sacrifices' for its new product, which encourages customers to cut daily spending and save for their retirement fund through ING. Banks are also providing new interactive interfaces to customers (similar to games) for assessing the impact of accumulated savings or loyalty points.

5.3. Implications

The increased focus on mobile RDC and mobile marketing provides an opportunity for banks to strengthen their relationships with the customer by offering them value-added services.

Banks need to develop a strategy on how best to leverage mobile marketing for business growth and more efficient customer service. They can actually integrate mobile marketing efforts with social media to offer customized deals based on individual customer preferences. Banks will also need to have the required infrastructure to support the growing demand for mobile RDC, and ensure the right internal processes are in place.

6. Trend 3: Increased Leverage of Social Media and Social Analytics Tools

6.1. Background and Key Drivers

Customers today expect financial firms to listen, respond, and offer service through social media. They expect their banks to use social media to provide customer service and financial advice, share financial offers and upcoming events, and allow them to provide feedback about bank services and products. Further, with the rise in the use of smartphones and tablets, the need of the hour is to take the social media to mobile devices as well.

Banks can leverage social media channel to offer a high level of personal interaction to customers at relatively lower cost as compared to branch banking. Moreover, banks can enhance customer intelligence by combining it with social analytics to get deep insights into customer behaviors, sentiments, and needs. Social media, when used internally, presents an opportunity to increase workforce efficiency by enabling employees working across various teams/locations to interact and share information and best practices.

6.2. Analysis

Banks understand the importance of social media tools to interact with their customers and most of them have accounts/pages/channels on Facebook, Twitter and YouTube. But they have yet to fully harness the potential of social media tools by using customer data which has potential implications for credit decisions, relationship pricing, and loan-collections. The challenge for banks is to integrate and transform social media from just social screening for e-reputation to 'social to lead' for business expansion and enhanced decision making.

Some banks have taken a proactive approach and have started using data from social media for pricing of loans and products. For example, MovenBank (U.S.) has developed a credit-scoring product called CRED which combines traditional scoring elements with consumer data from Twitter, Facebook and other social networking sites to ascertain creditworthiness and price loans accordingly.

Social media is fast becoming an important part of a multi-channel strategy for banks. Further, the use of social media data is taking the form of social analytics, which helps transform the enterprise customer relationship management system into social customer relationship management. The input from social customer relationship management enables banks to develop profound knowledge about their customers, including sentiments, wishes, and needs, resulting in improved decision-making.

Today, most banks also think about social media as a tool for increasing workforce collaboration. This is leading to social media transformation inside the financial services companies. Companies are exploring ways to leverage social tools to increase work efficiency through enhanced team-level collaboration.

“The challenge for banks is to integrate and transform social media from just social screening for e-reputation to 'social to lead' for business expansion and enhanced decision making.”

“*Banks should work on meticulously designing the operating model for social media by involving the right people and clearly defining the value expected out of the initiative.”*

6.3. Implications

As customers increasingly leverage social media as a platform to formulate opinions about financial products and services, banks have realized that social media needs to be incorporated in their marketing strategy.

However, retail banks need to exploit social media wisely. Along with benefits it has potential risks related to branding, customer information security, and regulatory compliance. Banks need to develop adequate social media governance model which not only comply with existing regulations but also provides flexibility to meet the constantly evolving nature of social media. Additionally, banks will need to invest significant time and money to upgrade their existing technology infrastructure to integrate with social media and to derive real value out of social networks.

Banks should work on meticulously designing the operating model for social media by involving the right people and clearly defining the value expected out of the initiative. This will help banks to calculate the ROI for expenses required for this initiative. The social media strategy for a bank should incorporate well-defined metrics that reflect its progress as defined as part of the strategy.



7. Trend 4: Increased Emphasis on Seamless Multi-Channel Integration

“Multi-channel integration coupled with an increased focus on development of mobile strategy is likely to help banks to enhance customer experience.”

7.1. Background and Key Drivers

Multi-product and multi-channel environments continue to present significant challenges for retail banks. The challenge is to deliver a seamless experience to customers as they move from one channel to another within an institution. Another challenge for the banks is to integrate their backend systems with the multi-channel front-end to complete an end-to-end integration. The impact of touch-mode in customer interactions in branches as well as in the street (ATM, internet, and mobile) is adding to the complexity of multi-channel integration.

To improve operational efficiency, banks need to continue doing right-channeling of customers (using insights about the customers through various touch points including social media) and promote customer self-service by giving compelling incentives to customers to change their behavior.

7.2. Analysis

Retail banks continue to make investments for achieving seamless multi-channel integration, but few have yet to realize their goal. Many banks now have dedicated position that oversees integrated channel management. This change highlights the renewed interest of banks in developing a coherent strategy to provide a consistent customer experience across multiple channels. At the same time, retail banks are exploring ways to achieve end-to-end integration for multiple channels without overhauling the complete IT infrastructure.

The investment in channel-integration will be beneficial for banks if they are able to move their customers to new low-cost alternate channels. This can be done by providing price incentives or eliminating some services such as basic transactions from branches. This will help banks to reduce operational costs as well as increase customer loyalty as customers who use multiple channels are likely to be more loyal. The success of a seamless multi-channel integration will depend on the ability of banks to make required IT investments as well as implement process and organizational changes to achieve cross-channel alignment.

The true success of multi-channel integration lies in achieving an enhanced customer experience, which will highly depend on the ability of banks to develop a strong mobile banking strategy and to integrate the mobile channel with other channels. The popularity of mobile banking has increased so much that European banks believe that the number of mobile interactions will most likely overtake the number of online interactions in 2012. Banks are exploring ways to leverage mobile banking to address customer pain points and broken processes. Banks should leverage mobility and touch-mode to increase proximity to customers while reviewing the channel mix to improve customer satisfaction by providing services through their preferred mode.

7.3. Implications

In coming years, providing a seamless customer experience through multi-channel optimization of service delivery will become a must for banks. As highlighted in last years' RFSI, banks need to continue working on three step approach:

- Achieve channel excellence across key customer touch points;
- Achieve consistency across channels; and
- Work on achieving a true seamless multi-channel integration.

This will require banks to first update their distribution-mix with new customer touch points which revolve around mobility and 'touch' mode and then work on creating a seamless experience for the customer across all the channels.

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