Service: the key to survival in the connected financial services world

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Table of Contents

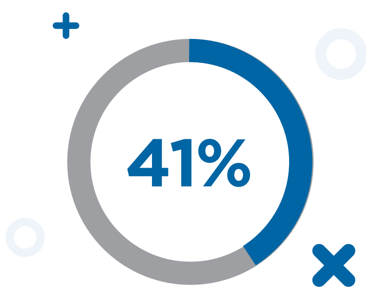
The State of Disruption Within Financial Services

An unprecedented combination of drivers for change are at work in today's financial services industry. Some of these factors, particularly digitisation, are influencing the majority of industries – driving increasing consumer demand for highly personalised, fast, convenient, connected interactions that suit our busy 'on-the-go' lifestyles. Across consumer-facing industries, the need for 'always-on' services (and beyond) has never been more important – and financial services is no exception.

These new levels of interconnectivity, coupled with regulatory reform under the guise of PSD2 and Open Banking, are pushing the evolution that we're seeing in many other industries, into a revolution in the financial services landscape. Where new market entrants are already making a sizeable impact, these imposed changes are opening the gates to a potential tidal wave of new financial services players, and even more new opportunities - changing the landscape irrevocably.

While all players need to adapt to meet legislative demands, there is far more for financial services organisations to consider than just mere compliance. As the entry of non-traditional banking companies into the financial services space grows at an increasing pace, roles in the customer relationship will transform. Traditional providers must consider their future position and decide how to re-shape customer interactions to make them truly relevant.

According to a report from EY, more than 75% of consumers already hold products or services with at least three financial services providers, and more than 25% with four. This 'thinning out' of customer relationships and loyalty will only increase as agile technology-led providers increase their presence in the market. EY also report that 41% of consumers say they would change providers if a different one offered a better experience. This openness to switching is most applicable to digitally savvy customers, who represent a significant, and ever-increasing proportion of consumers.



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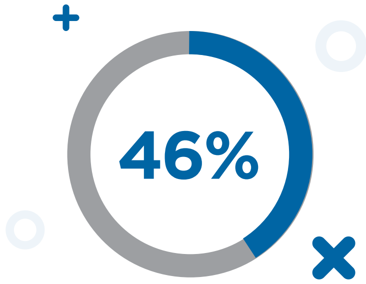
The power of consumer demand

It is not just competition from new entrants which is pushing the need for traditional financial service organisations to adapt. Consumer expectation is by far the most influential driver, accelerating the already fast-paced demand for enhanced customer experiences. For example, a recent PWC report showed that 46% of UK consumers expect Open Banking will enable financial service providers to offer more personalised products and services. Any failure to meet this high level of expectation would almost certainly erode relationships and trust in banking and payments providers.



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Financial services is an industry which, traditionally, is not well-known for being customer-centric. Net Promoter Scores (NPS), which are widely relied on across the sector as a key measure of customer satisfaction and loyalty, rarely reach past the mid-thirties, benchmarked against companies in sectors like retail, electronic goods and automotive, which average at around 50-60 (and even higher in the sports and luxury goods markets). Given that there is a strong correlation between NPS and profitability, it is clear that financial service providers still have work to do to improve satisfaction levels and build customer relationships and revenue. Measuring and improving Net Promoter Scores has never been more important - and with customers becoming increasingly tech-savvy and expecting faster, more personalised, more convenient experiences, financial services organisations must now accept that the customer is not just 'always right' - they are now in charge.

Planning for change is essential - not just to meet compliance demands and digitise services, but to retain connections to the customer, cement your place in the new world and to remain competitive.

Transformation: a mindset, not a project

According to a EY Global Consumer Banking Survey, 6% of consumers have already moved their primary relationship to new companies – instead giving their custom to providers who offer services and technology that are easier and more convenient to use than traditional banks. The rate is even higher in emerging markets where banking infrastructure is not as well-established and digital (particularly mobile) channels are valuable transaction enablers. The report also highlighted that 4 out of 10 customers expressed a decreased dependence on traditional banking services and excitement for what new types of companies can provide.

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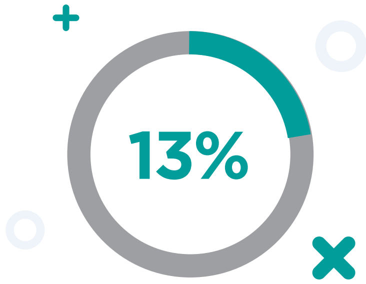
Responding to this consumer shift and maintaining a stronghold in the market can be challenging for financial services providers, with the difficult combination of siloed legacy systems and outdated software causing an array of difficulties in adapting services. Many are planning, or even in the process of rolling out transformation projects, aimed at improving customer interactions through the addition of more technology-driven services and interfaces.

But, to create the type of seamless, highly personalised experiences that today's hyper-connected consumers crave, transformation needs to go beyond upgrading systems. It needs to start at a more fundamental level, with a change of approach. Essentially, to ensure they remain relevant, financial services providers now need to transform themselves from commodity providers to valued service providers.

The transformation roadmap

To reposition business models successfully, organisations need to put themselves in the shoes of their customers to understand what they need (and want) from their banking experiences - and build plans from there with a truly customer-centric approach. This discovery process must span to every possible touchpoint, taking an outside-in approach to customer experience development.

PA Consulting's most recent digital barometer survey very clearly shows that there is a recognition of this problem across the industry - with senior leaders across IT, marketing and operations in over 600 firms indicating their desire to improve customer experience, but feeling frustration with the speed and nature of change. Only 13% of organisations who took part in the survey felt they were able to deliver a customer experience which was seamless and consistent across different channels, and only 16% felt they were providing a tailored experience. Respondents cited many well-documented problems, including issues around people working in silos and difficulties in developing the right customer-driven processes. Another critical issue was a shortage of skills, with only 7% saying their organisation had the right skills to drive innovation in customer experience.



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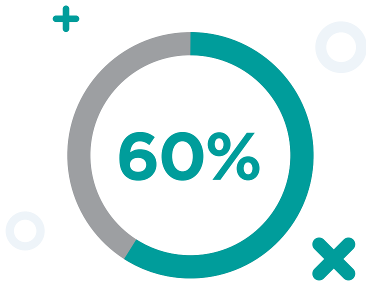
Financial services providers are also under enormous pressure to lower costs and streamline resources - a major challenge when you are trying to balance out this priority with the critical need to invest in service and technological development.

The recent Global Payments Insight Survey from analyst firm Ovum, revealed that 40% of retail banks globally (and 50% in Europe) are this year prioritising projects that reduce the total cost of ownership (TCO) for their technology solutions – and this new focus is being powered by increased confidence in vendor services and cloud technologies.

The growth in 'everything as-a-service' (XaaS) across a variety of industries has been driven by similar challenges, as margins are squeezed and many businesses have found success (in realising both sales growth and cost-efficiencies) from employing external partners to identify new routes, manage change and implement new technologies. Adopting an 'as-a-service' approach and creating strategic partnerships is an option which can significantly benefit organisations – helping to deliver transformation strategies and offering a fresh perspective, supported by knowledge and learnings from the broader market.

Embrace the physical as part of the wider ecosystem

Although in-person interactions in today's digital world are declining – financial services providers still need to find ways to leverage real-time customer insights to build personalised service offerings and keep those remaining personal interactions relevant and valuable.



60% of consumers feel it is important for them to be able to open an account in branch and to receive face-to face advice about products such as mortgages.

Physical interactions are still important to consumers. Accenture's recent UK Financial Services Customer Survey showed that, on average, 60% of consumers feel it is important for them to be able to open an account in branch and to receive face-to face advice about products such as mortgages. It also highlighted that 43 % of current account holders would like their bank to blend physical branches and digital services, allowing them to interact with their bank in the way that best suits them, and which gives a frictionless experience.

So, customers may not visit a bank branch as often, but when they do, it is usually for a very specific purpose. It is critical for financial services providers to assess how they can understand and utilise this – not only to enable to delivery of truly relevant customer services, but also to drive additional value-added revenue streams across the consumer journey.

Imagine having visibility of a customer's activity across all interaction points. When a particular customer comes in to your branch, your staff have the ability to instantly view that customer's data, to see they have been researching loans online in the last few days. This gives them the opportunity to offer a very tailored, incentivised loan offer – or even a relevant alternative – to that customer while they are face-to-face.

Of course to achieve this, you need to be able to connect customer data across traditionally siloed channels and deliver a seamless 360 degree view of the customer. Seamless connectivity is the only way to power the ability to proactively offer tailored experiences that facilitate personalised interactions and new revenue streams.

This means that a critical part of the road to transformation is not just to connect the dots between data, but for financial services providers to think about data as source of competitive advantage. There is plenty of rich data gathered across various customer touchpoints, but it can prove very difficult to turn this into genuine customer insight that can power customer profiling and personalisation. Silos and outdated technology are often the culprits in preventing a financial services company's greatest asset – it's data – from being properly utilised to unlock digital and customer experience enhancements.

Beyond the traditional branch

While branches are still valuable and relevant, in reality the format of the branch network needs to evolve, and financial services providers need to address both physical and digital services offerings together to remain competitive and connected to the customer.

There is a prime opportunity for financial services providers to think about their branch networks more holistically and take services to the customer through new physical touchpoints. For example, many banks are looking at pop-up branches in customer-friendly locations such as shopping centres, or mini branch pods and smaller footprint branches which offer a more informal, coffee shop style approach. Other unmanned options like branded microsites in retail parking lots could also become popular as a way to deliver a physical service touchpoint to customers outside of the branch environment.

By using demographic and customer data, financial services providers can proactively map out the right options and take their services to locations which are convenient for customers – grasping the opportunity to maintain valuable physical interactions and become more integrated into the customer's daily life.

Naturally, with the typical infrastructure investments and expertise needed to make these options a success, organisations are likely to seek a managed service for their remote and self-service offerings, to ensure that they can efficiently optimise and maintain the technology and customer experience, while minimising the TCO.

Dialling up the digital

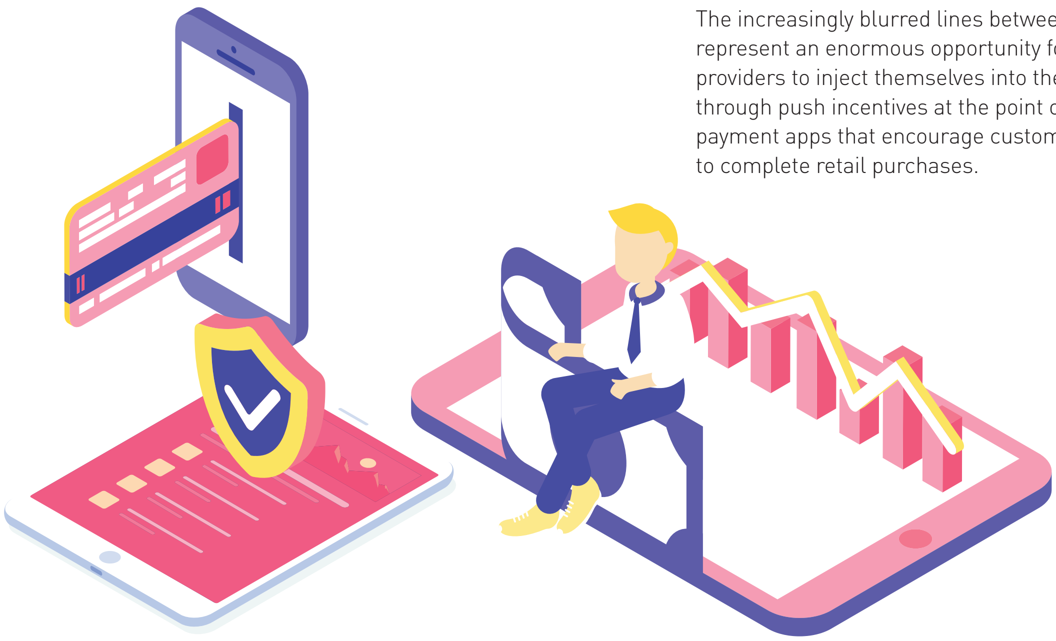
Digital integration is a struggle for many traditional financial services providers, particularly when competing with tech-first companies and big name players who are new to the sector and are built on agile platforms. But, digital channels are also the key to reinvention and so are a crucial to delivering connected commerce.

Consumers want services that make their lives easier and they judge customer experience on the services they receive from other sectors such as digital goods, social media, retail and entertainment – which is where many of the up and coming competitive services are coming from.

Finding ways to support and become involved in the consumer lifestyle through convenient digital services is an important part of any future roadmap. With data insights, access to funds and customer credentials, you have all the tools you need to help facilitate end-to-end services. Innovation within the sector means there is an opportunity to make routine transactions quicker and easier, allowing the focus to be on value-added services which can become integrated into daily habits and everyday life.

Consider this scenario; a customer is looking to buy a house – their financial services provider offers a way to connect all the parts of the process via the customer's mobile phone - from finding the house they want to purchase through an app, financial services providers could then automatically route the customer to search for and secure an appropriate mortgage offer, appoint and pay a conveyancer, organise insurance, pay fees and even move money to complete the house purchase. The possibilities are endless.

The increasingly blurred lines between retail and banking also represent an enormous opportunity for financial services providers to inject themselves into the retail customer experience through push incentives at the point of sale and user-friendly payment apps that encourage customers to utilise their accounts to complete retail purchases.



Tapping into technology

The right mindset will give the best starting point, but it is just that – merely a start. The right innovation strategy and supporting technology is critical to take financial services providers where they need to go on their transformation journey. Legacy systems will not offer the 'bank of tomorrow' service approach and agility that customer demand dictates. Trying to adapt outdated systems, or bolt-on additional solutions, will offer a short-term fix - but in order to be truly adaptable, an enterprise-wide approach is vital. It seems the industry is fully conscious of this, with an overwhelming 71% of respondents in PAC's digital barometer survey saying that their technology and legacy systems were holding them back.

The time is absolutely right for financial services providers to tap in to the open API economy, integrate adaptable platforms into their networks and build a flexible foundation for innovation - both now and in the future. Although this may sound overwhelming for some, strategic partnerships can help facilitate transformation projects – not only by optimising the time to market for new services, but by tapping into expertise from industry experts. A lack of internal resources can often inhibit timely delivery of new customer journeys – a problem also significantly alleviated by collaboration.

Summary: How banks can thrive, not just survive

There has been a shift in power in the financial services industry and the customer now leads the journey. We are a demanding generation and as consumers we are leading innovation at a rate never seen before.

Financial services providers are now competing with a much broader range of players from both within - and outside of - the financial services sector. The surge in successful challenger banks, growing number of supermarket banking propositions and entries from big-name technology and retail players into the financial services space, are all signs that the increasing competition can no longer be ignored. But, this doesn't mean that traditional firms need to become technology companies themselves. The key is to assess and deploy the right technologies – those that enable financial services providers to break out of the traditional 'commodity' mould and become true service organisations that support and permeate into their customers' lives.

There is growing evidence that organisations that have adapted and embraced new approaches to customer experience have seen share price growth, improved market share and an increase in customer satisfaction. To do this successfully and cost-effectively, requires cultural change and strong strategic relationships with specialist partners who can assess, tailor, deploy and manage the tools and technology that will deliver the right customer experience.

Consumers will continue to demand more, placing increasing pressure on the industry to respond, or face failure. Cost constraints and skills shortages mean most organisations don't automatically have the resources available to manage everything needed to address these demands; particularly when it comes to handling complex processes and infrastructure.

More financial institutions are recognising the advantages of 'as-a-service' business models, which offer the ability to gain greater operational flexibility and speed and benefit from specialist services – allowing organisations to focus on their strategic plans, and most importantly, on the customer. A standardised 'as-a-service' approach through expert partners can also help to minimise risk, costs and resources by ensuring tried and tested processes are used - especially where compliance issues and mandated change are involved.

In order to truly deliver 'the future of financial services', organisations need to rethink their structures, processes and customer journeys. Working with a collaborative end-to-end partner can help you solve your most business critical objectives, ultimately helping you forge deeper and more meaningful connections with your customers.

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