DIGITAL BANKING: ENHANCING CUSTOMER VALUE

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"In Asia, the number of potential digital-banking consumers could rise to approximately 1.7 billion by 2020" (McKinsey)

1. Introduction

The role of the bank has changed rapidly with the changing needs of the society. However, most of the changes in banking came with the digital revolution across industries in the recent past which has challenged banks in many respects. One of the major areas where this has impacted is the experience between the customer and the bank.

Banks often throw around the buzzword "digital engagement" to describe the next phase of banking's technological transformation. While it is largely a marketing term, it speaks to a deep and growing challenge across banking on how to satisfy customers' ever-growing appetite for digital products and services. Customers who engage with the bank using digital channels tend to use more products, have higher balances and in general are the more profitable customers to the bank. However, due to the laws and regulations governing the banking industry, innovation happens at a far slower pace than what the stakeholders would expect. For example it was PayPal which revolutionised the online payment systems in the world and not a traditional bank.

In this context, embracing a fully digital strategy requires end-to-end modernization of a bank's often outdated infrastructure. It requires moving away from the legacy systems in banks. Equally important, it requires a transition from an account-based view of banking customers to one that knows them as individuals and enhances the customer experience with relevant, convenient and personalized products and services. Today, consumers have taken great advantage of digital technologies in other industries such as booking flights and holidays, purchasing of music and books, and increasingly shopping for groceries and other goods via digital channels. Therefore, banks have to be proactive in providing digital banking to the stakeholders. Considering the potential for growth in the industry, including the government's strategy to make Sri Lanka a financial hub between Middle East and Singapore, it has become critically important for the industry to move into a digitalisation process to enhance the stakeholder value.

The objective of this article is to explain in brief the behaviour of the new generation of consumers, digital enablement for banks, fundamental ways in which digital capabilities can be used to create value to its customers and why it is critical in the context of digitalisation of Sri Lankan banks.

2. Consumer behaviour

It has been widely reported that for the past decade, Asian consumers have embraced digital technologies such as mobile phones with high rates of adoption. ATM usage has skyrocketed in Asia and across age segments the consumer decisions have increasingly moved online. The pattern for most purchases now is that they are researched online and concluded in the branch but is beginning to see online purchasing as well. A significant constraint on the progress of this trend is the state of regulation in many countries which require purchases to be finalized by customers signing documents in branches in the presence of branch employees.

Meanwhile, larger numbers of Asian consumers, especially younger ones, are expressing a preference for interacting through non-branch channels. This will only accelerate as young digitally savvy generation matures and it will definitely be the disruptive generation when it comes to banking trends. They have already taken to mobile technology and are comfortable with making payments digitally.

The major shifts in consumer behaviour in digital banking are mainly in the following areas;

Increase in usage of digital services	This includes higher penetration of mobile, Internet, and smartphones across markets. The increase in technology usage is changing consumer behaviour, including buying behaviour, with social networking, peer reviewing of products, and online research becoming the norm. Digital payments are becoming significant in Asia and the evidence of the digital disruption is mounting in the industry.
Shift in channel preference	Channel preferences in banking have shifted significantly among younger and wealthier segments towards non-branch channels. Affluent customers now prefer online or mobile banking. The Internet is making headway in the generally older affluent and mass-affluent segments, where ATM usage is the norm; for younger generations of Asians, on the other hand, the Internet has become a preferred channel.

Multichannel consumer decision journey	The path towards purchase—from awareness to research, subscription, and maintenance—has already become a multichannel journey for Asian consumers. In the awareness stage and especially the research stage, most buyers are consulting multiple channels and returning to multichannel usage in maintaining their products after purchase.
Digital sales	With the right regulatory environment, more sales of deposits and loans are expected to shift to direct channels, in line with shifting consumer preferences and behaviour trends in e-commerce, similar to what has occurred in more mature markets.

As technology adoption continues to reshape consumer habits as well as business models, the consequent rapid change in the dynamics of several industries has become a top-of-mind theme for banks across Asia. Hence, banks can minimize the potential value-destroying effect of the coming digital disruption by fostering digital awareness in their top leadership and by building a digital strategy that is integrated into their overall strategy.

3. Digital enabling of banks

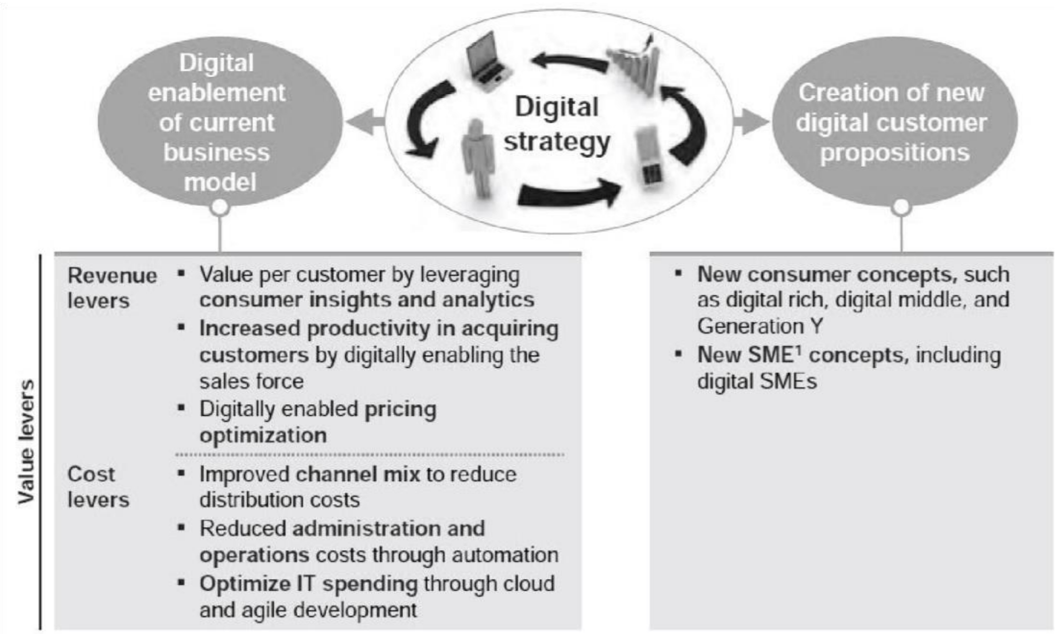
There are many factors that need to be considered when pursuing a digitisation strategy to create value for customers. This value creation process may differ among market players depending on the level of digital enabling achieved so far. However, the most common factors that are likely to impact the digital enabling programmes are outlined below.

3.1. Cost and revenue levers

Banks can support the digital adaptation of the present business model in a number of ways. These include a few important cost levers: improving the channel mix to reduce distribution costs, reducing administration and operating costs through automation, and optimizing IT spending through use of the cloud and agile development.

Revenue levers that can be included are improving the value per customer through consumer insights and analytics. Banks can use analytics for micro targeting by aggregating data to form a single, enriched customer view. A robust analytics engine can generate “next product to buy” offers and present customers with prefilled application forms. Another revenue lever is managing consumer interactions across multiple channels. Banks must integrate across channels: this entails generating digital demand with smart tools, intuitive product choices, and use of direct channels for customer self-service. Also increasing frontline productivity and multichannel productivity for fulfilment can be considered as another revenue lever. Delivering leads to sales staff through mobile devices; calculating and customize offers, including using digitally enabled pricing optimization; and providing payment solutions and technology-enabled rewards comes under this.

Banks can create value through digitaliy using a discrete set of levers which can be summarised in a chart as follows.



Small and medium-size enterprise

Banks will need to adopt new propositions that serve their savviest, digital-friendly customer segments. The preferences of these constituents will eventually become the new normal. Whether the move to a fully digital banking model is made sooner or later will depend on the nature of the bank's business today and the degree to which early movers and nonbank institutions are competing to threaten the bank's customer base.

3.2. Consumer segments

There are consumer segments which can be identified according to their knowledge of technology. Banks need to focus on these segments to maximise the value of digital engagement initiatives.

- **Digital rich** - These affluent consumers have a good undergraduate or even higher education and constitute the professional talent of leading corporates. Some members of this group are also second-generation entrepreneurs, who are more educated and computer literate than their pioneering parents.

- **Digital middle** - These upper-mass and mass-affluent consumers have at least a secondary education and provide the professional and middle managerial talent in corporates. The group also includes service entrepreneurs.

- **Generation Y** - Asia's future digital-banking customers are now 15 to 30 years old; they are students and young professionals, some in their first jobs, and they are exceedingly digitally savvy. They will form the preponderance of the base for the digital bank of the rapidly approaching future.

- **Digital SMEs** - The number of small and medium-size enterprises (SMEs) that are using the Internet and other forms of digital technology will only increase across Asia. These non-traditional SMEs will eventually become the norm and will be looking to use a digitalbanking platform designed to serve their needs.

Each of these segments has unique characteristics that must be considered when developing the offer.

3.3. Value proposition

To position itself strategically in its market, each bank will need to find a value proposition targeted to the segment the digital bank is trying to address. A digital bank could enter the market with a simplified core offering of four or five relatively simple products and have one or two "hook" products such as a competitively priced deposit or strong trading platform. Banks may want to present customers with an "Apple-like" experience, offering an intuitive interface and a no-defect and no-customer-leakage culture, with real-time processing capability and a test-and-learn environment.

In addition, banks can offer a personalized Web experience, so that customers can receive recommended products based on their digital data such as browsing behaviour. A social and mobile-centric dimension could make sense for some banks, in which the latest digital technologies and platforms would be used to enhance their reach and offering. Banks could also offer customers "immediate satisfaction" on their Web sites, with rich content management, paperless real-time transacting ability, and self-directed analytics.

For some banks, integrated multichannel access will become a core feature of their value proposition, including a light physical presence and agents to enhance the customer experience, as well as to promote trust and branding. Compelling cross-category offerings can be developed, which for example, might blur the line between retail banking and retailing. The digital bank can and should be a highly creative space, fostering affinity and loyalty with fun ways to engage younger customers such as selectively "gamifying" aspects of the banking experience. A cross-partner ecosystem allowing for creative collaboration and the formation of heterogeneous communities and integrated applications will be important for the maturing social-media generation. The point is that digital creativity will become an attractive customer proposition as digital adoption increases across customer segments.

3.4. "Centric" models

Banks have chosen these models according to the conditions governing their market, including where their market is along the digital-development curve and the vulnerability of their base to competitive pressures:

- **Branch-centric, product-focused model** - A follower strategy in digital. Most incumbent banks have retained branch and product centricity because the traditional universal-banking value proposition is strongest for them. Their sales and servicing model remains branchbased, with direct channels used as a complement and mostly for servicing. This model represents the follower strategy in digital and relies on a broader customer base across all segments and higher price premiums for value.

- **Multichannel client-centric model** - A leader strategy in digital. This intermediate model is still branch-centric, but it deploys sophisticated online and mobile offerings. Direct channels are used as the major servicing channels; for most banks that have developed this model, direct acquires a growing relevance for sales. This strategy is the aspirational model for digital banking: it derives value from a higher market share of tech-savvy customer segments but without price loss; it offers higher cross-selling success and higher share of wallet with lower cost to serve.

- **Self-directed digital-centric model** - A shaper strategy in digital. Some highly innovative European banks have adopted this very low cost but comprehensive service offering focusing on more self-directed customers. The model relies on innovative direct channels for sales and uses a complementary light "showcase" physical presence for customer acquisition. Of the three archetypes, it has the lowest cost base for acquiring and serving customers. It is the model used by leading digital banks today, and its prevalence will expand as more countries move along the digital development arc. The model represents the attacker acquisition strategy and has taken a disproportionate share of Generation Y and tech-savvy customers to date.

Top managers are giving thoughtful attention to getting the digital strategy right, since they are aware of digital's disruptive potential. Most incumbents have understandably retained a branch-based approach, a prudent follower strategy that takes account of the preferences and investment in the existing customer base.

3.5. Digitizing the operating processes

Digitization of processes, end to end, is both an essential enabler of banks' digital customer propositions and a significant driver of value in and of itself. Process digitization is different from pure automation in that it not only creates cost efficiencies but also value, by responding to customer demand for new and better products and services. A new approach that focuses on value is taking shape, based on the following actions:

1. Creating a customer-centric experience from the start, by focusing on customer satisfaction with the right products as well as on engaging, best-in-class customer interfaces
2. Developing tailored, multichannel capabilities to serve the bank's potential customer base, with a self-service experience that is seamlessly integrated with higher-touch channels
3. Offering a simpler product set rather than trying to provide everything; provide the solutions that people want as transparently and simply as possible
4. Simplifying end-to-end processes, by identifying and optimizing the processes with the most potential while ensuring that customer needs are put above all else

By pursuing these principles in a tailored way, banks can transform their operating models to support their customers' digital-banking expectations. The value at stake in getting process digitization right is significant. Not only are the opportunities for creating cost efficiencies and scalability great, but better service of the customer base will lift revenue and reduce leakage for the bank. The digital bank of the future will succeed only by meeting the needs of a rising generation of digitally savvy consumers who will set the parameters for the next banking experience.

4. Realising the value of digital

There are four fundamental ways in which digital capabilities can be used by banks to create value. First, digital technologies increase a bank's connectivity—not just with customers but also with employees and suppliers. This extends from online interactivity and payment solutions to mobile functionality and opportunities to boost bank brands in social media.

Second, digital draws on big data and advanced analytics to extend and refine decision making. Such analytics are being deployed by the most innovative banks in many areas, including sales, product design, pricing and underwriting, and the design of truly amazing customer experiences.

A third way that digital creates value is by enabling straight-through processing—that is, automating and digitizing a number of repetitive, low-value, and low-risk processes. Process apps, for example, boost productivity and facilitate regulatory compliance, while imaging and straight-through processing lead to paperless, more efficient work flows.

Finally, digitization is a means of fostering innovation across products and business models. Examples of this include social marketing and crowdsourced support, as well as "digitally centred" business models.

For decision makers, in particular the CEOs, the good news is that each of these ways of creating value through digital can be applied to every bank function. However, developing a digital agenda and driving a digitally centred transformation is a complex task. It requires an unusually high level of coordination of cross-bank initiatives spanning prioritization, resource allocation, and collaboration in execution. Moreover, most banks are only in the early stages of developing the capabilities and culture of digitally native organizations, which include several elements:

- **User-centred customer-journey design** - Customer journeys should be compelling and highly differentiated, combining personalization, speed, and ease of use for all processes, including applying and getting approved for a loan, opening and understanding how to make full use of an account, and reconciling payments. To make this leap in the delivery of customer journeys, banks need to act quickly to acquire deep capabilities in user experience and user interfaces.

- **Personalization, leveraging data, and advanced analytics** - Most data still go unused. Yet there is significant value in applying advanced analytics to create targeted offerings for cross-selling and up-selling. This is achieved by making data usable in real time, such as at the point of sale, and combining the data with analytical tools to generate insights provided by "next product to buy" models or risk assessments, for example. Some banks are sceptical about the difference between Advance Data Analytics (ADA) and the customerrelationship-management (CRM) tools that many banks have invested in over the past 10 to 20 years. ADA employs additional data and statistical techniques to derive customer insights. And those insights are not just in the marketing and sales arena but also across the value chain. Banks that have employed ADA have been able to identify opportunities to increase credit balances, raise cross-sell rates, and greatly improve the yields of their call centre operations. In addition, some banks have started to use advanced analytics to predict foot traffic in their branches, enabling them to match staffing accordingly or to predict daily cash demand for ATMs.

- **Rapid experimentation and agile development** - Banks need to learn rapidly to acquire or imitate high-value initiatives, while showing tolerance of failures in trials. Banks often struggle with this trialling and testing culture. In addition, they need to move to "agile delivery," with weekly sprints, from a “waterfall” approach in which there are months between releases. They must achieve this agile model at scale but still recognize that agile isn’t the right answer for every development effort.

While developing these capabilities is crucial, an equally critical part of the digital transformation is the need to develop a different culture that requires adopting a mind-set similar to that found in successful digital enterprises when it comes to everything from establishing a challenging and coherent digital vision to acquiring new data capabilities and adopting a testand-learn approach with rapid iterations.

Across the value chain—from operations and IT to marketing and sales to product development and finance—the data and technology required to realize this vision in the bank often already exists. What is missing is the organizational orientation and mind-set to have small, cross-functional teams working together through rapid testing and improvement programs. Indeed, we have noted that many of the new capabilities required cannot be found in banks but instead need to be imported from other industries.

Becoming aware of the need for change is the first challenge that bank CEOs face. The next challenge is to take leadership in the development and execution of a holistic change program that simultaneously addresses the culture, systems, and capabilities required. Invariably, a number of issues will arise to test key decision makers.

The scope of these changes demonstrates that digitization is a tough, complicated journey. Capturing the opportunities it provides will require investment, painstaking planning, and coordinated decision making spanning the whole bank. Digitization is rewriting the rules of how banks compete. Incumbents that fail to grasp this risk damaging franchises built over generations. But if CEOs together with their teams manage to address the multiple strategic challenges posed by digital advances, they can position their institutions to compete effectively and capture an emerging, long-term growth trajectory with their customer base.

5. Conclusion

When embarking on a digital banking journey there needs to be proper planning in place. This can be called The Enterprise Roadmap for going digital. The roadmap needs to balance key customer values such as loyalty, convenience, relevance, interaction and mobility with the bank’s values such as profitability, operating efficiency, market expansion and risk mitigation. The roadmap begins with a conceptual view underpinned by governance, readiness and discipline. It approaches the most valuable problem dimension first. That is creating a superior customer experience that embraces across service channels to radically improve satisfaction and enable customers to choose self-service first.

Banks must also develop a comprehensive business plan to eliminate organizational and procedural constraints across lines of business and to deliver value to internal and external stakeholders. This may require reengineering internal processes to align with the digital strategy of the bank. A robust channel optimization strategy is critical for the success of the digital roadmap. As channels evolve to create seamless, integrated customer experiences, and to leverage analytics for changing customer behaviour across all touchpoints, the focal point of the effort must not be the channels themselves but the customer.

Sri Lankan banks will need to go through a paradigm shift to be relevant in digital banking. In today's context, availability of banking services at any given point of time is an important factor for the consumers and therefore there is no reason for anyone to walk into a branch to do banking. Mobile devices and digital platforms can keep banks open 24/7, for customers to access banking services at their convenience. However, Sri Lankan banks are largely organised based on a brick and mortar model and it is evident that almost all banks take pride in extensive branch networks and staff servicing customers on various dimensions, despite the importance of digital banking. Even though the government has prioritised digitalisation as a matter of policy, the banks are still going for traditional brick and mortar model which will have less use in the near future. However it is noted that certain banks are preparing for this challenge by curtailing branch expansion and discouraging counter transactions substantially over the past few years.

At the same time it is essential to centralise back office operations, revisiting business processes, introducing automation, reengineering process and making life easy for customers through user friendly customer interfaces. All of these changes means that banks will have to significantly reorganise themselves to stay in business in the digital age. In the event where banks do not take proactive steps, they will find that other digital nonbank financial service providers such as telecommunication and online payment companies are eating into the market share of banks.

Although Sri Lankan banks have introduced exciting digital banking products to meet various consumer demands, they should enhance them through adopting new technologies to push the boundaries of digital enabling in the local context. As a country we are a step ahead of our counterparts in the South Asian region in terms of infrastructure such as 4G and 4G LTE connectivity and at the same time smartphones are getting cheaper by the day thus giving more consumers access to the digital world.

For a country with 20 million people and consistent GDP growth of over 5% annually over a constant period of time, digitalisation is the foundation of the next phase of growth in the industry. Hence for Sri Lankan banks to become leaders in the region for digitalisation by 2020 there are no boundaries or barriers and the opportunities are immense.

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