THE NEXT STEP HOW TO STAY PROSPEROUS IN A DIGITALLY CHALLENGED WORLD

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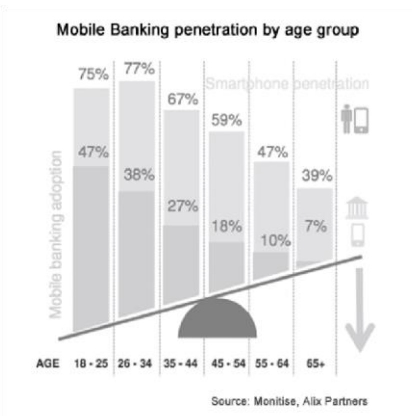
1 Introduction

The introduction of ‘ENIAC’, the first high speed digital computer marked the beginning of an electronic era in 1940. Since then, neither the mankind nor their industries could survive without the aid of same,banking being no exception. Specially during the past three decades, it has experienced various changes triggered by the developments in the digital industry.

Presently, something big is stirring in retail banking. Across the globe, financial institutions are rolling out a broad array of initiatives that place bold bets on new digital technologies, which they expect will fundamentally change how they attract and retain customers.

Most banks are investing heavily in apps for smartphones and digital tablets that make it easy for customers to conduct a wide range of banking activities while on the go. Some are developing interactive tools that help customers analyze their spending habits and strengthen their money management skills. Certain others are mobilizing the power of social networks to draw “fans” to feature-rich Facebook pages that build their brands and tempt consumers to share personal information.



Each of these initiatives denotes major efforts to harness fast-moving digital technologies, unrestricted mobile access and vibrant social media enabling banks to interact with their customers more efficiently and effectively. However, to a great extent, ranging from the digital pioneers to banks that are yet to cross the digital start-line, are in an ongoing battle for survival, as they race to keep up with consumers' rapid embrace of wireless interconnectivity.

The challenge is global and gaining momentum as banks try to come to terms with technologies that have transformed sector after sector into digital. Venerable companies like Kodak, the photography pioneer, and Blockbuster, the once preeminent vendor of video rentals, failed to step up to the digital challenge, spelling doom for their business models as they succumbed to nimble newcomers in faster, lower-cost digital imaging and online video streaming. Innovators like Amazon.com and Apple's iTunes applied new digital technologies to revolutionize the publishing and music industries, sweeping away long-entrenched incumbents. Closer to home, banks are feeling the hot breath of competition from PayPal, Google Wallet and others whose mobile payments technologies threatening to displace banks to detach them from consumers' daily transactions.

The stakes could hardly be higher (better detailed under subsection 2.0 of this article titled "Five common misconceptions"). The winners will be able to shrink their physical footprints, eliminating at least 30% of their branches and massively reducing costs at a time when margins continue to contract across the banking industry. Meanwhile, they will be able to expand product variety and customization, accelerate service delivery, tap new pools of revenue and deepen customer relationships that boost retention and profitability.

Technology by itself will not deliver a competitive advantage; what banks do with it to develop a unique, personalized customer experience will matter most. Success will take much more than a string of initiatives that tack high-tech gadgetry and cool apps onto a traditional banking infrastructure and mindset. Indeed, technology for its own sake is a costly distraction, which adds complexity, muddies decision making and impedes the organization's ability to adapt. Failure to take a disciplined approach will divert attention from the pressing need to break through the conventional walls of retail banking, both literal and cultural, and engage customers seamlessly across all channels, on their own terms.

Author's in-depth interviews with more than 20 senior executives from 15 financial service institutions in Sri Lanka revealed that, for a variety of deep-rooted institutional and cultural reasons, seizing the digital opportunity in banking will be especially challenging. Focused more on processing transactions than innovating around the customer experience, retail bankers have been slow to weave new customer-facing technologies into the core of their operations. They have been even more hesitant to take full advantage of the technology's potential by redesigning their product and service offerings, aligning their pricing and channel strategies, and rethinking how they hire, train and deploy their frontline employees. Lacking a clear strategic rationale, their digital initiatives end up producing only marginal enhancements that drive up IT spending rather than give the bank a competitive advantage.

Using digital technology to build a boundaryless bank will require a deft touch. Customers' need to save, spend and transfer money in a secure environment remains unchanged, but their behaviours are changing radically. Their interactions with the bank will effortlessly bridge the online and offline world. Before they set foot in a branch, customers are increasingly comfortable using the Internet to seek advice and gather product and service information. They expect to be able to choose the channelmost convenient for them, whether that's a branch office, browsing the bank's website or using a video-enhanced call centre, thus would insist that all channels work together harmoniously. They would expect all of the companies with whom they do business with, and particularly their banks, to know them as individuals, anticipate their needs and actively involve them in coming up with tailored solutions. They do not hesitate to use social media to let other consumers know how they were treated.

2 Five common misconceptions (Myths)

Myth 1: You have plenty of time to figure this out. Speed to market will be a critical success factor for banks seeking to embrace digital technologies. Innovation cycles have accelerated almost exponentially in recent decades.

Myth 2: It's all about the "apps." Whilst offering easy customer access and cool functionality for smart phones, tablets and other mobile devices can be a powerful attraction; unless it is integrated with a complete digital strategy, applications won't do much to enhance your business. Increasingly, apps are basic table stakes.

Myth 3: We don't need to invest in digital capabilities because retail bank customers do not change banks. Automatic pay cheque deposit and long-term commitments, such as mortgage and home equity loans, have typically made depositors hostage to their banks. But the demographic shift to digitally literate younger customers, along with a revolution in consumer behaviour, powered by social media, to look for a better deal, has increased customers' propensity to defect.

Myth 4: Adding digital capabilities is a job best delegated to the specialists in the IT department. Technology is a powerful enabler, but only banks that embrace far-reaching strategic and cultural changes led from the top of the organization will successfully meet the digital challenge.

Myth 5: Being a digital banking pioneer is not worth the risk, when a bank can quickly copy at lower cost what a competitor has done. There are huge first-mover advantages for a bank that puts its digital strategy in gear ahead of its rivals. It is the accumulated learning from trial and error and the patient implementation of cultural and organizational changes that spell the difference between the leaders and the laggards. Banks that are forced to play catch-up risk falling farther and farther behind the frontrunners.

3 Strategic imperatives: Empowering the Digital Customer

Banking institutions will have to adjust to this paradigm shift by tackling four strategic requirements. Benchmarking is always an effective method in doing so. Unfortunately, Sri Lankan banking industry is still at a rookie stage when it comes to digital banking. Hence, it is beneficial to analyze few global institutions who are doing exceptionally well in synchronizing conservative banking mentality and methods to the digital era.

3.1 Integrate your distribution channels

Digitally advanced banks provide a seamless experience that allows customers decide how and when they interact with the bank. The contours of a bank that synchronizes all of its channels can be seen in the example of TD Bank, the pioneering North American retail bank.

Describing itself as "America's most convenient bank," TD Bank presents a friendly and always-ready-to-serve face at every point of customer contact. Branches are open for extended hours, seven days a week and staffed with dedicated Relationship Managers. The bank's fully fledged online, mobile and interactive tools offer a common accessible and intuitive interface that simplifies money management and facilitates sale of basic banking products. TD Bank trains call center servicerepresentatives to be problem solvers for customers. Supported by state-ofthe-art data systems, they are evaluated by their ability to achieve first-call issue resolution and earn favorable customer feedback; not by how quickly they can get the customer off the phone.

How banks manage customer data is at the heart of an integrated channel strategy. Industry leaders, like Citibank Asia, never need to ask a customer for the same information twice. Stored in sophisticated customer relationship management systems that span over all channels, data that a customer shares at each touchpoint; whether it's acquired through a visit to a full-service branch, an online product search or contact with a call center; travels with the customer and is retrievable wherever the customer comes into contact with the bank. The more personal cross-channel tapestry of individual customer information enables the bank to size up his or her needs more quickly and deliver a tailored customer experience.

Putting customers at the centre of an integrated omnichannel strategy, enables the bank to convert each channel from a mere dispenser of services or product information into a revenueenhancing force multiplier. Using new digital capabilities to enable customers to choose the channel that provides them with the most value and convenience, banks are augmenting their websites or introducing mobile applications that encourage purchases for common products like credit cards or savings accounts. For example, Finansbank, an innovative Turkish retail bank, enables its customers to use smartphones to check their personal loan credit limit before making a major purchase, by sending a secure SMS message to the bank's database. Recognizing the caller's mobile number and PIN, the system automatically confirms the customer's account balance.

A fully integrated channel strategy makes the bank a companion that customers can call on whenever, wherever and however they choose. Integrated channel management vastly enhances the bank's ability to refine its marketing approach. Organizing campaigns across channels instead of diluting them within channel silos gets a bigger bang out of tight marketing budgets. They allow the bank to align its mass media, targeted online campaigns and in-branch advertising, to surround customers with information that captures their increasingly short attention spans.

How banks price products and services across their integrated online and offline channels needs to be transparent and uniform. Banks have commonly promoted bargain-priced "onlineonly specials" for basic credit cards and low-cost current accounts as an inducement for customers to purchase common financial products over the Internet. But banks that continue to practice multitier pricing without convincingly demonstrating that the price at each channel presents a distinct value proposition; for example, when charging a higher price for supplemental services provided by a financial adviser; risk alienating customers when they discover different prices for the same products. As high-end retailers and big-box consumer electronics chains have learnt, customers too expect the same deal whether they encounter it on a website or on the showroom floor. Banks, too, need to present customers with the same price for the same product, whether they are at a smart ATM, seated at a loan officer's desk or using a digital tablet.

In the transparent new omnichannel world, skillful management of pricing is a critical success factor. Presenting a one-price approach across all channels runs considerable risks of alienating customers when they sign on to low-cost digital outlets and discover better deals. But reflexively matching online competitors' low-ball prices squeezes profit margins. Because pricing is such a sensitive feature in the relationship between a bank and its customers, the leaders are beefing up their capacity to evaluate how customers respond to pricing.

3.2 Redesign your network

Torn between a desire to take advantage of the new efficiencies digital technologies can achieve and to satisfy customers' assumptions that their bank will be available to assist them whenever and wherever it suits their convenience, banks face a big job of managing expectations. Many banks have been too quick to capitalize on digital technologies as a way to strip costs out of their operations. Steering their technology-enabled customers to websites, mobile apps and ATMs, they are shuttering full-service branches and replacing them with automated kiosks. Whilst the savings from taking a self-service approach can be enticing, the longer-term costs of abandoning customers to their own high-tech devices are unacceptably high.

Leading banks are capturing both the new technologies' potential cost savings and growth opportunities by reshaping their networks in ways that profitably meet and exceed customers' expectations. A recent analysis of key retail banking touchpoints in the US by a leading research firm Bain & Company also found that mobile transactions have the greatest likelihood of delighting customers. Ultimately, most routine banking products including the self-service purchase of common low-cost products like simple credit cards and no-frills deposit accounts, would migrate online to the bank's website. Rapid customer uptake of digital technologies presents a major opportunity for banks to create wow experiences that enable them simultaneously to reduce costs while deepening customer loyalty.

Branches are more important than ever as product showrooms and as places where customers seek expert financial advice. Instead of hollowing out their branch network, the leaders are converting it into a lighter, but sturdier, hub-and-spoke system. At the centre of the retail network that Citibank is building in Asia, for example, are flagship stores in high-traffic prime commercial locations that offer a full complement of products and advisory services. Removing counters and teller windows, they are providing service amenities like free Wi-Fi access, videoconference lounges and dazzling merchandizing displays that entice customers to linger and explore. The principal function of the flagships and other full-service hubs is to serve customers' more complex financial needs, like retirement and investment planning or residential and business financing. As more banks aim to increase the convenience of a trip to a full-service branch while improving operating efficiencies, they may want to look beyond their industry to offer amenities like those available through Open Table or similar reservation sites, which would enable a customer to see when a specific financial adviser is available and schedule a consultation.

At the networks' periphery, smaller satellite branches, some with on-site staff and others that are fully automated, field customers' high-volume routine transactions and assist them with the purchase of simpler products like auto loans. Analyzing the network configurations of leading banks in Germany, researchers have found that most could easily close up to one-third of their branch offices while improving customer service.

What will set the leaders' networks apart from the competition is the investment they make in hiring, training and developing highly qualified financial advisers and multitalented customer service representatives. Value-added advice and peerless customer service, not mere convenience, will be the hard currency of the digitally powered bank. In the bidding for customer attention, banks are no longer consumers' leading source of information about financial products.

Increasingly, banks will need to win the battle against other banks and nonbanks to convert those better-informed online shoppers into customers. The quality of the advice they offer and the ability of their advisers and service representatives to help customers choose the products and services that are best tailored to their needs will determine which banks will best earn customer loyalty and win a greater share of total customer spending on financial services.

What will it take to build a great advisory capability to serve a more knowledgeable and self-reliant customer base? Hired for their formal expertise and communications skills, financial advisers are trained to master the intricacies of the bank's financial product line and how it can be custom-tailored to meet individual client needs. To get the greatest value out of these higher-skilled and better-compensated employees, banks will need to use technology to make their expertise available at all nodes of the network and across a wide range of media. Working in teams from the flagship stores, full-service outlets and off-site video call centers, the advisers will be able to serve customers wherever, however and whenever customers decide to contact them. Banks will need to move swiftly to redesign their networks and redirect personnel costs to strengthen their adviser teams.

3.3 Upgrade your service and operations platforms

The integrated online and offline digital bank needs a new organizational and technical spine to deliver a seamless service experience that is focused on customers and adapted to their varied needs across all media and channels.

Getting the organization right is the first crucial step. Today, most banks remain organized as they evolved over time in the brick-and-mortar world, around the geographic footprint and operational requirements of their branches. As online and mobile banking options emerged, they built parallel organizations, binding their information technology organizations to the online channels they support. Breaking down the structural walls between the online and offline modalities frees banks to begin the shift from organizing themselves by channel, product and geography to mobilizing around customer segments.

Nimbler, more focused banks are better able to standardize their product offerings and processes in both the online and offline channels. To support this more streamlined configuration that puts the customer experience at the core requires a redesigned IT architecture. But while IT has a central role in supporting the program, leading banks put the customer-serving units in charge of defining its scope and business objectives. Citi has embarked on an ambitious multibillion dollar IT program, called "Project Rainbow," to upgrade its customer insights by creating a single global IT platform for its retail bank by 2013. The new system will give Citi a comprehensive 360-degree view of its customers, irrespective of the products they purchase or their points of contact with the bank.

Serving all distribution channels, the new business-led IT organization gathers all customer information online and makes it available through a single customer relationship management system to frontline employees and advisers, wherever the bank touches them. Integrated decision-making rules that cut across all channels and are backed up by clear accountability for their fast and efficient implementation are crucial to ensuring that the voice of the customer is heard at each stage of the online and offline customer journey.

Having made customer relationship management a core strategic competency, Commonwealth Bank of Australia (CBA) has refocused its IT spending to developing customerfocused content. As a result, CBA is reaping dividends across four dimensions. First, it has boosted the efficiency of its workforce by dramatically increasing customers' ability to serve themselves.

CBA has consolidated its IT operations from 23 data centres to just two over the past five years. Second, the increased traffic the new system generates helps CBA generate new sales by improving its value proposition and highlighting new product offerings. Third, it has lifted sales of additional products to existing customers by making it easier to identify individual customer needs and tailor offerings accordingly. Finally, CBA has boosted customer loyalty across all of its most attractive retail and commercial segments by delighting customers with the system's ease of use and functionality. The bank has increased the number of feature enhancements that improve the customer experience from 1,200 changes per month to some 3,000 changes per month today.

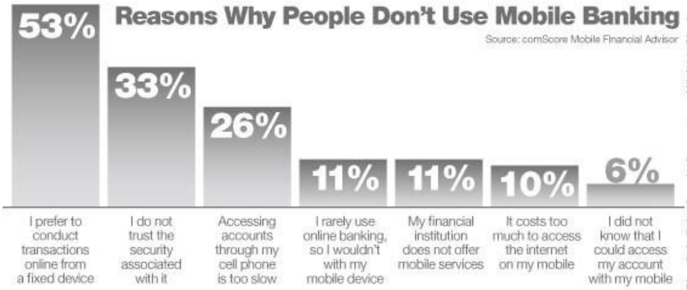
3.4 Fortify your brand and reinforce your franchise

As digital technologies and changing customer behaviorus shift the competitive landscape, banks need to anticipate that potential rivals can encroach from any direction. Wireless telecom giants like Verizon, nimble online payment systems like PayPal, Internet powerhouses like Google, along with a host of innovative start-ups in developed and emerging markets, are drawing up battle plans to take on traditional banks by offering greater speed, convenience and lower cost.

With barriers of entry crumbling, leading banks are sharpening their market intelligence to scan for emerging competitive threats. The leaders are scrutinizing each link of their value chain to assess potential vulnerabilities and erect defenses to reinforce their higher-profitmargin businesses and their grip on their most valuable customers. The leaders take proactive measures to know their customers better than any potential rival can. They tailor offers that anticipate customer needs and play to the bank's strengths. They innovate to increase customer convenience and invest in building a stronger brand that earns customer trust. By earning their customers' loyalty, they reap several mutually reinforcing benefits: Loyal customers are more likely to recommend their bank to colleagues and friends, earning the bank new customers through referrals. And they buy more of the bank's products and services, making them less likely to defect to a competitor and more profitable customers.

4 Mandate for change: Adopting a digital mindset

Unless it becomes a top priority, pushed urgently by bank senior management, a digital strategy will easily lose momentum. Banks will need to develop competence in four major areas where they have traditionally lacked them in the past.



4.1 Become transparent

Online media are creating a vast new public forum with enormous commercial potential and risks for banks. They have opened a channel into the private lives of consumers who are willing to share and store more personal data about themselves. They have also become a global sounding board for consumer opinion, as customers use social media to broadcast their likes and grievances to large audiences at digital speed.

Banks have mostly remained on the sidelines of this widening two-way torrent of communication. Institutionally, they have prized discretion, nurturing a culture that reveals little about themselves and virtually nothing about their customers. Their reflexes for sharing information are not up to the fast pace of the online world their customers inhabit.

Becoming more transparent is a double-edged challenge. Banks are sitting on a treasure trove of data, reaching deep into their customers' financial and personal lives from routine purchase preferences to individual specifics on financial goals on major lifetime events like home buying, retirement, children and education. Banks need to learn how to tap into the data, opinions and behaviours their customers are willing to share and put those insights to work in ways that respect customers' expectations of privacy and trust.

At the same time, banks need to open themselves up to customers' insistence for access to information about their products, operating processes and values. In Turkey, for example, banks have registered more than one million "fans" on their Facebook sites, putting themselves on display for all to see. Recognizing that they ultimately have little control over the flow of discussions and opinions consumers exchange about them via social media,banks will need to be able to adapt their communications strategies to be candid, responsive and honest.

4.2 Adapt the business model

The economics of digital technology can be compelling. Online businesses are ruthlessly efficient users of capital and can scale up easily to deliver a high return on investment despite low operating margins. Introducing new digital technology leads to lower transaction costs that get passed along to customers.

As customers shift to the new digital formats, revenue and profit pools will shift with them. It is a difficult journey that is fraught with uncertainties. Management will need to commit to big investments in the new capabilities. Meanwhile, it will need to be prepared to watch the organization's competitive position deteriorate over the medium term, as declining prices result in decreasing profit margins and new digital offerings cannibalize traditional ones. Statisticsshow that there is no one solution that works for all banks to counter this risk. But bank leaders who aim to guide their organization smoothly from the traditional branch-centric business model to the new omnichannel one must be prepared to wage cultural war against the status quo.

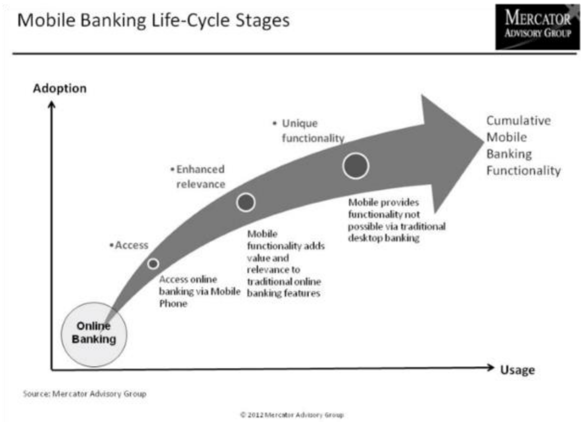
4.3 Execute swiftly

Innovation cycles have shortened from years to months, but adapting product offerings, distribution channels and back-office operations to technology's quickening pace runs counter to banks' deliberative culture. Getting into sync with the digital challenge will test banks' capacity to identify cutting-edge opportunities early and speed them to market. With limited resources to invest in new technologies, banks will need to hone the disciplines for making small bets on a portfolio of promising ones, test and refine them quickly, team up with innovation partners and fully commit to the ones that show the best potential.

4.4 Focus on the customer

The digital challenge is turning banks' traditional top-down approach to managing customer relationships on its head. Preoccupied with setting policies, developing products and arranging operations that meet regulators' requirements and best suit their internal needs, banks have long been indifferent to what their customers really want. To attract and retain customers in the digitally networked economy, bankers are beginning to understand that it is customers who will define and feel free to alter the terms of the relationship.

The leaders are seizing the initiative by sharpening their customer intelligence and segmentation skills, using the increasing volume of information customers share to map their financial journeys in detail and discover distinctive ways to help them. They are doing this by forging true partnerships with the customers they most want to serve by using short surveys to solicit their input following a transaction. They apply a reliable metric like Net Promoter® score (NPS®) that enables them to differentiate between experiences that win promoters from those that create detractors. They cycle the insights they glean through feedback loops that foster continuous frontline learning and improvement and make the voice of the customer an integral part of the product and service development process.



5 What it takes to make loyalty pay off

If an entity is to strive, survive and thrive in a digitally challenged world, customer loyalty is the key. No matter how volatile the industry related technology gets, if you have a loyal client base, you would be up on the deal. Stronger the relationship between the bank and the customer, farther the entity be from the danger zone of collapsing.

How exactly does customer loyalty translate into better financial results for a retail bank? And how much value is at stake? For many bankers, the link between loyalty and financial results is somewhat unclear.

In some countries, banks made progress in earning customers' loyalty but researchesshow that they are far from exploiting the full potential of that loyalty.

There are many ways of creating customer loyalty. Below stated are five usefulyet often neglected techniques on harnessing loyalty and few global examples on how banks and other enities have deployed them effectively.

5.1 With new customers more scarce, loyalty is half the battle

In all 27 countries surveyed, banks formed new relationships customers switching their primary bank plus customers altogether new to banking at an average rate of about 3% in developed markets and 6% in developing ones over the past year.

Earning high levels of customer loyalty definitely helps the cause: On average, a bank's relative NPS explains roughly half of the variation in its relative win rate a metric that shows whether a bank is winning more or less than its fair share of customers. Relatively strong NPS among existing customers thus allows banks such as DKB in Germany and Bankinter in Spain to win more than their fair share of new customers.

Other factors that influence win rate vary by market, but the factors that customers cite most often include the level of fees, the convenience of the branch network and the ease of opening an account.

Winning new relationships provides a lifetime of opportunity to sell people more banking products and earn their advocacy. Given the low rate of new relationship formation, however, this route alone will not be sufficient as a growth strategy.

5.2 The missing payoff from existing customers

Most banks currently miss a significant opportunity for cross-selling to their existing customer base. The steady expansion of the middle class in emerging markets, combined with digital channels making it easier to purchase products, has created a huge opportunity to cross-sell, but it has also become easier to buy from a bank other than your primary provider.

About half of customers in developed countries and 84% in emerging countries opened a new banking product over the past year. And customers purchased fully one-third of those products, on average, from a bank other than the customer's primary bank. Loyalty matters in cross-selling: For almost every product and in every country, customers who gave their primary bank a high NPS both own and purchase more products from that bank than customers who gave a low NPS.

The unbundling of financial products has spread through some countries faster than others. In the competitive Hong Kong market, for instance, 77% of customers took a new product, but only 52% chose their primary bank. It's a different story in Denmark, which has a highly-concentrated banking sector. There, 38% of customers took a new product, and fully 81% stayed with their primary bank. Competitive forces likely will increase over time, giving customers even more bank options.

Yet unbundling does not necessarily limit a bank to only a certain share of its customers' financial purchases. Product win rates the share of products bought by respondents at their primary bank vary even more by bank than by country. In the US, the rates range from 38% to 63%, with Huntington National Bank leading overall. Several years ago, Huntington (which had high NPS to begin with) began to consolidate customer data and build a unified view across all locations and business units. It replaced its manual sales process with an automated one that made it easier for employees to manage cross-selling and upselling opportunities. Huntington has gradually grown the number of products held by customers.

Loyalty plays a key role. The difference in product take-up between customers who are promoters of their primary bank (those who give an NPS of 9 or 10) and customers who are detractors (those giving an NPS of zero to 6) is a healthy 14 percentage points on average for developed countries and 10 points in developing countries.

5.3 The winning model: Loyalty plus five capabilities

Our research and client work show that loyalty needs to join up with five specific capabilities in order to spur existing customers to buy more from their primary bank, attract new customers and reduce costs without damaging customer relationships.

5.3.1 Decide where you must win and where you're willing to lose

Banks in many countries have a long history of egalitarian treatment of customers, regardless of how much their marketers segment the customer base. But catering to the average means catering to no one in particular.

Each customer segment has different priorities, expectations and lifetime value for a bank. Our US survey finds, for instance, that older customers care more about branch location and quality of branch staff, while younger customers place greater value on mobile device interactions and rely heavily on recommendations from family, friends and colleagues.

Leading banks not only know such preferences and behaviours well, they act on that knowledge by taking distinctly differentiated tacks for each segment. Some loyalty leaders, for instance, have improved offerings for affluent, high-value customers and wrapped them in premium services. That is how Citibank has become Asia's largest wealth manager under the Citigold brand.

And some banks profitably serve segments such as pensioners or lower-income customers with good-enough products and service through light-branch formats. In Malaysia, Maybank serves a mass market with self-service kiosks open for extended hours. The kiosks allow customers to open an account with just their identification in 10 minutes, for seven product categories.

5.3.2 Design products that pop

Retail banks find it difficult to keep their products distinctive, as product features get copied quickly. At a minimum, banks must at least keep up with the latest features that customers value. Banks also can differentiate products at the margin through innovative pricing or by bundling several products together in appealing ways.

Customers obviously care about product features like interest rates and fees, rewards, ease of transaction and, for more complex products like wealth management, the quality of advice. Banks show a wide variation in how customers perceive their product performance. Among US banks, the share of customers who say their primary bank performs well or extremely well on home mortgages ranges from 62% for the lowest bank to 97% for USAA.

In Australia, Westpac has differentiated its BT Super for Life superannuation account by allowing customers to apply online and to see the account online alongside their current account.

St.George links its home equity line of credit to various interest offset accounts, making it easier for customers to manage taxes and investments.

Whether with a current account, credit card or mortgage, the key is to strike the right price-value balance for the target customer. And there's a minimum menu of offerings necessary just to have credibility in a category.

5.3.3 Accelerate the digital transformation

As digital banking spreads, banks increasingly have opportunities to excel at moments of truth in the customer experience, such as resolving fraudulent account activity or giving expert advice. They can also use technologies to delight customers through transactions such as remote deposit capture. Conversely, slow or confusing digital interfaces will quickly annoy customers.

Banks have made significant progress in the shift from a mostly analog world to an omnichannel world, where customers expect to be able to use the channel of their choice when and where it suits them. Yet we are still in early days with a long way to go.

More than half of customers' interactions on average took place through online or mobile channels, ranging from 75% in Norway to 38% in Mexico. But many banks could make more of the technology or steer customers to adopt it. Globally, fewer than half of respondents in developing countries and just over one-third of those in developed countries used smartphones or tablets for their banking. The cross-country variation ranges from 60% in China to 17% in Belgium.

In South Korea, fully 56% of customers engage in mobile banking. Hana Bank has consistently focused on digital innovations, such as the ability to withdraw cash from ATMs via smartphone, with only the phone number required, not an account number. Parents can also send money to their children via their smartphones, and the digital currency works at many Korean retail outlets.

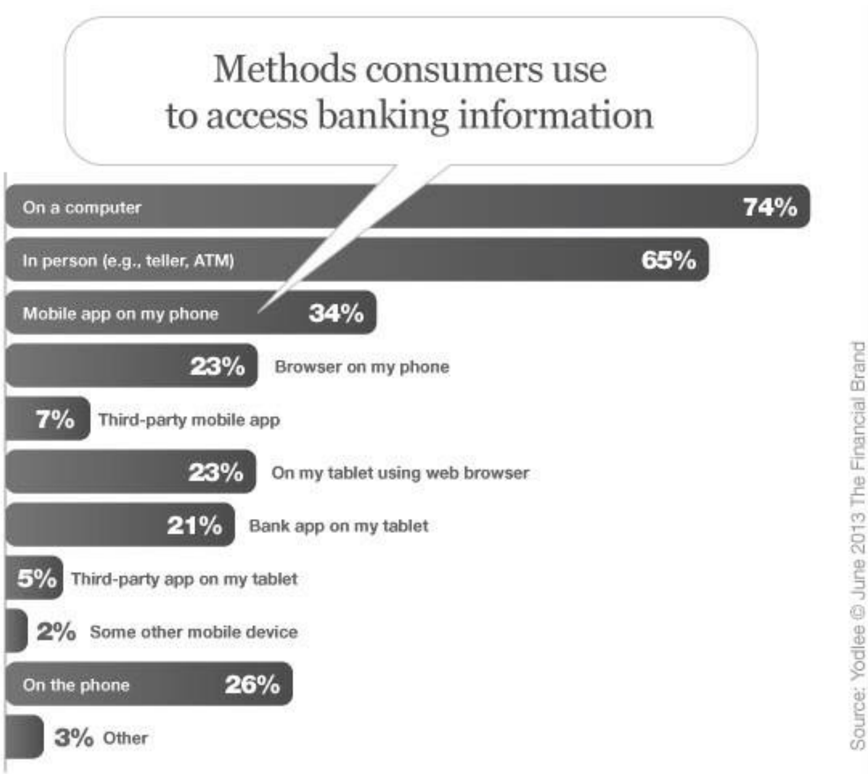
Mobile usage also varies within most national markets. Lagging banks and countries should be concerned, because mobility continues to spur customers to recommend their bank. Mobile users give an NPS 25 points higher on average than people who do not use mobile devices, and that premium rises in countries such as China and Thailand.

As banking moves to an omnichannel world, the future of the physical branch remains an open question. But two things have become clear.

First, too many routine interactions, like making a deposit, take place in the branch in many countries. Banks can no longer afford the cost structure that supports such interactions, which could go through lower-cost, self-service digital channels. Globally, some two-thirds of branch interactions consist of the routine, with only one-third being sales or service.

Second, branches in every market remain the dominant channel for starting relationships. Roughly three-quarters of new account openings happen in branches.

During this omnichannel transition, success hinges on making digital channels convenient and defect-free, and on converting branches to more sales-oriented purposes. Nordea, one of the largest Scandinavian banks, has shrunk and modified its branch network so that only 45% of branches now manually handle cash, down from 85% in 2009, and they focus instead on advice and sales.



5.3.4 Loyalty gives you the right to win more business—but you do have to ask for the sale

Banks with strong customer loyalty have an open door to win more of their customers' business. For every financial product and in every country market we have analyzed, we find that promoters buy more products with their primary bank than detractors do.

That does not mean the business comes effortlessly, banks have to ask for it. For example, about one-third of banking products in the US are sold, not bought. That is, customers did not plan to buy a particular product, but they received an offer and then decided to get it.

Returning to Maybank in Malaysia, the bank has chosen to bundle products in a way that make it easy to sell them. Customers apply once for all products and provide all necessary information at that time; they then can activate and access products as needed, through the channel of their choice.

In Australia, Hong Kong and India, Citibank excels in onboarding and then cross-selling to customers, particularly in wealth management. Citibank mandates that every relationship manager raises his or her customers' share of wallet each quarter.

Some banks that are loyalty leaders score low on the sales metric, but the good news is that their customers accept the right kind of sales overtures. Other banks have high selling scores but lag on NPS. These players will want to concentrate on adjusting the tone of their selling and delivering a better experience after the sale.

5.3.5 Build branding that delivers more trust, less buzz

The brand interacts with the other elements discussed here and either enhances or degrades each one. In fact, a bank's NPS tends to be highly correlated with its brand strength.

Banks' standing among regulators, legislators and the broad public took a hit in the years following the financial crisis. In response, many banks have increased their advertising and other forms of explicit marketing over the past few years, with the hope of restoring their image.

Although building awareness can be useful, a new brand campaign by itself merely applies a fresh coat of paint on a rusty ship, rather than repairing the engine and hull. Rebuilding trust involves a slow, steady process. Credibility comes by telling the story of what a bank has to offer, not what it wishes to be. And that story also gets shaped by the daily interactions with customers.

CBA has consolidated its IT operations from 23 data centres to just two over the past five years. Second, the increased traffic the new system generates helps CBA generate new sales by improving its value proposition and highlighting new product offerings. Third, it has lifted sales of additional products to existing customers by making it easier to identify individual customer needs and tailor offerings accordingly. Finally, CBA has boosted customer loyalty across all of its most attractive retail and commercial segments by delighting customers with the system's ease of use and functionality. The bank has increased the number of feature enhancements that improve the customer experience from 1,200 changes per month to some 3,000 changes per month today.

Hang Seng in Hong Kong, for example, promotes the attributes of a friendly, serviceoriented local bank. Hang Seng reinforces these brand attributes not only through activities with local neighborhoods and universities, but also through convenient branch locations in the local transit system and through staff training.

A customer-led, not marketing-led, perspective on the brand leads bank managers to spend their time differently. Instead of asking brand questions (“Should we rebrand?” “What logo and tagline should we use?”), managers will find it more effective to start with customer questions (“What do our best customers say about us?” “How can we amplify that?”).

5.4 Loyalty trends around the world

In some countries, customer loyalty as measured by NPS improved in 2013 from the year earlier, as the financial crisis recedes and some banks have devoted more effort to addressing customers’ priorities.The continued surge in mobile banking no doubt contributed to higher scores, because mobile tools have a strong, positive effect on customer advocacy.

- NPS varies by country and is generally higher in developing countries.But what matters most to an individual bank is how it performs relative to its peer group.Within national markets, NPS varies widely from bank to bank.In Australia, for instance, top-performer Bendigo has an NPS 45 points higher than the worst performer and 32 points above the country average.
- For the first time in a US region, a national bank leads the traditional banks in NPS, with Chase out front in the South.In 2011, Chase started a deliberate effort to become more customer-centered rather than product-centered, and that shift has paid off with gains in loyalty, new relationships and share of wallet.
- Wealthier customers have a high economic value when banks earn their advocacy.Banks in developing markets, like China and India, generally do better in targeting and serving affluent customers, which is reflected in their NPS scores from the affluent.Banks in Canada, the US, the UK, Australia and France still struggle in this regard.
- Direct banks such as ING and First Direct have been the NPS leaders in many countries for several years.They often target self-directed, digital-savvy customers with a simple proposition around low cost, high rates and fast processes.

Conclusion

Competition has definitely picked up in the banking sector and to make things worse, it keeps rising day by day. All financial Institutions are striving hard to find sustainable solutionsto survive the battle. Whilst focusing on Blue Ocean Strategy, it is important not to abandon the Red Sea i.e. the existing market and the existing customers which undoubtedly would be extremely important and inevitable when considering the bottom line. It is surely a challenging task, yet, a must to do by any organization, specially by Financial Institutionswho should strikea balance between being innovative and having their basics right. They should not at any cost compromise present for future. It is high time for the Banking Industry to move away fromits perceptionof considering Digitalization and Technological Advancements as special projects . It is no more special . It is just the way of life.

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