THE FUTURE OF BANKING

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Banks are facing virtually unprecedented challenges in the current environment. Customer needs and expectations are changing rapidly at the same time as loyalty declines and switching of providers increases. Satisfaction levels are being eroded by nagging operational issues and underwhelming onboarding experiences, and further budget cuts are placing an additional burden on customer-facing bank personnel. Digital channel adoption is growing globally, yet security concerns limit its effectiveness. Management teams have to do more with less, as competition continues to escalate among traditional banks as well as ambitious new entrants.

To increase profitability and respond to these market pressures, banks need to leverage available data and analysis to develop a deeper understanding of the customer. Technology will play a crucial role in designing an enterprisewide system that provides different parts of the organization with a common view of a customer's entire footprint. That single view will be crucial as banks encourage more customers from all segments to use digital channels more often for basic banking activities. It should also result in more effective onboarding.

Where customers need to use multiple channels during a transaction, they will expect the bank to have and provide a real-time view of where they are in the process. However, the improved customer satisfaction and greater efficiency derived from more widespread use of digital channels are dependent on banks enhancing security, functionality and ease-of-use.

By engaging in a continuous dialogue with customers through a rolling customer-experience program, banks can supplement the data available for analysis. This dialogue also provides a valuable opportunity to track progress against changing expectations, measure the success of new initiatives and target business development initiatives more effectively.

Where banks represent a company's customers and suppliers, there is an opportunity to build a profile of the whole business life cycle, which can be used to identify business problems across the supply chain and offer appropriate solutions.

This is a difficult task for many banks given current systems constraints, but relationship managers should strive to identify and capitalize, where possible.

Banks must become more efficient and effective in serving their mid-market customers. By using more sophisticated segmentation criteria, banks can categorize customers more accurately and apply more tailored service models. These models will meet customer requirements more effectively, cost banks less to support and help banks to unlock greater revenue potential from this diverse group of customers as well. Beyond enhanced segmentation and service models, banks can make important headway with customers by investing in training and development to equip relationship managers with the skills necessary to address customers' evolving needs. With the right training and incentives programs in place, bankers will more accurately identify optimal solutions that drive cross-sell without coming across as merely pushing products.

In addition to training, banks need to provide relationship managers with the technology and information they need to enable them to be more effective as advisors for customers and business developers for the bank. Digital technology will minimize the amount of time bankers have to spend dealing with routine servicing issues.

How are smart banks changing the game in the rest of the world?

Fresh thinking is improving service for bank customers around the world.

- In Indonesia, "floating banks" are capturing new customers by travelling to island populations.
- In Poland, customers can use a smartphone app to request a "mobile ATM" — housed within an electric BMW i3 — to come to them at a specified place and time.
- In Kenya, banks are partnering with mobile network providers to assess credit risks of firsttime bank customers.
- Unencumbered by market restrictions, a bank in Brazil has expanded beyond traditional banking to offer customers concierge-type services, such as hotel booking or restaurant reservations.

Only innovation can solve the toughest banking challenges.

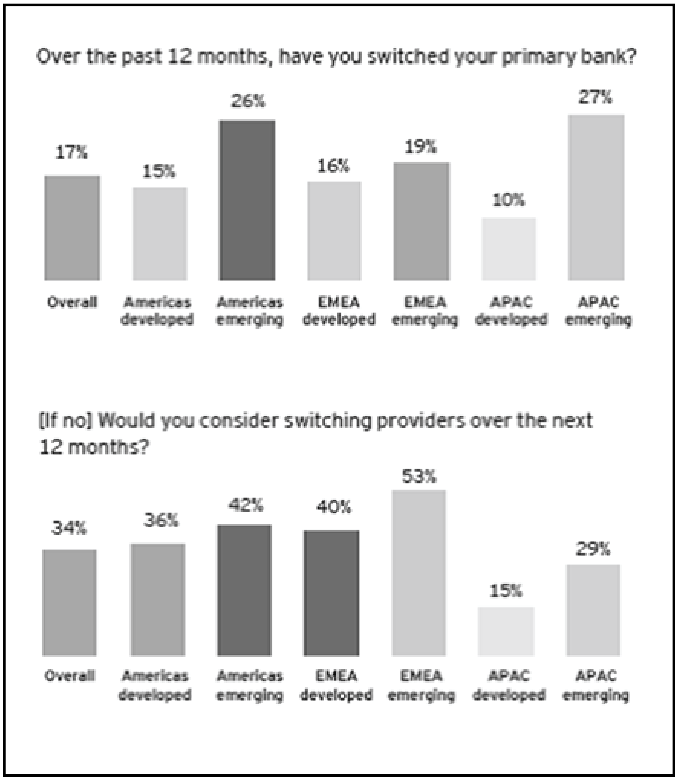
To stay ahead of the competition, banks in emerging markets need to swiftly roll out fresh strategies in five priority areas.

1. **Reinventing the customer experience** In developing regions of the world, banking customers are often younger, more dissatisfied with existing services, less loyal and more likely to be driven by price and convenience.
2. **Serving the unbanked population** Billions of people in the emerging markets have never held a banking account. Financial service providers are realizing the potential of this market with new and novel approaches.
3. **Finding and developing the best talent** Banks in rapid-growth markets need entrepreneurial and diverse skills but face increasing competition to attract and retain this talent.
4. **Leveraging agility in an underdeveloped banking ecosystem** Free of legacy processes and cultures, new banks are using their agility and tapping into emerging technologies as a springboard to success.
5. **Influencing and innovating in an emerging regulatory environment** Banks in developing markets can influence the regulatory landscape before structured supervisory guidance is introduced.

The emerging-markets banking customer

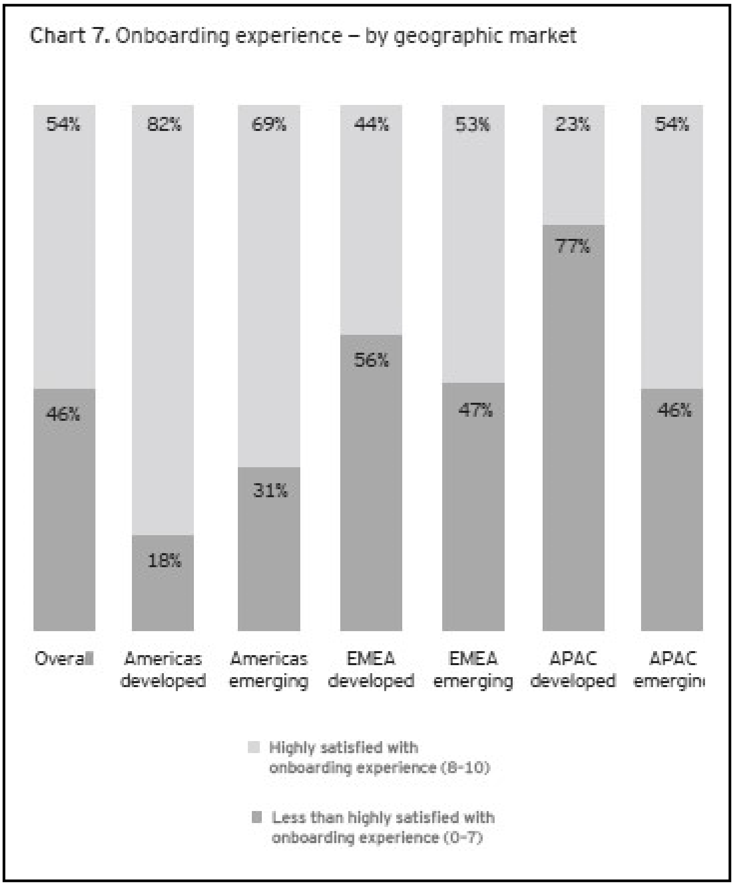
Banks in emerging markets are challenged by an increasingly evolving customer base. Millennials have come of age and account for a rising segment of the bankable population. This group has higher levels of distrust and lower levels of loyalty toward traditional banks than their Generation X predecessors. According to the EY global consumer banking survey: winning through customer experience, 55% of customers in developing markets have relationships with more than one bank.

Attracting and retaining this new generation of banking customers requires banks to reinvent the customer experience. They must match the agile, entrepreneurial spirit of their young customers with similarly crafted banking practices. Based on a survey done by Ernst & Young, the following customer behavior is worrisome for the growth of banks.



Another challenge faced by banks is to provide a pleasant on boarding experience for the demanding customers. Rigorous compliance requirements have turned many new customers' onboarding experience into a frustrating one. Four areas of improvement where banks should focus on are;

1. Improve accuracy of transition
2. Reduce paperwork and documentation
3. Improve communication
4. Reduce duration of process



How are banks improving customer service in the developing world?

Customizing currencies

A program designed to make improvements to customer experience has led to popular changes at India's IndusInd Bank. The bank allows customers to nominate the denomination of money withdrawn from ATMs and choose their own account numbers — an option that 20% of new customers are selecting.

Banking on social media

Kotak Mahindra, India's fourth-largest private sector bank, has launched Jifi, a bank account that integrates social media platforms. Customers can open a Jifi account by signing up via Facebook or email, with account updates received via a direct message to their Twitter handle and loyalty points accrued based on Facebook "likes."

Mobile money

Poland's increasingly mobile population inspired mBank to develop mobile banking functionalities based on customers' requests. Functionalities include access to key information and offers without logging in, discounts based on geolocation, and the ability to make payments by using telephone numbers and Facebook identification.

Business beyond banking

Brazil-based Banco Original's mobile concierge services for customers include assistance with restaurant reservations, car rentals and travel arrangements. The goal is to become more entrenched in customers' day-to-day lives, said one executive we spoke to: "The more times we connect, the higher the potential to form a long-term relationship with the customer, which reduces the likelihood that they will switch banks."

Fintech is changing the role and relevance of banking, everywhere

The rise of Fintech — the combination of new business models and technology that is enabling, enhancing and disrupting financial services — has helped drive banking transformation, particularly around the retail customer experience where convenience, transparency and simplicity are now universal expectations.

This marks a fundamental shift for an industry that once focused on selling products rather than serving customers.

But while banks can, and should, adopt some best practices from FinTech companies (many are already partnering with them as well), they must ensure that any initiative is aligned with overall strategy, rather than just being a knee-jerk reaction to competition.

Serving the unbanked population

Around the world, almost two billion people have never held a banking account. Realizing the potential of the unbanked requires novel approaches to meet their specific needs. As income levels rise in many developing economies, bankability and demand for financial services are also increasing.

In many developing regions, more people have mobile phones than bank accounts. Because of this phenomenon, banks are partnering with mobile network providers to deliver products and services.

Lending, financing and fundraising

Mobile money platforms are enabling microfinance, while popular crowdfunding apps have opened up both investment and donation opportunities.

Advertising where it matters

Location services and GPS tracking are a boon for advertisers, including banks wishing to promote their brands and services to relevant and targeted communities.

Finding and developing the best talent

Banks in rapid-growth markets need professionals with entrepreneurial and diverse skills but face increasing competition to attract and retain such talent.

Outstanding young talent in developing economies is highly sought-after, quick to switch jobs, and more likely to be attracted to opportunities at nimble new fintech and start-ups rather than in the staid banking sector.

A traditional bank must find ways to become an employer of choice and then continue to develop and integrate the talent that is critical to driving much-needed innovation.

Leveraging agility in an underdeveloped banking eco system

The technology platforms in many banks are jokingly described as “spaghetti” – a mess of loosely integrated legacy systems, many still requiring manual interventions for data aggregation and analytics. Unlike the neatly layered architectures of more modern digital competitors, bank systems are often cobbled together after multiple mergers, integrations, and decades of patches. While some banks have invested heavily in improving the customer interface via digital channels, few have invested in the complete, end-to-end systems and processes. Free of legacy processes and cultures, newer banks in emerging markets are using their agility as a springboard to success, taking advantage of technology to integrate new features without replacing entire systems and platforms. With the availability of more open infrastructures and data feeds, these institutions can develop new applications, harnessing the greater flexibility associated with application programming interface (API) technology, and quickly provide product customization and experience to support new and existing customers.

But realizing these benefits is not easy. Many of the most promising markets lack a mature financial services ecosystem. They are challenged by a patchy telecommunications infrastructure, limited IT vendor presence and scarcity of customer data.

These factors make it difficult for banks to effectively reach and engage customers, manage risks and improve operations and highlight the need for different approaches to banking.

The world’s fastest bank loan

Poland’s mBank may have the world’s fastest and most convenient loan in retail banking. Customers request loans online or via their mobile phone and have a response within 30 seconds.

The Quick Loan Program uses an existing platform of pre-approved loans and accesses information on customers' salaries and employment status.

The video ATM

In Kuwait, Boubyan Bank's interactive video tellers allow it to expand into new locations where full-size branches are not viable. ATM-based technology allows customers to talk to a live remote teller who controls the machine to conduct transactions, such as cash deposits, transfers between accounts and cash or check acceptance without a card.

These initiatives show how astute use of technology can overcome the limitations of underdeveloped financial ecosystems. But investment in technology should always be guided by strategy. This is even more important in resource-constrained markets.

Technology investment that delivers the most value in these environments is focused on developing low-cost ways to reach and engage customers, better evaluate credit risks and improve efficiency and effectiveness of their internal operations.

The question for emerging-markets banks is how best to develop this innovation. Should they invest internally, form collaborative partnerships, acquire, or engage a combination of all three?

Influencing and innovating in an emerging regulatory environment

In many developing economies, banking regulation is not keeping pace with the sector's rapid change, particularly in technology. Few countries have introduced consistent rules to specifically address the extraordinary rise of the fintech phenomenon.

This fluid environment presents banks with a rare opportunity. Now is the time to leverage their knowledge and influence to impact the development of regulatory guidelines. This is particularly valuable to incumbents as the threat of disruption from new players increases.

It should also help to ensure that regulators strike the right balance of protecting consumers without stifling innovation.

The biggest risk of inconsistent or "grey" regulatory guidelines is that risk-averse banks adopt a "wait-and-see" attitude. Any hesitation in pushing forward with creative new banking approaches will allow new players to gain an edge in developing economies.

Instead of waiting for clarity in the regulatory environment, banks must continue to pursue changes to their business model now. A sturdy internal framework will offer the discipline needed to manage risks while still allowing innovation to thrive.

How should the banks' leaders play their role?

A combination of cultural legacies and pressure from regulation and close supervision contributes to what some participants see as conservatism and caution in banks that can be slow to innovate. Boards may need to encourage more experimentation.

Following are ways boards can engage in the digitalization debate :

1. **Ensuring strategic discussions on digitalization get due attention.** Not all boards have fully appreciated the scale of digitalization as a core strategic issue, and therefore may not be spending enough time discussing the implications. The business strategy risk is on the board agenda but they are not properly considering the specific risks of the consequences of being a digitalized bank. The boards are not yet aware of the dramatic transformation this will bring. As boards increasingly shift away from a sometimes all-encompassing focus on risk and compliance issues, they need to focus on the future, and ensure it is safe.

2. **Keeping the board updated and informed. H**aving members with a technology background is helpful, as relying too heavily on experts may be harmful. The need for management to provide enough background so the issues can be addressed by the board as business issues is also important.

3. **Encouraging new approaches to innovation and partnerships.** Boards should be encouraging management to test, innovate, partner, and explore.

4. **Balancing innovation with safety.** The greatest innovation is simplicity. Banks can be less complex, better managed, and more resilient. But massive systems changes are not without risks. Transforming systems will be one of the largest challenges, and economically undoable in some cases.

5. **Taking a long-term investment focus.** The board has a central role to play in guiding "the timing and the investment risk you are willing to take." The board can steer "investments needed in systems and reliability," not just in new customer interface. Achieving multiple long-term strategic objectives will require massive investments.

So how will this transformation affect the future of audits of banks?

The audit of the future will bear little resemblance to the traditional audit Banks are accustomed to today. In fact, the way organizations conduct audits will change in the next 5-10 years given the evolution of technology and analytics.

Data analytics, new technology and access to detailed industry information will all combine to help auditors better understand the business, identify risks and issues and deliver additional insights. Moreover, the ability to review and analyze entire sets of data, rather than applying sampling techniques, will help bring more confidence to the audit.

Auditors who can successfully deploy techniques that incorporate data analytics into an audit will find that they are quickly being accepted as a leading practice.

Analytics will transform the accounting and audit. Auditors that successfully embed analytics into their approach will be poised to provide better perspectives, deliver richer business insights and gain a deeper understanding of transactions and areas of risk and provide Banks with a more forward-looking perspective.

The case for urgency

Banks are taking different approaches to how they make these shifts. Some are making incremental changes, while others are embracing a more radical realignment away from business as usual.

For some banks, the creative thinking comes from investment in building internal capabilities, while others are collaborating with third parties. We are also seeing examples of cross-industry incubation and technology accelerator labs where ideas can be nurtured and tested in experimental environments.

Routes to developing new ways of banking are novel and diverse but share a common goal: to bring new ideas to fruition quickly. Speed to market is critical in meeting the rapidly evolving needs of customers, defending increasing competitive pressure and managing specific challenges of banking in emerging and rapid-growth markets.