Digital transformation

The challenges and opportunities facing banks

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Contents

Executive summary

This white paper has been produced from three interactive webinars or 'think tanks' hosted by Efma and with presentations from the Oracle Financial Services Global Business Unit. The two main speakers were Aubrey Hawes, Senior Director, Digital Experience and Tushar Chitra, Senior Director, Digital Engagement. The paper also includes the thoughts and comments made by the webinar participants.

In recent years, Oracle has been observing and has been involved in the digital transformation initiatives that are taking place in the financial services sector and has seen some effective strategies being implemented by banks. However, there are still many challenges and opportunities ahead and the webinar discussions helped to highlight some of these.

The first session focused on digital disruption, including the industries it is affecting; the speed at which is happening; the time taken to adopt new technologies; and the impact on the financial services sector. It then explored the potential role of fintechs – and whether they should be considered as partners or competitors.

Finally, the webinar discussed the implications of deploying four different digital strategies as the foundation for digital transformation: launching a digital brand; digitising processes; modernising the digital experience; and launching a new digital capability.

The second think tank looked at the four 'Ps' of digital transformation – Product, People, Price and Place (i.e. experience). This session focused mainly on the first three of these, particularly in relation to digital processes. It tried to define what a digital process is and the boundaries that surround the process, and examined how it can be made more customer-centric. The delegates gave some examples of digital processes and also briefly discussed pricing issues and product manufacturing.

The final session focused on the 'Place' and looked in some depth at how the digital experience is redefining interactions between banks and their customers. It included discussions on new technologies such as digital wallets and also the importance of data.

We hope you enjoy reading this white paper and that you find it informative, stimulating and challenging. Banks need to be fully prepared for the digital future that lies ahead – but we believe that with the right strategies and the right mindset, they can turn these challenges into exciting opportunities.

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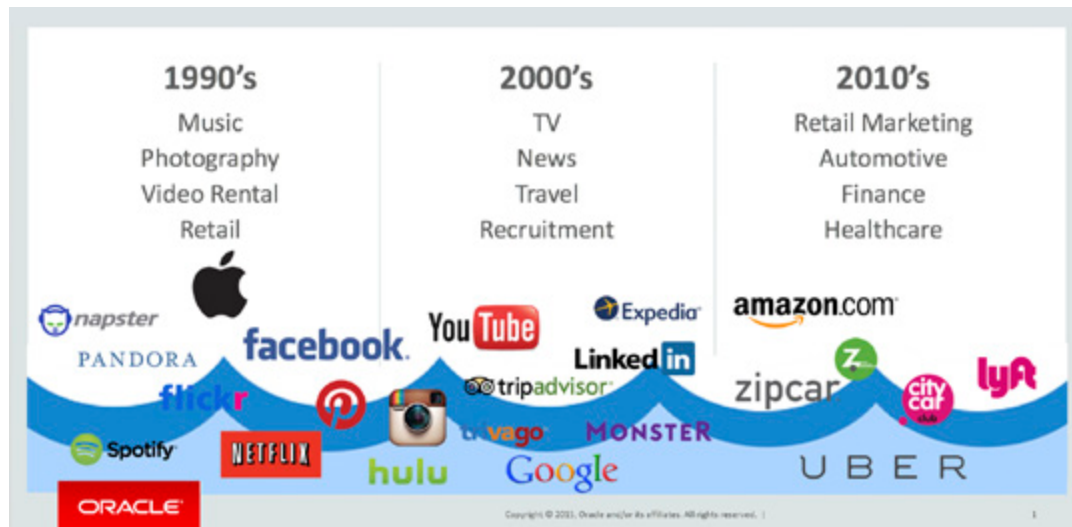
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Digital disruption

A brief history

Waves upon waves of digital disruption

Digital disruption isn't an isolated event but is something that has repeatedly happened over the last three decades, with different waves occurring across different types of industry segments. Initially, in the 1990s, sectors such as music, photography and video were all disrupted by new entrants and new players who were embracing digital technology.

In the 2000s, a new set of industries started to be disrupted by the digital revolution, such as TV, travel and recruitment. For instance, with the advent of YouTube, people started to deliver their own content. In the travel industry, people started to book their own holidays using the Internet. In recruitment, companies started to leverage social media, with tools such as online job boards.

The 2010s are now experiencing a third wave of digital disruption. Areas such as retailing – which first experienced disruption in the 1990s – are now seeing further changes. This time, one of the key drivers is the way in which customers interact with brands. Digital marketing is very different from traditional methods, due largely to the advent of social media. As a result, it has started to transform many different industries, such as the automotive sector. In this sector, people no longer tend to visit car dealers as the first stage of looking for a car: they now usually conduct all of their research online and then go to the saleroom to make the final purchase.

Finance and healthcare are the next industries that are going to change as part of this ongoing disruption.
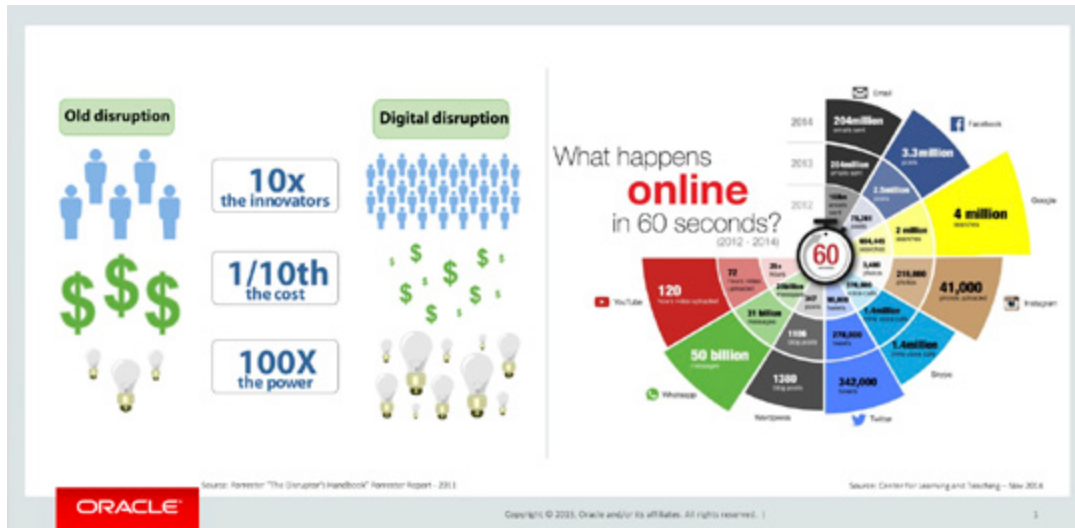
Financial impact of disruption
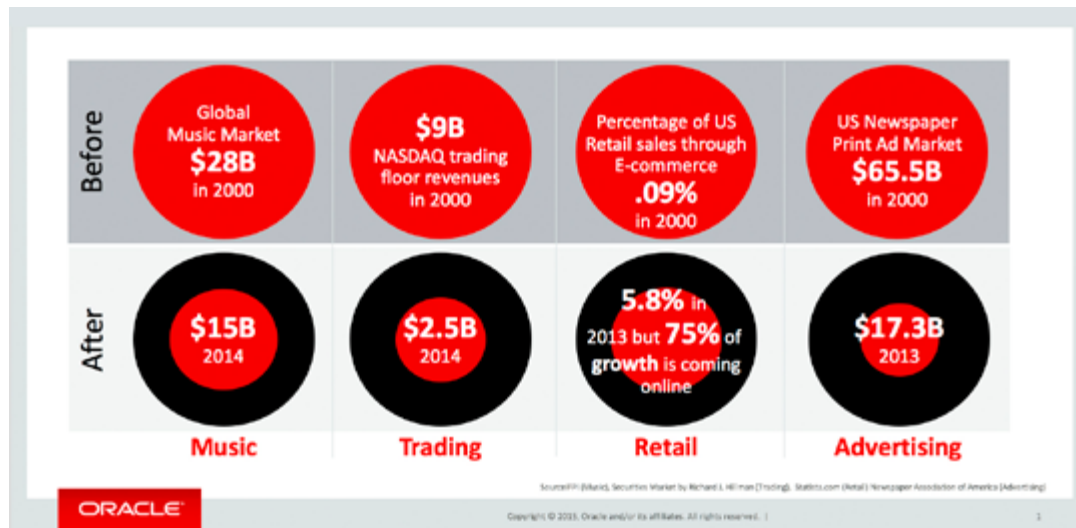
When industry sectors have been through a phase of disruption, the effects have been quite interesting. The diagram above gives examples of four different sectors that have been affected. When disruption starts to occur, it's not only the role of the established players that changes – there's also quite a large financial impact on that specific market as well.

A clear example can be seen in the music industry, where the global market now is only worth about half of its value in 2000. An even more dramatic impact has occurred with NASDAQ, which went through decimalisation, when the stock market had to convert from fractions to decimals. The trading floor revenues are now roughly a third of what they once were.

The newspaper print advert market has also been hugely affected and is about a third of what it was. If digital is added into that equation, it climbs back to a market of about $20 billion but it's still appreciably lower than before: once the market has been disrupted, it changes significantly.

The other interesting sector is retailing: e-commerce was fairly insignificant in 2000. It still isn't a large section of the market (less than 6%) but all of this growth is coming as a result of the disruption.
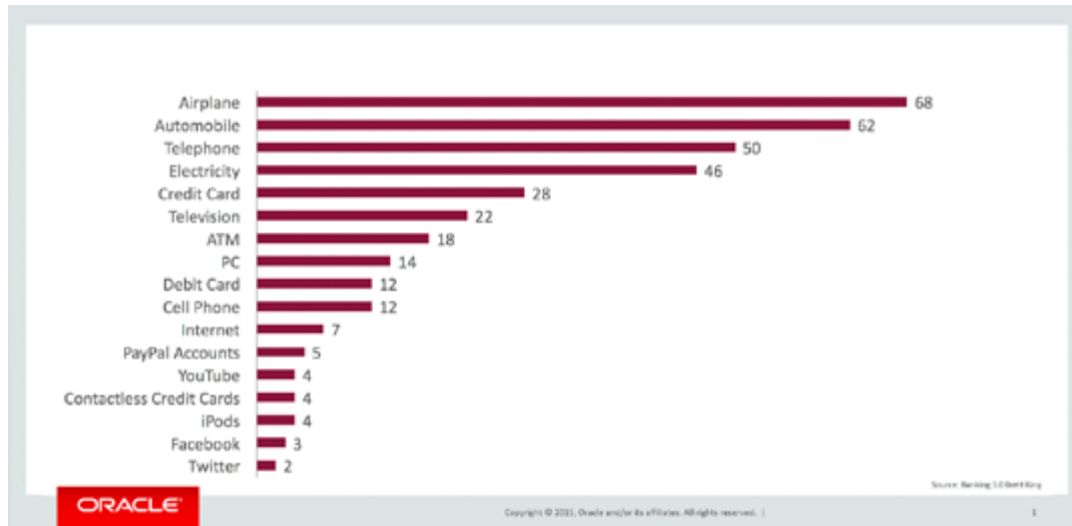
Digital is better, stronger and faster

So, different industries have been disrupted and this has had a financial impact on them. But why is disruption happening more quickly and more widely than it did 20 or 30 years ago? The graphic above from Forrester shows that in the old world of disruption, it was very expensive to go back and try and disrupt the market. As a result, very few people were doing it.

However, in today's world, with the advent of digital disruption, developments such as big data and the cloud are drastically reducing the cost associated with digital disruption, with the result that many more people are involved in it. It's therefore having a much wider impact on the market.

The consequence is a rapid pace of change. The right hand side of the graphic above shows what was happening in just one minute on the Internet between 2012 and 2014. One interesting fact is that in 2012, Instagram was still an infinitesimally small service. Even looking at just the expansive growth in mature solutions such as Google and Facebook, there has been mass adoption in the past two years.

The impact of digital disruption can be far-reaching. For instance, some years ago, Blockbuster had a chance to buy Netflix but turned it down, as it wasn't seen as a competitive threat. As a result, it missed a vital opportunity. As more industries felt the impact of digital disruption, Blockbuster's fortunes waned. It's vital, therefore, that the importance of digital disruption isn't overlooked – and the need to respond and take action is essential.

Pace of change is only getting faster

| Technology	Years
Airplane	68
Automobile	62
Telephone	50
Electricity	46
Credit Card	28
Television	22
ATM	18
PC	14
Debit Card	12
Cell Phone	12
Internet	7
PayPal Accounts	5
YouTube	4
Contactless Credit Cards	4
iPods	4
Facebook	3
Twitter	2

Source: Banking 3.0 Brett King

Indeed, the pace of change caused by digital disruption is still continuing to increase. In Brett King's book, 'Banking 3.0', he chooses a level of 50 million users as the definition of a target figure for a market. For planes and cars to reach this level took over 60 years. Credit cards took 28 years but more recently, contactless credit cards took only four years to reach 50 million users. So, the pace of change is getting much faster and the financial services industry has to adapt if banks are to succeed and survive.

The role of fintechs

State of fintech
Funding is booming: almost $14B in the last 12 months from less than $1B in Q2 2010 to $3B in Q1 2015
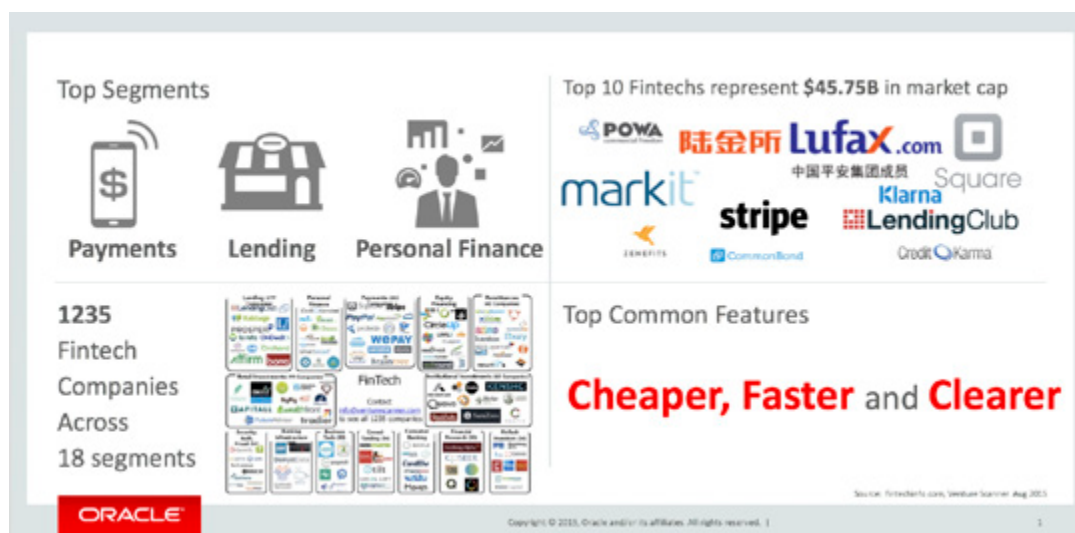
Fintech companies are currently very active at trying to disrupt the financial services market. There is a huge funding boom happening in financial services, similar to the one that happened in the 2000s, when the Internet was starting to take off and there was a lot of money chasing a lot of different ideas.

Fintechs today primarily sit across three segments of the financial services industry: payments, lending and personal finance. There are also many sub-segments within these. There are two main reasons why these are the primary segments that the fintechs are pursuing:

• They are areas with significant fees and that also have a strong push towards a digital interaction. The top ten privately funded fintechs represent almost US$50 billion in market cap.

• Meanwhile, there are over 1,200 fintechs that are being tracked by Venture Scanner across 18 different segments. Fintechs want to be able to work cheaper, faster and clearer and to provide a better transparency of what's happening. They're often trying to kill banks by going after different niches.

Partners or competitors?

As a result, some banks believe that fintechs are competitors that will ultimately take a large slice of the financial services 'cake' These banks feel that customers might prefer the solutions provided by fintechs because they are able to move more rapidly than banks can at the moment. As a result, banks could lose the customer relationship on the Internet to the fintechs.

However, in the medium term, customers will want to keep their accounts with a bank because trust is a very important issue to them. As a result, many fintechs will want to form partnerships with banks. The banks will have the advantage of greater efficiency and customer service and will therefore try to keep the best partnerships with the best fintechs. However, some banks are doubtful about investing

too much in a digital partnership because in the future, the fintechs (with less investment) will be able to do a great job and will be faster and more customer-centric.

Another perspective is that, surprisingly, much of the venture funding and seed investments for fintechs is coming from banks. Looking at, say, alternative lending, the biggest brand doesn't give out credit as a normal lender but is a broker for and a distributor of credit for banks. So, in this scenario, the fintech is perhaps more of a partner than a competitor.

Another contentious issue in this area is that there doesn't seem to be a level playing field for banks when compared with fintechs. Banks have a regulatory framework that is very different from that facing fintech companies. This tends to put the emphasis back on fintechs being competitors, because with their advanced IT capabilities along with a much less restrictive regulatory framework, they aren't really on an equal footing with banks. It's easier for the fintechs as they are leaner and don't have to produce massive contracts.

This is a difficult situation, as it means that banks are losing customers to fintechs, especially in the area of transactions. This is critical, because the real advantage for banks is that they are the sector with the most information about customers – and the existence of this information relies heavily upon transactions. If banks keep losing their customers, they won't only be losing income but also the key advantage of understanding and knowing each customer's profile.

In conversations with banks globally, Oracle has found that this idea of an uneven playing field can be seen in various parts of the world and in different formats. For example, a fintech company in Singapore is working with the government of Singapore to automate the entire documentation lifecycle around trade finance. It wants to focus just on that, and wants to partner with banks. In that framework, the moment that the regulator starts seeing some of the end customer benefits, the playing field might change fairly quickly.

Whether a fintech is seen as a competitor or partner depends upon a bank's viewpoint – and whether it is a traditional bank or a digital bank. Digital banks in Europe are probably still able to compete against fintechs, which need scale and to build trust amongst consumers – otherwise they will fail. This takes time. Banks are selling financial services, which are based on trust.

As result, there are many opportunities for partnering. The fintech companies have the advantage in terms of speed, agility, and the capacity to understand and quickly build a very good user experience. However, they don't have the legacies that banks have and they have a completely different mindset – and with the lack of scale and trust, it's not as easy as it might seem for fintechs to move forward without banks.

Another reason for this is that a key differentiator between banks and fintechs is that banks already have a banking licence. Some fintechs won't be strong enough to build enough scale if they don't have a licence. They need scale to become profitable, otherwise they won't have a future in five years' time.

However, the two worlds might gradually converge. Some fintechs will obtain a banking licence; others will partner with larger banks or perhaps later will be acquired by larger financial institutions; others will stay in the middle. Everything is evolving.

Four key digital strategies

Oracle has witnessed several different approaches that banks have been using to help to drive a digital strategy as well as to react and deal with some of the fintech companies.

What digital strategies does Oracle see in play?

The above diagram shows four of the different strategies that Oracle has noticed. All four of these areas represent effective strategies that allow banks to go back and deliver new digital capabilities.

- *Launching a digital brand.* The first of these strategies involves launching a digital brand. Many different banks have done this across a lot of different markets. Examples include Fidor Bank in Germany, UBank in Australia and mBank in Poland. All three of these banks have tried to tackle the issue of how to make it much easier to onboard a customer. They've also competed on price because as digital-only players, they can become more aggressive in this area, as they have much lower costs than traditional banks. As a result, they have enjoyed a fairly broad-based adoption.

- *Digitising processes.* The second strategy involves banks that are seeking to deploy new digital processes. This is another key area in which banks can compete from a digital perspective. They need a set of processes that are aligned with digital interactions so that they can compete successfully, based on the expectations that have been set by all of the other digital brands. The key processes include customer on-boarding, originations and relationship pricing.

- *Modernising the digital experience.* The third strategy involves modernising the digital experience. The digital experience of many financial services companies tend to be rather dated. This doesn't really reflect what is happening with other digital brands, such as HTML5, responsive design, the ability to go back and support mobile devices, the Internet of Things, or even open API services. There are many interesting examples where banks are deploying new technologies and modernising their experience.

- *Launching a new digital capability.* For the final strategy, banks are looking at the possibility of delivering a new capability. However, they don't want to deliver this as part of their own Internet banking but rather as something completely new: as an add-on (e.g. mobile wallets).

Although these are the four main strategies that are currently being used, there could also be another area that is sometimes overlooked. This involves digitising the physical presence of the bank. Direct contact with customers is a big advantage for banks. However, there is currently a large discrepancy between the capabilities existing in the branches and those existing in digital channels. Perhaps more attention needs to be paid to the digitisation of the branch and how it participates in the overall digital experience.

For example, there might be an online application environment in which the application can't be closed online. This particularly applies, for example, in Central and Eastern Europe. For instance, a customer might use his mobile to conduct some research and might then go online and make some comparisons. He might choose a bank and go into the branch. This is a very analogue-based process. There's a wide experience gap between the digital channel and the branch and this gap needs to be filled.

It's worth taking a closer look at each of the four main strategies, including some examples of how banks are approaching them:

1) Launching a digital brand

The development of a digital brand involves two approaches. The first looks at how a bank can position the new brand differently from its existing brand. The second seeks to develop a set of digital processes that enable the bank to compete differently with this new digital brand.

Many banks also tend to use a digital brand as a way of seeing how they could try new operations and processes that differ from those in their mainline brand, and to see how they could position themselves differently. To go to market differently, they need a set of digital processes so that their operations can be frictionless, and to make it easy to acquire customers in an online channel.

Another important element of the digital experience is capability and how a bank might want to adapt and deliver different experiences to different personas, or to drive a different experience

based on a different brand that they have launched in the market. It's important to consider how this capability can be re-used so that the bank doesn't have to go back and keep recreating many different capabilities for each of the different personas that it wants to pursue.

So, how can a bank become effective at delivering the same capability to different people? An example of how this has been put into practice comes from Suncorp Bank, which is using Oracle Banking Digital Experience to help it to develop its digital experience. The bank has three brands: the main one, which handles personal loans; Shannons, an auto-enthusiast insurance brand which is looking at cross selling loans; and AAMI, which targets different customer segments. The bank is looking at how it can re-use its capability so that it can drive the right experience to different customers without having to develop new capabilities across all of the different brands.

As a bank seeks to create digital experiences for its customers, how does this tie in with its brand strategy or with the different customer segments and personas? Are banks trying to drive different digital experiences based on the different brands with their different brand promises, so that they can go back and see what experience they want to deliver from the different brands? For instance, one brand might be more digitally orientated, whereas another might be geared towards a different customer segment.

Other industries are already launching different brands that are going after different customer segments, with different brand promises. Perhaps banks need to follow their example.

2) Digitising processes

Even if a bank doesn't want to develop a digital brand, it still needs to remain competitive in today's digital world. This means developing a set of digital processes. For instance, to originate an account, a bank needs to move beyond just an attractive web page on which people have to input their details, which are then printed off in the back office, with paper being moved around through various stages.

Instead, the whole process needs to be digitised so that the bank can track it through the different parts of the origination process. For example, if someone orders a Domino's pizza in the US, it can be tracked from the pizza shop through to the delivery to the customer's home (and the customer can order it and track its progress via his smartphone). However, in most banks, it's not even very easy to track a mortgage through the loans process, as this process hasn't been digitised properly.

So, what is a digital process and how can it be differentiated from traditional banking processes? Firstly, there's an aspect of the process that is customer-facing and another aspect that is enterprise user-facing. However, there are various other elements to a digital process that make it unique.

For example, one southern European bank has recently launched a new digital account opening process. This uses hardware such as mobiles and tablets to help the relationship managers during the process. As a result, it's become a leaner, cleaner process for the customer, showing that digital can really enhance the customer experience.

Rather than having endless documents, a digital approach can be paperless, with other methods being used to validate information rather than having to keep asking customers for extra documentation. It's quicker, it's easier and it's a more natural approach. So, a digital process might mean using today's capabilities to simplify the relationship manager's life whilst also giving the customer what he needs. If he is seeking to carry out a simple operation, such as opening an account, he doesn't then want to be asked to produce more and more papers.

Banks therefore need to align themselves with current technology and concepts. Customers are already very spoilt by the experience that they receive from sites such as Facebook and airbnb. As a result, their expectations have increased. If they visit a bank branch and have an experience in which they are presented with a lot of paper documents (especially on the first point of entry), they are likely to regard this as a very last-century experience.

One of the first elements that banks need to change is the processes that are used at the first point of contact with the customer. For instance, a bank can try to introduce a digital experience to personal banking customers, perhaps by using special tablets with an application tool for customer profiling. This will enable them to understand the portfolio better and to use this to create a different kind of connection between the relationship manager and the customer. Another option is to buy data from a specialist organisation (e.g. Blu Kai) and use this to enrich the customer profile still further.

A lot of work is needed in this area: perhaps the most challenging aspect being the balance between the customer-facing and the enterprise user-facing elements. Banks usually start from the customer-facing element, as this is where the return on investment is higher. However, both types of need have to be carefully balanced.
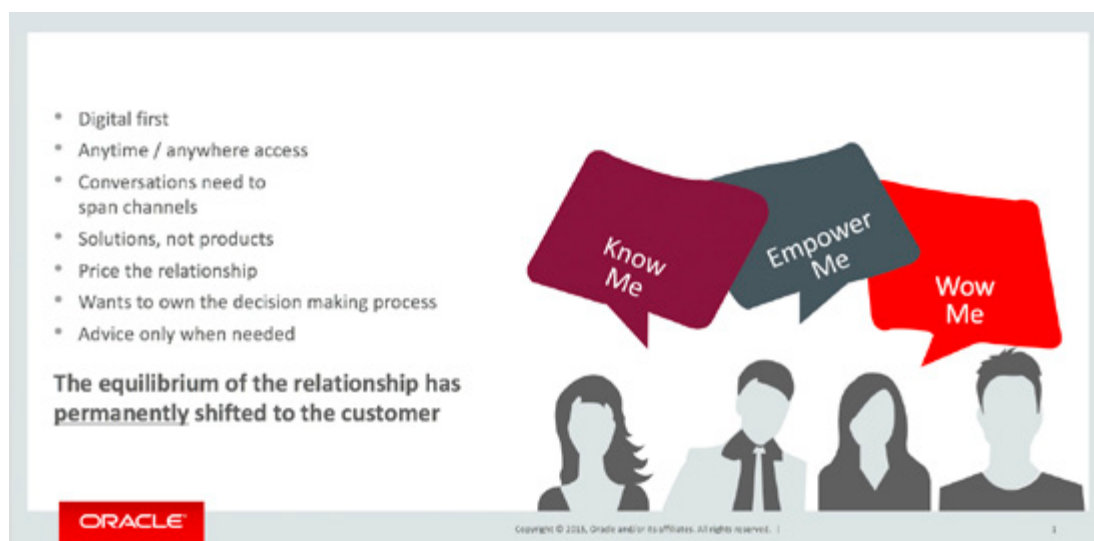
One of the first steps taken by enterprises embarking on digital transformation is often to change the customer-facing layer: aspects such as the CRM and the back-office operational processes might not change much initially. A bank might focus more on developing elements such as a new graphical user interface, taking all the data from the customer and presenting those data in a different form

To make a process more customer-centric, it has to be redesigned so that there isn't a bottleneck when the customer uses the interface. This probably applies not only to operations but also to the commercial process, where a lot of redesign might be needed. Ultimately, rather than the relationship manager leading the process with information that isn't available to the customer,

there should be a process in which the customer has at least the same information as the relationship manager.

Examples of digital processes

Some of the key processes that banks have been seeking to digitise include the customer acquisition and origination process. They can gain huge transparency by originating an account online. For example, Oracle has worked with National Australia Bank, which has reduced the process for a simple mortgage from six weeks to six days. There will also be a tracker so that the customers are given the transparency to see which stage their mortgage has reached.

Other examples of digitised processes include remote deposit cheque capture in the US, relationship pricing and even robo-advisors. There are many interesting areas that banks can explore for digitising processes that will enable them to be more effective in the digital ecosystem. One interesting aspect is when a customer is walking by a shop that he likes and enters it and starts to talk about something he wants to buy. These conversations can be a continuum of the digital process.

In relation to processes, one area in which a few banks have carried out some highly innovative work relates to sources of information. For instance, a bank in Australia was looking at its account opening processes and one of the critical factors it highlighted was the need to authenticate the customer's address and identity. The bank realised that the national passport service actually makes the entire passport database available to other organisations as a web service. It was therefore able to access this web service and use it for Know Your Own Customer (KYOC) checks as one of the authentication factors that it was able to use.

This approach reduced the need to obtain a physical copy of proof of identity (i.e. the need for the customer to hand over their passport to the bank). As long as the customer could give the bank their passport ID, the bank was able to call the web service and obtain the relevant data. It could then authenticate the validity of the passport ID and of the customer's name and could confirm that their address was correct.

In South Africa, two large banks have started a digital national ID programme that helps to facilitate the whole KYOC process. Once customers have obtained their digital ID, this automatically produces a KYOC authentication that enables digital account opening and other similar activities.

Meanwhile, in Southern Europe, a bank has been leveraging the use of the national ID programme, which is contained on a chip. By reading this, the bank can obtain information about the customer's name, address, social security number etc. This underlines the fact that there are ways of gathering information without having to ask the customer for so many different documents and validations. The bank is able to leverage a structure that has been developed by government for the national identity scheme. Several banks now use this information in order to develop leaner processes, such as for opening accounts.

It's important to remember that sources of information aren't only external – the sources that exist within the enterprise can also be very useful. For instance, someone was applying for a home loan recently and while their application was still active, they received another call from the same bank with which their application was under way, asking them if they were interested in a home loan.

This is just a small example of how new sources of information can be applied. The bank knew the customer's phone number, they knew who he was, and they knew that he had an active application. This highlights the fact that there can be very strong internal sources of information, both within a department and perhaps outside it. Loan customers are also current account and savings account

customers; corporate employees might also be retail customers that are account holders. These sources aren't yet being fully tapped by financial institutions.

Processes and competition

Banks are facing competition from many different areas, including non-traditional players. These players don't necessarily follow the rules that banks have been following over the years. They do things differently. For instance, telcos might onboard the customer first and then start applying rate plans.

Similarly, many fintechs are creating new business processes. When banks start on the road to digital transformation, their first efforts might involve trying to develop the right customer experience; and a 'sexy' user interface. They then need to compete with fintechs and other non-traditional players. But how can they do this effectively from a process perspective?

One of the key problems facing many banks is that all of their processes were designed in the past, at a time when they had a strong and thriving branch network. The processes therefore tended to end in the branch, with an employee taking care of the necessary documents or perhaps explaining to the customer which details needed to be filled in.

This has created a major hurdle: when banks want to switch to a digital approach, they have to re-think their processes to avoid the need for any intervention from an employee. Some of the new entrants in the market are much more experienced in this area because they don't have the same legacy as the banks – and this is one of the main reasons why it's so difficult for a more traditional bank to simplify all of its operations.

Furthermore, in a traditional bank, the different processes aren't always aligned across the different silos, which makes life more complicated. With an analogue approach, this hurdle isn't a major problem, as the bank's personnel are used to it. However, once the bank wants to avoid the need for the customer to fill in the same data numerous times, everything can become much more difficult if the processes are organised into silos, which is the case in most banks. This therefore becomes a very important second hurdle to digital transformation.

Another important issue that arises when changing to digital is that involves the use of a lot of data and various algorithms. At this stage, particularly in Europe, banks can be thwarted by local regulations relating to privacy and data protection. This is a further reason why it's difficult to transform the digital processes – because at some point they will hit the barrier formed by local rules. This is complicated still further because every country has different rules.

Local regulations play a very important role in digitising processes. Unless there is a central repository of authentic information, the 'last mile' of connectivity into full digitisation is likely to remain incomplete. So, there can still be problems in terms of the geographical restraints of the market.

The Four 'Ps' of digitisation

Any bank that is thinking about a digital process is also thinking about a digital enterprise. The development of a digital enterprise is based around the four 'Ps' – Product, Price, People and Place. The first three of these are directly related to the digitisation of processes.

Product

What type of products should banks have and where will they reside – will they be within the product process or outside? What will be the types of changes banks are likely to start seeing in their products as they think about digital processes?

As you build out the digital enterprise what is the systemic impact?
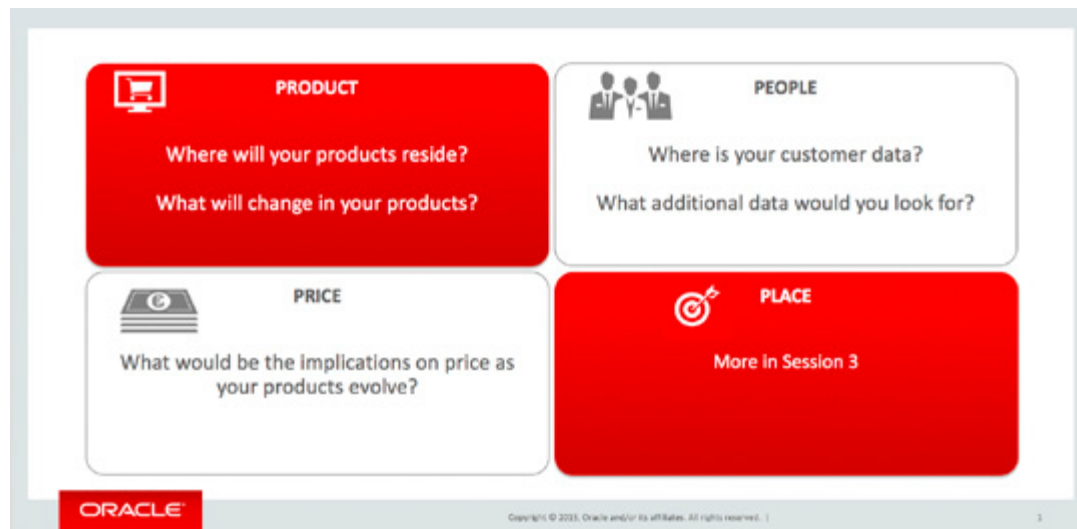
When looking at the classical way in which a traditional bank operates, the silos are effectively the product – they act as a product processor, and are subject to various types of business rules. But that is all likely to change in the future. In years to come, will banks be offering single products or will they be offering a specially tailored bundle to the end customer?

Unlike many other items, banking products aren't something that customers can touch and feel – they are really virtual goods or different services. Banks have to be able to differentiate their products – this is particularly important when talking about a service or virtual goods. But how can this be achieved most effectively? Should they start by trying to differentiate them by price?

Price

Once products are no longer stagnant piece but are dynamic, how should this affect their price? Pricing might be another interesting digital service – instead of pricing its products individually on a product processor, perhaps banks should start to change their approach and price them based on the value of the total customer relationship. When providing a relationship price, banks can use this to deepen customer loyalty by providing transparency on pricing data and the value of the total relationship.

A view held by some banks is that pricing is becoming less and less important compared with elements such as convenience, speed, security and the user experience. These are the type of factors that can help to create a unique 'feel' and a great interface for the customer – and they are also elements that are being increasingly demanded by the new generation of banking customers. This is where the main direction and focus could lie over the next few years.

People

This is an area that tends to be very overlooked by banks at the moment. Financial institutions talk a lot about digitisation, new technologies and new processes but they aren't really looking closely at their own people in order to equip them to deal with these new technologies and processes.

Although this aspect is very important, in many organisations it isn't taken into account. Financial institutions somehow expect that people who have been working in the bank for possibly 10 or 20 years could automatically become experts in the new technologies and in developing the processes. In reality, banks need to ensure that they are equipping their personnel with the right set of skills.

The type of change management that is applied during digital transformation therefore needs to be carefully thought through beforehand. For example, one bank recently held an internal seminar on the subject of going digital. It tried to transfer digital skills to the whole of the branch network, because it realised that there was a lack of understanding of some of the new technologies and ideas – especially in relation to the social media and how these work.

It's important that all of a bank's employees are kept in touch with the new developments in the digital space. It can be particularly difficult to change the habits and views of long-established employees who might be over 40 years old but could still be working in the bank in 20 or 25 years' time. They aren't always acquainted with the new technologies and often lack the professional skills required – and enabling them to develop these skills can become a major issue. Ultimately, it can be as large a challenge as changing the processes.

3) Modernising the digital experience

Place

The fourth 'P' is Place (which can be physical or virtual) – which refers to the digital experience. In the financial sector, any enterprise will involve a wide array of elements, such as data, the processes, and other components. However, with the new digital wave, there are two new layers of banking in the centre of all of this.

The first is the type of experience that the bank provides for its customers and how this is enabled. This is the digital experience phase. The other aspect is the engagement of customers

Oracle Banking Reference Model
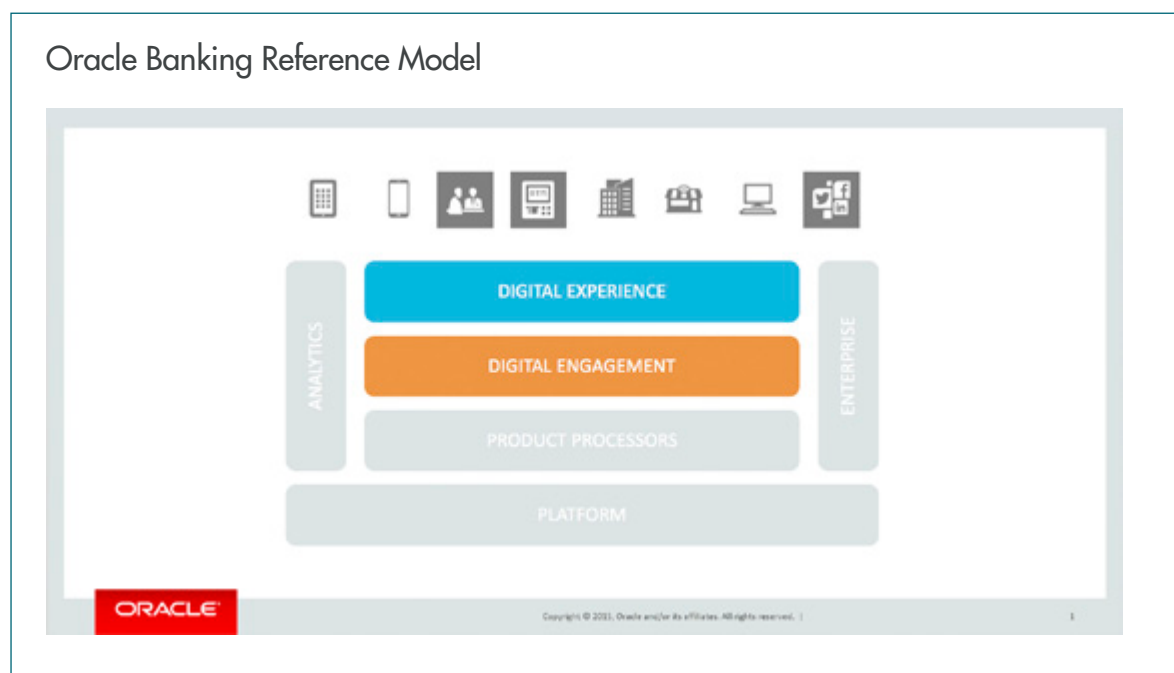
with the bank – the digital engagement. Banks need to have the right tools so that they can make the experience much richer.

Many banks haven't really modernised their experience. Typically, they might have modernised their pre-login page but once the customer logs in, it's still very old-looking and non-responsive – and doesn't behave the same on a tablet as it does on the smartphone or an Internet banking site. It doesn't really allow banks to re-use capabilities in the branch and online.

They also don't think about starting those interactions where the customer is (i.e. the place). For example, if the customer is shopping for a car online, it's about using that data in the offer process. Or he might be browsing online, looking at a property site, as he's thinking of buying a house. Again, it's about using that information in the shopping process so that the bank can start to embed some of the thought processes that a lot of retailers are following in the shopping experience, relating to product recommendations etc.

For instance, if someone is looking at a lot of pre-natal services online and carrying out research on Amazon, they'll probably receive an offer for nappies or baby clothes, because Amazon will assume that the customer is expecting a new baby. But banks are often failing to capitalise on the opportunities in this area. If a customer is looking at a car website or online property website because they are thinking about buying a car or home, the bank should proactively give them offers such as auto financing or mortgages. It's a case of using all of the information they already know about the customer or that they could learn new details based on their browsing history – and so that they can then provide much smarter interactions.

Customer information is one of the greatest assets available to a bank. Banks are one of the few organisations that can understand how much money customer has; what their true value is; and where and how they are conducting their transactions. For example, one bank is categorising the different transactions by type, by place, by geography, and by the type of costs that the customer has.

When the bank has been able to use this information in predictive models or on CRM models, it has found that it can double the success of the model if it can obtain not only statistical data but also events data. For instance, if the bank knows that a customer is preparing to go on a journey somewhere, it is two or three times more likely to be able to persuade him to have a credit card than at other times. The bank believes that capturing and then using data from customer transactions and events is one of the most important changes that it is trying to expedite.

A problem that arises in relation to the gathering and use of customer information again relates to regulations. An interesting factor in the European marketplace is that it has a much more aggressive stance on privacy than many other global markets. This means that banks need to determine how they can use information smartly whilst ensuring that they don't violate the customer's confidence and privacy.

However, some of the information carried on sites such as Facebook is open to the public, and it could prove to be very useful to the bank (preferably with the customer's consent). One possible idea would be to use Facebook as a way of building a smaller ecosystem that enables the bank to push out and try different ideas relating to its products.

An interesting example of how this might happen comes from an African bank, which is thinking about integrating the Facebook profile ID of its customers with other information. This will help to give the bank a clearer idea of each individual customer, their peers and their needs. This could potentially become a better tool for segmenting customers, rather than using income and other

traditional parameters. By knowing the Facebook IDs, the bank could even find potential new clients by approaching the customer's friends. For instance, if the customer is building a house or his friend is buying a new home, it could be an opportune time for the bank to approach the customer or his friend to see if they need a home loan.

Some of Oracle's research has indicated that the use of information from social networks could be especially successful with younger customers – the so-called 'millennials', who were born after 1990. The likelihood that they will provide more data in return for a better service is 60% higher than for pre-millenials.

As mentioned previously, one of the main problems of this approach comes from recent developments within the EU, where the regulators have been forming some fairly stringent views on what data can be shared and where the data should reside. It depends on the country involved – if the regulations within the bank's country permits this type of approach, it could prove to be very useful.

Another important factor is how aware the customers are of how their data might be used. Taking Facebook as an example, this has fixed its general privacy setting at a very low level. Unless its users are very aware and have read the thousands of words in the privacy clause, they often won't know that their data is going to be used by third parties. So there is also an ethical question of how and where the customer data will be used.

Yet a third consideration is the competitive environment: how many other banks are already doing this within the bank's marketplace. If the bank ignores what others are doing, it risks being adversely affected by the competition.
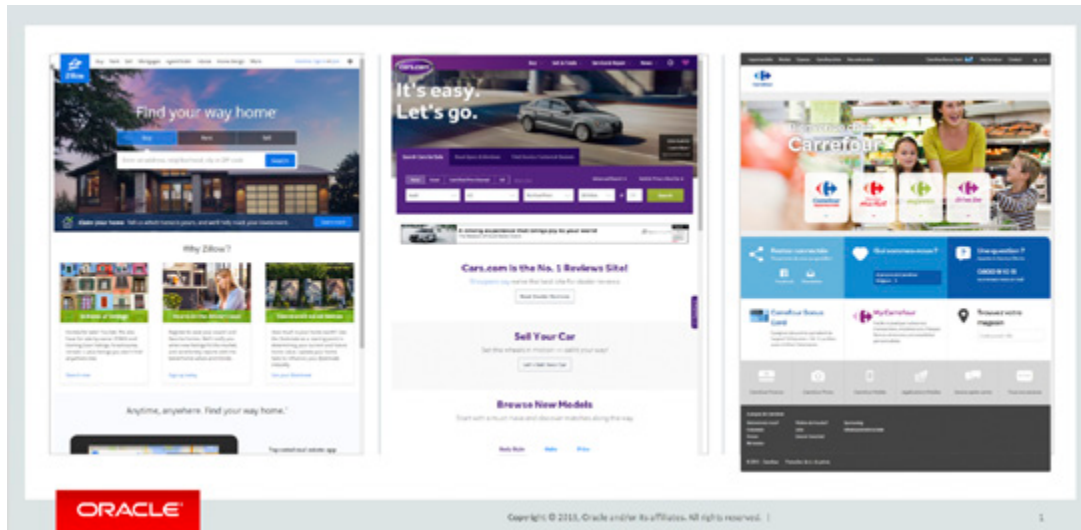
Digital channels

The digital experience brings change, with customers starting to make digital interactions. As part of the digital transformation process, banks should be starting to think about what digital channels their customers use. In what types of either physical or virtual places should banks seek to engage with customers? Should these engagements always be on a bank-owned channel, and if not, how can banks help to facilitate and start those interactions where the customer is?

For instance, a Southern European bank is increasingly looking at where its customers are going digital. Over the last year, it has had numerous campaigns through social networks such as LinkedIn and has had some very good results, especially when targeting affluent customers. This is because the bank can specifically target customers in some similar types of professions. It is also seeing very good click rates from its mobile campaigns – much better than from its desktop campaigns. This trend has also been highlighted by different companies that specialise in analysis: they are seeing a huge move towards mobile.

With the new type of customer journey, a wider range of channels has increased the bank's ability to be closer to its customers. However, this change has also been a big challenge and hasn't been completed yet. The bank is testing some of the points on the customer journey. For instance, it's difficult for the bank to develop a strategy on social media, as there are several different types of policy, communication and compliance that have restricted it from developing a strategy for all of the points on the customer journey.

Another example is a Nordic bank that has achieved some good results relating to the customer journey in the mortgage area. In many countries, there is a huge marketplace for new houses and apartments etc. The bank has seen a difference from its ability to be present when a customer is eager to purchase a house or apartment, and by making it easy for the customer to contact the bank rapidly for help.

What are your customer's digital channels?

In terms of digital channels, it's also worth looking at a few different websites. The first one is zillow. com, a real estate website in the US. On this site, the customer can view a real estate and see how much properties cost and which are available for sale. They can then start the buying process if they are seeking to buy a new home or to relocate.

Another example is cars.com, a site which enables customers to review and research different cars so that they can find the one that most closely suits their specific requirements. The third website is from Carrefour, which is a large retailer based in France.

All of these sites are effectively 'channels' where a customer might start some type of digital interaction. It might result in a degree of physical interaction and might sometimes also result in a need for a financial service. A bank needs to know its customers' digital channels and how it can gain more insights into their activities so that it can start to facilitate an interaction relating to financial services.

In addition to websites, there are various other digital channels that customers are likely to use – including mobile, social, location and gaming services. Most customers of a bank are likely to be present on at least one type of social network. Mobile is also becoming very important, and banks must be able to deliver various capabilities across this channel, including transaction banking.

A fairly recent trend is the growth in location-based services, which enable banks to know where the customer is so that they can deliver some specific services to him, based on their knowledge of that location. This is a strategy that banks can adopt in partnership with the telcos that are already working in this area. Finally, gaming is also now a very popular use of mobile devices.

The customer journey
One of the challenges that arise when developing a digital experience is whether or not the customer's journey should be something new and different.

Should your customer's journey be like this….
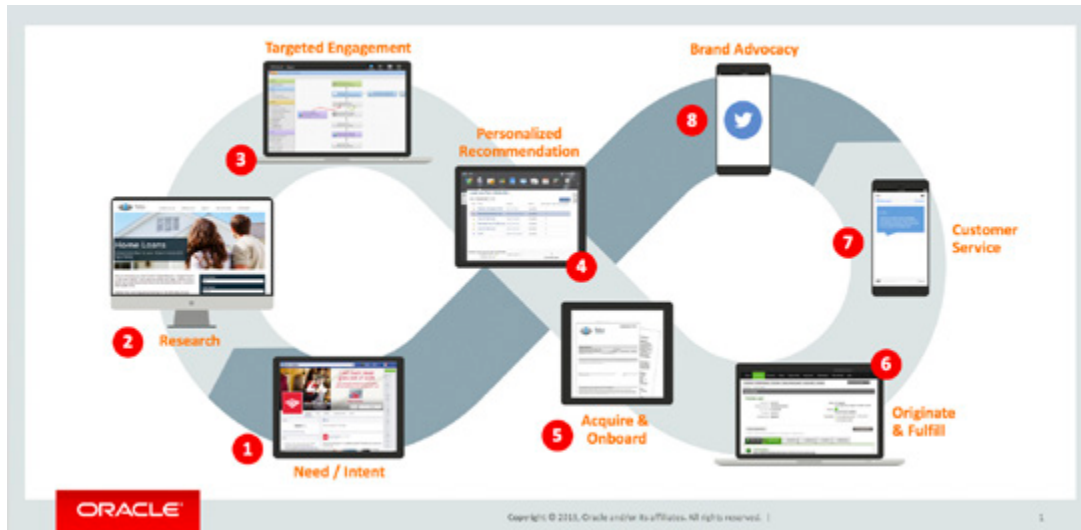
From its association with a wide range of financial institutions, Oracle has noticed that the customer's journey is starting to change in two different stages. Firstly, customers are now driving a need for different services or goods. Increasingly, they are starting to use their social networks to gain recommendations from their friends and peers if they need a service such as a loan or a mortgage. Secondly, they're starting to carry out more research of their own. Most people won't just buy goods without first doing some level of research and due diligence.

In response to these two new stages of the customer journey, financial institutions are able to go back and drive some of that targeted engagement and offer personal recommendations based on what they have seen. They can then ultimately drive that customer through an acquisition and onboarding process in order to originate an account. Once the bank has fulfilled that, it can drive its service and hopefully convert the customer into a brand advocate so that the whole infinity loop can continue.

This is a very different approach from that taken by banks just 20 years ago. In those days, the experience and the customer journey were all based on personal relationships and adverts in newspapers and other media. The whole model has now shifted so that everything is based around how the customers want to acquire, buy and carry out research.

Another important stage of the customer journey is targeted engagement. Banks need to be engaging with their existing or potential customers prior to them visiting the branch or one of the bank's digital channels. For instance, this might involve engaging proactively and seamlessly with them across different channels.

One key area in which Oracle is closely involved is the use of the marketing cloud to target prospective clients and to engage existing customers. The cloud is used to personalise every experience to increase engagement, advocacy and revenues using cross-channel, content, and social cloud solutions with integrated data management and activation. So, this could entail personalising communications and delivering needs-based recommendations of solutions for them or helping the customer with financial planning.

Engagement can also be achieved by cross-channel marketing, social network marketing, or by providing convenient and secure mobile banking services. It's also about the bank knowing the customer well enough so that they can be proactive in different areas – for instance, knowing their browsing history so that it can start to make targeted, relevant offers.

For instance, in the US, if a customer looks at a product online and puts it in their shopping trolley but doesn't check out and then goes to other websites, he will receive adverts that will follow him around and he might also get an email that reminds him that he still has a product in his shopping cart and hasn't yet checked out. This level of engagement helps to enhance the entire digital experience.

4) Launching a new digital capability

This strategy involves banks deploying a new capability that they don't currently have.

Banks need to start developing new, innovative digital apps that they can deliver to their customers. These might include services that they can charge for or others that enable them to acquire more customers so that they are delivering more capability. One example of this is the Pingit service developed by Barclays Bank. This is a person-to-person payment service that didn't just target Barclays customers when it was launched, but all customers in the UK. It was something that had a broad-based adoption and could also be replicated in several other markets.

Other ways of delivering a new capability might involve financial inclusion or delivering a mobile wallet. One interesting example is a bank in Taiwan that combined table reservations with reviews as part of a new app that it launched on the market. It, too, received broad-based adoption and as a result of this, the bank supported payments for the meal at the restaurant.

In terms of the evolution of digital capabilities, banks perhaps need to start considering elements such as the use of virtual reality and the Internet of Things. How might these be included in a banking environment? These new technologies are gradually becoming a part of everyone's lives (e.g. the growing popularity of FitBit). There's a need to find the right balance between these future capabilities. Banks already have a significant advantage in terms of their relationship with the customer and owning the customer's trust. Most of this currently comes from having a physical presence.

So, how will new capabilities evolve in the future? How can banks employ ideas such as virtual reality, FitBit or the Internet of Things? All of these new technologies are going to become an integral part of people's lives in the future.

Some banks feel that virtual reality is a step too far. They believe that there might be some opportunities for augmented reality but that this is really a long shot and might not happen for at least four or five years. In relation to a physical presence, some banks are starting to use their branches as service stations: they are trying to use their physical distribution as an asset. They have found that this concept is working very well.

One view is that branches will gradually become more and more focused on three issues: branding, customer service and advisory functions (advising customers on their savings, investments and finances etc.). There will be very few transactions taking place in the future branch.

In this new scenario, when a customer visits a branch, the bank's personnel should be very focused on advisory purposes rather than transactions. This is achieved by the use of technologies – for example, fully-fledged ATMs right through to cordless ATMs, where customers conduct most of the transactions they would normally carry out at the branch, including cheque capture.

The service station concept can be even more efficient if the customers can sit and talk to remote advisors and can open a bank account with them. They don't need people in the branch to open a bank account: they can do it by themselves with the remote operator. If they have other problems, they can discuss these with the advisor.

In banks that have started adopting this approach, most consumers are accepting the idea and are happy to go to the ATMs and do everything by themselves – including talking to a remote advisor when they need assistance. This is all possible with the digital transformation of the branch.

Another approach is to change the format and layout of the branches, as well as the service model. One strategy involves an 'open' service model, in which the physical space is open and employees sit alongside their customers – and there is perhaps someone in the role of Customer Manager, who helps customers to use the bank's digital tools. This is a further way of improving the digital experience.

Overall, the best approach might be to have an holistic perspective: working on digitising the processes and modernising the digital experience. This represents a huge investment for banks. They therefore need to choose those investments areas that are most important to them. Relatively new solutions such as wearables and biometrics are more orientated towards the payments arena, where some banks feel that they have perhaps already lost the war.

Ultimately, customers need more help with their personal finance and they expect more assistance from their banks in terms of managing their money. Banks perhaps need to develop a 'sniper' strategy, with a more focused investment in the personal finance area, because they can't afford to invest in all of the new technologies.

Returning to virtual reality, one challenge with this would be the need to try and monetise the experience, which hasn't really been achieved within the financial services arena. With the Internet of Things, perhaps banks could help people to understand their events better and help them to see how much money they are saving, perhaps also using virtual reality and some wearables to leverage the experience and to make it more fun.

Digital wallets

Another new digital capability might be a digital wallet app for banks who are determined not to let Apple and Google remain unchallenged in this marketplace. One interesting aspect for banks to consider is what is happening with their customers' wallets. In the digital space, there is still the traditional notion of a wallet. There is also a move towards contactless payments, whether that involves using the virtual wallet or the smartphone. Banks are also looking at using location-based offers to help to drive the customer experience. Smartphones are now becoming a key place where customers can look at their wallet, see their balance, pay money out and in and receive alerts and offers.

Digital wallets are therefore an emerging space that is enjoying a considerable amount of investment from many different people. But in reality, is a digital wallet even required? If so, is it something that banks should be offering or is it something that should come from the phone providers? And if it is an offering that banks should be providing, what levels of capability should be included in this wallet space?

Although a wallet can potentially lead to growth for a bank, it can be very difficult to match the customers' expectations in terms of compliance, security and privacy. One way this is being handled in Portugal is that the vast majority of banks in the country have joined together to launch a co-operative acquiring system, which has recently launched its own wallet. The co-operative has also previously introduced new ATMs and payment systems into Portugal.

Where is your customer's wallet going?
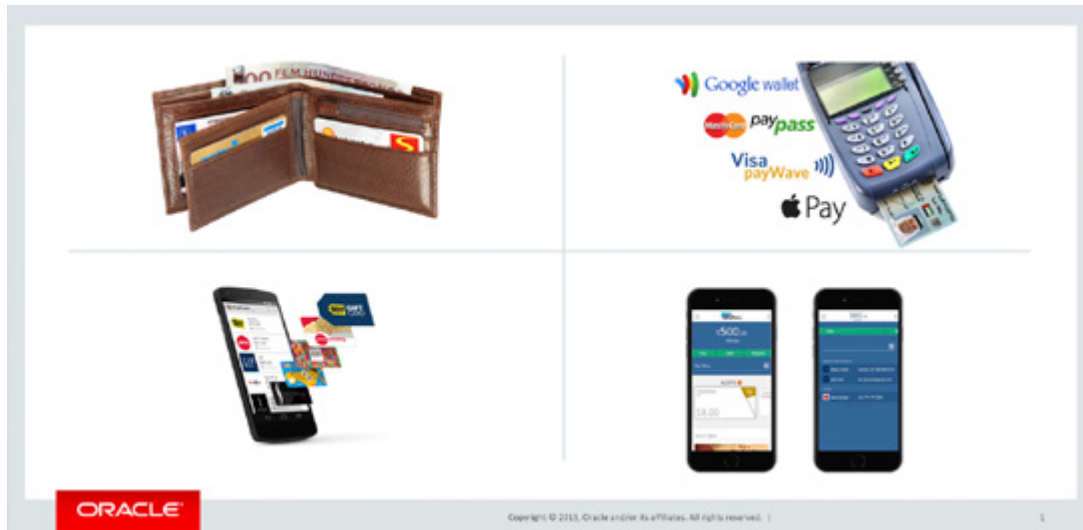
The co-operative approach attempts to tackle two issues: the need for scale, with a system that isn't owned by a single bank; and the need to reassure the customer that he is giving his bank data to a very well-known and reliable provider. Although the banks have now successfully entered this space, it has been a close battle, as the fintechs were also striving to enter it.

In terms of the capability available in the wallet, for security, customers can activate the digital wallet and confirm this using an ATM – providing multichannel validation. In the wallet, they can have cards from any of the banks in Portugal that have joined this programme (over 95% of all banks in the country). Customers can make payments via SMS: this can be peer-to-peer or in some stores or digital stores. Already, about a dozen of the biggest retailers in Portugal have joined the programme.

In contrast, in a small market in the Middle East, there's an application that was initially launched by a bank and now three more banks have joined. It's not strictly a wallet as the country's regulations don't permit digital wallets. However, in some ways it's similar – it's a type of app that can either be linked to the customer's bank account or to their credit cards. It can be used to pay for all kinds of services, including mobile top-ups, university and school fees, insurance payments, payments for deliveries, and purchases at restaurants and retail outlets.

Each merchant that is involved in the programme has to be recruited separately, so the banks have a salesforce that goes out into the market and recruits merchants so that their products and services will be available on this app. A lot of people like the flexibility that the app offers and many other banks are trying to mimic the scheme.

Another type of approach is being used in Spain, where some of the most innovative banks are launching wallets in the market. In contrast with the collaborative approach in the Middle Eastern example, each bank is effectively developing its own strategy. However, the technology isn't always sufficiently powerful to guarantee an adequate service level for the customer – but this should be developed in the near future.

Data as 'currency'

One final element in relation to digital capabilities and the digital experience is data. There is a wealth of data that banks can gain about their customers, based on what they're buying and how they're paying for it. Banks can use this to target additional offers, make smarter recommendations and even give their customers better advice (for instance, they can offer a home equity loan as a method of payment instead of using a credit card, as this can give them a tax advantage).

So, data is effectively becoming the new 'money' for businesses and banks. Information is valuable and can be very useful to banks. As already mentioned, it could tell them if someone is using a property website because they are thinking of buying a house; and it can help a bank to provide location-based services or a wallet.

There's a whole wealth of data that can now be captured by financial institutions, subject to each country's specific privacy restrictions. This data could therefore potentially become the new currency. It gives banks the ability to understand their customers' needs, and also to do an easier and better job of meeting those needs. For instance, if one of the bank's customers is thinking about buying a car, is there an opportunity to capture those types of trends and to make more pertinent offers to them?

So, data (even if it isn't truly a currency) is a new key asset that financial institutions can use to gain new insights and to make smarter recommendations to their customers. However, to date, there haven't been that many excellent examples of data being used in this way in the banking sector.

This is unfortunate, because data could be a vital key to business improvement, both in terms of sales and advice. The information available includes a combination of both data outside the bank and data inside the bank. Ultimately, the key to success could lie in the amount of data that a bank can gather, translate into customer insights and use wisely.

How a bank uses the data is crucial. It can be used wrongly, by trying to push content and communications too aggressively to the customer. If this is the case, banks could face a backlash from their customers which could damage their brand. Data needs to be used carefully, in combination with whatever activities the customer is involved in at the moment. If it's used correctly, it can provide some very helpful insights.

Banks are facing some major challenges in this area, as their customers are also being targeted by other industries, by fintech companies and by retailers. They are being targeted in increasingly sophisticated ways, so if banks fail to respond to this competitive challenge, customers will soon feel that their expectations are no longer being met.

There are perhaps two particularly important aspects of the use of information. The first is to use it almost as a basic commodity that can be employed in several ways to touch customers. If they are near a certain store or business, they can be sent a targeted message, using geomarketing. Other competitors are doing this, so if banks ignore this trend, they could lose a lot of business.

Secondly, in an increasingly omnichannel world, it's important to use the right channel or a remote channel to service customers in a low-cost way. If banks don't use information well, they won't be able to fill the gap left by the move towards, say, remote relationship managers. The traditional relationship manager knows the customer's face and knows how he interacts. If banks are increasingly using multichannel and remote platforms, they must be able to leverage the information they have about the customer.

So, information is critical but shouldn't just be used to sell more products. Firstly, it should be used in a similar way to the approaches adopted by other industries, and then it should be leveraged to develop good and relevant omnichannel strategies.

One issue that can again cause problems in this area is regulation. This will depend upon the individual country – in some areas, there are many regulatory issues and banks are unable to exploit information to the same extent that they could in other markets. For example, they might be able to use it for internal purposes (for cross-selling etc.) but not externally (for instance to drive an acquisition strategy based on patterns in the market).

Other countries have a different issue – they can gather a lot of potentially useful data but they don't have the appropriate systems that will enable them to analyse and use the data. If they choose a system that already exists in foreign markets, it could have capacities or capabilities that can't be applied to the country's own systems. In this case, they might need to develop their own intelligence system for analysing and using the data but this can be very difficult – which is why banks in some countries aren't able to use data very actively.

Further questions that banks need to consider include how they will keep their customer data in the future. What types of data will be kept together – how will the bank use that data and how will it be made available internally to the employees?

Learning from other industries

Because Oracle delivers solutions to other industries as well as the financial services sector, it has been able to see some of the key lessons that can be learnt from those industries and which of the strategies they have adopted have been the most effective. Some of these best practices might also be helpful for financial institutions. A few banks are also looking at other sectors to see what leadership is being shown in terms of how to drive intelligent, smart digital interactions.

For example, one bank has been following the progress of industries that are very aggressive in terms of their digital strategy – such as the travel industry. The airlines are particularly good at targeting and retargeting customers and also at maximising their apps in terms of the way they interact, and the important moments and the type of events that they explore.

Airline reservation systems are usually very old but deliver a very modern experience. There's no longer any need for passengers even to print out a boarding pass, as customers can have a QR code on their smartphone that will allow them to pass through the security checks and to board the plane.

So, the travel industry seems to be doing a very good job at understanding the 'magical moments' for customers and understanding their past experiences. They are leveraging these and using their apps to communicate in a way that is much less intrusive and more focused than general mass-market emails.

For banks, the main drawback is that whilst they want to improve the customer experience in any way possible, they are often hampered by regulations. In fact, many bank processes have to be made more complicated as a result of the need to comply with different rules. This makes it more difficult for banks to create the customer experience they would like to develop.

Another example that banks could learn from involves the telecoms and cable TV sectors. In the US, when there are big boxing matches, viewers can subscribe to a pay-per-view TV channel by turning on the feature via a digital device. The telcos and cable TV companies developed a scheme that would allow people to subscribe to a title fight until the last minute before it starts. They can just turn

it on and be billed for it, whereas ten years ago, this was a much more cumbersome process that would have needed a call centre to fill out forms. Telcos have also become very sophisticated in relation to their offerings – which includes bundling services and also upselling.

The pay-per-view story is an interesting example because it involves giving the control back to the customer, who is able to access and turn features on or off. In a similar type of approach, a bank in Australia has customers that are pre-approved for loans: they don't actually have the loan but everything is ready and all they have to do is to activate it themselves.

In South Africa, the strategy of providing preapproved loans is common amongst all of the major banks – they provide preapproved loan products for customers for houses and a wide range of other items. This started before digitisation but the functionality will also now be available on digital channels, which are basically providing a new way of accessing this capability.

Conclusion

Digital disruption is already taking place in the financial services sector and the rapid speed of the changes that are occurring is likely to increase still further in the near future. Meanwhile, fintechs are developing a range of different strategies as they seek to tighten their grip upon the market. Banks currently view fintechs as both competitors and partners, depending on the areas in which they are operating

For example, in lending, fintechs are usually regarded as a partner: banks see them as a method of helping to funnel business their way. However, in the payment space, fintechs are viewed as competitors. This space has always been seen as lucrative for banks and a large number of fintechs are disrupting it and are carrying out a lot of these payments at a much lower cost. They are therefore becoming a threat to that revenue stream for the banks. The other challenge is that this paradigm is shifting and so banks need to look at how they can generate other sources of revenues.

Meanwhile, how can banks start to achieve effective digital transformation? This White Paper has explored four key strategies that can be deployed, relating to launching a digital brand; digitising processes; modernising the digital experience; and launching new digital capabilities.

However, these strategies also bring their own challenges. For instance, for many, many years, banks have been primarily dependent upon their branches for their interactions with their customers. They now need to delve much more deeply into how that physical distribution network can be integrated into the whole digital transformation process.

Some banks are indubitably struggling with (and could improve their management of) how to leverage their physical branches and ATMs to enable and deliver better digital processes than the fintechs, which don't really have a physical presence in this space. But how can this be achieved?

Banks are approaching this issue in several ways. Many are thinking about reducing their physical footprint, as it's too large – indeed, some have already made significant steps in this direction. Others are also saying that they need to think about their physical network differently – they want to start looking at ways of using this as an asset rather than a liability, because it's something that their competitors don't have. However, they need to be smart about how they do this.

There are still plenty of opportunities for change in terms of the digital experience and the launching of new brands and digital capabilities. However, banks need to be careful that they aren't left behind – other new entrants are already making headway with aspects such as digital wallets and the use of customer data, whilst many banks still haven't formulated an effective strategy in these areas.

One particularly difficult challenge relating to data comes from the regulation facing banks – which differ from country to country. Banks perhaps need to start collaborating more and educating the regulators on how to modernise the regulatory framework so that they can support a lot more of these digital interactions.

Some banks are becoming frustrated because they feel that the fintechs aren't having to deal with the same level of regulatory pressures that they are facing. Many of the fintechs are just delivering an experience around an account that's managed somewhere else. They have a different reporting structure, so they're not on an equal footing from a competitive perspective. So some banks have already started trying to educate the regulators so that, in terms of regulations, they can start to enjoy being on a more level playing field with the fintechs.

Overall, although the financial services sector isn't unique in terms of suffering from the effects of disruption, banks can no longer afford to sit back and do nothing. There are numerous new

technologies that they should be taking advantage of – and they could learn a great deal from other industries who have already had to face disruption. Despite the problem of regulation, there are also still countless valuable insights that they could can gain from different sources of customer information that would enable them to sell more and also to provide better advice.

In summary, banks need to start taking action before disintermediation occurs – digital transformation has now become a pressing necessity rather than an option.

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Digital transformation

The challenges and opportunities facing banks

February 2016