Digital banking in the Millennial era

Banking in the recent times has evolved beyond the realm of transactions, thanks mainly to the Millennials

Why are Millenials so important? They certainly command tremendous attention for three reasons. First, they are digital savvy and use mobile as their primary channel to the world of banking, retail, communicating with everyone and most important transacting cash. Second, a study by the American Bankers Association projects that by year 2022, millennials will constitute over 40% of the workforce. Finally, it is predicted that over the next 30 years they are likely to inherit over $20 Trillion.

However, the biggest challenge many financial institutions particularly mid-tier banks face is that they are content with the status quo. They either do not realize the need to adopt technologies and are moving very slowly, or they are confused by all the digital options available to them and do not know how to proceed and prioritize, to a point where they risk becoming irrelevant.

The beginning of disruption across the banking sectors has already begun with certain Fin-tech startups focused on attracting millennials through technology and improved omnichannel experience. Digital penetration is here to stay, and its time traditional banks and financial institutions embrace digital banking, so that they can prevent becoming extinct.

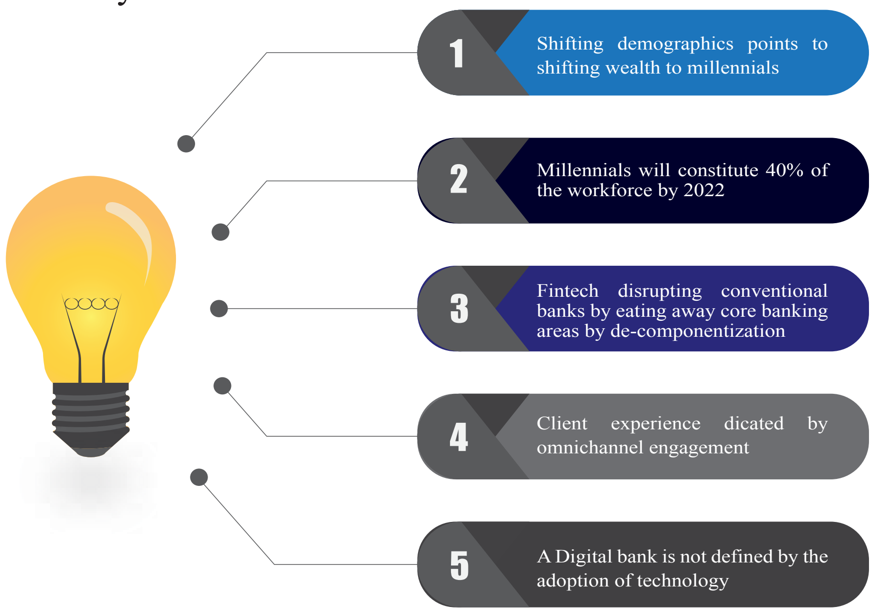
In the new digital world, a true omnichannel experience consists of several layers:
- Digital: for standard banking transactions including checking balances, paying bills, making deposits, transferring between accounts
- Social: to contact, communicate with, and market to new and existing customers
- Contact center: for addressing questions and helping resolve problems
- Physical locations: for those wishing to have in person contact and to address more complex transactions

Capitalizing on the situation, some larger banks and institutions today are partnering with Fin-tech in order to evolve and incorporate digital technologies into its business products, services, processes, and operations. This new move has affected the age-old system of banking.

The traditional banking system finds itself in a difficult position as technology has integrated into the various product offerings, banking processes, and operations. From opening a bank account to checking balance online to making deposits, every fragment of the banking system is now infested with digital penetration.

While banks focus on customer servicing, the needs of the current Millennials & GenY is assumed to be technology centric. Ironically, this fails to captivate the true essence of a good banking relationship. Hence, banks should focus the offerings from the customer's perspective instead of blindly creating a demand for new technology.

This has led to the questioning of the basics — What is a Digital Bank? Is it Technology? Is it Robotics? Or is it simply Automation? What really constitutes a Digital Bank? Answer - It's really none of these.



Trends disrupting conventional banking today

Concurrently, the concept of 'digital bank' has taken a different route from the expectations and necessities of digital consumers. Banking's new avatar lies in the hands of technology with automation and robotics playing pivotal roles in shaping and restructuring the industry. Introducing AI and other technologies into every fragment of banking service has become the trend. Although they are part of the digital banking experience, these do not define the world of digital banking. This general misconception is one of the primary reasons for banks to struggle with achieving success despite their digital banking efforts.

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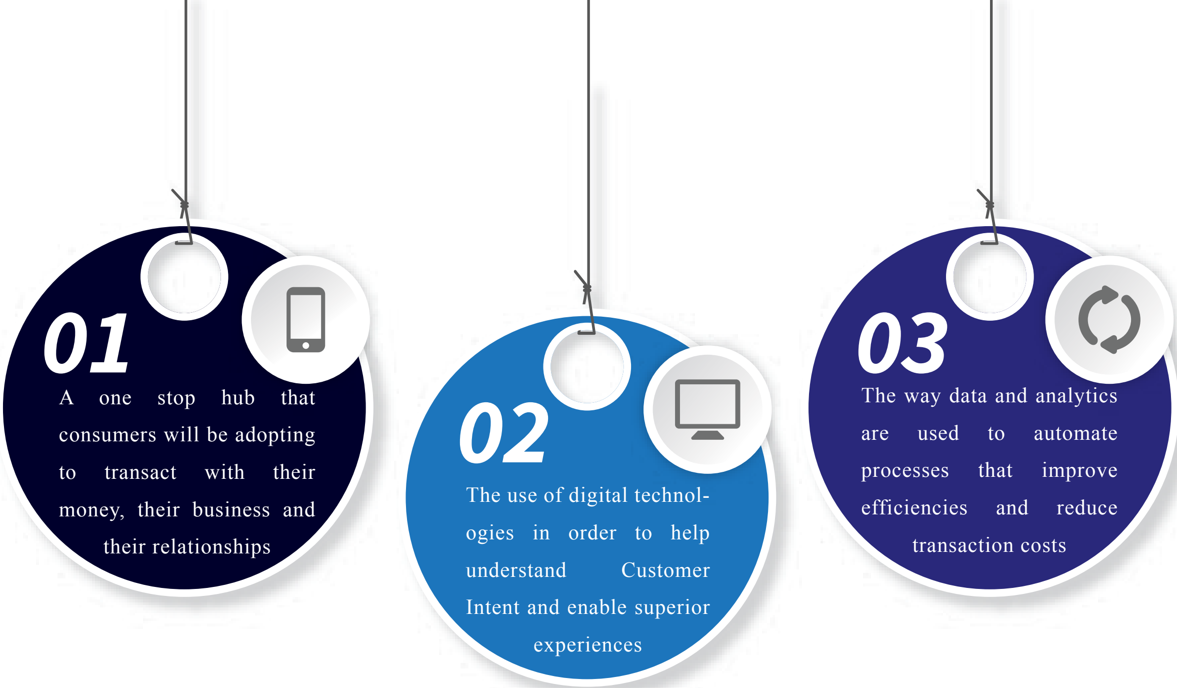


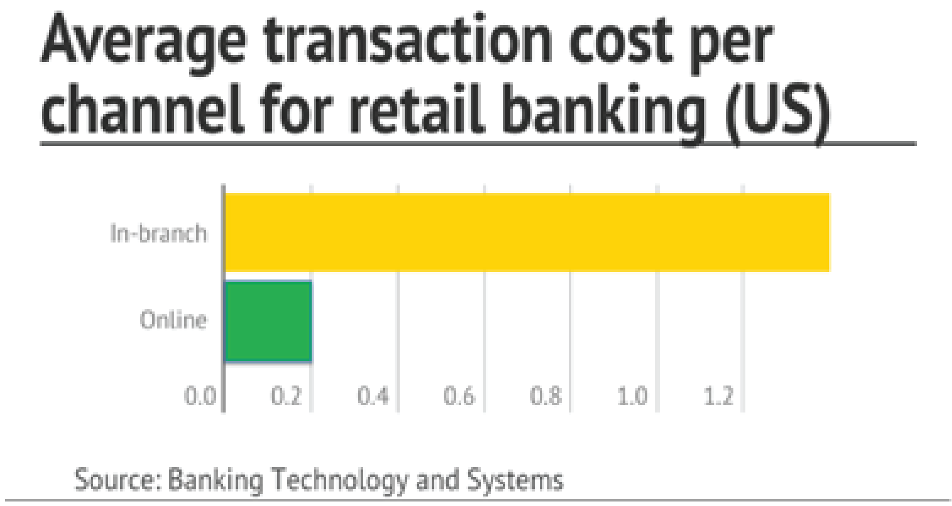
Digital Bank guiding principles

It is important to understand that a digital bank is better defined as a way of banking that will be attractive to consumers embracing digital. One that embraces new technology solutions, but also retains elements of personalization that is still required. A well designed digital bank should focus on 3 primary principles:

It should act as a one stop hub providing omnichannel experience to consumers transacting their money, their business and their relationships

It should use digital technologies to better understand consumer intent and enable superior experiences

It will use data and analytics effectively to automate processes that improve efficiencies and reduce transaction costs. It is clear that Branch transaction costs exceed by a magnitude of over 40 times the cost for a transaction happening online



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So what is the transformation journey all about? What should one be emphasizing to become truly a digital bank?
Banks and financial institutions in order to transform quickly and successfully should ensure that they focus on the following five vectors -

1. Customer experience journey - Focus on functionality, features, apps, and services for omnichannel enablement and to measure customer experience success using response time. The key here is the Response Time. Everything around customer experience should be built around customer personas and measured around how quickly does the consumer get a response to his/her transaction, query or service request.

2. Adoption of Technology – Use of newer digital technologies like social, mobile, analytics, cloud, Big Data, AI, AR, & robotics should be focused around understand- ing the customer intent and drawing them to the bank or increasing their use of banks services. Bank executives and CSR’s need to use technology to become advisers rather then service agents. Millennials will be increasingly expecting this so that they can build their trust with the bank.

3. Enabling Smart Partnerships – Partnering with FinTech companies to embark on the digital banking journey, can help speed up implementation and the journeys to becoming digital

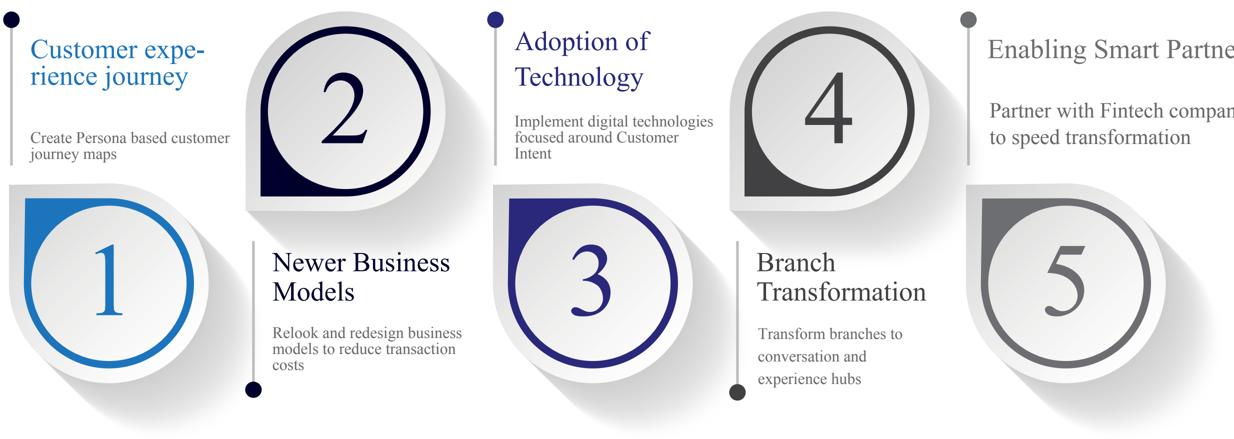
4. Newer Business models – Introducing more modern technologies like Blockchain to democratize trust, substantial cost take-outs and modernizing legacy systems. The goal here is to reduce drastically the transaction costs.

5. Branch Transformation – Banks with branches have seen huge drops of customers walking in and transacting money or business. This is not surprising as digital consumers embrace mobile interactions and prefer to do everything omnichannel.

So, is there any need for traditional branches?

Banks and institutions who see branches as experience centers will likely be the clear winners both for attracting clients and increasing their relationship and trust with their customers. A good example of such a transformation is the opening of the brand experience center called Cadillac House in its New York City headquarters, by Cadillac. The luxury brand, uses its 12,000-square-foot ground floor space, which includes a coffee shop and space for events — film screenings, tech-talk and vehicle exhibits and is open to public. People gather here in groups to have discussions, meet, do business, or to simply have coffee. Banks need to do something similar, converting their branches to conversation and experience hubs, so that consumers make it their trusted place of interactions, which will lead to transactions.

5 Vectors



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How can Powerfluence help Banks and Financial Institutions in their Digital Transformation journey?
Powerfluence, a firm focused on building digital strategies, has adopted a powerful methodology – PowerSpark that makes transformation journey easier by adopting the five vectors mentioned above. For instance, Powerfluence has mapped over 100+ digital value elements across different digital journeys that enable banks to accelerate their digital transformation.

Digital Journeys that Powerfluence can support are : Customer Experience and Persona Mapping
- Digital Infrastructure transformation
- Transaction Optimization & Cost Takeout Branch Digitization
- AI based analytics and data management for marketing & operational improvement

Having partnered with FinTech companies and cloud infrastructure providers, Powerfluence differentiates itself in its approach to enabling digital banks with a 5-step PowerSpark methodology-

Step 1: Workshop on Stakeholders baseline & digital banking goals
Decide and focus on the journeys essential to transform banks into a digital bank
Step 2: Build a comprehensive transformational map that includes
A holistic plan to identify features and functionalities driven by the five dimensions of banks to become a leading Digital Bank
    - A first 100-day plan
    - An actionable sprint-based implementation plan
    - A long term roadmap
    - Identifiable digital personas
Step 3: Proper identification value pools within the enterprise by looking at all assets, IPs, expertise, etc.
Step 4: Identify Inflection points and broad areas of high value across the digital bank scenarios with a focus on identifying FinTech innovations that will apply
Step 5: Partner, Facilitate and implement new technologies against plan identified earlier

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5 - Step PowerSpark methodology

01 Stakeholders baseline and digital banking goals workshop

02 Build a 3 year transformational map with a 30 - 60 - 100 day sprint plan

03 Identify “Value Pools” within enterprise by looking at all assets, IPs, expertise etc.

04 Identify broad areas of high value across scenarios and identify Fintech innovations that will apply

05 Partner, facilitate and implement new technologies against plan identified earlier in Step 2

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The important point to remember is that the transformation to a Digital Bank need not be an exercise of spending millions of dollars. Banks can generate significant performance gains with small targeted investments and sprint-like projects. Examples include mobile based payments, which can be implemented relatively rapidly, most times without deep integration into existing complex legacy systems. Banks and financial institutions need to first determine the valued assets (people, technology, processes, software etc.) that already existing within their organizations. These assets along with smart partnerships with Fintechs, creates 'Value Pools' for the organization, which can accelerate the transformation process and reduce costs.

In conclusion, digitization will certainly change the traditional retail-banking business model, in radically. The branch of yesterday, will certainly be a newly metamorphosed experience center. The good news is that there is plenty of upside awaiting those banks willing to embrace this change, as they will attract the digital consumers. The bad news is that change is inevitable whether or not banks are ready.

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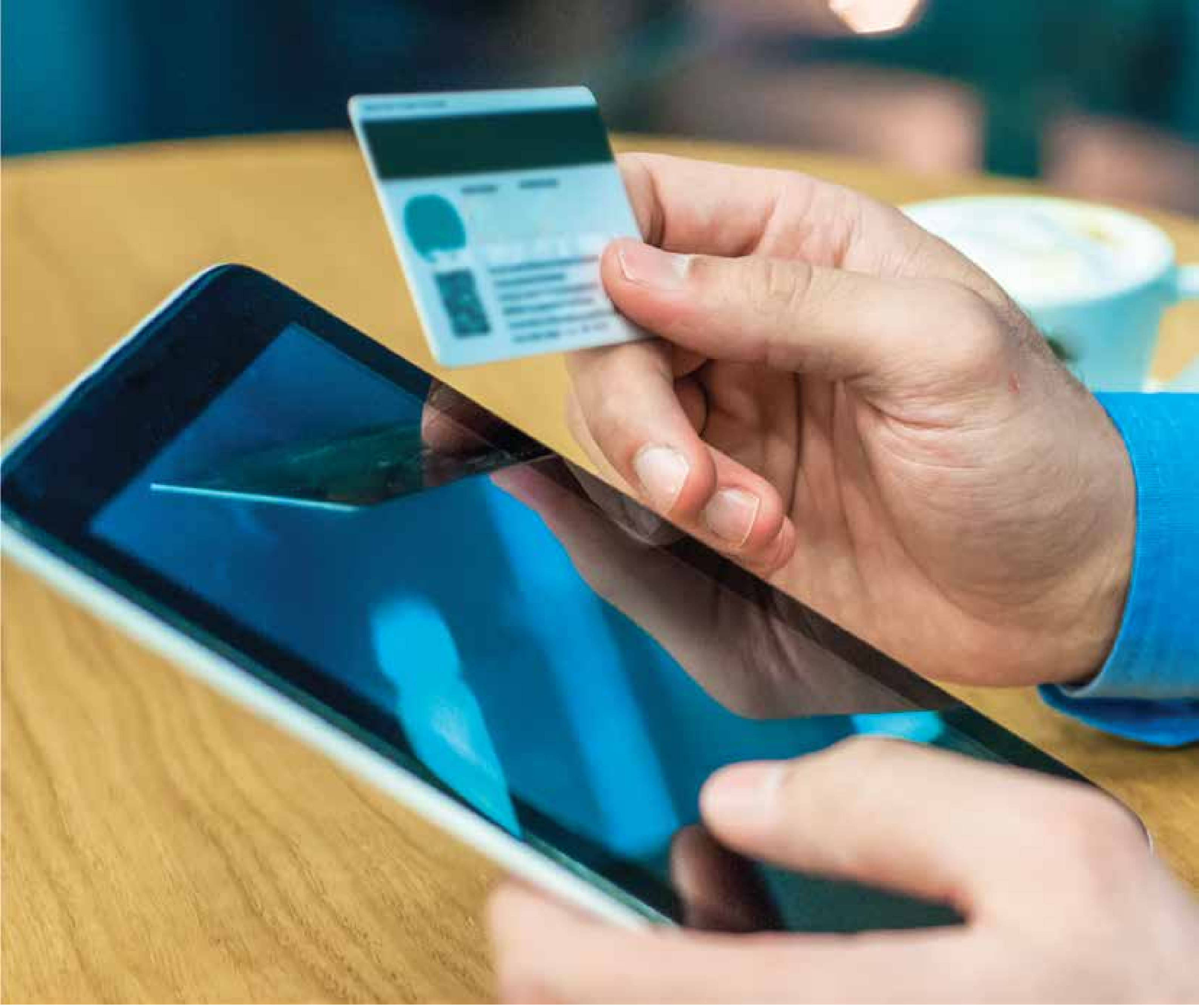

About the Author:

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Powerfluence, is a digital business advisory firm, where, partners, business advisors and consultants bring over 200 man years of experience and expertise into delivering exceptional business outcomes through digital transformation. Powerfluence specializes in helping organizations create a clear vision, focused strategy, and journey maps as they embark on their digital journey. Powerfluence partners and advisors sit on companies' advisory boards, bringing rich experience, guidance and governance to their business.