



# BE BRILLIANT IN BASICS TO BOOM AND SUSTAIN IN A DIGITAL WORLD

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## 1.0 Introduction

*“Consumers around the world are quickly adopting digital banking. Incumbents only have a short period to adjust to this new reality or risk becoming obsolete.”- McKinsey & Company, January, 2015.*

The world is transforming towards digital banking. This is an urgent call to banks world over to act fast in adjusting themselves to digital banking, or be ready to go out of business! The researchers cautioned, there could be a possible expansion due to the rapid innovation in payments and the broader transformation in systems created by digital technologies. Revenues and profits will drift faster towards the banks that are successfully adapting digital technologies to automate processes, create new products and services, improve regulatory compliance, transform the experience of their customers etc., and interrupt key components of the value chain. Banks that resist digital innovation will be penalized by customers, financial markets, and may be regulators, sooner or later. Thus, “the urgency of acting is acute. Banks have three to five years at most to become digitally proficient. If they fail to take action, they risk entering a spiral of decline similar to laggards in other industries” ([www.mckinsey.com](http://www.mckinsey.com)). This article discusses three key aspects: what is digital banking? why is digital banking is essential? how can we be brilliant in basics to boom and sustain in a digital world ?

## 2.0 What is digital banking?

Many prudent and proactive banks agree that ‘digital banking’ is the way forward, as it is already changing the boundaries of workplaces, influencing the traditional banker customer relationship, altering customer profiles and demands etc. Digitization is challenging the conventional way the banks operate, yet it opens up significant opportunities. Research Companies have found that: “a generation of digital-banking customers is rising across Asia, and they will demand full digital access to the latest offerings and a more personalized set of products and services” (McKinsey & Company, 2014). Are the bankers in Asia ready to face this challenge?



Researchers argue that yet, there is a confusion among bankers world over with regard to the meanings of the terms 'digital banking' and 'digital bank', as they often get mixed up with terms 'mobile banking', 'mobile apps' and 'tablets', creating a paperless bank, digitalization of processes and products, online banking, Omni-channel banking etc. There is no doubt that these terms mean 'digital' applications, digital products/services etc., but, universally accepted definitions for 'digital banking' and 'digital bank' are yet to be formalized. Hence, the views on 'digital banking'? and 'digital bank'? are diverse among bankers, and there is less consensus in the banking industry (<http://www.bankingsexchange.com>). A recent global survey conducted to obtain the views of bankers on specific statements on investments in mobile/digital technology produced the following results.

*Table 1: Bankers' agreement on investments in mobile/digital technology*

<b>Statement on investments in mobile/digital technology</b>	<b>Strongly Agreed</b>
We aim to improve customer relationships through digital engagement	47%
We have to do it to keep up with the competition	44%
We aim to attract new customers and upsell customers through our mobile channel	32%
We aim to reduce costs by migrating transactions from the branch channel	16%

Source: <http://www.bankingsexchange.com>

The above results revealed that the bankers world over are yet to gain momentum of the concepts 'digital banking' and 'digital bank'. The 'strongly agreed' percentage among bankers are low on almost all four statements. Specially, bankers are yet to be convinced on the positive aspects of digital banking such as, attracting new customers, upselling customers through mobile banking channels, reducing costs by migrating transactions from branch channels. Further, it would be pertinent to investigate the views of the local bankers on these statements. The results would indicate the direction, whether the local banking industry is ready to take up this challenge: digital banking.

Hence, "Digital banking is the incorporation of new and developing technologies throughout a financial services entity, in concert with associated changes in internal and external corporate and personnel relationships, to provide enhanced customer services and experiences effectively and efficiently" (Ginovsky (2015)). Further, researchers believe that digitalization is fundamentally reshaping financial institutions and requires a structural change in banking.



### 3.0 Why digital banking is essential

*Digital transformation: 'outside-in' approach*

'Digital transformation' has been recognized as one of the top most trends in the retail banking industry. Retail bankers have understood the power of 'digital' and how vital it is to their growth and survival. They consider "digital banking" as more than a marketing strategy and thus, as a fundamental change in how they learn about, interact with and satisfy their customers. Successful digital transformation starts on the outside, with an understanding of digital consumer behaviour, preferences and choices. It then leads to major customer-centric changes within the organization. The major advantage of this approach to the bank is, through a better understanding of customers and dynamic, interactive digital technology, banks can transform the customer experience, and drive growth in today's highly competitive retail banking industry. Thus, digital transformation is more than taking current bank products and services and offering them in app form. Hence, "it goes to the very heart of the business and requires deep digital adoption" ([www.cgi.com](http://www.cgi.com)).

Banks do business with public money, by winning their trust and confidence. Banks are obliged to provide the legitimate services customers expect from their banks. Research has revealed that over the next five years, more than two-thirds of banking customers in Europe are likely to be 'self-directed' and highly adapted to the digital world. It has been identified that these customers are already tech savvy with regard to taking great advantages of digital technologies in other industries for example, booking flights and holidays online, buying books, gift items, music and heavily shopping for groceries and other goods through digital channels.

It is obvious that when customers are geared towards digitalization, banks should invariably cater to their digital needs, thus should 'transform to digital' or turn to 'digital banking'. To further highlight the importance of digital transformation: 'outside-in' approach, the following recent research is presented:

The CGI professional Group ([www.cgi.com/2014](http://www.cgi.com/2014)) organized a survey of 1,244 consumers across the U.S., Canada and four European countries (France, Germany, Sweden and the UK), to study about their banking demands ([www.cgi.com/Understanding](http://www.cgi.com/Understanding) Financial Consumers in the Digital Era: A Survey and Perspective on Emerging Financial Consumer Trends). Respondents of different ages and income levels were surveyed, to assess whether preferences were influenced by either demographic factor. The study mainly focused on the corporate clients and internet banking customers, which comprised 80% of the respondents in the study sample. The following results were revealed.

A notable finding in this study was the corporate customers of these developed countries expect their banker to be a relevant part of their lives – more than just a storehouse for their money.



Further, the top most consumer demands were as follows:

- Reward me for my business (81%)
- Give me “anytime, anyplace” access to my balance (61%)
- See me as a person (58%)
- Provide me with wealth-building advice (55%)
- Tell me what I am spending money on and how I can save (52%)
- Give me access to independent experts when I need them (50%)
- Allow me to borrow up to an agreed limit at any time (49%)
- Allow me to pay for goods and services instantly using whatever device (49%)

The researchers highlighted the following facts, which were considered important to banks in the process of digital transformation towards digital banking:

1. Financial consumers are sending a clear message about the importance of digital consumerism in banking. They are seeking tailored, value-added services that support their spending and wealth generation goals. These goals are thought about all of the time, so the importance of accessing preferred services through preferred digital channels is very high.
2. Consistent, omni-channel service is just as important as maintaining high levels of security for consumers’ financial affairs and data. Fast movers have the opportunity to rapidly capture market share by exploiting high levels of consumer dissatisfaction and high switching propensity rates.
3. What can banks do? Merely digitizing existing processes is not enough. In the digital age, a successful bank will take an outside-in approach, analyzing customer behaviour patterns and developing digital processes and services that respond to those patterns.
4. Study recommends six actions based on the findings of this survey to help banks on their digital transformation journey:
  - i. Know your customers and put them first
  - ii. Innovate and deliver value-added services
  - iii. Build brand value across all channels
  - iv. Reward customers
  - v. Become a trusted and secure financial advisor to your customers
  - vi. Prepare for the next phase in the digital revolution



The above research ([www.cgi.com](http://www.cgi.com)) highlighted various forms of corporate customer demands, from a developed countries' perspective. No such research has been conducted in developing countries, including Sri Lanka. However, in the process of 'digital transformation' it is essential to follow the 'outside-in' approach, or to start with the understanding of the customer requirements in the digital world, and then develop your bank strategies to meet them. Therefore, it is crucial to conduct such research in the Sri Lankan banking industry, to understand the needs of customers in a digital context.

## 4.0 Be brilliant in basics to boom and sustain in a digital world.

Chris Skinner is an independent commentator on the financial markets through his blog, the Finanser.com, as author of the bestselling book *Digital Bank*, and Chair of the European networking forum the Financial Services Club. He talked about yesterday's banking: "we think of a tight human relationship between the bank and the customer. The bank branch manager knew their customers intimately, both their personal and corporate customers. They lived in harmony with their community and could name each and every individual by name. They would know the exact level of expenditure and financial lifestyle of their customers, and whether they *were good for the money*" (<http://thefinanser.com/2014/02/banking-basics-for-the-digital-age.html/>). Skinner argued:

*"over the years four things happened to strain this relationship:*

1. *Technology, which distanced the customer from the branch. The ATM, call center and internet separated the human relationship directly had with the branch manager and the staff. Customers merely became account numbers, rather than names, and banks started treating them such.*
2. Second, he argued, banks introduced 'free banking'. Of course there is no such thing as a free lunch, so banks did not really offer free banking. Instead, they offered banking for free for those who stayed in credit, cross-subsidized by charges to those who went overdrawn and through a focus on cross-selling.
3. Third, banks became geared to stock market expectations. The managers were focused upon shareholder returns, because they were given share options. The quarterly profit focus became a sales focus.
4. Finally, the customer lost sight of their bank and their money. As the relationship and affordability focus disappeared from the bank side, the customer was weaned onto living on credit and leveraging their debts. The customer also used technology but, as they stopped going into their bank branch, they could no longer keep track of their balances. Until mobile banking came around, customers would only know their balance if they logged on



in the morning or called their bank. As a result, they could regularly fall into an overdraft state and get charged for it ([www.thefinanser.com](http://www.thefinanser.com)).

*Chris Skinner, advised that we should return to the good old days' style banking through digital channels. In other words, be brilliant in basics to thrive and survive in a digital world. Following are main tips the scholar had shared with regard to 'be brilliant in banking basics for the digital age'.*

- A good old bank relationship with a human remotely through digitized dialogue.
- A digital bank relationship where you can feel through their apps, alerts, advice and attention that they really have your best interests at their heart.
- A digital bank system that avoids unexpected fees, alerts before fees are applied, processes withdrawals and deposits in real-time as they occur and provides you with flexibility to be overdrawn for 24 hours at no charge.
- A digital bank structure that charges a fee, as free banking is stupid.
- A digital bank management team who really do place customer focus at the heart of building their bank.
- And a digital bank service that makes me realize my deposits build other people's houses and their deposits build mine.
- In other words, a digital bank that is human and social, relevant and real.
- No more faceless banking, but human relationships with finance through digital media.

## **5.0 Conclusion:**

This article focused on three aspects. It discussed three key aspects: what is digital banking? Why is digital banking essential? and how can we be brilliant in basics to boom and sustain in a digital world? What is digital banking? Many confusions were highlighted through literature. However, the definition, "Digital banking is the incorporation of new and developing technologies



throughout a financial services entity, in concert with associated changes in internal and external corporate and personnel relationships, to provide enhanced customer services and experiences effectively and efficiently” (Ginovsky (2015), appears to be more appropriate. Next the author discussed, why digital banking is essential. It was highlighted that in the digital transformation process ‘outside-in’ approach is the best move to understand your customers first and then adjust your strategy internally. Finally, the author quoting Chris Skinner, an independent commentator on the financial markets, discussed the pros and cons of going digital in the market. Further, basic steps for bankers were stated from Skinner, in order to thrive in a digital era. Hence, BE BRILLIANT IN BASICS TO BOOM AND SUSTAIN IN A DIGITAL WORLD!

## References

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