UNDERSTANDING THE CHANGING DYNAMICS OF FINANCIAL CONSUMER IN THE DIGITAL ERA

Viruli de Silva

Former Director Studies - Institute of Bankers of Sri Lanka

"On the Web and on Mobile the customer isn't king—he's dictator. Highly impatient, skeptical, cynical..."
- Gerry McGovern, author of 'Killer Web Content'

An overview

The 'digital transformation' has been recognized as one of the major trends in the retail banking sector or consumer banking industry, globally. A striking 90 percent of day-to-day transactions in the retail banking industry in the Western and European countries are 'going digital'today. What does 'going digital' mean? Is it a marketing strategy? Is it a management trend? But, 'going digital' is much more than that! According to Emmanuel Daniel, Founder and Chairman of the Asian Banker Journal, "the impact of the internet and mobile devices has made the rules in managing channels and how we reach customers a moving target in Asia, where as much and maybe more innovations are taking place in financial services, as anywhere else in the world."

Hence, 'going digital' or digital banking means operating online of all the customary banking transactions and activities that were traditionally only available to customers physically inside a 'brick and mortar' bank branch.The 'financial customer of tomorrow', or the 'financial consumer in the digital era' would seldom visit a branch, or the customer would see no necessity for an over-the-counter transaction with money or cheques.The banks that hold the "brick and mortar bank" concept or hold the idea that 'the physical branches stay at the center of what the brand does' will not adjust effectively to the 'digital banking' environment. The banks who still consider the internet, ATM and Mobile Phone applications as 'alternative' channels will be crawling behind or struggling to 'catch-up' for the next decade. In the meantime, the smart competitors in the banking industry and others such as 'Fintec' companies would progressively capture specialty benefit openings or niche market opportunities in the banking industry. Already the '20th century ways' of trading and operations in the global banking industry have changed as a result of the rapid technological innovations. Internet banking, mobile banking, peer-to-peer lending sites such as Prosper and Lending Clubs, mobile trading on commodities exchanges, digital wallets (Apple: AAPL and Google:GOOG), Financial advisory sites and robot-advisory sites (LearnVest and Betterment) and 'all-in-one' money management tools (Mint and Level) are few examples of technological innovations in the 21st century trading and banking.

The ‘digital transformation’ in banking triggers with the customer need. Hence, the successful digital transformation begins on the outside with an understanding of digital consumer behaviour, preferences and choices. It is the ‘outside-in’ approach, in contrast to the traditional ‘inside-out’ style of the conservative banks. It would then lead to main customer-centric fundamental changes within the bank, which revolutionizes the customer experience. The ‘outside-in’ approach is more than converting the existing bank processes into ‘app’ forms and offering them as novel practices. But, the ‘outside-in’ approach goes to the very ‘core’ of the business and requires deep digital adoption in the bank. Hence, understanding the customer in the digital era, or understanding the behaviour, preference and choices of ‘tomorrow’s financial consumer in the digital context’ is the basic step to successful digital banking or ‘going digital’ in the banking industry.

Benefits and challenges of digital banking

Digital banking is the digitization (or moving online) of all the traditional banking activities and programs that historically were only available to customers physically inside of a bank branch. This includes activities such asmoney deposits, withdrawals and transfers, Checking or Saving account management, applying for financial products/services, Loan management, bill payments etc. The customer preferences are rapidly changing from traditional channels to online and mobile devices in the banking industry, globally as well as locally. However, the banks are facing challenges in ‘going digital’ as they are yet to shift their banking operations from ‘traditional channels’ to ‘online banking’ operations offered on smaller screens. Furthermore, until very recently, the banks were not foreseeing the major challenge in the change of customer behaviour that happened due to the millennial generation. Now the ‘millennials’ are becoming the major customer segment of the financial products.

In the present volatile business context, the banks operating globally and locally have a competitive urgency to become ‘digital’ in a sustainable way. Facing growing customer demands and other market pressures, bank leaders increasingly recognize that digital transformation involves far more than just adding new online or mobile applications. True digital transformation impacts the entire organization and requires holistically embracing and maximizing the value of digital across all areas of the business.“New entrants and technologies continue to drive change in the transaction banking space in Asia Pacific, making present banks to focus more on improving customer experience and reviewing existing business models” (The Asian Banker, Banking Directory 2017/2018). Deregulations, growing instability in capital markets and currency etc. have brought down barriers to entry to the banking industry increasing challenges and reducing product/service margins. Moreover, increasing media attention on massive frauds in leading international banks, subprime ‘modifications’ and record ‘bailout-rewards’ make banks considerably less of a ‘blue chip’ venture today than they were ever before. Customers too have become progressively vocal in their demands and firm when it comes to poor quality of service in their regular banks, and others in the industry. Facebook, Twitter and blogs are popular social networking tools that the unhappy, angry customers select to spread negative words-of-mouth on dissatisfied, low quality products/services, transaction delays and obsolete practices by banks.

In addition, the banks are faced with intense competition in the present digital environment, as customers are raising the bar on their needs or expectations, and becoming aggressively demanding. In this context,the banks need to change dynamically or vigorously within their organizations, and show the hard facts that make such change is inevitable.

Despite the above challenges, there will be many advantages of 'going digital' in the banking industry. Although such challenges are inevitable, scholars argued that 'digitization' in banking will bring reduction in costs, longer-term or life-time and more profitable customer relationships which invariably will improve the effectiveness, stability and growth of the banks. Hence, the banks that have not changed their business models in the past ten years, will be certainly affected through non-orientation to change or rigidity towards change in the digital era. As crucial part of the changing process towards 'digitization' or 'going digital' by banks, it is important to understand the pressing needs of the financial consumer in the digital era. The article discusses this vital area through a recent survey conducted in the Western and European banking industries.

Top 5 needs of the financial consumer in the digital era

In a recent study on 'Understanding Financial Consumer in the Digital Era'by the CGI Group Inc., an established consulting and research organization founded in 1976 and now operating in 40 countries through 400 offices (www.cgi.com/report/2014),had highlighted through their results some salient features of today's financial consumer in the digital era.This study had surveyed 1244 customers from retail banks in two Western countries (USA, Canada) and four European countries (UK, Germany, France and Sweden), to learn about their banking preferences, satisfaction levels with their regular banks etc. The respondents are from selected retail banks, which have recognized the power of digital banking and how it impacted on their survival and success. These banks have realized that'going digital' is a fundamental change in banks, and believed that it is how they learn about, interact with and satisfy customers, leading to major customer-centric changes within the banks.

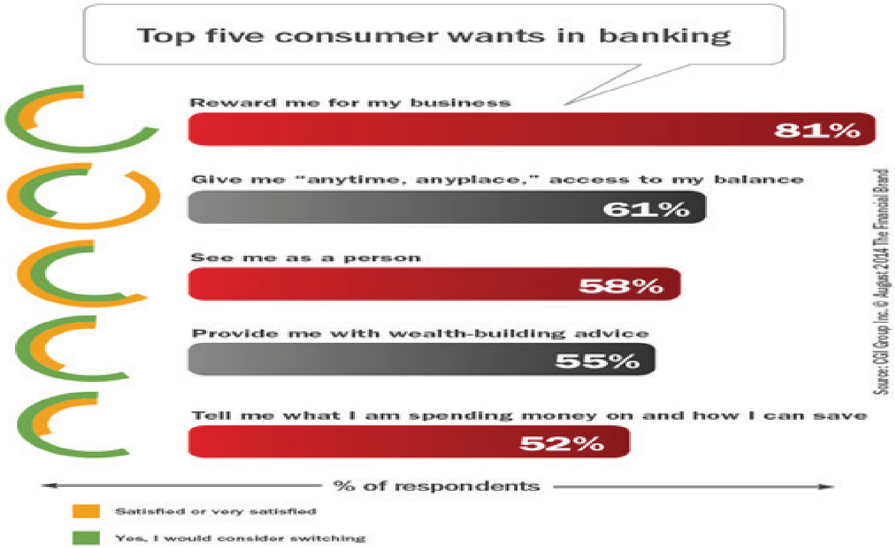
Further, the study revealed that 80% of the respondents were digital financial consumers, and were willing to leave their present bank, if their needs were not met. What are the major needs of a financial consumer in the digital era? The above study revealed that the financial customers in the digital era expect their bank to be an integrated part of their daily lives. Further identified five major needs of the financial customers in the digital era (www.cgi.com):

Top 5 Needs of the Financial Consumer in the Digital Era

1. Reward Me for my business (81%).
2. Simplify My Life by providing "anytime, anyplace" access to my balance (61%).
3. Know me as a person (58%).
4. Look out for me by providing me with wealth-building advice (55%).
5. Anticipate My Needs by telling me what I am spending money on and how I can save (52%).

The above 'Top 5 Needs' of the Western and European financial consumer in the digital world are elaborated further, to add insights to the local banking industry. Figure 1 illustrates the 'Top 5 consumer wants in banking', with the percentage ranking of their importance to the consumer.

Figure 1

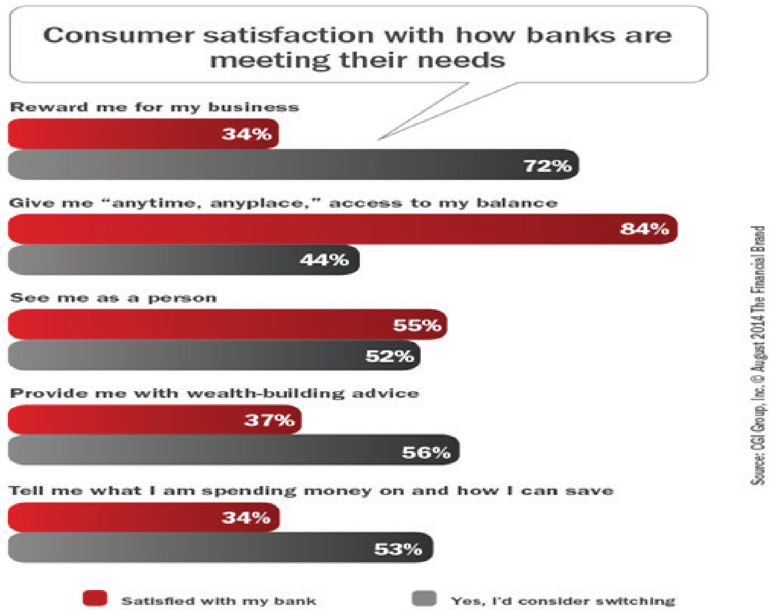


In the CGI Group survey, 81% of the digital customers have indicated that they want to be 'rewarded' for their business with the bank, irrespective of payment type or channel.They expected their bank to reward them through the bank's regular reward programs or through third parties. A further 61% have indicated that they expect their banks to 'simplify their lives' by providing real-time access to their balances, transaction records, etc. at "anytime, anyplace", in addition to being provided spending patterns and better money management tools. The digital financial consumers no longer want to be just a number at their bank. About 58% of the respondents or the financial digital consumers expect their banks to 'know them' as a person. The customers expect their banks to offer them services based on what they have done before, and what other customers like them do. The "consumers recognize that a bank knows more about them than any other retailer, and they are expecting personalized offers, treatment and schemes. It is no longer acceptable to maintain an anonymous banking relationship," the CGI research revealed. About 55% of the respondents or digital financial consumers expect their banks to 'look out for them' by providing with wealth-building advice. A further 52% expected their banks to 'anticipate their needs' by informing them about their spending money on and how they could save.The CGI study revealed that less than 50% of the financial customers were satisfied with their regular banks. About 55% were ambivalent, dissatisfied or are highly dissatisfied. Further, the satisfaction levels were reported to be relatively consistent across generations, incomes and locations.

Customer satisfaction on how banks are meeting their needs

The CGI study too revealed the'satisfaction level' with their regular banks, and 'switching' considerations of the financial consumer in the digital era. (Figure 2).

Figure 2



The CGI study revealed important behavioural intentions about the financial consumer in the digital era. When analyzing what's important for the digital consumers, the retail banks in the above Western and European countries fell short in several categories of needs, including providing rewards for business, providing advice and money management tools and even the highly important concept of knowing the customer. The one type of needs that the banks appear to be performing well with is providing easy access to balances and transaction information to the consumer, "anytime, anyplace" (84%). This is also the category that the financial consumers are least likely to switch their regular banks for (44%).

The above findings of the level of dissatisfaction with regard to the top five needs of the financial consumer in the digital era presents a great opportunity for both new entrants and forward-thinking existing banks seeking to move ahead of the competition. Understanding consumers is critical and services are likely to evolve quickly. As consumers find new services they like and value, satisfaction with old services and products fade away quickly, allowing competitors to capture market share fast. In other industries, the speed at which the market shares are changing has transformed the valuation of brand names within these industries. This is now happening in banking, and the satisfaction levels show the potential to switch. Equally, banks that engage with consumers on a value-added and tailored basis can increase satisfaction and build loyalty. Banks are full of behavioural data and, with the right tools to analyze data and predict consumer demands, they can learn more about their customers and, in doing so, transform the consumer experience and drive satisfaction and loyalty.

Further, the lower satisfaction levels indicate the potential for consumers to switch (Figure 2). Accordingly, there is a very high likelihood of the digital consumers switching their regular bank (72%), if the reward programs are not developed up to their satisfaction levels. In summary, the banks that engage with digital consumers on a value-added and personalized basis can increase satisfaction and build loyalty. Leveraging behavioural data, and using the right tools to analyze data and predict consumer demands, financial institutions can learn more about their customers and, in doing so, transform the consumer experience and drive satisfaction and loyalty.

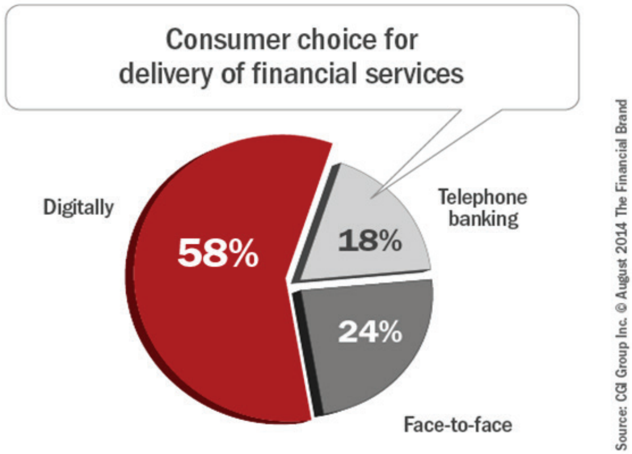
Channel preferences of the financial consumer in the digital era

The channel migration is occurring in the banking industry as a common feature, with consumers increasingly relying on digital channels to meet their everyday financial needs. The CGI study revealed that retail customers preferred the following channels for their daily financial needs (refer Figure 3):

- Digital channels: tablet, smart phone, laptop (58%)
- Face-to-face (24%)
- Telephone banking (18%)

The survey revealed that the consumers want a consistent, 'Omni channel' experience and believe that their needs can be met principally through digital channel. This is important for banks to realize when developing products and services. Further, the CGI study revealed an interesting factor. That is "although confidence in using digital channels to access and manage services was expected to vary, especially by age and income, this was not the case. Use of digital consumer technology devices to access financial services is not a generational or income based preference – digital is now and for everyone. In fact, only seven percent of respondents were not interested in accessing service offerings via digital channels."

Figure 3



The CGI study revealed further interesting and vital facts about the financial consumer in the digital era, to help banks on their digital transformation journey. It was revealed that today's digital consumer wants to be known and recognized, with personalized solutions being offered that provide purchase insights and financial management tools. Further, the financial consumer in the digital era prefers to access these solutions through digital channels (58%), but want to have equal or better service through other channels, such as face-to-face services (24%) or telephone banking (18%) as well.

Why financial consumers in the digital era switch banks?

The CGI Group survey revealed three main reasons why financial consumers in the digital era switch banks:

1. The majority of consumers switch their regular bank as a result of poor services (40%)
2. Finding better rates elsewhere was a strong reason to switch their regular bank (39%)
3. The lack of security at their bank was a reason for the customer to change banks (38%)

Further, it was revealed that the consumers would consider changing their regular bank, if another bank offered them a better service on the following needs. These have been valued as the consumers' top 5 banking needs in the digital era.

1. Reward me for my business (72%).
2. Give me "anytime, anyplace" access to my balance (44%).
3. See me as a person (52%).
4. Provide me with wealth-building advice (56%).
5. Tell me what I am spending money on and how I can save (53%)

The study results revealed that many consumers were not satisfied with the offerings of their regular banks. As a result, they were willing to switch their regular banks to receive the desired level of services from another bank. Thus, banks who act fast have the opportunity to capture the market share quickly, by exploiting high levels of consumer dissatisfaction and high switching propensity rates in the digital context.

Lessons to banks through highlights of the study

The importance of digital consumerism in banking has been highlighted by the financial consumer in the digital era by way of sending clear messages to the banks. They are expecting custom-made, value-added, personalized services that support their spending and wealth generation goals. These goals are highlighted many a time, so that the importance of accessing these preferred services through favoured digital channels is very high. Consistent, omni-channel service is just as important as maintaining high levels of security for consumers' financial affairs and data. Fast, smart movers in the banking industry have the opportunity to rapidly capture market share, by exploiting high levels of consumer dissatisfaction and high switching propensity rates.

In this scenario, with smart financial consumers in the digital context, what can the banks do? Merely digitizing the existing processes will not be adequate. In the digital era, a successful bank will have to take an 'outside-in' approach, analyzing customer behaviour patterns and developing digital processes and services that respond to those patterns. This approach is in contrast to the traditional 'inside-out' approach. Thus, significant changes need to be made to the existing traditional processes within the banks.

Based on the study results, the CGI Group recommends six actions to help banks on their digital transformation process in the digital world (Source: www. cgi.com)

1. Know your customers and put them first

Customer expectations today are being molded by retail industries and customer-centric technologies. The collection, analysis and use of customer intelligence allows personalized and value-added products and services to be delivered. Other industries are investing in these capabilities and technologies and forward-thinking banks are following suit. Through interactive digital channels, banks can access rich customer data and insight that can transform them into customer-intelligent organizations, better understanding their customers' choices and preferences. Customer data silos first need to be broken down and integrated so that banks can understand where, when and how their customers are engaging with them. Customer data then needs to be collected and analyzed to develop a "360-degree view" of each customer. With this level of customer knowledge, banks can transcend traditional banking to become relevant, valued financial partners to their customers.

2. **Innovate and deliver value-added services**

Banks today are challenged to provide consumers with more than traditional bank services and products. Many new entrants are competing for a share of the financial services market. It is becoming easier for consumers to switch to non-bank providers to manage payments, obtain a loan, and handle other financial services. Banks that take action to become more than a repository for their customers' money and manage other aspects of their financial lives are most likely to succeed against these new market entrants. Some banks will not want to innovate with truly new services and will prefer to follow other market leaders. For these banks, it is critical to have omni-channel portals that enable them to deploy prebuilt services (known as apps and widgets) rapidly across digital, call center and branch channels at the same time. Feedback from new services needs to be gathered to improve customer segmentation and predictive capabilities, allowing these banks to improve margins while lowering the costs of acquisition and cross-selling. For the market-leading innovators, it will be critical to not only have their own innovation labs, including sandboxes, but also to engage with the plethora of new startups and open software innovators to help speed up the innovation process.

3. **Build brand value across all channels**

While consumers are increasingly accessing bank services via digital channels, some still prefer face-to-face or telephone interaction, and some banks are building their brand around this value. Community banking and supporting people, families and local businesses offer high-value opportunities tocreate strong brands and safeguard market share. What really matters is what your bank brand stands for and how you translate this across all your channels consistently. No matter which channels are used, consumers want more than an anonymous banking relationship. They want to be known and receive personalized attention, support and services. Thus, channel integration is key to providing a personalized and consistent customer experience that builds brand value.

4. **Reward customers**

Banks have more opportunities to understand and target their customers than almost any other industry because of the rich customer intelligence they hold. This data can support a wide range of partner and bank reward programs to build loyalty, such as preferred rates on car financing, discounts on various products from the bank and third parties, cashback offers and more. Loyalty based programs can be offered more dynamically and interactively through digital channels and tied with just about any type of bank service. The payback is not only more loyal customers, but also new income streams and new sources for acquiring even more customer data. Customers should be able to view their personal loyalty program from any channel and any device, and the program should be regularly updated to reflect changes in their financial status and habits. As in the retail and travel industries, bank loyalty programs can be based on earned points and tiring to attract increased loyalty. In return, the customer is offered enhanced services and benefits because of their loyalty with the bank.

5. **Become a trusted and secure financial advisor to your customers**

Consumers already trust banks with their money. The next step is to become a trusted partner inhelping consumers to manage their spending and wealth creation. With rich consumer intelligence,banks can offer highly targeted financial services that are tied to personalized loyalty programs. Video, geo-location, social engagement and other supporting technologies facilitate proactive, personalized interaction with bank experts that fosters trust, delivers what customers are looking for, and builds long-term relationships while remaining regulatory compliant. Strong cybersecurity is also a key component of building trust with consumers, as well as protecting reputation and brand. Banks that raise their security and counter-fraud capabilities will ensure that they are trusted custodians of their customers' money and private data.

6. **Prepare for the next phase in the digital revolution**

The survey findings and analysis inform banks what needs to be done now. CGI, however, is already witnessing the next phase, which is characterized as "deep digital." Deep digital is the digital transformation of the bank's organization and processes.

This has several objectives:

- Lowering costs by digitizing processes and using a less permanent workforce
- Responding to aging workforces by digitizing specialist knowledge and leveraging
- Shared services in lower cost locations
- Removing paper through digital capture, data extraction and storage
- Using agile infrastructures and standard application components to move to pay-as-you-use
- Connecting everything as we move to the "Internet of Everything"

Finally, it is evident that "creating more value for customers is a hallmark of successful and growing organizations. But, the field of competitive battle has changed. What customers value today is different from what they appreciated years ago, and will be very different once again in the rapidly unfolding future". - Ron Kaufman, author/founder of 'UP Your Service! College'.

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