Finextra

THE CRITICAL CHANGE YOU NEED TO MAKE TO YOUR CUSTOMER ENGAGEMENT STRATEGY

Revitalise Retail Banking Agility — Embrace the Larger Ecosystem

Diebold Nixdorf

01
EXECUTIVE SUMMARY

At Diebold Nixdorf's 31st annual International Management Seminar (IMS), more than 200 financial executives from around the globe explored the importance of focusing on customer journeys.

WHY?

In the past, banks have concentrated on improving individual transactions, but the necessary revitalisation of banks can only be achieved when they consider the whole end-to-end (E2E) journey of the customer, not just the individual steps, transactions or touchpoints comprising it.

In this report, produced by Finextra in conjunction with Diebold Nixdorf (DN), we'll explore the current realities of the banking ecosystem—and share key insights from industry experts on how today's financial institutions can meaningfully transform.

The tools to enable this transformation are available: new digitisation capabilities; omnichannel enablement; regulatory changes that are opening-up markets; data analytics and AI; Open APIs; and X-as-a-Service. But their successful deployment is dependent on a fundamental change in approach and environment at all levels (structural, operational and technical), transforming the bank into an organisation founded on innovation and agility.

The purpose of this paper, is to identify these key challenges, provide practical examples of what banks around the world are doing about them and to set out the key aspects of a new future-proof strategy for retail banking.

The paper is supported with insights and information obtained at DN's International Management Seminar 2018 (IMS 2018), held in Lisbon on 8th – 10th October and titled 'Revitalising Retail Banking Agility—Embrace the Larger Ecosystem'. The IMS event is ranked in the top 10 of worldwide banking conferences by bankingtech.com, and provides an unparalleled opportunity for senior delegates and decision makers from banks across the world to share knowledge, develop connections and obtain insights and answers from industry experts to the many strategic challenges facing them.

This paper is divided into three sections that include examples of how banks around the world have used these tools and techniques to transform their retail businesses:

- First, we'll identify why banks must transform—the key challenges, issues, risks and opportunities they face in the retail market.
- Second, we'll set out the goal of transformation—how the latest thinking around customer journeys, putting the customer at the centre of a bank's focus, provides the key to successful transformation.
- Lastly, the paper discusses how to manage the transformation—the deployment of an agile approach to innovation and advanced operating and X-as-a-service models.

Ultimately, the prize available to a bank is to use regulatory changes such as Open Banking and PSD2 to position itself at the centre of a Connected Commerce ecosystem comprising a variety of partners. This will assure the bank's continued relevance to the key journeys of their personal and business customers in both the physical and digital worlds. Connected to customers and the banking ecosystem through integrated touchpoints —from mobile and IoT to the ATM and branch—and enabled by Open APIs and innovative software, the bank becomes the one, indispensable partner their customers take with them and use everywhere.

The modern imperative for banks is to remain relevant to—and engaged in— their customers' lives. If banks fail to do this, tech giants and large retailers will poach higher-margin business, leaving them as simple providers of account ledgers.

DON'T LET THAT BE YOU.

"Digital Transformation is hard because companies are specifically built not to transform... Many orgs don't need to know about the future because they aren't currently working in the present... WHAT YEAR IS IT IN YOUR COMPANY?"
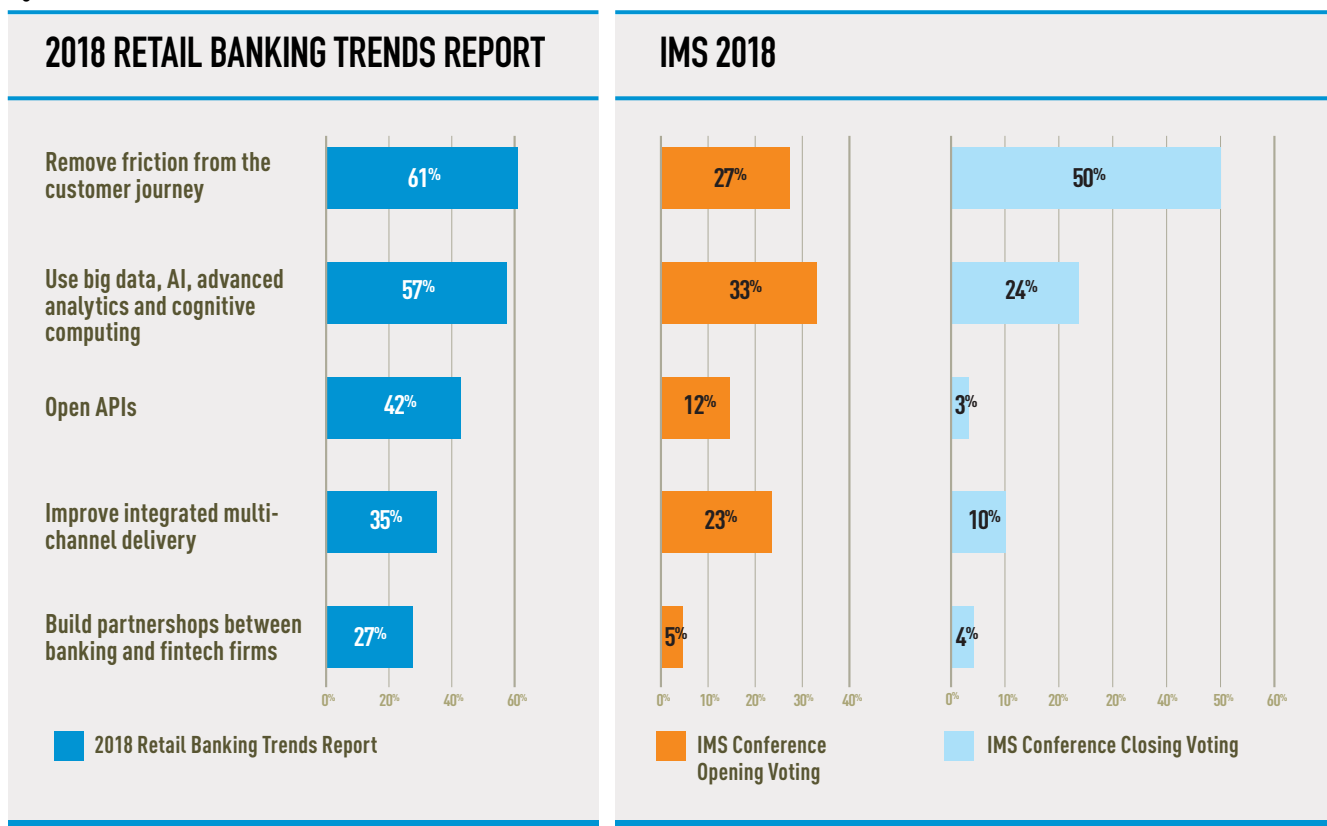BEN HAMMERSLEY, FUTURIST, TECHNOLOGIST, UNITED STATES

02
WHY BANKS MUST ACCELERATE THEIR TRANSFORMATION JOURNEY

To be successful, the strategic change programme of a retail bank must be founded on a robust understanding of the major trends affecting its market—how the expectations of their customers are changing, what their competitors (both new and traditional) are up to and the extent to which new regulation and technologies will cause disruption.

In order to gauge the attendees' perception of the key trends affecting retail banking, two in-conference votes were held at IMS 2018, one at the beginning of the event and one at the end. The polling was based on trends identified in the 2018 Retail Banking Trends Report by The Financial Brand. For comparative purposes the results of this report are also included in the table below:

Fig. 1

2018 RETAIL BANKING TRENDS REPORT

Remove friction from the customer journey	61%
Use big data, AI, advanced analytics and cognitive computing	57%
Open APIs	42%
Improve integrated multi-channel delivery	35%
Build partnershops between banking and fintech firms	27%

■ 2018 Retail Banking Trends Report

IMS 2018

IMS Conference Opening Voting	IMS Conference Closing Voting
27%	50%
33%	24%
12%	3%
23%	10%
5%	4%

■ IMS Conference Opening Voting
■ IMS Conference Closing Voting

Source: 2018 Retail Banking Trends Report, The Financial Brand
Voting with multiple selection

Voting with single selection only

Both IMS 2018 delegates and the 2018 Retail Banking Trends Report arrived at the same conclusions:

- Improving customer journeys (for both internal cost / efficiency, and external client experience reasons)
- and maximising the various benefits of big data and Artificial Intelligence (AI)

are the two current market trends that the industry is prioritising. By considering these survey / poll results alongside other studies and presentations at IMS 2018, the four "mega trends" noted in Fig. 2 were identified during the conference as the key challenges affecting retail banking.

Fig. 2

FORCES IMPACTING THE COMMERCE LANDSCAPE

Rising Competition

Shifting Cost Basis

Consumer Evolution

Unbundling
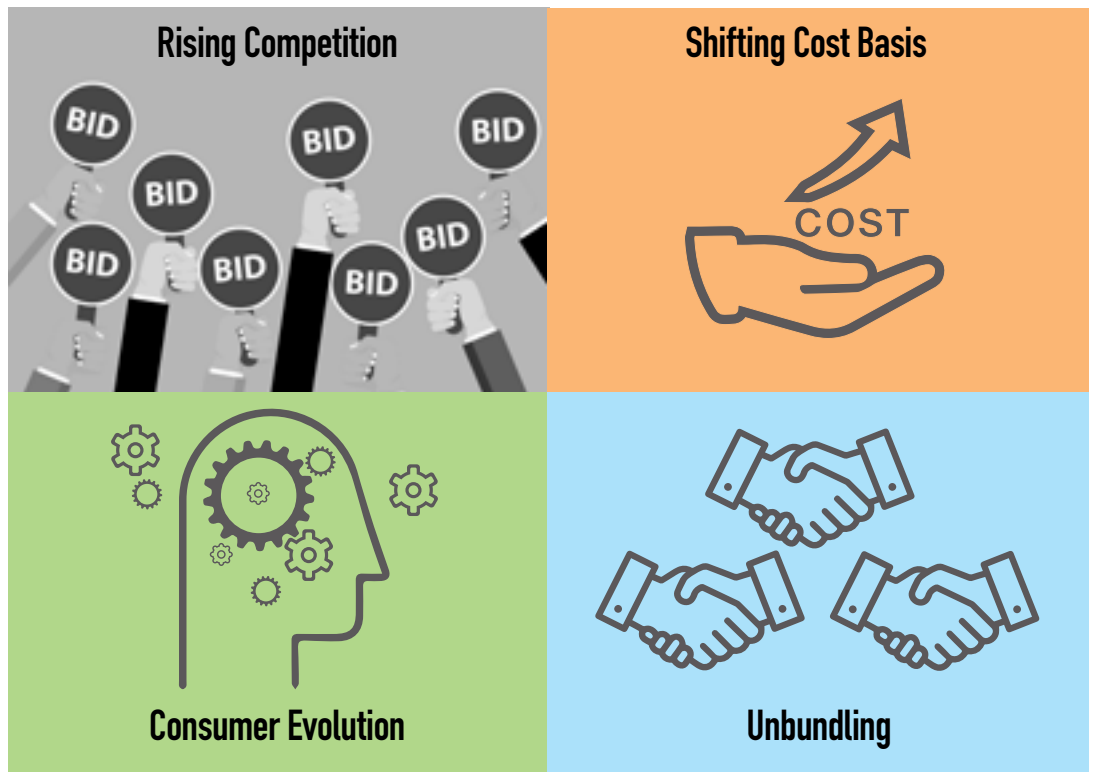
MEGA TREND #1
RISING COMPETITION

The competitive threats to the business of traditional retail banks comes from digital giants (e.g. Google, Apple, Facebook, Amazon and Alibaba [GAFAA]) and small challengers (digital banks, fintechs, payments companies, retailers).
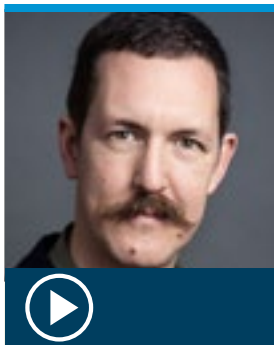
"The Financial Services Sector is perhaps right at the frontline of people's jobs to be taken by AI."

Ben Hammersley, Futurist, Technologist, United States

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MEGA TREND #2
SHIFTING COST BASIS

The cost of providing services is changing; from branches, people and paper-based processes to automation, digitisation, AI and self-service. Several presentations at IMS 2018 explored how this strategic trend—when manifested in branch transformation and digitisation initiatives—can deliver the twin benefits of improved user experience and reduced operational costs.

"We aspire to make the customer journey smarter and more rewarding while reducing cost and increasing satisfaction via self-service."

J.A. Fernández Freire, Head of Channel Transformation, BBVA, Spain

BBVA

CONSUMER EVOLUTION

There has been quite a fundamental shift in the behaviour and expectation of the customers of retail banks. Today's customers:

- are more tech-savvy.
- use social media as never before, so bad news about banks travels fast and with impact, but so do personal recommendations.
- are promiscuous with their business; the concept of a single 'bank for life' has gone.
- place their trust in tech companies rather than traditional banks.
- have an expectation that the physical and digital offerings of banks will merge seamlessly in their daily life.

Having said that, it's become clear that the customers of retail banks want and expect digital journeys that are supported by people whenever they need that support.

"We've been hearing the same thing over and over again: That physical and human interaction still matters—and it does—and it makes a huge difference for us."
Pouria Tehrani, Director of Physical Footprint Strategy & Development, Scotiabank, Canada

This point was highlighted in the retail-influenced workshop on customer journeys held immediately before the conference. The workshop was led by retail specialist John Ryan (Publisher of Newstores), who said that it's the human elements that make customers feel valued and can be vital in getting customers to return to banks' branches and stores.

"Customer Science is about the future of customer servicing... to connect customer behavior with system data in real time with the objective of driving actionable insights and proactively intervening into the customer's journey through predictive servicing."

Albert Kho, Managing Director, Head of Singapore Consumer Banking Operations and Regional Self-Service Banking, DBS Bank, Singapore

DBS

"Our innovation ethos, 'tech and touch' ... is a philosophy of offering customers a modern banking experience complemented by a strong human element."

Andre Duarte, Associate Vice President, Self-Service Banking & Branch Transformation, Emirates NBD, United Arab Emirates

Emirates NBD
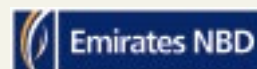
MEGA TREND #4
UNBUNDLING

New banking regulations such as PSD2 in the EU, Open Banking in the UK, NPP (New Payments Platform) in Australia and similar legislation in other countries are aimed at increasing competition in the banking industry, improving customer choice and experience and providing certain new protections. This opening-up of the banks' domain will lead to the formation of new partnerships of players from both inside and outside of traditional banking and based on Open APIs. Banks must consider the role they want to play in this new API-based world, how to take advantage of it and how to manage it.

But it's not just the existence of these mega trends. It's the unprecedented speed, depth and intensity with which they are affecting the financial world. So how should banks respond to these disruptive trends? The next two sections of this paper explore the goal of bank transformation and how banks from across the globe are evolving in response to these challenges.

03
HOW BANKS ARE BUILDING SEAMLESS, INTUITIVE JOURNEYS THAT TRANSCEND CHANNELS

As supported by presentations from banks from across the world at IMS 2018, the goals of retail bank transformation projects generally fall into four areas:

- provide optimised, seamless and friction-free customer journeys across both digital and physical channels
- personalise service
- enable innovation and agility
- streamline service

The changes necessary to deliver these goals must be initiated across all levels in the organisation—structural, operational and technological.

In accordance with these goals, the most critical initiative modern banks can undergo is to take a fresh look at their approach to enabling customer journeys. In the past, banks have concentrated on improving individual transactions, but the necessary revitalising of banks can only be achieved when they consider the whole end-to-end (E2E) journey of the customer, not just the individual steps, transactions or touchpoints comprising it. As the Harvard Business Review put it, "touchpoints matter, buts it's the full journey that really counts".

"Customers experience companies through E2E experiences, not through the touchpoints. When we design new features we will think from outside in: we will start with the customer journey and what it is that we want the customer to feel. From there we will see what touchpoints are supporting this customer experience, then what underlying processes are going to build the entire E2E process. And then that will hook into the core systems through the APIs and integrate with third-parties."

Allan Severinsen, Vice President, Development Manager, Bankdata, Denmark
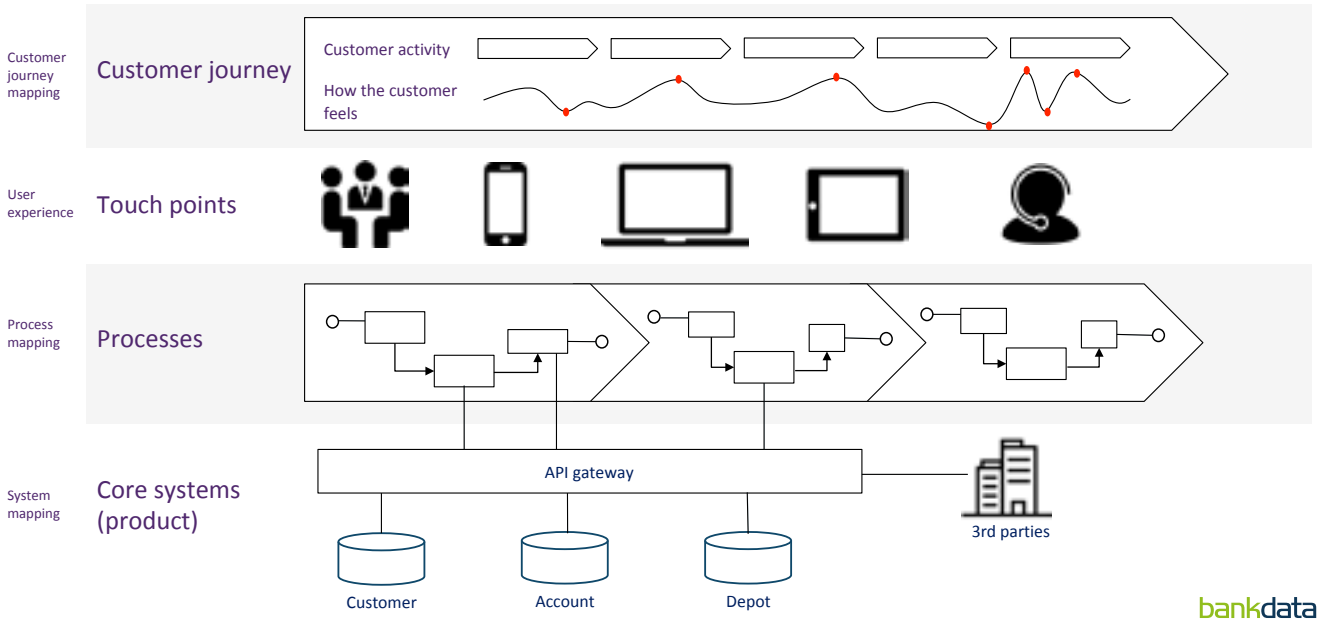
bankdata

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In Fig. 3 Severinsen illustrates how an approach based on customer journeys permeates the whole Bankdata organisation, driving change in both the operational processes and the technology that supports them:

Fig. 3

Customers experience companies through end-to-end experiences, not touchpoints

Hence, banks must transition from a transactional view to a focus on the overall customer journey, a true E2E view: "focus on the journey, and then let the technology enable it", as Devon Watson, Diebold Nixdorf CMO, explained. This view must include both physical and digital channels and focus on making their interaction as seamless as possible through the overall journey. Further, the approach should also underpin other strategic initiatives such as digitisation and omnichannel.

This customer-journey-based approach to transformation has become increasingly important for banks, and continues to evolve. It is a fundamental enabler, allowing banks to gain insights into additional enfranchisement opportunities available to them through an understanding of their customers' daily lives—personal, business, etc.

"More than transactions, these are connected journeys, how consumers move through their daily lives ... banks should add value at every step. Whether that's giving the consumer an insight, whether that's helping guide them to the next step or trying to upsell or cross sell."

Devon Watson, Chief Marketing Officer, Diebold Nixdorf, United States

The key to unlocking the value inherent in customer journeys is data—the information the bank already knows about their customer. In the future, banks must use the data they have on their customers' lives in the same way as the tech giants do today.

MANY BANKS ARE ALREADY EMBARKING ON THEIR OWN UNIQUE VERSIONS OF TRANSFORMATION. HERE ARE SIX REAL-WORLD EXAMPLES:

EXAMPLE #1
BRANCH TRANSFORMATION
The importance of improving physical channels to keep pace with digital.
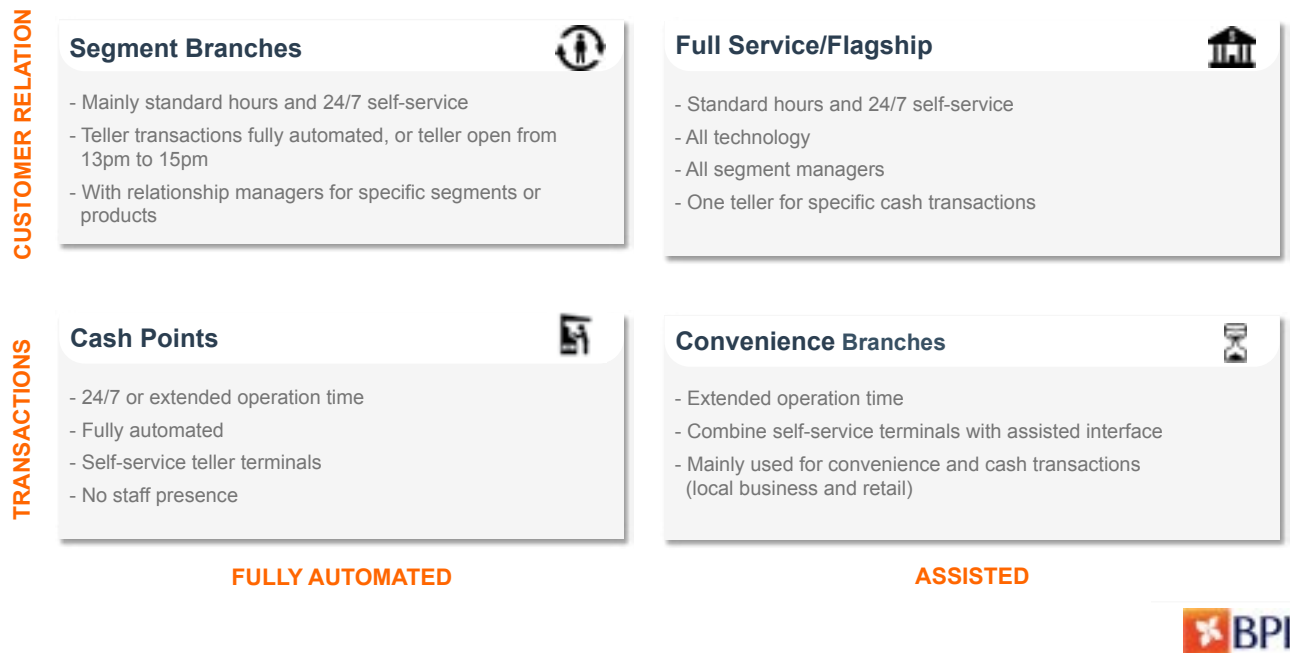

Despite the implementation of various digital channels, including online banking and mobile apps, bank branches—that is, their physical presence—remains highly relevant to the overall consideration of customer journeys. Hence, making a step-change improvement to the E2E experience of in-branch customer journeys (i.e. journeys involving a physical channel) is critical to a successful banking transformation initiative.

Portuguese Bank BPI focuses on three pillars of branch transformation:

• Automation: They aim to automate 100% of their teller transactions
• Digitisation: Their goal is to convert 100% of their business processes to digital.
• Branch models: They identified four news branch archetypes that would meet the needs of modern customers: Full Service / Flagship, Segmented, Convenience and Cash Points. See Fig. 4 for more detailed explanations of each branch type.

Fig. 4   13

BRANCH MODELS

CUSTOMER RELATION

Segment Branches

- Mainly standard hours and 24/7 self-service
- Teller transactions fully automated, or teller open from 13pm to 15pm
- With relationship managers for specific segments or products

Full Service/Flagship

- Standard hours and 24/7 self-service
- All technology
- All segment managers
- One teller for specific cash transactions

TRANSACTIONS

Cash Points

- 24/7 or extended operation time
- Fully automated
- Self-service teller terminals
- No staff presence

Convenience Branches

- Extended operation time
- Combine self-service terminals with assisted interface
- Mainly used for convenience and cash transactions (local business and retail)

FULLY AUTOMATED   **ASSISTED**

BPI

Similarly, Canadian-based Scotiabank is working on a retail banking transformation programme that includes transforming their physical network. Their approach is founded on a 'One Bank Experience' (i.e. omnichannel) focused on ease of use and the provision of insightful information through "intuitive touchpoints on customer journeys".
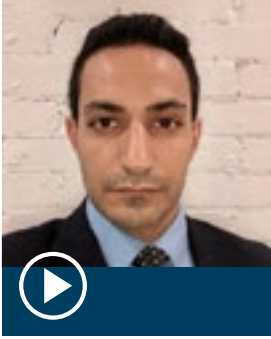
"What we learned is ...if you are going to transform, do not transform an existing branch to teller less. This is a big 'no go' in terms of the customer experience."

Pouria Tehrani, Director of Physical Footprint Strategy & Development, Scotiabank, Canada

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The transformation of Scotia's physical presence, allowing the requirements of local markets to determine the type of branch (sales / advice / relationship management-based, ATM-based, mixed, etc.), is intended to produce a series of benefits: evolving the role of tellers, optimising the branch footprint, implementing new branch archetypes, reducing the square footage of branches and optimising the network to meet the needs of local clients.

EXAMPLE #2
OMNICHANNEL COMMUNICATION FEED
Gluing together all customer experiences and journeys.

As part of their branch transformation project, BPI, Portugal implemented an omnichannel user experience that includes an omnichannel communication feed. This feed enables the bank to send personalised marketing messages to its customers, using what the bank knows of its clients' needs and habits to suggest products and services to them ('service-to-sales conversion').

BPI makes extensive use of AI technologies to provide these personalised messages. It can also provide customer alerts (e.g. advice of overdrawn positions), handle various account-based transactions on a self-service basis and schedule meetings with the bank. Importantly, the omnichannel comms feed looks and feels the same irrespective of which channel the customer—or the employee—is using: mobile, tablet, laptop, ATM, branch network, etc.

BPI refers to their app and comms feed as a 'bank in the pocket'—a perfect example of design thinking based on customer journeys.

"We have developed an omnichannel communication feed ... which is present in all the channels that we have ... It's really important and is the glue for all the experiences and journeys we want customers to have in the multiple channels."

Francisco Manuel Barbeira, Executive Board Member,
Leading Digital Transformation, IT & Operations, BPI, Portugal

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EXAMPLE #3:
DIGITAL ON-BOARDING
Using digital channels to provide frictionless customer journeys.

Developing an automated, hassle-free on-boarding solution is another major prerogative of many banks. The digitisation of previously manual and paper-intensive processes can make a significant improvement to customer journeys.

Scotiabank auto-enrolls all new customers into their digital channels as part of the account opening process. Tatra banka of Slovakia has gone even further with their fully digital automated on-boarding solution, available via mobile app. It has improved client experience by reducing the account opening process from an average of 35 minutes in a branch, to just about a minute via the app. As well as decreasing the bank's operating costs, the approach gets the customer using and experiencing the benefits of Tatra's mobile app straight away.

> **"One of the newest innovations we have brought to the Slovakian market is using facial recognition to open current accounts and drawdown unsecured loans, without the necessity to visit the branch … the process is so speedy, it's outstanding in terms of customer experience."**
>
> **Ing. Peter Matúš, Member of the Board, Tatra banka, a.s., Slovak Republic**

TB
TATRA BANKA

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EXAMPLE #4
DIGITAL KIOSKS AND MINI BRANCHES
### Finding the sweet spot for personalisation through a hybrid digital-physical approach.

Emirates NBD faced two strategic challenges—re-imaging their physical presence in a digital world, and servicing customers who still require physical human assistance. This led them to develop the 'EasyHub' concept: digital kiosks that function as mini-branches, where customers can transact with the assistance of a video banker.

> **"Emirates EasyHub stands on our high-tech-with-high-touch philosophy that combines digital convenience with the comfort of human touch."**
> **Andre Duarte, Associate Vice President, Self-Service Banking & Branch Transformation, Emirates NBD, United Arab Emirates**
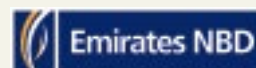
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EXAMPLE #5
DIGITAL SALES
Digital customer journeys as a sales enabler.

A focus on customer journeys is also at the centre of BBVA's Digital Transformation programme: The bank realised that as mobile engagement grew, digital sales were a new growth opportunity.

> **"Back in 2014, we detected some indicators of changes in customer behavior; branch activity was decreasing firmly. At the same time, mobile interactions started to grow significantly and digital sales became a remarkable part of total sales."**
> **J.A. Fernández Freire, Head of Channel Transformation, BBVA, Spain**

This led the bank to develop a new approach to digital sales, designing and implementing a new digital marketing strategy based on smart targeted advertising via their captive channels: 'helping people to take their best financial decisions'.

A mark of the success of BBVA's digitisation strategy is that they've turned their ATM, online and mobile app channels into sales enablers (an automated, virtual sales force) and today more than 50% of their new sales are achieved digitally. Similarly, Tatra bank said that 30% (and growing) of their sales are now made through digital channels rather than their branches.

EXAMPLE #6
FRICTIONLESS STAFF JOURNEYS
Improved staff journeys can drive enhanced customer experiences.

The creation of frictionless journeys for bank staff is also an important part of bank transformation. While automation / digitization and omnichannel are part of the equation, bank transformation is not complete without also focusing on in-branch people and processes. The transformation and improvement of staff journeys really goes hand-in-hand with improvements to customer journeys—by making it easier for a staff member to serve a customer, the bank also improves that customer's journey. Such staff-based improvements also support the overall goals of the bank by increasing sales and increasing operational efficiency.

For example, part of Emirates NBD's transformation programme was focused on the digitisation of staff processes and operations. They issued tablets running their 'Cockpit App' to all in-branch staff, empowering them with "a single front-end dashboard with a 360-degree view of the customer and instant service and sales functionalities". This is part of Emirates NBD's new 'tablet banking approach' that also encompasses sales executives and relationship managers.

> "People talk about this idea of getting to an audience of one…. I don't believe in an audience of one as a design paradigm for digital experiences. It is far too difficult and honestly we are just all not that different from one another. So we talk about designing for your customers' moments."

Julie A. Ask, Vice President, Principal Analyst, Forrester, United States

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THE ULTIMATE GOAL: EMBRACING THE LARGER ECOSYSTEM THROUGH CONNECTED COMMERCE

Whilst of significant value to the banks and their clients, these examples have addressed the concept of customer (and staff) journeys only in the context of the relationship between the customer and the bank—i.e. the things that happen within the bank. But as noted in Section 2, regulators have instigated the possibility of a new world based on Open APIs.

This new, interconnected world offers banks the chance to move beyond their current strategies based on omnichannel and digitisation, and into connected commerce; working with external partners to develop ecosystems supporting their customers in all aspects of their lives, rather than just the financial, and based around mobile apps supplied by the bank.

"Omnichannel is very important ... but omnichannel in the longer term is a little bit limited. Because when we talk about omnichannel, we are talking about our own products, on our own channels with our own customer. The idea of connected commerce is to go beyond that ... thinking about: How do we partner with the outside ecosystem? How do we use these new technologies like API-driven architectures to enable a way to plug in various providers, so that you (FIs) can own the user experience E2E ... let's think about your channels, somebody else's products, somebody else's customers."

Devon Watson, Chief Marketing Officer, Diebold Nixdorf, United States

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Perhaps, for example, someone decides they want to open a bakery. Traditionally, their bank might help them by providing a loan to buy the premises, an overdraft for working capital, business insurance and electronic banking to manage their cash and make payments. All of this being provided using slick digitised processes and with an omnichannel customer experience.

However, in providing just these services, the bank is thinking of just its traditional financial touchpoints. It's missing the larger picture of the customer's goals, of the whole customer journey. The bank knows that their customer is planning to open a bakery, and so could also connect and support them in new ways:

• Pointing them to vacant business premises in their chosen vicinity
• Offering legal assistance when buying the property
• Providing them with details of companies able to install the kitchen and large ovens they require
• Building a list of suppliers
• Highlighting potential buyers in the area (hotels, shops, schools, etc).

By thinking in terms of the overall journey, a whole series of additional opportunities opens up to the bank, to work with partners and place itself at the centre of the fulfilment of the customer's on-going business aspiration (and thus remain relevant beyond a single transaction or a minimal engagement).

Fig. 5 illustrates the difference between a traditional approach and one that embraces connected commerce through two customer journeys: buying a house and attending a football match. Using a connected commerce approach, the bank creates an ecosystem encompassing all aspects of the customer's E2E journey, placing itself at the centre of its client's life, making itself relevant to them at all times.

Fig. 5

Example	Traditional / Omnichannel Journey	Full Service/Flagship
Buying a house	The bank offers a seamless journey to apply for a loan via different touchpoints.	The bank stays with the consumer along the entire home-buying journey by creating an ecosystem comprising all the parties involved in purchasing a house.
Attending a football match	The bank offers various payment options in the stadium or even offers a ticket purchase journey via different touchpoints.	The bank partners with the football club to create an ecosystem that allows them to stay with the consumer along the complete football match journey—from buying the ticket, purchasing merchandise, through to celebrating the win with a cold drink.

By developing and providing the ecosystems necessary to support complete E2E customer journeys, this connected-commerce-based approach will enable banks to respond to the various market trends identified in Section 2, turning challenges into new competitive advantages. The ecosystems concerned would comprise a variety of external / third-party partners—retailers, fintech firms, regulators, developers, non-banking firms and even other banks.

Further, by placing themselves at the centre of a customer's daily life, banks become ideally placed to compete to own whichever aspects of the overall ecosystem they believe are profitable. Critically, they must leverage the masses of data they hold on customers (containing vital insights) to remain relevant to—and involved in—their lives.

In the absence of such a proactive approach, customers may continue to feel that they could probably survive without their bank. With a connected-commerce approach, that paradigm shifts, and the bank becomes integral to their everyday life. How this and other important aspects of bank transformation are implemented are discussed in the next section.

04
WHERE BANKS CAN MAKE THE BIGGEST IMPACT—QUICKLY

Retail banking is now at a crossroad. Banks face a stark choice between remaining with the tried and tested, risk-adverse business models of the past and a (for many) daunting future based on flexibility, responsiveness and partnerships. In a word, banks must transition from 'Waterfall' businesses to 'Agile' businesses. This new dynamic approach—a revitalising of retail banking agility—is the only future-proof strategic response to the mega trends detailed in Section 2.

However, to achieve this level of agility, banks must enable a fundamental change in culture and mind-set throughout their whole organisations whilst, of course, still fulfilling their regulatory obligations.

"BBVA became the first agile-based bank in the world. We even changed the BBVA purpose...we're moving to an agile-based environment in the whole organisation. What are the deliverables after that huge transformation? First of all we need to amaze our customers. Everyday."

J.A. Fernández Freire, Head of Channel Transformation, BBVA, Spain

BBVA

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The success that BBVA has had with driving transformation through an agile approach is illustrated in Fig. 6.

Fig. 6

BBVA Agile methodology expansion scope

BBVA Creating Opportunities

In the **early stages** our Digital Bank (Spain only) was structured in **10 Programs and 10 scrums**, after some months we scaled up to **36** scrums, in BBVA Digital bank

Currently our Spain's Single Digital Agenda (only retail banking), is structured in **106 (x10) initiatives and 172 teams**, showing the great engagement with road to Agile
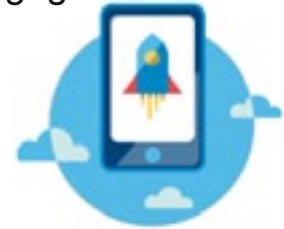
The fundamental change of approach from the traditional 'command and control' model must begin at the top of the organisation with the full and continuous support of the bank's Board and Executive Management. With this in place, the use of agile techniques both in IT development (moving away from the previous waterfall methodology) and in process and new product redesign can begin.

In most banks using the agile approach, 'scrums' comprising staff from multiple disciplines are used to develop, advance and implement change in accordance with agreed lists of priority areas. Scrums are also being used to deliver the individual elements of strategic, large-scale transformation programmes.

"There are different tools that we use in terms of agility. And we believe that a lot of what brings agility is collaboration within the different groups and understanding what our customers need."

Rachid Molinary, Senior Vice President of Digital Strategy and Innovation
Banco Popular de Puerto Rico, Puerto Rico

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However, innovative organisations need to be brave and prepared to ditch the obsolete 'blame culture' and migrate into businesses that are prepared to experiment with new ideas. Speaking of their branch transformation programme whereby different types of branches (i.e. some self-service, ATM-based, others more fully staffed with tellers, some more sales-staff focused) are put in different areas, Pouria Tehrani of Scotiabank said "we learn to fail fast". So failure for good reasons is acceptable as it helps the organisation to learn and constantly improve. This is a key advantage of an approach based on innovation.

BANKS CAN ALSO DRIVE INNOVATION IN THEIR BUSINESSES BY 'BECOMING THE DISRUPTOR' THEMSELVES, RATHER THAN LETTING OTHERS OUTSIDE THEIR BUSINESS FULFIL THAT ROLE. THESE FOUR EXAMPLES EXPLORE HOW BANKS CAN TAKE A PROACTIVE APPROACH TO DISRUPTION:

EXAMPLE #1
EMBRACING THE API ECONOMY

New regulatory changes such PSD2 are opening up banking markets to a variety of new entrants.

"PSD2 encourages the industry to think in new ways about how to open up banking to create more competition and allow third-party actors access to consumer information. It's forcing European banks to become much more agile and creative in building platforms where they can maintain control of their own environment."
Gerrard Schmid, President and Chief Executive Officer, Diebold Nixdorf, United States

However, there is nothing to prevent traditional banks working with third parties (fintechs, etc.) in order to launch new and disruptive products and propositions into the market. By providing the necessary connectivity, Open APIs provide the key. Indeed, API-based connectivity of a variety of partners both inside and outside banking may see the development of a new commercial and social model—the API-based economy.

> "My dream is, one day we treat the CIT like an UBER driver. They only do just-in-time, they don't need the whole schedule set up."
>
> **Albert Kho, Managing Director, Head of Singapore Consumer Banking Operations and Regional Self-Service Banking, DBS Bank, Singapore**

Banks are already considering their response to the API-based economy. For example, Nordea has an Open Banking-based 'sandbox' that they offer to fintech start-ups and other partners in order to experiment with joint new products and propositions. Critically, it's the bank's platform at the centre of the new products; so customers get the new services from / via Nordea.
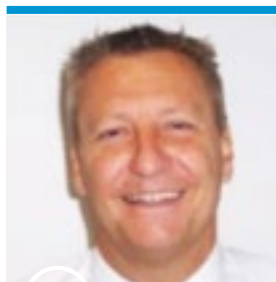
> "Many of the services that we have been testing right now on our platform are very much linked to financial services—like insurances and real estate companies. But what I foresee is that in a foreseeable time perspective, we hopefully will see some new services being launched."
>
> **Morten Olsen, Head of Branch Network and ATM Development – Global, Nordea, Denmark**

Click to watch video

Olsen went on to cite two examples of pain-points for consumers: choosing a supplier of electricity, and mobile subscriptions—which his bank, working with an ecosystem of partners, could seek to take away. He questioned whether such a solution could be "a part of an open banking platform with Nordea in the future".

Further, as detailed in the quote given at the start of Section 3, Bankdata is already planning to use Open Banking regulations to create API-based services with partners, says Severinsen, "and then that will hook into the core systems through the APIs and integrate with third-parties."

EXAMPLE #2

PUSHING THE BOUNDARIES OF SOFTWARE CAPABILITIES

Using the latest and best-in-class technological solutions and software can certainly provide a bank with a disruptive step up in providing seamless customer experiences. To this end many banks have set up their own incubators or accelerators to enable the products of start-up fintechs to reach market readiness more quickly.

Once the product is ready, the bank concerned has the first option on whether to deploy it by itself or not. Outside of AI, which is covered below, fintechs in the fields of biometrics (fingerprint / iris scanning and facial recognition), Know Your Customer (KYC) and Know Your Transaction (KYT) checks, digital identity and various payment applications are of interest to banks at the current time.

EXAMPLE #3

HARNESSING NEW USE CASES FOR DATA ANALYTICS AND AI

As a disruptive factor, AI has a plethora of potential use cases in banking:

- Enable banks to make sense of and actively use the masses of data they hold on their customers; mining data to infer information which can be used to better understand their customers' needs and concerns, improve sales and marketing activities (e.g. the BPI omnichannel comms feed covered in Section 3).
- Enable banks to provide useful and insightful information to their customers at the time they require it via mobile apps (e.g. the BPI comms feed).
- Enable banks to digitise many internal processes, reducing manual intervention and costs and increasing efficiency.
- Help to identify and reduce cyber fraud, a growing issue as retail payments increasingly become instant.
- Help to reduce 'false positives' in the checks against various watch-lists that banks perform with all payments.

Albert Kho, from DBS Bank, Singapore notes that his bank has begun using advanced AI tools to monitor the performance of their ATM network in real time. This has enabled faulty ATMs to be identified and fixed more quickly but, more importantly, has allowed predictions to be made about what is likely to go wrong, when and where—allowing the bank to get ahead of the game.

DBS also uses advanced analytics to analyse the tasks customers conduct using their mobile banking app at various times / dates, to help them improve the user experience. This combination of customer journeys with data analytics—using advanced analytics to examine the context behind and digital path followed on customer journeys—is a very powerful approach.

"If you had all the data, what can you do with it? One of the things that we had done is to look at the golden path... there could be certain 'struggles' with the banking app that we were not aware of—there is no other way to get this deep customer insight, only data can enable it. We are at the beginning of using data to really uncover the customer journeys in the digital world."

Albert Kho, Managing Director, Head of Singapore Consumer Banking Operations and Regional Self-Service Banking, DBS Bank, Singapore

Click to watch video

By identifying (proactively and through the analysis of huge amounts of data via AI) customer "struggles" in the digital journey within their banking app, DBS has gained invaluable insights into how to improve their user experience.

EXAMPLE #4

SCALING INTERNAL BANDWIDTH THROUGH X-AS-A-SERVICE (XAAS) PARTNERSHIPS

Outsourcing various aspects of non-core business to specialist external partners is becoming a widely accepted practice. It has various advantages including allowing banks to concentrate on what they are good at (providing sound financial advice and services, etc.) while paying third parties to handle things they're good at: running technology and data centres, providing testing services, providing property management services, handling various HR-related activities, etc.

This approach can act as a disruptor for the bank by providing them with operational costs savings (allowing the funds to be spent on new products and releasing FTEs to focus on customer engagement, sales and advice, etc.) and also by providing them with a step-change in service quality in the area concerned.

There are various levels of, or approaches to, implementing XaaS models. For example:

- ATM-as-a-Service: whereby a bank looks for a partner to manage its ATM fleet
- ATM Pooling / White-labelling-as-a-Service: in which a consortium manages the ATMs for various banks
- Branch-as-a-Service: whereby a bank pays a third party to provide and manage its physical branches
- Cash-as-a-Service: Cash cycle management and optimization goes far beyond CIT to include forecasting, automation, recycling solutions, real-time monitoring and more.

Cloud-based Software-as-a-Service (SaaS) utilities for activities such as AML checks on payments are already well established. Bankomat notes that the banks in Sweden have formed a new company to which they have passed responsibility for running all the country's ATMs—an ATM Pooling-as-a-Service model. This has delivered significant benefits to the banks and their customers alike.

> "Banks were faced with a strategic decision: what do we want to do (in terms of an ancient infrastructure and increased cost pressure)? They came up with the idea of ATM pooling. Essentially forming a joint company that took over the ATM business."
>
> **Johan Alvinger, Product Director, Bankomat AB, Sweden**

Click to watch video

BANKS' FOCUS MUST ALWAYS RETURN TO CREATING MEANINGFUL CUSTOMER CONNECTIONS

Fig. 7, created by Bankdata's Severinsen, offers an excellent summary of the actions necessary to providing memorable, personalised service to customers.

Fig. 7

Guiding principles are used to ensure a personalized experience

- We always start with the **customer journey** (from the outside and in)
- We use data alongside content to **adapt** to the customer situation and needs
- We use **context** like user settings and user location, customer preferences and previous behavior
- We must work **data driven** and **analytically** to gain **insights**
- We must work **channel-independent**
- We will develop **open and flexible** solutions with APIs for internal and external use
- We strive to **know and take care** of the customers personal financial situation
- We think **rewarding and gamification** into our solutions
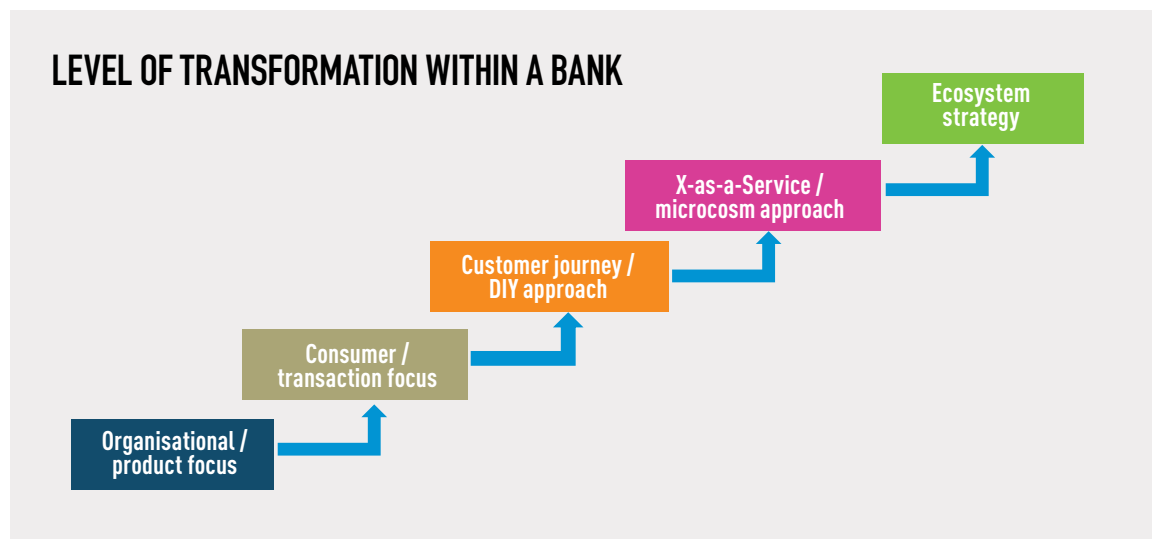
bankdata

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CONCLUSION

The mega-trends and rising bar for customer service highlighted in this report are not going away. Banks must face these challenges head-on—and do it quickly, and with confidence. As noted in Fig. 8, there are definitive steps banks can take to combat these global challenges.

Fig. 8

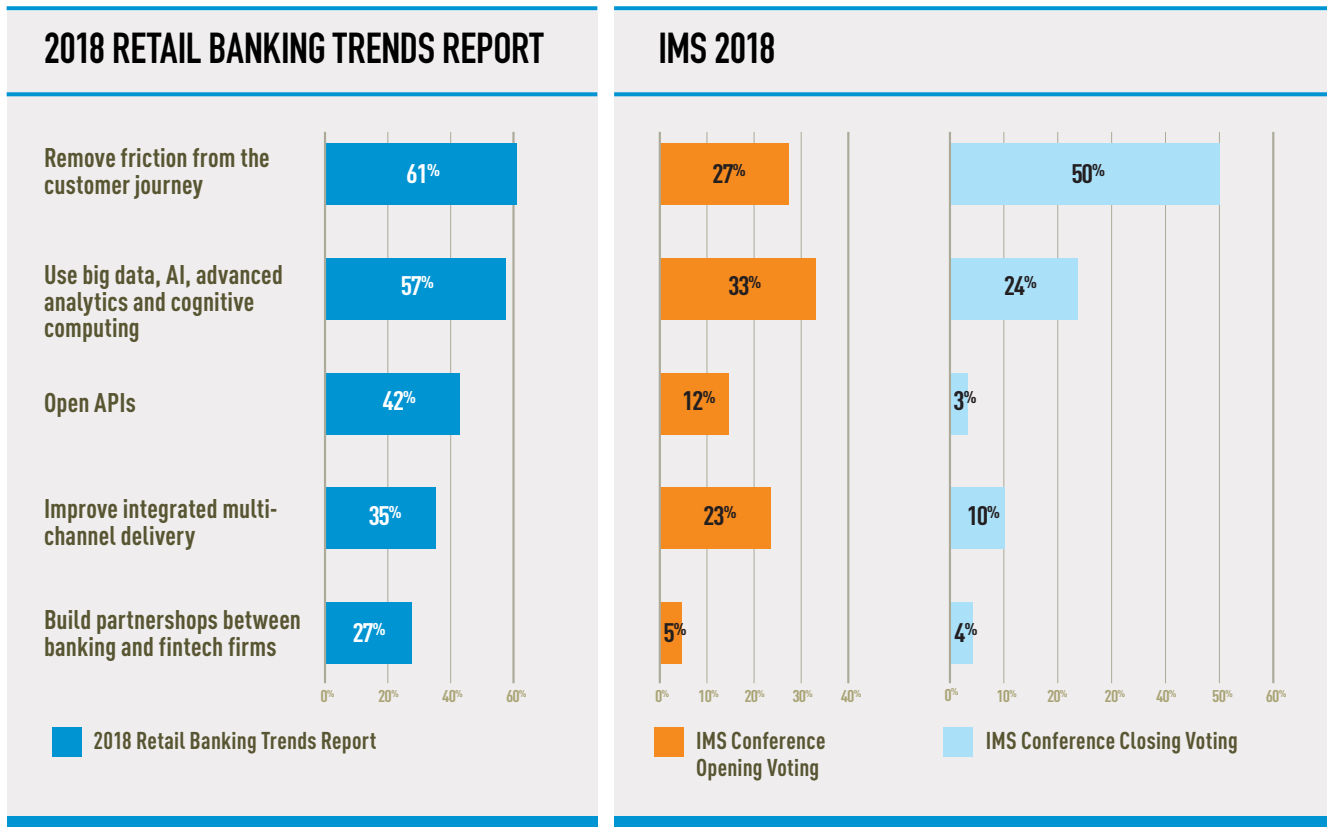| Mega Trend	Action Required
1. Rising competition	Transition from transactional (or single-function) thinking to seamless journeys
2. Shifting cost basis	Shift from Do-It-Yourself (DIY) to XaaS
3. Consumer evolution	Turn transactions into meaningful connections
4. Unbundling	Move from a microcosm to an ecosystem (Connected Commerce)

These actions are illustrative of the stages of transformation, moving from the most basic (internally focused) to the most advanced—the creation of a Connected Commerce ecosystem:

Fig. 9

LEVEL OF TRANSFORMATION WITHIN A BANK

Ecosystem strategy

X-as-a-Service / microcosm approach

Customer journey / DIY approach

Consumer / transaction focus

Organisational / product focus

As explained in Section 2 , customer journeys were the second most important market trend according to the results of the in-conference voting held at the very beginning of IMS 2018. The poll was then re-run at the end of the conference— and interestingly, customer journeys became the highest ranked trend and more than doubled its share of the vote, from 27% to 59%. Clearly the number of bank presentations at IMS 2018 that stressed the importance of a focus on customer journeys to successful bank transformation programmes had made a real impact! This sea change illustrates that banks have the appetite and interest in becoming more future-proof and innovative—when offered the tools and insights to do so.

Fig. 10

2018 RETAIL BANKING TRENDS REPORT

Remove friction from the customer journey	61%
Use big data, AI, advanced analytics and cognitive computing	57%
Open APIs	42%
Improve integrated multi-channel delivery	35%
Build partnershops between banking and fintech firms	27%

■ 2018 Retail Banking Trends Report

IMS 2018

IMS Conference Opening Voting	IMS Conference Closing Voting
27%	50%
33%	24%
12%	3%
23%	10%
5%	4%

■ IMS Conference Opening Voting   ■ IMS Conference Closing Voting

Source: 2018 Retail Banking Trends Report, The Financial Brand
Voting with multiple selection

Voting with single selection only

KEY STRATEGIES FOR MODERN RETAIL BANKING:

- Focus on E2E customer journeys.
- Personalise services to create more meaningful connections across physical and digital touchpoints.
- Embrace and explore the API-based economy to identify new opportunities to differentiate your brand.
- Move from the Waterfall method to the Agile approach.
- Consider how XaaS could support your organisation.
- Harness the power of data analytics and AI to enable data-driven decisions and customer engagement.

Bringing together a diverse cross-section of banks of various sizes from countries all around the world, IMS fosters thought leadership and provocative ways to change the face of retail banking. It was clear the banking executives and industry experts assembled at the event coalesced around key changes and mitigating strategies with tangible examples of how to move the needle. The insights gleaned provide a valuable window into the current–and future–state of the global financial industry.

What does the future hold for your own organisation? How are your unique priorities and challenges shaping your strategic direction? Diebold Nixdorf acts as a collaborative strategic partner to their clients, fostering agile, flexible, scalable approaches to solutioning that can help you evolve for whatever comes next. The company stands ready to begin charting your customer journeys together with you.

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