Disruptive Forces in Canadian Banking

Responding to changing times.

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Introduction

How Canadians define "bank" is changing dramatically. Demographic change, the rise of readily accessible digital technology, and new market entrants disrupting the status quo, are challenging banks' efforts to retain customers and continue to grow. While some banks are pioneering new capabilities, others are still trying to execute their old strategies with increasingly mixed results.

To be successful, traditional banks' success depends heavily on their ability to create new experiences and offerings that relate directly to customers' needs. This modern customer centricity pits the industry 'business as usual' product driven mentality against a new mindset for rapid, dynamic and flexible changes to process, technology and organizations.

This paper examines how firms are addressing shifts in the market and beginning with the most common challenges that we see confronting our banking clients, we will discuss some examples of how Banks are responding, before offering our own thoughts on becoming a customer-centric organization.

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CHALLENGES

More Than a Set of Transaction Records

Managing finances requires a highly personal, individualized experience. The legacy of complex, inflexible, unintegrated, purpose-built systems of record creates seemingly endless amounts of non-interoperational stores of data. Customers become a disjointed set of numbers and transactions.

This situation creates friction in customers' interactions: identical questions are continually being asked across interactions; service lacks context and personalization; and institutions are simply unable to differentiate their marketing, sales or service experiences.

These conditions exist despite banks' massive investments in customer master data aggregation ("building the 'golden' record" or "Customer360"). Ultimately these foundational investments only generate return if they cause some kind of change in the treatment of customers.

Moreover, it is incongruous to take messages to the market about customer centricity, being 'your bank', or appeal to understanding customers if the bank can't deliver on these promises. Customers are understandably cynical, and are quick to call out statements that aren't delivered upon. As one interviewee on a recent engagement said, "for all my bank knows about me, I've never received anything from them that tells me that they understand me".

Understanding your customers and their families is more critical now than ever, as over the next 50 years it's expected that more than $58 trillion in assets will be transferred from one generation to another.[1]

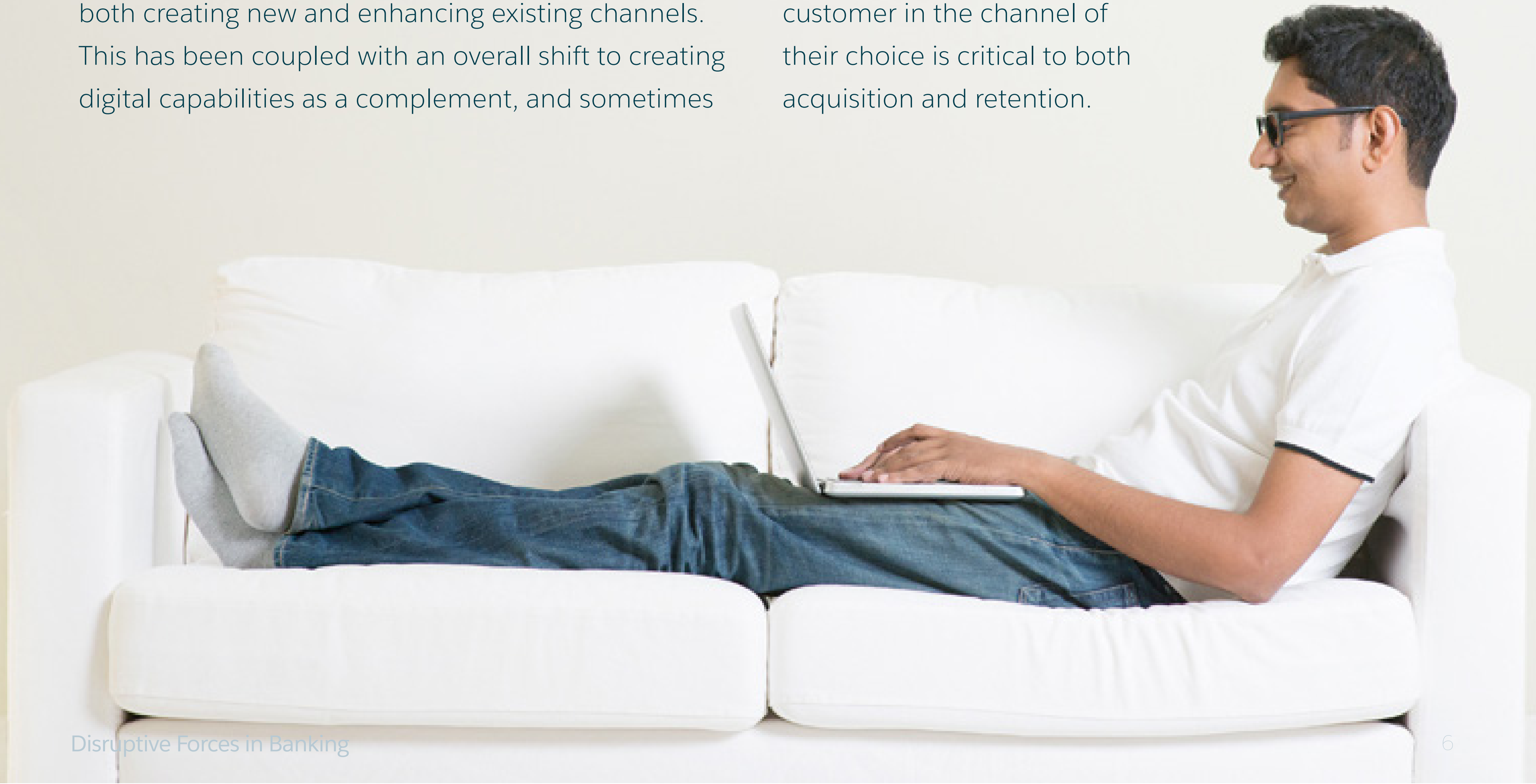
1. A Golden Age of Philanthropy Still Beckons: National Wealth, Transfer Potential for Philanthropy Technical Report, May, 2014

Stepping back, banks should be well placed to be able to take advantage of the information that they already have on customers, use the investments that they have already made in data and tools, and begin to engage the customer based on insights that they ought to reasonably have. Clearly many banks are struggling, despite generous projects and initiatives, to bring all of these tools together to start engaging in a different way.

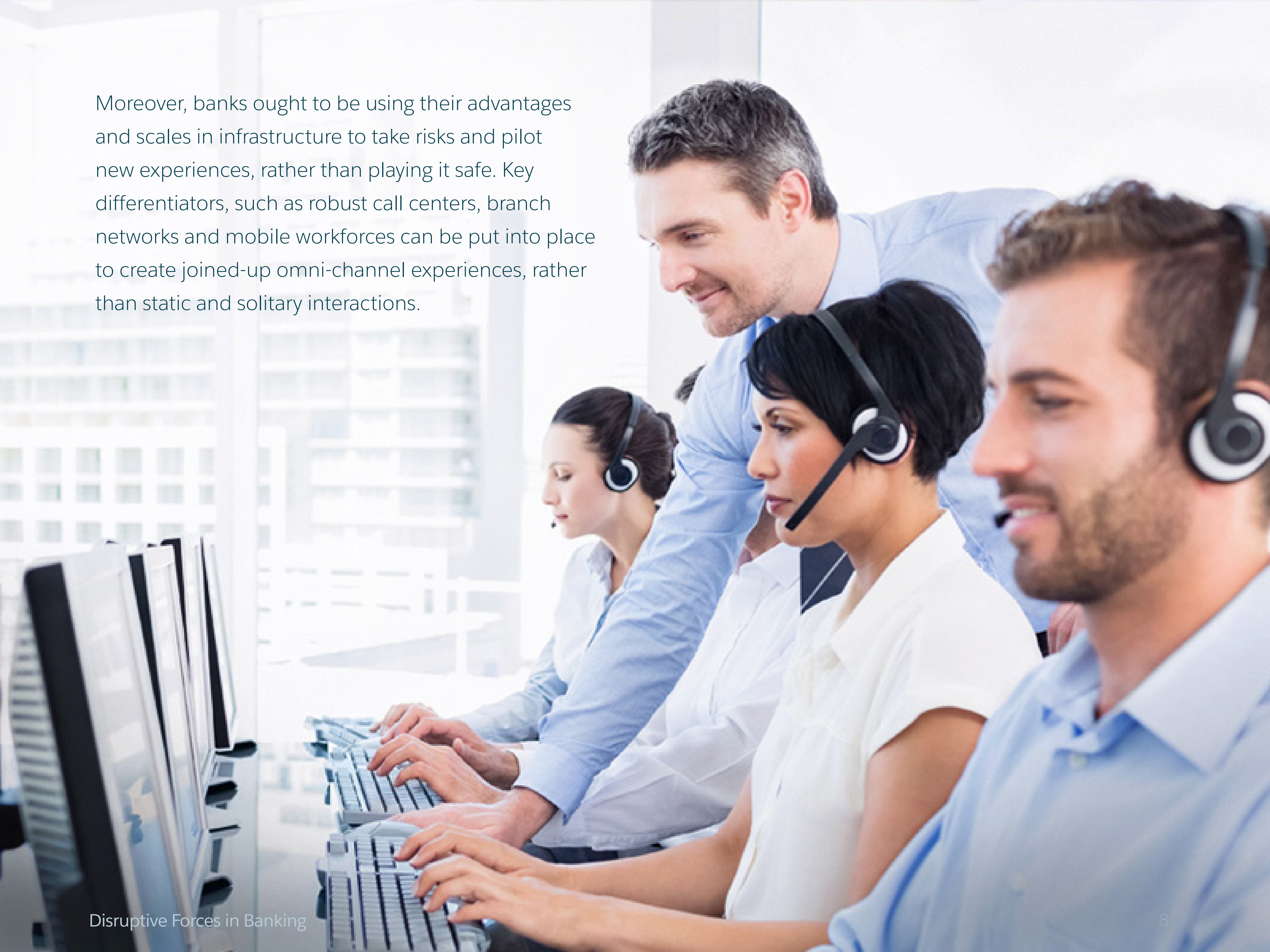
CHALLENGES

Getting it Right in the Channel

In parallel to building out richer sets of customer data, banks have also been making strategic investments in both creating new and enhancing existing channels. This has been coupled with an overall shift to creating digital capabilities as a complement, and sometimes replacement, to traditional branch and contact center channels. Meeting the customer in the channel of their choice is critical to both acquisition and retention.



This investment is commendable, and aligns with both good economic sense and doing business on the customer's terms. However, banks are missing a key opportunity to truly differentiate in the channel, and take advantage of the individual characteristics that make a channel unique. Although there is clearly a need to be sensitive around some channel capabilities (for instance, geo-tracking on a mobile device), there is obvious room to improve experiences like queuing at the branch, creating online immersive experiences, or to provide additional automation in the call center. While the best banks are experimenting and differentiating, too many are settling for vanilla experiences that leave customers unexcited.



Moreover, banks ought to be using their advantages and scales in infrastructure to take risks and pilot new experiences, rather than playing it safe. Key differentiators, such as robust call centers, branch networks and mobile workforces can be put into place to create joined-up omni-channel experiences, rather than static and solitary interactions.

CHALLENGES

Dealing with Expectations Transference

We all live in a rapidly changing and increasingly digital world, with new companies bringing new offerings to market seemingly daily. Without the burden of legacy business models, organizations and processes, these new entrants are free and unconstrained to explore the art of the possible and to reimagine how even entire industries could operate. This is how we end up with the ability to order a taxi on our phones, have bespoke clothing delivered to our doors, and have an authentic apartment in a new city.

As exciting as this all is, it creates challenges for existing organizations to keep pace. Expectations transference, or the "why can't everything work like this" feeling that we get when faced with a burdensome legacy experience, is becoming endemic in our daily interactions with financial institutions. And while matching the pace of new entrants is difficult, it is increasingly becoming obvious that this chaotic ecosystem of constant innovation and disruption is simply the new normal.

The challenge for banks will be to harvest the best of these new models and interaction paradigms, reflect them in their own offerings, while simultaneously creating their own indigenous offerings. While this may sound like a tall order, failing to do so will simply invite disruption from an existing or new competitor that does get it right.

CHALLENGES

Disaggregation and Disruption

Along with the rise in emphasis on the customer experience, a new set of entrants are challenging the 'one-stop-shop' model of large banks, taking individual products and offerings and building businesses around them. Fintech startups like Lending Club, WealthSimple and Sofi are creating new, predominantly digital ways of delivering specific services, and are often targeting segments that have been neglected by the traditional financial services sector.

Apple is one example of a company challenging the status quo with regards to banking, specifically payment processing. As millennials take up a larger share of the payment processing market, they are demanding the same speed and ease of use they experience with other aspects of their lives. It was only a matter of time before the large financial institutions needed to catch up and create offerings tailored to the needs of their new consumer base. Canada's big 5 banks have all signed up for Apple Pay, knowing they needed to transform and become a part of the consumer experience that retailers such as Canadian Tire, Petro-Canada, Tim Hortons, and others have already adopted.

In Europe, Number26 is one of a host of fintech startups disrupting the traditional model of banking. They are a 'mobile-first' company that transforms the traditional branch model by giving customers the ability to make deposits at participating retailers through their point of sale system. Number26 has also partnered with TransferWise to give customers the ability to transfer money anywhere in the world from the same point of sale system.

While arguably the influx of disruptors entering the market creates a more complex environment for consumers, who might have had all their financial products with one or two financial services providers, it is clear that a more transparent, simpler mechanism for acquiring financial products is compelling to many. Banks will be challenged to create competing products, or find other ways to satisfy demand through acquisition or alliances with these new players.

CHALLENGES

Changing the Culture

Because of their history, many banks are used to working with a product or business unit focus. A significant mindset shift will be required to move to a customer centric focus. Breaking down organizational silos, and collaborating to serve the customer regardless of how they came into the bank, will take a new kind of focus that cuts across the organization.

[Lloyds Bank head of digital transformation Terry Cordeiro] recently discussed the dangers of banks becoming 'just plumbing':

"There are so many different ways that you can make payments these days; you can pay by email, by Paypal and you can pay by your mobile phone, but all of that relies on the same plumbing, and predominately it's the banks that provide that plumbing. Right now it's of value to us, but I think we are in danger of just becoming the plumbing."

Terry also discussed how Lloyds Bank is embarking on a digital transformation journey based on four core principles:

1) Making better use of consumer data
2) Trust and security
3) Humanising banking
4) Innovation

"At the moment we do very little with that data," admitted Cordeiro. "All we do is present it back to you as a statement. We need to use it in the right way, such that we can help you make smarter decisions."

HOW BANKS ARE RESPONDING

Not Waiting for Disruption

Recognizing the sea change in expectations, generations and technologies, some banks are disrupting themselves either through partnerships in the marketplace, new internal business units, or outright acquisitions.

At the 2016 European Identity & Cloud Conference in Munich, Berthold Kerl, Deutsche Bank's European chief information security officer, spoke about the bank's €1bn investment in digital transformation by 2020:

"Digital transformation is what enables the bank to remain competitive – but we have had to do lots of hard work behind the scenes to enable an end-to-end experience in line with customer expectations,"

We have seen some of our other clients build out variations of a 'digital factory' within their organization, using new methods such as Design Thinking, Agile and DevOps, to own and deploy new capabilities. We believe that this can be successful if accompanied with distance from the traditional organizational structure and culture, as well as clear C-level support to truly do something different. Organizational fortitude will be needed in order to cut across siloes and boundaries, and potentially move revenue from old to new products and offerings.

Alternatively, some Banks are choosing to partner. For instance, Lending Club is partnering with smaller regional banks and institutions to offer co-branding services which couldn't be offered by the banks alone. Standardization and partnering around Blockchain is another example, where banks are choosing to co-opt technology and bring it in house.

When asked what's to come in 2016-2017 for banking partnerships, Matthew Wilcox, SVP of the Digital Banking Group at Fiserv said:

"I believe you will see advancements in partnerships with fintech companies who have created specific use case solutions that will drive enhanced results for retail, small business, and corporate banking customers."

Finally, some banks are choosing to create entirely new brands in order to appeal to different segments or to bypass the traditional way that they go to market. Tangerine (a predominantly digital bank that was acquired by Scotiabank) is an example of a brand that is clearly separate from its parent, with a different value proposition and target in the marketplace. EQ Bank, owned by Equitable Bank, is another example of a bank using a new brand to target a different demographic and launch new product in the market.

HOW BANKS ARE RESPONDING

Rethinking the Role of the Branch

Interestingly, many banks are now seeing their branch networks as key assets, offering a differentiated experience that online-only offerings can't compete with. Armed with analytics, and with the insight that customers look for the reassurance of a branch visit for a complex interaction, some banks are reconfiguring their locations, square footage and mix of skills to revitalize the branch to match the needs at a neighborhood level.

We believe that the branch network can be a competitive advantage for incumbent banks, and that banks should be looking at the intersection of a digital and physical customer experience in order to inform their branch strategy. Rather than the branch as a ‘one stop’ for services, it could be used to facilitate transactions and manage multiple complex requests that cut across the bank. Introducing new digital capabilities within the branch is an obvious first step, allowing it to complement rather than compete with online services.

Synovus Bank in the U.S. has transformed its branch network into a competitive advantage by using 3rd platform technology to create the ‘universal banker’. Almost every employee (bank tellers, personal bankers, commercial bankers, branch manager, LOB executives), use the same platform to get a fast and full view into a customer's interactions with their bank. The less keystrokes, clicks and minutes spent with a customer in-person provides value to both the institution and the client.

ANZ Bank (Australia and New Zealand Banking Group) is exploring integrated technology and innovation to create delightful customer experiences. In addition to transforming branch processes and systems, they're using digital to transform the actual ambience of their branch. Deloitte Digital recently helped ANZ set up the 'ANZ Virtual Garden' in their largest branch in the ANZ network, offering customers a fun way to interact with the Bank.

The garden is a fully interactive 11 metre tall digital wall that spans three levels of ANZ's flagship Martin Place branch in Sydney. It responds to changes in the environment, including weather, time of day, and customers' twitter instructions. Customers can tweet the digital wall using #ANZVirtualGarden to request butterflies, birds, dragonflies, ladybirds or fireflies, along with flowers, mushrooms and a waterfall. They can change the colours and request more or fewer creatures. The wall is an ever-changing example of customer interaction and one of the Gold award winners at the Melbourne Design Awards.

HOW BANKS ARE RESPONDING

Getting Hyper-Focused

Rather than attempt to service the mass market, other banks are deliberately down-selecting to a smaller segment of customers, and tailoring their offerings to meet those customer's needs. In the UK, one of the many transformative projects Barclays Bank has undertaken involves their mortgage broker business network. 70% of their mortgage business comes via their network of brokers and they quickly realized that group was being technologically left behind. By putting their customers (brokers) first, Barclays developed an industry first "mortgage hub", which gives brokers the ability to manage everything related to their mortgage business faster, more efficiently, and and on any device.

Critical to making the hyper-focused approach work is a thorough understanding of the target demographic, their aspirations, needs and wants. Being 'all-in' on a demographic can be a willing strategy, but it will quickly sour if that group believes that they are simply being sold to, or if the bank doesn't have the brand permission to deliver their desired messages. A level of empathy and understanding is required to complement having the right offerings to appeal to the target audience.

"Customers tomorrow are going to demand of all businesses, including banks like our own, if you know this much about me and you can add value or make my life easier I expect you to do that, and if we don't then there are other firms that will."

Steve Weston
CEO Mortgages at Barclays

HOW BANKS ARE RESPONDING

Cleaning House

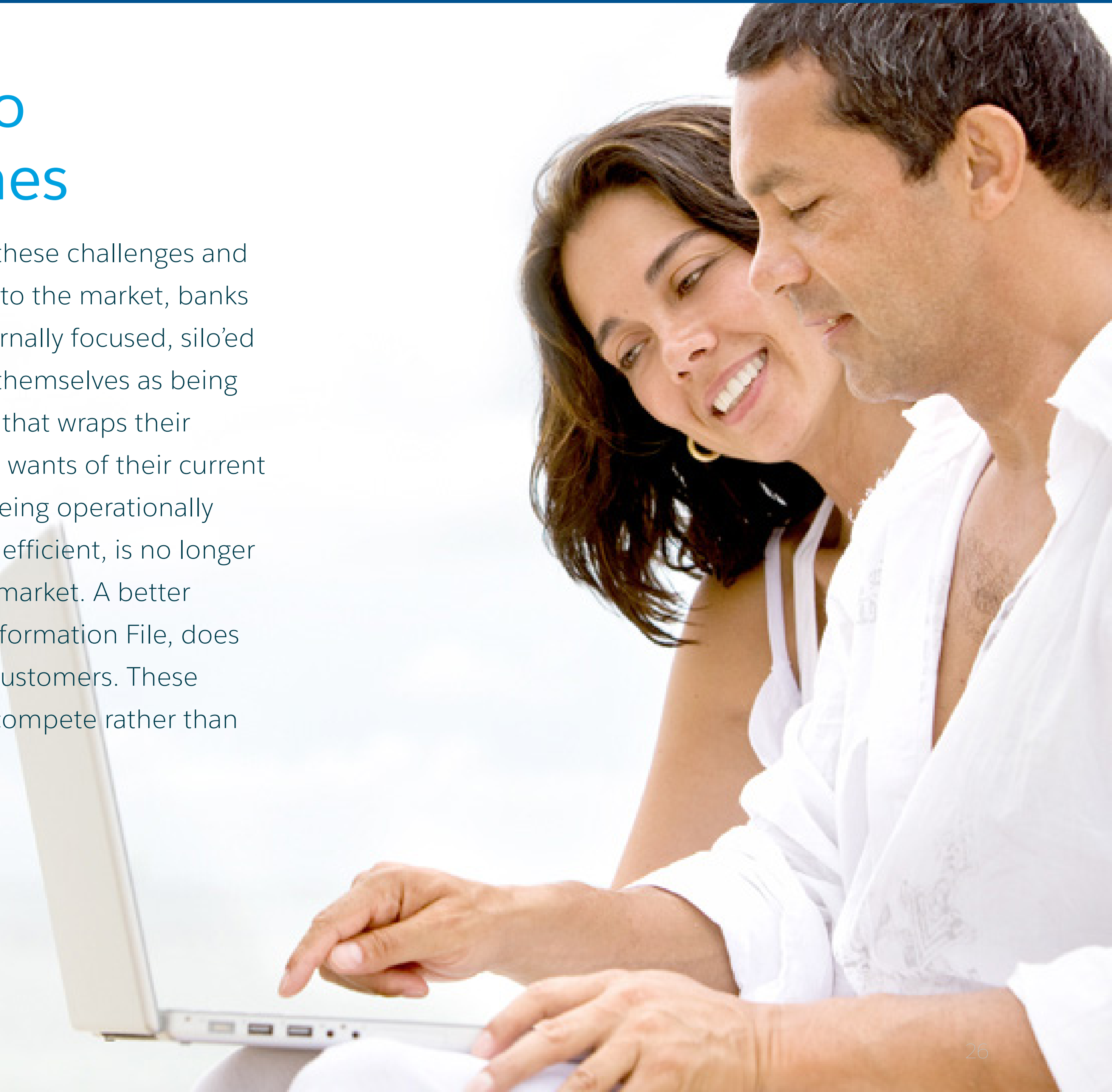
Each and every established financial institution suffers a similar challenge based on their pedigree of success over the years; a myriad of legacy systems of record and databases numbering in some cases in the hundreds. As products and services are added to an institution's playbook, or mergers and acquisitions take place, the problem only grows more complex. This is often overlooked as simply the internal IT 'cost of doing business'.

The main drivers for financial institutions not touching these systems is fear and risk. Sooner rather than later, everyone reaches a point where there is more risk and cost in trying to maintain multiple legacy systems rather than consolidating into one modern customer centric platform.

Bank of America had to address this issue head on when at one point they had approximately 29 systems related to their mortgage banking business. As a result of regulations passed in 2009, Bank of America was required to create a SPOC (Single Point of Contact) in 120 days or less. By integrating the dozens of legacy systems using one platform of engagement, Bank of America was able to create a unified view of their customers (and 15,000 mortgage brokers). A customer portal was also created to allow customers access to all information and cases related to their mortgages. The executive in charge of the program commented upon completion 'We still cannot believe we did all of this in 120 days!!!'

Fintech startups are not encumbered by this legacy problem which is why they are able to take advantage of being agile and developing modern engagement methodologies and address pieces of traditional financial services with a rapid and customer centric pace.

Responding to Changing Times



One theme emerges across all these challenges and opportunities. To truly respond to the market, banks need to shift beyond being internally focused, silo'ed organizations, and start seeing themselves as being publishers of a new experience that wraps their offerings around the needs and wants of their current and future customers. Simply being operationally excellent, or even operationally efficient, is no longer sufficient to be effective in the market. A better deposit system, or Customer Information File, does not make a bank appealing to customers. These capabilities are table stakes to compete rather than contributors to success.

This aligns with a larger trend that we are seeing towards investment in Systems of Engagement, which are responsible for orchestrating a customer's interactions with an organization across different channels and offerings. Being able to hide the internal complexities of the organization, and still deliver a delightful customer experience, will be a critical capability that organizations will need going forward.

In 2015 HSBC announced it would set aside approximately $1 billion to invest into digital technology and automation to drive efficiency.

Moreover banks will need to become masters of new disciplines, such as design thinking, constructing unique customer experiences, and utilizing emerging technologies in order to construct differentiated offerings. This will challenge organizations to break away from silo'ed, product centric views of the world to becoming truly customer centric.

Partnering with Salesforce, Deloitte has helped many organizations to create these new systems of engagement, deliver new capabilities to sell and to service, and to deliver personalized interactions to customers and prospects. Collectively, we believe that forward-thinking banks have an opportunity to reinvent themselves for a radically different future, and we look forward to helping them reach this goal.

"We recognise that the world has changed and we need to change with it."

Stuart Gulliver
CEO, HSBC

CONNECT TO YOUR CUSTOMERS
IN A WHOLE NEW WAY