Interconnected Delivery: How Banks Finally Improve on Customer Experience

WHITE PAPER
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IN THIS WHITE PAPER

The future of financial services has become much more challenging. Technology teams will have to do much more with their budget allocations and finally make those difficult decisions where efficiency is concerned.

As competition intensifies to regain trust and profitable customers, European banks have shown a new wave of investment in their channel networks. Two main areas are developing, namely mobile banking and social networking tools. However, European banks are yet to harness the power of their existing customer and cross-channel information in order to maximize profits. Institutions will need to move from a purely strategic management of multiple channels to an interconnected channel delivery model aimed at customers' growing expectations.

Putting the customer at the center of all IT and business decisions may be a fundamental change in culture, but one that will be vital to embrace as new entrants redefine financial service provision. Interconnected delivery can best be achieved through incremental, manageable change that needs to span the entire organization from the heart of its processing engines and data repositories all the way to the front-end communication channels and devices.

Interconnected delivery is not just an issue of bridging the gap between IT and business; it is also about bridging the gap between origination, processing, risk, compliance and finance.

This White Paper, targeted at IT and business senior executives of European retail banks, highlights the challenges and rewards in achieving improved customer experience and increased revenue flows.
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**SITUATION OVERVIEW**

**The Challenges of Multichannel Delivery**

European banks are paying increasing attention to customer experience as the levels of trust and satisfaction have plummeted following the recent financial crisis. As the latest Edelman Trust Barometer 2012 shows, the financial services industry scores the lowest in terms of trust. Complaint rates are increasing in many countries while the regulator is demanding more transparency in banks’ management systems and a better audit trail for decisions attached to customer service.

**FIGURE 1**

*Edelman Trust Barometer 2012*

*How much do you trust the following industries to do what is right?*

Current regulatory changes, such as Basel III, will impact on profit margins as the cost of capital increases as well as on banks' lending capabilities. It is likely that a consequence of this new regulation is a new wave of market consolidation, as smaller institutions struggle with the current tsunami of new requirements. Increasingly the industry is concerned that there is a multiplication of regulatory measures that is done without cooperation or measure of the combined impact on business.
As competition intensifies to regain trust and profitable customers, European banks have shown a new wave of investment into their channel network. Two main areas are developing, namely mobile banking and social networking tools. However, European banks are yet to harness the power of their existing customer and cross channel information in order to maximize profits. Institutions will need to move from a purely strategic management of multiple channels to an interconnected channel delivery model aimed at customer's growing expectations.

In essence, mobile and social networks are both extensions of the Internet, but they will introduce their own operational and technology challenges. Financial institutions seek to re-engage their customers through these new media feeds but risk replicating the mistakes of the past, such as:

- Call centers and online banking channels, developed independently of branch networks, on which banks are now spending millions to reintegrate.
- Duplication of technology, databases, processes, and human resources created by every new channel introduced.

The disconnected channel network is partly responsible for the breakdown of the customer service continuity that banks are ironically trying to solve by communicating with customers through social networking sites.

**The Business Challenges**

Much of the creation of a customer-facing bank relies on organizational and cultural changes within European financial institutions. It is increasingly difficult to adapt to new customer demands and satisfy the market trend for better customer experience when organizations are still built around products for staff incentives and profit and loss (P&L) account structures. Adopting net promoter scores as in the retail sector, for example, is only one of the many organizational changes banks need to embrace.

**Consumerization of IT**

IDC forecasts that up to 20% of Web-based transactions will be done using mobile devices of all varieties in the next three years. Financial institutions have to adapt to the proliferation of mobile devices on two fronts:

- Adapt externally to the way customers reach their financial services provider
- Adapt internally to the proliferation of consumer technology

There is no denying that employee-owned personal devices are making headway into the enterprise, even in the fairly conservative and security focused financial sector. Smartphone adoption is leading the
charge in the consumerization of IT in the enterprise, with businesses seeing widespread usage of phones to access corporate content. As the enterprise culture becomes increasingly driven by younger, connected, and mobile workers, companies that don't build the foundation to support a wide array of devices will find workers harder to manage and, to an extent, harder to retain.

More importantly, consumer technologies can enable better working practices that will increase the operational efficiency of many services provided by bank staff. Nevertheless, IT will need to be able to manage and support these new devices and technologies internally without compromising security.

The issue is even more complex for financial institutions when introducing new channels to their customers. End users are increasingly demanding applications that are intuitive and work like social networks such as Facebook, Twitter, and LinkedIn; search and geo-localization applications from Google; mobile devices such as the iPhone, iPad, Android, and others; and touch-based user interfaces from the same mobile phone and tablets.

This is quite a challenge for banks that will need to add new channels to existing infrastructure that still needs to be completely migrated to Web-based and role-based user interfaces. From a business point of view, understanding how these devices can be used by the customer in relation to financial services and within the tightening regulatory framework is an organizational and cultural challenge. Some institutions are still trying to see where the value-add will be from a service and investment perspective. To date, the services offered through new channels remain basic, as described in Figure 2.

Consumers are rapidly transitioning from traditional forms of communication to new digital channels, but banks are struggling to make their customer service software support these channels and, in particular, manage the customer experience across multiple streams. The customer's needs and situation should be understood regardless of whether they interact with the organization via the Web site, the call center, or some other way. Better social capabilities also refer to improved internal employee collaboration tools to ensure that valuable knowledge is dispersed and shared.
Building a Bank Around the Customer

Traditionally, banks have moved the customer around the bank, prescribing which channel should be used for which transaction. The industry has to adapt to a set of demands that require the bank to move around the customer, who prescribes the way to access services. Not only do banks need to ensure that all channels are linked up, they also need to ensure that the organization itself is connected across the different business silos. Enabling the link between channels, people, and processes will ultimately be the only way to enhance service delivery.

A few innovative banks are addressing these new challenges by introducing services that leverage the full opportunities provided by new technologies. Although these new services depend on the deployment of new systems, much of the innovation resides in a rewiring of the organization itself. One example of such a bank is BBVA. The bank has launched services that leverage the full range of capabilities offered by mobile, social networking, online and call center channels when these are fully integrated to each other, as well as to existing CRM platforms. The service offers geo-localization services, person-to-person (P2P) payment services such as "share the bill", push messages targeted at the user and his location, as well as standard transactional banking services. This goes much beyond the majority of services offered by current, fairly static mobile banking applications described in Figure 2.
However, such innovation can only be fostered if given executive sponsorship that transcends status quo and encourages the organization to change its existing processes. The change has obliged the call center organization, for example, to respond to real time input from the customer as he or she responds to marketing propositions and requests more information.

**Rebuilding the Customer Relationship**

Creating a better customer experience is not only about introducing new technology and touchpoints. Above all, consumers want their bank to treat them fairly, and to have products and services that are simple, straightforward, and transparent with minimal interference and good return on products. The end-game is providing the customer with a greater level of information that he/she can pull on demand. This is also a demand from the regulators.

Ultimately, there is a shortage of rich Internet applications (RIA) in the front end, where consumers and small and medium businesses can have access to relevant and enriched information. More self-assessment tools need to be provided that can explain complicated financial products in a more user-friendly manner. Collaboration tools also need to be used in the back-end for greater efficiency but also greater transparency of the decision to approve or turn down a product or service.

We are seeing the start of personal finance management (PFM) tools across Europe, with mixed success. Although the U.S. has shown that consumers prefer bank-led PFM tools over non-bank aggregators, the current offerings remain fairly static. These tools need to be enriched with peer data and analysis to truly add value, in particular in the SMB sector, which has been vastly under-invested in terms of new channels and services.

**Non-Bank Competition — The Disrupting Market Force**

A recent survey of 20 European banks by IDC Financial Insights suggested that one of the key concerns of leading bank executives today was the increased threat from new banking entrants. These were divided into three key categories:

- New bank entrants: such as retailers Tesco and Virgin in the U.K.
- New payment services providers: such as Google, BiBit, Click & Buy, or Global Collect
- New P2P providers: such as Zopa, FundingCircle, or CrowdCube

None of these new entrants currently poses a substantial threat in terms of volumes or market share, but their business models, capacity to react to new customer demands, and unblemished reputations will increasingly position them as alternative financial service providers.
The non-bank categories are also unhindered by restrictive banking regulations. Many banks feel that they will be able to gain market share as they have more freedom over the way they communicate with their customers. Regulators will need to review how they approach the overseeing of "alternative banking providers," but the two to three years that it will take for more controls to be implemented should provide these organizations with an advantage over banks.

**FIGURE 3**

New Banking Entrants

![New Banking Entrants](image)

Source: IDC Financial Insights, 2012

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**The Technology Challenges**

**Big Data**

Banks have been struggling with data management issues for years, despite hefty investments in datacenters, data warehousing, and in data manipulation systems from analytics to CRM applications. The drivers for finally achieving a golden reference data management system are twofold:

- Regulation at its basic core is all about data archiving, retrieval, and audit
- Customer experience targets are founded on enriched data

Banks urgently need to improve:

- Data quality to satisfy existing and future regulatory requirements for reporting purposes
- Data integration to finally eliminate data from disparate sources, and create a single version of the truth
- Data management in order to improve fact-based decision-making and risk mitigation
Although these issues are not new, there is now greater urgency to finally resolve the big data question. Firstly the number of new regulations will require more flexibility in retrieving data; secondly the new channels that banks are now using will massively increase their data volumes. Stricter governance and management will be a leading competitive edge.

Banks have mostly focused on transactional data. Rapidly improving technologies now give financial services companies the ability to capture and utilize previously wasted unstructured data. This is particularly important given the introduction of new communications methods such as "click-to-chat", social networking tools, and mobile channels that all generate large amounts of unstructured data.

This challenge will require a different approach to data management that will involve co-ownership (both IT and LOB) projects involving unstructured data manipulation. The planning process will differ significantly from that of writing performance specifications for traditional transaction processing applications, and co-ownership will be essential to ensure that the relevant business logic is captured at each stage.

**Socialytics and CRM**

Social networking tools are becoming an increasingly big question for financial institutions as they seek to re-engage their customers through new media. However, social networking tools should also allow a better analysis of consumer behavior: socialytics.

Combining the new flows of information opened up by social media tools with traditional CRM will enable banks to understand better how customers interact and to ascertain opportunities for new business and revenue. To date, however, bankers have engaged in the social media channel with three common goals in mind:

- For sentiment analysis to measure brand reputation and deploy new services
- To solicit customers when creating new services
- For pure marketing communications

Banks now need to expand to transactional capabilities with devices that penetrate many aspects of the financial workplace, hence bringing even greater value to the channel. They also need to integrate social CRM activities with their existing CRM infrastructures to ensure an interconnected experience. This is a major project for many institutions that will require:

- The design of an enterprise SOA
- A major effort of integration/APIs, in particular to a master data management (MDM)
• Design and implementation of new business rules engine and workflows

• Provision and integration of a number of RSS feeds

It is all a matter of information access, but the biggest challenge to banks is understanding what constitutes relevant data to be input for information access. The new sources and different types of information will expand the scope of business intelligence that will need to be supported by new methods and systems.

**FIGURE 4**

Towards Better Information Access

Source: IDC Financial Insights, 2012

**Transforming the Bank at the Core**

New devices and channels are changing the way that customers access services, but this does not yet tackle the way services are delivered. To transform the customer experience fully, innovation in the front end needs to be achieved hand in hand with transforming the employee experience and performance.

Process efficiency has been the least invested area in particular in the retail banking sector. Much of the investment was focused on managing growing volumes and too often the focus on growth means that organizations lost sight of the customer experience.

Current back-office systems, among the many challenges of legacy infrastructures, do not operate in real time. Although not all operations require real-time processing, the current standards of communication do require real time to meet customer expectations. Eliminating batch
processing, for example, can lead to greater transparency of the service and dramatically reduce branch errors and inconsistencies.

It becomes indispensable when linking customers to mobile banking or social media networks as the call centers need to view interactions as they happen if they are to respond to burgeoning opportunities. This will require banks to further transform their infrastructure as they now need to integrate communication layers with those of IT.

**FUTURE OUTLOOK**

In this competitive environment of constant change, more than ever before in the banking industry, service delivery will be the key differentiator. So what are the steps that need to be taken to ensure interconnected delivery and a greater customer experience?

**Step 1: A Cultural Change**

Interconnected delivery and customer experience are not just technology transformation projects, nor are they always about introducing the latest channel device, or indeed about hiring a new social media expert.

Mostly, these are organizational and cultural changes that strike at the heart of a bank’s P&L and compensation plans. These are still built around products rather than customers: staff incentives are still mostly based on product-per-customer sales; branches still deal with account numbers rather than customers; payments are still separate divisions to loan origination. But these operational silos need to be removed.

It is no longer an issue of bridging the gap between IT and business, but bridging the gap between origination, processing, risk, compliance, and finance. This greater level of collaboration within the organization is driven not only by the need to transform the way banks support their customers but also what oversight organizations are looking for. Post financial crisis, we have seen this in the increased convergence between risk and finance data, and we will continue to see convergence across bank business lines.

**Step 2: A Process Change**

Processes in the retail banking sector have been left virtually unchanged in the past 40 years, while the number of channels have continued to proliferate and customer attitudes have fundamentally evolved. Business process transformation is often doomed to failure due to the lack of executive sponsorship or the failure to sustain the commitment to transformation. Hence few banks have tackled business process transformation.

Process change will require a concurrent examination and redesign of the information technologies and organization that support these processes. However, this should not be a series of process
improvements (like many of the current business process transformation projects), but should be a process of rethinking the way banking tasks are approached and delivered. Increasingly, this is replicating the processes and architectures of the online retail industry.

**Step 3: Connecting People, Systems, and Documents in Real Time**

The industry has made progress in connecting people with systems, and people with documents and systems with systems. The link between the three is still an ongoing challenge. SOA has tackled the integration between application and data layers, but communication systems remain separated from the mix. For an interconnected customer delivery, people, documents, systems, processes, data, and communications must converge and work seamlessly both internally (remove the breakages of service between front- and back-end, allow documents and interactions to flow between business units) and externally (deliver continuity of service across channels and have documents following the channel and the customer).

**FIGURE 5**

Connecting People, Systems, and Documents

Source: IDC Financial Insights, 2012

**Step 4: Become an Information Services Company**

Decisions in the financial sector are under greater scrutiny than ever before. Narrowing margins also require institutions to find pockets of growth that can no longer be based on centralized strategic guidance. This is why the use of BI and predictive analytics, combined with the
aggregation of a broader spectrum of unstructured data, now needs to focus on customer profitability and interactions.

With new entrants coming from the retail industry, such as Tesco or Virgin, banks will need to better understand customer information. The industry holds vast amounts of information that is sitting in data warehouse pots or embedded in the core systems that adds little value to the business. Banks now need to make better use of it, in real-time, as channels such as mobile or social networking tools generate urgency of reply but also of checking. Banks will need to explore integrated analytical approaches to ensure that they can capture behavioral patterns from both a fraud and customer experience perspective.

Step 5: Empower Innovation

True innovation in banking should reside in process and organizational change rather than in new products and services. Perhaps that is why the industry is rarely listed in innovation surveys. However, for innovation to take place, it needs to be empowered in an organization and to a certain extent ringfenced from day-to-day activities.

Successful innovators have senior executive sponsorship but also have dedicated IT and strategy teams that do not have to fight for resources, support, and buy-in. As innovation in banking touches on process change, it needs to be built and tested before migrating into the organization. Bringing innovative projects back into the organization will take particular communication and management skills and banks also need to focus on governance for rollout. This is where executive sponsorship will be invaluable as any change management process requires strong commitment.

Essential Guidance

Putting the customer at the center of all IT and business decisions may be a fundamental change in culture, but one that will be vital to embrace as new entrants redefine financial services provision.

Retail banks must accept the pace of change and the need to adapt rapidly to new market dynamics:

- The customer expects all, but based on predetermined preferences — right channeling.

- Service delivery will become the key differentiator in a commoditized market. However, customers are willing to consider the value of service.

- Customers are now expecting better information access and visualization.
Delivering on these expectations will require substantial cultural and process change, but will result in new opportunities for revenue growth.

Interconnected delivery can best be achieved through incremental, manageable change that needs to span the entire organization from the heart of its processing engines and data repositories all the way to the front-end communication channels and devices. Banks need to consider:

- Linking remote teams for greater staff efficiencies
- Automating manual processes (such as removing the paper trail, but also facilitating origination)
- Removing the complexity of viewing data held in certain systems, such as ERP
- Commoditizing intelligence across the business silos
- Harnessing the possibilities of interconnected channels, communications, and CRM applications.

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