Serving the Gen-Y Customer
7 Key Technology Challenges for Banks
Executive Summary

Generation Y (Gen-Y) customers are predicted to be tomorrow's wealth accumulators\(^1\). Their behavior and consumption pattern is different from the earlier generations. Banks will have to adopt different business paradigms to serve them. Gen Yers are technology savvy and prefer swift service. Personalization is high in Gen-Y customers' wish list. Successfully meeting these challenges depends on the agility and efficiency of the bank’s IT infrastructure. Most banks are still running on legacy systems which are inflexible to meet these needs. This paper outlines key technology requirements to address Gen-Y banking needs.

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\(^1\) Are Banks Ready for Next Generation Customer? – September 2010, A survey report on Gen-Y Banking by Efma and Oracle Financial Services
Introduction

By 2020, half of banks’ most profitable customers would be Gen-Y\textsuperscript{2}. Gen-Y customers are born between 1980 and 1992 and comprise about 17 per cent of the world’s population\textsuperscript{3}. They are driving change across the banking business. Their demands are compelling banks to rethink and redesign business models and operations. It is important for banks to understand and address their requirements as the changes driven by this generation of customers are applicable to the entire society. For instance, fastest growth on social networking sites like Facebook has come from internet users who are 74 years and older\textsuperscript{4}.

In their book, “Born Digital Understanding the first generation of digital natives”, John Palfrey and Uri Gasse argue that there are three distinct characteristics of digital natives - they are born after 1980, they all have access to networked digital technologies and they have the skills to use these technologies\textsuperscript{5}. Hence, contemporary technology is a key tool to address Gen-Y banking requirements. However, most financial institutions make the mistake of attracting Gen-Y customers by remodeling only their front office. Although they adopt mobile banking, they fail to provide real time updates to customers. They claim to offer tailored products but fail to deliver them efficiently. This is because the backend legacy infrastructure is not agile to respond. Hence, the whole exercise becomes a cosmetic makeover for the customers because they still face the age-old banking inefficiencies.

Banks planning to transform their IT infrastructure or their business operations need to define their business strategy to meet Gen-Y’s demands. Deciding the business model to adopt, partnerships, marketing efforts, compliance challenges to be addressed are some of the key considerations. Once the business imperatives are affirmed technological implications to streamline and simplify operations become clear: front office capabilities, back office flexibility, supporting hardware, risk management, and fraud control.

\textsuperscript{2} How Customer Behavior and Technology Will Change the Future of Financial Services, Brett King, September 2010
\textsuperscript{3} Are Banks Ready for Next Generation Customer? – September 2010, A survey report on Gen-Y Banking by Efma and Oracle Financial Services
\textsuperscript{4} Why the Kids Don’t Blog and Grandma’s on Facebook, David Zax, December 2010
\textsuperscript{5} Generation Y: The builders of tomorrow’s business, V Senthil Kumar, Where do we go from here?
Business Implications

According to Brett King, author of “Bank 2.0: How Customer Behavior and Technology Will Change the Future of Financial Services”, banking is not a very appealing industry⁶. Customers do not get excited when they are transacting or interacting with the bank. For Gen-Y customers, who are in early stages of their banking journey, this is the biggest deterrent to avail services from traditional banks. Customers’ needs play a key role in deciding the business strategy to implement.

Banks are adopting different strategies to change Gen-Y customers’ perception. Many have established a new brand identity to connect with Gen-Y customers. Though difficult, it is preferable to establish brand equity for new brands, as Gen-Yers do not view it as their ‘parent’s bank’ and hence, easily connect with it. National Australian Bank’s (NAB) direct banking arm, UBank is one of the most successful examples of this strategy. However, many prefer to capitalize on their existing brand equity to build a relationship with Gen-Y customers. The potential advantage of this strategy could be a well-established trust in the brand; hence, banks need to focus only on connecting with the Gen-Y. Apart from the brand strategy, the business model to be adopted is another decision point for banks. Jibun Bank in Japan pioneered the “mobile-only” bank concept by offering mobile as primary channel for all its services. Most of its customers are Gen-Y and it has experienced significant growth in its retail deposits and number of accounts⁷.

Providing products in partnership builds brand preference among Gen-Y customers because their favorite products coupled with easy financing options. Similarly, paying monthly credit card bill through a local super market is an attractive alternative. It is necessary to look at partnerships with other businesses to enhance customer satisfaction thus improving the brand preference among the numerous choices available. Similarly, availability of bundled product offers like subsidized education loan with term deposit accounts would differentiate a bank in competitive market.

The successful execution of business strategy and adoption of business model depends on the supporting technological infrastructure. Easy addition of new channels, flexibility to originate a transaction in one channel and complete in other and maintaining one customer master are some of the key features required to support a bank’s business objectives. The system should give the bank’s IT department flexibility to make quick changes to address such dynamic market needs. The supporting hardware should be scalable to cater to growing volumes. Most banks are hampered by the inefficiencies of legacy systems; hence they fail to fulfill most of these objectives.

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⁶ How Customer Behavior and Technology Will Change the Future of Financial Services, Brett King, September 2010
⁷ Advanced Mobile Banking Defined: A Mobile-Centric Financial Institution (Jibun Bank) Case Study, Celent
IT Implications

Quick responsiveness of the front office should be complimented with the agility of back office supported by robust infrastructure. This requires modernizing IT systems and transforming operations across, from front to back office including hardware to build an efficient and responsive enterprise. When each transaction is executed with perfection, the cumulative effect is visible in the business performance and customer satisfaction.

We look at seven key challenges, which bankers need to tackle in their IT landscape as banks aim to reach out to the Gen Y customer.

1. **Anytime – Anywhere – Any device: The Multichannel Reach Challenge** – Gen-Y customers expect accessibility anytime, anywhere. They live in the world of instant messaging. Real time updates and convenience of self service is a necessity to interact with them. Along with Internet banking and mobile banking, secure transactional widgets accessible anywhere on any device are some of the innovative channels to capitalize on. Multichannel integration should allow the user to start a business process using one channel, continue with a second and finish using third channel. The transactions should be supported across the boundaries of multiple countries in compliance with local regulations. Customers should be able to manage their accounts, transfer funds and pay bills directly from their desktops, mobile applications, or social networking sites such as Facebook. The transactions performed on mobile devices or at point of sale POS terminals should be quickly reflected in customers’ view of their accounts. A front office design, which encompasses portals and multi-device rendering user interface (UI), are a good starting point for this challenge. Segregation of the business logic from the UI will allow banks to quickly create different screens and link them with the backend processing, allowing rapid change. A configurable backend to this UI will allow for flexibility to make the change once and replicate it across channels enabling faster launch of new products across channels.

2. **Single Sourcing of Customer Information: the Customer Centricity Challenge** - Customer Centricity has been the buzz word for all financial institutions over the last decade. However, banks are still struggling to achieve a unified view of customer relationship. Each department has its own records of customer information and transaction history. It is difficult to derive useful customer insight and behavior trends. Without unified view and advanced relationship management capabilities, it would be difficult for banks to achieve these targets. This requires maintaining customer data and interactions at one single source and, therefore, requires banks to look at a customer master to operate on a ‘publish and subscribe’ model, which can be easily integrated with existing systems. All the applications can source data from the single customer master and resend the modifications. Thus, single customer master stores all customer data, transaction history, customer profile, simplifying operations and reducing redundancy. This enables banks to identify behavior patterns and deliver personalized customer service.

3. **Repeatable – Predictable and Service Oriented banking: The Process Centricity Challenge** - Business process approach entails execution of appropriate tasks at the right time across departments. Each business process is modeled as a set of individual processing tasks. Aligning process to business strategy is a critical need as it demands significant changes to the banks’ service delivery, organization and technology models. Robust technology like the Service Oriented Architecture (SOA) facilitates the development of enterprise applications as modular business services that can be easily integrated. Benefits include reuse of services, ease of maintenance and change, and improved business visibility. Many financial institutions have realized the need to upgrade or replace their inflexible legacy systems and modernize their IT infrastructure, and make their operations cost effective and more responsive to business drivers. Today, business processes are tied up to a product line or particular services, which need to be identified, disseminated and re-assembled. SOA
enabled solutions allow financial institutions to get the best of the old and the new, to take advantage of technology progress while leveraging their existing assets.

4. **The First Mover Advantage: The Product Differentiation Challenge** - Gen-Y customers demand exclusivity and personalized products. From web pages to services, customers expect everything suited to their preferences. Banks’ back office should be flexible to configure and deploy new products or reconfigure existing products quickly. Product designing capabilities of the core banking system should be rule-based, with an event-driven product definition facility. The product configuration capabilities should allow banks to create copies of existing products, modify it, and launch a new product. Pricing the products based on the relationship establishes the belief in customer’s mind that banks value their relationship. The system should be able to offer pricing options based on customer, customer segment, currency or product. The functionality should also support defining customer eligibility and various discount options available. Product bundling facilities are also needed across multiple business lines to generate optimized and custom product bundles/offers to clients. The system should be able to predict best pricing based on underlying data on channel usage, product holding, demographics, customer channel and transaction behavior.

5. **Comply with Regulation: The Risk and Compliance Challenge** - This is an important aspect of banking business. After the 2008 financial crisis, regulations and norms have become stricter. Sophisticated compliance solutions help banks collate and analyze data for compliance reporting across channels and lines of business. The crisis provided more impetus for banks to achieve a holistic view of risk and finance. Successful implementation of this initiative depends on deciphering the volumes of data, normalizing and analyzing it. The immediacy of the data is also a critical component for effective risk management and monitoring. The solution should allow banks to easily perform complete auditable in-depth analytics, advanced risk modeling, complex calculations, and reporting. Banks need an integrated approach that combines a diverse set of compliance and risk solutions to help them address not only present regulatory needs, but also emerging and future risk and regulatory requirements.

6. **Be a Bank: The Security Challenge** - As banks open up new channels and expose banking via newer medium to reach their customers, the security risks continue to grow. Banks need to strike the right balance between ‘ease of reach and use’ versus ‘the need to live up to the customer expectation of “vault tight” security’. Implementing measures against identity theft, phishing, fraudulent transactions are essential for business. Along with these hygiene factors, banks also need to identify and track sophisticated financial crime like money laundering, fraud and funding for illegal transactions. Security education is not an option but a strict necessity and banks must provide education tools and support to customers to update them. Privacy of information remains a deciding factor for customers to choose providers, as a result of which, data loss prevention (DLP) technologies are becoming increasingly imperative amongst financial institutions. Both externally and internally, security of data is a priority – whether it is representation of customers’ identities, account or transaction details or actual money. The challenge is to gain customers’ confidence and establish a trustworthy relationship. Internally, to prevent loss or theft of data, banks should enforce a report on clear and comprehensive security policies managed by automated compliance systems.

7. **Keep the Lights On: The Scalability and Performance Challenge** - IT infrastructure should support banks’ growth objectives. Solutions built on open standards based technology makes IT infrastructure agile to adapt to the business demands. Open standards based platforms enable customers to leverage their existing investments and rollout new business services at a less cost. It also arms customers with wide range of solution/business model options while they are deciding on any business process automation. These help in increasing the lifespan of current investments and develop new capabilities. Application performance and information service delivery are critical metrics for IT and datacenters. Common bottlenecks hindering optimal performance can exist in servers, storage systems, applications and
networks with each requiring different treatment for cure. Bottleneck between the enterprise data storage tier and the database server with critical applications in particular, is the result of persistent or seasonal workload surge due to rapid information growth. Smart infrastructure solutions overcome performance issues caused by an overload of data and workload between the storage tier and the database servers.
Conclusion

Gen-Y customers are defining new trends in banking. They demand banks to focus on their needs and behavior pattern to engage with them. The IT infrastructure of banks is marred by inefficiencies and redundancies which lead to long turnaround time for servicing, launching new products and so on. These experiences deter Gen-Y to go the traditional banks. Banks need to transform to address the emerging needs of this customer segment. Customer needs and expectations help in identifying transformation objective, which leads to define business strategy. Successful implementation of business strategy depends on efficient utilization of technology infrastructure. Well planned and implemented technological goals simplify operations for the customer, which enhances their experience and helps in building loyalty. Winning Gen-Y’s loyalty ensures a committed and mutually beneficial relationship for both the bank and the customer.