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Transforming the Digital Origination Experience

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INTRODUCTION

Over the last decade, banks have had to shift their business from one built on interacting with customers in brick-and-mortar locations to one that has become digital first. Customers turn to digital devices as their starting point for everything from researching products and reading reviews to purchasing items and monitoring the status of activities. And customers' expectations are continuing to be reshaped by the retail sector. Digital retail players continue to raise the bar on integrated shopping experiences by allowing customers to decide how and when they will receive their products, providing financing options at the point of sale, and suggesting products based on what these businesses know about their customers. Firms such as Netflix have proven they can use vast amounts of data about consumer preferences to drive product recommendations. And Uber continues to transform the ride-service industry with its digital-first approach and has expanded consumer product choice by introducing new ride-service tiers, such as uberPool, uberX, uberXL, and UberSelect.

While the retail sector continues to shape customer expectations, banks are still burdened by legacy processes and systems. The lack of focus on the customer experience and the complexity of legacy processes, in some cases, are allowing challenger and neobanks to come in and build digital experiences that are luring digitally-savvy consumers away from incumbent banks.

Banks often view opening a new account as a process and not a buying experience, and that process has been plagued with cumbersome workflows and outdated systems. Current workflows are typically too rigid and require a customer to enter too much information that demands too much time and too many decisions.

Now is the time for banks to reinvent how they interact with customers during the origination process. The vast amount of data that banks have about customers, the application program interfaces (APIs) that are able to connect data and systems to obtain access to customer information (from banks' systems or from trusted third-party sources) and streamline operations, and the ability to deliver real-time financial information through a mobile device mean that banks have an opportunity to transform the digital origination experience.

METHODOLOGY

This research effort leverages a Q1 2017 Aite Group survey of 1,095 U.S. consumers. The sample size is in proportion to the U.S. population for age, gender, income, geographic region, and race. Participants in the research indicated that they have an account with a U.S.-based financial institution or financial services provider, and use online and/or mobile banking. Q4 2017 participants also indicated that they share or have the primary responsibility of managing their household finances. The data have a margin of error of 3 points at the 95% level of confidence. Seniors are defined as individuals who were born in or before 1946, baby boomers were born between 1946 and 1964, Generation Xers were born between 1965 and 1980, and millennials were born between 1981 and 2000. Population data from the United States Census Bureau was used to calculate projections for the total U.S. digital banking market.

THE MARKET

Given customers' rapidly rising expectations for digital banking experiences to match the integrated experiences they receive in other industries, banks are under pressure to deliver a customer-centric, mobile-first digital origination experience that is integrated and flexible enough to engage with customers when they want, how they want, and where they want. At the same time, banks are reacting to a multitude of market forces (Table ATable A).

Table A: The Market

Market trends	Market implications
Customers are migrating to the digital channels.	Customer adoption of new technology and richer digital experiences in the retail industry are putting pressure on banks to innovate and deliver the same quality of digital experience customers receive in other industries.
Banking products are a commodity.	For the most part, banking products are the same with some variation in terms, pricing, and features. One source of differentiation for banks and credit unions is to compete on customer experience.
Banks are facing increased pressure to optimize back-end systems and operational processes.	Banks are looking for ways to exploit technology to simplify business processes and drive down operational costs.
Everything is becoming connected, and as a result there is more data than ever.	Connected devices, from wearable technology to connected cars, allow consumers to leave digital breadcrumbs everywhere. These devices can track what customers are doing, where they are doing it, what they like, and what they don't like. These new data streams can be used to personalize the digital origination experience.

Source: Aite Group

DIGITAL BANKING ADOPTION

Many banking executives' technological focus has shifted toward a digital model, with digital making strides toward becoming the primary banking channel for many customers. Excellence in one channel is no longer sufficient; customers expect the same positive and streamlined experience in every way that they interact with their bank as they frequently switch between channels. As the number of digital banking users grows, it will become increasingly important for banks to build personalized experiences that allow them to deliver customized product recommendations, remove the friction from the origination process, and help customers meet their financial goals in a digital environment. In this section, Aite Group analyzes customer adoption, across generations, of those using online banking only, mobile banking only, and both online and mobile banking.

CURRENT ADOPTION

There are currently over 173 million digital banking users in the United States, and of those nearly 52 million are online banking users only, nearly 19 million are mobile banking users only, and nearly 103 million are both online and mobile banking users. The adoption of those services differs by generation, with millennials and Gen Xers accounting for nearly 72% of total digital banking users. There are nearly 11 million mobile-banking-only millennials, and that number declines with each older generation. On the other hand, online banking only is highest among baby boomers, with 26 million users (Table B).

Table B: Current Digital Banking Customer Adoption

	Millennials (In millions)	Gen Xers (In millions)	Baby boomers (In millions)	Seniors (In millions)	Total (In millions)
Online banking only	7.7	13.7	26.0	4.3	51.7
Mobile banking only	10.9	5.8	1.8	0.2	18.7
Both online and mobile banking	54.7	31.7	15.1	1.2	102.7
Total	**73.3**	**51.2**	**42.9**	**5.7**	**173.1**

Source: Aite Group survey of 1,095 U.S. customers, January 2017

CUSTOMER EXPECTATIONS FOR A SUPERIOR DIGITAL EXPERIENCE

Banks have done a good job of replicating the activities a customer can do in the other channels in the digital channel, but they have not been able to keep up with the digital experience customers get in other industries. While banks have provided access to their products and services in the channels that customers want, there is still room for banks to develop an integrated digital origination experience.

A superior digital experience goes beyond a pretty user interface. It is also about using what is known about a customer to proactively identify when the customer has a need and to deliver an offer that resonates, making it easy for the customer to apply, helping the customer to navigate through the fulfillment process, and giving the customer quick access to his or her funds.

The challenge for banks is that IT budgets are increasingly locked down by compliance and legacy maintenance projects, thus reducing their capacity to innovate. Indeed, many large and midsize banks are more challenged today by budget constraints that prevent them from investing in innovative products and services than they were three years ago. This forces them to prioritize their initiatives. As such, a handful of technology categories are receiving the greatest level of attention and investments at large banks. These include regulatory compliance, fraud prevention, analytics, and digital channels/transformation. All of these technology categories impact a customer's experience. As such, banks need to put user experience in the center of all of them and make it a key consideration in almost every IT decision they make (Figure 1).

Figure 1: User Experience at the Center of Every IT Decision

Source: Aite Group

THE OPPORTUNITY TO ENGAGE CUSTOMERS DURING THE CUSTOMER LIFE CYCLE

Banks have been trying to evolve their digital experiences from what started as a screen scrape of the origination process in the branch and call center—which in some cases is an outdated, paper-based process—to an experience that allows them to interact with customers in more meaningful ways. One of the main challenges of today's digital experience is that it takes a one-size-fits-all approach that does little to personalize the products and services offered. In addition, most customer interactions with a bank are transactional—check a balance, make a payment, and transfer money. As a result, most banks are reacting to a customer request or need rather than proactively offering guidance or product solutions.

As banks look across the spectrum of products and services, they should consider the opportunity to build personalized experiences to win customers, engage them in finances, earn their trust, and build loyalty. Once a bank identifies a customer need, it should proactively provide the right experience and the right product in the right channel and at the right time (Figure 2).

- **Win the customer.**
    - **Selecting the right product:** Banks have enough information about a customer to offer the customer the right product. In today's banking environment, customers are often driven to product-recommendation tools to figure out what product is best for them. Banks have enough information about customers' current product holdings, where they spend money, and how they spend money. Rather than directing a customer to a product-recommendation tool, banks can use the data they have about how a customer spends money to suggest a credit card that has the most beneficial reward structure.
    - **Creating product bundles:** Banks can recommend to a customer a set of products that is aligned with their current account holdings and life stage, and provide a bundle or set of products that gives the customer the best price based on the relationship.
    - **Delivering contextual pre-approved offers:** Most customers always have their mobile device with them. That means banks could recognize where a customer is and send the customer offers in the context of what he or she is doing and where. So if a customer is in a retail store, banks could send a pre-approved offer to the customer to be used on a purchase while he or she is in the store.
    - **Simplifying the application process:** Since 93% of consumers start an application and don't complete it, there is a significant opportunity to keep consumers engaged in the process by allowing them to save their application and resume it later. Banks can also reduce the abandonment rate by streamlining the application process, for example, by allowing an existing customer to prefill an application and deploy capabilities such as mobile document capture to reduce the amount of data entry. Another tactic that has successfully increased application completion is determining whether a

customer is stuck in the application—by looking at how long the customer has been on a page or if the customer is getting error messages—and using live chat to proactively invite the customer to chat with an agent and obtain assistance.

- **Improving customer engagement:** For more complex products such as mortgages, banks need to increase transparency in the underwriting process by providing a way to keep customers informed of the status of their application, allowing them to see a list of items they need to include for underwriting, and offering a way for customers to upload documents using their mobile devices.

- **Engage in finances.**
  - **Managing their accounts more effectively:** Banks can determine when they should proactively reach out to a customer to educate him or her on how to use products or services. For example, if a customer has not set up automatic payment or used credit card rewards, banks can send personalized messaging to help that customer understand why he or she should use the features and how to use them.
  - **Identifying opportunities to help customers manage their finances and achieve financial wellness:** Personal financial management (PFM) tools provide great insight into a customer's goals. If a bank recognizes that a customer has a savings goal set up for a down payment on a home or car, or is even saving for a large purchase, through analytics tools, banks can identify the customer need and generate a personalized offer that helps support that goal.

- **Earn trust.**
  - **Identifying new products that meet customers' needs as they evolve:** As customers enter new life stages, they often have life events that have financial impacts. Rather than reacting to a financial need, banks could be proactive and predict when a customer may enter a life stage or experience a life event that has financial impact and help the customer.
  - **Helping a customer avoid fees:** Banks can build trust with their customers by helping them manage their accounts responsibly, for example, by sending a notification to a customer when a customer is about to be overdrawn, predicting a future account balance to help a customer understand cash flow, or recommending that a customer use a savings account or credit card for overdraft protection.

- **Build loyalty.**
  - **Deepening relationships:** Banks can help determine the best next product to offer, what product features to upsell, or if there is a better product to meet a consumer's needs. Synchrony Financial uses predictive analytics to determine which card to offer a customer or whether a private-label card should be

upgraded to another card, such as a co-brand card or a Dual Card, with additional value that can be used outside that merchant. This is important, as J.D. Power's 2016 U.S. Credit Card Satisfaction Study discovered that more than 20% of U.S. customers have a credit card whose fees or rewards are not aligned with their actual purchase habits.[1]

Figure 2: Opportunities to Engage With Customers

Source: Aite Group

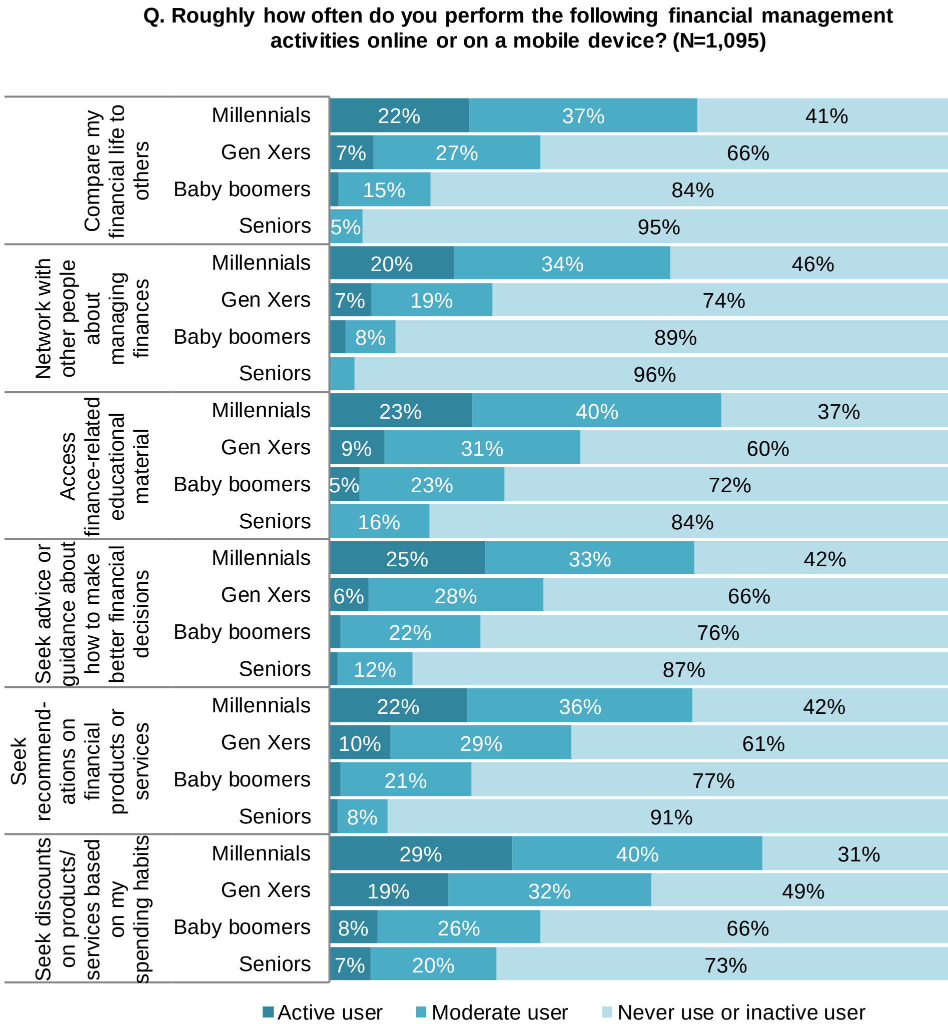
FINANCIAL EDUCATION AND GUIDANCE

One area in which banks could step in and empower consumers to take more control of their financials is by providing financial education and guidance. Financial education and guidance include the ability to compare one's financial life to that of others, network with other people about managing finances, access finance-related educational materials, seek advice or guidance about how to make better financial decisions, seek recommendations on financial products or services, and seek discounts on products/services based on one's spending habits.

Generationally, across these financial management activities, millennials have the highest percentage of active users of PFM—the highest percentages being for seeking discounts on products/services based on one's spending habits, with 29%. Given millennials' interest in seeking discounts on products/services based on their spending habits, banks could help customers optimize their spending by giving them information on discounts and helping them save the money they receive as discounts.

1. "Can American Banks Put a Price on Loyalty?," Card International, November 2016.

Figure 3: Financial Education and Guidance Usage by Generation



Source: Aite Group survey of 1,095 U.S. customers, January 2017

TRANSFORMING THE DIGITAL ORIGINATION EXPERIENCE

To transform the digital origination experience, bank executives will need to use the vast amount of information they have about their customers, expose that data to various internal systems or third-party systems through APIs, streamline back-end systems and operations processes, and deliver offers or guidance in real time.

LEVERAGING CUSTOMER DATA

In the past, the cost of data storage would have forced financial intuitions to prioritize the type of data captured and archived. Today, the cost of data storage is relatively low, and that affords banks the ability to keep deep pockets of data. This creates an opportunity for banks to differentiate by using the data they have about a customer to get to know his or her preferences and financial aspirations, how and where he or she spends money, and what other factors may impact financial decisions, and to use this information to deliver personalized product recommendations.

However, not all data is created equal, and it’s easy to get lost in the sea of data. Having vast amounts of data does not mean there is more insight, as insight depends on the integrity of the data, what the data can tell banks, and what can be uncovered about a customer’s financial needs and aspirations by using the data. The key is to understand what data is needed to answer the questions about prospects or customers, or to see what data can simplify the process for a customer. For example, banks can use the data they have about a customer to predict when a customer is in a specific life stage, give him or her personalized product recommendations, and prefill information into the application, reducing the effort and time required from the customer.

IMPLEMENTING APIS AND OPEN BANKING

In our digital world, the use of open APIs is common, even fundamental, to the growth of cloud and other digital technologies. Stripe and PayPal are examples of payment service providers that have a clear API strategy.

But the increasing role of APIs in retail banking is a recent phenomenon. Banks are beginning to expose their data for use by third parties, in particular fintech companies, through open APIs. Banks can not only make their own product data available but also allow their customers to share their bank data with third-party providers, thus paving the way for “open banking.” In Europe, the revised Payment Services Directive (PSD2) is a driving force for the payments industry to adopt open APIs. And while regulation may have started the movement toward APIs, banks’ demand to improve the customer experience and back-office operations has become a significant driver in the move toward open banking. To get there, banks have to allow third-party payment service providers free access to payment accounts for payment initiation and account information services.[2] Going forward, many banks believe that everything they build needs to be "API-able." Potential bank use cases for APIs fall primarily into three categories (Table C).

Table C: APIs' Use Cases

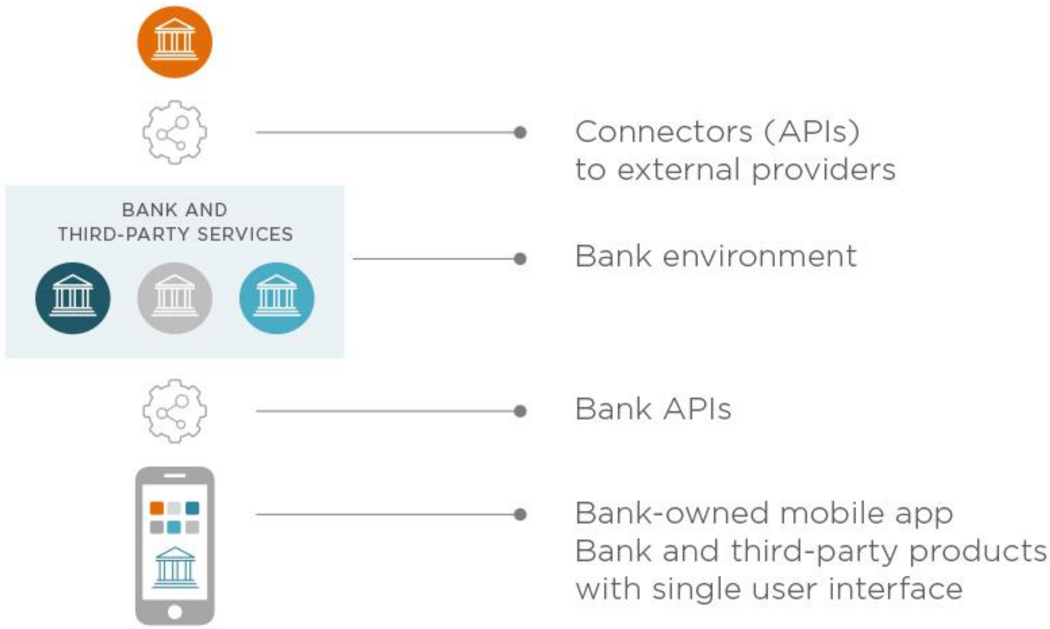
Category	Use cases
Internal use	Use to pass information across channels
	Build once and use across multiple areas of the bank (e.g., allowing an application to be saved in one channel and retrieved in another channel)
Expose APIs to clients	Expose bank APIs to the internal systems run by their largest corporate consumers
	Use as a way to offer safer choices to consumers (e.g., if a consumer uses Mint or Intuit, the bank could provide tokenized secure access to the providers through secure APIs as opposed to having users share passwords or have vendors do screen scraping)
Allow third-party fintech firms to leverage APIs	Work with fintech firms and enterprise resource planning systems to connect them with the bank for greater collaboration

Source: Aite Group

APIs enable a bank to redesign its value chain. Historically, banks used to provide everything from product development to distribution. APIs provide the flexibility to "unbundle the bank," i.e., to separate the creation of products and services from the delivery and user experience. A bank doesn't have to build all products or services because it can connect through back-end APIs (often called "connectors" in this context) to external financial services providers. This way the bank does not have to develop everything in-house to offer a full range of banking services. For example, APIs can be used in the origination experience to support Know Your Customer as well as identification and income verification. At the same time, the bank is able to integrate the external services and offer them through the (front-end) APIs to its consumers, maintaining a single user experience for consumers. The actual user experience can be provided by a third party as well (Figure 4).

2. See Aite Group's report *PSD2 Regulatory Technical Standards: Content and Market Impact*, April 2017.

Figure 4: Building the Bank Through APIs



Source: Aite Group

Of course, moving forward with an API strategy does not come without challenges. It is far easier to talk about conceptually than it is to execute. It also requires a cultural shift within the bank, which can be challenging if senior management is not fully on board. Bank respondents to Aite Group research have indicated that lack of senior management commitment to open API banking is considered to be the most important hurdle to its implementation. Finally, there is execution risk, as banks need to ensure that all quality assurances are done. To help minimize execution risk, banks could deploy a packaged set of APIs, which may make it easier to comply with regulations as well as to integrate with existing systems and allow them to more quickly plug into the API ecosystem.

OPTIMIZING BACK-ROOM AND OPERATIONS PROCESSES

In order for banks to remove the friction in the digital origination process, they will need to make sure that back-end systems and operations processes are optimized. Banks should look at each of the operations and supporting systems used in the origination process to determine what can be changed to accelerate supporting processes, such as underwriting and fulfillment, or how application status can be provided to a customer desiring transparency during the fulfillment process. For example, banks could allow customers to start the application process over the phone, save the application, complete it on a mobile device, and upload any required documents. Once the application is submitted for processing, customers can monitor its status and submit any additional documents needed for approval online or through a mobile device.

DRIVING THE RIGHT EXPERIENCE AT THE RIGHT TIME

Mobile provides the means to move toward "activity-based marketing," or interacting with consumers in the context of the activity being performed by the customer in that moment, and away from offering mass experiences to customers—one-size-fits-all experiences.[3] For example, a bank can choose to deliver offers for saving money or reducing debt that are tied to budgets and financial goals in PFM capabilities. Or if a bank recognizes that a customer is at a car dealership, it can send the customer a prequalified offer for a new car loan.

3. See Aite Group's report *Activity-Based Marketing: The Future of Mobile Marketing in Banking*, August 2014.

CONCLUSION

It is becoming increasingly important for banks to build personalized experiences that allow them to deliver customized product recommendations, create application processes that make it easy for a customer to open an account, and help customers meet their financial goals in a digital environment. Oracle is constantly evaluating how to help its clients transform their digital origination experience by taking the following steps:

- **Making customer data accessible:** For banks to deliver personalized digital experiences, they need data that can provide insight into a customer's existing relationship, life stage, and financial goals. That way, they can build and provide a personalized experience, make product recommendations, and offer financial guidance based on what they know about a customer.

- **Presenting advice in context to what a consumer is doing:** For recommendations to make a difference in customers' lives, they need to be put into context for a customer, and that means they need to occur in real time and demonstrate the immediate value of what is being recommended.

- **Bringing data and systems together using APIs:** For banks to deliver personalized digital origination experiences, data and systems must operate in tandem to gain insight and deliver real-time recommendations to consumers. Banks will need to integrate the external services and offer them through the (front-end) APIs to their consumers, maintaining a single user experience.

- **Transforming back-room and operations processes:** In order to transform the digital origination process, banks need to think beyond the digital customer experience. True transformation will only occur if the back-end systems and operational processes are also streamlined to help increase customer transparency and reduce the friction in the entire origination process.

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