White Paper

Multi-Channel>Omni-Channel>No-Channel?

Inviting Financial firms to rethink the Channel IT Strategy

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Executive Insight

Banks (and other financial institutions) typically spend about 45% of their IT budget on channels – branches, ATM, Contact Centre, Online, Mobile, Multi-channel integration and Customer Interaction Management initiatives. This is largely driven by a belief that channels are a critical component of sales and service, and technology enabled alternative channels not only help enhance customer retention and cross-sell, but also can reduce the cost to serve. This paper argues that this belief has led banks into a flawed investment strategy. Increasing signals from the marketplace indicate that financial firms will need to revisit the 'build' investment strategy for channels. Channels are an important element of sales and service. However, banks need not build, buy and maintain them on their own. They can consider alternative models to monetize and source such capabilities from ICT partners. This shift in investment strategy can help banks make significant reductions in both Opex and Capex and optimize their business models for the 'New Normal'. The savings can be invested into developing key enablers of multi-channel services, i.e., componentization and standardization of core information assets and SOA/API initiatives, which can also open up new revenue streams.

Building Digital Channels may not Sustain Competitive Advantage

Most banks see channels as a source of competitive advantage. This view is logical since a channel is a key component of sales and service and is directly touched by the customers. The expansion of electronic/digital self-service channels like ATMs have built on this logic. Advances in ICT such as Internet and Mobile have pushed banks further on the self-service agenda. Since these technologies are relatively new, there is a belief that building competence in these new technologies and delivering better customer experience will further enhance competitive advantage. Most Industry Analysts also support this line of thinking. Aite Group[1] indicates that multi-channel on-boarding can be a differentiator to attract new age customers. CEB Towergroup[2] argues that insurers need to look at multi-channels to attract and retain customers. Very few banks have resisted this urge. Many are taking steps to adapt to these trends. However, our observation is that this pursuit may be problematic for two reasons. First, there is a deeper shift in the nature of customer needs. Our research into customer service in banking indicates that customers today are demanding not just Anytime/Anywhere solutions, but are looking for 'ANYBANK' solutions. In other words, they are looking for solutions that allow aggregation of their financial information. This emerging need is today being addressed by customers themselves or by information aggregators such as Intuit and Yodlee.

In terms of accessibility, we already have inter-operability of ATMs, and it may not be long before we have the same inter-operability for Online Banking or Mobile Banking. Second, fast proliferating consumer technologies like mobile are beginning to expose the limitations in the banks' ability to deliver better experiences, faster. The whole delivery model is being challenged – right from constructing a business case for small/numerous features, scaling up relevant technology competencies in a cost-effective manner, and in adapting to faster delivery processes such as Agile and DevOps. These developments indicate that even if a bank invests in building a channel, it will only be a catch-up game. It is instead, useful for the bank to focus attention on enablers of self-service/channels.

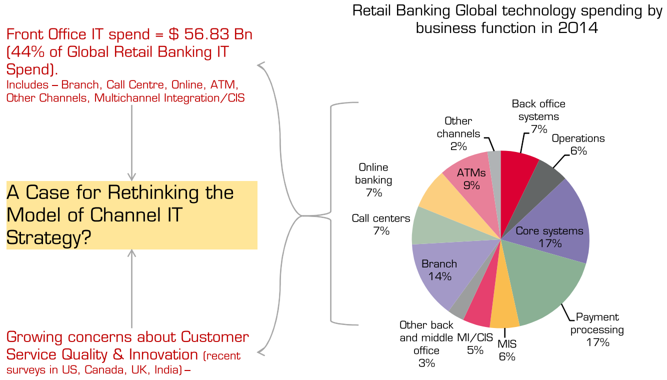

Figure1 : Retail Banking IT Spend, Source: Ovum

1. Aite Group (2013), Multichannel Client Onboarding: Anytime, Anywhere, Any... How?
2. CEB Towergroup, Wealth statistics, 2013

Now, let us take a look at the financial perspective – are financial firms (in the 'New Normal') in a position to make required investments in channel technologies? Channels (Branches, ATMs, Contact Centres, Online, Mobile, Multi-channel Integration & Customer Interaction Management) account for about 45% of the total annual IT spend, in other words close to 3-4% of the bank's revenue[3] (refer to Figure 1). In addition, there is the fixed cost of infrastructure and technology in this area. Since this is a significant cost component, financial firms are already making efforts to reduce this. Initiatives are largely aimed at reducing the branch cost and investing into digital (online/mobile) and move transactional traffic to digital channels. A recent survey by Forrester[4] suggests that most of the IT spend in channels is devoted to infrastructure upgrades and small functionality improvements in digital channels such as Online and Mobile. Another survey by CEB Towergroup[5] points that about 75% of wealth managers don't support mobility, where Tablets are seen as critical for advisors. The report also suggests that margin pressures are forcing firms to cut sales and service costs, especially in segments such as Retirement services. So, we have a scenario where most financial firms (especially banks) claim to have a multi-channel strategy, but do not have the budgets, skills or organizational structure to drive this. If channels are an important component of sales and service and there is not adequate investment, then it will start impacting customer satisfaction over time. Given the current state of the financial services industry, it looks difficult whether firms can invest sufficient capital into channels and sustain competitive advantage.

The above pointers indicate that it is time to question the strategic importance of channel technologies and take a serious look at alternative models to drive customer service innovation. Instead of building or maintaining channel assets, it will be useful to monetize these assets and seek out technology partners who can own and deliver these channels. Some financial firms are beginning to realize this and showing greater interest in Apps and APIs[6] and Open Innovation models to support emerging customer needs through partners. For instance, MasterCard (unlike Visa) has preferred to go with Google Wallet, and launched an API platform to expose their core assets like Location, Offers, SmartData services for corporates. CapitalOne, Axa bank, and several others are experimenting with API platforms. However, since the success of an Open Innovation model depends on the flexibility of Core Systems that store critical information assets and processes of the bank, investment should be directed to preparing the core systems to support the channel requirements. How can they do it given the current legacy environment of the core? We will discuss this in the next section.

Focus on Core Renewal, the componentized way

A large number of financial firms in mature markets are sitting tight on a legacy core – constrained by budget pressures and perceived risks. Increased demand from customers for self-service through multiple channels and demand to cross-sell across channels is forcing firms to look at initiatives such as common view of customer, customer event history that start touching the core systems – customer information, account services and payment systems. Firms need to invest more effort in revamping their core. But, replacement with a product may not be the solution. Componentization and Standardization of SOA is a more effective route. We will provide a few examples to illustrate why core transformation should be given more importance compared to channels.

Let us take the case of self-service. Customers today are demanding not just access to their financial information and instruments to move it around, but more access to the business processes and other information assets of the bank. For instance, wanting to know the nearest ATM which has cash or fixing an appointment with a financial advisor or alerting on a fraud (according to Towergroup, in more than 80% of cases it is the customers who alert the bank on a fraud). These requirements demand access to core systems and processes of the bank, which cannot be delivered in a non-componentized or non-standard model.

A related example is customer on-boarding (for mortgage, wealth, and others). The time to on-board is one of the key issues from a customer's point of view. Capturing the right set of information from the customer with minimum iterations is one part of the problem. The real problem lies in validating this information with the diverse regulatory requirements (and sometimes across different markets). Having standardized applicant information (like the 1033 form and related documents) and regulatory validation checks (supported with semantic technologies) and inter-operability between such components can play a great role in driving efficiency and improving multi-channel interaction during the customer on-boarding process. Banks could even look at getting some value out of rejected applications by transferring the information to other lenders at a cost. Supporting such requirements needs closer attention to the underlying systems.

Another example is authentication. Today, each channel has a different

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3. Jaroslaw Napick (2011), Ovum Retail Banking Technology Spending Model, Datamonitor

4. Tiffany Montez (2013), The state of North America Digital and Multi-channel Banking, Forrester

5 CEB Towergroup (2013), Future of work in Financial Services, http://www.executiveboard.com/exbd/financial-services/future-of-work/index.page?

6 Kristin Moyer (2012), Banking on APIs and Apps, not Applications, Gartner Maverick Research authentication solution. While this redundancy contributes to lower risk, the model of authentication itself is complicated and concepts such as Knowledge Based Authentication make it even more complicated for a simple user. Emergence of biometrics (finger/voice) and devices that have features to capture these are creating new possibilities to simplify authentication from a customer perspective. At the same time the emergence of Cloud solutions creates the possibility to offer more dynamic authentication methods using diverse sources of information. When these two are combined, one can look at the possibility of channel agnostic authentication that is less complex, but more effective. Similar componentization can be done for critical information delivery across channels, for instance, Contact Routing, Customer Dialogue, Customer Event History, and Service Event Analysis. Several such components have been articulated by the fast improving Banking Industry Architecture Network reference mode[7] (BIAN).

As we have seen from the above examples, extracting critical components from today's channels and moving the rest to partners can reduce costs and provide control to banks on critical aspects that impact customer service. Extending this logic to other critical assets of the bank such as Account Services or Payments or Reference Data can create opportunities to create new revenue streams. Financial Firms should dedicate more effort to enhance the information assets and services that can help drive innovation in customer service (Figure 2 summarises the key areas where CIOs need to focus their attention). Working on components as opposed to large systems will also help the workforce to gradually shift from current delivery models to more agile delivery models. Clearly, replacement will not be able to address these issues since most core banking systems are not designed for this. Several vendors are now beginning to align with BIAN to re-architect their products. Temenos, a leading CBS provider, has announced its intent to componentize and move towards an Appstore type of model. Others will probably follow suit.

Agenda for Enabling Service Innovation in Financial Firms

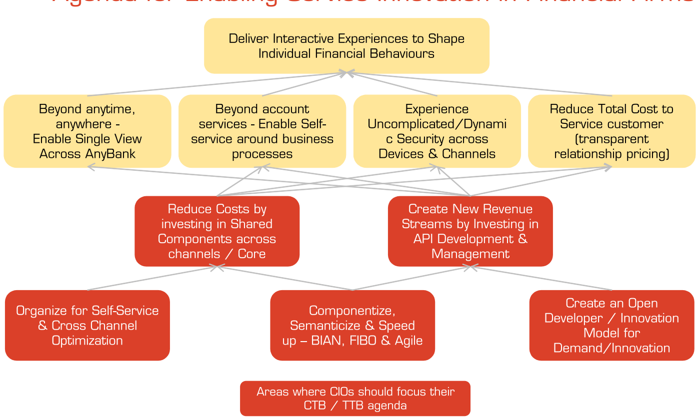

Figure2 : Focus areas for Bank CIOs to Drive Service Innovation

ICT market today presents maturity and choice to revisit Channel IT strategy

The increasing convergence in the ICT industry (Telcos and IT providers) is creating the possibility for financial firms to consider alternative models for channels – strategic alliances or JVs or Open Innovation. In this section we discuss four relevant developments in the ICT industry.

First, increase in maturity of Managed Services capability and offerings. Traditionally, banks have outsourced contact centres to Telcos, Infrastructure (data centres, networks) to large players like IBM and ATMs to ATM manufacturers such as NCR or Diebold. However, increasing convergence in the ICT industry is accelerating the maturity of Integrated Managed Services. For instance, today, players can offer integrated managed services for Networks, Infrastructure, Security and Applications that can be leverage to address all the channels – branches, contact centres, ATM, Online and Mobile. In addition, emergence of new service visualization tools such as SPLUNK are helping in more responsive production support services and better alignment of SLAs with business and consumer experience goals.

Second, emergence of Test Factory models and advancement in test automation tools is helping create higher efficiencies in testing channel applications, and also more robust testing. Added to that advancement in Cloud and hosting models is also spawning Test Platforms as a Service models, for instance, Perfecto platform for mobile testing. Channel testing will significantly benefit from an integrated set of specialized skills that not only deal with specific digital channels (like online, mobile), but also cover areas like security (penetration testing) and performance. And many of these capabilities are at the interface of IT & Communication Technology providers.

Third, the advancement of technologies such as virtualization is creating new possibilities for managing branch infrastructure/desktops. Offerings such as Workspace as a Service (WaaS) on a pay-per-use model are becoming extremely attractive for banks to offload branch infrastructure costs and improve disaster recovery. In addition, introduction of iPad and wireless solutions for branches is also opening space for extending the virtualization model. For instance, Barclays announced that they have recently tied up with BT managed services to offer wireless services in their branches for their customers. Most of these technologies fall right at the interface between infrastructure and telecom networks.

Fourth, advancement in Cloud technologies is helping bring related application components into the common fold. For instance, players such as SFDC have developed CTI adapters on the Cloud as extensions to their CRM systems. This is of great value to Technology players

7 BIAN (2013), BIAN Service Landscape 2.0, http://bian.org/assets/bian-standards/

who are offering shared Contact Centre services to banks. In addition, there are new Cloud based authentication solutions such as a Last Known Location (on SFDC platform) that can be used to support authentication. And platform services such as Social Media Analytics Platform create possibilities for banks to access critical inputs through partnership models. Cloud is definitely blurring the lines between Telcos and IT firms and spawning innovative solutions.

All these developments along with the BIAN reference architecture create new possibilities for banks to offload costs in the channels area. Figure 3 provides an overarching framework of how the maturity in services, technologies in the ICT landscape coupled with the BIAN architecture can help drive transformation in the channels space. This framework can be used to work out an appropriate strategy to offload costs and partition critical components between the financial firm and the provider.

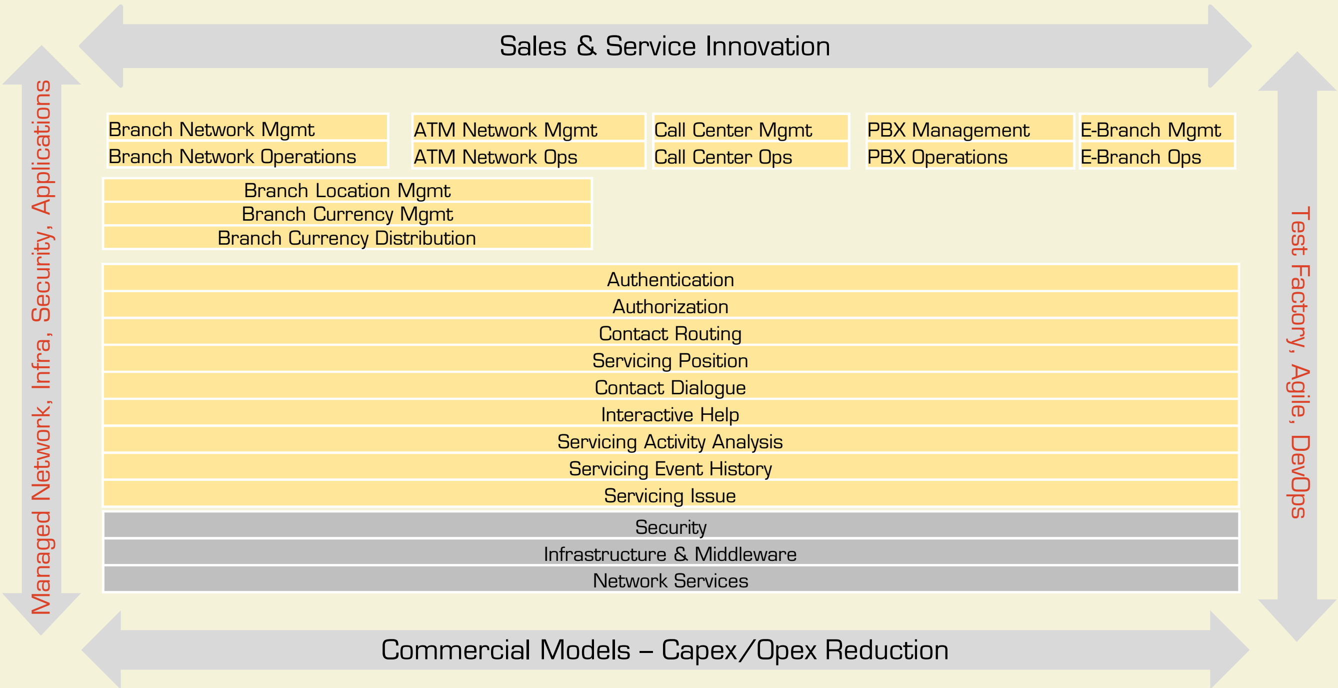

Figure3 : Channel Specific Service Domains (BIAN) and ICT Delivery Options

Conclusion

This paper discussed about the increasing possibility for financial firms to offload their channel costs and focus on core issues - customer service and service innovation - and getting more value out of the core information assets. This also means that firms need to revisit their outsourcing strategy for core systems. Re-building the core in a componentized and standardized way can provide a more sustainable competitive advantage compared to investment in new channel technologies.

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