

Shobhit Mathur,
 Head of the banking centre of excellence at the global IT services firm Mindtree

Truly Transformative Digital Models

Digital innovation is at the forefront of all IT investment in banks. Commercial banks across the globe have been looking at this seriously for over five years now. However, the extremely fast adoption of mobile technology and everything associated with it, has diminished banks' chances of using mobile banking as a differentiator. The mobile banking apps became standard offerings even before half of the banks could launch that offering. Worse, whatever banks have to offer on mobile mostly does not meet customer's expectations.

Now that almost 100% of banks have some form of digital footprint, primarily mobile banking, it is time to step back, assess and move ahead in a more structured way. The three factors that the banks have to watch out for are –

- The **competition**. In our fast-paced, technology driven society, competition is rising from a variety of atypical sources. The non-FIs, have an undue, late-mover advantage as their IT landscape, operations and process are much more nimble, and they are not under the tremendous, regulatory pressure that the banks are. This means that they can move much faster both in creation of new technology and in launching new offerings on existing ones.
- The **customer**. Most Gen Y's do not have the same outlook towards life in general as older age groups such as Gen X and Baby Boomers. They have grown up with mobiles in their hands. They haven't even gone to bank branches for opening their accounts. And on top of that, in the fast moving world – they give much more importance to convenience than to risk aversion or savings. There is, however, one trend that stands out from the crowd and calls for careful evaluation from banks

– the virtual wallets, like those of Starbucks, Paypal and Apple's iStore, where customers store value at no interest. Standing on their own, these small-value products may not initially send warning signs: however, across millions of customers and countless retailers, banks are set to lose a huge portion of their low cost source of funds. This is an especially large problem for banks in low interest regimes, as customers are more likely to choose convenience over low interest income.

- The **cell phone**, as the medium of interaction, is less accommodating than the web. Customers didn't like to, but could, ignore irrelevant promotional messages on the right side of a banking website, and even junk the generic promotional emails. However on mobile, the limited real estate, generic or irrelevant promotions can pose more damage to banks than do any good.

Therefore the banks have to look beyond launching newer mobile banking applications. They have to listen to the customer and do what it takes to reach closer to them. Otherwise, as highlighted by most of the consumer surveys, the customers won't shy away from moving to a non-banking channel to fulfil their need to conveniently conduct financial transactions as well as securely store their money.

The need of the hour for banks is to move at a pace which their existing infrastructure backbone, policies or processes do not support. The problem is further multiplied by their most common approach to date - to keep adding layer upon layer over existing core and internet banking platforms.

We have seen banks fight back with different approaches, ranging



from the quick launch of innovative offerings like Barclays, to setting up a dedicated digital bank like mBank. The jury is still out on which is the right approach between trying to do it internally, or by setting up a much more leaner and nimble operation externally.

Way to go forward: Truly Transformative Digital Models

As a result, to remain relevant to their customer, banks have to rethink their central business models from policy to risk management to channel. Features such as mobile apps, digitisation of forms and interest calculators cannot be differentiators and are unattractive if they come with added costs. A significantly effective digital transformation has to be complemented by changes across banks' front, middle and back offices. Otherwise, the Movens and Paypals will take over customer engagement and demote the role of banks to merely the provision of back office services.

Banks should adopt a multi-pronged approach towards digital transformation:

- Be in front of the customer by focusing on quick wins and launching newer offerings on new devices
- Differentiate from the competition by focusing on mobile only or mobile first offerings even if it requires relooking at internal processes and policies
- Generate customer delight by reaching out to them with personalised offerings
- Go beyond internal resources by simplifying and opening up back end platforms and processes

- Be agile by realigning the 'Change the Bank' and 'Run the Bank' organisations

These will enable banks to:

- **Provide personalised offerings** – Now the technology exists to deliver promotions to customers at the right time. The problem that most banks haven't addressed is understanding the customer well enough to make these promotions relevant to them.
- **Collaborate** – Banks are operating in a world where new age competitors expose their APIs even to competitors. Banks have to follow the suit by opening themselves up and sharing information voluntarily. The integration of APIs into emerging and flexible ecosystems of developers and partners will enable new bank revenue streams.
- **Be agile** – With newer devices and offerings being launched each month, the digital banking infrastructure in a bank can quickly become unmanageable. It is imperative for banks to fix the underlying platform and take a holistic approach to digitisation. And to make full use of leaner platforms, they should restructure themselves to ensure that operational inefficiencies do not thwart the initiatives on the technology front.

The changing face of customers and competitors poses a real threat to the significance of banks in their customers' lives. However the banks have the assets – information and trust – which if utilized properly, can help them tackle the competition and even partner with them for customer's benefits.