



TOP 10 DIGITAL

TRENDS

IN BANKING



2018 AND BEYOND

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A RAPIDLY CHANGING BANKING ENVIRONMENT

Customers today have a lot of expectations with respect to banking solutions, and this includes both business and retail clients. While a great UX/UI on mobile and web applications is already something that most banking customers take for granted, there is still a lot of room for improvement. Additionally, a digital revolution of sorts is already underway in other industry verticals, and that revolution has slowly begun to trickle down to the banking sector as well, which has been a conservative and cautious domain so far. While this orthodox approach is necessary to maintain the security and credibility of banking institutions, it can sometimes be a hurdle in improving profitability and meeting customer expectations.

In this regard, banks have begun to adopt cloud technologies and invest in them evermore. Recent political and cultural changes have also prompted disruption by non-traditional players within the banking industry. This has forced traditional banks to digitize their products and services further. Advanced analytics and BI will continue to be a major part of banking investment.

Emerging technologies such as Internet of Things, AI and algorithms are already encouraging banks to focus on innovation and bring real-time customized products to end-users. This is being made possible through multichannel delivery. Curiously, banking, which was once pitted against fintech institutions, has begun to collaborate with fintech entities to merge services and enhance customer experience. These multiple forces will continue to drive the banking sector to adopt technology at a fundamental level, with the principal focus being on enhancing customer experience, and remaining profitable in a rapidly changing world.

In this document, we bring you some of the most important macro trends that are affecting the banking industry this year and beyond. These trends are likely to change the way banks approach their products and services, and the way customers use them.

TREND # 1

CAUTIOUS CONSERVATISM

With other industries lunging forward to adopt newer technologies, banks and financial institutions are more conservative and cautious than other industry verticals. The banking industry vertical is constrained by its very inherent nature of stability and security, also known as the 'banker's promise'. Yet, to make sure that banks are providing the best customer experience at any given point, they will have to adopt newer technologies, albeit slowly. Thus, cautious conservatism integration of technology will likely be a dominant trend this year too.



With the Internet of Things making a splash in every other sector, banks won't be far behind before they learn how to adopt and adapt to the changing landscape of customer experience. Financial institutions abroad have begun dabbling in testing how customers react to sensors in their high traffic branches and it is high time the same was incorporated in Indian banking sector as well. For example, a bank can use beacons as soon as a customer walks in, to authenticate his/her biometrics and subsequently send across a signal to the cash dispenser. This not only simplifies access but also facilitates transparent and frictionless transaction by means of digitalization. ATM manufacturers are also embedding these features, keeping the future of banking technology in mind.

WHAT'S IN IT FOR THE BANK?

- ✓ More time and investment on research and development, before products go live
- ✓ Restraint on adoption of unnecessary technologies, which might just be a fad
- ✓ Long term benefits that help banks to remain profitable
- ✓ Reduction of unnecessary digital expenditure

WHAT'S IN IT FOR THE CUSTOMER?

- ✓ Improved security and stability
- ✓ Reduction in unnecessary products and services being marketed to them
- ✓ Familiarity in UX/UI on mobile and web apps
- ✓ Elimination of non-secure situations during transactions or otherwise

TREND # 2

INVESTMENT IN CLOUD SERVICES

Most banks are not making as much profit as they would like to, and there is a huge demand from stakeholders to reduce expenditure. At the same time, there is a pressing need to adopt automation and emerging technologies to improve customer experience and enhance profitability. To kill two birds with a single stone, banks are going to have to increase their investment in cloud services. Cloud delivery models such as Infrastructure as a Service (IaaS), Software as a Service (SaaS) and Platform as a Service (PaaS) will continue to remain on top of bankers' agenda. Private cloud deployment will continue to reduce expenditure on IT.



Managing Director of PwC, Mike Quindazzi claims that virtual replicas, bots, AI driven interfaces will move beyond industrial applications into financial services in 2018. A digital twin will not only propose an action plan for employees or customers, it will intervene and take actionable decisions on its own. As cloud based processing enters the mainstream and tools become more operative, running behavioral digital twin simulations will become more widespread even in the banking sector.

WHAT'S IN IT FOR THE BANKS?

- ✓ Hybrid solutions combine the benefits of both private and public clouds, and drastically reduce banks' expenditure
- ✓ Cloud computing enhances security, and ensures a higher level of transparency when it comes to regulations and compliance
- ✓ Banks that are still handling legacy systems should opt for hybrid solutions, especially if they don't want to adopt private clouds entirely
- ✓ Cloud computing helps build robust core banking solutions and mitigates service disruption risks

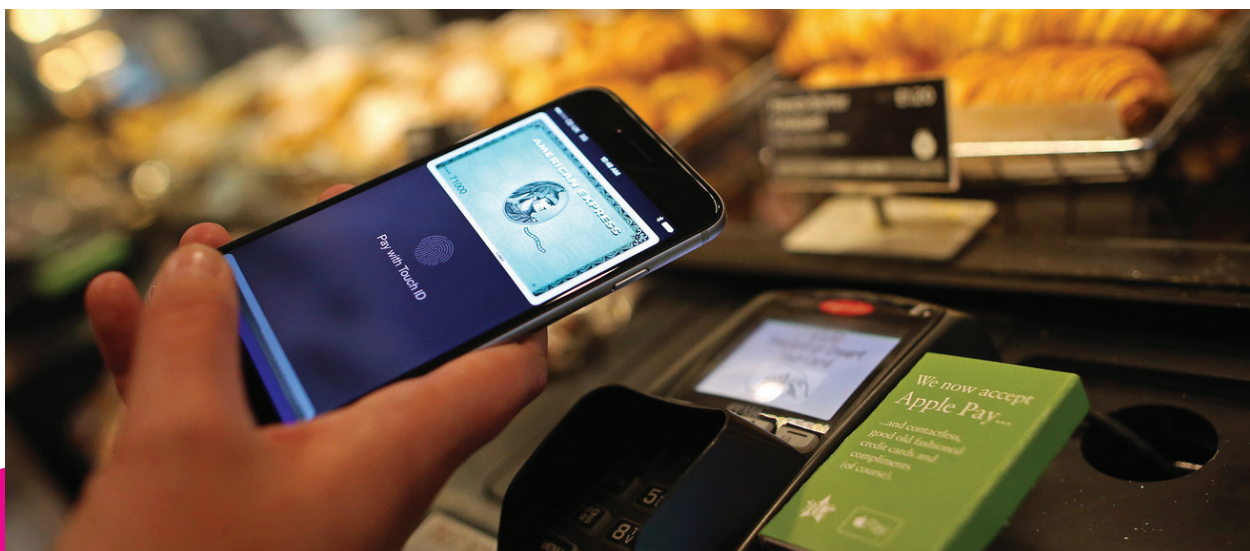
WHAT'S IN IT FOR THE CUSTOMERS?

- ✓ Mobile applications are easier to access, and customers can easily make transactions over secure environments
- ✓ Increased efficiency of the bank helps customers to access services and products that need to constant monitoring.
- ✓ Customers will have to worry a lot less about performance, stability and privacy of web and mobile applications.
- ✓ Overall customer satisfaction is likely to improve with the adoption of cloud technology.

TREND # 3

NON-TRADITIONAL PLAYERS GAINING MORE GROUND

Non-traditional entities such as telecom operators, consumer service providers, mobile wallet companies and others have entered the financial services sector and are coming up with a plethora of quasi-banking services. While not entirely fully functioning banks, these companies are legally offering money transfers, mobile wallets, digital payments, shopping cards and other such facilities. Banks have been very slow to adopt these changes and the disruptors have used this as an opportunity to fill the gap and offer easy alternatives for eager customers. Banks' traditional conservatism has been responsible for the entry of these non-traditional disruptors into the scene. Unless banks rev up their engines, and adopt technology more furiously to offer services creatively, disruptors will soon enter traditional banking territories. However, last year saw a steady increase in the number of bank accounts opened and the number of customers availing net banking services, as banks began taking considerable steps in digitalizing their services while keeping the banker's promise intact. Customers making cash withdrawals from the bank to pay bills are being converted by educating them about the benefits of using online banking to pay bills. It is also beneficial in cutting costs especially when online banking has proved to be a cheaper service than teller transactions.



WHAT'S IN IT FOR THE BANKS?

- ✔ Non-bank entities may encroach upon banking industry, unless it adopts technology faster
- ✔ Banking industry will witness disruption in its traditional market, and will be forced to adopt newer technologies and use them creatively
- ✔ Banks ought to offer better customer experience, and offer non-traditional services such as mobile wallets, sensor-based payments and other such products and services
- ✔ Mobile app development will continue to be a big part of the banking industry's attempt to counter non-traditional disruption

WHAT'S IN IT FOR THE CUSTOMERS?

- ✔ Customers will continue to expect innovative products and services
- ✔ Payments options will diversify, enabling consumers to conduct transactions easily, without delays
- ✔ Customers will have a greater number of banking solutions to choose from
- ✔ Disruption will eventually be good for customers, as both traditional and non-traditional players will pull all stops to please the customers in the end

TREND # 4

FURTHER PROLIFERATION OF DIGITAL TECHNOLOGIES

A significant pressure on traditional banks to go digital has been palpable for a while, thanks to an increased number of fintech and non-traditional entities encroaching upon banking territory. This has resulted in pushing boundaries and a mad rush to use social media, engage in mobile banking solutions and other digital services that bring banking solutions to customers anywhere, anytime. Banking services are no longer be restricted to just the basic services, and will need to offer a diverse range of features, which most customers have come to expect with technology's galloping contributions in customer retail experience today. This has pushed banks to adopt digitalization as the primary strategy in 2018 and for the rest of the foreseeable future.



WHAT'S IN IT FOR THE BANKS?

- ✓ Banks will need to provide advanced services and products over mobile banking. Desktop transactions will reduce dramatically
- ✓ Banks can look forward to cutting costs, as digitization will eliminate the need for unnecessary personnel, and also improve a bank's performance
- ✓ Banks will focus on establishing a personal and emotional relationship with customers using social media and other digital platforms
- ✓ Digital technology will help banks to become agile and deliver services and products quickly, by leveraging analytics and digital insights

WHAT'S IN IT FOR THE CUSTOMERS?

- ✓ Customers will start looking at banks as advisors, rather than just a place to conduct transactions
- ✓ Customers will expect a more personal approach from banking executives and social media contact from their banks
- ✓ Customers will not want to visit branches unnecessarily, thus increasing the need for digitization of products and services
- ✓ Mobile banking will continue to be the singular-most important service that customers will seek from banking entities

ADVANCED ANALYTICS AND BUSINESS INTELLIGENCE

Location-based data and other sources of data have helped data mining agencies to collect information from a number of resources. Improved statistical and computational methods have helped to bring insights and analytics that were previously not possible. While the banking industry has been slow to adopt even business intelligence (BI), the industry as a whole will begin to use advanced analytics in 2018 and beyond. This will include data mining, Big Data, and emotional data, allowing a company to gather, store, access and analyze corporate data to aid in decision-making. Computational methods have evolved too, and they will help analytics to grow further. All this will help banks to stay ahead of their competitors and provide a better customer experience.



- ✓ BI solutions can be used to analyse operational processes and help banks to reduce ongoing costs, maximize efficiency and expertise of existing resources by analyzing, for example, interactions between CRM department and your customer base. This can shed light on ways to improve and enhance the customer experience at the point-of-contact
- ✓ BI tools are used to track customer, product, and branch profitability, modify pricing or business processes, even determine customer preferences, thus helping banks to create new and improved products and services to improve their competitiveness in the marketplace
- ✓ BI also facilitates improved retention and marketing by tracking customer habits, preferences and behaviors thus enabling banks to customize their products and services in ways that meet needs, solve problems, and promote customer loyalty. It also helps reduce risky and fraudulent practices in the financial sector

USE CASES

Jack Henry offers Cognos® BI to its customers for business intelligence and enterprise reporting. Cognos BI, offered through a strategic partnership with IBM®, supports banks' business intelligence and dynamic reporting requirements, and significantly decreases the time and cost historically required to generate and distribute enterprise-wide decision-support information and reports.

FIS offers business intelligence through its IBS Sales and Service business unit in the form of consulting services. A recent job posting by FIS asks that applicants have prior experience with the SAP BusinessObjects. SAP BusinessObjects is a flexible and scalable, self-service BI tool that makes it easy for users to discover and share insights.

WHAT'S IN IT FOR THE BANKS?

- ✓ Banks will have a better insight about customers and their behavior
- ✓ It will now be easier to provide fraud-protection and comply with regulations
- ✓ Big Data analytics will help banks to see the macro-perspective, which is often missing from the table
- ✓ Analytics will help banks to provide customized products to their customers

WHAT'S IN IT FOR THE CUSTOMERS?

- ✓ Customers will be benefited through banks' cross-selling attempts, which will mostly be based on analytics
- ✓ Risks will be reduced and customers can rest assured that privacy and security will be protected, thanks to better BI
- ✓ Social media and digital technology will help customers to connect with banks better, and improve data collection indirectly
- ✓ Real-time insights will help customers to make the best financial decisions

INTERNET OF THINGS, ARTIFICIAL INTELLIGENCE & ALGORITHMS COME TO BANKING

There are several new technologies that have taken the world by storm and one of them is blockchain payment. It has a significant impact on traditional banking services by bringing the latest currency-options and payment methods to customers. According to [The Financial Brand](#), **“While financial services is the sector most likely to be disrupted, blockchain technology is poised to improve customer experience, streamline product features, and enable our global economic system to reshape market structures that will impact us from Wall Street to Main Street.”**

Public cloud services offered by banks now make tracking and verifying credit information easy both for the customer who wants to keep a record of their expenditure and for financial institutions while sanctioning loans. Cognitive computing is another area that will help banks in connecting with customers emotionally.



WHAT'S IN IT FOR THE BANKS?

- ✓ Banks will be able to gain access to the data tsunami that is likely to result from using Internet of Things
- ✓ Artificial Intelligence will help banks to provide better customer service by introducing chatbots, robo advisors and other such services
- ✓ Cognitive computing will help banks to connect with their customers emotionally, which will ultimately lead to better interactions with customers
- ✓ Bitcoin and blockchain technology may require further attention of banks, as their popularity seems to be growing

WHAT'S IN IT FOR THE CUSTOMERS?

- ✓ Customers will have access to the best customer care, thanks to chatbots and other automated customer service tools
- ✓ Internet of Things will help customers to make payments easily and seamlessly
- ✓ Those who have been investing in bitcoins may be surprised to find that their banks will slowly begin to accept them, in restricted forms
- ✓ Customers will probably be assigned relationship managers who have access to data that will help them to connect with products and services emotionally

TREND # 7

FOCUS ON INNOVATION

Digital innovation will no longer be an option but a necessity for most banks. It would simply be impossible to not innovate, in terms of products and services. Banks are feeling increasingly threatened by non-traditional players, and this will push banks to innovate and create products and services that are of value to users. What will push this innovation is technology and digitalization. Retail banking in particular will have to focus on innovation as neo-banks have already encroached upon the traditional territory. In fact, banks will start to look at innovation as necessary investment. This will help in driving innovation across the industry, in a paradoxical manner.

Banks and fintech companies have long seen each other as adversaries. However, the two entities will begin to collaborate with each other, instead of fintech companies labeling banks as burdened with legacy systems; and banks will begin to warm up to the idea that fintech companies can be trustworthy and reliable. As fintech companies have better access to technologies, and banks have a better access to reputation and customer-base, working together will help both of them. Banks will especially gain from such a collaboration, as they would now be able to harness superior technology.



WHAT'S IN IT FOR THE BANKS?

- ✔ Banks will need to invest a lot of money not only on technological research but also on consumer research
- ✔ Innovation will be the hot new topic across boardrooms in banks
- ✔ Innovation in terms of products and services will no longer be an option but a necessity
- ✔ Banks might have to spend a lot more money on technology in order to drive innovation
- ✔ Banks will gain access to technology that fintech companies own
- ✔ Banks will be able to collaborate with modern fintech startups, which have plenty to offer to traditional banks
- ✔ Banks will be able to provide top-notch products and services to their customers
- ✔ Existing customer-base can be enhanced when banks tie up with fintech startups.



WHAT'S IN IT FOR THE CUSTOMERS?



- ✔ Customers can look forward to newer products and services
- ✔ There will be an increased focus on security and privacy from a customer's perspective
- ✔ Customers will gain access to better user experience, which is often lacking in traditional banking
- ✔ There will be many choices to choose from, including disruptors, traditional banks and neo-banks
- ✔ Customers will benefit from the collaborations between fintechs and banks
- ✔ An added layer of trust will develop around fintech products
- ✔ Customers will see banking products and services becoming more hi-tech
- ✔ A diverse range of products and services will be available to customers, regardless of who is offering them

TREND # 8

REAL-TIME CUSTOMIZED PRODUCTS

Dissemination of real-time information will be one of the most important features banks will offer in 2018. This could be in the form of transactions or in the form of insights; this information will include deeper insights thanks to algorithms in 2018. Moreover, banks will also be able to provide products and services in real-time, based on analytics. Analytics will also provide an opportunity for banks to develop tailor-made products that can be offered in real time and have wide-ranging possibilities. Customers are likely to benefit from these tailor-made insights and real-timely delivered products.



WHAT'S IN IT FOR THE BANKS?

- ✔ Banks will begin to communicate with customers in real time
- ✔ Banks will continue to offer transaction-related information and also detailed insights with respect to individual accounts
- ✔ Banks will now be able to create tailor-made products and services based on data
- ✔ Custom products will help banks to build better relationships with their customers

WHAT'S IN IT FOR THE CUSTOMERS?

- ✔ Real-time insights will help customers to make better financial decisions
- ✔ Custom products will help individual customers to gain access to financial services that are best suited for them
- ✔ Transaction information may be presented in novel ways in order to connect with customers better
- ✔ Real-time data will be collected by banks which continue to help them in product customization

TREND # 9

ENHANCED MULTICHANNEL DELIVERY

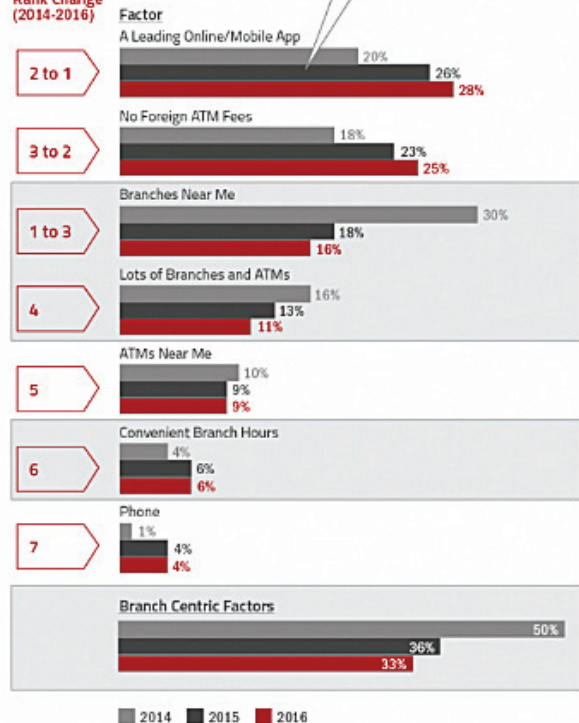
Multichannel delivery of services will continue to include physical branches, even when most banks are going digital. This is mostly due to increasing customer preference for opening bank accounts, seeking advice, handling cheques, etc at a physical location. As most banks usually make it difficult to open bank accounts online, the physical branches will continue to play a role this year and beyond. However, other channels such as mobile and online banking will continue to grow at a breakneck pace. This enhancement will partly come from an increased investment in innovation, and also an increased adoption of cloud technologies.

An increasingly digital customer base will use self-service touch points as a first point of contact, only reaching out to contact-center agents or branches for the most complex engagements. This movement of transactional interactions to digital channels will mean that branch and contact-center interactions are more important than ever in building human relationships with customers.

Branch proximity no longer considered number one determinant of convenience

Q: What factors make a bank most convenient?

Rank Change
(2014-2016)



* Excludes incomes of less than \$25k

SOURCE: Nevantas © July 2017 The Financial Brand

WHAT'S IN IT FOR THE BANKS?

- ✓ Banks will continue to offer services at physical branches
- ✓ Mobile delivery of banking products and services will continue to improve in stature and complexity
- ✓ Most banks will continue to streamline their services across multiple channels
- ✓ Banks will continue to witness a decreased reliance on physical branches, though their presence will be required

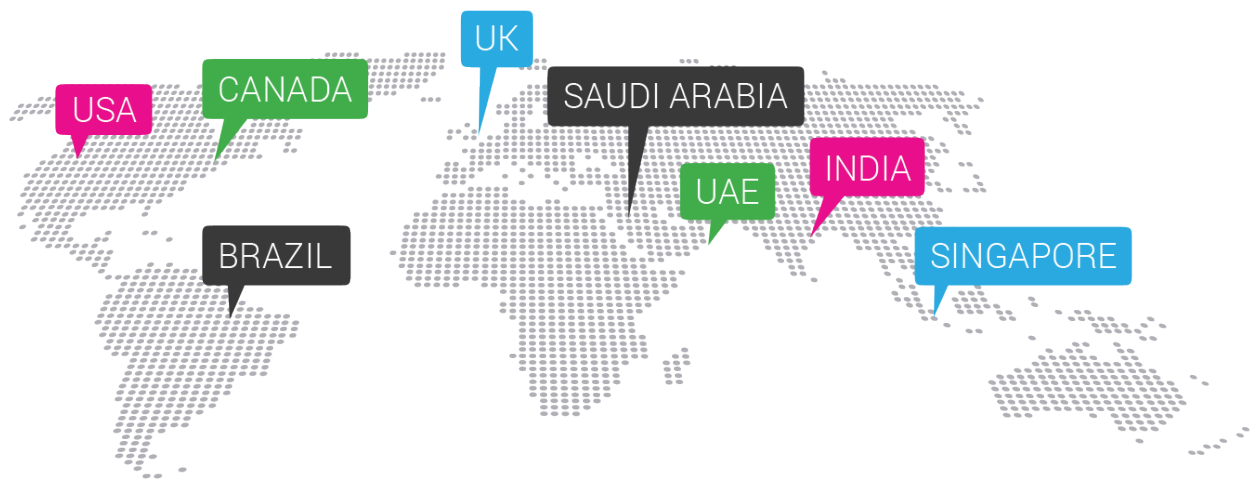
WHAT'S IN IT FOR THE CUSTOMERS?

- ✓ Customers will continue to be able to visit their branch whenever they wish to
- ✓ They will be able to do more on their mobile devices
- ✓ All their transactions will be synced across channels and everything will be streamlined
- ✓ Multichannel delivery will also support multiple channels of customer support

DIGITAL PAYMENTS AND EXPANSION OF WALLET MARKET

The mobile wallet industry has been on a strong growth trajectory in the past five years propelled by increased technology adoption, overall growth of the e-commerce industry and rising need for convenience among consumers. This growth has been concurrent to an expansion in the digital payments infrastructure at merchant establishments, rural areas, at fuel pumps, toll plazas, insurance portals etc. Banks must reformat their digital payments and loan schemes to meet the seamless transactions facilitated by the mobile wallet industry. Digital transaction volumes are expected to grow at a rate of 94% between FY17 and FY21 to reach 32 billion transactions (Deloitte). As the penetration of mobile internet and smartphones aggregate, mobile wallets with their ease of use & convenience are expected to continue growing in popularity.





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