Alternative Banking Channels

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Weighing up the options

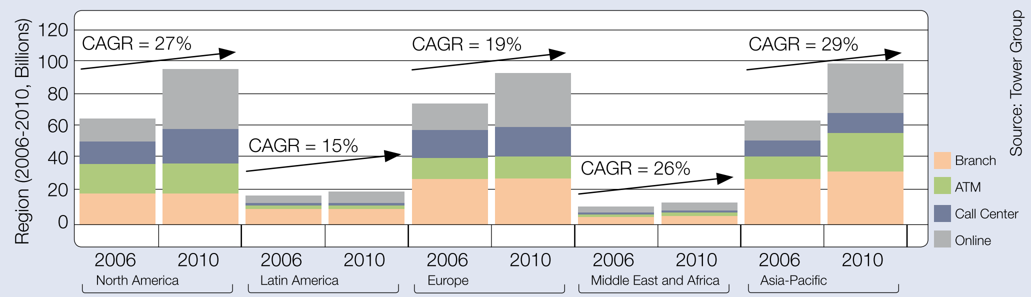
Recent economic turmoil and increasing market complexity has placed unprecedented pressure on financial institutions. The demand for a digital lifestyle and the technological revolution it brings to homes and the workplace, coupled with a significant demographic shift and a new regulatory framework, are subjecting the finance sector to a host of new challenges in a time of severe market uncertainty. However, it is in times such as these that opportunities arise for companies to step outside their comfort zones, fueling innovation on the financial services landscape.

In an attempt to optimize services and minimize costs, banks are frequently migrating towards a 24-7 service and customers are enjoying the greater sense of freedom that this creates. Availability is the name of the game as we demand instant access to loans, deposits and our account status.

So what is the next step? In a bid to drive even greater differentiation from the competition, financial services institutes are now exploring alternative banking channels, including the internet, telebanking, self-service halls, cell-phone and fax banking.

Despite this trend, the call for branch services still remains significant although, as we will see, the type of service demanded there has changed considerably.

Global Delivery Channel Transactions by Region 2006 - 2010



Evolving technology

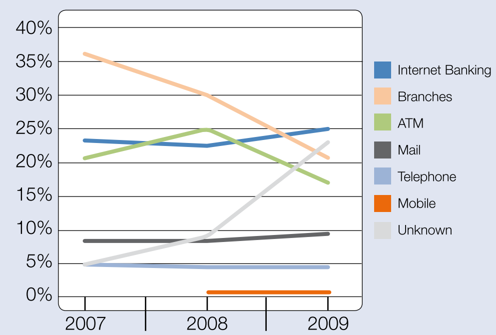
The world banking sector has been revolutionized over the past 30 to 40 years by an onslaught of new technologies and a widespread change in the regulations governing the use of this technology.

As a result, many banks have started adapting their distribution channels and shifting from frontal personal service to direct sales and marketing via phone, email or electronic transactions. The general understanding is that this creates value both for the organization and its clients.

Development of main channels:

- ATM: During the 1990s, the number of active units in Europe rose by a staggering 50%. Originally only used to withdraw cash, the ATM has evolved to support a wide variety of services, including deposits and account details. To counteract the impersonal impression of the so-called “hole in the wall”, the Spanish bank BBVA has developed its “future ATM”, an innovative touch screen interface with customized shortcuts to reflect individual user requirements.
- Telebanking: the first call center was launched in 1983 in the U.S. by MCI. This marked a shift by many organizations towards centralized customer service centers, often with an automatic reply service (IVR) incorporating voice recognition systems. However, despite these efforts away from personal interaction, the majority of call center activities still involve human representatives, particularly when dealing with transactions.
- Online banking: another channel to emerge in the 1990s but one which still showed low penetration by the end of the decade. Initially used to present an institute’s marketing platform, the websites are now enjoying a new lease of life as a door to the world of 24-hour online transactions. Some countries even prefer the instant access to online account information and transactions to that offered by traditional banking, as confirmed in a survey conducted at the end of 2009 by the American Bankers Association (ABA).

Preferred Banking Method 2009 (all age groups)



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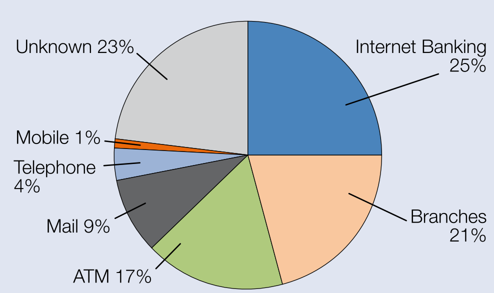
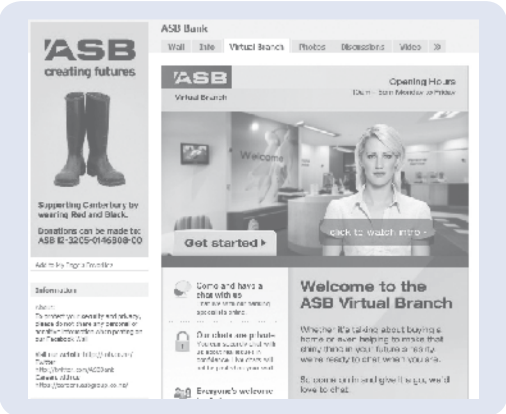


- Mobile banking: this channel is relatively new but is already showing steady growth. Used in its early stages as a push/pull tool for information text messages, cell phone banking now supports personal account access and is forecasted to become the new mobile payment method or “digital wallet” of the future.
- Social media: recent years have seen social media creeping up alongside cell phone banking. Banks feel the need to counteract the impersonality of our digital age by offering customers greater contact on a perceived one-to-one level. Although most social media platforms still rely heavily on marketing content, the trend is firmly set towards development of more interactive services.

On September 2010, the New Zeeland bank ASB opened its first virtual branch on Facebook. This offers personal banking-related advice from 10am to 6pm, Monday-Friday but does not support actual transactions. While the options on this channel are still limited, this is indeed the first step towards utilizing a high potential and increasingly popular platform.

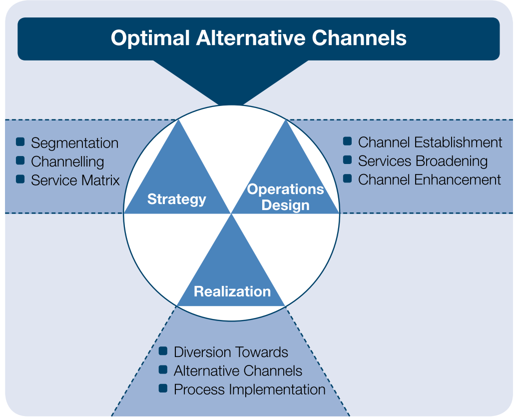


Defining the right channel strategy

Before a company adds alternative channels to its overall portfolio, it is essential that it defines a common channel strategy to avoid conflicts or confusion when dealing with the customer. This channel strategy must support the bank's corporate strategy and create value for both the organization and the customer. Furthermore, since banking services are generally similar between the institutions, the strategy must ensure that each channel is intelligently positioned to optimize its contribution to the bank's differentiation from the competition.

Strategy

The strategy-defining process can be broken down into three stages: segmentation, channeling and service matrix. The challenge is to find out which customer groups the organization wishes to address and through which channels and services it aims to accomplish this.



Segmentation

When considering alternative channels, customers generally fall into four main groups: those who prefer human interaction; those who are open to new channels; those who are unsure and therefore undecided and those who have differing preferences, depending on the individual services in question.

The second group is generally made up of younger, wealthier and highly educated clients, who have less time to visit a branch (a situation often exasperated by a lack of branches in their vicinity) and who feel at home with the new technologies used in the alternative channels. The "anywhere, anytime" availability and accessibility of alternative channels, coupled with the time saving and lower costs involved, makes life easier for them and therefore increases their customer loyalty.

The customers from the other three groups tend to focus on the risks posed by the alternative channels and therefore need to be reassured by the banks before they will feel happy using these channels. The complexity of some services and the technology used make them worried about possible mistakes and the problems these may cause. This is where the banks need to emphasize the security safety net behind such transactions and the continued availability of human interaction when necessary.

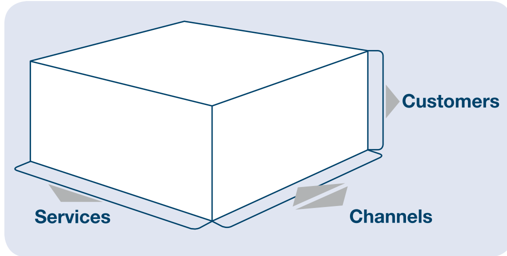
Channeling

It is important that the bank addresses each group of customers with the channels they require and then actively sell these alternatives to those customers. This process is made easier if the organization already has a good reputation for handling its various channels and is well trusted by its customers. The technology employed should also be perceived as reliable and simple to use. Indeed, customer perception of the channel is a key success factor.

Before a channel is added to the portfolio, its potential must be measured. Despite the expectation of banks that alternative channels will reduce costs and generate additional income, the high investment costs and fixed running costs of establishing new channels are not guaranteed to have a positive effect on the bottom line, although the cost of individual transactions may be lower. This must be taken into account when selecting channels and weighed up against labor cost savings due to reduced branch activity at rush hours. Banks should also investigate how to lever synergies between the channels.

Service matrix

Once the customer segmentation and channeling procedures have been completed, the individual services to be provided by different channels can be defined. Some services lend themselves easily to alternative channels. For example, customers seem to have few qualms about ordering a credit card or a short-term loan online or even about renewing already established insurance policies. However, the more complex a service is and the more importance, risk or cost that customers attribute to it, the greater their reservations will be and the more likely they are to prefer human interaction and a personal meeting with a consultant. It is one thing to view your investment status online and quite another thing to enter into a perceived high-risk, long-term commitment without professional advice and support. Services such as mortgages or life insurance therefore tend to remain a branch activity or at least one requiring some form of greater human interaction.



Once the strategy is in place and we know which percent of our activities are to be directed at individual channels, customers and services, we can move on to designing the operational process used to realize our vision.

Operational design

It is now time to translate the strategy into an organizational structure which reflects the individual roles, responsibilities and interfaces involved in an operational concept. The volume of business for each channel needs to be forecasted, the required investment planned and the resources made available. The overall benefits to be achieved also form a key part of the planning stage. When all this is in place, a test run with a pilot scheme will prove whether the concept is watertight.

Realization

Once the roadmap is in place, actual implementation can begin. Some of the practical steps this involves include:

- A detailed plan of action with individual activities
- Training & guidance to support these activities
- KPIs to track progress and highlight the benefits achieved
- Change management
- Support management
- Subsequent fine tuning of activities.

However, it is important not to make the mistake of assuming that the specific channel portfolio which has been implemented is a rigid structure which will remain valid permanently. Banking institutions must continue to closely monitor market developments and regularly review their range of services and channels to ensure that they keep pace with new trends and still provide for all customer needs.

Balancing offline and online

So we have seen that, although the convenience factor of online transactions boosts the activity volume of those channels, consumers still greatly value the service experience and the reassurance they are given at a branch. However, the form and function of physical branches will need to change over time if they are to remain economically viable.

So how do we reduce branch costs without losing the proximity to the customer? Blanket closures are not the answer. One solution could be the development of so-called “dedicated” branches. These focus on a small range of core services targeted at a specific customer segment and provided by a minimum of staff.

The key to success therefore seems to be correctly balancing the access and availability of online channels with the personal service and advice of the offline choice. The overriding mission will always be to achieve high satisfaction levels in the customer base.

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