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CX: Why Do Banks Struggle to Put the Customer First?

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Prepared for:

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EXECUTIVE SUMMARY

CX: Why Do Banks Struggle to Put the Customer First? commissioned by Avanade and produced by Aite Group, explores what banks should consider while striving to offer an outstanding customer experience (CX) and the key challenges FIs are facing in their attempt to do so.

Key takeaways from the study include the following:

- **Banks must be able to serve the customer in their channel of choice:** Customers expect to be able to access their financial information through their device and channel of choice. This can be accomplished by doing the following:
  - Becoming client-aware
  - Infusing digital capabilities into the bank branches
- **Banks must have a better integration within their technology stack:** This is particularly important between the core system and the delivery channels to ensure that data is available to all agents and processes in real time. This can be accomplished by doing the following:
  - Solving the integration challenge
  - Making the customer experience a real focus
  - Placing the customer experience at the center of every IT decision
- **Banks must move from "rip and replace" to a progressive technology transformation:** Banks should move through the three stages of digital transformation by doing the following:
  - Understanding how to undertake a digital transformation journey
  - Using customer-centricity to catalyze the digital transformation journey

INTRODUCTION

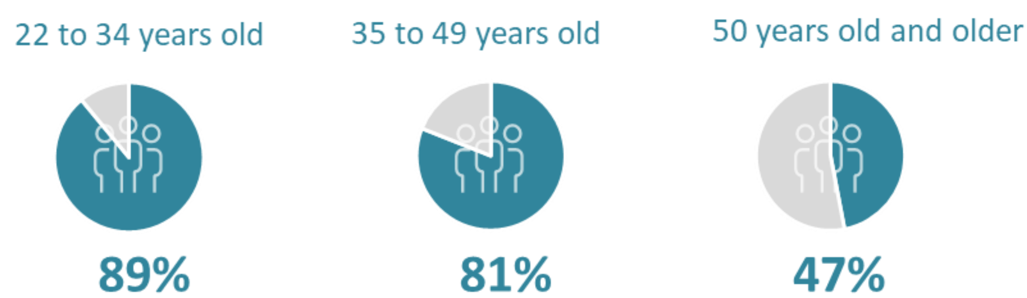
The average consumer uses digital channels for their day-to-day banking activities, the branch for face-to-face guidance and advice, and the call center for immediate help. And they often switch channels when interacting with their bank. Unfortunately, the current lack of integration between back-office processes and channels requires that customers often restart interactions from scratch when they switch from one channel to another. The absence of visibility across business units and channels creates a disjointed customer experience, and as a result banks miss opportunities to deepen their relationship with their customers, resolve issues quickly, and provide proactive guidance and advice.

The topic of customer experience is top-of-mind for most FIs but is often confined to the digital channels. And over the last few years, banks have touted their omnichannel strategies, yet few have moved from pipedream to reality. In order to improve the customer experience as well as retain and attract loyal customers, banks must shift their mindset. This white paper explores the key imperatives banks must adopt to truly move toward an omnichannel reality.

BANKS MUST BE ABLE TO SERVE CUSTOMERS IN THEIR CHANNEL OF CHOICE

Bank customers expect to be able to access their financial information and the functionality they want through their device and channel of choice. Aite Group research shows that 36% of consumers switch channels while opening a checking account and that, once the banking relationship is established, 89% of 22-to-34-year-old U.S. consumers bank online or via their mobile device.[1] In this context, banks must become "client-aware" and infuse digital capabilities into their branch networks (Figure 1).

Figure 1: Digital Banking Adoption in the United States



Source: Aite Group survey of 5,174 U.S. consumers, Q4 2017

BECOME CLIENT-AWARE

Banks can become client-aware by ensuring that the entire onboarding experience can be completed either in a single channel or across multiple channels without restarting the process. Banks are no longer competing just with one another; they are also competing with the new expectations set by Apple and Amazon, in which transactions can be completed elegantly and easily in digital channels. As part of this, it's important for banks to focus on data-integration initiatives that allow them to be client-aware and treat clients differently based on their prior experience with the bank (new-to-bank or existing customers) and their life stages.

Banks also must modify the process for existing customers and avoid recapturing/rekeying information the client already provided in another line of business. For example, customers of Bank of America, Citibank, and TD Bank can use the click-to-call functionality inside their mobile banking apps when they have questions.[2] While doing so, they don't have to reauthenticate

1. See Aite Group's report *Rebuilding Personal Financial Management in 2018: What Banks Need to Know*, March 2018.

2. "Citi Launches New Mobile Capabilities for Android," Citibank, November 9, 2017, accessed April 10, 2018, http://www.citigroup.com/citi/news/2017/171109a.htm.

themselves, because the credentials from the phone's app are transferred directly to the call assistant's desktop.[3]

INFUSE DIGITAL CAPABILITIES INTO THE BRANCHES

Consumers' channel preferences are clearly shifting from the branch and contact center to digital channels. As digital capabilities mature and branch traffic declines, many banks are rethinking their branch network. While many may focus on reducing costs, some FIs look to transform their branch network into centers for sales and guidance where personal relationships will be built and where consumers can complete cross-sell efforts that they started online or on a mobile device. This manifests itself in a number of areas.

TRANSFORMATION OF THE RETAIL BRANCH NETWORK AND BETTER BRANCH-DISTRIBUTION MANAGEMENT

Banks are starting to transform the branch from a place for transactions to a place for relationship building. Many banks, regardless of size, have to understand not only where to locate new branches but also what kind of branches may resonate better than others. It is important to understand how to reach a particular customer segment and what value per square foot makes sense for a specific market. Two new types of branches make great examples:

- **Flagship branches:** Showcase, upscale branches located in highly visible locations are designed to create a more compelling and inviting in-branch experience. They are often packed with technology and new features designed to engage consumers and local businesses, as demonstrated by Capital One's and JPMorgan Chase Bank's new branches in large metropolitan markets.

- **Self-service branches**: Branches equipped with technology bars and with self-service terminals free up staff for value-added activities such as advice and guidance. Bank of America is accelerating its high-tech, high-touch approach.[4] This type of branch typically contains a wide range of self-service terminals such as ATMs, deposit terminals, transaction terminals, telephone points, interactive kiosks, foreign exchange terminals, coin-processing terminals, and video tellers.

TECHNOLOGY THAT EMPOWERS BRANCH PERSONNEL

As banks begin to move the branch from a transactional to a relationship-building model, cultural changes and investments in training for retail branch personnel need to take place. As a result, the retail banking industry has recently seen the emergence of the universal banker.

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3. "Sorting Out the Authentication Mess for Omnichannel Banking," American Banker, January 12, 2017, accessed April 10, 2018, https://www.americanbanker.com/news/sorting-out-the-authentication-mess-for-omnichannel-banking.

4. "Bank of America Accelerates High-Tech, High-Touch Approach," Bank of America, February 26, 2018, accessed April 10, 2018, http://newsroom.bankofamerica.com/press-releases/consumer-banking/bank-america-accelerates-high-tech-high-touch-approach.

Universal bankers, employees capable of performing both teller and customer service representative functions, have emerged in all large FIs. They are equipped with tablets and wireless devices and roam the branch with the core system in their hands, providing transparency over customer processes and facilitating the completion of workflows that have started in other channels.

REAL-TIME TRANSACTIONS AND PROCESSES

Consumers don't understand the need for offline manual review, nor do they care. Instant fulfillment is the new expectation, be it in real-time funds availability with bill pay or an instantly issued debit card when an account is opened online or in the branch. BBVA Compass has moved to real-time posting for all transactions—a hugely complex undertaking behind the scenes but one that pays dividends in terms of new possibilities for customer delivery and risk management.

A BETTER UNDERSTANDING OF CONSUMERS' INCREASINGLY COMPLEX PATH TO PURCHASE

Banks need to better understand which channels consumers use to explore, buy, and engage with brands as well as why they choose those channels for different product categories. Banks can tailor their services to capture more business in a number of ways:

- **Intelligent lead management:** If an existing U.S. Bank customer is exploring a new product on the U.S. Bank site and doesn't complete the enrollment process, a local branch representative will proactively contact that customer within the next couple days to see if he or she can help. By capturing contact information upfront in the application, banks can develop a lead management strategy to either send out emails or make an outbound call to assist a consumer with the application.
- **Save for later:** Since 93% of consumers start a credit card application and don't complete it, banks have a significant opportunity to keep consumers engaged in the process by allowing them to save their application and resume it later. Bank of America and Wells Fargo have a save-for-later capability. This allows them to encourage consumers to come back and apply at a later date, usually through an email campaign, but even an outbound calling program could be effective.
- **Mobile optimization:** Fifteen percent of consumers who abandoned an application state they did so because it took too long to complete.[5] Banks need to make sure they are making it easy for consumers to apply through a mobile device. That means the native features should be used to make entering data into an application as easy as possible.

5. Jeffrey Pilcher, "What The Heck Is Wrong With Online Account Opening," The Financial Brand, April 2016, accessed April 9, 2018, https://thefinancialbrand.com/58469/online-banking-account-opening-abandonment.

OMNICHANNEL WORKFLOW TOOLS

Omnichannel banking provides a rich set of products and services to customers in a seamless and always-available fashion across all channels. “Seamless” here indicates that customers have a consistent experience across delivery channels, can see the full view of their banking relationship across all channels, can shift between channels at will (mobile to online or online to branch), and can pick up an interaction where they left off (they may start a transaction online or on their mobile device and finish it at a branch or by calling the call center). For example, Bank of America’s customers can start an ATM withdrawal from the mobile banking app by logging in and selecting a cash amount. When they arrive at the ATM, they can use either their smartphone or debit card to complete the transaction. Another omnichannel banking example includes the ability to lock or unlock a debit card from the mobile banking app for additional security and peace of mind.

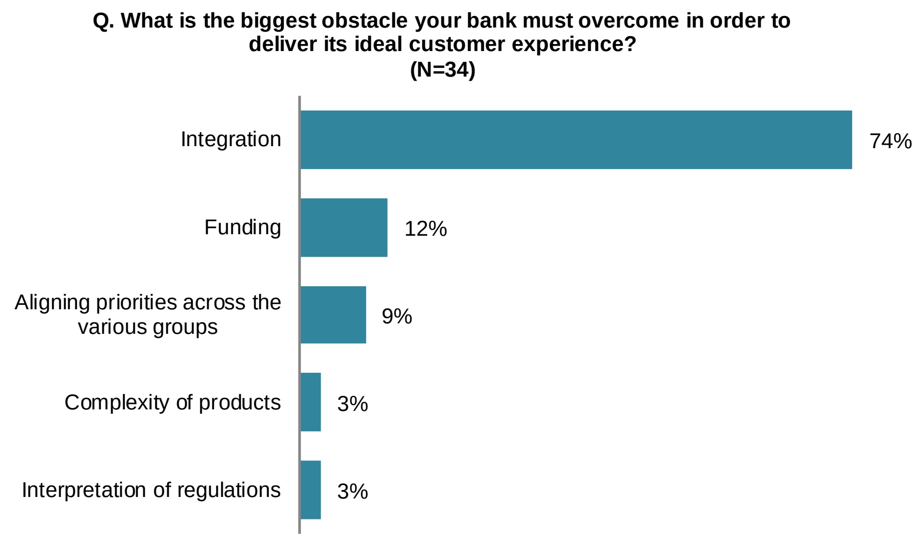
Strong analytics and a 360-degree view of the customer rather than a siloed transaction-based view are the foundation. Digital banking executives must work with their operations and chief information officer counterparts to put enterprise knowledge into frontline staff’s hands, and they must develop solutions that can integrate with existing back-office systems, adapt to rapid change, and meet the expectations of a new breed of connected consumers.

Through the use of an omnichannel workflow tool, banks need to proactively reach out to consumers wherever they may be and educate them through alternative media, including social media. For example, Capital One actively promotes access to a community on its website, and consumers can connect with the community to obtain advice and share experiences for a variety of financial topics, including credit card application. According to Comscore, after watching a video, 64% of consumers are more likely to buy a product online. Capital One uses video as a way to educate consumers on how its secure product works and how it helps rebuild credit.

BANKS MUST HAVE BETTER INTEGRATION WITHIN THE TECHNOLOGY STACK

Banks must have better integration within their technology stacks. This is particularly important between the core system and the delivery channels to ensure that data is available to all agents and processes in real-time. Banking executives mention systems integration as their primary challenge to achieving their user-experience goals more than they mention any other challenge (74%; Figure 2). In this context, banks need to implement a clear application program interface (API) strategy with effective data exchange across channels and the ability to reuse standards across many areas (security, entitlement, servicing/monitoring), and ultimately allow third parties to connect with the bank, as required by the accelerating movement toward open banking.

Figure 2: Primary Obstacles to Overcome in Customer Experience Transformation



Source: Aite Group survey of 34 large and midsize banks around the globe, June to July 2017

SOLVING THE INTEGRATION CHALLENGE

Over the years, banks have built big technology stacks that are monolithic and difficult to change. Legacy systems form an integral part of their value chain, and while some systems are being replaced, a complete overhaul of this value chain is unrealistic. The older, less flexible platforms upon which those legacy systems were built make integration and data accessibility difficult. This prevents banks from having a single source for client data and results in data consistency challenges and the need to ask customers for the same information multiple times—which is frustrating for customers. Additionally, some systems are real-time while others are batch, further complicating bank goals to create a real-time environment.

Integration challenges are especially great for the majority of banks that buy most of their technology from multiple best-of-breed technology providers. Their efforts to offer best-in-class capabilities to customers have worked against them when it comes to customer experience. In an ideal world, a bank would be able to select a single vendor and require all other vendor partners to easily plug into its back-end systems. To a certain extent, the revised Payment Services Directive (PSD2) in Europe is contributing to the acceleration of this trend and pushing banks to adopt open APIs. Banks have to allow third-party payment service providers free access to payment accounts for payment-initiation and account-information services.[6]

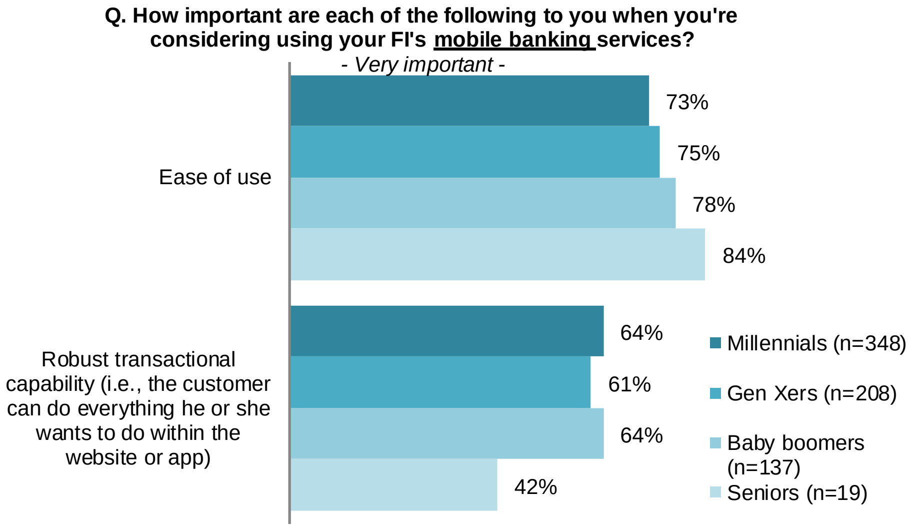
Regional and some super-regional banks are typically among the banks hardest hit by integration challenges. While the largest multinational banks are not immune to it, they are more likely to have many homegrown solutions and the resources to invest to make their processes more seamless and their portal experiences more user-friendly. On the other side of the spectrum, smaller banks are also less challenged in this area, as they typically use fewer vendors and largely depend primarily on their core banking vendor to meet most of their technology needs. Such practices make them likely to have a more consistent experience across products. Banks need to realign their technology in order to achieve their user-experience goals.

CUSTOMER EXPERIENCE: MAKING IT A FOCUS

When Aite Group asked consumers about their key priorities for their FI's mobile banking service, the responses show that, across all generations, ease of use is a more important consideration than robust functionality: Nearly three-quarters of millennials (born between 1981 and 2000) say ease of use is very important, while 75% of Gen Xers (born between 1965 and 1980), 78% of baby boomers (born between 1946 and 1964), and 84% of seniors (born before 1946) believe it to be very important. In contrast, 64% of millennials say robust functionality is very important, while 61% of Gen Xers, 64% of baby boomers, and 42% of seniors believe it to be very important (Figure 3).

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

Figure 3: Consumers' Priorities for Mobile Banking Capabilities



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

CASE IN POINT: THE RISE OF CHALLENGER BANKS

Customer experience is becoming a high priority for most banks. The main focus is driven largely by need—the need to meet new customer expectations and the need to compete against innovative fintech companies that are raising the bar in customer experience. Table A compares the customer review scores of nine of the largest U.K. banks with those of the fintech/challenger banks.[7] None of the traditional banks' scores exceed a four. For the challenger banks, the picture is entirely different: The review scores for the neobanks are very good to excellent. Monese tops the list with a nearly perfect review score. Another interesting data point is the much higher review engagement by challenger bank customers. None of the traditional banks has more than 1,000 reviewers, while three of the challenger banks have over 2,000 reviewers.

7. The TrustScore is an instant measure of customer satisfaction based on the service reviews collected on Trustpilot. The formula used to calculate the TrustScore takes many factors into account, such as the number of reviews, the age of the reviews, and the star rating of each review. It's more than just an average of all reviews combined. The TrustScore is designed to give consumers a quick summary of the review ratings each company has received, with an emphasis on newer reviews over older reviews. The TrustScore is recalculated each time a new review is provided on Trustpilot's website, https://www.trustpilot.com.

Table A: User Reviews of U.K. Banks

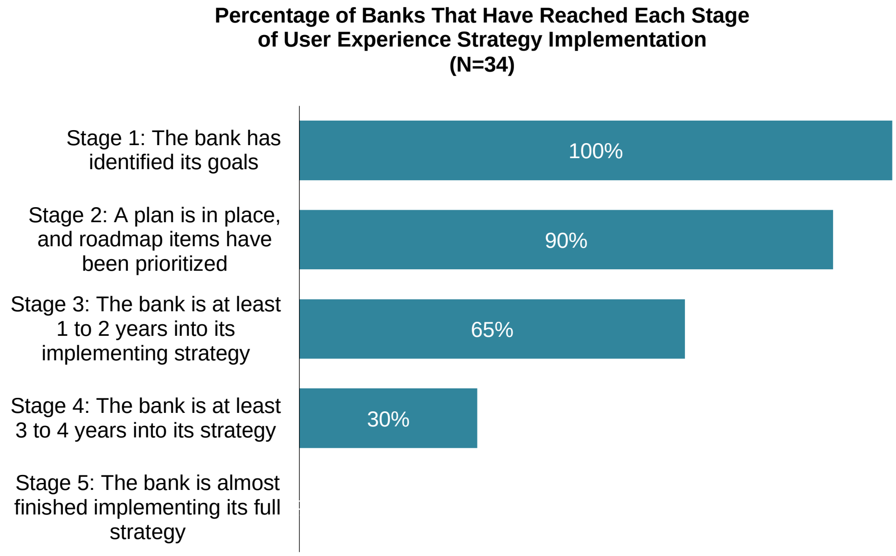
	Bank	Review score	Number of reviews
Traditional banks	Bank of Ireland	2.3	25
	Barclays	1.2	873
	HSBC	1.9	69
	Lloyds	2.2	186
	Nationwide	2.1	637
	RBS	0.9	133
	Santander	1.2	975
	First Direct	4.0	550
Neobanks	Atom Bank	9.0	901
	Monese	9.1	2,249
	Monzo Bank Ltd.	7.0	119
	Pockit	8.2	3,224
	Revolut	7.9	3,276
	Starling Bank	7.4	78

Source: Trustpilot, February 28, 2018

Most banks are still in the early stages of their user-experience initiatives but have a good vision of where they want to be (Figure 4). Several banks have begun hiring individuals from outside of the financial-services industry to assist with this changing environment. In 2017, for example, Toronto-based TD Bank announced plans to hire 1,000 technologists before the end of the year, with plans to recruit 65% from places other than a bank.[8]

8. "TD Bank's Tech Strategy for Becoming a Bank of the Future" American Banker, July 27, 2017, accessed April 10, 2018, https://www.americanbanker.com/news/td-banks-tech-strategy-for-becoming-a-bank-of-the-future.

Figure 4: Stages of the Customer Experience



Source: Aite Group estimates based on an Aite Group survey of 34 large and midsize banks around the globe, June to July 2017

CUSTOMER EXPERIENCE AT THE CENTER OF EVERY IT DECISION

Demands and expectations around user experience in banking are rising. Other industries, such as the retail sector, have already affected customer expectations and set new standards in the area of customer experience. FIs have no choice but to place the customer and the experience at the heart of every IT decision. The challenge for incumbent banks is that IT budgets are increasingly locked down by compliance and legacy maintenance projects, thus reducing banks' capacity to innovate.[9] Indeed, many banks are more challenged today by budget constraints that prevent them from investing in innovative products and services. This forces them to prioritize their initiatives. As such, a handful of technology categories are receiving the greatest level of attention and investments at banks today. These include regulatory compliance, fraud prevention, analytics, and digital channels/transformation.

9. See Aite Group's report *Consumer Alternative Lending: Who, What, Where, and Why It Matters*, February 2016.

BANKS MUST MOVE FROM RIP AND REPLACE TO PROGRESSIVE TRANSFORMATION

Full rip-and-replace deployments are risky for most banks, especially the largest ones, and have prevented many banks from moving forward with any digital transformation. A few institutions have taken huge bets to reinvent themselves as digital businesses. DBS and BBVA lead the pack, but it has taken them nearly 10 years to change the culture. DBS' digital customers account for two-thirds of the bank's gross profit with a cost-income ratio of 34% (a typical bank would be happy with 50%).[10] BBVA ranks number one in customer satisfaction in eight countries.[11]

Aite Group recommends that most banks move from rip and replace to a progressive technology transformation through three stages. A progressive transformation enables banks to take a less risky approach to technology replacement by first addressing those areas of the bank that boast the greatest levels of urgency.

THE BANK DIGITAL TRANSFORMATION JOURNEY

IT transformation is not a new trend but rather one that has been growing in prevalence over the last few years as more modern, flexible technology solutions have been introduced to the market. Phased approaches enable institutions to adopt a less risky technology transformation by first replacing the bank's most urgent areas. Most FIs, especially the largest banks, are taking a progressive approach in their rollout of new technology solutions. In a phased approach, some choose a specific geographic area, while others base their phases on vertical domains or departments. Aite Group defines the three stages of digital transformation in Table B.

10. "How Digitisation Is Paying for DBS," The Economist, March 8, 2018, accessed April 9, 2018, https://www.economist.com/news/finance-and-economics/21738372-singapores-and-south-east-asias-biggest-bank-digital-leader-among.

11. "Fourth Quarter 2017 Corporate Presentation," BBVA, February 2018, accessed April 9, 2018, https://www.bbva.com/wp-content/uploads/2018/02/4Q17-Corporate-Presentation-2.pdf.

Table B: The Three Stages of Digital Transformation

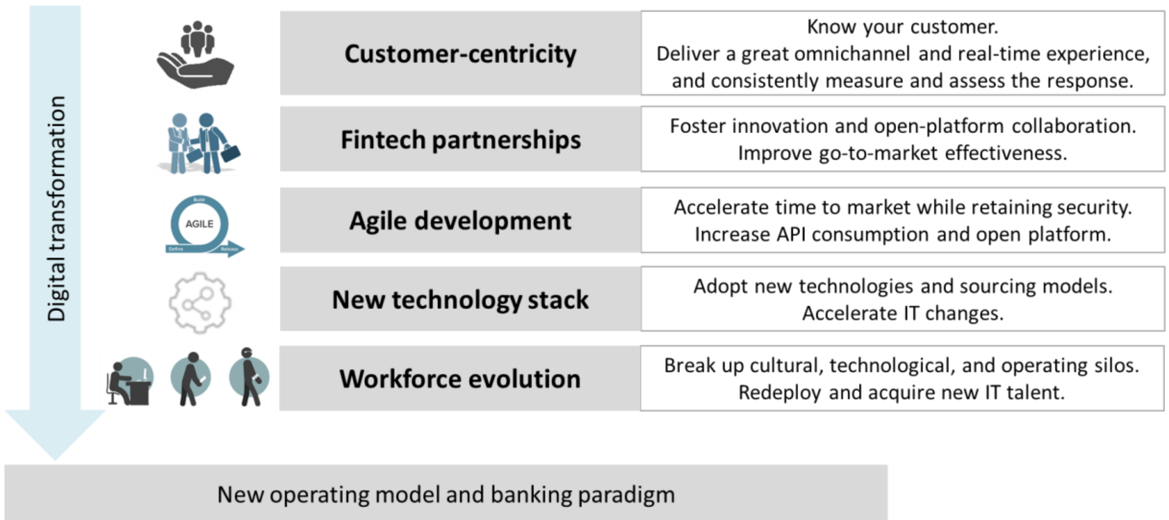
Stage	Definition
1. Today's reality: Different channels act independently in silos.	Many banks today have different customer experiences and products depending on the channel and the business unit, whereby the knowledge and operations exist in functional silos contributing to brand dilution. Furthermore, most bank architectures consist of a mix of architecture types (on-premises or Software as a Service), in-house-oriented services, and legacy technologies that further contribute to the silos.
2. The short-term goal: Some cross-channel capabilities act as part of the same brand.	The interim step is to develop some channel-agnostic services, leading to product synergies. Many large banks overcome the challenges of legacy systems and different architectures by exporting information from them into a cloud platform, and from there serving information to their customers. This enables greater data consistency and a better experience.
3. The aspiration: A unified and seamless experience constitutes the brand.	Bank customers experience the brand, not the channel, with one organization servicing all channels. There is a single view of the customer across all channels and better use of analytics and channel preferences.

Source: Aite Group

CUSTOMER-CENTRICITY IS THE CATALYST

While transforming the bank to deliver the type of experience customers expect can be a lengthy and costly endeavor, successfully doing so promises to be a win-win scenario for both banks and their customers. Customer-centricity is the catalyst of the digital transformation journey. In the long term, this transformation will create opportunities for banks to better serve and deepen relationships with customers while also operating more efficiently and effectively (Figure 5).

Figure 5: Customer-Centricity as the Catalyst to the Digital Transformation Journey



Source: Aite Group

NEXT STEPS

While many banks may not be willing or able to follow the likes of DBS or BBVA on their digital transformation journey, incremental steps can be taken. Interestingly, many of these initiatives can be achieved regardless of geography and, in many cases, even size. The best way forward will be growth rooted in a strong customer experience—providing customers with the ability to perform any banking tasks in their channels of choice and adapting to their individual preferences. Here are a few recommendations for banking executives as they plot their course:

- **Bank customers have new expectations around the ways in which their banks should be interacting with them and sharing data.** Banks must evolve their strategies and offerings to better align with those expectations:
    - Provide a retail-like experience that is better aligned with the consumer experience.
    - Ensure that product offerings foster ease of doing business and frictionless interactions while having the right products available to meet customer needs.
- **As more customers gravitate toward digital channels, banks must ensure the right balance between self-service and the human touch**. Leveraging partners, more secure messaging, online education, and chat capabilities will prove critical in helping banks continue to effectively serve customers and manage scale:
    - Develop more automated workflows, easier document exchange, and the ability to electronically store documents in an online folder.
    - Ensure ease of navigation and solutions' intuitiveness, consolidated views and data, and the ability to serve customers through their channels of choice (with the flexibility to switch at any time).
- **Customer engagement tools should aim to create a more consistent user experience and advanced functionality across channels**. Such capabilities will likely result in increased customer satisfaction:
    - Focus on simplicity, faster access to information, and more efficient onboarding.
    - Implement a centralized, common data store to expose data across all delivery channels in a similar fashion.
- **Banks should consider shifting from legacy technology to modernized IT** to better respond to digital business demands**.** This ensures customer needs are better met and technologies are best aligned with customer operations and workflows.

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