

What does it take to become a Digital Bank?

It takes serving today's digital customers and creating a digital workplace.

The banking industry has reached an inflection point. New competitors have entered the market, as both traditional financial services companies and nontraditional players are making disruptive moves with new banking models. Customers have welcomed this broad range of new options, such as mobile and virtual banking, as they seek greater choice in how, when, where and with whom they bank. As competition intensifies, retail and commercial banks expect their profitability to be threatened. But a decline in profitability is not inevitable. Banks can avert it by embracing digital opportunities and capabilities that enable more efficient operations as well as more agile responses to competitor moves, market changes and customer needs.

Point of View

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The New Banking Reality

Banks have long been rewarded for a steady, conservative approach that does not change over time and does not chase the latest trends. Today, that approach is a hindrance rather than an asset. It's no exaggeration to say that digital technology poses a greater threat to banks than to any other industry. Simply put, sticking with the traditional way of doing business is no longer an option for banks. To respond to the new reality, banks must become far more relevant in the daily lives of their customers than they have been in the past. They can achieve this relevance by providing richer and more engaging customer experiences and by creating internal operations in which a bank's workforce uses digital to work more efficiently and productively.

Two irreversible trends are acting in combination to force banks to abandon their conservative approach:

- Customers across all age groups have adopted digital banking. For example, 92 percent of affluent baby boomers say that online banking is their preferred channel for paying bills. And nearly 90 percent obtain information about their bank or check their balances online, according to a Nielsen study.¹ Smartphones are becoming a vital link between customers and their banks. Mobile banking activity has increased nearly 50 percent since 2012, according to an Accenture study.²
- New competitors are providing digital banking services. Banks must be prepared to compete with digital startups as well as established companies that increasingly offer banking and related services. The threat to traditional banks is broad-based as new players such as Square and PayPal, as well as trusted brands like Apple, Google and Amazon, enter the banking market. Even Wall Street institutions pose a threat: Goldman Sachs is planning to compete with traditional banks by launching a business line that offers consumer loans through a website or app.³ In an Accenture survey of North American retail banking customers, nearly half of all respondents said they would be likely to bank with a company they do business with today that does not currently offer banking services.⁴ For millennials, this figure rises to 72 percent.

These trends have made traditional banks—both retail and commercial—highly vulnerable to new market entrants that can offer faster, smarter and more convenient banking services without the operational ballast of a decades-old institution. These new players have already begun siphoning customers away from incumbent banks. Accenture predicts that customers' preference for digital banking alternatives is a major disruption that will place up to 35 percent of banking revenues at risk by 2020.⁵

If retail and commercial banks are to slow this tide, they must transform their operations along two dimensions: serving the digital customer (using new technology externally to offer richer and more interactive services) and creating the digital workplace (using new technology internally to improve the efficiency and productivity of employees). Approaches like cloud and managed services can help banks take incremental steps toward achieving this transformation.

“By 2020, 35 percent of retail banking revenue could be at risk due to digital disruption.”

1 Source: Digital Money Management: Millennials and Boomers, <http://www.nielsen.com/us/en/insights/news/2014/digital-money-management-millennials-and-boomers.html>

2 Source: "A Critical Balancing Act: US Retail Banking in the Digital Era," http://nstore.accenture.com/IM/FinancialServices/AccentureLibrary/data/pdf/US_Retail_Banking_in_the_Digital_Era.pdf

3 Source: "Goldman to Move into Online Consumer Lending," The New York Times, <http://www.nytimes.com/2015/06/16/business/dealbook/goldman-to-move-into-online-consumer-lending.html>

4 Source: "The Digital Disruption in Banking: Demons, Demands, and Dividends," <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-2014-NA-Consumer-Digital-Banking-Survey.pdf>

5 Source: "Banking 2020: As the Storm Abates, North American Banks Must Chart a New Course to Capture Emerging Opportunities," <https://www.accenture.com/hk-en/insight-capturing-emerging-opportunities-banking-summary>

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Serving the Digital Customer

Customers are already ahead of many banks in how they use digital technology to manage their financial lives. Yet by revamping the way they interact with customers—through digital—banks can become more relevant in their customers' financial lives. They can deepen the relationship, foster loyalty and anticipate the needs of customers instead of merely reacting to them. They also can create more contact points with customers and turn them into richer, digitally empowered experiences.

Strategies for serving the digital customer include repositioning and optimizing branches to be relevant in the digital age, extending market reach through digital channels, and increasing customer loyalty through personalized services.

In addition, digital allows banks to expand into new product and service offerings, such as nonfinancial product offerings, highly personalized offers and loyalty programs. For example, a bank customer may want to buy a pair of diamond earrings for his wife. Under the traditional model, the bank doesn't have a connection to the transaction until the payment is processed, and it does little beyond moving the funds and recording the transaction.

But with digital, banks can offer help—using data collected on the jewelry-buying habits of its customer base to secure exclusive offers and better prices on jewelry, or to rate local jewelry stores for customers. And, after the purchase, banks can ask the customer if he wants to adjust his property insurance coverage to include his wife's new gift. These considerations make banks more relevant to their customers and inspire loyalty.

What's possible?

- Self-service kiosks in branches that allow customers to open an account automatically and receive a personalized debit card on the spot
- ATMs with biometric sensors that strengthen security measures and give more personalized options
- Video chat sessions with financial planners
- Tailored financial advice delivered via smartphone and updated based on recent transactions and behaviors



Tailored financial advice via smartphone

The Digital Customer in Action: Digitally Powered Bank Branches Attract Young Consumers

To reach a younger and more digitally savvy customer base, a large state-owned bank sought to create a new kind of intensely digital branch. It reimagined the bank branch by redesigning the customer experience through digitized processes that would improve and accelerate the customer experience. This bank built new-format physical branches in areas frequently visited by the target demographic, such as shopping malls. The new format offered unique digital capabilities, including interactive wall and table displays, high-definition video conferencing with financial advisors, and instant account opening through a kiosk.

The response from the target demographic has been overwhelming. Young customers visit the new branch locations in high numbers and they share positive reviews via social media, establishing the bank as a digital pioneer.

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Creating the Digital Workplace

In addition to transforming customer-facing applications, banks also need to use digital to empower their employees, helping them to work smarter and driving gains in efficiency and productivity. Moreover, employee-focused aspects of digital complement efforts to improve the banking experience for consumers. Banks that provide more and better digital services can capture data and generate a refined, high-resolution profile of their customers' preferences and behaviors, but that data is meaningless unless employees can readily access it and use it to improve the bank's offerings.

Strategies for creating the digital workplace include driving engagement and enablement to improve productivity and employee experiences, as well as expanding the use of analytics across the bank. The right solution includes social, mobile, cloud and analytics, and it is tailored to a bank's unique situation to redesign the way its employees work.

Through this approach, work becomes more mobile and collaborative, and processes become more flexible. Employees can access information and documents whenever, wherever and however they want, across platforms and systems. Employees can assemble a 360-degree view of the customer and easily incorporate data from each interaction so that the profile becomes more refined over time. Communication increases across business units and functions. Customer service becomes more responsive.

What's possible?

- Internal social collaboration networks that enable the crowdsourcing of ideas to tap into the collective creativity
- Data visualization tools that enable employees to access, understand and work with large volumes of structured and unstructured data
- Mobile financial advisor capabilities that enable anywhere, anytime customer service



Branch Manager Dashboard

The Digital Workplace in Action: Social Networking Platform Enhances Collaboration

A European bank, one of the world's 25 largest, sought to improve its internal information network to enable employees to create communities and share expertise, facilitate bottom-up idea generation and promote open discussions company-wide. To achieve these goals, the bank created an internal social networking platform built with Microsoft SharePoint 2010.

The platform has fundamentally changed corporate interaction by enabling peer-to-peer or even bottom-up conversations. Employees in peripheral locations have a greater ability to share and embrace ideas across Europe, and every employee can participate in shaping the delivery of services to customers. The platform has also given management a powerful tool to steer change processes.

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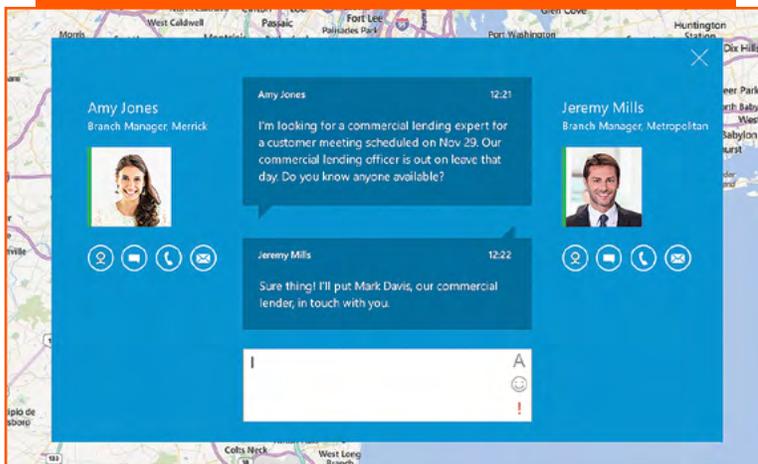
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Cloud and Managed Services Enable Banks to Evolve at the Right Pace

Some banks believe that implementing digital technology requires ripping out their existing IT infrastructure by the roots and starting over. That is not the case. New enterprise technology such as cloud, managed services and other solutions allow banks to make incremental steps into digital products, services and processes. This approach builds on and complements their legacy architecture through a manageable evolution rather than a years-long transformation. It allows firms that are (understandably) risk-averse to implement digital at the right pace for their existing business model and culture while maintaining stringent security standards.

For example, banks can change their marketing strategies, develop mobile apps or improve some customer relationship management capabilities, all without introducing new risks. Companies can also establish a two-speed IT environment in which a core team works with legacy hardware, software and processes while a separate, standalone entity handles the digital IT element. Banks can even opt to outsource digital support and services entirely, allowing them to get up to speed within weeks instead of years.

As a result, banks can improve their customer experience—and their productivity—with lower technology costs.



Unified Communications for Banks

Cloud and Managed Services in Action: Credit Union Improves IT and Non-IT Productivity

A large U.S. credit union wanted to improve internal and customer communications and enhance its overall IT performance and scalability. Instead of adding more employees, the credit union chose a managed service for unified communications and collaboration to support its internal and external communication infrastructure and workflow. By leveraging this private cloud service, the credit union has achieved significant IT productivity gains, particularly for its application management and help desk teams, and can offer more services, such as 24/7 support. Because issues are now resolved faster, downtime has been reduced by 70 percent.

The credit union is forecast to realize annual benefits of \$1.38 million over a five-year period through improved IT and non-IT staff productivity, increased revenue and reduced IT infrastructure costs. This results in a five-year return on investment of 290 percent and a payback period of 9.4 months.

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The Way Forward: Five Strategies for Becoming a Digital Bank

New technology is creating a dynamic environment, and few people can predict how the banking landscape will look a decade from now. Yet it is virtually guaranteed that banking will be far more digital—from both a customer and an employee perspective. To avoid falling behind their competitors, banks must put aside their old ways of doing business and start planning for that future today.

We recommend five key strategies, which can provide the foundation for an institution's transition to becoming a digital bank:

- 1. Reposition and optimize branches to be relevant in the digital age**
 - Digitize branch processes to provide self-service that gives customers instant gratification and an overall improved experience while reducing costs.
 - Introduce improved branch sales and service capabilities that help personnel deliver better customer support.
- 2. Extend market reach through digital channels**
 - Enhance digital marketing capabilities to become more relevant and appealing to digital customers.
 - Implement tools that enable personalized conversations with customers (by segment) and provide more relevant and personal experiences across digital and mobile channels.
- 3. Increase customer loyalty through personalized services**
 - Effectively use customer insights to deliver personalized services during any interaction.
 - Use historical customer insights to predict future behaviors and needs, and deploy solutions based on those predictions.
- 4. Drive engagement to improve productivity and customer experiences**
 - Improve internal collaboration and knowledge sharing by deploying solutions that enable crowdsourcing of ideas and more direct lines of communication throughout the organization.
 - Provide greater flexibility by enabling employees to access bank processes and information through any device.
- 5. Expand the use of analytics across the bank**
 - Simplify data analysis for all employees by giving them the ability to access, understand and work with large volumes of structured and unstructured data.
 - Redesign analytics systems and processes so they become data supply chains that link data collection, storage and presentation.

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About Avanade

Avanade is the leading provider of innovative digital and cloud-enabling services, business solutions and design-led experiences, delivered through the power of people and the Microsoft ecosystem. Majority owned by Accenture, Avanade was founded in 2000 by Accenture LLP and Microsoft Corporation and has 29,000 professionals in 23 countries. Visit us at www.avanade.com

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