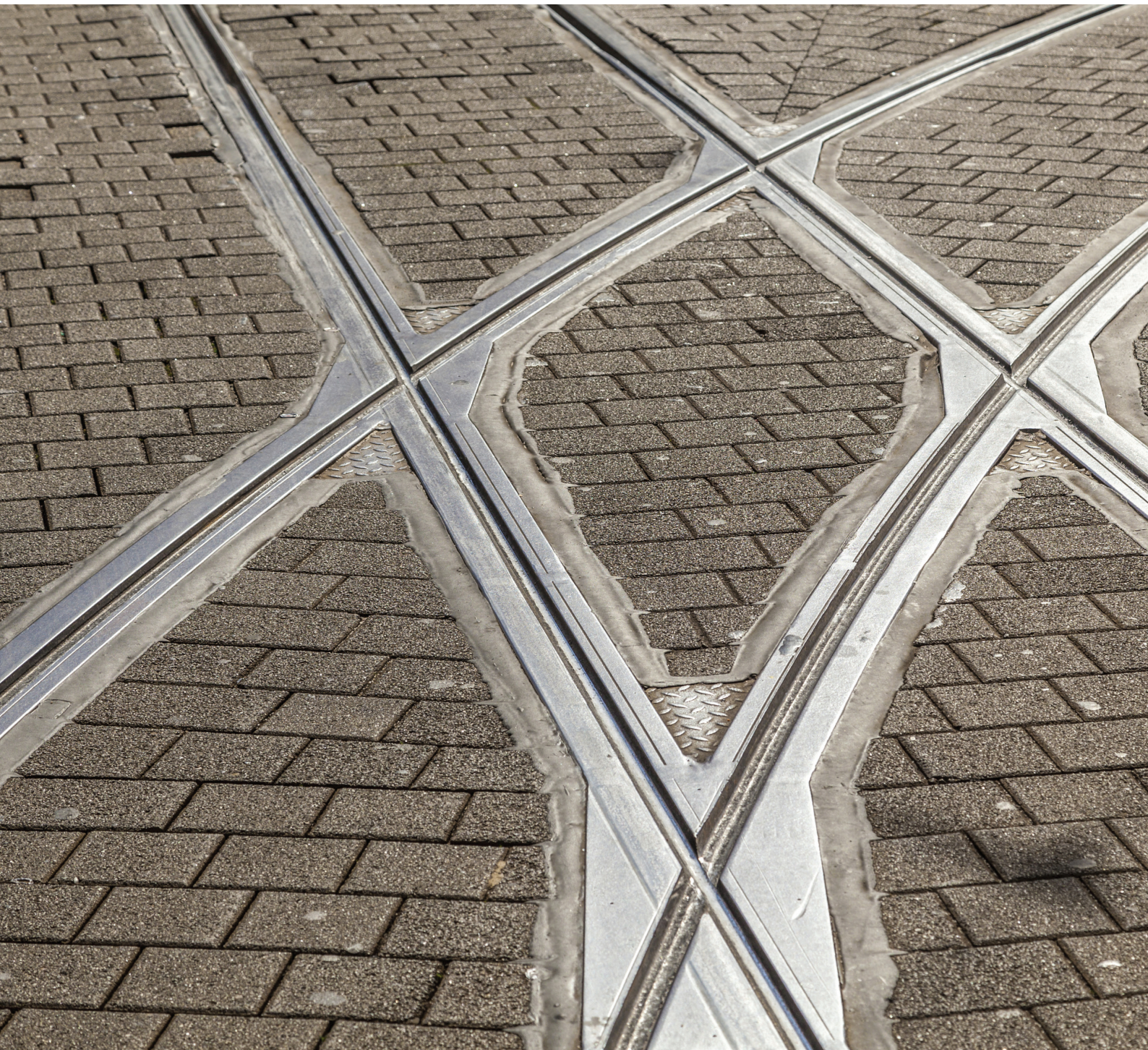


A First Data White Paper

# The Impact of Shifting Consumer Behaviours on Retail Banking Technology Strategy



# Introduction

There's a new reality that is reshaping the retail banking landscape. Enabled by a host of new and emerging technologies, consumers are changing their banking behaviours and this is affecting the technology that banks use to deliver their services.

In this paper we discuss those changing consumer behaviour trends, how these trends impact a financial institution's front-end payments infrastructure, and what's needed to give the bank the flexibility to adapt to changing customer behaviours in the future. Banks that find a way to get out in front of these trends and cater to evolving customer behaviours will be the long term winners.

## The trends in consumer banking behaviours

The Ernst & Young 2012 global survey of consumer banking customers revealed that people are twice as likely to switch banks as they were the previous year. Fewer than half of the survey respondents said their current bank adapts products and services to meet their needs.<sup>1</sup>

While many people still consider it a hassle to uproot their accounts and change financial institutions, it's not an insurmountable act. In the UK, the Vickers Account Switching Legislation now provides consumers with a quicker and simpler way to switch their accounts from one bank to another—and many intend to do so. In fact, during the first nine days of the new scheme, 35,000 consumers switched their current account to a different bank.<sup>2</sup>

This intent is troubling for financial institutions that have traditionally found a huge amount of inertia in their customer base. Not only are customers less loyal to their main bank, they are increasing the number of banks they use. Globally, multi-banking is a growing trend as customers search more actively for the best rates and products. Customers with only one bank have fallen from 41% to 31%, while those with three or more have increased from 21% to 32%.<sup>3</sup>

What are they looking for, these restless customers that are searching for something better? Lower fees and charges top the list, but that's not all they want. In short, banking customers want access to their accounts whenever they need it, wherever they are, and using whatever channel is most convenient at that moment. Therefore, banks that can anticipate their customers' needs and offer them the variety of channels to fulfill their requirements throughout the day will benefit from a strengthened customer relationship and a propensity to adopt additional products.

Let's further explore the trends in consumer banking behaviours.

### Personalisation and flexibility

Banking customers today expect their financial institutions to offer personalised service and meet their evolving needs quickly and efficiently. The global banking survey results show that 70% of customers are willing to provide their banks with more personal information, but in return they expect to receive tangible improvements in the suitability of products and services they are offered. According to the survey report, "[P]ersonalisation goes beyond appropriate products. Customers' channel preferences are becoming increasingly complex, and they like the convenience of flexible access to their bank. Banks need to let customers choose how they interact and offer different cost and accessibility options."<sup>4</sup>

Examples of this trend include:

- **ATM: Favorite transaction.** The ATM can learn a customer's typical transaction behaviour and then let them enact it by touching one button after inserting the card and entering the PIN.
- **Debit: Card Customisation.** The cardholder can upload a picture of their own to be printed onto their debit card.
- **Online: Account Customisation.** The customer can choose to aggregate information from all of their accounts and customise the way it's presented to suit their needs.

### Mobility and 24/7 access

A UK study by YouGov and mobile app developer Antenna Software shows that people have a basic desire for banking via their mobile handset. They want to perform simple functions like checking their balances, viewing their transaction history, transferring money between their accounts, paying their bills, and transferring funds to third parties. Antenna CEO Jim Hemmer says, "The public clearly want to fit their banking chores around their lives and not their lives around their banking chores, and using their mobiles, they can."<sup>5</sup>

Customer surveys tell one part of the "what consumers want" story, but a more powerful revelation is what is happening in real life. Clearly, consumers want mobile banking (mBanking). When the Scandinavian bank Nordea launched an iPhone app, the number of mBanking logins

<sup>1</sup> Ernst & Young, "The consumer takes control," Global Consumer Banking Survey 2012

<sup>2</sup> Payments Council, Press Release, 26 September 2013.

<sup>3</sup> Ernst & Young, "The consumer takes control," Global Consumer Banking Survey 2012

<sup>4</sup> Ernst & Young, "The consumer takes control," Global Consumer Banking Survey 2012

<sup>5</sup> Tim Green, "25 per cent of mobile internet users do mobile banking," [www.mobile-ent.biz/news/read/25-per-cent-of-uk-mobile-internet-users-do-mobile-banking/014805](http://www.mobile-ent.biz/news/read/25-per-cent-of-uk-mobile-internet-users-do-mobile-banking/014805)

went from 10,000 per month to 2.7 million logins per month in fewer than 10 months. It only took a few months for downloads of Nordea's apps for iPhone, Android, Windows Phone 7 and iPad to exceed the one million mark. The company's deputy head of banking says that Nordea customers are twice as active users of mobile Internet than the average customers of other banks in Latvia: 27% versus 13%, respectively.<sup>6</sup>

This uptake in mBanking can have numerous effects on the bank. Ed O'Brien, director of banking channels at Mercator Advisory Group, says that mobile apps build customer loyalty and allow banks to sell customers on other products and services, such as loans. "The point is to be so joined at the hip with the customer, they wouldn't think of leaving the bank," says O'Brien.<sup>7</sup>

This is certainly what has happened for U.S.-based Chase Bank, which has one of the highest rates of mobile banking usage among customers. Once customers turned to mobile channels, roughly half of them report they made fewer visits to a branch, and this has helped Chase reduce costs. Moreover, the availability of sophisticated functionality via mobile banking has increased customer satisfaction scores and customer loyalty.<sup>8</sup>

### Social media

Social media should be considered another type of banking channel today. According to the Ernst & Young consumer banking survey, "Customers are listening to each other more than their banks or financial advisors. Globally, 71% seek advice on banking products and services from friends, family or colleagues, and 65% use financial comparison sites to find the best deals. The views of online communities and affinity groups are also gaining importance. The use of social media as a source of banking information (by 44% of customers) is amplifying customers' voices, giving them greater power as advocates or critics."<sup>9</sup>

A few banks are already making a foray into social commerce and social banking. In fact, Chris Skinner, chairman of the Financial Service Club in the UK, reports that the Polish traditional bank BRE Bank is completely rebranding itself as "mBank" and has "embedded Facebook and social commerce into its blood." mBank caters to the

social lifestyle. For example, a customer can make a payment to any Facebook friend from within the social bank's Facebook app.<sup>10</sup>

Banks that aren't quite ready to make themselves over as a social bank can still adopt social media as a channel for customer communications and marketing. Social media is an important and intimate touch point that delivers an enhanced customer experience, and it can be used to engage customers to determine their preferences to develop products that meet their needs.

### Age affects consumers' behaviours

It should come as no surprise that age plays a role in customer behaviours and how people prefer to interact with their banks. In general, younger people are more inclined to use digital channels and less likely to frequent a physical branch.

The study by YouGov and Antenna Software shows that adults under the age of 34 are more than twice as likely to utilise mobile banking as people over the age of 55.<sup>11</sup> Research conducted on behalf of First Data corroborates these age-related tendencies.

This youthful preference for mobile and online channels comes at the expense of branch use. The Ernst & Young study shows that when seeking advice on banking products and services, people under the age of 25 only marginally prefer using a branch instead of the Internet. People over the age of 35 clearly prefer branches to the Internet, but the preference for branch-based advice is strongest for people aged 55 and over.<sup>12</sup>

Considering that the younger generations are the customers of the future, these preferences have a big impact on banks' channel strategies going forward. Banks that don't address customers' preferences for how to do business risk losing them to more responsive competitors.

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<sup>6</sup> Nordea press releases and website

<sup>7</sup> Deirdre Fernandes, "Banks struggle to keep up with Mobile demand," The Boston Globe, 14 July 2013

<sup>8</sup> Bain & Company, "Customer Loyalty in Retail Banking: Global Edition," December 2012

<sup>9</sup> Ernst & Young, "The consumer takes control," Global Consumer Banking Survey 2012

<sup>10</sup> Chris Skinner, Chairman, Financial Services Club, "The Social Bank Revolution," 26 July 2013, [www.bai.org/bankingstrategies/Operations-and-Technology/Technology-and-Information/The-Social-Bank-Revolution](http://www.bai.org/bankingstrategies/Operations-and-Technology/Technology-and-Information/The-Social-Bank-Revolution)

<sup>11</sup> Tim Green, "25 per cent of mobile internet users do mobile banking," [www.mobile-ent.biz/news/read/25-per-cent-of-uk-mobile-internet-users-do-mobile-banking/014805](http://www.mobile-ent.biz/news/read/25-per-cent-of-uk-mobile-internet-users-do-mobile-banking/014805)

<sup>12</sup> Ernst & Young, "The consumer takes control," Global Consumer Banking Survey 2012

## Impact of these trends on retail banking technology strategy

Unfortunately, the gap between what consumers want and expect from their banks and what their banks can easily provide is growing larger. It's not that banks are intentionally unresponsive; rather, conditions such as regulatory requirements, outdated technology and a shortage of resources hold them back.

For the most part, banks typically are still operating legacy front-end infrastructures that have been in place for 20 and sometimes even 30 years. Obviously these systems were never designed to accommodate modern day requirements such as mobile and online banking, voice and video communications, and multi-channel processing needs—and yet now there is a business-critical need for banks to embrace all of this, and more.

Banks are experiencing front-end technology constraints that now affect their ability to meet rapidly changing consumer behaviour needs. Consequently, these banks are slow to bring new products and services to market, resulting in a competitive disadvantage.

### **Resources are constrained or simply unavailable**

For many years, banks have typically underinvested in new technologies for their retail payments infrastructure, favouring investment in new channels such as Internet banking. Most traditional banks still operate on a legacy platform such as the classic version of BASE24 or something similar. To get to their current state, the applications have typically been highly customised. Layers of bank-specific functionality have been added over the years, creating a complex leviathan of code that grows more difficult to test, maintain and build upon as time goes by. When new IT systems for channels such as mobile need to be developed and integrated with an already complex infrastructure, the resulting monster of interconnected systems causes high risk and added costs for the bank.

Making matters worse, the volume of available skilled resources to support the legacy systems has been diminishing—lost as a result of attrition and redundancy. Skills are therefore fewer and the cost rises to develop new solutions on legacy systems. What's more, this lack of skills can be a barrier to growth when banks can't respond to customer needs.

Of course, new development on established consumer banking channels may have a very low priority for resource allocation because financial institutions today are heavily focused on meeting strict regulatory requirements. And although demands are higher than ever to keep up with the pace of innovation, banks are restricted by intense regulatory and compliance requirements that put a strain on internal resources.

So, even a simple enhancement can in fact be quite challenging: there's limited budget to make the code change; there are few people with the skills to update and test the code; internal resources are focused on regulatory issues rather than new development; and changing the existing code could adversely impact interconnected systems.

### **Banks use third parties to bring new capabilities to market**

There are some consumer trends that banks simply must respond to in order to remain competitive. Internet banking and mobile banking are two examples that quickly come to mind. Given the importance of these channels to younger consumers in particular, banks have little choice but to find a way to offer them or risk losing customers.

In many cases, the quickest and easiest route to market with new services, features and functionality is through a third party provider that can deliver a solution without requiring a major IT project on the bank's side. The bank provides a data feed from its existing systems and the vendor builds out a solution around that data. An example of this tactic is one bank's offering of a "check your balance" mobile application. The bank supplies the vendor with data that already exists within the infrastructure to interact with ATMs. Now a third party vendor incorporates this same data into a simple mobile app that allows the bank's customers to check their account balance via their mobile phones.

Whereas it might typically take 12 to 18 months for the bank to develop this simple service itself because of legacy system constraints, the third party developer can build this application in just a few weeks.

A more in-depth scenario involving the use of a third party provider is where the vendor builds out a middleware piece that effectively consolidates disparate data feeds from the bank to yield a more sophisticated application. In effect, the vendor develops and maintains a separate processing engine for the bank's data. While this approach may get a bank to market more quickly with an important product or service, the bank is ceding significant control over its data to a third party and compounding the complexity of its computer systems.

Both of these approaches help banks keep pace with customer demands and deliver services to market more expeditiously. However, one of the downsides is that the bank may be losing its holistic view of the customer by allowing third parties to possess or control customer data. In this age of big data analytics, companies need to have full access to all of their customer data in order to analyse it holistically to find previously undiscovered insight that can generate opportunities for new business. As the global consulting firm Accenture says, "In an era of 'big data,' generating actionable insights from large data sets is imperative" for companies to understand consumer change in order to capitalise on it to grow.<sup>13</sup>

## What financial institutions need to sustain and grow

These are challenging times for financial institutions throughout EMEA. The regulatory and competitive pressures, compounded by the financial pressure on capital provisions, make it difficult to bring new products and services to market quickly. Nevertheless, banks must find a way to do just that in order to meet evolving customer expectations and sustain and grow their business.

In a report about consumer behavioural changes in general, business consulting firm Accenture points out that growth leaders in their respective industries capitalise on significant changes in consumer behaviour. Fast-growing companies are much more likely than their slow-growing counterparts to see opportunity in consumer behaviour change and to invest in consumer-facing activities to capture opportunities. Consequently, financial institutions that are looking for growth during this time of lingering economic malaise should embrace consumer behavioural changes and look for ways to capture the business opportunities.<sup>14</sup>

For financial institutions, what will it take, technology-wise, to embrace consumer behaviour change and sustain and grow their business? A bank that is serious about wanting to grow its business needs an agile solution that enables products and services to be brought to market quickly. Whether it's an entirely new channel such as mobile banking or an enhancement to an existing channel or service, the bank must have the ability to bring the offering to market in a reasonable time—preferably long before the bank's competitors are able to deliver a similar offering.

Banks also need a future-proof solution. Consumer behaviours are changing, but this isn't a one-time thing. Change will continue and perhaps even accelerate, based on the rapid pace of change of consumer technologies like smartphones and tablets. Five years ago it would have been hard to conceive of the need for mobile banking applications. Now it's hard to believe that some financial institutions still have no mobile banking channel.

Consumer behaviours will continue to evolve and the existing legacy infrastructure is going to hinder progress and success. The winners will act now and build a strategic "future-proof" technology advantage that adapts easily to change and leaves their counterparts wondering what happened.

Five years ago it would have been hard to conceive of the need for mobile banking applications. Now it's hard to believe that some financial institutions still have no mobile banking channel.

<sup>13</sup> The Accenture Institute for High Performance, "Energizing Global Growth – Understanding the Changing Consumer," 2013

<sup>14</sup> *ibid.*

## Conclusion

Customers are gaining control of their banking relationships. Far-reaching changes in consumer behaviours are driving banks to search for ways to bring new products and services to market quickly. Financial institutions are beginning to acknowledge that they can't be responsive to consumer demands because their legacy front-end payments systems are stuck in the Stone Age. Building on these antiquated systems is simply too costly, too cumbersome and too risky.

At the same time, taking a tactical approach to each new product or service need will only work for so long. It's like putting patches on a worn tyre—eventually the structural aspects of the tyre will collapse. For banks, the structural integrity of a payments system patched with all sorts of third party features may hold for a year, or two, or five, but eventually it will need to be replaced in order to keep business rolling smoothly. It's time now to take a total strategic approach to refreshing the front-end payments infrastructure and leap ahead of the competition.

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