LOGIC CONSULTING

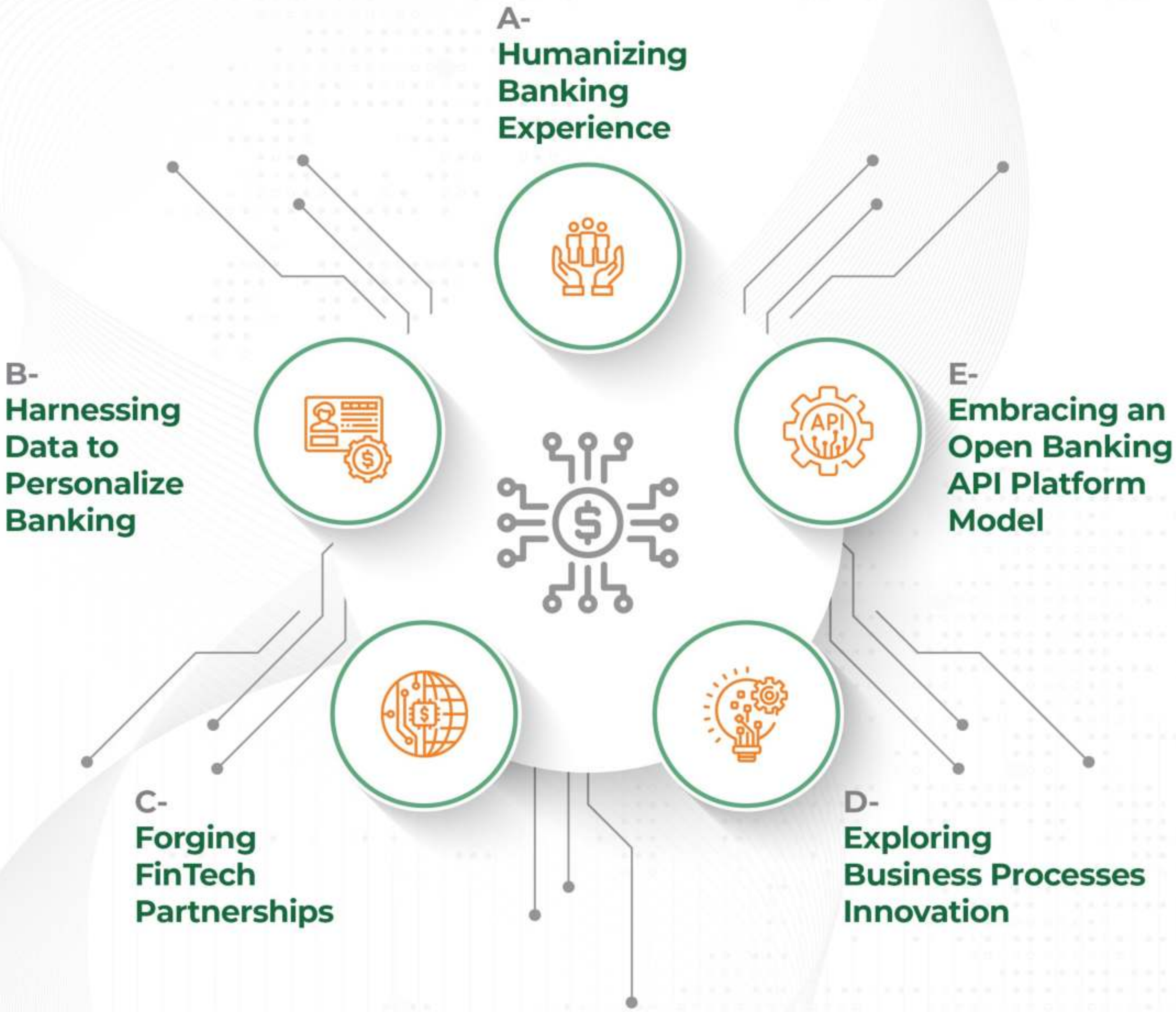
DIGITAL TRANSFORMATION
IN THE BANKING INDUSTRY:

What to Expect from Traditional Banks in the Digital World?

LOGIC INSIGHTS

As we discussed in our previous publication of LOGIC Insights; **"Digital transformation in the Banking Industry: What's Driving It? Is It Unavoidable?"**, digital transformation is accelerating, new risks are emerging, customers' expectations are getting higher and banking models are being tested. **"Doing Nothing" or "Rip & Replace" are not real options; there can be more than one approach in embracing digital.**

LOGIC Consulting proposes 5 Strategies for Banks to fuel future growth & stay relevant in digital environment.



A. Humanizing Banking Experience

Irrespective of the banking channel customers use—the branch, phone, or a mobile app—one factor continues to remain important for them: the human touch. Digital interactions, while easy and convenient, fail to forge emotional connections. Also, younger generations, who tend to use digital channels the most, typically have less brand loyalty. Thus, banks need to truly drive emotional engagement with customers by balancing user-focused technology and highly personalized human connections.

Edelman

According to the Edelman Trust Barometer, almost three quarters of customers expect financial institutions to use technology to make it easier to engage with them.

Banks lag behind other technology brands (like Apple & Amazon) in building emotional connections, that's why many consumers now have a weak emotional connection with their primary banks. **If banks want to keep up, they have to engineer the digital experience they offer to make these emotional connections and embed the omni-channel customer needs into their customer service operating model.** As this happens, perhaps some channels could become more prominent than others. For instance, if mobile apps evolve as the go-to help tool for consumers, this could minimize the need for call centers.

Harvard Business Review

According to a Harvard Business Review article, emotionally connected consumers are 35% more valuable than highly satisfied consumers. Merging the physical with the virtual/digital is key to superior customer experience.

B. Harnessing Data to Personalize Banking

Indeed, banks' fragmented databases make it difficult to organize information and create 360-degree customer profiles. As a result, customers with different needs are sometimes offered the same products. **Banks need to define the experience based on each customer's needs, preferences, and accessibility requirements.** While the technology to capture data and analyze it in real time is available, banks need to harness data pipelines and analytical tools needed to make this a reality.

Banks need to move beyond highly standardized products by embedding personalization decisions in the core customer journeys, designing value propositions that go beyond the core banking product while including intelligence that automates decisions and activities on behalf of the customer.

Banks will need to adopt a design-thinking lens as they build experiences within and beyond the bank's platform; this includes engineering engagement interfaces to enable personalization for customers, reengineering back-end processes, and ensuring that data capture funnels are embedded in the bank's engagement layer.

So, How Can Banks Personalize Using Data:

01
Gather customer information from every touchpoint

Including websites, mobile apps, branches, call centers and social media, to build relevant experiences for customers.

02
Develop valuable customer segments

This can help build more accurate lending models, create more relevant products, identify irregular activity, and anticipate customer behavior. For example, providing different services to younger and older customer segments.

03
Use data-driven lifecycle maps

Where for example banks can measure current profitability and model future performance for individual client businesses – enabling them to offer solutions tailored to specific business needs at the right time. For example, anticipating the ability to charge customer fees for value-added services.

04
Deploy AI at scale

The combination of big data and AI helps banks improve their service at the individual-customer level, for example offering to automate a recurring task, such as a monthly transfer to a parent or child. It can also help banks identify customers at risk of churn—in many cases, they can do this before the customer even realizes that he or she is dissatisfied.

Data Volume and Usage Potential by Sector:

Source: Deloitte

> BCG estimates that for every **$100 billion** in assets that a bank has, it can achieve as much as **$300 million** in revenue growth by personalizing its customer interactions.

C. Forging FinTech Partnerships

82%

According to a PwC report, 82% of banks, insurers, investment managers plan to increase FinTech partnerships **over the next 3 to 5 years and expect an average return on investment of 20% on their innovation projects.** The fusion of partnerships between banks and FinTech companies can be a huge leverage for the future of both.

Collaborations come in multiple forms with varying financial commitments. Banks are increasingly investing in innovative “plug and play” collaboration models. These models enable banks and FinTech companies to explore the collaboration, in terms of culture, business processes and IT, without making large financial commitments while providing a seamless experience for the customer.

According to KPMG, there are 3 approaches for Bank-FinTech partnerships:

1- Partnering to innovate in existing products, channels or processes;
This can be an efficient way to go-to-market, for example to introduce digital mortgages when the bank’s origination platform is outdated and still highly manual in nature.

2- Partnering to launch new products and services;
This approach aims to let the bank fill in product gaps or enter new product categories. An example of this is banks partnering with Buy-Now-Pay-Later (BNPL) platforms, to introduce their own BNPL product.

3- Partnering to develop new business models and revenue streams;
This approach to partnering looks to leverage a FinTech’s capabilities to create entirely new business models or business model extensions for the bank. For example; partnering with the same banking platforms to establish a new digital bank.

D. Exploring Business Processes Innovation:

Real value comes from banks that step back and take a holistic view in order to align their operating and business models. **It is important to rethink business and operating models with a focus on process and customer needs, before then applying the full suite of technologies, including AI, robotic process automation, chatbots and machine learning.**

Banks are being pushed to explore business process innovation to facilitate business sustainability and optimize costs. For example, significant investments have already been made in digitizing core finance activities, whether through new ERP systems, building out shared services, or automating manual tasks using robotic process automation (RPA).

Adopting an Ecosystem Approach as Part of Innovation[1]:

Banks can capture market value by adopting an ecosystem approach to solving customers' needs. **According to EY, an ecosystem approach involves bundling services beyond banking to offer customers a friction-free and far-reaching service. These service bundles could focus on different aspects of individuals' lives,** such as housing, retail, mobility, retail and wellbeing.

In an ecosystem offering, a multitude of actors provide their products and services, and are integrated on a single digital platform destined for the customer. **This allows banks to address a bigger share of total wallet by expanding the points of access to their financial products.** In a housing-focused ecosystem, for example, a customer could use a single platform to fulfil their journey from searching for a new property to its ultimate sale. Services provided could include a mix of banking services, such as mortgage loans, house insurance and investment advice.

According to EY, there are 3 Core Approaches Banks Can Adopt When Launching an Ecosystem Offering:

As a Builder:
The bank owning the platform as well as all the products on the platform – an approach that requires heavy investment in order to provide all the products and services across an end-to-end customer journey for a specific need.

As an Integrator:
The bank owning the ecosystem platform and orchestrating a mix of in-house and third-party products – an approach requiring strong partnership capabilities and organizational agility.

As a Provider:
The bank offering its products and services to digital platforms owned by third parties – requiring less investment but still based upon digitized banking products.

Why digital, ecosystem-enabled banking transformation is the way forward, EY, 2021[1]

E. Embracing an Open Banking API Platform Model

Open banking is a proliferating technology within digital banking around the world, forcing banks to change their business models. **Banks are starting to revolutionize the way they generate value by embracing an open-banking approach with the use of APIs** (which is like a set of routine protocols that grants access to a bank's services to other third-party companies). An API robust ecosystem is an integral part of data exposure, exchange, and performance.

Factors driving Open Banking include regulatory policy developments, improved infrastructure, high rates of internet adoption and use of mobiles. **To succeed in Open Banking, banks should start thinking like platform companies, flexing their business models to connect people and processes with assets, and backing that up with technology infrastructure that can manage interactions from internal and external users.**

In some markets, Open Banking's growth is mainly due to regulatory action (the EU and the UK, for example), while in others it has evolved naturally as market forces have dictated. Although **Open Banking is in its adolescence globally – and in its infancy in the Middle East – it is already revolutionizing the banking industry.**

What is Open-Banking?

It is when banks enable regulated trusted financial providers and third-party payment services to access, use and share a customer's data. Banks can exchange information such as transactions, payment history, and much more. At the heart of those interactions are APIs that allow a direct connection between a customer's bank account and a range of related services that can be provided by banks or by third parties.

Some countries do stand out in the Middle East:

Bahrain, whose regulators started its Open Banking journey in 2018, and which issued a Bahrain Open Banking framework in 2020.

Saudi Arabia, which plans to launch Open Banking in the first half of 2022. Meantime, its central bank is working on its Open Banking policy, as well as on the design and implementation of an Open Banking ecosystem.

UAE, where the Dubai Financial Services Authority (DFSA) granted specific licenses in April 2020 commencing their involvement within the open banking scene.

This means that the Middle East will soon have a mature Open Banking ecosystem created by banks and FinTech companies to offer superior banking experiences.

Case Study: Tarabut Gateway

Bahrain has seen instant developments, demonstrated by the launch of Zain Bahrain that went live with Tarabut Gateway Open Banking payments solution in December 2021. The service enables customers to pay their bills, recharge lines, and finalize all payment transactions from an app easily and without needing to enter card details.

Tarabut Gateway is MENA's first and largest regulated Open Banking platform that connects a regional network of banks and FinTech companies via a universal API, with a market presence in Bahrain, the UAE and KSA. It is also the region's first licensed Account Information Service Provider (AISP) and Payment Initiation Service Provider (PISP).