BANKING IS NECESSARY, BANKS ARE NOT

A trigger for imperative transformation of Banks

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The Perspective

Bill Gates's now famous statement that "people need banking, not banks" is a call-to-action for the banking industry. Its crux is that the world can't operate without banking, but it can get by without the players that traditionally offer such services. To survive and thrive, banks must think about their role and how they can expand their functions to stay relevant in their customers' lives. The future of banking will look very different from today. Faced with changing consumer expectations, emerging technologies, and new business models, banks will need to embrace emerging technology, remain flexible to adopt evolving business models, and put customers at the centre of every strategy.

Banks are at cross roads

The notion that customers need to go to their banks to do banking is rapidly being challenged. Increasingly, digitally-savvy customers are expecting to avail financial services seamlessly as they navigate through their progressively digitized lives. For banks this has led to a rethink of how they interact with their customers. The digital world is about relevance, about speed, about frictionless experiences. It is about transparency and security while assuring trust.

These are major challenges to banks that are used to operating inside bricks-and-mortar offices. In order to grow in the evolving digital world, banks have to adopt digital mind set. This means more than just applying "digital lipstick" with Internet and mobile banking. It means embracing digital thinking, enabling scalability, enhancing customer analytics and delivering services directly to customers at a time and place that suits them. Banks are falling short when it comes to meeting customer expectations around product variety and accessibility. By addressing these needs, banks can reimagine their credit products, models, processes and corporate culture to deliver the next generation banking experience.

Banking, then, is at cross roads, and leading banks are shifting from providing core banking-centric services to delivering customer-centric services. The following three factors underpin this:

- **The demand for service aggregators :** Customers are reluctant to go to one place to view a product, another to secure finance and a third to get insurance
- **The approach of neo banks :** which focus on the experience factor to win customers' hearts. These high-tech competitors are moving into this space, while capitalising on, and even cannibalising, banks' offerings and services in ways that revolutionizing dimensions and architecture of customers service.
- **The acceleration of change due to the internet and e-commerce:** Over the past decade, numerous financial start-ups have launched banking services. On top of that, the "new normal" is here – COVID-19 has forced banks to digitise faster than expected, with the ability to adapt to this change differentiating leaders from laggards

Transform into 'Living banks'

Customer needs are rapidly changing. To meet those needs, banks need to make customer experience the starting point for process design. As banks move away from the shrinking opportunities provided by traditional banking and undertake the journey to become Living Banks, they need to reimagine and orient around how their customers and employees are experiencing their brand. EY suggests five questions that banks should be asking as they look to redefine transformation:

- Is our transformation strategy bold enough?
- Does our transformation strategy, plan and actions preserve or improve margin and operating leverage in times of uncertainty?
- Are customers, employees and business partners at the forefront of our transformation plans?
- How do we create a culture of continuous transformation?
- Are we providing our leaders with the training and coaching to rethink transformation and understand what success looks like?

Reimagining Credit architecture

Create new credit-related products and services. Change the credit decision making mind set by implementing a more informed decision making process to increase reach and access, to ensure scale and efficiency , where lenders transition from a hard "yes or no" decision based on a traditional scoring mechanism to a more nuanced "yes, but/no, but" framework. Leverage data strategically. This will reveal patterns that fundamentally change the structure and accuracy of risk assessment models for both underserved segments and traditional customers.

Futuristic payment architecture

A new payments paradigm is emerging where payment is no longer the final obstacle to a transaction. Rather, it's an enabler of a more integrated commerce experience in which customers themselves become part of the payments infrastructure. To stay relevant, banks must drive this shift and adapt commerce experiences accordingly. The payments infrastructure will no longer be just a conduit for payment authentication. Instead, it will facilitate greater transparency and traceability through a frictionless commerce experience. If banks are to continue to play a valuable and central role in the payments domain, they should focus on removing all unnecessary friction and automating the mundane and repetitive experiences that waste time and mental bandwidth. To ensure that a seamless payment does not compromise the security of the transaction, banks should spearhead the development of technology that is tied to a consumer's identity—for example, biometric behavioural authorizations, integration across platforms for single sign on, or gestures. Consumers have come to expect this of their banks.

Banking focused on Values

Historically, the bank—along with a place of worship and a market—was a pillar of town, and the banker was a key figure in a community's local economy. With increasingly diverse communities served by large and often impersonal, homogenous bank networks, this connection with local communities has been lost for the current generation of customers. We can reinvent the role of the banker as a trusted financial wellness partner by. Banks have a unique opportunity to align value and values, by focusing on consumers' and communities' financial well-being in a win-win relationship that delivers long-term trust, relevance and profits.

Banking with Empathy

In an increasingly digital world, where people are left seeking more empathetic, human connections, banks have become functionally complete yet emotionally detached. The resulting vicious cycle—where banks are seen as largely homogenous, offering similar products and services— leaves them heading into a commodity and margin trap. Currently, they are over-indexing on functionality (IQ) and under-indexing on empathy (EQ. Banks must humanize their services. This means making them more personalized and empathetic. By enabling genuine connections around customer outcomes and goals, they can play a greater role in looking after customers' financial wellbeing and earn their trust.

Data & Governance

Treating data as a product is a shift in mind set that has the potential to transform the foundations of banking. The crux of the challenge for business leaders seeking to achieve values-driven growth is, in Peter Drucker's words: "If you can't measure it, you can't improve it." Like their counterparts across industries, bank leaders currently lack the tools to build successful purpose driven strategies and articulate them to their customers and employees. Banks should seek to establish a specific impact measurement framework, implementing a purpose-driven infrastructure built around foundational data collection, analytics and visualization platforms that will empower employees and corporate leadership to access, analyse and build intelligence for providing nextgen experience to the customers.

Unbundle and Win

Bodie and Crane classification (Harvard Business Review, 1996) sees banks as a bundle of six basic functions: three core *transfer* functions and three *interaction* functions. The core functions are transfers in time **(credit** provisions, savings and loans with maturity transformation), transfers in scale (**investments** and funding large scale enterprise) and transfers in space (**payments**). The three interaction functions are **information**, **risk** and **incentive**. The traditional theory here says that the reason for the bundling is that control over payments provides **information** that gives banks competitive advantage in **risk** management for **credit** and **investment** decisions: In other words, to make the adjacent transfer functions more efficient. And, indeed, that may well have been the case in the past. Many jurisdictions have already started to unbundle payments and the provision of credit .There is simply no reason why the three transfer functions essential to society should be bundled in one kind of institution any longer.

Green financing and sustainable banking

Green financing and sustainable banking are emerging as important concepts in the world of finance. They represent a new approach to financing that is focused on sustainability and environmental responsibility. Sustainable financial products can propel revenue growth for banks and contribute substantially to businesses' progress in meeting global climate goals. But success requires a strategic approach. As more investors and institutions recognize the importance of sustainability and ESG issues, we are likely to see a significant increase in demand for green financing and sustainable banking services. In fact, sustainable banking brings several business benefits. Research by Global Alliance for Banking on Values (a network of sustainable banks) has shown that sustainable banks have higher and more stable profits, as well as stronger growth than other banks.

Talent for futuristic banking

There is an imperative need to make banking a dream job again, super-charged with purpose and diverse perspectives. Banking is no longer the dream job for top university graduates; tech is. This is because there is a crisis of purpose. Banking jobs used to have huge prestige, earning bankers social currency in addition to financial rewards. But since the financial crisis of 2008, both seem to have diminished. We can make banking the dream job again by crafting purpose from within, co-creating jobs of tomorrow and investing in diversity as a core differentiator. At the forefront of this revolution the question is raised, can the banking sector really become the employer of choice for the young entrepreneurs they need? Customer-centric & entrepreneurial staff will continue to challenge banks to create new ideas for delivering products and services to customers and the banks need to commit to transition staff from the typical transactional to a more dynamic advisory role in order to deliver expectations of the ever demanding customer.

Digital banking

Digital banking is entering a new chapter in its evolution. Consumers are much more aware of digital banking features and many first-time users have grown comfortable using them, at least for their transactional banking needs. Moreover, the banking landscape is shifting from - no choice but embrace digital to digital by choice. While consumers are going to exercise their choice in different ways, it appears that use of digital banking is likely to continue for simple, transactional activities. Yet banks have an opportunity to humanize digital experiences to further make these digital banking behaviours stick. It can be positioned at the heart of personalizing consumers' day-to-day interactions and elevating their financial wellbeing.

Develop a plan to migrate to a journey-based organization:

As banks increasingly focus on personalized interactions, a journey-based operating model will be required which will integrate resources with different capabilities and knowledge and will cut across the currently established siloes. To do this, banks will need to re-think how they staff, measure, and track performance, and ultimately deliver to customers.

Final thoughts

Technology, innovation, and workforce transformation are reshaping the banking industry. These forces are driving dramatic change, and banking leaders must decide if they will be pioneers, follow fast, or be left behind. The digital world is presenting some of the greatest challenges ever to traditional banks. Some will seize the opportunity to transform and thrive, while others will struggle to evolve and be left to engage with an ever diminishing number of non-digital customers. The big banks that succeed will be those willing to transform themselves by shedding the old versions of themselves in favour of something quite different. What does "different" require? It requires that banks extend their reach and create ecosystems that offer hyper-relevance and a market of one for each customer. In short, it requires becoming a Living Bank. In this way, they can provide "a deeply personalized 'me-centred' experience wherever, whenever and however the customer wants. To compete in a digital world at a time when global events have accelerated the shift in customer expectations and habits, banks must focus on personal and emotional connections with customers to strengthen their trust and grow. Banks have an opportunity to forge strong customer connections, build trust and ultimately drive growth by infusing humanity and personality into digital channels where they have the most impact.

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