



TEMENOS
THE BANKING SOFTWARE COMPANY



Racing From Digital Engagement to Customer Intimacy

A new 'SingleBrain' approach linking digital channels seamlessly to a new core front-office engagement architecture will allow banks to avoid a patchwork approach to digital banking and provide clients with the fluid, real-time user experience that they want. A new intimacy is born.



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Introduction

Digital disruption is upending established business models across the spectrum, and banking is no exception.

At its core, the industry still provides savings and loans, but interaction has moved from a traditional, face-to face, branch-based approach – based on cash, cheques and bank tellers – to a digital channels-dominated model, with real-time payments and communication based around integrated data and systems with rapid consumer adoption of mobile and digital platforms.

Retail banks are responding to these forces with different strategies. Some have patched their legacy IT systems and maintain a hybrid approach, reluctant for various reasons to completely overhaul the core architecture on which they built their businesses. Other new entrants and incumbents now facilitate and accelerate the provision of digital services via multiple channels in response to changing client needs, whatever and wherever those are. Another group has abandoned branches and embraced digital-only models.

All, though, share the goal of providing the most seamless services at the lowest price, to retain loyalty and win new business. And all are aware that providing clients with experience-rich banking and placing themselves alongside the customer always is essential for success.

However, banks must avoid past mistakes in their approach to core IT systems – patching over gaps in existing legacy systems and layering on top multiple “silo” solutions that are not integrated or that duplicate capabilities across different business units – to liberate front-end functions like marketing, sales and other communication services, and enable all channels to function effortlessly via a single command centre. This paper explains how this new, unified command-centre approach to banking works – switching the focus to the customer’s demands from the current, transaction-driven core model. Those who embrace this customer-centric, unified approach will thrive. To the early embracers, the spoils.

Changing Expectations

The customer base in retail banking is mutating.

To seize these opportunities, banks must fulfil burgeoning expectations and create new growth areas through customer intimacy and engagement; being able to use every interaction – online or off – as an opportunity to offer, advise, reward, build loyalty, retain clients and create advocates.

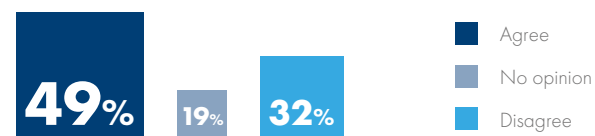
It's well known that many Millennials reject traditional marketing approaches and want new ways of interacting with banks. A survey for the 2015 World Retail Banking Report from CapGemini and Efma showed a significant rise in customers willing to change banks near term, with a 4-12 percentage point increase from the previous survey, depending on region. The propensity to shift was more marked among the young, notably Generation Y. But in banking, it is not just Millennials driving demand for new engagement. Elderly customers are increasingly using handheld devices for services. And the ease of mobile banking means previously unbanked or under-banked demographics are new targets. This presents challenges – and opportunities – for existing providers.

A 2014 Bain study showed that more than 50 per cent of banking interactions were through digital channels in 18 of 22 countries. That figure is only rising. Accenture found last year that 20 per cent of bank customers were digital-only users.

The CapGemini study found that customers were also less likely to refer others to their banks and buy additional services in-house, underscoring the ubiquity of alternatives including retailers with large databases, high traffic, strong brands and cross-selling opportunities. The logistics of switching are also becoming simpler. And the concept of "liquid expectations" is taking root, whereby the just-in-time interaction that customers receive in sectors such as retail (Amazon) or transport (Uber) fuels demand for a similar quality of service from their other providers, like banks. Marketing and IT leaders are increasingly working together to achieve digital transformation across traditional boundaries, creating opportunities for trusted brands to enter new sectors, according to a recent survey from Accenture.

In March, Temenos released "Retail Banking: In Tech We Trust," its third annual study of the sector in association with the Economist Intelligence Unit. Among other things it found that almost half of retail banks worldwide believe that the fintech revolution will bring an end to branch-based banking, and a majority predicted that retail banking will become fully automated within five years.

The traditional transactions/branch-based banking model will be dead



Source: Economist Intelligence Unit (EIU)

Evidence for the efficacy of what has been dubbed the "multichannel inbound/outbound approach" comes from Gartner, which found that the ability to extend a relevant, planned offer during a spontaneous customer interaction has response rates approaching 15 times those of non-targeted outbound campaigns.

Many banks are still unable to leverage the vast majority of their exchanges to sell their products or create happy clients because their architecture is not sophisticated enough even though the applications and channels are available. To succeed, their core strategy must go beyond omni-channel, encompassing omni-presence, or accompany the much-vaunted customer "journey" wherever that may lead online – for example on websites, via mobile apps, social media or in chat rooms – driving and facilitating transactional preferences at all times.

The SingleBrain

Best practice in this area involves the ability to take a single view snapshot of the customer's activity. Think of it as a dashboard.

The Command Centre

The command centre monitors events via analytics and insight-gathering engines. This could be transactional in the back office or directly – and potentially externally – through a front-office channel like mobile. The data is pulled, analysed in real time, then an appropriate decision is made and communication channels respond within the parameters of underlying credit and business constraints. On a basic level, that communication might be offering

a valued customer the best possible rate on a credit product or alerting an overdraft limit or pending currency transaction. Or it could be more complex, like using geo-location tagging to signal retail offers or rewards in the vicinity, giving the bank the opportunity to build partnerships. All of this happens in real time. Leveraging social media channels is an important part of the story – and certain banks are ahead of the curve in this area.

The Four D's



Detect
Trap real-time events and respond

This could be something relatively mundane like a salary payment landing, a credit limit being approached or logging into the site. It could even come from an external link, for example news of a swing in the stock market or a change in base rates. The system logs or snatches the event, ready for the next step.



Decide
The response is based on data/analytics

Here, the 'SingleBrain' chooses whether or what to communicate by instantly asking profile-adapted algorithms, and it can go well beyond mere sales offers or marketing (customer relationship management or CRM). The use of intricate personal financial management (PFM) tools in particular can play a role, replacing a service that was once provided on a face-to-face basis.



Deliver
Communicate through most effective channel

Next, the front office is instructed on whether, how and when to issue the appropriate communication. That could be via mobile, internet, text, social media messaging, phone or (heaven forbid!) a letter. Alternatively, a communication might not be appropriate at this juncture.



Discover
Record all communications and responses and understand what works and what doesn't.

Finally, the whole process is assessed within the system. What was the feedback to the communication? Was the communication appropriate? All the data and related responses are stored and form a continuous feedback survey, continually learning and improving best practice. None of those annoying (and time-sapping) marketing surveys will be required again!

At the end of the cycle, the data will be analysed to discover the effectiveness of the communication (or decision not to interact) and best practice logged to ensure customer satisfaction and relate findings to other clients. All being well, accompanying the customer through this process allows banks to better know clients and transform them into advocates, growing the bottom line

New Tools in the Box

There are a burgeoning number of new tools, applications and features that can be embedded, exploited and controlled in real time within the single command centre. These can be added to a single platform over time to suit the lender and their clients' needs. Some of these include:

- **Incorporating offers** – whether from the bank or incorporating third parties
- **Advice** – especially with regard to personal financial management (PFM) and investment planning
- **Retention and reward** – incentivising customers to remain in-house, driving loyalty
- **Influencing behaviour** – for example via 'gamification', scenarios and forums to retain loyalty and train clients to resolve their own problems
- **Improving experience** – optimising UX, especially through design innovation in the online and mobile channels

And that unleashes the shackles to allow banks to push further and challenge the new disruptors – often fintech companies – that are threatening to eat their lunch through value-added intermediary services including:

- **'Freemium' services** – these are provided free of charge, but bring loyalty and potentially new business when proprietary features are added or related services bought
- Pay-for-what-you-use in areas like wealth management
- Free equity trading, to rival the likes of Robinhood
- P2P lending and crowd funding
- Creating a virtual market in the way that Fidor already does as an aggregator



Avoid 'Spaghetti Junction'



It's important to stress that implementing new apps and channels in silos creates development problems and raises the potential for a breakdown in communication and service.

When these apps or services are patched on to legacy back-end systems, the front end is left looking like 'spaghetti junction' – a tangled mess. The chance of acute customer dissatisfaction increases exponentially.

Those banks that want to excel in customer engagement will need to take a holistic view of design for future flexibility as customer demands change and as banks move to a more customer-centric approach. This requires avoiding point-to-point integration of data sources and channels.

The latest engagement applications and tools for sales optimisation (CRM) and content targeting (CMS) for example around loyalty/rewards and 'gamification' should slot into a single decision platform, the 'SingleBrain,' so that new channels and data sources can be incorporated through a single point rather than layering each separate application. A simple, clean architecture is available.

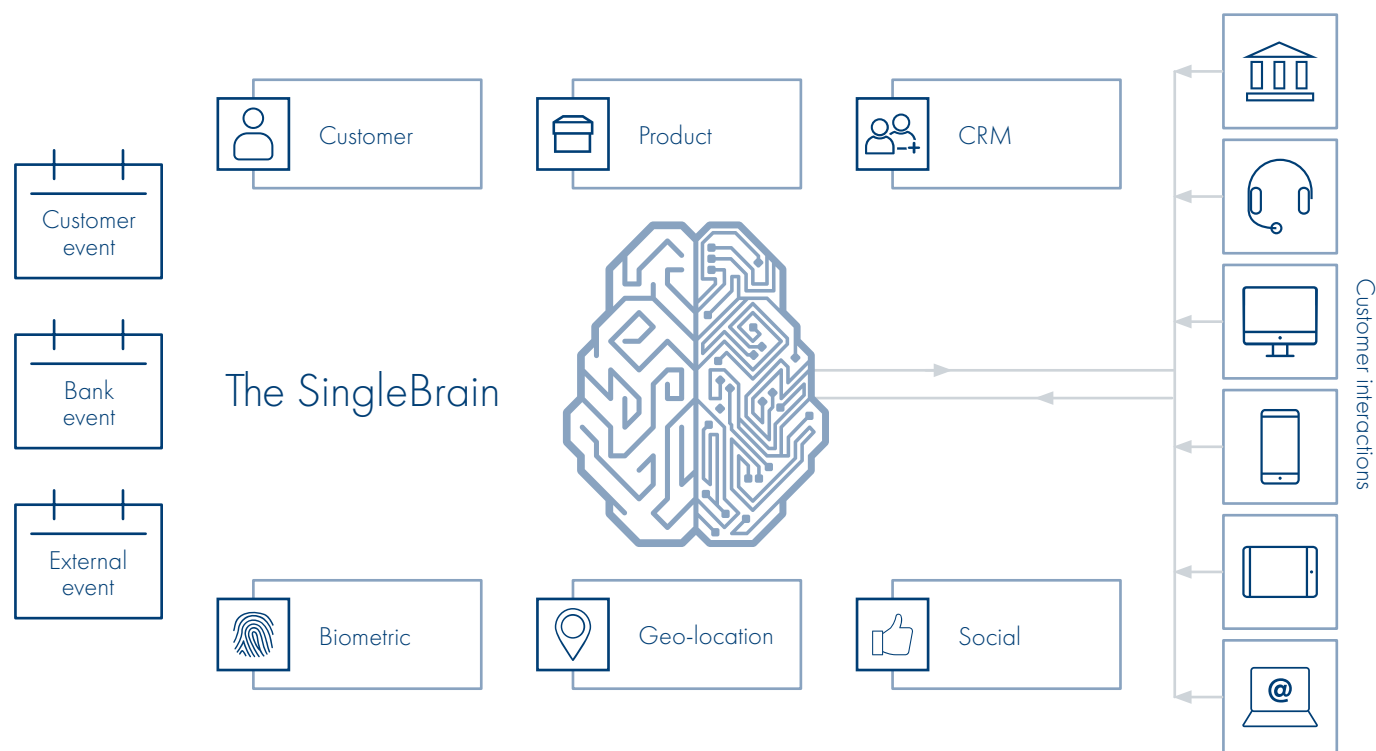
Who's Getting It Right?

The most advanced banks are already connecting all of their data and channels to the back end in a SingleBrain, allowing them to determine what to offer and using insights, predictive models and personalised triggers. They are observing and responding to customer behaviour in each channel in real time, measuring what works and what they are learning. The Spanish bank BBVA's significant investments in digital now appear to be paying dividends. In February, it reported a 10.9 per cent rise in gross income to €23.68bn for 2015, with its digital programme at the heart of its results. It said 19.2 per cent of consumer loans in Spain last year were made purely through digital channels, double the previous year. At the end of last year, 14.8m customers had interacted through the bank's online and mobile channels, up 19 per cent on a year earlier. BBVA is continuing to invest in its channels capability. In November it bought a 29.5 per cent stake in Atom, a mobile-only British bank, and hired in Barclays' chief design and digital officer.

Norway's DNB recently said that it would shutter more than half of its remaining bank branches, because almost all of its customers now interact with the bank through digital channels. Indeed, nine out of 10 new accounts are now opened in this way. Its mobile P2P payments app, Vipps, is used by more than one million Norwegians to transfer cash.

In Britain, the long-established Lloyds Banking Group has invested heavily in digital, creating a hub. It recently released an infographic highlighting how every 60 seconds 12,900 people visit its website, 400 bills worth £150,000 are paid, with 32,000 page views, 1,500 mobile app logins and 3,000 internet banking logins. That equals £4.6m in digital commercial transactions, much of which would have gone to rivals without the investment. Lloyds has also been experimenting with heartbeat authentication technology from the Canadian firm Nymi. And it has been collaborating with Google, using the tech giant's analytics services including Dataflow. Reza Rokni from Google said Lloyds is "about 18 months ahead of peers in the use of data analytics."

In the United States, the Wells Fargo Labs offer a range of new services including rapid alerts, mobile deposits, text banking, cheque deposits via handheld devices, community responses to questions and polling. According to the American Banker, the tests "range from the more practical (think video banking) to what seems more futuristic (putting virtual reality headsets on bankers)." Wells Fargo tests new technologies – like integrating wireless beacons into apps – before potentially introducing them to customers.



“Lloyds is ‘about 18 months ahead of peers in the use of data analytics.’”

JPMorgan Chase's retail unit has been rolling out a redesigned website, including what it describes as a "conversational area", which includes alerts the user can respond to without navigating to another page and a search engine that answers clients' questions. The benefits to the bottom line are clear. The company said digitally-centric customers – which Chase defines as those visiting a branch or talking to a banker no more than once a quarter and conducting three digital transactions per quarter – cost the company half of their analogue counterparts. In many ways, emerging markets are leading the digital charge. In Poland, MBank has launched a mobile payment service with contactless technology. It also offers a retail advice and discounting service, using client data and behaviour patterns, alongside geo-fencing, to alert on offers. And it also uses 'gamification' to engage customers. Idea Bank developed Europe's first business account in the cloud from Poland. It has also piloted a program where clients can summon an ATM-equipped BMW to deposit and withdraw funds. Turkey has a host of innovator banks like DenizBank, the first anywhere to let customers access deposit and credit card accounts through Facebook.

Turk Ekonomi Bankasi was the first lender in the region to give customers debit cards with built-in authentication technology. And India's ICICI has a service enabling customers to transfer money to anyone in the country who has a Twitter account; it has launched an app for Android and Apple smartwatches.

Social media is playing an important role developing the market in China, where Tencent's WeChat allows access to PayPal, E*Trade, Uber, Amazon and TripAdvisor in a single app. ICBC and Bank of China are among the lenders that have integrated the service. The e-commerce giant Alibaba facilitates mobile money transfers, and Baidu is allowing purchases via photos. The next step is for the bank to get the customer involved in designing the interaction through application programming interfaces (APIs). Banks cannot achieve these results in a vacuum. They need reliable new architecture. They need integrated analytics and to trigger offers and rewards in the front office. And they need real-time campaign marketing modules to allow cherry picking of services and offers.



Banks all over the world are beginning to release apps for smartwatches.

Conclusion

No one can say for sure which banks will win the digital race. But it's clear that the new model is taking shape and doubts about the value of full digital engagement has been laid to rest. Expectations are rising and technological advances – in software and devices – allow even smaller institutions to take on new roles in their customers' lives, such as that of a personal financial advisor, available day and night.

All this is enabled by the implementation of a unified control system, a 'SingleBrain.' It breeds performance – and that in turn improves the bottom line and enables a quantum leap in meeting clients'

morphing expectations. With customer intimacy embedded, new advocates are born. Of course, this world of real-time messaging and analytics requires extra computing capacity, speed and storage potential. Many banks will find that their legacy core systems are not up to the task. And rather than patching the existing system – to layer a new app here or a channel there – a modern responsive core is needed to avoid the vulnerabilities of stop-gap fixes. Running these new functions on a dated core would be akin to entering the Tour de France on a clunky mountain bike. You can try, but sooner or later, you'll fall by the wayside.

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About Temenos

Temenos AG (SIX: TEMN), headquartered in Geneva, is the world's leader in banking software, partnering with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace. Over 3,000 firms across the globe, including 41 of the top 50 banks, rely on Temenos to process both the daily transactions and client interactions of more than 500 million banking customers. Temenos offers cloud-native, cloud-agnostic front office and core banking, payments, fund management and wealth management software products enabling banks to deliver consistent, frictionless customer journeys and gain operational excellence. Temenos customers are proven to be more profitable than their peers: over a seven-year period, they enjoyed on average a 31% higher return on assets, a 36% higher return on equity and an 8.6 percentage point lower cost/income ratio than banks running legacy applications.

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