VIEWPOINT

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2018 Outlook: Customer Interaction

Stop, collaborate, and listen! Banking is back in a brand new edition.

The past year has been one of reconciliation and innovation, as financial institutions recognized the shifting landscape created by financial technology (fintech) companies and regulators and took steps to accommodate and in some cases embrace the change. The coming year will be defined by the integration of fintech into the fabric of banking service delivery by all types of financial institutions.

by Joseph Walent,
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The Financial Institution as Financial Services Hub

The onslaught of technology-oriented financial service providers (fintechs) over the past several years initially appeared to threaten the central role that banks, credit unions, and other financial institutions (FIs) play for their customers. For many years, consumers regarded their primary financial institution as the source for all the financial products and services that they needed. Life-style and the management of finances were arranged according to the services available. People were willing to accept the way banks said things ought to be done. Then the fintechs came along and showed there was a different way to deliver financial services, and many people started to see banking services as something that did not necessarily require a bank, at least not as the primary relationship. It has become clear to the fintechs, though, that the barrier to entry is higher than many assumed. According to the *World Retail Banking Report 2017* released by Capgemini and EFMA[i] earlier this year, fully 75.3% of fintechs said they intended to collaborate with traditional financial services firms, and for their part, 91.3% of banks said they planned to collaborate with fintechs. While fintechs have gained ground, particularly with younger demographics, banks retain key advantages, among them trust, direct access to the money supply, and extensive branch networks. Banks see collaboration with fintechs as a way to improve customer service and appeal to a new generation of customers, while fintechs see collaboration with banks as a way to achieve scale and trust. This collaboration, however, requires a lot of work on the part of the traditional bank to facilitate integration and protect against new fraud risks. Open application programming interfaces (APIs) will be required to enable seamless integration between traditional banking infrastructure and fintechs.

Digital Banking Is Now Mainstream

The digitization of banking hit the mainstream in 2017, with as many as 4 out of 5 adults in the U.S. engaging with their financial institutions electronically (via mobile or online) on a regular basis according to the 2017 Banking and Channels Survey in Mercator Advisory Group's CustomerMonitory Survey Series.[ii] Mobile banking apps, both apps associated with FIs and apps that are independent, will continue to make inroads with consumers in 2018 as the industry moves toward greater use of open application programming interfaces (APIs) delivered as web services. The migration of more transactional data and processing to the cloud is taking place at a time when more consumers are comfortable with less physical presence of their primary or day-to-day financial institutions. The ease and comfort many consumers are exhibiting in transitioning to mobile and online banking has expanded choice and pushed FIs in turn to be more responsive to consumers. The fintech revolution, which gained traction in 2015 and 2016, really came into its own this past year. In the coming year, we anticipate a higher degree of collaboration taking place between traditional banks and fintech providers.

Virtual Banks Gain Traction

As the local presence of a branch is becoming less of a determinant of which financial institution people choose as their main financial services provider, there is an opportunity for FIs to expand their coverage areas through digital and mobile channels as well as ATMs. As the need to visit physical branches and interact directly with tellers declines and more customers across the generational divides embrace and in some cases come to prefer self-

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service, the shift in the way banks and other FIs configure their branches are configured and what branches are configured the to do will accelerate. The coming year will bring about further consolidation of existing branch networks, with fewer locations fulfilling a community-centric role. Capital One's café concept is appearing in various forms as a meeting place, a temporary workspace, and a remote office for working customers, for example.

Personal Financial Management (PFM) as an Intrinsic Service

Hand in hand with the transition from their previous physical form, FIs are also leveraging the public's trust in them to act increasingly as an aggregator for financial information, often with the help of fintech companies. Information on standard products (checking accounts, savings accounts, CDs, trusts), loans (mortgage, car, personal), and other financial services products (investment accounts, insurance, advisory) can be presented through a single portal operated by the bank or its partners. By acting as a trusted consolidation point for all financial data and information, the primary financial institution (PFI) can serve as a financial guide, reviewing financial solutions and advising on their relevance and appropriateness for clients based on the information they've shared with the PFI. Facilitating financial wellness will be the focus for primary financial institutions, and the competition to secure this central and trusted role will become fiercer in 2018.

Open Banking, PSD2, and Open Access to Accounts (XS2A)

The European Union is taking a leading role in driving the integration of traditional banks and fintechs through the revised Payment Services Directive (PSD2), which is set to take effect in January 2018. Under PSD2, two types of non-bank actors will regulate status and be given open access to bank accounts (XS2A) via open application programming interfaces, or APIs. In addition to the delivery channels that the banks have already built, these two' types—Payment Initiation Service Providers (PISPs) and Account Information Service Providers (AISPs)—will have mandated access to bank accounts to provide services directly to consumers and businesses. This is a large-scale experiment in promoting a freer and more open market base. Consumers will be empowered to grant access to their own transactional histories curated by the FIs they have been using as banking service providers. Standards governing the way the open APIs will operate have yet to be finalized, which means the actual implementations will be delayed until this is accomplished. We expect to see pilots and basic services such as balance checking implemented in 2018, with more disruptive applications coming in 2019 or later. The European Union's approach of using regulations to expand access to consumer financial services will be closely watched in the United States, which has long favored market forces rather than regulations as the impetus for change.

The ATM as a Branch

Customer-centrism has long been a watchword for financial institutions in the United States, especially as many of banking services that FIs deliver are increasingly commoditized and differentiation is less and less anchored with geographic affinity. Developments underway in the virtual and online banking community that provide physical access to funds and the ability to make physical deposits of cash via third-party ATMs have undermined some of the value proposition of local branches. ATM service providers with their own fleets are well positioned to serve both local FIs and virtual FIs with the expansion ubiquitous access to physical funds in 2018. Further, as open banking becomes a familiar concept to a wider cross-section of U.S. consumers, the likelihood of consumers shopping for FIs that align with their favorite causes and core values will increasingly be the norm as corporate social responsibility will increasingly be a factor consumers' choice of a primary FI. However, the inability for an individual to retain an account number when changing FIs, like retaining a phone number when changing mobile carriers in the U.S., remains a disincentive for many consumers to switch FIs. Other countries, such as the United Kingdom, have taken steps to accelerate and ease the process, with limited success.[iii]

Brand Becomes More Important

Primary financial institutions will also need to demonstrate additional value beyond cultural affinity as the ease with which consumers can shift their financial "home base" increases and recurring payments can be recognized and reinitiated with less intervention required from the migrating customer. Oddly enough, instances of fraud and compromise of debit card credentials are effectually training consumers with the process and could be removing the perceived scope of the undertaking. Just as car brands, food brands, and the type of credit card one presented have come to represent something about the individual, we anticipate FIs will increasingly seek to develop wide appeal coupled with defining characteristics and causes. Credit unions in general have been adept at this, given their roots in particular communities and their implicit focus on their members.

Leveraging Data

2018 will be the year when internal preparations to accommodate more information sharing with authorized third-party service providers will yield appreciable internal insights. Unlocking data silos and standardizing APIs to enable partners to access data more easily works both ways, giving FIs more information on what their consumers are doing, *provided that those FIs demand the data in exchange for opening up their systems*. In part to make ready for the impact of open banking for foreign customers, FIs have taken steps to make the exchange of their customers' data more efficient while maintaining security though the use of APIs to facilitate the controlled exchange of data with internal and external business partners. Having taken steps to ensure freer access, FIs will have the capacity to develop greater insights into their customers and demonstrate actionable insights to different segments of the customer base through available options and anonymized example outcomes.

Recognizing Patterns and Inflection Points

The implementation of APIs will preserve the separation of customer data internally to prevent the unauthorized compilation of full financial profiles and restrict the availability of data to those needing it to perform financial services tasks or duties, but it will also enable FIs to undertake wider views of customers' financial actions and outcomes and be able to impart valuable insights to customers. Just as healthcare providers can provide statistical data on the outcomes resulting from selected therapies, FIs will be able to illustrate the likelihood of outcomes based on the previous experiences of customers with similar defining characteristics. Further, the FIs will be better able to recognize the points where customers are experiencing a pivot point in the lives, which portend the need for financial advice, services, and products. The broader access to population financial data will enable FIs using service providers to deliver timely and relevant suggestions of new services. Of course, FIs will need to build the decision engine and feedback mechanisms to make this vision operational.

Personalized Banking

As previously mentioned, in 2018 many of the barriers to engage in financial service delivery will be lowered in the European Union and the United Kingdom with the aim of progressing toward a healthy market that places increased importance on technological innovation. This will allow a giant step forward for the once gradual shift to individualized banking service for the masses. The secure exchange of customer data with permission of those customers will usher in a shift to a more collaborative market that will pair fintech with traditional FIs to share in customer engagements. Much of the fear of fintech and disaggregation that many financial institutions expected will slowly be replaced by FIs' drive to collaborate and integrate a full service experience that is customized to the expressed and demonstrated preferences of each consumer. Security of data will be at the heart of financial institutions proceeding slowly and with caution.

Delivering the Correct Fit

As noted, the integration of digital platforms as the basis of customer engagement will allow for rapid uptake and integration of specialized services and products via APIs. This approach will be adopted by a wider cross-section of FIs to drive increased personalization and customization of customer interaction. 2018 will begin to bring about the actualization of what consumers have already been experiencing with a widening circle of retail providers: a highly personalized and customized experience with solutions to the unique situations the consumer faces.

A Role in Identity Management

Deep understanding of individual customers' behavior patterns and personal data makes the primary FI a natural fit to serve as the repository of identity verification and authorization services. FIs should seek to provide open APIs that aid in authentication, giving them a central role in the establishment and securing of new digital commerce relationships. The persistent identity verification of mobile devices coupled with a wide array of biometric and behavioral markers will be safeguarded by FIs for their customers to be leveraged in the secure opening of accounts and acquisition of loans and credit to stem identity theft and false account opening. FIs can also collaborate to reduce the burden of "Know Your Customer" regulations: Once one FI has gone through the process, it can give the customer a credential that can be reused by other FIs to shorten the application process.

A Call to Action

Customers, fintech firms, and FIs all stand to benefit from more fluid information exchange and heightened security. The use of open APIs will improve customer service, leveraging advanced customer engagement models, automated service delivery, and proactive product offerings. Mobile devices, online banking, ATMs, and fintech services will become the key touchpoints for customer engagement. FIs will need to learn how to project their brands effectively through third parties through expanded data exchange.

Endnotes

[i] https://www.worldretailbankingreport.com/
[ii] Mercator Advisory Group CustomerMonitor Survey Series, Banking and Channels 2015, 2016, Question 27
[iii] http://www.thisismoney.co.uk/money/saving/article-2991930/More-customers-switch-bank-allowed-account-number-City-regulator-finds.html

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