ORACLE
FINANCIAL SERVICES

Banking is changing…with or without the banks

Response to the millennials digital expectations

2015

A Research Report by Oracle Financial Services Global Business Unit

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1. FOREWORD

Insights from the frontline of the digital revolution

For many years, retail banks have been secure, highly profitable businesses. But recently disruption has hit the doorstep of these financial giants. The recent crisis not only led to large losses – and even collapse – for a number of banks, it also shook the customer base.

As we move into the age of the millennials, the world of banking is being re-examined. No longer is a branch providing purely transactional services enough – customers want new products and services… and all available at their digital convenience.

The market is in a state of flux. In response, analysts predict that banks will need to step out of their comfort zones, digitizing and diversifying as never before. No longer will banks be able to follow branch-centric models. Instead, now heralds the era of 'the Bank of the Future', with omni-channel client-centric and self-directed digital-centric models taking center-stage. At Oracle, we understand that for a retail bank, it is vital not only to understand the theory but also the reality. So in September 2014, we posed a series of questions on these topics to over 100 senior decision makers in strategy, technology, operations, finance, sales and marketing roles at major retail banks from all across the globe. All respondents were leaders within their organizations – CxO's and line of business owners.

In the face of growing competition, we uncovered a desire amongst banks to digitize and transform… but also stark differences in progress. So what is your plan for the forthcoming next five years? And how does this compare to your peers? In this report we'll be sharing insights from the study to help guide your bank with planning the transformation in the digital age.

To explore the results in more detail and compare your bank against competitors, please visit our interactive tool at www.oracledigitalbank.com, or join the conversation on Twitter @Digitize2Thrive.

But will reality reflect the hype? What do retail banks think the market will look like in five years' time? How are they evolving their practices to adapt? And what barriers stand in the way?

2. THE DIGITAL REVOLUTION

Why a digitized, omni-channel offering is seen as key to future success
Faced with a dire threat you have two options: you can either roll-over and die, or you can fight back.

To fight back you need to evolve – not only leveraging existing strengths but also developing new capabilities. So, with FinTechs waiting in the wings, retail banks are clear that they need to respond, and they see the answer in digitization and omni-channel.

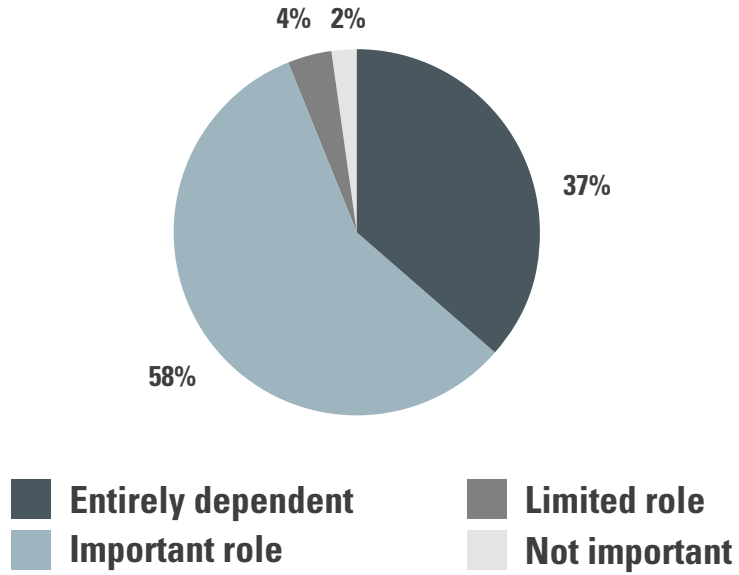
Q: Which of the following best describes your attitude towards the importance of having a digitized customer engagement strategy to the success of a bank?

As a result, digitization of engagements through channels is taking center-stage as the primary enabler of banks' business objectives.

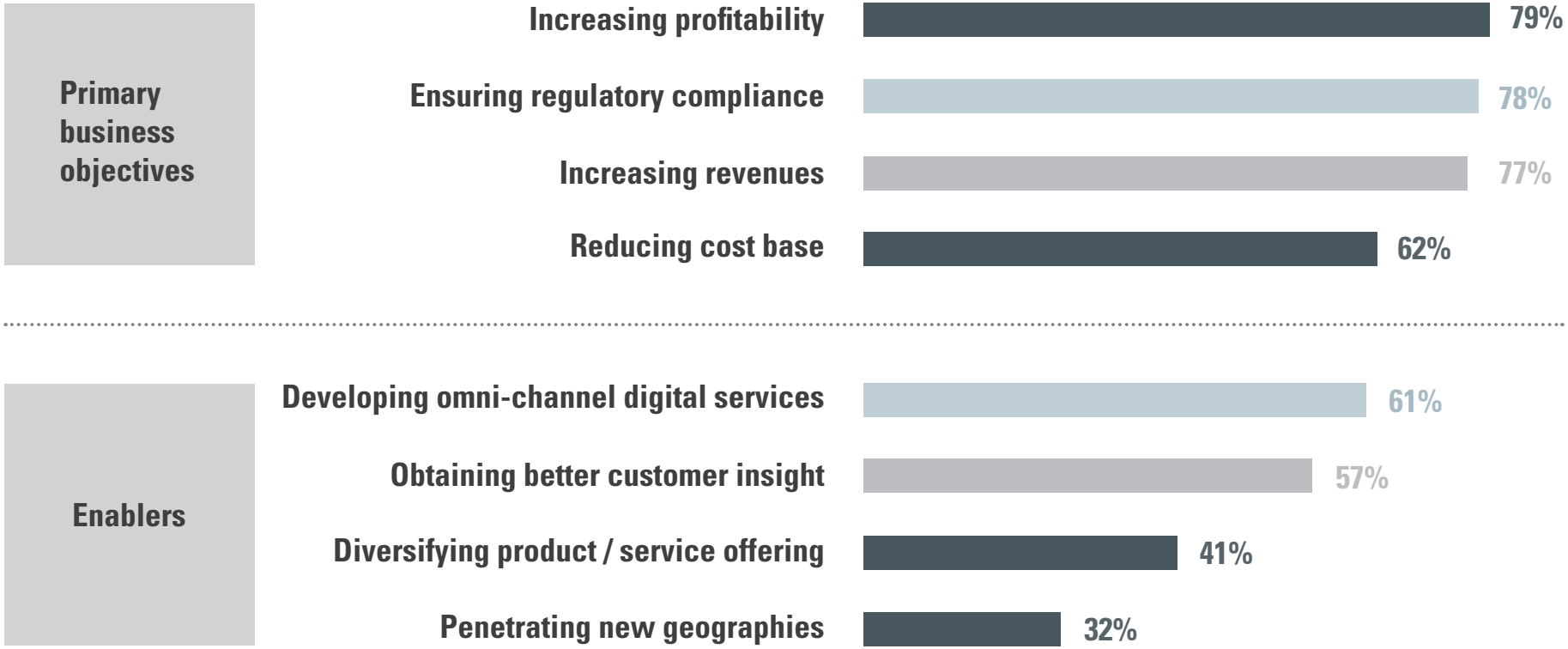
Regardless of whether the focus is revenue uplift or lowering costs digitization is seen as being the way of making this happen – a high priority aim for nearly two thirds of banks (61%) and a medium priority aim for a further third (33%).

Virtually all banks recognize that developing digitized, omni-channel customer engagement capabilities will be important in order for a bank to be successful in the future (94%). In fact, over one third (37%) think that the success of a bank will be entirely dependent on their digitized omni-channel customer engagement.

Importance of digitized omni-channel customer engagements in the success of a bank



HIGH PRIORITIES

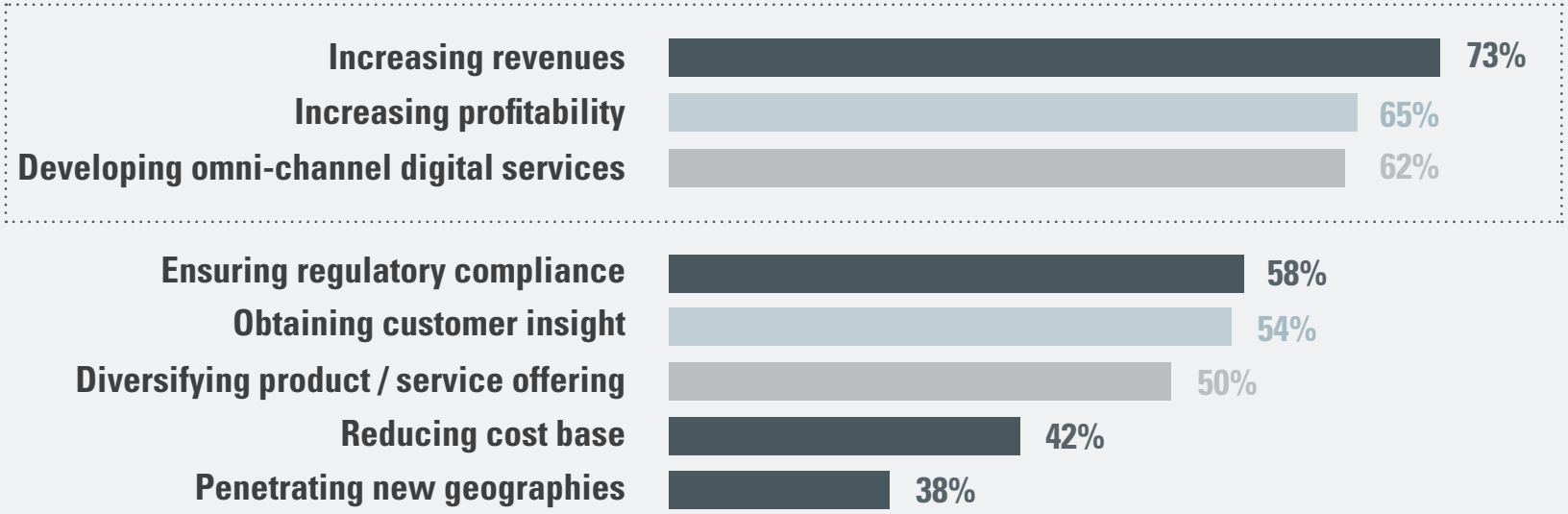


Q: Every organization needs to prioritize. Below are various areas where a bank like yours might focus its resources (people's time and financial investment). To what extent are each of these areas priorities for your bank?

REGIONAL FOCUS

With many North American and European retail banks still recovering from the market events of 2008, there is a very strong focus in these regions on ensuring regulatory compliance and reducing the cost base.
However, in APAC, retail banks desire to be much more aggressive, with revenue and profit growth clearly topping the agenda.
Central to this strategy is developing digital services. The message is clear –revenue growth, profit growth and digitization must go hand-in-hand.

High priorities for banks in APAC



Q: Every organization needs to prioritize. Below are various areas where a bank like yours might focus its resources (people's time and financial investment). To what extent are each of these as priorities for your bank?

3. THE RISE OF FINTECHS

How the emergence of new digital competitors threatens traditional retail banks

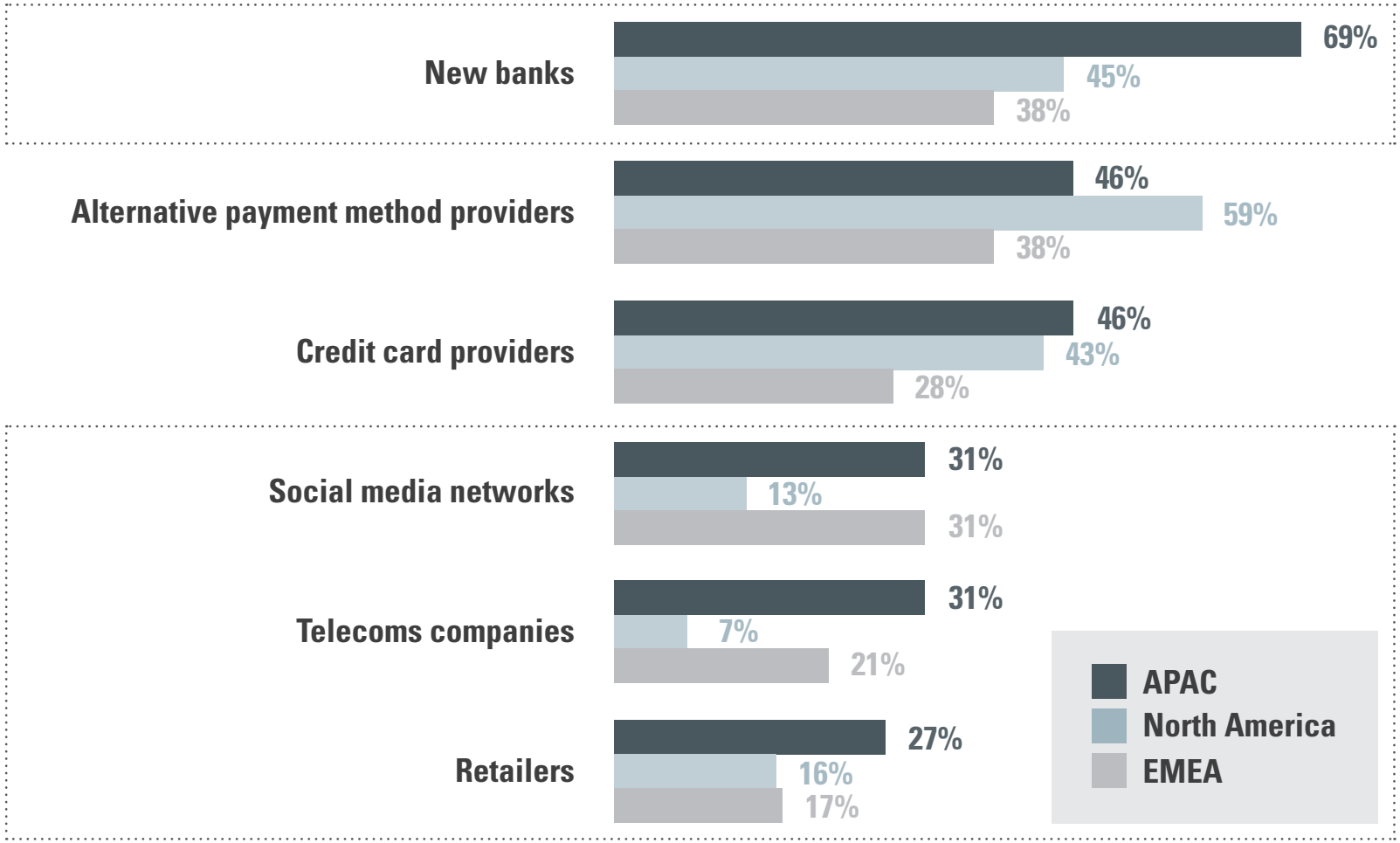
Retail banks are institutions. Old. Established. Global… And in danger of becoming extinct. Today's competitive landscape in banking is far removed from what one would have seen just ten years ago.

No longer do retail banks simply vie for customers against other retail banks. Instead, we are witnessing an influx of new, tech-savvy, digital competitors – FinTechs – all eager for a piece of this lucrative financial pie.

REGIONAL FOCUS

Whilst new banks promote, alternative payment method providers and credit card providers currently represent the biggest threat to banks, competition from FinTechs is also substantial. In particular, the danger from these digital competitors is particularly acute in the rapidly growing APAC market. Here, social media networks (31%), telecoms companies (31%) and retailers (27%) are all seen as being very real threats.

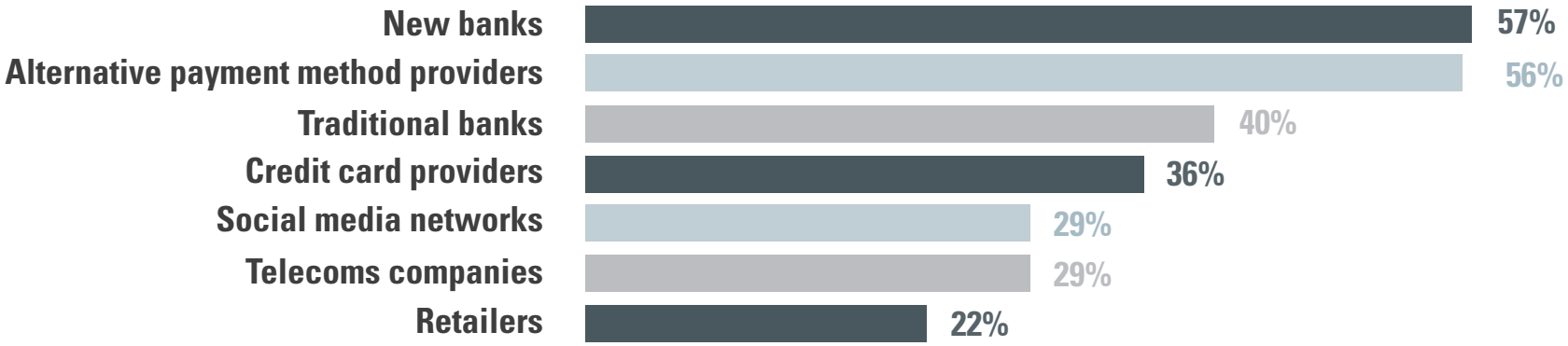
CURRENT DIRECT COMPETITORS



Q: Which of the following types of organization do you currently see as being direct competitors to your bank?

DIRECT COMPETITORS BY 2020

FinTechs will be a threat across the entire globe; banks around the world expect social media networks (29%), telecoms companies (29%) and retailers (22%) to all be serious contenders for their business. If this wasn't enough cause for concern, retail banks even believe that by 2020 private label banks (57%) and alternative payment method providers (56%) will be a greater competitive threat to them than other traditional retail banks (40%)!



The roots of the shift lie in the changing customer landscape. The world's largest demographic, born after 1980, are now millennials. These customers have grown up in the era of Facebook and Amazon; an era of instant communication, one-click purchases and 24 hour delivery. If a supplier can't provide a service, you don't wait – you find someone else who can. The children of millennials are even learning to use smartphones before they can swim!

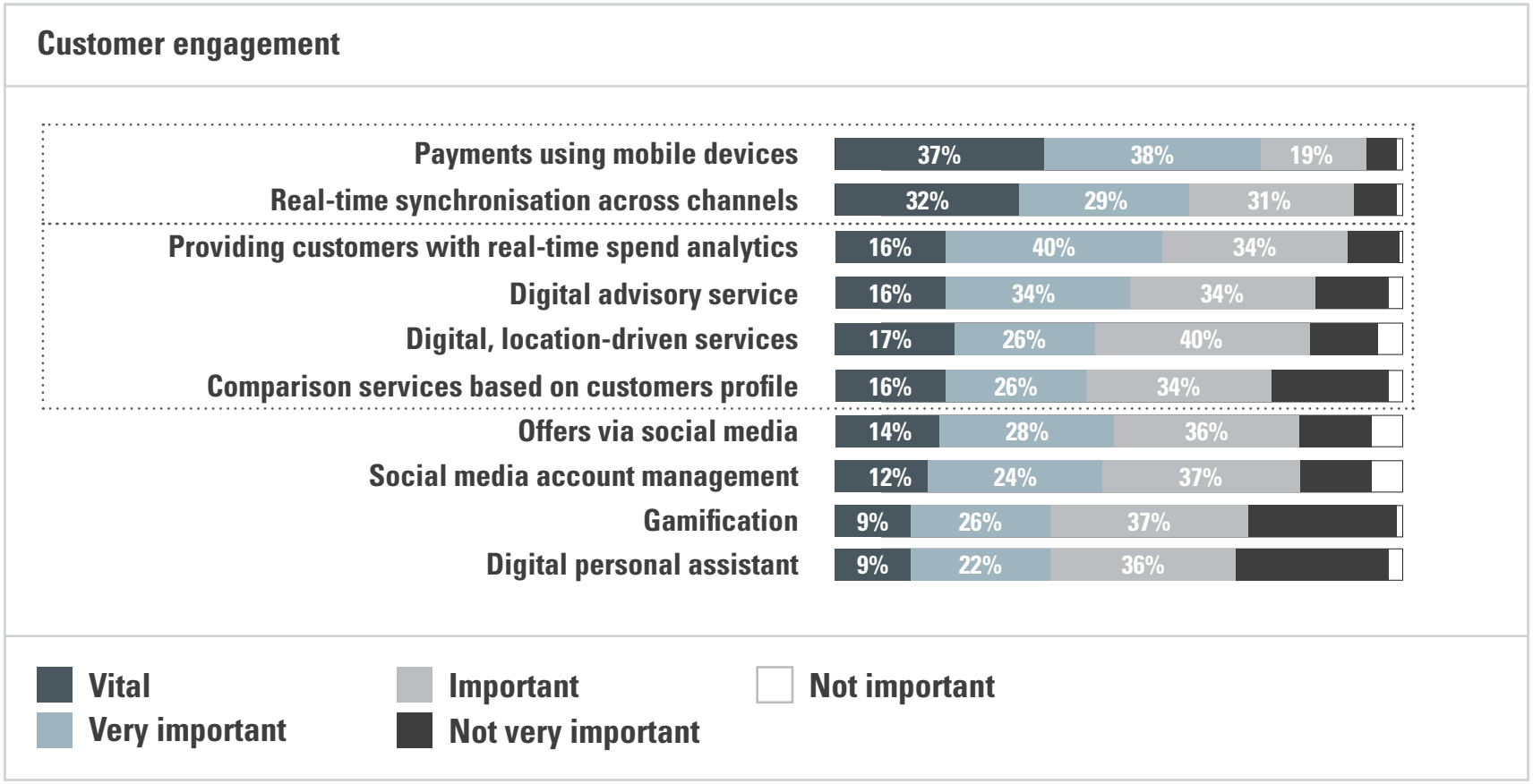
With the rest of their world revolving around digital experiences, these customers expect no less from their banks. Organizations that provide this service will see customer growth and new revenue streams; those that don't may struggle to even survive.

4. BANKING-ON-THE-GO

Real-time view and mobile payments top the digitization wish-list
So what exactly does digitization customer engagement mean?
To retail banks, there are two hygiene factors that form the main focus:

- Allowing customers to make payments on mobile devices
- Enabling real-time view across channels

Mobile device payments and real-time synchronization are both seen as being important to over 90% of banks, and vital to around one-third. These are the basics that all banks must look to get right.



Beyond this, there are eight further digital initiatives that are all seen as being important by over half of banks. At the top of this list lie advisory services – real-time spend analytics, digital advisory services, location-driven services and comparison services.

What have I spent my money on so far this month? How does that compare with my normal spending patterns? What offers are available in my vicinity right now – and can I afford to buy this or would I be better off waiting until next month?

These advisory services that provide value-added insights and information to the customer's life will lead the customer to the bank to seek out more information about how the bank can empower them, creating a 'customer in' model.

To excel, a bank must not be a mere transactional body; rather it must push the boundaries on the services it provides. Standing-out means becoming a personal 'financial guru' to customers; providing advice and guidance at the convenient tap of a touchscreen.

REGIONAL FOCUS

North American banks are choosing to invest in digital services with a narrow focus on mobile payments and real time view of the customer, unlike the banks in EMEA and APAC, where attention is divided across a wider range of digital services.

Will this difference in focus lead to greater differentiation and growth opportunities in APAC and EMEA; or will this concentration from North American banks on mobile payments and synchronization help to develop world-leading services that further secure the status of North American banks within the global market?

With mobile technology and omni-channel synchronization, banks will cease to be confined to within four walls… and with real-time analytics and advisory services, the role of the bank takes on an entirely new form. The revolution is in place. Retail banks are talking a strong innovation game with no intention of rolling-over under pressure from the FinTechs. Instead, banks are preparing themselves to take on the new boys, with a desire to demonstrate that with a fresh, digitally-focused mindset, retail banks can continue to be successful for years to come.

Q: Thinking specifically about multi-channel customer engagement, how important would you say each of the following will be in order to be a successful bank in five years' time?

5. BROKEN PROMISES?

Failure to commit to digitization is hampering progress
With the recognition that omni-channel digitization is so important, and with these aims sitting firmly at the top of banks' agendas, surely we can now sit back and relax, safe in the knowledge that banks have everything under control. Can't we?

Unfortunately not. Despite recognizing the importance of omni-channel digitization in competing with new FinTechs, there appears to have been a failure amongst banks so far to really commit.

When we examine current progress against achieving technological capabilities, it quickly becomes apparent that the market is lagging across the board.

In particular, the market is falling behind when it comes to real-time services.

Despite all being recognized as important by over four-fifths of banks, fewer than one in three currently provide real-time analytics, fewer than one in four provide real-time synchronization and fewer than one in five provide location-driven services.

One of the main reasons why banks are lagging behind is because currently they have an insular and bank-centric relationship with their customer. While that 360° view worked in the pre-digital era, today it means banks are facing competition from other digital-savvy avenues.

What banks need is to know their customers in entirety; how their customers spend their money, where they go on holiday, what car do they drive and which is the closest restaurant to their residence – a 720° view, which will enable a deeper relationship and greatly increase the bank's efforts in omni-channel digital customer experience.

Having the data is one thing, but to make the 720° view really work, banks need to change their underlying processes to accept these new forms of data specially in the content of real-time digital processing.

Q: Thinking specifically about digitized customer engagement, how important would you say each of the following will be in order to be a successful bank in five years' time? What is your organization's current status in relation to each of the following developments?

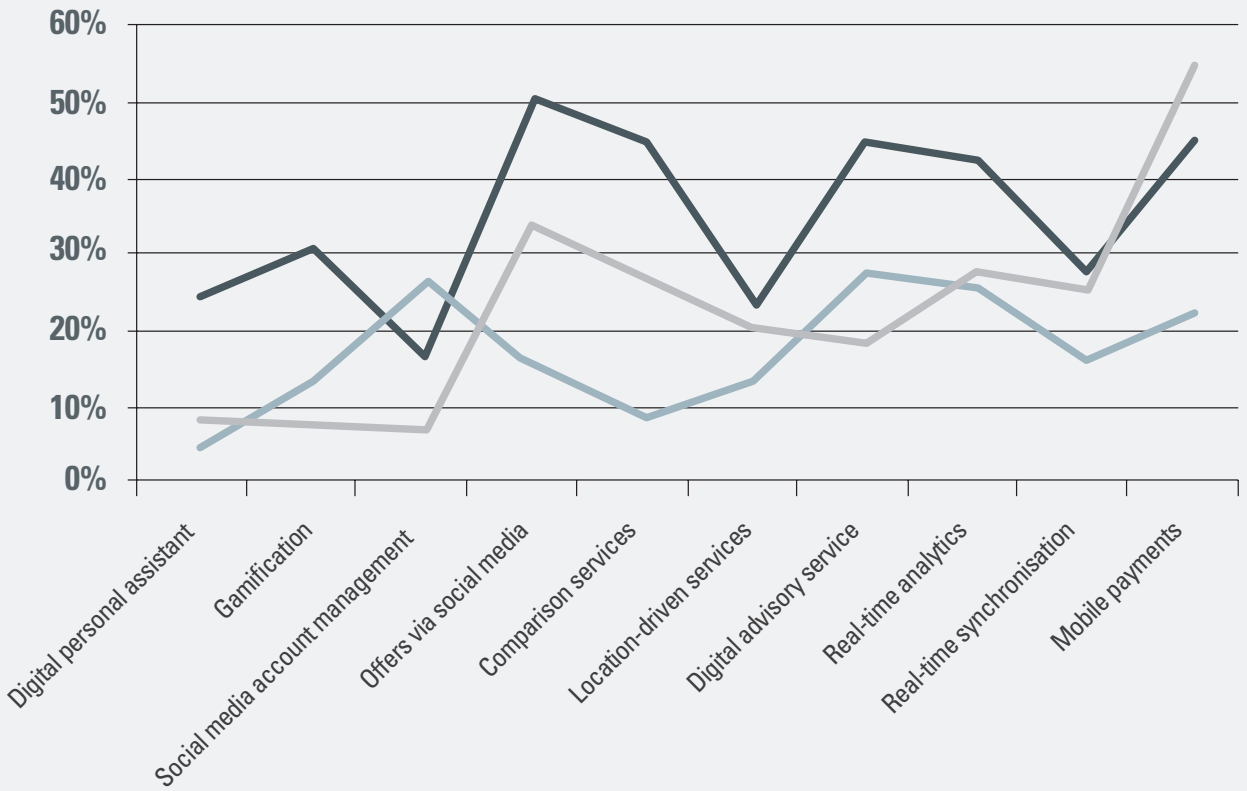
	Important	Current capability	Market Lag
Market Lag	92%	24%	-68%
Location-driven services	82%	19%	-63%
Real-time analytics	90%	30%	-60%
Social media account management	72%	14%	-58%
Gamification	72%	15%	-57%
Digital advisory service	83%	28%	-55%
Digital personal assistant	67%	12%	-55%
Mobile device payments	94%	44%	-50%
Comparison services based on financial profile	76%	28%	-48%
Offers via social media	78%	34%	-44%

* Market lag is derived from the difference between the banks current capability in delivering a variety of services important to the process of digitization and the perceived importance in meeting customer demand for these capabilities. The market lag represents the challenge that banks face in meeting customer demand for digital capability.

REGIONAL FOCUS

Banks in APAC are leading the field in digital adoption, while banks in North America and EMEA are more focused on mobile payments (NA) and social media account management (EMEA).

In particular, banks in APAC are introducing offerings to their customers while in the process of a transaction, these offerings are 'before the point of sale'. Significantly more banks are offering comparison services, digital advisory services and real-time analytics compared to their North American and EMEA counterparts.



Q: What is your organization's current status in relation to each of the following developments?

APAC
North America
EMEA

Whilst a vast array of functions can go into a omni-channel customer engagement offering, these functions are little more than 'window dressings' without real-time synchronization.

As such, omni-channel customer engagement is not a 'bolt-on' product that can simply be added to existing systems to give a little bit more functionality. It needs to take a fresh perspective – wiping the established 'offline' board clean and asking 'how should we be doing this in a digital world?'

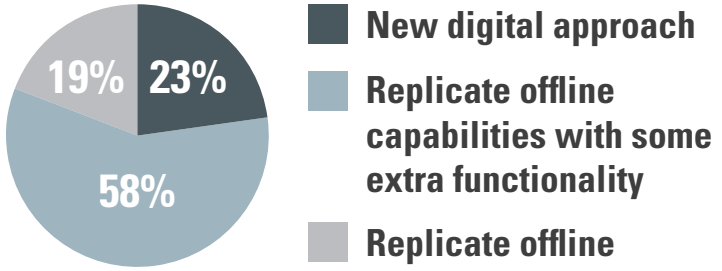
Only one in four (23%) are approaching omni-channel customer engagement with a fresh, digital mindset. A 'bolt-on' is exactly how the majority of retail banks (77%) are approaching digital channel engagement– replicating their offline banking capabilities online, with perhaps a small amount of additional functionality.
It's not all bad news though. Whilst 'add-ons' may not be the best way to go, at least these are now starting to be introduced at a fast pace. Take the on-boarding of customers as an example.

Although three quarters of banks (74%) aren't yet able to facilitate the online on-boarding of customers, within the next two years this figure is expected to drop to just one quarter (24%).

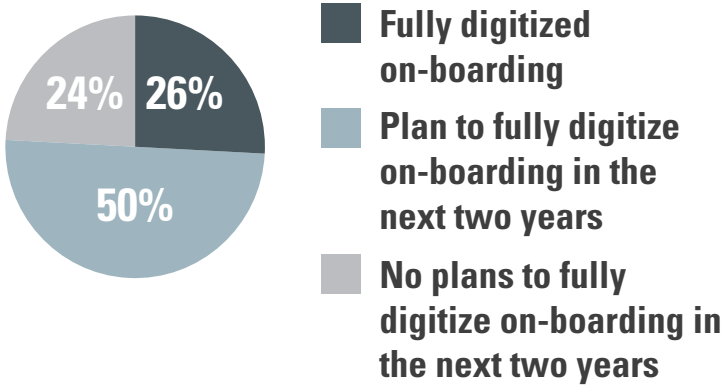
However, so long as these changes continue to be isolated add-ons, removed from a synchronized approach, true omni-channel services will remain a distant ambition. Until a fresh, digital mindset is adopted, these changes will remain baby-steps in the overall grand scheme.

Q: Which of the following best describes your organization's current approach to omni-channel customer engagement?

Approach to omni-channel customer engagement



Digital on-boarding



Q: Please think about the 'on-boarding' or 'signing-up' process for new customers. Which one of the following best describes your organization's current capabilities when it comes to 'on-boarding'?

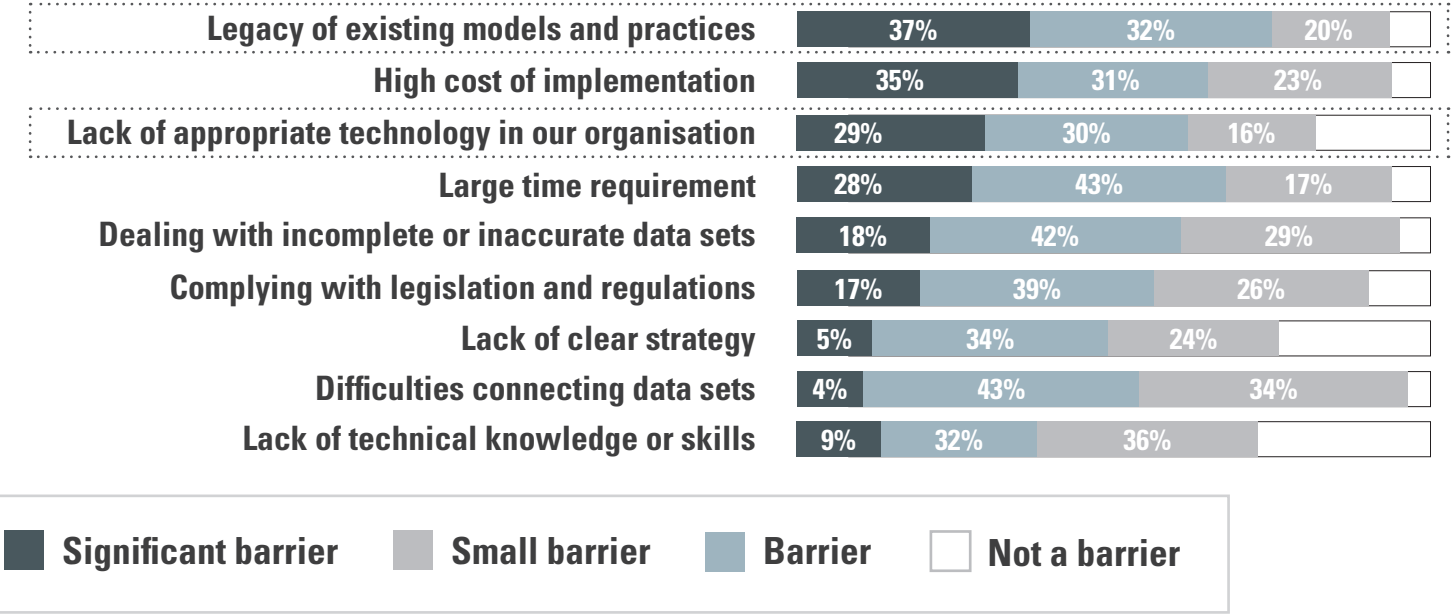
Q: Do you intend to fully digitize the on-boarding process within the next 2 years?

6. STUCK IN A RUT

Exploring the underlying challenges that stand in the way of digitization
So what's going on? Why are so many banks yet to develop a synchronized, digital, customer engagement offering when, on the face of it, this would appear to be of such huge importance?

The answer appears to lie in the difficulties of escaping a current 'rut'. Firstly, there's the challenge of overcoming legacy systems. As is the case in many established industries, within retail banking history runs deep… and for better or worse, sometimes this history can be difficult to escape from. As a result, nearly all banks (88%) see the challenge of overcoming their legacy systems as a barrier against omni-channel digitization.

Barriers to omni-channel customer engagement



Key to overcoming these legacy challenges within the digital world will be using new technologies. However, three quarters of banks (75%) cite a lack of suitable technology within their organization as another barrier standing in their path to a digital world.

Banks need to innovate and for this they require technological investment. Legacy systems issues must be overcome and adopt a progressive transformation of the digital engagement channels, enterprise-wide processes tuned to the customers and the core systems with modern components.

Of course, innovation and investment are bold moves for any business to take. Doing so requires conviction, ambition and determination. And here we encounter the next problem: many banks are stuck in a defensive mindset.

Rather than seeing this as a great opportunity, capture prospects and open-up new revenue streams, the most compelling motivation for banks adopting digital omni-channel engagements is a fear of losing their existing customers if they don't (a significant motivation for 83%).

Q: To what extent are the following barriers to implementing a connected, omni-channel customer engagement offering?

REGIONAL FOCUS

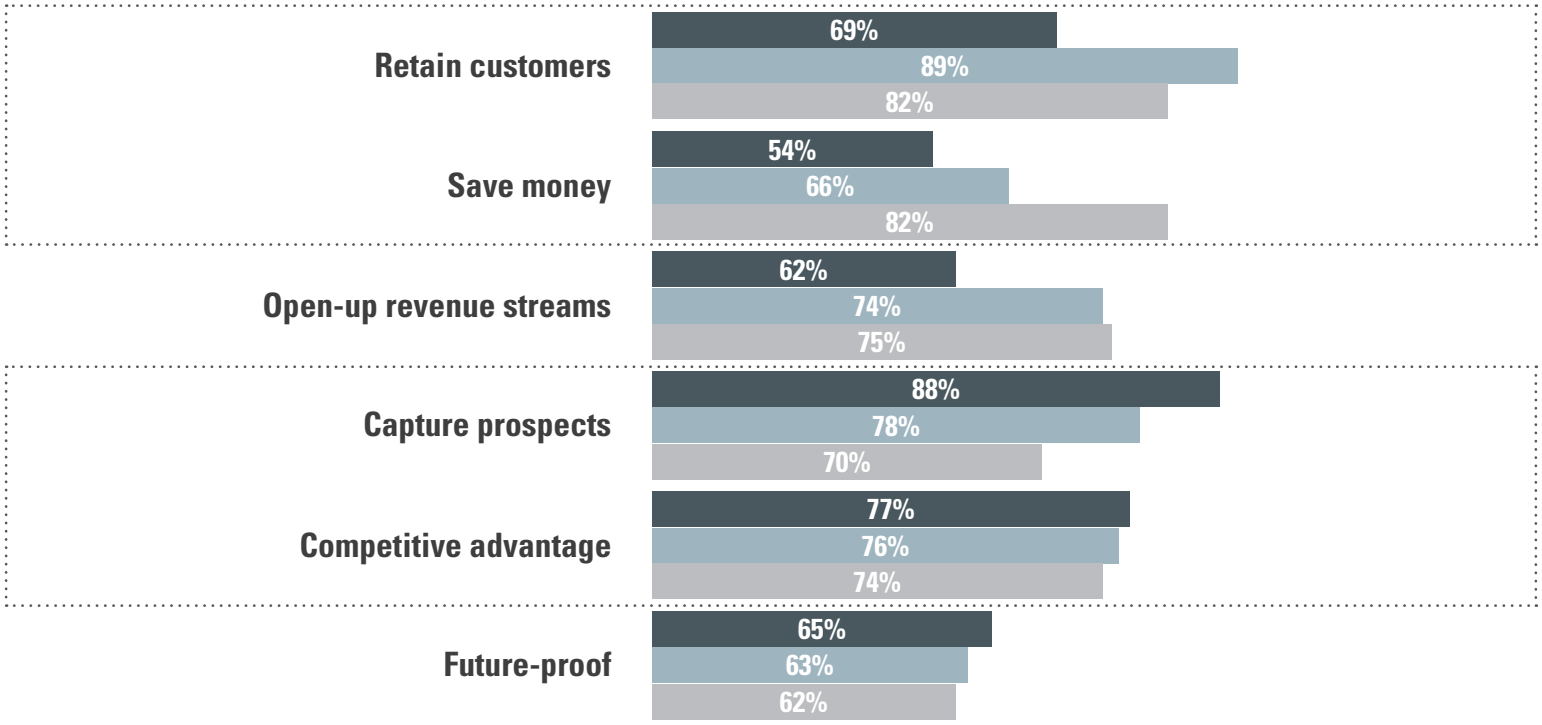
Earlier we saw how, retail banks in EMEA and North America have a greater focus on complying with legislation and reducing costs than their APAC counterparts who are instead pursuing more 'aggressive' aims.

Looking specifically at omni-channel motivations, the same can be found to be true here. North America and EMEA retail banks see digitization as a way to save money and retain customers.
In contrast, banks in APAC are looking towards future growth with capturing prospects and gaining competitive advantage forming their two strongest motivations.

So instead of committing to bold, expansive strategies, a large proportion of banks are instead adopting a guarded position.

Perhaps overly comfortable and familiar with the status quo, many banks are only making a token-effort when it comes to digitized omni-channel customer engagement, hoping that this will be enough to stave-off new competitors without having to do anything too drastic to 'rock the boat'. These aren't strategies for thriving. At best they are survival strategies. At worst, it could be the start of a slow, painful death.

Significant motivations for omni-channel



APAC
North America
EMEA

Q: To what extent are the following barriers to implementing a connected, digital customer engagement offering?
Percentages based upon responses of 'significant motivation'

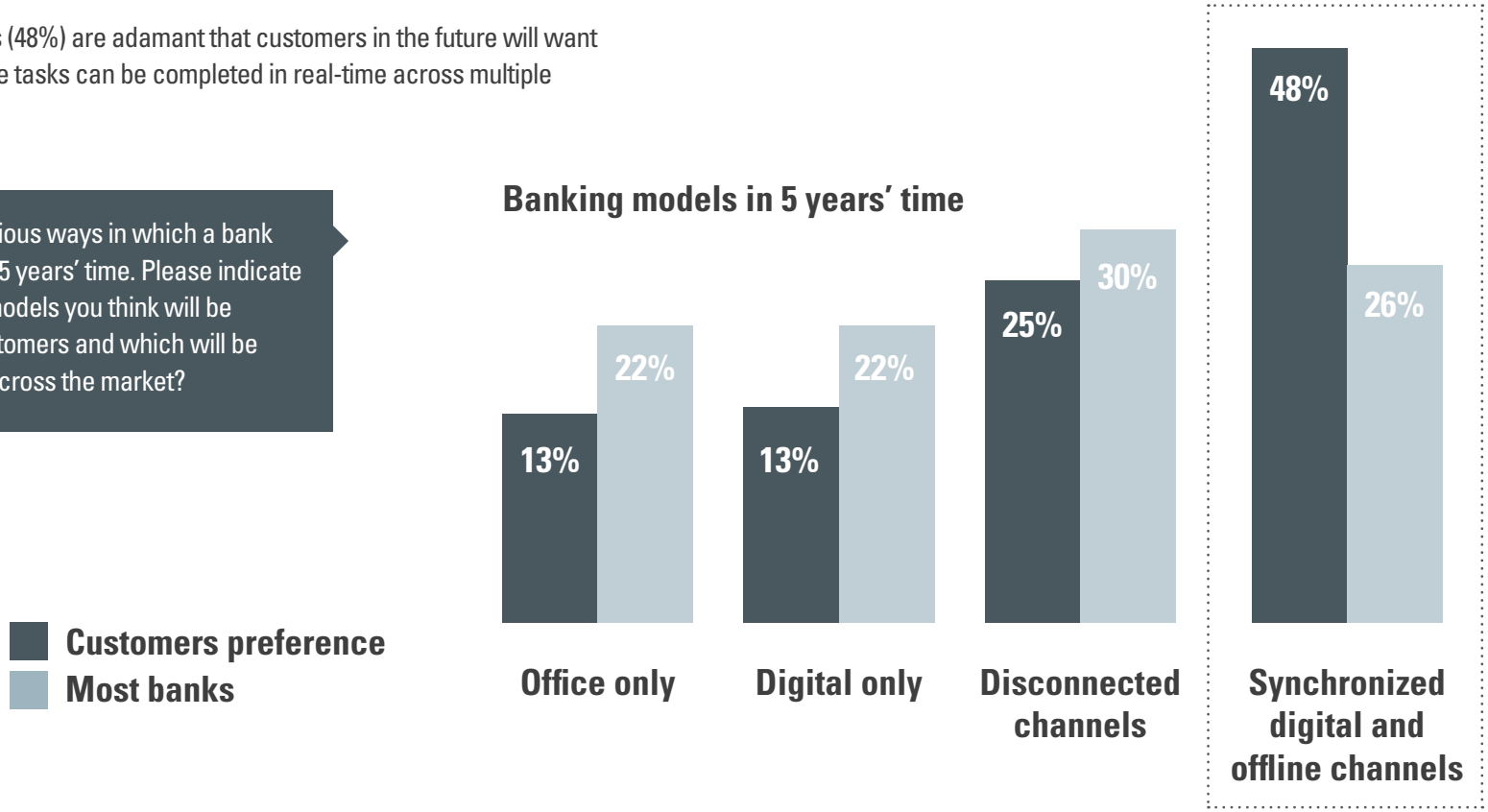
7. A "CUSTOMER IN" APPROACH

…they want synchronized omni-channel banking, and they want it now
With the Millennial customer demanding banks be connected with the digital ecosystem, banks need to redesign their approach to a "customer in" approach. A customer in approach builds a sustainable, information driven and value centric relationship as opposed the typical product out approach currently followed.

Whilst half of banks (48%) are adamant that customers in the future will want to use a bank where tasks can be completed in real-time across multiple synchronized digital and offline channels, there is limited belief that the industry will be able to live up to this challenge.

Instead, nearly one third believe that most banks will be operating with disconnected digital channels (30%); one in five think that most banks will have failed to adopt digital at all (22%)!

Q: Below are various ways in which a bank might operate in 5 years' time. Please indicate which of these models you think will be preferred by customers and which will be most prevalent across the market?

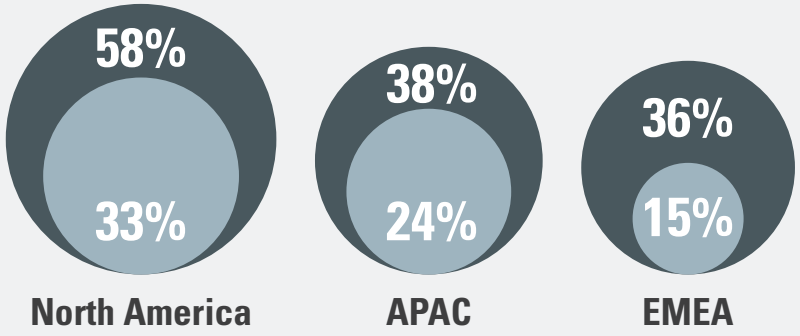


REGIONAL FOCUS

Q: Below are various ways in which a bank might operate in 5 years' time. Please indicate which of these models you think will be preferred by customers and which will be most prevalent across the market?

The discrepancy between what banks think customers' will want, and what the market will be able to deliver, is greatest in North America and EMEA.

Difference between customers' expectations and predicted reality



Percentage of banks who believe customers will want digital synchronisation

Percentage of banks who believe the market will deliver digital synchronisation

However, with no more than one third of banks in any region believing that the market will be able to provide truly synchronized, digital omni-channel banking, if customers' expectations continue to advance so rapidly over the coming months and years as they have been doing recently, there could be a much greater deficit than is being recognized at present.

Customer needs for digital synchronization are far outperforming the bank's ability to deliver it. APAC is closer to meeting their customer's expectations than North America and EMEA, who lag behind in providing a omni-channel digital banking experience.

This obviously isn't going to be good enough to stave-off the rise of FinTechs. These new entrants to the market will parade digitized customer engagement as a badge of honor, and when they do – just as the banks themselves are predicting – customers will follow.

Whilst banks talk of 'changing' to counter this threat, for many there has been a dangerous lack of progress so far. Retail banks need to re-examine their digitization strategies… and quickly.

8. SUMMARY

Retail banks are on the brink of extinction
With competition rising, digital adaptation lagging and customers expected to leave, there is a very real danger that this could be a reality in years to come.

As consumers actively question the future direction of the industry in the aftermath of the financial crisis, an influx of FinTechs are threatening the territory of retail banks. By 2020, retail banks predict that social media networks and telecoms companies will be hot on their heels for providing consumer banking needs.

In response, retail banks recognize the need to invest in digital customer engagement strategies. Enabling mobile payments and real-time synchronization of channels will be the bare basics for any ambitious bank, with many also going further to push boundaries advisory services provided before the point of sale.

However, especially in North America and EMEA where confidence is low following the recent turbulent times, retail banks are struggling to truly commit. Mindsets are still very defensive – focused on preventing customer defection, complying with legislation and reducing the cost base, rather than actively seeking growth and improvement.

So, whilst banks recognize that the customer preference will be to interact with synchronized, digital organizations, only a minority believe that the industry will be able to live up to this demand.

Failing to meet customers' expectations is dangerous in any industry; it could be lethal in an environment where the competitive landscape is becoming ever-more congested.

This report concludes that, whilst desire to enter the synchronized digital arena certainly exists amongst nearly all retail banks, considerable changes will be required in order to make this a reality.

Whilst true omni-channel seems a long way off, banks are clear on the fruitful rewards now. A truly digital offering will enable banks to build information and value driven relationships with their customers that connect to their lifestyles – thus, shifting from the ageing 'Product Out' approach, and towards 'Customer In'.
Only by truly committing to digital customer engagement will banks not only survive, but thrive in the future.

To explore the results in more detail and benchmark your ba ase visit our interactive tool at www.oracledigitalbank.com, or join the conversation on Twitter @Digitize2Thrive

Join the conversation @Digitze2Thrive

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If you want to find out more about effectively managing your network across its entire lifecycle, we'd love to hear from you.

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