BANKING ON TECHNOLOGY
EMBRACING A NEW ERA OF TRANSPARENCY

by Chandan Sharma with contributions by Raj Dhinsa and Steven H. Gurney
THE REINVENTION OF RETAIL BANKING

THE ONGOING GLOBAL FINANCIAL CRISIS CONTINUES TO DOMINATE TODAY’S HEADLINES.
And, for years to come, the financial industry will be dealing with the repercussions. Heightened government regulation, transparency at many levels, and consumer distrust present some daunting challenges that will require the banking industry to reinvent how it does business.

So how does the financial industry go about turning these challenges into opportunities? Technology. Not only can technology enable this transparency, its adoption is essential to meet the expectations of a new generation of hyper-connected banking consumers.

Mobile consumers are radically impacting the industry. The expectation of anytime, anywhere access to information and services is redefining how they interact and transact with financial service providers.

This trend is also dramatically boosting access to consumer data. By being proactively transparent in how they handle this data in the future, banks will be able to rebuild consumer trust. And with renewed trust comes confidence, preference, and opportunity in the form of increased transactions and loyalty. Additionally, access to this data will allow banks to refine the ways they assess consumer risk.

The financial industry is entering a new and exciting era as mobile technology reinvents the retail banking and payments space. By embracing transparency and technology, retail banks have the potential to open up a new wave of prosperity.

“BASIC RETAIL BANKING WAS, AND REMAINS, THE MAIN ENGINE OF PROFITABILITY. MCKINSEY, A CONSULTING FIRM, RECKONS THAT IT ACCOUNTS FOR MORE THAN HALF BANKS’ WORLDWIDE ANNUAL REVENUE, WHICH IN 2010 AMOUNTED TO $3.4 TRILLION.”1
EMBRACING TRANSPARENCY
REINVENTION ISN’T EASY, BUT THE REWARDS WILL BE SUBSTANTIAL

If the financial industry seizes this tremendous opportunity to change how it operates. Success will depend on seeing transparency as an opportunity instead of an obstacle. Financial institutions that take a positive approach to consumer data transparency and control will not only position themselves to meet regulatory challenges with confidence; they will transform their relationship with their consumers to one of mutual value.

PRIVACY AND DATA TRANSPARENCY ARE BIG CONCERNS FOR CONSUMERS WHO NOW WONDER: WHAT KIND OF DATA ARE FINANCIAL COMPANIES COLLECTING? HOW WILL THEY USE IT? ARE THEY SECURE AGAINST DATA BREACHES? AND WHAT LEVEL OF CONTROL DO I HAVE OVER MY OWN DATA?

Going forward, consumers will own their personal data. They’ll have the choice to opt in to share their personal purchase history, location information, social habits, and transaction preferences to get personalized products and services. But they won’t do it unless they feel confident that their information will be used in ways that are beneficial to them.

TRANSPARENCY HAS THE POTENTIAL TO BE A POWERFUL BUSINESS PRACTICE, BUT WILL REQUIRE THE INDUSTRY TO SHIFT HOW IT VIEWS AND HANDLES DATA.
SHIFTING PERCEPTIONS.

IT’S A SIMPLE FACT THAT SMARTPHONES AND TABLETS HAVE EMPOWERED A NEW GENERATION OF CONSUMERS WHO NOW EXPECT TO CONTROL HOW, WHEN, AND WHERE THEY ENGAGE AND TRANSACT WITH FINANCIAL INSTITUTIONS.

In turn, they will choose to do business with institutions that provide convenient, responsive, customizable, and relevant services over those that are undifferentiated and slow to adopt mobile technology. In the past, many financial institutions were not quick to respond to this shift in control, often ignoring the user experience when they released products and services. As a result, they came under siege from a new breed of nontraditional competitors, especially in the payments space.

TECHNOLOGY COMPANIES RANGING FROM HEAVY HITTERS LIKE PAYPAL AND START-UPS LIKE SQUARE HAVE CHANGED THE VERY NATURE OF HOW CONSUMERS PAY FOR GOODS. INTERNET SERVICES AND TELECOMMUNICATIONS COMPANIES ARE RAPIDLY EVOLVING AND USING THEIR TECHNOLOGY PLATFORMS TO PROCESS PAYMENTS AND DELIVER MOBILE WALLET AND MOBILE PAYMENT SOLUTIONS.

TO COMPETE IN THE PAYMENT MARKET, TRADITIONAL FINANCIAL INSTITUTIONS WILL NEED TO PROVIDE SERVICES THAT:

1. Deliver exceptional user experiences.
2. Leverage consumer technology.
3. Allow customers to engage on their own terms.
RADICAL INNOVATION

ULTIMATELY, IT’S THE USER EXPERIENCE THAT’S GOING TO MATTER MOST. UNLESS MOBILE BANKING TECHNOLOGY IS SEAMLESS, PERSONAL, AND EASY TO USE, PEOPLE WON’T ADOPT IT.

SMART AND INNOVATIVE TECHNOLOGY INVESTMENTS WILL ENABLE FINANCIAL INSTITUTIONS TO EMBRACE MOBILITY, MACHINE TO MACHINE (M2M), CLOUD SERVICES, ADVANCED COMMUNICATIONS, AND IDENTITY PLATFORMS. ONLY THEN WILL THEY BE ABLE TO PROVIDE:

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<td>1</td>
<td>A sophisticated omnichannel experience.</td>
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<td>Contactless payment and mobile wallets that integrate loyalty and reward programs.</td>
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<td>3</td>
<td>Closed-loop marketing analytics that deliver predictive experiences based on customer behavior across multiple channels.</td>
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<td>Advanced mobile banking and peer-to-peer payment applications.</td>
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<td>5</td>
<td>Multiservice kiosks and ATMs with video-based or near-field communications (NFC) technologies that recognize the individual user and tailor the experiences appropriately.</td>
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CONVENIENCE RULES

THESE DAYS, CUSTOMERS DON’T WANT TO GO TO A BRANCH FOR SIMPLE TRANSACTIONS. WITH MOBILE ACCESS, CUSTOMERS CAN “CARRY” THEIR BANK WITH THEM WHEREVER THEY GO. GOT A LOW BALANCE ALERT? NO NEED TO WAIT UNTIL YOU RETURN HOME TO TRANSFER MONEY; SIMPLY USE AN SMS SERVICE NOW TO PREVENT OVERDRAFT CHARGES FROM ACCRUING. CONVENIENCE HAS ALWAYS BEEN CRITICAL TO THE SUCCESS OF INTERNET BANKING.

Once people realize how easy it is to make and receive mobile payments using either SMS in the near term or contactless NFC applications in the future, this service will explode. It’s imperative that financial institutions pay attention to this emerging trend.

BANKS ARE ALSO STARTING TO SEPARATE OUT THEIR SERVICES.

SMART ATMS AND INTERACTIVE KIOSKS THAT CAN

1. PROCESS INQUIRIES
2. PAY BILLS
3. PRINT OUT DEBIT CARDS
4. TRANSFER MONEY

AND MORE ARE STARTING TO BE ROLLED OUT AT CONVENIENT LOCATIONS CONSUMERS VISIT DAILY, SUCH AS GROCERY STORES AND MALLS.

This trend will allow retail banks to support fewer branches that can focus on high-value, high-margin services like mortgages and financial planning.

MOBILE CONSUMERS ARE RADICALLY IMPACTING THE BANKING INDUSTRY.
Mobile Payments—The Global Wave of the Future

Across the globe, smartphone usage is just starting to ramp up. Double-digit growth in smartphone adoption is expected to continue well beyond 2020. The key question going forward will be: Who gets to control the payment mechanisms?

The runaway success of M-PESA, GCASH, and other mobile money solutions in developing economies shows that nonbanking consumers have bypassed traditional banking models and have fully embraced mobile banking and payment tools.

60% in Many African Countries

Remote banking through handheld phones has advanced faster in Malawi, Tanzania, and Nigeria than in the U.S. and in Europe. In many of these African countries, fewer than 15 percent of the adults have bank accounts, while over 60 percent have a handheld phone capable of collecting and moving money.²

86% in the U.K.

The number of smartphone users accessing their bank accounts via mobile device rose 86 percent in the past year.³

11.5 Million in Kenya

In Kenya, prior to 2006, the only way you could bank was through four major banks, which had 3.5 million customers and 750 branches across the country. Then M-PESA came on the scene. It now has 11.5 million customers and 18,000 outlets (or branch equivalents), and handles more than 10 percent of Kenya’s GDP.⁴

32.5 Million in the U.S.

In the developed world, technology leaders such as PayPal, Facebook, Square, VeriFone, and others have already launched themselves into the mobile payments arena, also upending traditional business models. Competition in this space will only intensify over the next decade, as everyone vies for a slice of the mobile transaction pie.

In the U.S., used their mobile devices to access banking information last year—an increase of 21 percent from 2010.⁵

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THE PHOENIX RISING
THE REALIZATION THAT BANKS NEED TO COME TO THE CUSTOMER, AND NOT THE OTHER WAY AROUND, IS GROWING STRONGER.

IN TURN, FINANCIAL INSTITUTIONS ARE RAPIDLY BUILDING THEIR ONLINE AND MOBILE BANKING SERVICES TO MEET THIS DEMAND.

Banks that get to know their customers’ preferences, and provide them with a seamless, mobile, and transparent banking experience, will be rewarded with renewed trust, loyalty, and increased profits.

It’s all going to come down to giving people what they want: secure banking services at their convenience.

Rising from the ashes of the financial crisis will be a stronger banking industry, one that is more transparent, more connected, and more accessible. Most important, it will be more open to finding new and innovative ways to reach and influence its customers.

THINK FORWARD.

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ABOUT THE AUTHOR
As Global Managing Director of Verizon’s Financial Services Practice, Chandan Sharma is responsible for Verizon’s financial services industry strategy and solutions for banking, financial markets, payments, and insurance sectors.

5 “US Mobile Ad Spending Forecast,” eMarketer.