How to Enhance Trust and Fairness in Banking

By Debashis Kar HSBC Bank PLC, Dr Thomas L Hager IBM, Madhur Jain SunTec Business Solutions

The stakes around trust are higher than ever as customers demand personalized financial services, fairer prices, and greater visibility into fee structures. Banks that respond quickly to meet these needs will be the ones to watch, said Debashis Kar, Director, Pricing and Billing, GLCM Global COO, HSBC Bank PLC, Dr Thomas L Hager, VP, Banking and Financial Markets Europe, IBM, and Madhur Jain, Senior Vice President, Solution Consulting, SunTec Business Solutions in a recent webinar.
Customer trust is arguably the single most valuable currency for any organization, particularly banks. Institutions with high levels of trust tend to enjoy better credibility and customer loyalty. However, building and sustaining that trust can be quite challenging, especially in the face of increasing customer expectations, regulatory scrutiny, and fierce competition.

Today's customers want more than just a place to keep their money safe. They expect ease and convenience in their financial transactions. They want banking products and prices that are tailored to their needs. And if banks can't satisfy those demands, there's a growing ecosystem of fintechs who can.

Meanwhile, regulators are upping the pressure on banks to demonstrate that they do have their customers' best interests at heart—be it in how they price their products and services, or how they secure customer data.

Looming large against this backdrop is COVID-19. Commenting on its impact, Madhur Jain said, "A common concern is that when the world emerges into a 'new normal,' the way of banking is likely to have changed. Developing and retaining trust in this new era will require banks to make fairness and transparency fundamental to customer interactions, while also leveraging digitalization to enable more personalized customer experiences."

We take a look at each of these factors in the following sections.

Trust is built from the inside out

Truly successful banks are those whose commitment to customer trust is embedded deep into their DNA. It underlies everything they do—right from building products, to defining pricing and billing models.

The latter is particularly relevant. Ten years ago, pricing and billing were simply operational activities. But today, they're key strategic enablers and competitive differentiators. How a bank prices its products, and discloses its fee structures can make all the difference to its success.

"There are two key pillars to reinforce trust in pricing and billing," said Debashis Kar. "The first is *fairness* in pricing—ensuring that banks aren't over-charging for their products and services. The second is *transparency* in billing—providing customers with full visibility into what they're paying for and why."

Fairness in pricing is about treating customers responsibly, and avoiding discrimination. It's about ensuring that different consumers aren't paying different prices for the same product.

The market-making of a price can occur at the level of a customer segment, or at the individual customer level itself. Whatever the approach, banks need to be able to demonstrate to regulators and customers that their pricing is fair. The idea isn't just to comply with legal obligations, but to actually embody the "spirit" of fairness.

There are various ways to go about that:

1. Implement effective governance, oversight, and controls around pricing models

2. Ensure that the pricing system and operating model are carefully thought through

3. Train employees on pricing systems, as well as their own duty of care to customers

4. Establish a strong tone at the top where the leadership team demonstrates a commitment to fair pricing

When it comes to transparency in billing, banks need to be able to disclose fee structures clearly to customers at all relevant touchpoints. Transparency can be measured by various yardsticks, including customer expectations, customer complaints, and regulatory requirements, as well as the potential for harm and the nature of the service being offered. These qualitative metrics, along with quantitative ones can help banks benchmark their efforts at transparency.

Fairness and transparency will underpin new banking models

COVID-19 has introduced multiple challenges for the banking industry. Downward interest rates, reduced economic activity, and structural shifts are keeping many a banking CEO up at night. But there are a few silver linings as well.

For instance, the pandemic has accelerated digital transformation, opening up new opportunities for banks to optimize costs and revenue. Meanwhile, the way consumers transact is evolving—right from their banking channel of choice, to the funds they choose to invest in. This shift has brought in more avenues to engage with customers.

As banks respond to these opportunities by developing new business models, fairness in pricing and transparency in billing will be more important than ever. Each bank has to develop its own framework for fairness and transparency depending on its structure, strategy, products, financial models, and of course, regulatory requirements.“If a bank can remain true to that framework; if its staff have a strong duty of care towards customers; and if pricing models are thoughtfully designed, customers will respond positively,” said Kar.

Digitalization will be driven by trust, service, and economics

Digitalization has changed the dynamics of banking forever. Cybercrime is on the rise. Customers want more personalized digital experiences, and have zero tolerance for poor service or products. Meanwhile, the Payment Services Directive (PSD2) and trend towards open banking, is reconfiguring business models, while also altering how value is delivered and captured.

As banks deal with these changes, there are three key drivers to consider:

Trust. “Cyber-attacks on customer accounts and personal data put trust at risk. And once banks lose their customers’ confidence, they don’t get it back,” pointed out Dr Thomas L Hager. Therefore, it’s imperative to maintain unbreakable customer trust by ensuring a strong data governance foundation with several levels of encryption.

Service. Consumers today are digitally savvy. They’re using non-traditional methods to interact with banks, and they demand superior service. Banks that are able to meet these expectations, and cater to the empowered customer through personalized experiences, frictionless service, and zero failures will stand to gain.

Economics. In the face of digital transformation, the economics of banking are evolving. Banks are now focused on innovating their way to higher products by (a) doing more with less, (b) establishing ecosystems to buy and sell services, and (c) making core platforms more attractive for developers.

Banking priorities will evolve from simple product provisioning, to orchestrating an experience-based ecosystem

As digitalization deepens, banks will move from their traditional branch based and online banking approaches, to a more ecosystem-driven model where they can actually deliver more value to customers.“The objective will be to create a secure, experience-based ecosystem of financial products & microservices that can help customers realize their lifestyle ambitions,” explained Dr Hager.

With this shift, banking infrastructure will also change. Traditional banking systems were architected for transactions, and optimized for availability and stability. But the new banking hybrid cloud will be architected for disruption, and optimized for speed and agility.

To enable a successful transition to this new banking model, there are three factors to bear in mind. One, take your people along because digital transformation is ultimately a cultural shift. Two, don’t increase complexity—reimagine your IT landscape with simplified processes. Three, enable a gradual shift – approach the transformation step-by-step with testing and controls at each stage.

In a COVID-19 era, the need for digital transformation has only increased. Some banks are making their core more lean and agile, so that they can innovate faster and better. Others are focusing on what will truly differentiate them—for example, delivering the best possible customer service—while outsourcing other non-differentiating processes. This approach helps them free up time and resources to concentrate on the customer interface by enhancing online customer onboarding, or introducing new services.

Ultimately, the experience-based ecosystem is an opportunity for banks to build faster, more efficient, and more seamless customer journeys that strengthen customer loyalty.

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Trust has always been the cornerstone of banking relationships. But reinforcing that trust in a world that's constantly changing and being disrupted—is where both the challenge and opportunity lie. It will be interesting to see how banks respond both in a COVID-19 era and beyond.

For more insights, watch the webinar "Reinforcing trust and enhancing fairness with transparency and personalized engagement."

Debashis Kar

Debashis Kar is the Director of Pricing and Billing for HSBC. He heads this function of GLCM globally and is responsible for ensuring pricing fairness and transparency through the bank's governance policies, systems and structures for all GLCM products and services. He has worked with major banks in UK and USA in a variety of roles across different transaction banking product areas. He is passionate about delivering compelling propositions for customers that drive sustainable revenue through cost and value-based pricing strategies.

Dr. Thomas L. Hager

Dr. Thomas L. Hager is the Vice President of Banking & Financial Markets Europe. He currently leads this segment for IBM across Europe, supporting both the day to day client operations as well as initiating and collaborating with them on profound transformational activities. Prior to this role, Dr. Thomas led platform business development in banking and financial markets and served as Managing Director for large global Banks, Wealth Managers and FIs including, Deutsche Bank, Bank of China and UBS.

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Madhur Jain is the SVP & Global Head – Solution Consulting of SunTec Business Solutions. He has 25 years of experience with specialization in the Financial Services industry with specific focus on Cross Industry Convergence, Open Banking & Monetization, Digital Transformation, Business Innovation, Customer Centricity and Customer Experience Management.