

Digital Fluency: The Lingua Franca of Retail Banking in the New Normal

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The global pandemic and resultant restrictions in mobility have impacted all industries, and banking certainly has not been immune to the crisis. In fact, the COVID-19 pandemic exposed and shone a spotlight on the banking industry's distribution, digital banking, and channel shortcomings. It drew attention to the industry's dependence on bank branches where more than 60% of a bank's expenses is associated with maintaining a bank network to service customers; the missed opportunities with digital banking where large investments in digital technologies have failed to deliver tangible results; and the warp-speed at which consumer's banking behaviors can shift as millions swarmed mobile and digital channels – many for the first time – for everything from payments to account opening activities.

Banks must acquire a new level of digital fluency if they want to successfully reshape their branch network optimization, omni-channel, and digital strategies for the new normal. They must consider critical concepts like agility and resilience in distribution, and accurately define and deliver 'best-in-class digital' if they want to successfully acquire and retain a loyal customer base in the post pandemic scenario.

The Customer Wants It All and Intends to Get It

Surprisingly, the pandemic did not lead to the demise of the bank branch.

In a recent study on post-pandemic banking behaviors, Simon Kucher & Partners found that a majority (54%) of respondents said they would "only" open a new account with a bank that had physical branches. Only 3% of respondents said they were okay with a digital-only banking relationship. Similarly, when asked what they would do if their bank branch shut down temporarily, more than a quarter or 26% of respondents said they would take some or all their business to another bank. What if their bank branch was to shut down permanently? As many as 65% of respondents said they would take some or all of their business to a competing bank.

However, the Simon-Kucher Resilient Distribution Strategy study also found that the post-pandemic bank customer is unlikely to stay with a bank that had meagre digital offerings, and they would switch banks if another institution provided them with a better digital experience.

Customers are saying they would like both digital capabilities as well as traditional channels. Banks need an amalgamation of the two. In other words, banks need to step up and optimize their omni-channel and branch strategies in a systemic manner to meet growing customer expectations.

The increase in digital and mobile banking behaviors will stick post-pandemic. In the survey, Simon-Kucher found that if their primary bank offered them best-in-class digital capabilities, customers said they would be willing to travel longer distances to their bank branches (an average of 31% increase in travel time for urban customers and almost double at 72% increase in travel time for suburban/rural customers.)

The implications of these findings to bank's operating costs are substantial. Investing in best-in-class digital services means a potential 42% reduction in branch density in urban and 66% reduction in suburban/rural branch density.

Go Digital? The Time to Ask Is Gone

When it comes to digital, the question for banks is not whether it is needed, as the customer response to the survey is loud and clear. It is about the degree and depth to which digital adoption should be embraced within banks. The conversation, thanks to the crisis, has turned to important practices like how to build in resilience and become agile. There is no one-size-fits-all solution on how to use, manage and promote products and services optimally. However, the expectation and need are to deliver this through a necessary combination of traditional and digital capabilities.

Mindless digital investments will only prove detrimental, so digital strategies in the post-pandemic era need to be re-thought and only then implemented. Innovations only at the distribution level and spends only at channel levels are just half the digitalization story. For the picture to be complete, banks need to transform and become truly digital – encompassing systems, processes, people and how data is gathered, analyzed, and used.

When digital is at the core of the bank, processes can be streamlined to ensure better customer experiences. For this, data must be treated as the critical asset it is – a prerequisite to develop the ability to respond to customers in a personalized manner. Keeping data at the center of the decision-making process enables the organization to analyze and offer choices that keep customer needs in focus. In other words, a happy result when digitalization penetrates all aspects and systems within organizations. It is only in embracing digital in its entirety that resilience and

agility can be built. Going further, it is the ideal way to measure and optimize value delivered to the customer and other stakeholders.

The current bank behavior is a tendency to force fit digital strategies on to existing legacy systems that may or may not be thought through. What works better is a digital core that works with prevailing systems; this then builds the necessary agility and resilience to access, analyze, and deploy relevant data therefore helping address any unforeseen market crisis.



Creating the Right Infrastructure to Ensure Customer Focus

Legacy systems are typically structured in a siloed fashion making personalization limited, difficult or both. The use of data to enrich user experience translates to immense possibilities to customize products and services closer to customer expectations. This is where the digital core comes into play – it consolidates and analyzes the necessary data to drive the digital strategy holistically. With a core that is far more intelligent and agile, the result is a level of choice, personalization, and transparency in customer engagement where finally the customers can drive the relationship.

What is clear from the study and the ever-changing dynamics in the market, is that the customer must be at the front and center of a banks' digital transformation strategies. When customers interact with their banks and judge performance, they

are not just doing this at the product or benefit level. They are bringing their collective experiences with other sectors across platforms. Hence the criticality of the digital piece in strategic thinking and decision making. Banks will of course need to be best-in-class at their core offerings – but they should also orchestrate a set of partners or partner capabilities to deliver what today’s customer needs and expects. The focus, therefore, will need to be on hyper-personalization of products, offers and bundles.

Putting the customer at the center, letting them drive the relationship and offering them the digital capabilities to easily access and engage with the various available touchpoints make for better customer experiences and therefore greater loyalty. The perfect partner in this consistent endeavor to personalization is data and using it wisely will be the key to driving engagement. The true change and, therefore, value banks can bring about through their digital strategy is to not stop at the distribution level but let a digital mindset percolate holistically across the organization.

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