

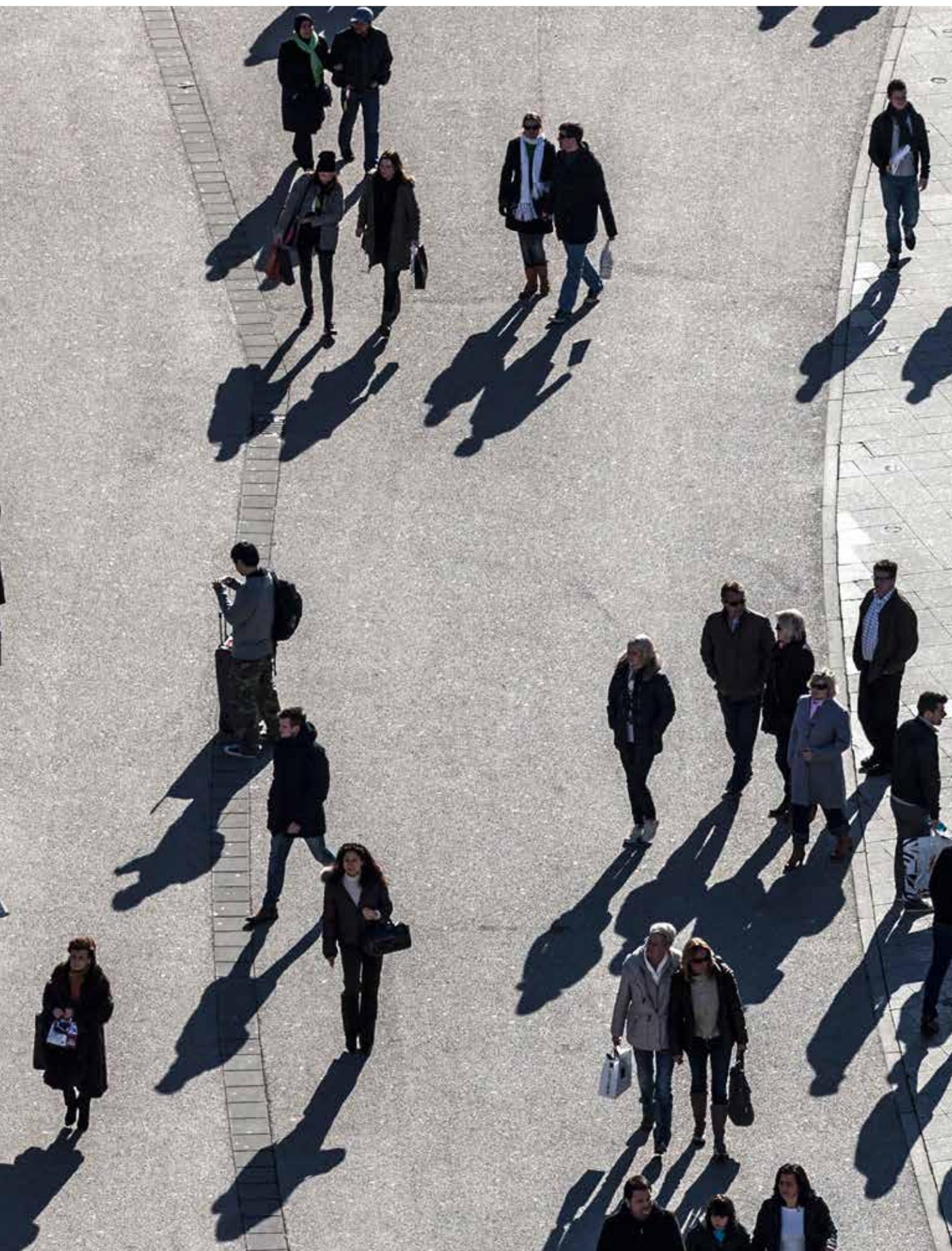
Efma & Backbase present

# Omni-channel banking

The digital  
transformation  
roadmap

 **BACKBASE**

 **Efma**



Efma & Backbase present

# Omni-channel banking

The digital  
transformation  
roadmap



## Preface

Customer behavior is changing. New challengers in the financial space are fighting for a piece of the market, and they're fighting for customers of their own. It's clear for everyone that delivering a truly omni-channel experience is more important and more relevant than ever before. But how can financial institutions achieve this and acquire the right tools to effectively compete?

This report presents selected results from a survey of more than a hundred C-level bankers from across the globe, who agreed to answer a series of questions about the current state of the financial services industry, as well as what the future holds. We wanted to further understand the financial landscape from a traditional banker's point of view, and from new angles according to regional differences.

We believe this data will offer a revealing insight into what traditional banks think, and what they need to do to stem the tide of change and embrace innovation.

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## Executive summary

The financial services market is going through many changes. New challengers have appeared and are looking for a slice of the market. In addition, customers are more demanding and more informed, expecting convenience and simplicity when it comes to financial services, particularly online and via mobile devices. People love digital services such as Netflix, Amazon, and Uber because they're easy to use and deliver great customer experiences. They deliver 10 times more convenience and better customer experiences than the status quo, and are therefore winning the market. It's only a matter of time before the 10-times-better bank is founded, a thought that's on the radar of every banker.

This brings us to this report by Backbase and Efma – *Omni-channel banking: The digital transformation roadmap* – which outlines the journey of creating the 10-times-better bank, providing a detailed analysis of how banks can begin their digital journey.

The report is based on the Omni-Channel Banking Survey conducted by Backbase and Efma, and completed by more than a hundred C-level bankers from across the globe. The report also contains the findings from more than 15 interviews with bank executives, as well as the *7 Habits of a Highly Successful Digital Bank*, written by Roberto Ferrari, general manager of CheBanca!, the No 1 digital bank in Italy. The report highlights five important takeaways:

### **New competitors in banking: The disrupters**

Discover how and why the market is changing – how it's driven by customers, and by tech companies, startups, and neobanks.

### **Customer experience: The key ingredients**

Understand how customer loyalty and retention is affected by a mix of superior digital experiences and human interaction, and how delivering this mix is the primary challenge.

### **Omni-channel and the changing channel mix**

100% of the banks in the survey results rate the creation of a seamless omni-channel experience 'important' to 'extremely important'.

### **Mobile's impact on online sales and share of wallet**

Customer behavior is affecting the channel mix and revenue generation. The survey results reveal that mobile channels record the highest increase in revenue generation.

### **Regaining control in the era of digitization**

To succeed in the market and beat the disrupters, banks should regain control of business strategy, and be able to build and deliver unique experiences with their customers.

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*Throughout this report you will find excerpts from '7 Habits of a Highly Successful Digital Bank' written by Roberto Ferrari, the CheBanca! general manager.*

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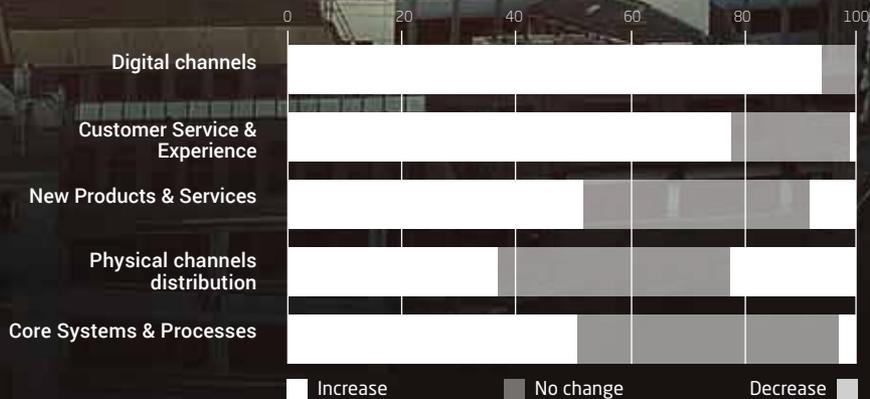
*Launched from scratch in 2008, CheBanca! is a new generation of multi-channel and digital bank. In 2013, 2014 and 2015, CheBanca! was recognized as being the best digital bank in Italy. Roberto Ferrari has decided to share the habits that make a successful digital bank.*

*'7 Habits of a Highly Successful Digital Bank' was first published on The Financial Brand (<http://thefinancialbrand.com/51854/digital-banking-success-strategies/>). Some minor changes have been made to reflect this report's style considerations.*



① How would you rate your bank when it comes to innovation?

② How is your bank investing in 2015?



# Who is the innovation leader in banking?

"You can only blame yourself if someone else is smarter."

---

*Karlis Mikoss,  
branch channel manager, SEB*

## **We asked our survey respondents how they would rate themselves with regards to innovation.**

Their answers reveal that most banks don't see themselves as leaders when it comes to innovation, with more than half of respondents classifying themselves as 'followers' or 'fast followers'.

Historically, banks have arguably felt more comfortable being second or third in regards to being innovative, but definitely not first. Times have changed. With the digital-native customer, a younger demographic and various threats of digital disruption, banks are beginning to improve.

This is reflected in the results, which show that 36% of respondents now classify themselves as a 'leader' when it comes to innovation, which is a great leap forward over previous years. This shift in self-perception reflects a change in market economic conditions, a realization of the importance of innovation in banking, knowledge of the threat from technology firms, and the fast growth of banking innovation in developing countries. It also reflects an awareness of the increasing demands of consumers, who are banking more via digital channels.

© \_ Most banks are followers when it comes to innovation.  
Source: Efma and Backbase survey (2015).

© \_ Digital Channels, followed by Customer Service & Experience to get more budget in 2015.  
Source: Efma and Backbase survey (2015).

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This confidence has led to increased budgets for digital channels, as well as customer service and experience (more than 90% of respondents chose digital channels as a future area of budget increase). The survey reveals that budget increases for digital endeavors, at least for most financial institutions, will come from physical channels.

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7 Habits of a Highly Successful Digital Bank \_ By Roberto Ferrari, general manager at CheBanca!

# #1

## Work with fintech startups

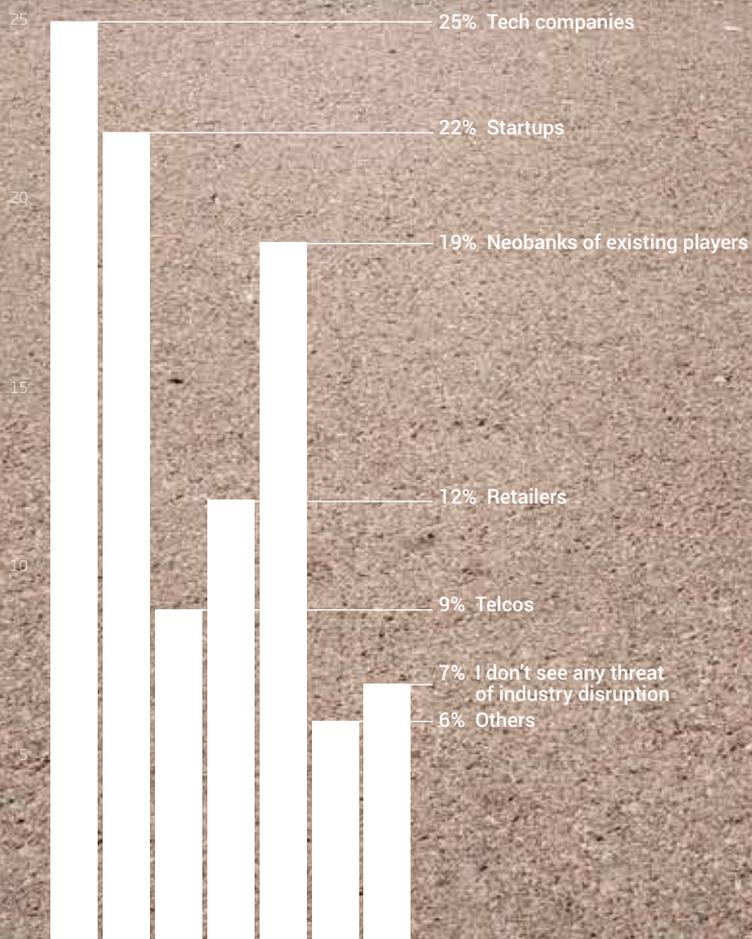
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Incumbent banking organizations need to streamline their operations and narrow business and product development focus. They can't be all things for all people, but instead need to cut oversized operating and distribution costs.

There will continue to be smarter and faster players in a better position to deliver state-of-the-art vertical solutions and user experiences ... eating away at the edges of incumbent organizations. With regards to fintech startups, it may be better to partner than to compete. In other words, part of the product/service development of a successful digital bank should be outsourced.

As with many of the '7 habits', this is a complete change of mindset. It's not just about setting up an incubator or even a \$100m VC fund. It's about integrating third party customer solutions into your offering. Or, if you want and can, it's about buying them entirely and having their solution as a key part of your own business proposition. An example of such a partnership in the US and overseas is Apple Pay.





③ When it comes to industry disruption, who or what do you see as the biggest threat? Please choose your top 3.

# New competitors in banking: The disrupters

“Neobanks, startups and tech companies are a threat to financial companies, but they’re not the biggest. The biggest threat is ourselves. Banks are not spending enough time innovating. We are making ourselves irrelevant to tech-savvy customers.”

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*Alex Jimenez,  
SVP, digital and innovation, Rockland Trust*

© \_ Biggest threat of industry disruption will be from tech companies, startups, and neobanks.  
Source: Efma and Backbase survey (2015).

## **Typically, industry disruption occurs faster than anyone anticipates.**

Let’s use Uber as an example. Was the taxi market ready for disruption? Perhaps it was, but nobody was arguing for it as strongly as those who are now chanting for disruption to financial services. Uber is booming, and rumour has it that it’s moving into banking. Yet, the current ‘Uber of banking’, Lending Club, is getting even stronger. Lending Club went IPO in December 2014, opening with a 56% increase in share price, giving it a \$9bn valuation, ‘lifting the company’s market value higher than all but 13 US banks’.<sup>[1]</sup>

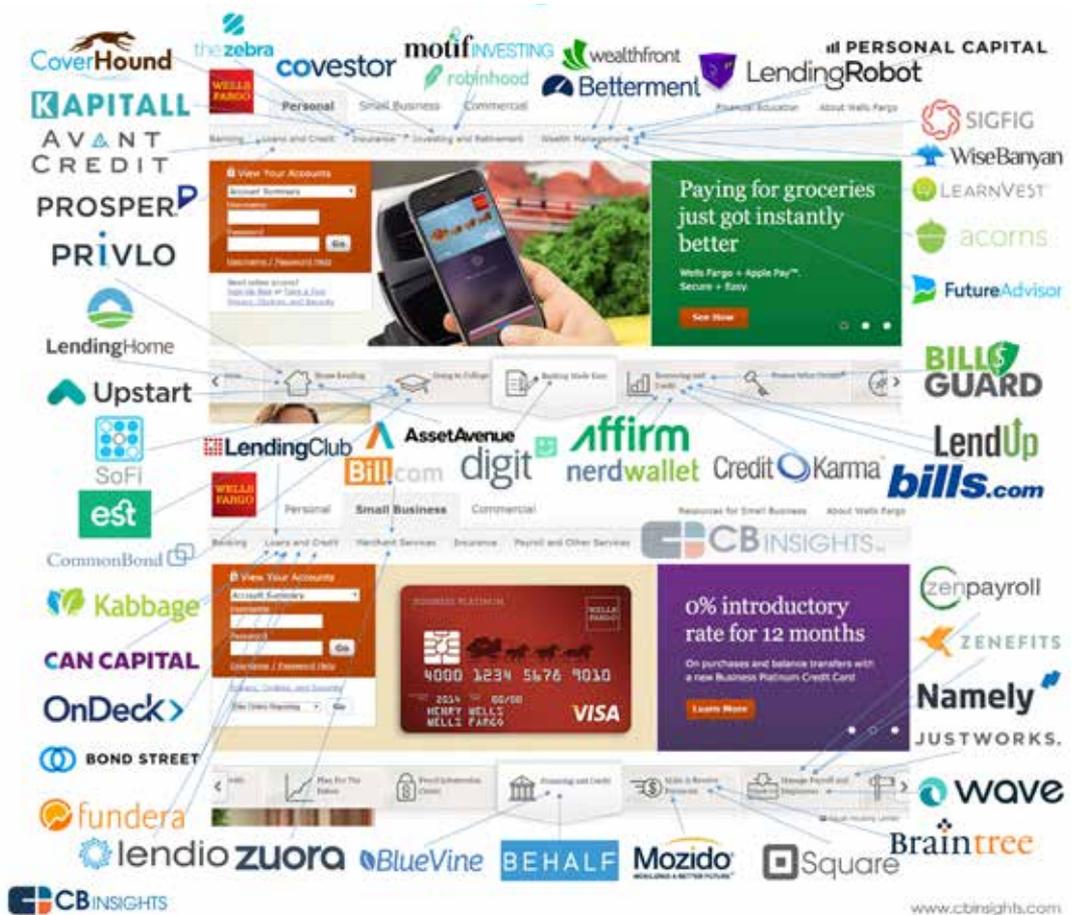
Fintech companies in 2014 raised nearly \$3bn, more than tripling the \$930m invested globally in fintech in 2008, and it’s growing for a reason. They see opportunities to win from existing players, especially from traditional banks. This is because the new players can do digital 10 times better than the status quo.

Banks are increasing their innovation efforts and digital investments because the market is moving, driven by customers, but also by outsiders entering the financial space. The biggest threat of industry disruption is coming from tech companies, startups, and neobanks. However, Alex Jimenez’ quote at the top of this page suggests a different threat.

## Unbundling of a bank

This is a widely used image that brilliantly captures the disruptive climate of banking, where new fintech companies are taking business from traditional banks.

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The survey results confirm that tech companies are leading the list of industry disrupters. Apple holds the most consumer credit cards, globally, and is rapidly expanding its iTunes ecosystem and Apple Pay payment network. Google continues to experiment with its own mobile wallet and is making it easier to send money via Gmail. Meanwhile, PayPal is handling more international transfers than the top five banks combined, and Facebook and Amazon are also looking for a piece of the market.

Alongside these giants of technology, startups are flourishing. For every product and service from a traditional financial institution, there are dozens (if not hundreds) of fintech startups competing for a share in their very own niche, and most of the time with a digital-only focus. Non-bank challengers are operationally built for continuous innovation, and frequently upgrade their arsenal of IT tools, strategies, and skilled personnel.

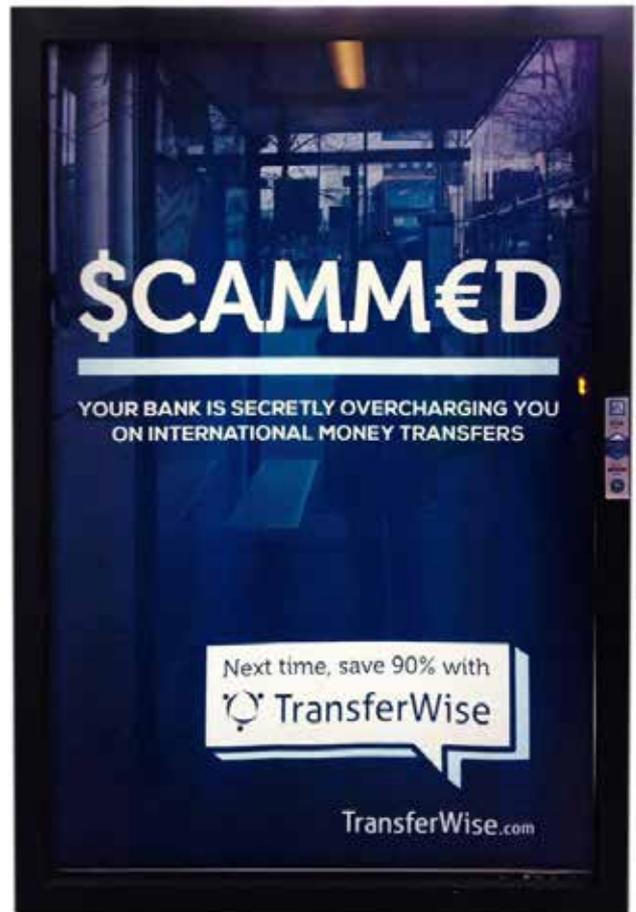
"I don't consider disrupters as threats. I see these as options for the consumers and it challenges the banks to do better. In this day and age, every new technology or idea is an innovation. We should applaud such innovation, as it makes life more colorful. Ultimately, it's for the benefit of the consumer."

*Alain Boey*

*SVP/head of transformation,  
Bank Simpanan Nasional*

A market up for grabs?

TransferWise aggressively pushing its alternative in London, UK.



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They leverage the existing banking and payments infrastructure and maintain a narrow focus on their value-added offerings by virtue of the marginal role they play within this infrastructure. They are often more agile and efficient, launching updates with remarkable speed. For example, Adyen, a payments technology company that recently raised \$250m at a \$1.5bn valuation <sup>[2]</sup>, releases updated payments software every two to three weeks. Non-bank challengers also serve their customers much faster: Square and PayPal enable merchants to begin accepting payments within a day, which is almost a week faster than most banks.

According to Accenture research <sup>[3]</sup>, 35% of banks' market share in North America could be in play by 2020 as traditional branch banking gives way to new, digital

players. To combat this shift, some institutions may take a radically new approach to distribution, combining a simpler, yet more comprehensive branch offering with integrated digital services. Alternatively, some firms may acquire some of these new technology startups to improve agility and reduce risk.

According to Ernst & Young <sup>[4]</sup>, the good news is that consumer confidence in the banking industry is on the rise, with 93% of survey respondents reporting moderate or complete trust in their banks. Likewise, 77% of customers are satisfied enough with their banking relationship to recommend their primary provider. Moreover, the global economic recovery appears to be taking hold, and banks are among the beneficiaries.

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The challenge, however, is that an increasing number of financial service providers are competing for the same customers. Emerging technology and the increasing use of mobile devices for banking and payments are making it easier for new entrants to exploit areas of dissatisfaction and underinvestment. Customers have more options than ever and do not view banks as having a significant advantage over newer types of banks and technology companies, even when it comes to financial advice.

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The image <sup>[5]</sup> on page 12 was trending among fintech professionals at the end of 2014. It revealed how every product line of a bank was under attack by startups. We often refer to these companies as fintech startups, but they're growing quickly. Lending Club went IPO in December 2014 and the market cap is now \$6.84bn <sup>[6]</sup>. It's the same for Wealthfront, with over two billion assets under management, making it the same size as a regular bank.

Many fintech challengers offer viable alternatives to consumers on specific banking use cases, but they don't offer a one-stop-shop banking experience, which is what most customers demand. Yet, challengers move fast because they have the right tools to expand and invest in marketing, and they understand (and win) when it comes to digital.

Finally, neobanks. We see two categories: startups that truly want to become a bank (like Simple or Moven), or neobanks founded by traditional FIs. So far, the likes of Simple and Moven have proved unsuccessful in winning a significant number of customers. Simple has been acquired and is now the digital part of BBVA, while Moven is moving towards a technology vendor role in reselling to FIs around the world. Neobanks that are founded by traditional FIs can innovate quicker than their counterparts and reach a new (mostly millennial) audience. Examples are Touch Bank by OTP Group, or Hello bank by BNP Paribas.

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Recommendation:

## Beat them at their own game

Fintech startups, technology companies, and neobanks are after a piece of the market, and their differentiator operates at a digital level. 'Going digital' requires a fundamental change in how banks and credit unions learn about, interact with, and serve consumers. The key for existing FIs in retaining market share (and customers) is to beat the disrupters at their own game, and they can achieve this by becoming a disrupter themselves, and by rethinking their digital strategy. This means focusing on four key points:

- 1/ Start with the customer experience.
- 2/ Pursue an omni-channel delivery model.
- 3/ Make mobile the key growth channel.
- 4/ Regain control over digital strategy.

The most important step is shifting the strategic focus so that the customer is always the first thing you think about, not the channel. Traditional banks still think in silos, but customers don't. FIs should deliver seamless, ubiquitous, instant experiences that are transparent, personal and relevant. Successful digital transformation begins with an understanding of digital consumer behavior, preferences, and choices

7 Habits of a Highly Successful Digital Bank \_ By Roberto Ferrari, general manager at CheBanca!

# #2

## Be a challenger

Challenge your own business model and your traditional way of working. Firms that failed to challenge their incumbent businesses include Kodak, Blockbuster, Nokia, Blackberry and many others. Incumbent managers and organizations tend to defend their own profit sources, and their well-proven (in the past) business models.

Financial service barriers to entry are falling and newcomers are already making inroads, encroaching on traditional lines of business. While the size of newcomers may look small and banking may still feel safe, you need a long-term competitive perspective. This is a business revolution, not just a technological evolution.

It's time to start thinking about ways to evolve your business model ... speeding up innovation and behaving like new entrants. If you were a fintech, how would you behave? What business model would you build to destroy an incumbent? How would you attack the most profitable sources of your business? Use a challenger mindset if you want to survive in the long-term.

across channels and devices, complemented with an agile strategy and lean IT stack that enables customer-centric innovation. A strong digital focus enables FIs to make digital a core competence, helping them to lower their cost-income ratio (less branch, more digital), and maximize their top- and bottom-line earning potential.

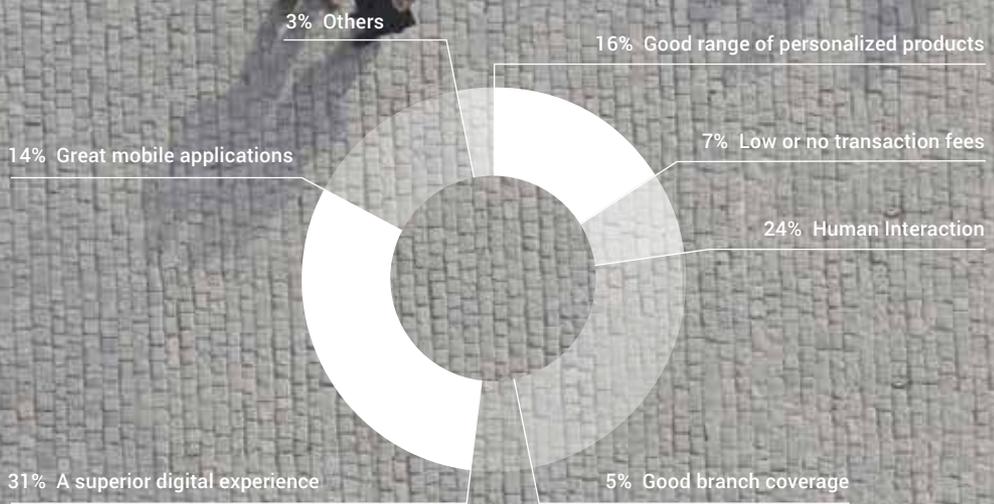
“Disrupters are a big threat because they are a facilitator of the attention and interests of the customers. They are more capable of innovation, and better at anticipating customer behavior. These companies are putting banks in the position of obsolete operators as far as customer experience is concerned.”

*Riccardo Becagli,*  
head of customer development at Hello bank

④ What are the biggest roadblocks when improving customer experience?



⑤ What are the most important factors to maintaining customer loyalty and retention for your bank?



# Customer experience: The key ingredients

“For a long time, the banking industry has been thinking that we can decide how the customer will interact with us. But the plans for human or digital interaction should be outside-in – the optimum mix will be pushed by the customer. The customer will decide.”

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*Max Koszela,*  
*head of channel strategy, Swedbank*

④ \_ The top 3 roadblocks cited are long projects, organizational silos, and high costs.

Source: Efma and Backbase survey (2015).

④ \_ Customers want superior digital experiences, plus human interaction. These impact most on loyalty and retention.

Source: Efma and Backbase survey (2015).

**Customer loyalty and retention, two of the most important considerations in measuring business success, are created by combining superior digital experiences and human interaction.**

Banks need to improve customer experience, and digital channels have remained their best opportunity to achieve this. Many FIs know this, but still find it difficult to seize the opportunity.

These survey results show that traditional banks encounter many roadblocks (see fig 4), with lengthy project timelines and multi-year IT projects cited as common issues. Having too many silos doesn't help, nor does the maintenance of legacy applications, and the high costs of long, difficult projects. These hinder the journey to digital transformation.

Postponing the digital transformation journey is no longer an option, and FIs know it. 56% of survey respondents agree that a superior digital experience and human interaction are major factors for customer retention, and that these are important areas to focus on when nurturing customer loyalty and retention rates.(see fig 5)

In order to provide a seamless consumer experience, banks should bear in mind that customers probably

access their site through one of many different devices, so squeezing a full-size website into a mobile screen isn't a good idea. A visitor on a mobile phone is probably coming to the site for different reasons than someone on a regular web page on their PC, so banks should adjust the information and give them what they need and when they need it. On a mobile device, this is more likely to be an app or widget that uses GPS location services, so that a customer can locate a nearby ATM. People on the move will also expect to be able to do their day-to-day chores, such as find an account manager online and message them as needed, making purchases or transactions quickly and conveniently.

The time that a customer is willing to wait for the delivery of goods and services has shortened. We've been spoiled by social/mobile technology in terms of our expectations of the service cycle, so people don't necessarily want the cheapest product anymore – they want one that's consistent with the expected quality/price ratio.

Customers are increasingly asking for products and services tailored to them. Banks should be able to deliver what they're asking for, because they know more about their customers than ever before. They now expect to be part of the innovation cycle; the ability to contribute to the development of a product becoming part of the experience.

Recommendation:

## Start with the customer experience

Your customer comes first, but is this mantra clearly reflected in every department of your bank? For most banks, the concept of 'customer first' is the mantra most popular in the customer contact center, but it's not the focus when it comes to the rest of your organization. Too often, we see customer experience managers focusing on call centers, and the training of branch employees, but who's thinking about the technology side of things?

The shift in customer behavior reveals a more personal, relevant, 'anytime' customer journey, and it's a journey that begins more often on a mobile device. To deliver the best mobile experience, you need to do a lot of work on back-end systems. You need to change the stack. Your focus on network and hardware (and very little data and UX) should switch, so that your focus is now on UX and data (to deliver a personal experience). Hardware and network should become afterthoughts.

This is the only way to be able to truly start designing for moments of truth in an iterative approach – an approach that makes industry disrupters so successful.

Banks have a simplistic understanding of their customers and a vast, complex product set. Disrupters are turning this situation on its head, developing a more complete understanding of their customers and dramatically simplifying their product set, thus delivering a significantly enhanced customer experience with lower levels of operational risk. To emulate this approach, begin by understanding your customers' needs, and not fixate on products and pricing.

To make this happen, banks have to go through a paradigm shift. Traditional banks think inside-out; from the existing systems and processes that are mostly static and outdated. To truly deliver a superior customer experience and revolve around the customer, banks have

## #3

## Be customer-centric

This may sound obvious, but a) it's not always true for a traditional incumbent and b) it carries along some key components that are often under-evaluated. Being customer-centric means that you:

**Change your mindset.** You need to build a digital, customer-oriented culture inside the bank. Not just profits, but profits as a result of a successfully differentiated and long-term sustainable customer strategy. Marketing isn't just about spending, but should relate back to its original 'go-to-market' meaning.

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Being 'digital' isn't just something trending, but is going to be forever a core part of the organization. Implementations shouldn't be second level job execution, but must be smart, agile, smooth and consumer-oriented and designed. Start thinking about the right organization structure and interactions, with the right people to digitally lead the change with customers in mind. Find the right skills.

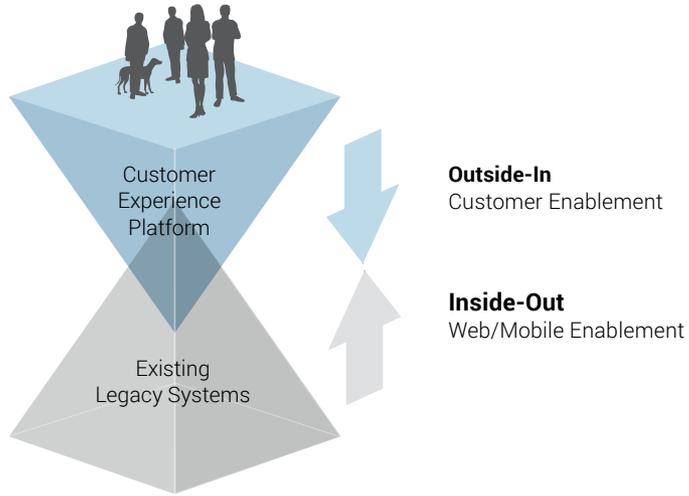
**Reengineer your business to consumer processes.** Start with the end in mind, using overall customer experience you want to achieve as opposed to starting from a legal and regulatory constraint perspective. This may sound impossible in an over-regulated industry, but if someone tells you 'this is impossible to do', you can always find a way.

In addition, you should inject a 'yes we can' culture. Engage your legal, compliance and risk managers upfront in the process and product design, making them work with others on the team towards the solution. They will become part of the solution instead of a hurdle.

**Win customer preference.** Don't start with market share or business objectives. Start with how to get the customer preference you need in order to achieve your business objectives, and make the objectives compatible. Competition will only become more intense going forward, so don't forget your brand image and values.

Trust is key in financial services, and trust is determined first of all by reputation (brand image and customer experience), which is becoming more digitized. Improving your reputation and satisfaction scores will bring you additional clients at lower costs. It's not enough to say that your bank is 'solid', or 'local', or 'global'. You need to work on your brand strategy to attract customers. This has to be part of your competitive advantage.

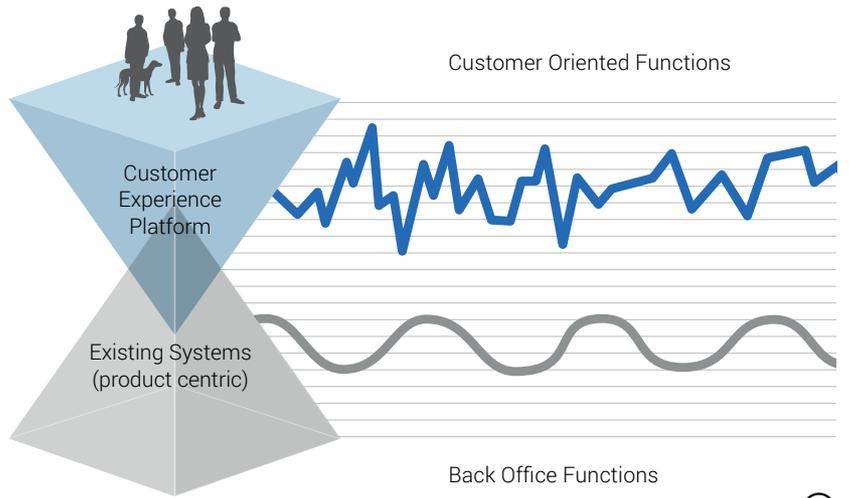
**A paradigm shift: the outside-in approach**



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6

**Cater for two innovation 'heartbeats'**



7

to switch from inside-out thinking to outside-in thinking, which means more from a customer's perspective instead of a product- or system-based perspective.

One of the biggest challenges for banks to achieve this is that their existing applications and IT systems are extremely fragmented and siloed, making them difficult to change, hence hard to create the outside-in experience. To overcome this challenge, FIs need to

apply a new customer experience platform on top of their existing systems, which can seamlessly combine ingredients from different systems into an effective, omni-channel customer journey.

Another benefit of a separate customer experience platform on top of an existing system is the ability to cater for a faster-moving customer, or digital 'heartbeat'. The image shows a slow heartbeat for

existing systems and processes. Most FIs have too slow a heartbeat for keeping up with customer demands and expectations, and this is no surprise.

KPIs for those teams responsible for back-end systems revolve around security, performance, and uptime guarantees. KPIs for those teams in front-end systems (the customer side) focus on increasing customer retention, share of wallet and customer experience in the form of a Net Promoter Score. Until now, it was almost impossible to mix the two worlds.

By introducing the loosely coupled customer experience platform on top of existing systems, the two 'heartbeats' can live next to each other. The bank's existing IT systems stay in place with their own change cycle and KPIs, while the customer experience platform delivers a faster change cycle to deliver on the new, customer-focused KPIs.

7 Habits of a Highly Successful Digital Bank \_ By Roberto Ferrari, general manager at CheBanca!

# #4

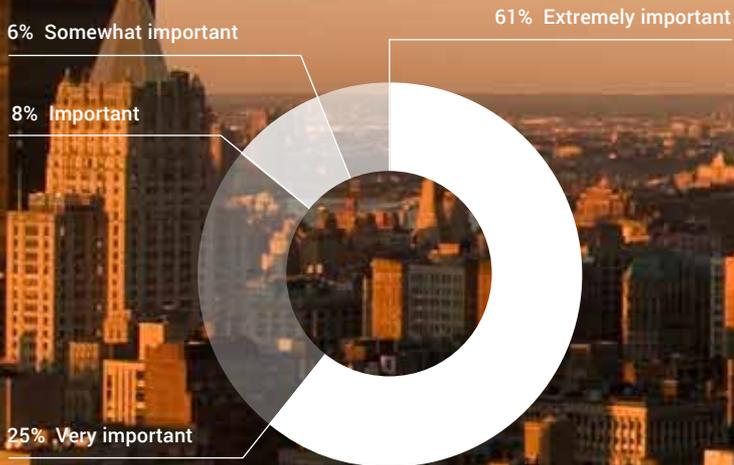
## Strive for a faster innovation planning cycle

Continuously improve by balancing and renewing resources for long-term well-being. Successful banks in the digital world need to do the same ... striving for continuous improvement and renewal. In order to do so, organizations need to get much faster in the way they learn, act and react.

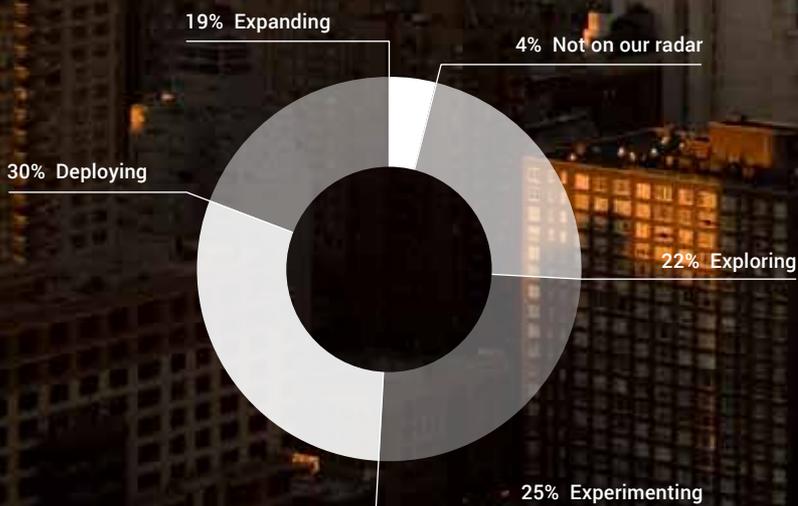
Many recent presentations by large banks show their new innovation labs, teams and work plans. While impressive, few are quickly producing game-changing innovations. The standard approach to innovation continues to include internal debates, committees, small pilots, more committees, and so on.

Using traditional, new product development and approval processes is a non-starter in the new digital world. The innovation planning cycle is far too slow for today's high-speed digital banking environment.

Today's big digital players in other industries test and learn as part of an iterative process. They're not afraid of renewal and failure in doing so. They're agile and experiment in real-time with their own customer base. The decision-making process is much faster and the rollout is fast ... very fast!



8 – How important is it for your bank to create a seamless omni-channel experience?



9 – What is your bank's status with regards to creating a seamless omni-channel experience?

# Omni-channel and the changing channel mix

“The omni-channel experience is an ongoing experience, a continuous dialogue. There are numerous examples of customers emailing their complaints and then going to a branch to find that their bank has no record of the issue. Creating an optimal omni-channel experience removes all of these break points.”

---

**Warren Cammack**  
*head of innovation, Vietnam International Bank*

© \_ A seamless omni-channel experience is ‘extremely important’ for 61% of FIs.

Source: Efma and Backbase survey (2015).

© \_ All FIs are working on their omni-channel strategies, with many already deploying or expanding.

Source: Efma and Backbase survey (2015).

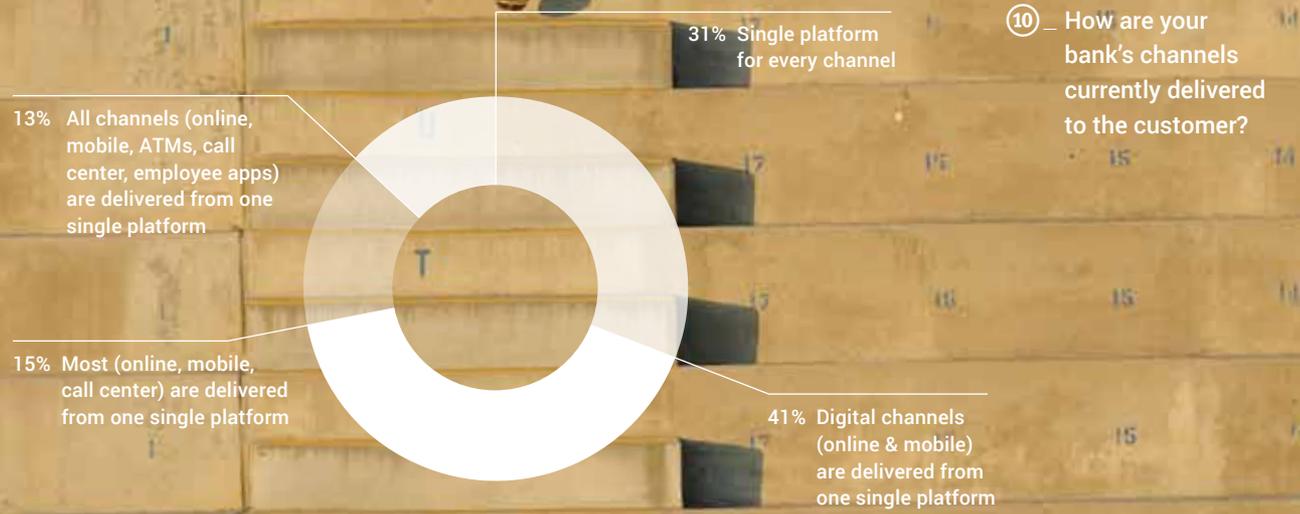
## **According to the survey, omni-channel is no longer simply a marketing buzzword.**

100% of the banks in this survey rate the creation of a seamless omni-channel experience from ‘important’ to ‘extremely important’, where 61% consider it ‘extremely important’.

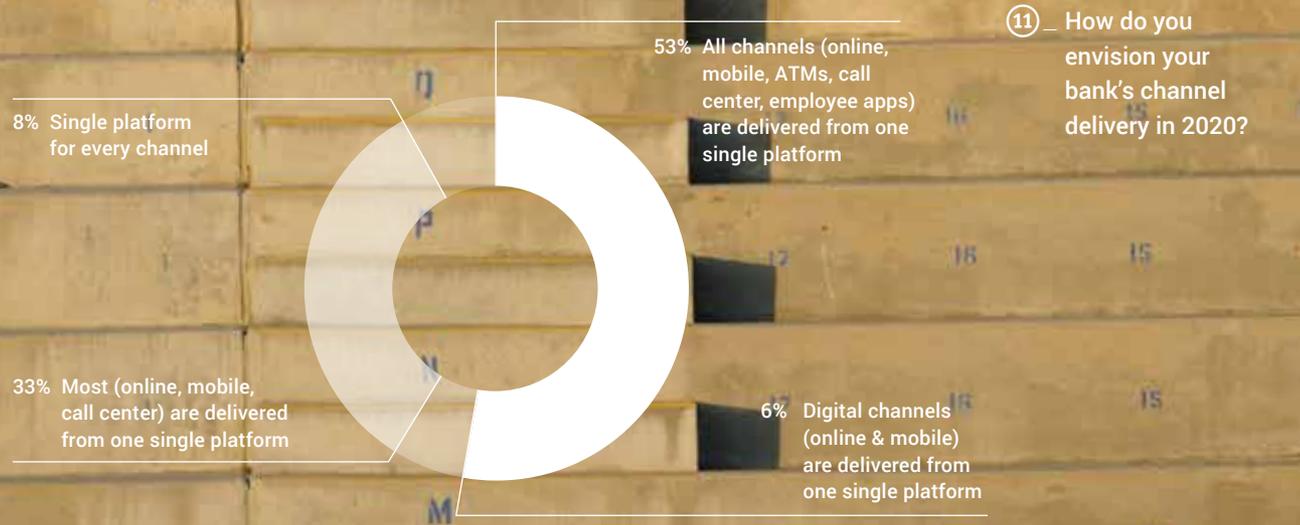
However, even though 100% of bankers indicate that omni-channel is important, only 1 in 5 banks is expanding its omni-channel strategy. The majority of banks are still in the exploration, experimentation or deployment phase of their omni-channel strategy, which reveals a clear mismatch or shortcoming between ambition and actual execution.

A reason for this is existing channel delivery architecture. The back-end is siloed, and the front-end isn’t much different. According to survey results, not even half of banks manage their digital channels from one single platform, let alone all of their customer channels from one single platform (which is only happening for 13% of banks, see *fig 10*).

To be ready for the future, having a single platform that manages most (if not all) channels is key, and this will bring banks on par with tech companies, startups and neobanks.



10 – How are your bank's channels currently delivered to the customer?



11 – How do you envision your bank's channel delivery in 2020?

Recommendation:

## Pursue an omni-channel delivery model

Even if omni-channel is a buzzword or not, the fact is that customers are using multiple devices and multiple channels to accomplish a task over time, and this is especially true when purchasing new products and services. The customer expects the same experience on every device and on every channel, and they expect to be able to perform a seamless handover between devices and channels.

For example, with Netflix, we can start watching a movie on our way to work, on a tablet. We can pick up where we left off at any time and on any other device, seamlessly. On the same experience level, why couldn't we start to fill out an online loan application on a smartphone, and then later on pick up from where we left off at home on a desktop computer?

To make this possible, banks have to move the flexible customer experience layer that runs independently from the main stack. Banks should have flexible APIs for their main processes and core systems, and an orchestration layer in between to ensure handover and session persistency. This is key for creating a seamless switch between devices.

@ \_ Omni-channel delivery is still very much siloed, where only digital is managed from one platform.

Source: Efma and Backbase survey (2015).

@ \_ The future is in having one single platform that manages most (if not all) channels.

Source: Efma and Backbase survey (2015).

One of the key components of a winning omni-channel presence is communicating a strong, recognizable brand across every touchpoint. A bank's brand – the promise it intends to deliver – should be reflected visually as well as experientially in the same way via every channel, whether it's a branch, ATM or mobile banking app.

To put it bluntly, a typical consumer isn't able to understand the behind-the-scenes integration and the different departments and various analytical tools that vary by channel. They simply expect a certain level of

"I have always wanted simplicity in my projects: everything at the touch of a button, everything to be done through mobile. It's all about a one-stop, seamless customer experience, no matter what or how many channels used. I want a single platform that delivers to all channels, putting me in control. This will make my life easier."

**Alain Boey**

SVP/head of transformation,  
Bank Simpanan Nasional

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service, and it's a matter of whether you're able to meet their expectations or not. So, it's up to the bank to create a unified experience regardless of its internal operations.

It's not enough to simply create a solid strategy for each channel. It's essential that you embrace a holistic view of all of them, which is an approach that will create a stronger brand in customers' minds – essential for improving marketing and service levels.

However, each touchpoint has unique characteristics. This means that banks need to make their services easy to use, regardless of how their customers access them. In an omni-channel approach done right, using a bank's

mobile app should enable the customer to intuitively understand and use internet banking, or the bank's tablet app. To establish this, banks need to clearly understand customer expectations, usage habits and streamline their systems using this information.

Research from Google has shown that 98% of Americans switch between devices in the same day. For the 46% <sup>[7]</sup> of the population managing their finances online, this means switching between devices before completing a financial activity. Banks need to deliver the same feel and structure to make sure that these interrupted transactions are completed as seamlessly as possible on whatever device is used next.

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7 Habits of a Highly Successful Digital Bank \_ By Roberto Ferrari, general manager at CheBanca!

# #5

## Eliminate silos

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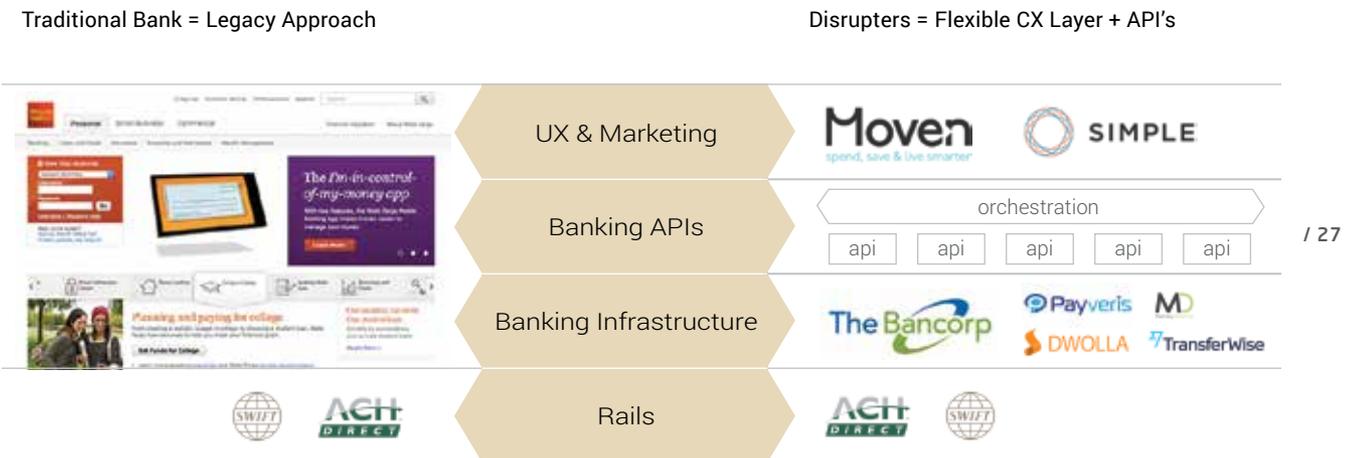
This is organizationally key for a digital bank. This is not just important from a legal or risk perspective – it must be extended to the whole organization. Some keys to eliminating silos:

**Eliminate business and staff departments.** From the most obscure back office department to state-of-the-art front office deployment, it's important to deploy agile across functional teams. Cross-fertilization and mutual understanding of the agile concept will help to achieve your business goals.

**Build objectives and incentives from a multi-channel customer perspective.** Find a way to align objectives across channels and neutralize organizationally driven internal competition. Break the conflicts.

**Make IT the center of your strategy.** Put your COO and CIO at the heart of your business, working alongside finance, marketing, and so on. Since IT organizations are usually built in silos, break these silos, making them work agile in teams. Make sure innovation teams are not logistically miles away from who runs the daily business.

## From vertical silos to a horizontal customer journey



Most banks will need to switch from a legacy, vertical siloed approach to a horizontal approach where no silos exist. Instead, there are different layers each taking care of one specific system function. If we start from top to bottom, this will begin with a strong user experience (UX) and marketing layer that will work on any channel and on any device. This is to guarantee that no matter how the customer interacts with the bank, they get the same brand experience and service. There are no more silos, so it's one unified experience, also across channels and devices.

To handle this omni-channel orchestration, including handover, and making sure the right data is available at the right time, a strong banking API layer is necessary to facilitate this. This banking API layer will act as the bridge between front-end (UX, marketing) and the core infrastructure and financial rails.

A strong, open API strategy is essential to deliver on the omni-channel concept. APIs will be essential for IT agility in the overall digital transformation roadmap. According to Gartner <sup>[6]</sup>, APIs enable banks to improve

net profits by increasing addressable market share and enabling the creation of new business models. APIs can enable CIOs to reduce costs through faster time to market, lower delivery costs and easier partner integration (eg BBVA substantially reduced internal development costs as part of its Innova Challenge, or one large US bank is bringing 15 new apps from a recent hackathon to market within a 6-9 month period, for a fraction of the time and cost to do so internally. MasterCard, Visa and American Express are using APIs to reduce partner integration complexity).

Banking APIs allow CIOs to improve internal and external user experience by enabling mobility, creating new ecosystems, crowdsourcing new ideas, and attracting modern development talent. APIs are important in a horizontal delivery model that enables a horizontal customer journey that's not burdened by silos.

# #6

## Build an open IT architecture

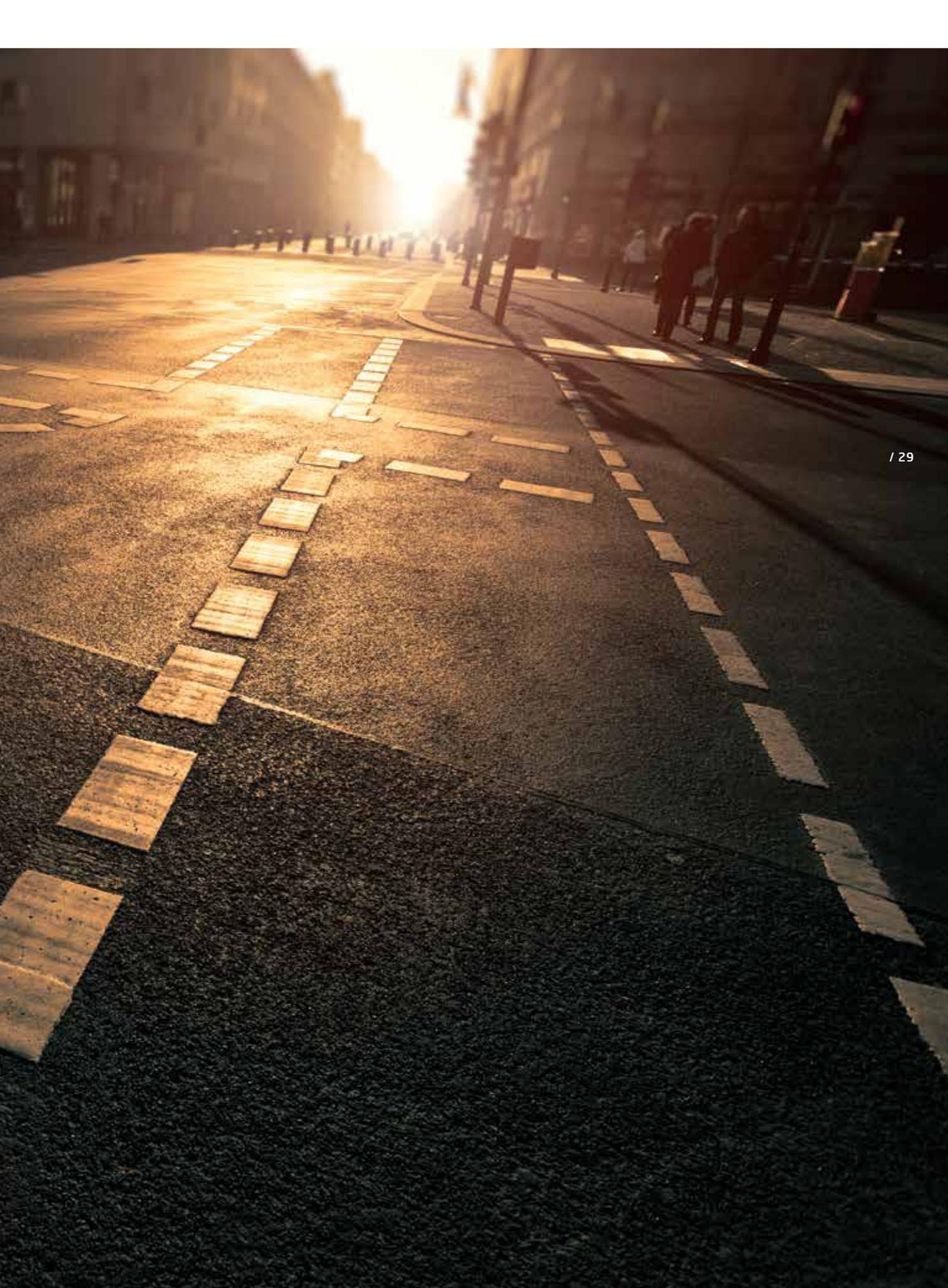
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If you want to build your competitiveness on agile web-scale innovation and open up your offering to partners and third parties, you need to completely rethink your IT architecture. Openness is the key word. You need an open, programmable, agile architecture.

You need an API-centric platform capable of delivering:

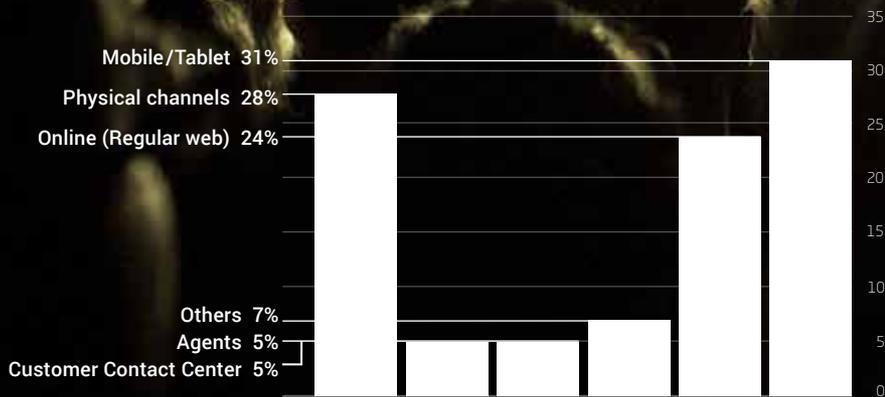
- Consistent omni-channel experiences.
- Dialogue in a plug-and-play, scalable manner with third-party software solutions.
- Hosting for new, outsourced marketplaces.
- A new digital CRM that will enable you to interact and learn in real-time with your customers.

There are already new digital banks set in this way. Fidor Bank is a good example, as is the way Moven is building its network outside the US. This will become the norm in the next 5-10 years. There won't be an option for traditional banking organizations wanting to become digital banks.

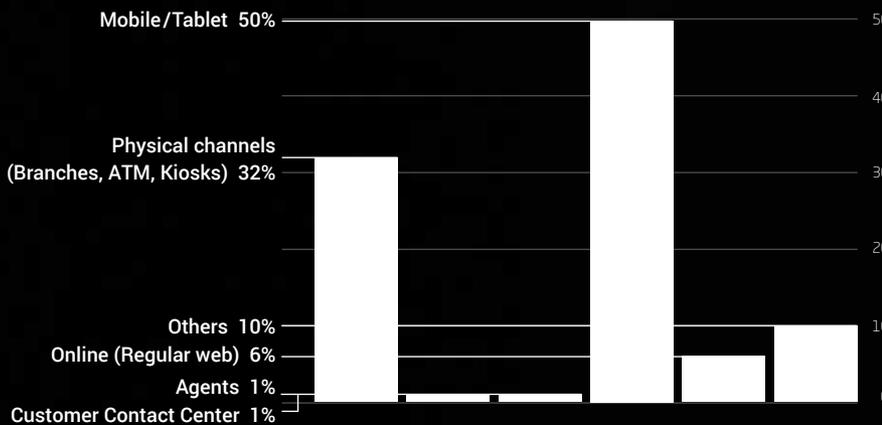




12 - From which channel do you currently see the highest increase in revenue?



13 - From which channel do you expect to see the highest revenue in 2020?



# Mobile's impact on online sales and share of wallet

"We are seeing the average user spending 30% more time on mobile than on television. From a banking perspective, we're seeing a drastic increase in the volume and value of transactions conducted via mobile."

*Warren Cammack,*  
head of innovation at Vietnam International Bank

## We see the shift in custom behavior determining not only a shift in the channel mix, but also in revenue generation.

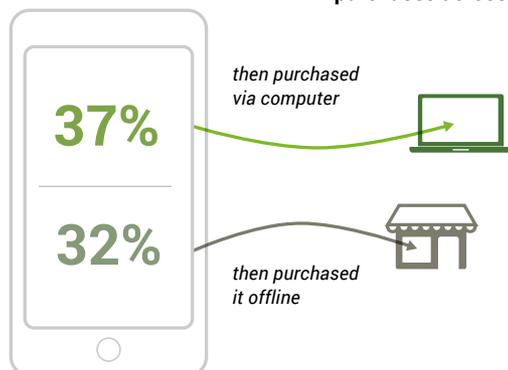
We see the shift in custom behavior determining not only a shift in the channel mix, but also in revenue generation. Currently, we see the highest increase in revenue generation from the mobile channel, followed by physical channels and online (web).

Yet, in interviews with multiple banks, there are situations in which the new digital campaigns are actually behind the revenue spurt, so digital is fueling offline revenue. However, the survey reveals a unified view for the future: mobile will be, by far, the biggest revenue generator by

④ \_ Mobile, followed by physical channels and online, is currently showing the highest increase in revenue.  
Source: Efma and Backbase survey (2015).

④ \_ Mobile will remain revenue leader, significantly diminishing the role of online, customer contact centers and agents.  
Source: Efma and Backbase survey (2015).

### Research that starts on smartphones leads to purchases across channels



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2020. Mobile will be solely in the lead, fully diminishing the role of online, customer contact centers and agents.

Of course, mobile adoption and mobile banking adoption has grown over the years, mostly driven by mobile self-service. Now, the future will also provide mobile with an important part of the revenue mix.

A solid mobile strategy is becoming essential for all banks and credit unions. Google already predicted this in 2013 when it showed that, usually, product research that starts on a smartphone leads to purchases via other channels.

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“Mobile will become the preferred way to interact with the bank. It’s already the second channel in the number of interactions and is the fastest growing sales channel.”

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*Riccardo Becagli*

*head of customer development at Hello bank*

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Recommendation:

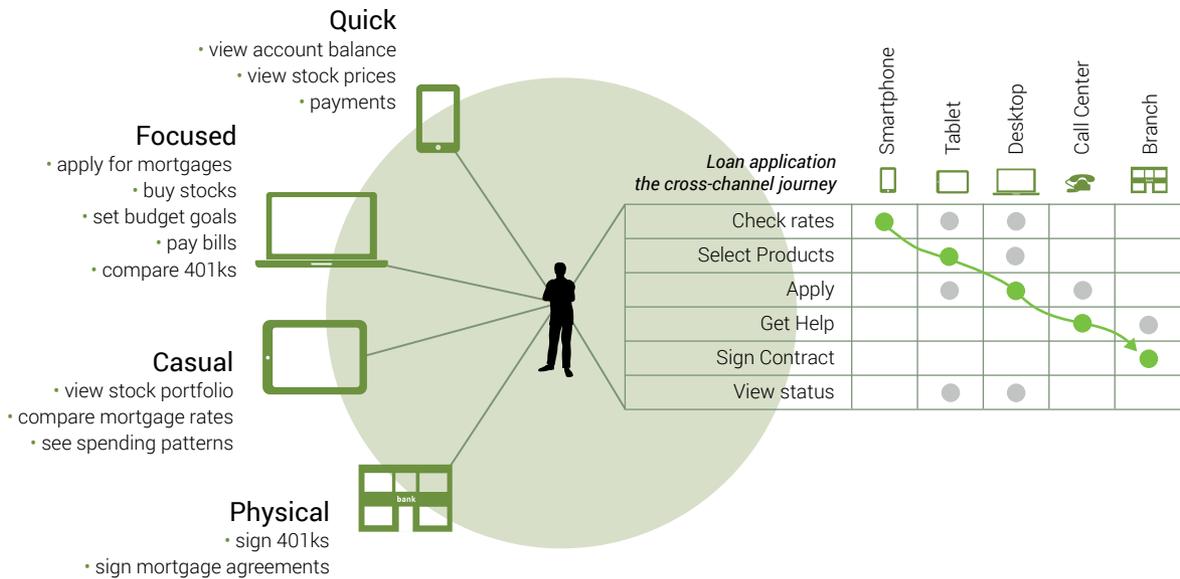
## Optimize for the omni-channel sale

One of the biggest mistakes most banks make with regards to their omni-channel strategy is ‘faking the experience’ by focusing on creating identical apps and websites for different devices, which is the same inside-out mistake they made when building for the web. If you take the outside-in approach, the end-customer’s perspective on omni-channel, it will become clear that it’s not about the different devices per se, but about the different behaviors on those different devices.

Step one in a successful omni-channel banking experience is to make sure that different apps and websites are optimized for different attitudes: the quick, the casual, the focused, and the physical. We can then relate these behaviors to specific devices: quick to smartphones, casual to tablets, focused to laptops and desktops, and physical to branches.

However, when building these apps, banks need to stop thinking about them as the ‘smartphone-optimized version of our regular internet banking platform’. Instead, banks should build an app that helps people perform simple transactions fast and easy, and in situations where they are most likely in a hurry or on the road.

## Omni-channel banking: preferences per channel and cross-channel journeys



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15

## Linking the channels: omni-channel journeys

The second step is to link the different apps together, making a seamless cross-channel journey. Usually, the customer uses different channels at different times: it's likely they will start one task on one device (eg check out mortgage rates on their smartphone) and will take the process further on a different device (eg applying for the mortgage on their laptop), or channel (eg asking for further information via the call center). It's not enough to have different apps for different channels. Apps have to be linked and integrated in one platform to deliver one seamless, cross-channel journey.

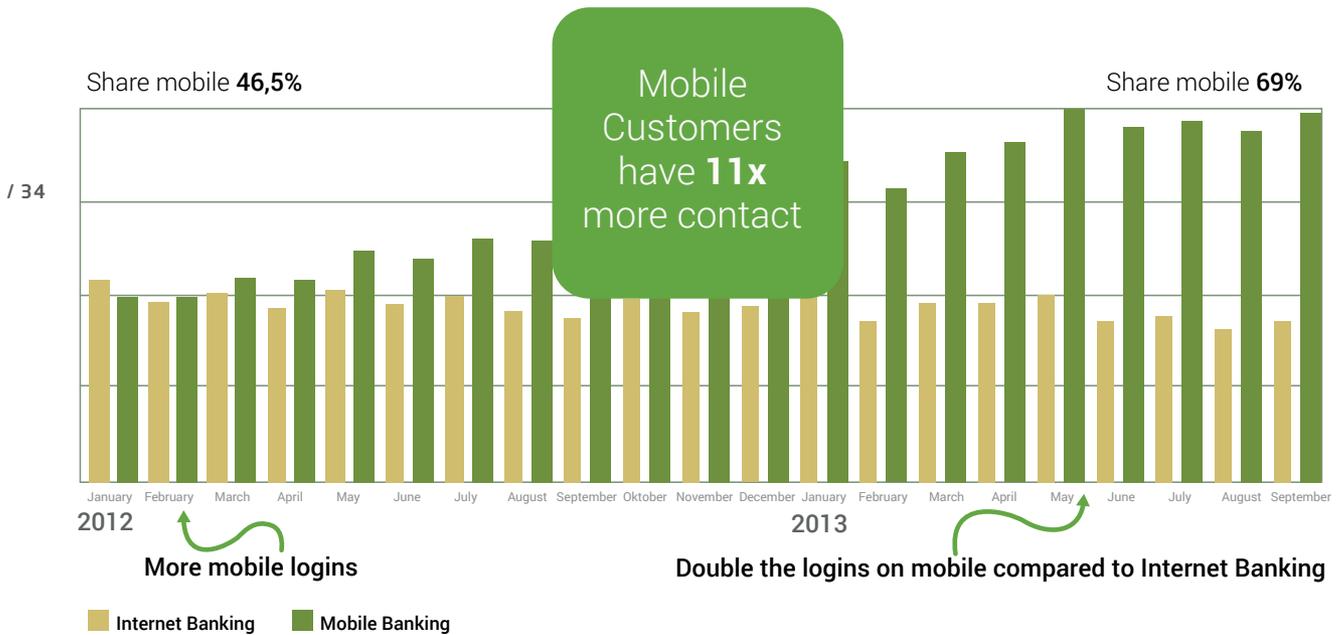
Let's take the loan application example above. Different actions can be completed using different channels (called 'user touchpoints'). The (potentially new) customer doesn't want to restart the process and have to fill in their information a second time, nor explain the

situation from the beginning if calling the call center or visiting the branch. For banks to become successful across multiple channels, they need to build specific apps according to the customer's specific attitudes: quick, casual, focused, and physical.

Yet, the real game-changers are linking those apps into one unified journey, bringing 'service, design-like thinking' to the banking sector. Exchanging information, processes and data between different applications and making the switch between channels becomes seamless and intuitive. This significantly increases the likelihood of completing an application or sale, and makes it a truly superior omni-channel banking experience.

## Meet your customer halfway

In a recent presentation, ABN AMRO revealed that mobile users contact their bank 11x more than other customers.



Finally, market where the customer is. Most banks are still investing their complete digital marketing budget in the online channel, while at the same time looking at their analytics software, which shows that most traffic is in the mobile channel.

Mobile traffic has more than doubled over online banking. Clearly, customers are on mobile. Banks should ensure their marketing is also active on mobile. The most successful campaigns are those seen by the right customer at the right time. Mobile presents huge marketing opportunities, with the right technology capabilities to be able to provide the right context to the marketing campaigns.





17 What does your bank see as the biggest benefit of digitization?



18 Which channels are available for business teams to manage without IT support?

# Regaining control in the era of digitization

“Leave it to IT to ‘keep the lights on’. Marketing should ‘make the lights sexy’.”

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*Alain Boey,*  
head of digital transformation,  
National Savings Bank of Malaysia

## **Becoming a ‘digital bank’ brings numerous benefits, and they all start with customer-centricity.**

A digital-first mindset allows the customer experience to be developed holistically across channels. Since customers are accessing content across multiple devices and from multiple destinations, an integrated approach has become imperative. This not only enhances consistency when engaging with customers, it also reduces overhead in creating content to publish across multiple channels. It also helps marketers focus on the relevant media (bought, earned, owned) and customer experience to improve engagement (for instance, realizing the significance of integrated experience design in delivering a seamless multi-channel customer experience).

For 24% of survey respondents, another benefit of digitization is the possibility of exploring new ways to generate revenue (see fig 17). However, one point is still unclear: we talk a lot about an increase in customer retention, mobile as the biggest revenue channel, and the importance of omni-channel, but what is the role of marketing and IT in this new strategy?

For almost every bank, marketing is officially ‘in control’ over the complete customer experience, but it’s not

© \_ Benefits include improved customer-centricity, and new ways of revenue generation.

Source: Efma and Backbase survey (2015).

© \_ Marketing never controls the primary customer self-service channels, only promotional channels.

Source: Efma and Backbase survey (2015).

19 \_ What do you see as the most important factors for successful digital transformation? Please choose your top 3.



real, hands-on control. According to the survey results, business teams can only manage the public marketing site, social media channels and campaign pages. However, the channels with the most traffic, those that take care of the true customer relationships, are the (closed) internet banking platform and mobile apps. These are essential channels, yet the marketing team lacks direct control and is dependent on the IT team or external vendor. Vice versa, IT departments can often lack the 'bigger picture' when it comes to an essential marketing plan or

philosophy. The key is in employing a business strategy that embraces collaboration, but also one that doesn't focus purely on either IT or marketing.

Becoming a truly digital bank isn't just about IT or systems. It's about the customer. Without a customer experience focus, plus commitment at executive level, and a robust digital execution strategy, the journey will be difficult and may fail.

Recommendation:

## Regain control over your digital strategy

To succeed at customer experience (CX), omni-channel and mobile, and to beat the disrupters, you have to regain control and be able to drive a unique experience with your customer. The focus should be on channel delivery – you need a digital banking platform where you are in control. It needs to be a platform where business, marketing and IT teams can work together on the same innovation strategy. It should also be flexible enough to mix and match best-of-breed third-party systems for PFM, Bill Pay, Remote Check Deposit, and so on.

Yet, regaining control isn't the only challenge you're facing. You need to cater for the two different heartbeats we discussed earlier in this report: the fast-moving marketing/customer heartbeat, and the

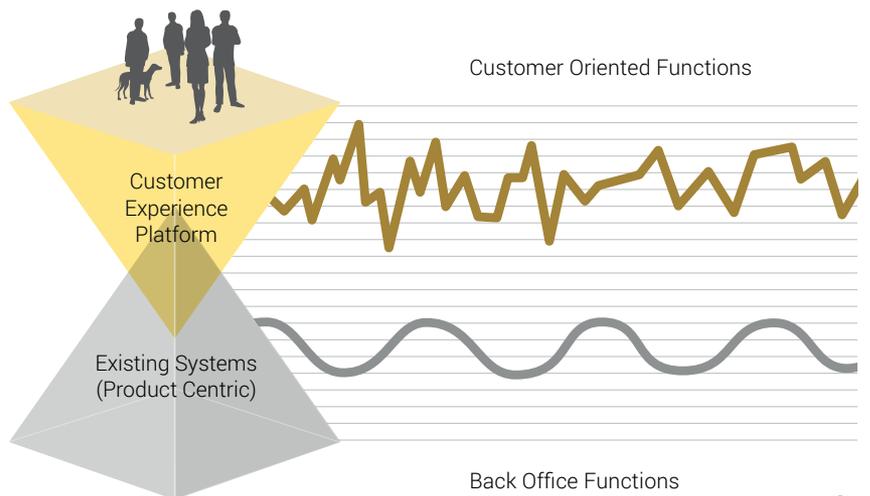
"The Tier 3 and 4 FIs in the US all look the same when it comes to online and mobile. Why? Because the three core banking vendors that dominate the market are also in control of the online experience. As a small bank or credit union, this means they can change the logo, maybe color of the text. For the rest, the bank or CU will look exactly the same as all the other banks on the market. This cannot be the way forward in the age of digital disruption."

*Alex Jimenez,*  
SVP digital and innovation, Rockland Trust

© \_ Customer experience is crucial for a successful digital transformation.  
Source: Efma and Backbase survey (2015).

## Keeping pace with your customer

Using our earlier analogy, here we're demonstrating that you need to cater for two different heartbeats: the fast-moving marketing/customer heartbeat and the more steady IT heartbeat.

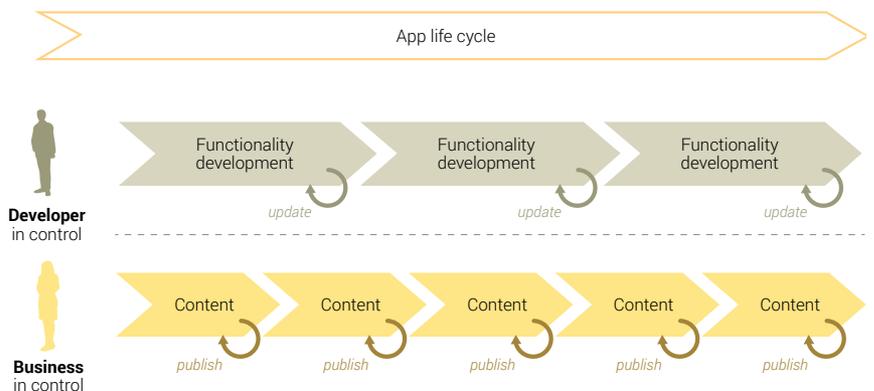


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## Development life cycle and editorial life cycle

The IT team works in 3-6 development cycles a year, while marketing works independently and releases updates whenever they want.



21

more steady IT heartbeat. More technically, we're talking about two 'life cycles': a development life cycle and an editor/marketing life cycle.

In the development life cycle, the bank's IT team is in control and works in strict and planned release cycles that go through a full development, testing and release process. Normally, this has a heartbeat of three to six releases every year, which isn't enough to keep up with fast-moving customer demand and short campaign

cycles. Introducing the second, the editorial/marketing cycle, marketing can now release updates to the digital channels, from online to mobile apps, whenever they want, and without being dependent on a more strict IT cycle. In this way, the marketing side of business focuses on new content publishing, new functionality and new marketing campaigns. This division will dramatically increase business agility and take pressure away from IT, so they can focus on true innovation in the systems.

## #7

## Embrace cooperation and competition

It's time for a complete rethink of the banking business model, IT architecture and systems, since digital banks will mainly serve as IT companies dealing with customers' money in the future. Banks will need to be much more open and ready culturally and infrastructurally to share business, clients' platforms and solutions with external partners.

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The time where banks could run their business in isolation, with very little sharing of cross-industry platforms is over. Banking is under a massive attack from internet giants and legacy-free fintech startups, creating the need for systematic, cross-industry alternative digital solutions.

One very good example of how the banking future should be reshaped is given by the UK-based Paym P2P payment network. Forced by the Payments Council, it has reached a coverage of nine out of 10 current accounts, and has processed nearly £44m in less than a year. As a result, banks and building societies in the UK have been able to work together to develop a new, fast payment solution that will make life harder for new entrants.

This is the new way forward: building new, digital, common platforms, with competition based on customer preferences around branding, customer experience, value propositions and add-on value propositions. This is what's happening in the auto industry and will eventually happen in banking.



# Conclusion: Banks need to start their journey now

We've explored in this report how important it is for traditional financial institutions to win back share of market. The key is in beating industry disrupters at their own game by becoming one of them, rethinking your entire digital strategy. To achieve this, your digital transformation journey needs to start now.

To put a new digital strategy center stage, a mindset and vision should be clearly set out (and continuously communicated) at board level. This needs to be a digital transformation strategy that cascades from the top down, circumnavigating silos. Your customers' needs should be the focus of your digital transformation –

"Some banks are not hungry enough to change, and it's not a lack of ideas that prevents them pushing further, but a lack of execution."

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*Karlis Mikoss*

*head of digital transformation, National Savings  
Bank of Malaysia*

they should be at the core of your business – and any outdated, siloed thinking fueled by legacy systems and processes should be eradicated.

Traditional banks still have a siloed mentality, but customers don't. You should be able to deliver a seamless experience that's instant, transparent, personal, relevant, and ubiquitous. 'Going digital' is a fundamental change in how banks and credit unions learn about, interact with, and serve consumers. Banks have to undergo a drastic paradigm shift. Successful digital transformation begins with an understanding of digital consumer behavior, preferences, and choices across channels and devices, complemented with an agile strategy and lean IT stack that enables customer-centric innovation. You must think from the perspective of a new customer experience platform vision that will lay on top of existing systems, enabling you to break from the past and truly innovate.

Having a strong digital focus will enable you to make digital a core competence, helping you to lower your cost-income ratio (less branch, more digital) and maximize top- and bottom-line earning potential. All of this delivered, managed and optimized from a single customer experience platform.

The way forward is to start the digital journey today.

## Notes

- [1] LendingClub Surges in Debut After \$870 Million U.S IPO (Bloomberg) <http://bloom.bg/1VaOgK0>
- [2] Adyen Raises \$250M from General Atlantic to Expand its International Payments Platform (TechCrunch) <http://tcrn.ch/1QAiq2K>
- [3] Traditional Banks At Risk Due to Digital Disruption (The Financial Brand) <http://bit.ly/1VcmfMW>
- [4] Global Consumer Banking Survey 2014, Winning through customer experience (EY) <http://bit.ly/1PwBL4N>
- [5] Disrupting Banking: The FinTech Startups That Are Unbundling Wells Fargo, Citi and Bank of America (CB Insights) <http://bit.ly/1KBqzPL>
- [6] Lendingclub Moves Up in Market Cap Rank, Passing Pepco Holdings (Forbes) <http://onforb.es/1KDBCcb>
- [7] The new multi-screen world (Google) <http://bit.ly/1KSYUyh>
- [8] 'The Business Value of Banking APIs' by Kristin R Moyer (Gartner) <http://gtnr.it/1gQOEum>

## About Backbase

Backbase is a software company. We are on a mission to help financial institutions create, manage, and optimize secure omni-channel customer interactions.

We have created the world's leading lean customer experience platform, Backbase CXP. It has been designed to help you organize, create, and manage deeply relevant customer experiences across all channels, on any device, to delight your customers and deliver measurable business results. We believe that customer experience management is essential for financial institutions to stand out from the crowd, stay relevant to their customers, and grow their business.

Next to Backbase CXP, we've created Backbase DBP, our digital banking solution, optimized for retail banking, commercial banking and wealth management scenarios. Backbase DBP includes the omni-channel and customer experience power provided by Backbase CXP, enriched with out-of-the-box Digital Banking Apps (from account opening, to transactions, money movement, and so on) and our Digital Banking Services, making it possible to use Backbase DBP as a digital banking solution on top of any core or back-end system.

Global financials such as ABN AMRO Bank, Al Rajhi Bank, CheBanca!, Fidelity, Goldman Sachs, Hapoalim, Hiscox, Keybank, Legal & General, Nationwide, OTP Bank, PostFinance, PZU, Sberbank, Swiss Re, and SwissCard have all improved their online customer interactions and maximized online customer experience, retention and conversion, by leveraging Backbase technology.

Backbase was founded in 2003 and is privately funded with operations in New York, Atlanta, Amsterdam, and London. For more information, visit [www.backbase.com](http://www.backbase.com)



## About Efma

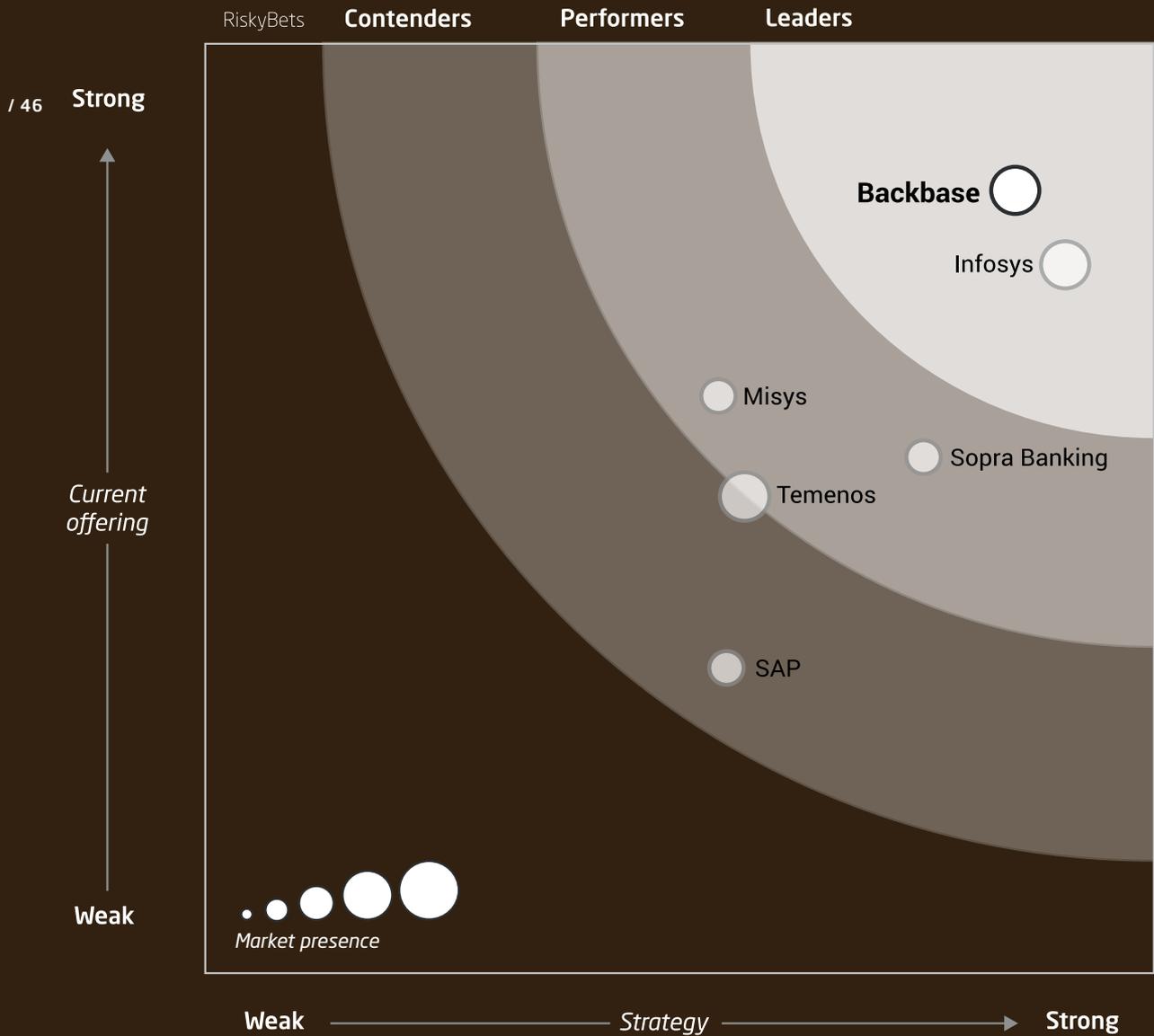
As a global not-for-profit organization, Efma brings together more than 3,300 retail financial services companies from more than 130 countries. With a membership base of almost a third of all large retail banks worldwide, Efma has proven to be a valuable resource for the global industry, offering members exclusive access to a multitude of resources, databases, studies, articles, news feeds and publications. Efma also provides numerous networking opportunities through working groups, online communities, and international meetings. For more information, visit [www.efma.com](http://www.efma.com)



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# Backbase is named a leader in the Forrester Wave for omni-channel digital banking



Backbase was among a group of select vendors that Forrester invited to participate in the report. The Backbase Digital Banking Platform is listed as leader and received the highest score in the Current Offering category. Being named a leader in the Forrester Wave gives the market yet another validation of Backbase being at the forefront of digital innovation. We are very happy with this recognition and are energized to help our customers accelerate their digital transformation. Our software is used by leading banks around the world and we are 100% committed to enabling them to create superior digital customer experiences, anytime, anyplace, any device.

*“Backbase offers broad business capabilities, rich support of customer experience, and very solid technology and architecture. With Backbase being a pure-play vendor, it is not a surprise that its commitment to its omnichannel banking solution is high.”*

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*Forrester Wave™,  
Omni-Channel Digital Banking Solutions, September 2015.*

## Why is Backbase a leader in omni-channel digital banking?

### ① **Omni-channel: putting your end-customers first**

Today's customers expect seamless customer journeys – any time, any place, and on any device. The Backbase Digital Banking Platform (DBP) helps you to modernize and orchestrate all of your customer touchpoints, transforming multiple siloed banking channels and legacy applications into a consistent brand experience that's easy to use and always available.

### ② **Cost-efficient: reuse your core banking systems**

With Backbase, there's no need to replace or rebuild your core systems from scratch. Backbase enables you to repurpose them by incorporating their content, data, and functionality into a new digital customer experience layer. This layer is optimized for easy integration with your existing business applications, and the delivery of a unified and seamless customer experience across any device.

### ③ **Ready to go: jumpstart your digital transformation**

Backbase has developed out-of-the-box digital banking solutions optimized for retail banking, commercial banking, wealth management and insurance-specific scenarios. Kickstart your project and dramatically decrease your time-to-market by leveraging industry best practices and ready-to-go implementation accelerators.

### ④ **Growth: control your digital strategy**

Backbase puts you in control of your digital strategy, enabling you to create, manage, and optimize the end-to-end customer experience across every device. We have invested in many years of R&D to give you exactly the right editing and digital marketing tools you need to take full control of optimizing the customer experience, resulting in more sales conversions, and greater customer satisfaction.





