

The True Power of Online Banking

By ROGER PEVERELLI AND REGGY DE FENIKS

As more banking activities migrate to the online and mobile environment, banks need to step up their efforts to differentiate themselves in that arena.

People rarely visit their bank branch anymore. Our recent research with a number of European banks shows that visits to their Websites outnumber branch visits by a factor of fifty to one hundred. Meanwhile, app users make contact with their bank through their smartphone three to four times more often than the average online customer.

The future of every retail bank is online and mobile. No doubt about that. The online and mobile environment is, moreover, essential for restoring and expanding customers' trust in their bank, with a direct correlation between the frequency of contact and the growth in trust. Yet, transparency and simplicity in a bank's online presentation are critical to that online environment. Banks face the risk that products from different competitors start to look alike, resulting in commoditization and competitive pricing, which in turn puts pressure on margins. The only way for a bank to escape this commoditization trap is to combine transparency and simplicity with specific added-value services and a superior customer experience that differentiates it from the competition.

As part of our research for our recent book *Reinventing Financial Services: What consumers expect from future banks and insurers*, we identified the following principles – as exemplified by financial institutions in several different countries – as the keys to bringing out the true power of online banking:

1. Get to know the customer much better.

High contact-frequency generates a wealth in data that tells us a lot about our customers. Analyzing online behavior gives us a great opportunity to understand much more about customers. What really moves them? What do they value most? BBVA's Tu Cuentas and Japan's Rakuten Bank show us how far that route can take us.

Tu Cuentas is an online household budget tool that helps people get a grasp of and grip on their day-to-day spending. It enables, for example, users to compare their own spending and saving behavior to that of people who have a similar profile. "How much are people like me spending on travel each month? How much are they saving? What insurances are they buying?" More than half of BBVA's online banking clients are now using the program, which makes the information richer and the comparisons more valuable. It also keeps people from buying financial products they don't really need – a noble trait in a bank seeking to build trust. BBVA doesn't view Tu Cuentas as just a nice sales promotion, but as a fundamental part of its service offering. It has invested the time and effort required to make it a success.

We see that programs such as these – there are over 30 of them across Europe – are not only helping increasing numbers of consumers to tune their monthly income and spending, but also to save for bigger dreams. Eventually these tools will develop into more powerful financial planning tools that have accumulated and processed knowledge from the individual customer.

Rakuten is by far the largest e-commerce platform in Japan. It's like Amazon, eBay and Expedia put together. Rakuten's success lies in its diversification strategy. Recently, Rakuten acquired e-Bank, the country's largest online bank, and rebranded it Rakuten Bank. A few advantages of this takeover are obvious, such as the lower costs of funding, access to millions of account holders, and being able to use the user-friendly payment systems from the former e-Bank.

But the real advantage lies in the contribution of all these activities to Rakuten's business model. Rakuten takes the Tu Cuentas game a step further: whether it's e-commerce, auction, travel or banking, everything is linked to one database.

This enables Rakuten to understand its customers much better – their preferences and behavior – and come up with much more tailored offerings.

Last year, Rakuten started a joint venture with Baidu, China's Google, making it possible to include even search data in this single database.

2. Involving customers

The internet makes it easy for banks to involve their customers in the process of developing and improving their products. It enables banks to make customers part of the change – to virtually incorporate them into the organization, and structurally keep them involved. Insurance Australia Group works like that, and, to some degree, Fidor Bank.

The Buzz, Insurance Australia Group's new insurance company, was created according to the tastes and requirements of future customers. About 4,000 consumers took part in discussions about what they expect from an insurer and more. The consumer panel supplied an abundance of ideas for products and services, thus contributing towards an entirely new customer experience. The Buzz hit the right note from the outset and stands out among its competitors, who don't involve their customers to this degree. The collaboration with clients, of course, continues. It keeps the Buzz constantly in touch with what is happening, and ahead of the pack.

The German bank Fidor is doing something similar. Fidor Bank rewards customers for every active contribution towards improving service. Every suggestion for improvement earns the client one euro and no less than a thousand euro in the event that their recommendation gets implemented.

3. Participating in the customer's world.

It may sound like a paradox for a "remote channel," but online offers a unique opportunity to be close to the customer, to increase significantly the number of positive experiences and to use that to enhance the relationship. American Express Co. and State Farm Insurance show us how to manage the human dimension remotely.

A lot of the companies that accept the American Express credit card are small businesses: shops and restaurants. Many of these customers are worried about the future of their businesses and the average Amex cardholder is happy to lend a hand. "Shine a light" is American Express's platform for people to tell their story about their favorite shop nearby. These stories are boosting sales and allow American Express to show that it cares, values and supports small businesses. The credit card company is also reacting to an important consumer trend: a preference for being "close," authentic and personal. In short, the human dimension. American Express has managed to make "close" tangible in the online world.

Like any insurance company State Farm hardly has any contact with its customers. Once a year it sent out a notification that the premium had gone up – not exactly a happy message. Recently, State Farm developed a simple app that enables customers to view weather and road conditions on their smartphone, for example on the way home. In a very simple way it ensures one daily positive contact moment, instead of a yearly negative one. This mobile service enables State Farm to stay close to their customers and add value every day. State Farm plays on an important consumer insight: the recognition of the smartphone as an essential part of every day life, an extension of a person's personality. It's often the only thing you always carry with you and the last thing you check before you go to sleep.

Understanding what his smartphone means to your customer and how it relates to your brand, product or service is the basis for apps that truly add value. So review the context in which your product is used and examine the situations where it plays a part. This will yield consumer insights and opportunities to help in specific instances in your customers' lives. For a suntan lotion manufacturer it would be the beach, for insurers it would be situations that put consumers at risk, for a bank it would be the moment a consumer spends money. Mobile services make you a part of the consumer's life, right where it matters the most, on a smartphone or on a tablet like the iPad.

Putting the customer first, not processes and systems.

The true power of online is in the unprecedented possibilities the internet offers (1) to get to know customers much better, (2) to involve them in the organization, and (3) to participate in the world customers live in. These should be the most important goals in the further development of the online presence. This is what will make you relevant and distinctive.

Online best practice is evolving constantly and to date the forerunners in new ways of putting the customer first have only scratched the surface of what is possible. What have we learned so far is: put the customer first, not processes and systems. Actively look for ways to open a dialogue with customers, and use your findings to create distinctive services and hit the right note.

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