TEMENOS

Out of the branch, into the app: rethinking digital channels for tech sceptics and refuseniks

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Customer behavior & digital transition in a crisis

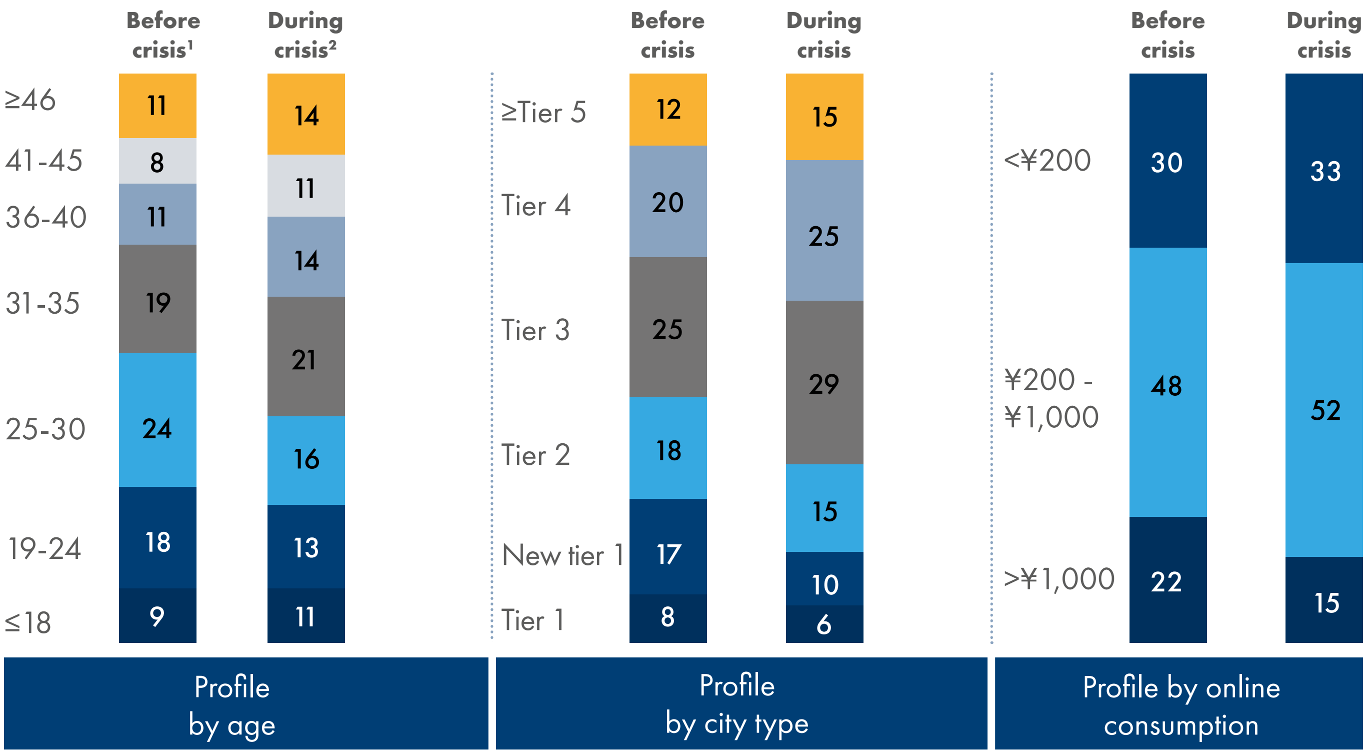
In the early stages of the Covid-19 emergency, hopes of a v-shaped recovery faded, followed by hopes of a rapid return to norms of social interaction. Old habits were disrupted. New behaviors emerged. The physical gave way to the digital. ATM usage fell away and many call centers struggled to deal with huge volumes of inbound calls.

Digital channels demonstrated their value. In the US, Citi saw mobile banking log-ins rise by 25%.
Mobile messaging volumes soared by 180%.[1]

The amount of time consumers spent on Android-based finance apps rose by 55% from previous highs. Elsewhere, usage spiked higher: in South Korea, for example, duration of finance app usage very nearly doubled from pre-Covid highs.[2]

The demographics of digital interaction also shifted. In e-commerce, the shift was particularly visible in China, where online stores started doing business with more users over the age of 30 and more users from provincial cities.[3]

E-commerce user profiles before and during COVID-19 crisis in China, %

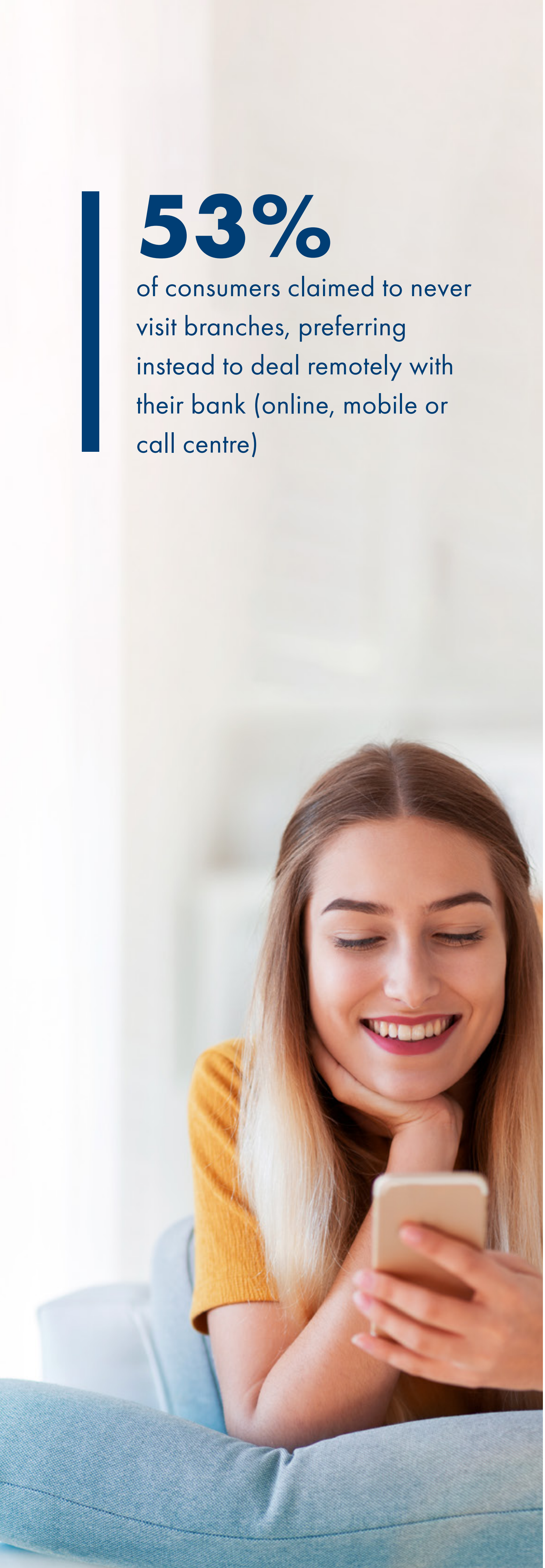


Source: McKinsey & Company 1. Data from Jan 14, 2020 to Jan 31, 2020 2. Data from Feb 3, 2020 to Feb 16, 2020 source: QuestMobile

1. Financial Times, US banking's digital push (May 2020)
2. App Annie, Economic headwinds prompt demand for finance apps (May 2020)
3. McKinsey, A perspective for the luxury-goods industry during and after coronavirus (April 2020)

53%

of consumers claimed to never visit branches, preferring instead to deal remotely with their bank (online, mobile or call centre)



The data also underlined the potential for permanent behavioral change. According to one large-scale global study, 45% of consumers reported an increase in their usage of digital payment channels. An almost identical proportion – 46% – expected to see their use of digital channels increase during the subsequent six to nine months.[4]

One-third of respondents in the same global study (rising to nearly half of 25-45 year olds) said they had discovered "a new banking provider/financial institution who best helped me in the current environment" and promised to "continue using them after the end of the current crisis".

In pre-Covid Europe, an average of 53% of consumers claimed to never visit branches, preferring instead to deal remotely with their bank (online, mobile or call center). A.T. Kearney now predicts that this proportion will rise to 65% by 2025. Some 70% of account openings, deposits and credit applications will occur via digital channels within the next three years.[5]

Change on this scale will be necessary. In 2019, cost-income ratios at European banks stood at an average of 62%. According to one forecast, maintaining this level of performance in the context of forthcoming revenue losses will require the annual cost of servicing a retail customer to decline from €305 to €225.[6] To put this in context, European retail banks managed to reduce the average annual cost of servicing each customer by €20 at the peak of the Great Financial Crisis.

The present crisis will accelerate the transformation of retail banking. But this won't happen automatically. In particular, banks need to find ways of making the transition easier for the sizeable group of customers who have so far resisted digital banking, or who would prefer to return to their local branch once the crisis is over. In this white paper, we describe these audiences as refuseniks and consumers in the forgotten middle, respectively.

Given severe downward cost pressures, we believe that the ability to offer a meaningful alternative to branch banking in the near-term will become one of the key differentiators between banks that succeed and those that fail.

4. Cap Gemini, COVID-19 and the Financial Services Consumer (April 2020). This survey solicited the views of 11,200 consumers in 11 nations, including China, France, Germany, Italy, the UK and the US.

5. A.T. Kearney. A new normal: fortifying your distribution channels in a world post-Covid 19 (July 2020)

6. A.T. Kearney. New decade, new crisis: lessons learned from the Great Financial Crisis and why this time, it's different (July 2020)

Reluctant digital users: refuseniks and the forgotten middle

The economics of digital self-service are excellent: you drive prospects to a destination, let them do the hard work of data entry and self-education, and then get them transacting. Many customers are perfectly happy to do this. Indeed, they exert a certain level of control in the process. For example, if they don't like the content they're consuming, they can walk away.

For two decades, self-service has been the default logic of web commerce. But there is another, less positive, way of looking at these interactions. There are customers who experience digital self-service not as an invitation to exert control, but as a barrier to comprehension and action.

Existing customer channels neglect the customers in the 'forgotten middle'

Customers whose behavior is wholly digital or wholly analogue are relatively rare. Most customers are progressively becoming more digital. Hybrid digital users are becoming more digital, or going full digital. Less digital users are becoming more so. Covid-19 has accelerated this shift, removing access to branches and placing call centers under significant pressure.

By contrast, banks have historically offered polarized options: channels that either maximise human contact (branches/call centers) or maximise digital engagement (apps/chatbots).

This is reflected in levels of customer satisfaction. Customers whose behavior sits towards the extremes are the most likely to appreciate interacting in polarized channels. The most satisfied bank customers are those who never use digital, and those who frequently use digital.

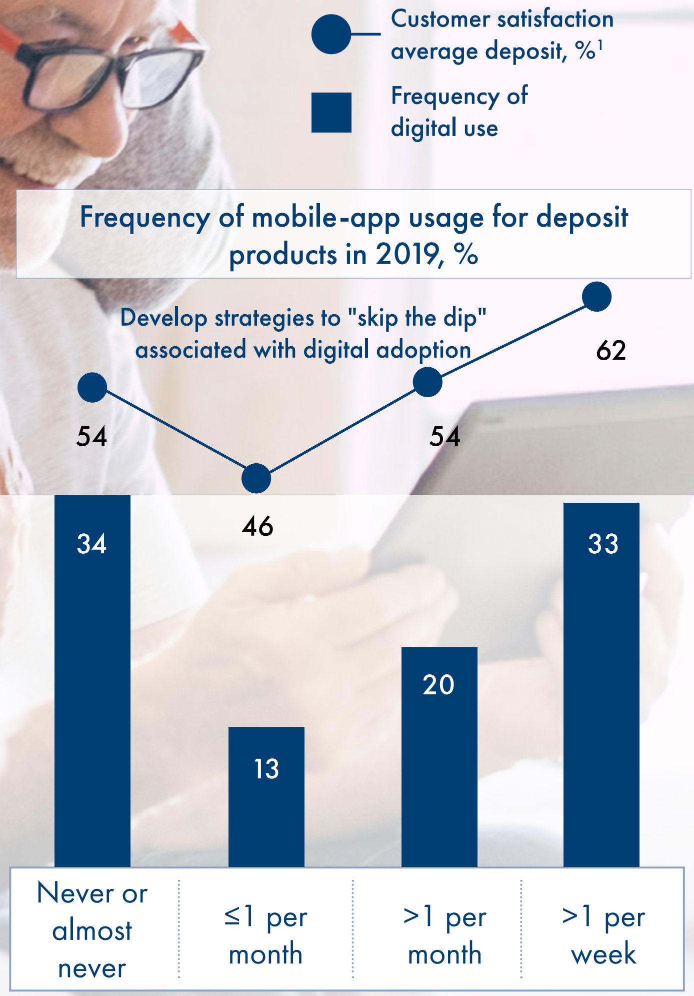
The least satisfied bank customers are those in the middle, who use digital tools infrequently (less than once a month).[7]

The customers in the forgotten middle of the spectrum are ambivalent about banking apps. Their loyalty to the new channel remains provisional. For example, 65% of banking customers say they are comfortable using technology. Yet 39% say they prefer traditional channels.

Although 65% of consumers overall browse the web on their smartphones, only 30% check the status of their accounts in the same way.[8]

7. McKinsey, Remaking banking customer experience in response to coronavirus (April 2020)
8. Accenture, 2019 Global Financial Services Consumer Study (March 2019)

For refuseniks and customers in the forgotten middle, whose response to existing apps is uncertain at best, we arguably need a different approach that combines the best aspects of human and digital. Building better apps that offer a more intuitive user experience might be part of the solution.



Source: McKinsey & Company, McKinsey Banking Journey Pulse Benchmark
1. Percentage of respondents that selected a 9 or 10 on a 10-point overall customer-satisfaction scale.

4 out of 10

say they find it challenging to manage money because they lack information and are confused by complexity.

The repersonalization of banking

This isn't simply a case of giving potential customers what they want. It goes to the heart of what retail banking needs to become in the 21st century: a trusted advisor.

It's a truism that consumers' money worries aren't going anywhere. Four out of 10 say they find it challenging to manage money because they lack information and are confused by complexity. One quarter don't have sufficient savings to cover six months' living expenses. One third don't have sufficient set aside for major transitions, like retirement or property purchase.

The good news is that banks are still trusted by many consumers to handle their money more readily than payments providers, technology platforms or retailers. The bad news is that the number of consumers who will turn to their bank for financial advice amid a major life event is rather low: 28%.

Clearly, many consumers have a compelling need to trust someone with their finances. Equally clearly, banks have a compelling motive to demonstrate trustworthiness.

Yet from anonymous human agents in call centers, to IVR, chatbots and the app-based self-service, one thing unites most non-branch channels: depersonalization. For many consumers, depersonalization weakens trust in a significant way.
The challenge for banks is to find a way of countering this threat. Here, too, the strategy of increasing the human element looks promising.

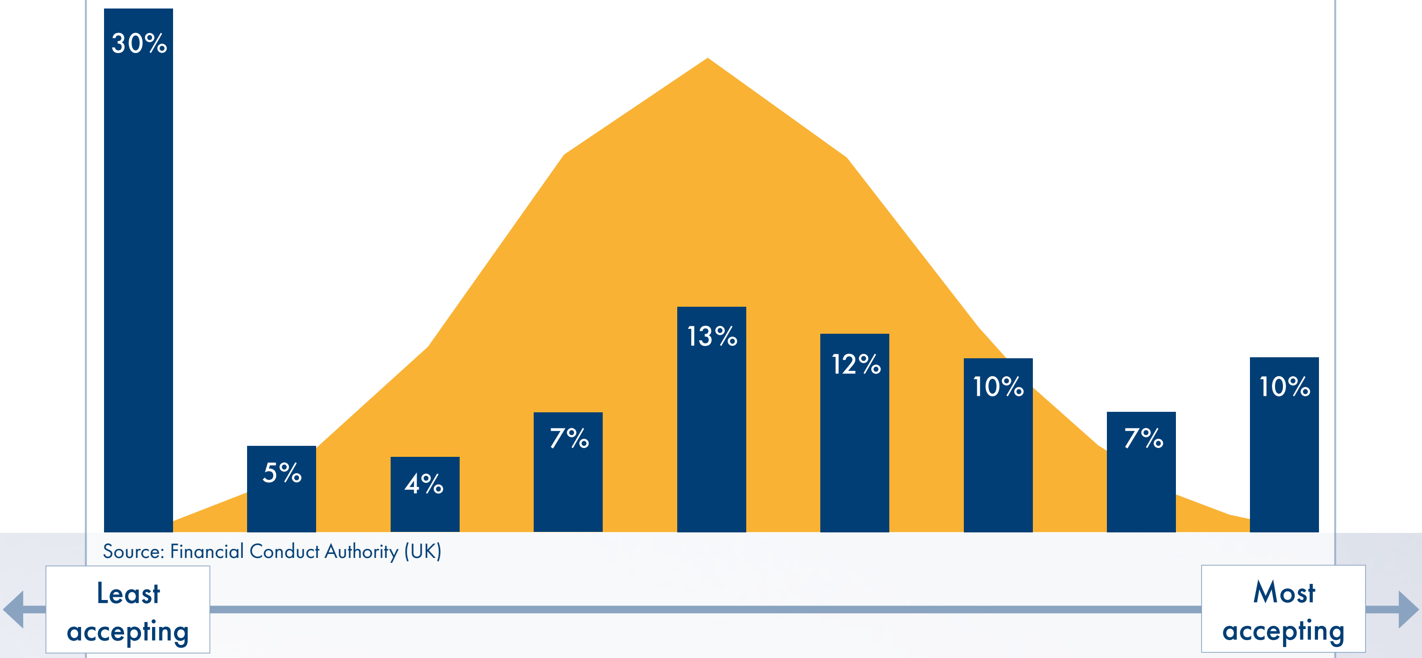
OK boomer: the case for courting the refuseniks

In particular, depersonalization matters for a sizeable segment of the market that feels even less enthusiastic about digital channels than the forgotten middle. Let's call this group the digital sceptics or refuseniks.

In a large-scale experiment, the UK's Financial Conduct Authority recently asked consumers whether they would recommend accepting or rejecting the investment advice of a roboadvisor in specific scenarios. The robo advice was rejected by survey participants in 57% of cases.

According to the FCA, a "hard-core of refuseniks" accounting for nearly one-third of the population "appeared to have a disposition to reject robo advice consistently". When this group were asked what they would suggest doing as an alternative, seven out of 10 recommended speaking to a human financial advisor.[9]

9. FCA, Robo advice: will consumers get with the programme? (November 2019)



Source: Financial Conduct Authority (UK)

In demographic terms, refuseniks have a tendency to be male, older and less financially literate. In most of the developed world, the group includes many of the middle-aged, approaching retirement (or there already). In aggregate, this demographic accounts for a significant portion of assets in the non-corporate economy.

There is limited value in simply pushing digital tools at this group: the hard-core refuseniks will consistently reject it. For this audience, as well as the forgotten middle, banks need to re-think their offer. In the words of the Access to Cash Review, funded by the consortium of banks that run the UK's largest ATM network, digital payments need to work for everyone.

"For most of the UK using cash is a choice. But for 47% of the population, not having cash would be problematic, and for 17% not having cash would be a serious problem. We don't believe that this is because this group are simply choosing not to use digital payments – more that digital payments do not yet work for everyone. . . This is not about changing consumers, but about changing services so that they meet needs."

– Access to Cash Review: Final Report (March 2019)

Lost in translation: existing digital channels

Traditionally, banks have looked for agility and economies of scale at the back end. At the front end, where the revenue lives, they have placed a premium on certain types of customization, particularly branding and the user interface. The irony of this is that most banking apps function in very similar ways, using similar modes of engagement. Over time, user interfaces converge in the direction of success.

It's much the same with the way we think about digital banking as a whole. Those of us who work with technology for a living tend to be supremely comfortable with it. Apart from the intensive research that accompanies the development of a new app or service, there's a danger that we forget the very specific way that those who are less comfortable with technology see the world.

The result can be a kind of inability to notice where we're not succeeding, or meeting with reluctant acceptance. Even if we can see the challenges involved, we may have a tendency to minimize them. This white paper argues that it has become hard to see some of the gaps and omissions in the customer experience that refuseniks and forgotten middle customers can see quite clearly.

The decline of customer courtship

On one level, moving house is a simple transaction. But in other ways, it clearly suggests that something big is happening in the customer's life (a birth, a death, downsizing etc). Those underlying processes are all opportunities to meet needs by offering additional services. But in a purely transactional environment, they can go undetected. When this happens, financial institutions allow revenue opportunities to pass them by.

For incumbents, the way that so much digital banking focuses on transactions rather than relationships has another unwelcome side effect. When banking is defined as transactional, it can increasingly be commoditized. And when you operate in a commoditized market, the barriers to entry are low.

This is why the traditional skills of courtship matter: being curious, helpful, offering guidance, scoping out the full picture, because there might be additional ways in which the bank can help an individual customer.

This isn't just about the forgotten middle. It applies equally to users at the behavioral extremes as well.

In particular, digital users may not have set foot inside a bank branch for years. They may have effectively forgotten that branches exist. However, if banks could connect these users with an expert employee as required, they might be able to revive the art of courtship and fend off the dangers of commoditization, even among heavy digital users.

The need for education and reassurance

When banks launch apps, they tend to behave like tech giants. They build the app and hope that the users will come. Many do.

But what about those customers who find digital interaction awkward, who don't immediately feel at home with the context and the visual cues? Quite often, they are left to sink or swim.

Those who sink will typically revert to physical channels. In a situation where that's not possible or advisable, what's required is a form of guided digital interaction. This might be as simple as helping customers to master interactions as simple as checking their balance or making a payment. Traditional banking apps are not always good at education of this kind.

The power of asynchronous engagement

Like everyone else, banks operate within the attention economy. However, the way in which banks and customers interact remains almost entirely synchronous, requiring the customer's full attention until completion.

Even traditional online chat is time-bounded: a conversation may be terminated if he customer doesn't respond to an agent's query within a certain time frame. In a world of limitless competing distractions, the customer who wants to tick tasks off their "to do" list needs to apply a significant amount of single-minded focus.

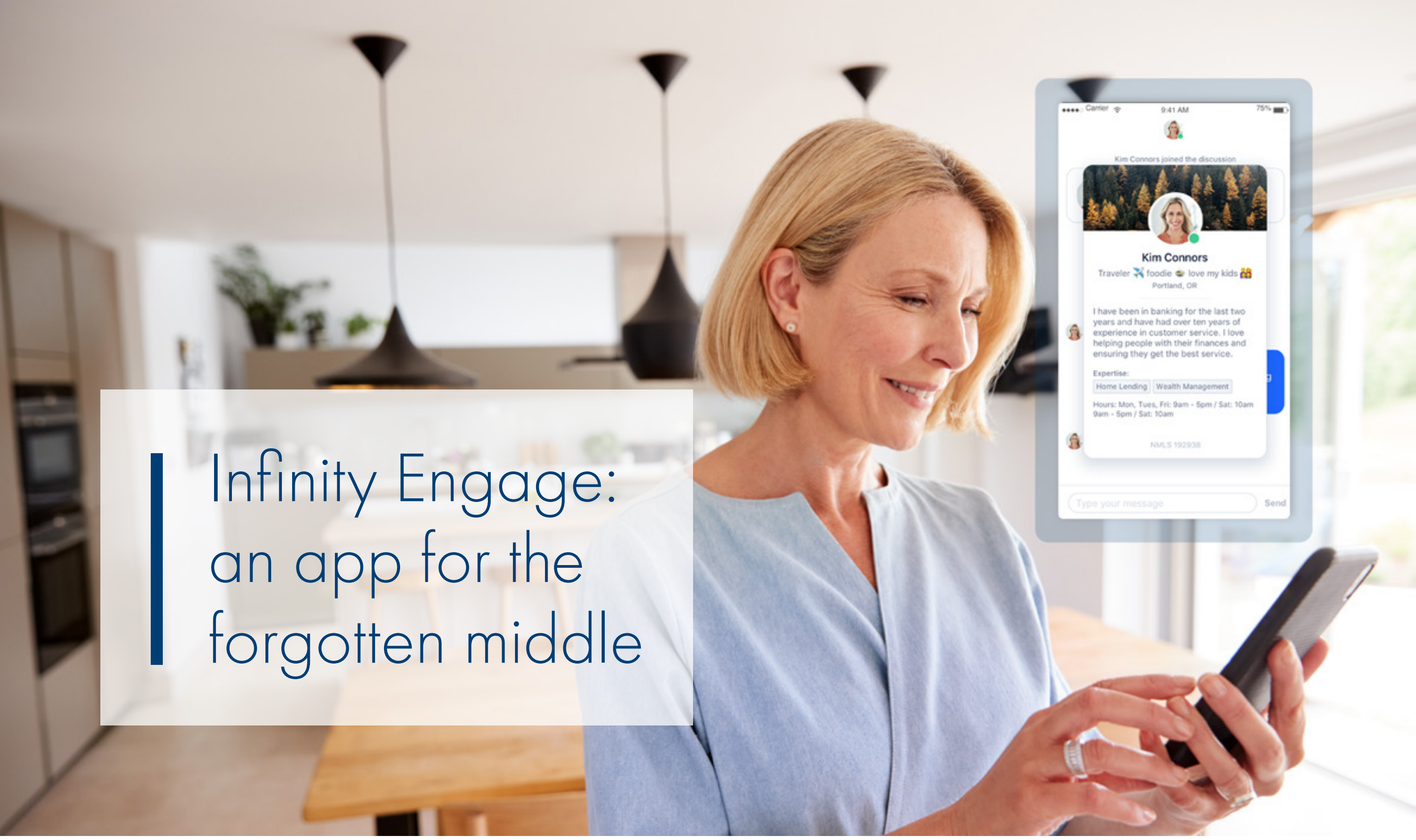
Increasingly, we live our lives differently. We multi-task, and when we can't do that, we split our time into micro-chunks. This happens most obviously in the mobile space, with social media and social messaging. As consumers, the cloud allows us to do the same with on-demand video. The crucial novelty here was (and remains) the ability to pick up a task where you left off and press on with another micro-chunk of viewing.

With asynchronous engagement, the user exercises a greater degree of control and choice.

What if bank interactions could become more asynchronous, too? On one level, this wouldn't qualify as anything new. Email used to offer something similar. But email typically involves a lag caused by networks and servers, which makes conversational threads slow-moving. And in any event, huge volumes of spam make email less than attractive.

Social messaging platforms like WhatsApp are a better model. What if a conversation with a trusted financial advisor could be picked up and pursued at will during the nooks and crannies of the working day? In this respect, it's worth noting that the triggers and cues of social messaging are ubiquitous, even among late adopters.

As consumers, we thrive on asynchronous interactions. We cram micro-chunks of activity into our day, most obviously on our phones. What if bank interactions could become asynchronous too?



Infinity Engage: an app for the forgotten middle

Infinity Engage is a white-label app purpose-built for the audiences and behaviors described in this white paper.

Perhaps the single most important feature of the app is the way in which it enables personalized human interaction with a financial advisor who becomes trusted over time, without the need for visits to a branch. The result is a smartphone app that effectively puts a banker in everyone's pocket.

For the customer, the process starts with secure registration. Infinity Engage offers seamless integration with a wide range of third-party identity service providers, including those offering biometric log ins.

Next, the customer selects a financial advisor with whom they'd like to work. The customer makes their selection online, and the process can be formatted in much the same as selecting a personal trainer on some gym websites. On a website or in the app itself, the user browses through a selection of brief bios. The information in these bios might include the advisor's specific areas of product knowledge (for example, pensions, mortgages), some personal information (do they have a family?) and outside interests or hobbies ("traveller", "foodie", "hiking"). At any time during subsequent usage, the customer can change their advisor by returning to the list of bios and selecting a new advisor.

From this point onward, the relationship draws upon triggers and cues already familiar to a large cohort of inexpert technology users who nevertheless tend to be very familiar with social media.

Putting the customer in control

Here, it's worth noting how most people tend to use messaging apps: to maintain contact with close friends and family, sharing a flow of experiences that expand trust over time. When your advisors work with customers on Engage, they are working in a context that's understood in a specific way by users.

What the customer sees is an interface that that allows them to send and receive messages to their personal advisor. If text-based interaction becomes too complex, the option exists for them to call the advisor.

On screen, when customers open the app, they can immediately see whether the agent in question is online or not. If the agent is unavailable, they're allowed to leave a message or back up and exit the app. Usage data suggests that under these circumstances, the vast majority of customers working with Engage are content to leave a message and wait for their preferred advisor to come online. The relationships cultivated on Engage are sufficiently strong that only 8.5% of users request a back-up banker when theirs is unavailable.

Just as with a messaging app, users in the app see a persistent chat history stretching back to initial exchanges. And as with messaging apps, asynchronous communication is possible, and will be the norm in many contexts (allowing users to interact productively in the nooks and crannies of their day).

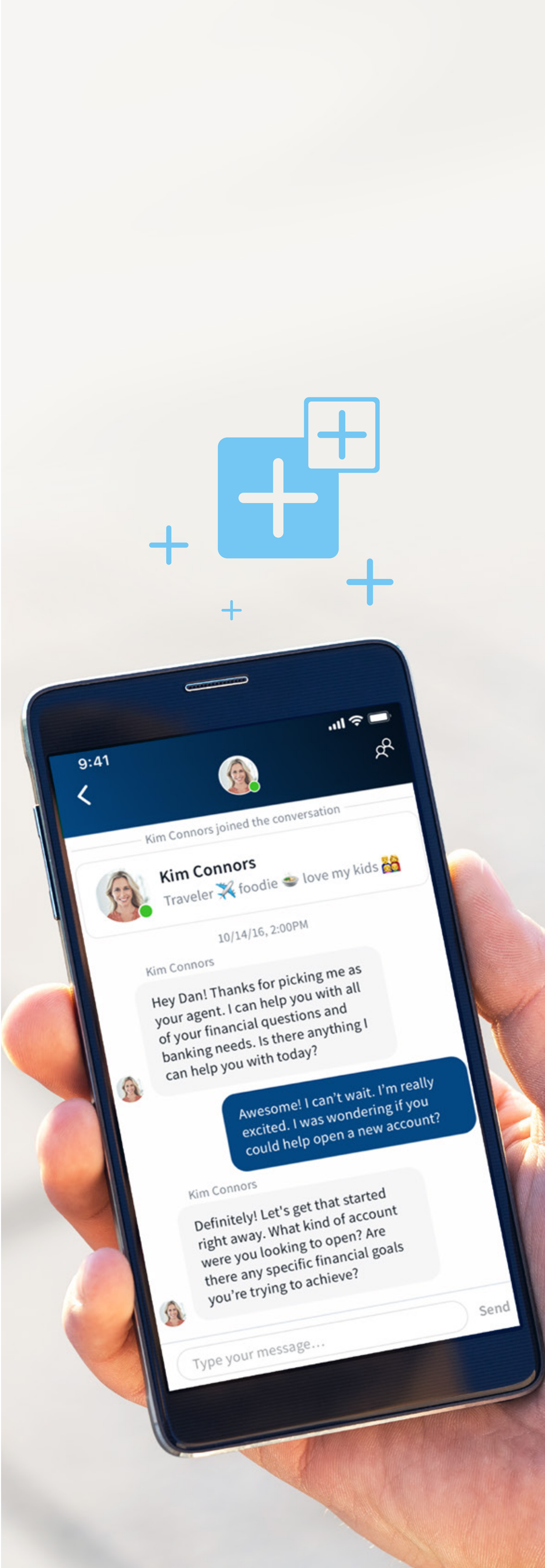
The principles behind the Engage user experience

Tememos Infinity Engage conforms with seven principles based upon extensive UX research among end users and financial services professionals. The app and its associated application platform goes beyond traditional banking apps by making the following actions (and reactions) possible for customers:

- **PLANNING:** show me the bigger picture
- **SIMPLICITY:** make it relevant to me
- **ENGAGEMENT:** show me the possibilities
- **CONTROL:** help me manage my situation
- **TRUST:** assist me in making the right choice
- **CONTENTMENT:** take away my fear
- **WELLBEING:** help me get to a better place

These principles work: banks using Engage report that users adopt 2.27 products per customer on average, compared with an average of 1.59 for all other customers.

At the advisor's end sits Engage's Agent Engagement Platform (AEP). This gives advisors the tools they need to manage their presence (edit bio, view customer details, identify new or existing customers, send messages and so on). The same persistent chat history that the user sees is visible here, too.



Key use case scenarios

Engage's Agent Engagement Platform is the key to leveraging advisor productivity above and beyond the levels that are typically possible within a branch setting. Wrapping human interaction in a digital interface allows banks to leverage human capital more efficiently. The employees using this channel can deal with larger volumes of customers in a given time period than they could if they were meeting with customers in a bank branch.

AEP gives advisors access to product catalog, documentation and forms. At any point during an interaction, advisors have the ability to pull in additional expertise in the form of a specialist advisor who sits either within the Engage team, or elsewhere in the bank.

Engage is an app that allows banks to draw upon familiar technologies triggers and behaviors. This allows banks to develop customer relationships that inevitably start out transactional, but which can progress to helpful problem-solving ("I left my debit card at home") and, ultimately, to customer courtship ("We're thinking about moving house.")

Here are just a few of the scenarios in which bank employees working with Engage have been able to assist customers:

Customer acquisition:
Engage offers a third way between the time-consuming branch process and the lack of human connection within a purely digital app experience.

Lifetime value acceleration:
Customers feel limited emotional commitment to accounts opened and managed digitally. Having a named banker is different: it increases customer satisfaction and reduces dormant rates.

Mortgages:
For most customers, the mortgage application process results in some degree of confusion and stress. Engage offers a series of positives in this scenario, including quicker access to consultations and a level of interaction that's as high as the customer needs.

Call center conversion:
Engage offers an opportunity to convert repeat live chat or call centre customers to a deeper relationship. Responding to routine queries efficiently leads to customer satisfaction and value-added service conversations.

Branch consolidation:
Engage can help banks to maximize retention even when they are closing down specific branches. Introduced pre-closure, the app can be used to migrate relationships online, and respond to customer questions and concerns.

Digital training:
Engage agents can give advice on more than money. The app can also be used to provide customers anxious about digital interaction with tips about how to interact with "traditional" online or app-based banking.

When banks deploy Engage, their customers at first typically perceive the service as a convenient way of interacting with their bank. Over time, however, customers start to perceive the deeper value of a relationship based on valuable advice. For the forgotten middle and refusenik customers, this represents something new: the freedom to retain the personalized relationships familiar from branch banking, in a way that merges seamlessly with familiar digital interfaces.

The bigger picture

TEMENOS Infinity

Engage is part of Infinity, a proven and complete suite of front office banking applications from Temenos that works across your existing infrastructure to deliver exceptional customer journeys, from acquisition to retention. Infinity offers highly customizable solutions for every digital touchpoint, underpinned by world class analytics that allow you to expand upselling and drive higher profitability.

Underpinned by open APIs and extensible architecture, Infinity is modular: its individual component services integrate easily with any existing systems, reducing implementation costs and accelerating deployment. Delivered as on-premise software or via public cloud, Infinity compresses time-to-market, offers proven omnichannel CX and opens the door to accelerated innovation.

Conclusion

Cost management is already a pre-condition of survival in the post-Covid-19 landscape. As we've seen, maintaining cost-income ratios at pre-crisis levels in the context of forthcoming revenue losses will require reductions in the cost of customer servicing that dwarf anything witnessed at the peak of the Great Financial Crisis.

Meanwhile, in the background, familiar threats loom unchanged: increased competition among neo-banks and incumbents, accompanied by increasingly direct incursions from third-party technology platforms.

For retail banks, the response to this strategic challenge has to involve making digital channels attractive to the customer segments we call refuseniks and the forgotten middle. The understandably heavy focus on traditional digital channels has been successful so far. But for refuseniks and the forgotten middle, a new approach is required.

For this audience, experiences that were once only physical (a wallet, a branch office) need to become digital in a way that is comfortable and intuitive. The right approach draws upon triggers and cues already familiar to users who cannot be described as enthusiastic digital consumers, but who are very familiar with social media and messaging.

Wrapping human interaction in a digital interface allows banks to leverage human capital more efficiently. Employees working with customers via Engage can deal with larger volumes of business than they could in a bank branch. Naturally, by shifting a significant volume of users out of branches and into the digital realm, a successful human-digital channel also yields direct operational efficiencies.

It is time to move beyond a one-size-fits-all approach to apps. It's time to start blending human and digital interaction. After all, the future is omnichannel. And if that means anything, it means reaching out to different kinds of customers in different ways and allowing them to use the channels that suit them best.

Visit our website to learn more about Temenos Infinity Engage temenos.com

About Temenos

Temenos AG (SIX: TEMN) is the world's leader in banking software. Over 3,000 banks across the globe, including 41 of the top 50 banks, rely on Temenos to process both the daily transactions and client interactions of more than 500 million banking customers. Temenos offers cloud-native, cloud-agnostic and AI-driven front office, core banking, payments and fund administration software enabling banks to deliver frictionless, omnichannel customer experiences and gain operational excellence.

Temenos software is proven to enable its top-performing clients to achieve cost-income ratios of 26.8% half the industry average and returns on equity of 29%, three times the industry average. These clients also invest 51% of their IT budget on growth and innovation versus maintenance, which is double the industry average, proving the banks' IT investment is adding tangible value to their business.

For more information, please visit www.temenos.com.

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