# Retail Banking Advisory in the Digitalized Future

## The Nordic Perspective

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# Introduction

This white paper presents a picture of the current and future state of customer advisory services in the retail banking, life & pensions and savings areas, and the business and IT capabilities required to meet customer expectations and improve customer relations. The findings in this paper are based on a survey conducted by Deloitte and EVRY in early 2014.

From the survey's findings we conclude that customer advice will remain a cornerstone of strong customer relationships, but it will be transformed in various ways:

- Increasing use of self-service channels. Self-service channels provide increased availability for customers while at the same time enabling the banks to reduce cost for advice offered to the mass market.
- Integration of the "wisdom of crowds". Gathering of collective wisdom from larger groups of customers sharing the same economic conditions will be used as input to the advisory process.
- Continued focus on customer segmentation to improve the likeliness of converting relationships into increased business. The notion of "segment of one" drives the banks to further explore the potential of existing data including customer life events.
- Charging for advice to be able to compete with commodity providers. Advisory services are recognized by the banks as one of the most important value-added services for their customers. Full service banks have the potential for providing advisory services that customers are willing to pay for.
- Increasing transparency into the effectiveness of the advice - partly driven by regulations requiring price transparency and partly with a view to managing unfair media attention.
- Regulatory pressure on the overall advisory process and what type of advice can be provided to whom. Some banks express concern that this hampers increased support for advisory services via self-service channels.

The sale and delivery of banking products and services will continue to move from "bricks and mortar" to self-service channels with a focus on new devices. This is not just driven by the cost efficiency agenda of the banks but also reflects the preference of future customers.

A main challenge for banks in the future is that digitalization has just begun, and even the most visionary of visionaries have difficulty in predicting what will happen when rapid technical development and generational shifts drive convergence between mobile, social media, Big Data and even more exotic trends.

Advanced customer analytics and new types of business application leveraging this data will move from being outlandish experiments to a requirement to stay in business.

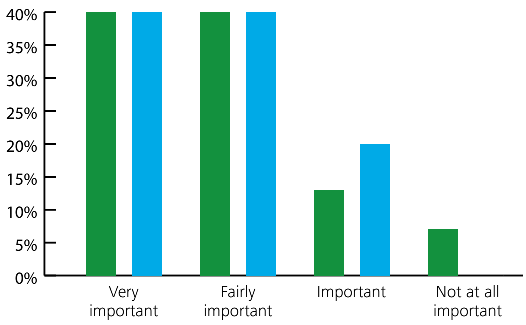
Against this background, banks acknowledge that they are – for the most part – lacking important business capabilities and, even more so, underlying IT capabilities.

# Customer advice and capabilities today and in the future

## Customer advice today and in the future

Advisory services will continue to be important in the future, as the financial situation of many customers becomes increasingly complex. In our survey, the majority of respondents deemed the existence of customer advice in the future as fairly important or very important for sales and customer relationships.

**How important is the existence of customer advice when supporting sales and customer relationships?**



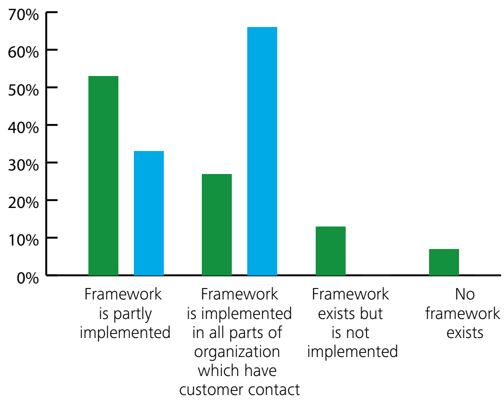

> "Paying for advice on what fund to invest in is like paying for advice on what TV you should buy in the electronics store"

The respondents also focused on providing advice as a complement to traditional sales – but provided in new ways, including automated advice and the "wisdom of crowds" served up through the banks' channels.

**To what extent do you work with advice as opposed to traditional sales towards your customers?**

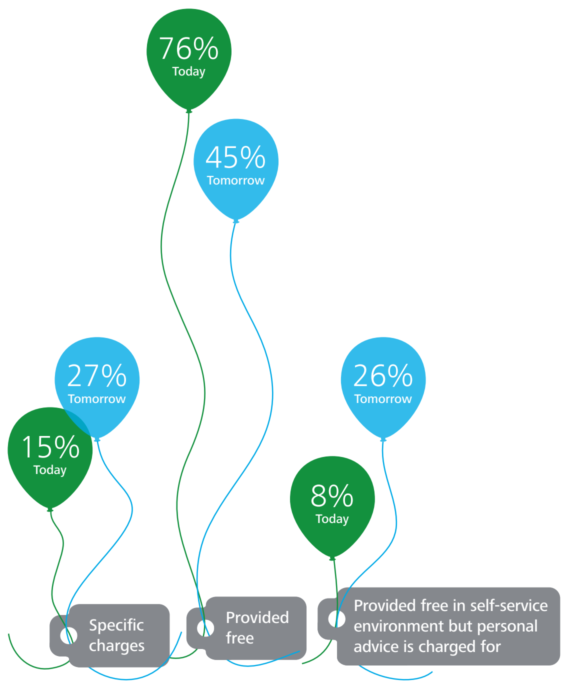

Today the majority of respondents have only partly implemented a structured framework for customer advice. In the future the focus will be on implementing methods for providing consistent advice to customers.

**To what extent have you implemented a structured framework for what advice to give to which customers in which situations?**




Today, advice is mainly provided "for free", but in the future respondents believe it will be necessary – and perhaps more fair and transparent – to charge specific fees for the advice provided. Automated advice through self-service channels may provide an opportunity to continue getting advice free of charge as the underlying cost can be reduced.

**How are your advisory services priced?**



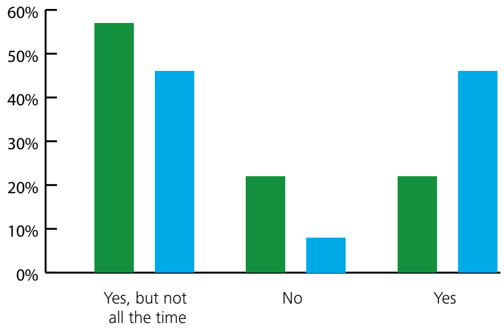

Today
Tomorrow

"In the long term it is important that banks are transparent. Unfair comparisons of apples and pears are often made in the media."

How banks will – or will not – charge for advisory services in the future is an area of uncertainty for banks. While there is a belief that the overall trend, including the perception of what the regulators desire, is for advisory services to be charged separately, the banks are concerned as to what this will imply. Who will be the first mover to charge for advisory services outside of the private banking segment? Will customers be prepared to pay for it or will they rather forego it? Digitalization is the key enabler for being able to provide advice on a cost effective basis, keeping it free.

Another complex topic is the willingness of banks to provide transparency into the effectiveness of their advice. The respondents see themselves becoming more transparent, even if this is difficult.

**Do you provide transparency towards customers in how your advice has performed compared to the market, i.e. index or similar?**




While there is broad acceptance of the notion that such transparency will increase in general, there are many views on how this can be achieved and its relevance for the customer. While comparisons on the results of individual products such as funds is already the norm, tracking the effectiveness of more holistic advice – whether accepted by the customer or not – is more complex. Even in the private banking segment, performance reporting is limited to the actual portfolio. To tell the customer that if they had followed the advice they would have been better – or worse – off is difficult since it is hard for non-professionals to simultaneously evaluate the result, the risks and the time involved.

Yet another key issue is the age-old conflict between short term profitability requirements and providing neutral, unbiased advice to customers. While respondents believe such advice is paramount to the long term customer relationship, it is clearly a difficult matter. To some extent, future regulations prohibiting kick-backs could actually work against this – the incentive to sell one's own products may increase if there is no margin in distributing products from other institutions. Respondents are also uncertain if customers want a situation where they actually pay for neutral, unbiased advice to invest in products from different providers. While this technically could make sense, it is a major change from the traditional model based on a "trust relationship" with the bank where the customer is willing to buy its products based on (free) advice.

"This is an important but difficult question. But the starting point should always be to provide advice that is best for the customer's needs."

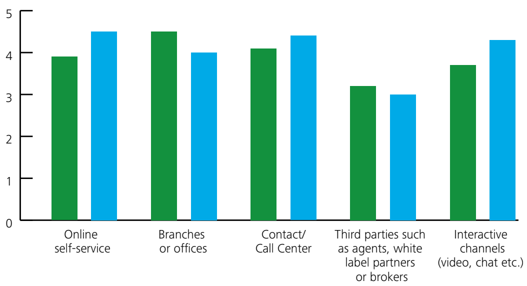
## Digital advice becomes more important and requires sophisticated IT capabilities

> "Customers will not meet their bank physically in the future."

Digital advice will become very important, driven by many factors including cost efficiency; however banks do believe affluent customers will need to be offered face-to-face meeting as well – as a complement to, not a replacement for, digital advice. In future, this will primarily be true for those more affluent customers due to the increasing cost, risk and regulatory complexity of providing advice, while digitalization will be the enabler for providing advice to the mass market. Simplification will be important in order to enable digital advisory services.

Respondents see branches as less important and all types of digital channels as more important in the future. Interestingly many banks in the Nordics believe agents, partners and brokers will play a slightly less important role in the future.

**Importance of different advisory services channels today and in the future**



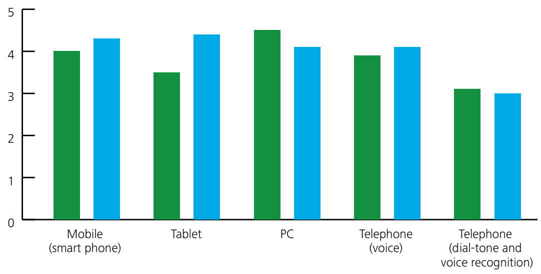

> "Self-service branches with video chats are expected."

DDigital advisory services are not just about providing basic advice in response to form filling. Much more intelligence will be necessary to maintain the relationship with customers so sophisticated IT capabilities will be required. One example of the difficulties faced is that advisory services are inherently complex because it is difficult for many customers to understand risk, especially over time. The digital advice of the future may include advanced internet solutions and apps, but also virtual meetings with real advisors using the phone, chat or video.

An innovative example of a searchable voice recording is from the UK where Calltrunk has created a cost efficient call recording solution that provides a search engine allowing users to do text searches of audio such as recordings from call centres, videos, lectures and conference calls. As banks continue to move towards non-face-to-face channels, the need to record and easily recall verbal instructions is becoming increasingly important. This would provide an opportunity for customers to leave voicemails which the banks could trawl and allocate to the best work queues.

Over time tablets and, to an extent, smart phones will become more important and the PC less so.

**Importance of different devices today and in the future**




One interesting topic is who will provide the digitalized advice in the future. Banks clearly have an ambition to do this in order to preserve relationships, but will customers want to have it? Or will they prefer to make decisions based on the "wisdom of crowds", which could be anything from blogs to a Tripadvisor for financial products? Players such as Morningstar already provide ratings for individual products, and it is not a big step to more comprehensive advice.


Today
Tomorrow

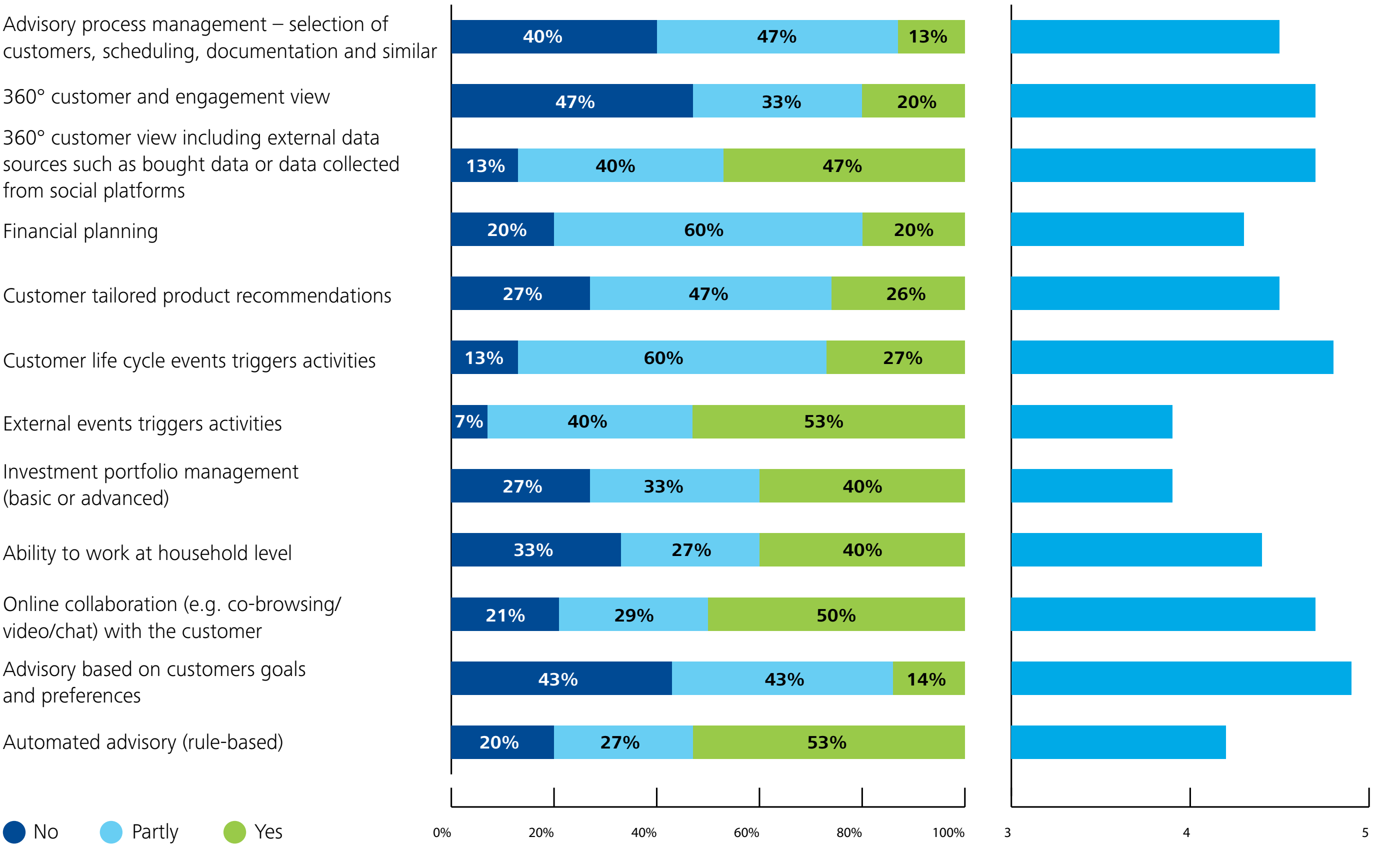
## Business and IT capabilities in the future

Less than half of the respondents have basic capabilities such as a structured advisory process, advice based on customer goals and preferences and a 360 degree view of the customer fully in place. For more advanced functions, even fewer have capabilities such as automated rules-based advisory services, advice triggered by external events and online collaboration.

Yet, respondents rated almost all of these capabilities as important or even critical in the future.

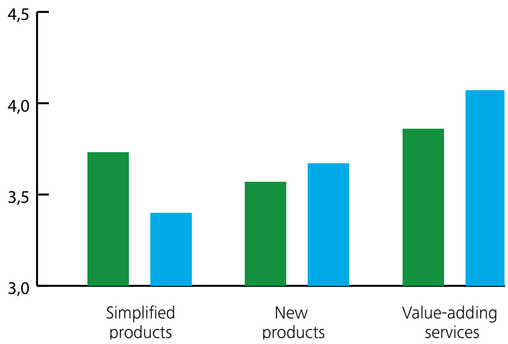
Business capabilities implemented today

Importance of different business capabilities in the future



While digitalization and customer relations are at the top of the agenda, banks of course also focus on products and services. Interestingly, in the future banks see a need to keep developing new products but even more so to develop different types of value adding services such as simplified and "bundled" products and integration with mobile channels. Currently however, there is a focus on streamlining the product set and simplifying the products – which have often grown organically over the years, while digitalization will require a more coherent and well-structured set of products.

**Which products and services are important for advisory to support sales and customer relationship?**




One example of an innovative product is from NAB unit Ubank which has launched a site that pulls together anonymous transaction data to identify trends and allow visitors to compare their spending with that of their fellow Australians. With more than one billion numbers crunched, site users can search by area, gender, age, income, and living factors to identify trends and insights and compare their habits to those of peers.

Another example comes from Barclays which is launching new personal financial management software for its customers, including a range of financial management tools.

When asking respondents about the IT capabilities supporting their business competences, it is striking that very few have the right IT capabilities fully in place. However, this is not surprising considering the complexity of the IT architecture of many banks. Many of the IT capabilities banks lack are quite foundational, such as having an integrated IT advisory solution which can be leveraged across channels. Others are more future-oriented, such as leveraging Big Data in a customer relationship management and advisory context. Also, few banks have STP (Straight Through Processing) capabilities for all products in their self-service channels, although this is deemed to be mainly due to regulatory and bank policy constraints.

As with their business capabilities, banks consistently rate these IT capabilities as important or even critical in the future. Of particular interest is the high priority given to having advisory capabilities across channels and the importance of Big Data in the future.

Overall, the institutions who responded to the survey clearly see this area as one of increasing importance in the future. They also indicate there is substantial work ahead to meet future requirements. This is true for the IT support needed in the future, but also for more fundamental topics such as organization, culture and governance.

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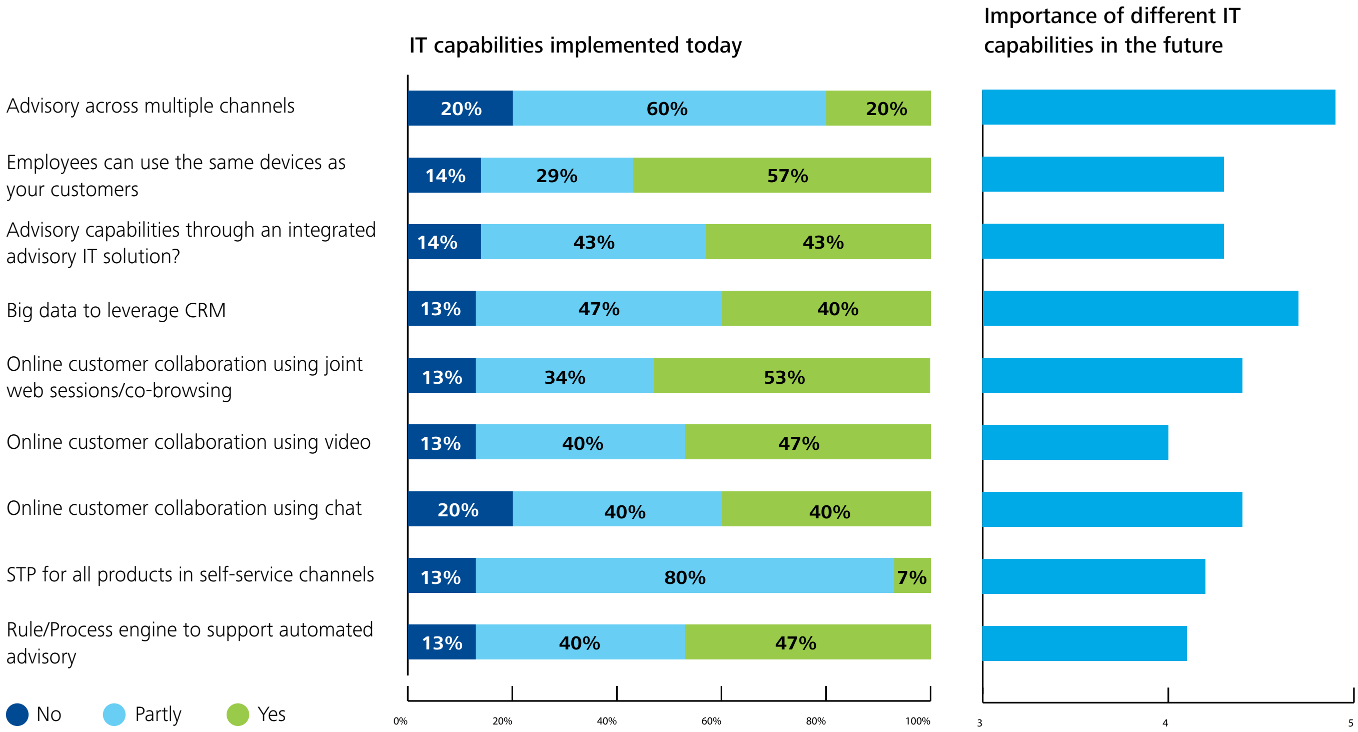
Tomorrow


IT capabilities implemented today
Importance of different IT capabilities in the future
Advisory across multiple channels
20% 60% 20%
Employees can use the same devices as your customers
14% 29% 57%
Advisory capabilities through an integrated advisory IT solution?
14% 43% 43%
Big data to leverage CRM
13% 47% 40%
Online customer collaboration using joint web sessions/co-browsing
13% 34% 53%
Online customer collaboration using video
13% 40% 47%
Online customer collaboration using chat
20% 40% 40%
STP for all products in self-service channels
13% 80% 7%
Rule/Process engine to support automated advisory
13% 40% 47%
No
Partly
Yes
0%
20%
40%
60%
80%
100%
3
4
5

# Key topics – Customer segmentation and regulation

## Introduction

In the course of our work with this study, two additional key topics emerged during the interviews – those of customer segmentation, or analytics, and the impact of regulation.

"Customer relations are not enough. We [banks] must improve our ability to convert relations into business. Here, smarter segmentation is of key importance."

## Customer Segmentation

The majority of banks are working in a relatively traditional manner with segmentation of customers, using segmentation models based on demographic data, size and breadth of the engagement, future potential, age, income and type of housing. Some banks are exploring behavioral models but in the future we may also see more real-time analytics-enabled "segment of one" models which are both individual and dynamic. Such models may become important in the face of digitalization. This is likely to include more sophisticated measurements of customer profitability which most banks still struggle to get fully in place.

We envision that leveraging internal and external customer information will be one of the most important areas for financial institutions, as well as for other industries, going forward. Today's simple models will be replaced by more sophisticated data driven models including "segment of one" models leveraged in real time across channels and the digital landscape. We will also see many entirely new business applications and "use cases" enabled by this technology. Most banks believe achieving this type of sophistication in customer analytics will be much more challenging than actually developing and deploying the expected digital solutions.

Although the financial situation of many customers may become more complex over time as pension systems are changing and the equity markets remain volatile, there is a strong belief among banks that products need to be fewer and less complicated. Among respondents, there is a commonly perceived trend that customers tend to move away from complex offerings, such as structured products, as well as from actively managed offerings, for example from higher priced funds in favor of lower priced index funds.

## Regulation

Banks see significant challenges with the amount of new regulation which has come and which is expec-

ted over the coming years. One aspect is that this will drive administration and cost resulting in a real risk that advisory services will be even more concentrated on customers with higher net worth, as only such customers can motivate banks to take on the extra cost, effort and regulatory risk. There are also concerns that various regulations have slightly different rules. For example one regulation may stipulate that data should be saved for ten years while another says "for as long as there is a relationship". This makes being compliant more complicated.

The respondents also see that some regulations may break up traditional value chains, and facilitate the emergence of aggregators and similar players. Although it is however believed this will take a long time, it is nevertheless something banks must be aware of and act on.

"There is a real risk that customer advice will be provided to fewer and only profitable customers in the future."

Supervisory authorities play an increasingly important role in the customer relationship and advisory field. Several new regulations, such as MIFID 2, are aimed at protecting customers from poor advice and delineating advice and sales.

Financial regulatory authorities perform their formal role not only in terms of (for example) reviewing documentation from customer interactions, but also stay in touch with the market including maintaining contact with dissatisfied customers to better understand how the market can be improved. One concern, still prevalent in spite of market developments, is the proliferation of high margin, sales-driven products as opposed to needs-driven products.

Digitalization of advisory-related customer interaction is on the agenda of the financial regulatory authorities but a clear view has yet to emerge. On the one hand, benefits can be seen in terms of a more structured and consistent customer interaction of good quality and with automated documentation. On the other hand, losing the benefit of the subjective judgment of experienced customer advisors who can spot nuances is viewed as a downside. An additional aspect is that automated documentation, packaged in a sophisticated manner, could mislead the customer and give the view that its quality is as good as its packaging.

The financial regulatory authorities also express many of the same concerns as banks. Will those customers who do not embrace digitalization become disenfranchised? How will digital solutions be programed to strike the right balance? Is there a risk that questions will become leading, and how can one ensure a "mutual understanding" between an individual and a piece of software? An upside could be that digitalization may allow banks to introduce more behaviorally-based questions to ascertain risk appetite rather than just asking the customer; however there is a risk that the customer over-values the upside and does not truly (want to) understand the downside.

An interesting aspect is the future role of social media, blogs and internet forums – when is the threshold passed from a general discussion to someone, often unidentified, providing advice and recommending a product to someone else? The scope of financial regulatory supervision may need to be reconsidered in a digital future.

"Some regulations are old-fashioned and not designed for modern banks."

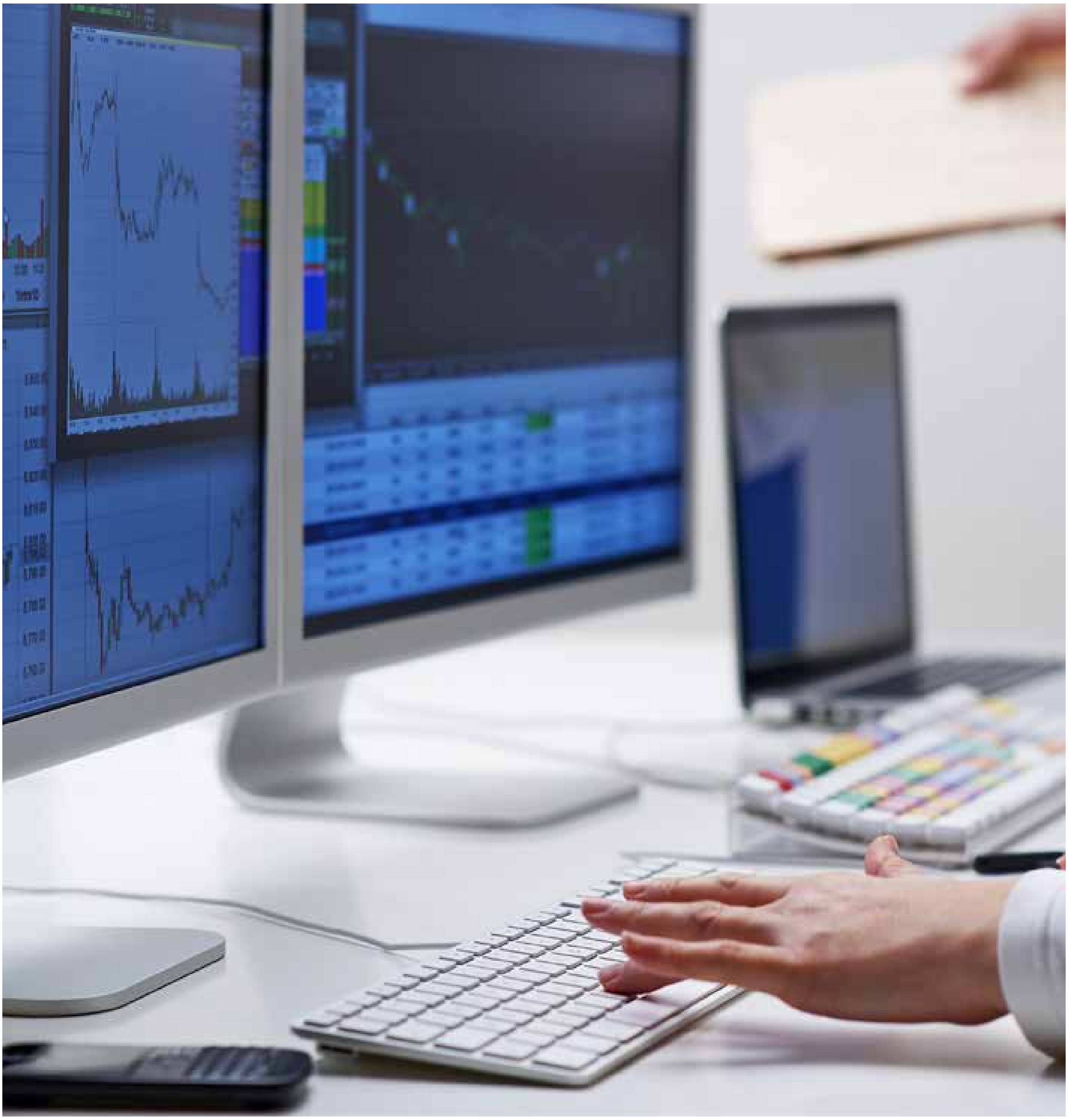
# What is the call to action for the banks?

The banks themselves have clearly identified digitalization as one of the key areas of transformation in the future, where maintaining close relationships through providing advice – something more than just commodity products and services – will be important. And while struggling with how to come to grips with this, there is an increasing amount of regulatory pressure in this area.

At the same time, it may transpire that the upcoming changes will be larger than banks – and others – can foresee today. Rapid technological development, increasing mobility, advanced analytics leveraging Big Data becoming usable in practice, social media, changing consumer behavior, cloud, gamification and new players addressing the traditional value chain of banks in new ways converge to drive change more rapidly than ever before.

So what is the call to action? We already see organizations starting to appoint Chief Digital Officers to ensure these topics are on the C-suite agenda, and this may be one approach to start addressing the future. We believe the following actions should be at the top of the agenda for retail banks going forward:

- Consider how to establish capabilities, responsibility and accountability for digitalization of advisory services, as well as other services, in the future as well as how these relate to other channels. Possibly appoint a Chief Digital Officer?
- Develop a roadmap for digitalization reaching beyond the traditional online and new mobile banking applications.
- Consider how to create true customer insight by leveraging internal and external customer information, and deploying new types of analytics-driven business applications providing new value.
- Focus on the customer experience. Shift focus from functions and features and even processes to providing a competitive customer experience. This will have a profound impact on the banks' process for qualification and development. This perspective is particularly important for advisory services which are inherently complex. There are many indications suggesting that banks focusing on customer experience are more successful in the long term.
- Deploy a customer-driven qualification and development process. It is too hard for banks to guess the customers' expectations. Therefore, the customer community should be formally integrated into the qualification and development process for advisory services.
- Make sure key IT capabilities for future advisory services are in place. See next chapter.



# The role of IT in the digitalized future – our point of view

## Introduction

Banks struggle to differentiate their traditional services and products. Instead, we believe value-added services will become increasingly important for banks in their efforts to renew the banking experience and create opportunities for differentiation. Results from the study show that advisory services are in focus and will become an increasingly important value-added service for banks to develop. Emerging technologies give new opportunities to enhance and differentiate advisory services. At the same time, we see that further regulation in this area could have the opposite effect, making it more challenging to develop cost effective advisory services that provide competitive customer experiences.

In general, we believe that the banks' strategy for development of IT services should be increasingly based on standard solutions and cost sharing. In the case of future advisory services, we see that they will be based on standard solutions in combination with a high degree of customization of the service distribution in order to seize the opportunities for differentiation.

It seems clear that new IT solutions for the digital age will be crucial for banks to succeed in the longer term. Although already important for banks, IT will more than ever before become an intertwined part of the acquisition and execution of business.

The following describes the key capabilities of standard solutions and service distribution architectures that we consider particularly important in order to position the banks to meet customers' future expectations of advisory services.

## Customer experience IT capabilities

Banks are starting to move advisory services into self-service channels. Distribution of advisory services through self-service channels is a challenging task. Advice potentially spans across all the banks' products and services and regulations governing this area place great demands on information gathering, traceability and documentation. All in all, this means that GUI (Graphical User Interface) design will be crucial for delivering a competitive customer experience. Tomorrow's banking customers expect advanced services, but at the same time an easy and intuitive customer experience which includes elements of gamification to enhance interaction and attractiveness. We see a paradigm shift in tomorrow's service distribution architecture which moves the execution of the GUI and interaction from the server-side to customer-side. Key technologies and standards enabling this shift towards customer-side execution are CSS3 and HTML5/JavaScript. We see this shift as the single most important contributor to the next level user experience in self-service channels paving the way for more advanced services including advisory ones.

## Customer insight IT capabilities

Segmentation of customers and prospects has long been a focus area for banks. It aims to understand who the customer is, what their needs are and matches these needs against the banks' products and services. The traditional advisory process is relatively costly, including several manual steps. Banks focus on streamlining the advisory process and refining their targeting of customers and prospects to improve their odds of converting relationships to increase business.

Today's segmentation is mainly based on historical data and the analysis is generally done in advance of the advisory meeting. A new generation of tools and techniques for customer analytics makes it possible to complement the traditional IT support for segmentation with predictive and guiding IT support in the advisory meeting. Today it is possible to base customer analysis on a broader and deeper information base that combines the bank's traditional structured information with unstructured data. Unstructured data could be textual conversation or recorded speech that (for example) emanates from interactions on social platforms (private or public from the banks perspective) and the spoken dialog between the bank and its customers. The new generation of tools, based on advanced statistical theory and behavioral sciences enable analysis of unstructured data, up-front or in real time, and support the bank and the customer prior to and during an advisory meeting. This IT support enables the bank not only to establish what significant business events have occurred, but also why and what is likely to occur in the future. Ultimately, these tools also allow banks to control and influence what will happen. The latter is obviously more controversial and must be balanced against regulations governing the advisory field where a distinction between sales and advice must be observed. It is interesting to see the influence that retail (behavioral and influence analysis) and insurance (advanced predictive models) will have on traditional banking in the near future.

## Service distribution IT capabilities

Future distribution chains for advisory services are likely to change, or be complemented by other models in which new players and partners step into the arena and


take responsibility for part of the traditional distribution chain. This presents opportunities for banks to reach a larger group of customers, but also raises challenges and questions about who owns the customer and who has access to customer insight information.

Whatever the banks choose for their distribution model, we recommend establishing a distribution architecture that is flexible enough to support the various distribution strategies and create the opportunities for integration with external vendor solutions and concepts in any part of the value chain.

We are seeing the emergence of a new type of player acting as service aggregators who deliver on the promise of offering a user-experience that aggregates a customer's engagement, potentially across several financial institutions. These players can typically offer strong value adding services by including social networks and "wisdom of crowds" services. An important step in creating this flexibility is the shift from server-side to customer-side execution of the GUI and user interaction. This promotes a clear separation of applications (web and native) executed on customer devices from the bank's enterprise services executed on the server-side and published as services on the internet. This separation in architecture also creates increased flexibility in the bank's global sourcing strategy for application development and maintenance.

## Master data IT capabilities

Future advisory services will be available in self-service channels and these services will depend on IT capabilities for managing process automation, execution of bank policy and guidelines, regulations, risk, cross-advisory and pricing models. These capabilities are essential to improve the bank's capabilities to increase its business with customers via advisory self-service channels. Furthermore the banks emphasize the importance of packaged offerings that can be matched to the customer's life events and situation.

To effectively support these business needs we believe that key capabilities must be provided by MDM (Master Data Management). It is important that the banks continue their efforts of core banking renewal. Instead of a big bang transformation, the approach should start focusing on the renewal of MDM, and moving away from silo architecture to a consolidated model for management of customer, product, pricing and agreement information. This will strengthen the bank's capabilities to be flexible in pricing of products and packaged products and services and to be able to provide tailored offerings to meet customer needs.

The continued focus on customer segmentation that drives the notion of "segment of one" will put even more emphasis on these capabilities. The longer term need to evaluate and identify cross-advisory opportunities, create matching offerings, and do so dynamically during the ongoing advisory process, also underlines the importance of the underlying capabilities of MDM.

# About the survey

The retail banks and life & pensions institutions who responded represent a selection of the largest companies in the Nordic countries. The survey was carried out as a web-based questionnaire in late 2013, with 20 respondents in total across the Nordics.

In addition to the web survey, face-to-face interviews were conducted in early 2014 with 10 financial institution. Also, a Nordic financial regulatory authority was interviewed on their role and view on the regulation. We have also been inspired by a variety of proprietary Deloitte research and EVRY's experiences from delivering IT advisory services.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