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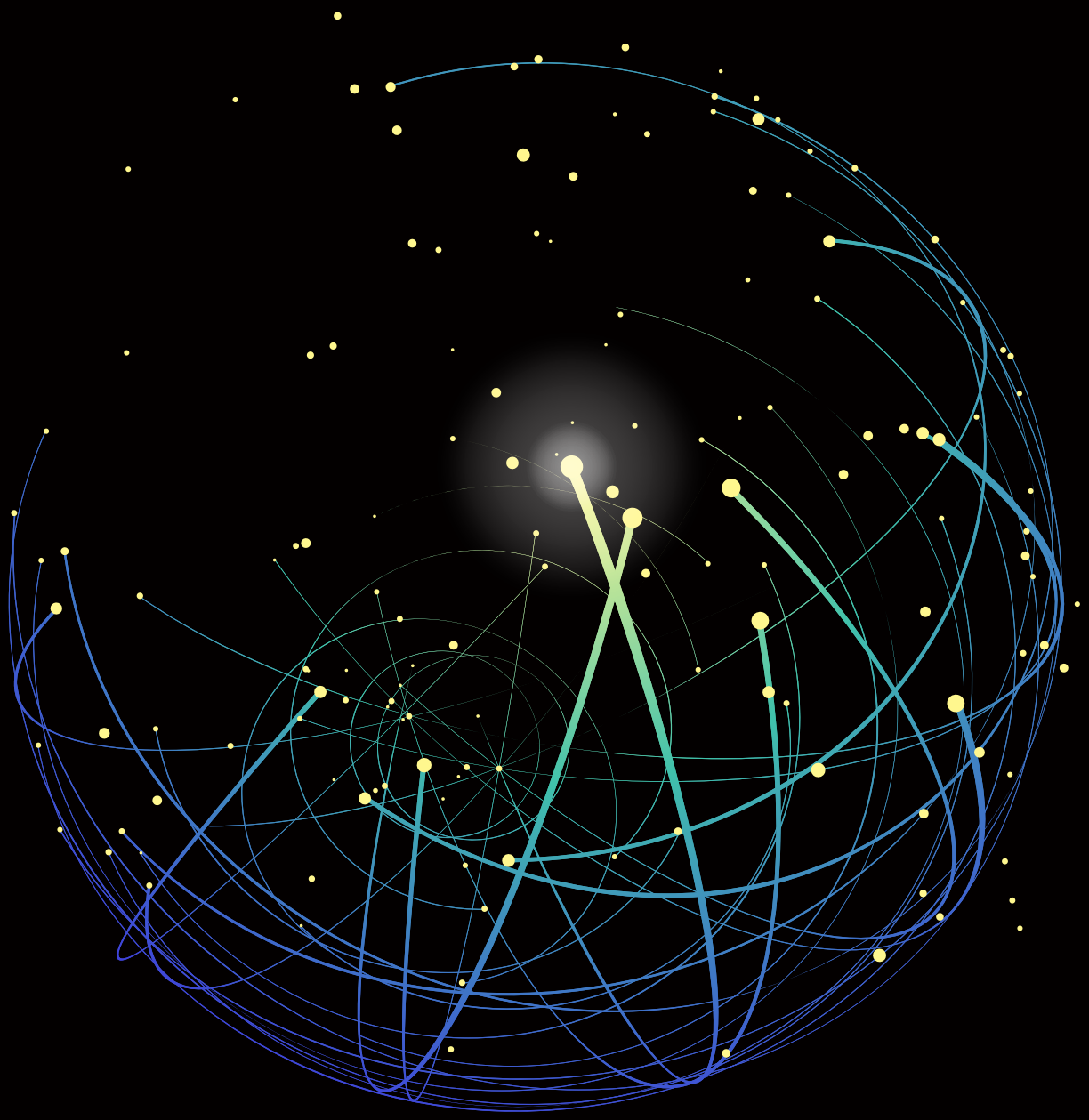
Digital: Yay or nay?

- Backing up the digital front: Digitising investment suitability
- Payments and the future of mobility
- Bringing digital to the boardroom: The impact of digital transformation on companies' boards
- Recognising the value of bank branches in a digital world



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In this issue

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Foreword

As digital technologies permeate all aspects of operations, organisations are required to anticipate the need for massive change and adapt fast enough to survive and thrive in an increasingly digital world. However, the path is not easy and can sometimes demand significant changes to organisational structures, systems, and processes.

So, how can financial institutions capitalise on digital transformation and determine which areas will provide the greatest benefit their business? In our first article "Backing up the digital front: Digitising investment suitability", we discuss a hot regulatory topic for private banks and wealth managers – investment suitability – and the need to digitise the decision making process based on customer needs.

With the evolution of mobility, consumers are increasingly expecting seamless payment processes that are integrated and secure, bringing both risks and opportunities for payment providers. In "Payments and the future of mobility", we take a look at how payment providers have to find their role in shaping the new mobility ecosystem to not risk losing importance for their current customers.

Next, we turn our attention to something internal – the boardroom. Digital transformation is high on the agenda for many executives and boards of directors, but rarely do they consider how it can bring about new challenges for the companies' boards. We interviewed board members and corporate secretaries to determine how digital technologies may affect boards and what boards should keep in mind as they embrace digital transformation.

Based on findings from the Deloitte Global digital banking consumer survey, our final article explores the value and relevance of bank branches, offering recommendations on what banks could be doing to rethink the branch experience in an increasingly digital world.

We hope that you will find this issue of the FSI*Review* an interesting and insightful read.

Ho Kok Yong
Financial Services Industry Leader
Deloitte Southeast Asia

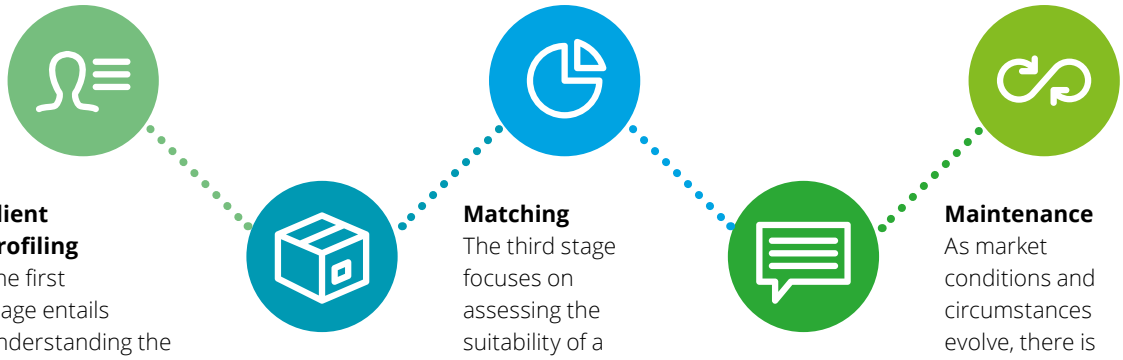
Backing up the digital front: Digitising investment suitability

For private banks and wealth managers, investment suitability is a hot regulatory topic and should be at the heart of front-office digitisation efforts. Increasingly, supervisors are expecting private banks and wealth managers to strive for good customer outcomes and demonstrate that their decision-making processes are centred on an understanding of customer needs.

Recent regional developments include the introduction of regulation on the offline distribution of complex products by the Hong Kong Monetary Authority in October 2018, and the Financial Service Agency of Japan's Principles for Customer-Oriented Business Conduct, which were finalised in March 2017.

Although regulatory specifics differ between jurisdictions, the underlying fundamental principle remains consistent: an investment product ought to be aligned to a customer's risk profile and appetite, and can be assessed through a five-stage investment suitability process (figure 1). In instances where the product is considered to be unsuitable, such as where there is a high probability of unacceptable losses, the obligation is on the banks to control the selling process and protect the customer.

Figure 1: Five stages of the investment suitability process



Client profiling
The first stage entails understanding the client's risk profile and appetite. This is typically assessed through the use of an IPQ that covers details such as the client type, investment objectives, risk appetite, investment time horizon, and other key client metrics.

Product profiling
The second stage entails understanding the product's risk profile. This includes assessing the associated risks of each product type, including its time horizon, liquidity characteristics, counterparty risks, investment objectives, as well as other special features.

Matching
The third stage focuses on assessing the suitability of a product for a specific client to ensure that the client's risk profile matches the product's risk profile. If these do not match, the focus then shifts towards mitigating the risk through appropriate disclosure or acknowledgment from the client of a mismatch.

Disclosure
At this stage, the client is informed about the risk of the product. If a risk mismatch has been identified in the previous stage, there may also be a requirement for the client to acknowledge that they accept the mismatch.

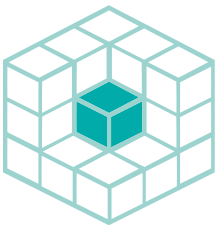
Maintenance
As market conditions and circumstances evolve, there is a need to put in place the necessary controls and ensure ongoing and regular assessments of the suitability of products to clients.

Matching a product to a customer's needs is the core requirement

For private banks and wealth managers, the regulatory pressures are pushing players to adopt a more proactive stance where a deep and ongoing understanding of the customer drives the selection of investment products.

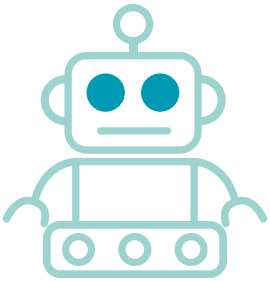
To do this, private banks and wealth managers have to address five key themes, each posing their own unique set of opportunities and challenges:

Enabling effective client suitability assessment
In order to enable effective client suitability assessment, the development and rollout of an Investment Profile Questionnaire (IPQ) during the client profiling phase (see figure 1) will need to take into consideration the volume of information that is required for an operating model to apply across different jurisdictions, where requirements on data capture may diverge. An effective IPQ is one which supports a single operating model where client information can be compared across various client segments and jurisdictions to build a deeper understanding of client risk appetites and corresponding product suitability.



Building a comprehensive product data suite
Building a comprehensive product data suite is critical to ensure that product attributes are consistently captured across locations and asset classes, whilst facilitating better comparability between different product types, and enabling private banks and wealth managers to offer a better range of products to their clients. Although more complex asset classes may present challenges in terms of data sourcing, effective data laddering can also help to overcome some of these issues.

Customising product offerings
Technology is a key enabler for private banks and wealth managers to offer their clients customised product offerings. By matching data from the client profiling and product profiling stages of the process, private banks and wealth managers can obtain greater client insight across multiple parallels and offer enhanced product offerings that are customised to their client's requirements.



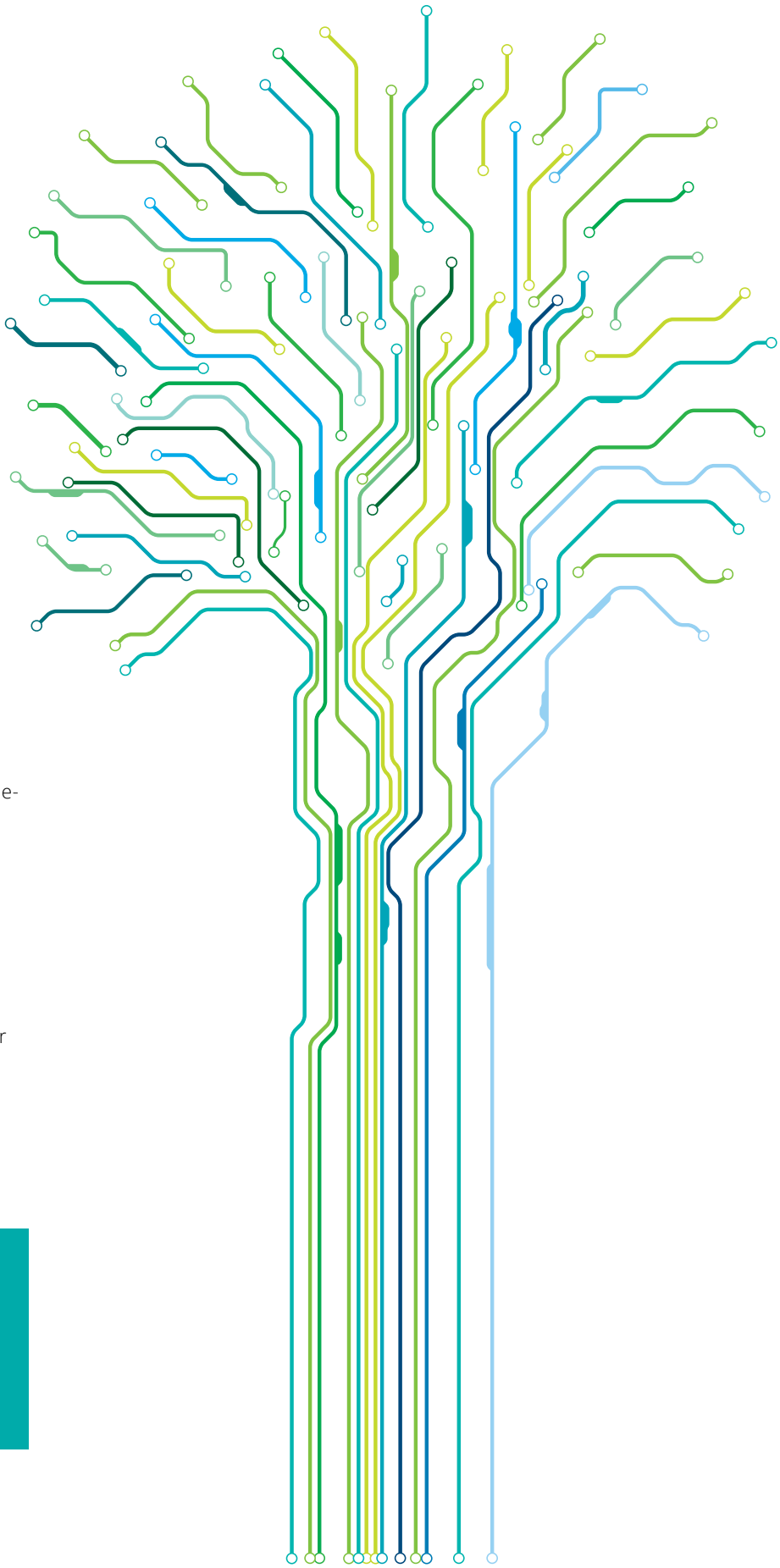
Standardisation of disclosure requirements
Disclosure requirements differ significantly across jurisdictions, with certain jurisdictions allowing the distribution of products with high risk profiles to clients with low risk profiles so long as a disclosure of the associated risk has been acknowledged by the client. The standardisation of disclosure requirements is therefore critical to ensure consistency across risk disclosures to clients. In addition, by setting up standardised platforms to automate disclosures, private banks and wealth managers can also ensure minimal disruptions to their overall sales process, while retaining a clearly documented audit trail for their future reference.

Ensuring consistent data capture

Consistent data capture protocols across the entire suitability process is crucial to facilitate ongoing monitoring and assessment to ensure that there remains a suitable match between a client's risk profile and a product's risk profile, even as both continually evolve. This requires the use of analytic platforms that are capable of efficiently consuming and assessing data. In contrast to legacy platforms where single position assessments were the focus, new technological platforms now enable first and second line controls to move beyond sample-based analysis, enabling private banks and wealth managers to leverage entire sets of data for greater accuracy and more comprehensive oversight.

Ultimately, regulators will not only be watching investment suitability but also the delivery of good customer outcomes. Ensuring that firms are not serving the wrong types of customers is a continuing regulatory priority. Robust procedures for understanding customer identity and associations, ongoing monitoring and analysis of transactions, and timely identification, and escalation and action on suspicious matters continues to be top of mind for regulators.

This article by Christian Gilmour first appeared in the June 2018 issue of the Asian Banking and Finance magazine. Christian Gilmour is an Executive Director in Deloitte's Southeast Asia Consulting practice.



Payments and the future of mobility

Consumers are used to seamless payments for most daily transactions – and they will expect integrated and secure ways to pay for any trip and service. For payment providers, that means both challenges and opportunities.

Who's paying – and how?

Leading retailers and technology companies have set a high bar for the financial services industry to create better experiences and simple, seamless integrations that can make traditional banking, payment, and other related activities easier to accomplish. The advancement of omnichannel commerce and the presence of leading technology companies have specifically driven the industry to become more open and enable improved payments experiences. And payments are already becoming easier: Most commercial websites, browsers, and smartphones can store credit-card information[1] and allow instant payments and transfers to merchants or contacts, and the first stores and restaurants are going cashless.[2]

There's no reason why consumers wouldn't expect the same or better level of ease and convenience when engaging with the evolving mobility ecosystem that moves them and their goods about. Someone who uses an app to navigate a trip through a bike rental, a taxi ride, a package pickup, and a food delivery[3] would expect an integrated, private, and secure way to pay for any trip and service.

With today's shopping and bill-paying, there's a great deal going on behind the scenes. A smartphone user might rely on a couple of one-touch payment apps,[4] but underneath that clean interface lies a shifting, complex infrastructure of companies that are building a new ecosystem by partnering in new ways.

The future of mobility is arriving with a whole new set of players and services that are expected to expand that ecosystem further. Most expect transactions in the new mobility ecosystem to be a bundle of services covering one or multiple modes of transportation as well as some ancillary services. Facilitating the flow of payments for such a mobility-as-a-service platform will likely be an important component,[5] which means that, in order to be successful, payment providers would have to find their role in shaping the new mobility ecosystem or could risk losing importance for their current customers.

In this article, we look at how the evolution of mobility is likely to affect payment providers, and what opportunities they have to be successful in this rapidly changing ecosystem. The goal is clear: Payments in the future mobility ecosystem should be transparent, seamless, integrated, and highly convenient.

1. "Default" payment methods. https://www2.deloitte.com/content/dam/insights/us/articles/3374_Default-payments-digital-reset/DUP_Default-payment-methods-digital-reset.pdf
2. No shirt, no swipe, no service. https://slate.com/business/2018/07/cashless-stores-and-restaurants-are-on-the-rise-to-the-delight-of-credit-card-companies.html
3. The future of mobility: Ben's journey. https://www2.deloitte.com/insights/us/en/multimedia/videos/roadmap-for-future-of-urban-mobility.html
4. Sending money to a friend? Which is the best app for that? https://www.digitaltrends.com/mobile/paypal-vs-google-wallet-vs-venmo-vs-square-cash/
5. The rise of mobility as a service: Reshaping how urbanites get around. https://www2.deloitte.com/insights/us/en/deloitte-review/issue-20/smart-transportation-technology-mobility-as-a-service.html

Promise and challenges in the new ecosystem

The payments industry is facing considerable change largely because of factors such as digitalisation, the increasing prevalence of omnichannel customer experiences, and the ongoing shift from owning assets to the sharing economy. Fifteen years ago, the average consumer typically used two touchpoints when buying an item. Today the average is nearly six.[6] About half a trillion dollars of the associated purchases were done through the use of mobile payments, a medium growing at about 80 percent a year.[7]

In some ways, the future of mobility represents an extension of these changes, and the shifts unfolding in transportation could have similarly dramatic impacts on the market for payments there. Mobility itself already represents an enormous set of transactions, both overall and its component sub-markets. Changes in the mobility ecosystem could increase revenue opportunities for mobility players facilitating the transactions, as new options and modes of transportation become viable. But those changes will likely rearrange payment flows and unlock new experiences, meaning rapidly shifting markets and a host of fresh challenges for payment providers.

While complex, from a payments perspective, the key roles in the integrated, multimodal journeys of the future are likely to be:

- **Mobility consumers:** People who may not initiate every transaction in the new mobility ecosystem, but who would be at least indirectly end users of all services, including those consumers attempting to complete mobility-related transactions while in transit.
- **Mobility merchants:** Businesses offering services to the end consumer indirectly via a mobility platform, for instance, a ridesharing provider, in-transit entertainment and content supplier, or bicycle rental company.
- **Mobility managers:** Parties who could aim to provide end consumers with tailored, integrated travel options and an array of ancillary services, such as entertainment and shopping. They could look to link the demand for transportation to multiple merchants.

For the payments market, conflicting forces would be at play to determine the total volume subject to fees. On the one hand, a rise of players and transactions would mean more money all around. However, there is a real possibility of a new player creating a "closed-ended" network by sitting between customers and their suppliers, aggregating the ecosystem of transactions and then settling respective balances between parties.

Payments companies should evaluate their mobility business plans and identify who is most likely to become a mobility manager so they can potentially target their most promising customers – or quickly determine how to build a platform-based business model by identifying partners needed to circumvent competing intermediaries. Already vying for positions in this space: ride-hailing providers, a variety of technology companies, some payment networks, mobility-as-a-service (MaaS) entrants, and, increasingly, automakers.

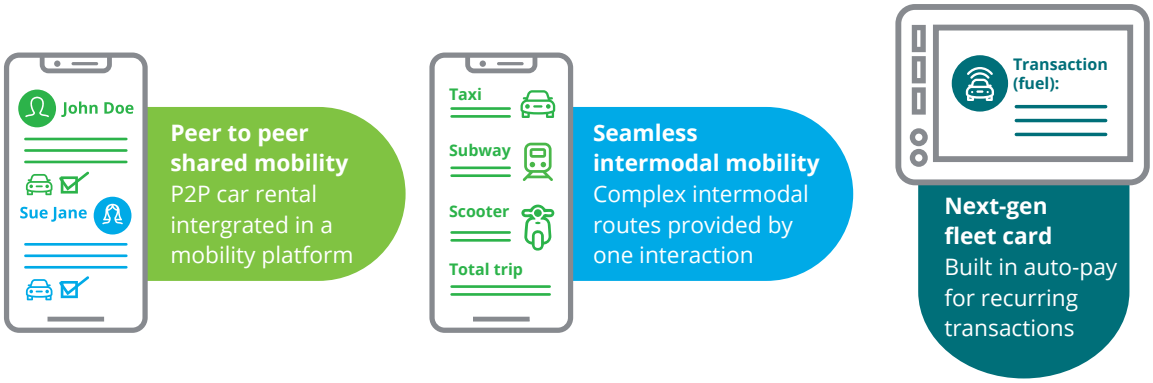
6. Omnichannel stats you don't want to miss. https://www.knexusgroup.com/show/blog/Five-Omnichannel-Statistics-You-Need-to-Know/
7. The mobile payments report. https://www.businessinsider.com/intelligence/research-store?IR=T&itm_source=businessinsider&itm_medium=content_marketing&itm_campaign=report_teaser&itm_content=full_report_text&itm_term=store_text_link-the-mobile-payments-report-2017-12&vertical=payments#!/The-Mobile-Payments-Report/p/50836835

Enabling the mobility business plan

Understandably, the more colourful elements of the emerging transportation ecosystem—from self-driving cars to airborne passenger drones[8]—have drawn the most attention. But something more fundamental will likely underpin the future of mobility: building and servicing integrated, multimodal networks. Payment providers have an important role to play in setting up the infrastructure that enables these new business plans, determining how the sources of network effects and ecosystem revenue pools—data and their flow—can be shared.

In order to enable this future state, payment providers should create stronger bonds with the mobility companies creating change: to become a preferred mobility manager supplier, to entwine providers' technology with these growing companies, and, ideally, to develop a unique insight into what changes lie around the corner. We have outlined three major opportunities in figure 1. Ultimately, the winners will likely be those able to bring together multiple players who today might be reluctant to share data.

Figure 1: Three major opportunities to become a preferred mobility manager supplier



Peer-to-peer shared mobility

The opportunity: Much of the sharing economy is predicated on repurposing underutilised assets, and the same model extends to peer-to-peer car sharing, where individual car owners rent out their vehicle for others to use. One such company, Turo, has signed up 10 million users and facilitates their transactions in its marketplace. And privately owned car sharing may well expand in coming years as autonomous vehicles become available to the general public, since self-driving cars could ease handoffs between renters and owners by traveling to pickup and drop-off points. Indeed, Tesla and other automakers have explicitly discussed this model as a way to drive growth.[9] This opportunity seems particularly promising in suburban and rural areas where density is insufficient to support rail transit or fleets of shared autonomous vehicles. For payment providers, it may offer an opportunity to pilot complex transactions that could become the norm with larger providers.

The product: No one has yet to put into place payment solutions for a universal rental system. The problem to be solved, at its core, is of carrying value from the account of a person driving a vehicle to the account of the vehicle owner, without losing too much on the way.

Take pricing: A vehicle owner would want to guarantee a profit on her rental given vehicle demand as well as her costs – vehicle maintenance, energy, parking, etc. A front to back-end payment processor could offer the visibility required to do this and, perhaps, suggest an ideal rental price, thereby becoming a source of value.

Getting there: A payment provider could look to capture this opportunity by creating a simple plug-and-play solution to enable this growing market. The five-step approach could be comparatively simple:

1. Create a low-involvement retail customer experience (payment tool, mobile-integrated vehicles, seamless customer experience) by starting a pilot with a mobility operator.
2. Ensure processing that's effective and reliable, with processing that is quality adequate for this market.
3. Bank on a high-quality, highly customisable business/customer experience.
4. Deploy across the industry using mobility-specialised implementation and consulting services.
5. Pilot the capability to service a P2P network, and leverage these findings across products.

8. Elevating the future of mobility. https://www2.deloitte.com/insights/us/en/focus/future-of-mobility/passenger-drones-flying-cars.html
9. Elon Musk offers more detail about Tesla's ridesharing network. https://techcrunch.com/2018/05/02/elon-musk-tesla-ride-sharing-network/

Enabling seamless intermodal mobility

The opportunity: Enabling users to make one transaction to set off a sequence of multiple transactions across different services – for instance, across several modes of transport with added ancillary services, on demand (individually scheduled by the user, proposed by artificial intelligence, or through saved historic preferences). This sequence could be managed via one defined interaction.

At this point, the MaaS market consists of a wide variety of players, many of which lack the capability to handle complex, secure transactions themselves. Some smaller companies may find the technical requirements daunting to set up a mobility adviser platform.

Developing this capacity and integrating it into an app or user interface, while surmounting regulatory and anti-fraud barriers, could be a high barrier to entry. On the other hand, users already have a wide variety of payment options (Venmo, PayPal, real-time payments, etc.) that developers could potentially streamline into one customer-experience offering and offer as a plug-and-play service for applications. By developing a tailored offering, a payment provider has the near-term opportunity of surveilling a business' value chain end-to-end as it services payments to its suppliers as well as consumers. This would allow the user to smoothly and quickly plan trips across all modes of transport, customised based on individual preferences. Mobility managers should enable people's ability to pay only once (front-end processing) and then have that payment distributed across multiple mobility providers (back-end processing, transactions to public transit, ride-hail, bikeshare, etc.).

The product: A payment provider can aim to offer a MaaS-specific platform that follows the value chain. When handling supplier transactions (fleet operators, fuelling, bicycle rental, ancillary services), the platform could handle cost allocations across all of a given travel segment's service providers – for instance, how much should the bicycle rental platform earn, given that a certain trip was loss-making? On the customer side, a portal could integrate all payment options that a customer might need to purchase her fare, potentially including PayPal, a credit card, or a real-time payment. Data-sharing could occur by taking advantage of technologies such as blockchain to create conditional contracts or by using token-like information versus sharing actual data across infrastructure points.

This platform would need to integrate seamlessly with a mobility adviser's enterprise resource planning (ERP) and invoicing systems. A payment provider could package the offering with implementation and consulting services, ultimately locking itself in as the preferred supplier of the MaaS company.

Getting there: Payment providers might consider risking establishing working relationships with promising players with relatively little cash flow, piloting a product with a few companies before having developed a scalable and adaptable platform with one of them. This four-step approach may require little that a payment provider does not currently do:

1. Pilot a mobility-specific payment provider capability for a promising MaaS provider; Moovel, MaaS Global's Whim, Moovit, and others are actively developing such services.
2. Refine the pilot with the provider, developing a full ERP integration to manage revenue tracking and allocations of the margins to the respective suppliers; on the front end, integrate an existing mobile-wallet solution to reduce friction between customers and the partner.
3. Approach other MaaS providers as well as companies able to take on this role in the near future (such as ride-hailing providers or autonomous vehicle developers) and offer a mobile-wallet product in exchange for transaction processing exclusivity.
4. Repeat until the winner in the market is a loyal – and digitally entangled – customer that can carry its partners into growth.

The next-gen "fleet" card: Payments facilitated by connected vehicles

The opportunity: As more vehicles become connected, there is an immediate opportunity to leverage the car as a platform to ease the payments process. The technology to do this is readily available, and developers are already testing pilots in vehicles. Applications could include tolling and congestion pricing, fuelling and charging vehicles, vehicle maintenance, parking, basic consumer products, entertainment, and more. Some network players are already leading the way: Visa and SiriusXM Connected Vehicles Services recently announced a partnership to work on a new in-vehicle payment system.[10]

By championing the potential increases in sales of redirected customer traffic, payment providers could look to convince gas stations and consumer stores to install receptors or other required infrastructure to process the payments at their retail locations, thereby improving the consumer experience. Carmakers might view this as an opportunity to add vehicle features and attract market attention.

The product: Payment providers already play the role of the intermediary between, for instance, gas retailers and logistics companies. By owning this relationship, a payment provider can develop the customer-facing tools and data analytics that could give the company a strong advantage in their segment. This industry segment offers an opportunity for significant growth: As vehicles transition to autonomous and shared, having an effective automatic and vehicle-specific payment system for fleet operators could prove extremely practical for recurring, vehicle-specific transactions such as fuelling and maintenance – and could potentially become standardised across networks.

Getting there: Payment providers could look to bootstrap themselves by creating an alliance between two existing service providers, using this four-step approach:

1. Begin with large networks involving regular transactions for auto drivers – filling stations or toll collectors – and, with utmost urgency, identify players willing to become partners on your platform.
2. Bring an original equipment manufacturer (OEM) into the conversation, using the first relationship as a pilot program for a new tool.
3. To broaden the network and its value, bring in networks selling impulse-buy products appealing to road warriors, such as drive-through donut and coffee shops.
4. Expand the capability to smaller-scale retailers and other OEMs.

10. Visa and SiriusXM team up to fast track the future of in-vehicle commerce. http://investor.siriusxm.com/investor-overview/press-releases/press-release-details/2019/Visa-and-SiriusXM-Team-Up-to-Fast-Track-the-Future-of-In-Vehicle-Commerce/default.aspx

Planning for change: Significant payments opportunities in the evolving mobility ecosystem

As outlined in our 2019 banking and capital markets outlook,[11] payments continues to be one of the most disruptive and dynamic banking businesses. Innovations being developed by incumbents and fintechs alike are reshaping the payments landscape, boosting customer expectations, and intensifying competition globally. Incumbents are looking to differentiate in areas where customer experience is fraught with friction and where disparate data has the opportunity to be brought together. This holds ever truer in the evolving mobility ecosystem. To seize these opportunities, incumbents should consider restructuring their organisations around customer solutions rather than products. As the contours of the future mobility ecosystem begin to take shape in this innovative space, payment providers appear to face two strategic choices:

a. **Engaging with emerging mobility managers.** The crux of the challenge could be the way in which players negotiate the arrival of a new entrant: the mobility manager. This new actor sits between consumers and suppliers, planning, booking, and ticketing all transactions related to mobility requested by its users, and becoming the market's main consumer-facing entity, consolidating all those payment processes – for bike rentals, taxi rides, refuelling, and more – into one. And some of the processes would require serious rethinking for operators. For instance, the costs associated with fuelling, maintaining, and insuring vehicles, as well as costs linked with infrastructure (think tolls), would likely become broader B2B transactions as street traffic transitions to autonomous cars managed as fleets. This would require different business models and behavioural shifts in how data flows through the system and is shared.

b. **Go big or focus.** To go big, aim to become a platform provider or even take on the role of the mobility manager. For those payment providers considering a move into the mobility management role, however, such a shift could face stiff competition from a host of players potentially better suited to that business, ranging from ride-hailing services to mobility-as-a-service operators and automakers. Alternatively, payment providers can focus by identifying and serving new niche markets – such as servicing peer-to-peer car rentals or helping implement vehicle wallets – in the mobility ecosystem and designing better user experiences or creating white-label offerings that can be used by other players.

11. 2019 banking and capital markets outlook. https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Financial-Services/gx-fsi-dcfs-2019-banking-cap-markets-outlook.pdf

Next-gen capabilities required in the future mobility ecosystem

Competing successfully could require a variety of new capabilities: fleet optimisation, dynamic route planning, integrated electronic ticketing, and close collaborations with city governments and mobility operators.

In the mobility payments space, network effects could benefit players in such an ecosystem if they find a way to legally, safely, and instantly share the needed data with each other across infrastructures that are currently distinct. Depending on how actors will build the network, mobility merchants can displace such intermediaries if they are able to quickly build valuable platforms. But for any of these technologies to have maximal impact, data is key.

The strength of data

Payment providers may need to bring together disparate data across multiple functions and systems. Players can create new services, as well as use big data and analytics to help improve the customer experience across the mobility landscape. Although data is plentiful, it is often not easily accessible, sufficiently clean, or integrated – and especially not shared. Sorting this out now could result in a first-mover advantage through creating and owning standards such as authentication, risk modelling, fraud prevention or tokenisation, and analytics to glean insights from the data.

Data infrastructure required

The future of mobility won't likely emerge without operators and passengers being able to deal with payments smoothly and efficiently, and that offers payment providers an important role to play in setting up the underlying digital infrastructure. Proactivity is likely a key to success, even if it means considering more risky investments. The data challenge becomes more daunting as data integrity increases in importance. Regulatory expectations can further elevate the role of effective data management. Regulatory requirements must be complied with and security concerns overcome, as well as new business models devised that value the sharing of data over hiding it behind individual company walls. Key industry players that process large chunks of payments hold the key to most of the data and insights and are building analytics capabilities to harness them.[12] Already, payments analytics architectures are increasingly evolving toward integration between mission-critical payments systems and analytical applications, enabling a new mobility payments ecosystem that crosses company borders.

Payment providers should be able to navigate the dramatic changes arriving soon, by leveraging their current technology and expertise to partner with mobility companies and become preferred suppliers. As tomorrow's passengers drop off rental bicycles and climb into self-driving taxis, they'll need clean, intuitive interfaces to move seamlessly within the ecosystem. Taking baby steps to prototype businesses for problems that already exist in mobility today is how payment providers could get there.

This article is an excerpt of the article "Payments and the future of mobility" by Deloitte Insights. For a copy of the full report, go to http://www.deloitte.com/insights.

12. InFocus: Payments trends 2019. https://www2.deloitte.com/us/en/pages/financial-services/articles/infocus-payments-trends.html

Bringing digital to the boardroom: The impact of digital transformation on companies' boards

Digital transformation is not just about adopting new technologies. Its significance, especially in the business world, extends to how technology can be used to create – and sustain – a competitive advantage.[13]

As such, digital transformation, along with the potential for disruption, is high on the agenda for executives at many financial institutions, as well as their boards of directors. Boards are increasingly discussing the topic,[14] not just with management, but also with line employees. Many boards are keeping a close eye on the latest technological innovations, such as artificial intelligence (AI) and blockchain, and they are taking a strong interest in their businesses' strategic choices around technology.

However, though boards are paying more attention to digital transformation, their discussions tend to focus on the potential impacts that digital presents to the organisation as a whole. Rarely, if ever, do they consider the question of how digital transformation may affect the role of the board itself, and how board members engage with each other and with management. Yet boards are not immune to the impact of digital on the organisations they oversee.

We posit that digital transformation can have a marked influence on how boards function and communicate, and that boards could have much to gain from the thoughtful use of digital technologies to execute their role. At the same time, however, digital can also raise new challenges and hinder what boards are able to accomplish.

To explore these challenges, we interviewed board members and corporate secretaries from select major financial institutions, including banks, insurers, and investment management firms, to determine how digital technologies may affect boards and what boards should keep in mind as they embrace digital transformation.

13. Winning with digital: What boards need to know about digital transformation. https://www2.deloitte.com/content/dam/Deloitte/us/Documents/center-for-board effectiveness/us-oct-2017-winning-with-digital-on-the-boards-agenda.pdf
14. The board directors you need for a digital transformation. https://hbr.org/2017/07/the-board-directors-you-need-for-a-digital-transformation

The board's role: How is digital affecting what boards do?

The board's function has traditionally been – and fundamentally remains – one of supervision and stewardship. As supervisors, boards are expected to take ownership of CEO appointments, approve organisational strategies and their implementation, and oversee risk and compliance.[15] And as stewards, boards are tasked with informing and helping to shape the future direction and health of the organisation; advising on areas of investment; fostering greater innovation; responding to the changing geopolitical and technological environment; and developing organisation talent and culture.

However, changing market dynamics and regulatory actions are placing additional expectations upon today's boards. The US National Association of Corporate Directors (NACD) Blue Ribbon Commission report urged directors "to keep finding ways to tap into fresh, unconventional thinking in order to improve oversight of the risks and opportunities posed by disruptive forces and events, including, but not limited to, the seismic shifts in the way we live and work that are being accelerated by new and emerging technologies."[16]

Indeed, "new and emerging technologies" have added a layer of complexity to boards' governance responsibilities, seemingly bringing more questions than answers. Our interviews suggest that digital raises fundamental questions about the board's role. For instance, as digital brings a new level of visibility into a company's day-to-day operations, how much information is necessary for boards to do their jobs? And do boards need to acquire new skills to keep abreast of digital developments and trends? In particular, several directors who we interviewed felt that digital transformation was blurring the line between the roles of boards and management as information access and distribution became easier, causing marked tension.

This blurring of board and management roles is being heightened by increasing expectations around board oversight. One director asserted that board members may need more transparency and greater access to information during times of stress and regulatory inquiries because simply asking questions of management – informally known as the "noses in, fingers out" approach[17] – only works until the company is undergoing stress. "As a board member, when the company has a big problem, the shareholders, employees, and customers hold boards accountable, so it becomes 'fingers in' as well," said the director.

Consequently, as digital continues to increase boards' access to information, many boards today are providing guidance on a range of rapidly growing and morphing topics. Directors are increasingly engaging more deeply on a diverse set of issues, such as strategy, mergers and acquisitions (M&A), risk, talent, information technology (IT), and even marketing.

The mounting pressure to push beyond oversight has boosted the importance of hands-on board stewardship. Many boards are trying to be better stewards by being more thoughtful and bringing their best judgment to the table on a variety of issues. One board director we interviewed even pondered if boards would be able to challenge management with new and more detailed information that big data and analytics may provide.

The directors and corporate secretaries we interviewed acknowledged that, in this changing landscape, they could face an uphill battle. Many felt that their jobs might become significantly harder in the short term before getting easier in the long run. Nevertheless, boards will have to find a way to strike the right balance between oversight and stewardship to maximise their effectiveness while maintaining their objectivity. Despite the questions that it raises, digital can empower board members with new information and tools to more effectively do their jobs. Much of this will depend on how technology is implemented and used in the boardroom, as well as how well management teams and boards understand both its benefits and its risks.

15. Board impact: Thinking differently about boards. https://www2.deloitte.com/content/dam/Deloitte/ie/Documents/Risk/Board%20impact%20publication.pdf
16. A directors'-eye view of disruptive innovation. https://blog.nacdonline.org/posts/view-of-disruptive-innovation
17. The well-behaved board of directors: Nose in – fingers out. https://www.cmo.com/opinion/articles/2013/3/15/the_well_behaved_boa.html

Communication and information exchange: Is digital a blessing or a curse?

Board members depend on communication and information exchange to do their job: communication from management to the board, from the board to management, and between board members. In this regard, our interviews revealed that digital technologies, while they have facilitated more effective communication in some respects, have been a mixed blessing.

The tools: The advantages and challenges of board portals

Recent technological advancements have led to the rapid adoption of board portals as a vehicle for board communications. These portals are intended to support the easy sharing of documents and data between board members and management. In fact, many written board communications today happen via board portals.

Board portals deliver several benefits over old-school paper-based communications, and even over electronic document-sharing without a mechanism for coordination and centralisation. For one thing, board portals are designed to be protected, trackable electronic tools that cannot easily be lost as paper documents can. On the pragmatic side, board portals give directors a single place to go for information, eliminating the need to keep track of multiple communications delivered in hard copy or through email.

However, board portals have also brought their own set of challenges. While many boards use some kind of portal application, interviewees revealed they may exhibit some variability in features and functionality. For instance, information in certain portals might only be accessible on laptops and not through tablets or smartphones, or vice versa. This issue is especially complicated for those directors who sit on multiple boards. The use of several board portals with different security parameters and device requirements typically forces them to use more than one device to access information.

Directors who sat on multiple boards also indicated that there was no standardisation across portals in how information is organised and presented, forcing them to spend extra time becoming familiar with different portals' features. For instance, some portals might display information summarised in a dashboard, while others do not. Additionally, some portals organised and restricted certain information to board committee members (such as the audit or risk committee); others shared all information with all board members.

Security was another concern. Although generally deemed to be more secure than paper communications, board portals – like any online information repository – are vulnerable to cyberattacks. In some cases, too, a company might disable some of the portal's functionality or features – such as the ability to mark up communications between board members – to reduce legal risks. And notably, it was not uncommon for board members interviewed to use personal email accounts to access board portals and transmit documents, which could pose additional cyber risk challenges.

Overall, the consensus view from our interviewees was that many current board portals need further development, especially with regard to usability and consistency, and that improvements in these areas would help board portals become more effective tools.

The content: Too much information, not enough time

It is well known that boards receive a great deal of information to digest in a limited amount of time. In fact, the aforementioned Fed proposal on enhancing board effectiveness noted that "boards of large financial institutions face significant information flow challenges [and can be] overwhelmed by the quantity and complexity of information they receive. Although boards have oversight responsibilities over senior management, they are inherently disadvantaged given their dependence on senior management for the quality and availability of information."[18]

18. Federal Reserve Board invites public comment on two proposals; corporate governance and rating system for large financial institutions. https://www.federalreserve.gov/newsevents/pressreleases/bcreg20170803a.htm

For the most part, the directors we interviewed shared that the information they received varied widely in both quantity and quality. As a result, most felt the effectiveness of these communications was somewhat mixed. Most directors also felt that they were often deluged with information, and that this information overload was especially severe when dealing with companies in the financial services industry with its highly regulated environment. One interviewee lamented that directors continuously receive "reams and reams of information," often impeding their ability to ask probing questions and potentially diluting their judgment.

Digital communications technologies are a big driver – perhaps even the biggest driver – of this information overload. The cost of transmitting information digitally is often minimal, so there is less incentive to prioritise or cut back, unlike in the past when paper communications were more prominent. As one interviewee put it: "It doesn't cost to add more slides." On the positive side, digital communications have eliminated the need for directors to lug around pounds of paper materials—but at the cost of receiving substantially more information in electronic form.

Although some management teams are conscious of the volume of information they share with board members, said another director, many executives tend to share more rather than less because they view providing more information as less risky. Another challenge some interviewees identified is the tendency for management to provide a great deal of information in an undigested form, assuming that different board members will want to analyse and classify it in their own way. However, this assumption is rarely accurate: The directors we interviewed stressed the importance of management sending cogent, concise reports and summaries to allow them to do their jobs efficiently. One director also felt that the digitisation of communications has led management to shorten their expectations for document review time. "Management teams do not give directors enough of a time window to review all the materials sent," said the director. The expectation of faster, real-time, "anytime, anywhere" communication in individuals' private lives seems to have spilled over into the business world, as boards face not just a growing volume of information but a growing demand to respond to it more quickly.

Even though digitisation makes sharing information easier, these points suggest that management should be mindful of when and how much information to share so that it does not overwhelm board members and dilute their ability to process information and do their jobs effectively.

Digital in the future: How might emerging technologies further impact boards?

We expect that emerging technologies such as AI, cloud, and potentially blockchain will continue to change how information is produced, transmitted, consumed, and analysed. Some interviewees also worried that the fast pace of technological change could potentially decrease the value of industry experience that board members bring to the table.

One way in which advancing technologies could be useful to boards is to enable data-driven decision-making. AI, for example, could be used to track an organisation's capital allocation patterns so that boards can identify potential concerns, like if a company is cutting research and development spending while most of its competitors are increasing it. AI could also be used to review and process press releases to help management and boards spot new competitors in specific product areas. In such cases, the technology might even be able to suggest appropriate investments to protect the organisation's market share.[19]

The directors we interviewed appreciated, in principle, the value that advanced technologies could bring to strategic decision-making. But there was less agreement on the extent to which board members specifically could benefit from such tools. Given the heterogeneity in directors' technical capabilities and inclinations, some thought that systems or tools for applying advanced technologies might be too complex or demanding for all directors to use, at least without proper training. Directors also differed in the extent of information they wanted; some interviewees emphasised their lack of desire to take a deep dive into the details of the data supporting management decisions, while others wanted to have greater transparency into the data (such as risk or performance data).

In the short term, the board members we interviewed generally felt that it was management, not boards, who should use advanced technologies to better access, collate, analyse, and communicate information to boards. That said, many interviewees also indicated that they would appreciate receiving continuing education on emerging technological developments that could affect boards in the future. In the words of one corporate secretary, "This education should be a management responsibility."

19. AI in the boardroom: The next realm of corporate governance. https://sloanreview.mit.edu/article/ai-in-the-boardroom-the-next-realm-of corporate-governance/

Key considerations for boards as they consider digital enablement

Digital transformation will continue to affect organisations in a myriad of ways. However, digitisation is still a work in progress for many organisations, and its full impact, especially on boards, are not yet known. As one director mentioned, some boards have not yet broached the subject of digital transformation as it relates to how the board itself operates. The onus is on both directors and management to be more proactive in understanding how digital can affect their responsibilities – in both scope and execution.

Here are some suggestions on what boards should do to better understand the impacts of digital transformation on board processes, before future digital solutions are adopted or implemented.

1. Get smarter about the current technologies in place and new technologies on the horizon.
2. Task working groups or committees with identifying the rish and the rewards of applying these new technologies to board operations.
3. Be clear on what problems you are trying to solve. Avoid the temptation to implement "shiny new object" technologies that may not be most effective for problwm at hand.
4. Work with management to define the boundary between oversight and decision-making amid the implementation of new technologies.
5. When the appropriate technology tool are identified for implementation, put proper training mechanisms in place to get board members up to speed.
6. Develope guidelines that will help management to identify the most pertinent pieces of information to share wth the board, allowing board members to make the best use of their time.
7. Engage in dialog with industries associations about digitizing board processes.

This article is part of the Digital Transformation collection on Deloitte Insights. For a copy of the full report, go to http://www.deloitte.com/insights.

Recognising the value of bank branches in a digital world

Banks around the world are in the midst of a sweeping digital transformation agenda, yet for many, realising the true potential of these changes remain elusive. What role should bank branches play in this transformation, and why? In this article based on the findings of the Deloitte global digital banking consumer survey, we highlight the potential value of bank branches in an increasingly digital world.

Bank branches are still relevant in a digital world

Based on a proprietary global survey, we found that branches remain the dominant channel for account opening and customer satisfaction with branches is a stronger determinant of overall satisfaction than either the online or the mobile channels. In this article, we explore how these dynamics play out across different countries and customer types, and offer recommendations on what banks could be doing to rethink the branch experience in an increasingly digital world.

Branches are the dominant channel for account opening

The survey revealed that most customers prefer branches over digital channels when opening new accounts for both simple (such as savings accounts and debit cards) and complex products (such as loans). This was true in developing countries, such as Mexico and Indonesia, as well as in developed countries, such as China and Japan (figure 1). However, in Norway, one of the leading countries for digital channel usage, customers surveyed said they prefer digital channels over branches when applying for simple products, such as checking accounts, savings accounts, debit cards, and credit cards.

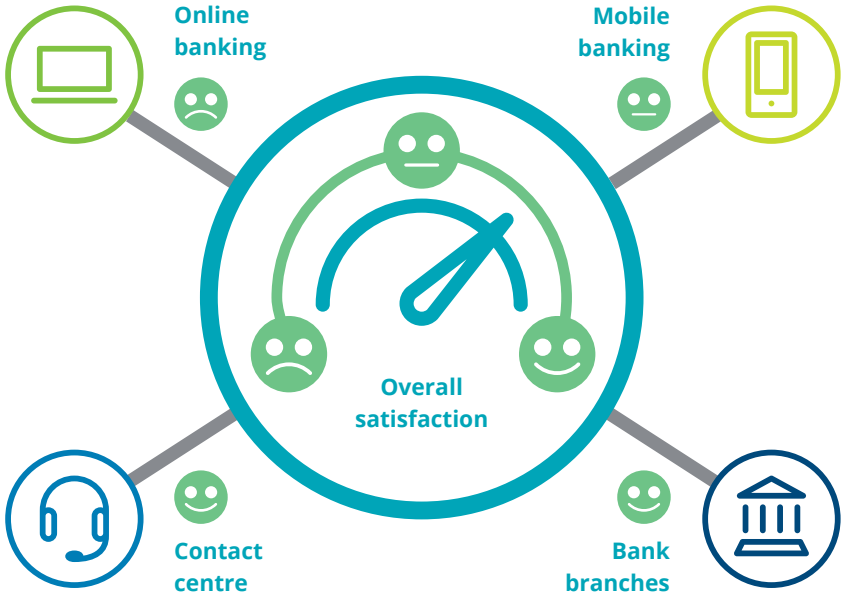
Figure 1: Proportions of respondents who prefer branches

	Mortgage/ Mortgage refinance	Wealth management account	Checking account	Credit card
Australia	72%	66%	46%	46%
Brazil	61%	55%	49%	27%
Canada	74%	69%	58%	46%
China	55%	39%	43%	40%
France	79%	75%	64%	64%
Germany	74%	65%	56%	51%
India	57%	44%	50%	36%
Indonesia	68%	69%	67%	66%
Japan	72%	61%	61%	43%
Mexico	75%	73%	70%	53%
Netherlands	73%	59%	34%	32%
Norway	48%	40%	14%	18%
Singapore	67%	62%	52%	32%
Spain	83%	79%	66%	62%
Switzerland	84%	74%	64%	49%
United Kingdom	58%	56%	34%	28%
United States	65%	62%	58%	41%

The branch experience influences customer satisfaction more than online or mobile channels. It is well-known that high customer satisfaction yields more loyalty, advocacy, and product ownership or share of wallet.[20] Our survey also validated that highly satisfied customers are more likely to recommend their bank to others and are less likely to switch their primary bank (8 percent likelihood) than dissatisfied customers (18 percent likelihood).

Our regression model results show that the effects of satisfaction with branches and contact centres on overall satisfaction are at least twice as large as satisfaction with online or mobile channels (figure 2).

Figure 2: Representation of the relative effect size of the influence of channel satisfaction on overall bank satisfaction based on standardised beta from our linear regression model.



In another article based on the global survey, Accelerating digital transformation in banking,[21] we identified three groups of customers: traditionalists, bank customers most reliant on traditional channels versus online or mobile; online embracers, customers who used digital channels frequently, online more than mobile; and digital adventurers, those most likely to use digital channels (both online and mobile apps). We found that branch satisfaction has a higher influence on overall satisfaction compared to satisfaction with digital channels for all the three customer segments.

Why are traditional channels a stronger determinant of overall satisfaction than digital channels?

We believe there may be a few reasons behind the higher influence of traditional channels on overall customer satisfaction. First, favourable or unfavourable experiences during moments that matter can have lasting impressions. Due to the typical complexity and/or urgency of these interactions, account opening and problem resolution are two critical interactions that customers are likely to make in channels involving the human touch – typically, branches and call centres. For instance, in our survey, more than four in 10 customers who disputed a transaction or filed a complaint did so through contact centres. Branches were the second-most used channel for these activities.

Customers must expend time and effort carrying out these types of transactions, which makes them important experiences. Imagine a customer having to wait 10 minutes before they connect with a call centre representative to discuss a simple query or interacting with an unsympathetic bank representative at a branch. The negative impressions resulting from these interactions can stay in customers' minds for a long time. On the other hand, customers may experience high satisfaction if a query at the call centre was handled efficiently or if they had a successful meeting with the relationship manager in the branch, which would far exceed their satisfaction from paying bills online or on the mobile app without a hitch.

20. Investigating drivers of bank loyalty: The complex relationship between image, service quality and satisfaction. https://www.emeraldinsight.com/doi/abs/10.1108/02652329810245984
21. Accelerating digital transformation in banking. https://www2.deloitte.com/insights/us/en/industry/financial-services/digital-transformation-in-banking-global-customer-survey.html

Second, branches tend to be a symbol of trust. And, given money matters are complex and personal, trust has played a foundational role in banks' safekeeping and depository functions. Our survey confirmed that more respondents used branches to make deposits than other channels. Branches also foster brand image and help maintain relationships with customers.[22]

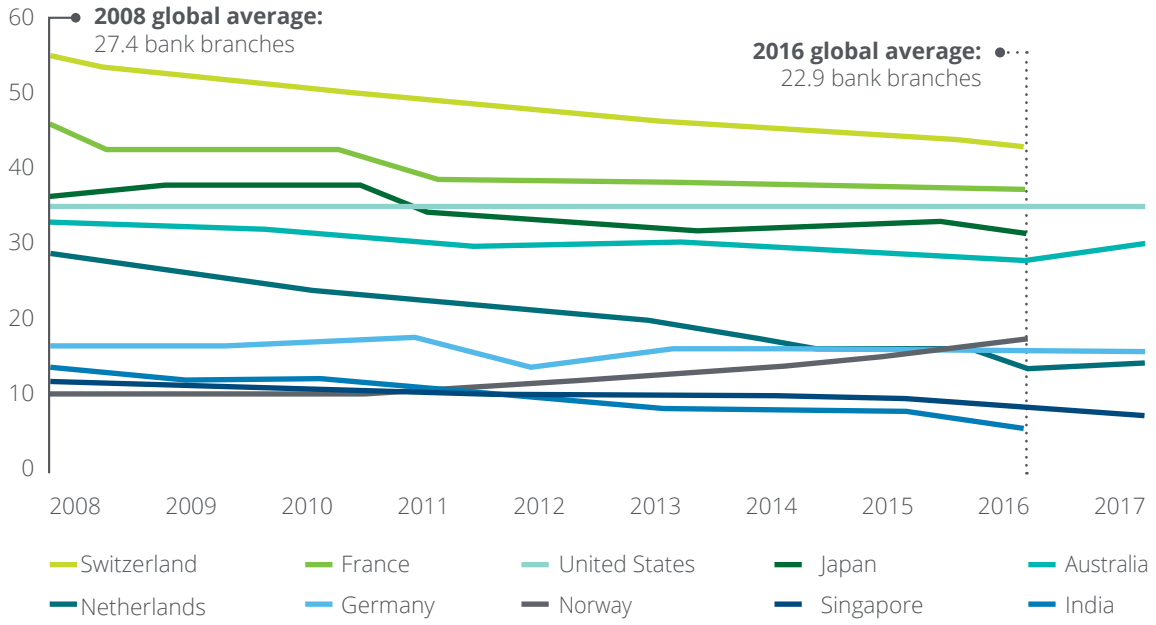
Third, branches also provide easy access to banking services: 68 percent of respondents to our survey believe proximity to branches and ATMs is an important or very important attribute in choosing their primary bank. Moreover, more than four in 10 respondents across generations visit a branch at least once a month. Respondents who were likely to switch to a new bank/institution in the next two years cited "closer proximity to branches and ATMs" as the third most important reason for making this change.

But branch density is declining

In many countries around the world, though, bank branches are closing.[23] More than 3,000 branches have been shut down on a net basis in the United States since 2010,[24] while in the United Kingdom, more than one-quarter were closed between 2012 and 2017.[25] These actions have been in response to cost-cutting pressures and customers' shift to digital channels for routine transactions, such as bill payments or person to person (P2P) transfers.

As a result, branch density – the average number of bank branches per 100,000 adults – has declined in many countries. For instance, branch density reduced from 54 branches to 42.5 between 2008 and 2016 in Switzerland. In Norway, which is digitally more advanced than most countries,[26] branch density dropped from 11.7 branches in 2008 to 6.2 in 2016 (figure 3).[27]

Figure 3: Branch density continues to decline globally (number of bank branches per 100,000 adults)



While closing some bank branches is a business decision that may make sense for a variety of reasons, it seems as though banks should not completely give up on branches yet. Our survey findings tell a compelling story about the unique value branches can provide to customers and the key role branches often play in building and sustaining strong retail banking franchises. For this reason, we would caution bank leaders against viewing branches merely as another stand-alone channel. Instead, leaders could adopt a strategy that fully and seamlessly integrates branches into the banks' overall digital transformation strategy.

22. Do banks need branches in the digital age? https://thefinancialbrand.com/63679/bank-credit-union-branch-network-strategy/
23. Thousands of bank branches are closing, just not at these banks. https://www.wsj.com/articles/the-bank-branch-is-dyingjust-not-at-these-banks-1529055000
24. Number of institutions, branches and total offices, FDIC-insured commercial banks, US and other areas. https://www5.fdic.gov/hsob/HSOBRpt.asp
25. Here's exactly how many branches the UK's biggest banks have shuttered since 2011. https://www.verdict.co.uk/bank-branch-closed-uk/
26. The digital economy and society index. https://ec.europa.eu/digital-single-market/en/desi
27. Commercial bank branches (per 100,000 adults). https://data.worldbank.org/indicator/FB.CBK.BRCH.P5?view=chart

Reimagining branch transformation

How can bank leaders strike the right balance between physical and digital footprints? The following strategies should be considered:

Invest in branch talent

As digital simplifies the banking experience in branches, banks should continue to focus branch workforce training on ensuring high-quality interactions with customers and creating positive moments that matter. Our 2017 study on account opening underscored the need for "attentive and empathetic human interaction by frontline staff during the account opening process."[28] In this vein, to help answer clients' complex questions about market trends, UBS trained 10 wealth management advisers in Switzerland to use the digital clone of its chief economist and chief investment officer.[29] BBVA Compass is using certifications to help train its frontline staff on methods to help customers with their complex queries and decisions.[30]

Blend the human touch with technology

One-third of the customers in our survey said they would be open to using branches more if banks offered certain digital capabilities that would enhance convenience. These enhancements included extending service hours through virtual remote services with a representative (36 percent), offering digital self-service screens with a representative's help if needed (34 percent), and being able to schedule a virtual video meeting with a bank representative (31 percent). Interestingly, all of these options focus on how digital can drive high-touch interactions with a bank representative, either remotely or in-person. While these approaches are not new, they are not yet widespread, although more banks are beginning to experiment with them.

HSBC, for instance, introduced a robot – Pepper – in its flagship Fifth Avenue branch in Manhattan.[31] The idea behind having a robot in the branch was never about replacing bank tellers; rather, it was designed to make the banking experience more appealing. Pepper is programmed to answer customers' basic questions and direct them to the right adviser/personnel in the branch.

Similarly, NatWest bank in the United Kingdom introduced its AI-powered bot, Cora, to answer customers' basic queries in one of its branches in 2018.[32] The bot can also be used with internet and mobile banking.

28. First impressions count: Improving the account opening process for Millennials and digital banking customers. https://www2.deloitte.com/content/dam/insights/us/articles/4004_First-impressions-count/DUP_First-impressions-count.pdf
29. Why UBS cloned its top economist digitally. https://www.todayonline.com/commentary/why-ubs-cloned-its-top-economist
30. Why banks are giving tellers raises, instead of firing them all. https://www.bloomberg.com/news/articles/2018-08-20/why-banks-are-giving-tellers-raises-instead-of-firing-them-all
31. Why banks are giving tellers raises, instead of firing them all. https://www.bloomberg.com/news/articles/2018-08-20/why-banks-are-giving-tellers-raises-instead-of-firing-them-all
32. NatWest Bank tests Cora, an AI bot that will answer customer questions. https://www.theguardian.com/money/2018/feb/21/natwest-bank-tests-cora-an-ai-bot-that-will-answer-customer-questions

Accelerate the transition to a seamless omnichannel integration

In our survey, seven in 10 customers considered having a consistent omnichannel experience as important or very important when selecting a primary bank. Reimagining branches of the future is expected to entail breaking the channel silos between physical and digital channels and allowing customers to seamlessly move from one channel to another. ING Bank in the Netherlands, for example, allows customers to schedule appointments with the bank representatives at the branch via their online banking portal.[33]

Provide a sense of community

Branch visits can go beyond completing transactions and gathering information. They can become enjoyable experiences. Nearly 31 percent of customers in the survey globally said they would be likely or very likely to increase visits to a branch if it resembled a café, where they could plug in, hang out, and work. Some banks are experimenting with this trend: To lure millennials, Capital One opened new café branches with cafés that are a far cry from traditional branches. In the Capital One cafés, customers can connect with "café coaches," onsite bank representatives who are available to chat over a cup of coffee about different banking products, or they can choose to just hang out with friends and enjoy the café's food and free Wi-Fi.[34]

Embrace the human touch in digital channels integration

Digital does not, and should not, mean a lack of personal interactions. Banks should replicate the branch experience, especially the responsiveness and empathy, in digital channels – be it in online banking, on mobile apps, or at ATMs.

Final thoughts

In this article, we discussed why bank branches remain valuable to customers in this digital age of speed and convenience. Perhaps most important, branches should be considered the most powerful channel banks have to provide customers with high-touch, person-to-person experiences. Our survey showed in several circumstances, customers still prefer the human touch, which branches can amply provide – especially when applying for new products, such as opening a checking account.

We also made suggestions on how banks could make the most of their branch networks, integrating digital and technology advancements into the branch experience and, conversely, encouraging the human touch in digital experiences. As bank leaders execute on their digital transformation strategies, we urge them to fully recognise the value branches offer and keep customer preferences on top of mind when repositioning branches.

This article is based on the findings of the "Global Digital Banking Consumer Survey" by the Deloitte Center for Financial Services. To receive a copy of the full survey, drop us an email at sgindustries@deloitte.com.

33. Open a new account. https://www.ing.nl/particulier/english/new-account/index.html
34. Here's how Capital One combines coffee with banking to cater to millennials. https://futurebranches.wbresearch.com/capital-one-combines-coffee-with-banking-to-cater-to-millennials-ty-u

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