

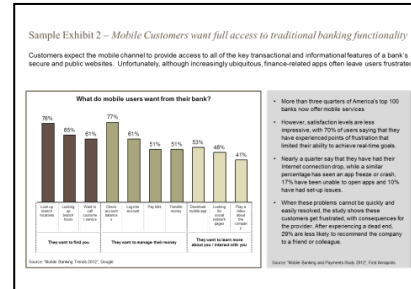
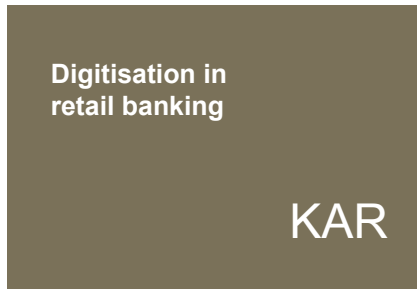


Knowledge Area Review (KAR 008)

Digitisation in Retail Banking – Product Brochure

February 2013

Product Sample: Knowledge Area Review ‘Digitisation in Retail Banking’



PRODUCT SAMPLE: DIGITISATION IN RETAIL BANKING (total of 138 pages)

Commercial research relevant to most companies in an industry sector

A wide-ranging and comprehensive review of the recent strategic thinking around the impact of digitisation on retail banking

- Synthesises perspectives and experience of leading consulting firms and global corporations
- Outlines the importance of digitisation in driving customer engagement in retail banking
- Builds case that next generation remote-access platforms are a hygiene factor rather than a competitive advantage, and profiles 10 key aspects of next-generation platforms through analysis and case studies
- Builds case that digital is only part of a seamless omni-channel offering and profiles 6 major impacts and enablers of this offering through analysis and case studies
- Builds case that as financial services integrates into lifestyle, banks will have to partner with innovative competitors, and profiles 11 key areas of innovation through analysis and case studies
- Includes numerous case studies and examples of Australian and global companies
- Summarises key messages, references all exhibits to their original sources and lists further reading

‘Digitisation in Retail Banking’ Structure and contents

| Sections | Pg. | Description |
|--------------------------------------|-----|---|
| <i>Executive Summary</i> | 5 | <ul style="list-style-type: none"> • Describes the document’s scope, approach and structure; frames the issues |
| 0. Introduction | 22 | <ul style="list-style-type: none"> • Outlines the importance of digitisation in driving customer engagement in retail banking: As retail banks face a challenging market environment, enhanced customer engagement through digitisation has emerged as a key source of future growth. Banks must identify core focus areas and act fast. |
| 1. Beyond Transactional Self-service | 57 | <ul style="list-style-type: none"> • Builds case that next generation remote-access platforms are a hygiene factor: As customer demographics shifts, ‘next-generation’ online & mobile banking platforms are no longer a competitive advantage, but rather a hygiene factor for all players • Profiles 10 key aspects of next-generation platforms through analysis and case studies: Simplicity, Personalisation, Functionality, Security, Social & Community, Seamless Multi-device, Mobile Functionality, Mobile Payments, Mobile Access, Personal Financial Management |
| 2. The Customer is the Channel | 23 | <ul style="list-style-type: none"> • Builds case that digital is only part of a seamless omni-channel offering: Online & mobile channels are one crucial piece of delivering a seamless, customer-focused, multi-channel offering • Profiles 3 key impacts of omni-channel distribution through analysis and case studies: Channel evolution, Customer segmentation, Segment-of-one • Profiles 3 key enablers of omni-channel distribution through analysis and case studies: Removing organisational silos, Customer data collection and analytics, Core systems replacement |
| 3. Emerging Competitors | 15 | <ul style="list-style-type: none"> • Builds case that innovators are challenging banks as financial services integrates into lifestyle: Growing demand for simple, customer-focused financial solutions will see innovative, non-traditional competitors emerge in attractive niches – banks may need to seek strategic partnerships • Profiles 11 key areas of innovation through analysis and case studies: Online comparison tools, account aggregation, P2P lending, Non-traditional players, Mobile payments, Banking off-platform, Next-gen interfaces. Social platforms, Non-monetary value exchange, Gamification, Big data personalisation |
| <i>Appendix</i> | 4 | <ul style="list-style-type: none"> • Detailed set of references with cross-references to detailed reviews in ICG’s insights review |

126 pages in total

Sample Exhibit 1 - *Overview*

This document is a Knowledge Area Review (KAR) – a structured summary of the best available public research and case studies on *'The Digitisation of Retail Banking'*

0

Introduction

The Importance of Digitisation in Driving Customer Engagement

As retail banks face a challenging market environment, enhanced customer engagement through digitisation has emerged as a key source of future growth. Banks must identify core focus areas and act fast.

1

Beyond Transactional Self-service

'Next Generation' Remote-access Platforms are a Hygiene Factor

As customer demographics shifts, 'next-generation' online & mobile banking platforms are no longer a competitive advantage, but rather a hygiene factor for all players

2

The Customer is the Channel

Digital is only part of a Seamless Omni-channel Offering

There is significant value to be unlocked in deepening customer engagement - online & mobile channels are one crucial piece of delivering a seamless, customer-focused, multi-channel offering

3

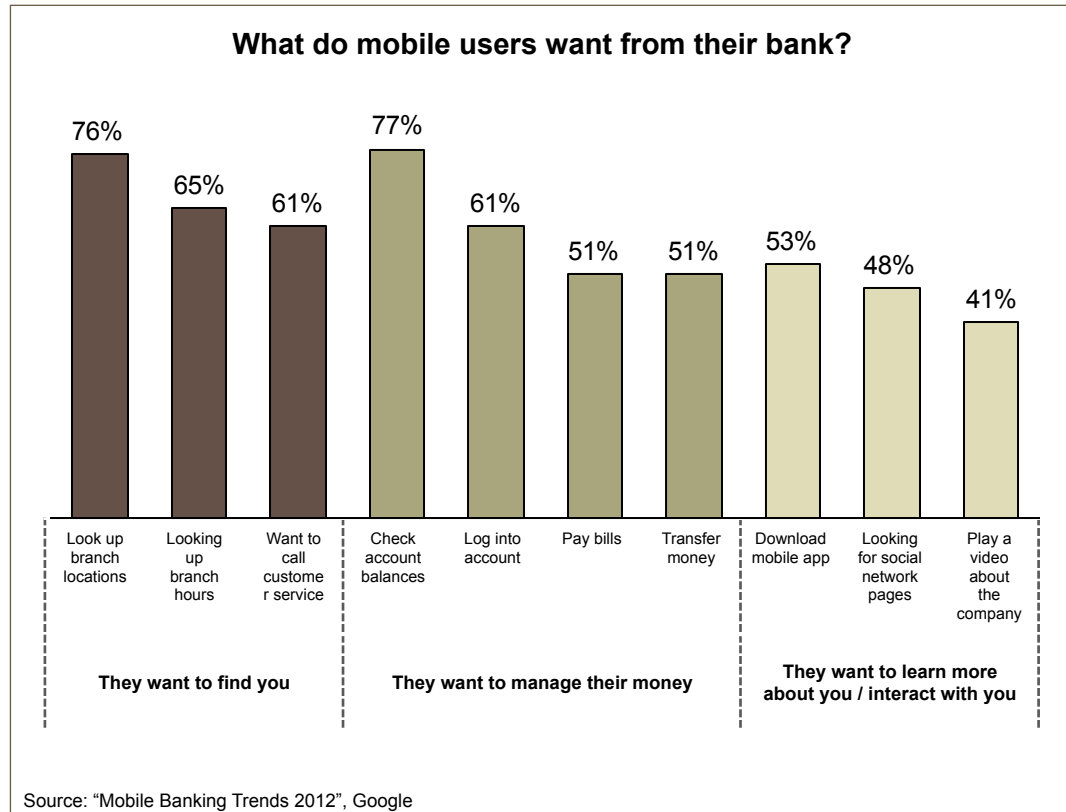
Emerging Competitors

Innovators are Challenging Banks as Financial Services integrates into Lifestyle

Growing demand for simple, customer-focused financial solutions will see innovative, non-traditional competitors emerge in attractive niches – banks may need to seek strategic partnerships

Sample Exhibit 2 – *Mobile Customers want full access to traditional banking functionality*

Customers expect the mobile channel to provide access to all of the key transactional and informational features of a bank's secure and public websites. Unfortunately, although increasingly ubiquitous, finance-related apps often leave users frustrated.



- More than three quarters of America's top 100 banks now offer mobile services
- However, satisfaction levels are less impressive, with 70% of users saying that they have experienced points of frustration that limited their ability to achieve real-time goals.
- Nearly a quarter say that they have had their Internet connection drop, while a similar percentage has seen an app freeze or crash, 17% have been unable to open apps and 10% have had set-up issues.
- When these problems cannot be quickly and easily resolved, the study shows these customers get frustrated, with consequences for the provider. After experiencing a dead end, 29% are less likely to recommend the company to a friend or colleague.

Source: "Mobile Banking and Payments Study 2012", First Annapolis

Sample Exhibit 3 – Customers want mobile payments – Case studies

Proximity (NFC) – Bank Case Study

ANZ and Optus¹

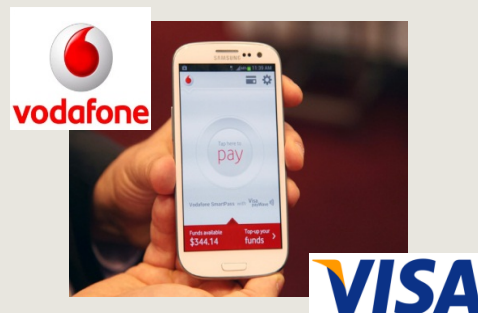
- ANZ is now testing a mobile wallet product that uses the integrated NFC chips in Android devices to pay at POS
- Currently, in the Australian market, Banks must partner with Telcos (in this ANZ is partnering with Optus) to put the software onto the secure SIM
- This situation may be changing, however, as hardware manufacturers (such as Samsung) are embedding NFC chips into devices - they will control the chips and could enable payments and other services.



Proximity (NFC) – Telco Case Study

Vodafone and Visa²

- Vodafone and Visa have joined forces to preview a new near-field communication (NFC) payment product for smartphones, demoing the Vodafone SmartPass app in Sydney before its commercial release next year
- Unlike existing virtual wallet systems that are available in other parts of the world, SmartPass does not directly associate a credit source with the user's account. Instead, customers choose to top up their SmartPass account with funds from any MasterCard or Visa credit card account.



Proximity (NFC) – New Entrant Case Study

Google Wallet³

- Google Wallet is a virtual wallet that securely stores your credit and debit cards, offers, and rewards cards. You can tap your phone to pay in-store using Google Wallet anywhere contactless payments are accepted
- Lack of adoption, lack of compatible phones, and the departure of several top Wallet executives at Google have left the future of the ill-fated system in question
- The crux of the plan for Wallet is to enter into a revenue sharing agreement with carriers like Verizon and AT&T to ensure that Wallet is on phones sold by the networks.



1) "Australia's ANZ Bank Launches Small NFC Trial as Contactless Acceptance Continues to Roll Out", nftimes.com

2) "Vodafone, Visa launch NFC wallet in Australia", cnet.com.au

3) "Google rethinking Wallet strategy after failure to launch", geek.com

Sample Exhibit 4 - *Building Customer Engagement through Digital Customer Experiences*

It is increasingly clear that banks cannot deliver enhanced customer engagement without focusing on customer experiences through their digital channels

Digital Channels are Rapidly Becoming the Primary Banking Channel

Digital Channels Provide the Best Opportunities to Provide Positive Customer Experiences

Key elements

- **As digital channels rapidly move towards becoming the primary banking channel, they become a crucial driver of customer engagement**
- **Digital channels still provide the best opportunities create “wow” experiences which “delight” customers through ease-of-use and ease of resolving problems when they occur**

Sample Exhibit 5 – Modular Software enables personalisation - Widgets and App stores

In addition, Banks are launching modular interfaces and their own ‘app stores’ to allow customers maximal control over their online banking interface and desired functionality

Absa bank launches widget-based online interface

- Absa bank’s existing internet banking platform had been in use for a decade 7-10 years and was causing problems:
 - technology and architecture have moved on a lot in the decade
 - the extent to which business units in the bank need to be represented on the internet banking site had resulted in a very cluttered space
- The new platform is designed with widgets that make the experience easier and more interactive for the user
- Widgets can also be customised to user preferences - “you can go into your accounts or your payments page and you can grab a widget and you can move it a bit further down. So you can change the order, for example, or your accounts”.



Source: “Absa launches online money tool”, news24.com

La Caixa implements a mobile banking ‘app store’

- Spanish financial institution La Caixa has launched its mobile application store, dubbed CaixaMóvil Store
- The online store features free mobile applications compatible with all mobile phone brands available on the market



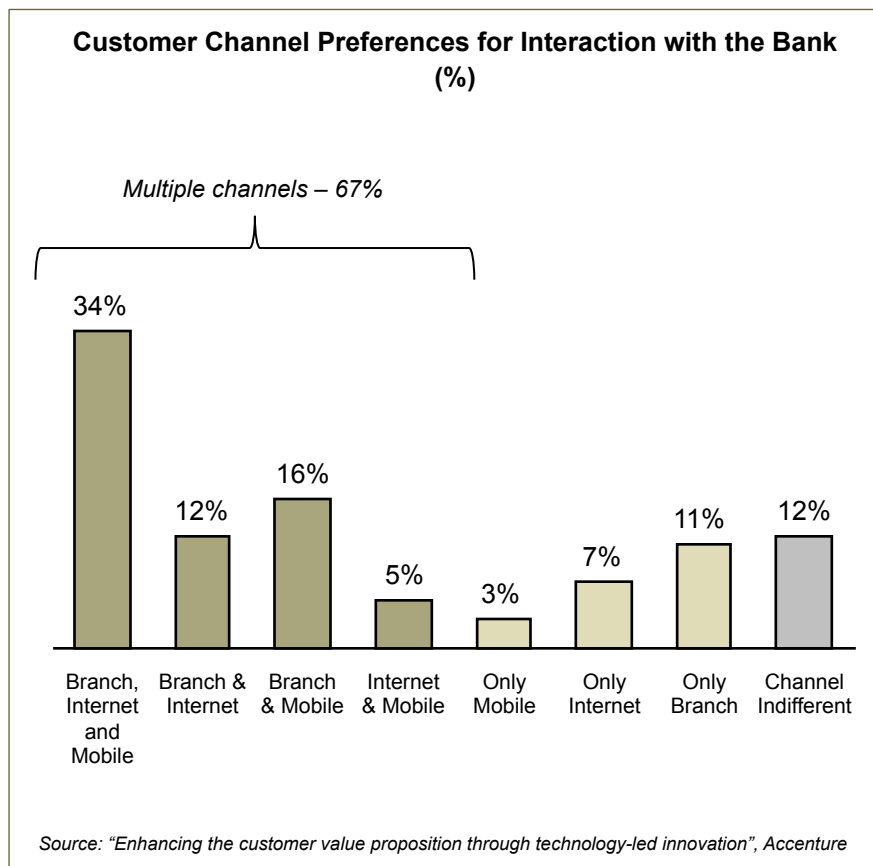
- The mobile phone apps available at the CaixaMóvil Store enable users to carry out financial operations, make mobile top-ups, purchase tickets, calculate an expenditure budget or invest in the stock market. CaixaMóvil Store visitors can also download mobile apps which allow them to check their bank account balance and performed transactions, make payments, consult credit or debit card fees, and the loyalty points they have accumulated, or find the location of the nearest bank office or ATM
- The CaixaMóvil Store currently offers 18 mobile apps, with additional applications to be made available over the next few weeks
- According to Nielsen Netratings, La Caixa currently covers nearly 52 percent of Spain’s overall mobile payments user base.

Source: “2012 Mobile Banking Awards”, Huffington Post

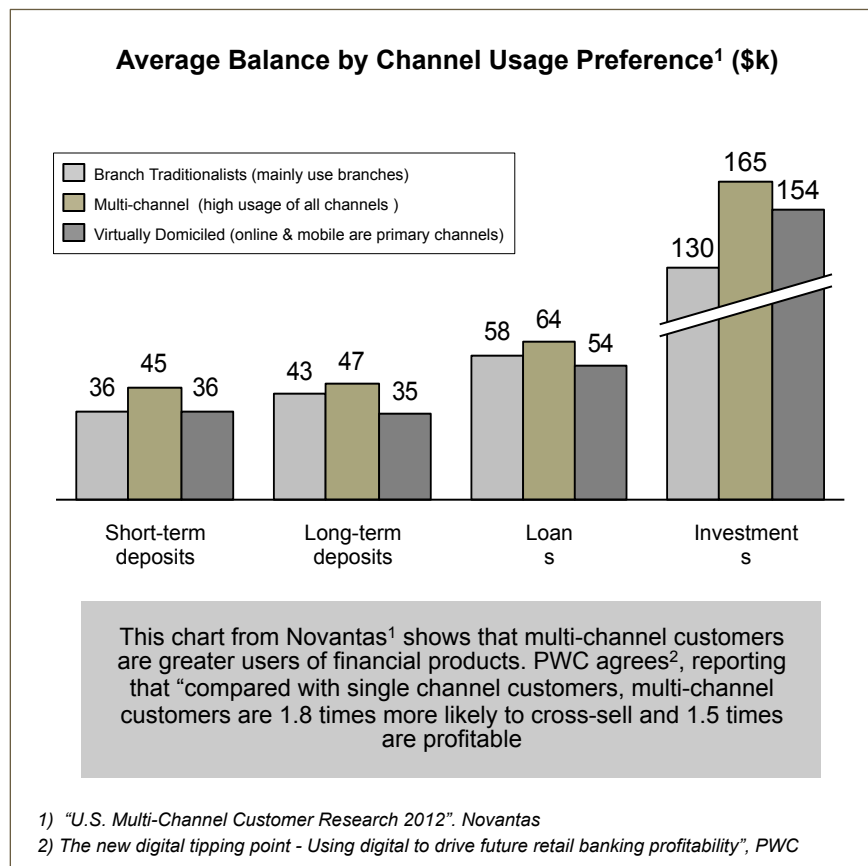
Sample Exhibit 6 – Face-to-Face and the Emergence of the Multi-Channel Customer

Accenture reports that over 67% of banking customers prefer to interact with their bank through multiple channels, this is no bad thing, as Novantas reports that multi-channel customers are more valuable than single-channel equivalents

The majority of customers prefer to interact with their bank through multiple channels



Multi-channel customers are more valuable than their single-channel equivalents

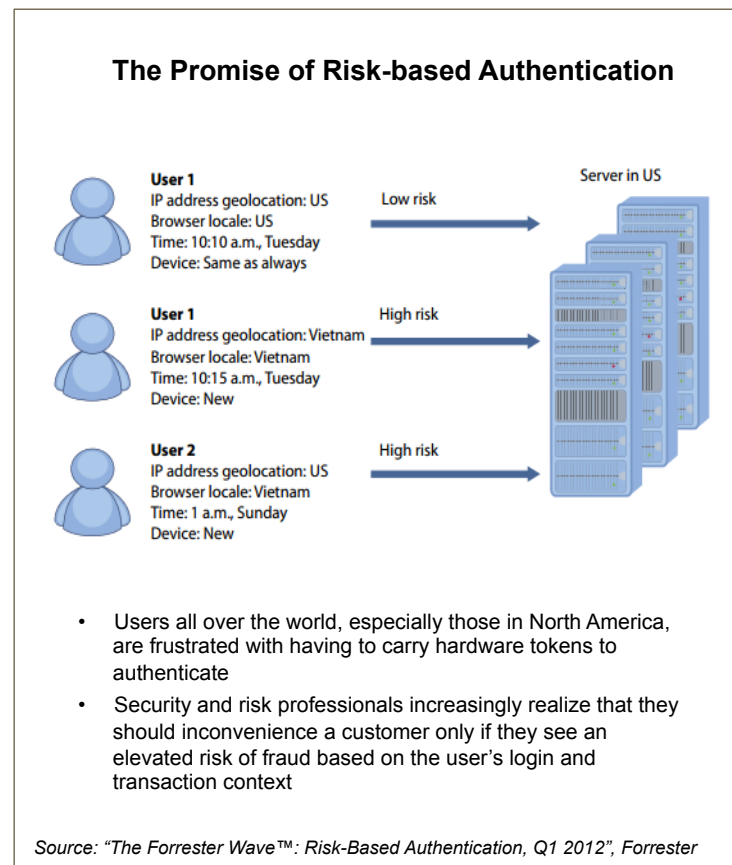


Sample Exhibit 7 – Security Strategies for Online and Mobile Banking

Banks are implementing a number of strategies to enhance remote banking security, with risk-based authentication one of the most promising

BankTech outlines Critical Strategies for Online Banking Security

| | |
|---|--|
| <p>Multifactor authentication</p> | <p>Security experts describe multifactor authentication as comprising three elements</p> <ul style="list-style-type: none"> • Something you know, like a password • Something you have, like a one-time-password generator <ul style="list-style-type: none"> – A common approach for banks is the distribution of separate devices capable of generating one-time passcodes – On mobile devices this may involve out-of-band authentication, which relies on a separate device rather than just the smartphone • Something you are, via a biometric identifier such as a fingerprint or iris scan. |
| <p>Risk-based Authentication and Anomaly Detection</p> | <ul style="list-style-type: none"> • Examine requests for unusual or unexpected activity • Bank calibrate their response to a remote request based on the typical behaviour for that customer and by expected behaviour for similar customers. • Typical, low-risk transactions should sail through, while atypical, high-risk transactions should be flagged for further review and confirmation with the customer through a separate channel, such as a home phone or email account. |
| <p>Mobile Device Enhancements</p> | <ul style="list-style-type: none"> • Application-level: The application itself can contain multiple security features • OS Level: The mobile operating system may offer security-oriented characteristics and settings • Hardware-level: The hardware might include layers of security beyond what a mobile OS can offer by itself. |



Source: "5 Critical Strategies for Mobile Banking Security" and "Five Bank Security Trends Shaping the Future of Fraud Fighting", banktech.com

Sample Exhibit 8 – Innovation in Account Aggregation

Aggregators take some ownership of the customer by commoditising the underlying products. While banks have responded with aggregation tools of their own, the next step for aggregators is to take complete ownership of the relationship

mint.com – Whole-of-wealth Aggregator

In an earlier case-study we highlighted Mint.com, a free online personal finance service with over 10 million users, that is aimed at being “easy and secure way to manage and save money online.”



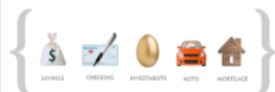
Mint pulls all of a customer’s financial accounts into one place - checking, savings, investments, retirement

Using the web and mobile apps, customers are able to stay on top of their finances by at any moment of the day

Customers can then set a budget, and track their goals across a whole-of-wealth perspective

Makes your life easier

At Mint, we believe money is for living. So we make everything simple and streamlined. Sign up takes less than five minutes. Then Mint automatically pulls all your financial information into one place, so you can finally get the entire picture.



Source: mint.com

ANZ Money Manager – Banks Respond with Aggregators of their Own

In an earlier case-study we highlighted ANZ MoneyManager - a secure online service that aggregates all of a customer’s personal financial information



ANZ MoneyManager lets customer’s link accounts from financial institutions from around the world

- deposit and transaction accounts
- Savings accounts
- credit cards
- home, car and personal loans
- investments including super, shares & options
- rewards programs including frequent flyer, car rental, hotel reward programs
- real estate including your property’s estimated value



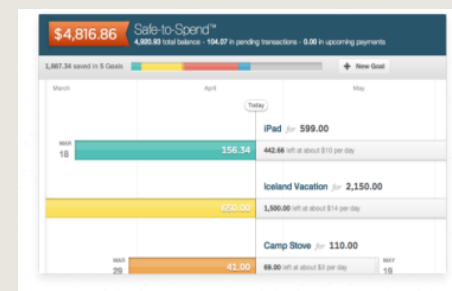
Source: anz.com

Simple – Owning the Customer Relationship

Simple (formerly BankSimple) does not aim to aggregate banks, it aims to commoditise and replace them



Rather than making money from different fees, Simple plans to split the net interest margin with its partner banks (the difference between the rate they lend at and the rate they pay to depositors)



Source: simple.com



Internal Consulting Group

Email enquiries@internalconsulting.com or
visit our website at www.internalconsulting.com