

# Financial Services Innovation

## Customer Service at the heart of a digital bank

Every bank wants to be a digital bank. Bankers are motivated to engage in digital by cost, new consumers and competition. Digital winners will deliver outstanding customer service through this channel. This paper explores the motivations, the current performance and suggests the critical levers which drive success.



A white paper prepared for the  
AIIA Financial Services Innovation Group

By Mark Ebeling, Robert King, Jason Millett & Andrew Stein

December 2016

---

## Authored By

*Mark Ebeling*  
IBM Australia

*Robert King*  
INTECH Credit Union

*Jason Millett*  
Millstreet Consulting

*Andrew Stein*  
Payreq Pty Ltd

## Editorial Contributors

*Michael Blomfield*  
CEO Investment Trends a FS research firm

*Mike Allsop*  
International Consulting Group

*Mark Knowlton*  
Macquarie Bank

*John Baird*  
Deutsche Bank

*Shane Barr*  
Form Corp

*Michael Fishpool*  
Form Corp

*Gordon Little*  
Royal Bank of Canada Dexia

## Special Thanks

The AIIA wishes to thank their Financial Services Thought Leadership partners:

- **Bartier Perry**, a commercial law firm that assists clients in the Information Communications and Technology sector on a wide range of commercial transactions.

This thought leadership white paper is downloadable from the AIIA web-site at:

[http://www.aiaa.com.au/?page=fs\\_thought\\_leaders](http://www.aiaa.com.au/?page=fs_thought_leaders)

## AIIA Contact Details:

7 – 11 Barry Drive

Turner ACT 2617

Ph: +61 2 6281 9444

## Table of Contents

1. Customer service at the heart of a digital bank .....	4
2. Every bank aspires to be digital.....	4
3. What’s holding back digital banking? .....	6
4. Business ecosystems - using APIs to foster innovation.....	7
5. Digital banking can deliver great customer service – even if things go wrong .....	8
6. Conclusion – what should business leaders do?.....	10
7. About AIIA.....	11
8. About the authors.....	12

## 1. Customer service at the heart of a digital bank

In our increasingly sophisticated market, customers are demanding a banking experience which rivals the digital experience they enjoy across their social landscape.

Banks strive to deliver an extraordinary customer experience through the application of their digital assets. Constant juggling is required to deliver an authentic relevant digital experience while meeting the requirements of rigorous regulation and dealing with legacy services and systems.



Figure 1 Image courtesy of [bankingtech.com](http://bankingtech.com)

This paper examines digital trends, some of their inhibitors and actions which will lead to improved customer outcomes.

## 2. Every bank aspires to be digital

For the first time in history banks are delivering on the promise of customer service enabled by digital platforms – by aligning their vision with new capabilities and culture.

*Everything we do starts with the customer, which means we view every interaction as an opportunity to build engagement and provide a comfortable and convenient experience...In the digital space, we achieve this by delivering purposeful designs putting customers' needs first with a focus on features to help them make better financial decisions and achieve their goals."<sup>1</sup> - Rizwan Khalfan, TD Bank senior vice president and chief digital officer*

Globally the best digital banks include the likes of TD Bank in Canada, Garanti in Turkey, Hana Bank in South Korea, mBank in Poland, BBVA in Spain, ICICI in India and Che Banca in Italy. Locally the Big Four banks are progressing well, and in New Zealand ASB and Westpac are shining lights<sup>2</sup>. Tier 2 banks are gaining traction, with the likes of Suncorp and BoQ improving digital touchpoints.

Within the region, banks have endeavoured to develop digital solutions to migrate transactions from higher cost channels and drive customers into a more “self service” mindset. There are key value drivers associated with digital banking with an estimated \$405Bn<sup>3</sup> at stake in areas ranging from customer experience, innovation, employee productivity, asset utilisation, internal or supplier

<sup>1</sup> <https://home.kpmg.com/content/dam/kpmg/pdf/2016/06/retail-banker-international-td-article.pdf>

<sup>2</sup> <http://breakingbanks.com/digital-bank-or-fintech-youre-not-a-digital-bank-2>

<sup>3</sup> <http://connectedfuturesmag.com/RetailBanking/>

efficiencies. These drivers manifest themselves through sales and service, payments, connected and targeted advertising, video based advice and product innovation. They are supported and enabled by next generation workforces with experiences delivered through cognitive computing<sup>4</sup> or Artificial Intelligence (AI) teamed with data analytics to enable virtual interactions. All of this is underpinned by a security platform that maintains and delivers trusted services.

The reality is, all banks understand what the value pools are, where they need to be focusing to realise this value and in most instances, they know how. They know that the focus needs to be on APIs, Big Data, customer centric design and agile working. So much so, that it is fundamental to their strategies and consumes a substantial component of annual investments.

Every bank in this market is undertaking a “transformation” of some sort, be it a ‘Next Customer First project’, or appointing Digital Executives at the highest levels of the organisation. The frustration for most players is, that whilst the “what” and the “why” are understood, the “how” is weighed down by the nemesis of digital, the analogue/batch systems that pervade every “system of record” in every bank.



Figure 2 Image courtesy of [IBM IDC](#)

The concept of “real time banking” is touted by several incumbents, with the likes of SAP,

Oracle, CSC, Teminos and a few other vendors claiming they have created digital friendly cores that bridge the gap of customer demand and bank delivery. Of the Australian Big Four banks, only CBA have really nailed the real time in their core.

The digital bank is by definition designed to offer the customer the service of their choice, through the access method of their choice. However, the full spectrum of services across retail, business, wealth and insurance are yet to be presented coherently through a single player.

Customer account opening has been revolutionised and provided you have identified yourself through an Anti-Money Laundering (AML) compliant 100 point check, you can open any number of accounts without completing a single paper form - unless you are a business customer.

You can open insurance services of a general nature with one or two clicks, and in many cases you can have your self-managed super fund and investment portfolio presented with your general accounts.

As a consumer, the amount of information and products you have access to in the market is staggering. The quality and range of digital access points provides a huge range of choices. Mortgages can be originated, and provided your needs are simple and you have your complete information, you can be fulfilled through the same process. You are also able to access volumes of market and insight data, even if you are not a client of the bank, in order to be informed for a home purchase. There is a plethora of “digital banks” and digital intermediaries in the market.

<sup>4</sup> <https://public.dhe.ibm.com/common/ssi/ecm/gb/en/gbe03768usen/GBE03768USEN.PDF>

While there is significant upside and improvement in the customer experience as a result of this commitment to digital, the digital banking super highway is often joined by analogue dirt tracks which create friction and distract customers. Typically, resolution of customer problems is through a contact centre agent. The agent may be trained in advanced interrogation techniques and will require the consumer to repeat the customer failure multiple times, making the experience more ‘non-digital’ than it needs to be.

These service gaps dilute the aspiration of the digital zealots and ultimately end in customer detraction. This is especially stark when advertised service promises are unable to be fulfilled because the customer doesn’t know their four digit telephone banking number and is not able to complete a card-less transaction when the ATM has swallowed their plastic.

There are plenty examples of great, more examples of average and as many examples of poor in the digital bank customer experience, equally sprinkled across all banks. None have any greater share of these, except perhaps in the mind of their own staff.

### **3. What’s holding back digital banking?**

It could be strongly argued that today’s digital banking landscape is a shadow of what it could be, especially given the abundance of technology solutions and resources available. There is no single reason for the slower penetration of digital banking for more complex transactions but we outline some prime suspects below.

#### **Consumers?**

“Build it and they will come” is a high stakes game for providers of any product or service. As a service provider, sometimes it’s better to meet an existing or growing demand and to be a fast follower where possible. If this is the case, perhaps to some extent we (consumers in general) are getting the digital banking experience we deserve.

It goes without saying that if you are reading this article you are NOT a typical consumer. You are much more likely to be more knowledgeable of, and comfortable in, the digital world. You appreciate the benefits of online and mobile banking; it saves time, it’s convenient and efficient, it’s there when you need it and it’s generally free. Increasingly consumers ‘get’ this but many of the banks’ current highest value customers don’t.

Secondly, many of these same consumers have a belief that money and information are unsafe in a digital world. Trust is missing and the media feed this fear. Most customers don’t know what a distributed denial of service attack is - but they know it’s an ‘attack’ and that can’t be a good thing. There are consumers who are still unsure just how to use digital banking. They are comfortable with the status quo and perhaps see digital banking as a solution to a problem they simply don’t have.

#### **The Banks?**

Are banks themselves partly to blame for the slower penetration of digital banking for more complex transactions? Probably. It’s in the banks interests to drive consumers to self-serve in the lowest cost channel and this works well for simple transactions. But to make digital banking really work well for more complex transaction requires the seamless integration of the digital process and people. And people are very expensive.



There is a relatively cosy oligopoly in Australian banking with the Big Four (and their myriad sub-brands) dominating most consumer markets. Despite the Commonwealth Bank's Chief Risk Officer David Cohen saying 'Generally speaking we do the right thing by customers' at the recent parliamentary hearings, it's probably in the banks' interest to have a little consumer friction when it comes to banking. Having a slightly frustrated customer is a lot more profitable than having a customer thank you for a seamless process when they exit your institution and switch to another. For example, will it really benefit banks to have frictionless account portability? Are today's banking leaders up for the challenge of developing real digital banking?

### **Technology Vendors?**

According to Stessa Cohen, research director at Gartner, in a report published earlier this year<sup>5</sup>, application vendors need to step up or step aside as new demands in the digital banking sector place pressure on businesses. Incumbent application vendors have been slow to respond to new requirements. Of course, CIOs must be prepared to manage the challenges of evaluating and selecting new vendors that may not have proven track records in the financial services sector or may simply be new and untried.

### **Regulators?**

The two main financial services regulators are the Australian Securities Investment Commission (ASIC) and the Australian Prudential Regulatory Authority (APRA). ASIC drive consumer protection by ensuring banks comply with laws and regulations in areas such as conduct and disclosure and APRA drives consumer protection by ensuring banks are financially secure. These regulators are rightly conservative and in many cases this hinders the development of digital banking. Know Your Customer (KYC) law is a strong positive example, particularly in a world where terrorism financing is an ever-increasing global problem that causes real challenges where there is little or no face to face interaction.

## **4. Business ecosystems - using APIs to foster innovation**

To improve customer service, a significant investment by the banks is put into self-service portals. Online web banks and their mobile app equivalents continually strive to deliver the best self-service engagement that the owning financial institutions can think of. Here in lies the first crack of weakness. This may be a shocking statement – “banks may not be the best source of innovation” - this includes designing and delivering engaging customer interfaces that delight.

The challenge for the financial institutions is to create differentiated core products and services that are completely defined and owned by the institution. At the same time, they must be delivered through the best (and “best” may be different for different customer segments) self-service web portal or mobile application. To make matters worse, the customers idea of “best” is most likely defined by non-bank entities.

Energising and engaging in an ecosystem of partners through Application Program Interfaces (APIs) could be the key to unlocking this new value. The technical answer lies with APIs' where the institution provides new interfaces (API's) that can be invoked by third-parties. Third-parties can develop “best” applications for niche customer segments that leverage the financial institutions APIs to manage and interact with the core products.

---

<sup>5</sup> <http://www.gartner.com/newsroom/id/3303517>

This technical separation between APIs delivered by the institutions core capabilities with components of user application delivered outside the institution is not new. For example, mortgage brokers have built applications that service themselves and their clients well, but invoke APIs from the banks to get quotes and ultimately submit loan applications.

For a financial institution to fully deliver the best customer self-service applications, they need to empower the wider community to build and compete on innovative applications that deliver the financial institutions competitive and innovative products and services.

There is a financial upside. Banks spend hundreds of millions on their front end applications. By empowering, encouraging, supporting, and enticing the “Fintech” community to create compelling applications, this cost can be greatly reduced (well, transferred to the community in part, which typically deliver applications more cost effectively with greater urgency). Savings can be reinvested into expanding APIs and innovative core products.

Institutions are concerned - allowing third-parties to create the customer experience could lead to a financial institution losing its customer branding, the intimate engagement with the customer, and the ability to upsell and cross sell products. This can be managed by having clear contractual arrangements and agreed paths to market.

ANZ Bank has been one of the first to move with their API strategy:

*“the bank’s digital and business teams are currently identifying which third parties they want to offer the service to. ANZ expects partners will be keen to tap into the reward points look-up, card activation, account validation, and available balance functions, among others, that the APIs provide.”<sup>6</sup>*

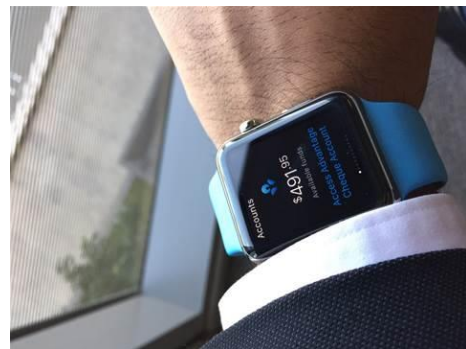


Figure 3 Image courtesy of [IT News](#)

In other markets, some banks have recognised the incredible value in their customer relationships and built a powerful ecosystem around them. For example, TD Bank Group, one of the largest banks in North America, pursued a social transformation promoting collaboration across the bank and with a wider set of partners and the fintech community. TD Bank has achieved substantial success in its collaboration initiatives, with thousands of communities created comprising well in excess of a million network connections.

## **5. Digital banking can deliver great customer service – even if things go wrong**

Customer experience as defined by self-service is great if everything goes well. There will always be situations where you do need to talk to someone. The warm feelings of “my bank is great” can

---

<sup>6</sup> <http://www.itnews.com.au/news/anz-bank-opens-up-its-mainframe-439190>



quickly erode when having to call up and eventually explain to someone the issue that is then not resolved. The problems with talking to your bank via the phone is a whole discussion in itself.

To keep it brief, the friction that occurs in having to engage with a person is ultimately directly related to the time it takes to resolve the problem. Traversing through call options, having to remember and enter identity information, waiting for someone to answer, explaining the problem, having the person either not empowered or not able to resolve the issue, having to have the call escalated ... the list of friction/time taken adds up with a direct negative impact on customer experience.

Imagine instead you are in your bank application and you have an issue. You select an option for the bank to call you. You enter in your query. The bank knows who you are and your phone number (you have already authenticated yourself to get into the app), where you are in the application and has a written question from you. The application immediately tells you when you will be called and you know that more likely than not a knowledgeable empowered person will call you.

Or better still, while you are waiting, the application provides a helpful dialogue using natural language. This interaction does more than just pass off a canned Q&A, it reasons and provides truly contextual ‘interactions’ from your input, either spoken word or text chat using a cognitive system. At any point you can cancel the call back if you resolve your issue. This immediately reduces many of the friction points that occur in a typical phone call to your bank. Survey respondents in a recent Accenture study highlighted how critical resolution of client issues is key to customer retention:

*“ Of the consumers who switched to another provider due to poor service, more than 80 percent said they could have been retained, mainly if their issue had been resolved on their first contact with the bank”*

*Accenture: Banking Customer 2020<sup>7</sup>*

Successful banks will meet the customer service challenge by delivering a human style of interaction through the digital channel. In a recent survey of banking executives, this human style of interaction using cognitive capabilities aligned with strategic priorities<sup>8</sup> for banks. The survey found the respondent’s priorities to improve operational efficiency, improve customer engagement and experience, and to drive revenue growth were all anticipated benefits. While our focus in this paper focuses on improving customer engagement and experience, it’s worth taking note of the other aligned benefits (See Figure 4).

*Needs and outcomes: The expected benefits from cognitive computing align strongly with banks' strategic priorities*



*Source: 2016 IBM Institute for Business Value Cognitive Bank Survey, (sample size n = 2009).*

<sup>7</sup> [https://www.accenture.com/t20150710T130243\\_w\\_us-en\\_acnmedia/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Dualpub\\_17/Accenture-Banking-Consumer-Pulse.pdf](https://www.accenture.com/t20150710T130243_w_us-en_acnmedia/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Dualpub_17/Accenture-Banking-Consumer-Pulse.pdf)

<sup>8</sup> <https://public.dhe.ibm.com/common/ssi/ecm/gb/en/gbe03768usen/GBE03768USEN.PDF>

Leaders who are focused on improving customer engagement and experience will integrate natural language with reasoning to support the customer interaction and provide a more ‘human’ experience in the digital channel.

Figure 4 [Banking Executive Priorities](#)

They will also align and leverage these same capabilities to support all staff who interact with the customer, ensuring there are seamless transitions within the organisation. The transition between the banks digital and human staff interactions must also carry awareness of the current client context to ensure each customer’s journey through the bank flows seamlessly in line with customer expectations. Delivering on this promise will require help. Many organisations will connect with an ecosystem of agile partners to get this done.

Financial institutions that truly embrace customer experience will empower the community to provide amazing applications that allow the customer to have the best self-service experience. When the customer will require a person to talk to, the best customer experience can be achieved by solutions that remove the friction points that add to the time taken to resolve the problem.

## 6. Conclusion – what should business leaders do?

Traditional concepts of what a bank does are changing fundamentally and will be constantly challenged. Bankers will no longer be bankers in the traditional sense. The most successful banks will be focused on collaboration, agility, innovation, analytics and becoming a digital bank in order to transform their role in the banking ecosystem.

Banks need to build broad portfolios of partners who together deliver compelling banking experiences and services to their customers. It is well understood that the deep relationships traditional banks have with customers will allow them to position themselves as the principal gatekeeper to their customers, creating an ecosystem of even better services and experiences.

The most successful participants in the digital domain will leverage cognitive natural language and machine learning to scale and accelerate human expertise to deliver better digital outcomes, to removing points of friction experienced by customers at the boarder of a smooth running digital process.

Successful organisations must be agile, they must embrace an ecosystem of partners and collaborators.

Successful organisations must be ‘all in’ on the digital journey so they are not left behind.

## 7. About AIIA

The Australian Information Industry Association (AIIA) is Australia's peak representative body and advocacy group for those in the digital ecosystem. AIIA is a not-for-profit organisation that has, since 1978, pursued activities to stimulate and grow the digital ecosystem, to create a favourable business environment and drive Australia's social and economic prosperity.

AIIA does this by: providing a strong voice on policy priorities and a sense of community through events and education; enabling a dynamic network of collaboration and inspiration; and curating compelling content and relevant information.

AIIA's members range from start-ups and the incubators that house them, to small and medium-sized businesses including many 'scale-ups' and large Australian and global organisations. We represent global brands including Apple, Adobe, EMC, Deloitte, Gartner, Google, HP, IBM, Infosys, Intel, Lenovo, Microsoft and Oracle; international companies including Optus and Telstra; national companies including Ajilon, Data#3, SMS Management and Technology and Technology One. While AIIA's members represent around two-thirds of the technology revenues in Australia, more than 90% of our members are SMEs.

Our national board represents the diversity of the digital economy; more detailed information is available on our web site.

### About AIIA's Financial Services Network

AIIA established the Financial Services Business Network for executives interested in technology-led innovation in the financial services industry. Join us to:

- Understand the innovation opportunities in financial services
- Facilitate networking between the innovators in financial services and the suppliers of technology solutions
- Discuss and create technology-led business opportunities in financial services and facilitate deal making.

In partnership with specialist companies from across the ICT industry, AIIA releases regular Thought Leadership pieces in the financial services arena.

## 8. About the authors



**Mark Ebeling** is the Chief Technology Advisor, Financial Services Industry, IBM Australia and New Zealand. Mark is responsible for delivering technical strategy and innovation to the finance industry. In recent years Mark has engaged and collaborated with industry clients to embrace a business focused approach to design thinking, agile development and cloud computing.

Mark is a technology leader, architect practitioner and mentor. Mark has established a track record delivering new technology in the finance industry for more than 28 years. Mark is insightful and outcome focused. Mark's broad experience has enabled the pragmatic application of technology to address business challenges in his client around the globe.



**Robert King** is the Chief Executive of Intech Credit Union, Australia's fastest growing banking company. He is an experienced financial services professional having worked for a number of larger and smaller banks including Citibank, Rothschild, ME Bank and Newcastle Permanent Building Society.



Jason Millett is a Director of MillStreet Consulting Pty Ltd and a Senior Adviser at Moelis & Company, providing Executive level advice on technology and assisting organisations dealing with complex transformation agendas enabled by IT.

During his extensive career, Jason has held CIO roles at Westpac NZ, Billabong International and Westpac Group, as well as being a senior Transformation leader at Westpac, Billabong and the Commonwealth Bank, where he led the roll-out of CommSee.



**Andrew Stein** Founder and CEO at Payreq. Payreq enable businesses and governments to deliver invoices to their customers' preferred digital bill presentation platform. Andrew is passionate about discovering, creating and commercialising innovation for business. He was the Winner of the 2015 NSW iAward for Financial Services.

Andrew has provided management consulting, IT strategy, architecture services, product development and sales in both commercial and government organisations including BPAY Pty Ltd, The Boston Consulting Group, and the Commonwealth Bank.