The 'Omni-Channel Approach' – Digital Banking for Generation Y

Banks must be prepared for serious disruption that has already begun.

In October, Lord Blackwell, the recently appointed chairman of Lloyds Banking Group, predicted that the UK financial sector will see "more fundamental change in the next ten years than has happened over the last 200 years", as he announced plans to slash the bank's workforce by 11 percent and close 200 branches before the end of 2017. The "change" is entirely to do with the **digital explosion** that has destabilised nearly every industry. The internet and mobile apps have whisked away the captive consumers that once frequented local branches. It's debatable whether Lloyds' latest round of planned layoffs could have been avoided, but one thing is certain: In today's environment, banks must be willing to consider drastic measures in order to survive. From my point of view, it appears there will be some casualties among the major banks in the next decade if they don't offer a holistic customer experience that generation Y is expecting today.

But don't take my word for it: In a December 2013 ***Financial Times* op-ed**, BBVA chairman Francisco González surely raised some heart rates in the industry by writing, "Some bankers and analysts think that Google, Facebook, Amazon, or the like will not fully enter a highly regulated, low-margin business such as banking. I disagree. What is more, I think banks that are not prepared for such new competitors face certain death."

Who Will Be the "First Global Digital Bank"?

Two months later, González backed up his words by acquiring Simple, an American online banking platform, for USD$117 million. In March 2014, BBVA announced the creation of a brand-new digital banking division. González has plainly laid out his ambitions: to turn BBVA, Spain's second-largest bank, into "the first bank in the world to transform into a pure digital house".

BBVA's goal is no less than the holy grail I described in my **previous post**, a global "omni-channel" approach enabling a consistent customer experience (encompassing products, services, and marketing) across all channels and devices. This approach is especially valuable in banking, as research from Google has shown that nearly half of those who bank online will use multiple devices for the same activity. Also, it creates enormous value by de-siloing the resource that, more than any other , defines established banks' advantage over the tech upstarts: vast reserves of customer data. With all the data at their disposal, banks can develop applications and financial products customised to the needs of individual customer segments, and market their existing portfolio more effectively.

The technology overhaul required to achieve this will require investment, in both time and money terms. In the final two years of the seven-year process BBVA undertook to build its new global IT platform, the bank spent around 850 million euros a year on average between 2011 and 2013 on tech infrastructure. But since most banking platforms retain core design schemes dating back many years, perhaps these investments should be seen as simply the payment of a long-overdue innovation invoice.

The Best of the "Multi-Channel" Players

Which other institutions have shown the capability to bring new value for customers through digital, even if they haven't yet stepped up to the omni-channel approach? Incumbents greatly differ in their level of digital sophistication. The banks that seem best positioned to compete going forward, and eventually make the leap to omni-channel, have a clear strategy driving their digital participation, with an apparent link to the broader brand and business strategy. Rather than merely treading water, they're riding the digital wave – exploiting the new technology to create (and co-create) unique customer experiences.

I like to separate incumbents into the following categories.

Digital Top Performers: These financial institutions are creating value, not just interaction. They have adopted the philosophy, if not yet the technology, of omni-channel by using digital as a platform to push products and services to customers. For example, Fidelity Investments has won praise for the Next Generation Fidelity App, which allows users to access account information, trading tools, and real-time analytics. French bank, Crédit Agricole, created a co-creation platform where developers work cooperatively to turn crowdsourced ideas into new digital applications.

Digital Intermediates: In the middle of the spectrum we find institutions using digital platforms mainly to create brand awareness and foster interaction. Essentially, they are looking to establish a general commercial presence on the various platforms, beyond merely plastering screens with banner ads. If not especially innovative, these approaches can often be quite trend-savvy, as when Capital One became first in the industry to launch a tie-in with FarmVille, formerly Facebook's most popular game. Similarly, in 2005 Wells Fargo piggybacked on the success of "virtual world" Second Life by launching an in-game digital environment designed to educate young adults about money management.

Digital Beginners: These firms are dipping a toe in the water, experimenting with digital integration in some marketing and communication activities. This is where you see social media being used purely as a push platform, with little or no interaction. Many European banks are at this stage, and struggling to grow beyond it. Investment is a key issue: McKinsey reports that less than 0.5 percent of European banks' total spending goes to digital initiatives. Lessons learned at the beginner stage can provide important directions for growth, if the experimentation is conducted strategically and with reference to key company goals. But players that aren't planning on targeting the end consumer don't necessarily need to make the effort to step up in class. Investment research firm Morningstar, for example, has a basic social media presence focused on providing purchase-relevant information. For companies of this type, it may make more sense to concentrate on maximising the strategic payoff of the basic approach than to add features for the sake of adding features.

The Payoff

In years to come, major banks such as Lloyds will likely have more tough-to-swallow news to deliver, as they undergo the changes necessary to remake themselves as digital-first organisations. But there are big rewards to getting there early: According to PwC research, consumers will pay a 12 percent premium for mobile banking services. This is in addition to the significant cost-base savings produced by leveraging digital and de-emphasising the branches. As always, focusing on adding value for the customer is a win-win: creating a seamless omni-channel strategy that provides a smooth transition and experience between channels for customers.

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