Designing the bank of the future

The financial sector has undergone more than its fair share of turmoil over the last decade, first with the financial crisis, then its aftermath followed by years of digital disruption. As it reshapes itself, new kinds of banks are starting to take shape, yet the jury is still out as to what form tomorrow's bank will really take.

Having worked with financial institutions since the nineties, I take a keen interest in the forces at play, including the frictional resistance of banking culture and heritage.

If you cut to the chase, banks are regulated brands, buffeted by changing customer needs and attitudes like everyone else, but with the need to comply with ever more regulation. It may have taken longer for financial brands to have been affected by digital disruption, but as their customers' needs and attitudes change, existing banking brands risk losing their relevance.

Tomorrow's financial customer craves experiences that are simple, personal and real-time. Existing retail banks have a business model based on cross-selling and so are, by definition, complex.

Challenger banks and alternative financial providers are entering the market with simpler propositions, aiming to build meaningful relationships around a single product and then, guess what, cross-sell others.

While they appear different, most are mimics. Many of these brands are targeting millennials and using cutting-edge digital design to differentiate the user experience and low-cost business models to offer better value. With agile cultures are backed by private equity, they are aiming to transform financial brand horizons. But will they?

It's a big risk to ignore the threat, so there is an urgent need for the leaders of today's banks to figure out what tomorrow's banks should look like. The firm foundations they once believed they could rely on, such as their heritage and trust, could crumble in an increasingly promiscuous market.

All tomorrow's banks will need a powerful, differentiated brand that stands for something customers value beyond the generic. This needs to be rebuilt on a compelling purpose that resonates with Millennials and iGens. Millennials, in particular, are now in the driving seat, their expectations set by bigtech whose success has been founded on highly personalised services and best-of-breed user experiences, especially on smartphones. These tech-savvy customers won't think twice about switching to a service they deem better suits their needs.

Accenture's consumer banking survey in North America confirms this. 18 percent of millennial customers switched their primary bank within the past 12 months – compared with 10 percent of customers aged 35–54 and 3 percent of people 55 and older. Millennials are therefore six times more likely to switch bank accounts than their Baby Boomer parents. That's a totally different marketplace; one where complacent brands will feel real pain.

There are new competitors too. Other financial institutions are no longer the only threat, instead big technology players focused on innovation are increasingly able to offer simple solutions for specific needs in the value chain.

Banks have been lucky so far, as the so called 'challenger banks' have not really challenged, instead they have used traditional business models, and with a few exceptions, such as Clear Bank in the UK, who partnered with Microsoft to create the first new clearing bank for one hundred years, have not really reinvented the technology of banking. Much fêted Monzo started as a pre-paid Mastercard debit card account and is only now developing into a bank. Revolut is applying for its first banking licence now it has 3m customer accounts.

To counter this threat traditional banks need to leverage their assets: scale, financial capital, regulatory compliance, brand recognition, customer data, distribution and, despite their problems, a reasonable level of customer trust. Granted they are also slow, predictable, political, risk-and-change-averse; and mostly remain reliant on thirty-or-forty-year-old legacy technologies.

So, how can incumbent banks reframe the current challenges and turn them into opportunities?

Radical new thinking

For the last few years, most financial services companies have focused on 'digitisation' and removing the 'pain points' in the customer journey. To drive future growth, more radical thinking is required, with a focus on new ideas and relevant value propositions based on personalisation.

While much of the focus is around how to leverage technology to attract younger demographics from millennials to Gen-Z, yet $30 trillion of investable assets are controlled by the 50-plus population in the U.S. Not to mention the vast number of people who don't have their own financial advisors but are looking for the best strategy in drawing down their assets to ensure they don't run out of funds in later years.

Ultimately, the same solutions that will help millennials figure out how best to invest their funds can be harnessed to help sandwiched generations plan for finances between multiple households and generations. Machine learning and AI will play a big part here.

Behavioural economics principles that nudge consumers to take the proper actions towards a more secure financial future can be employed for a wide spectrum of audience regardless of age.

Banks should be asking why the likes of Marcus has had such a big impact on the market and wonder whether the aura of Goldman Sachs will be tainted by lawsuits in Asia and elsewhere.

If Millennials are more interested in ethical investing, why aren't there more ethical products available? Why hasn't a UK/US bank applied Sharia-like banking concepts to offer more transparent products to this socially aware generation? Why hasn't a high street bank cracked the equity release market for older customers wanting to help their children get on the housing ladder? Who is focused on the financially marginalised in society, other than rapacious pay day lenders?

This kind of disruptive thinking may be at odds with what made banks successful in the first place, however creating innovation cultures will help them take the required leap of faith and embrace new models. The new mindset should be based on life events, health and aspirations. It should be dynamic and adaptive to changing societal and market conditions.

Collaborative approach

Bright new fintechs have already spotted some of these opportunities and if banks do nothing they will start carving out profitable niches that nibble away at what were once highly profitable core banking services.

Meanwhile, techfin players (bigtech companies entering financial services) may enter the market with new platforms for payments (it's happened before, remember PayPal's origins), investments and even p2p debt, leaving traditional banks struggling to appeal to the next generation of customers. Not to mention the potential scenario where a bigtech company buys a challenger bank to create a regulated techfin offer.

In this context, collaboration would be a natural way for banks and fintech to leverage each other's strengths, but culture is always going to be a challenge when an agile innovator comes together with a slow-moving incumbent.

Perhaps a more successful approach would be for banks to distribute some fintech products or partner with them to recruit their next generation customers (children, students, unbanked). If they work, the banks can afford to acquire the start-ups. Remember, JP Morgan has an annual \$11bn technology budget.

Banking's hidden gold

Customer data is banking's hidden gold and incumbent banks must learn how to leverage this hugely valuable asset, just as bigtech has, to better serve individual customers.

According to the Digital Universe in 2020 Study - less than 1% of the world's data is analysed, and over 80% is unprotected. There is clearly room for using financial data to improve personalised services.

Tomorrow's banks must become more like technology companies, using historic data and real-time information to anticipate customers' needs and make the best offers in the exact moment they require it. Products and services will be tailored to each individual's specific requirements.

Why brand is key in a changing world

In this crucible of change brands provide reassurance. And where brands need repositioning - or even transformational change - a disciplined branding methodology is essential. The approach itself focuses on the problem that needs to be solved, engages and motivates the leadership team in a rigorous process of reinvention that is laser-focused on satisfying customer needs, now and in the future. Usually the process also works from the ground up, engaging and revitalising the whole organisation by re-branding the business from the inside-out.

The result should be a clear, differentiated and compelling value proposition and an engaging and consistent customer experience that recognises how different generations want to access financial services.

Banks need to think big and re-imagine a future where they use their data to become trusted customer experts, leveraging their insights drawn from customer behaviour to improve the customer experience and deliver useful personalised financial services in real-time. This way, the bank of the future will remain relevant and useful and their brand equity will grow, enriched by next generation customers.

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