

# FROM RELATIONSHIP BANKS TO RETAILERS



Banks are under pressure. Most notably from historically low interest rates. Meanwhile, *digital ecosystems* are giving them the opportunity to establish new, attractive business models. Similar to a natural environment, they create space for profitable interdependencies between different companies and their clients. Credit institutions can offer services and products from partners on these platforms and ensure their future viability by creating new roles.

**I**T giants like Apple and start-ups like the mobile bank N26 have discovered that financial services can be a lucrative business area. While banks cut jobs, merge, or downsize their branch networks in the course of the interest rate crisis, new competitors are demonstrating that digitization offers attractive income opportunities. Digital business models open up growth potential to companies and provide added value for their customers – and, first and foremost, they are attractive to the growing target group of digital natives.

Apple Pay, for example, revolutionized mobile payment using iPhones based on Near Field Communication (NFC). The mobile bank N26 offers convenient and cost-effective account management via smartphone. Business models like N26 in particular, use stored customer data to send appropriate automated product recommendations that are customized to fit the current needs of the customer. These customized additional offers, also known as “next best offers”, guarantee a high probability of closure with minimum sales costs.

#### ADDED VALUE WITH THE WORLD WIDE WEB

A business model tailored to banks. After all, they have a vast amount of customer data. All local banks that manage the essential accounts of a customer gain a very complete picture of a customer’s spending and consumer behavior through payment and transaction data. Pioneers in the finance sector

are currently in the process of opening this treasure chest with the help of new platforms: digital ecosystems.

Based on ecosystems in nature, the digital versions are platforms that banks can use to offer their customers complementary products and services from partners in addition to their own offerings. This enables credit institutions to expand their business above and beyond their established financial and insurance portfolios. They receive explicit permission to use the transaction data in their general terms and conditions. This data creates an ideal basis for individual recommendations.

#### ADDITIONAL BUSINESS WITH NEW ROLES

This offers banks the opportunity to position themselves in a new role in their customer relationships. For instance, if a customer purchases an iPad, the digital ecosystem recognizes this and sends an automated recommendation for suitable screen protection insurance or a warranty extension. The bank’s offer reaches its customer at the ideal point in time: The customer perceives this as added value and is happy to take advantage of it.



*Digital ecosystems offer banks the opportunity to generate additional business and position themselves in new roles towards their customers.*

# 10 RULES FOR SUCCESS

Horváth & Partners has devised a list of the essential design principles of a bank's digital ecosystem.

- 1 / Develop a modern personal finance management system (PFM)
- 2 / Update your terms and conditions to allow the use of transaction data.
- 3 / Ensure that the system gives users a unified cross-channel impression.
- 4 / Create a positive, consistent customer experience.
- 5 / Make it possible for users to customize the default screens.
- 6 / Offer additional services that are subject to charges, such as digital safe deposit boxes (e-safes) or longer revenue histories.
- 7 / Make it possible to integrate different accounts, even from other banks.
- 8 / Provide a powerful search facility.
- 9 / Within the application, analyze all customer data such as personal data, transaction data, search queries, or data from third parties.
- 10 / Offer your customers recommendations for further banking and insurance services or complementary products and services.

Banks achieve higher completion rates and position themselves as a provider of an unlimited number of products and services.

Using transaction data, the bank can also present itself as a "financial optimizer" by analyzing a selected customer's spending blocks and suggesting alternative offers for electricity or mobile communication services, for example. Customers save on costs and the bank receives a commission. In turn, analyzing spending data allows insights into further customer cost blocks, for example for flight expenses. In this case, the bank can act as an agent and point out the discounts offered by an airline's loyalty program. If the customer becomes a member, the bank is rewarded with a commission.

## "GEORGE" MODEL FOR SUCCESS

As a pioneer in the financial sector, the First Bank of Austria established a digital ecosystem with its online banking application, George. George offers a personal finance management

solution that customers can use to categorize and graphically view their account and credit card transactions. As customers receive an overview of all their financial activities, the bank receives additional data. During installation of the banking app, customers give their explicit permission to use this data. Within one year, First Bank had gained over 500,000 customers for the new banking platform, including many new customers in addition to existing clients. In future, the platform will also be opened up to third-party developers.

The example shows: Digital ecosystems open up new ways for banks to collect additional earnings from complementary products and services. They become a retailer, or a "buy bank". The industry is thus ensuring its future viability by reducing sales costs. ■