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The Next Generation Social Banking Ecosystem: A Road Map for Banks

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The Next Generation Social Banking Ecosystem

SUCCESS IN CONSUMER BANKING WILL BE REDEFINED BY TRANSPARENCY, SIMPLICITY AND RENEWED CUSTOMER-CENTRICITY

From 2000 to 2007, top-performing banks had an average return on equity of 26 percent. Today, many of these same banks are looking at returns of 8 percent—if they are still in business. Growth is hard to find, revenue is under intense pressure, and the cost of doing business continues to increase. Banks are operating under tighter supervision at a time when they are also trying to restore declining customer trust. Regulators are both curbing fee-based income and increasing the cost of compliance. And disruptive technologies are strengthening the competitiveness of non-traditional, low-priced competitors and new entrants in areas such as payments.

COMPETING IN THE NEW CUSTOMER DEMAND-DRIVEN ENVIRONMENT

With limited avenues for growth, it will be critical for banks to:

- 1. Retain profitable customers**
- 2. Capture a bigger share of wallet**
- 3. Combat the growing adoption of disruptive technologies (for e.g. mobile wallets, remote retail, contactless payments) offered by new and non-traditional entrants that threaten to chip away at banks' payment revenues**

Given the challenging revenue climate, most banks are tempted to raise fees on customers to compensate for the shortfall. But imposing new or higher fees risk alienating customers and reveal a narrow, short-term, transactional view of the interaction that too often fails to take into account the overall customer relationship to the bank (*Figure 1*).



Figure 1: Moving beyond transactions to capture Customer Lifetime Value

Adroitly targeting specific customer segments, creating products and offers that go beyond deposit and checking accounts, and delivering those products through highly competitive (physical and virtual) sales environments will be competitive necessities. As the banking value chain rapidly digitizes, banks will need to raise their game by improving the user interface/customer experience by partnering with retail and technology firms to personalize offers, deals, engage with customers and build loyalty.

THE NEW SOCIAL BANKING CUSTOMER

Two megatrends will force retail financial institutions to rethink their operating models: digitization, which is de-integrating the front- to back-office value chain; and consumer expectations (*Figure 2*), which are relentlessly rising. Banks will need to invest in these technology advances — specifically, social computing, cloud, analytics and mobility— to meet customer expectations, which are increasing as innovative nonbanks step into the space and solve the following common, long-standing customer “pain points”:

Dealing with a bank is complicated and time-consuming

Customer receives impersonal treatment and little recognition

Customer is not in control or empowered to make decisions

Customer gets no help engaging with friends and family on financial matters

Figure 2: Investing in social technologies will allow banks to address customer “pain points” (above) and improve their ability to demonstrate value to customers, which is essential for increasing pricing power and acceptance

Finally, banks will have to contend with shifts in consumer behavior – none more significant than the **rise of the social consumer**, accelerated by the mobile and tablet revolution. Banks will have to deliver superior customer experience to a generation that has much greater choice and is likely to be more price-sensitive.

BEYOND IMPROVING COST-EFFECTIVENESS: USING TECHNOLOGY TO IMPROVE CUSTOMER RELATIONSHIPS

Successful banks are embedding new capabilities of all kinds into their operating models—risk analytics, customer analytics, pricing optimization—so they can deliver more personally relevant products and services based on customer needs.

Product innovations like so-called green mortgages, which offer discounts for energy-efficient homes, will address consumers' growing environmental and social concerns. These and similar customer- and community-focused product initiatives and offers will not only create new income streams but also provide banks with the opportunity to build and improve customer relationships.

THE NEXT-GENERATION SOCIAL BANKING ECOSYSTEM

However in order to truly capture the life time value of the customer, it will be critical to fully understand the customer – her motivations, likes, dislikes, friends, social influence and preferences. Of course, it's no revelation that banks possess copious amounts of customer data. What is less well known is that most banks struggle to glean truly valuable intelligence or insight into their customers' preferences. Banks need to capture comprehensive customer information (**syncing customers' transaction data with social data through Social Apps**), update it continually, and understand it in a holistic way to differentiate customer experience and deepen customer relationships.

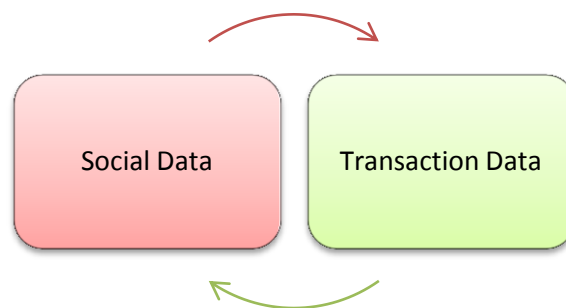


Figure 3: Combining A Customer's Transaction Data With Social Data Through Secure Social Apps Provides Keener Understanding Of The Customer's Tastes, Preferences And Social Influence

Note: Social Data is the collective information such as likes, dislikes, tastes, interests, hobbies, friends, peer networks, demographic & psychographic data produced by millions of people as they actively participate in online social activities (for e.g. on Facebook, Twitter, blogs, reviews)

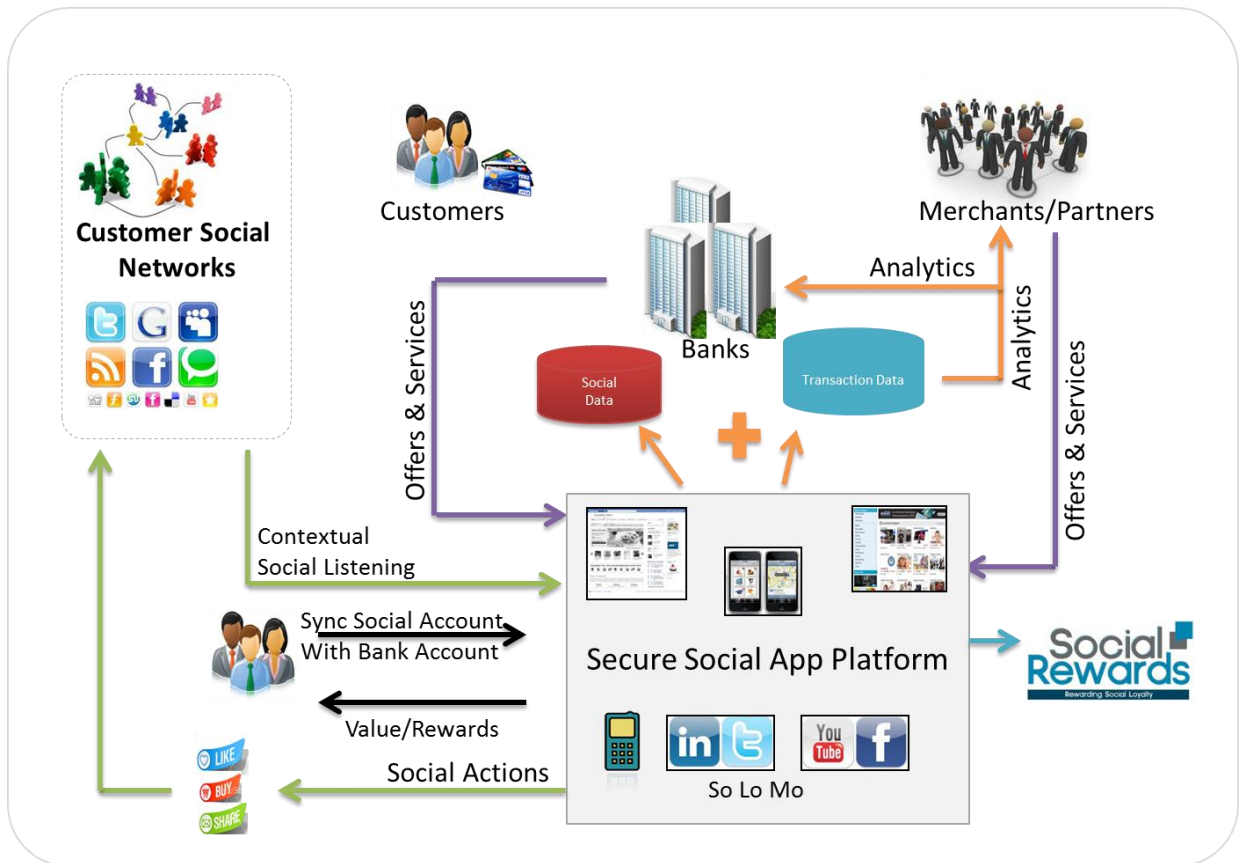


Figure 4: The New Social Banking Ecosystem Gives Banks Richer Insights into Customer Preferences by Combining Social Data with Transaction Data Using Secure Social Apps to Create Deeper, More Meaningful Relationships

WHAT ARE SOCIAL APPS?

To get a holistic view of the customers, banks use **Secure Social Apps**. Social Apps enable customers to sync their social data with their bank accounts.

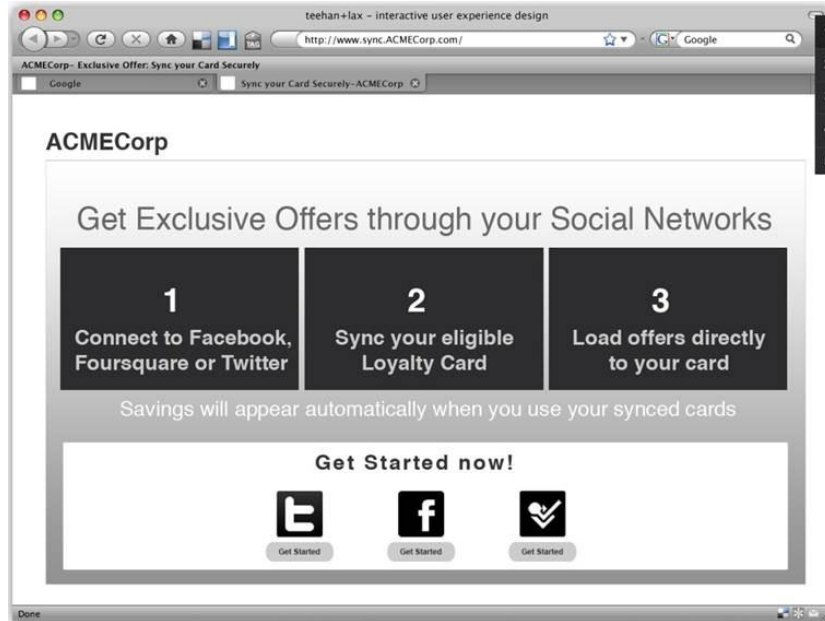
Social Apps help convert a bank's casual social presence into a powerful sales and advocacy channel helping customers conduct transactions (avail targeted offers, deals, buy) in a private and secure environment with the added ability to share and promote their experience among peer networks.

- **Relevant targeted offers:** The rich data shared by customers via Social Apps will help banks craft more relevant, targeted products and services. A bank's merchant partner, who originally had access to only "anonymized" transaction history, can now create offers and deals that are more suited to customer tastes and preferences for better redemption increasing **share of wallet**.
- **Social Rewards & Loyalty:** Customers are rewarded for their loyalty and advocacy: "Social Actions" such as "sharing", "reviewing", "influencing", "advocating" and "recommending" --moving focus away from just transaction history to a renewed focus on a customer's **overall relationship to the bank** and her influence and "social clout" (the size of an individual's network/group and influence over the members in the network) to **increase stickiness, loyalty and advocacy**.
- **Combating disruptive forces from new and non-traditional entrants:** Traditionally, electronic payments offered tremendous margins to banks. However, disruptive, customer-centric innovations such as **mobile payments, mobile wallets and contactless payments** being offered by new and **non-bank entrants threaten** to chip away at banks' margins. Many banking and financial institutions have cutting edge technology strategies. However, when it comes to social and mobile payment innovations, most are "fast followers". The Social App platform will enable banks to move forward quickly as "catalysts" in a robust, secure manner.

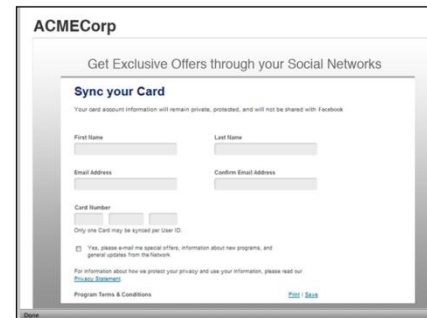
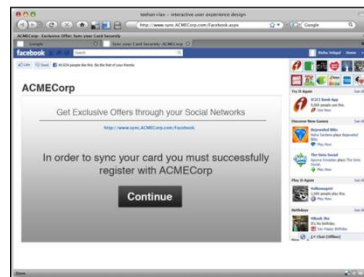
Happiest Minds Social App Platform enables Social Apps to be designed, deployed and accessed over multiple channels and devices with capability to integrate with different internal/external systems.

SAMPLE REPRESENTATION OF A SECURE SOCIAL APP FOR A TOP-TIER BANK:

Step 1: Bank's customers are provided information on the secure Social App with necessary privacy and security details, features and benefits



Step 2: Customers complete a simple registration process which allows them to sync their social profile (from a variety of options such as Facebook, Twitter, Foursquare, etc.) with the bank's customer profile "on-file" and provides permissions to use their social data.



SAMPLE REPRESENTATION OF A SECURE SOCIAL APP FOR A TOP-TIER BANK: (CONTINUED)

Step 3: After syncing a customer's social data (*social profile*) with transaction data (*bank profile*), a bank can provide customers with more relevant, targeted offers and products that align better with her tastes and preferences. The Happiest Minds Social App platform enables access via multiple devices, channels (such as on the web, tablet & mobile devices).



COMBINING SOCIAL AND TRANSACTION DATA USING SECURE SOCIAL APPS ENABLES BANKS TO CREATE:

Deeper, More Meaningful Customer Relationships Through Richer Engagement

Better Understanding Of Customer Tastes And Preferences Through Social Data: Leading To Opportunities For Capturing Increased Share Of Wallet

Opportunities With Merchants To Craft More Relevant Services, Innovative Products, Co-branded Offers And Deals

Loyalty And Advocacy By Rewarding Customers For Their Social Influence, Clout And Overall Relationship

Increase Brand Footprint Among Non-customers: Build Spontaneous Awareness

Figure 5: Benefits of combining transaction data and a customer's social data using Social Apps

MITIGATING RISKS RELATED TO PRIVACY AND SECURITY OF CUSTOMER DATA

While banks have always been on the cutting-edge of technology adoption, due to the strict regulation of client privacy and data and the concern that any activity could constitute financial advice, banks have been slow to engage in social media.

However, Social Apps will mitigate the risk related to privacy and security by giving customers the control over the kind and amount of social data that is shared. The social app also captures and leverages customer data available in public domains such as blogs, reviews, Q&As, Twitter, etc.

HOW SOCIAL DATA CAN ENABLE UNDERSTANDING OF “WHO YOUR CUSTOMERS ARE?” & “WHAT ARE THEY SAYING ABOUT YOU?”

As custodian of customer data, banks can combine social and transaction data using secure social apps to develop a deeper understanding of customer tastes and desires and provide more relevant offerings, deals and services. This allows banks to create opportunities for further engagement and loyalty. For example, insightful customer data such as:

- *Mary K. is a 30 year old, female, college graduate and entrepreneur; owns one of Boston’s hippest boutiques; a lover of sailboats and Italy; travels internationally for 3 months a year*
- *John S., 22 year old, male from Charlotte, a Rhodes Scholar; aspires to start an innovative educational institution in developing countries; drives a Porche (a gift from his wealthy grandfather)*
- *Lisa M. is a 40 year old, female; immigrant from Ukraine, part-time mom and homemaker, successful real-estate agent living in Long Island, New York*
- *Roger T. is 62, retired after working for 35 years in the Underwriting department of ABC Insurance; extremely active, golfs twice a week, is proud of his garden and is also an avid fisherman.*

To accomplish this, banks must tap into this invaluable social user data to develop a more intimate understanding of “who their customers are?” Happiest Minds has developed powerful User Data Analytics and Dashboards to enable banks to:

1. Perform Rich Analytics to Segment, Analyze & Profile Users
2. Integrate Social User Data With Enterprise IT to offer the most appropriate and profitable products, tools and services to targeted segments

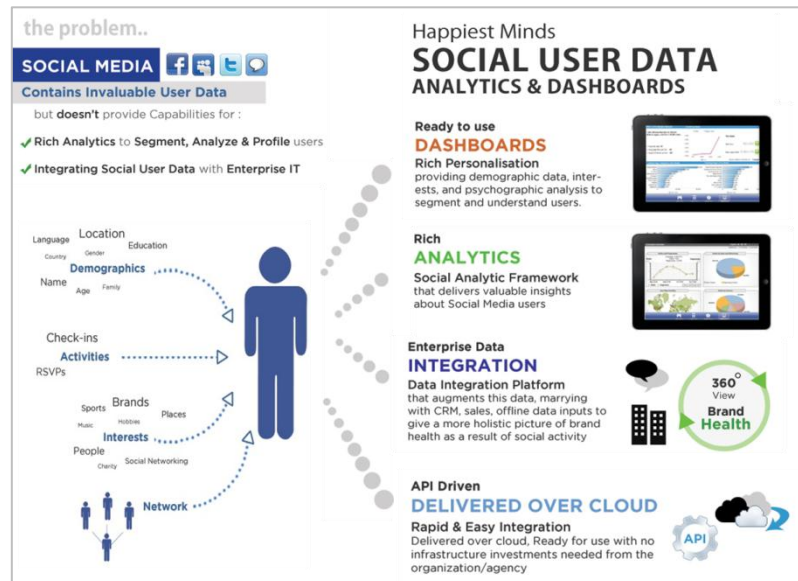


Figure 6: Happiest Minds Can Create Custom Social User Data Analytics & Dashboards To Help Banks Better Understand “Who Their Customers Are?”

Additionally, up to 70% of consumer spending is influenced by Web, mobile research, social preferences and influences. For Banks, understanding “what is being said”, what are customers thinking, reviewing and influencing therefore, becomes very critical. For e.g.,

- Mary is asking her friends for a recommendation on a good international credit card that waives transaction fees on certain categories. Opportunity for bank: Pitch a relevant credit card offer
- John is persuading his friends to invest in his business idea and also seeking a small business loan to start his entrepreneurship venture. Opportunity: Loan product and a merchant offer for international flight ticket booking
- Lisa is ranting about how unresponsive her local bank’s sales manager is in helping her customers. Opportunity: Improving customer service
- Roger plans to start a weekend recreational fishing crew and is soliciting support and funding from his 1000+ friends on Facebook. Opportunity: Tap into Roger’s network and leverage his influence.

The Happiest Minds Customer Insights Framework provides banks with a universal view of their customers to enable:

- Banks to leverage the voice of the customer as a business asset
- Extract valuable insights to drive business decisions
- Provide customer service & marketing departments the ability to listen, analyse, relate and act on customer conversations, no matter where they take place – internally in CRM notes, emails and customer surveys, or externally on blogs, review sites or social media platforms



Figure 7: Happiest Minds Customer Insights Framework provides a universal view of the bank's customers by implementing Social Master Data Management, which captures "what customers are saying"?

WINNING IN THE NEXT GENERATION SOCIAL BANKING ECOSYSTEM

Customers today approach a sale empowered by technology and transparency, with more extensive information from more sources than ever before. They expect to engage with banks when and how they want, in person, online and on the go. And they want these methods to tie together seamlessly.

Using **Secure Social Apps**, a bank's customers are presented with more meaningful offers and deals that take into account their social interests and preferences as well as their transaction history resulting in better redemption rates.

Customers are also rewarded for their **overall relationship with the bank**, their social influence and clout and less for specific purchases. Customers feel more empowered as relevant offers are presented to them resulting in greater perceived value relative to competition.

Social apps help customers get more value by making new connections: for example, connecting customers with friends nearby and connecting with people who they don't know but share similar interests (Apps that are **social, location-based, mobile** ("SO-LO-MO") and encourage **group-buying, sharing, reviewing**)

For Banks, **multichannel excellence** is all about providing choice, convenience, and value for the customer—including easier access, reduced purchase risk, and better price transparency. In order to achieve this, banks will need to develop a keener understanding of their customers "social lives" (leveraging **Customer Insights** and **User Analytics**) and overall relationship to the bank; going beyond mere transactions and purchase history.

Banks can gain a **higher share of wallet**, in terms of both frequency of purchase and ticket value, improving **cost efficiency** through higher capacity utilization across innovative channels such as social networks and mobile.

OUT WITH THE OLD: "SOCIAL REWARDS" REDEFINES THE LOYALTY PARADIGM

Traditional loyalty and rewards programs are primarily transaction-oriented, taking into account only a customers' spending history with less focus on the overall customer relationship, a customer's social influence or clout. Going forward, banks will need to achieve a far higher level of customer-centricity, trustworthiness and overall service excellence by embracing this next-Generation Social Banking Ecosystem and redefining the loyalty paradigm: moving away from transactions (short-term) to overall customer relationship (long-term focus) to thrive in the post-crisis environment.

About Happiest Minds Technologies

Happiest Minds, the Mindful IT Company, applies agile methodologies to enable **digital transformation** for enterprises and technology providers by delivering seamless customer experience, **business efficiency** and actionable insights. We leverage a spectrum of disruptive technologies such as: Big Data Analytics, AI & Cognitive Computing, Internet of Things, Cloud, Security, SDN-NFV, RPA, Blockchain, etc. Positioned as “Born Digital . Born Agile”, our capabilities spans across product engineering, digital business solutions, **infrastructure management** and security services. We deliver these services across industry sectors such as retail, consumer packaged goods, edutech, e-commerce, **banking**, insurance, hi-tech, engineering R&D, manufacturing, automotive and travel/transportation/hospitality.

Headquartered in Bangalore, India; Happiest Minds has operations in USA, UK, The Netherlands, Australia and Middle East.

To know more about our offerings. Please write to us at business@happiestminds.com

About the authors

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Shahnawaz Khan (s.khan@happiestminds.com) is the General Manager and Practice Head of the Happiest Minds Social Computing Practice. He brings in-depth experience in leading cross functional teams for conceptualization, implementation and rollout of social business platforms. Most recently, he was responsible for building & managing various social computing platforms at MindTree, which were critical in winning multiple MAKE awards. Prior to that he led product development for various parts of Wisdom & Acumen—a next generation knowledge management & collaboration framework, at Srishti Software; for which it won the NASSCOM Innovation award. He is passionate about social computing and believes that, when leveraged in conjunction with mobility and analytics, it presents opportunities to create paradigm shifts in business enablement, differentiation & customer engagement.