THE VIEW FROM KURT SALMON
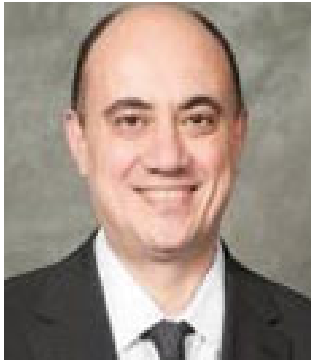
Chiheb Mahjoub
Global CEO

Get in touch with me at
chiheb.mahjoub@
kurtsalmon.com

Financial Institutions' Digital Future: Embracing the Inevitable

We've all lived the transformation in life and business wrought by digital technology.

Nowhere has this been more real than in the financial sector, where back-office administration has been revolutionized by straight-through processing and front-office relationships with customers increasingly reshaped by social media.

More change is on the way as ever more sophisticated mobile devices become omnipresent interactive and transacting terminals. Meanwhile, financial firms must adapt to a world where seamless interaction with customers across a broad range of channels and technologies is vital to growth - and even survival.

In this briefing, Kurt Salmon's Fabrice Albizzati discusses the implications of these changes for financial service providers, while Gaëtan Bodmer lists the keys to success in digital transformation projects (n.b.: the human aspects are as important, or more so, than IT capabilities).

Part of the change involves companies moving to social media to create conversations, interactions and even transactions with their clients. But not all are good at it, and plenty are bad; get it wrong and social media campaigns can do serious damage.

Meanwhile, the widespread adoption of mobile devices for daily activities has been slower than its pioneers hoped. But technological, economic and commercial factors are fast coming together to achieve critical mass, with lift-off likely in just a couple of years.

It's time to get ready. Please don't hesitate to contact me to discuss any issues we talk about here.

Best regards,

Chiheb Mahjoub

Gaëtan Bodmer, head of CIO advisory at Kurt Salmon France, explains the key landmarks for companies on the road to digital transformation

Q: What is the starting point for businesses when they launch digital projects?

Bodmer: The first priority: Establish a broad vision of the project and be sure it's shared by the business line in question and the IT department. This entails key decisions with implications for the structure and business model, and the kind of client experience they're after, while maintaining coherence across different channels of contact and activity

Q: And the implications for the structure of a business?

Bodmer: Project success may well need wholesale adaptation of the business and its decision-making structures. Digital projects require the businesses involved and the IT functions towork hand-in-hand. By their nature, digital projects not only involve multiple channels to the client but also cut across different departments of the business in question.

For example, the company may need to establish new competence centers offering specialist skills, possibly through recruitment; these people may have a wholly different profile from those already in the organisation.

It also needs a structure to facilitate innovation, including the ability to monitor developments in the field and to test out ideas that may then be scaled up to a commercial level. This organisational aspect is very important in digital projects, and not all companies pay the attention it needs.

Bodmer: The company should have a global information system providing a multi-channel base for any e-commerce or other digital project. The key is full integration of all the channels involved, including aspects like security. Too often, companies embark on such projects piece-meal. Decision-makers may need to consider which technical standards to use, whether to buy or build, whether to carry out work in-house or bring in partners. Everything may be up for change.

Q: What are the implications for working methods?

Bodmer: Inevitably, there will be new approaches to put in place, although they must be combined with traditional methods already strongly engrained in the enterprise. The emphasis here is on providing the flexibility to bring together different approaches – and IT plays a critical role.

The final requirement is: Performance indicators to guide the digital transformation, making sure the project is on track and fits the company's overall strategy.

Contact Gaetan at gaetan.bodmer@kurtsalmon.com.

Mobile systems are moving into payment ecosystem

The vision has been well drawn: Mobile payments as an accepted practice in everyday life.

In fact, much of the infrastructure is already in place; by 2010 there were already more mobile phone users in the world (5 billion) than payment cards (4 billion-plus). But efforts to turn this concept into reality are trial and error, even if some initiatives have reached large-scale user adoption.

Technology now enables bank transfers, bill payments, store payments and distance payments using mobile phones. The key sweet spot, though, is the small-payment function of less than €20, which in Europe still involves cash 90% of the time. More broadly, mobile phones are also seen as capable of replacing debit cards in a broader range of transactions with a value of up to €190 (although there is no technical obstacle to much larger payments).

NOTE THIS

- Mobile payments may not necessary replace, but complement existing methods, as well as meet new uses such as distribution of transport and other tickets, topping up of accounts and person-to-person payments.

- There are three types of mobile payment systems: e-money, where the customer taps an electronic account managed on the phone; use of the phone as a debit card allowing payments from the customer's bank account; and payments added to the customer's phone bill.

- Most mobile payments currently employ text messaging to exchange transaction data, with nearly 30% using near field communications technology. SMS is simple but expensive, subject to technical problems and potentially insecure; NFC is more efficient but less widely available, with a more costly infrastructure.

- Mobile payments have been blocked in Europe by a lack of consumer appeal. Yet NTT Do-CoMo in Japan had 15 million contactless payment users by August 2010, while M-PESE in Kenya built up a base of nearly 10 million users within three years.

Further Details: Kurt Salmon

SOCIAL CRM

Social media

More than two-thirds of European internet users participate in social networks at least monthly, 25% search for products and services online and 15% have registered on pages dedicated to brands. Increasing conversation, comment and discussion on goods and services on the internet offer new opportunities for interaction between brands and their clients, but companies need to take charge of this process.

In the past few years, social CRM has become an increasingly important marketing and sales tool and a key element of commercial strategy. It adds a conversational, participatory and opportunistic element to traditional CRM techniques, creating a channel for marketing, sales promotion and client support, developing tailored customer offerings, and building trust and transparency between provider and customer.

NOTE THIS

- New channels of communication, which can include viral advertising, consumer recommendations, forums and blogs, increase the ability to create positive or negative 'buzz' around a product or service.

- To take commercial advantage of these new relationships, companies need internal community management teams charged with client interaction, producing and publishing content, measuring performance and developing awareness of social CRM within the organisation.

- Developing social CRM requires building internal resources and perhaps initially drawing on external expertise, as well as managing the integration of appropriate IT tools.

- One example: Philipp von Restorff of the Luxembourg Bankers' Association says retail banks are already using social media to address younger clients. He expects this to broaden to other financial services players including private banks, family offices and asset managers, with first movers obtaining a competitive advantage in building relationships with prospective and existing clients as well as other stakeholders.

Further Details: ⧉ Kurt Salmon   ⧉ ABBL

THE EMERGENCE OF THE FULLY DIGITAL BANK

Kurt Salmon partner Fabrice Albizzati examines the road map for banks as they extend and deepen digital interaction with customers

Q: What are the key goals of digital projects for the banking sector?

Albizzati: There are two principal challenges that the banking sector is looking to resolve through these projects. The first is to transform an existing multichannel model into an omnichannel one.

A decade or more ago, retail banks invested in the multichannel model in the form of internet transaction systems and call centres. But that remained largely integrated with the branch, which remained the focus of the customer relationship. That's the historic model.

Q: What does the bank look to achieve through this change?

Albizzati: The omnichannel model means leaving clients to conduct the transaction of their choice through the channel of their choice – any time, any place, any device. The key development here is tapping into the power of the mobile Internet, through a smartphone or tablet.

Secondly, whereas today the internet channel is mainly about providing services, the aim here is to drive more sales through digital channels as well. At the same time, the mobile internet offers a means to accelerate the migration of counter transactions to remote interaction.

Q: Are banks already looking ahead to the next stage of this transformation?

Albizzati: The coming challenge is to prepare for a future with pure digital initiatives for a new client generation. Look ahead over the next 10 to 15 years and they see the emergence of 'digital natives' as clients who have never known a world without the internet. However, this will take more time.

This process involves a definitive move away from traditional branch-based banking interaction. That is already well underway – there are already plenty of examples of direct or branchless banking models, such as ING Direct. Another step is to roll out advanced functions like the mWallet or Personal Finance Management and the further development of electronic payment options.

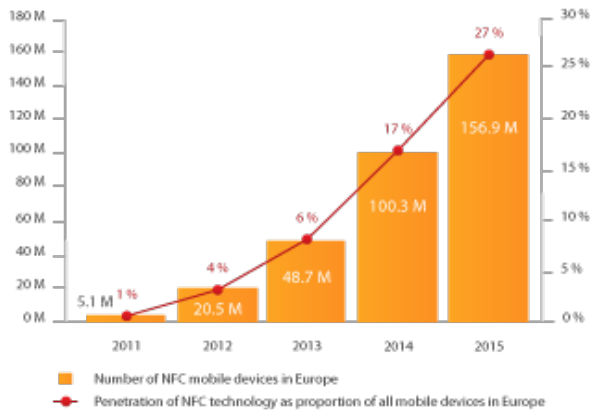**Q:** Is digital transformation already killing off the traditional bank branch?

Albizzati: It has a role to play there, too – another aspect of digital channels is their place within branches, often in the form of tablets offering information and other services. One example is Citi, which has installed terminals in some of its branches that enable clients to conduct remote discussions with specialist advisers in different locations.

Contact Fabrice at fabrice.albizzati@kurtsalmon.com.

A long-anticipated technology is approaching the tipping point

European sales of mobile devices equipped with NFC technology

- 5.1 M — 1% (2011)
- 20.5 M — 4% (2012)
- 48.7 M — 6% (2013)
- 100.3 M — 17% (2014)
- 156.9 M — 27% (2015)

■ Number of NFC mobile devices in Europe
—●— Penetration of NFC technology as proportion of all mobile devices in Europe

For the years, near field communication technology has seemed on the point of taking off in Europe. Despite some notable successes, such as the Oyster card on London's public transport system, progress has been slow, partly from competing technological visions, partly by the reluctance of potential partners like banks and telecom companies to work together, and finally by economic conditions, which have discouraged new investment.

But Kurt Salmon senior consultant Cédric Peltier predicts a wave of change as mobile devices equipped with NFC technology reach critical mass by 2015 with 27% penetration in Europe, up from 4% in 2012. That, plus support from the public authorities and advances in both security and public awareness, mean the sector will be set for take-off within three years.

Says Peltier: "It is only from 2015 onward that we will be able to talk about a true democratisation of NFC. But it is now starting to take off because, in contrast to what happened in the past, the players are working together to ensure technological compatibility. That's why we're convinced that we will stop marking time and make real progress."

He adds that it will take at least 10 years before NFC is standard in mobile devices. "But from 2015 there will be a critical mass of users looking to pay with NFC and merchants ready to accommodate them, prompting further customers to embrace mobile payments. That will create a virtuous circle that accelerates acceptance of NFC."

PELTIER'S ANALYSIS:

- NFC is competing with other technologies including barcodes and QR codes, RFID, Bluetooth and similar systems, and contactless cards, but none possesses its combination of ease of use, interactivity, security and relatively low cost.

- There are three alternative approaches to location of the Secure Element that manages NFC applications: on a mobile phone SIM card, on the phone itself, or on an external SD card. The SIM approach offers the best mix of technological simplicity, security and ease of application management and use for the consumer.

- NFC enables a mobile phone to be used in the same way as a physical contactless card, allowing payment for goods and services, transmission of information such as health records, receipt of information and commercial offers, and peer-to-peer sharing of media, applications and data.

- The key to growth of the sector: providers of different services willing to co-operate together to deliver a compelling consumer offering, at a cost attractive to a mass market.

Further Details: ↗ Kurt Salmon

Read More: ↗ Computerworld   ↗ eWeek   ↗ TUAW

Click here to visit our website   Contact Us