



WHITEPAPER

RETAIL BANKING REDESIGNED

In this whitepaper, we point out five focus areas for retail banks to consider, in order to succeed in a redesigned world of banking.

Despite the ongoing and rapid transformation in the industry, it is important to keep in mind that there are also an endless number of new opportunities occurring to grow if one is positioned to take advantage of these.

BanQsoft

5 KEY FOCUS AREAS FOR SUCCESSFUL RETAIL BANKING



MEGATRENDS ARE TRANSFORMING RETAIL BANKING

The retail banking industry is changing, driven by multiple megatrends thoroughly described throughout the recent years.

Competition from so-called "big-techs", non-financial services players entering the industry is a trend that has potential to change the landscape of retail banking, although until now, the main competition from these players have been connected to the payment segment.

However, not only the competitive situation is changing; the retail bank customers are also changing their behavior with high demands for good user experiences where convenience and agility is in focus. Also, mobility and connectivity is increasingly important in a world where everything is connected. At the same time, trust in the financial services provider is a highly valued feature.

Lastly, the trend with changing regulatory requirement is expected to continue in the financial industry. This can both create barriers and opportunities for market players going forward.

5 KEY FOCUS AREAS FOR SUCCEEDING IN A CHANGING LANDSCAPE

Banqsoft has 25 years of experience in delivery of software and services to banks and finance companies and has supported customers through the transformation of financial services over the last years.

So what do we think retail banks should focus on in order to succeed and prosper going forward? What are important considerations when redesigning retail banks? Our thoughts on this topic are summarized in five points which will be further explored on the following pages.

We believe these are focus areas relevant for all retail banks today, independent of market segments, geographical focus, or whether you are a new entrant to the market or an established market player.

Keys to meet the modern demands of retail banking:

CUSTOMER'S DEMAND FOR A SUPREME USER EXPERIENCE

SPECIALIZED IN ATTRACTIVE NICHES

AGILITY TOWARDS NEW BUSINESS OPPORTUNITIES

TAKING AUTOMATION AND DIGITALIZATION ONE STEP FURTHER

SEE THE FULL PICTURE: UTILIZING DIGITAL TO FUEL GROWTH

BANQSOFT IN BRIEF

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250 employees in Norway, Sweden, Finland and Poland develop and support 80 installations for 50 financial services providers with sales agents and customers in 30 countries.

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SATISFYING THE CUSTOMER'S DEMAND FOR A SUPREME USER EXPERIENCE

The customer experience still matters (a lot)

In recent years, traditional banks have invested heavily to improve the customers' increasing demand for supreme customer experiences. However, the results have not yet given full payoff until now. According to the World Retail Banking Report 2019¹, only about half of all retail banking customers in the report's survey thought the experience across different bank channels was positive.

The customers' expectations are also identified as the most important disrupting factor in the same report.

The banks in the Nordic region still enjoy high trust among their customers. We believe a key to keep this trust is the ability to proactively build personalized products and services in a safe and secure manner. The wrapping paper is an outstanding customer experience and the reward is emotional connections which can lead to a competitive edge towards

big-techs entering the industry as well as other competitors in the market space.

Invisible banking

Development Bank of Singapore (DBS), awarded the Best Digital Bank in the World in 2016 by Euromoney has as its mission to "make banking invisible". What does it mean? DBS states "to make banking truly joyful, then it needs to become invisible". After all, people's lives don't revolve around banking, and at the end of the day, you are buying a house, not a mortgage. DBS executed this vision by introducing "customer-centered design" with a high focus on the customer's concerns in details, and focus on a variety of partnerships through APIs. This strategy has been very successful. DBS describes it in the following way: "API-driven architecture and strong focus on human-centered design and user experience help make banking simpler and more seamless"².

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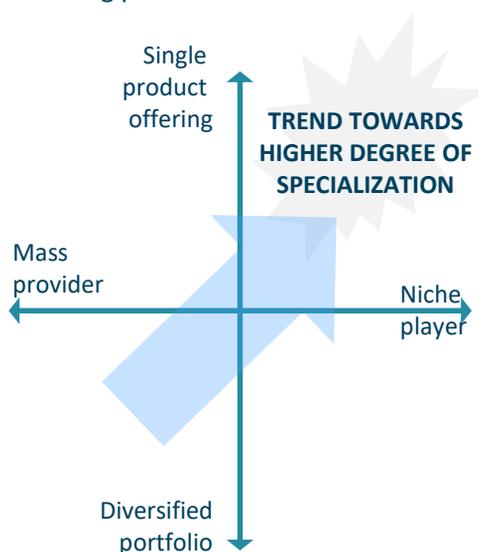
SPECIALIZED IN ATTRACTIVE NICHES

Utilize technology to target underserved niches

Should redesigned retail banks have a broad focus or specialize on narrower niches? Generalist or specialist? We tend to believe the latter – a superior offering in an attractive niche. In the Nordic region, the market for small- and medium sized businesses (SME) has traditionally been underserved by traditional banks, although data shows that between 80 – 90 percent¹ of all businesses have less than 10 employees. Businesses within this size has in general struggled more to get necessary financing in order to optimize growth.

A group of new entrants have, however, entered this segment exclusively. The solution to reduce risk on financing has been to utilize new technology integrating with the customer’s accounting systems which gives valuable information for the credit process and security for the customer’s financial health.

In the Nordic region, there are also signs that the universal banks are, to a larger degree, starting to establish niche players within certain consumer finance areas (so-called “multi branding”). Banqsoft sees an increasing demand from the established players with legacy systems interested in establishing parallel banks to increase agility being able to start out with a new banking platform.



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¹ Statistics Norway (2017): Establishments: Number of enterprises by size



AGILITY TOWARDS NEW BUSINESS OPPORTUNITIES

Take advantage of new opportunities

As the financial services industry is evolving rapidly, the new technology and customer behavior gives life to completely new business opportunities and innovative ways to offer banking services. And, to have first mover advantage, one have to move with great agility, to increase the probability of success. For the bank, it is essential to have an IT platform that is constructed in such a way that it can facilitate for innovative banking products – they will need a banking platform that is *made for change*.

Connectivity is key

Internet of Things (IoT) is a worldwide trend. It seems like almost everything is supposed to be connected to anything and be able communicate across a network. To make this possible, an open, but secure interface to the outside world is key for the retail bank. This goes hand in hand with open banking and open APIs which in our opinion will be important keys in order to take advantage of attractive business opportunities in years to come.

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TAKING INTERNAL AUTOMATION AND DIGITALIZATION ONE STEP FURTHER



Still significant potential

Automation and digitalization focus has been an ongoing process in the financial industry for the last decades with a goal to reduce cost and improve efficiency.

In our opinion, there is still significant potential for further gains to be extracted in the area of digitalization. Many banks still have internal processes that can be digitalized and optimized in order to make the internal flow more efficient. The ability to think industrial processes in

automation is important to harvest gains to be able to further ramp up business volumes without additional cost expansion.

Automation 2.0

The next level of automation in the financial industry will most likely take advantage of machine learning and Artificial Intelligence (AI) to further automate processes. The use of chatbots is already widespread among retail banking players, until now with mixed results. However, there is no doubt that machine learning and AI will play an important role both for automating internal processes, but also for analysis of data.

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UTILIZING DIGITAL TO FUEL GROWTH

Utilize digital fully

As McKinsey states it in a recent research report¹; "winners will use digital to generate growth", and refers to research showing that banks executing a digital strategy has been more successful than their peers. In the Nordic region, many of the new and fast growing challengers share these characteristics; they are purely digital banks that prove they can reach a high level of scalability, even when growing the customer base rapidly.

Must have's for a growth ready digital bank

In order to utilize digital, one have to take advantage of most of the areas previously addressed in this paper. In addition to a great user experience, the bank's IT platform is an important factor for facilitating growth and ensuring scalability. In our view, important success factors for an efficient IT platform include:

- A module based architecture where you can add on new financial products and services as

you grow

- Support for multiple countries – limited cost for entering new countries
- Open APIs for smooth integrations and possibilities for multiple sales channels
- High degree of automation – minimum of manual work; think industrial processes
- Built-it compliance and trust in the system's security

Summary: get ready for change

In this paper, we have introduced some focus areas that we believe are useful to consider for retail banks in an industry in rapid transformation. However, it is important to keep in mind that with all ongoing changes, there are also an endless number of new opportunities occurring to grow if one is positioned to take advantage of these.

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¹ Want bank growth? Rapid evolution is required (McKinsey Research Report, October 2018)