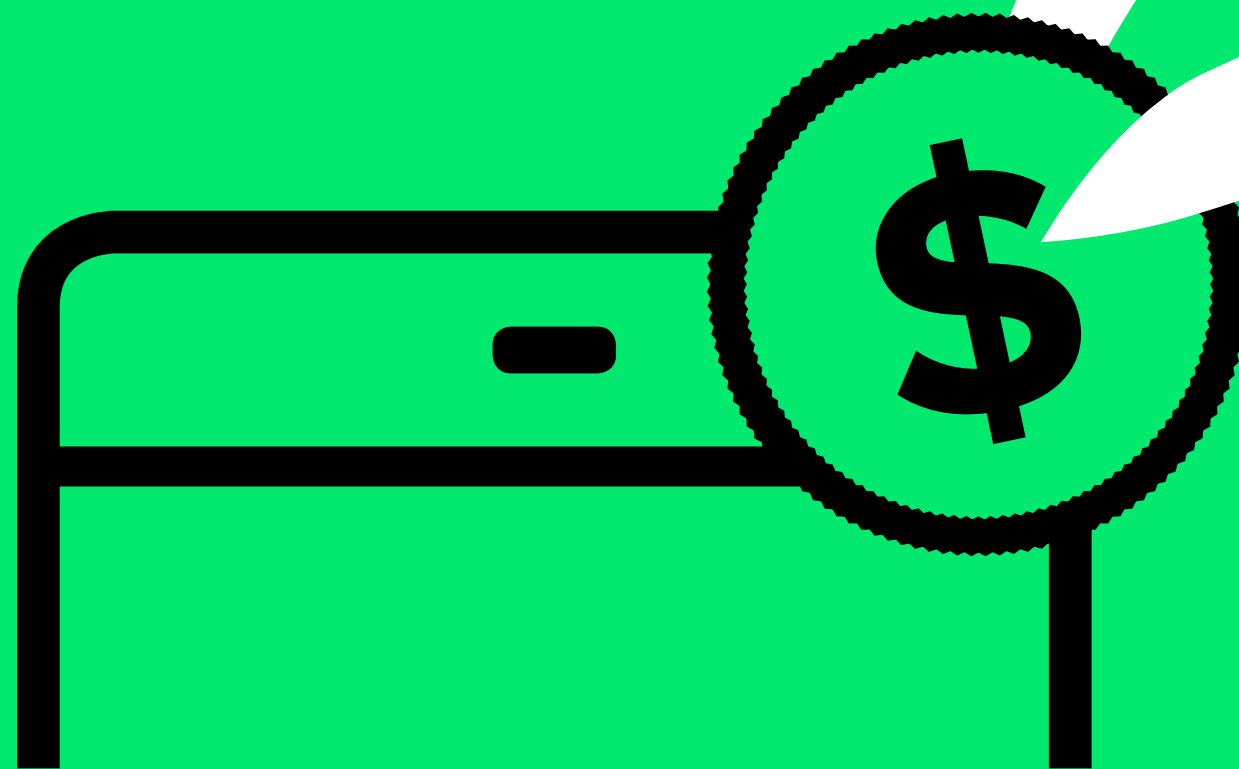


# Taking friction out of banking

How can banks improve the digital experience  
to retain customers in a competitive market?

December 2015



# Foreword



Retail banks are set for a period of intense competition as new players move in on their customers<sup>1</sup>. While established technology companies like Apple venture into payments, FinTech startups like Transferwise and Lending Club are ready to pick off the banks' individual services – and with them, their customers – as the threat of unbundling increases<sup>2</sup>.

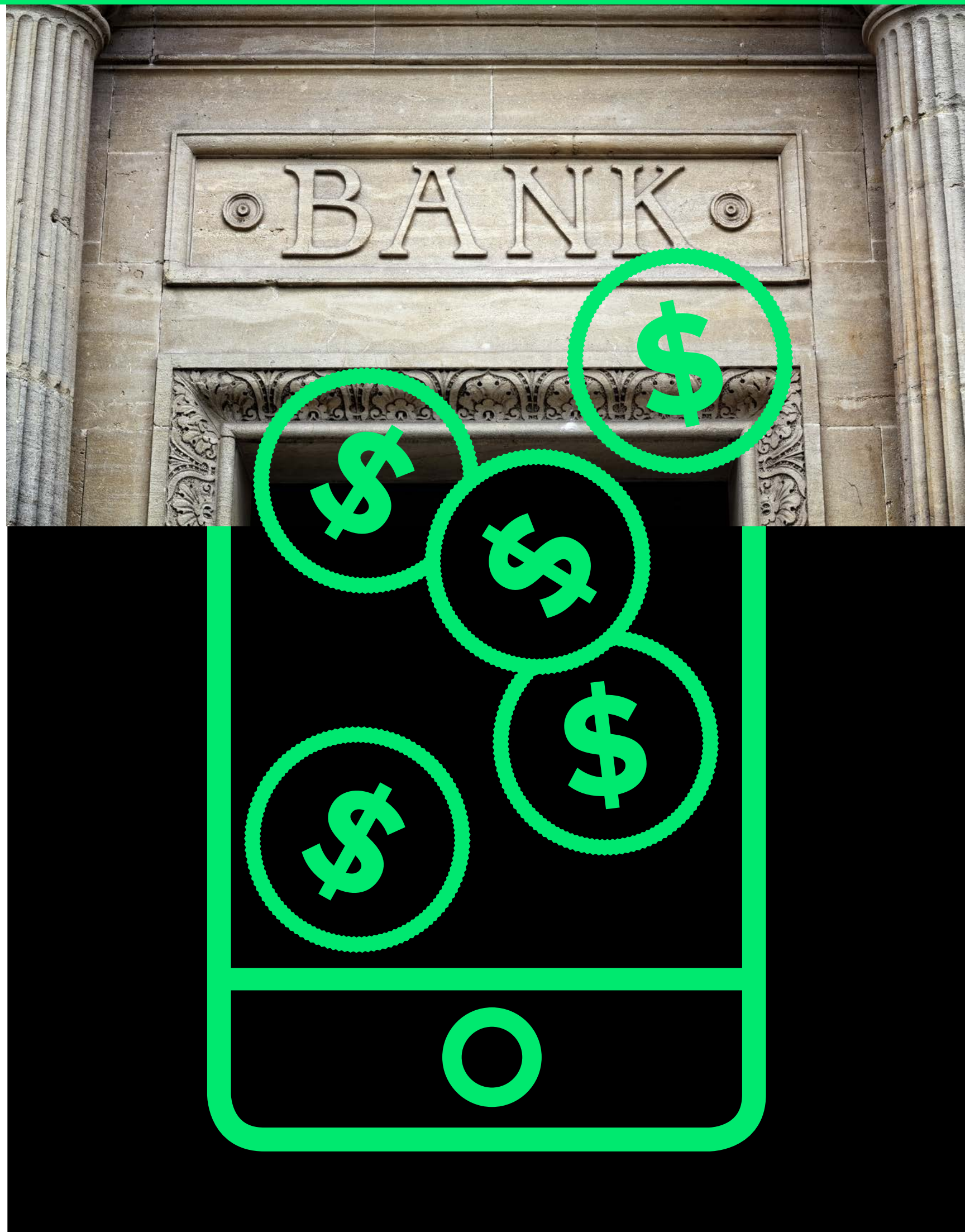
At the same time, banks are struggling to keep up with customer expectations fostered in a post-mobile world of immediate connectivity and instant gratification. As customers get used to intuitive, seamless and secure experiences from the likes of Google or Apple, the race is on for banks to beat the digital challengers at their own game, delivering compelling customer experiences that meet increasingly sophisticated expectations.

For one of the most highly regulated industries in the world, this is no mean feat, particularly given the speed at which the goalposts are moving. To understand the scale of the threat to banks, we tested the readiness of US consumers to switch to non-bank, online-only challengers. We also asked what consumers expect from the digital banking experience, to understand how banks can better meet their needs and avoid losing them to competitors.

The pressure is on to design an improved customer experience, or lose out to rivals that can match growing expectations. Banks aren't evolving quickly enough, which is putting their branches - and their historic position in society - under threat. So, what do customers want from digital banking, and how can banks best organize themselves to meet their constantly evolving expectations?

**Nick Rappolt, CEO, Beyond**

1. McKinsey, The Fight for the Customer: McKinsey Global Banking Annual Review 2015, 2015  
2. CB Insights, Disrupting Banking: The FinTech Startups That Are Unbundling Wells Fargo, Citi and Bank of America, 2015







# The research

Customer experience is now a key battleground in the fight for banking customers<sup>3</sup>.

Banks face a growing challenge from established technology companies and FinTech startups, both fighting to skim the profitable ‘cream’ from the banking customer relationship.

In fall 2015, **Beyond surveyed 1,011 US consumers** to explore the scale of the threat to banks, and understand how they can better respond to customer expectations from the digital banking experience.

The results revealed that banks are under severe pressure to fight off digital challengers, and still have work to do to meet customers’ basic expectations.

3. McKinsey 2015

# The current customer experience

**Technology has fundamentally changed the way customers interact with brands.**

Round-the-clock connectivity via mobile has made instant gratification the norm, and has fueled the expectation that any brand's service should be immediately available, whenever it is needed<sup>4</sup>.

At the same time, expectations from digital brand interactions have become increasingly sophisticated. Exposure to products from the likes of Google and Apple has led customers to expect simple, fast and consistent digital experiences that are, in a word, seamless.

As interactions move online and expectations grow more sophisticated, brands are being defined by the quality of the digital customer experience they deliver. Today, a good experience is one that delivers the following fundamental elements: ease, speed, security, consistency and personalization.

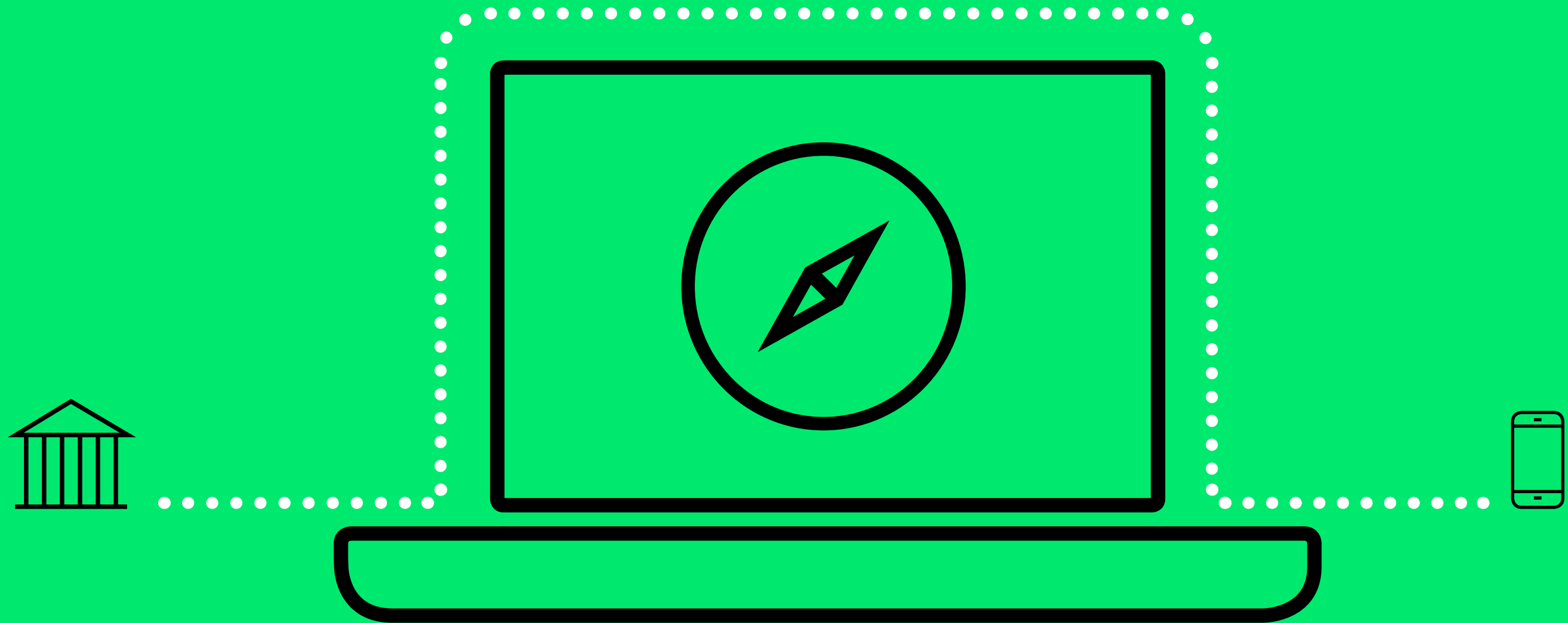
For banks, regulatory restrictions can make digital innovation a minefield. Nevertheless, too many banks still think of the digital customer experience as a technology challenge, when they should be thinking about it as a human interaction problem.

To make meaningful improvements to the digital customer experience, they must put themselves in their customers' shoes.

4. Forrester, *Moments That Matter: Intent-Rich Moments Are Critical To Winning Today's Consumer Journey*, 2015



# Mapping the digital threat





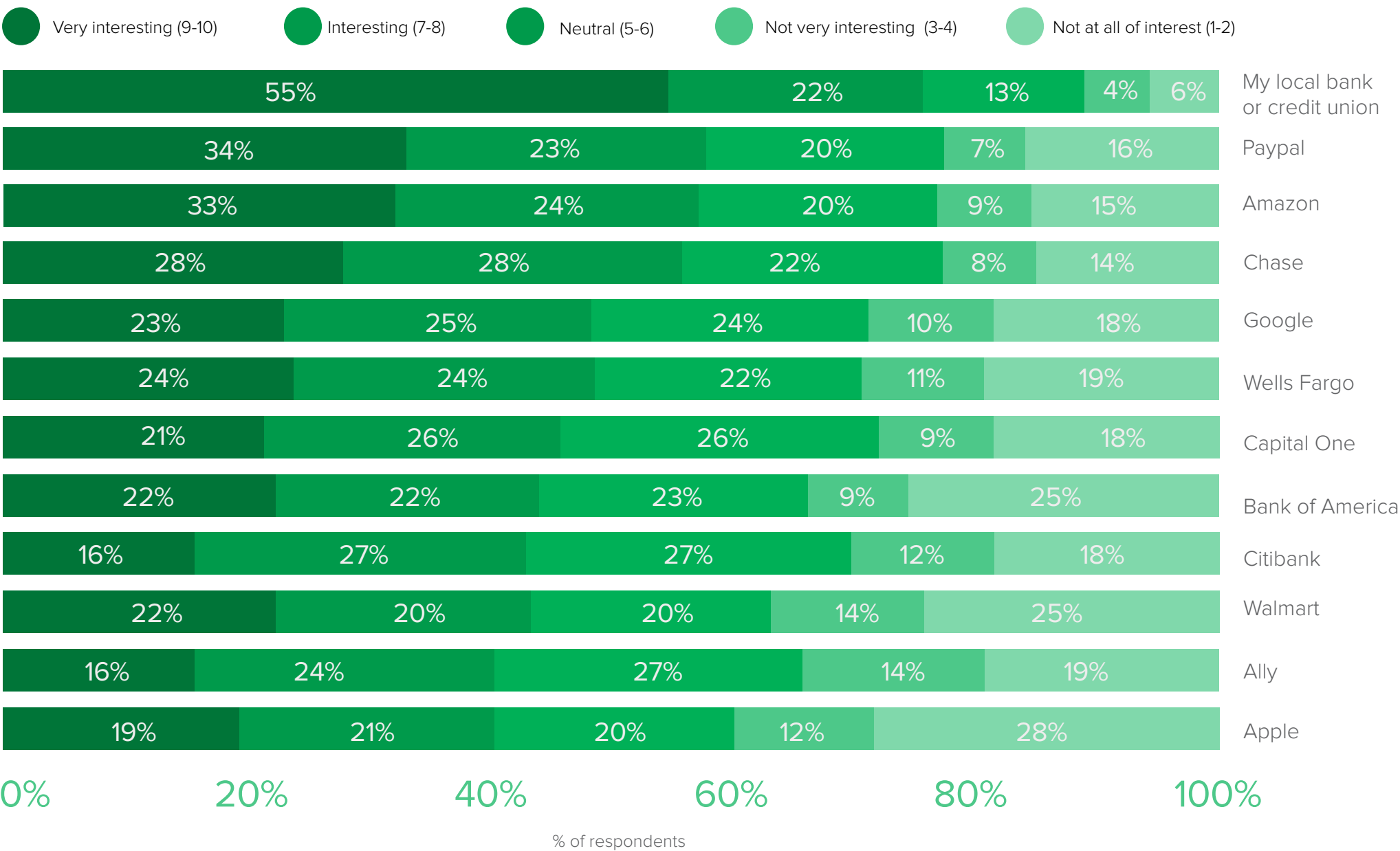
# Customers are as interested in financial offerings from tech brands as they are from banks

To uncover the scale of the threat banks face, the survey tested consumer interest in banking services from FinTech startups and established technology companies.

Customers are interested in new financial offerings from tech brands.

**57%** of respondents are interested in financial offerings from PayPal – the most popular digital-only choice.

If you were in the market for a new financial product, such as a savings product, loan or payment product, how interested would you be in an offer from the following brands - assuming they offered such services?



The threat from digital challengers is real, and it is substantial.

This is troubling news for banks. In the competition for customer relationships, it pits them directly against companies with a clear advantage: the ability to deliver intuitive, compelling experiences across platforms.

If banks cannot deliver the same thing, they will not be able to meet expectations and sustain customer relationships. Companies that offer a better experience may simply step in to fill the gap.

# Online-only banking services are widely accepted by US consumers

To further assess the threat from digital competitors, the research tested consumer readiness for online-only banking.

The results revealed that a majority of customers are open to online-only offerings, compounding the challenge for banks:

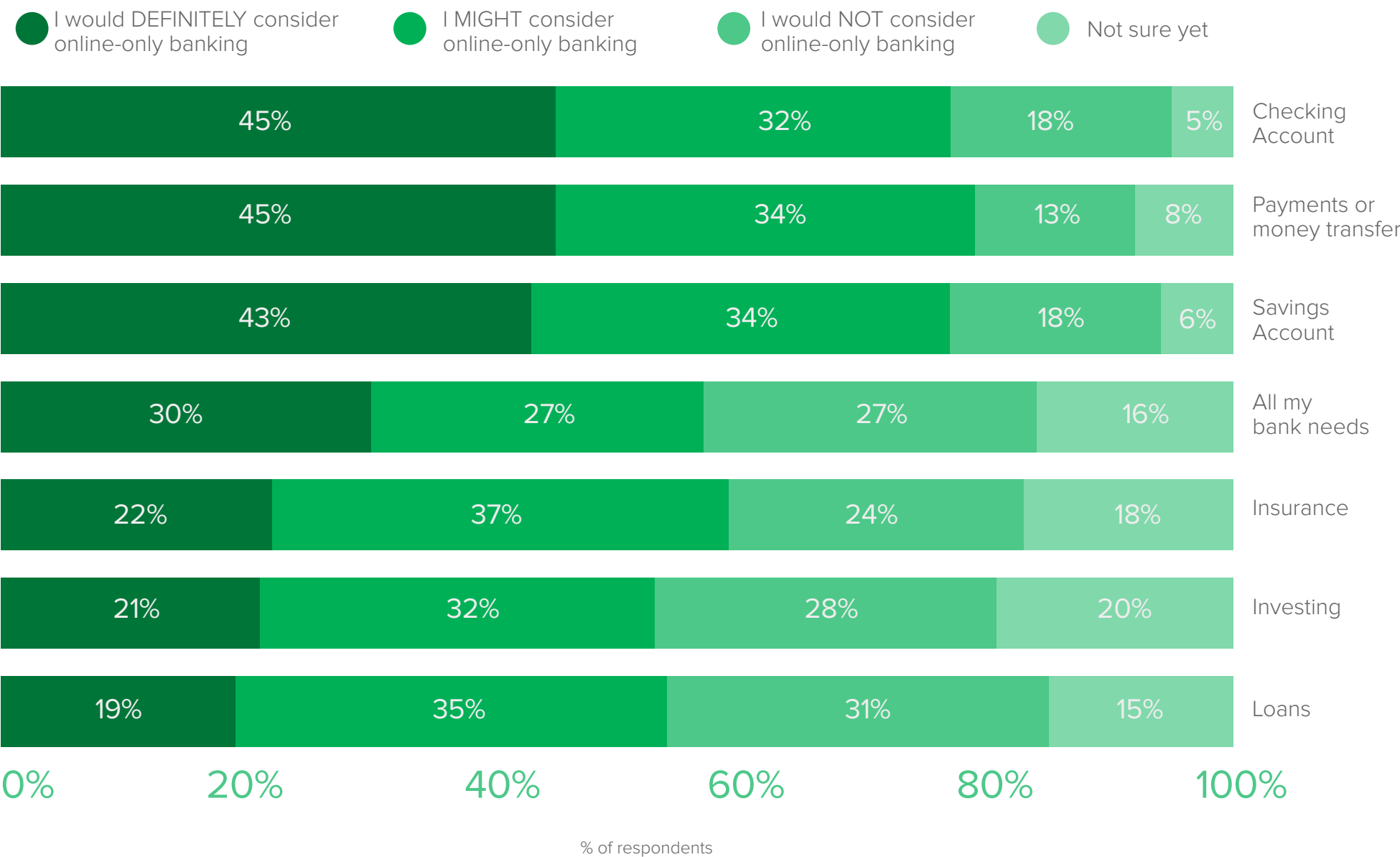
**57%** of respondents would consider an online-only service for all their banking needs.

This rose to **79%** for payments and money transfer, and **77%** for checking accounts.

Those with more complex financial products – often the banks’ most profitable customers — were even more receptive to online-only offerings (**65% vs. 57%**).

## Online-only financial interest

To what extent would you consider using new online-only banking services for the following services/products?



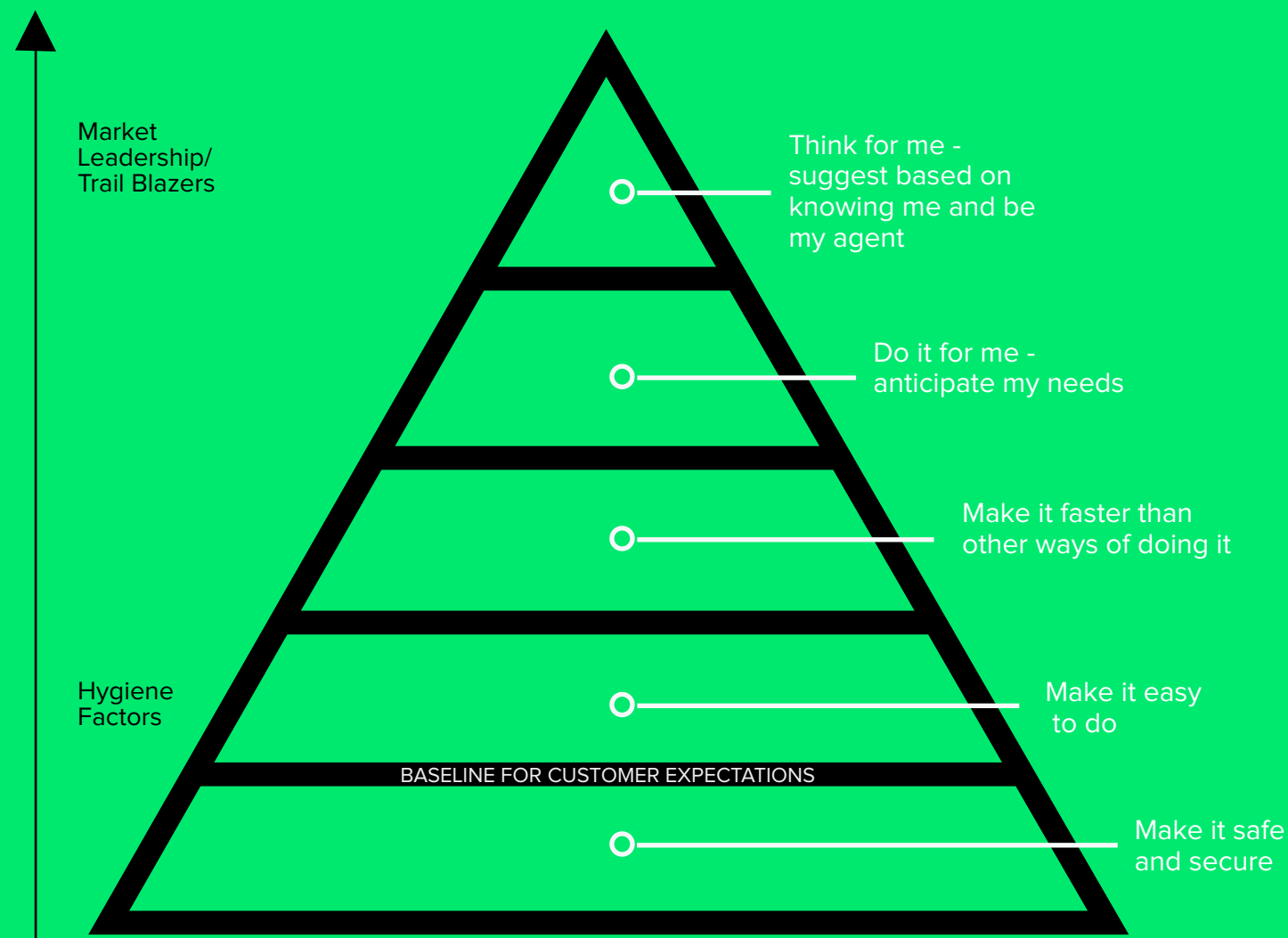
As long as new challengers can deliver superior banking experiences, customers open to online offerings are ripe for the picking. The race is on for banks to catch up and improve digital experiences, before rivals tempt their customers away.

# Changing expectations: The digital experience pyramid





Moving up the digital customer experience pyramid —  
from hygiene basics to becoming indispensable



## The sophistication of a company's digital customer experience can be assessed against this pyramid.

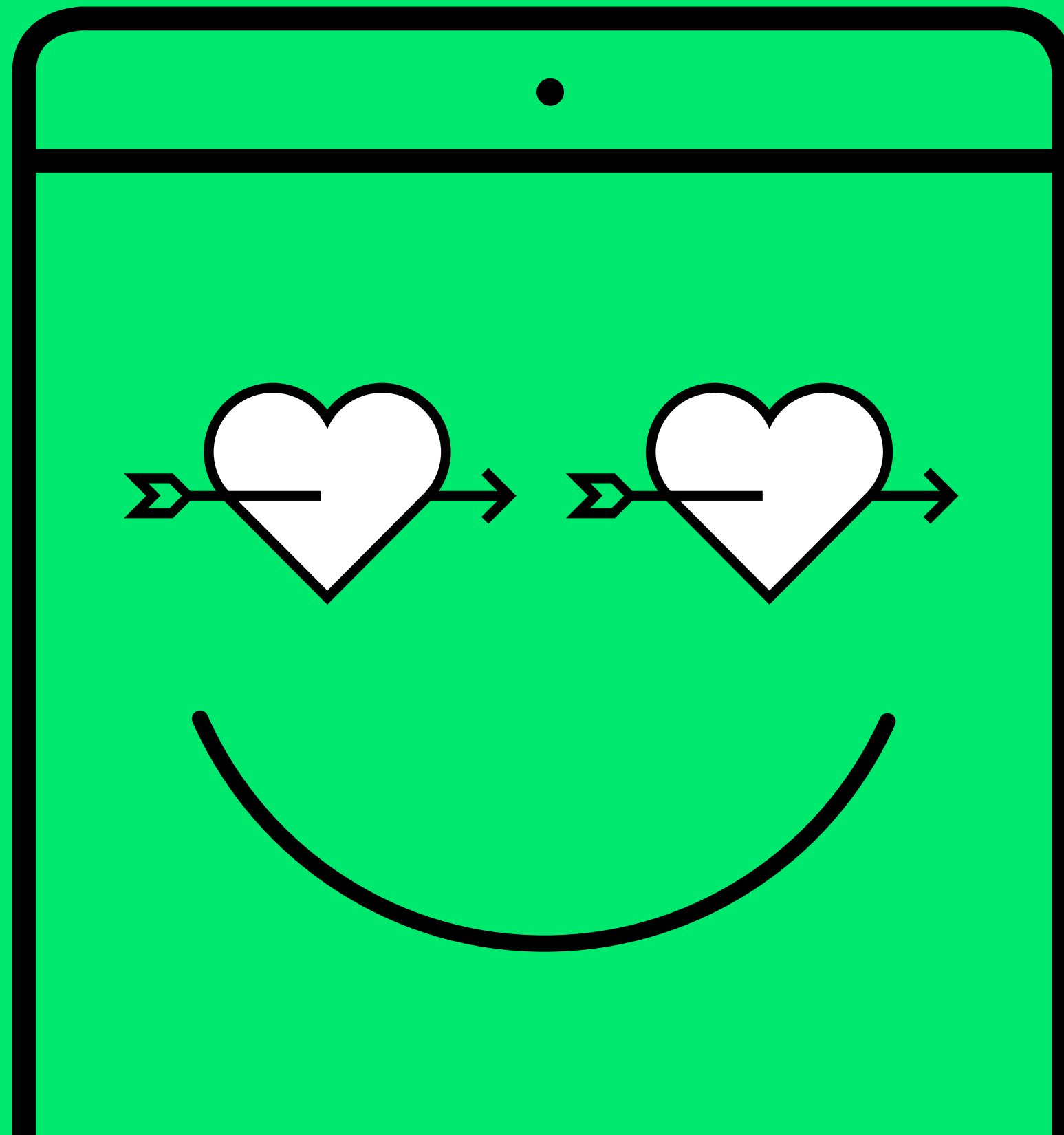
As major technology companies deliver increasingly intelligent, personalized digital experiences, customer expectations are rapidly becoming more sophisticated.

As expectations move up the pyramid, factors that were once impressive are now perceived as basic, entry-level requirements for a good customer experience.

The gap is widening between market-leaders and their competitors, with banks finding themselves stuck at the bottom of the pyramid, struggling to fulfil their customers' most basic expectations from the digital banking experience.

Banks cannot move up the pyramid until they deliver against these fundamentals – and until they do, the difference between their customer experience and that of their rivals will only become starker.

# Meeting customer expectations





As we have seen, customer experience is a key battleground for banks looking to fend off the threat of customer attrition. So how do banks' current digital products stand up to scrutiny?

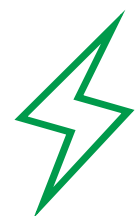
The survey asked customers to rate their current banking experience, drawing attention to key areas for improvement.

From the data, it was clear that customers want improvement from even the most basic areas of the digital banking experience:



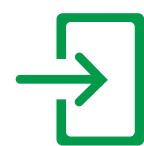
**Security: 71%**

wanted additional levels of security



**Speed: 53%**

wanted faster ways to transact online



**Ease: 50%**

wanted easier ways to log into their account



# Customers want improvements to the most basic areas of the digital banking experience

Notably, these three concerns map onto the bottom of the customer experience pyramid in terms of sophistication.

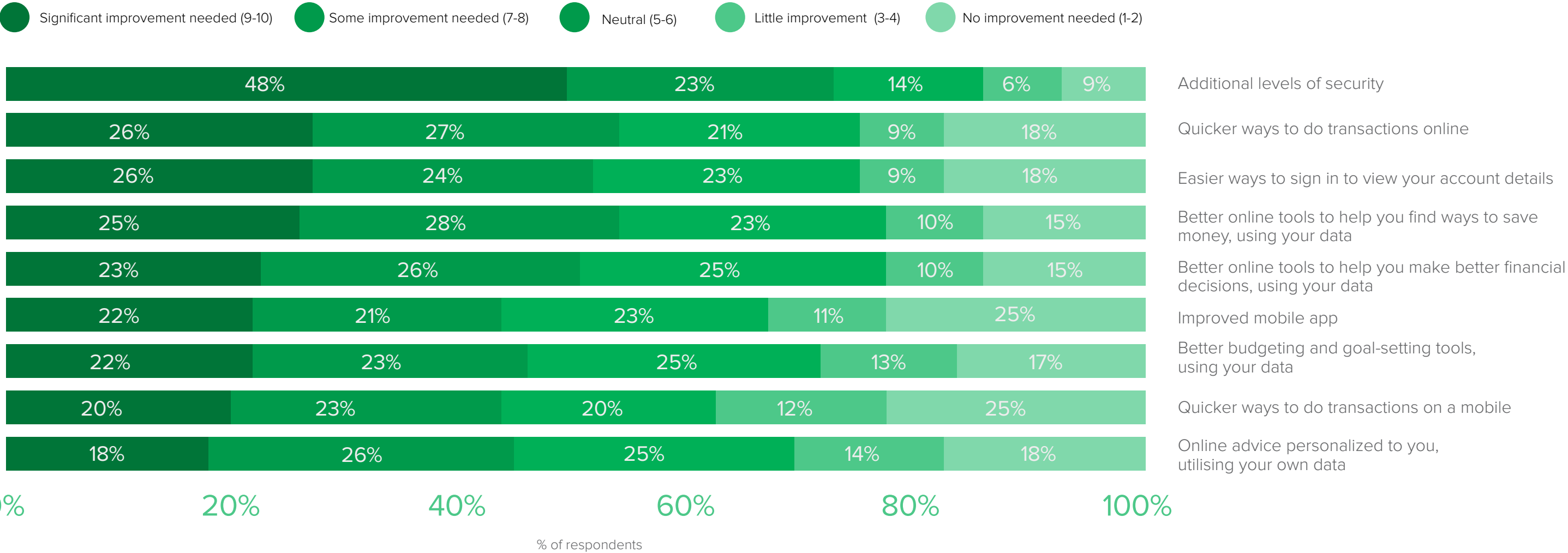
Tech competitors already sit at the top of the chain, delivering intuitive experiences that anticipate their customers’ needs.

These concerns also pose a particular design challenge, as demands for security can often conflict with those for speed and ease.

To offer a greater sense of security, banks often build in multiple authentication steps – slowing down the banking experience and adding friction to the log-in process.

## Digital experience improvement interest

Which areas of the current online/digital experience would you like to see your bank/financial institutions improve?







# Design challenge: security



Fingerprint technology is an example of the thorny design challenges banks face when improving their digital offerings.

Though it is an obvious and powerful response to customer demand for improved security, difficulties emerge when trying to present fingerprint authentication to new customers.

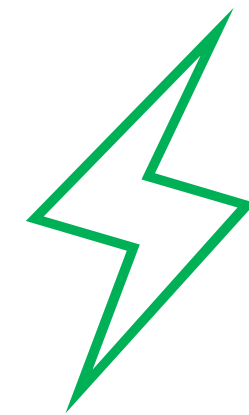
When asked for their preferred log-in method, only **24%** of US customers chose fingerprint technology. This rose to **48%** amongst those that had already used it – a dramatic gap in perception that suggests customers mistrust the technology before actually testing it for themselves.

The challenge for banks is to overcome this education gap as part of the design solution, demonstrating the palpable benefits to consumers while explaining how safe these technologies are.





# Design challenge: speed and ease



**Though the removal of friction is a core principle of experience design, in this case, banks must be careful about how much they strip away from the banking experience.**

With data breaches dominating the news in both technology and finance, deep-held anxieties around security are unlikely to go away anytime soon. This must be remembered when designing for speed and ease, as a banking process that seems too fast and too easy can make customers feel security is not being taken seriously.

In many cases, software already exists to improve the banking experience but has been held back due to customer anxieties over its delivery. A former head of security at a large bank illustrated this by relating to us the results the bank had in testing voice authentication to simplify the call centre experience. It received


a poor response from customers making calls to the bank when conducted without audible prompts or feedback. Without the familiar ritual of security questions, customers did not feel they were being properly identified and believed the method to be unsafe.


Clearly, there remains a need for theatre in the banking experience. The performance of the security process is crucial for demonstrating a bank's respect for its customers' security – even when it is not technologically necessary.

# Customers want personalized online tools

In addition to the basics of security, speed and ease, many customers also want the banking experience to respond to their needs with sophisticated online tools.

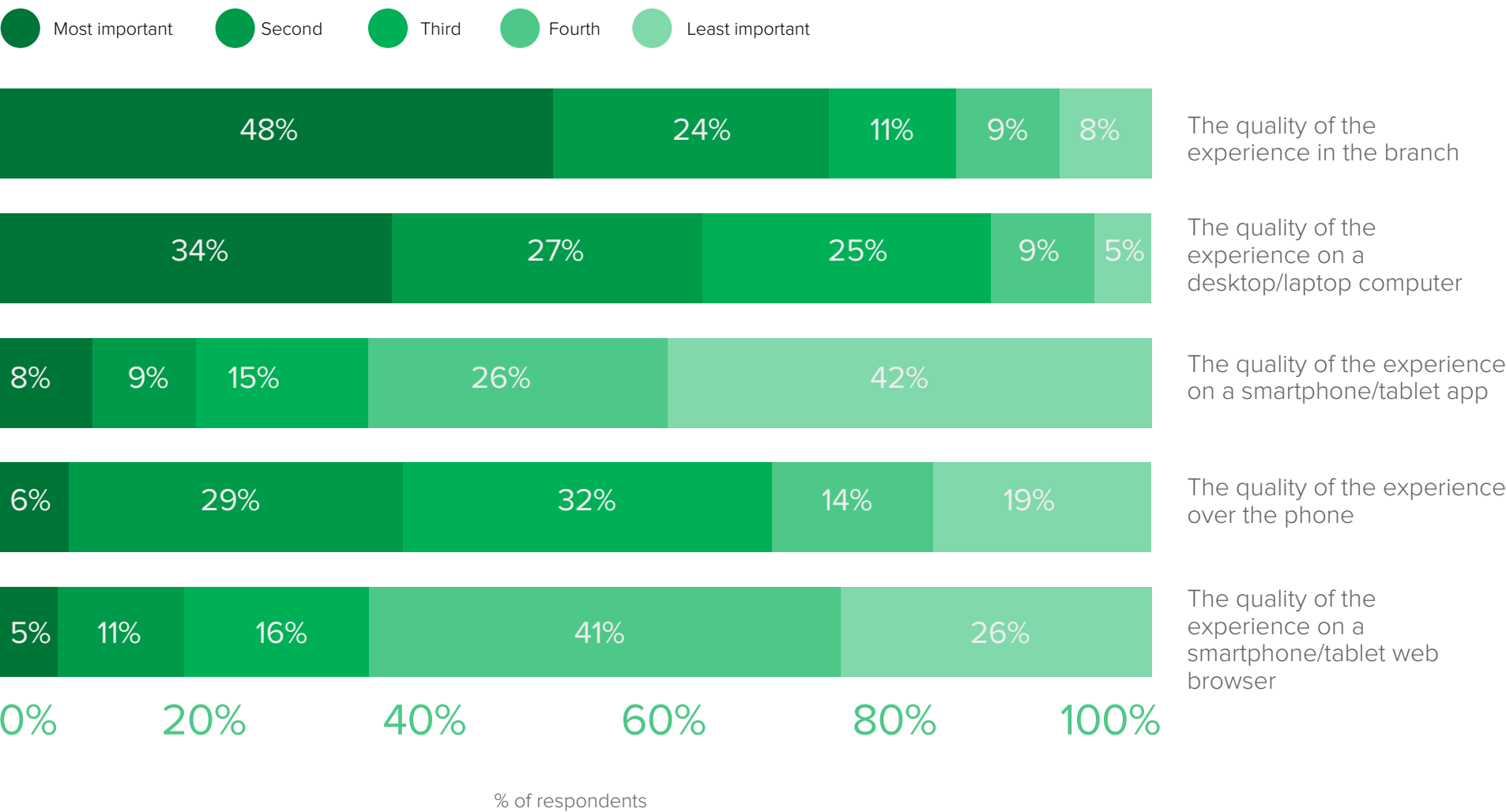
In particular, they want:

 **Money-saving tools:**  
53% want better online tools to help them save money, based on their data

 **Guidance on financial decisions:**  
49% want better online tools to help them make financial decisions, based on their data

## Most important priorities

Thinking about your daily use of your bank’s services, please rank the following in order of importance in terms of what matters most to you:



Evidently, the ideal digital banking experience is not a ‘one-size-fits-all’ solution, as there is customer demand for digital products that respond to them as individuals, delivering a personalized service based on their data.



# Design challenge: personal data



**Though more than half of customers clearly want banks to do more with their data, the road to personalized online tools is fraught with potential dangers.**

For an example of what not to do, banks should look to ad-retargeting, which makes consumers uncomfortable and angry with the repeat intrusion into their digital lives. Recent research has shown that 55% of consumers are put off buying an item when retargeted with multiple adverts after their initial research<sup>5</sup>.

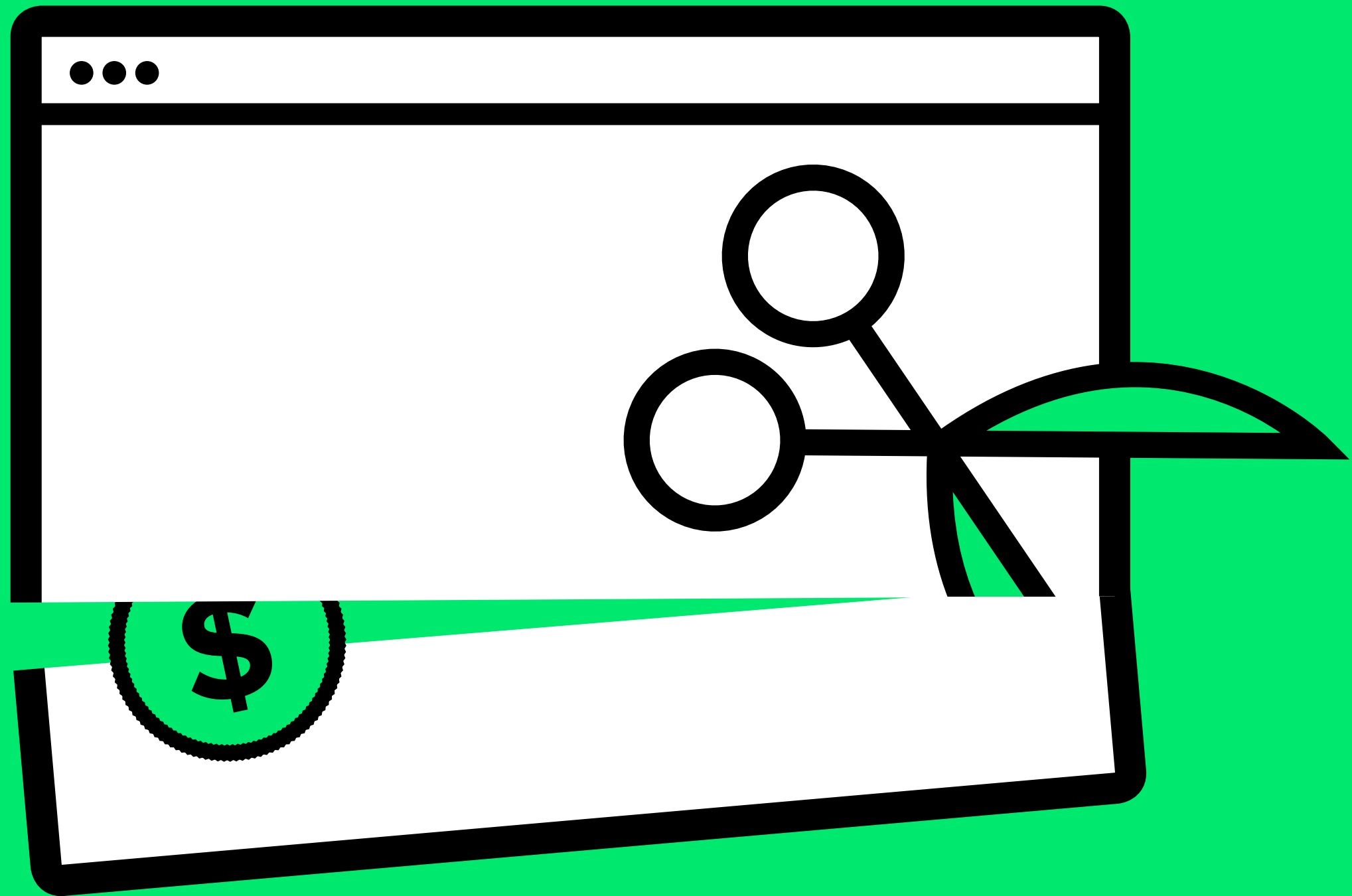
If a bank does not clearly state that it is using personal data, or explain the benefit this gives to the customer, it risks creating a perceived breach of trust.

As a result, clear storytelling and nuanced interaction design are key tools in presenting customers with personalized solutions that gain their approval – from budget-setters to retirement-planning tools.

5. InSkin Media, *RESEARCH – Consumers 37% more likely to click on an ad on a site they trust*, October 2014



# Designing for need

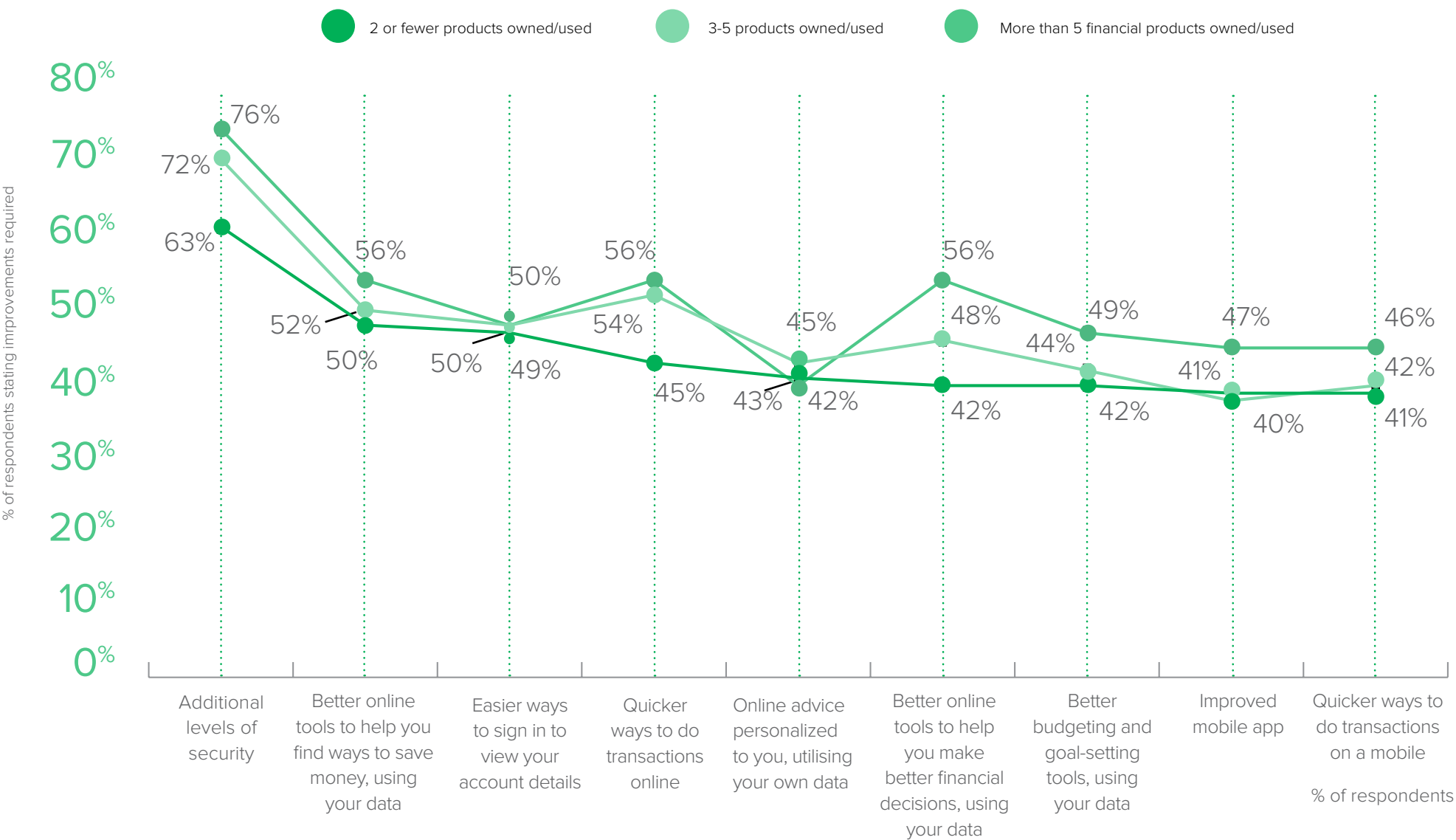


In assessing the data, it is important to recognize that the design solution cannot simply be imposed on customers, but must instead respond to their needs in a tailored and intelligent manner.

In the survey, expectations from the digital banking experience differed greatly between customers with simple financial needs (2 financial products or fewer) and those with complex requirements from their banks (5 financial products or more).

Interest in improvement to the digital experience – by number of FS products

Which areas of the current online/digital experience would you like to see your bank/financial institutions improve?



## High-value customers want more from all touch-points of the digital banking experience

Interestingly, the research found that those with the most complex financial needs – often the banks' most profitable customers – had the highest expectations from the digital banking experience.

Those with complex financial needs demanded more from almost all touch-points of the banking experience:



### Security: 76%

wanted additional levels of security (vs. 71% average)



### Speed: 56%

wanted faster ways to transact online (vs. 53% average)



### Ease: 50%

wanted easier ways to log into their account (vs. 50% average)



## Money-saving tools:

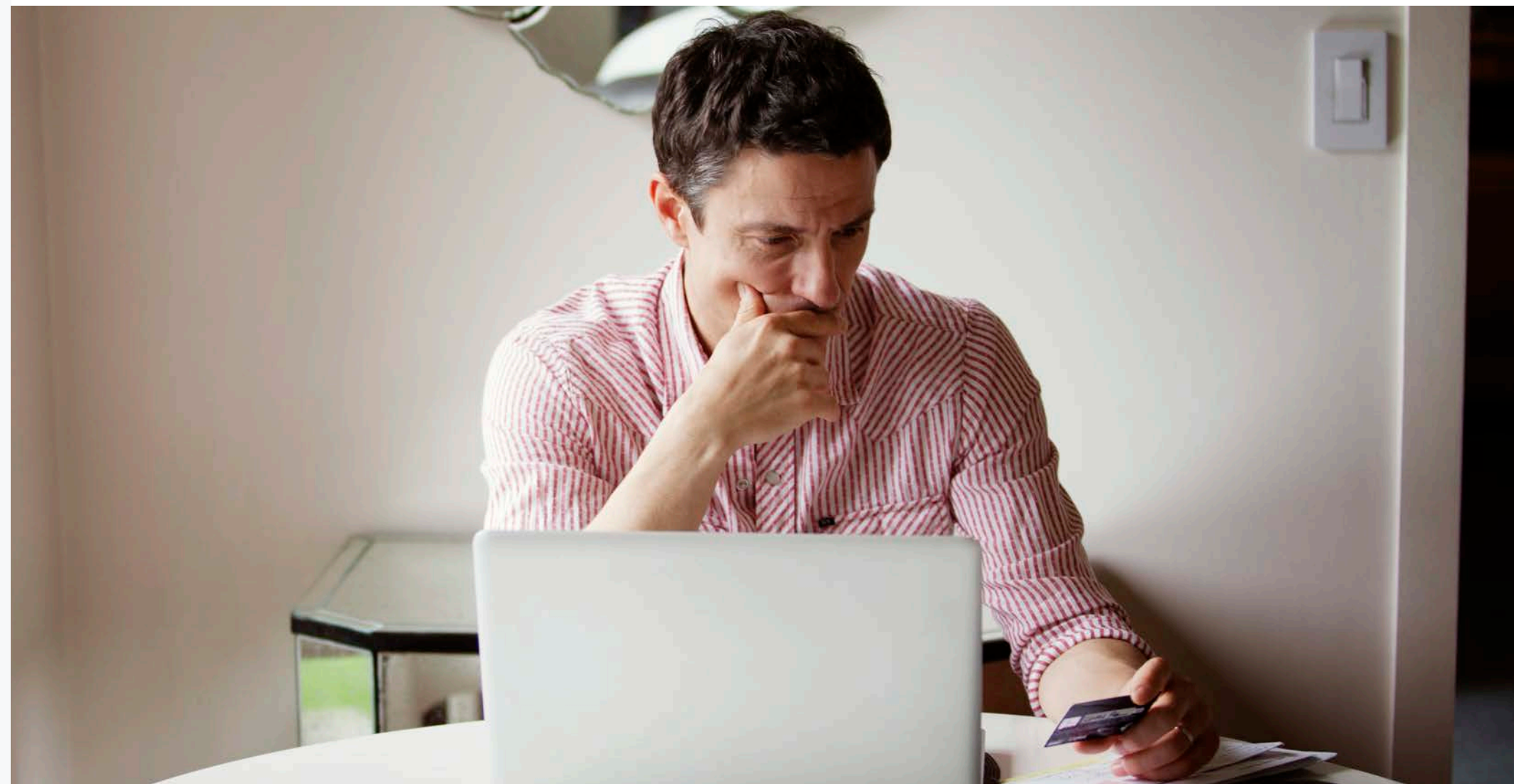
56% wanted better online tools to help them save money, based on their data (vs. 53% average)



## Guidance on financial decisions:

56% want better online tools to help them make financial decisions, based on their data (vs. 49% average)

This is a threat, as these demanding customers are the most likely to become frustrated with their current banking experience, leaving them wide open to offers from online-only competitors. In redesigning the digital customer experience, banks must take customer expectations and interests seriously, and tailor products to their needs.





# Customers still value the branch experience

Finally, the research showed that branches are still important to customers, but decreasing in significance as digital channels grow.

When asked what mattered most to them when dealing with their bank, customers ranked the quality of the branch experience very highly:



## Branch:

**48%** put most importance on the quality of the branch experience



## Desktop/laptop:

For **34%**, the quality of the desktop/laptop experience mattered most



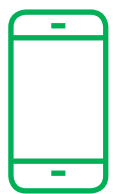
## Apps:

**8%** prioritized the quality of the smartphone/tablet app experience



## Telephone:

For **6%**, the quality of the telephone experience mattered most



## Mobile browsing:

**5%** prioritized the experience on a smartphone/tablet browser

Though the battle for customers will be increasingly fought online, the branch remains significant – at least for now.

As a result, improvements to the digital banking experience should include the branch, to provide seamless, platform-agnostic experiences that recognize the role the physical bank still plays in customers' lives.





# Conclusions and recommendations





Banks face a major challenge when looking to redesign their digital offerings. The speed at which customer expectations are changing is faster than ever.

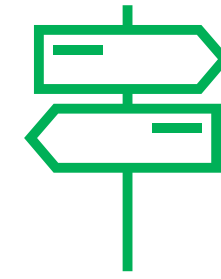
**As established technology companies deliver increasingly sophisticated experiences, customers are asking ever more from other digital experiences.**

While security, speed and ease remain central customer concerns, expectations from the digital banking experience are evolving so rapidly that banks are struggling to keep up.

There is no silver bullet solution for banks, but one thing is clear – to fend off the threat from digital competitors, they must be able to respond more quickly to changing customer needs.



# Where are we headed?



It is important to understand our research as a snapshot in time. In the UK, time spent with digital media eclipsed TV in 2013, and time spent on mobiles overtook desktop and laptop use in 2015<sup>6</sup>.

Smartphone penetration in the UK went from 20% in 2010 to 72% in 2015<sup>7</sup>. In 2014 the British Banking Association said online banking apps were downloaded at a rate of 15,000 per day. In other words, it's an understatement to say that the speed with which customer behaviors are changing is rapid.

Our research shows that already, 7.5% of consumers think the app experience is the most important touchpoint in banking, while 5% think this of the mobile browsing experience. That might still seem like small numbers, but consider the following factors that suggest we are nearing an inflection point:

- Many banks and online financial services companies we have spoken to now have more mobile traffic than desktop traffic. When you extrapolate those traffic trends, mobile will become the dominant bank touchpoint for customers in the next 3-5 years.

- Mobile conversions and transaction sizes have historically underperformed against PC conversions<sup>8</sup>, due to customers being deterred by small screen sizes, awkward data entry and security concerns. This is all changing, especially for companies that exploit the speed and ease of apps<sup>9</sup>, as well as the advantages mobiles have in terms of authentication and data input options compared to the very limited PC.
- The pace of innovation in mobile is starting to accelerate. Mobiles have gone from being limited PCs to something far more powerful. They bring many more interaction possibilities, such as beacons, notifications, deep-links, touch payments, and easier capture of personal data, including sensors, APIs and data availability. Over time, the smartphone will be far more than a simple tool for banking transactions – it will know you far better than any computer ever has, opening completely new possibilities for how we manage our money.

6. eMarketer, UK adults spend more time on mobile devices than on PCs, April 2015

7. Statista, Smartphone user penetration in the UK, 2015





## Ultimately, what this means is that banks have to balance two different priorities

On the one hand, banks need to better cater to digital natives who expect the whole journey to happen on their phone.

This will also enable banks to experiment with what purely digital banking can become – and what the mass market will eventually want. Digital banking experiences today too often mimic the paper forms and processes of an analogue age, but there is no reason why this should continue to be the dominant design paradigm. Some banks are already working on rethinking parts of banking from the ground up, and finding ways to appeal to early adopters – for example, Barclays' Pingit. However, they need to accelerate the speed at which they get these ideas to market in order to fend off the threat from digital competitors.

On the other hand banks need to ensure everyone else also has an optimal experience, regardless of the channel through which they choose to engage. This introduces an awful lot of complexity, as there are now so many different ways to engage: different screen types, user journeys and need states.



## Obstacles to overcome

**Banks are now in a race to handle these dual prerogatives: finding ways to innovate while also building consistent omni-channel experiences. Both objectives face major obstacles.**

### The digital insight gap

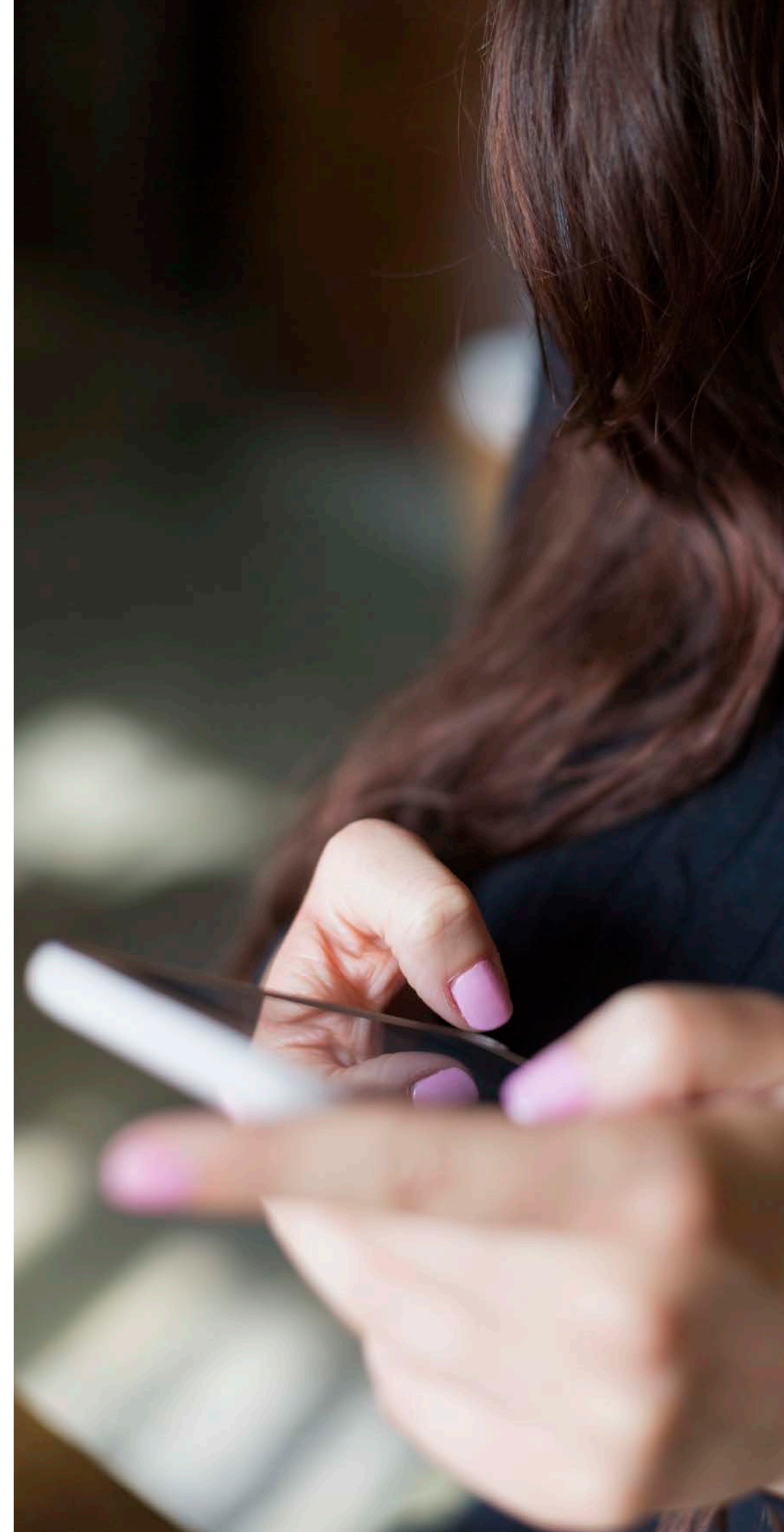
Banks possess a wealth of traditional insight about their customers, but much of the data gathering banks do today was designed around a specific product or channel. Today's customers rarely follow a linear journey – they jump between channels. Therefore, banks lack insight into the cross-channel decision journey – making it difficult to design experiences that respond to customer needs.

As one bank told us, they understand what happens in the channel, not outside of it – they

are not connecting data points across channels and therefore do not see the complete customer experience picture. Further, there is often a tendency to default to channels where there are established processes in place to handle customers, rather than the channels the customer wants to use. This causes a disconnect in how banks use channels when they communicate with customers, and how they track interactions – for instance, mailing a letter in response to an online interaction.

Traditional customer metrics, such as satisfaction, loyalty and net promoter score, allow for simple performance tracking over time but have limited capacity for shedding light on changing customer expectations. Banks need new ways of understanding customer needs and differentiating between the various emotional need states that trigger the need for financial products.

**Unstructured data is becoming an increasingly important part of the puzzle and banks often lack the tools to process it.**





## Legacy systems

**Banks have added on channels to engage with customers as they have appeared, but often as bolt-ons rather than integrating with existing operations.**

The consequence is that banks are poorly equipped to serve the same experience to customers who engage with them in more than one channel and who own more than one product.

One company we have spoken to has six different CRM databases that don't talk to each other. Add to that technology stacks that are 20 or more years old, built long before apps had been conceived, and you can see that the share of the banks' digital budgets spent on design and innovation becomes a tiny percentage of the overall technology budget.

This taxes banks when compared to start-ups that are operating with single-channel, single-product offerings and using technology stacks that are only a couple of years old which can be switched out as they scale.

But IT isn't the only piece of legacy that banks need to contend with. As one bank put it: "cultural change is half the battle in improving customer experience in a digital age - how do you get staff onboard?"

As part of this, many banks are looking to create 'lighthouse projects' — innovative, high-visibility projects that show what's possible, to make other staff say, "I want that", and galvanize the desire for change.

### Risk mitigation

Banks have traditionally used long design and development cycles to mitigate risk and deal with complexity, but these do not account for rapid changes in consumer behaviour and expectations — the challenge is that solutions are already outdated by the time they launch.

Design and development cycles are measured in years compared to the months, or even weeks, that is the norm for start-ups.

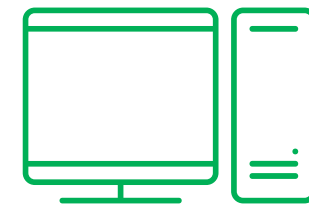
As one banker put it — "it is the challenge of turning around a supertanker — but we will have to adapt."





## Recommendations

Beyond recommends five key ways for banks to meet the speed of change:



## Blend the physical and the digital

Despite the growing significance of digital channels, branches are still important to customers. As a result, banks have an advantage if they can create seamless online and offline experiences that enhance the overall value they bring.

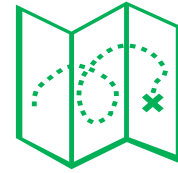
Customers are growing ever more open to new providers and online-only offerings. Though this is a threat to banks, it's also an opportunity for them to use their advantage – the physical branch – to retain customers.

Consumers show a clear appetite for self-service, from using ATMs to making payments online, rather than having to use a human intermediary. As a result, branch visits have dropped 90% since 1995<sup>10</sup>. However, when it comes to making financial decisions – especially when they have large potential consequences – we see consumers need assurance that they are making the right decisions.

the harder it is to convert customers through a purely digital channel. While countless start-ups are trying to find the formula to automate this, humans are still needed. Banks could retool how branches deliver advice by arming their colleagues with the technology they need in-branch to give the customers the best of both worlds.

10. Brett King, Bank 3.0, 2013





## Use new data sources to map experiences and uncover points of friction

Established technology companies like Amazon and Google benefit from massive amounts of behavioral data, which provides them with a deep understanding of their customers' typical online activity. This allows them to create sophisticated digital experiences that anticipate decisions based on past actions.

Google's autocomplete function, which predicts what you are likely to be searching for, and suggests sentences to complete the search you started, is an example. They also extensively use fast and iterative user research to get continuous insight into the "why" behind what people do.

To uncover points of friction and understand what needs to be improved, banks need to break down the customer journey using key insights built on behavioural data. Only by mapping out the end-to-end customer journey for all their customer types can a bank truly improve and personalize the experience.



## Partner for big ideas

One way to get ahead of the game is through extensive ideation, utilizing partners in a different way to the traditional client-agency relationship. Bringing external partners in to collaborate on specific projects can get great results, especially if both teams are co-located. This tactic works best when separate product teams are given the freedom to operate independently from the core product design team to develop a transformational product set that can be brought to market quickly, then tested and rolled out.

Customers want fast, easy and secure access to banking products that respond to their needs, and to provide this, banks need a wide funnel of ideas to pick from, and the freedom to think about what is possible.

To keep up with the pace of change, banks must place strategic bets on innovative new business models and experiences – just as the disruptors do. Several global banking firms have already started doing this, with one third of fintech deals since 2009 having happened in 2015<sup>11</sup>.

<sup>11</sup>. CB Insights, <https://www.cbinsights.com/blog/banks-record-fin-tech-investment/>, 2015





## Innovate incrementally through repatriation

Incremental change is better than no change at all, particularly as customer expectations are evolving so rapidly. Instead of waiting for a major overhaul, it can be better to improve digital offerings more gradually.

Once transformational adjacent products have been trialled successfully, banks can then repatriate the innovation into existing core products.

This could be by segmenting the audience down further, providing new services for younger audiences that best fit their needs, moving the brand forward for future generations.

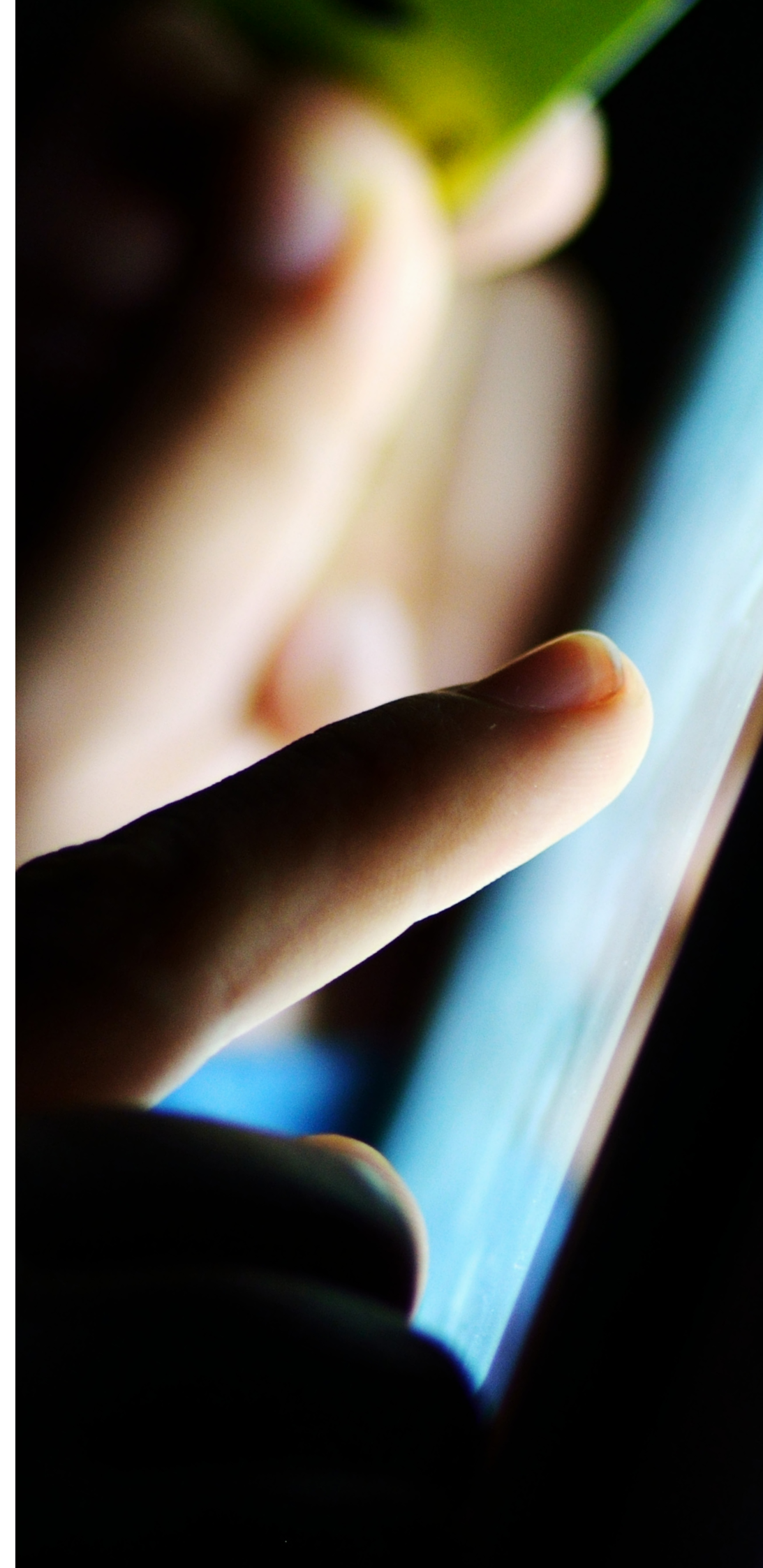
**If banks can act on these principles, they will become truly indispensable to their customers. If they cannot, they will struggle to survive in an increasingly competitive market.**



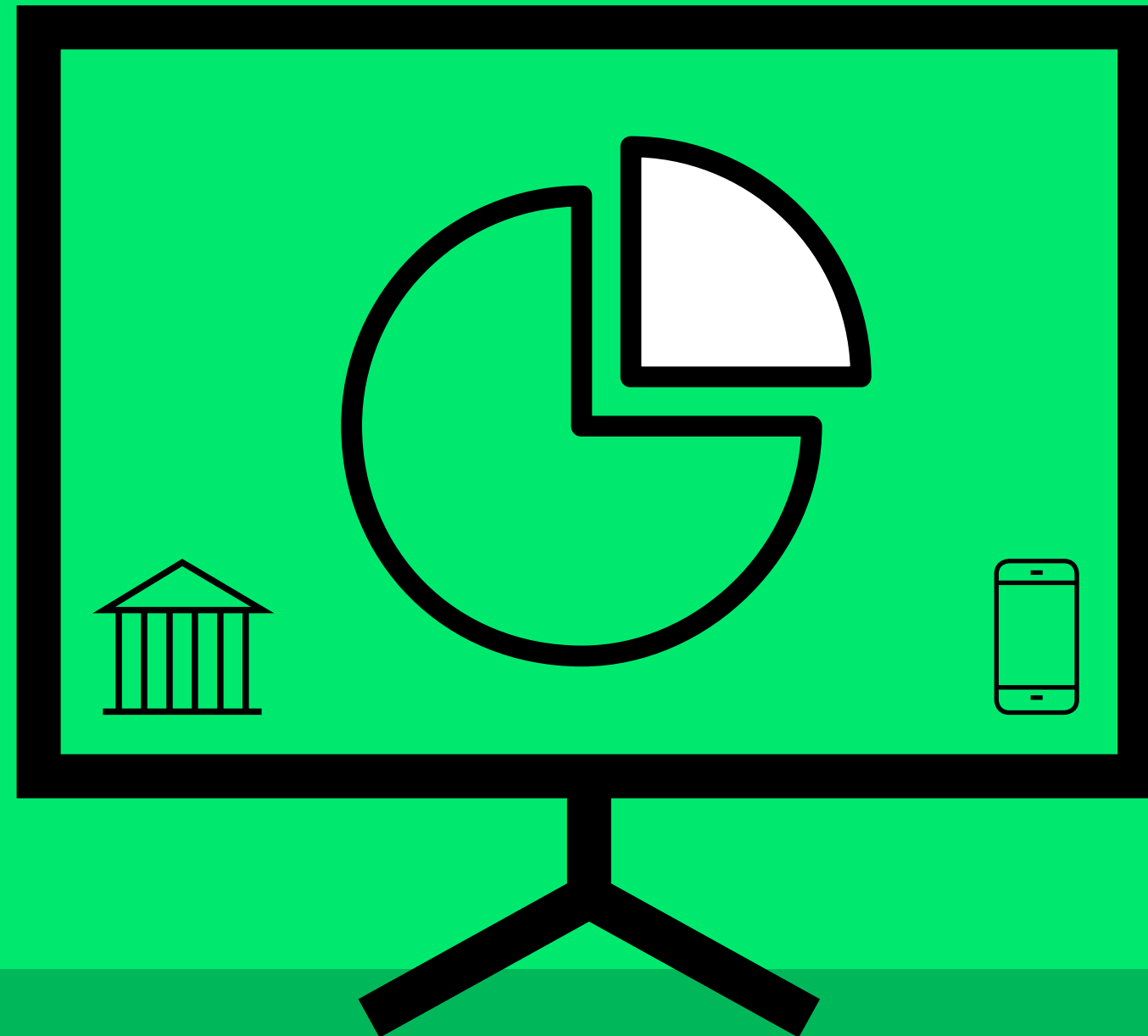
## Launch quickly and test

A test-and-learn approach might be the antithesis of the way large banks work, seemingly at odds with habits of limiting risk. But, it is actually a better way of mitigating risks and ensuring better outcomes, as it enables the organization to optimize and learn faster, which can mean avoiding costly mistakes down the road.

Product development approaches like the minimum viable product (MVP) present opportunities to change entrenched behaviors. MVPs are the most basic products that can go to market and have the highest return on investment relative to risk. They enable organizations to get rapid feedback on new offerings, which they can then iterate, and help avoid the development of products and features that do not meet customers' needs.



# Summary of data







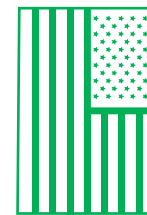
Beyond surveyed 1,011 US respondents, to assess consumer readiness for online-only banking and to discover what consumers want from the digital banking experience.

The results were as follows:



### Customers are as interested in financial offerings from tech brands as they are from banks

- **57%** of respondents are interested in financial offerings from PayPal –the most popular digital-only choice.



### Online-only banking services are widely accepted by US consumers

- **57%** of respondents would consider an online - only service for all their banking needs
- This rose to **79%** for payments and money transfer and **77%** for current accounts
- Those with complex financial needs (5 financial products or more) – often the banks' most profitable customers – were even more receptive to online-only offerings (**65% vs. 57%**)



### Customers want improvements to the most basic areas of the digital banking experience

- **Security: 71%** wanted additional levels of security
- **Speed: 53%** wanted faster ways to transact online
- **Ease: 50%** wanted easier ways to log into their account





## Customers want personalized online tools

- **Money Saving Tools: 53%** wanted better online tools to help them save money, based on their data
- **Guidance on Financial Decisions: 49%** wanted better online tools to



## High-value customers want more from all touch-points of the digital banking experience

- **Security: 76%** wanted additional levels of security (vs. 71% average)
- **Speed: 65%** wanted faster ways to transact online (vs. 53% average)
- **Ease: 50%** wanted easier ways to log into their account (vs. 50% average)
- **Money Saving Tools: 56%** wanted better online tools to help them save money, based on their data (vs. 53% average)
- **Guidance on Financial Decisions: 56%** wanted better online tools to help them make financial decisions, based on their data (vs. 49% average)



## Customers still value the branch experience

- **Branch: 48%** put most importance on the quality of the branch experience
- **Desktop/laptop: For 34%,** the quality of the desktop/laptop experience mattered most
- **Apps: 8%** prioritised the quality of the smartphone/tablet app experience
- **Telephone: For 6%,** the quality of the telephone experience mattered most
- **Mobile Browsing: 5%** prioritized the experience on a smartphone/tablet browser



# About us

Beyond works with companies to create amazing connected experiences by making products more enjoyable, simpler and easy to use.

Our mission is to remove friction from the customer journey and digitally design the experiences that

define your brand. We are an experience design agency with studios in San Francisco, New York, London and Mountain View.

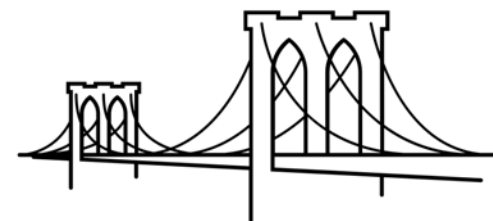
## Studios



**LDN**



**SFO**



**NYC**



**MTV**