In 2020 Traditional Banks Will Reclaim The Upper Hand

05/12/2019

*By **Steve Morgan**, Industry Lead for Financial Services EMEA, Pegasystems*

This year, we've seen pressures mounting on the traditional banks: challengers have continued to creep in on their territory and the last effects of PPI and changing regulation has been an ongoing headache. On the other hand,the benefits of the latest AI technologies have been felt in myriad ways, and Open Banking has created a variety of new partnerships, to the benefit of both banks and consumers. We've come a long way over the last 12 months, so what can we expect to see in the sector as we head into 2020?

Bank branches get immersive

The growth of mobile banking is undeniable. A knock-on impact is the evolution of bank branches into education and financial advisory hubs. Yet, with limited staff, how will banks be able to guarantee that the required expertise to deliver these more complicated services will be available for the customer at their request? Consumers are used to banking on their schedule, so they won't stand in line and wait anymore. As a result, financial institutions will seek to invest in technology that can facilitate this service offering virtually. For example, customers will be able to seamlessly book appointments online or have conversations via video conferencing facilities with the most appropriate member on staff, at a time convenient for them. Those banks that can do this well, should use this to their competitive advantage.

Micro advisory-focused branches become the norm

Which? recently reported that around a third of the UK's bank branches have shut within the past five years alone, and the rate at which they are closing will not slow down. The banks that remain will start to concentrate on offering services that necessitate a face-to-face advisory service, mainly those associated with investment and lending advice. Consequently, throughout our cities we are likely to see a proliferation of specialised micro-branches. Included within these branches will be areas where customers can be educated on the latest offers and how best to use online banking tools etc. In addition, there will be private zones for advisory services and less frequently stations where declining volumes of basic transactions can be carried out.

Challengers find it hard to maintain market share

customer service, when it comes to retaining them, how can they keep these customers engaged while simultaneously maintaining their pipeline of new customers? In order to maintain their disruption, they will concentrate on refining customer experience and defining their USPs of the future, at the same time as broadening their assortment of products to drive growth of revenues.A significant barrier will be their limited balance sheet. Before they can offer shiny new products, they will need to build up their capital in order to have the ability to sell investment and lending services.

Restructure to thrive

To continue on their digital transformation journeys, banks are moving more of their infrastructure to the cloud and undertaking re-platforming projects. Furthermore, high customer expectations and burgeoning regulatory requirements are forcing them to consider in more detail their strategy for the best way to operate in the world of Open Banking. Over the next twelve months, banks will focus on being fully set up for three key technology areas: product, pricing and data. The effect of this will not be technological alone but will also inspire the restructuring of the business, as banks attempt to minimise organisational silos and establish how technology can be applied to facilitate new business opportunities as well as industry pressures.

So long to overseas operating centres

In the last 15 to 20 years, outsourcing has been viewed as a key lever to reduce your cost base. This was traditionally achieved by a combination of off or near shore cost savings and improved management and technology application. However, AI and machine learning have since arrived on the scene and banks are realising the power that these technologies bring. Often outsourcing would come first and the process and tech automation second. This should now flip for most banks. The result should be fewer customer operations staff and the ability to keep them closer to the customer. Some have already done this and even bringing operations back near or onshore. The benefits are multi-faceted: the elimination of friction effort and cost produced by management/colleague distance and time zone differences being a primary one. In 2020, enhanced AI, automation and next best actions will result in the further consolidation of customer operation centres worldwide.

Retail and commercial banks are grabbing the technology bull by the horns and making the most of the benefits that technologies such as AI have to offer. But we are only at the tip of the iceberg in terms of its true capabilities. At the same time, banks are heading into another difficult year, and part of their success will hinge on how investment in technology is made.As consumers and companies continue to move the vast majority of their banking activity online, it will be interesting to see which financial institutions can keep up with these preferences, and if challengers will continue to make an even bigger dent in the customer base of the traditional banks.If traditional players can get their restructuring right and improve their customer experience, then they shouldn't have to worry about the competition snapping at their heels.