

Winning Strategies for Omnichannel Banking

Cisco IBSG Global Research Reveals New Ways for Banks To Prosper in an Omnichannel World

By Jörgen Ericsson, Philip Farah, Alain Vermeiren, and Lauren Buckalew

Banks operate in a challenging world of rapid technological change, technology-savvy customers, and increasing expectations. In this environment, banking through disparate and insufficiently coordinated channels is quickly becoming obsolete. To prosper and gain a competitive advantage, banks must begin moving to *omnichannel* banking while customer readiness around the world is strong.

The Cisco® Internet Business Solutions Group (IBSG) calls this new reality the “Era of Omnichannel Banking.” Omnichannel banking is different from the current “multichannel” approach in which banks encourage customers to use the least expensive channel, while delivering minimal cross-channel consistency and an inconsistent user experience. Omnichannel banking provides a consistent experience across channels to provide customers with seamless access to financial products and services—where and when they are needed.

In the world of omnichannel banking, customers are in control of the channels they wish to use. For example, they can begin an interaction using one channel (mobile while at home) and end it in another (branch while on the way home from work). Omnichannel banking brings the industry closer to the promise of true contextual banking in which financial services become seamlessly embedded into the lives of individual and business customers.

The rapid rate of industry transformation from multichannel to omnichannel banking has opened the door for competition from telcos, technology companies, and startups. These new entrants are already challenging banks’ traditional position as primary owner of the customer relationship.

It is within this new paradigm that banks are trying to determine how to manage the transition to omnichannel banking. To help banks successfully make this transition, Cisco IBSG surveyed 5,300 consumers across eight developed and emerging countries: Brazil, Canada, China, France, Germany, Mexico, the United Kingdom, and the United States.

An important component of Cisco IBSG’s research was the testing of nine innovative concepts that combine the virtual and physical worlds: virtual banking, specialty branch, streamlined branch, banking pod, agent branch, mobile banking, social media, customer sensing, and digital footprint management (see Appendix for full concept descriptions).



Cisco Internet Business Solutions Group (IBSG)

Global Findings and Insights

From Cisco IBSG's findings, it is clear that banking customers around the world are ready for omnichannel banking.

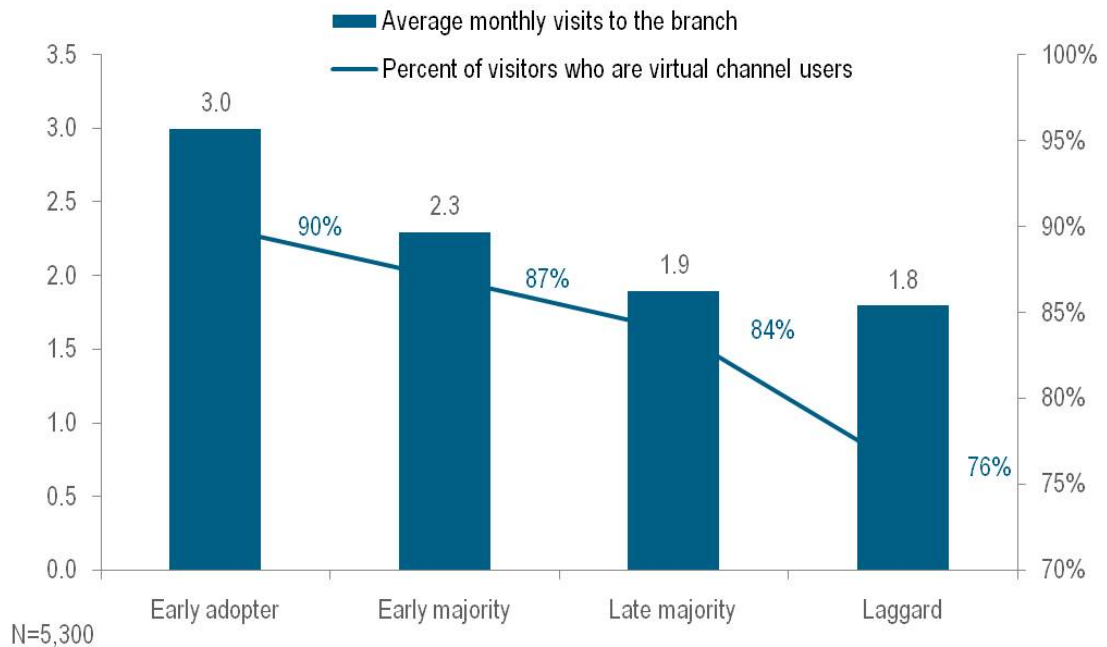
Omnichannel Banking: A Story of Universal Readiness and Local Urgency

- Omnichannel banking is not a hypothetical concept; instead, it is essential to addressing customers' desire to control the time, place, channel, and information required to perform their banking activities.
- Emerging countries demonstrate high levels of customer readiness for change as a result of a perfect alignment of key factors—dissatisfaction with current banking services, vibrant growth, and limited legacy constraints—that provides fertile ground for new models.
- In developed countries, a rich mix of physical (branch) and virtual (web, mobile, and social) banking channels has prepared customers for the advent of a seamless omnichannel experience.
- The four pillars for transforming to omnichannel banking are (1) the new branch, (2) mobile, (3) social, and (4) video.

1. The Old Branch Is Dead; Long Live the Omnichannel Branch

- The death of the branch has been greatly exaggerated. The most avid adopters of virtual channels—tech-savvy consumers—are also among the most frequent branch visitors (see Figure 1).

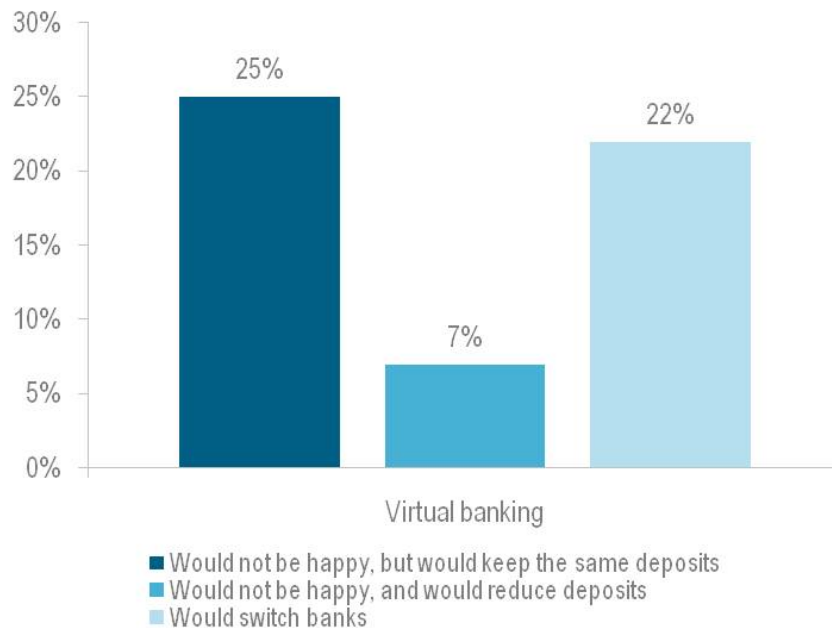
Figure 1. Mean Branch and Virtual Channel Usage by Tech Segmentation.



Source: Cisco IBSG, June 2012

- Additionally, the overall number of respondents opposed to eliminating branches is significant, as demonstrated when they were offered an all-virtual alternative (see Figure 2).

Figure 2. Responses When Asked About Replacing Branches with an All-Virtual Branch.



N=5,300

Source: Cisco IBSG, June 2012

- The branch continues to be the preferred channel for personal attention and advice, including new services.
 - 26 percent consumers say they would leave their current bank if advisers and personal advice were eliminated from their bank branch.
 - 83 percent of consumers say they would be somewhat or highly interested in bank branches that offered an expanded portfolio of financial and advisory services (financial education, legal, accounting, tax, and insurance).
- Customers are also open to having advice delivered to them virtually in the branch as long as quality and personalization do not suffer. Video will be at the center of branch transformation.

My Finances Are Already Virtual, Increasingly Mobile, but Not Yet Social

- In addition to their interest in the omnichannel branch, consumers are interested in the ability to interact with their banker via video: 47 percent in developed countries and 78 percent in emerging markets.
- When it comes to consumers' views on omnichannel banking, our study reveals preferences for service specialization by channel (preferences vary by region).

Online: the Preferred Transactional Channel

- Today, the Internet is the most preferred virtual channel for conducting banking transactions such as managing accounts and transferring money. The next generation of Internet-based banking services will include video conferencing, document sharing, and contact center integration.
 - 78 percent of consumers in developed countries and 72 percent of consumers in emerging markets prefer to use a bank's web applications for transactional purposes such as paying bills, managing accounts, and checking balances.
- This is particularly interesting when viewed in the context of mobile becoming a primary channel for online access, especially in light of the current trend toward "bring your own device" (BYOD), where consumers expect all services to be offered seamlessly via any device they choose.

2. Mobile: The Promise of Embedded Banking in Consumers' Lives

- As Internet access continues to improve over mobile devices, mobile is rapidly emerging as a banking channel.
- Preferred features for mobile banking include real-time expense tracking, mobile payments, and location-based commerce.
 - 13 percent of consumers in developed countries and 18 percent of consumers in emerging markets prefer to use mobile banking applications for real-time expense tracking, personal finance management (PFM), and payments.
 - Those who prefer mobile for these services tend to be younger (Gen Y or Gen X), tech-savvy, and more-frequent branch users (2.5 visits per month).

3. Social: The Potential Is Here—When Will Banks Be Ready?

- Social banking is still lagging, as an overwhelming number of customers are reluctant to mix banking with social activities.
 - Only 1 percent of consumers in developed countries and 8 percent in emerging markets indicated a preference for using the social media channel to conduct banking transactions.
- A key reason for their reluctance is concern about privacy and lack of control over personal information.
- When it comes to going social, one segment stands out—younger, tech-savvy customers, especially those in emerging countries who tend to be dissatisfied with their banks.

4. Video: Seeing Is Believing

- In banking, video is a key enabler of building trust in situations where humans are not physically available.
 - 23 percent of consumers in developed countries and 43 percent of consumers in emerging markets saw the use of video conferencing with remote experts as a way to enhance the quality of advice in situations where access to quality expertise is a concern.

- Video is a key feature and experience enhancer for unmanned banking kiosks, after-hours multipurpose ATMs, and next-generation virtual banking delivered to homes and offices.
- Video adoption in consumers' personal lives or at work isn't limited to younger tech-savvy consumers. Cisco IBSG's study indicates that Gen X and early-majority technology adopters are now solid believers in the role of video.

The Privacy Minefield—Tread Carefully

- Significant concerns about privacy, security, and identity theft were prevalent among consumers in both developed countries (65 percent) and emerging markets (53 percent), although respondents in emerging countries were more open to concepts that require sharing of personal data.
 - To avoid taking a wrong step, it is critical for banks to make privacy, security, and identity theft top priorities and to implement many of the omnichannel concepts, such as opt-in services, at least in the initial rollout.
- 29 percent of those opposed to value propositions requiring access to personal information are still willing to share information with their bank on an opt-in basis.
- Equally important is the role that banks can play as an infomediary—a trusted steward of consumers' personal information.
 - 60 percent of respondents in developed countries and 89 percent in emerging countries are somewhat or strongly interested in the infomediary concept. Contrary to conventional wisdom, Gen Y customers are concerned about the security of their personal information, with 70 percent in developed countries and 92 percent in emerging markets somewhat or strongly interested in the infomediary concept.
 - 42 percent of consumers consider banks to be best qualified to act as stewards over their digital information, ahead of the government (19 percent), telcos (6 percent), and social media sites (4 percent).

So What? Implications for Banks

- The transition toward omnichannel banking has started. Customers are ready, and so is the technology. Banks, therefore, need to invest in enabling this new approach to avoid potential disintermediation and to increase their competitive position.
- Emerging countries are well positioned for successful transformation to omnichannel banking *if* regulatory roadblocks can be removed. To ensure a positive outcome, banks should partner with financial authorities to assist in evolving the regulatory framework.
- In developed countries, the risk is inertia (as customers' current relative satisfaction with bank services can be interpreted as a lack of a strong imperative for change). Alternatively, new interaction models that address banks' cost imperative unilaterally could be implemented (e.g., closing branches or moving toward highly automated branches at the expense of personalized attention and advice).
- Win-win models should be pursued to address customers' needs for advice, while allowing banks to reduce cost pressures. The omnichannel branch—a mix of

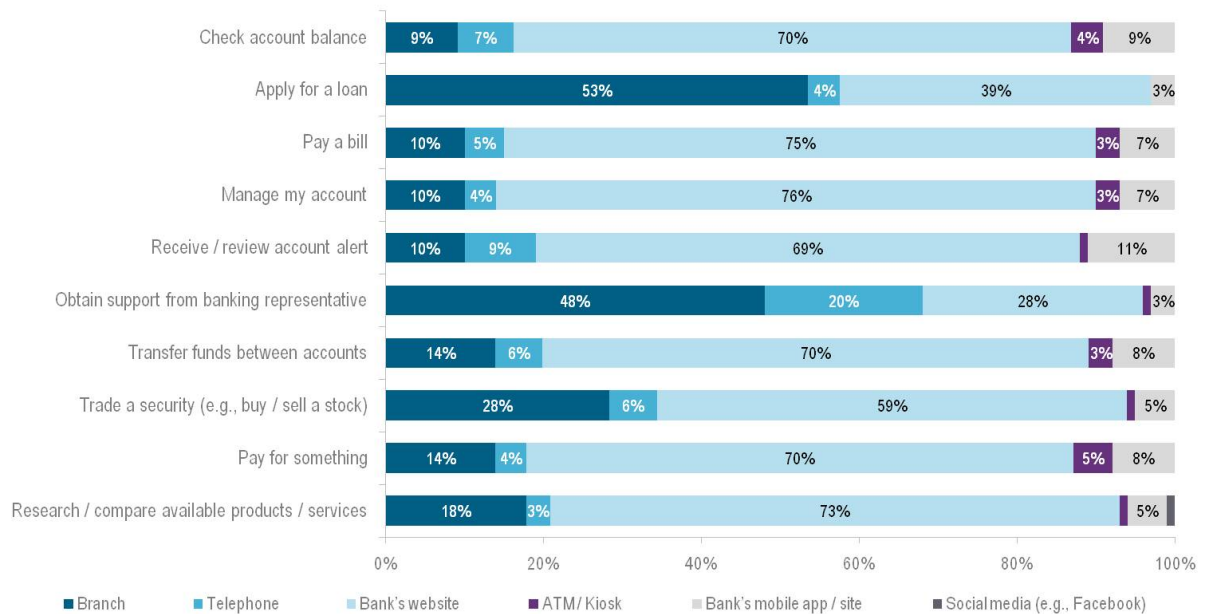
virtualized expertise and staffing, with a focus on advice and personal attention—is a winning strategy.

- Finally, creating an end-to-end customer experience is at the heart of omnichannel banking. Banks need to secure integrated architectures to enable an omnichannel-ready infrastructure.

North American Perspective

Despite the role of U.S. banks in the global financial crisis, customer satisfaction remains strong, with 76 percent of respondents satisfied with the service level of their bank, compared to 62 percent of respondents in the rest of the world. Our research confirms the importance of all physical and virtual channels when it comes to interacting with one's bank (see Figure 3). It also shows the importance of different banking channels by type of banking activity. For example, respondents tend to favor banks' websites for activities they can perform themselves, while still opting for the branch when specialized guidance and expertise are required.

Figure 3. Preferred Channels for Banking Transactions (All North American Respondents).



Sample size varies based on the number of respondents for whom the transaction is applicable.

Source: Cisco IBSG, June 2012

The research confirms that the shift in channel preference for conducting transactions (Internet and mobile) is well under way, as respondents prefer channels other than the branch for simple transactions. This finding is key since it confirms declining use of the most costly distribution channel in times of lower margins/profitability—a situation that is causing banks to rethink the best format for their branches.

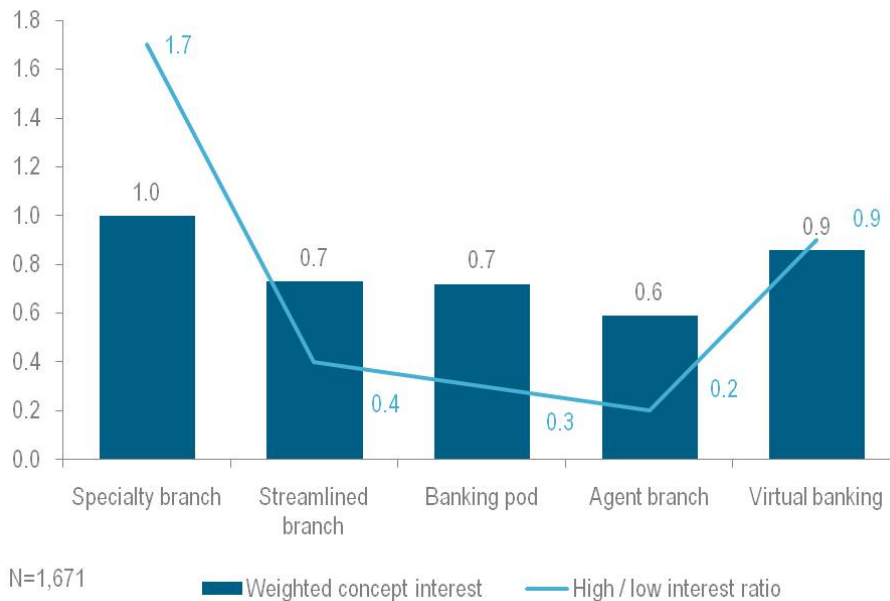
Future of the Branch—the Omnichannel Branch

Of the nine concepts tested, two show the greatest potential impact on the distribution of banking products and services going forward: (1) **specialty branch** for delivering specialized

and expanded services at a physical location, and (2) **virtual banking**, where all banking interactions are conducted solely through virtual channels (see Figure 4).

It is interesting to note that concepts such as the streamlined branch with automated services and limited employee support / personal attention were less interesting to respondents than the previous two concepts.

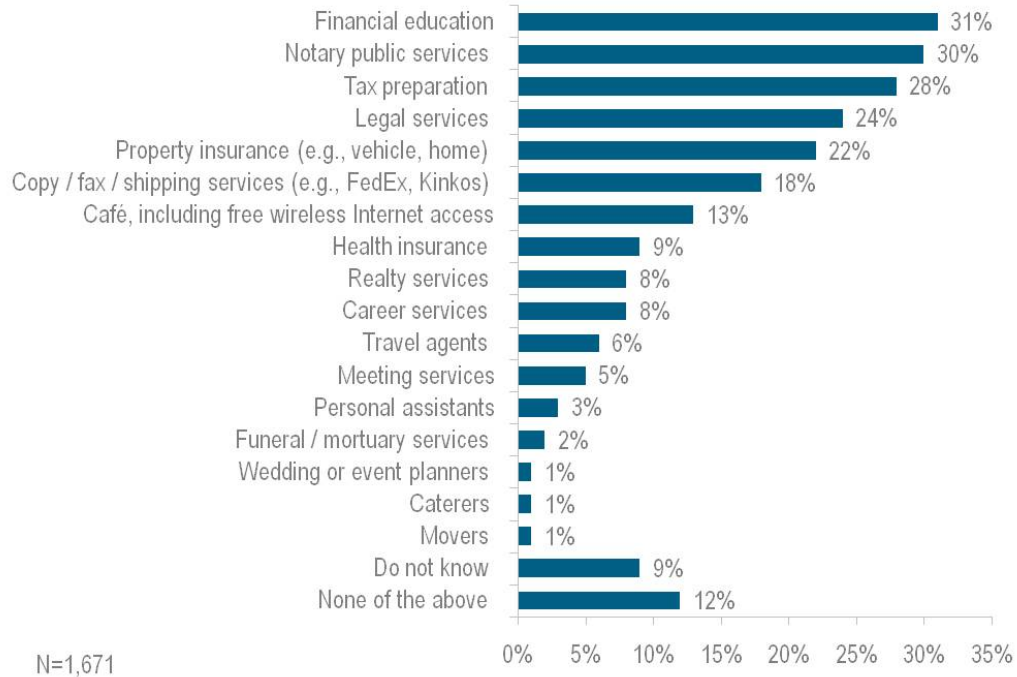
Figure 4. Weighted Concept Interest for All Branch-Related Concepts and High / Low Interest Ratio for Each (North America).



Source: Cisco IBSG, June 2012

Specialty-Branch Concept

An in-depth look at specialty branches in Figure 5 reveals significant interest in expanding the role of the branch to provide more financial management and expertise, including financial education (31 percent of respondents) and tax preparation (28 percent of respondents).

Figure 5. Specialty Branch Services of Interest (North America).

Source: Cisco IBSG, June 2012

Respondents most interested in the specialty-branch concept tended to be around 40 years old and in the early majority when it comes to technology adoption. Eighty-five percent of them regularly use virtual channels for their banking needs.

The impact of moving to a specialty-branch concept for banks is largely positive—57 percent of all respondents would be happy with the change, 26 percent would not care, and of the 17 percent who do not like this value proposition, only 4 percent would consider switching banks.

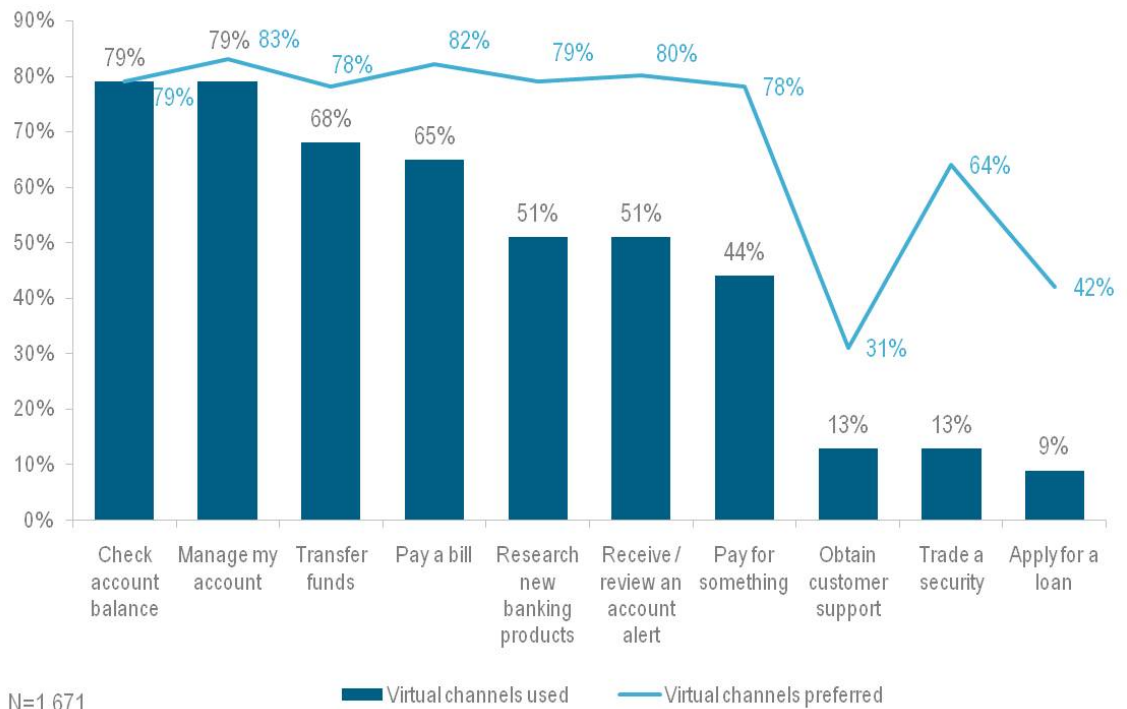
As adoption of virtual banking alternatives increases and branch visits decline, positive reception to the specialty branch is a clear indication that respondents like the physical branch format when it comes to advice and personal attention.

The combination of personal attention and advice delivered both in-person and virtually in the branch are at the heart of the omnichannel branch concept, which addresses both consumers' expectations and banks' cost pressures.

Virtual-Banking Concept

Virtual banking was the second-most-attractive concept for North American respondents, with 38 percent being highly interested. It was also one of the most polarizing concepts, with 42 percent of respondents giving it a low-interest rating.

From a channel-use perspective, respondents preferred the virtual channel alternative for transactional or research-focused interactions with their bank, and showed less interest in using the virtual channel for customer support or loan acquisition (see Figure 6).

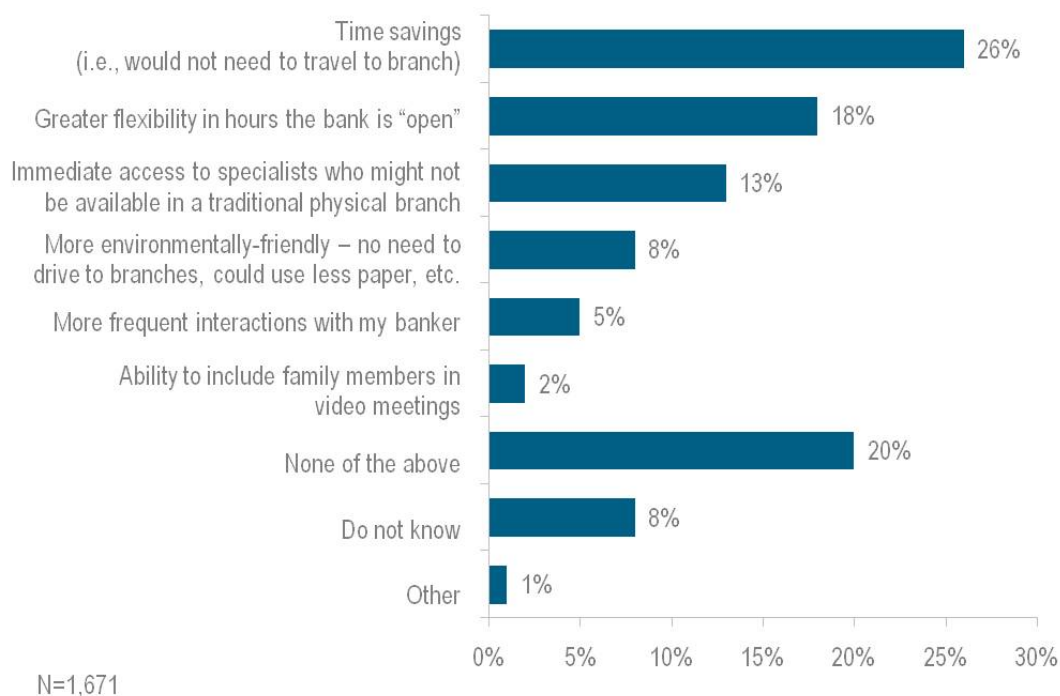
Figure 6. Virtual Channels Used and Preferred for Banking Transactions (Past Two Years, North America).

Virtual channels used shown as a % of all respondents. Virtual channels preferred shown as a % of respondents for whom the transaction is relevant.

Source: Cisco IBSG, June 2012

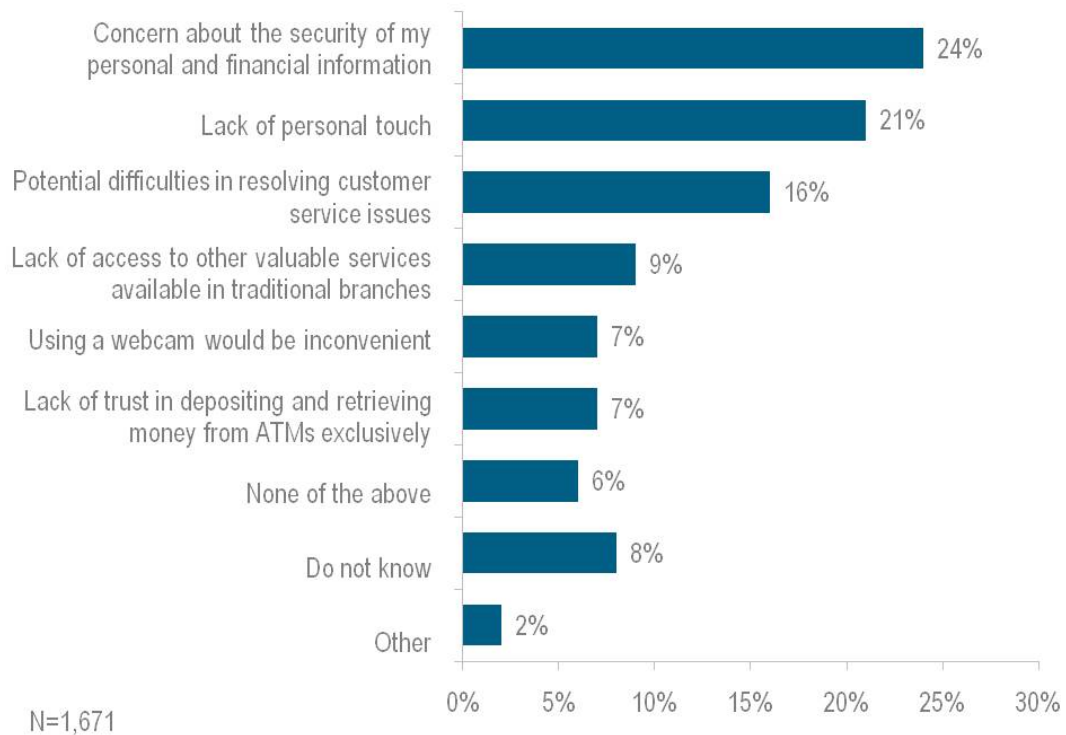
The key perceived advantages of virtual banking among respondents are time savings (26 percent), greater flexibility in banking hours of operation (18 percent), and access to specialists unavailable at the local branch at (13 percent; see Figure 7).

Figure 7. Advantages of Virtual Banking Concept (North America).



Source: Cisco IBSG, June 2012

According to respondents, the key drawbacks are concern about security of information transmitted online (24 percent), the lack of a personal touch (21 percent), and potential difficulties using the format to resolve customer service issues (16 percent; see Figure 8).

Figure 8. Disadvantages of Virtual Banking Concept (North America).

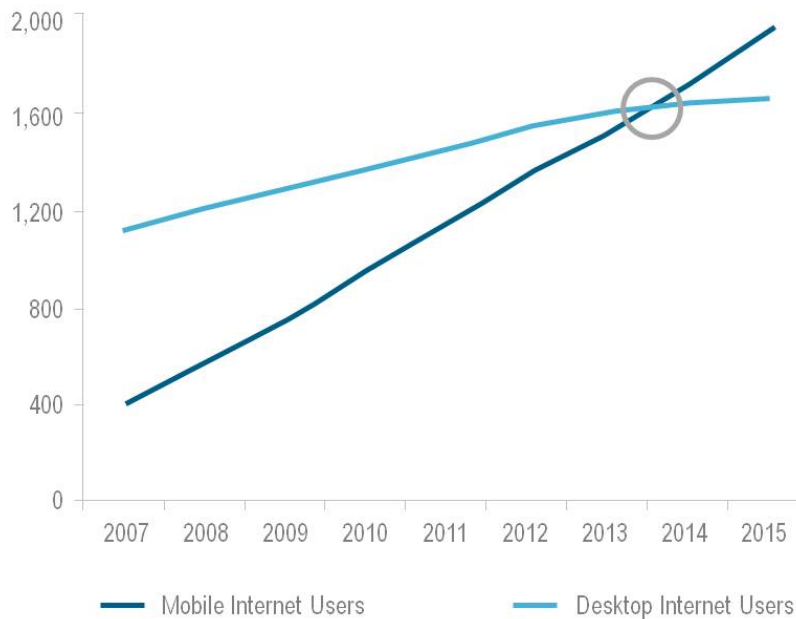
Source: Cisco IBSG, June 2012

The dual interest in specialty branches and virtual banking, as well as the strong polarization in response to a virtual-only model, indicate consumer preference for advice and personal attention delivered at the branch, combined with a migration to virtual channels for transactional uses—provided the virtual alternative is offered on an opt-in basis.

The Mobile Banking Explosion

One of the most powerful implications of the research comes from applying the very strong interest in using the Internet as a banking channel to the estimated role that mobile devices will serve as the primary access point to the Internet by 2014, as shown in Figure 9. Clearly, mobile has the potential to become the most prominent banking channel in an omnichannel world.

Figure 9. Internet Use via Mobile Devices Versus Desktop PCs (2007-2015 Estimate).



Source: Morgan Stanley, 2009

The segment most strongly in favor of mobile banking is younger customers, with an average age of 33. While these respondents clearly have a preference for mobile banking, it's important to note that they do not want it to replace other channels. They visit branches 2.6 times a month on average, compared to 2.3 times across all respondents, and are very supportive of using multiple services in an omnichannel environment.

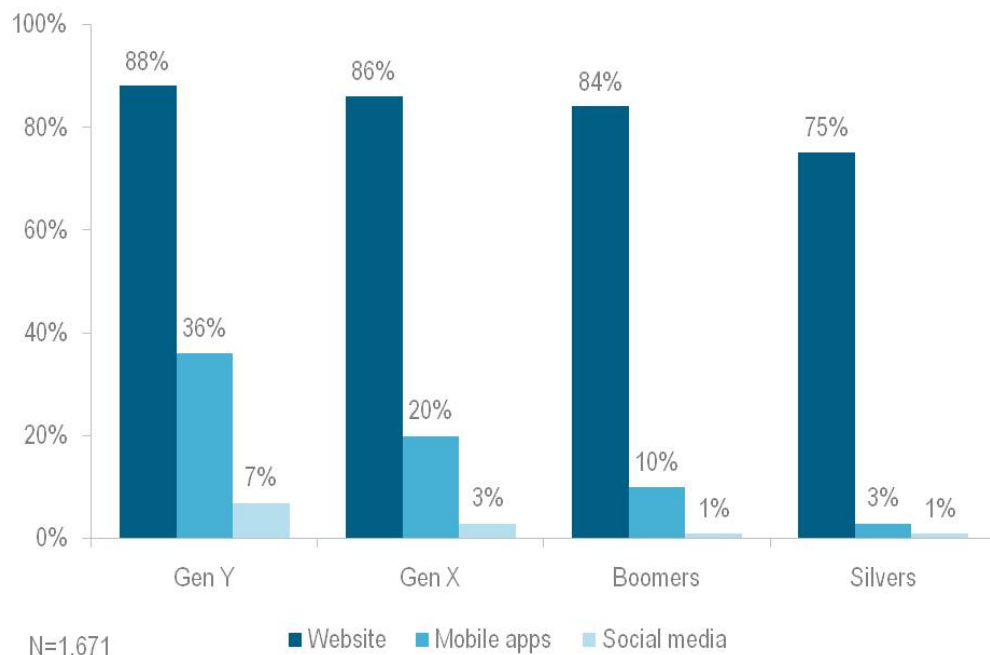
The most interesting mobility features, according to respondents, are real-time expense tracking and money management (22 percent), remote deposit by taking a picture of a check (21 percent), and using the mobile phone as a payment mechanism (18 percent; see Figure 10).

Figure 10. Mobile Capabilities Considered Most Valuable (North America).

Source: Cisco IBSG, 2012

Social Banking

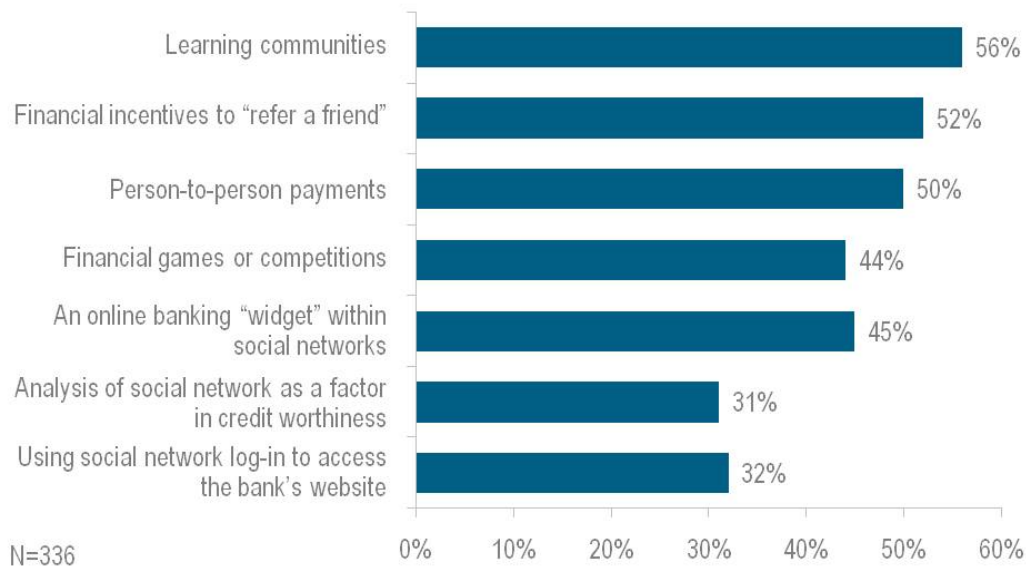
While there has been a huge explosion of social media usage, with more than 175 million Facebook users in North America and 65 million LinkedIn profiles, social banking has been limited to promoting company brands and monitoring social media sites for customer satisfaction issues (sources: CheckFacebook.com, 2012; LinkedIn, 2012). In fact, use of social media for banking is very low even among younger consumers (see Figure 11). Only 3 percent of respondents indicated that they had used social media as a banking channel.

Figure 11. Virtual Channel Use Across All Banking Transactions (By Age Segment in North America).

Source: Cisco IBSG, June 2012

For those most interested in social media for banking, the most attractive features were learning communities, financial incentives to “refer a friend,” and peer-to-peer payments (see Figure 12).

Figure 12. Percentage of Social Respondents with High Interest in Social Banking Initiatives (North America).



Source: Cisco IBSG, June 2012

Video: An Important Communications Medium for Omnichannel Banking

Consumers are already using video in their day-to-day lives (especially over the Internet), with 40 percent of all respondents saying they watch online video (such as YouTube) on their mobile phones monthly or more. In addition, 32 percent of those surveyed use a webcam and video chat program to communicate with friends or family at least once a month.

Previous Cisco studies confirmed that most respondents consider video a better way to understand and memorize concepts, as opposed to voice-only conversations. With new insights from Cisco IBSG’s omnichannel research, we now better understand the significance of video in the banking environment.

One of the key findings of this survey is the importance of video as an important enhancer of advice delivery in situations where humans are not physically available. For instance, 26 percent said that video conferencing with a remote expert would enhance their experience when the expertise was not available in the branch.

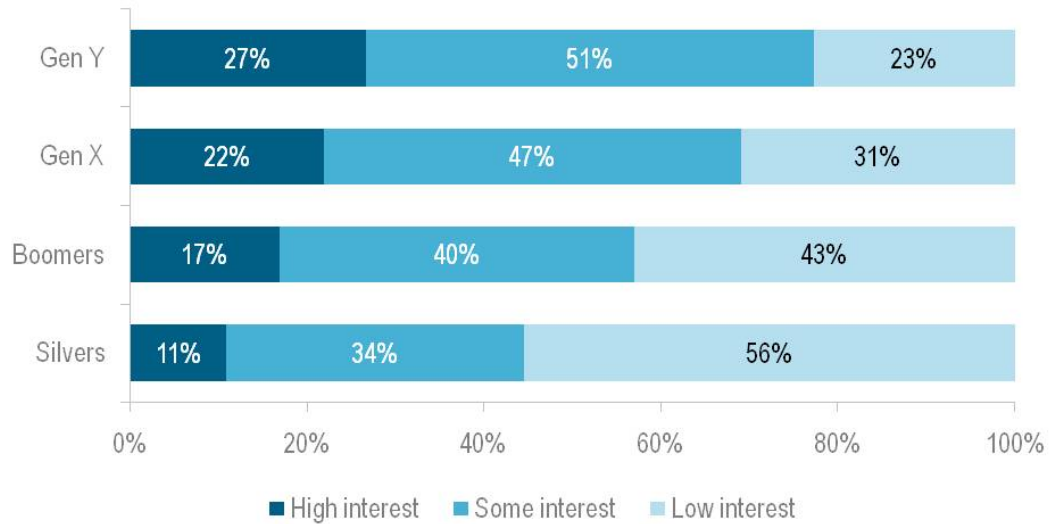
This makes video a key feature and experience enhancer for unmanned banking kiosks, after-hours multipurpose ATMs, and next-generation virtual banking delivered to homes and offices.

Interestingly, those most interested in video as a banking channel tend to be Gen X customers who are also in the early-majority group when it comes to technology adoption. This shows that video is ready for mass adoption above and beyond younger, tech-savvy consumers.

The Privacy Minefield

Concern about privacy, security, and identity theft is prevalent throughout the study, and North American respondents are no exception, as evidenced by the strong interest in an infomediary who would manage consumers' digital identity and "footprints" (see Figure 13).

Figure 13. Interest in the Digital Footprint Management Arrangement by Age Segment (North America).

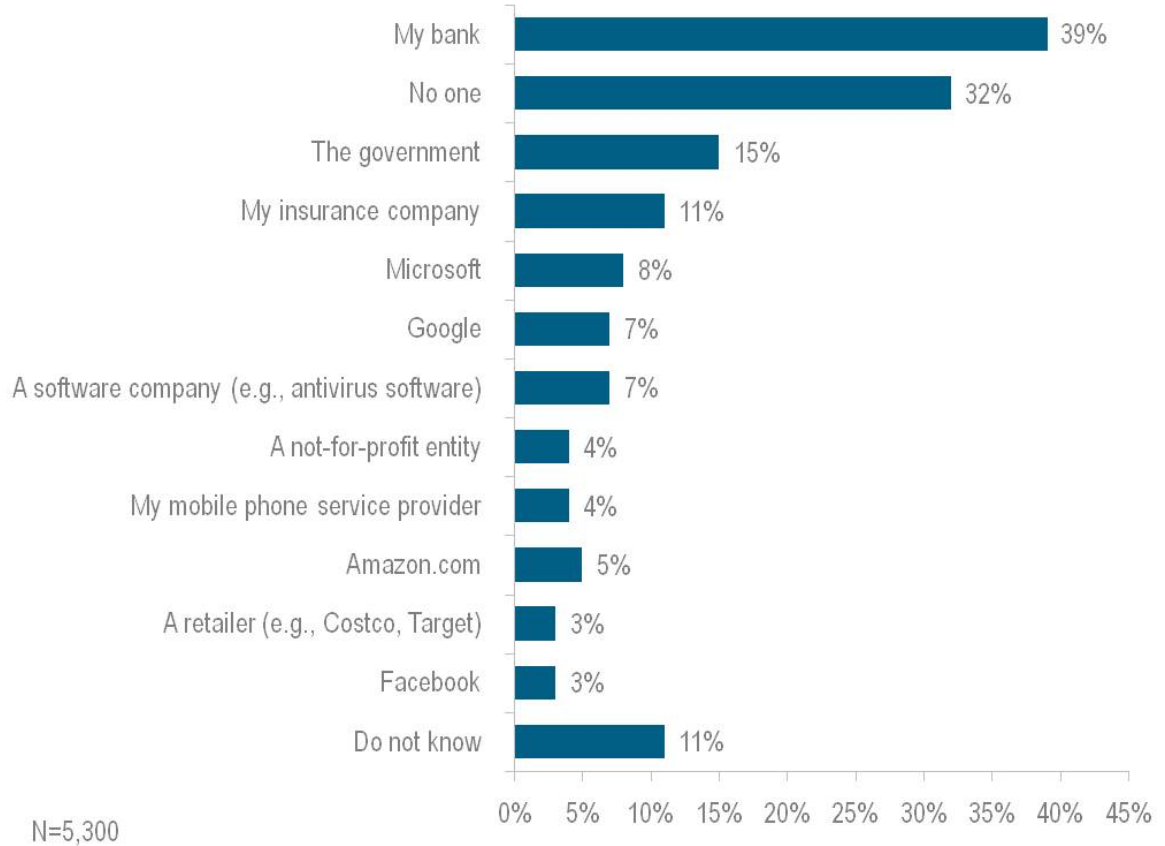


N=1,671

Respondents included = 32%, Filter applied

Source: Cisco IBSG, June 2012

The majority of respondents expressed a preference for having banks become stewards over customers' digital footprints for things like identity theft protection, rather than leaving this task to government, social media sites, and telcos (see Figure 14).

Figure 14. Organizations Willing To Use for a Digital Footprint Management Solution.

Source: Cisco IBSG, June 2012

Conclusion

Omnichannel is a global phenomenon—people are streaming music and video to their mobile devices and TVs, searching product information online before buying in a store, and using augmented reality on their mobile devices when visiting a city.

Cisco IBSG survey results make it clear that banking customers worldwide are also ready for omnichannel experiences. While differences exist between developed and emerging countries, as well as across the omnichannel concepts described in this paper, the opportunity for banks to benefit from omnichannel banking is here.

Banks that respond now, rather than wait for the “all clear” signal, will be handsomely rewarded by attracting new generations of customers, retaining existing customers, avoiding disintermediation, and generating new revenue streams by delivering the innovative omnichannel services customers are demanding.

Over the coming months, look for additional omnichannel thought leadership materials that provide findings and insights about individual countries, specific customer segments, and innovative strategies.

Appendix

An important component of Cisco IBSG's research was the testing of several innovative concepts with survey participants. Understanding participants' views about these concepts will help banks determine the types of solutions that will work best for their specific business models. The concepts include:

- **Virtual Banking:** With this concept, banks no longer have physical branches. Cash transactions are conducted exclusively using ATMs. Customers meet with their bankers or investment advisers using video over the Internet. Bankers share relevant financial information using their computer screens, and forms are “signed” digitally.
- **Specialty Branch:** This concept transforms the branch into a “one-stop shop” by offering a broad range of services, including tax preparation, legal advice, or insurance policies. Specialty branches could also include cafés for meeting with friends and colleagues, events for local customers, and video-conferencing suites.
- **Streamlined Branch:** This concept is a slimmed-down branch. It includes fewer employees, several ATMs, and no traditional tellers. Streamlined branches are similar to self-service kiosks currently being used by airlines, where employees use tablets to assist customers with their needs. For more complex services, remote specialists are available through two-way video-conferencing kiosks.
- **Banking Pod:** This concept is a small booth that includes a video screen and ATM, allowing customers to conduct both basic and complex transactions such as ordering checks, opening accounts, and interacting with bank employees. Because they are completely automated, banking pods can be easily located in various locations, such as malls and car dealerships.
- **Agent Branch:** Currently used in emerging countries, this concept is a franchise-like model where an organization such as a post office, convenience store, or retailer offers financial services on behalf of a bank.
- **Mobile Banking:** This concept focuses on delivering as many services as possible on mobile devices such as smartphones and tablets. Mobile banking also takes maximum advantage of personalization and location-based services by using customer information.
- **Social Media:** This concept uses social media sites such as Facebook and Twitter to deliver financial services such as making deposits, transferring money, applying for loans, and opening accounts.
- **Customer Sensing:** This concept uses customer information such as credit card transactions and social media activity (e.g., “likes” on Facebook) to deliver personalized offers and discounts from third parties.
- **Digital Footprint Management:** This concept takes advantage of the need for customers to manage their “digital footprints” that are left behind from transactions and interactions on social sites, mobile devices, and online payments. Banks would manage their customers' digital footprints to alert them about security issues and safely share information to receive personalized offers.

For more information about these survey results and implications for banks, please contact:

For North America and emerging countries:

Philip Farah, Director
Cisco IBSG Financial Services Practice
+1 212 714 4029
Email: phfarah@cisco.com

For European countries:

Alain Vermeiren, Manager
Cisco IBSG Financial Services Practice
+32 478 68 11 28
Email: avermeir@cisco.com

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