

# Financial services digital



A publication of PwC's financial services advisory group

## Digital banking: A tale of two cities

Major industries have been disrupted by digital native companies that refuse to play by the traditional rules. The financial services industry initially seemed well protected by its high barriers to entry, such as regulatory and capital requirements as well as customer inertia. However, due to advances in technology (e.g., mobile, blockchain, and cloud computing) and finance (e.g., marketplace lending and crowdfunding), the industry's once "unbreachable moats" appear extremely vulnerable.

The most visible impact of this advance is the change in customer expectations driven by customers' other retail experiences. Many financial institutions have been stuck in the past, delivering a customer experience centered around the institution's own products and services, with customer needs as a secondary consideration. This model, which still dominates the industry, results in a one-size-fits-all bundle of products and services that customers must choose from, which often ignore behavioral differences in customer needs, and technological and socioeconomic trends.

The status quo is now threatened by disruptors' customer-centric business models, designed to deliver to customers what they need, when they need it. Unlike traditional institutions, these new competitors interact with their customers in real time, assess customer needs based on direct and indirect inputs, and timely deliver tailored products. Finally, having been born into a digital world (i.e., mostly in the past decade), these digital native companies are best equipped to deliver a seamless, multichannel customer experience service, for example, via web and mobile applications.

As a result, traditional institutions must increasingly meet expectations that are set by younger, more agile companies that have a fundamentally different operational DNA.

## Out of darkness

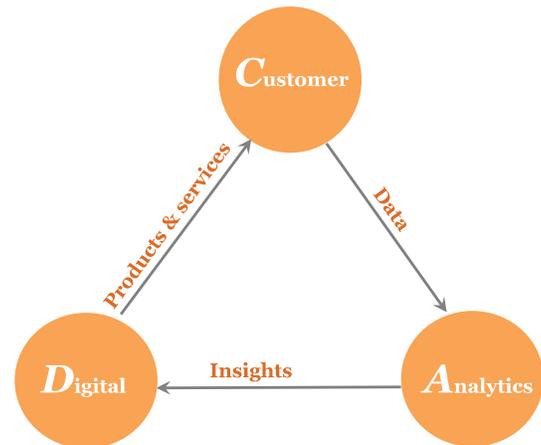
Despite the changing nature of the industry and its customers, some institutions with entrenched, traditional views of banking see no need for digital transformation. Supporter of such views need to look no further than PwC's own surveys, showing that many customers remain loyal to, and satisfied with, their current provider.<sup>1</sup>

These and similar statistics supporting the status quo, however, should provide little comfort to traditional institutions if viewed in light of socioeconomic and technological trends. As the balance of wealth shifts toward younger generations, in a not-so-distant future financial institutions will face a largely digital native customer base. These future customers will not only have a different set of expectations and needs (e.g., almost exclusive use of mobile banking), but will also be very comfortable with financial products and services provided by non-traditional players (e.g., technology firms).

Therefore, while financial service providers that maintain their traditional business model may continue to operate successfully for the next few annual reports, the future belongs to institutions that embrace customer centricity, leverage deep analytics, and deliver on a digital platform.

This means understanding customers and their needs through data analysis, developing products and services that specifically respond to identified needs, and delivering these products via multiple channels.<sup>2</sup> The goal is to create a seamless customer journey from the initial mouse click through the final transaction, with full integration of digital delivery channels.<sup>3</sup>

This can only be achieved by bringing together customer, analytics, and digital in a unifying business philosophy, which we call the **CAD Triangle**.



## How does the CAD Triangle work?

Imagine a millennial looking for a mortgage loan to buy her first home, visiting a lender's website during her initial research of available products. By the time the customer gets to the lender's website, the lender could have access to information such as her age, income, and search history either through first-hand contact (in the case of existing customers), or through third parties such as search engines and other data aggregators.

Based on this available data, the lender determines that the customer is in the early stages of her product research, and is using a mobile device. Accordingly, she is directed to a customized version of the lender's home page that is optimized for mobile platforms and prominently displays high-level information about available mortgage products. The page also has links to access customer service via chat, phone, and email. Using the links, the customer initiates a call, which is directly connected to a mortgage specialist who answers her questions about the overall application process.

<sup>1</sup> See PwC's upcoming publication, *One step ahead: How banks can anticipate what customers will want next*.

<sup>2</sup> For a more detailed discussion of such omnichannel banking strategies (encompassing both digital and non-digital), see PwC's publication *Making omnichannel work: The "to do" list for banks* (September 2015).

<sup>3</sup> Although this discussion is focused on the customer experience, digital transformation carries other benefits such as reduced operating costs and improved quality control and regulatory compliance. See PwC's publication, *Click on the dotted line: How digital mortgage processes are streamlining the borrower experience* (September 2015).

A few weeks later, utilizing information from the customer's first visit (including those gathered during the call) and recent search history supplied by a third party, the lender determines that the customer is ready to make a final decision. An email is sent to the customer containing a promotional offer, enticing a second visit to the lender's website. This time, she is greeted with a homepage that is customized to show details on a few suitable products (e.g., terms and interest rates), with links to start the application process online, schedule a visit to the nearest branch, or contact customer service for further assistance.

Meanwhile, behind the homepage, the institution is analyzing its broad set of data and rethinking its performance measures. During this process, archaic measures such as handling time for customer service representatives (i.e., how quickly a client call is concluded) are replaced by metrics that are more aligned with the institution's real objective – namely, measuring customers' satisfaction.

## The challenge

The key to successful implementation of the CAD Triangle is providing customers with a dynamic digital experience that is continuously adjusted to provide a seamless journey. This requires the integration of various internal capabilities (customer service, analytics, marketing, sales, etc.) that create and shape the customer's experience with the institution. Integration around customers and their entire experience however runs counter to the operating structure of most traditional institutions. Under these existing structures, different teams work in isolation, with little focus on the end-to-end customer experience.

Our millennial mortgage borrower would face an entirely different experience under such siloes. Since analytics and products teams work separately, our borrower would be greeted with the same homepage every

time, crowded by a comprehensive list of the lender's products and services which she does not need. She would not receive a tailored email, since the information gathered from her interaction with customer service would not be communicated to the marketing team. Neither would she be presented with selected suitable products, as third party demographic information would not make it to either the products or marketing teams.

To overcome this challenge, the overall responsibility for the customer journey has to be concentrated under one authority (either the CEO or other senior manager working directly with the CEO). Such concentration will enable timely decision making based on CAD-driven insights. The CAD Triangle is naturally dynamic, and must remain nimble enough to respond to changes in the operating environment in real time.

## More than one way to play

The good news for institutions that are ready for change is that the CAD Triangle provides multiple paths to success, each emphasizing one or more of the triangle's components (i.e., customer, analytics, and digital). In other words, equal emphasis on all three components is not necessary within the CAD Triangle. Instead, each institution can focus on developing the components that best correspond to its existing strengths. **Appendix 1** to this publication provides a framework against which institutions may assess their success in developing each component of the CAD Triangle.

For example, a large traditional bank with an extensive branch network may utilize its capital flexibility and market recognition to develop stronger digital capabilities in competition with disruptors that offer easy-to-use basic products (e.g., checking accounts). At the other end of the spectrum, an online-only bank can build upon its existing analytic capabilities to detect

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market/customer trends and offer relevant products in response, ahead of the competition. CAD Infrastructure Providers<sup>4</sup> will play a significant role in this ecosystem by offering specialized data and analytic services to customer-facing institutions and are very likely partners in a cooperation model.<sup>5</sup> **Appendix 2** provides a summary of existing financial institution “archetypes” and the challenges they face as they transform into new organizations that maximize their CAD potential.

## The times they are a-changing

Regardless of the way an institution implements the CAD Triangle, the transition to a CAD-focused organization requires a unified vision at the top. Only with such direction can organizations develop a clear set of customer products and services, with an emphasis on digital delivery channels. The product set and delivery channels should be subject to ongoing data analysis (using both first and third party data), and will have to be regularly adjusted to meet current customer expectations, while anticipating the customer of tomorrow.

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<sup>4</sup> These are companies that provide data and analytics software and services to financial institutions. Many have existed for some time in the form of systems and software providers (e.g., in the payments ecosystem). Some have recently emerged (and more will come) in the form of CAD Infrastructure Providers, as a result of the market’s need for data-driven insights that are rapidly deployable.

<sup>5</sup> Cooperation, or cooperative competition, occurs when companies in a free market cooperate to create higher value than they could create on their own, while competing with each other at the same time.

## Appendix 1

While each financial institution (FI) has more than one path to success within the CAD Triangle, existing characteristics make certain paths easier, especially for larger, longer-established FIs. For example, the Traditionalists are inherently better equipped than the Specialists to transform into Multi-dimensionals. The smaller, more agile, Natives on the other hand are well-equipped to become Data Jocks due to their existing analytics abilities.

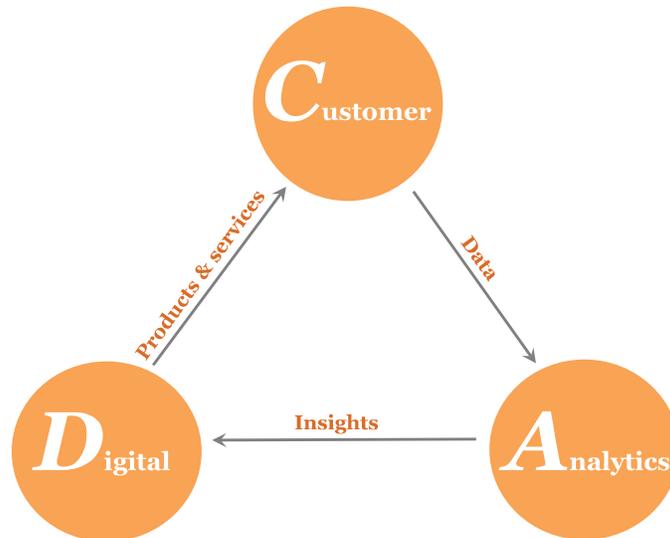
The chart below details existing and future archetypes:

	<b>The traditionalists</b>	<b>The specialists</b>	<b>The natives</b>	<b>Multi-dimensionals</b>	<b>Customer empaths</b>	<b>Data jocks</b>
<b>Characteristics</b>	Large FIs with a comprehensive portfolio of products and services, and extensive branch network	FIs that are concentrated geographically/ by customer segment, with a large portfolio of products and services and strong customer relationships	Digital native companies with a portfolio of basic products (e.g., checking and saving accounts)	Large, omnichannel FIs with heavy emphasis on digital integration versus physical distribution, and competitive leveraging of disruptors and CAD infrastructure	Product portfolio built around insight into needs and behaviors of a particular customers base (e.g., retirees, young professionals, or high net-worth individuals)	Analytics-driven portfolio based on public and proprietary customer data, leveraging digital to track and collect data and deliver products
<b>Challenges</b>	Customer base erosion and cherry picking of services by disruptors (e.g., nonbanks providing traditional FI products)	Business model sustainability as customer base transitions to digital, and to a broader (e.g., national) marketplace	Product differentiation, and building long-term customer relationship to allow expansion of portfolio	Broad customer base, extensive network, and capital flexibility	Deep customer loyalty and ability to monetize customers' value over lifetime	Relevant and timely products in anticipation of evolving customer expectations
	 <b>Systems and software providers</b>			 <b>Infrastructure Providers</b>		

## Appendix 2

A successful digital strategy requires a unified decision making process at the top, unimpeded flow of data, analysis and decisions across the enterprise, and clear roles and responsibilities (all backed by the right performance measures).

The following questions establish a framework against which an institution's digital success can be measured:



	Customer	Analytics	Digital
<b>1</b>	Can your offerings be fully personalized?	Are analysts well integrated into the decision making process?	Are digital interactions with customers merely transactional, or are they informative and enabling?
<b>2</b>	Is your go-to-market message clear?	Are you leveraging all available internal and external data and performing whole relationship analysis to learn what creates value for the customer?	Have you developed mobile as a primary channel with distinguishable features from desktop platforms?
<b>3</b>	Are you managing your customers' experience effectively?	Are you deploying test-and-learn processes to derive new customer insights?	Are customers effectively guided toward the right offerings via digital channels?

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