

5 Ways Digital Transformation Has Accelerated The Banking Sector

The banking sector has undergone a significant transformation in recent years, mainly due to consumer demand for innovative products and services coupled with fierce competition from non-financial institutions, digital banks, and fintechs.



As a result, many global banks are now adopting digital banking initiatives and various agile practices to seek innovation, reduce costs, enhance customer engagement, satisfaction, and shorten new product development cycles.

Today's customers expect seamless experiences across all channels, highly personalized products and services that meet their lifestyle preferences, robust security, business transparency, and, importantly, competitive pricing. To achieve customer-centricity, banks are trying to abandon the traditional inward focus and refocus on customers' wants and needs.

Additionally, the COVID-19 pandemic is putting enormous pressure on technology capabilities, making banks equip themselves for the “next normal” which involves a shift to virtual channels.

Contents



THE GROWTH OF DIGITAL BANKING

REAL-TIME PAYMENTS

OPEN BANKING

ROBOTIC PROCESS AUTOMATION

FEATURES OF BOTS IN KYC

HYPER-PERSONALIZATION

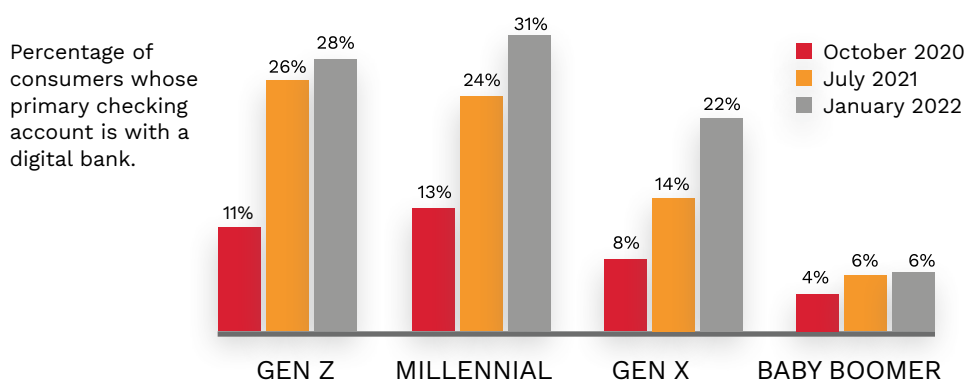
NEW INTERACTIVE BANKING CHANNELS

FINAL THOUGHTS



Growth of Digital Banking

Digital Bank Primary Status by Generation



The Financial Brand © March 2022 [Source: Cornerstone Advisors](#)

Digital banks are becoming more popular as the primary choice for consumers, and this trend isn't just limited to younger generations according to a recent study from Cornerstone Advisors. Though we see the most growth among Gen Z, Millennials, and Gen X, Baby Boomers aren't ignoring digital entirely. The growth of the digital banking market can be attributed to rapid digitization and the growing adoption of advanced technologies such as instant payments, big data, blockchain, cloud computing, the Internet of Things, Artificial Intelligence, Robotic Process Automation, and CPaaS.

Let's look at how some of these technologies have impacted banking operations in recent years.



1. Real-Time Payments

Real-time payments are payments that are initiated and settled almost instantaneously.

This payment process eliminates the *float*, which is the interval between when money leaves a payer's account and when it becomes available in the payee's account. Ideally, real-time payment networks provide 24x7 access and process transfers at all times.

The use of real-time payments by banks and businesses has seen strong growth in recent years. The sudden increase in demand for real-time payments can be partly attributed to the Covid-19 pandemic, which has caused many banks to embrace digital transformation and make changes to their digital payments infrastructure at speeds never seen before.

84% OF REGIONAL MERCHANTS, RETAIL BANKS, AND BILLING ORGANIZATIONS ANTICIPATE CUSTOMER SERVICE IMPROVEMENTS FROM REAL-TIME PAYMENTS

- *Payments Journal*



A majority of financial institutions worldwide are prioritizing the development of real-time payments as they realize the associated benefits and opportunities this will bring, such as:

Immediacy

RTP (Real-time Payments) is all about convenience, as payments occur instantly. Businesses cited immediate access to funds as the most appealing benefit of RTP. RTP's 24/7 accessibility also provides more flexibility than traditional banking hours that constrain non-RTP payments.

**50% OF BUSINESSES
ARE WILLING
TO PAY A FEE TO
RECEIVE PAYMENTS
IMMEDIATELY.**

- Deloitte

Immediate access to funds enables businesses, particularly smaller ones on tighter budgets, to have more capability to meet their obligations. Consumers will also benefit from RTP because it will allow them to access funds more quickly, vital for lower-income workers.

Better Insights

Real-Time payments enable businesses to instantly see more information about payments, unlike, Non-RTP transactions that only allow vendors to see their clients' payment information in their bank accounts after a few hours.

RTP enables data to transfer with the payment, so RTP transactions provide visibility into invoices, dates, purchase orders, and more. As a result, businesses can better respond to customers' needs and improve their financial function and decision-making.

Transparency and Traceability

In contrast to the current payment systems that may or may not have last-mile connectivity, real-time payments are designed for end-to-end (from P2P to B2B) straight-through processing and provide full transparency to all parties involved. In addition, this will help payment service providers catch sanctioned payments and report suspicious transactions to regulators effectively.

Banks have been adapting their business models to meet the needs and demands of their clients. Due to fierce competition in the sector, they must deliver better value propositions and promises that put their customers first.

On the other side, it has never been easier for customers to switch to other financial companies if they feel their bank doesn't meet their needs. Modern-day customers are increasingly looking for quicker turn-around times, lower fees, and more transparency regarding payments.

Banks that enable real-time transactions will be able to serve new types of customers that they might have overlooked or underserved before.



2. Open Banking

Open banking is a banking practice that provides third-party financial service providers with open access to consumers' banking data and other financial data from banks and non-bank financial institutions through APIs.

By using open banking, consumers, financial institutions, and third-party service providers can exchange information and accounts across institutions. Through this practice, the chances of obtaining more accurate and insightful data are high. Open Banking is widely seen as a way to promote innovation and modernization in traditional banking. **88% of tech leaders in the finance banking sector believe it will increase customers' access to innovative banking services in the next three years.**

While open banking allows third-party organizations to develop better personal finance management applications, it also places pressure on incumbents to improve their offerings. Open banking services boost competition in the banking industry, forcing incumbents to either enrich their financial services or partner with other popular fintech companies.

Additionally, open banking lets banks commercialize their infrastructure by moving into the BaaS space and providing core services to third-party companies and other fintech firms.

Here are some interesting open banking use cases:

Account Aggregation

Lately, many financial services companies offer mobile applications that allow their consumers to see an overview of their various accounts from different providers on one interface. Including information about their credit cards, investment accounts, and loan accounts, all in the same interface using just an API of the provider.

For instance, Tink, a leading open banking platform, enables banks and fintech firms to develop data-driven financial services. Tink allows users to access aggregated financial data, view transactions, initiate payments, and build personal finance management tools through its API. The fintech brand connects to more than 3,000 banks that reach over 250 million bank customers across Europe.



Personal Finance Management

There has been a significant increase in personal finance management tools in recent years. These tools give the customers a complete overview of their financial situation. For instance, users can view their monthly income and expenditure reports, initiate or schedule payments for different services, invest in portfolios, or check their available cash balance. Dedicated software allows personal finance management companies to extract information from various accounts into one informative interface. Having data centralized can help banks and financial providers understand what future offerings would benefit customers. It also gives a customer a clear picture of how their money is performing for them.

Instant Credit Risk

Open banking can rapidly speed up credit applications by allowing lenders to gain an almost instantaneous overview of an applicant's credit history; Previously, lenders had to pull together documents from several banks to assess credit applications. This process resulted in the slow delivery of credit services and a negative customer experience. Underwriters and lenders can make quicker decisions when they have direct access to a range of banking data. It can also let consumers quickly find products they are most likely to be approved for. For loans and credit cards, instant credit checks enable borrowers to compare sites and determine if they are likely to be accepted before making an application. This tendency contributed to the Buy Now Pay Later functionalities within the financial industry.

Klarna is a buy now, pay later service that enables its customers to choose Klarna as their payment option at the checkout in the retail outlets. There are no interest payments unless the customers choose to finance their purchase, and there are multiple ways to repay what they owe. For example, customers can pay off the entire purchase in 30 days interest-free, pay it in four interest-free installments, or finance it for 6 to 36 months.

Subscription Management

While account aggregation and PFM services are well-known, subscription management is relatively new. This feature gives both insights and actions. Subscription management tools identify recurring subscription plans and upcoming payments and display them in one interface. Customers can manage their recurring payments by canceling unwanted subscriptions or receive notifications about upcoming payments.

Subaio, a Danish software company, offers banks a superior subscription management technology that solves two massive problems at once. First, the service allows banking customers to cancel unwanted subscriptions, and it does so without diverting them away from the bank's user interface.



3. Robotic Process Automation

Robotic Process Automation has been significantly adopted in the BFSI sector for making time-consuming banking operations more organized and automated. According to a recent report by [Grand View Research](#), RPA in the BFSI (Banking, Financial Services and Insurance) market is expected to reach **\$1.12 billion by 2025**.

The automation process has drastically streamlined many back-office processes in banks. By shifting much of these manual and tedious tasks from humans to machines, banks have considerably reduced the need for human involvement, which has directly impacted everything from performance and efficiency levels to staffing issues and expenses.

Recently, one of the largest banks in Japan made news for implementing robotic process automation to save labor costs and gain operational efficiency. In addition, major banks like *Axis Bank* and *Deutsche Bank* have also made news for implementing RPA to automate business processes.

Robotic Process Automation can enable banks to reduce manual efforts, mitigate risks, offer better compliance, and enhance customer experience. It is an extensive process that requires comprehensive employee training, structured inputs, and governance. However, once the process is set up correctly, these RPA-based banking robots can take complete control of the system actions, including processing applications, sending emails, and transferring information from one banking system to another.

We also have chatbot technology, an intelligent replacement for human support agents in customer service. Chatbots are gaining immense popularity because of their 24/7 availability, instant responses, adaptability, error-free efficiency, simple interface, the capability to remember customer preferences, speed, and problem-solving ability. A [Juniper study](#) found that using chatbots can save banks up to **\$7.3 billion** worldwide by 2023, i.e., a time saving of almost 862 million hours or nearly half a million years of work.



There are numerous RPA use cases in digital banking. Let's look at some of the most rewarding RPA use cases in the banking sector.

Contact Center Optimization

As most physical interactions with customers are operating with limited capacity due to the COVID-19 pandemic, banks face a significant volume of inbound calls at their contact centers. Automation tools such as chatbots can help handle a substantial portion of this traffic. For instance, chatbots can take routine customer queries related to account statements and transactions, while queries that require human decision-making are escalated to appropriate banking professionals.

Customer On-Boarding

Banks have a challenging customer onboarding process, primarily due to manual verification of several identity documents. KYC (Know-Your-Customer) is an integral part of the onboarding process involving significant operational efforts for such document validations. A recent survey conducted by [Thomson Reuters](#) reveals that banks spend an average of \$60 million annually on KYC compliance management.

The entire process becomes user-friendly and hassle-free with bots, saving significant time and effort.



Features of bots in KYC:



Identification of the document:

The scanned customer identification documents are processed using chatbots and matched against the repository of documents, resulting in automatic identification.



Prevents Fraud:

The bots create several layers of the scanned customer identification documents and analyze them for signs of tampering, avoiding the opening of fraudulent accounts.



Text extraction:

The fields present in customer identification documents are identified and converted to text. The customer information obtained is auto-populated onto the identification fields.



Signature verification:

The bots use a Neural network model for signature verification on cheques and other instruments to prevent manipulation or fraud.

Bank Reconciliation Process

The bank reconciliation process is time-consuming and requires bank employees to manually find a massive chunk of transactional data involving multiple banks and balance the final figures. Bots can replace manual efforts with several rules-based automations, including verifying all the payment entries against bank data and other records. If the entries match, the records can be reconciled. Bots can also send the records for further verification if there are any discrepancies.

Loan Application Processing

Hyper-personalization has become integral for banks and every company offering services in the finance industry. Digital Banks are now focusing on enhancing the customer experience by providing their users with tailor-made services that make a difference.



4. Hyper-Personalization

**72% OF CUSTOMERS
RATE PERSONALIZATION
AS “HIGHLY IMPORTANT”
IN TODAY’S FINANCIAL
SERVICES LANDSCAPE.**

- Capco Study

Hyper-personalization has become integral for banks and every company offering services in the finance industry. Digital Banks are now focusing on enhancing the customer experience by providing their users with tailor-made services that make a difference.

In addition, hyper-personalization also emphasizes the importance of engaging customers via their preferred channels. These efforts enable digital banks to improve customer satisfaction and improve their ability to retain customers.

As part of the personalization process, **the banking and finance industry is embracing several emerging technologies and strategies such as artificial intelligence, IoT, omnichannel platforms, and more.**

Data Analytics

The key to delivering a meaningful level of personalization is data analysis. Data analysis allows banks to get to know their customers better. It empowers banks to develop customer profiles that can be used to anticipate customers' needs and provide customers with much needed services in terms of financial advice and relevant offers. Data analysis too can foster a bank's capacity to build and maintain rich and valuable dialogue with customers based on their specific financial needs and interests.

Analyzing tons of data across different channels is a big challenge that cannot be fully overcome, or at least efficiently, solely relying on human analysts. Instead, banks are beginning to use artificial intelligence applications to analyze data more efficiently and provide the tools needed to make the most of this valuable information. AI systems can be used to analyze customers' data and their online banking activity that can shed light on the services or products that are the most interesting to them.



For instance, customers looking to purchase a real estate property would prefer offers or information that can help them find a mortgage with the lowest interest rates or general advice for first-time buyers.

AI systems designed to analyze data can even be leveraged to help banks combat fraud, protecting customers in the process. Today, several banks are pursuing AI systems that can automatically detect suspicious activity and inform customers as soon as fraudulent transactions arise.

Banks can use communication channels like [SMS](#) or email to mitigate fraudulent activities by notifying their account holders of any suspicious activity on their accounts. Real-time notifications offer customers visibility into all account activity and allow them to take action as soon as something appears amiss. The notifications typically include alerts about ATM cash withdrawals, account logins from unknown devices, or online payments made to third parties. The digitization of the banking industry was inevitable. However, adoption has been slower when compared to the other sectors. Since the COVID-19 pandemic, however, the banking sector has been rapidly improving its customer experience and offering hyper-personalized services.

Let's look at how some popular banks are implementing hyper-personalization strategies:

HSBC personalizes its rewards program using AI

HSBC uses AI to give US credit card customers a personalized shopping experience. The brand designed a rewards program that uses customer data to predict how users will redeem their credit card points so that the bank could better market offerings such as travel, merchandise, gift cards, and cash. As a result, the bank noticed that clients enjoyed receiving personalized awards and even opened their email notifications more often than before.

Bank Zachodni WBK recommends new offers using AI-based tools.

Poland's third-largest bank, a part of the Santander Group, strives to offer more personalized products to its 4.3 million customers. In a new project, they use AI capabilities to gather more information about customer activity on social media and online communities. The data obtained is used to generate targeted offers to both potential and existing customers to respond to their ever-changing needs.

5. New Interactive Banking Channels

The banking sector has witnessed a significant change in recent years. This is because consumers today are used to digital experiences in all areas of their lives, and the standard is no different when it comes to financial services.

AROUND 63% OF CUSTOMERS SAY THEY WOULD CONSIDER SWITCHING BANKING PROVIDERS IF COMMUNICATIONS DON'T MEET THEIR EXPECTATIONS.

- Smart Communications

Banks are strategically assessing and improving the process of creating, managing, and enhancing communication touchpoints with customers. The finance industry has quickly adapted to create niche communication channels for customers to engage with and strengthen its operations. Many banks have also incorporated CPaaS to be available for customers even in Covid-19 circumstances.

As digital banking is now the default method to manage day-to-day personal finances for most consumers, banks have significant opportunities to make digital communications a powerful differentiator, a driver of growth, and part of a seamless customer experience strategy.

With an Omnichannel communication process in place, banks can provide customers with multiple channels and allow them to switch from one to another without disrupting or fragmenting their journey. They can offer customers the convenience of digital channels while maintaining the human contact that is crucial to building trust.

In banks, where sensitive information is exchanged, allowing customers to switch between private and public channels should be seamless. For example, a user might reach out to a bank representative via SMS for convenience. Then, if the bank representative needs to retrieve sensitive information, they can transfer the user to its secure chat portal or an encrypted messaging channel like WhatsApp.

Omnichannel banking experiences seamlessly hand-off conversations between chatbots and humans. A study conducted by [*Bain & Company*](#) reveals that customers prefer chatbots for routine financial inquiries. However, they often want to speak to a customer representative about anything more substantial. With role-based messaging permissions, banks can connect a customer to the right support agent and ensure only the right agent can access that customer's information.

Here are some ways banks are improving their customers' experience using CPaaS solutions:

Improved Customer Experience with IVR (Interactive Voice Response)

Banks use [*IVR*](#) as a reliable self-service feature that is programmed to interact with the callers using a set of predefined options and numeric responses.

IVR capabilities were initially limited to card theft reporting and account balance inquiry. However, with the introduction of cloud communication solutions, IVR capabilities have also expanded. With the increasing flexibility, security measures have also been toughened.

Personalized User Interactions

By integrating the existing CRM with IVR, banks now have a single interface that lets them view all customer interactions. This feature allows banks to personalize their conversation with a caller based on past interactions and offer them personalized product recommendations.

Customer Verification Process Through Missed Call Service

Several banks are already providing customers with a hassle-free banking experience by enabling access to essential services via missed calls. They are now using it for verification as well. Customers are now asked to give a missed call from their registered mobile number to verify their identity.

For instance, upon obtaining a new debit card, the cardholders are asked to give a missed call from their registered mobile numbers to verify their identity. Also, customers are asked to verify themselves by giving a missed call at the time of debit card pin change.

Outbound Calls for Essential Notifications

Modern-day banks have always been at the constant risk of fraudulent activities. There has been an increase in cyber frauds in recent years. Banks have now started implementing an automated call service to minimize these occurrences.

This solution is programmed to send an automated call to the account holder's phone number when any suspicious activity is detected. The automated call gets triggered in various situations depending upon what qualifies as a suspicious activity. In most cases, multiple failed login attempts, hefty transactions, or unusual activity from an unknown device are considered the red flags on which such calls are triggered.

Marketing Communications and Payment Reminders via SMS and Voice Calls

Cloud communication platforms allow banks to send bulk [SMS](#) messages and automated [voice calls](#) to an extensive list of customers and prospects, making it easy for them to communicate about new offers and promotions with customers. Banks can also use these channels to send timely reminders to customers when their payments are due. Sending important notifications to customers efficiently helps increase their loyalty towards banks.

Faster Problem Resolution with Video Conferencing

Banks use [video conferencing](#) for customer service to quickly identify their customers' challenges and deliver faster resolutions.

The video conferencing feature on smartphones and computers enables customers to showcase their issues immediately. The bank representative can swiftly identify the problem and provide an apt solution in the first go. Video conferencing is ideal for complex technical issues that require visual understanding, which can be hard to explain through other communication channels, such as email or telephone.

Final Thoughts

Since the emergence of rapidly advanced technologies in the banking landscape, the banking customer journey has been completely re-engineered.

While the objective of providing frictionless digital experiences to customers remains largely unchanged, **the scope of this transition has grown considerably.**

The banking sector has recognized the importance of digital transformation, with 85% citing it as a core business priority. This has led to a rapid change in the operating environment, from improved processes and back-end technology to newer operating models.

Due to the amount of change, business as usual is no longer an option. Modern banks will have to adapt to these changes and think of themselves as technology companies delivering financial services.

The banking industry will soon be built around customer-centric banking solutions and end-to-end digital models that are easy to access, cost-effective, and self-service driven.

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