ENHANCING THE CUSTOMER EXPERIENCE AND GENERATING LONG TERM LOYALTY THROUGH DIGITAL BANKING

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Abstract:

The banking industry has been seeing a very big amount of churn from the last one and half decade. The reason is increased customers expectations on products and services and also quick service. A fast service makes the customers to feel more happy and they are not bothered about the quality of products and services much. The customization of products and services according to the customers' choice and preferences has become a very big challenge to the modern banking system. So, banks have to balance on one hand the quick and satisfactory service and on the other hand, personalization of products and portfolio mixes. Digital modernization gives traditional banks a second chance. A smart, enterprise-wide approach positions them to deepen customer satisfaction and loyalty, driving long-term relationships and profitability. Such an approach also has the potential to meet consumers' expectations and bring banking back to the bank. An enterprise roadmap is a key prerequisite for implementing a digital banking program. The roadmap balances key customer values like loyalty, convenience, relevance, interaction and mobility against the bank's values like profitability, loyalty, operating efficiency, market expansion and risk mitigation.

The present paper discusses the new things that were not discussed earlier. It has highlighted how the digital banking is a vital strategy and the value generation from customer relationship management. It also understands and delivers the ROI (Return on Investment) for implementation of digital banking strategy and the enterprise road map as a pre requisite for the digital banking. The findings and outcomes are outlined in the research paper.

Key Words: Digital Strategy, Customer Focus, Long term Loyalty, ROI & Enterprise road map

1. Introduction:

Digital banking is the digitization of all the traditional banking activities like deposits and withdrawals that are historically were only available to customers when physically inside of a bank branch. This includes activities like:

- Money Deposits, Withdrawals, and Transfers
- Checking/Saving Account Management
- Applying for Financial Products
- Loan Management
- Bill Pay
- Account Services

In short, digital banking means the full digitization of banks and all its activities, programs and functions. It's not just about digitizing your services and products — the front-end that customers see — but also about automating your processes (the back-end) and connecting these worlds with middleware. Digital banking is about the automation of every step of the banking relationship, and it goes way beyond an online or mobile banking platform.

Consumer preferences have quickly shifted to online and mobile devices, but many financial organizations have had trouble shifting their on-boarding experiences online and to smaller screens. In addition, until the past few years, banks were not envisioning the tremendous shift in consumer behavior that occurred as a result of the millennial generation.

However, customer focus is often a stretch for the banking industry. When it comes to innovation, banks have been relatively slow movers as a result of regulatory and compliance challenges. The following elements form a clear model of success for banks:

- **Smart management of information** is vital to digital banking. Banks need to marshal online data, the unique virtual identity for each individual that we call a **Code Halo** to offer their customers personalized attention.

- Banks need to act, but more important, **they need to act strategically**. Providing the cohesive, cross-channel experience that customers expect requires an enterprise-wide approach that can be implemented in localized ways, such as for specific lines of business and functional areas.
- Although the ROI of digital banking is substantial, **the costs are steep for not adopting digital banking**. Costs include lost opportunity, customer attrition and stagnation in new-customer growth and product sales.
- Embracing the holistic shift to digital and its streamlined, **cross-channel approach** requires banks to evaluate their options carefully and select the ones that best fit their strategy.
- **An enterprise roadmap is a key prerequisite** for implementing a digital banking program. The roadmap balances key customer values against the bank's values.

2. Objectives of Study:

The present study focuses on the following objectives; to understand the importance of digital banking in the new digital era and the key areas to go digital for banks. To envisage how well the customer experience can be enhanced and the long term loyalty can be achieved through digital banking and to enlighten the key approaches for digital banking

3. Research Methodology:

The topic chosen is totally of explicit nature and also trending in current times due to non-availability of uniform practices and guidelines. Hence, the secondary data viz books, periodicals, journals and web sources were used to write the research paper. Also opinions were gathered from branch managers, staff of public and private sector banks to understand how well a bank perceives digital mode.

4. **Role of Digitization in Banking in India:**

Banks in India as a whole were very reluctant to adopt the changes brought about by technological advancement. A number of factors brought about the mechanization and digitization in banking industry in India. The putting in place standard cheque encoders was the first step forward in digital transformation in banking. Magnetic Ink Character Recognition (MICR) helps in the sorting and processing of cheques with each bank branch having an MICR code. The next step was more of a necessity than an innovation. Banking is a repetitive job, and therefore a labor intensive one where the worker is prone to making mistakes. In order to minimize errors and speed up the process, banks began using computer technology with standalone personal computers and then set up their own local area networks (LAN).

As the networks grew and banks began to connect together, Core Banking came into being. Centralized Online Real-time Exchange (CORE) banking thus allowed customers to perform financial transactions and access their account from any of the participating bank's branches. These services made it easier for customers to operate their accounts and slowly led to the coining of the phrase: 'Anytime, Anywhere Banking.' Then Automated Teller Machines (ATMs) arrived on the scene, and electronic fund transfers were made possible.

4.1 Benefits of Digital Banking

1. Customer Service:

With internet freely available everywhere, all a customer needs to access his account is a device and internet connectivity. It saves him time and expense as he no longer has to travel to a bank to carry out transactions. He does not have to wait in unending queues only to find that he will have to go to a different counter to get his job done. Online services make it possible for him to sit in the comfort of his home or office, or in fact even in a vehicle while travelling, and carry out transactions without having to wait for anything.

2. 24×7 Availability:

The customer is able to check his bank records anytime he wishes and a number of banking services are available to him round the clock. Transferring money is easier, quicker, and safer.

3. Time Constraint:

A number of services required waiting for considerable periods. Banks had boards put up at their branches specifying the time required for different services. Even simply cashing a cheque took time. But with digital banking it is instant, with no time constraints.

4. Online Bill Payments:

This is a feature that saves customers a lot of time and expense. Customers do not have to carry cash and queue up to pay their utility bills or other bills.

5. Lower Overheads:

Digital banking has drastically reduced the operating costs of banks. This has made it possible for banks to charge lower fees for services and also offer higher interest rates for deposits. Lower operating costs have meant more profits for the banks.

6. Banking Benefits:

With the increased convenience of anytime, anywhere banking, the number of customers has increased for banks. Human error in calculations and recordkeeping is reduced, if not eliminated. With records of every transaction being maintained electronically, it is possible to generate reports and analyze data at any point, and for different purposes.

5. Code Halo & Customer Relationships as New Sources of Value- Key for Digital Banking:

The customers do lot of transactions with a bank and vice-versa. All physical transactions are being manually monitored and the digital transactions will be taken place outside the bank or branch. Every digital transaction that a customer does will be identified with a unique code that is given to customers. Whenever he does any digital transaction, his identity will be identified and recorded and what customers need will be served in seconds. This code is called as **"Code Halo".**

After emergence of Artificial Intelligence (AI) and Machine Learning (ML), these personalized services are being expected by customers from each industry and Finance Industry is no exception. Further, the adoptability and availability is more in this sector only. Before banks can begin managing Code Halos and digital transformation, they need to understand the extent of their industry's disconnecting with customers. Consumers are increasingly integrating the personalized virtual world with the "real" world

The inconvenience is minor, but it underscores how ATMs and bank tellers know only the transactional data in their systems of record, rather than what is in customers' Code Halos. To customers, the banking experience leaves them feeling disconnected. What happened to that pleasing online interaction they experienced with sites like Pandora, Amazon, Hulu and Netflix, which know not only what language they speak, but also their likes and dislikes? The sites know such details because they see what ATMs and bank tellers can't. They see Code Halos.

The God and guard of a bank- the CUSTOMER had lost his trust on large banks after global financial crisis. Before crisis banks had focused on share holder value creation by financial leveraging and customers trust has been vanished after the crisis. Customers had turned to small and non-bank parties for the financial requirements and it was a big disaster for the big banks. After stepping of digital technology, customers are again focusing and diverting their trust on banks. The banks need to encash this opportunity and create value from the information. The key activities of digital banking are:

1. Marketing and Sales
2. Customer on Boarding
3. Account Opening and service

Every consumer click, swipe, comment and search creates a unique virtual identity that we call a Code Halo. Indeed, managing Code Halo thinking is vital to banks' digital transformation. Strong financial products and services are still essential. But smart management of digital information — the Code Halos — can deepen customer relationships and generate new revenue streams. Organizations that compete in this way understand how to create, share and apply meaning from Code Halo inter-sections. And increasingly, these companies are the winners in their markets.

5.1 Creating Value from Information:

Banks, too, can make meaning from the digital information that surrounds people, organizations and devices. In fact, in a recent study that we conducted with Oxford Economics, the banking and financial services industry generated more value than any other sector from the ability to compete on code. Analytics is proving especially profitable, with companies in the financial industry indicating that 10% of revenue and 10.1% of costs are directly affected by how well they make meaning from business information. The competitive landscape in banking and financial services has changed, and standing still is not an option. The challenge lies in the trade-off between investment and expected return on investment (ROI). Is banks' best path to rationalize, re-factor and optimize the existing systems and infrastructure? Or is it to improve, adopt and transform new paradigms? For large banks, a key concern is brand reputation, which can be affected by multiple channel offerings that deliver different customer experiences, often with somewhat divergent data and results. For small banks, the central question is one of investment and returns.

Figure 1: What Banks get through digitalization??

The growth and benefits from being digital to the banks can be seen from the following tables.

Table 1: Payment System Indicators – Annual Turnover Volume

(in Billions)

Item	2015-16	2017-18
Systematically Important Financial Market Infrastructures (SIFMIs)- RTGS, Forex Clearing etc	101.4	127.9
Retail Payments – Paper Clearing (CTS & Non-MICR)	1096.4	1170.6
Retails Payments- Electronic Clearing (ECS, NEFT, IMPS etc)	3141.5	6382.4
Card Payments (Debit, Credit, Prepaid cards etc)	2707.3	8207.6
Over all Clearing, Card & retail payments	7046.6	15888.5

Source: RBI Annual Reports 2015-16,2017-18

Table1 explains that the Systematic Important Financial Market Instruments showed a rise of 26.13% from 101.4 in 2015 to 127.9 in 2017. Surprisingly, the paper clearing showed only a growth of 6.76% between 2015 (1096.4) and 2017 (1170.6). The main reason for this is being increase of non-paper clearing transactions. The Electronic Retail Payments had shown a very upstream growth of 103% from 3141.5 in 2015 to 6382.4 in 2017 due to demonetization, emergence of Fintech etc.. During the same period, the card payments (Debit/Credit/Cash etc..) had shown a phenomenal growth of 203% in volume 2707.3 in 2015 to 8207.6 in 2017). On whole, the overall payments had increased by 125% (SIFMI, Paper & Electronic Clearing, Card payments together) from 7046.6 in 2015 to 15888.5 in 2017 that showed a very positive indication in the digital payment industry.

Table 2: Payment System Indicators – Annual Turnover Value

(in Billions)

Item	2015-16	2017-18
Systematically Important Financial Market Infrastructures (SIFMIs)- RTGS, Forex Clearing etc	16,31,948	22,41,927
Retail Payments – Paper Clearing (CTS & Non-MICR)	81,861	81,893
Retails Payments- Electronic Clearing (ECS, NEFT, IMPS etc)	91,408	1,93,112
Card Payments (Debit, Credit, Prepaid cards etc)	4,483	10,607
Over all Clearing, Card & retail payments	18,09,701	25,27,539

Source: RBI Annual Reports 2015-16, 2017-18

Table 2 denotes that the SIFMI Payments were increased by 37% from 16,31,948 billion in 2015 to 22,41,927 billion in 2017. The E-payments were rocketed by 111% from 1,73,269 billion in 2015 to 2,75,005 billion in 2017. The Card payments were stood by 138% from 2015 (4,483) to 2017 (10,607). On whole, the industry has recorded a growth of 40% between 2015 (18,09,701) and 2017 (25,27,539).

5.2 Customers Are the New Focus:

Regardless of their size, profitability and growth demand that banks focus on serving customers at the right time, with the right level of service and at the right cost. Several factors are driving this customer focus.

Firstly, today's customers expect personalized pricing and portfolio mixes. Banks that can't deliver will suffer reduced profitability. While banks, by default, sell every product to every customer, digital banking allows customization, providing the data and analytics capabilities needed to examine each customer's profitability and offer individualized or segmented products and pricing.

Secondly, churn is occurring more frequently than ever. Many customers choose — and switch — banks based on convenience and quality of service rather than on product and service features. In some countries, government regulations are encouraging additional churn. In the UK, where banking rules made it difficult for customers to switch providers, the enactment of new rules now makes it easy for customers to change banks and even take their account numbers with them.

Thirdly, with non-bank entrants firmly established in the payments and lending areas, these lucrative lines are at greater risk for attrition. The growth of Quicken mortgages is an important example and lastly, customers expect to experience banking without boundaries, just as they do in retail and other industries. What matters most to them is how they experience the bank's brand, regardless of the channel.

To provide the cohesive, cross-channel experience customers expect, banks need to take a holistic approach. Digital banking scales and succeeds only when it's approached from a broad point of view that allows for increased customer satisfaction and informed cross-selling and up-selling. Although an enterprise-wide digital strategy is necessary, banks can successfully implement digital banking in localized ways, for specific lines of business, departments or divisions. An evolving approach that occurs over time can help banks avoid the necessity of change management exercises that can disrupt operating models.

6. The Enterprise Roadmap: A Key Prerequisite for Digital Banking:

Before embarking on a digital banking program, organizations need to develop an enterprise roadmap. The roadmap needs to balance key customer values (loyalty, convenience, relevance, interaction and mobility) with the bank's values (profitability, loyalty, operating efficiency, and market expansion and risk mitigation). The roadmap begins with a conceptual view underpinned by governance, readiness and discipline. It approaches the most valuable problem dimension first — "predicts and prevent" — to create a superior customer experience that embraces Code Halo thinking to radically improve satisfaction and enable customers to choose self-service first.

Banks must also develop a comprehensive business plan to eliminate organizational and procedural constraints across lines of business and to deliver value to internal and external stakeholders.

A cornerstone channel optimization strategy is critical. As channels evolve to create seamless, integrated customer experiences, and to leverage analytics for changing customer behavior across all touch points, the focal point of the effort must not be the channels themselves but the customer. Many banks operate in silos that do not offer integrated service offerings, digital or otherwise. Such compartmentalization is the result of traditional organizational management approaches that segregated offerings by and within lines of business and by product and channel. The accretion of legacy technology over time exacerbated the problem. However, outdated silo structures run counter to digital banking's holistic view of customers, and they have played a large part in the industry's painfully slow transition to online banking.

7. Findings and Conclusion:

Customers with new expectations and the need to build trusted relationships are forcing incumbents seek value propositions where experience, transaction efficiency and transparency are key elements. As self-directed solutions emerge among competitors, the ability to differentiate will be a challenge. In addition to social changes, the driving force behind innovation in financial services can largely be attributed to technological advances outside the financial services sector that will bring new opportunities to understand and manage the risk (e.g. telemetric, wearable, connected homes, industrial sensors, medical advances, etc.). While it will be fairly easy to replicate technology, the critical aspect will be building a culture of innovation and the ability to leverage insights to build solutions that will determine who will be able to maximize the opportunities and emerge as a winner. Finally it is customer preference which will drive business models

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