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Retail Banking Belongs to the Digital Natives

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Introduction

Marc Prensky's got a lot to answer for.

Apparently, his phrase, "**Digital Immigrant**" fits me to a T. And, although I resent being called an alien in the global technology village that's been my home for 30 years, I can't really deny it.

But then, I'm not alone. Most IT professionals working in the banking industry are digital immigrants; proud of our achievements, having graduated from paper tape and punch cards to the internet and wireless connectivity. Banking pioneers with laptops. We evolved, expanded our technological knowledge and changed retail banking forever. Right?

There's a **New Kid in Town**

Yes, well, meet the new kids in town: the Digital Natives, young creatures born into the digital age, speaking fluent code, game and internet. The D-gen who parallel process and multitask, love to receive information really fast and prefer graphics before text rather than the other way round.

Understanding the different ways our two groups view the world is a guiding principle for the design of our future banking lives.

So, What's the Problem?

Put simply, we just mapped existing banking products and services to new channels (new banking layers, e.g., telephony, mobile etc.). Historically, banks applied these new layers as channel stacks that behaved independently. Realizing that customers might want to see the same information across multiple channels, banks provided single customer views and other initiatives.

Digital natives get frustrated working with legacy banking channels – wondering why their mobile banking app is so clunky and complicated – they have no desire to bank with ancient institutions.

Global Retail Innovation

Retail banks know they have to change or, as with other digitally inept industries, face extinction. Banking

itself will always exist in some form or other, and across the world, fintechs are challenging the way we bank and providing first-principle solutions to problems neglected by banks:

- In Kenya and other African countries, Vodafone introduced **M-Pesa** (a SIM-based bank account) to the unbanked millions and today it creates over 40% of Kenya's GDP
- **In China, 92% of mobile payments** are owned by fintechs, not banks, and it is expected that Ant Financial will be four times larger than ICBC of China, the world's largest bank

So, why are fintechs performing so well in emerging economies such as Asia, Africa and India, while established banks in Europe and the United States are struggling to change? Well, western banks are:

- Operating within a heavily regulated industry and therefore innovation is often slow and compounded with internal governance
- Designing by analogy rather than first principles, providing the same products and services in yet another channel
- Failing to see the value in unbanked populations (they're often restricted in doing so by risk comparisons and regulations)

Retail Banking, Ancient and Modern

Siloed, divisional and political, banks often refuse internal cooperation and enterprise-wide innovation unless forced to ditch the “us and them” mentality. It’s tough being a banker. Executive offices have revolving doors and occupants are judged, continuously.

Modern banking systems use ancient banking practices. Struggling to innovate, they build on existing

but flawed legacy systems rather than embracing a “back to first principles” mentality and accepting that all innovation involves a certain amount of risk. Banks need to start designing as though they had no existing operations or infrastructure. Annually, they spend a small fortune on modernization but, invariably, banks focus on evolution, not revolution.



Retail Banking Beyond 2030

With more and more Asian and African financial solutions being delivered by fintechs rather than banks, a divide is appearing between eastern and western digital-banking capabilities. More importantly, Asian and African consumer expectations have changed radically, also. This attitude is set to expand to Europe and the United States as retail banks struggle to transform legacy banking systems to deliver services at the speed and quality expected by the D-gen.

Retail banking will survive the digital deluge, but banks based on legacy infrastructure and outmoded processes will not. Turning banks into digital powerhouses requires far more than yet another channel representing the same old, same old. It needs a radical culture shift and a deep understanding of the digital-native customer. Banks need:

Financial Solutions, Not Retail Banking Products

Cross-industry collaboration to find the best financial offers (e.g., “I want a new car purchase offer that includes the best finance, warranty, service plan and insurance in one package, but with flexibility to include and exclude as I see fit”).

Instantaneous Services, Not Reactive Reminders

Banks store a massive amount of customer information each day. This information resides in large and expensive data warehouses, but 95% of it is never used.

Together with other industries, banks could predict our spending behaviors and provide financial solutions as we visit a digital website or retail store. Big data, AI and ML are capable of enabling such things, particularly with the onset of 5G.

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Digital Wallets, Not Bank Accounts

Financial automation will touch every aspect of digital-native lives. Small purchases will be performed autonomously by secure, personal, digital networks radiating around us. Digital wallets will provide an abstracted view of our financial assets and be used to negotiate and pay for goods or services, automatically, on our behalf. Using preconfigured and agreed parameters, our digital wallets will interact with banks, retailers, transport and other digital wallets. And they'll manage our monthly incomes, too – we'll be able to override the digital wallet but it will inform us that such an action could raise our personal risk level and prevent future automated payments.

Distributed Ledgers, Not Post-Payment Settlement

Blockchain and distributed ledgers are the building blocks of future financial solutions. For instantaneous services, collaborative financial solutions and digital wallets to happen, the various ways in which financial institutions of every stripe settle and reconcile payments need a complete overhaul. Blockchain and distributed ledgers have reinvented how payment networks can work, allowing secure and instantaneous financial interactions to occur by using a global, monetary-based denominator. It will change how we reconcile our finances and, even, how we perceive money and store credit, possibly displacing banks entirely.

So, What Should Retail Banks Do About It?

Major global banks are not going to change cultures overnight. But what must change is the way they see themselves and how they interact with their customers.

Design Thinking is a customer-focused methodology that does more than highlight key needs and behavior observations. Although it considers existing operations and technologies as part of its process, an identified solution should be approached from first principles. This is important because until our children take over, banking services will still be designed by digital immigrants. So, everything should be done in collaboration with digital natives to future-proof systems and encourage revolutionary innovation.

Digital Immigrants Need to Collaborate with Their Future Customers

Equally, banks have to accept that products and services developed hundreds of years ago, using operational functions and IT systems designed 30 years ago, need to be transformed to address the demands of the modern consumer, keeping pace with the way IT is changing the world.

Their current siloed mentality will not work from here on in. The way forward has to be through collaboration. Working alongside neobanks, fintechs and tech giants, banks can enrich not only their profits, but also the lives of digital natives and immigrants:

- By using the strength, knowledge and experience of internal colleagues to guide new financial initiatives
- By transforming how they operate and consume technology now, and in the future

Now, why is my 8-year-old falling about laughing just because I said I'm having trouble dialing a number on my new telephone? Dash it all.

If you'd like to have a more in-depth chat about transforming retail banking (or digital natives, come to that), contact me at iroberts24@dxc.com for more information.



About the Authors



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Based in London, Ian Roberts is a Principal Solution Consultant for Banking and Capital Markets. With 36 years in the finance industry, he has worked extensively in retail banking and card processing, holding senior architecture positions within Barclays, and lead technologist and delivery roles within First Data (now Fiserv) and GE Capital. Prior to joining DXC, he was accountable for the successful execution and creation of the Barclays digital technology strategy, the structural reform technology traceability framework, and the global cards operational and technology simplification strategy.

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