Digital Banking – How to Win in A Digitally Competitive World

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Digital Disruption – A Threat and an Opportunity for Banks

Digital disruption is changing the way businesses operate – this includes what products they buy, why they buy products, and how they buy products. The financial services industry is not insulated from this shift. Rapid change in technology is lowering the barriers for businesses to purchase new products, allowing hundreds of new entrants to disrupt the financial services industry. An industry that has historically been dominated by banks is now littered with emerging technology companies offering innovative financial products to solve specific business problems – and they are starting to win. To survive, banks need to radically shift their growth strategies to digital, and provide an experience that businesses need and now expect.

Businesses are adopting new financial service products from non-banks at an alarming rate – 62% of SMB’s now say they use a payments solution from non-banks. In record numbers, businesses are turning to online payment companies like Apple, Mineral Tree and Bill.com to make payments. They are looking to online lenders that simplify the loan process and deliver capital more quickly than banks. They are adopting industry specific products that include payment capabilities within the solution, making the actual payment nearly invisible. All of these digital products are stealing wallet share from banks, and maybe more importantly, eroding the relationship between the business and their bank.

While businesses are rapidly adopting new financial products to solve specific business issues, the overall management of business finances has actually become more complex. Business owners and financial leaders are now spending more time trying to figure out how to integrate these new products together in a way that works for the business. A business leader of $10M payment consulting business told us, “I have a fantasy of someone taking all of my favorite things together in a way that actually works for us”. Banks that provide an integrated digital experience that fulfills the financial needs of their business customers can be that someone.

Digital disruption represents a new opportunity for banks - banks can win by delivering a digital experience that goes beyond account balances and payments to a broad set of tools that truly helps customers manage the financial aspects of their business.

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– Dean Jenkins

1: Aite Group, Monetizing the Small-Business Opportunity, 2014
Winning Primary Financial Relationships

It is no secret that winning and retaining primary relationships is the best way for banks to achieve sustainable revenue growth. Traditionally, businesses considering the purchase of new financial products have looked to their primary bank first, and typically buy from that bank with all other things being equal (such as functionality and price). However, the growing swarm of new entrants offering innovative digital financial products and the ease in which businesses can now purchase these products is threatening to change this trend. Banks are now competing with non-banks to retain their primary position in financial relationships. As business customers turn to digital as their preferred channel, it is no longer a given that the primary bank will control the financial relationship with the business.

The good news is that banks are still in the best position to win and retain primary financial relationships with their business customers - businesses still prefer to purchase financial products from banks and trust that banks will provide these products in a secure digital environment. However, this current advantage does not guarantee future success. Banks must radically change the way they approach their digital channels - or they will be left with a settlement account and few, if any fee-based services. This type of relationship is not sticky and will not generate the kind of valuable operating deposits that are so critical in a post-Basel III world. With analysts predicting that one third of the market is in play due to digital disruption the time to act is now.

Three Keys to Winning

The best strategy for winning in the digitally competitive financial industry is to focus on the needs and expectations of your business customers. Business leaders expect their primary financial provider to offer a digital experience that is built for them and includes an integrated suite of financial products and insights that help them run the financial aspects of their business. Below are three keys to getting started.

1. Put Your Customers First

To get the attention of customers, the digital experience must focus on their needs, not on bank products. Encourage loyalty by creating an amazing digital experience that your customers will rely on to get things done. The following techniques can help create that experience:

- **Modernize** the user experience to deliver financial products in a way that is consistent with other digital tools they use on a daily basis from the device of their choosing
- **Personalize** the user experience by aligning it to the intersection between the profile of the business and the persona of the user, allowing individual users to add in their own preferences to enrich their experience further
- **Use a differentiated shopping experience** to attract new customers and expand relationships with existing customers that allows customers to self-enroll in new financial products and request bank assistance when necessary
- **Secure and Protect** the financial assets and transactions of your business customers by understanding user behaviors and identifying security anomalies that can head off financial fraud before it happens

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2. Broaden Your Financial Product Suite

Business customers need to do more than just check account balances and move money between accounts when managing the financial aspects of their business. Most small and medium sized businesses lack the financial expertise needed to effectively grow their business and are looking for help. Large commercial and corporate businesses are looking to improve the efficiency of managing their payments and receivables. Banks that can expand and align their product offerings with the specific needs of each business will be in the best position to win both wallet and mind share with their business customers.

While many banks have partnered with 3rd party financial product providers, most have not been able to offer these products in a seamless user experience. The lack of a seamless user experience significantly reduces the value of buying 3rd party financial products through the bank. Banks that establish a digital platform that can be extended to create a seamless user experience with 3rd party products will significantly increase the likelihood that their business customers will buy these products from the bank. To do this, banks need to:

- **Offer a comprehensive view of a business’s financial position** and provide tools that allow businesses to understand their financial position in the future – increasing the frequency and duration that businesses use the bank digital channels and providing more opportunities for the bank to cross-sell financial products

- **Deepen product reach into business processes** that go beyond typical banking functions such as bill pay and transaction reporting – making it easier and faster for businesses to manage payables and receivables

- **Provide Analytics and Insights** that help business understand how they are doing from a financial perspective and provide advice on how to improve future financial results – this could lead to the purchase of additional financial products that the bank offers

3. Increase Speed and Agility

Change in the digital world is now being measured in days and weeks rather than in months and years. Banks that can improve the agility of their digital channels and internal processes will be in position to take advantages of opportunities that surface and dissipate quickly. Gone are the days where “fast followers” can afford to adopt new technology capabilities 12 or more months after early adopters, and small changes take several months/years to implement. Banks that remain in this traditional world will lose market share to the more nimble competitors that can adjust to the dynamics of the market and digital trends.

Banks now need a digital platform that facilitates the speed and agility required to remain digitally competitive. The new leaders in the financial industry will bring new digital capabilities to market within 90-120 days of inception and have agile investment processes that allow product roadmaps to quickly adjust to new market demands. Traditionally, agility and velocity have not been core strengths of most banks, but there are ways for banks to improve in these areas.

- **Establish a configurable Digital Banking platform** that can be both tailored and extended to bring new capabilities to market quickly, and that allows the bank to provide a differentiated experience to targeted customer segments

- **Embrace the cloud delivery model** that increases the speed and frequency in which new digital products can be deployed and offered to business customers

- **Change to an on-going investment model** for bank digital channels with an agile roadmap that can be adjusted as market demand changes

- **Select a partner** that brings both expertise and technology needed to accelerate the delivery of digital capabilities that bring new value to the bank and business customers
Take Action Now

With one-third of businesses ready to switch banks for a better digital experience and hundreds of new entrants providing innovative financial products to businesses, the time for banks to invest in their digital channels is now. Banks that take a "wait and see" approach to the digital evolution will quickly lose market share and relevance when the market shifts to digital leaders within the next five years. Banks that embrace the digital evolution and act now to radically improve their digital channels will be in position to capitalize on the impending market shift and could start realizing double digit revenue growth over this same period.

Most bank executives now realize that digital disruption is dramatically reshaping the financial services industry, and to survive, the bank must change. But with a long list of things to do, where do you start? Bottomline Technologies can help. Our industry experts can help banks establish a digital roadmap that is aligned with the biggest growth opportunities and our Digital Banking platform will accelerate the realization of those opportunities, putting the bank on the path to win in a digitally competitive world.

To learn more, visit us at www.bottomline.com/us/digital-banking