Internet innovation and the future of banking

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Banking policy tends to focus on banking in an economic context. In reality the future of banking and banking policy is now a consumer and customer context. This is not simply because of the role the public has played in maintaining stability in the recent crisis. It is because the commercial and enterprise world is becoming customer-centric.

Whereas in banking we tend to think that sophisticated CRM systems give us an insight into customers' requirements, the reality is quite different. Customers, the public sector, small firms and large, are changing their requirements and structures in radical ways that policy makers need a greater awareness of.

THE WEB AND THE BANK

Across the world, 200 financial institutions, mostly banks, now blog. For anybody who has been hiding under a stone the past 10 years a blog is an easy to publish, often personal, record of happenings, opinions and news, published online. Many companies now have them. Banks have been slow to adopt. If you add Twitter and Facebook to the number of institutions blogging, there are 850 of these "public expression" accounts run by financial houses.

Let us stick to blogs for now. By its nature a blog is bound to be revealing. It is a way of communicating outside the protective ring of the PR department, and sometimes under the skin of policy. It brings personality to the brand and it opens up the possibility of direct dialogue with customers. Why risk it?

Over at blippy.com, consumers now share their spending habits online. In small groups as well as in large open spaces, people tell their friends and strangers what is going onto their credit card.

On the website Mint people discuss their financial problems. In other words the embryonic personal financial management (PFM) platform industry is already up for sale to the established financial world, little more than three years after it began life.

Banks like ING, HSBC and BBVA are hitching up to this kind of thinking by adopting or adapting Yodlee, a suite of tools that integrates the PFM concept with bill payment and simple online account acquisition to drive business in areas where customers are already sophisticated enough to do much higher levels of self-service.

The point about these platforms is precisely that they are places where customers do extensive self-servicing – of financial advice, initially, and then more sophisticated financial management – by being open.

They sharpen the knowledge base of the customer and her ability to make judgments on products. But this is not all.

The answer to the question why risk it, is: because businesses are being driven by customer empowerment.

It is possible to resist change like this only for so long. The banking sector needs a policy on openness that reflects public behaviour and aspirations. The fact is the Internet, or as we now say the Web, is changing banking, once again, and in a more profound sense than when banks went "e".

What the PFM also represents is a shift to management by platform, management by platforms that help create customer ecosystems, and that engage with developer ecosystems, more of which later.

Imagine your bank, like Apple's mobile phone, attracting the world's best software developers, to write new apps that enhance your services – and you do not pay a penny, well not much anyway. Your costs lie in creating the right environment for ecosystems, not on huge outlays for new financial systems.

This world represents a better future than struggling with banking legacy systems that are currently a drag on efficiency and service innovation. However, it involves a different kind of openness – a willingness to give the software developer community access to systems. The future is also about a different type of personal banking, though, one that recognises a powerful new momentum in the customer population.

MANAGEMENT AND THE ECOSYSTEM

So we had better start defining what we mean by these new terms. How do you manage by platform and what is a customer or business ecosystem? What do we mean by customer empowerment? Are APIs really relevant to policy?

Customer empowerment and customer ecosystems

Have you stopped to wonder why the deepest recession in history has yet to cause any substantial social unrest? If you look across the Web you can find out. During the recession people have been helping each other deal with their financial problems. The Web has drawn the venom from what could have been a much more testing time for banks in their relationships with customers.

In the last of Bearing's annual reviews of global attitudes to recession and recovery we found people interpreted both recession and recovery in a very personal way.

Whereas the financial press prioritise coverage of institutions like banks and credit, people who comment on blogs and financial sites, interpret what is going on through the people involved. And likewise they have dealt with it by turning to people who have set up mutual self-help websites and blogs (Mint for advice, dealseekingmom, thebargainbuggy, easternshoremom and such for things like discount coupons).

Firms, large or small, and individuals now have access to roughly the same amount of computing power and communications power as each other. Your customers, regardless of who they are, might not have your investment in legacy systems, PR and branding, but it is not difficult to achieve the same results.

Some of the biggest brands online are not companies – they are people, sometimes just teenagers (just take a look at Annoying Orange – 100,000 Twitter followers, 14,900 photos uploaded by fans to Facebook, where he has a million followers).

Which brings us to the second point. Customer empowerment follows on from this type of media fragmentation where people watch clips rather than TV programmes, and use Facebook or LinkedIn in preference to reading comics or business publications.

The savviest use of blogging in the financial sector, in our view, is Standard Bank's Cricket Blog. Yes, a Bank blogging about cricket (and a Twitter feed too).

We know of no other financial institution brave enough to go where its customers are in quite this way and to be a participant. One of the features of the Web is that brands migrate from destination strategies (come to my website) to participation strategies (be involved). As yet it is unlikely that Standard are minting a new revenue stream from its cricket blog but it is certainly building its credentials as a bank with a real face and a bank that recognises its customers' interests.

The third point is the platform customers are using. Brands continue to hope they can draw people to their own platforms, their communities. But in general people already participate with their own networks on third party platforms. A new generation of enterprise platforms is currently coming to market, ecosystem platforms, that allow enterprises to aggregate more of this third party activity.

In fortunate cases like Nike the platform belongs to the brand, but in many cases it does not. Bank of America appears to have struck a valuable seam with its small business community and of course VISA has been lively on Facebook with its SME programme.

There is a missing link though. These old community platforms are on the way out. Slowly we are beginning to understand how ecosystems work and ecosystems among equals are the future. This is a key area of our work at Bearing. We know much more about what ecosystems need to contain after three years of working with innovation clusters and enterprise platforms. Can a bank with all its regulatory baggage be a participant or will policy put us at risk of irrelevance?

Platform management and the ecosystem

In the mobile phone industry there is a widespread view that the innovation required to become customer-centric, to retain existing revenues, and create new streams, can only take place if innovation happens across the sector. In other words they are looking at systemic innovation rather than corporate.

In finance, innovation is happening but not at a system-wide level unless you look, strangely enough, at the mobile sector and at the Web. Mobile phones are beginning to make an impact.

Berg Insight anticipates that the number of active users of mobile banking and related financial services worldwide will rocket from 20 million in 2008 to 913 million in 2014.

Part of the driver in this scenario is the growing adoption of augmented reality services that are very location specific. Because a modern mobile phone has GPS and a Gyroscope built in it is possible to know more or less what a user is facing or pointing at. That facilitates highly specific data about places, without the need for users to search on Google. With such highly specific data, it is also possible to anticipate more place specific transactions at shops, restaurants and venues.

We know also from Apple Inc's patent filings that an iPhone mobile payments platform is not far away.

The mobile world, like the Web it is replacing, is an ecosystem driven world. Customers do not act in isolation or in interaction with institutions; they interact with each other in many small-scale networks that interlock.

That means a raft of innovations is on the slipway. Mobile accelerates the use of peer to peer (or P2P) payment transfers; it enables micropayments; it is a contactless payment medium through near field communications.

It seems to us that initiatives such as Standard's cricket blog begin to make sense when you think of these payment technologies coupled to the ecosystems that customers evolve together.

Customers communicate around sport. They live it and breathe it. They pay money for tickets to stadiums and they buy travel tickets to get there. They book hotels and they buy memorabilia. But they do all these things not as individuals but as part of their own team, the fan base.

The bank is ceasing to be a point of reference for many people as they participate in and pay for these activities. The bank manager is no longer a role or office we visit periodically. Our lives instead are governed by more spontaneous relationship building and we are open to brands that understand this process and our new values.

Recent research from Lightspeed Research suggests customers want services that are helpful, they want entertainment and they want brands to become part of their daily routine. It's as if consumers want brands to replace parts of the day that used to belong to the newspaper or quasi-official services. Brands like Google and Facebook have given substantial service to consumers for free and this appears to be conditioning the consumer's wider expectations. The brand has to do more to keep up.

Banks that are adapting to the new world of platforms (blogging, ideation, ecosystem) are able to reach people whose values are evolving quickly. Not all banks are doing it perfectly: Citi has had its problems and Bank Of America's Future Banking project was short-lived. But Wells Fargo and, we think, Standard are creating a new canon for how banks should engage.

Contrast Standard's Cricket blog with the home page of the RBS group. On Standard you'll find player rankings, two clicks away from the corporate home page. On RBS you'll find a World Economy outlook – now really, which do you think customers are more interested in?

VIRTUALISATION, THE CLOUD AND THE FUTURE OF FINANCE

If the customer engagement and customer ecosystems side of banking does not grab your attention them the virtualisation of business should.

Virtualisation means using off-site computing, or a central server farm to provide day-to-day processing power. The point is you do not buy machines. More important for any financial institution with a leasing business, customers no longer need to invest in IT equipment and costly associated services.

They can do so if they wish but they don't have to – they can subscribe to computing power. In our work we track the impact of changing business models on financial products and this is an area we see having an accelerating impact in the short term.

For example we believe the only way that electric vehicles will accelerate into the market (pun intended) is through subscription models rather than through purchasing. People may want to use electric vehicles for some form of travel and adopt a conventional vehicle on other trips. The sensible way to do that is to subscribe to vehicle services via a Web, probably mobile, based service.

Innovations in robotics are bringing new but expensive equipment into financially challenged health services. They also bring a change to the model of health care. Healthcare providers are slow to adopt non-purchase models but it will happen.

What this means is that subscription management rather than purchase of lease finance is beginning to make headway as a service. We know of no financial institution that is headed into subscription management services but it seems as remiss as going slowly into mobile platforms or customer ecosystems. Companies outside the policy framework will take this business.

We talked earlier about APIs – or application programming interfaces – in the cloud-computing paradigm. In a world dominated by the need for innovation, APIs give you access to a different kind of ecosystem.

An API is what software and games developers use to build new products on another company's platform – think Apple and the iPhone. 35,000 developers generating over a billion dollars of revenue in two years.

The developer community is another part of ecosystem management. Are banks doing it? Mobile phone companies are – and generating payment apps in the process. Retailers like Tesco and BestBuy are. The World Bank is using a public API. Government departments are opening up data to developers via APIs.

Imagine for example crowd-sourcing bank and credit fraud detection. Instead of each bank maintaining costly closed-wall fraud detection techniques open up that task to the global community of smart people who can write software that will enlist the people most affected by fraud – the customer.

Customers are amazingly willing to reveal where they are, whom they are with and what they are doing. Couple that data to credit card fraud detection and to some additional volitional information and you start to see new ways to validate the authenticity of payments.

Tucked away from public view there are bank API projects – particularly in the aggregate credit data arena. By opening up credit data to a world of developers it's possible to envisage real breakthroughs in personal money and credit management services. For example it is conceivable that apps developers will create apps that successfully balance customers overall spending pattern with credit repayments needs.

CONCLUSION

Banks need to regain trust at a time when people, customers, are changing their behaviour, their desire for openness, and their wish to be co-participants. In the fields of mobile and in purchase versus subscriptions the non-banking world has a head start, free from policy constraints. To embrace innovation of this nature requires a willingness to reject old-fashioned viewpoints, – that the customer is somebody to be locked in to charging systems that they perceive to be unfair, unreasonable or unaffordable or that finance is solely about privacy or that it cannot be mixed with broader lifestyle interests.

Working in this open platform world banks can rejuvenate their revenues, and their relationships and generate a sense that they are the place to be.

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