

Customers keen to try out new digital banks

By Narendra Aggarwal

ALMOST half of the current banking customers are willing to try using the new digital banks which will operate entirely online without any physical bank branches. The survey of the finance and insurance sector done in the fourth quarter of last year showed that 43.3 per cent of customers are willing to apply for products through the new digital banks.

As the Monetary Authority of Singapore will be awarding digital banking licences in the coming months, ISE researchers looked into the potential profile of the new customers of these digital banks by asking respondents about their willingness to apply for various bank products through the new digital banks.

"Unsurprisingly, this group was mostly made up of customers who were younger, middle income, and already familiar with the current internet and mobile banking offerings," says the institute's executive director, Neeta Lachmandas.

"What is surprising, though, was that a sizeable proportion of retail banking customers, more than 40 per cent, who showed relatively higher levels of loyalty to the incumbent banks, actually expressed willingness to try out the new digital banks. This bodes well for the new digital banks.

"On the other hand, the incumbent

banks should take heed that this same segment of customers, who have significantly higher loyalty levels, are going to be more willing to give the new competition an opportunity," she adds.

Further analysis of this segment of customers showed that they are most willing to try out credit cards (99.7 per cent of those customers) and loan products (48.2 per cent) from the new digital banks. "We introduced a question on customers' willingness to apply for products from the new digital banks. As the customer segments more willing to try these banks tend to be younger and users of online banking, this could be worrying for the incumbent banks. This group also tends to be customers who rated higher for loyalty to their current banks, and also included the affluent customer segments which typically are a more profitable segment for banks," says Chen Yongchang, ISE head of research and consulting.

Additional analysis also suggests that banks should focus on increasing the reliability of their services and availability, and they should focus on creating a differentiated customer service experience when customers interact with their physical touch-points, such as empathy based experiences, he adds.

"For the new digital banks entering

the market, they should target the younger customers and consumers already familiar with online banking, with a focus on loan and credit card products. They should also try to focus on leveraging on reliability and availability, and address potential concerns over security and risk."

The entry of digital banks is likely to have an overall positive impact. They will drive up customer satisfaction as the competition from the new entrants is likely to provide not just more choices in terms of product offerings, but also push incumbent banks to improve the customer experience in order to retain them.

Customer loyalty

"With more competition, the risk of customer defection due to low satisfaction from a poor experience would increase. Incumbent banks would need to up their game in order to remain relevant, which in turn would drive up customer satisfaction for the industry," says Mr Chen.

"Product wise, we can expect credit cards and loans to be key areas of competition, as our research suggests customers are most likely to try out these products with digital banks. These are also areas which new entrants typically attempt to tackle first. For the incumbents, increasing customer loyalty through products

that not just meet their needs but acknowledge their relationship with them would be critical to ensure they remain top of mind when choosing new financial products and services."

Service wise, as digital natives, digital banks are likely to compete on excellent digital experiences, reliability, and availability. This is likely to raise customers' expectations of online banking services as a whole. Traditional banks, which have yet to improve their digital channels, should try to work on improving them to meet this rising tide, he suggests.

Apart from competing head-on with digital enhancements, incumbent banks should also consider working on improving service staff interactions. A key differentiator from digital banks are non-digital channels such as branch services. Traditional banks could leverage on service staff interactions to create a differentiated and delightful service experience, which could help raise customer loyalty. "Based on our research, banks may want to consider working on creating empathy-based experiences for customers," says Mr Chen.

Incumbent banks are already gearing up to face the challenge from the upcoming digital banks. UOB – which saw the most significant increase in its CSISG score among the banks studied in the latest survey, invested

S\$1.6 billion from 2014 to 2018 to ensure the quality and robustness of its digital infrastructure. UOB's head of group channels and digitalisation, Janet Young, says: "Our digital strategy is focused on providing our customers with products, services and solutions that are smarter, safer and simpler. This is part of our overall omni-channel strategy which is to give our customers all the banking choices they need, prefer and want whether online or in person."

"An example of our strategy in action can be seen in our award winning mobile app, UOB Mighty, which was first launched in 2015. UOB Mighty was the first mobile banking app to integrate banking, payment, and lifestyle services in one location. Since its launch, UOB Mighty has been consistently recognised for its customer-centric innovations and experience, including being the highest rated mobile banking app in the 2019 CSISG."

Another example of how UOB puts the customer at the centre of its omni-channel strategy is that its product ap-

plication processes were redesigned to make them fully digital. The bank says that it was the first to enable customers to apply for consumer banking products online as part of its strategy to make banking simpler and smarter.

"In addition to providing the digital channels, through which our customers can bank and pay on the go, we have dedicated Digital Ambassadors at our branches to guide customers and to help them make the most of our digital banking services. We also organise regular digital clinics to empower our customers to be comfortable and confident when banking through their smart phones or online," says Ms Young.

"For our business customers, we offer integrated solutions that meet their banking and business needs. To help businesses improve their operating efficiency, we have launched digital solutions such as UOB BizSmart which automates day to day business processes and helps improve productivity."

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