Banks and digital clients

The challenges of digital transformation in the banking industry

Over time, banks have digitalized their relationship with their clients through standardized products and services streamlined to clients via web and mobile banking applications, such as Internet banking, mobile banking, banking payment apps, and more. These remote banking services have irrevocably transformed the banking industry, but is this level of digital transformation in banking sufficient in today's context? The straightforward answer is – no!

The higher level of digital transformation demanded by today's clients would be enabling the digital contracting, managing, and upgrading of all bank products and services through a single digital and trustworthy connection with every client, even for non-clients (new clients). In this process, individuals could easily compare bank product offerings, request for a specific product, securely and easily verify their identity, complete product/service arrangements by electronically signing an agreement and become bank clients and users of new or upgraded bank products. All these steps should be conducted entirely digitally, without the need for even a single physical presence at a bank branch, using only a personal device with a browser (smartphone or laptop) and an Internet connection, while at the same time being fully compliant with regulatory framework, typically very heavy for banking.

Digital relationship with clients

When we consider the new generations (Gen Y and Gen Z), who spend a significant part of their lives in the digital realm and find it challenging to imagine a world without it, banks face a substantial challenge in satisfying their needs. Why is this a challenge? Merely offering a product or service that is financially competitive with similar offerings on the current bank market is not enough. What matters most is understanding these clients thoroughly, including their behavior and habits. Banks must grasp the differences between these clients and other generations, as well as the distinctions among them, to recognize their unique needs and tailor their digital offerings accordingly.

These generations expect the same level of convenience from banks as they experience in non-financial services. They demand high-quality bank products and services that are always available to them (in real time) through various channels.

For them, a bank is just another application they want to download from the app market on their mobile phone. They actively avoid any physical visits to branches.

Digital onboarding / KYC

In general, to remain competitive in the market, the first step is to digitalize the banking product. In order to be fully digital, this must include digital onboarding of the client.

The two most critical features of the digital onboarding process are:

• Client identification should be credible and secure while at the same time fully complying with relevant legal and regulatory requirements (AML, GDPR), the so-called KYC (Know Your Customer)

• Onboarding user experience should be simple, intuitive, and straightforward.

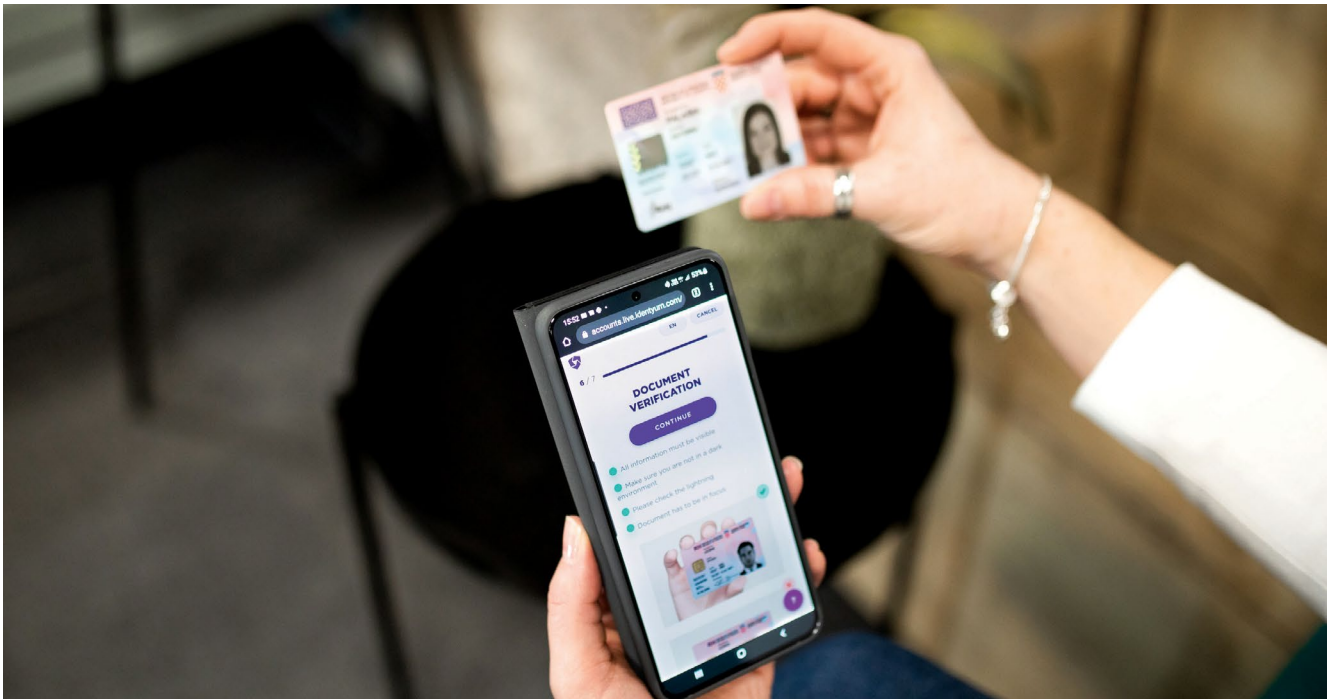One additional factor that many banks get wrong is – the client should onboard to the bank, not to the bank product.

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This essentially means that remote onboarding should be done only once. So, in addition to digitalizing the product, the bank also needs to digitalize the connection to the client.

E-signing and Onboarding

In most cases, the digital onboarding process is connected to a specific bank product (such as a cash loan or a current account). Consequently, once the digital onboarding process has been successfully completed, the bank should be capable of providing an electronic signature capability to the client as a natural extension of the onboarding process.

In fact, if the digitally onboarded clients are unable to seamlessly continue the process with integrated e-signing, it diminishes the benefits of the onboarding process for both the bank and the client.

However, once again, it's important to consider that even when a client is onboarding for a specific bank product, the process should actually digitalize the client, thereby eliminating the need for them to undergo onboarding again when seeking another product.

This is the reason why, for the bank's long-term strategic advantage, the e-signing certificates should ideally be bound to the client (long-term certificates) and not to the bank (one shot certificates).

Retrieval of Client's External Banking Data

When a bank onboards a new client, particularly for a credit product, it becomes crucial to be able to retrieve comprehensive data about the client's banking history, especially if this new client is already using products from market competitors – which is, in most cases, very likely. This retrieved banking data should contain details about the client's financial capacity and behavior. With it in hand, the bank should be able to make an informed decision whether even to establish a relationship with the client and if so, how to customize the product for the specific client's risk profile.

Although the EU has tackled the challenge of opening access to banking data "by force" (PSD2 Directive), the primary idea behind PSD2 was to enable rise of payment solutions which would compete with American card companies that dominate the EU payments market.

Unfortunately, PSD2 has not (yet) changed the payments landscape, primarily because of sub-optimal interface for payment authorization ("SCA"), which (still) cannot compete with user experience of smartphone contactless payment utilizing virtualized payment card in a brick-and-mortar store, nor can it in most cases truly compete with the simplicity of online payment with a credit card.

Outside of the EU, open access to external banking data is possible through somewhat controversial (yet legally valid) technology known as "screen scraping". Screen scraping operates by enabling a third party to access a customer's Internet banking by using the client's one-time login credentials.

The future of banking

The main components that a bank should focus on when investing in the digitalization process are:

1. Making products available to clients 100% via digital channels
2. Improving clients' user experience
3. Developing a plan for the transformation of existing clients
4. Include products and channels for SME and Corporate as well
5. Educating the employees

Considering these factors, along with future banking trends primarily influenced by the behavior, habits, and needs of the new generation of clients, successful bank's strategy will steer in one of two directions:

- Digital leaders – Banks that invest heavily in innovation and enhance digital channels offering new digital products and new functionalities oriented towards wider client needs

- Digital followers – Banks that concentrate their efforts on copying from leaders only the core functionalities of market-proven main digital products and optimize their operational efficiency.

Digital beginners and digital latecomers simply won't remain competitive enough to thrive in the future market.

Identyum solutions

Identify – digital onboarding service which provides reliable digital identification of individuals while fully complying with AML and GDPR provisions.

Sign – service for remote issuing of eIDAS compliant and legally valid cloud certificates to clients, enabling them to e-sign any PDF for a banking product in a fully automated and streamlined process.

FinCheck – service for retrieval of client's bank data via either PSD2 API (EU) or via direct interface (non-EU), enabling the bank to extract client's financial history and parameters and utilize credit scoring models.

Written by: Katarina Palašek
Identyum