



NEW CHANNELS IN RETAIL BANKING

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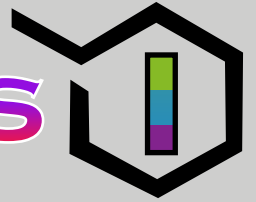
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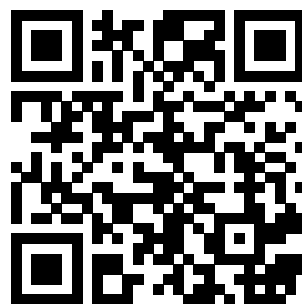
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NEW CHANNELS IN RETAIL BANKING

Retail banks have been competing for distribution for a long time, realizing economies of scale through network effects and brand, and infrastructure investment. But even those economies of scale had boundaries above a certain size. As a consequence, a few large institutions, operating at comparable efficiency ratios, dominate market share in most retail banking sectors. Changes to the business model of retail banking have mostly occurred in reaction to legislative changes, as opposed to a purposeful re-imagination of what the future winning bank will look like¹.



Retail banking sector is being transformed by a range of powerful forces. Regulatory requirements in combination with customer expectations for greater personalization and technological innovation are challenging traditional business and delivery models. To this end, the retail banking sector continues to innovate both products and processes in order to remain relevant and to respond in the best way possible in this new operating environment. Since the customer remains at the centre of banks, innovation efforts should focus on the improvement of digital customer experience across new touch-points and channels. In this context, many banks claim that mobile and online should be the primary distribution channels in the next years².



To be an intelligent firm of the future, banks have to provide innovative solutions and improve customer engagement. To achieve this goal, banks have recognized that digital transformation is critical, as it can enable them to provide new and better products/services- as well as to control and reduce operational costs. Moreover, investment in building better data utilization capabilities is paying off for banks. Techniques such as data analytics, machine learning, and artificial intelligence can drive significant improvements. These techniques boost customer convenience to a new level with seamless banking services that minimize friction in the customer journey³.

To stay competitive, banks need to remain cognizant of the developments taking place on the inside and outside of the banking industry. The most significant changes that banks should adapt to are the following²:

- Slowly but surely BigTechs emerge as a threat to existing banking business.
- Open banking gains momentum as APIs are set to play a key role.
- The need for innovation along with agile and efficient product and services has encouraged an uptake for cloud in the banking industry.
- Changing industry dynamics demand new-age operations and business models.

- Banks are accelerating digital transformation efforts. With digital transformation as a critical priority, banks will need to revisit traditional business models and embrace digitalization at the core.
- Voice assistants- a new channel for banks. Massive growth in customer adoption of voice assistants has made a strong case for retail banks to introduce "voice " as a new channel. In the digital era, banks are exploring different ways to reach customers and are discovering new digital ways of interactions

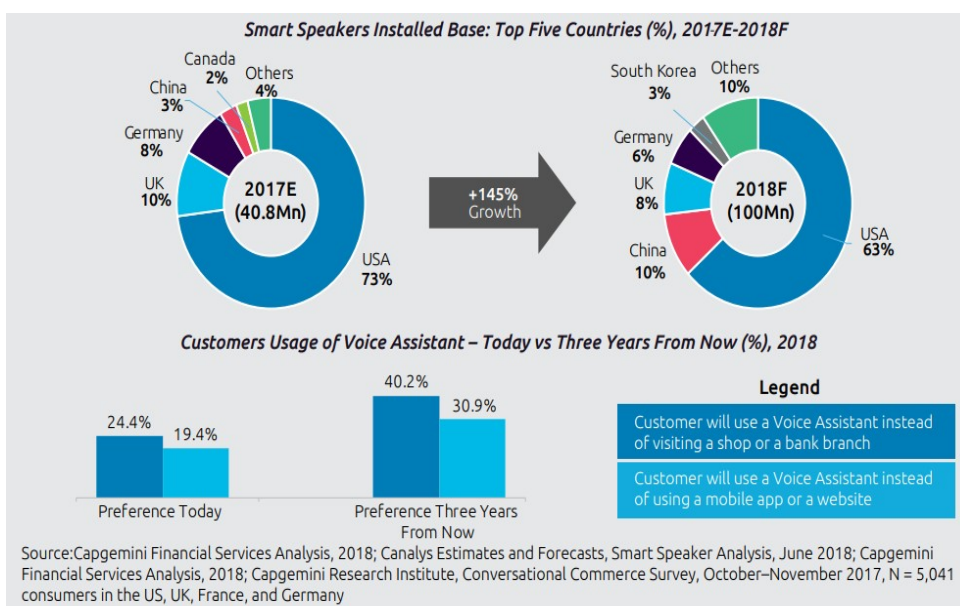


Fig 1. Smart Speakers installed base: Top five Countries. Caggemini. (2018). Top-10 trends in retail banking: 2019.

However, it should be mentioned that new open banking regulations require banks to share their customers' financial information with third-party providers, which may make banks more vulnerable to cyber-attacks. Cyber security is essential in rebuilding confidence in an appropriate level. Recent high-profile security breaches and media commentary surrounding cyber- attacks have generated fear and uncertainty, further eroding stakeholder trust.

By 2020, leading banks will develop cyber-security policies aligned with company goals, risk-management protocols, and regulatory requirements. Many banks lack the resources to deal with these problems on their own and are going to have partnerships with third parties. Consequently, banks should look ahead in data protection and manage cybersecurity risks by being proactive and setting up security strategies.

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