BANK MUST GO DIGITAL
OR
RISK BEING LEFT BEHIND

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Table of contents

1. Executive summary...........................................................................................................3

2. Banking today..................................................................................................................4

3. Impact of other market trends on the financial landscape.............................................7

4. Are institutions ready for disruption?.............................................................................9

5. Main barriers institutions face towards disruption......................................................12

6. Success factors for digital transformation.................................................................14

7.
1. Executive summary

This white paper examines the key operational pain points that banks are currently facing in this ever-changing digital age, and discusses why investment in digital transformation should be a crucial part of any bank’s growth strategy. It concludes by analysing the factors that are essential for success.

Key findings:

- Banks must focus efforts on improving operational efficiency and transform into digital entities, as the outlook for pure revenue growth becomes more challenging.
- Google states that the majority of searches for financial products for business and consumer finance now take place on mobile devices.
- Digitizing and automating manual lending processes has the potential to generate significant returns for banks.
- The days of customers’ loyalty to their bank brand may be ending as competitors offer improved faster, simpler and customer centric products.
The true meaning of digital transformation regarding the offering of financial products involves solutions that provide Seamless Transaction Processing (STP); a full end-to-end digital processes from on boarding or application to fulfilment.

2. Banking today

Banking has historically been one of the business sectors most resistant to technological disruption. Since the first mortgage was issued in England in the 11th century, banks have been building robust businesses with multiple channels and recently began downsizing their branch numbers.

Consumers too have historically been reluctant to change from their existing bank; in particular, developed markets have seen consumers gravitating towards the established banking and insurance brands that are seen as enduring symbols of stability, even in times of turbulence.

In the late 1990’s the commercialization of the Internet arrived and soon after the dot-com bust ensued. In the eight-year period between the Netscape IPO and the acquisition of PayPal by eBay, more than 450 companies attempted to challenge banks with technology enabled financial products. Fewer than five of the challengers from the dot com boom era survive as stand-alone entities today. PayPal is one of the only exceptions. It has proven tough to disrupt the banks.

However, this may now be changing with the growth and success of fintech (financial-technology) companies and changes in the customer demands.

Fintech players are the start-ups and other companies that have developed new technologies and processes to conduct fundamental financial service functions. This impacts how consumers: store, save, borrow, invest, and transfer their money. Our research into fintech companies has found that there are more than 2,000 successful start-ups operating today, compared with 800 in April 2015 (Exhibit 1).

Exhibit 1: Customer segments and products of leading Fintech companies
Successful fintech companies are focused primarily on products that address banking customers’ pain points. Target customers include:

millennials, small business owners, home buyers and the underbanked are just a few of the customers that are open to products or services that will simplify the customers experience when applying for a financial product such as a business loan, a mortgage etc.

The fact that the market size for each of the segments is of a significant size is an opportunity for fintechs to build and scale sustainable businesses that create value.

3. Impact of other market trends on the financial landscape

Mobile

The smartphone has impacted our daily lives and we are constantly connected to our mobile phones. Google has stated that mobile search queries have overtaken desktop searches in 2016. This also means that the use of smartphones is prevalent in banking. (See Exhibit 2)

The fact that the mobile is not the number one device in performing banking services is most likely due to the fact that banks have not migrated their financial offerings to

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Making users switch from mobile to desktop or from mobile to physical paperwork defeats the benefit of having users engaged on the mobile with a financial product. The solution is Straight Through Processing (STP) for financial products. Banks need to offer a complete end-to-end solution for financial products on the mobile.

Exhibit 2: Preferred device for performing banking activities

Many leading banks have made great progress by offering their customers a mobile apps. In the UK, the statistics of how customers use both banking apps and online banking services are extraordinary.

According to the BBA the voice of banking, in the UK:

- There were over 22.9M downloads of banking apps downloaded so far
- In one day in March 2015 there were 10.5M daily log-ins to banking apps
- 65% of all online banking by Halifax now takes place on mobile phones
- The average user of Barclays logs into their app 28 times per month
Today, mobile banking apps are not an extra benefit in consumers' minds, but a necessary part of the bank-customer relationship. By delivering end-to-end financial products through the banking apps banks can increase revenues and decrease costs.

Millennials- The future customers of the bank

By 2020, millennials will comprise the largest online audience and have more buying power than any previous generation. Millennials are native digital users. It is imperative that banks attend to this growing customer base and its digital needs.

Millennials definition of banking is different. They expect to bank and not to speak to a banker or to visit a bank branch. In the past customers were slow to change their banks, but today’s millennials are tech savvy. They are experts in today’s online world and can locate the services they want with a few clicks on the internet. They will easily find an alternative to the bank that doesn’t offer them the best customer journey, price and service for the financial product they seek. Given their impatient nature and growing influence on commercial trends, banks will have to be diligent and responsive when trying to create worthwhile customer experiences for these digital natives.

Consider the following:

A millennial wants to purchase something doesn’t have enough funds in his account. His choices are to apply for a loan with the bank, which could take days, or he can go online to a consumer loan company, apply in minutes and receive the money instantly in his account.

A small business client of the bank requires working capital or funds to make a purchase for his business. The process at his bank from start to finish will take weeks. He can go online and find a business lending company and most likely receive his funding within the week.

The same painful process exists while seeking a mortgage.

The bank can compete and beat all of the other online offerings by white labelling of ezbob’s solution in sixteen weeks.

4. Are institutions ready for disruption?

Recent analysis by Bain & Company and SAP Value Management Centre finds that most banks have digitalised fragments of their processes for marketing, selling and servicing different types of loan products.

However, this analysis points out that banks actual deliverables on end-to-end digital solutions for financial products is minimal.

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Banks only handle a minimal amount of their financial products digitally end-to-end:

- 0.1% of their business loans,
- 0% mortgages,
- 15% of consumer loans, and
- 13% of cards

In order to remain competitive, it is imperative for organisations to digitally transform their business and use digital offerings to win, serve and retain their customers.

Leading banks have already started to invest in creating better customer experiences, making it easier to apply for their offers and attempting to remove poor and avoidable interactions from the branch and contact centres. These investments have generally paid off in the car finance and personal loan sectors. Business loans, commercial and residential mortgages and invoice financing have pretty much stayed which continues to yield high processing costs for the banks, long turnaround times and overall poor customer experiences.

Bain assessed how well leading banks reported on their performance along seven lending capabilities.

The capability areas include:

- Relevant, simple and easily bought offers
- Better decisions that are informed by customer, risk and marketing data
- Consistent cross-channel execution
- Technology that enables a smart view of the customer
- Efficient, digitalised processes
- Migration of customers to anywhere, anytime self-service

The benchmark survey shows that overall, banks reported relatively low levels of digitalisation in these areas, as highlighted by several findings (Exhibit3):

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The Bain report further claims that the biggest capability gaps at the banks were:

- Delivering simple, easy and convenient experiences. The lending process at most of the banks surveyed remains opaque to the applicant. Customers find it difficult to check the progress of an application. It is difficult for the bank to provide updates through online or mobile channels. Customers also find it hard to select the product or terms that they want and need to speak with a bank agent. Few banks report having the ability to support their employees with specific answers as to when or if they will approve the customers funding request.

- Executing consistently across channels. In today’s digital arena, customers expect each digital channel of the bank to retrieve data from their previous interactions.

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**Exhibit 3: Level of digitalisation in banks**

<table>
<thead>
<tr>
<th>Percentage of products sold on any channel</th>
<th>Overall</th>
<th>Small business loans</th>
<th>Mortgages/home loans</th>
<th>Personal loans</th>
<th>Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>10%</td>
<td>24%</td>
<td>39%</td>
<td>28%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage of products handled digitally end-to-end</th>
<th>Overall</th>
<th>Small business loans</th>
<th>Mortgages/home loans</th>
<th>Personal loans</th>
<th>Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>7%</td>
<td>0.1%</td>
<td>0.0%</td>
<td>15%</td>
<td>13%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage of marketing budget spent on digital</th>
<th>Overall</th>
<th>Small business loans</th>
<th>Mortgages/home loans</th>
<th>Personal loans</th>
<th>Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%</td>
<td>22%</td>
<td>20%</td>
<td>18%</td>
<td>11%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage of applications submitted on digital channels</th>
<th>Overall</th>
<th>Small business loans</th>
<th>Mortgages/home loans</th>
<th>Personal loans</th>
<th>Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>14%</td>
<td>8%</td>
<td>12%</td>
<td>12%</td>
<td>23%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage of service requests on digital channel</th>
<th>Overall</th>
<th>Small business loans</th>
<th>Mortgages/home loans</th>
<th>Personal loans</th>
<th>Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>7%</td>
<td>5%</td>
<td>8%</td>
<td>10%</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage of loans preapproved automatically</th>
<th>Overall</th>
<th>Small business loans</th>
<th>Mortgages/home loans</th>
<th>Personal loans</th>
<th>Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>28%</td>
<td>17%</td>
<td>5%</td>
<td>58%</td>
<td>33%</td>
<td></td>
</tr>
</tbody>
</table>

*Highest value of all classes

**Source:** Digital Lending Survey

*Bain & SAP Value Management Center, December 2015*
applications to the bank instead customers find themselves having to constantly re-enter their data when applying for different financial products. This is caused because different parts of the bank are not always on the same computer systems and rarely are able to share data.

- Gathering a full and consistent picture of the customer for marketing, sales and service. Banks fall short in business intelligence (BI). A lot of data is collected by the banks on their customers yet banks report that they find it difficult to use the available internal and external data to make fast, high-quality decisions. This applies both when a customer requests to buy a financial product as well as allowing for the bank to discover when a customer is in financial distress which could bring about a pro-active approach by the bank.

- **Digital marketing.** Most banks don’t know how to communicate effectively with their customers through e-mail marketing, personal offers etc.

- **Straight-through processing.** Nearly all banks have yet to launch full end-to-end digital solutions although many banks are currently in advanced discussions.

Around these topics. We know that in 2017 multiple UK banks will be launching end-to-end digital solutions for both consumer and business lending.

5. Conclusion

The intense cost, revenue and operational pressures facing banks together with the rise of the new native digital audience means banks must seek to fully transform and optimise each and every stage of their operation in a bid to improve efficiency, business agility and profitability.

Customers’ rising expectations for anytime, anywhere banking currently outrun banks’ capabilities, and fintechs and new technology focused banks with no branches have momentum in building a base of customers, especially among young adults, as well as in attracting talent.

We believe traditional banks can compete effectively and quickly if they partner with technological leaders in the respective fields.

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ezbob’s white-labelled solution provides banks with a complete suite of products that together provide a 100% digital-straight-through-processing capabilities for consumer and business lending.

**Superior customer experience**

- Fast, simple, 100% online application in less then 10 minutes
- Zero paper work
- Fast funding decision
- Available 24/7/365
- Apply and access from anywhere anytime from any web browser via mobile, laptop, desktop, etc.

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ezbob platform includes a seamless:

- on boarding (KYC/AML/Sanctions Screening),
- Risk Engine (customizable credit scoring)
- Digital loan documentation and e-signature (including board resolutions/personal guarantees for business applicants)
- Loan Activation
- Automatic funding and repayments
- CRM (automatic emails per each scenario for customers – late payment, payment on time, new offer, etc.)
- Business Intelligence (real time view of your organization- KPIs / statistics / etc.)

Superior loan application analytics technology driven by automated use of big data

- Real time data collection and analysis
- Customer affordability analytics
- Extensive loan monitoring capability and intelligent risk management