

A man with a beard and mustache, wearing a light-colored fedora hat with a feather, a blue denim shirt, and a dark vest, is smiling and looking upwards and to the left. He is holding a white smartphone in his hands. The background is a textured, light-colored wall.

IN THE BANKING WORLD, IS CONVENIENCE THE NEW LOYALTY?

AIMIA
LOYALTY SOLUTIONS

By Alex Araneta, Director, Business Development
AIMIA Loyalty Solutions

www.aimia.com
loyalty@aimia.com

©2019 AIMIA U.S. Inc. All rights reserved. The marks appearing in this document are the trademarks or service marks of AIMIA U.S. Inc., its subsidiaries, affiliates or licensors.

Executive Summary

The advent of open banking combined with emerging technology is threatening the dominance of traditional banks. Challenger banks are entering the market at a faster pace and are introducing new levels of convenience in banking that consumers have yet to experience. This trend towards convenience may just prove to be a new and compelling strategy to attract and retain customers.

Traditional banks have inherent advantages over challengers; but these advantages can only remain so if the banks properly leverage them by completely re-thinking their operating model.

This white paper leverages on Aimia's research and in-depth knowledge of the marketplace to provide a bird's eye view of the changing landscape, the key attributes of "convenient banking" and what traditional banks need to do to address the threat.

Today's Customer Expectations

Would you take the time to swipe and enter a PIN if you could instead simply tap and go? Would you redeem your reward points for a plastic gift card if you could just pay with points at the point-of-sale? Likely not.

Per CustomerCX.com,¹ the 7 attributes of the modern-day consumer are:



1. <https://smartercx.com/7-characteristics-modern-customer/>

Convenience is the premise that is driving the customer acquisition and retention strategies of the new entrants in the Financial Services space, and one that is causing incumbent banks to do some major naval-gazing. Simply put, "convenience" in this context pertains to a customer-centric strategy that is in line with the modern-day consumer.

We all know consumers have higher demands today than they ever have historically. Their increasing expectations are pushing brands to lift their customer experience in order to grow their customer base. This is especially true for Financial Services. It is an industry that has failed to see major transformation throughout the years, is crippled with legacy platforms/siloed databases and is facing regulatory changes that threaten the very landscape that they so comfortably dominated in the past.

The industry incumbents are facing headwinds driven by several disrupting factors that are forcing them to adapt in ways that can best be described as a "pivot to the customer."

The Changing Landscape

According to a 2017 Accenture Research report,² there needs to be a redefinition of the banks' interaction model with their customers. The report explains that:

40%

of global consumers are potential "Nomads" – open to the idea of self-assembling their own suite of banking products.

40%

execute half their banking transactions online and 71% are open to automated support.

19%

is the rate of customers joining digital banks...double the rate of those leaving digital banks (8%)

31%

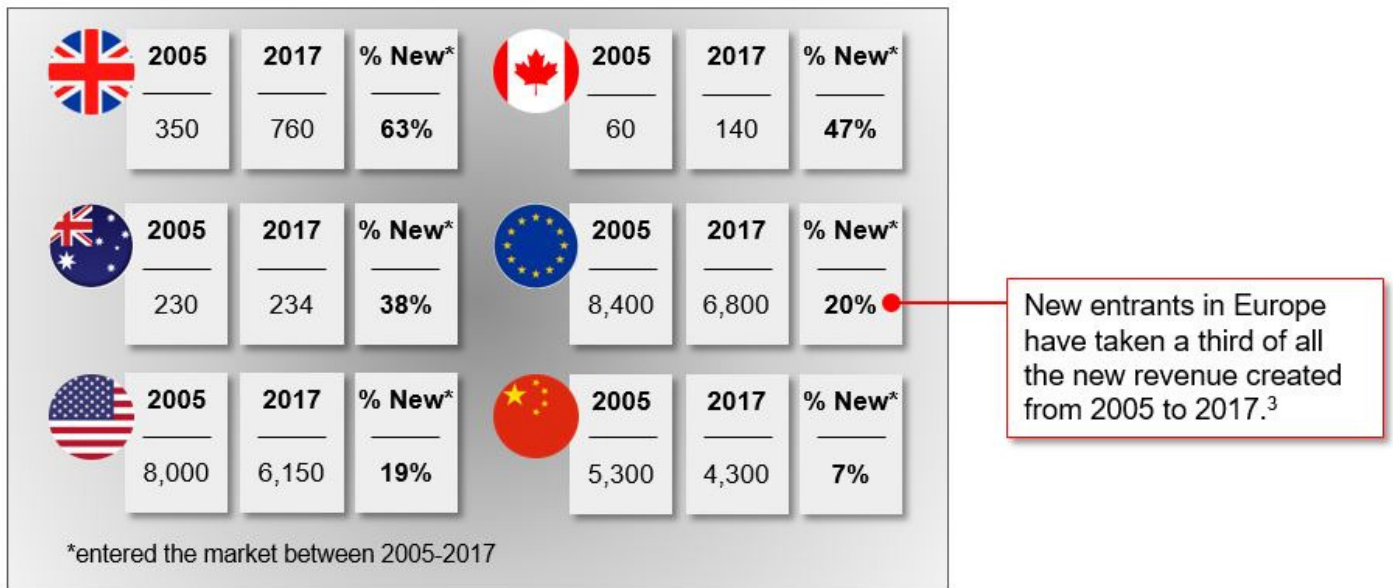
of all customers (and 41% of Gen Zers) would consider purchasing banking services from an online provider, such as Google, Apple, Facebook or Amazon

2. Accenture Research: Banking Beyond North Star Gazing (2017)

Fintech Start-ups

Open banking is fundamentally changing the global banking landscape, with the rise of Fintech start-ups and Challenger/Neo Banks compounded by the increase in digital adaptation by consumers.

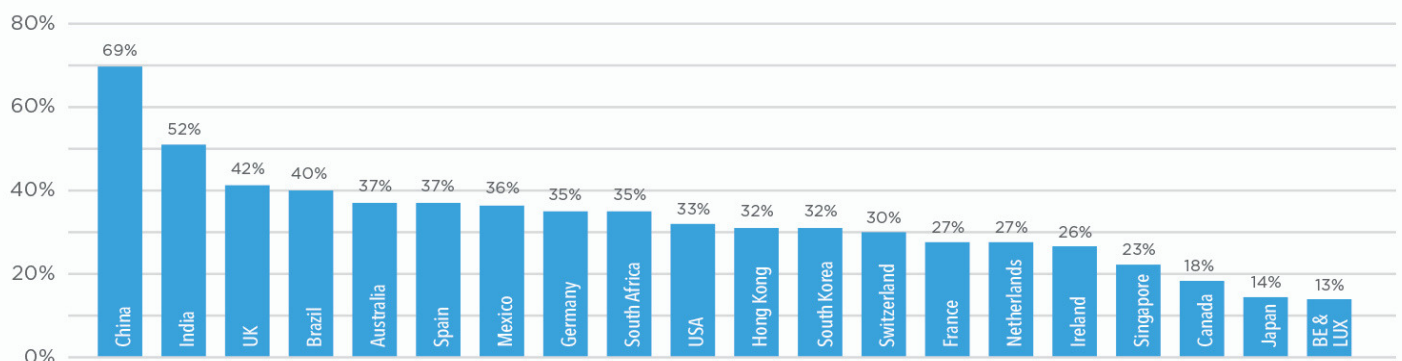
New Players in Banking & Payments by Country³



In the UK alone, where open banking regulations have arguably had the most impact – 63% of the registered Financial Institutions in 2017 had entered the market from 2005.³

Fintech Adaptation across 20 markets⁴

Fintech users as a percentage of the digitally-active population.



Fintech adaptation, as a percentage of the digitally active population, has grown substantially over recent years, with adaptation rates averaging 37% in Australia and 42% in the UK.

With Fintechs' ability to use technology in creative ways, their key point of differentiation has become their ability to deliver seamless and personalised user experiences that today's consumers demand.

3. Accenture Report: Star Shifting: Rapid Revolution Required 2018

4. EY Fintech Adoption Index 2017

Tech Giants

Most recently, tech giants such as Google, Apple, Facebook, Amazon and Alibaba are also encroaching into the bank value chain. Amazon is reportedly in talks with several financial institutions about creating a new bank product not dissimilar to a chequing account, but one that appeals to a young, digitally-active market.⁵ Facebook has created its own crypto-currency, known as *Libra*, which is “backed by assets and supported by more than two dozen companies ranging from Visa and MasterCard to Lyft and Spotify, bringing the heft of the world's largest social network to efforts to transform financial services.”⁶

The tech giants’ mastery at delivering seamless customer experiences and addressing consumer needs combined with their ubiquity across geographical and digital boundaries give them an unfair advantage over most industries that they choose to infiltrate. If these tech giants successfully enter the financial industry, they will be able to overlay years of customer interactions with purchases; giving them the lead to gain a truly holistic customer view.

A well-known example is Apple’s widely known foray into the credit card space with the launch of the **Apple Card** in the US. The Apple brand through the years has become synonymous with superior customer experience. Let’s have a closer look at what features Apple have incorporated into their card product to win over today’s consumer.

Main Apple Card Features⁷



Daily cash-back for every purchase

This unique cash-back scheme was put in place in lieu of a point scheme and provides the user with a clear value proposition and true flexibility on how they wish to use their cash-back reward. Rather than being a credit into the card account, the cash-back reward sits as a cash account within the Apple wallet. This clearly addresses a couple of the main drawbacks of point-based programs such as not knowing the true value of points and the lack of flexibility on how to use points.

Near real-time pay with points is fast becoming a main feature of point-based card programs, but the customer experience is not as frictionless as Apple card’s because of the additional steps required by the user to confirm a points redemption for a transaction.



Budget/Expense Tracker

The Apple card intelligently categorises all spend automatically and graphically represents spend within the Apple Wallet; giving the user a dashboard overview of where they are spending, and how their spend is trending.



Pinpoint Transactions on a Map

Leveraging the iPhone’s native features and Apple Maps, each transaction can be represented on a map giving the user that extra sense of security.



Transparency on Interest Charges

As a useful feature for revolvers (cardholders that tend not to pay their card bills in full each month), the Apple card app calculates the interest amount they will be charged depending on the amount they intend to pay.



SMS-based Customer Support

The Apple card will be supported by SMS-based customer service, which gives the user instant access to assistance and quick responses to their questions.

5. <https://www.businessinsider.com/amazon-worldpay-grow-amazon-pay-2019-3/?r=AU&IR=T>

6. Financial Times Series: Libra: Facebook’s digital currency: <https://www.ft.com/content/0c5c4012-9100-11e9-b7ea-60e35ef678d2>

7. <https://apple.com/apple-card/>

Challenger Bank CX

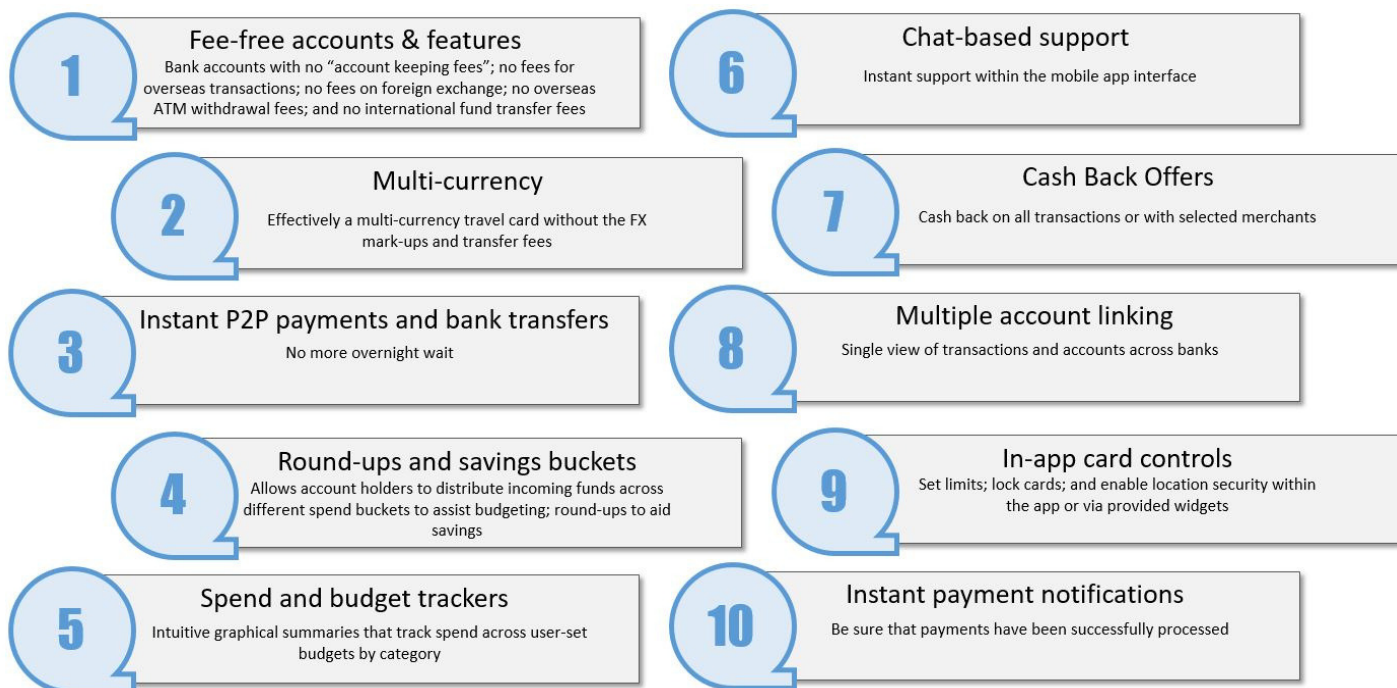
Challenger banks are building their products and solutions on virtually the same “blueprint” – one that focuses on seamless user experiences and technology-driven features that add levels of convenience that were simply non-existent in the not-too-distant past.

A quick scan of the challenger banks’ app feature set reveals a number of common denominators. The feature set can be described as a response to the following summary of common customer sentiments on traditional banks derived from several published consumer research pieces:

- *“Know and help me” – Banks know where and how I transact, yet aren't able to help me achieve my goals.*
- *“Too many fees” - The service I receive does not justify the fees I pay*
- *“Everything takes too long” – Why does it take so long to open an account or resolve a query?*
- *“Make it simpler” – I want easily see and use my money, locally and overseas.*
- *“Respect my loyalty” – I’ve been with this bank for so long, yet new customers get better offers and are treated better.*
- *“Stop spamming me” – They’re always trying to sell me products I don't need*

The Aimia round up of what the top ten features will be

A scan of the emerging challenger bank features across the globe highlights what customers can expect in the near-future.



Other features that didn't make the top 10 but are worth mentioning are:

- Bill-splitting
- Integration with commonly-used digital wallets such as Apple Pay, Google Pay and Samsung Pay
- Bill manager
- In-app mortgage and savings account application tracker

Following are some notable challenger banks that feature an impressive combination of our top 10 list:



Up Bank
Australia



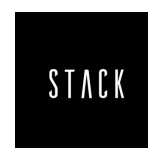
Revolut
US, UK, Canada,
Australia



Monzo
US, UK



Archa
Australia

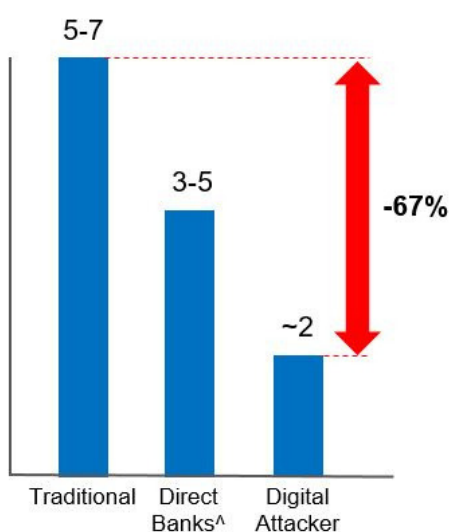


Stack
Canada

Countering Challenger Banks' Advantage

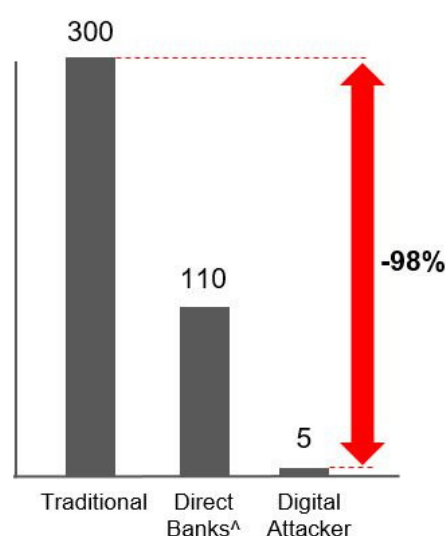
Digital banks, by their very nature, have only a fraction of traditional banks' operating costs. Furthermore, their acquisition cost per customer is also significantly lower.⁸

Operating expense
Percent of outstanding loan
balance



[^]Examples of Direct Banks are ING, DiBa, Activo, Checaca, AirBank, mBank, Zuno

Customer acquisition cost (Estimate)
\$ per new customer



↑↓ Digital banks' cost advantage

It's not over yet - traditional banks still hold the advantage (for now)!

Traditional banks currently hold an inherent advantage with the size of their customer bases, the level of customer data they possess and the breadth of their products and services. To protect their position and avoid market share erosion, traditional banks need to rethink their operating model.

Which parts of the operating model need to be re-imagined for the traditional banks to stem the tide?

Streamline Business Processes

Traditional banks have typically operated in siloed environments. This makes it challenging to provide seamless customer experiences; further increasing their vulnerability to challenger banks. Traditional banks must re-engineer their structure to create an integrated view of their processes, systems, data and products. Partnering and integrating with a digital banking hub is one way to address this, and one that is increasing in popularity.

Personalisation

Addressing the challenge of siloed data will allow traditional banks to leverage the significant amounts of customer data they possess to personalise their engagement strategies. The fact that higher levels of personalisation increases customer engagement levels holds true in the Banking industry. Not only are customers' financial situations and needs unique, they also evolve over time as their circumstances change. Real-time behavioural analytics and predictive modelling can inform customer lifecycle and engagement strategies that personalise customer offers and experiences; however a well-structured data model is a prerequisite to this.

Product Complexity

Digital banks offer simple product portfolios to counter complex product ranges of traditional banks. Complex portfolios are not necessarily a bad thing - but what is important is the ability to be able to provide targeted products that resonate with the customer. This can mean having more product variation in the arsenal but recommending only the most relevant to each customer. Taking that up a level is empowering the customer to design their own banking suite based on their individual needs.

Distribution Costs

In retail and commercial banking, between 40-60% of operating costs are made up of their branch network, call centre and monthly paper statements⁹. These banks need to optimise their distribution and service channels to drive high value traffic to branches whilst driving non value-add traffic to various self-service channels. Leveraging new technologies to deliver more seamless product applications, security checks and customer support are tactics that some traditional banks are deploying.

Multi-product Loyalty

In a 2019 Aimia-commissioned consumer research study of reward cardholders in Australia, it was determined that the number one reason cardholders had for selecting their card product was its rewards program. Furthermore:



9. McKinsey Global Banking Annual Review (2016)

10. 2019 Aimia-commissioned research on the Australian credit card industry with over 1,000 respondents

There is a clear opportunity to put the customer at the heart of loyalty programs and reward their loyalty and tenure with the bank, not with one specific product line. Multi-product loyalty or whole of bank loyalty can be a daunting task given the traditionally siloed bank data structures and business processes. This task can be made easier with the concurrent rethink of the above areas of their operating model.

Conclusion

So is convenience really 'the new loyalty' in banking? Signs are certainly pointing towards that trend; however, banks that learn to properly leverage their inherent advantage – market ubiquity, breadth of product/services and relative trust (at least from a security standpoint) – and use that leverage towards enriching their loyalty offering and lifting their CX standards stand a good chance of turning the tide. A healthy dose of re-imagining the way they work and a conscious effort to pivot to the customer is what's required.

Partnering with Today's Aimia

At Aimia, we believe that:

- Loyalty still has a crucial role to play in creating brand advocates in banking.
- A good loyalty strategy is one that permeates beyond the loyalty scheme itself and influences every touchpoint across every product.
- A loyalty program needs to listen to customer needs and in turn generate a truly rewarding proposition underpinned by an elevated customer experience.

To meet this challenge within the Financial Services vertical, we have partnered with leading Fintech start-ups and technology partners to complement our global leading loyalty platforms and deliver new and exciting ways to reward banks' customers, such as:

- Real-time pay with points – the ability to burn points at any merchant in near real-time
- Merchant marketplace – the ability to burn points at partner online merchants
- Merchant-funded cash back offers – the ability to receive cash-back from participating merchants including location-based offers for higher relevance
- Points-tipping – the ability to convert points to another preferred loyalty currency on demand
- Bespoke experiences & events – segment-driven tailored benefits delivered 'on-demand' or 'always-on'

In addition to the above list, an Aimia Fintech partner can also deliver banks an array of value-adds from a single integration – e.g. card controls (+alerts & rules), round-ups, account-linking, virtual cards and many more.

In the area of whole-of-bank loyalty programs, Aimia has extensive experience in designing, building and running such programs. We launched the first whole-of-bank loyalty program in South Asia, which now has over 5.6 Million members. We also manage a whole-of-bank proposition for a major international brand in the Middle East that resulted in significant lifts in engagement, card spend and tenure.

Fundamental to everything we do is SmartJourney®, our proprietary program design and optimisation methodology. It is a holistic & personalised customer-centric approach, where each interaction is designed to generate higher engagement and ultimately drive long-term customer growth.

We believe that moving with the times and continually adapting to disruptive changes in the marketplace is an ongoing reality in today's world. This is why our entire operating model is optimised to partner and integrate with best-in-class platforms and service providers as a way to leverage our strengths while enhancing our value proposition – all aimed to offer flexible, modular, future-proof solutions to our clients.

To find out more, contact us at loyalty@aimia.com



AIMIA

LOYALTY SOLUTIONS

©2019 AIMIA U.S. Inc. All rights reserved. The marks appearing in this document are the trademarks or service marks of AIMIA U.S. Inc., its subsidiaries, affiliates or licensors.