How to win trust

Designing customer-led digital experiences in the data age

Flybits

CONTENTS

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Introduction: The growing upheaval in financial services

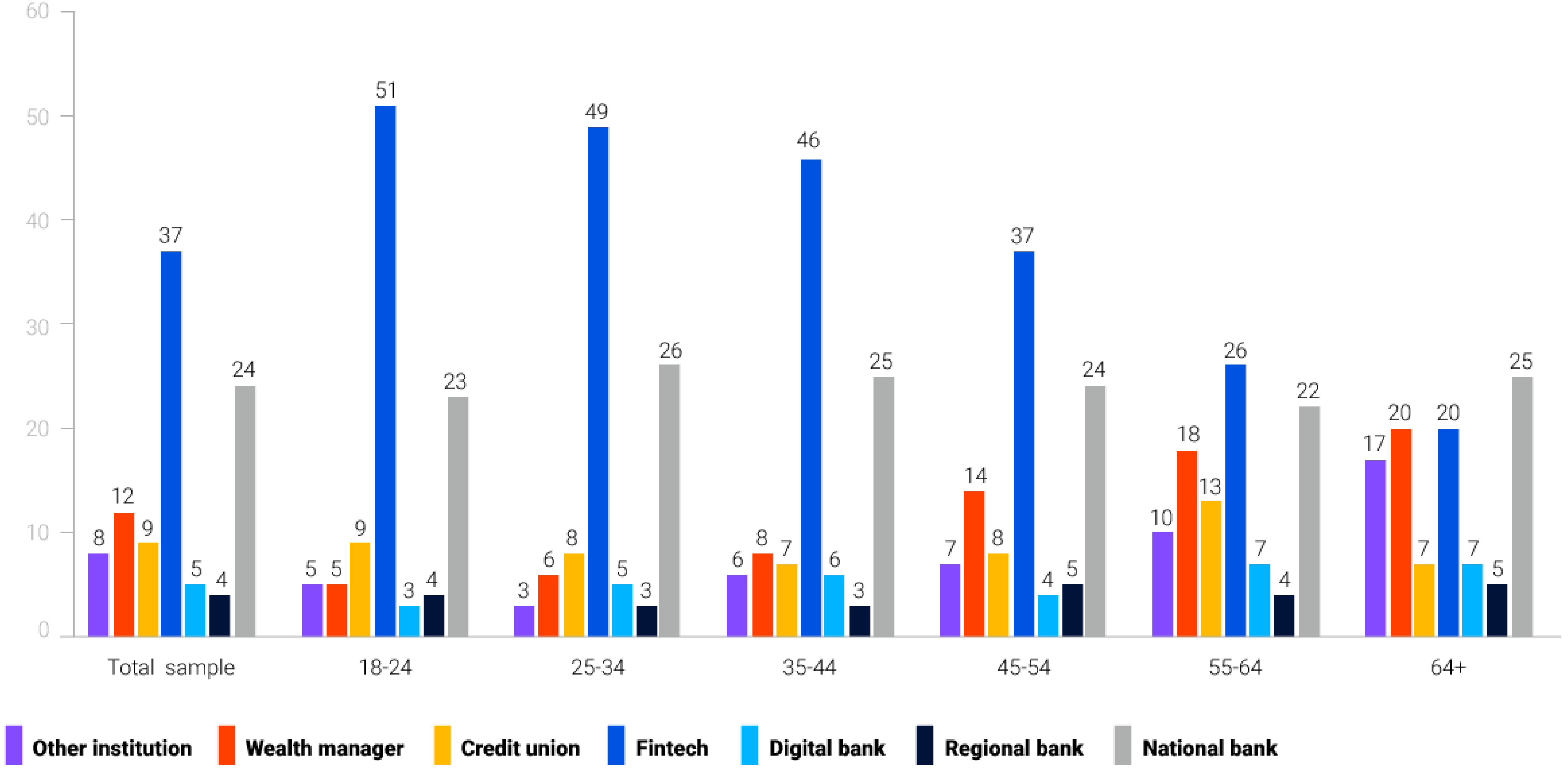
America's largest banks and financial institutions have been in business for decades. They've weathered all kinds of disruptions, from over-exuberant bull markets to crippling financial crashes. But the disruption now underway in the sector is something entirely new: in the last 18 months, amid the lockdowns and other social shifts of the COVID-19 pandemic, challenger organizations such as fintechs and neobanks have made a stunning breakthrough.

In study after study, the numbers bear it out. According to EY's 2021 NextWave Financial Services Survey, in 2019 only 6 percent of US consumers named a FinTech as their Primary Financial Relationship (PFR). Two years later, in 2021, that number skyrocketed to 31 percent.

New entrants with thin reputations have made massive gains in market share, all at the expense of established financial institutions.

Most trusted financial brands by age group

Percentage of respondents who trust each company type most in financial services



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Meanwhile, the reputations of those longtime sector players are taking a hit. According to Accenture's most recent Global Banking Consumer Study, in 2018, 43 percent of consumers trusted their bank "a lot" to look after their financial well-being. Two years later, in 2020, that number had plummeted to a mere 29 percent.

Worse still, more and more American consumers say they are facing increased financial uncertainty. In bygone times, such uneasiness would prompt them to seek the shelter and security of an established brick-and-mortar bank—but not anymore.

Buoyed by their recent success, fintechs are aggressively pursuing still more market share, taking direct aim at major institutions and their high net worth clients. In a recent ad spot for Questrade, one of North America's fastest-growing online discount brokerages, a young investor derisively asks his middle-aged older brother, "You're not still investing with mom and dad's guy, are you?"

These trends pose an existential threat to incumbent financial institutions, who have long relied upon trust as the cornerstone of their customer relationship. The traditional components of a bank's reputation—longevity, institutional heft, and branch networks—are no longer enough to bring customers through their doors. But as competition intensifies with challenger organizations from fintechs to big tech, established financial institutions already have all the raw digital materials they need to compete—provided they renew their customer relationships based upon a different kind of trust.

The trust banks once enjoyed is eroding, but it's not gone yet. As this White Paper will explain, it can be the foundation of a renewed trust tailored to the data age, one that will keep banks at the forefront of their sector for decades to come.

Part 1: A new kind of trust

For traditional players in the financial sector, the bricks-and-mortar cornerstones of their reputations remain an asset. But there's no changing the fact that customers don't value it as much as they used to.

Everybody knows what a bank can do for you in the traditional economy. What matters now is what a bank can do for you in the data economy.

Across nearly all age demographics and market segments, consumers have high expectations when it comes to their digital experience. They have become acutely accustomed to data-driven personalization in their online lives, in the form of content, offers and recommendations tailored to their needs and interests—all of it delivered through digital interfaces that are designed to be clean, rich and appealing.

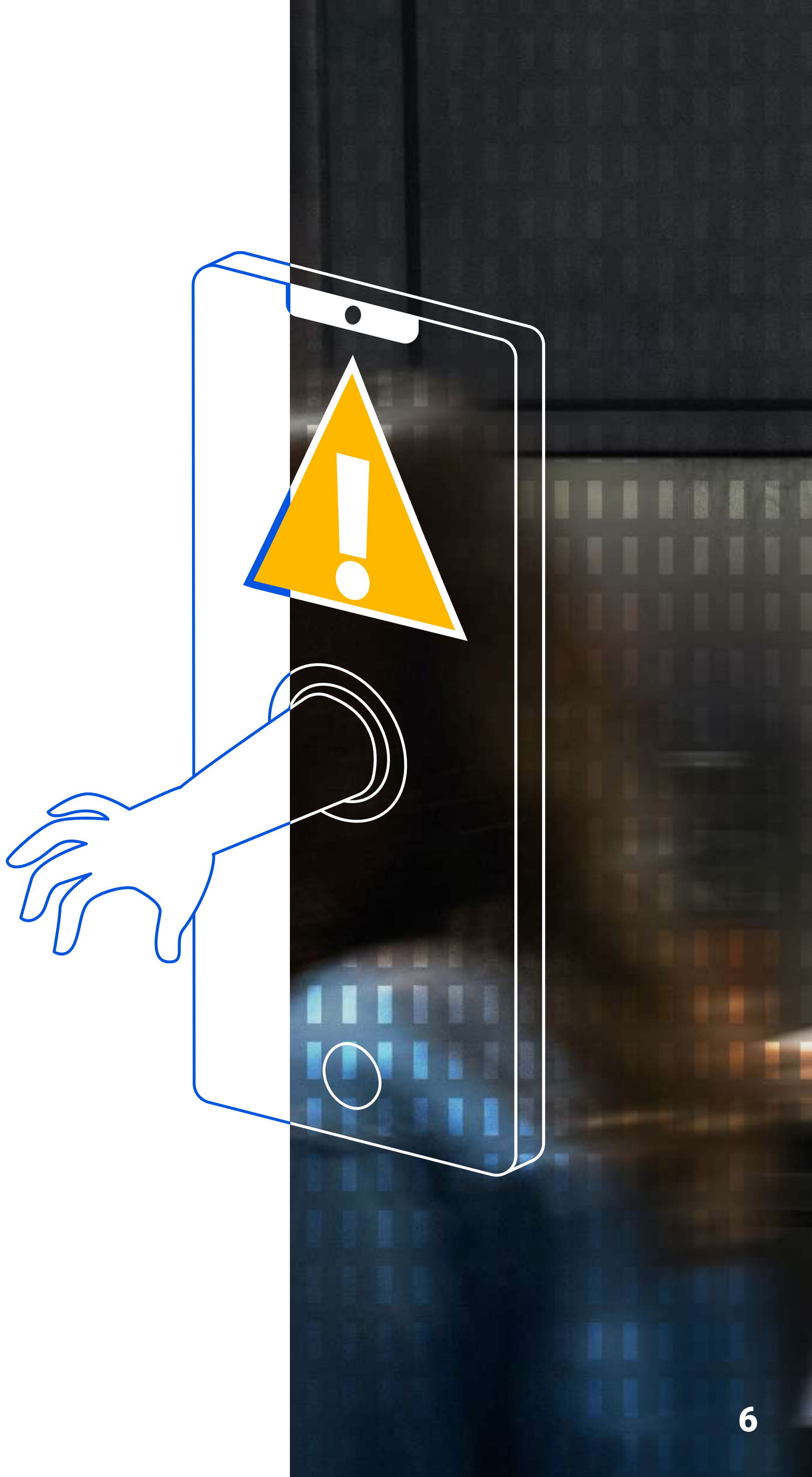
Digital challenger organizations, from startup fintechs and neo-banks to big tech firms such as Google, Facebook and Amazon, have built their business model upon these data-driven relationships. Their digital channels were not designed to support physical locations or service teams; the digital experience is the core of their offering. They have thousands of unique data points on each and every user, which they use to improve the customer experience.

- Amazon famously used customer data to develop—and patent—the one-click purchase, free from the chore of re-entering payment or delivery information.

- Facebook now applies user data to customize people's feeds with selected items from its new Marketplace feature, simplifying the time-consuming process of sifting through online classified advertising.

At the same time, however, consumers are increasingly wary about how digital-first companies handle their data. Recent news about Facebook's questionable practices—exempting some users and groups from its rules, failing to stop the spread of misinformation, tolerating the presence of human traffickers and drug cartels, and more—have only further convinced consumers that tech firms are not looking out for their best interests or protecting their data.

Consumers now see their personal data as an asset that needs constant protection to remain secure. And keeping assets secure is the core mission of brick-and-mortar financial institutions.




Part 2: Alleviating digital tension

In fact, traditional financial institutions hold a trust advantage over their digital challengers on the issues of data privacy and security.

According to a 2020 study by the Michigan-based Ponemon Institute, a thinktank dedicated to advancing the responsible use of information and privacy management practices, 86 percent of consumers are “very concerned” about how big tech firms use their personal information. But those fears don’t extend to their banks: while a majority of consumers distrust social media and online shopping sites, only 1 in 10 have concerns about using online banking.

“Consumers want their data kept private and secure, but they still want the richly personalized digital interactions that personal data can create,” says Flybits founder and CEO Hossein Rahnama. “We call it digital tension: the constant anxiety people feel when they need to be digitally connected but are never sure that their data is secure.”

Consumers should be able to use digital channels and services free from tension and anxiety, confident that their privacy and security isn’t compromised. And the organization they would trust most to provide a truly secure, immersive digital experience is their bank.

This digital trust is a crucial asset for financial institutions, a key differentiator in the data economy. It's also an asset that, currently, is deeply underutilized.

Banks already have their own trove of data on each customer: not just transactions and balances, but also data on incomes, homes, transportation, family, personal and professional relationships, careers, and more. Banks are sitting on a wealth of data that can provide deep insights into consumer demographics, behavioural patterns, life milestones, and service preferences.

The insight available within that data is capable of painting a detailed and nuanced portrait of each customer. It can help banks better serve customers by anticipating their needs, helping them plan ahead, connecting them with the services and advice they need, and helping them improve their financial health.

Right now, however, those data assets lay idle. Most financial institutions continue to provide meager digital channels that are, in most cases, simple digital utilities where customers now do the work that branch tellers once did.

The challenge for banks is to move beyond the digital utility paradigm and become a trusted, central hub in customers' digital lives, one that generates insight from their data and helps them expand their networks. To do so, they must cultivate a new kind of trust for the digital age.

Part 3: The new rules of trust

Rule #1: Create digital experiences

Financial institutions want customers to feel that their bank is invested in their lives beyond the balance sheet. For decades, the task of extending relationships beyond the transactional level belonged to branch personnel. But branch visits have plummeted and digital channels are now, by far, the primary customer interface.

"All the information a branch manager would have about a customer already exists in most banks' troves of data," says Nabeel Batlay, Chief Strategy Officer at Flybits.

"This data can be used across all digital channels, so that every digital interaction is like having a personal banker times 10."

Customers would welcome the shift. There is currently a 20% experience and expectation gap in digital banking: customers say their online banking experience falls below their expectations. Banks need to meet customers where they are—and in this case, where they are is online. According to EY's research, all age groups 44 and under say that, in the wake of COVID-19, they're more likely to use any other channel (including web portals, phone apps, smart speakers and smart watches) than they are to visit a branch.

With branch visits and face-to-face interactions on the decline, the job of building customer relationships now belongs to the data.

Post-COVID-19 channel frequency expectations

Percentage of respodents who will use channels more frequently post-COVID-19 to interact with PFR

	Total Sample	18-24	25-34	35-44	45-54	55-64	65+
Online	38	51	51	46	40	26	18
Mobile app	35	51	52	45	36	21	9
Videoconferencing	27	39	41	37	27	16	7
ATM	21	28	29	26	22	14	9
Smart speaker	18	25	29	29	17	8	2
Branch	17	22	22	22	16	11	11
Call center	16	25	25	23	16	7	3
Smart watch	16	25	27	23	16	7	2

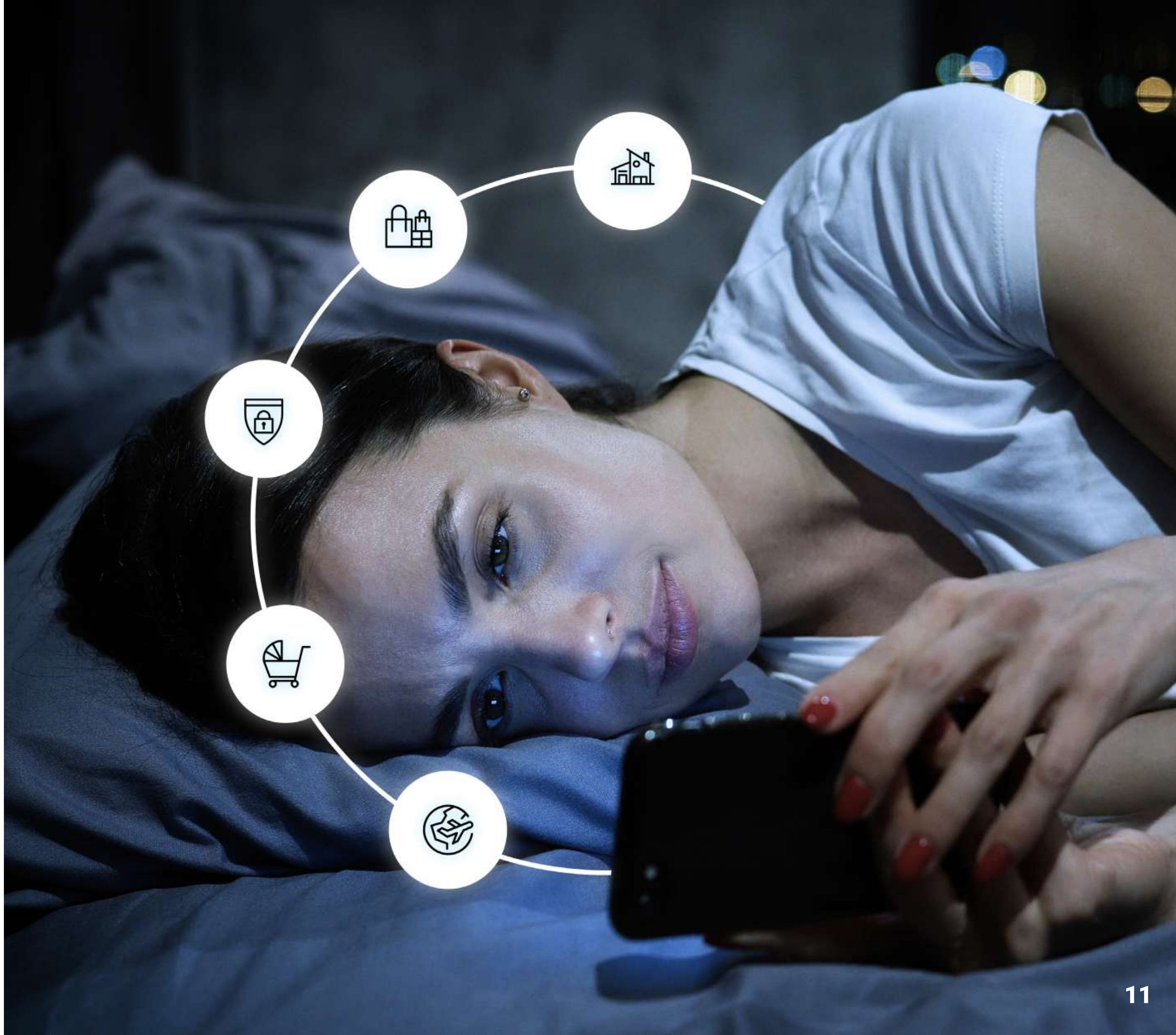
Consumers are looking for the kind of rich, immersive experiences they get from other apps, which they use to connect, to learn, to advance careers, and more. They want those kinds of data-enriched experiences from their financial institution as well.

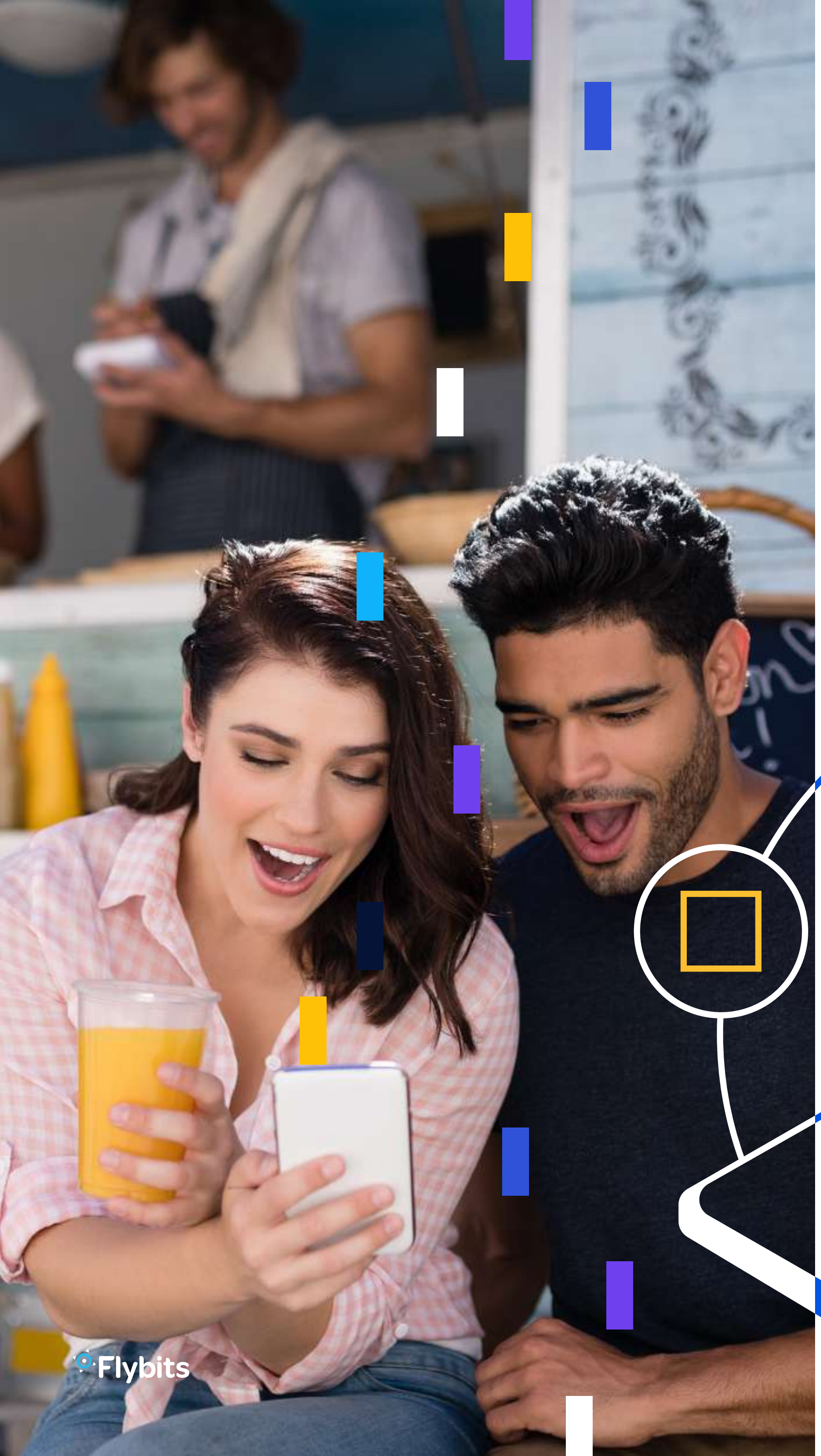
But in order for data to do the job, digital channels must become more than mere transaction utilities. They need every piece of customer data at their disposal, and they need to be capable of engaging on whatever topic the customer wants to discuss. It's both a data challenge and a design challenge.

First: unlock the data.

Financial institutions have attempted multiple different approaches to the task of making all their data accessible across multiple systems and platforms, from data lakes to multiple data-cleaning and capability-building cycles. Theindustry as a whole has invested over $1 trillion in systems since 2015, with disappointing results.

Those solutions no longer make sense. For one, co-locating data always creates an appealing "honeypot" for hackers. What's more, says Rahnama, they are built upon a fallacy. "All those strategies were based upon the idea that you had to move the data to the algorithms. That's no longer necessary. We can now bring the algorithms to the data wherever it is located. They can extract relevant information from dataset to dataset, without ever compromising security."

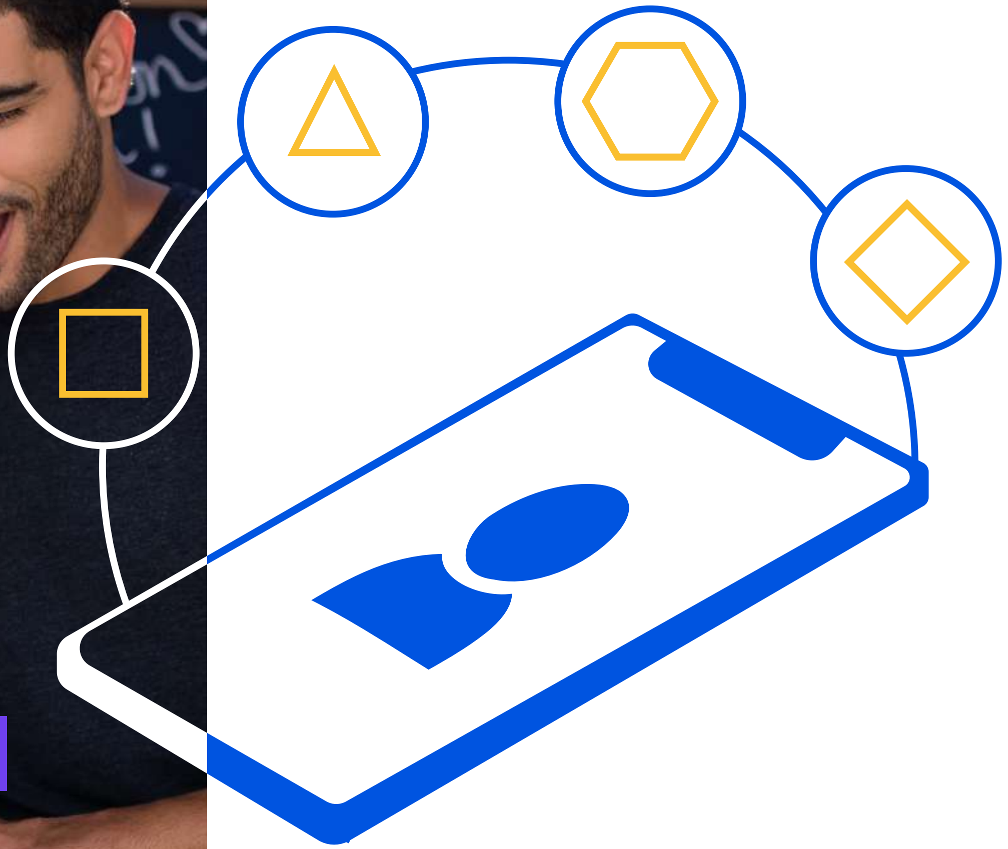




By adopting mobile algorithms, financial institutions can stop trying to figure out how to co-locate or standardize their data, and instead leapfrog straight to the business of generating customer insights from it.

Next: design experiences, not transactions.

Once the data is available, financial institutions can redesign their digital channels to place customers at the center of an immersive digital experience. By welcoming clients into a secure and privacy-protected environment where they are in control of their data, digital banking channels can provide users with information and recommendations based upon the insights gleaned from their personal data.



And since no two customers' data histories are alike, no two digital experiences should be alike.

"Banks need to leverage technology to create a segment of one," explains Batlay. "Each customer has different needs, and every interaction should reflect the rich knowledge the bank possesses about them. It's about creating a hyper-personalized experience. Instead of bundling people together, create a unique proposition for each customer."

That unique proposition means prioritizing service over sales. Let customers set the agenda, and be prepared to engage them no matter what channel they choose. Customers who log on to their banking app during their lunch break to learn about mortgages should find content that is personalized to their financial situation. And they should be able to log back on later in the day, through whatever other channel they choose, and pick up where they left off.

Rule #2: Champion data privacy

Privacy protection is now a competitive differentiator in the data economy, a feature that consumers look for when they choose who they'll do business with. Apple is marketing its privacy upgrades with a remarkably effective advertising spot.

Financial institutions understand the importance of keeping financial and transaction data secure and private. It's a key component of their identity in the data economy. Yet it's an issue they rarely address in public.

Their reticence to champion the issues of data privacy and security are rooted in their old-economy habits: after centuries of success, the security of the bank vault speaks for itself. But that's not the case with data assets: digital security is still poorly understood. People are unclear about how their data is used by the many different organizations they share it with.

Financial institutions need to clearly align themselves as protectors of privacy and security in the data economy. They can do so simply by communicating transparently with their customers about it.

- Describe the meaning of personal identifiable information (PII): what it is, how it's handled, and how it's kept secure.
- Demonstrate how authentication works as a privacy-protection gateway.
- Bring them through that gateway into a secure environment: once inside, their data they provide to the bank stays with the bank.
- Explain how they control their own data: it will only be shared with organizations they consent to share it with, and they will always have the opportunity to change their consent.

By becoming champions of data privacy and security, financial institutions will be taking the trust they've earned in the old economy and extending it into the data economy, extending their traditional role into a new era.

Rule #3: Be more than a bank

Once customers understand that their bank's digital channels provide data-enriched experiences without compromising privacy or security, they will welcome an expanded role for their bank in their digital lives. The bank apps of the future can become a hub for activities that reach beyond banking, connecting customers to the other networks and digital services under the safety and privacy umbrella of their banking app.

The average smartphone has over 80 apps on it—ride hailing, travel, maps and mobility, web browsing, news media, home automation and more. Each one collects the user's data with little transparency about what they are collecting, how they collect it, or who they share it with.

Banks can offer a secure data environment for accessing those services within their own app, where customers retain control of their data.

In the past, this kind of arrangement would have required multiple bilateral business-to-business agreements, complete with legal contracts specifying how to store data and provide services to the user. But the security paradigm has shifted, and so has the technology: people own their data now, and new algorithmic capabilities have privacy protection built in. "This can all be done without data centrality now," says Rahnama. "We get permission from the user to share certain types of information and we use algorithms that respect privacy to process the data without ever removing or moving data from any storage points across the participating organizations."

In this new paradigm, financial institutions become the central hubs of a data ecosystem, one where data insights are shared across multiple organizations without ever moving data around or sharing personal identifiable information—all with the customer's explicit permission.

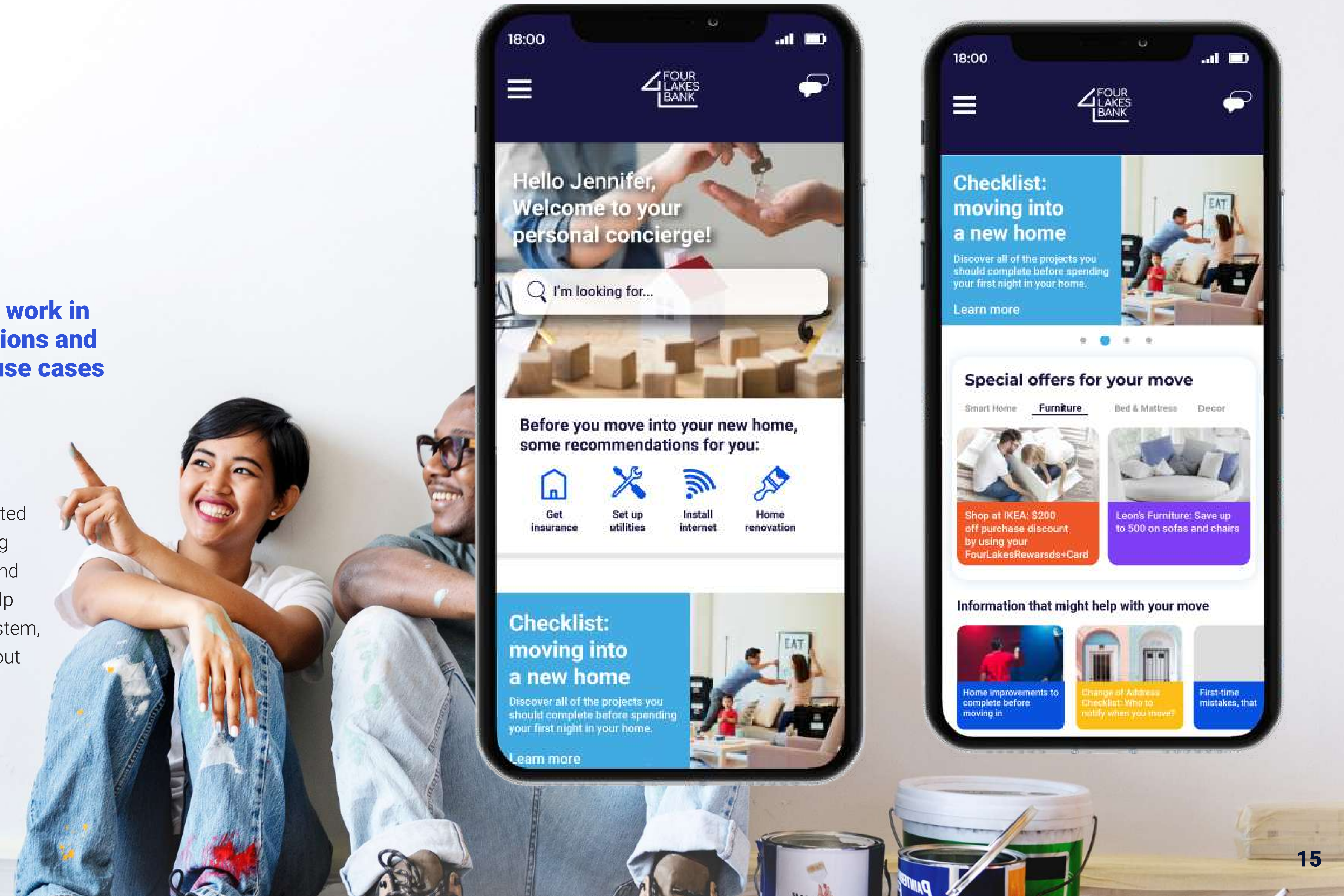
Data ecosystems simplify transactions and are less vulnerable to hacking. Above all, they alleviate digital tension by providing customers with the data-enriched experiences they want without compromising data privacy.

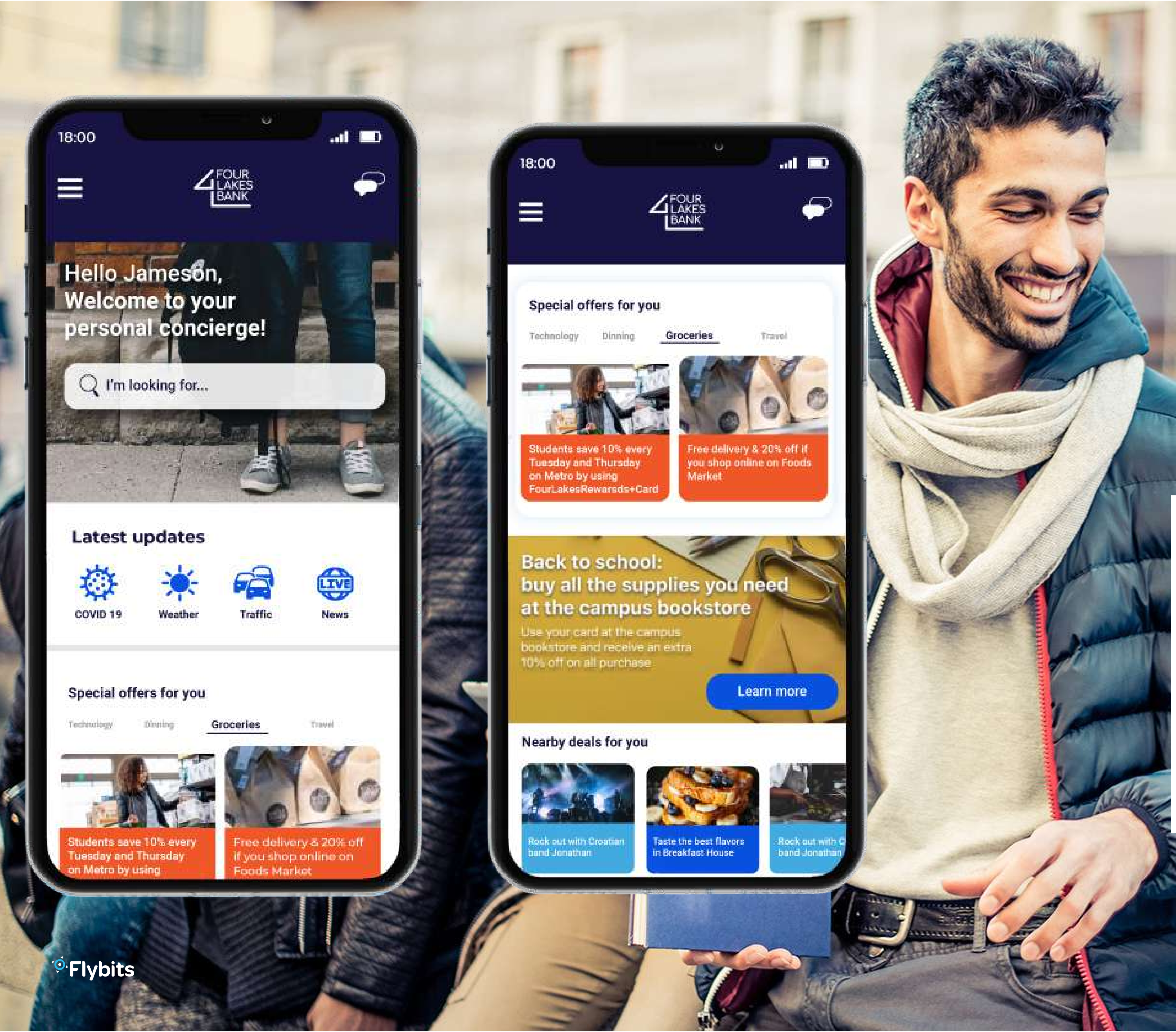
Part 4: Data ecosystems in action

How would data ecosystems work in real life, for financial institutions and for their customers? These use cases show them in action.

1. Buying a home.

If a mortgage customer's offer is accepted on a new home, connect them to moving companies, utilities, internet providers, and other change-of-address essentials. Help them plan renovations. In a data ecosystem, the customer relationship becomes about more than just mortgage payments.



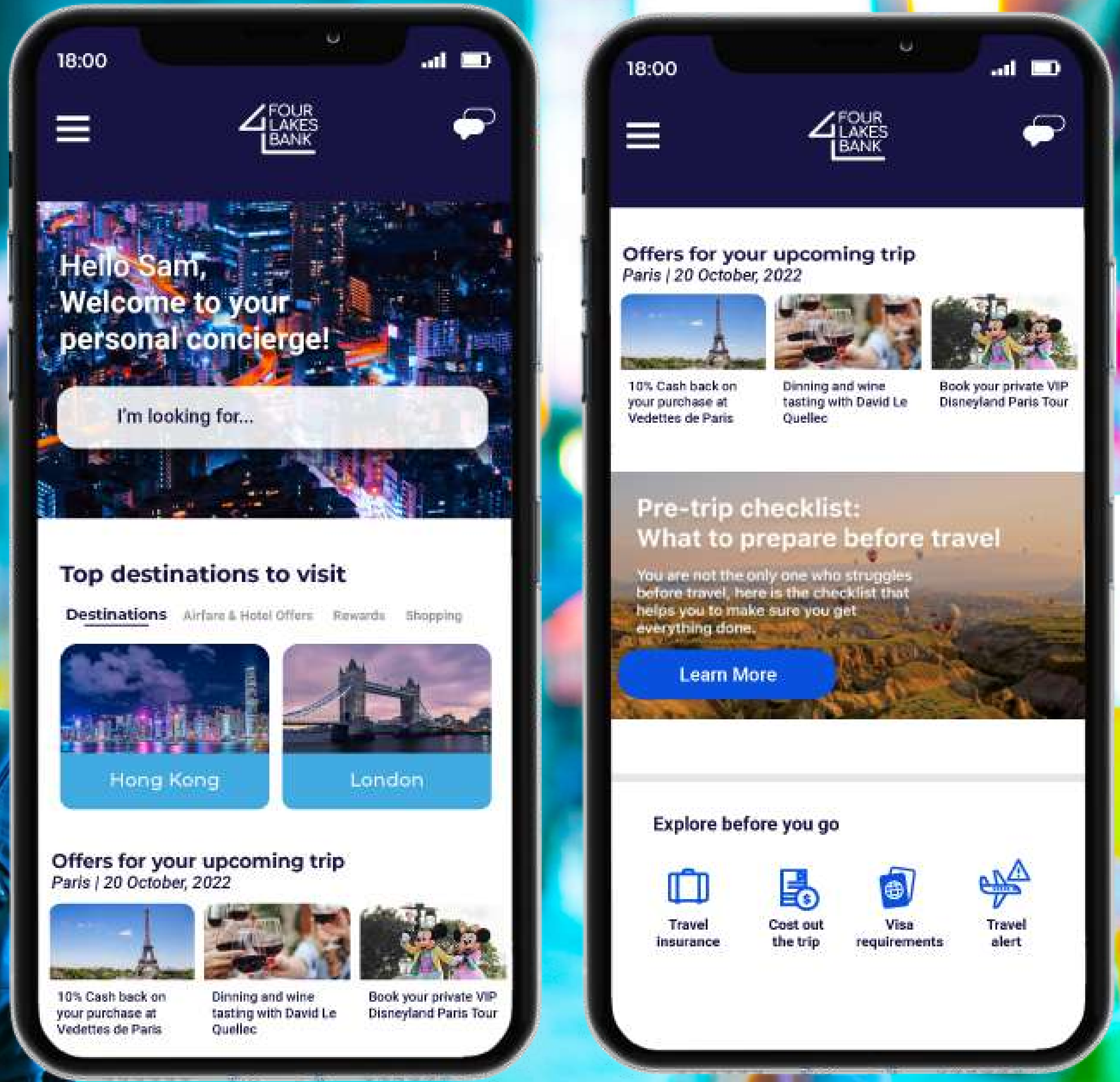


2. Heading off to college.

Use the insight generated by data to connect families to the things they'll need, such as offers on new tech, travel and textbooks and groceries. Help new college students save money on groceries and sign up for loyalty rewards with the campus coffee shop. In a data ecosystem, the bank becomes part of the support network.

3. Vacations and travel.

Data histories show when and where people have traveled. Help them plan their next trip: connect them not only to travel insurance but also to destinations and excursions, airfare and hotel deals, and rewards opportunities. Connect them to tools that can cost out the trip and to notifications on travel alerts and visa requirements. In a data ecosystem, their bank helps them build their travel checklist—and helps them tick all the boxes.



About Flybits

Flybits is the leading digital experience platform built for the financial sector, delivering predictive, personalized, and context-aware experiences to customers at scale. Its enterprise-level solution brings relevant advice, products, and offers, to a bank's digital channels based on what each customer needs in the moments that matter. With Flybits, banks are able to design, launch, and measure data-driven consumer experiences while preserving their privacy.

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