

booz&co.

Web 2.0 Banking
*Fresh Thinking for
a New Decade*



Contact Information

Beirut

Peter Vayanos

Partner
+961-1-985-655
peter.vayanos@booz.com

Hong Kong

Edward Tse

Partner
+852-3650-6100
edward.tse@booz.com

New York

Paul Hyde

Partner
+1-212-551-6069
paul.hyde@booz.com

Chicago

Tom Nodine

Senior Executive Advisor
+1-312-578-4565
tom.nodine@booz.com

London

Victor Koss

Partner
+44-20-7393-3738
victor.koss@booz.com

San Francisco

Charles Lyman

Principal
+1-415-281-5077
chuck.lyman@booz.com

Delhi

Suvojoy Sengupta

Partner
+91-124-499-8700
suvojoy.sengupta@booz.com

Milan

Enrico Strada

Partner
+39-02-72-50-93-00
enrico.strada@booz.com

Sydney

Vanessa Wallace

Partner
+61-2-9321-1906
vanessa.wallace@booz.com

Dubai

Karim Sabbagh

Partner
+971-4-390-0260
karim.sabbagh@booz.com

Moscow

Yuri Dobrynin

Partner
+7-985-760-14-71
yuri.dobrynin@booz.com

Vienna

Klaus Hölbling

Partner
+43-1-518-22-907
klaus.hoelbling@booz.com

Frankfurt

Olaf Acker

Partner
+49-69-97167-453
olaf.acker@booz.com

Munich

Johannes Bussmann

Partner
+49-170-2238-535
johannes.bussmann@booz.com

Zurich

Christian Reber

Partner
+41-43-268-2121
christian.reber@booz.com

Jörg Sandrock

Principal
+49-170-2238-656
joerg.sandrock@booz.com

EXECUTIVE SUMMARY

The rise of Web 2.0 has led to a huge surge in new technologies, including wikis, blogs, mobile apps, and social media. Changes in customer behavior and a vast increase in communication, interactivity, mobility, and ease of use have transformed industries as varied as telecommunications, retail, and media. Yet for all intents and purposes, the retail banking industry has remained on the sidelines. It is time for banking to come to terms with Web 2.0 and take advantage of the many opportunities it offers.

This will require banks to rethink their traditional distribution models, including creating new offerings and channels for younger customer segments, devising new products and services that are simpler and more transparent, and using the power of social networking and other digital platforms to improve their marketing. The effort will force banks to better understand the true potential of Web 2.0 and learn to speak the language of the new generation of Web-savvy users, which might help them gain back the trust lost during the recent financial crisis.

Success in the new Web 2.0 world will require a clearly defined strategy that includes involving the bank's customers in its marketing efforts, creating a carefully blended product portfolio with new segment-specific offerings, and investing in the Web 2.0 technologies needed to pull the entire effort together

A NEW WORLD FOR RETAIL BANKING

The rise of Web 2.0 began perhaps five years ago, with the creation of new Web-based applications and services that have since transformed the online world. The concept centers on the ability of the Internet to promote communication, interactive information sharing, interoperability, ease of use, intuitive user-centered design, mobility, connectedness, and collabora-

tion, while the term encompasses everything from wikis to blogs to social networking to mobile apps and services.

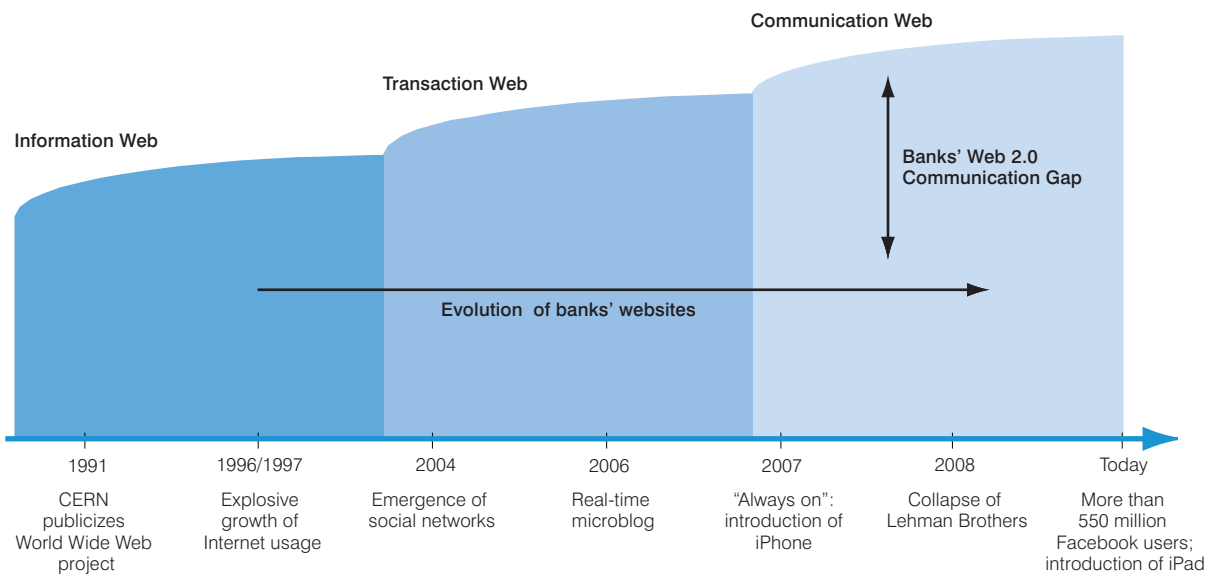
Consumers have already accepted the idea in huge numbers—in just a few years, Facebook, for instance, has acquired more than 550 million users, 200 million of them on mobile devices. Other sites and services, such as Twitter, LinkedIn, and Xing, have experienced similar rates of growth. Indeed, a number of industries have already successfully incorporated Web 2.0 into their distribution models: In travel, sites including TripAdvisor.com combine travel planning with social networking features, and in telecommunications, telephony services such as

Skype are finding success by undercutting traditional operators over the Internet.

Unfortunately, retail banking has not been on the cutting edge of the shift to Web 2.0 distribution. The Internet has significantly changed many aspects of banking: Online banking and, in the U.S., online bill payments, for instance, have grown substantially over the past decade. But banks have yet to make full use of the Web (*see Exhibit 1*). It is time for them to take advantage of the huge opportunities Web 2.0 technologies offer, and to do so soon—as consumer preferences change rapidly. Where do these opportunities lie, and how can banks best make the transformation needed to grasp them?

Exhibit 1
Banking Has Not Kept Up with the Growth of the Internet

EVOLUTION OF THE INTERNET



Source: Booz & Company analysis

A GLIMPSE INTO THE FUTURE

The traditional retail banking model has long been made up of discrete segments—retail, mass affluent, and small and midsize enterprise banking. Each of these segments depends on several sales channels, including ATMs, branches, contact centers, the Internet, and, more recently, mobile banking. And each offers a range of traditional products like checking and savings accounts, consumer and small business credit and mortgages, and investment products and advice. These products are marketed through traditional centralized marketing functions including brand management, promotions, and sponsorships.

Now, however, several factors are converging that will force banks to reconsider every aspect of their distribution systems. With Web 2.0 technologies, for instance, consumers are changing their behavior, and they are demanding a more user-friendly, networked banking experience, one that provides a greater level of trust, transparency, and interactivity. This has already given rise to new competitors from outside the banking sector, and to nascent business models—community banking, social banking, and pure Web 2.0 banking—within the sector.

In response, banks must act now to develop a new distribution model—based on new technologies—that will encompass the entire banking process:

- *Segments:* Banks must develop new offerings for the younger generation of so-called digital natives, while devising ways to more effectively segment all their customers.

- *Channels:* New technologies provide real opportunities to develop new channels such as peer-supported advice in online forums and communities, and converged fixed-mobile channels for always-on connectivity.
- *Products:* Banks can develop a greater variety of simple, transparent, segment-specific products that reduce the complexity of the typical banking relationship, and make them available through more targeted, differentiated channels.
- *Marketing:* New services such as social networking will allow banks to target the digital natives through new channels and with new marketing partners. (We call the digital natives Generation C—for connected, communicating, computerized, and community-oriented.)

SIX CHALLENGES

The goal, ultimately, is to attract new, digitally savvy customers by rebuilding consumers' trust in their banks through increased transparency, interactivity, and involvement. The greater loyalty such efforts will generate, across all customer segments, will help banks increase revenues and compete more successfully with players from other industries that are looking to enter this arena. To do so, we believe, will require that banks address six specific challenges of the Web 2.0 world.

Leverage the Internet's Full Potential

Few banks have exploited the full potential of Web 2.0 in dealing with their customers. Currently, most banks use their websites to provide information and enable standard transactions, while

limiting real communication to contacts in branches and contact centers. That must change, and new technologies have significantly opened up the possibilities for better communication over the Internet and through smartphones.

Banks could start up blogs, for example, to discuss specific economic developments, new services, or the latest research of particular concern to certain customer segments. Active participation in social networks can increase loyalty among existing customers and attract new ones.

Banks could produce video clips for their websites to explain complex products to customers, and offer access to financial advisors through video calls. And they could host online communities and finance-related forums on their websites that

Few banks have exploited the full potential of Web 2.0 in dealing with their customers.

would enable customers to discuss financial products with one another and with bank representatives.

Two examples of this move to Web 2.0 thinking stand out. Spain's BBVA bank now offers a "personal financial management" tool that aggregates account balances and transactions in one place, categorizes the transactions, and automatically generates special offers keyed to customers' financial needs. Since the tool's inception, the amount of time customers spend on the bank's website has doubled. And Fidor Bank, a German startup "community" bank, relies heavily on Web 2.0 technologies such as blogs, forums, and an active presence on social networking sites to communicate with customers, offering them such services as e-wallets and even a bonus program for those who participate actively in its community functions.

The benefits of such efforts will have an impact on both the top and bottom lines. Revenue growth will be enhanced as increased transparency, trust, and convenience

encourage customers to engage online and compare, evaluate, and discuss different products and offers. Banks will also benefit by using the direct, unfiltered feedback they receive from their customers to further develop and improve their services. And by closing the online communication gap, banks could make real gains in efficiency and effectiveness, since shifting communication to the Web has the potential to drive down the frequency of more costly methods of communication.

Speak the New Language

If banks are to enter the Web 2.0 world successfully, they must learn to speak the language of the digital natives whose power as consumers is increasing rapidly. Virtually every member of this younger generation in developed markets uses the Internet—and almost two-thirds use social networks—to access information, be entertained, and stay in touch with friends and family. Already, 12 percent read finance and investing blogs and participate in online investing forums.

Wells Fargo Bank in the U.S. is an early adopter of these technologies. Its website offers several blogs covering such issues as general financial information, finance, and sustainability, including one especially for students. It also offers YouTube videos about the company, Facebook pages inviting customers to link up, and the ability to contact the bank through Twitter.

Soon, these kinds of activities will become little more than table stakes for banks looking to attract young new customers. The most innovative banks will find ways not just to communicate with customers but to use these new channels to boost loyalty and develop cross- and up-selling opportunities.

Reduce Channel Costs

The classic approach to channel management aligns the complexity of a product with the cost of selling over a particular channel; typically, banks try to sell low-margin products through low-cost channels, for example. Web 2.0, however, offers banks the opportunity to change this dynamic, by using the

inherent low cost of online channels to sell complex, high-margin products (see Exhibit 2).

There are a variety of technologies that banks can leverage to reduce the cost of sales. Online forums that bring customers together to discuss and explain various products to one another can encourage reluctant buyers. Blogs can be set up to target particular customer segments, introducing them to relevant products and using case examples to help explain those products. And online video tutorials can be used to explain particularly complex products to customers. Both Deutsche Bank and BBVA, for instance, already let customers speak

directly to bankers and financial advisors through video chat, providing greater convenience at a significantly lower cost.

As the world becomes more and more digitized, these technologies will become particularly attractive to “prosumers”—those professional, productive, and proactive consumers who typically offer the most long-term value. In their determination to seek out sound advice and good deals, they are especially likely to turn to financial institutions with a strong Web 2.0 presence.

Restore Confidence

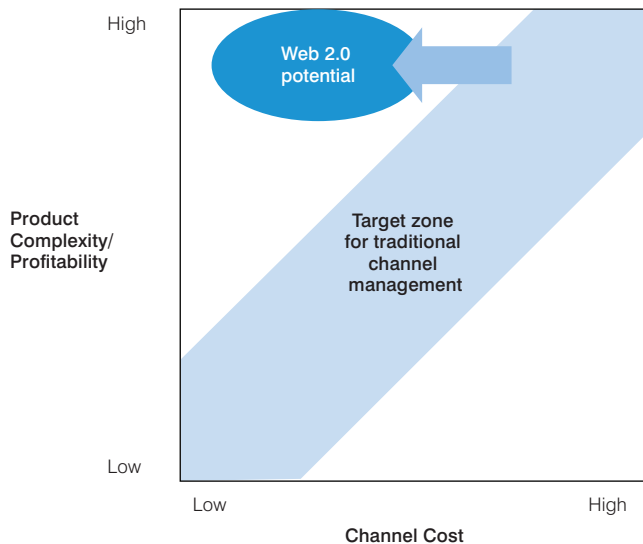
Given the turmoil in the financial services industry over the past

several years, it should come as no surprise that consumers have lost confidence in their banks and bankers. A number of consumer surveys have shown a significant decrease in trust in banks, in both the U.S. and western Europe. The cause isn't just lack of faith; dealing with banks remains inconvenient, and products are often overly complex.

Web 2.0 technologies can play a major role in building customers' confidence in their banks, simplifying the process of dealing with the banks, and helping customers understand complex financial products. One recent survey indicated that growing numbers of

Exhibit 2
Web 2.0 Allows Banks to Sell Complex Products at Less Channel Cost

TRADITIONAL CHANNEL MANAGEMENT VS. WEB 2.0 POTENTIAL



Source: Booz & Company analysis

consumers, both young and not so young, are turning to online advice from peers as a source of valued financial information.

A U.S. startup bank, aptly named BankSimple, sees its competitive advantage in providing straightforward, transparent banking services online. It claims no hidden fees, free online bill payment, free online and telephone support, and even the ability to deposit checks through a smartphone. Online account information and transactions are designed to be as simple as possible, and the bank has a blog that already boasts a lively assortment of comments.

Integrate Communications

While some banks have already begun incorporating Web 2.0 technologies into their customer offerings, few have succeeded in integrating all of their various channels into a seamless customer experience. Too often, new modes of online communication seem like ad hoc add-ons, poorly integrated into other online and mobile banking offerings or with branches and contact centers.

Providing customers with a fully integrated experience will not be easy, as it means designing a new operating model along with the IT and operational capabilities needed to implement it. A consistent user experience must be created across every channel, together with seamless customer contact across channels. This experience must be enhanced by developing suitable products and service levels for different customer segments. And the entire effort must be tied together through powerful customer analytics, a clear understanding of the key drivers of value, and the ability to measure success.

Increase Competition

As the power of Web 2.0 technologies becomes increasingly apparent, a variety of competitors will likely enter the financial services field, and traditional banks would be wise to pay attention to what distinguishes the winners from the losers. We expect that these new institutions will fall into three categories:

- *Social banking:* These banks will offer their customers socially responsible and ecologically oriented investments, and a high degree of customer involvement through their reliance on an integrated Web 2.0 experience. Examples include ShoreBank in the U.S., GLS Bank in Germany, and JAK Members Bank in Sweden.
- *Simpler banking:* Like BankSimple in the U.S., these banks will offer clear, transparent, and simple products and fee structures; a high level of customer convenience; integrated communication opportunities; and user-friendly Internet options.
- *Pure Web 2.0 banking:* These banks will depend heavily on Web 2.0 technologies to reach and serve customers as efficiently as possible, offering bonuses for active participation in communities and responding flexibly to customer feedback. Already, BBVA in Spain and Fidor in Germany are putting many aspects of this model into practice.

BankSimple, a U.S. startup, sees its competitive advantage in providing straightforward, transparent banking services online.

A FUTURE ON THE INTERNET

If banks are to meet all the challenges they face in their efforts to turn Web 2.0 to their competitive advantage, they will need to proceed in several areas at once. The process will require three steps: the identification of specific needs in developing better online distribution, determining a strategy for meeting those needs, and

devising a mechanism for measuring success. The areas in which banks must work to improve their online offerings range from determining strategy to creating products that meet specific customer needs to investing in new technologies that will improve communication with both current and potential customers (*see Exhibit 3*).

Exhibit 3
The Three-Step Process to Web 2.0 Success

NEED	WEB 2.0 RESPONSE	WEB 2.0 SUCCESS	COMMENT
Formulate a Web 2.0 vision	Define a Web 2.0 strategy	Determine Web 2.0 approach and capabilities	- A successful Web 2.0 strategy needs a clear market approach and the right capabilities
Understand the customer	Involve customers in marketing	New customer acquisition rates	- How to generate new customers and how customer behavior has changed need to be understood and incorporated into the Web 2.0 strategy
Analyze Web 2.0 segments	Create segment-specific offerings	New segments, high attraction rates	- New segments can be created, while potentially even more relevant existing segments can be attracted and held with compelling Web 2.0 offerings
Revise online products	Develop blended product portfolio	Sales of new online products	- Web 2.0 may enable banks to sell products differently or even sell different products
Offer Web 2.0 communication	Invest in Web 2.0 technology	Value communities, new Web experience created	- Technology is a key facilitator (along with the operating model) in leveraging the value of Web 2.0

Source: Booz & Company analysis

About the Authors

Dr. Johannes Bussmann is a partner at Booz & Company based in Munich. He leads the firm's financial services and IT efforts in Germany, Austria, and Switzerland, and focuses on business strategy, sales/channels optimization, and IT innovation.

Paul Hyde is a Booz & Company partner based in New York. He consults with senior executives in the U.S., Asia, and Australia on a range of strategic and organizational issues primarily serving the financial services industry.

Dr. Jörg Sandrock is a Booz & Company principal based in Munich. He specializes in IT-driven strategy in the financial services industry, next-generation distribution, go-to-market strategies, and operating model/transformation programs

This effort should be implemented through a process that will lead to a clearly defined blueprint for Web 2.0 distribution. The first phase involves a careful assessment of the market and the current competitive situation, of the capabilities needed to succeed, and of the company's current capabilities. Phase two includes an assessment of the strategic options and the selection of a detailed Web 2.0 strategy. Finally, in phase three, the blueprint must be drawn up, the implications for the operating model must be identified, and a plan must be developed for prioritizing the steps required to put the blueprint into action.

Many retail banks have made significant strides on the Web over the past decade. The new Web 2.0 Internet, however, is a much more complex environment, one that requires a detailed strategy, the building of several key capabilities, and a well-planned operating model. No bank can afford to miss out on the many opportunities available in this brave new world.

The most recent list of our offices and affiliates, with addresses and telephone numbers, can be found on our website, booz.com.

Worldwide Offices

Asia	Bangkok	Helsinki	Middle East	Florham Park
Beijing	Brisbane	Istanbul	Abu Dhabi	Houston
Delhi	Canberra	London	Beirut	Los Angeles
Hong Kong	Jakarta	Madrid	Cairo	Mexico City
Mumbai	Kuala Lumpur	Milan	Doha	New York City
Seoul	Melbourne	Moscow	Dubai	Parsippany
Shanghai	Sydney	Munich	Riyadh	San Francisco
Taipei		Oslo		
Tokyo	Europe	Paris	North America	South America
	Amsterdam	Rome	Atlanta	Buenos Aires
Australia,	Berlin	Stockholm	Chicago	Rio de Janeiro
New Zealand &	Copenhagen	Stuttgart	Cleveland	Santiago
Southeast Asia	Dublin	Vienna	Dallas	São Paulo
Adelaide	Düsseldorf	Warsaw	DC	
Auckland	Frankfurt	Zurich	Detroit	

Booz & Company is a leading global management consulting firm, helping the world's top businesses, governments, and organizations. Our founder, Edwin Booz, defined the profession when he established the first management consulting firm in 1914.

Today, with more than 3,300 people in 61 offices around the world, we bring foresight and knowledge, deep functional expertise, and a practical approach to building capabilities and delivering real impact. We work closely with our clients to create and deliver essential advantage. The independent White Space report ranked Booz & Company #1 among consulting firms for "the best thought leadership" in 2010.

For our management magazine *strategy+business*, visit strategy-business.com.

Visit booz.com to learn more about Booz & Company.
