Book Review: Upgrade for Brett King’s Bank2.0

Fasten your seat belts, going to be a bumpy year

BANK 3.0: Why Banking
Is No Longer Somewhere You Go, But Something You Do. By Brett King.
Marshall Cavendish/Business. 400 pp.

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Reviewed by Jane
Haskin, president & CEO, First Bethany Bank, Okla. Jane Haskin is a
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end of this review for other books she has written about. A member of ABA's
Community Bankers Council, Haskin also recently served on ABA's Payment Systems
Task Force.

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- Banking is no longer somewhere you go, but something you do.

This statement essentially the subtitle of Brett King's latest book, an expanded and revised edition of his 2010 book BANK 2.0--reflects the overwhelming influence that technology has on how customers choose and use financial services.

If you as a banker do not understand the changes that are occurring in customer behavior, how rapidly they are changing, and the competition you face for your customers, then you must read this book.

If you do understand customer behavior is changing, then you also must read this book for new ideas to keep your financial services relevant.

I promise it will be the most important book you read this year.

New role for the
branch

I have been in banking over 34 years, and the greatest new
banking technology during the first 25 years of my banking career was the ATM. Cautious banks had the advantage and the comfort of waiting to see if customers would accept the new ATM technology by stepping back and observing the success or failure of the early adopters.

In the author’s words

“iTunes succeeded where an entire industry failed--why? Because Apple attacked the friction of the existing pricing and distribution model, and the incumbents inevitably ended up creating more friction to protect their traditional businesses. In the same way, banks and regulators can’t force consumers to engage only in-branch. If they attempt to do so, behaviour will simply circumvent this over time.”

—Brett King on the compliance versus innovation struggle

How times change.

During the last decade of my banking career I've witnessed
the introduction of internet banking, mobile banking, and remote deposit capture. All of these products developed due to changes in technology and the invention of the internet. And all have been adopted rapidly.

All this technology has caused a paradigm shift in customer behavior and the rapid rate of change in technology no longer affords bankers a few years to wait and see if customers will accept a product. The only reason to step back, now, is to avoid being run over.

Already, customers do not have to come to the bank physically to transact their banking. They can transact most of their banking electronically, 24/7, from the comfort of their home and in some cases, virtually anywhere, using a mobile device.

Branch traffic has been decreasing dramatically as a result. Customers are using branches to obtain cash (mainly small businesses), for advice on a product they are considering, or to solve a problem.

So does this imply there isn't a need for branches?

In the author’s words

“The stuff that you consider ‘new’ as bankers, stuff such as

Facebook, iPhones, internet and NFC is not new for the Y-Gen customers of today. This stuff is just life. It’s normal.”

—Brett King on not getting too impressed with yourself

Not necessarily, but King suggests the function of the traditional branch needs to change to be more efficient at solving problems and providing product information, rather than focusing on transactional account business. He provides several suggestions for the branch of the future.

Service in the age of mobile devices

"Our service"—if you ask bankers what differentiates their bank from competitors, this is frequently their answer. However, what impact has the internet had on our ability to serve our customer? And are we using the web to provide excellent customer service?

Spend just a few minutes observing a crowd in a restaurant to understand how connected people are to the internet through their smart phones or other mobile devices and how much they use the devices to communicate.

As King writes:

"We live in a world where being connected is not only a basic right, but an expectation, a simple foundation of our day-to-day lives. Today it's not enough to just be connected. Many of us live with multiple devices simultaneously. A smartphone or two, a tablet, a PC, a gaming device connected to the internet, a web-enabled TV to stream content, and more. We live in a hyperconnected world."

Yet very few banks are using the internet and social media to communicate with their customers. Most traditional bankers still perceive the internet as a "threat" or, at best, just do not understand it. Bankers need to start treating the web as the equivalent of the branch in strategic importance to the brand. Anything less simply means loss of new revenue opportunities and loss of customers to alternative providers.

King writes of his three children, the eldest of whom is 12, each a "digital native." They have never known a world without mobile devices and internet connections.

"They'll simply expect the world to work in that context," King writes. "If you don't--you're irrelevant."

Ten years down the road, most retail banking revenue will be either web, mobile, or tablet-based. If you have not already started down that path, you need to move--very fast.

How is your bank's
internet customer experience?

Many online retailers, such as Amazon, do an excellent job
of communicating with customers through the internet. When you make a purchase
on Amazon, not only do they tell you what else you might additionally want to
purchase to compliment what you just purchased, they frequently send you
messages with information on items you might want based upon previous buying
habits.

What if banks were to collaborate with retailers and use the
history of spending on a customer's credit or debit card? Offer targeted
coupons for the stores where we know they shop? Is that an invasion of privacy, or an improvement in service
to our customers?

Banks are going to have to think of new ways they can
provide value to the customer relationship. Today's consumer has more control
and more choices over their financial services than ever before.

King analyzes trends in online banking usage and revenues
and has this to say about efforts that don't pay off:

"I've been working with retail banks for over 15 years in
the deployment of bank websites and internet banking capability, and I can say
that the only reason I've ever found for banks not to be making money hand over
fist from the online channel is that they simply don't enable online

acquisition and fulfillment effectively. It's never been about adoption rates or customer acceptance of the channel. I've never seen a well-designed, highly usable product application process online fail to bring in new revenue from day one."

He points to figures indicating that 10% of retail sales come through the online channel now--but that in the book industry it's much higher, with Amazon accounting for over 50% of North American sales by itself.

Time your mobile got moving

Has your bank invested in a mobile banking platform?

The Apple iPhone was launched in July 2007 and in March 2012 the 25-billionth app was downloaded. There were more iPhones sold in the first quarter of 2012 than in the whole year of 2011. Twenty-five per cent of U.S. mobile phone users are mobile-only internet users. ComScore estimates by 2015 that 50% of U.S. bank customers will be using mobile banking.

Customers like the convenience of using a mobile device and studies have shown one of the largest groups using mobile banking is wage earners bringing in $100,000 or more annually.

The challenge for the bank, in my experience, is the time it takes to implement mobile banking once the decision has been made to purchase the product. It can take weeks to receive approval for an app design plus the setup time with the core processor.

Mobile phones are also looking like the preferred device for the future of the payment system. It is anticipated that once Apple installs an integrated chip or smartcard in the iPhone, it will be the tipping point to convert the U.S. payment system to a mobile platform--replacing the mag stripe plastic cards in use today.

The payment system itself is rapidly changing because of new technology that allows non-bank providers to enter the financial services industry.

King writes, rather forebodingly, that:

"Suddenly companies with a large base of customers and broad distribution networks, be they mobile operators, retailers, or online brands, have an opportunity to participate in financial services previously only available to banks and associated financial services providers. To put it simply, by leveraging the power of vast connectivity, the mobile phone is enabling new and existing consumers to be reached in engaging mobile services."

It is estimated PayPal will have processed $10-$14 billion in payments through its network during 2012, and PayPal stores value for the customer. Sounds like a non-regulated bank, no?

In just over one year, the Starbucks Card, powered by a mobile app, accounted for a quarter of all of the chain's in-store purchases across North America. That is 42 million mobile payments in 15 months.

Square, which was launched in May 2010, has more than two million merchants using its app and little plastic card reader to take payments on mobile smartphones. There are eight million merchants in the U.S., which means 25% of merchants are using a mobile phone to take credit card payments.

An interesting note, both the Obama and Romney campaigns used Square to take campaign contributions during the 2012 elections. In addition to these players, there are a variety of companies developing a mobile wallet that will provide multiple payment options through a mobile device.

Why some bankers remain skeptical about mobile appears to stump King. "There are bankers out there who still persist in the belief that mobile payments via our iPhone will take years to ‘take off'," he writes. "In a debate on this via Twitter one weekend recently, an illustrative comment was ‘I can see it, just not for some time ...' "

(King doesn't say whether that was mobile or desktop tweeting.)

Future tense in a tense present

If you think this book sounds futuristic, I would suggest you also read Bank 2.0, a book written by the same author a little over three years ago. (ABABJ.com reviewed it here.) Many of the concepts put forth in Bank 2.0 is the technology we are implementing in our banks today. LINK: to come

In conclusion, the author provides a series of questions for banks to ponder as they consider how new technology will impact their bank. There is also a checklist of critical developments each bank has to make over the next couple of years as follows:

- • Digital competency is core.

- • Deleveraging branches to a supporting role.

- • Banking is about context and journeys.

- • Customer dialogue informs strategy.

- • Agile IT might be in the cloud.

While several of these points might currently seem far-reaching, they are going to have to be discussion points during each banks' strategic planning process.

There are rapid changes coming to the banking industry. The five-year technology plan can no longer be retirement of the bank CEO. These issues must be addressed now for your bank to survive.

Other reviews by Jane Haskin:

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Tips for women bankers on the move

Leading like lives depended on you

Beyond the glass ceiling

11 laws of likability

Is the Web small banks’ leg up?

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