UDC 004

DIGITAL BANKING DEVELOPMENT TRENDS

Y. BASHKIROVA, I. STROGANOVA
Polotsk State University, Belarus

The article discusses the features of digital banking, its advantages and models. It also suggests ways to improve and develop digitalization in the banking sector.

Speaking about digital banking, we can say that the main task of digital banking is to change the behavior of the bank itself. The Bank is always where the customer needs it: in social networks, mobile devices and information services, in e-business and the Internet of Things, i.e. anywhere in the digital space. It is safe to consider digital banking as a new approach to customer service through digital technologies. The bank must respond to customer requests in real time and wherever the customer may need the bank's services.

The minimization of organizational costs should be recognized as a clear advantage of neobanks over other banks. Due to it, the speed of service increases, cheaper tariffs appear, and the client has an opportunity to minimize the duration of operations.

The main advantages of digital banking are:

1) business efficiency. Digital platforms not only improve customer engagement and meet customer needs faster, but also provide more efficient internal functions. While banks have been at the forefront of digital technology in the consumer market for decades, they haven't taken full advantage of middleware to accelerate productivity;

2) cost saving. One of the keys to reducing bank costs is automated applications that replace excess manual labor. According to McKinsey & Company, traditional banking processing is expensive, slow, and prone to human error. Relying on people and paper, as well as occupying office space, increases energy and storage costs. Digital platforms can reduce costs in the future through the synergy of better data and faster response to market changes;

3) increased accuracy. Traditional banks, which rely mainly on paper processing, can have an error rate of up to 40 %, which requires reworking. Combined with the lack of IT integration between the branch and the back office staff, this problem reduces business efficiency. By simplifying the verification process, it is easier to implement IT solutions with business software, resulting in more accurate accounting reporting. Financial accuracy is crucial for banks to comply with government regulations;

4) improving competitiveness. Digital solutions help manage marketing lists, enabling banks to reach wider markets and establish closer relationships with high-tech consumers. CRM platforms can track customer history and provide quick access to email and other forms of online communication. It is effective for executing customer reward programs that can improve loyalty and satisfaction.

There are several ways to build digital banking. Their difference is in the principles of the organization of a digital bank and the goals of its creation, which allows us to distinguish some models of digital banking.

The first model is called "a digital bank brand". It involves the creation of a traditional bank's own separate brand for building a digital business. This method is suitable for those banks that are afraid of losing customers, switching completely to a digital business model. By creating a new brand, banks strive to retain old customers who are used to using traditional banking, and, at the same time, attract new customers who are ready for remote and high-tech banking services. Examples: FRANK (OCBC) in Singapore and LKXA of CaixaBank in Spain [2].

The second model is called "a digital bank channel" (digital banking channel) and its essence is to create additional digital service channels by the bank in addition to the existing ones. A bank that uses this model increases the capabilities of its customers by offering them different ways and channels for comfortable service. Examples: Simple and Moven in the US.

The third model is called "a digital bank subsidiary". This model is interesting because the subsidiary bank was originally created as a digital bank. If the bank cannot immediately respond to the changing needs of customers, it becomes necessary to create and use a separate digital bank. Example: Hello Bank (BNP Paribas).

The fourth model is called "a digital native bank" (true digital bank). This model includes banks that initially position themselves as digital and build their activities using digital technologies. Initially, a digital bank implies servicing without bank offices. However, customers of such banks interact with them through digital channels. Example: Fidor Bank in Germany and Tangerine in Canada [1].

Ultimately," says Shubh Saumya, a New York-based BCG partner and coauthor of the report, "bank leaders know that digital technology and changing customer behaviors will take the industry in new directions. But many of them no longer think that disintermediation is likely in the near term. They expect an inflection point that will signal it's time to move faster. That inflection point, however, is already here."

The report also explains BCG's recommended action steps for banks in detail.

Drive to scale. Scale—sheer size—which allows for operating at lower unit costs, has always been a source of competitive advantage for banks. Today, however, scale is more important than ever before: it gives banks a much greater ability to invest in marketing and technology. Perhaps most critically, scale today means larger customer bases and more data. These are huge sources of advantage.

Digitize end-to-end customer journeys. Banking products and services are notoriously friction filled and tedious, entangling customers in the machinery of the banks' legal and risk policies, P&L structures, and legacy IT systems. Although most banks have started to redesign end-to-end customer journeys—precisely to eliminate these pain points and identify better pathways—they must work to overcome the snags inevitably presented by bank operating models, processes, and product silos.

Leverage big data, analytics, and AI. This is the Holy Grail—the use of data and analytics to make banking easier and more personalized for customers, as well as more profitable for banks. When combined with big data, AI can, much earlier than traditional methods, help banks identify customers who might leave for another bank — in many cases, before the customer even realizes that he or she is unhappy.

Pursue partnerships to increase capabilities and scale. For the things they cannot do well on their own, banks must develop a partnership strategy. Many banks have already entered into accords with fintechs, generally by making minority investments. Another possibility is to partner with one of the digital giants directly. This may seem like a risky move, but for a bank with a unique attribute or capability that a digital giant might covet, there could be a negotiation of peers—and a successful partnership.

Adopt new ways of working. Most banks haven't fundamentally changed the way they approach their work in decades. This is certainly true in software development. Sequential "waterfall" methods, misalignment of business and technology organizations, and emphasis on product features over customer benefits often produce disappointing results. Banks need to rethink this aspect of their work. In particular, they would do well to move to agile approaches.

Attract and retain digital talent. Even the largest banks, those with the amplest resources, have struggled to recruit and retain the talent they need to compete in a digital age. Although some IT workers currently working in banks may be able to develop the needed skills through dedicated training and coaching, this is also an area in which it will make sense to partner with, or even acquire, high-caliber fintechs or boutique engineering firms.

Simplify technology and data infrastructure. Having the right technology and data infrastructure is a pre-requisite to digital transformation. To provide the digital experience that customers expect, banks will need to aggressively adopt the technology paradigms of digitally native companies. This can happen only if banks drop the vertically integrated legacy technology stacks that they're using today and opt for horizontally layered, plat-form-based technologies.

Ensure cybersecurity resilience. This is a condition not only for succeeding in a digital age, but also for surviving it. All of the good things that banks are trying to do with the help of digital technology — create step changes in convenience, turn their customers into advocates, and operate more efficiently — can be undone by security breaches. A best practice for banks' chief risk officers is to identify best-of-breed providers and to Global Risk 2019: Creating a More Digital, Resilient Bank [2].

What lies ahead?

It is seemingly easy to forget that mankind is still very early in the developments when it comes to the internet. However, in this short period, its rise to prominence and the broad digitization of the world has left us with a very eventful timeline.

If the last decade serves as a reference point, one can expect further and intensifying competition among tech companies. After all, the reward—winning in today's digital economy—reaps much greater value.

REFERENCES

1. L. A. SHAK, K. A. GREBENEVA DIGITAL BANKING: PROBLEMS AND PROSPECTS OF DEVELOPMENT. — [Electronic resource]. — Mode of Access: http://e.biblio.bru.by/bitstream/handle/1212121212/9196/47.pdf?sequence=1&isAllowed=y.
2. As Digital Powerhouses Hover, Banks Must Take the Offensive. — [Electronic resource]. — Mode of Access: https://www.bcg.com/press/25july19-banks-brace-for-a-new-wave-of-digital-disruption.