Payments are all about the customer experience

Despite threats from new entrants armed with digital technologies, banks can remain relevant to payments markets, provided they act now to reinvent themselves. Mark Buitenhek, global head of transaction services at ING, argues that banks retain the advantage of trust but need to transform the way they think, work and invest if they are to retain their customers.

Undeniably, digital disruption threatens the historic domination of the payments business by the banks. However, the same technology can also help them create the better, faster and less expensive services that will not just enable banks to remain relevant, but actually ensure they become an indispensable part of everyday life for both institutional and individual customers.

Consumers still trust banks

Trust is a large part of the explanation of the durability of banks in the payments business. Despite everything that has happened since the acute phase of the great financial crisis in 2007-08, a recent survey conducted by ING and Ipsos found that no less than 84 percent of mobile device users trust the payments app provided by their bank. The equivalent figure for apps from social network providers is a mere 5 percent. In fact, 42 percent of respondents admitted they do not trust non-bank apps.

The payments markets are rich in growth opportunities

There are also plenty of good reasons why social network providers are interested in entering the payments markets. They are growing at double digit rates. Payments technology is developing rapidly. Its price is falling. The technologies are becoming more widely available. Electronic payments are

taking the place of cash. E-commerce and m-commerce have created completely fresh markets, which need low value payment services.

No wonder an estimated 25,000 financial technology companies around the world are trying to devour a market hitherto dominated by banks. And the technology is powerful enough to lower the barriers to entry. A single individual, working out of a garage, can now reach millions of customers who are willing to help him improve his or her product, not only in terms of speed and cost, but in terms of user experience. That is the depth of competition banks are facing today.

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- Mark Buitenhek, ING

Take an uncompromising approach to innovation

To compete successfully, banks need to embrace the mindset of the users of the start-up in the garage. Unfortunately, banks are still organizing innovation in the same way that they always have: through committees, working groups and task forces. This creates consensus, and consensus leads to compromise, and a compromising approach to innovation is not adequate to the scale of the challenge. If banks

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are to transform the user experience of their products, compromise is not enough. Banks need to reinvent their business model, and start thinking like customers, not producers.

The new generation of consumers do not use traditional methods of payment. For them, smart phones are at the centre of how they manage their lives. They expect more and more from the device. The ING-Ipsos survey, of 15,000 mobile device users in 13 European countries, the United States and Australia, found that 41 percent of the respondents already use their smart phones for mobile banking. And a further 15 percent plan to do so.

Innovations must improve the user experience

The survey also found smart phones are even more pervasive in shopping than they are in banking. 58 percent of respondents shop online using their smartphones. 34 percent were more likely to be a repeat customer if the retailer saves their details on-line, to enable “one click ordering.” That proportion climbs to 55 percent if the retailer provides other convenient shortcuts as well. In other words, a better user experience can increase the revenue of a web site by 20 percent.

It is much easier for a retailer to negotiate the price of a payments service if he or she can demonstrate revenues will rise by a fifth if payments are made one way rather than another. It follows that trust is not a sufficient defence for banks against an improved user experience. Speed and convenience, not trust, are the main reasons consumers use payments apps.

The four keys to successful innovation

Although banks have trust on their side when it comes to making payments, the customer also has to find making payments easy and reliable. The challenge banks must address is how to meet those customer needs. They cannot do so without adopting a completely different approach to innovation. That approach has four key features: openness, collaboration, investment and people.

An *open* approach to innovation is at the heart of the digital revolution. Fortunately, banks have understood this. Crédit Agricole launched an open API as long ago as 2012. ING has now also developed an open API as an integral part of its technology strategy.

Banks are starting to *collaborate* with start-ups too. A research study published by Accenture found 80 percent of bank executives were convinced that collaboration with start-ups generated new ideas for their business. But 56 percent of the same set of respondents reckoned their organizational culture needed to change in order to collaborate successfully. Procurement departments, for example, need to be engaged in the innovation process so that they are able to adapt their purchasing criteria to work successfully with start-ups.

Thirdly, it is essential that banks *invest* in improving the user experience of their payments services. Investment is of course a cost, and there is no guarantee of success. What is new is the pace at which an investment needs to pay off. Banks are accustomed to undertaking large technology projects that take between three and five years to complete. At ING, the bank now aims to develop, build, test and introduce innovations within six months. If a project does not work within that time-frame, it is abandoned.

This has beneficial effects financially as well as commercially. Instead of spending millions of euros on one or two large and well thought-out projects, ING is now spending a few thousand euros on multiple smaller projects, introducing them to the market more quickly, and then making further improvements as customers start to use them. In effect, ING is managing its investment process in much the same way that app manufacturers do. It is an agile approach to innovation.

Harness the talent of the Internet generation

Finally, banks cannot succeed in creating the conditions to survive the digital era unless they recruit, retain and manage talented *people*. The payments industry has achieved a great deal, technologically and otherwise, in the last 20 years. But it cannot transform itself if it fails to attract talent that possesses the mindset of the Internet generation.

Without that talent, this industry could easily find itself subsumed in legacy technology, regulatory compliance and the inevitable focus on tackling the day-to-day problems of business-as-usual. It would be easy to lose sight of the changes necessary to reinvent the payments business. That outcome would be a pity, not just because the current environment is fantastically rich in new opportunities, but because a defeat of that kind is entirely avoidable. Success requires no more than a change in attitude and ways of working: from ourselves to our customers.