TOP BANKING TRENDS FOR 2019 AND HOW BANKS NEED TO PREPARE

WHITE PAPER

What does 2019 have in store for banking? Mark Aldred, Head of International Sales at Auriga explores the key **banking trends** that will shape the industry and how banks need to prepare.

BANKS WILL CONTINUE TO REVIEW THEIR BRANCH NETWORKS

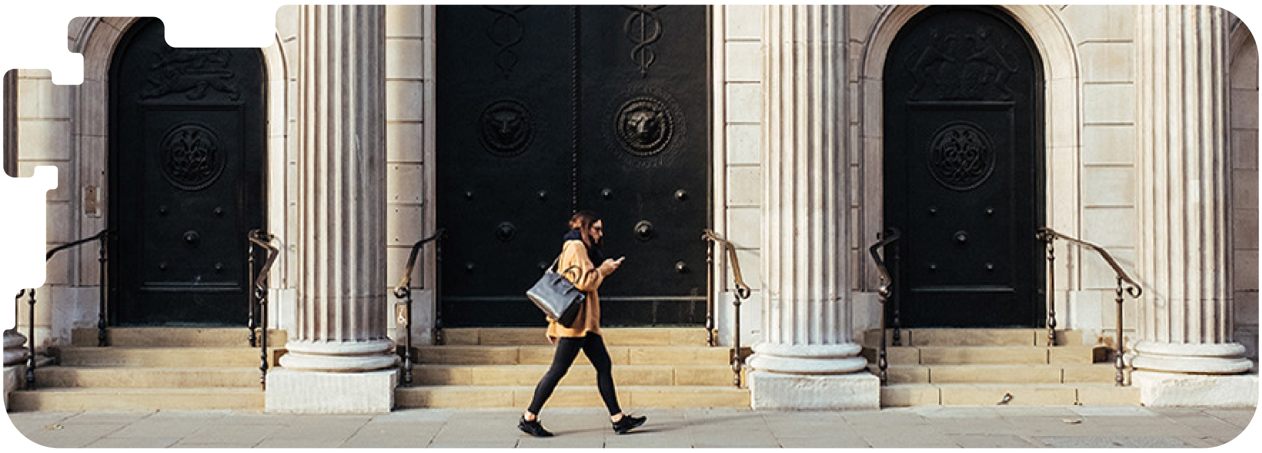
Many banks have been reviewing their branch networks over the last five years. In 2019 banks will continue to review their locations – relocating away from underperforming areas and into new spots of higher footfall and with more demand for banking services, such as out of town shopping centres.

Retail banks, including Lloyds and Halifax in the UK, have already opened state-of-the-art branches in Manchester city centre and in central London. This trend of banks investing in city centre flagships is set to continue, especially as such locations become more accessible as a result of investment in smart cities and improved transport links.

SHIFT TO BRANCHES AS DIGITAL HUBS

In 2018, we witnessed the shrinking of branch networks, as infrastructure costs, combined with a general decline in usage of bank branches, prompted banks to consolidate. There will still be demand for bank branches in 2019 though – according to data from Capgemini, 60.1% of customers rated bank branches as important.

In 2019, banks will focus investment into their remaining locations. In fact, branches are set to become 'smarter' than ever before and develop into fully digital hubs. We will see banks deploying more in-branch technology that improves user experience, including video banking and smarter use of in-branch tablets to improve service and sales. There has been a lot of discussion about banks planning completely omnichannel, seamless experiences, however this year may be the year we start to see banks achieve this. As customers shift to almost fully digital relationships with their banks, they will demand exceptional user experiences that provide real value.



FROM COMPETITION TO COLLABORATION

Competition in the banking industry is already fierce, fuelled not only by the likes of new entrants like Monzo, Starling – and more recently N26 – but also by traditional players stepping up their game by innovating and enhancing the customer experience, challenging the challenger banks themselves. With banks still adapting to the changes set in motion by PSD2 next year though, competition will only intensify.

This increasing competition is spurring banks to develop their offers in order to differentiate themselves and drive growth. However, with customer expectations rising and demands continuously changing, financial institutions are realising the benefits of working together to meet their goals. Through collaboration, customers can get the best of both worlds, FinTechs can expand their offerings, and traditional banks can maintain their share of the market and adopt new services into their existing portfolios.

We've already started to see this collaboration – Starling recently announced a collaboration with the Post Office to allow cash withdrawals, deposits, and balance enquiries to retail and business clients and Monzo quickly followed using the infrastructure of PayPoint. This leverages the customer experience and journey expertise that challenger banks have put at the centre of their offering, combining it with the infrastructure presence of traditional players.

PROGRESS ON OPEN BANKING AND PSD2 WILL PICK UP

The Second Payment Services Directive (PSD2), which came into force in January 2018, is an opportunity for banks. They may seek to monetise and share their customer data with third parties such as FinTechs and to enable collaboration to create first-of-their kind offerings.

While Open Banking and PSD2 have prompted banks to think about their offerings, progress has been slow so far. The full range of potential threats and opportunities from Open Banking are yet to be realised. This is especially true as the digital natives, who at age 18 are now opening their own bank accounts, try to balance their demand for easy to use, integrated services (such as account integrators and budgeting apps) with concerns around data privacy. Financial institutions will need to think creatively and capitalise on new technologies to offer the right solutions in the right moment to their customers.

AI EXPERIMENTATION, NOT MAINSTREAM AI ROLLOUTS WILL BE REALITY

Development and deployment of AI in 2019 will broadly remain experimental. This is despite the heavy buzz around artificial intelligence and how it will revolutionise banking we witnessed in 2018. More and more, banks are testing AI for easily repeatable tasks, for example using chatbots to administer dialogue between the bank and its customers, and this is resulting in great improvements to system efficiency and cost reduction. In fact, according to the World Retail Banking Report 2018, while AI adoption is expected to lead to $1 trillion savings, it will take until 2030 by which time operational expenses will have been reduced by 22% as a result. The continued gradual introduction – in a managed way – of AI is something we are very likely to see.

There is much to be excited about over the next 12 months within banking, but also a growing number of challenges market players need to be aware of, especially with rapidly changing consumer expectations of the ideal financial service experience.

Banks must be willing to adapt, trial new technologies and collaborate in order to succeed in what will prove to be another highly competitive and fast-moving year for the industry.

Auriga
Building 3, 566 Chiswick High Road
London W4 5YA - United Kingdom
www.aurigaspa.com
london@aurigaspa.com