
More and more
non-banks are offering
financial services.
How Can Retail
Banks Stay Relevant?
Open for Innovation
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There is disruption in the banking industry: 62% of Fintech startups are directly tackling the retail banking segment, according to a recent McKinsey analysis. Banks are seeing customer loyalty and product sales drop, while workloads of tedious but necessary activities related to stress tests and regulatory reporting are increasing. What are Fintech companies doing differently, why have traditional retail banks failed to keep up, and what can they start doing today to change this?

On the one hand, Fintechs tend to be smaller companies, who are significantly less stable than retail banks, catering to only specific market segments. On the other hand, they develop their money services with technology at the core: They're able to tap into big data analytics, cloud technology, and today's increased computing power, and their flexible application of new data science tools and techniques enables them to respond faster to change.

This is quite different to retail banks. They started as places that kept cash and lent it out manually. Over hundreds of years, they've grown into full service financial institutions and have enjoyed being our long-standing, trusted partners. They are set up on complex systems, which essentially reflect the bureaucracy (security and compliance) and legacy of how money exchange works.

It would seem that the security offered by traditional retail banks is both their advantage and disadvantage: Any change is slow and painful.

So the question is actually:

How can retail banks reap the benefits of the most innovative technology without sacrificing the legacy systems they've had in place for years?

"62% of Fintech startups are directly tackling the retail banking segment."

McKinsey Report, February 2016

Choose An Open Analytics Tool

Fintechs are considered agile because of their readiness to use emerging software tools and technologies. Banks are facing the challenge of not wanting to give up their legacy systems but needing to integrate new technologies to stay relevant.

The way to tackle this challenge is actually not so hard if you use open software.

Open software platforms are integrative. This means that banks don't have to give up their legacy system, because the open software platform can sit on top of or inside existing infrastructures - extending the utility and functionality of previous investments. An open data analytics tool, for instance, also allows the layering-in of advanced techniques, such as automation, big data analysis, or the application of machine learning methods.

Reap the benefits of the most innovative technology without sacrificing legacy systems.

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Save Operational Costs

Banks can bring down their operational costs (and in turn make customer services more competitive) by identifying which manual processes can be automated. During extreme labor-intense times, for example, preparing for monthly closing reports, controllers frequently have to go through accounts manually to analyze changes in the figures. This is time consuming and error prone.

Such a process can involve collecting and aggregating monthly actuals compared to forecast and budget figures and prior year figures, and analyzing the figures to detect and subsequently comment on positive and negative deviations. Shortening the month-end closing procedure with an automated process can free up valuable controller time during this busy period.

Ledger error and compliance is another process that can save operational costs if automated. Financial analysts perform ledger checks daily to monitor compliance of the data with multiple regulator rules. When rules are hard-coded into the process, any change to a rule means changing the entire process.

Ergo: The financial analyst files a ticket to IT and has to wait for the change to be implemented.

This can be improved with a solution that removes hard-coding the rules from the process. Instead, a rule engine performs checks based on rules stored in tables. Monitoring is much easier, with rules now maintained in a single place. Additionally, the entire solution can be built and changed by the financial analyst herself. IT doesn't need to be involved.

Improve Customer Experience

There has been a huge shift to online financial services - additionally boosted by the coronavirus pandemic. Consumers conveniently shop around for just the right financial service they want, instead of turning automatically to their bank.

It's important for banks to find out what customers think of their products and then adapt these offerings to better meet their needs. With this insight they can make informed decisions.

Here are two examples of techniques and solutions that banks can adapt to their own scenarios and use the insight to develop more superior products and increase customer satisfaction.

- Instead of time-consuming feedback surveys or email campaigns, collect and analyze the sentiment of data from different social media sources. This simple process enables banks to quickly and automatically ascertain the success of their product offerings.

- Speed is an important criteria to take into account to improve customer satisfaction. The modern customer wants to know as soon as possible whether their loan application has been approved and when they can start using the money. Machine learning can be used effectively to enable an extremely fast, highly automated, and accurate decision-making process for a bank's online application service: 200,000 requests are processed per month taking less than ten seconds per request. Once approved, the money is sent directly to the customer's card.

In addition to improving the customer experience, banks can also improve the type of analytics they are performing on data to provide even safer and more reliable services.

“**Technology can help us deal with the risks**, prevention, detection, quality, and speed of response to financial economic crime.”

Stated ING in their 2019 Annual Report.

Detect Online Fraudulent Activity

The number of daily internet crime complaints jumped from 1000 before the coronavirus pandemic to some 3000-4000 complaints, according to the FBI. Industry experts are reporting a surge in ransomware attacks by over 150% in the first half of 2021.

Cybercriminals are constantly finding new ways to circumvent fraud prevention measures. Banks need to respond quickly to reveal new suspicious activities.

“Technology can help us deal with the risks, prevention, detection, quality, and speed of response to financial economic crime,” stated ING in their 2019 Annual Report. Unknown patterns in credit card fraud are tricky to detect and predict, but outlier techniques can be used successfully and bring down the potentially huge amounts of money industry experts expect could be lost due to remote banking fraud.

Anomaly detection workflows have been built by the audit team at Rabobank to reveal patterns in anti-money laundering. In addition, they have translated hypotheses as to what identifies behaviors of people with wrong intentions into a set of defined rules. This ruleset can be applied to an entire population as opposed to, say a sample of twenty, thereby vastly increasing quality assurance.

Extend the Reach of Data Analytics

Open technology is key to staying relevant amidst the fierce competition from the new tech companies in the banking space. The open KNIME Software can not only help banks with all data-related questions, but also give them the open environment to use other integrative software. This will enable banks to extend their reach, get closer to the cutting edge, and, yes: keep up with the Fintechs.

An open, integrative platform is key to staying relevant in the banking space.

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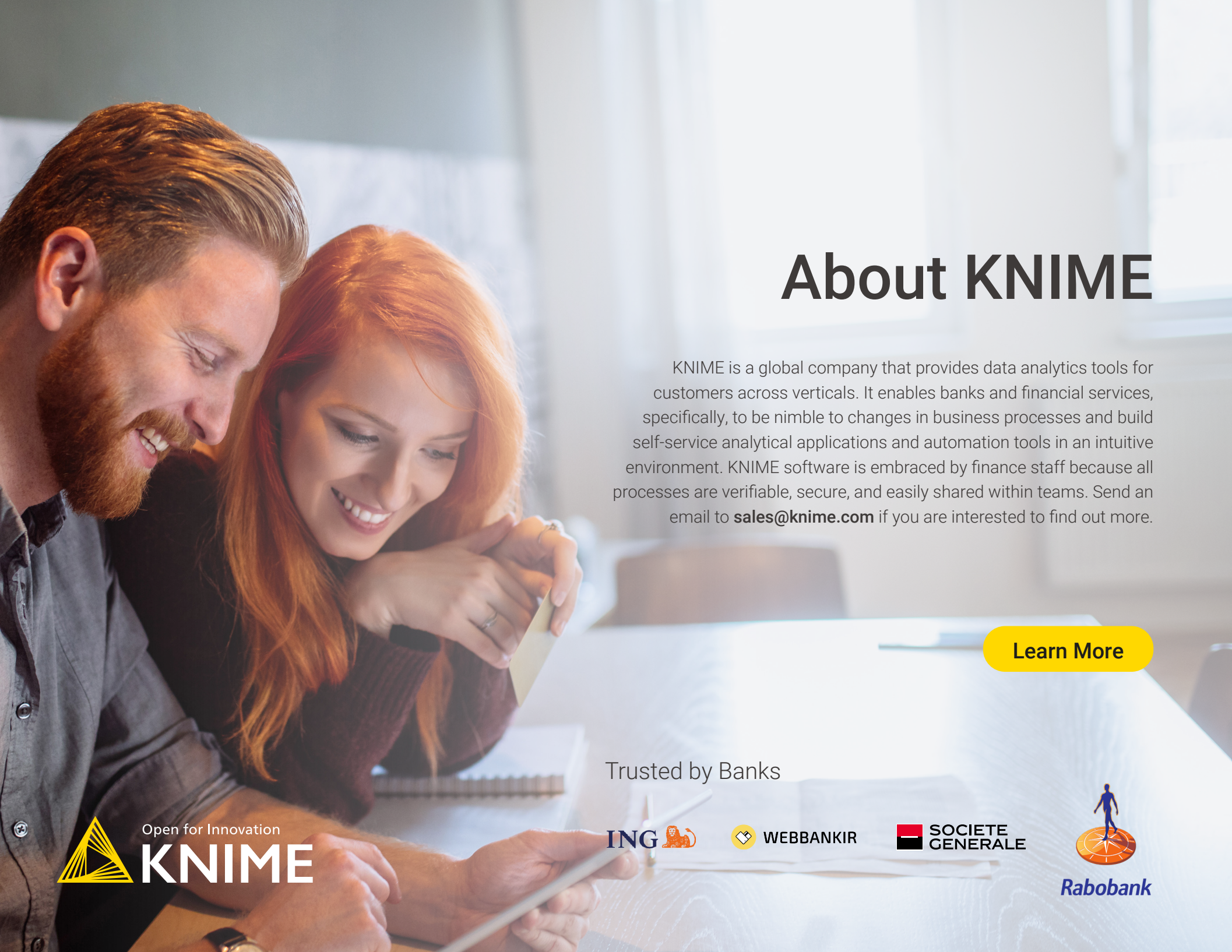

About KNIME

KNIME is a global company that provides data analytics tools for customers across verticals. It enables banks and financial services, specifically, to be nimble to changes in business processes and build self-service analytical applications and automation tools in an intuitive environment. KNIME software is embraced by finance staff because all processes are verifiable, secure, and easily shared within teams. Send an email to **sales@knime.com** if you are interested to find out more.

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