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Transforming the Digital Customer Experience

Consistent, modern digital banking and payments experiences are now table stakes. Digital wallet providers, fintechs, and challenger banks can now deliver intuitive, customer-centric banking experiences such as embedded lending, real-time payments, and direct payroll deposit—and they are entering the market at an alarming rate. In today's landscape, what are customers *really* expecting for next-level service in payments? In a recent webinar hosted by ICBA, Carl Robinson, Payments SVP at Alacriti, and Jenn Markus, Director of Technology Partners at Glia, discussed the answer to this question.

Market Divergence and Disintermediation

Digital payments are being impacted significantly by factors such as the ramifications of COVID-19, the current Delta variant, and a need to create a unified experience across the digital platforms and services resulting in unified money movement. "We live in a world of instant gratification, and that equates to instant processing of payments from a disintermediation perspective. FinTech wallet providers such as Cash App, Venmo, and PayPal are all looking to provide either banking services, banking as a service, or a full bank capability," Robinson shared.

For instance, customers may choose to have their payroll deposited directly into their Venmo wallet. This creates a situation where those funds bypass banks and credit unions and go straight into the Venmo wallet, and then the funds are spent out of

that wallet (or out of their investment accounts, such as Robinhood, Coinbase, and others). In this scenario, there's a potential for disintermediation of the traditional financial institutions as we know it.

COVID-19 has accelerated the digitization of everything. From QR codes instead of paper menus at restaurants to ordering online for everything, things have changed. And most of those changes are here to stay. Digital wallets and challenger banks have raised the bar on instant gratification and have even monetized the instant transfer capability. For example, Venmo and Paypal are charging 1 to 1.5% for instant money movement.

To compete, banks have to think about how they can provide that level of service and integrate it into their digital experience layer. Industry experts have asserted that fintech is an enormous competitive threat to banks. "Fintech companies, in particular, are making great strides in building both digital and physical banking products and services. From loans to payment systems to investing, they have done a great job in developing easy-to-use, intuitive, fast and smart products," – Jamie Dimon, JPMorgan Chase CEO. This is why Alacriti partners with financial institutions throughout the process and the workflow to create an improved experience. It's not just about improving the digital experience. It's also about getting capabilities to the market fast on a platform that's truly cloud-native, microservices and API based, and ISO20022 embedded at the core. This allows the usage of multiple vendors solutions that can talk natively to each other. Banks can then leverage an ecosystem of providers that best meets customer demands in a unified manner.

Trends in U.S. Card Payments

Markus shared some of the trends through the course of last year and their impact on the overall customer experience. "Not surprisingly, in 2020, we saw a rise in e-commerce transactions; obviously physical in-store activity was restricted. E-commerce growth is expected to continue through 2024, with aggregate volumes rising 11%. But what's more interesting is the composition and the mix of payment methods within e-commerce spend. Credit card usage (which made up about a third of overall e-comm spend) actually *decreased* 7% from the previous year. And that's attributed to a lot of the fear and uncertainty that cardholders had due to a pending recession. People didn't want to carry debt, and they weren't using credit cards as often for transactions; mobile and digital wallet usage, on the other hand, increased 23%. And that is expected to surpass credit this year. Debit card usage also increased about 14% from the prior year. As we were seeing stimulus fund disbursements hitting accounts, people were using their debit cards to transact more and more. But unfortunately, as these transaction volumes increase, so does fraud."

Around 60% of consumers are either extremely willing or highly likely to switch providers after just one negative experience. The number one negative experience for cardholders is fraud. So another challenge banks face is how to revamp the customer experience when fraudulent activity is suspected. Banks need strategies to retain customers, grow new market share, create new revenue streams, and ultimately exceed customer expectations.
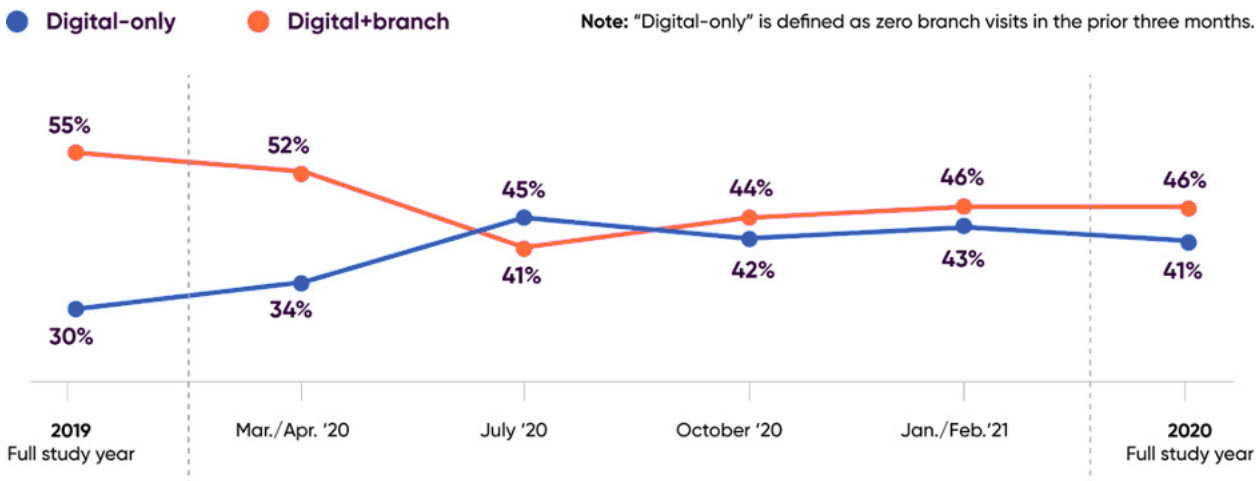
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Payments Modernization

There is an opportunity to monetize transactions and take advantage of the market demand that the wallet providers are supporting today. For example, Cash App has a 1.5% instant transfer fee (min of $0.25). Banks and FinTechs have to address that to provide similar products and services in the market. One option is to change from the traditional product-centric view of looking at products and services to thinking instead about what customers really want to experience. How do they want the seamless user experience to play both in products and offerings?

Alacriti recommends creating a unified money movement experience with an array, of bank offerings including bill pay, any-to-any, P2P, loan payments, new account funding, real-time, etc.—across all entry points. Whether it be mobile, desktop, chat, or text, offer everything in a seamless, unified way. And have it integrated to the back office and settlement entities on the back end. It doesn't matter if a bank has multiple partners or if it's all under one umbrella. The customer shouldn't be able to tell that they're using a different system. They should just know that they're doing business with their bank in a simple and unified manner—creating a cohesive digital customer experience.

The FedEx shipping experience can also be seen as a good model, in particular, for the payments experience. Customers just have to think of what they're shipping and how fast it needs to arrive. It's the same with a unified money movement experience. Customers just have to determine the size of the payment and when it needs to arrive vs. a litany of questions even after being authenticated. The platform should just take care of it from there.
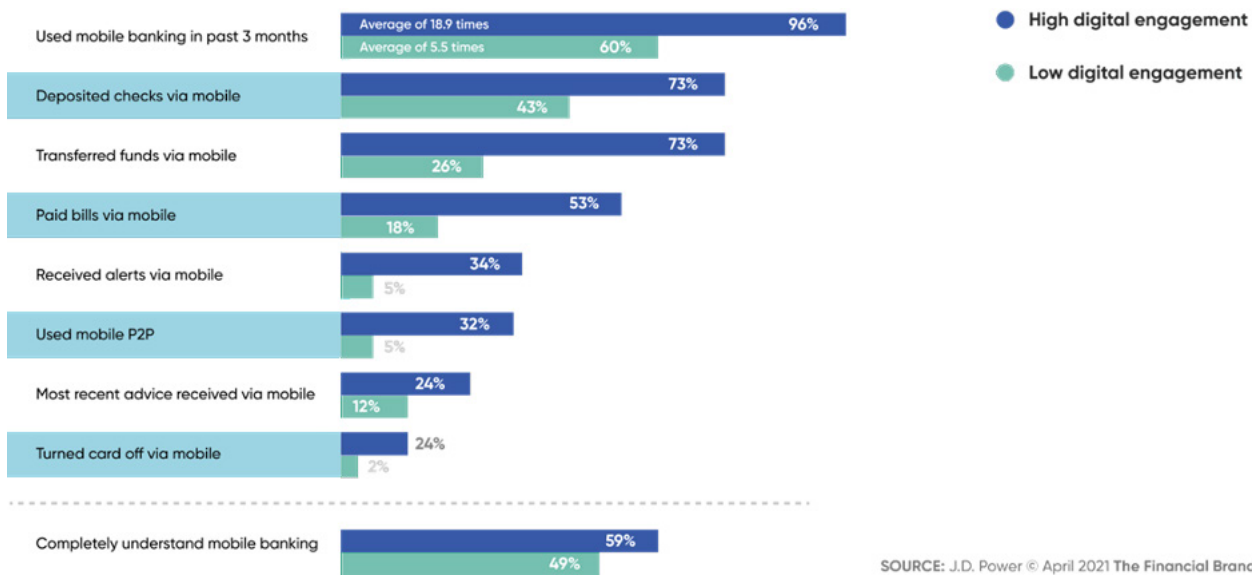
Digital Banking Trends

● **Digital-only** ● **Digital+branch**   Note: "Digital-only" is defined as zero branch visits in the prior three months.

SOURCE: J.D. Power © April 2021 **The Financial Brand**

The above chart shows the growth of digital-only banking versus a combination of digital and in-branch activity. Digital-only had a significantly lower percentage at the beginning of 2019 as compared to a combination of digital and branch activity. Then

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once the pandemic hit, the gap narrowed throughout 2020 in physical locations temporarily. Ultimately about midway through the year, digital-only activity actually surpasses the combination of digital and branch.

Activity	High digital engagement	Low digital engagement
Used mobile banking in past 3 months	Average of 18.9 times — 96%	Average of 5.5 times — 60%
Deposited checks via mobile	73%	43%
Transferred funds via mobile	73%	26%
Paid bills via mobile	53%	18%
Received alerts via mobile	34%	5%
Used mobile P2P	32%	5%
Most recent advice received via mobile	24%	12%
Turned card off via mobile	24%	2%
Completely understand mobile banking	59%	49%

SOURCE: J.D. Power © April 2021 The Financial Brand

Note that the increased digital-only banking has not returned to pre-pandemic levels. Therefore, it's more important now than ever to provide the same capabilities and experiences to your customers both digitally and in-branch. The two most common activities for mobile banking users are check deposits and transferring funds. If we know today that one of the most commonly used functions in a mobile banking app is to deposit checks and that the number of checks is going to decrease along with the usage of mobile banking, then we know it's critical to get in front of it. Banks can do this by making customers aware of the additional app activities and functions that are available to avoid losing market share to companies like Venmo.

The statistics in the above chart also indicate that 50 to 60% of customers don't really understand mobile banking. Therefore, a bank's mission becomes to educate customers on how to use the tools made available. For example, when they're active in a session, jump in with them collaboratively, show them where to go, how to find the information they're looking for, or complete their transaction.

Banks are attempting to communicate in a lot of different ways with digital-only users. However, according to the same JD Power study referenced above, many users felt that that communication often wasn't timely, relevant, or contextualized to their specific needs. This really underscores the importance of meeting the customer at their point of need with the information and guidance that's going to be relevant to them and potentially improve that digital experience.

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RTP and Customer Service

With the increasing expectation for instant gratification, we are moving to 24/7/365 across many of the payment types. For instance, having the ability to support real-time payments and faster payments via TCH and the Fed. Some banks do that in a secure, safe, and managed model. While other banks choose to start with RTP receive-only and then evolve into RTP send.

An impressive digital payment feature offered right now that banks may want to think about offering is real-time payroll. For example, Uber drivers have to have access to capital in order to maintain their cars. If they are paid using a same-day model, or even a same ride model vs. a 1st and 15th payroll model, the driver will have access to capital they didn't have before. Of course, this is a customer that would be very happy with this benefit.

Offering RfP, request to pay, through The Clearing House is yet another opportunity for transformation. A biller can send the RfP, and all the customer has to do is simply hit a button to approve the payment within the app. It immediately spawns a real-time payment that settles in seven seconds or less. It doesn't disrupt the experience, it just creates a faster settlement. The payment is acknowledged accordingly through an alert or through a text. Not only does this save money for billers and make bills more likely to be paid, it's also a huge convenience for customers.

What is Expected for True Digital Customer Service?

Now more than ever, customers are turning towards self-service channels. A study with Gartner found that 80% of the time when customers are calling in, they are either sitting in front of a screen or have a screen nearby, which underscores the lost opportunity to help the customer using the channel where they originated.

Think about the first 30 seconds of every phone call interaction and the friction that comes with it. After a customer has gone through the IVR and ultimately speaks with a representative, there are a series of authentication questions. And then finally, "How can I help you?" That customer has already entered all of that information online, but all of that was dropped. Having to repeat the entire process over the phone isn't an ideal customer experience. Taking the friction out of the process and simplifying the process will help increase customer loyalty.

Lending is a great example of a use case. If upon analyzing the application process, a bank determines that customers run into friction, the bank can trigger notifications to agents when customers get to that step. This could save them from abandoning the process and lead to a higher rate of application throughput and lower abandonment rates.

For card fraud, which is a common source of customer ire, the typical experience is an outbound text notification alerting of suspected fraudulent activity and that the card has been blocked. The customer may have the ability to respond with a yes

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or no to say the activity was fraudulent. However, usually, the customer then has to call in to initiate chargebacks on their accounts, go through which transactions were valid, and get a new card reissued. What if the process could be reimagined, and the customer's reply to the text notification could be routed to fraud specialists at the bank, facilitating a real-time conversation going both ways? What if the CSR could then take that interaction from text to video? This is an example of truly taking customer service to the next level.

The ability to talk to a rep immediately with context can also go a long way with marketing campaigns. For marketing incentives or promotions to cardholders via text, giving them the ability to reply and talk to an agent immediately is going to lead to drastic increases in conversion rates of people redeeming the offers.

AI and the Payments Landscape

From a card payments perspective, a fraud monitoring platform that utilizes machine learning and scores transactions in real-time is key to drastically lower any fraud, losses, and false-positive ratios. Additionally, consider deploying some of the newer technologies like 3D Secure 2.0 as an example. Mitigating Card Not Present losses is going to become increasingly important, especially as e-commerce transactions and digital wallet transactions increase. With respect to digital customer service, there are a lot of different ways that artificial intelligence can be leveraged. A common use of AI is virtual assistants. For banks not already using a virtual assistant, a great way to get started is to deploy a bot for frequently asked questions or low value, high-frequency inquiries so that live agents can focus on higher-value engagements or more complex interactions.

As an additional step, bots can be given the same capabilities that human agents have as well, such as co-browsing with the customers to teach them how to use the site. This will go a long way to enhancing the customer's overall experience. Also, just as human agents aren't expected to be generalists, bots shouldn't be expected to be generalists either. A recommended strategy is to deploy different bots on different pages that have been finely tuned to respond to questions that may come up within the context of those pages.

A great example of this would be the Alacriti bot, Ella. She is finely tuned to respond to and handle any incoming questions about bill pay transactions. Ultimately, the biggest thing to remember is that bots can only take the conversation so far. To avoid a negative customer experience a bot should have the ability to route and transfer to the appropriate human agent and provide all of that relative background information, details, and context about the interaction that the customer had with a bot to the human agent. That way, the human agent can pick right up where the bot left off.

Overall, banks should evaluate their key performance indicators (KPIs) in their digital transformation strategy. Look specifically at goals such as improving customer service, reducing call volume, reducing manual payments, and reducing risk overall by leveraging the AI always-on 24/7 customer experience. AI can also be leveraged from a payment-specific perspective, with smart payments orchestration that can underpin your digital transformation strategy.

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AI for digital transformation is already happening—$5b is being invested in 2021 on bots alone. With Glia and Ella, payments are embedded within the experience. At the beginning of 2020, Bank of America already started using their virtual voice assistant, Erica and had over 12.2 million users. The key is to create the benchmarks needed for the ultimate customer experience and leverage fintechs to implement the digital strategy.

Conclusion

Overall, only a quarter of banks and credit unions have embarked on a digital transformation strategy prior to 2019, with 45% reporting that they haven't launched a strategy prior to 2021. So the opportunity is there for banks to reimagine their digital customer service experience and make the changes needed to compete with today's challenger banks.

*To learn more about payments modernization for banks, watch the full webinar, **Transforming the Digital Customer Experience**, featuring Alacriti and Glia.*

Today's legacy and siloed banking technology infrastructure limit financial institutions' ability to rapidly innovate. It's time to look at money movement in a new way. Alacriti's Orbipay Unified Money Movement Services does just that. Whether it's real-time payments, digital disbursements, or bill pay, our cloud-based platform enables banks and credit unions to quickly and seamlessly deliver modern digital payments and money movement experiences. To speak to an Alacriti payments expert, please call us at (908) 791-2916 or email info@alacriti.com

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