ENCASHING ON DIGITAL:
FINANCIAL SERVICES IN 2020
CONTEXT

03 Executive Summary
05 The New Indian Consumer
17 Banking Infrastructure – Laying the Foundation
25 ‘State of Play’ – Current Gaps and Solutions
37 Opportunities for Financial Institutions in the ‘New World’
India is on the cusp of a digital revolution. With rising internet and smartphone penetration and lowering mobile data cost, digital Indians are rapidly increasing. The face of an average digital Indian is also changing – with higher representation from women, lower tier cities and older age groups. Digital Indians are also adopting mature activities such as online shopping and banking, moving beyond traditional activities such as search and social networking. As a result, India is rapidly transitioning from a data poor to a data rich nation, with immensely useful data being created across businesses and consumers alike.

With this, the role of digital in financial services will only expand further. By 2020, over 250 Mn urban banking users will have internet access and over 120 Mn are expected to use at least one digital channel for research while purchasing financial products. As against that currently there are around 150 Mn urban banking users with internet access and 60 Mn use digital channel for research while purchasing financial products. This digital influence in financial services is higher compared to many other consumer focused categories such as consumer electronics, travel, home appliances and consumer goods.
Although, digital influence is high during research and selection, adoption of online banking remains low. Only 12% of banking users actively use online banking facilities. The recent policy initiative of demonetisation by Government has helped in breaking the consumer inertia and providing an instant boost to adoption of cashless channels such as online banking. There are over 45 Mn active urban online banking users currently. We had earlier estimated this number to touch 100 Mn by 2020. However, post demonetisation, this is now expected to grow to more than 150 Mn over the same timeframe.

Along-with the new Indian consumer, the digital ecosystem of India has also evolved rapidly over the last few years. India is set to leapfrog many advanced economies. From creating ‘Digital India’ to setting up open architecture layers such as Aadhaar, India Stack, Bharat Bill Payment System and GST to more recently pushing cashless transactions post demonetization, government has been actively developing the entire digital ecosystem.

However, financial services industry has not fully recognized the rising importance of digital among Indian consumers. More than half of the consumers are largely dissatisfied with their online banking and mobile app experience. Even though downloads have increased, financial services apps have much lower user engagement and loyalty compared to e-commerce apps.

Winners of tomorrow need to break free from traditional boundaries and offer non-banking services to customers. FIs need to leverage digital to completely transform the customer experience. Customers today are looking for an on-demand, digital and customised experience. FIs need to reinvent themselves and reorient customer touchpoints and back-end processes in line with customer expectations.

Financial institutions need to transform themselves in three stages:

- **Fix the Basics**: Focus on digital straight-through processing, rationalise clutter in digital offerings
- **Transform Experience**: Leverage customer data, integrate channels instead of ‘siloed’ working
- **Support Entire Journey**: Focus on end to end journey, foster partnerships to create ecosystems

Firstly, they need to fix basic back-end operations and ensure straight through processing to ensure digital and timely delivery of services. They need to rationalize customer facing mobile apps and replicate in-bank experience instead of just offering basic features. Secondly, they need to leverage data and run deep analytics which can help them in risk assessment, early warning systems and developing targeted personalised offers. They also need to integrate working across digital and non-digital channels.

Adoption of digital can significantly increase profitability for FIs. On an average, customer acquisition, servicing and transaction cost over digital channels is almost 1/10th compared to the cost over traditional non-digital channels. Also, customers using digital channels tend to bank more and generate almost 5x-8x times revenue. Overall, this leads to 10x higher profitability from digital customers compared to non-digital customers. By 2020, FIs can potentially increase their retail profit pool by over $3-3.5 Bn by switching to digital and reducing their cost base.
THE NEW INDIAN CONSUMER
The Digital DNA of India is changing

India is on the cusp of a digital revolution. With rising internet and smartphone penetration, the digital DNA of India is rapidly changing.

The first 100 Mn ‘digital Indians’ were largely men, millennials and metro based. However, with higher adoption among women, lower tier cities and older age groups, the face of an average internet user is changing.

They are also engaging in mature activities, going beyond search and social networking to online shopping and banking. In 2016, 23% of urban consumers adopted online shopping. This is likely to grow to around 37% by 2020. The trend in online banking is likely to be even steeper.

Also, with increasing smartphone penetration, the way consumers are accessing internet is changing. In 2013, only 44% of urban population preferred mobile for internet access, but now almost 3/4th prefer mobile.

### Demographics

<table>
<thead>
<tr>
<th>Usage</th>
<th>Access</th>
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<tr>
<td>Share among internet users</td>
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<td>2016</td>
<td>2020</td>
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<td><strong>Men</strong> (Age &lt;35 years)</td>
<td><strong>Millennials</strong></td>
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<td><strong>Metro/T1</strong></td>
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<td>63%</td>
<td>74%</td>
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<td>60%</td>
<td>67%</td>
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<td>29%</td>
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### Adoption of mature activities set to increase

| Internet set to go beyond ‘3Ms’ |
| Adoptions among urban users² |
| 2016 | 2020 |
| **Online shopping** | **Online banking** |
| 23% | 10% |
| 37% | 32% |

### ‘Mobile First’ for internet access

| Urban internet users who prefer mobile as the primary device³ |
| 2013 | 2016 |
| 44% | 74% |

1. Share among urban internet users.
2. Q. Which of these activities do you generally do while surfing internet?
3. Q. Which of these devices have you used in the last 3 months to access internet?

Source: BCG CCI Digital Influence Study 2013, 2016 (N=18000 in each year), BCG analysis.
India to become data rich

Globally, amount of data generated has increased exponentially over the last 5 years. India is also rapidly transitioning from a data poor to a data rich nation. With increasing penetration of internet and smartphones, and time spent on digital media, immensely useful data is being created across businesses and consumers alike.

For businesses, more than 25 data points such as corporate filings, tax data, legal information etc. are now electronically available. Similarly, for consumers, data is being generated through web search, interactions on social media, e-commerce and banking transactions.

Data in the new world has 2 major characteristics which make it really interesting for companies. First, it is dynamic allowing it to be used for real time action and second, it comes with a context of the consumer allowing it to be much more targeted.

All this data can be leveraged by banks to:
- Reduce cost of customer acquisition and servicing
- Improve underwriting models
- Establish early warning systems

Source: Internet Game Changer Perspective, Statista, ComScore, BCG analysis.
Digital is going to play a huge role in financial services by 2020. Currently, there are over 350 Mn internet users in India. Out of those, little over 200 Mn – including those below 18 years of age as well – are in urban areas. Of these, 150 Mn are urban banking consumers. With increasing banking user base and digital footprint, this will grow to 250 Mn.

Currently over 60 Mn urban banking users use at least one digital channel for research while purchasing a financial product. With rising internet user base as well as greater maturity in using digital channels, the number of digitally influenced users will double in the next four years. Earlier, branches were the fulcrum of bank’s relationship with its customers, but now branches will increasingly play a complimentary role.

Also, by 2020 over 155 Mn urban banking users will actively access online banking. Almost a 4x increase from 2016, this is driven by rising internet and smartphone penetration and the more recent systemic interventions by Government such as demonetisation.

1. Online banking users are defined as those who undertake transactions or transfer funds using their online banking, mobile banking and USSD service.

Source: BCG Facebook 2016 Banking Survey (N=1700), World Bank, RBI, BCG analysis.
With rising internet user base and smartphone penetration, the number of digitally influenced users will also rise rapidly. Currently, over 60 Mn urban banking users are digitally influenced during the purchase journey of a financial product. Driven by rising internet user base, this will double to more than 120 Mn users by 2020.

With a more representative cohort of internet users coming online, the new set of digitally influenced users will also have a much more broad based profile – more women, older age groups and lower tiers. This will have significant implications for financial services players as these new users will have different starting level of understanding and hence different expectation in terms of support in their purchase process.

Source: BCG Facebook 2016 Banking Survey (N=1700, conducted among users who have a bank account or have purchased a financial product in last 6 months), BCG analysis.
70% urban consumers already use digital in purchase journey of financial product

Consumers’ purchase journeys are becoming increasingly complex with the advent of multiple channels. Digital channels are increasingly becoming core to the overall purchase process – from research and selection to account activation and setup to account servicing and maintenance.

Our consumer research across 1,700 respondents reveals that over 70% category buyers with internet access use a digital channel during their purchase journey. Digital influence is especially high across the research and selection stage, with over 61% using a digital channel to find out what product/service to buy. As against that, 39% use digital channels in the account servicing and maintenance stage.

Majority of the growth in the early research and selection process is happening owing to multiple aggregator websites which have come up over the past few years. These websites allow for easy comparison and research. In fact, unique visitors on these websites have grown by more than 25% during the last three years.

% of urban category buyers with internet access
(Use at least one digital channel in the purchase process of a financial product)

1. In last 6 months, what were your sources of information while conducting the following activities. Research and Selection – info search, compare products, decide brand, select product. Account activation – submit application, submit document, activate account, learn to operate account. Digital channel include internet search, social media, bank website, email.
2. In last 6 months, what were your most preferred channel for undertaking the following activities. Account servicing & maintenance – fund transfer/ monthly payment, balance enquiry, statement and document request, update contact detail, raising complaint, linking to other accounts/ products. Digital channel include online banking using laptop/mobile, mobile banking app, SMS banking.

Source: BCG Facebook 2016 Banking Survey (N=1700, conducted among users who have a bank account or have purchased a financial product in last 6 months), BCG analysis.
Digital influence in financial services is among the highest across categories. It is higher than many other consumer focused categories such as consumer electronics, travel, home appliances.

A large part of this is driven by the differences in underlying consumer profile. Urban category buyers with internet access for banking and financial services are more male and metro dominated and have higher digital maturity as compared to other categories such as home appliances. As a result, they are more likely to use a digital channel during the purchase process. Also, typically banking and financial services tend to be more involved category with higher financial implications leading to use of multiple channels including digital channels.

1. Q. Which of these did you purchase in the last 12 months for which you actively participated in the decision of purchase? and did you visit any site or used internet at any point of time as a source to collect information before buying, at the time or after the purchase or made a purchase online?

2. Travel includes air, bus, railway travel, hotel and holiday packages; consumer electronics include mobile phone, PC, laptops and tablets, television; Home appliances include washing machine, refrigerator, AC, microwave/oven; Consumer goods include groceries & staples, packaged food and beverages, alcoholic beverages, household products, skin care, hair care, other personal care, cosmetics, make-up.

Digital influence high across all financial products

Highest across credit card, mutual funds

Within banking and financial services also, digital influence is high across the board, from basic products such as savings account to mature products such as loans and insurance.

Digital influence is especially high across highly mature products such as credit cards and mutual funds. 86% of urban buyers with internet access use internet while buying mutual funds. As against this, the number for personal loans is 55%.

% of urban category buyers with internet access
(Use at least one digital channel in the purchase process of a financial product)

- Automobile insurance: 45%
- Personal loan: 55%
- Health insurance: 59%
- Savings account: 60%
- Life insurance: 66%
- Home loan: 69%
- Credit cards: 69%
- Automobile loan: 69%
- Mutual funds: 86%

1. In last 6 months, what were your sources of information while conducting the following activities. Research and selection – info search, compare products, decide brand, select product. Account activation – submit application, submit document, activate account, learn to operate account. Digital channel include internet search, social media, bank website, email.

Source: BCG Facebook 2016 Banking Survey (N=1700, conducted among users who have a bank account or have purchased a financial product in last 6 months), BCG analysis.
Low adoption of online banking currently

Low awareness, trust major barriers

Although, digital influence during research and selection, account activation and setup is high, it reduces significantly during account servicing and maintenance. This is also reflected in online banking user base, with only 12% of banking users being online banking users.

The low adoption is driven by gaps in overall online proposition by banks. Our consumer research across 3,000 respondents concludes that topmost reasons for not considering online or mobile banking are lack of awareness, trust, transparency and fear of hacking.

Banks can make great strides in bringing consumer online for banking services with carefully designed initiatives towards customer education and awareness.

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1. Online banking users are defined as those who undertake transactions or transfer funds using their online banking, mobile banking and USSD service.
2. Q. What are the top 3 reasons which best describe your unwillingness to use online/mobile banking.
   
   Source: BCG CCI Banking Survey (N=3000), BCG analysis.
On November 8, 2016, a policy initiative by Government of India ceased the use of existing INR 500/1,000 notes as a legal tender. Consequently, 86% of cash in circulation was demonetized. This systemic intervention was successful in breaking the consumer inertia and giving an instant boost to adoption of cashless channels such as online banking.

Our consumer research across 1,700 respondents indicates that use of cash channels has gone down by over 10 percentage points – i.e. from 89% pre demonetization to 78% post demonetization. Mobile wallets have seen over 10 times increase in usage and use of online or mobile banking has gone up by 40%.

This shift is more prominent for monthly and annual payments, where use of cash channels has gone down by over 16 percentage points.

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1. Q. What has been your primary method of payment for these transactions for last 6 months/ from now onwards.
2. Including Mobile App and UPI.

**Source:** BCG Facebook 2016 Banking Survey (N=1700), BCG analysis.
Multiple factors are coming together to increase adoption of online banking. Growing number of banking customers, increasing internet penetration, disruptive interventions by Government such as demonetization and other regulatory and policy changes will give it a substantial boost.

There are 38 Mn active urban online banking users currently. We had earlier estimated this number to touch 100 Mn by 2020. However, post demonetisation, this is expected to grow to 150 Mn in the same timeframe.

**Active urban online banking users (Mn)**

1. Online banking users are defined as those who undertake transactions or transfer funds using online banking, mobile banking and USSD service.

**Source:** BCG Facebook 2016 Banking Survey (N=1700), BCG analysis.
BANKING INFRASTRUCTURE – LAYING THE FOUNDATION
Indian Government promoting digital stack

Over the past few years, Government has initiated several programs to establish a robust digital stack in India. With several policy and regulatory changes and open architecture technology enablers, India is set to leapfrog many advanced economies.

From creating ‘Digital India’ program to transform India into a digitally empowered society, to setting up open architecture layers such as Aadhaar, India Stack, Bharat Bill Payment System and GST to more recently pushing cashless transactions post demonetization, government has been actively developing the entire digital ecosystem.

All these initiatives have created a conducive environment for accelerated growth in digital banking in the near future.

Setting up digital infrastructure

Digital India
Creation of digital infrastructure, digital delivery of services, digital literacy enabling delivery of digital banking in rural India.

Setting up open architecture layers

Aadhaar
Aadhaar linked banking to increase financial inclusion, direct transfer of government subsidies.

Goods and Services Tax (GST)
Digitisation of invoices across commercial value chain creating huge data that banks can leverage.

Bharat Bill Payment System (BBPS)
Migration of bill payment from cash to electronic channel.

Systemic interventions

Demonetisation
Government ceased use of existing INR 500/1,000 notes.

Other interventions
• No cash transactions above INR 3 lakh
• Electronic payment to government vendors above INR 5,000
• Reduction of MDR cap for debit card payment\(^1\)
• Switching fee waived for Rupay POS transactions\(^2\)

Higher adoption of digital banking channels and increase in digital transactions.

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India Stack provides a transformative digital infrastructure

One of the most impactful initiatives contributing to the digital ecosystem has been India Stack. It is a set of open API’s within 4 independent layers that can provide presence-less, paperless and cashless delivery of services and consent based sharing of data. This fundamentally opens a new world of disruption which many startups are already tapping into.

India Stack helps drastically reduce the cost of customer acquisition and servicing and increase the addressable customer base multifold. For example, by reducing the cost to 1/10th, the addressable customer base can increase by 10-15x.
**Paperless layer**

Where digital records move with an individual's digital identity

- **Aadhaar e-KYC API**
  Identity and address verification electronically through Aadhaar authentication

- **150 Mn**
  eKYC in 3 years

- **e-Sign API**
  Facilitates digital signing of a document anytime, anywhere and on any device

- **1 Mn**
  eSign in 15 months

- **Digital Locker API**
  Platform for issuance and verification of documents digitally

- **3.7 Mn**
  documents in 15 months

**Cashless layer**

Instant, inter-operable interface across bank accounts, wallets etc.

- **Unified Payment Interface API**
  Enables sending and receiving money from phone without entering bank account information

- **30+**
  banks accepting UPI payment

- **319 Bn**
  INR transfer in 3 years

- **Aadhaar Enabled Payment System API**
  Aadhaar platform enabling retail financial & non financial transactions

- **40+**
  banks accepting AEPS payment

**Consent layer**

Where data can move freely and securely at behest of consumer

- **Individual**
  APIs

- **Data Provider**

- **Data Consumer/Banks**

Consent Layer currently being developed
End to end digital customer experience is here and now!

### Payment

**Ram Kumar**  
56 years, Bhadu  
Daily wager

- Government transfers welfare scheme payment directly to Ram's account  
- He buys grocery from local shop and makes payment using UPI app  
- Through a business correspondent, he uses mPoS to authenticate identity & transfers money to son  
- Through a business correspondent, his son uses mPoS to authenticate identity & check balance

### Borrowing

**Ganesh Ram**  
37 years, Kochi  
SME owner

- Ganesh gets his identity verified through Aadhaar e-KYC and opens a bank account  
- To avail loans, he scans and emails company financial information, bank statement, IT returns, purchase order information and CIBIL score  
- He completes and digitally signs the application form and the loan is approved  
- To repay the loan, he uses UPI app to transfer monthly instalment to bank

### Investments

**Rakesh Kumar**  
49 years, Delhi  
Salaried professional

- Rakesh receives bonus and wants to invest the money. He opens app of an asset management company  
- His identity is verified through Aadhaar e-KYC  
- He selects a mutual fund and digitally signs the application form  
- He uses UPI app to transfer money from own bank account to fund's account

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**APB**  
**UPI**  
**Aadhaar auth.**  
**AEPS**  
**Aadhaar e-KYC**  
**e-Sign**  
**UPI**  
**Presence-less**  
**Paperless**  
**Cashless**
Disruption underway, FinTechs leveraging opportunity

Leveraging the new set of technology paradigms, FinTechs are uniquely poised to disrupt traditional financial services in a meaningful way. Since 2010, over 1000 FinTechs have been founded and have raised more than $2.5 Bn across the spectrum – from payments to lending to investments. Several unique models have been emerged over the last few years. For example:

- **PayTM** has simplified payments to merchants and peers using single touch fund transfer.
- **Capital Float** provides collateral free working capital to underserved SME segment in less than 10 minutes.
- **Funds India** is an online investment platform that recommends a personalised investment portfolio within few minutes.
- **Walnut** is a real-time expense tracker app that helps an individual manage expenses better.

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1. Payment tools and solutions such as gateways, processors, PoS payment processors, cards, wallets, payment aggregators.
2. Platforms for credit scoring, lead generation, loan comparison, peer to peer lending.
3. Enabler of banking services via tech solutions, distribution platforms, backend solution providers. Excludes companies that offer services to other FIs.
4. Platforms which help insurance companies by providing risk management tools, distribution platforms.
5. Public/ private market investing based solutions such as trading platforms, wealth management tools.

**Source:** Tracxn (As of 31-Oct-16), BCG analysis.
‘STATE OF PLAY’
- CURRENT GAPS AND SOLUTIONS
Despite magnitude of digital influence, digital media spend lagging

The rising importance of digital for an average urban consumer has not been fully recognized by the financial services industry. Urban internet users spend almost 43% of their media time on digital, and 70% of urban category buyers with internet access use at least one digital channel during the purchase of a financial product.

In comparison, financial services industry spends only 20%-22% of media spend on digital. This is a significant increase from 5% in 2012, however there is scope for further increase.

On the other hand, FinTechs have been quick to adapt, with almost 35-40% ad spend on digital.

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1. Q: How frequently and how long do you watch TV, access internet and read newspapers?

Half of online banking users find experience sub-optimal

Even across current digital offerings by banks, consumers are largely dissatisfied. Our consumer research across 1,600 respondents indicates that 56% of urban online banking users are dissatisfied with their mobile banking experience and 48% are dissatisfied with their online banking experience.

Consumers have moved away from the crowded branch experience only to realize that online experience isn’t much better. If this isn’t addressed immediately, banks risk losing substantial customer base to contemporary entities such as payment banks and mobile wallets.

1. Q. How satisfied are you with the following channels?
2. Q. Are you willing to open an account with the upcoming payment banks?

**Sources:** BCG CCI Digital Banking Survey (N=1600), BCG analysis.
Low engagement with mobile apps

Financial Institutions apps have much lower user downloads compared to e-commerce apps. Out of the total android devices across the country, top banking apps are installed only on 1% of devices compared to 8.5% of devices for e-commerce.

Even the user engagement is low. On an average, only 11.5% users are active daily on a banking app compared to 13.5% for an e-commerce app. The difference is starker in time spent. An average user spends only 250 seconds daily on a banking app, compared to 325 seconds for a FinTech app and 450 seconds for an e-commerce app.

1. Percentage of current installs of app out of total android devices.
2. Loyal users are defined as users that use app beyond the average lifetime.
3. Include Flipkart, Amazon, OLX, Myntra, Snapdeal, Jabong, Shopclues, Ali Express, Limeroad, Voonik, Quikr, HomeShop18, Nykaa.
4. Include PayTM, MyAirtel (Payments Bank), FreeCharge, MoneyControl, Walnut, MobiKwik, MoneyView, PhonePe, Splitwise, Airtel Money, Zebpay, Chilr, Jio Money.

Source: Similar Web (Based on India data from Jan-16 to Dec-16 for Android PlayStore), Ranking based on ranking algorithm factoring current installs, active users, leader-boards for Jan-17, BCG analysis.
FIs need to participate in ecosystems and serve end-to-end needs in customer journey

Winners of tomorrow need to break free from traditional boundaries and offer non-banking services to customers. Financial services need to be seamlessly integrated into the overall customer journey. FIs have the opportunity to provide holistic platform for customers which address end to end needs. FIs must think beyond their conventional offerings to serve as a facilitator, creating marketplaces that permit buyers and sellers to come together.

% of online banking users looking to avail value added services from banks

- **Health** (74%): Integrated platform with all previous medical records on portal. List & recommendations on doctors. Also linked to insurance & payment portals.
- **Shopping** (69%): Integrated platform with ratings & locations of grocery stores with discounts & online payments.
- **Education** (68%): Integrated platform with student performance, school ratings, admission alerts, options for education loans & payment of school fees.
- **Automobiles** (42%): Integrated platform with ratings of car dealers, list of available used cars, options to avail loans, insurance.
- **Real Estate** (22%): Integrated platform with information of property, as well as loans and payment options for rent and brokerage.

1. Please let us know which are the top 3 of the following value added services that you would like to avail from banks.

Source: BCG CCI Digital Banking Survey (N=1600), BCG analysis.
Digital can enhance customer experience

Illustration: Buying a home

RK Mutreja
49 years, New Delhi, Male
Self Employed, runs a glass company

Internet use
• Spends ~10 hours online weekly on email, search, social networking, online banking
• Uses mobile and laptop to access internet, prefers mobile
• Started using internet 6 years back

Banking use
• Has two savings account and one current account
• Bought insurance policy, car loan, home loan, mutual fund and credit card before
• Uses credit card for online shopping, travel and wallets for grocery, mobile recharge

1 Framing the dream
Had been living in a rented flat. Father gave advice to buy a house before prices rise

2 Search for houses
Checked out few apartments on an aggregator websites, but wasn’t sure about their genuineness, quoted price and loan eligibility

3 Selection of house
Approached broker who showed him flats. Checked documents to verify authenticity and finalized house.

4 Assessment of financing options
Calculated loan amount after evaluating financing position. Spoke to a friend to understand borrowing capacity

Digital Solutions
Property search tool in collaboration with aggregator websites, Property Verification, Online property viewer

Online tools to assess affordability based on financial position & borrowing capacity
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<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td><strong>Comparison across banks</strong></td>
<td><strong>Selection of bank</strong></td>
<td><strong>Submission of application</strong></td>
<td><strong>Processing of application</strong></td>
<td><strong>Ongoing engagement</strong></td>
</tr>
<tr>
<td>Browsed several bank/ aggregator websites. Many schemes didn't meet requirements. Finally shortlisted three banks</td>
<td>Visited branch to understand terms &amp; conditions, and negotiated on interest rate to finalise the bank</td>
<td>Spent an entire day to collect and attest KYC documents, fill out the long application form and submit them at the branch</td>
<td>Waited several weeks during application processing. To check status, called customer care but response was unsatisfactory. Post approval, collected kit from branch.</td>
<td>Once a year, collects documents for tax rebate. Often receives irrelevant and intrusive SMS, phone calls for top-up plans, personal loan etc.</td>
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**Virtual assistant for advisory and customer support**

**Virtual assistant for advisory and customer support**

**Personalised offers, non-intrusive messaging based on needs**
1. Framing the dream

Recently moved to a new job with a huge salary increment. Decided to invest additional savings to buy dream retirement home sooner.

2. Assessment of investment options

Browsed internet to understand alternate options, but did not understand financial terms. Finally decided to invest in mutual funds.

3. Comparison across funds

Visited aggregator websites, but felt clueless. Shortlisted funds based on brand and returns. Also took advice from friends.

4. Selection of fund

To maximize returns, selected the fund which gave the highest return in last 6 months.

Life stage based trigger, content marketing to increase awareness

Virtual assistant for advisory and customer support

Advisory basis goals and risk return profile based on self assessment, social media data
Digital can enhance customer experience
Illustration: Meeting retirement goals

Shiju K
39 years, Kochi, Male
Works in the logistics department of a shipping company

Internet use
• Spends ~5 hours online weekly on email, search, social networking, online banking
• Uses mobile and laptop to access internet, prefers mobile
• Started using internet 4 years back

Banking use
• Has two savings account out of which one is salary account
• Bought insurance policy and credit card before
• Uses online banking for online shopping, utility bills and wallets for grocery, local conveyance

Shiju K's Internet and Banking use:

Internet use:
- Spends ~5 hours online weekly on email, search, social networking, online banking
- Uses mobile and laptop to access internet, prefers mobile
- Started using internet 4 years back

Banking use:
- Has two savings account out of which one is salary account
- Bought insurance policy and credit card before
- Uses online banking for online shopping, utility bills and wallets for grocery, local conveyance

Digital Solutions
- e-KYC and digital locker for paperless processing, Application form pre-filled with basic details
- Virtual assistant for advisory and customer support
FIs need to re-wire in line with customer’s perception

Customers today are looking for an on-demand, digital and customised experience. FIs need to reinvent themselves and reorient customer touchpoints and back-end processes in line with customer expectations.

In order to deliver a whole new experience to individuals and corporate entities, FIs need to mirror the customer oriented experience provided by e-commerce companies.
OPPORTUNITIES FOR FINANCIAL INSTITUTIONS IN THE ‘NEW WORLD’
FIs need to transform themselves to win in the ‘new world’

Key takeaways

# of digitally influenced customer is increasing at accelerated place
• 70% urban consumers already digitally influenced; among the highest across categories
• 120 Mn digitally influenced and over 150 Mn online banking users likely by 2020

GoI has established open API architecture as the back bone for digital innovation
• 1 Bn+ Aadhaar cards, 150 M e-KYC
• 40+ Banks on UPI / AEPS
• 3 Bn+ invoices expected on GSTN

Currently very low engagement with digital channels among FIs customers
• Only 12% of banking population does online banking
• Half of online banking users find the experience sub-optimal
• Very low engagement with FI mobile apps

Implications for FIs

FIs need to significantly change the offering, keeping in line with customer expectations

3 step journey for FIs
• Fix the basics
  - STP processes
  - Rationalize digital assets (websites, apps)
• Transform the experience
  - Leverage customer data and run deep analytics
  - Unified channel experience
• Support the entire journey
  - Solve customer problems and not product need
  - Partnerships to create ecosystems and offer non banking services
Three key stages of transformation for financial institutions

In the new digital world, Indian financial services presents tremendous potential. From being conducive to the emergence of strong ‘next-generation’ banks to offering one of the finest banking experiences, India has it all. But are all current Indian financial institutions in a position to take advantage of what can be?

Financial institutions need to transform themselves in a staged manner. Firstly, they need to fix basic back-end operations and ensure straight through processing to ensure digital and timely delivery of services. They need to rationalize customer facing mobile apps and replicate in-bank experience instead of just offering basic features. Secondly, they need to leverage customer data to develop targeted personalised offers. They also need to integrate working across digital and non-digital channels. Finally, focus should be laid on the entire customer journey instead of taking an inward looking product centric view.
Ensure truly digital straight-through-processing:
• Automate processing of financial transaction
• Automate most of the back office processes
• Paperless processing of applications
• Eliminate wet signatures
• Store documents digitally

Rationalize current digital offerings; optimize within few apps instead of multiple different apps
• For example, top 3 Indian banks have more than 20 apps each
Go beyond basic features to replicate in-bank experience in website, app

Consolidate internal customer data across various systems
• For example, KYC, transaction details, interactions/ touch points

Enrich customer understanding through external sources
• For example, geographic details, social media

Run deep analytics for risk assessment, early warning systems and collections, and developing personalized offers

Develop 360 degree unified view of customer
Integration across digital & non digital channels
• For example, complaint registered on mobile app should be visible to branch teller

Focus on end to end customer journey instead of taking a product centric view
• Help purchase a home Vs Home Loan
• Help meet retirement plans Vs Mutual Fund
• Help me go to college Vs Education Loan

Forge innovative eco-system partnerships to help reduce customer acquisition cost
• For example, tie-up with 3rd party car aggregator and social media to identify and assess potential customers for auto loans
Leveraging data can provide a competitive edge to players

Data enables digital platforms to create ‘segment of one’

- **Customization...** Tailored offerings based on customer insights
- **And contextualization...** Right intervention at right time by understanding customer context
- **Repeated over life journey...** Gain customer insight over transactions throughout life journey

...Can help capture 5X-10X\(^1\) ROI on digital platforms

However, players currently under-leveraging data

- **Analytics is used in limited areas**
  - Even though use cases cut across processes, digital customer interfaces

- **Many players have limited data**
  - Mandatory data such as KYC, transaction data captured
  - Limited effort to capture data for analytics e.g. mobile usage

Lack planned approach

- IT systems, data architecture, analytics team – business coordination underdeveloped

5-Step approach to build data analytics capabilities

1. Develop analytics roadmap
   - Develop comprehensive view of analytics use cases
   - Develop business cases, prioritize and set timelines

2. Deploy IT and data architecture
   - Develop system capabilities
   - Create data architecture to capture, process data

3. Setup analytics function
   - Organization, roles, business interface, KPIs

4. Enrich data
   - Harness internal data sources, external data partnerships

5. Roll out Project cadence
   - Joint development of models by business, analytics teams
   - Feedback for model improvement

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1. Value can be realized through multiple paths – efficient targeting, higher product density, maximizing price realization, spreading cost of acquisition over customer lifecycle, increasing customer engagement, optimizing marketing spends, optimizing investments in digital platforms.
Reimagined Customer Journey: Opening a Savings Account

1. Framing the Dream
   - Receives a lead advertisement with attractive offers for opening salary account
   - Decides to apply
   - Estimates the need for salary account based on social media life event change about new job

2. Application Submission
   - Clicks the lead ad that opens up a pre-filled form
   - Completes pending fields (e.g. PAN, Aadhaar, account preferences)
   - Pre-fills lead form with basic details like name, date of birth, phone no. from the social media profile
   - Form submitted to Bank API

3. Application Processing
   - Gets regular status of application processing
   - Social media sends back regular updates via Chatbots

4. Document Submission
   - Selects option of Aadhaar e-KYC
   - Enters OTP received on Aadhaar linked mobile number
   - Uploads other relevant documents
   - Bank contacts user for more information and submission of e-form

5. Activation, App Installment
   - Post approval, receives welcome kit at home
   - Receives notification for installing app & setting-up online account
   - Sets-up integrated login with social media

6. Ongoing Engagement
   - Regularly tracks account balance, transaction history through chatbot
Adoption of digital can significantly increase profitability for FIs. On an average, customer acquisition, servicing and transaction cost over digital channels is almost 1/10th compared to the cost over traditional non-digital channels such as branch, ATM and call center. Also, customers using digital channels tend to bank more and generate almost 5x-8x times revenue. Overall, this leads to 10x higher profitability from digital customers compared to non-digital customers.

By 2020, FIs can potentially increase their retail profit pool by over $3-3.5 Bn by switching to digital and reducing their cost base. These are interesting times and digital is truly revolutionizing industries at an unprecedented scale. Financial services industry needs to leverage digital to create meaningful disruption across the spectrum.

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**Source:** BCG estimates and analysis.
About BCG

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For Further Reading

The Boston Consulting Group publishes reports, articles and books on related topics that may be of interest to senior executives. Recent examples include publications listed here.

Global Corporate Banking 2016: The Next-Generation Corporate Bank
A report by The Boston Consulting Group, December 2016

Fintech in Capital Markets: A Land of Opportunity
A focus by The Boston Consulting Group, November 2016

A Sisyphian Struggle: Insights from BCG’s Treasury Benchmarking Survey 2016
A focus by The Boston Consulting Group, November 2016

Global Payments 2016: Competing in Open Seas
A report by The Boston Consulting Group in association with SWIFT, September 2016

Digital and Beyond: New Horizons in Indian Banking
A report by The Boston Consulting Group in association with Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Banks’ Association (IBA), August 2016

Global Asset Management 2016: Doubling Down on Data
A report by the Boston Consulting Group, July 2016

Will Industry Stacks Be the New Blueprint for Banking?
A perspective by The Boston Consulting Group, June 2016

How Digitized Customer Journeys Can Help Banks Win Hearts, Minds, and Profits
An article by the Boston Consulting Group, June 2016

Global Wealth 2016: Navigating the New Client Landscape
A report by The Boston Consulting Group, June 2016

Global Retail Banking 2016: Banking on Digital Simplicity
A report by The Boston Consulting Group, May 2016

Global Capital Markets 2016: The Value Migration
A report by The Boston Consulting Group, May 2016

Digital Technologies Raise the Stakes in Customer Service
A focus by The Boston Consulting Group and NICE, May 2016

Ensuring Digital Readiness in Financial Services
An article by The Boston Consulting Group, April 2016

Inclusive Growth with Disruptive Innovations: Gearing up for Digital Disruptions
A report by The Boston Consulting Group in association with FICCI and IBA, August 2015
Note to the Reader

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