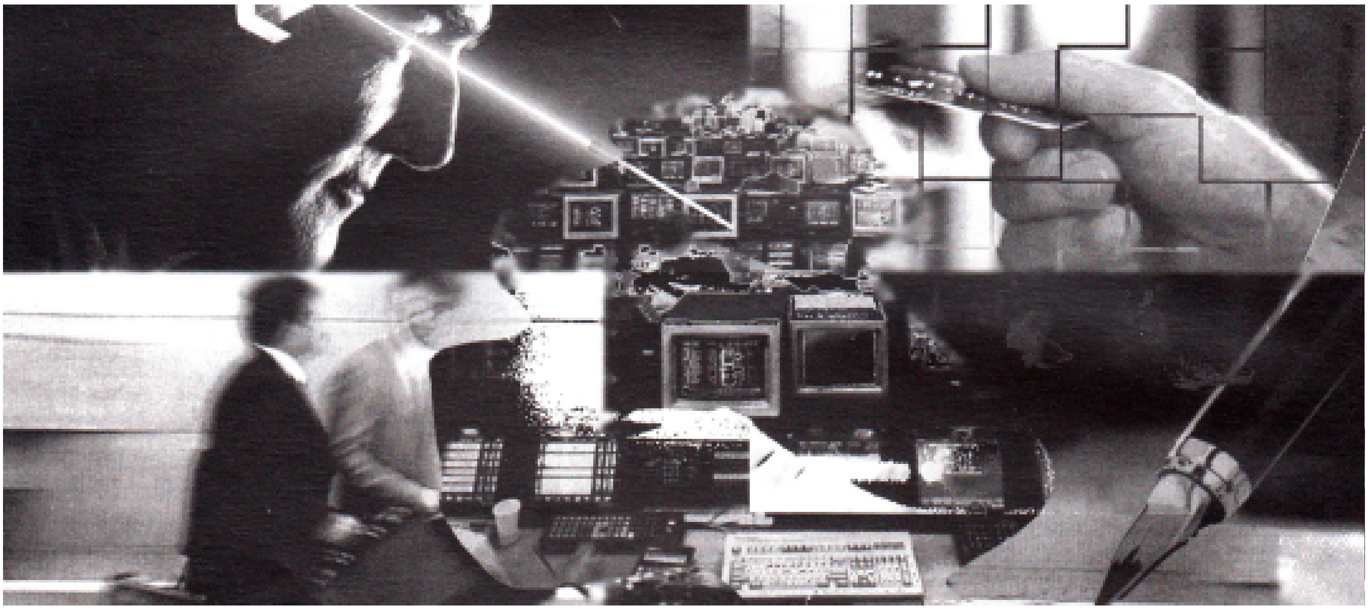


Tomorrow’s Banking

The traditional world surrounding most banks’ operations is being replaced, as the world of personal finance gets revolutionised by Bill Gates.

Yet, it is soon becoming possible for large banks to convert the majority of their branch network into supermarket facilities while others can set up pharmacies in the banks’ existing branches.

Whether the issuing of vitamins next to the issuing of cash will work well is one thing but the new strategies show the overhaul traditional banking is undergoing. A new shape is taking place in retail banking as innovative banks use “electronic commerce” in their online banking operations today.

While the corporate thrust is expected to slow down in banks, retail banking which is undergoing dramatic changes is preparing for what is being described as the great “millennium change”. While the role of retail banking is being redefined, personal finance is changing the face of banking altogether. Yet, it no doubt makes good sense to put branches into supermarkets as it brings its serv ice closer to its customers and to locations where they are wanted. It can also bring about cost savings. Some US banks’ in-store branches are staffed by a maximum of 6 people. In addition, they make personal loans readily available alongside household goods, which makes good marketing sense too.

More importantly, while there is a demand and need for banking services, the supply nowadays seems to be coming from other sources as well. For instance, Marks & Spencer introduced at flexible loan facility for its charge cards. While supermarkets are increasingly becoming aware of customer expectations, they are challenging the traditional perception of banks as the sole provider of financial services.

Thus, banks are therefore forced to create value networks (IT/ telephone companies), not forgetting supermarket and apparel stores with powerful brand names, to provide the range of services. and delivery channels that offer the convenience and accessibility demanded by customers.

A study done by the “Banker” showed that the average number of automated teller machines (ATMs) owned and operated by the top 10 banks will rise by 36% by 1998: 32% of the increase will be at non branch locations.

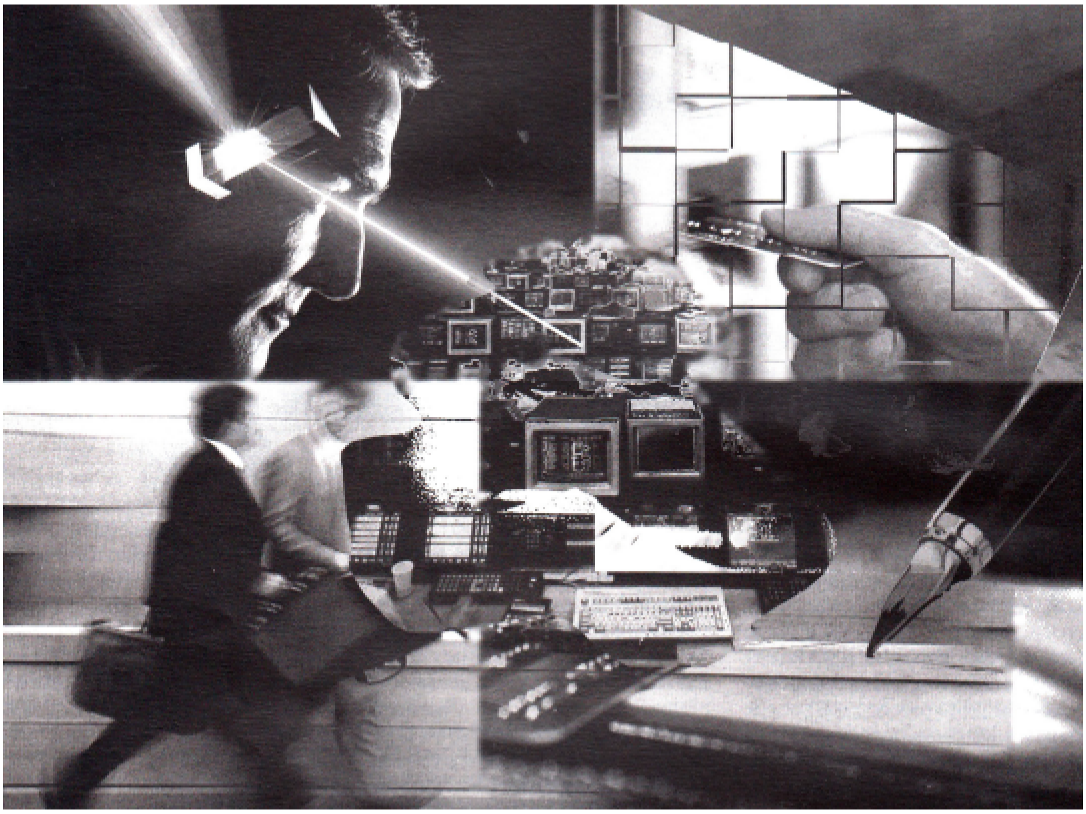
The functionality of ATMs is also expected to grow, with nearly three-quarters of them planning to introduce more sophisticated products; 21% expect to use ATMs to cross-sell other fund-based. products and another 21% envisage selling insurance over their networks.

The number of transactions expected to be performed by telephone will grow by 50% in the three years to 1998, bringing its role in total retail transactions to around 15%. PC-based banking. which was negligible in 1995, is expected to jump dramatically by 1998 with 84% of banks offering or planning to offer services through personal computers. Also, while only 5% of banks offer banking services on the internet as of mid- 1996, 61% of banks surveyed are said to be piloting or planning internet services.

Marketing

They have also projected the mix of delivery channels in 2005, highlighting their relative importance with current means. It is in
this context that the role of the branches are expected to shrink to about 10%. When branches are replaced, customers seeking to meet branch personnel for basic transactions will be served increasingly by express banking shops in offices, shopping complexes and leisure areas. Among remote service options, screen-

based service options, screen-based services using PCs, televisions, and enhanced ATMs will be the most popular, replacing touch-tone telephone services.



Some US banks with their supermarket and online focus, appear to be leading the race. But many others are following and the rapid progress of new technologies makes the millennium an important phase of change.

What will millennium banks look like? The use of IT, centralisation of functions, the use of more multi-skilled workers performing a variety of functions and a shift towards self-service distribution channels all emphasise higher productivity with fewer people to run banks.

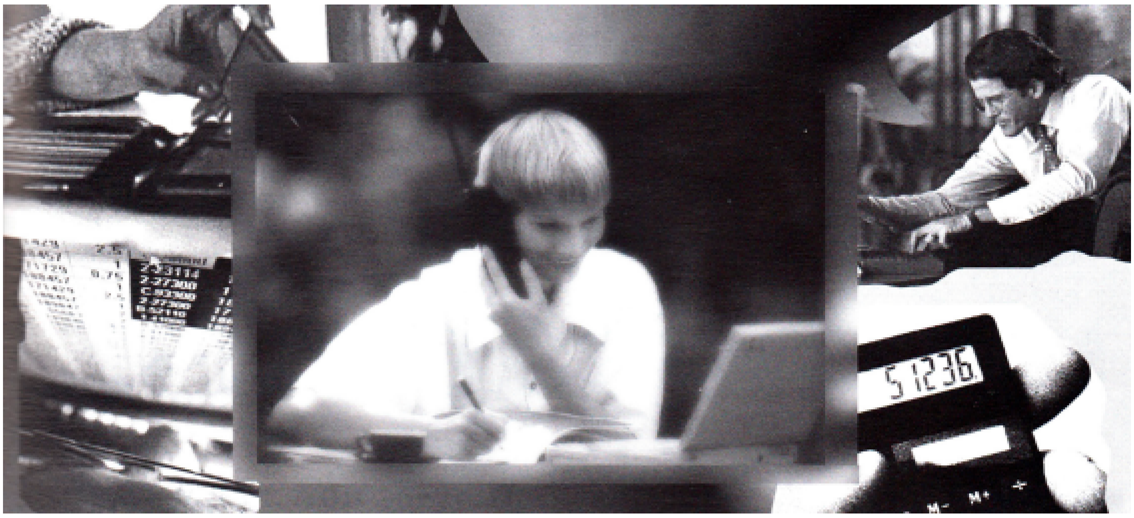
New delivery channels will provide massive cost savings. There is a big difference in cost when it comes to distributing something directly to the customer through ATMs or phone centres compared to branches.

When banks move to the point where they let customers basically run the bank’s systems themselves, on equipment they have purchased for other reasons, such as computer or on phone lines. they already have, banks are down to perhaps a tenth of current costs, which means that services are provided at a completely different cost level.

But would mere cost savings ensure future survival? Or are banks like dinosaurs, ready to disappear if the environment changes too fast for their liking? The bottom line is that the entry of the non-bank players into key banking areas indicates that the traditional sectors have not been meeting their customer needs.

Dinosaurs

The challenge is to raise barriers to entry which will help make the market unattractive for new entrants. In textbook terms, this is achieved through anticipating and meeting the needs of target customers and consumers and by building a durable and sustainable relationship with them by constantly reviewing products, services and organisation and aligning these against the needs of key customer groups.



Big banks which have in many cases, lost sight of their customers and were not too impressed with the relationships building nowadays are now rethinking their strategies. This has opened the possibility of being disintermediated by non-banks, and retailers with powerful brands.

The issue of branding, according to recent marketers such as Kotler, has become crucial in maintaining customer relationships. Despite changes over the past decade, banks have not established themselves as brands. They are essentially common with hardly anything to distinguish them from their competitors, other than their logos of artwork.

But brands are not about impressions of art; they are about having a unique identity and service offered through relationships. In Sri Lanka, most foreign and local banks do emulate the Relationship Concept in their marketing strategy.

One concern for banks according to strategists, is that they will need to think of themselves as fast- moving consumer goods retailers and build and invest in their brands. If not, they run the risk of competing with non-traditional entrants with stronger brands and better customer recognition.

In short, banks need to focus on their branding, their customer focus and relationships and technically which parts of the delivery channel mechanisms they can realistically expect to control. In the Discipline of Market Leaders the point that is made is clear: To deliver value, banks can no longer be all things to all people, they must decide who their customers are and decide what role they wish. to fulfill with their strategic partners in the creation of a value network. Banks must, in short, choose their customers, narrow their focus and dominate their market.

Such banks are likely to succeed. Some banks have made strategic alliances with information technology companies to provide greater flexibility, while others have teamed up with retailers to do the same. Bill Gates says, that financial institutions need to reintegrate and re-focus their own resources, if they want to provide the value their customers want. In the last analysis, banks which “virtually integrate”, forming strategic alliances which also includes supermarkets and the drug-store chains, to provide value to their customers will outstrip the millennium forecast.

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