

What does it take to be neobank of tomorrow?

SPEAKERS:

Manoj Menon, Managing Director, twimbit

Varnika Goel, Sr. Research Analyst, twimbit

Manoj Menon

Hello, and welcome to this podcast on the bank of tomorrow. What innovation can we expect from the bank of tomorrow?

I'm Manoj Menon, MD and Founder of twimbit. And then joining me on this podcast is my colleague, Varnika Goel, who leads the financial services vertical at twimbit.

Varnika, welcome, and thank you for joining. I and Varnika, over the last four weeks, we have recorded a series of podcasts based on the research that Varnika led for the Indian market. We reviewed the CX benchmarks, customer experience benchmarks of the top 13 neobanks in our first podcast. In the next one, we looked at what are the top innovation features offered by these neo banks in India. What are the top innovative things that they did, that the traditional banks have not innovated on. And finally, we addressed the core issue, how quickly can you open a bank account? Is it as easy as opening an account on some of your social media platforms? And we explored what are the possibilities of the future. So that gave us some very good insights. And we encourage you to look upon it.

And today, I and Varnika thought we will talk about, where will the future be for these neobanks?

So Varnika and I brainstormed, and we identified four innovation opportunities as we looked into the future for the neobanks of today. So maybe I'll let Varnika, you begin. So Varnika, start with the first one. What is the first, most exciting innovation opportunity for these neobanks, looking ahead?

Varnika Goel

I think Manoj, the first, most exciting opportunity would be becoming invisible to your customer. And I think that is super powerful when you embed yourself so seamlessly in your customer's journey that you almost become invisible. The customer doesn't even know that you are playing any role in their daily life. How, at the same time, you're actually supporting them to move from one daily task to another. So, banks need to think about becoming ubiquitous to their customers, playing a pivotal role on their daily tasks, whether they perform it through their mobile devices, wearables, or any other form of application. So it actually needs to be a great fusion of humanity, digitalisation and personalisation in bringing all of these factors into the banking solution and making banks completely invisible. What I see right now is that the invisibility is somewhere more skewed towards payments, where you're actually making your payments. Transactions seamlessly flow from any third-

party or say from grocery shopping to any other activity, is happening seamlessly. You don't even have to think about it. But what about other things? What about actually fulfilling milestones in your life? And the bank already pre-empts that milestone for you and becomes that thought enabler and actually guides you through those actions. And eventually, you're able to make decisions without even knowing that the bank was even involved. And what do you think? Do you think this aspect will actually have a huge growth impact right now? Whether we can see 1- 5%. How much do you think that this, there is a potential for invisibility to grow?

Manoj Menon

I think you're right, actually, you know, and I, personally, am supremely excited about it. Because, who wakes up in the morning - says, I'm so excited, because I'm going to the bank today. It's not like I'm visiting a Google office or a Facebook office. So that excitement is not there. But yet, financial services are the very fabric of how majority of us measure success in today's capitalist society. Everything that we want - to own a car, buy a house, you know, take a nice holiday, it's all linked to financial services. So the services are all around us. And yet, we need to consume them and banks can play a huge role in enabling us to fulfil our aspirations. So, can they do it invisibly? Can they help us live better lives? To your point, I think this is where the per capita consumption of financial services will grow. So, imagine, I want to do an education course. I should not even think about the loan for that education; it comes embedded. So it's almost seamlessly embedded. It's almost like, Intel Inside on a PC. I buy the PC, I feel good that it has got an Intel, particular processor, and therefore, I have the best. And that's how the bank should be, somewhere processed by that invisibility. And if you can do that well, the more you can do, the greater the success to your point. So I agree with you. I think that could be the No.1 holy grail that maybe a banking CEO should aspire to. How does he make it so seamless that his services are all over, and at the same time, it is frictionless.

Varnika Goel

So you made a great point Manoj here. You said that's when the per capita consumption of services come in play. But per capita consumption increase in per capita consumption is not only, I think, can be achieved from solving a bank's offering, their core products. I think it's much more than that. You can't expect your customers to only and only consume your services. And we become so profound. And so, I think having such a full suite of services that you're actually on, the entire customer journey. So what do you think, how will the customer achieve? And I think that, where we feel that the next, biggest innovation opportunity lies with the bank.

Manoj Menon

Yeah, so the second biggest thing that, you know, I and Varnika brainstormed, and the biggest innovation opportunities associated with the marketplace or the building of ecosystems. Because if we were to rely on the banks to do all the innovation on their offerings, then I think it would just take us too long. So imagine we were relying only on the innovation from our respective telecom service providers for all the mobile applications on our phone, right? It would be so limited.

The reason we have such an incredible innovation on the iOS platform or the Android platform, is because we created an opportunity for third parties to come, innovate and build. So they build marketplaces, they used open innovation, and a floodgate of innovation happened. So the banks should adopt something similar. They should build their own ecosystems. They should build platforms where third party companies, individuals can

come and build exciting apps and unlock the full value. And through that process, they will have a much greater impact. Because if you depended on any of the banks to do all the innovation, maybe the innovation would be 10x. But if they can actually open it up, then it may be a million X, another million applications available on an Android or an Apple ecosystem today. So I think that is the power. And I think some of the other there are offshoot revenues, I think like data monetisation. So we saw some examples of banks saying - Oh, here is a fintech company, which wants to offer a service to Varnika as a consumer, but they don't have all the ways to authenticate Varnika, to provide a validation on Varnika. So now they offer their core banking capabilities as a service to these fintechs. And as such, they're able to monetise it. And so it is, I think, so many avenues will open up as banks pivot from saying, I will offer services made in my domain by my engineers, to saying - Oh, I become a marketplace, I become an ecosystem. And I think that is supremely exciting because you have now, unprecedented capability to innovate.

Varnika Goel

So Manoj, I think then the aspect is about intelligent cross-selling and upselling, giving recommendations and suggestions to the customers which has a combination of the core products where the bank excels, versus allowing the customers to also see some additional products from third parties where they can create or make an informed decision. So what I feel is it's more about how you measure your success through the entire merchandise value that you're posting on your platform, the banking platform. Now, we've just been talking about how many products that we sold or how many products that the customer upgraded. So I think the world is moving more from how platform companies measure their success, rather than how banks used to measure their sales targets or the number of accounts open.

Manoj Menon

Yeah, you are right, and I think it will be. So, for example, they will have to now measure their success by saying, oh what is the gross value of all the things that are enabled on my platform. And they may have varying degrees of fees for the different level of services that they may provide some of their ecosystem partners. And it should become, while the intuitively, recommendations, etc., happen, and the same thing happens - it should be no different from the way we discover new applications on our smartphones today. There is, at the heart, some recommendation, some level of personalisation, that comes into play. So, I think, you know, some banks may excel in this, and they will face ,increasingly, competition from the tech giants, the likes of Facebook, Google, Apple or Amazon, who may find themselves to be in a sweet spot to enable the development of these ecosystems. So the banks will have to develop some ecosystems themselves. In some instances, they will partner with other ecosystems as well. It may not be possible for them to do everything on their ecosystem. So we need to first decide and say -Hey, do I develop on my own? Do I partner with others? And how do, what do I focus, my priorities? So I think a lot of important decisions that banks will have to take as they look at moving down this path. So that is the second one. So that leads us to the third one, which I think you know, you are supremely passionate about, which is on hyper-personalisation. So what is hyper-personalisation? Why is it so critical? And why do you think it will be so important for the bank?

Varnika Goel

Super passionate, I love it. And the only reason I love it is because being a part of the millennial community and the Gen Zs are also flowing in rapidly, I see that we do not want to bank with a traditional product. We want a product, which actually, is based on our needs, customised as per our choices, knows what we expect, and what we want to achieve out of that product. So the banking industry needs to actually transform itself to build, I think unique personas, unique customer personas, where they actually know that what is my customer's journey before they want to even start banking with me. What is my customer's journey during when they are banking with me, and what can be their journey after that? That preeminence of stages or milestones, whether it is introduction to banking, whether it's college or post-college life, or whether I'm making decisions as an executive, as my third-generation, or any other future family planning. New job opportunities, moving from one city to another, and actually, big-ticket decisions, like buying a house, buying a car. So I think the bank needs to embed in each one of these life stages, and then customise that from first. And it's special for me. And it makes me feel special that the bank understands me. And the bank is actually being empathetic to my needs. And then I would feel that I would build that kind of loyalty and stickiness. Because at the end of the day, what we want is that the customer sticks with us and comes back and buys another theme. So if the bank really wants to unlock their opportunity, it needs to start from as soon as I enter the application, how it is so centred about my savings, my spending. How it's talking about my goals, how it's talking about my future needs, what kind of recommendations they're giving to me to actually plan, save and invest. And then finally, it's helping me make those big-ticket decisions, even before I even thought that I need to actually start planning for them. So that level of understanding of consumer journey is extremely important for banks, and I think that will be the next step for them when they want to unlock opportunities and actually retain customers.

Manoj Menon

Yeah, and I think some of the newer banks are working along this part, around saying, many banks talk about, banking is about helping meet your life needs. And if they can personalise that to you as an individual, aggregate the services. So in a way, hyper-personalisation brings to bear everything else we talked about, you know, the invisibility, as well as the marketplace. So the hyper-personalisation allows you to curate a very unique lifetime experience for Varnika as a user, and help Varnika achieve her goals, and bring together the value. So essentially, the value the bank has is the data about you, and how that data about you, in comparison with everybody else's data, helps curate a very specific, specific output to help you achieve your goals. So I think that could be fascinating. And that's where I think the tech giants have an advantage if they have to, and maybe at some point, I believe a tech giant could acquire a bank, or integrate tighter with a bank to offer some of these capabilities. So in a way, all the points one, two, and three, are very tightly integrated - the invisibility, the marketplace, and the hyper-personalisation. But the extent to which a bank may use or pursue a specific strategy may depend on their specific strength and capabilities, right? So yeah, I think I think those were the three powerful ones. And then that leads us, I think, to the final one, which is on security, which I think is a big source of concern because we have lots of challenges with security. And maybe, you know Varnika, you can talk a bit about all the phishing and other challenges we face today in banking.

Varnika Goel

Oh, we face multiple - whether it's phishing, reverse phishing, we talk about crawling, we talk about screen jabbing, and all of these are actually what they're trying to do is, like you said, data is so powerful, and to play against that data. And when these banks are trying to integrate data and use open APIs, get everything together, that's when there's a lot of back-end, of what I would say, attacks happening. And that's the reason why customers are losing trust with these neobanks, with digital platform. That was actually a reason why they were at the first step resistant, reluctant to come on a digital platform and transact. And now, with the push of COVID, under pandemic, it's become a necessity; people have to do that. Now, when they are there, they're still facing the challenge of being confident enough to share all their information, being confident enough to trust the bank that their transactions will be secure. So if I had to take an example. So my father, he recently moved to a digital platform to make payments via Paytm, which is very common in India, but he's still scared that if, if I'm doing a direct transaction from his bank account, he's still at the outset of telling everybody, opening his personal information to the world. And he's still comfortable by doing - Okay, I can still make cash transactions, why do I need a wallet? Why do I need to top-up my wallet using my bank account? What do you mean by a unified payment interface? I don't understand this, I'm still ready to go to the bank and do my daily transactions rather than, I'm still okay with a chequebook. But don't give me a digital wallet. So those kinds of hindrances, it might be easy for the millennials, Gen Zs and maybe the baby boomers to understand, but a little older generation that then they will still have difficulty to trust and have the confidence, especially when you bring in biometrics, or what if they think that my fingerprint is being used somewhere else? What if they record that? How comfortable the person is to open up their accounts, to a digital system, I think there's still a lot of room from banks and to add enough security layers and continuously monitor those and have audit trails, checks to ensure that the security is still not being hampered, and at the same time educate their customers, what level of layers that they're adding to make their interface secure and to feel entrusted with the bank. So I think it is a both-way aspect. We've just scratched the surface. So I think it will take some time.

Manoj Menon

I think, if I were to look at a more provocatively challenging view, I think security is such a huge innovation opportunity to the bank. Today, partly, the banks have scared people like your father, by advertising and putting messages and saying educating them, be careful that you are transferring to the right person, etc. That's because their systems are not good enough to protect people like your father. It should be, the systems should be, you know -we go to the bank, because we trust the bank. We go to the bank and keep our money there, because we think it is safer to keep the money there than keep in my house. So I want you to be responsible for making sure it is secure. Don't tell me to watch out if I'm making a mistake. So that's the innovation opportunity. How can banks say that, I will help you, you know, you bank with me, rest assured you are secure. I take that responsibility. Because through the use of technology, if you're banking with me, I protect you, I insure you against any eventuality. And if they can do that. Can you imagine how compelling that customer need is. So as consumer, I think there is a huge untapped opportunity. If a bank can come up with a proposition and says, Mr Customer, don't worry, your security is my headache. You do the transaction you want, as long as you don't have fraudulent intention. I support you, your transaction and your aspiration to do what you want. So I think that is, that is the fourth most powerful dimension.

Varnika Goel

I actually brought a thought. And I would love to hear your thoughts on it. So when we talk about this provocative statement, do you think that when we are saying that the world is actually being driven by data, and banks are going to be channelising and churning volumes and volumes of data to actually become those type of personalised, embedded lines and become invisible for their customers. So there's a shift from being financial custodians to your customer to become data custodians to your customer. And when you become data custodians to your customer, your image is becoming more from how well I protect my customer's data, rather than how well I secure their money. So the money has anyways, moving in the digital worlds, do you think that money is going to become invisible? And banks will become data custodians?

Manoj Menon

I think it's always been like that. In fact, you know, I remember, it was I think Walter Isaacson or one of those former city bankers, one of the first city bankers, he said, **"Information about money is more valuable than money itself"**. And this was way before the internet. So clearly, it is that data – it is the most valuable asset. And if banks realise it, and if they organise themselves around it, I think they have such a huge opportunity because then they are not limited, even by financial transactions. They become custodians of our data, helping us lead better lives. And I can use that digital identity with the bank that I have to go around the world, do all the things I want. And the bank is an enabler for me to do that. So I think that will be very, very powerful.

So I think, you know, these are the four things that I and Varnika talked about. We would love to hear your opinions on what do you think. Did we miss up any innovation opportunity that the banks of tomorrow can harness, a combination of technologies we agree will come together to make this innovation opportunity possible? But these are the four big, megatrends or themes that we believe that every bank should pursue. Right Varnika, you want to add something?

Varnika Goel

Definitely, I completely agree with you, Manoj. And if the banks are rightly able to understand where the symphony and where the synergies lie for them, I think there is no stopping. I think there is no stop in terms of what kind of opportunity they can unlock for themselves, and what kind of products and services they can bring to market which, actually, the innovation we didn't even think about.

Manoj Menon

Excellent. Yeah, there are two big industries that will be the fastest-growing industries in the next coming decades. One is the financial services industry, and, second is the healthcare industry. And technology is really at the heart of helping both these industries flourish. And I think they will intersect, they will converge and help us create new value propositions. So I look forward to hearing comments, ideas, thoughts, and we will continue doing our research on this subject. Write into us, provocatively challenge us so that in the subsequent versions, we can bring you even more insightful data. So, thank you very much, Varnika. And thank you, everyone.

Varnika Goel

Thank you so much, Manoj.

Thank you