

# How Virtual Banking Licenses Benefit Consumers

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Why do we need virtual banks? Is this just another barrage of buzzwords the banks are using in the hope of gaining some positive media coverage and a few speaking engagements? Or is there something of value in a virtual bank for consumers?

One of my core missions in my work has been convincing my financial services peers to shift their perspective from an internal bias to one that genuinely and objectively puts 'value for the customer' at the heart of every aspect of a business.

Companies like Airbnb, Amazon and Apple thrive in the digital economy by actively ensuring the voice of the customer is present in all discussions. At Amazon, it's called the 'Empty Chair', No matter what size the meeting, every Amazon event has one extra seat. Jeff Bezos is known for saying, "Start with the customer and work backwards." This crucial perspective ensures that everyone understands the value they create for a customer, something that has been lacking in financial services since the start of the technology era and the centralisation of functions.

Over the past decade, I've conducted the same body of research at least 25 to 30 times when leadership groups seek to understand the evolving needs of a digitally savvy consumer in the hope of finding a prophetic insight to put them ahead of the competition. The research consistently finds the following:

- Over 70% of banking customers want the answer to 'Can I afford X?' Where X is new clothes, a holiday, a car, a house, and more.
- Over 60% of banking customers want help understanding their money, and how they might achieve their financial goals
- Over 75% of banking customers primary daily concern is getting the best 'value' from their cash, rewards, status, and loyalty.
- Less than 20% want a 'Digital Bank', and of those, 75% want their bank to service them like Spotify, Apple or Google, known as 'customer experience expectation transfer.'

So with the Monetary Authority of Singapore about to issue five virtual bank licenses, what are the potential benefits customer might experience?



Simpler Onboarding

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As much as the incumbents aspire to fully digital onboarding and account opening, the majority are still defaulting back to their risk-averse mindset and include complicated or compliance-driven steps that make the experience painful. New-age companies adopt a term known as 'progressive complexity', in that the relationship with a customer starts simple and builds over time. Such an approach acts to distribute compliance requirements over time; hence the customer experiences value in the relationship before more complicated steps are required.

Under the virtual bank framework, consumers can expect simpler, streamlined onboarding that reflects the present risk of the relationship, not the absolute.

## Better Product Choice

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Banks have historically had extremely complexed product offerings. Products that may appear similar in marketing later find them to be very different once the sign-on promotion ends, leaving the customer with post-purchase dissonance, or buyer remorse. At its core, banking products are just structured ways to navigate the underlying asset and liability classes that govern a bank. However, the bank has made it the customers responsibility of knowing what type fits their needs and describes each using overly complicated legal jargon.

In the modern world, choice architecture helps to simplify consumer choices by floating those most relevant to the top. The most famous is the 'Amazon Suggests' engine or the 'Recommendations' on Netflix.

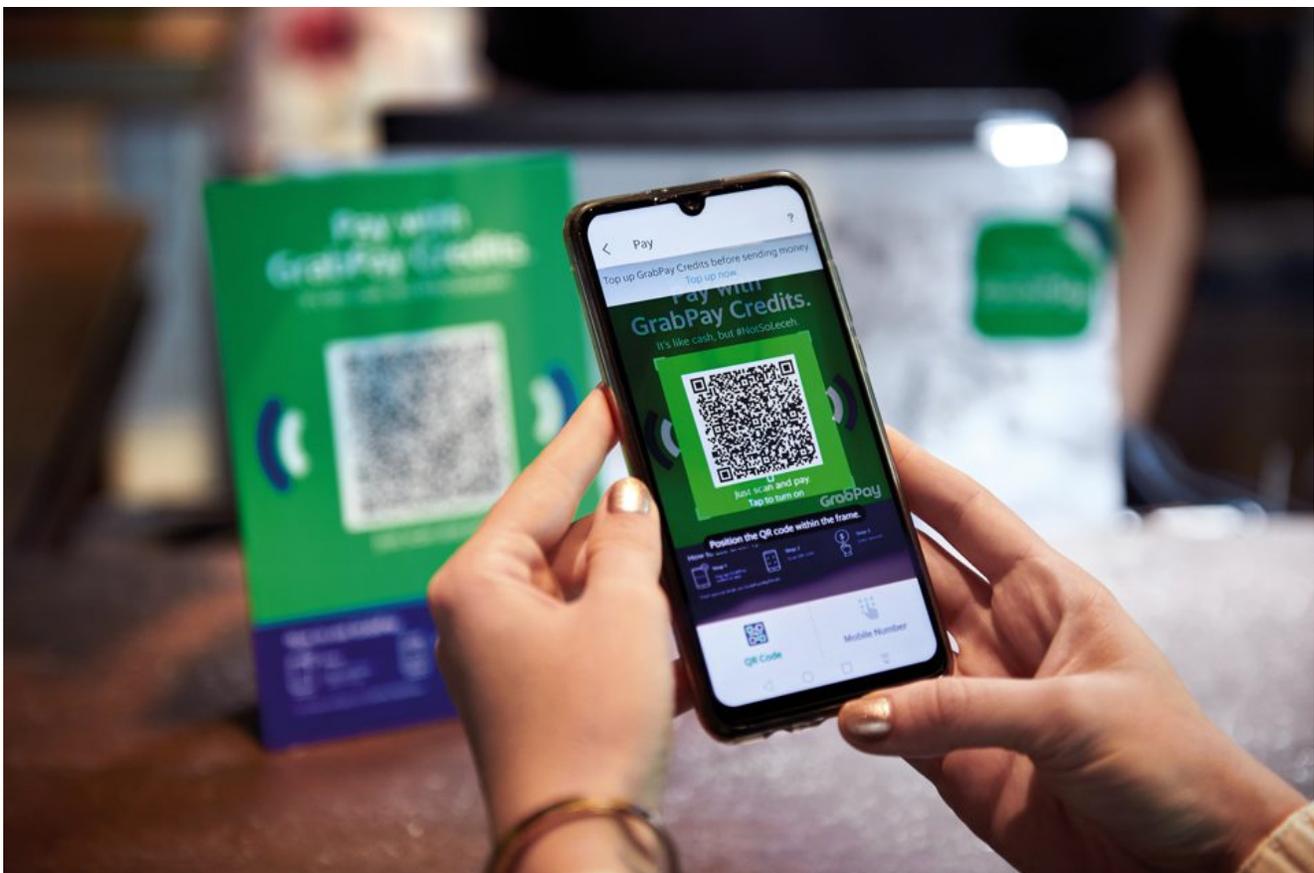
For a Virtual Bank to be competitive, they'll have to simplify the product choice. Hence we can expect only a small selection presented, recommendations that are backed by responsible data insights on what's best for the customer.

## Best Value For Our Dollar

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Over years banks, payments companies, rewards programs and merchants have thrown discounts and rewards around like they are candy, resulting in a market where you should get a discount on every transaction you make. Hence residents and Singaporeans carry more than eight credit cards, and at least eleven loyalty or rewards programs. The addiction to merchant rewards and loyalty makes the most stressful decision to purchase not what to buy, but which credit card and loyalty program to use.

With the National QR code now deployed, a virtual bank can operate to link intelligence into each transaction to ensure your choice the right card, and program, every time. It could also draw in real-time from discount programs like Honey, recently acquired by PayPal. Honey's users leverage a suite of money-saving tools to track prices, get alerts, make lists, browse offers and participate in an rewards programs. Honey's users tend to be younger, millennial shoppers, both male and female, reenforcing the hypothesis consumers are growing in their information savvy skills in pursuit of a good deal.



## Transactions That Mean Something

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Do you ever read your statement only to see descriptions that make no sense? Random business names that you later find out are the holding company for that coffee shop you visited. It's a pain that affects almost everyone and should have been resolved by the incumbent banks a long time ago.

Some banks have woken up, while world-leading challenger banks are already enriching statement data to make them meaningful by drawing widely used sources like Google Maps and Facebook.

Given the hardest part for banks has been integrating public data sources into their system, virtual banks will have the advantage of 'green-field' technology approaches and will integrate enriching data from day one. For the consumer, this means statement history they understand.

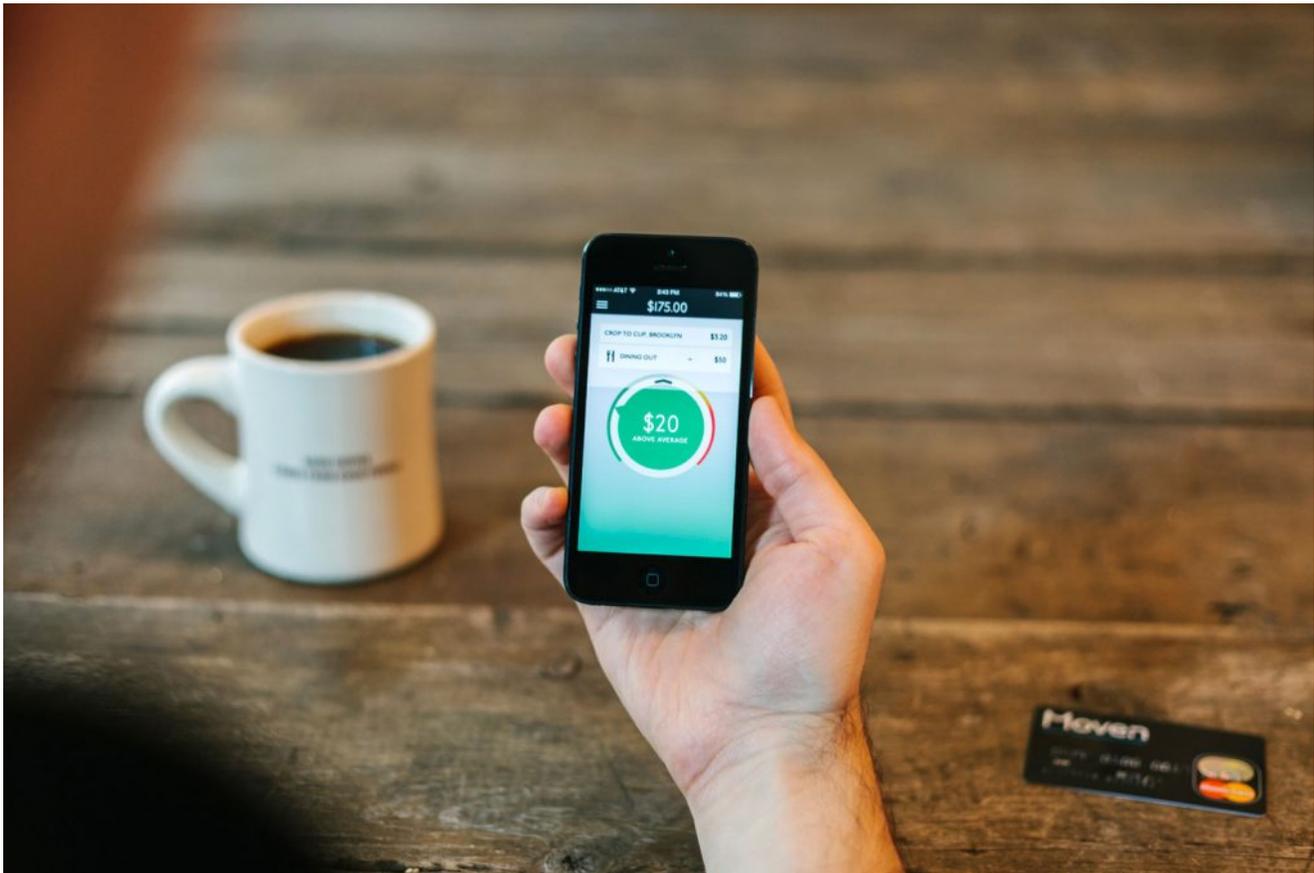
## Everything In Real-Time

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While its increasingly rare, not all payments are real-time, especially in the area of rewards and cashback. Since rewards and cashback have been 'bolted-on', they typically fall to third parties or back-office teams to execute, leaving them riddled with operational issues, slow processing and low trust.

With an integrated approach to rewards and loyalty, features like cashback will have to be real-time. Such an approach not only resolves the operational challenges but adds a considerable boost in customer experience as the impact of rewards are felt in the moment of the transaction.

Expect the Virtual Banks to integrate real-time rewards into their offerings, coupled with tightly integrated cashback and merchant ecosystems.



## No Fees

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We live in a data-driven world, and payments are no exception. For over a decade, it's been common knowledge the value of pre, during and post data in each transaction is worth three to five times the value to a business when compared to the processing fees collected. This 'value exchange' is prolific across a number of digital ecosystems, and is ready to make the transition into physical retail.

The shift in ecosystem value poses a challenge for incumbents VISA and MasterCard as a growing number of merchants and consumers are incentivised to work directly with alternatives.

The zero fee game links closely to another common prediction that domestic, single currency interchange would face downward pressure in the coming years as commerce ecosystems scale.

Companies across the world are already tracking our purchase history, only very few are leveraging that data to give value back to the consumer.

Like NETS, I'd expect the virtual bank ecosystem to quickly move towards a zero-fee model either by choice or pressure from the regulator.

## Transparent Customer Service

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A growing trend for 'Born Digital' businesses is adopting self-managed and open customer service models. Open customer service involves enabling a customer to create their own service ticket, and also access to the ticket throughout the life cycle. This has an important impact on customer experience as it not only allows the customer to track the issue without having to make a frustrating call to a call center, it also allows the customer contribute to the resolution by adding notes, photos and more.

Companies like ZenDesk, Salesforce and Hubspot have seen strong growth in their client base seeking to turn customer service into a positive brand experience.

Implementing digital and open customer service offerings aren't new, but they are riddled with poorly executed attempts by 'old-school' mindsets.

Expect the successful virtual bank applicants to launch with pure digital, if not fully open customer service offerings to seamless service and build on customer trust.

## Conclusion

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The new generation of virtual banks in Singapore have the potential to set the direction of banking regionally, if not globally, but it will require careful consideration and a little lateral thinking to future proof their offerings to attract customer adoption. But their biggest challenge is changing the 'default' payment instrument of choice. This will only happening by pulling together all the predictions above to incentivise behaviour change, and embed the new behaviour over time.

Either way it's an exciting time for banking customers, as the new virtual bank licenses enable a higher level of competition against the players. And only provider better offerings will ensure long term success.