

REFORMING THE DISTRIBUTION OF PRODUCTS AND SERVICES WITHIN THE RETAIL BANKING BUSINESSES

Authored by:

Ruchi Acharya



University of
Strathclyde
Business
School



VALENTIA

CONTENTS

03

EXECUTIVE SUMMARY

03

SUMMARISED MARKET
INSIGHTS

07

ANALYSIS

09

FRANKLIN BUSINESS
CHALLENGES AND
SOLUTION

10

RECOMMENDATIONS

16

IMPLEMENTATION
ROADMAP

REFERENCES

1. EXECUTIVE SUMMARY

In today's world, the rapid transformation in retail banking distribution has increased the level of digital proposition, new bank-network strategies and redesigning of business models. This led clients, customers and business partners to access more products and services on account of multiple comfort factors through multi-channels such as web-chatbots, video remote advisory services, doorstep banking, report on personal finance, digital sales and marketing, fully automating branches, and SME reinvention among others. Also, endorsement of new policies, regulations and attractive consumer's schemes (one like student graduate scheme) in retail key products in current and saving accounts, personal loans, mortgages has been mentioned.

In this paper we had outline the number of battles a retail bank must win if they want to succeed in the era of customer-based distribution. In this report through our intensive market research we discussed in detail about the accomplishments achieved from global financial crisis, current retail market trends, Franklin business challenge and remedies, followed by strategic planning for Franklin bank. In the analysis part we had dissertate the importance of four parameters that need to be taken into consideration that further has been explained along with the formal recommendation.

2. SUMMARISED MARKET INSIGHTS

2.1. LESSONS FROM GLOBAL FINANCIAL CRISIS

(European Retail Banking Radar, 2019) Based on our market research and analysis, we awaken to, after 2008-2009 global financial crisis the European retail banking radar chartered the recovery of industry in the amidst of plummeting sales, narrowing down the profit margins and lack of confidence among the banks. (Janse, 2018) To tackle this some of the emergency steps initiated were financial assistance from European Financial Stability Facility (FEFS) and unorthodox policy measures by the European Central Bank played a key role. After a decade, European retail industry strengthened its regulations after a crucial transformation and now euro area economy is booming.

(Bondarenko, 2020) The Asian crisis of 1997 can be set as the another example for the financial crisis that has been originated in Thailand in the year 1997 and swiftly take its toll to the rest of East Asia among its trading business partners. Excessive debt accumulation and over-extension of credit cards from developed countries like Singapore, Malaysia, Honk Kong, and South Korea (also known as "Asian tigers") triggered the unexampled capital flow in those economies. In return, Thai government had to abandon its exchange rate against the USD citing a deficient foreign currency resources. This further resulted in a panic wave across Asian financial markets and led to the reversal of billions of USD foreign investment. Due to the instability in the market, many investors become tense about the possible bankruptcies of East Asian governments and fears of financial meltdown across the global market. In the end, International Monetary Fund (IMF) had to step in to create financial balance among the countries with disoriented economic situation and create bailout packages.

(Erian, 2018) The lessons learnt from the global financial crisis exemplified above was an eye opening for retail branch administrators, policy makers, economists, risk analysts and retail bankers that further led to the post-crisis accomplishments. The accomplishments were:

- **Introduction of a safer banking system:** This step shows more responsibilities towards balance sheets and enabling better liquidity management that further led to regain the trust of the investors. With this the banks will no longer represent itself as a systemic risk and as a wholesome it will not be on the edge of market-based economies.
- **Smarter international cooperation:** The global financial crisis highlighted the crucial role not substituted only to crisis management but also more focused on prevention. By

strengthening regulation and supervision timely and comprehensive data sharing along with the greater focus on the challenges of monitoring internationally active banks one can improved harmonization of the retail banking.

- **Inclusive growth:** It took a long while for the policy makers to figure out that the great recession has secular and structural components. Most advance countries have still yet to adopt successful measures to spike the actual growth with evolved mindset narrowing the political window and stop the downward pressure on potential expansion.
- **More robust payments system:** The stronger retail banking system can minimise the risk of sudden interruption in the payments and settlement mechanisms at the core global economy.
- **Scarcity of ‘patient’ balance sheets:** Huge financial disturbances mainly caused due to pacing forward with the damaged financial securities and ignoring the challenges in the balance sheets. Ultimately, this results in relying on large public balance. Additionally, there are concerns about distributional factors inclusive of favoring corporate profit gains at the expense of wages that again can drastically lead to future crisis.
- **Risk has morphed and migrated to underregulated areas:** Sometimes there has been over-promising in marketing liquidity and volatility selling to an extent. Furthermore, this results in the product proliferation that further implicit to the growing number of exchange traded funds promising instantaneous liquidity in market segments causing market deregulation.

2.2. PRESENT MAKETING TREND AND ANALYSIS

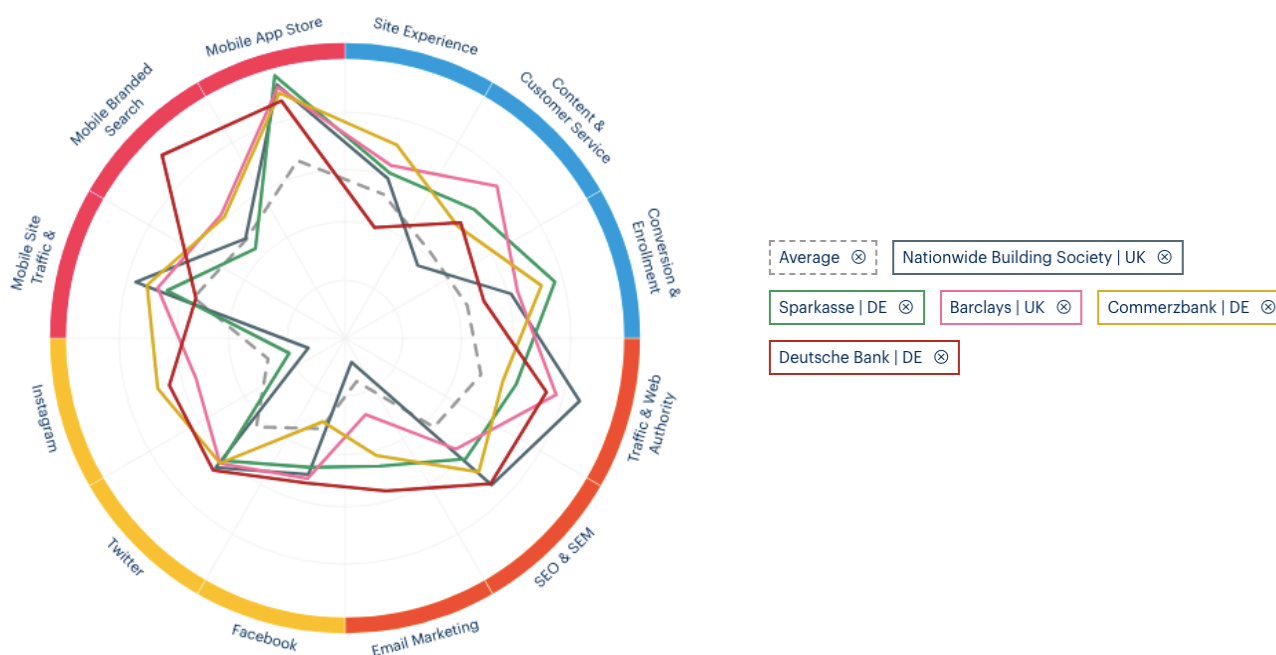
The present market trend and analysis reflects customers’ preferences and behaviour are radically revolving with the use of new improved gadgets and technological innovations in the field of retail banking and services. Taking into account of changing social trends and customer needs into account, retail banks are using speculative strategies in order to stand out and producing constant development in digitalization. The main aim is to provide feasibility for the employers, branch or main office managers to use this technical advances efficiently and further implement it into practice to provide better services to the consumers. During our market research we also notice that retail banks these days greatly emphasise on mobility in retail product and services that means the packages must be designed in such a way that consumers, business partners, or clients can access it from anywhere, and at any time, instead of physically visiting to the retail branches at selective locations. Also, it is more about making the complex simple by eliminating the burden procedures.

Most of the retail banks today are aiming at providing the most attractive, user friendly, efficient and cost-effective services for user at the same time increasing the profit for the company. Some of the crucial parameters that must be taken into consideration are:

- New Innovations
- Development of conversational interfaces
- Enable omnichannel payment experiences
- Offer holistic credit evaluation
- Provide biometric authentication
- Create an operational ecosystem
- Deliverance of progressive transparency

(Cosner, 2019) The retail bank featured one like Franklin bank are struggling to keep pace with the digitally obsessed world. (Stewart, 2019) Customers want their retail banking services to work like the payment music, and shopping applications they can easily use every day. In this section, a business analysis of the current retail banking market growth, development and forecasting from 2018 to 2026 in Europe has been demonstrated based on the numerous online key products. This assist to identify opportunities for the new stakeholders such as Site & E-commerce, Digital Marketing, Social Media and Mobile & Tablets usage for banking.

Key ■ Site & E-Commerce ■ Digital Marketing ■ Social Media ■ Mobile & Tablets



Retail Banking Europe 2019 (released Mon Apr 22 2019)

The Fig 1.1 shows the recent trends among the top European retail banks for 2020.

In the figure 1.1, the most leading attributes in retail sector of European retail banks for 2020 greatly emphasise on the “Mobile App store”. In figure 1.2, it has been suggested that by installing features like chatbots, or voice automated text messages can be attractive to the clients or individual customers and can act as a new successful strategy in the retail banking.

Another trending parameters are the Mobile site and traffic, Facebook, and Twitter. When we make account and payment data available through secure application programming interfaces, like Facebook payments or PayPal, it is at customer's disposal how they interact with financial service providers. Therefore, APIs stimulates the innovations in retail bank sectors and it eventually leads to expanded banking eco systems making customer's lifestyle better. If we make customer consent as an integral part in open banking proposition, the improved value in the retail sector is highly responsible to drive the profit. Eventually, those organisation which will accumulate higher consumer value will be at gain. Therefore, by strengthening bonds and collaborating with social marketing organisation, Franklin bank can easily promote its speculative features and easily reach to its customers.

The advancement in the key products like in fixed deposits could be effective since it's relatable, widely used and valuable from the client's perspective.

- **Resident Fixed Deposit**

It is scheme where a person can get a higher interest than a savings account at the same time getting the security of a saving bank.

- **Senior Citizen Fixed Deposit**

Schemes where Senior citizens can get special rates on selected tenure, this give the possibility for them to receive monthly interest, quarterly or at their will as per their requirement.

- **The Government Credit Guarantee Scheme**

The Government Credit Guarantee Scheme is provided through the Department of Jobs, Provide Loans to Small and Medium Enterprises (SMEs) who have an ability to repay.

- **Farmer Schemes**

The Farmer Credit and savings scheme is a flexible way to help farmers to manage their seasonal income and get the most benefits.

Reforming the distribution of products and services with the retail banking business

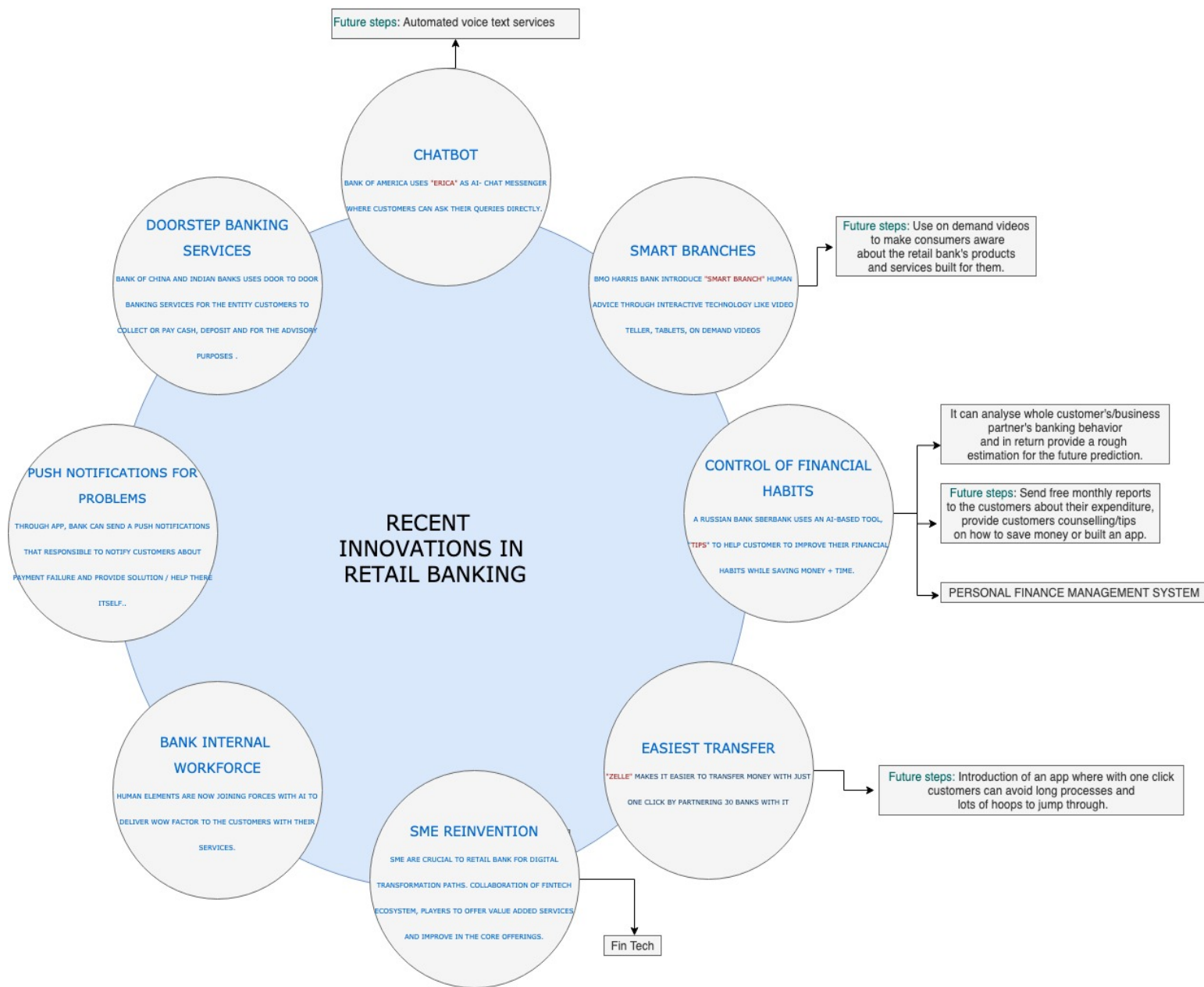


Figure 1.2: Distribution model for the recent reformation in retail banking industry

Based on the distribution model above it is highly recommended that Franklin bank should highly deal with consumers, SMEs or Corporates with its speculative, simple and yet effective packages of its product and services. It can be attained by advancing schemes of the Franklin key products such as current and savings, personal loans, lines of credits, debit/credit cards, mortgages and certificate deposits. Increment in huge loan losses, rigidifying regulations, and sluggish value criteria are the major reason that can restrain the market growth and development. Therefore, it's very important to solidify all these key products and services offered by the Franklin retail business.

3. ANALYSIS

3.1. RAID ANALYSIS

Taking into Account the Major banks Modernizations that have taken place we have analysed that the below Fig 1.3 shows the major Risk, Issues and Dependencies that the Banks Faced during the transformation and taking the clients Requirement as the Assumptions we have performed our Initial RAID for our MCDA Analysis and Sensitivity Analysis to select the Strategies that the Franklin Bank can consider to invest.

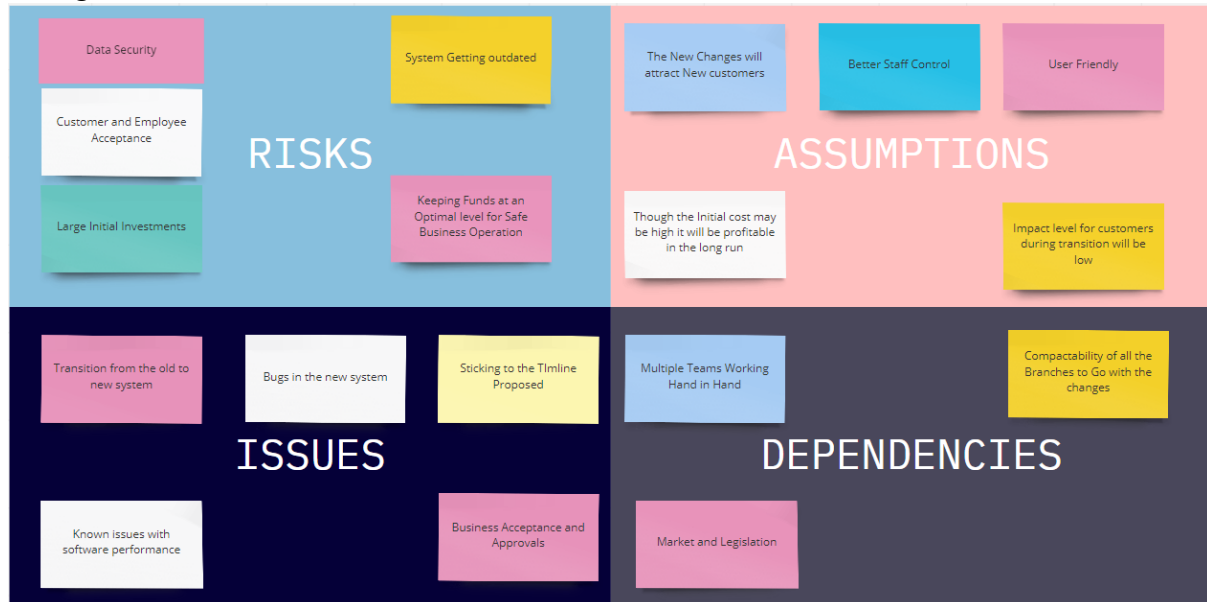


Fig 1.3. RAID Analysis for major bank modernizations

3.2. MCDA ANALYSIS

Value tree was implemented to consider critical dimension when we evaluate the alternatives including: Digital distribution channels, Branch-based channels and the cost (Fig 1.4). There is a set of factors we do need to carefully discuss and properly give its weights so as to calculate the score each of strategies that we developed will get. In order to further measure those three attributes, they have been appropriately respectively separated into different sub-subjects here. Specifically, the “digital distribution channels” has been further broken down into four sub-criteria here, which are respectively technology availability, efficiency of managing money, the access to information and eventually the regulation of money protection (to what extent the adoption of strategy can prevent money from related data leakage, fraud pay and money laundering). In addition, the “Branch-based channels” has been sub-divided into other two subjects which are smart branches and seamless service between online and offline. The cost as the final attribute has also been split out into educational costs (the fees and resources the bank would invest in educating both its staffs and customers to get used to the new digital channels) and the cost of digitization (range from back end to frontline). Each of criteria is developed carefully based on the challenges and problems highlighted within the report the Valentia gives to us.

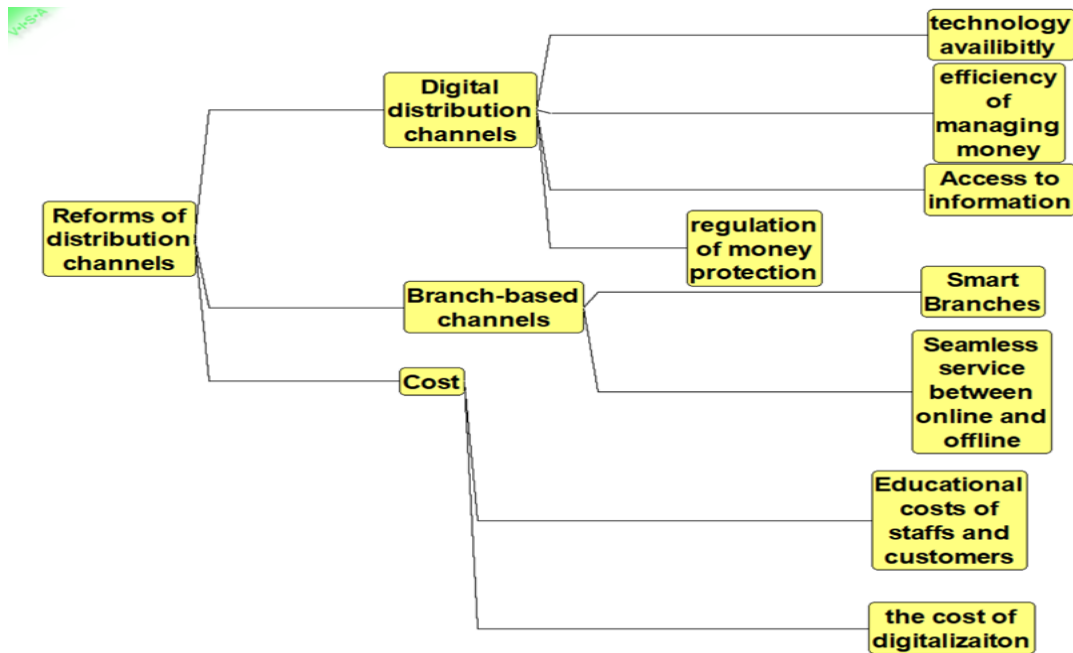


Fig 1.4. MCDA Analysis demonstrating reformation in retail banking distribution

We have four likely pragmatic strategies identified based on both the data and researches for determining whether clients need to take actions digitizing their businesses process and service they offered and how they take actions appropriately or are there any other alternatives our clients can take. The numerical figures in the below table are all based upon extensively large researches and figures reported in press and business insights generated by consulting firms. Whereas, those alphabetical figures with sequence, are based on the combination of a lot of researches and subjective comparisons with each other. This makes the assessment of educational costs, the costs of digitization and implementation costs challengeable and perhaps inaccurate, due to it is only an academic guess, of course, based on studies we did, because we did not actually know how dearly the adoption of digital tools would cost - this in turn indicates that the reported figures might not be completely precise and would undoubtedly lead to limitation. Although the problem is distribution channel reformation, but we still are making attempts to look for a long-term solution that is not only financially and technically practical, but also efficiently competitive, thereby, avoiding another crisis having themselves out of market due to not timely taking actions to digitize its businesses and services offered.

Attribute	Technology availability	Efficiency of managing money	Regulation of money protection	Access to information	Time in years to become Smart Branches	Seamless service	Education costs (staff and customer)	The cost of digitization	score
<u>DIGITIZATION</u>	25	100	100	100	50	75	0	0	337.5
<u>Expanding beyond core services strategy</u>	50	50	75	100	75	75	75	50	425
<u>CUSTOMER SERVICE EXPERIENCE IMPROVEMENT STRATEGY</u>	75	25	50	75	75	50	100	75	422.5

Table 1. MCDA attribute table representing four crucial parameters

3.3. SENSITIVITY ANALYSIS

Comparing the Fig 1.5 and Fig 1.6 below, highlights the changes of impact when the weight given to “smart branches strategy” has changed. The “expanding beyond core services strategy” is the best solution needed to be taken into account when the weight of smart branches is 9%. The “customer services experience strategy” and “expanding beyond core services strategy” would be having the similar effects as the weight of smart branches is hitting to about 70%. The “customer service experience strategy” would be the ideal solution when the weight is getting close to 100%.

In terms of figure that portrays the impact of changes of weight remarked for access to information. When the weight given to the access to information is 9%, the “customer service experience strategy” would outperform relative to other three strategies. Whereas, there’s an inflection point that the “expanding beyond the core service strategy” would be and will continuously be ideal solution to follow up when the weight given to “access to information” is hitting to 23%. Additionally, “doing nothing strategy” is obviously experiencing the downward trend when the weight of “access to information” is getting higher and higher. It is noticed of that the strategy of “digitization” is apparently gradually becoming the very efficient one to have the reformation of distribution of channels improved, when the weight is close to 1, it’s almost having the same implication as the “customer service experience strategy”.

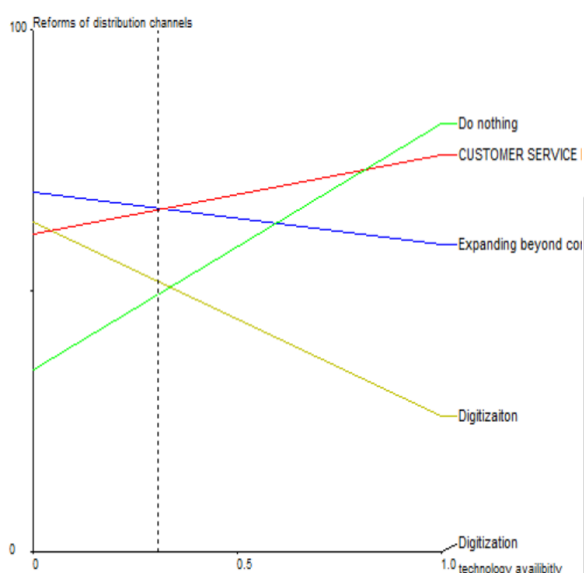


Fig 1.5

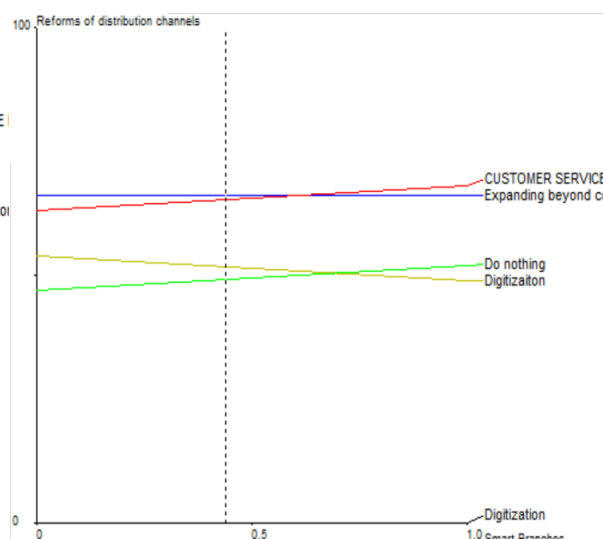


Fig 1.6

4. FRANKLIN BUSINESS CHALLENGES AND SOLUTIONS

- **Tailor-made solutions at the heart of the Europe**

Drawing expertise from every corner of the respected Franklin retail sector and nurture close relationship with consumers, clients and business partners to ensure an honest approach to wealth management. Franklin bank can avoid exacerbation by strengthening three key pillars of its finance: Competence, strict regulations and professionalism. They also can **work with the rigorous financial legislation one like MIFID II** to guarantee complete transparency across investments, financing and reporting. This will allow business clients and investors to invest openly in the world of fund investment and assets.

- **Customised solutions based on the generational shift**

Another strategic plan that can be executed is by extending the business network internationally with a generational shift and personalized recommendation for balancing their

respective wealth and asset management. (Kate, 2020) Clients are searching for the best wealth remedies for their families. Franklin can also take an educational approach to **inheritance planning scheme** by reinventing the traditional private banking model when it comes to account management. Many clients require family finance planning in generating stable performance with a minimum risk.

- **Expanding a highly skilled team of experts**

Based on the necessity there is a great akin to grow the multilingual team of experts by recruiting experienced managers who can share same Franklin firm spirit. A team of entrepreneurs, strategic planners, client persuader, policy change maker, innovative thinker for development, game changer for risk analysis, and a path breaker for financial obstacles. Each profile is flexible and scalable, that looks attractive to the investors. Profiling the report of the key market players by an extensive analysis within the Franklin retail bank by experts can help in understanding competitive outlook of global retail banking market.

- **Independent B2B fund platform**

(Allied Market Research, 2020) In order to bridge the gap between international asset managers and institutional investors, it is mandatory for the Franklin retail bank to solidify its international intermediaries in the wealth fund distribution chain. To develop a longstanding relation no matter what's the vision is about and to provide exceptional degree of freedom. This can be attained by going an extra mile for business partners and clients regardless whether they want new connectivity channel or white labelled solutions.

5. RECOMMENDATIONS

From the Analysis we conclude that the best strategies that can be used by Franklin bank for their business improvement as per the requirements form the client are as follows.

- **DIGITALIZATION**

These reforms are meant to address challenges encountered by Franklin Bank while using Digitalization as a technique to combat the issues raised .we to anticipate structural changes in society and economies over the next ten years. This still holds. But we have to intensify our efforts because the pace of change is much faster than we could have envisioned when we planned these reforms.

Digitalization is key to the future. By helping to promote best practices to improve customers' experience by creating products and services that are simpler and easy to use.

Today, customers' preferences and behaviour are radically revolving with the use of now improvement gadgets and technological innovations which are widely spread but there is still the growing need to address the need for the advancing or aging of populations. While Taking changing social trends and also the customer needs into account. Using digitalization we can provide easy-to-use, simpler services that can be accessed anywhere, and anytime, and helping to eliminate the burden procedures or switching from among service.

Proper Educational training provided to staff to be able to conform to banking regulatory control and how to use digitalization for proper documentation of data and confidential details. As well as training staff on educating the customer on the best product available to them.

DIGITALIZATION

STAFF
CONTROLLEGISLATION
CONTROLDEMOGRAPHY
EFFECT

<i>Digitalization an approach based on customer and business-banking improvement</i>	<i>compliance and legislation banking control</i>
<p>1)Reviewing digitalization to better serve our customers by creating products and services that are simpler and easy to use.</p> <p>2)proper accessible or convenient option with digitally-driven products such as chatbox, smart branches, SME reinvention, Doorstep Banking service, and Push Notification can be implemented</p> <p>(3) Reform customer interface channels domestically and globally</p>	<p>Reforming Digital method to store information and also helping to promote and Educate staff on how to comply with legislation and compliance on key information on data control elements such as employee records, customer details, schemes, transactions, etc.</p>
<i>.staff control</i>	
<p>1)improving the Digitalization of services offered to customers to reduce the number of staffs in operations</p> <p>2)centralizing of operational and compliance activities out of the branch, which reduces the need for branches and staff</p>	
<i>Demographic effect</i>	
<p>1)Reviewing digitalization of operations can accesses the needs of their older customers which can help in developing distribution channels or transitioning to new technology to suit them.</p> <p>(2) Optimizing human resource allocation to develop to suit specific.</p> <p>(3) Working-Style reforms (increase face to face customer services.</p>	<p>Reviewing the strategies and business models, while supporting policies, of demographic change or changing consumer behaviours and needs.</p>

- Customer Service Improvement:**

This can help to make a “path to conversion “called customer journey. Customers usually have lots of options or alternatives in the product and services offered by the many banks so appropriate steps must be taken to increase the customer’s experience.

Gathering of data is a key approach in determining the customer service experience here this can be done by conducting Survey, Research or feedback of the customer experience in view to understanding what the customers think of the organization and where their needs are not being met, and where there could be areas to improve.

KPI Measurement

KPIs can identify issues in need of addressing and Measuring customer satisfaction across multiple criteria which can measure how satisfied a customer likely to have a better the customer experience like customer retention, also issues that the customer service team has fixed within a timeframe.

- **Expanding Beyond Core Service**

Traditionally banks have been introducing customers with other banking products which they used to offer but in today's competitive world relying just on this is not enough. Banks need to expand their operations out of their core activities to supporting banking activities to sometimes non-banking activities. This can be looked upon as making an impact on ecosystem. Banks are able to gather more comprehensive data about customers to analyse their needs by moving away from core banking systems into wider range of activities.

Some banks have successfully expanded their horizons in supporting banking activities like accounts-receivable management, factoring, accounting, and cash-flow analysis to small and medium enterprise (SME) customers. Some have even gone further and entered into non-banking territories like Post Bank. Some of the Service that the Franklin Bank can Expand are shown in the below figure Fig 1.7.

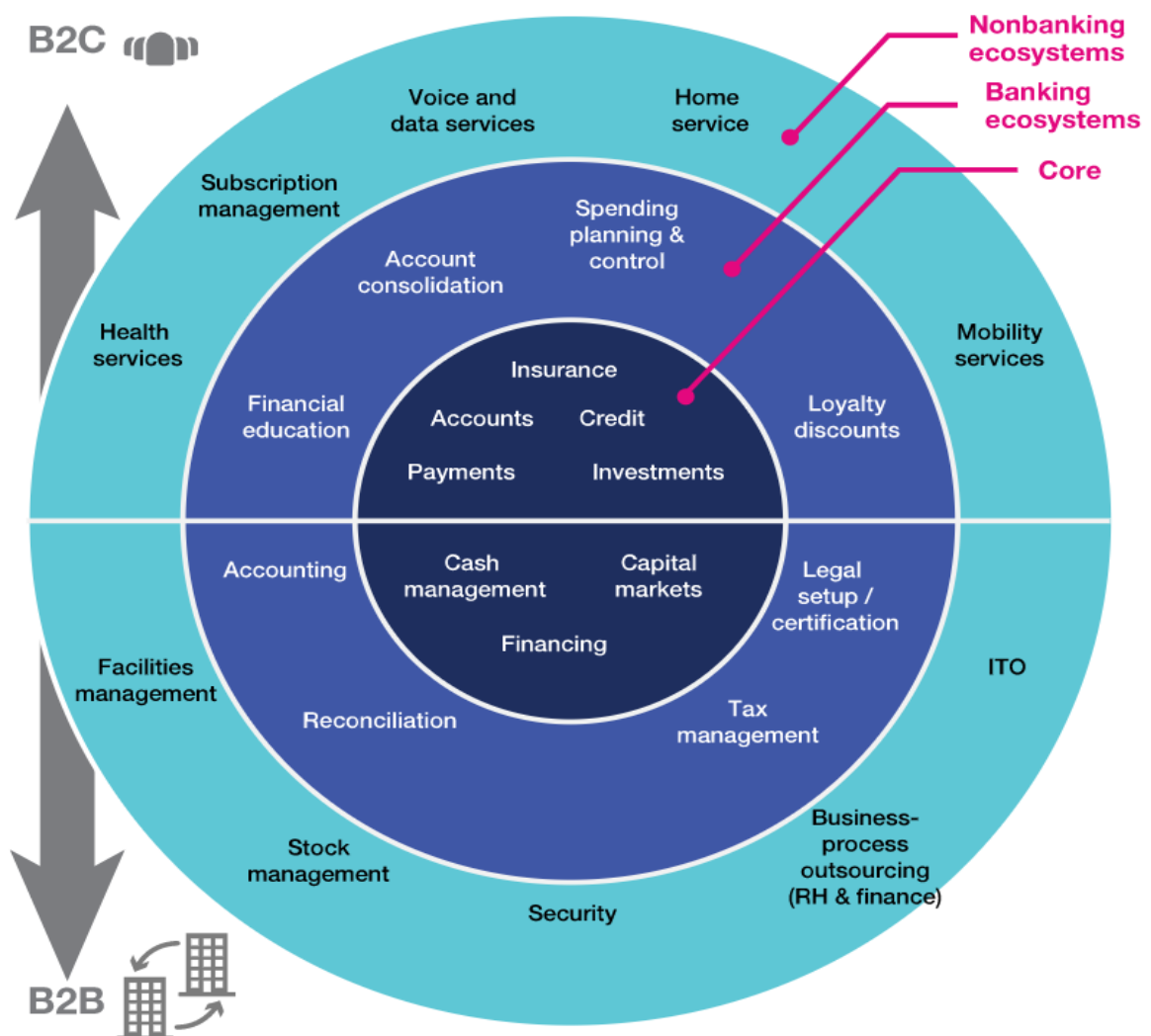


Fig 1.7 B2C to B2B retail banking concentric circle business model

6. Implementation Roadmap

The Fig 1.8 shows how the road map for the implementation can be made. This has been created based on the overview of the requirement provided by the client. This can be changed based on the detailed Technical and System review of the Bank varying the timeline based on the complexity of the banking systems.

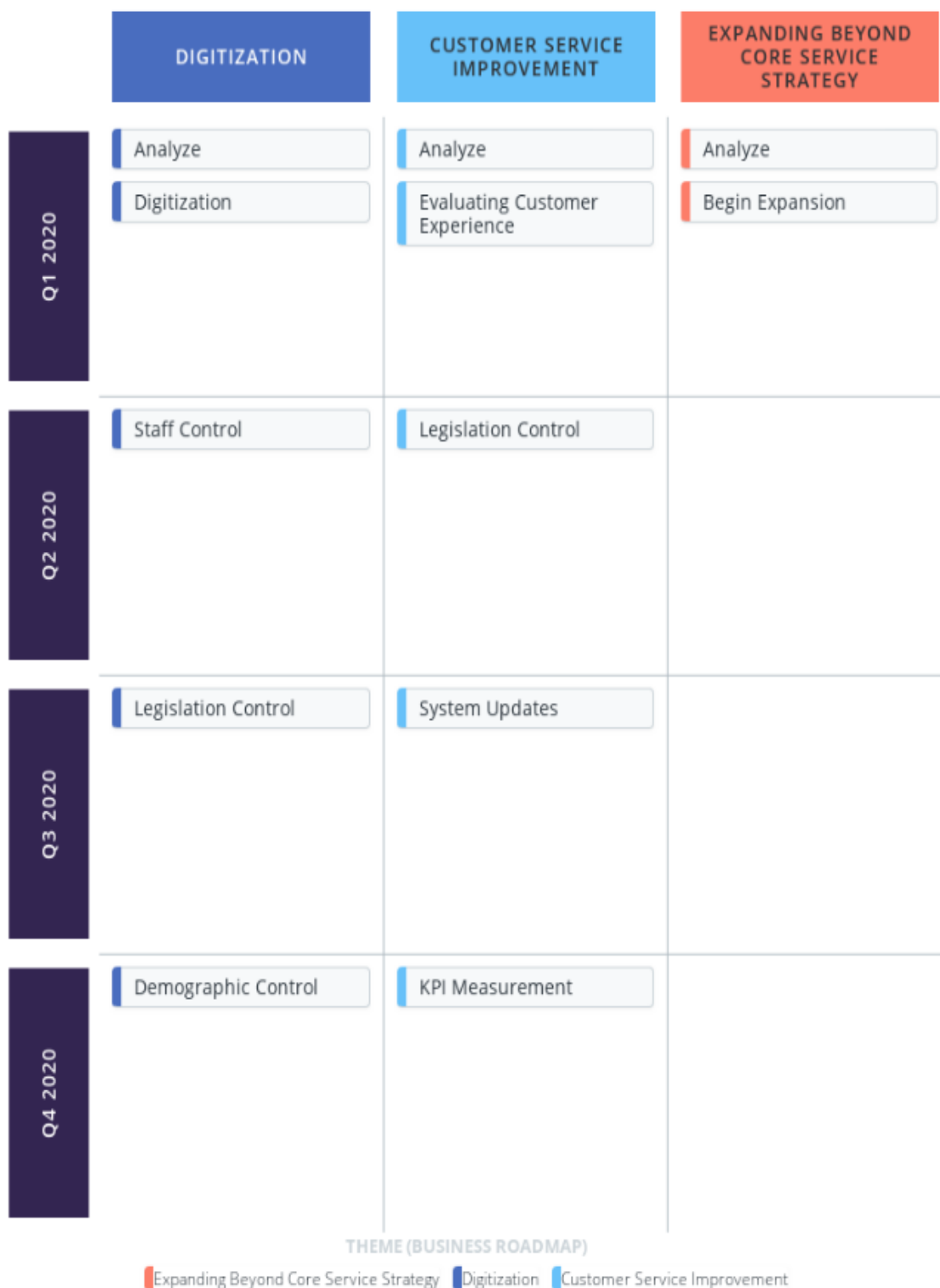


Fig 1.8 Roadmap implementation plan for Franklin retail bank

REFERENCES

1. Stewart, S. (2019). Retail Banking Distribution 2025: Up Close and Personal. [Blog] *BCG*. Available at: <https://www.bcg.com/en-in/publications/2019/retail-banking-distribution-2025-up-close-personal.aspx> [Accessed 20 Feb. 2020].
2. European Retail Banking Radar 2019. (2019). [Blog] *Kearny*. Available at: <https://www.kearney.com/financial-services/article/?/a/european-retail-banking-radar-2019> [Accessed 25 Feb. 2020].
3. Cosner, R. (2019). Top 10 European Retail Banks in Digital. *Gartner*, [online] p.1. Available at: <https://www.gartner.com/en/marketing/insights/daily-insights/top-10-european-retail-banks-in-digital> [Accessed 23 Feb. 2020].
4. Janse, K. (2018). *How Europe beat the financial crisis – and the risks it still faces*. [online] World Economic Forum. Available at: <https://www.weforum.org/agenda/2018/04/how-europe-beat-the-financial-crisis-and-the-risks-it-still-faces/> [Accessed 28 Feb. 2020].
5. Erian, M. (2018). Nine lessons from the global financial crisis. *N Business*, [online] p.1. Available at: <https://www.thenational.ae/business/banking/nine-lessons-from-the-global-financial-crisis-1.770001> [Accessed 28 Feb. 2020].
6. Morgan, B. (2018). *10 Examples Of Customer Experience Innovation In Banking*. [online] Forbes.com. Available at: <https://www.forbes.com/sites/blakemorgan/2018/10/11/10-examples-of-customer-experience-innovation-in-banking/> [Accessed 28 Feb. 2020].
7. Bondarenko, P. (2020). *5 of the World's Most Devastating Financial Crises*. [online] Encyclopedia Britannica. Available at: <https://www.britannica.com/list/5-of-the-worlds-most-devastating-financial-crises> [Accessed 2 Mar. 2020].
8. Cyriac, F. (2014). *Customer Experience as a Business Strategy* | Ameyo. [online] Ameyo. Available at: <https://www.ameyo.com/blog/customer-experience-as-business-strategy> [Accessed 2 Mar. 2020].
9. Harvey, K. (2020). Your independent B2B fund platform. *Discover Benelux*, (74), pp.16-17.
10. Allied Market Research. (2020). *Retail Banking Market Size, Share and Trends | Industry Analysis - 2026*. [online] Available at: <https://www.alliedmarketresearch.com/retail-banking-market> [Accessed 29 Feb. 2020].