Keeping the Wheels Turning

The competition isn't sitting idly by. If you want to keep up, you have to be innovative. Four experts talk about the changing banking industry and the opportunities that innovation brings with it.

Text: Urs Schwarz **Illustration:** Lyndon Hayes

To get ahead, innovation is essential. But if you content yourself with what you've already accomplished …

URS SCHWARZ: **I've never heard of a company that describes itself as non-innovative. What does it take to be innovative?**
JANSZKY: For many companies, so-called innovation is really just a matter of marketing and empty talk. The number of businesses that can truly be called innovative, in the sense of actually setting aside money to create special units and manage innovation, is much smaller. What does it take? A company that really wants to innovate has to learn how to forget – to "learn to unlearn," as they say. All of us follow certain patterns and rules that we believe to be absolutely essential in our work, but if I want to introduce a new business model, its rules are usually in conflict with the old ones. People need to be willing to unlearn their old systems and embrace new rules.

SCHMID: You have to make a break. You have to be prepared to cannibalize your own products to produce something better. Daring to try something new goes deep into a company's corporate culture.

What do you consider to be an innovation?
JANSZKY: There are strong and weak innovations. For example, a product facelift is relatively weak, since it is primarily a matter of design. If you improve a product, that's a stronger innovation – if I'm an alarm clock manufacturer, say, and I respond to a customer survey telling me that my clock needs an additional button. The next stronger level would be a replacement – when a new generation of a product, with updated technology, replaces the previous generation. A truly strong innovation, however, changes the company's business model, its vision, or its mission. Obviously, both strong and weak innovations are needed. What is important is that we're all talking about the same thing. People often misunderstand each other when they talk about innovation; one person may be referring to a new business model, another to changing a product's color from red to blue.

SÜESS: Basically, I believe that something is truly innovative only if it is a strong, disruptive innovation that is substantially different from what has gone before. It's not enough just to make small improvements in something that already exists. But of course both large and small changes are necessary. Moreover, you can't just say, let's go sit in a room, create a disruptive innovation, and come out with a new business model. That's not going to work. Disruptive innovations are often the result of ongoing development work.

Are there indications that the banking industry is currently experiencing a wave of innovation?
SCHMID: During the past few years, it's been all about struggling to survive after the financial crisis. There have been regulatory changes, and measures have been taken to get revenues and costs under control. On the regulatory side, banks know roughly what they can expect; progress has been made in building capital and improving efficiency. Now the focus has to be on rediscovering the bank's place in society. I believe that the entire banking industry is once again on the verge of becoming much more innovative.

"It's not enough just to make improvements to something that already exists."

HEINZ SÜESS

SÜESS: And it's high time. The banks need to step up their game, since the number of competitors has increased. By spending a relatively small amount of money on apps, numerous small companies have begun to break into the existing system and play an active role in the financial world. Many of these are startups financed by venture capital. They are willing to accept the risk that their product may not succeed, and this allows them to pursue innovation much more aggressively. We, on the other hand, can't afford to offer our clients products that may not function properly. So we're not competing on a level playing field.

Is innovation important? After all it is expensive and the outcome is not always clear in advance. Why not wait for others to make the first moves and jump on the bandwagon only when things are fairly well established.
PEVERELLI: At the end of the day you need to stay ahead of the current questions of customers. So, yes, it is essential to be innovative. Large firms who want to combine the entrepreneurial spirit of startups with the size of their company either buy startups or – what I often see – they create spinoffs who are able to foster innovation without being hindered by the IT legacy or the priority of the large corporation's IT calendar. These spinoffs have more freedom to address customer needs and can contribute to growing the customer franchise not only in terms of numbers but also in terms of understanding them. I think that's a very powerful concept because good ideas are often crushed in large organizations.

SÜESS: At Credit Suisse, we're doing something similar. It's not a spinoff, but rather an internal innovation unit, our Innovation Factory, which tests and supports new ideas and innovations.

And there's often resistance.
SÜESS: You have to decide: Do you want to maintain your existing budget as it is and find additional funding for innovation projects – which is extremely difficult in today's climate – or take some of the money in your budget and use it for innovation? A good compromise is to undertake a cost-neutral adjustment of strategic development, in keeping with the relevant megatrends, and then to invest relatively small amounts of money in tactical innovation projects. This is a way of gaining experience and keeping up with the competition, and that's the approach we've taken.

SCHMID: Innovation is crucial for finding new sources of income, particularly given what's happening in the market. New companies are springing up everywhere you turn, and often lenders and borrowers will connect directly – in a process known as disintermediation – leaving banks out in the cold.

JANSZKY: The question is whether to be a first mover or a first follower. Which is better? When it comes to technological innovations, it's important to occupy a certain strategic position, namely the interface with the client. If I can get my company on the screen of my client's mobile phone or iPad, in effect making it his first contact in financial matters, then there will be no room for anyone else. That's something a first follower won't be able to do. It's an important reason to establish yourself as a first mover.

What does innovation mean for the banking industry?
SCHMID: This is where the revenue streams of the future will be generated. As researchers, we often point out that the emerging middle class will be the source of future earnings. The emerging markets are giving rise to a huge middle class that is simply too large for traditional consulting models. A bank that has a simple, transparent website, one that is fun to use, will win out over its competitors.

Sven Gabor Janszky, Trend Researcher and Director of the 2b AHEAD think tank

Christine Schmid, Research Analyst at Credit Suisse for the banking sector

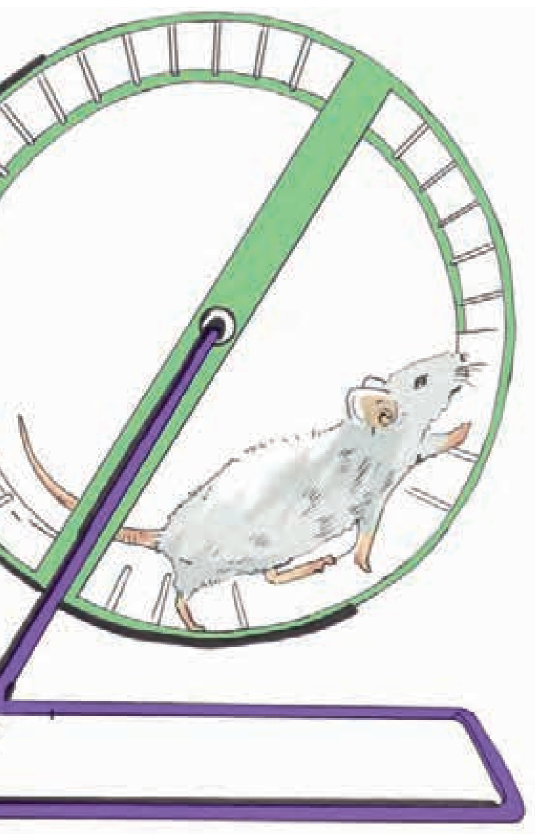
Heinz Süess, Head of Credit Suisse's Innovation Factory

Roger Peverelli, strategic consultant, innovation researcher, and author

PEVERELLI: I totally agree. The same is also true for generation Y that is now between 15 and 30. They are supposed to become the wealthiest generation ever with a high inclination to use new media. But then these new media should be more personal, more authentic, and indeed more fun. But look where we are now in the financial industry. We try to ensure that these new media are as functional as possible. Look at a banking website, it's not fun to go there; there are usually no emotional elements or diversions.

Mr. Süess, what importance do you attribute to the fun factor in your work?
SÜESS: Making a banking product more "fun" usually means using a lot of graphics, and that tends to be very expensive. We'll have to find a way to do that. It's already clear, however, that there will be two distinct options in the future: One is self-service, with electronic access for clients, and the other is based on personal consultations – which, though always very valuable, cost money.

JANSZKY: Up to now, the market has been structured like a pyramid, with a broad economy segment, a substantial standard segment and a small premium segment. In the future, only the economy and premium segments will remain. Particularly in the economy segment, it will be crucial for clients to learn to trust intelligent software for managing their business transactions.



…you'll find yourself merely treading water. Only if you understand that innovation is part of your corporate culture…

SCHMID: This means, however, that we need to provide clients with tools that will allow them to improve their financial skills. Banks need to empower the client and at the same time control the client interface. Clients must develop confidence in their ability to use these platforms and make independent investment decisions.

PEVERELLI: Only ten percent of the children of HNW clients say that bankers will play an important role in looking after their wealth. Instead they would prefer to learn from their peers. Many bank websites are still very rigid, with little opportunity for clients to interact with one another, despite the fact that such interactions would result in positive momentum. People are too concerned that change might have negative consequences; in my view, however, we need to take that risk if we are to make progress. But, of course, if you want to present yourself as being perfect then it doesn't work.

"Look at a banking website, it's not fun to go there."

ROGER PEVERELLI

JANSZKY: That's an important point. If you view yourself as perfect, you set yourself up, mentally, as superior to your client. But Generation Y isn't used to that kind of communication, nor does it respond favorably to it. Innovation occurs when I am on equal footing with my clients, and when I achieve the best possible results for them through dialogue. Large organizations can have a particularly hard time changing their way of thinking.

What do clients expect from a modern bank?
SCHMID: Access 24 hours a day, 7 days a week, not limited to specific banking hours. Also transparency, simplicity, honesty, and – not least important, especially given what has happened in Cyprus – confidence that their savings are secure.

PEVERELLI: We did some research on what determines trust, and it shows that 40 percent of trust is determined by day-to-day service. Routines should be efficient, and you need stability with regard to transparency and simple services.

JANSZKY: Clients expect their bank to serve as a coach in all of their financial affairs. In order to be a good coach, the bank has to get to know individual clients and their needs. Many startups are, in effect, getting to know their clients electronically, by analyzing their bank accounts and credit card transactions. Based on that information, an algorithm generates recommendations: Modify your credit contract, change your insurance contract, otherwise you're losing X amount of money every year compared with my other clients. In the economy segment, the bank will be constantly available on clients' mobile phones, keeping a record of their financial data and payment flows and alerting them when action is needed. Whether banks as we know them today will be behind these systems, however, is uncertain. That depends on whether today's banks take prompt and active steps to get involved in this area. If they don't, someone else will.

SCHMID: Banks have the advantage of knowing a great deal about their clients; the question is simply whether, and how, they will be able to analyze, in real time, the enormous quantities of unstructured data in their possession.

PEVERELLI: The enormous amount of data suggests that there is a lot of knowledge, but all too often it's just a lot of data. There's no mentality to turn data into new added value. That's the challenge.

"Enormous opportunities are available, but if we are to take advantage of them, we need to adjust."

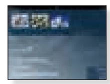
CHRISTINE SCHMID

What is the role of social media when it comes to innovation?

PEVERELLI: Social media offer a great way to get a better idea of what customers like and to be innovative. Let me give you an example: Insurers always have claims that are sort of in the gray area. You can either pay them or not pay them. There's an insurance company that submits those cases to a community of customers on the web and lets them decide. If more than 100 customers share their opinion and more than 60 percent agree that the claim should be paid out, they pay out. That's very provocative and the company had many discussions before implementing this. However, at the end of the day, it shows that the customers who actually judge such cases are more strict than their claims department. A good example that shows how social media can allow you to listen to customers and learn from them.

APP-ETIZERS FROM THE INNOVATION KITCHEN

Touch device applications for client meetings enable Relationship Managers to have interactive discussions with their clients about their needs, objectives and, finally, about the Credit Suisse solutions that can be offered. The client situation and potential solutions can be illustrated in a very easy way and changed dynamically in the meeting together with the client on the touch device. The apps are a key instrument to ensuring compliant advice, while enhancing the client experience. Supported by the Credit Suisse Innovation Factory, the following apps are currently available:



ICP (INTERACTIVE CLIENT PRESENTATIONS) **provides the user with direct access to a large amount of documents from Global Research or the Customized Client Presentation intranet application. By uploading their own documents, Relationship Managers can compile customized presentations for a specific client meeting.**

IHYPO **interactively advises clients on mortgage affordability and products. It provides two to three product proposals tailored to a client's financial situation and risk profile. After the meeting a personalized report is created that can be handed over to the client.**

PORTFOLIO COMPOSER **calculates the optimal portfolio based on best-in-class products for clients who have specific wishes or restrictions to be considered in their asset allocation. Given these requirements, the client obtains the portfolio with the highest expected return within his risk budget.**

STRATEGY NAVIGATOR **supports the strategy definition within the Credit Suisse Advisory Process in an intuitive and transparent way. According to a client's primary investment objective, risk budget, desired involvement and preferences, the app filters out the best possible solutions for their portfolio, including discretionary mandates, core-satellite options and traditional asset allocation.**

FLOWLAB **explains and simulates in a fun way the Credit Suisse approach to generating regular income by transforming investments into liquidity. Utilizing the Credit Suisse capital market assumptions, FlowLab shows expected future cash flows in different economic scenarios, compares the results and thus facilitates decision making.**

Advisory Innovations
csintra.net/pb/isp/investment_advisory_strategies/en/advisory_innovations/index.html

JANSZKY: Social media encourage dialogue. Up till now, however, we have all too often only provided answers. Before I tell my clients what they need, I have to be interested in them. Many managers have never learned that lesson. They are evaluated based on the answers they give and the products they are able to sell. Whether they are interested in their customers is less important.

SCHMID: You're talking about key performance indicators. When such KPIs are out of step with a culture of innovation and the new demands of our clients, they need to be changed.

PEVERELLI: This is an issue in any boardroom. How can we adjust KPIs to customer centricity while on the other hand making sure that we keep revenues on an appropriate level. There need to be long-term perspectives, such as considering how to align what's good for customers with what you need as a bank in the short term. That's another key challenge and basically a question of culture.

Where will the banking industry be in five years?
PEVERELLI: The dream or the nightmare?

Exactly in that order.
PEVERELLI: The beautiful dream is about really seizing innovation opportunities and taking care of customers. Part of the nightmare would be too many funds to keep up with regulation, too much energy wasted on further cost adjustments and reorganizations of financial institutions. In effect that will lead to too little innovation and too little customer centricity and will also mean not really moving forward in terms of trust.

SCHMID: The dream scenario: a single-minded focus on the client, with platforms and client interfaces that are fun to use and make financial investments part of the client's everyday life. In the context of physical exercise, we can measure our calorie consumption or can be encouraged to walk more. A similar approach might be possible when it comes to financial affairs: We might be alerted if we are spending too much money, if it would be wise to delay an expenditure, if bills have not yet been paid, etc. The nightmare scenario: overregulation and its unintended consequences.

"Before I tell my clients what they need, I have to be interested in them."

SVEN GABOR JANSZKY

SÜESS: Particularly for Credit Suisse, the positive scenario would be a successful digital transformation, ensuring that the bank, in a modern form, will continue to be relevant in our clients' lives. I'm confident that we will be able to make this transition and maintain the strengths of Credit Suisse in the modern world. The nightmare scenario would be failing to do so. Over the long term, that would mean falling behind the leaders in the industry and losing some of our business.

SCHMID: The traditional role of banks, which involves managing savings and issuing loans, is being undermined more and more as time goes by. Existing business models are being called into question. As the capital market is gaining in importance, we are issuing fewer loans to large corporate clients; private clients, for their part, are increasingly obtaining loans through new platforms, without bank involvement. These changes are affecting how banks see themselves. Enormous opportunities are available, but if we are to take full advantage of them, we need to adjust – and very quickly.

…and dare to try new things, will you be able to gain ground on your competitors.