Monetise Effectively to Win the Digital Race to a Sustainable Future

How can banks react to improve their competitive position, innovate solutions, enhance their current product suite and build a sustainable revenue model? Silvio Struebi, Partner at Simon-Kucher & Partners, met with Hubbis to explain how fintech disruptors have leapfrogged the digitalisation and monetisation race, leaving organisationally cumbersome banks in their wake.

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STRUEBI HEADS HIS FIRM'S Banking practice in Asia, focusing mainly on the markets in Hong Kong and Singapore. He says that if Asia's wealth management industry is to adapt its online business models and sustain growth in the future, it needs to be able to convince clients that their offerings provide value.

"Monetisation optimisation is a very big topic for banks enhancing their online offerings and for new entrants, such as the virtual banks," he explains. "Our detailed research shows that 72 percent of innovations fail across all industries, largely because monetising innovation is a big challenge. Our company has a dedicated unit in Silicon Valley that helps fintech

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unicorns succeed in this endeavour, and many of the key lessons can be transferred to banking."

Simon-Kucher is a global consultancy focusing on monetisation and sales. Its Banking practice devises strategies to optimise the revenue mix for retail, private banks, wealth and asset managers in Asia. Struebi's presentation covered the challenges facing the wealth management community in the region and detailed how new sales processes and greater discipline in the pricing of services will help the industry enhance revenues and improve client relationships.

Monetising innovation is tough, so learn how

Struebi addressed the reasons why innovation so often fails to become monetised. "Feature shock is the main reason," he explained. "Too many companies create new products without conducting extensive customer research. It's mainly an inside-out process, which makes it very difficult to clearly determine how much customers are willing to pay for a given product. In banking, this is especially true."

He also highlighted several other reasons that lead to the failure of innovations and noted that in banking, it is becoming increasingly important to focus on tech-savvy millennials and future generations. "Going forward, client experience and the perception of products and services will play a very big role, particularly online."

Struebi explained that when working with banks, he usually asks if they have a clear monetisation roadmap. "Silence is the typical response because they focus so much on costs and process optimisation," he explained. "However, more nimble competitors tend to only invest if there is a clear revenue potential and value for the client."

Design from the client's needs

He went on to describe several key principles banks should use to structure their approach. "Design and package the product around the monetisation strategy. This should be the guiding principle," he explained. "And make use of pricing psychology and behavioural economics. Begin with client needs and preferences, position the product properly and then start with the development process."

He observed that one of the big problems when it comes to online and digital banking is clients' attention. "The human brain needs more effort to process complex information," he noted. "While system 1 processing is simple and emotional, system 2 is rational and based on data. Banks commonly appeal to system 2 when presenting their products and services, but this doesn't work in the online space. We have to keep complexity to the bare minimum there, so customers can see the product and understand it easily. Simplicity is king."

Another important aspect is in how banks charge for their products and services. "Look at the air conditioning industry or manufactures of elevators," he remarked. "They charge for the result, the metric, or in other words, the cold air produced or distance travelled. We should apply that strategy to the banking industry. Change the revenue model because transaction fees and trailer fees will go down in the future."

Driving towards subscription models

In his presentation, he spoke briefly about an online music portal, which offers short previews of songs, a restricted service spectrum and advertising-funded services. "If you want to hear more, you have to pay, and that is a nice strategy for online banks," Struebi commented. "The subscription-based model is very important, so I think online trading, for example, will move away from a transaction-

fee-based model in the long run and go toward a subscription model. In this model, trade execution will be free of charge or at minimal cost, while clients pay for access to markets. Similar strategies can be applied for products such as loans or trade finance."

He then referred to a successful UK-based online payments start-up. "They are so effective because they worked out that if clients want to have more than the freemium version, they should pay for it. This is an excellent strategy," he observed. "They worked out the expansion plan by looking at all product areas and focusing on developing some 'wow' factors. Banks can create a monetisation roadmap in a similar manner, which will make their digitalisation expenditure in time and money far more worthwhile."

Banks have clients – use them wisely

He then turned to the ecosystem or open API strategies of banks. "Large banks have a huge asset: their client bases," he noted. "This allows them to provide platforms. They can move toward these ecosystems and give third parties the opportunity to sell products and services. For example, a noteworthy retail bank launched an online banking platform that is very successful. Usage is free, but customers can purchase additional plugins, such as data storage, accounting software or higher security standards. Not only do you sell more, but you learn about customers through their behaviour. The next step would be to predict behaviour from the data. Then, you can add satellite products and services with a 'wow' factor that clients are willing to pay for. Knowing what you can and cannot charge for is vital."

Remove the barriers, think of the digital natives

Another vital element is the ease of access and registration process, particularly for the younger generations. "Understanding the psychology, removing sales barriers and shifting customers in the right direction are all essential ingredients for success. The concept is called nudging and can be applied in very effective manner."

He gave an analogy using pizza as an example. "Starting with the base model and offer add-ons would be one possibility," he noted. "But perhaps a better approach is to stack all relevant options and then allow the customers to remove features at will. This often leads to a product with more add-on choices. Hence, higher cross-selling rates, as customers experience the feeling of loss whenever they remove a feature."

The presentation closed with a review of the key points. "Working with banks to monetise and determine the right price tag for new online services often involves a change of perspective," he concluded. "Design the offerings around the customers' willingness to pay, use customer data that is accessible to you, work with open banking strategies and monetise the value you are providing". ■