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Financial Services
Knowledge First

"As part of our ongoing initiative to share knowledge on the Indian financial services sector, Motilal Oswal Investor Relations presents its article series – Fin Sight. In each issue, we discuss a topic impacting this sector. We draw upon the Group's learning, experience and current thinking to develop these insights. We look forward to your questions and feedback to help us provide you a better perspective of this sector…"

Sameer Kamath, Chief Financial Officer

Financial Services businesses moving onto the Digital Superhighway

The world is going Digital, including financial services consumers…

The world is going digital, and the pace of conversion is rising. India has ~300 mn internet users. Within this, Google estimates it took 20 years for India to notch its first 100 mn users, while the next 100 mn took 2 years and 1.3 years respectively. This is expected to reach 600 mn by 2020, with users across gender and age-groups. Comscore's Sept 2014 figures may be more relevant for financial services. It estimates ~170 mn Males of age 25+ years visited financial websites. While financial services is not a Male-domain in any sense, the absolute numbers are eye-catching by themselves.

For Financial Services, the bigger rationale to go digital is the growing migration (and comfort) of the 'Older-demographic segment' to digital, & this segment comprises the sizable chunk of their customer-base

This article looks at what digital methods really mean in financial services, the activities where digital is making major impact in the financial services value-chain, critical aspects to consider when going digital, re-marketing tactics which influence the buying decision, whether digital would replace the offline model, digital's relevance in B2C vs B2B and measuring its effectiveness vs traditional methods.

What does going Digital really mean in business context…

Digital methods include company sites, external portals, social-media, smartphone applications, web-chat, IVR phone facility, presence on web-aggregators, SMS, email, etc. These can be Own-Media, Paid-Media or Earned-Media. Own media means own sites. Earned media means reviews, mentions, posts and shares which clients make voluntarily on social-media assets. Paid media means paid advertisements/promotions.

In terms of devices, smartphones is the largest and fastest growing medium. Tablets are also growing. Computers are reducing in relevance.

The purpose of digital methods is to inform, engage and execute clients/prospects with their business. It started as an 'add-on', but has moved to a 'must-have'. In financial services, it has become an important distribution channel. The objective for financial product producers is to reduce the costs as well as increase revenues. For financial product agents, it is really to increase the revenues.

Should organizations utilize Digital as a Backbone or only as a Support…

The financial services business is customer-facing, competitive, distribution-sensitive and turnaround-time sensitive. If the company's target universe is increasingly going digital, it makes sense to adopt digital as the Backbone, rather than a Support. **This may give it a 'first-mover advantage'**, which can have bearing on its success in a market like India, which is still evolving in terms of sophisticated financial products. It also depends on the industry it is in. *For example*: it can be a support in insurance but it is a must in broking.

But **first-mover advantage need not always translate into brand stickiness**. For that, digital methods need to provide a great experience to clients across usability, content and access. Today, customers are not so fixated with brands, as much as with convenience and value. Firms also have to go to the next-level by creating features that compel repeat-visits and client stickiness.

Firms can create a 'differentiation/competitive edge' using digital methods. It need not necessarily be just a 'me-too' product just because everyone else is also adopting it.

However, to achieve this, firms need to ensure :-

- **A unique product which is an Industry-First**
- **Relevant and updated content**
- **Easy-to-use platform - usability & intuitiveness**
- **Device-agnostic access, incl. smartphones and tabs**
- **Features that compel users to return repeatedly**
- **Easy to track engagements to measure effectiveness**

Activities where Digital is making impact in the Financial Services Value-Chain…

From Customer Engagement to Customer Fulfillment :-

Engaging with Existing Clients → **Prospect Engagement** → **Lead Generation** → **New Client Acquisition** → **Product Promotion & Comparison** → **Buying Decision & Purchase Completion** → **Device-Agnostic access and preference-storage** → **Reporting and Notifications** → **Client Servicing and Client Feedback** → **Data Collection for Mngt decision-making** → **Engaging with Existing Clients**

- **Engaging with Existing Clients:** Digital methods give clients **access to buy the product**. Today, product information is available on multiple platforms. Hence, product information may not always be the main requirement of clients when they visit the company's digital platforms, but the access to the product for buying would be. *For example*: clients may compare information on mutual funds on third-party web-aggregator platforms rather than on the fund's platform, but may visit the fund's platform when they want to buy directly.

- **Prospect Engagement:** This is a ***high-impact area*** where digital methods help in brand-**building, information-sharing and deepen the awareness of the products**, with the aim of converting them to buy. In financial services where the current penetration levels in India are still low due to lack of awareness, this form of engagement also helps to inform the broader population why they need to save and invest in the first place. Thus, **it helps inform about the concept itself**, even before informing about the company's specific products. Given the high level of competition in the financial services space, this is also a critical activity that **creates top-of-the-mind brand recall** once the prospect really wants to convert. Ideally, he will reach out to either of the top 3-4 brands that come up instantly in his mind. Lastly, the crux is also to provide platforms which are high on usability, content and convenience, since that can also impact the ultimate conversion.

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- Ranked Best Local Brokerage (India) for trading & execution by Trade Asia Poll 2014
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- Won the 'Best Research as Research Showcase Partner' Award at Research Bytes IC Awards 2014
- STIR – School of Trading and Investing Research launched to train retail and HNI clients on different facets for trading and investing

- **Meet our Management:** Please email us at investorrelations@motilaloswal.com or sourajit.aiyer@motilaloswal.com; or call **Sourajit Aiyer** on +91 22 3982 5510 if you want to schedule a meeting to discuss this sector, its long-term opportunity and the company's strategy

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- **Lead Generation:** Another ***high-impact area***, digital methods help generate audience participation through online contests, advertising or online tools. In social-media, these are proven methods that elicit higher levels of audience engagement. **This audience participation helps create direct contact with leads**, with whom the company can follow-up with a more targeted pitch. The conversion of audience participation into lead generation is a key metric that helps companies assess if their digital marketing efforts are moving in the right direction or not.

- **New Client Acquisition:** An offshoot of the earlier "Lead Generation" point, while digital media is becoming relevant as a channel of new client acquisition, it has not taken over the traditional media as yet. Nevertheless, it will become more relevant as digital adoption deepens. One area where digital can play a major role in client acquisition is in **identifying target geographies where prospects reside**. Since IP Address tracking is possible on digital media, the participation from the audience can be tracked to their location. Thus, companies can identify specific geographies where they need to go aggressive in client acquisition efforts, instead of spending its scarce resources across the whole country.

- **Product Promotion & Comparison:** A ***high-impact area*** wherein company-owned and external-owned platforms give access to product information. This includes product-comparisons, where clients can directly compare product features. **The product-comparison tool is a tactic to influence clients towards the decision to buy**. *For example*: Web-aggregators have emerged which store information of products and lets clients compare them on various parameters. Policybazaar.com is an example where one can compare insurance policies. Moneycontrol and Value Research are platforms which allow comparison of mutual funds. Company-owned social-media are a fast-growing medium to **promote awareness of new products**, complementing traditional media like TV, Print and OOH. Social-media is now becoming a space where people **review brands/companies** before making a purchase. The responses also help companies **gauge the response for new/existing products**, based on the type of reviews it received, volume of interaction it generated or responses to any online contest it conducted.

- **Buying Decision & Completion:** Digital methods have been largely used for information-access, product awareness and brand presence. In comparison, actual buying activity was slow to pick up. Reasons to prefer offline buying can be many – a chance to talk with the salesperson before committing, to test the product physically, security concerns about online payment gateways, etc. However, with security coding becoming stringent, **clients are developing the comfort to buy and complete the transaction online**. *For example*: Kotak's #Banking and ICICI's Pocket are examples of using social-media/digital platforms to complete the entire banking transaction.

  Another challenge is to **influence the desire to buy**. This includes **tools that help clients find deeper insights from the digital sources which they might have otherwise got offline**. For example: E-commerce firms place images of models wearing the garments, instead of just placing the garment's picture. This helps clients visualize how they would look wearing it, and hence hastens the decision to buy. In financial services, this includes analytical tools to assess the product under scenarios/variables, which they would have otherwise asked the advisor personally.

- **Device-Agnostic access and Preference-storage:** This means accessing the platform across devices **so that engagement is not restricted by users' location**. *For example*: broking trading platforms are now accessible across all devices, be it computers, smartphones and tablets, so that clients can access financial information from any place and place a trade if they want to through their device.

  This also includes **storing the client's preferences/favourites across devices to make future purchases quicker**. *For example*: E-commerce sites allow users to save all personal information so that they save time in future transactions, that adds to convenience. Google browser allows users to transfer their browser-related preferences/favourites across devices, to aid convenience. Pocket, a smartphone app allows users to store webpages, including the content, so that users can read it when they have spare time (while commuting, etc).

- **Reporting and Notifications:** This is a ***must-have*** for financial firms to ensure **ease-of-access and fast response.** Periodic portfolio reports, account statements, transaction confirmations, installment alerts, payment confirmations, courier alerts, etc are all conveyed to clients instantly using digital mediums like emails, SMS and online portfolio tools. In many cases, the clients themselves have access to the platform for accessing this data, either online portfolio platforms or by sending a query SMS to a predefined number. Thus, the **ownership actually transfers to the client which adds to convenience and speed**. *For example*: Motilal Oswal's Industry-first Online Account Opening was a facility to create new client accounts even where the company was not physically present. The online platform informed clients of the status of the application process till its completion. The challenge is that the client needs to have the comfort-level to use those digital methods.

- **Client Servicing and Client Feedback:** This is another ***must-have*** for all businesses, not just financial services. Digital methods of client servicing help **track status of client queries and reduce turnaround-times and cost of servicing**. Since it is easy to measure the effectiveness, **this plays a key role in assessing client satisfaction** and the need for any improvements. *For example*: many websites incorporate web-chat services where client queries are addressed immediately. Many social-media sites allow registering customer complaints which are followed up rapidly. IVR phone facilities allow direct transfer to the relevant department which the client's query pertains to.

  Digital platforms make it **simple to gather feedback, which helps to check client satisfaction**. But online feedback forms are kept as a choice in most cases, and clients tend to fill these only if they have a negative experience. **Product-reviews section** in sites is useful to write feedback. Future clients can read reviews when exploring, and companies can make improvements based on it. **Digital feedback via social-media can also be a 'double-edged' sword** if the genuineness of the audience is low, since their responses will lead to incorrect inferences.

- **Data Collection for Managements' decision-making:** Business Intelligence is all set to be a ***high-impact*** area where digital methods can revolutionize the way company management use data to take more informed decisions. Huge volumes of relevant client data can be captured and processed, **which means more relevant decision-making since more data is available to justify the inferences**. This **encompasses both online and offline engagement data**, hence a larger universe of addressable clients. Big Data is a focus area of business intelligence. It is still not being used by companies to its fullest extent, but is set to become a key area of digital management in years to come.

Critical aspects to consider when an organization embarks on its Digital journey…

Investing into Talent:

- IT team incl. developers, coders, maintenance and designers
- Search engine experts (SEM/SEO) to track and monitor
- Marketers who advise on what to say, where to say, when to say
- Experts who bridge the gap between domain & technical teams
- Security professionals to ensure data and user-info is secure

Investing into Content:

- Content writers to write/edit relevant content sections
- It has to be made into Pieces, to make it convenient to consume
- Should be visual and interactive pieces, as it enhances engagement
- It has to be updated and churned regularly

Buying vs Making decision for Infrastructure:

- 'Making' makes sense if digital is to become the backbone
- Even in case of vendors, Exclusive-Agreements can be entered into
- Can buy source-code of platforms to retain control eventually
- Upgradation is faster if done in-house rather than through vendor
- With cloud-computing, one can buy server space, instead of buying

Marketing the platforms across channels:

- Even if one has a great product, it may fail due to lack of marketing
- Marketing helps create client engagement and participation, a key source to generate leads and convert clients to buy
- Need to market the platforms/features across device types

Talent is a key challenge: IT companies recruit most of the good talent; hence there is a supply shortage for financial firms. Moreover, within that, there is also a supply-shortage of talent who combine skills across domain, technical and designing skills, thus pushing up their price.

Using Re-Marketing tactics to convert the Information decision into Buying decision…

The challenge is to convert the 'information decision' into the 'buying decision' using tools that influence the clients' desire to buy. This is where re-marketing tactics play a major role to pitch additional, relevant products and boost revenues. SEM (search engine marketing) targets people by their area of interest, by tracking the clicks made from the IP Address. Based on that, it will throw back snippets of information of new/related products that match with the nature of previous clicks. This assumes the previous clicks define his interest and preference. This may mean an amount of manual intervention if only to tweak the algorithm, as the existing algorithms may not always work.

Advertising similar products on the screen when the client is searching information/buying prolongs the engagement time on the platform. *For example*: If a person buys a shirt, the website might advertise similar shirts or garments that match that shirt on the webpage. On seeing those additional products of interest, the client may feel a compulsive need to explore (and buy).

The challenge is to place these snippets at the correct positions which catch the eye, place them in-time during the purchase activity and space out these snippets to avoid too-much information. Nevertheless, surveys show that consumers do not mind receiving advertisements if it is relevant to their area of interest. This is a rationale for re-marketing tactics

Digital becoming a necessity, while Offline remains a necessity…

Digital may not completely replace the offline model in financial services. Both online and offline platforms may continue to co-exist. This really depends on the company's addressable client universe, whether it is moving digital or not. That may differ from segment to segment.

A physical presence might still be needed since investments are a discretionary spend rather than a compulsive spend. While there are segments which are moving to an almost digital model (like Zero-Brokerage), **a distribution-skewed business may never move fully online**. An offline presence gives clients an opportunity to personally discuss with advisors, which gives them a feel of reassurance. While retail broking is business going online as older-generation (who often comprise the larger chunk of clients) are developing comfort in accessing digital platforms, or as mutual funds business is going online as clients prefer to buy Direct-Plan funds online, there might still be a need to maintain some offline presence. **Thus, investments into maintaining an offline infrastructure might reduce, but may not be fully avoided.**

Moreover, the offline model retains its importance since the responses from its digital engagement cannot be taken as 'be-all end-all'. While the size of the digital universe may vary from its total universe (offline + online), the digital responses still need to be substantiated with offline responses from marketing campaigns, analytics and feedback for the management to devise a holistic strategy for the company.

Is Digital more relevant for B2C or B2B …

Digital plays a bigger role in B2C businesses since these are consumer-centric, distribution-sensitive and high engagement businesses. Digital helps B2C financial companies like retail brokers, mutual funds, banks and insurance companies expand their distribution at a lower cost, service more clients within shorter turnaround-times and engage with a larger universe of prospects to boost revenue opportunities.

However, digital is making its mark in B2B too. Digital usage for information-sharing is increasing between institutional brokers-fund managers, mutual funds-distributors and exchanges-brokers. *For example*: daily pay-in/pay-out records comes online from exchanges, funds use Direct Market Access to place trades directly, etc.

For B2C businesses, going digital helps reduce costs and also increase revenue

For B2B businesses, going digital mainly helps to reduce costs

Measuring the ROI effectiveness of Digital vs Traditional methods…

ROI is easier to calculate in digital since the participation and conversion can be measured and attributed to the efforts made. However, this is difficult to calculate in traditional media since it is tougher to directly attribute the conversions to the efforts made. As a result, it is difficult to say whether the ROI of digital is higher than traditional methods.

The future is in smartphones/tablets, as many have turned to mobiles ahead of computers in terms of digital adoption. The tracking-mechanisms in these platforms would help measuring their effectiveness better.

The way to measure effectiveness is to reduce the cost of acquisition. This helps track the clients converted vs. efforts invested. The actual revenue generated depends on a lot of other factors. Hence, reduction in cost of acquisition is the main metric to measure effectiveness

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