



The Leverage in Digital Banking Services

2018

White Paper

 Arion Bank
- for the future

The Leverage in Digital Banking Services

Through its Digital Future Accelerator, Arion Bank has developed and delivered new digital banking services designed to suit customers better in a connected world. The key behind the success of the products delivered via Digital Future is the total redesign of customer journeys where the customer always receives the benefit of the doubt rather than the bank pushing its legacy processes onto the customer. [See in Further reading section: Arion Bank Digital Future Accelerator].

Since its inception in May 2016, Arion Bank Digital Future Accelerator has delivered 15 new services, the first one coming in August 2016. Most services enhance the user experience of conventional banking services, making them swifter and easier to understand. Arion Bank's experience shows that the use of its banking app is pulling away from online banking usage, mostly due to the number of features and the accessibility of the majority of services and features that customers use to manage their financial lives and health. A secondary target for the Bank was to design the new processes so they would be "end-to-end". Essentially, that means design where as little as possible human intervention is needed, e.g. customer guidance with intuitive interface, customization of products, ordering, processing, delivery, contract documentation, filing and storage. Heavier processes such as mortgages do not allow for fully automated processes, but for more common services the Bank managed to maximize automation and therefore lower the cost in providing them. What followed the introduction of the suite of products was furthermore increased leverage and synergies.

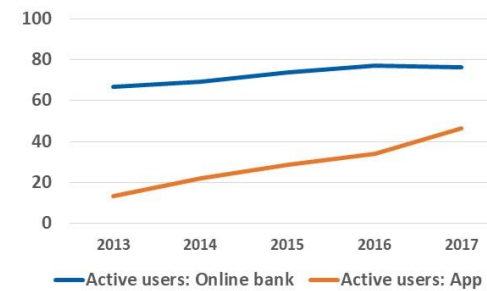
“Number of active online customers has stagnated while app users are still rising. Close to 70% of our customer digital sessions are via our app”
Bernhard Bernhardsson – Head of Product Development, Retail Banking



Arion Bank's Digital Future delivery timeline

Banking moving from online to app

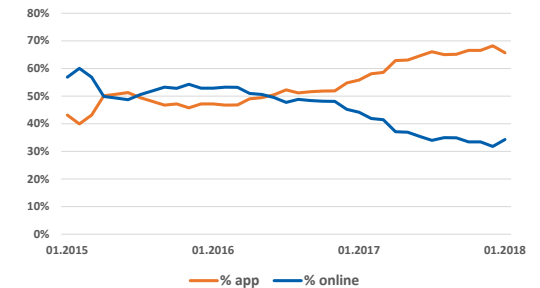
The development of customer behavior has gradually been moving from online bank to the app. The branch network continues to maintain its role despite fewer visits. Customers are therefore becoming more and more comfortable with using the app for their daily banking services.



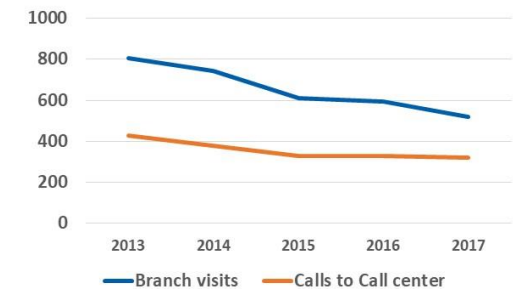
Development of active online vs. app customers ('000)

The number of active users of the online bank has stagnated while the user base of the app grew close to 40% between 2016 and 2017. More interesting is to look at login sessions between the two channels, where we see that the pattern is diverging even more. Around 65% of all sessions are now via app

and 35% via online bank. The migration of users to the app results in more frequent usage.



Development in online vs. app sessions (in %)



Development in visits to branches and calls to call center ('000)

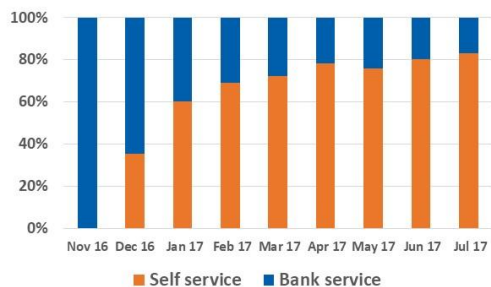
Leveraging services

Customers have responded very well to the new digital offerings. Usage of all services has increased substantially. The Bank has also seen the proverb "The more the merrier" in action. Each introduction of a new service increases usage of not only the new service itself, but other services as well. Each new service leverages other existing services. A comprehensive suite of daily banking functions for

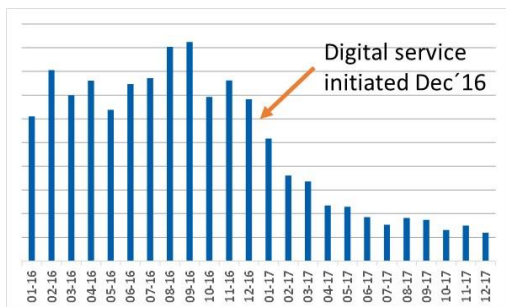
“The amount of provided mortgages to our retail customers increased 100% between 2016 and 2017. We assign the increase fully to a redesigned user experience”

Bernhard Bernhardsson – Head of Product Development, Retail Banking

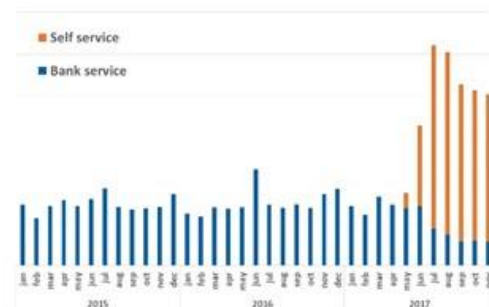
customers is clearly desirable to them. Convenient banking is here to stay. Let’s look at some statistics:



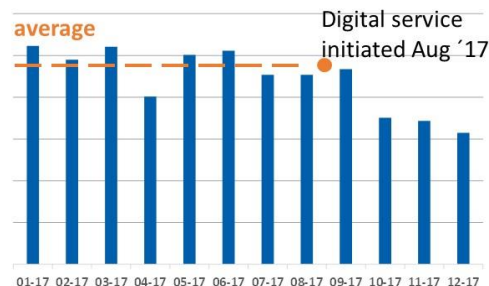
Ratio of manual vs. digital self-served credit card spreads since inception in December 2016



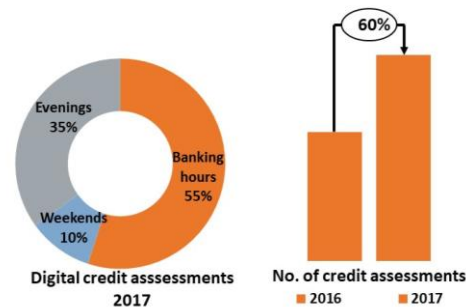
Number of phone calls to call center regarding credit card spreads



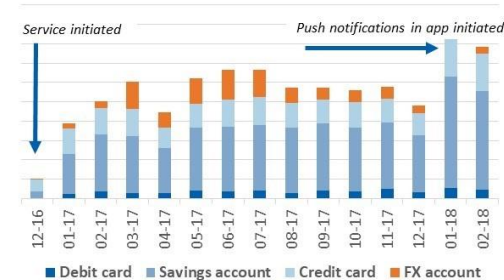
Development of actual changes in credit card limits of retail customers 2015-2017



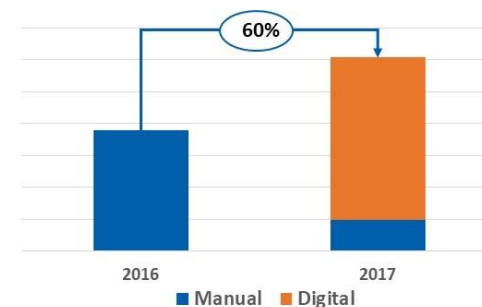
Number of phone calls to call center regarding changes on overdraft limits



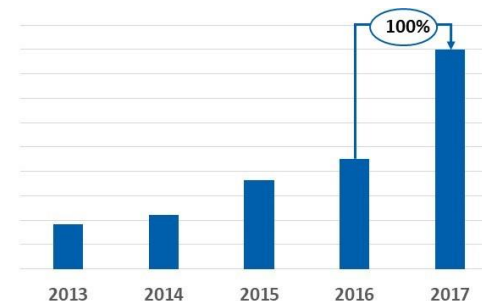
Behavior of customers in need of a credit assessment and mortgage post digital self-service offering



Established cards and accounts in customer self-service via app or online bank.



Increase in credit assessment performed digitally



Development of mortgages provided to customers (BISK)

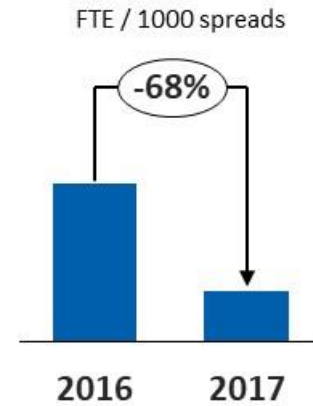
“The NPS for Arion Bank’s mortgage application process went from -2 to +32 during the course of twelve months”

Bernhard Bernhardsson – Head of Product Development, Retail Banking

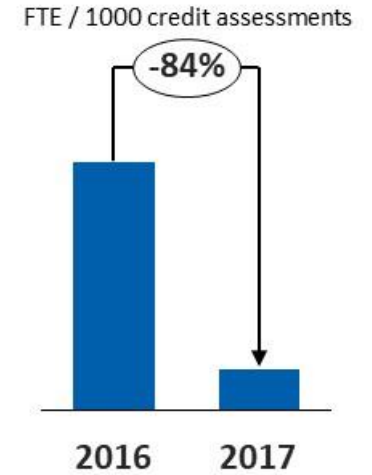
Synergies

The year 2017 was productive for Arion Bank in terms of introducing new digital services. The secondary target of lowering the cost of supplying these services proved to be very tangible. Not only were fewer employee hours spent on supplying the services, but volume went up at the same time. In other words, productivity increased. Yet, the story does not end there. The increased leverage of services on each other results in an upward spiral, not only in terms of usage but productivity as well. The more services are used, the more productivity increases, since human interaction is limited from the Bank’s side in the digital offering. With every introduction of a new service, productivity increases. This gives room for the Bank’s employees to service its customers in a more engaging manner when they seek assistance and advice over the phone or in the branch network.

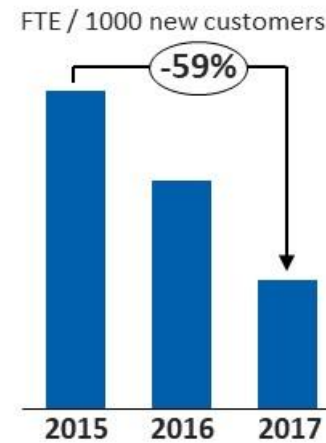
Productivity is measured as “Internal work in employee hours (FTE equivalent) to deliver a product per 1000 products”. Simply put, how many FTE (Full Time Employees) are required to deliver 1000 units of a particular product. Weighing the time needed to deliver a product manually through full service and digitally self-served products, one can compare between time periods the full effect of digitizing and delivering an end-to-end process to the Bank’s customers. Results of measured increased productivity for three common products can be seen below.



Spreading a credit card bill. Digital service initiated in December 2016. Scale intentionally not shown



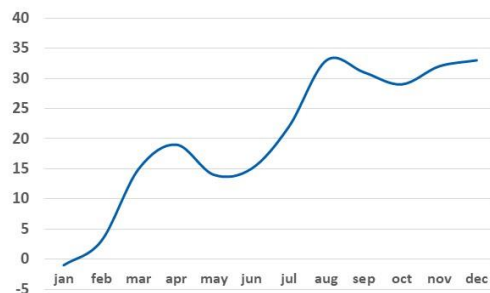
Credit assessment. Digital service initiated in December 2016. Scale intentionally not shown.



Customer onboarding. Full digital onboarding initiated in August 2016. Scale intentionally not shown.

Service level improved in the eyes of customers

Increased usage is a good sign of approval. Better yet, increased satisfaction is even more gratifying. Combined, these indicators tell us the Bank it is moving in the right direction with its digital service offering. For certain processes, such as credit assessment (before taking a mortgage) and the mortgage process itself, the Bank has seen an unprecedented improvement in the NPS (Net Promoter Score) for those services. Given the importance of a mortgage in most people’s lives, the Bank is very pleased with how well customers respond to and perceive the process.



Monthly development of NPS for Arion Bank's mortgage process in 2017

Challenges in Open Banking

Despite the introduction of digital banking offerings, where current services and products have been digitized, made easier and engaging for customers and lowered the Bank's cost / increased productivity, these are simply an extension of the Bank's current business model. Customer expectations from other industries, e.g. social media and others, transfer easily to financial services. Arion Bank is simply meeting those expectations where simple services in their minds such as changing a

credit card limit, freezing or reopening a credit card, and opening a new savings account digitally, are easily made available to customers. Arion Bank's recent measures are therefore a way to stay current, perhaps in a leading way in the local Icelandic market, both in terms of customer experience and internal productivity.

But there are other challenges on the horizon. Open Banking will, without doubt, have a great impact on the financial industry as a whole in the next few years. New business models will emerge and banks will have to deal with much more diversified competition, not only from existing competitors, but from FinTech companies, retail giants, telecommunication companies or the larger IT and social media companies (GAFA*). What part banks will play in the post PSD2 and GDPR world is dependent on each bank's strategy. And we will see much more diverse responses. Some banks will choose to stay as a strong product owner through their own distribution channels, others will choose to function as a solution provider / aggregator of financial services, while some may choose to build

an ecosystem of their own and bet on a "Bank as a platform" strategy. These strategic options are not mutually exclusive and may work differently for a bank's different business divisions. Only one outcome is guaranteed. The financial industry will change over time. The referable parallel here is regulatory changes in the telecommunication industry at the turn of the century where incumbents held all the cards while regulators required them to disintermediate their business divisions. Today, telcos' main revenue income is based on data traffic, not phone calls. Exactly how the financial industry will evolve is unclear at present. Arion Bank intends to stay in front of the strategic options available and continue to be a leader in the digital financial product offering in Iceland.

See more White Papers in the Further reading section below.



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About Arion Bank

Arion Bank is a leading Icelandic bank offering universal financial services to companies, institutional investors and individuals. These services include corporate and retail banking, investment banking, capital markets services, treasury services, asset management and comprehensive wealth management for private banking clients. Arion Bank's balance sheet was more than 1,100 ISK billion (€8.9 billion) in 2017. Arion Bank only has operations in Iceland.

[Read more](#) about Arion Bank.



Arion Bank's HQ in Reykjavik



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Arion Bank's branch in Kopavogur

About Iceland

Situated in the North Atlantic Ocean between Europe and the United States, Iceland is a European country with 330,000 inhabitants. The capital and largest city is Reykjavik. Two thirds of the country's population live in the Greater Reykjavik area. Iceland, as other Nordic countries, ranks high in economic, political and social stability and equality.

Icelandic citizens are early adopters when it comes to technology and technical infrastructure is good where 97% of residential have access to internet.

Iceland ranked number six globally in terms of [GDP per capita in 2016](#) according the International Monetary Fund.

About Iceland on [Iceland.is](#)

Further reading

How Arion Bank Startup Investing in Startups [blog](#) [pdf](#)

Arion Bank and Innovation [blog](#) [pdf](#)

Arion Bank Digital Future Accelerator [blog](#) [pdf](#)

Customer Onboarding [blog](#) [pdf](#)

Credit Card and Overdraft Limits [blog](#) [pdf](#)