CAPCODIGITAL

DIGITAL TRUST

BUILDING TRUST IN NEW, DIGITALLY ENABLED BANK SERVICES

Abstract

Digital technologies open limitless possibilities for 'disruptive' approaches to product and service creation and delivery. From driverless cars to cars driven by complete strangers to staying in a stranger's house, 'set in stone' approaches to established industries are being transformed. For this transformation to extend without disintermediation of established players, financial institutions will need to take action around three key dimensions.

- **Context:** Understanding the 'emotional climate' needed for consumers to put trust in their bank, and to the same extent as they do with non-banking digital services.

- **Technology:** What is required from technology we already have, to turn a trust-led consumer banking environment into a delivered reality.

- **Commercials:** What is required from a commercial perspective to create trust-led products and services that will engage more consumers more effectively and more profitably.

Introduction: A new trust paradigm

To enable greater trust between consumer and bank, banks will need to migrate from product focus (one-size-fits-all) to being consumer based (ultra-personalised products and services, dictated by customers and evolving with their needs).

This move will create a paradigm shift. With data powering the personalisation consumers want, they will be able to trust implicitly not just in digital technology channels but in a whole new relationship between their personal financial data, their bank(s) and the financial products and services they place at the centre of their lives.

The 'Digital Trust Model' will mean that banks can be central to consumers' lives without having much – or even any – face-to-face interaction, at any point in the client lifecycle. The example of 'no touch' disruption and transformation in other, previously traditional, sectors shows what is possible.

Both **Airbnb** and **Uber** represent established businesses adopting completely new service delivery models, based on Digital Trust, where peer reviews eliminate traditional boundaries and open up whole new markets. **Tesla** is crossing the ultimate trust boundary with fully driverless cars and operator/passengers trusting the underlying digital technologies with their lives.

Although 'trusting the machine' is not a new concept (think of early lift users, for example), the pace of change is unprecedented. In less than three years, driverless cars have moved from an idea/concept to being ready for deployment in Singapore with Uber.

Consumers clearly show they are ready to embrace a high degree of Digital Trust. Consumer banking must carefully consider the implications for its own future.

Understanding the emotional climate of digital trust

How do we create the 'emotional climate' needed for consumers to put trust in their bank, to the same extent as they do in other non-banking branded digital services?

The example of Tesla shows there are four 'foundation conditions' for Digital Trust:

- **Security**

- **Privacy**

- **Transparency**

- **Reliability**

Tesla ensures Security through fail-safe operational capability: any given system in the car could break and it will still drive itself safely. Privacy is engineered in. Only if the vehicle owner consents can Tesla remotely access vehicle related data. Transparency means a complete sharing of purpose and approach between company and user. Tesla has no 'hidden agenda'. Reliability is clearly paramount, with every aspect, from design and performance to user rating and reputation, based on trust.

When these factors are in place within a robust service delivery system, consumers will place Digital Trust in that system. Are the components available today within consumer banking to potentially satisfy the key criteria of Security, Privacy, Transparency and Reliability?

Security: Authentication and digital signatures are well proven. But we now need to migrate to the feeling of enhanced security that comes with a 'financial safe zone'. **SecureKey**, for example, enables the creation of identity ecosystems among communities of identity providers and subscribing services. While **Trulioo** has gone beyond its initial purpose, compliance with Anti-Money Laundering (AML) and Know Your Customer (KYC) rules, to support a range of international electronic identity verification requirements.

Privacy: We already have the high profile **Snapchat** paradigm of control by the data owner – selecting where data is placed, for how long and who can access it. **Whatsapp, Facebook Messanger, Telegram** and nearly all chat services have moved towards a completely secure channel, encrypting every message and guaranteeing that the platform is 'unbreakable'. The responsibility for data itself rests with users who are invited to accept the privacy settings of the apps via Facebook or **Google** secure authentication.

Transparency: External regulations such as MiFID II and PSD2 are playing more of a role than internal momentum. Banks need to become more 'naturally transparent' with digital service delivery. Services such as **TransferWise**, for example, state they can offer complete transparency around both costs and processes for international payments.

Reliability: If a digital financial service is to become accepted and trusted by consumers, it must display 'always-on' capability. Downtime and glitches are fatal to Digital Trust. Here, coinciding developments in API technologies, the PSD2 payments initiative and the opening up of banking services to third parties are all driving a more robust, standardised and reliable service delivery platform.

Logically developing what we have today will help configure the operational environment to grow Digital Trust on the emotional, consumer acceptance level.

Engineering the Digital Trust technology ecosystem

What is required to reconfigure the technology we already have and turn Digital Trust-led consumer banking into delivered reality? Technology developments will need to create a new operational environment. This will reflect a profound shift in approach to consumer data. We will move from bank data silo ownership, control and storage to consumer ownership and consumer permissions (similar to non-banking platforms leveraging Facebook or Google authentication and data). For users this means fewer passwords and easier registration, for service providers – simpler development and the ability to leverage Facebook or Google data, under the users' full control.

This move is deeply important. Banks will shift from database maintenance for compliance and 'marketing' – with its downsides of expense, sunken cost, limited return and low/randomised consumer impact and engagement. They will shift to consumer-centric data 'truths' that evolve with the consumer's changing circumstances and choices.

Why is this good? Because the resulting environment will be accurate, current, personal, relevant and a good foundation for much more engaging product sets and service delivery models.

In strong contrast with today, banks will no longer have the endless task of database cleaning and verification. Instead, they will work with a series of those data 'truths'. As a result, intra- and inter-bank processes will be accelerated. The consumer experience – from on-boarding onwards – will be maximised for consistency, convenience, quality and personalisation. At the same time, delay, inaccuracy and unnecessary/time wasting process duplication will all be minimised.

Building a bank's 'Trust Machine'

How, in technology terms, can this be achieved? The short answer is by building a 'Trust Machine'. Inside this Trust Machine, the shared data ledger has a central role. Single, highly specific and totally personalised 'digital customer identity' is pivotal. ALL individual consumer-related data is stored in a shared central ledger. The consumer can give permission for multiple access points to their data – from different operational areas within a single bank and by other banks/ financial institutions too. The underlying data truths are maintained by blockchain protocols.

Enhanced security, achieved within a single, secure, consistent data environment will provide the foundation of Digital Trust. 'Emotional acceptance will be further driven by an environment that satisfies the other base criteria: Privacy, Transparency, Reliability. The consumer is now fully central, not marginal. This environment is built around them and their data. The resulting benefits will be highly attractive to consumers.

Routine process automation delivers reliable, 'always-on' and 'de-glitched' service. 'No more hassles' on-boarding is facilitated fast by smarter KYC/AML process. Nor is there duplication of on-boarding process across different banks, or when accessing third party services. We will see 'hyper-personalisation' as the 'million markets of one' theory takes a big step towards delivered reality. The 'data truths' environment will ensure the bank(s) have a constant, current and accurate understanding of each consumer's situation, habits and needs. This will ensure consumers get the very most out of rich product and service choice. They can easily access a range of offers, enhanced by third-party involvement via API. In addition, we will see new market offerings from third parties dedicated to data maintenance.

Exploiting the commercial opportunities of Digital Trust

Now, how do we create Digital Trust-led products and services that will engage more consumers more effectively and more profitably? The operationally derived financial benefits are clear. They include the following: a central shared data ledger is more cost-effective to maintain; shared inter-bank data access fee arrangements can mitigate maintenance and storage costs; the costs of routine processes come down; and compliance-related risks are reduced. (Indeed, there will be total transparency across consumer, bank and regulator.) Compliance itself will also be radically simplified. It will therefore cost less per individual bank, since data changes can be implemented mutually and in one operation.

There are also benefits to be gained from an enhanced relationship between the bank and the consumer. Increased loyalty/reduced attrition – via greater trust - will lead to lower customer acquisition and maintenance costs and higher whole life customer value to their bank(s). And increased customer uptake of a rich choice of products and services will drive volumes, margins and profitability by leveraging increased transparency. The final question is this: what are the financial benefits to banks of specific, digital trust-age inspired innovative products and services?

To start, there will be fee income from selective offerings of customer data to other financial institutions, as well as third party members of the data ecosystem. Given consumer permission, and remember the consumer now owns their data, there is no obstacle to third parties creating offers (apps) that the bank can't provide. But these third parties will pay the bank a fee. There will likely be entirely new income streams too. One new type of revenue will be generated through incentivising data update and validation with 'tokens', such as bitcoin, etherium and others, using simple validation models where all data consumers pay the party which updates and validates the data.

Conclusion and next steps

Digital Trust, when effectively harnessed by banks, can go a lot further than defensive moves against non-traditional entrants in areas such as payments. In fact, it restores proactivity to banks. The real move now should be towards this new paradigm, one where consumers can migrate at will - instantly - across platforms without constant re-verification. Instead, their profiles and preferences are 'carried over' – and updated continuously – from one platform environment to another.

Digital Trust can reinvent and reinvigorate consumer banking. Assessing how that can happen must start today, with some focused analysis.

Further information

We will be sharing more thinking on the theme of **Trust in a Digital Age**. Look out for content on the three key elements of the Trust Journey – gaining trust (Next Generation on-boarding), maintaining trust (digital identity) and leveraging trust (cyber security).

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Where our clients bring a deep understanding of their own institutions, our global team of financial services and technology specialists brings a deep understanding of technological advancements, user-experience possibilities, and cultural savvy. Not to mention, they're 100% dedicated to technology for financial services.

We champion our clients' ideas with leading-edge design and technologies. We work with you rather than around you, collaborating to build solutions that will drive your institution, today and five years from now — solutions which businesses, consumers and investors can use every day.

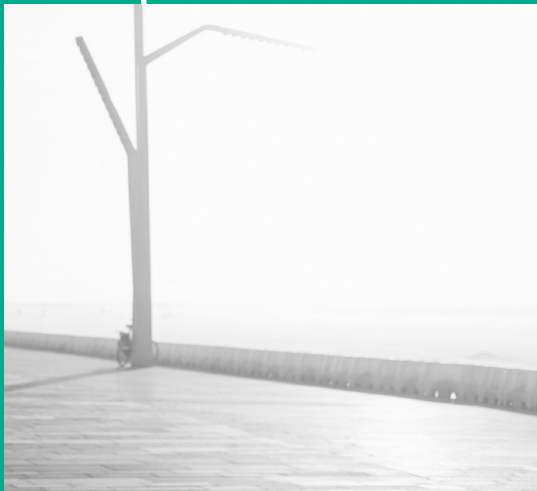Capco Digital. Collaboration to power finance. Ingenuity to push it forward.

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