Canada's Banks Gird for Global Change

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We are rapidly approaching the second anniversary of Web sites established by Canada's Financial Services Providers (FSPs). The list includes TD Bank (www.tdbank.ca) and other members of Canada's "Big Six" banks, trust companies, brokerages, mutual fund companies, insurance companies, and a host of other players. With more players joining the fray almost daily, the Web is becoming an increasingly important delivery channel for both traditional FSPs and a variety of new and lesser known entrants.

In many respects, the Web allows these non-traditional entrants to level the playing field. It is a medium through which everyone can establish two-way digital relationships with customers. As the old and new attempt to better understand the Web, there are a number of issues which are being discussed late into the evening. How each player addresses these issues will determine whether their forays into the marketplace on the Web really deliver customer value and returns to their shareholders and owners.

Security

No discussion about financial services on the Internet would be complete without a prominent mention of security. It is the Number One issue keeping people awake at night. But with the pace of development in the marketplace, this is rapidly becoming a non issue as the answers to yesterday's problems become available:

- Web browsers, incorporating 128 bit RSA encryption key technology, allow customer information and requests to remain private as this data flows across the Internet.
- Digital certificates, which positively identify customers and FSPs to each other, mean higher dollar value transactions and non-repudiation are now feasible without the need to deploy expensive hardware based solutions.
- Firewalls, which ensure the bad guys can't gain unauthorized access to both customer information and backoffice systems, are improving daily.

Riding this wave of technology, the Web may soon be the most secure way of doing business. The winners here will take technology as a given and focus their resources on developing and implementing flexible security policies, risk management procedures, and customer education programs. This latter point is of key importance as no one will benefit if the customers' don't trust the FSPs to deliver on security.

Will the Web Explode?????

The Internet and Web related activity are growing at unbelievable rates. This has led to concerns that the Internet will experience slowdowns in the best case and a meltdown in the worst case. Given the time-critical nature of many types of financial services transactions, slow response times or the inability to even access FSP sites add an unwanted level of risk for both customers and FSPs. And while organizations such as iSTAR, Stentor, IBM, and the like are all implementing new services and technologies to increase bandwidth and reliability across the Internet, FSPs have little ability to manage growth-induced problems on the Net. The winners here will let the non-FSPs address these concerns and focus on ensuring other channels are in place to handle customer interactions, both electronically and person to person, as needed or demanded.

Branding - What Branding

The traditional players, many of which have been around for over 100 years, have invested much time and money in developing their brands. The longevity of their existence also bestows on them a certain cachet of public trust and stability which is highly valued by their customers. For these players, this brand equity is extremely important as they develop and implement Internet-based services. However, as they move from an environment of having a physical branch on every street corner to the new marketspace where there is only one street corner, the winners will be those which best leverage their traditional brand equity with extensions that make sense in the marketspace. While spinning heads might make sense for high tech companies, it is still not known how far afield traditional FSPs can move their brand image in the marketspace and still appeal to their customer base.

At the other end of the spectrum, there are players entering the marketspace with virtually no brand equity. Bayshore Trust (www.bayshore.com), with only eight physical branches, is suddenly recognized across Canada and even globally due to its presence on the Web. This presence has been reinforced by some new approaches to advertising and promotion on the Web. And with its introduction of online personal loan applications and approvals, Bayshore is further building its brand equity in the marketspace as an aggressive technical innovator.

In the area of discount brokerage, companies like Green Line Investor Services (www.tdbank.ca/greenline) and Charles Schwab (www.schwab.com) have enhanced their brand equity through technological leadership. In fact, one would be hard pressed to name more progressive organizations amongst FSPs. Yet Lombard Securities (www.lombard.com) beat them both to market with Web-based online brokerage services by about 15 months. And Lombard, like Bayshore, continues to build brand equity. For these players without the benefit of marketplace longevity, the winners must rapidly lever their Web presence and technology to establish creditability and trust with customers.

The Model

In visiting the various FSP Web sites, it appears the navigation models fall along a spectrum running from fully line-of-business-centric to fully customer-centric. The former is a natural outgrowth of FSPs marketplace experience where different business units (e.g. personal banking, commercial banking, investment banking, brokerage, etc.) occupy different physical locations. Customers visit a specific location based on the type of business they wish to transact. Reflecting the power of the Web, these various units can be brought together in a virtual financial service mall with icons representing each line of business (e.g. www.royalbank.com). Unfortunately, the power of the Web also makes it just as easy for a customer to bookmark lines of business across multiple FSPs, in effect creating a customized virtual financial mall.

The customer-centric approach mirrors another marketplace technique -- the relationship manager. Typically, a relationship manager is responsible for acting as the central interface between a customer and all areas of the FSP. In its earliest implementations (e.g. www.bmo.com), this has translated into customer home pages within the FSPs' sites which contain pointers to customer defined areas of interest. More recent models such as Fleet Financial (www.fleet.com) are proactively presenting information to the customer which should be of value to them based on information stored in a profiling system. This type of model also can be evolved into a transactional model for existing customers.

Given the many different types of customers and prospects FSPs deal with, it is likely no single model along this spectrum will address all requirements. The winners therefore will be the companies which can concurrently present compelling content and navigational aids to casual visitors, prospects, and ultimately actual customers with the underlying goal of moving people through from casual visitor to actual customers as effectively and non intrusively as possible.

And the Winner Is????

Against the above criteria, the traditional players, especially Canada's Big Six banks, seem to be in a strong position to maximize returns to both customers and shareholders through the Web. These companies have the necessary security experts and risk managers, a variety of traditional and evolving delivery channels including physical branches which can augment and be augmented by Web sites, a heavy dose of trust-based brand equity, and a vast array of lines of business and products which can be delivered in a customer centric fashion via the Web. Then why shouldn't bankers be sleeping soundly these days?

The impact of a global economy on the auto industry is instructive. In the Sixties, non-traditional players began entering what had for many years been an unassailable North American automobile marketplace. The incumbents dominated market share across all products and were making record profits. The traditional customers had never heard of the new players and had no use for their products. And then, in what seemed like an overnight sensation, the Japanese captured 30% of the North American automotive market and small, fuel efficient vehicles were the best sellers. In looking back, the overnight sensation took 15 years. But the ramifications are still being felt by both the Big Three automakers and their customers. As Web years shrink from one month to one week to one day in the future, the dynamics of this new marketspace for FSPs will rapidly begin to take shape. It is still too early to select winners and losers. However, if the experience is anything like what happened when global competition transformed the auto industry, the customer will be the big winner and Canada's Big Six banks will continue to play a major role in addressing the needs of their customers in the new marketspace.