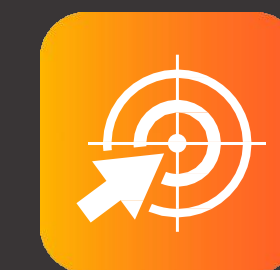




Driving Financial Wellness Post COVID: A Purpose Driven Customer Engagement Model

Banking, Financial Services and Insurance



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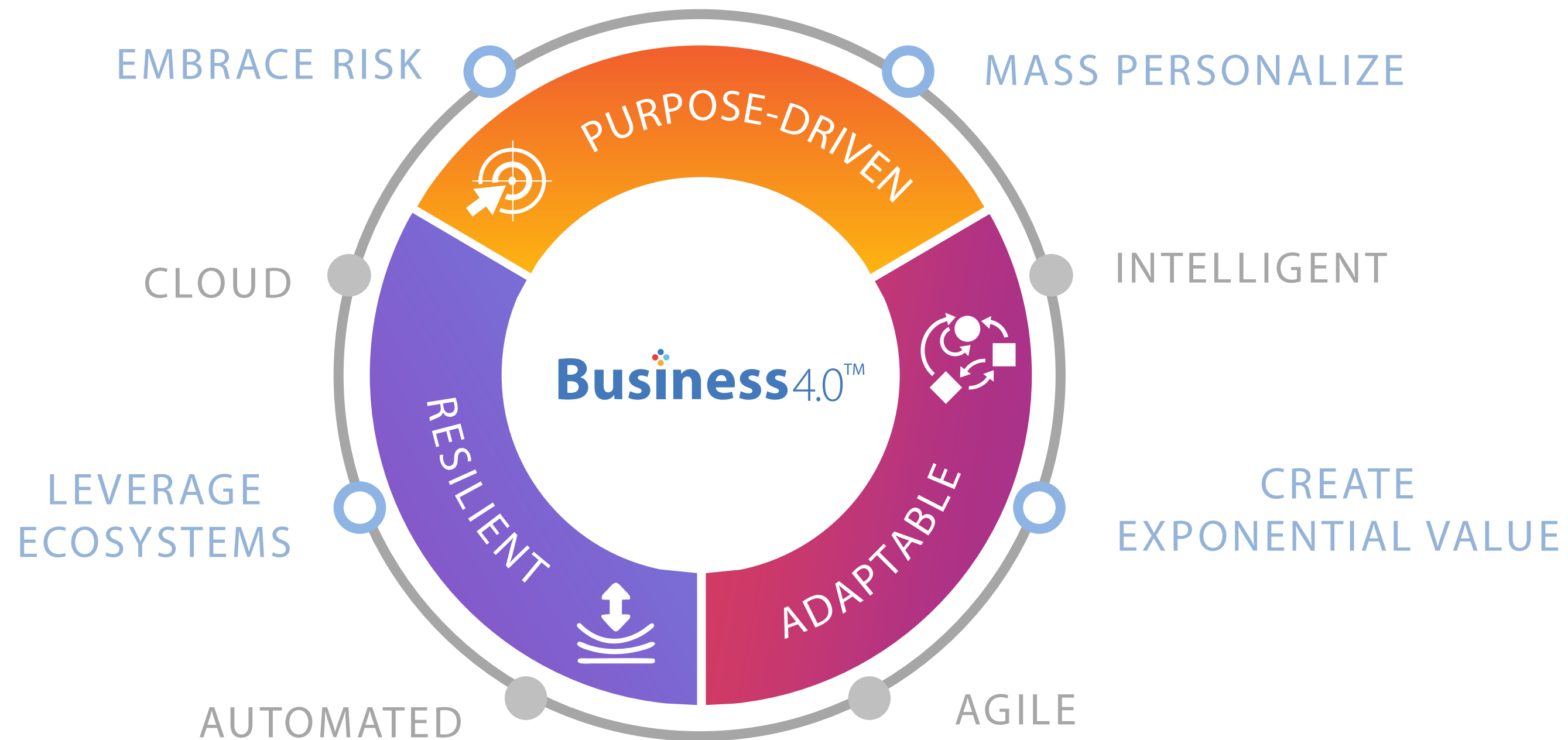


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About the Author

Prathap Thompson

Prathap Thompson is a chief architect in the Open Banking Strategic Initiatives group of TCS' Banking, Financial Services, and Insurance (BFSI) business unit. He has more than 19 years of experience with expertise in open banking compliance, API economy, and next-gen digital propositions. Prathap is also an intrapreneur who designs next-gen digital propositions as part of a small digital native team operating as a startup within TCS. He holds a Bachelor's degree in Manufacturing Engineering from the College of Engineering, Guindy, Anna University, Chennai, India.

Abstract

The COVID-19 crisis has caused significant economic disruption in global markets. Small businesses are the worst impacted with significant reduction in cash flow, revenue, and disrupted supply chains. Salaried employees that typically form the majority of retail banking customers are also impacted by job losses and pay cuts. As the COVID-19 pandemic eases and societies around the world embrace the new post COVID realities, we believe that banks must capitalize on existing levers such as open banking and digital technologies to offer **purpose-driven offerings** to cater to what

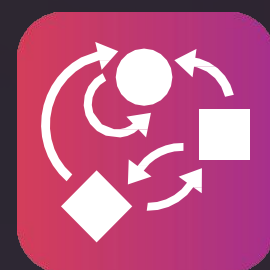
drives customers rather than just banking products and services. This white paper explores a sustainable customer engagement model centered on the financial wellness of the customer (both retail and small businesses). The paper also highlights how compelling digital offerings powered by open banking principles and artificial intelligence (AI) and machine learning (ML) technologies can be used to build purpose-driven relationships and offer contextual financial assistance and advice to customers.



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Digital and Open Banking API Powered Financial Wellness

The COVID-19 pandemic has wreaked havoc on livelihoods resulting in widespread loss of income. In this context, the ability to meet living expenses and set apart funds for the future, or in other words, ensuring financial wellness assumes special significance. As people scramble to pay for essentials and meet financial commitments, they look to their banks for support in this time of crisis. In our view, banks must focus on assuring financial wellness of their customers and assume contextual roles such as financial assistant and financial advisor or coach (see Figure 1). In addition, banks must implement digital engagement models to engage with customers holistically, before and after a financially significant event.

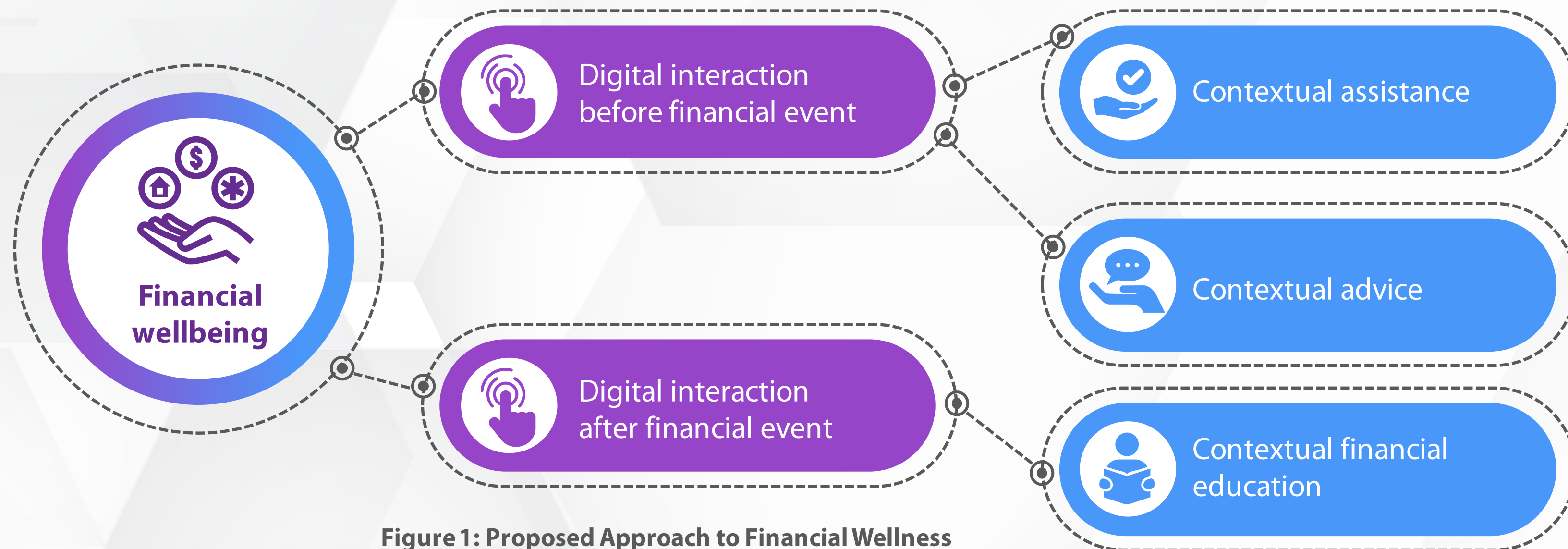


Figure 1: Proposed Approach to Financial Wellness

Contextual Assistance



The advent of open banking has enabled third party providers (TPP) such as fintechs to offer next generation personal finance management (PFM) offerings that provide 360-degree insights on customers' finances. Leveraging AI and ML to analyze customers' financial transactions across accounts held in multiple banks – obtained through open banking application programming interfaces

(APIs) – can help predict upcoming financial events such as education fees or annual personal or vehicle insurance. In our view, banks must use these insights to offer contextual financial wellness assistance to customers; for instance, reminding customers of upcoming financial commitments and assessing their ability to meet the expense at a specific future date.

In case the analysis reveals that a customer may not be able to honor the commitment, banks must provide contextual financial advice such as suggesting limits on current spending or offering alternatives such as cheaper insurance or balance transfer from credit cards to unlock cash flow. Similarly, banks can craft contextualized credit products to help customers meet specific financial needs leading to higher conversions. Customers well-placed to meet upcoming financial commitments too can be helped – they can be reminded to set up a recurring deposit (standing order or direct debit) to set aside funds to meet major annual commitments.

Contextualized and tailored credit products assume special significance in the wake of the COVID crisis, especially in the small and medium business (SMB) segment. Assistance can take the form of invoice financing or extending a line of credit or small business loans, to help SMBs get back on their feet.



Contextual Advice



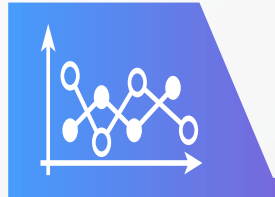
Offering professional financial advice is often limited to private banking and wealth management customers. However, with end-to-end digitalization and automation, firms can offer financial advice to retail and small business customers as well, in turn increasing customer base and business.



Identifying the right financial goals

By leveraging AI and ML techniques, banks can extract insights on customers' income and expense patterns. The insights coupled with upcoming financial events will allow banks to recommend contextual financial goals personalized to individual customers. However, this will demand a complete view of the evolving customer context to anticipate needs and arrive at the right financial goals.¹ Banks must build the requisite capabilities to automatically track the goals and caution customers against non-essential spending when they are at shopping malls or restaurants where the propensity to spend is high. This will help inculcate healthy financial habits and prevent unnecessary discretionary spending. Families scrambling to meet their household financial commitments in the wake of the COVID crisis can be offered household finance management offerings to help them find their feet.

¹ TCS, Context Driven Personalization: Redefining Customer Engagement as Digital Banking Gains Ground, Feb 2018, Accessed July 2020, <https://www.tcs.com/context-driven-personalization>



Inculcating good financial habits

To help customers stay on track to achieve their financial goals, banks can **leverage their partner ecosystem** comprising fintechs and credit offering providers. With customers' consent, banks can work with these entities to implement mechanisms to block specific transactions on their cards or mobile wallets, which will go a long way in discouraging poor financial habits.

Transactions such as those related to gambling and alcohol purchases can be blocked, improving not only customers' financial wellness but also their physical and mental wellbeing. Financial discipline is especially significant in the prevailing situation marked by job losses triggered by the COVID crisis.





Offering value-added services to small businesses

Small businesses are often required to make critical financial decisions to ensure sufficient cash flow and uninterrupted business operations. Small businesses maintain finances and order books either manually or in disparate digital systems that limits their ability to make the right business decisions. Some large banks offer value-added services such as book-keeping services and supply chain platforms to small business customers. Open banking APIs can provide banks access to their small business customers' data (with consent). Analyzing the data leveraging AI and ML tools will help banks obtain insights that can be used to design contextual financial advisory offerings for small businesses.

By leveraging insights gained from business data, supply chain platforms, and open banking data, banks can enhance their existing credit scoring models to better manage credit risk. Using enhanced credit scoring models to evaluate small business customers helps promote financial inclusion and ensures access to government schemes such as loans guaranteed by the Small Business Administration (SBA) under the US CARES Act. Automation can be used to periodically assess the financial health of small businesses, and based on the insights gained, banks can issue timely alerts warning them of the possibility of default and delinquency. This will help protect banks' credit portfolio and infuse resilience **to withstand financial shocks** triggered by evolving macro-economic trends.



Contextual Financial Education



Financial literacy is an important aspect that a lot of governments around the world are promoting, especially with younger communities.^{2,3} Providing customers with insights on how they can reduce or avoid fees, charges, and other levies will motivate them to cultivate better financial habits. By comparing a customer's income and spend patterns with financially better off peers with similar income (in an anonymous manner) can provide insights that banks can use to educate customers. A 360-degree view into customers' evolving context can offer insights to banks on upcoming life milestones such as marriage, home-buying, and so on. Contextual financial education on how a purchase could either have been avoided or optimized will make financial education more engaging. Contextual financial education helps improve customer trust in the financial advice provided before the financial event. Winning customer trust and loyalty will enable banks to actively participate in customers' big ticket financial events such as home buying or vehicle purchase, in turn improving revenue per customer.

² Financial Literacy and Education Commission, Accessed July 2020, <https://home.treasury.gov/policy-issues/consumer-policy/financial-literacy-and-education-commission>

³ Financial Literacy Australia, Exploring Financial Wellbeing in the Australian Context, Sep 2017, Accessed July 2020, https://www.csi.edu.au/media/Exploring_Financial_Wellbeing_in_the_Australian_Context_Final_Report.pdf

Healthy financial decisions and habits must be rewarded to encourage customers to improve financial discipline and drive engagement. Rewards can take the form of contextual offers when customers achieve their financial goals. In addition, customers should be encouraged to share their experience on social media platforms. Social promotion of positive stories that highlight the role of banks in helping customers achieve financial goals or reaching life milestones has the potential to become an excellent marketing medium and attract new customers.

AI, ML, natural language processing (NLP), and natural language generation (NLG) technologies can be utilized to offer small business customers insights on evolving macro and micro market and industry trends. In addition, banks can build digital ecosystems or marketplaces comprising small businesses, suppliers in related areas of demand, customers of small businesses and providers of value-added services such as insurance or maintenance. This will enable small businesses to offer purpose-driven offerings beyond their existing line of business. For instance, a small business selling office furniture can partner with an insurer to provide insurance cover for damage and maintenance. Developing a healthy small business community will not only improve a nation's economy but help build long-running, profitable customer relationships.



Financial Wellness: The Path to Thriving in Uncertain Times

Designing digital financial wellness offerings will require banks to develop a flexible digital architecture. A flexible digital architecture is key to rapidly crafting and delivering digital experiences. Modern technologies such as APIs allowing easy integration of partner capabilities, microservice architecture combined with event-driven components, and light-weight AI models based digital systems of engagement are some building blocks of a flexible architecture. The success of a financial wellness initiative will largely depend on the accuracy of the assistance or advice provided and the quality of the digital experience across channels. Developing these capabilities in house may pose challenges and banks must consider collaborating with a digital transformation partner with the requisite domain and technology expertise to ensure a trouble free implementation.

Post COVID, banks are likely to experience reduced profitability due to reduced sales coupled with increased costs as a result of higher credit risk. In our view, banks that offer purpose-driven offerings to customers are likely to reap non-linear and sustained revenues while containing credit risk. A purpose-driven customer engagement model centered on financial wellness will position banks as custodians of financial wellness of societies rather than mere custodians of finances. Adopting a business model with societal financial wellness at the core will immensely improve banks' brand perception building long-term relationships and driving loyalty.

Contact

For more information on TCS' Banking & Financial Services, please visit <https://www.tcs.com/banking-financial-services>

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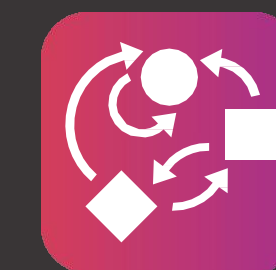
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