

# Going Paperless: A Strategy for Financial Institutions

## Abstract

Organizations across the world are trying to reduce their carbon footprint and the same is true for banks and financial institutions. Banks use a substantial amount of paper in day-to-day customer interactions, service offerings, and back-office operations (account opening, lending, payments, card statements). Going green by eliminating paper has thus become a high priority for them. Paperless banking will not only help save the environment and cut carbon footprint but also help banks reduce operational expense while elevating customer experience. This paper highlights the importance of paperless banking from the perspective of both customers and the financial firms and presents a transformational approach to paperless banking operations.

## Importance of Going Paperless

A study conducted by Bank of America<sup>1</sup> reveals that a complete shift to online statements will reduce about 37,000 metric tons of GHG emissions and 136 million gallons of blue water consumption. This is equivalent to about the annual GHG emissions from 5,500 American homes and the water contained in 206 Olympic swimming pools. Paper-based banking not only adversely impacts the environment but also leads to higher expenses for banks and delivers poor customer experience. Paper-based processes involve error-prone, manual data entry as well as manual document validation and storage resulting in longer turnaround compared with digital processes. By going paperless, banks can reduce environmental degradation, significantly improve productivity, reduce operational expenses (document printing, storage, manual handling cost) and enhance customer experience.

## Approach to Green Banking

Over the years, banks have evolved from maintaining huge ledgers to record transactions to providing real-time solutions and enabling online and digital experience for customers. However, a large number of paper-based transactions exist in areas like trade finance, account opening, mortgage origination, account statements and so on. Additionally, increasing proliferation of smartphones and rising preference for digital services have driven the change in customer behavior. Today's customer wants banking transactions to be faster, more secure, and deliver superior and personalized experience comparable with online shopping offered by the retail sector. Banks need to adapt to these customer behavior changes to remain competitive and relevant and switching to paperless banking operations is one way to meet this goal.

Green banking is fast emerging as one of the cornerstones of digital transformation. In our view, a seamless migration to green banking operations will require banks to take a holistic approach to transformation. Adopting a piecemeal or siloed approach will neither meet the goals of green transformation nor deliver the desired benefits. Banks must consider both the front office and back office operations and define a unified paperless strategy that aligns capabilities with operational practices. In our view, banks must adopt the Enable-Engage-Enrich approach (see Figure 1) focuses on eliminating paper, improving customer experience, and driving growth through digital services as the foundation of paperless strategy.

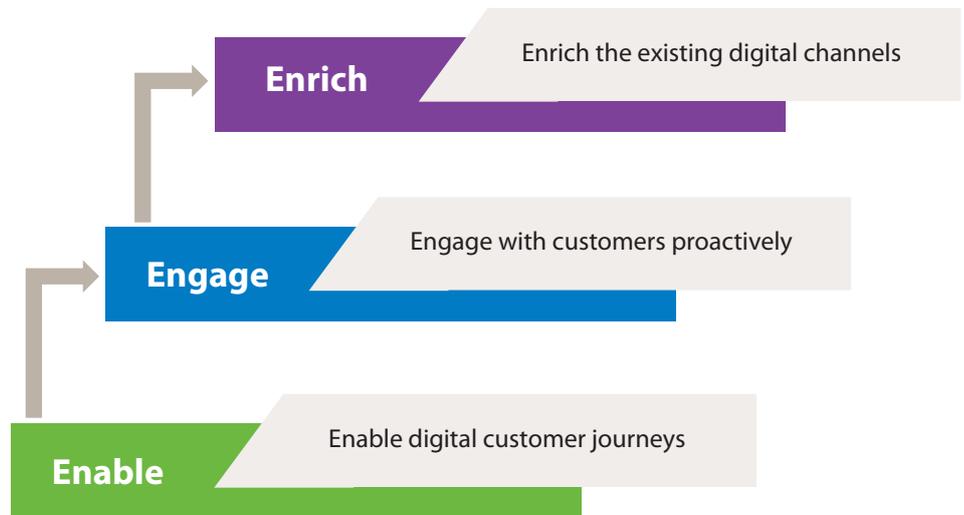


Figure 1: The 3E Approach to Going Paperless

## Enable – Simplify and Automate to Create Value

Merely having an online banking option does not deliver much value to customers nor does it provide a real digital banking experience. Banks must focus on simplifying and completely digitizing back-end processes to automate the entire process thus facilitating straight-through-processing. Enabling transparent transactions and process workflows with real-time status updates can add a lot of value to the digital banking experience. A large multinational bank in the US significantly improved net promoter score (NPS) after implementing real-time status updates for dispute processing and resolution.

Banks must eliminate paper at source and minimize manual data entry operations. Features like e-forms, automated form-fill conversational interfaces, voice or video banking, and e-signature can be incorporated for customer touch points to eliminate paper and elevate customer experience. For example, when existing customers opt for a banking product through the online channel, banks can enable pre-fill of the customer's personal data on the account opening form. Banks can also implement e-signature solutions that allow customers to sign just once on an electric pad regardless of the number of products bought.

## Engage – Redirect Customers to Digital Channels

Despite increasing digitization, paper is still king! For instance, for a large North American bank, we found that only 40-50% of the customer base had opted for digital statements.

Documents like letters, statements, contracts, appraisal documents, and affidavits are delivered to customers in paper form by banks. Similarly, customers too use paper for a large percentage of banking transactions such as account opening, account maintenance, dispute processing, collection and transaction services and so on.

So how do we increase digital banking adoption? Common excuses from customers for not adopting digital operations include “I don’t see any value in going digital” or “I don’t feel secure using digital banking” or “I am not aware of the digital features that you offer”. While millennials and Gen Z prefer digital banking, the older generation is not comfortable using digital options even for simple tasks like payments or balance enquiry. Banks must analyze the causes of customer resistance to using digital channels and address their concerns to spur digital adoption. With the use of data analytics and surveys, banks can segment customers into three categories - digital customers, partially digital customers and non-digital customers – and design dedicated solutions for each category to drive digital adoption (see Figure 2).

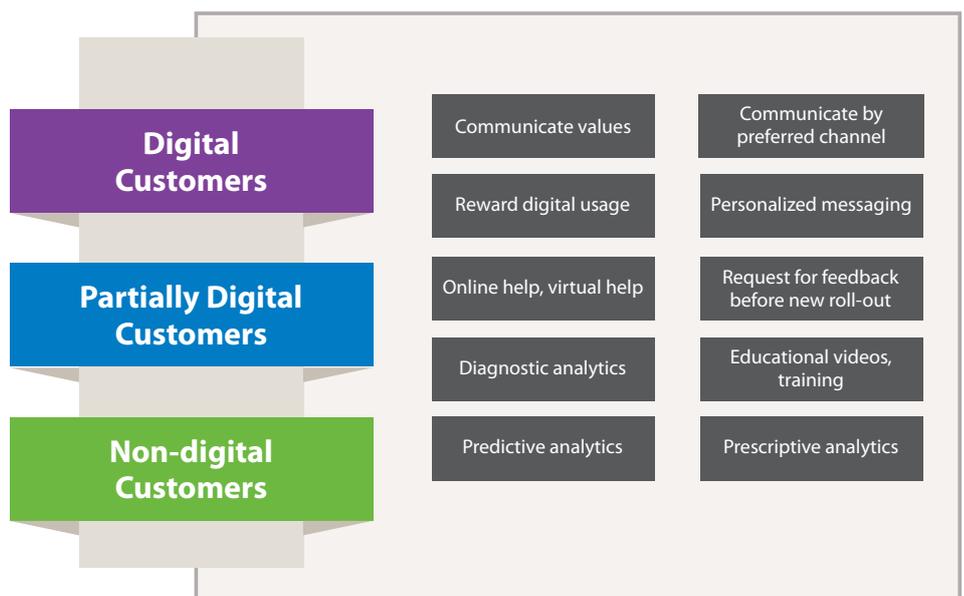


Figure 2: Approach for Increasing Digital Adoption

## Enrich – Deliver Exceptional Digital Experience

While a strategy for increasing digital adoption by partially digital and non-digital categories is important, it is equally important to define a strategy to retain existing digital customers. Customers demand hyper personalized, contextualized offerings from their banks and expect frictionless and rich experience similar to those delivered by adjacent industries. As a result, banks need to continuously evolve their digital banking platforms to enable rich customer experience and continually delight customers. To achieve this, banks will need to leverage historical data for insights, use predictive analytics to gauge customer needs, and then craft a suitable product or service. For example, when a customer plans to buy a car, he looks for a loan as well as insurance. If the bank can predict this need based on a knowledge of the customer context and leverage its partner ecosystem to craft an offer that includes a discounted loan, an insurance product from a partner insurer, and a co-branded credit card from a gas company, it will successfully create value for the customer as well as the ecosystem participants.

Delivering a contextualized and personalized experience will require banks to replace passive, static content on their digital interfaces with interactive and dynamic content tailored to the continually evolving customer context, which is not feasible through paper-based operations. For example, banks can create smart statements that allow customers to get additional transaction details such as location, invoice and billing details, time and so on, make payments, redeem reward points, and query the transaction without logging into the app. Additionally, the smart statement can incorporate a chatbot to answer customer queries related to the transaction. Designing digital user interfaces based on customer behavior analytics is also an intelligent way to engage with customers in their comfort zone. Customers with limited digital experience might get overwhelmed by too many services and offerings on the screen and might eventually leave without using the service. Banks must leverage pattern analytics to understand the customer usage pattern and deliver simpler content based on the needs.

## Conclusion

Customers are constantly looking for convenient banking transactions and expect a faster, simpler, secure and personalized experience. Enabling paperless banking operations is the right step towards meeting these expectations and must form the foundation of a digitally transformed bank. Although paperless banking is not new and considerable effort and investment has already gone into it, banks are struggling to implement it efficiently. This can be attributed to legacy systems, lack of internet penetration in some regions, customer resistance to digital operations, and a higher comfort level with paper. However, with a growing online population, easy and cheap access to internet, and proliferation of mobile devices, paperless banking is the obvious next step in the digital journey of the banks. Switching to end-to-end paperless operations must therefore form a key element of banks' digital transformation strategy. To drive adoption of digital operations, banks must adopt an enterprise-wide strategy to build paperless capabilities supported by digital operational processes.

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