Digital Relationship Banking
by Charles Wendel

Relationship management conjures up the image of an experienced relationship banker (RM) meeting one-on-one with clients and advising them about their financing, cash management, or other needs. The essence of relationship management has always involved a high touch approach, one in which the individual banker and his/her particular skills play a critical role. In days past it also involved social events like golf. But increasingly a more demanding and self-reliant customer and the banks' demand for greater productivity are eroding those types of relationships.

Understandably, bankers are protective of the relationships they have spent years and sometimes decades developing; many see it as their lifeblood. Banks may define relationships the old-fashioned way, but do customers? In fact, the movement toward more digitally-enabled banking, whether involving loans, deposits, or other products is unstoppable. The preferences of consumers and business owners are driving this shift, often pushing a bank to move much quicker than it typically does.

Consider how some of the digitally-enabled companies are attempting to build relationships without offices or "100 years of history."

Aspiration (www.aspiration.com)"Save Money, Save the Planet." Aspiration appears aimed at the socially conscious person who is also digitally savvy and either distrusts or dislikes banks. It positions itself as a green company in which "your deposits are fossil fuel free…and you have easy access to ethical, environmentally-friendly investing." Its webpage states that instead of spending money on lobbyists and politicians like the Big Banks, they contribute 10% of earnings to "charities helping struggling Americans build a better life." Fees are much lower than charged by banks.

Wealthfront (www.wealthfront.com) will help create a free financial plan with "no spreadsheets, no annoying sales calls, no judgment." And, when you begin the plan process and it asks your goals, one option is 'I'm not sure where to start." Wealthfront has about $11B in AUM and follows a passive investing approach: "Passive investing is foundational, but technology is our innovation." The website also provides extensive background on the distinguished research and investment team. And as above, fees are much lower than charged by banks.

These companies are building client relationships by providing an offer that starts with creating an easy and to some extent delightful customer experience. They also limit themsleves in what they offer and the customer segment they pursue. And, again, they cost less than banks.

Will companies like these and others succeed? Some will as standalones and others may be acquired by banks, a good strategy for banks as long as they allow these "Newcos" to remain separate.

Relationships will not disappear in the digital world, but they will change. As the generational shift continues and as all generations become more digitally savvy, banks and credit unions need to consider what makes a great digital relationship.

1. **A digital relationship is proactive and provides valuable information.** Banks can now tell a customer that their spending patterns are unusual (too much Amazon) or that they will OD if they keep spending at their current rate. Aspiration and Wealthfront provide extensive information in an accessible format, available 24/7.

2. **Great service**. By great service, we mean not a bank's idea of great service, but a customer's idea of great service. Speed. Accuracy. Ease. 24/7 access. Short applications. At too many banks the service culture has been replaced by a compliance culture, one in which the customer comes second. While Newcos also have to address compliance, their business models are simpler and their culture keeps internal bureaucracy to a minimum.

3. **Consultative/insight driven.** People would like banks to offer ideas and solve problems rather than create them. As with the Newcos, leveraging data analytics can allow bankers to provide insights about customer account activities and potential needs that surpass what an individual banker could do otherwise. The quality of insights that banks can provide their mass market and small business customers should increase. Newcos can provide insights directly; banks may need to incorporate their bankers into the process, increasing cost and complexity.

4. **Based on the customer perspective**. Customers want omnichannel access; today, they expect that internal systems speak with each other. Example: If someone begins a Netflix movie on their smart TV, they can continue it from where they stopped on their phone or tablet. No reentering of information or lack of internal communication as still exists at many banks with legacy systems. Traditional banks have the burden of retrofitting analog processes to the new world order, not an easy task. Legacy systems hold many banks back from becoming digital.

Banks have and can manage this change, but the difficulty in doing so underscores the potential value of working with Fintech as partners. Banks like Chase, Citizens Financial, Regions, and PNC have decided to team up with third-parties to engage in small business lending. Other banks have teamed up with third-parties in consumer and other areas. Several Fintechs are now even focusing on larger loans.
At more banks the tipping point has occurred whereby the bank begins by evaluating potential digital partners rather than trying to invent something

themselves. That approach requires a spirit of innovation as well as some “egolessness”.

A digital relationship and a *degree* of loyalty will develop as a bank accomplishes the above. But the nature of a client relationship will likely keep changing. And, much of the traditional RM model that banks have relied on may disappear, even in established and successful business lines where such an occurrence appears unlikely today.