Millenial Disruptive Technology: An Assessment on Disrupted Banking Industry

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Abstract

Millenial are new generation that demand a new kind of market expectation and seeks new value on how industry interact with its customer. Among assessed industries in the US, Banks are the most vulnerable industry that millennial demands new kind of approach to conduct banking in the past three years facilitated by the increasing influence of digital technology in everyday life. Millenial are the generation that born in 80s and 90s where they see the dying relevant of bank [1]. The survey sees that in US 68% of them think that the way we access our money will be totally different, 70% said that the way we pay for things will be totally different, and even 33% believe that bank will not be needed at all in the next 5 year. However, the key question is what is millennial really needs on the banking services in Indonesia? Is the trend in the US and Europe is catching up soon? Is Indonesia Banks ready from the eyes of Millennial? This research focuses on current level of digital banking experiences of Indonesia Banking Millenial where assess the current satisfaction of the current banking services in Indonesia and the expected digital banking of Indonesia Banking Millenial, current and the future.

Keywords: Millenial, Banks, Indonesia Banking Millenial.

1. Introduction

In Europe, ING Bank has been experimenting with Digital Bank Cafe [2], where the teller or customer relationship officer was replaced with bank barista in the past few years. Even Citibank in the US, has similar experiment in the past few years as well. Back home, BRI has experimenting fully digital banking services with the initiative of BRI Digital Banking back in June 2016 [3].

Accenture study mentioned that in the 2020, the bank services within Europe will be disrupted by Fintech (Financial Technology Startups) and only leaving 70% of the current market size [4]. And the trend continues downward. This will be an interdisciplinary research between Information Technology and Management Business Studies.

The hypothesis is shown in the following graph. In order to achieve customer experience leadership, we should focus on the two main contributors; customer satisfaction and interaction where:

- Service quality influences the level of customer satisfaction, where the negative influence from external customer satisfaction from other competitor’s services
- Customer Interactions Variety is the result of the current services portfolio
- Current service portfolio is as the result of current organizational innovation
2. Methodology

There are recent questions event to the mature market like the US on the fate of banks in the future. This is another disruptive technology in the making in the industry of banking by the shift preference of millennial generation. It will soon catch up in Indonesia.

Therefore, the study is conducted with the scope of the following:

2.1 Participants for the study

As mentioned in the early chapter of the questions related to the fate of banking of the future, the question are targeted on: Indonesia Urban Millennial on their expectation of the banking services in the near future; Relevant bank staff and management, as part of the question are related to the ability of the bank to can the service culture and service innovation in the age of digital technology.

2.2 The methods of study

There will be two main methods of study:

- Interview (Especially on Bank Staff and Management, and some questions that are open ended for Urban Millennial)
- Focus Group Discussion

3. Related Works


Recent various study and sources in the US are confirming that the trend is gaining speed. More than 1600 Bank branches closed last year in the US of not being relevant to the market in 2015 [5]. The leading bank, like JP Morgan, will close by the end of 2016 to close 300 Bank Branches as well [6].

So there are more questions than answers currently on how the bank will react on this current reality. Bill Gates back in Jan 2015 has a famous quote that rattler banking industry, “People need banking, not Banks” [7]. About 2.5 billion people globally have no access to bank accounts and formal financial services. Bill Gates sees this as a big opportunity for technological innovation.

So the questions need even more relevant to Indonesia Banking Industry, particular on the views of Indonesia Urban Millennial. The following are the list of studies and sources that will give a similar question to Indonesia Urban Millennial view of what kind of banking technology and services needed that bank branch need to transform to.
• CNBC Report Quotes [8]
  The study showed that 29 percent of millennial will close all accounts with that bank after an incident, compared with about 22 percent of all U.S. consumers. FICO surveyed approximately 1,000 consumers in October and November 2015. The question: Is Indonesian Urban Millennial has the same low tolerance?
  In addition, “the growth of online banks and mobile banking lends itself to the ability to switch and the perception to switch,” Horan said. The question: Is Indonesia Urban Millennial switch banks easily? Online Banks and Mobile Banking encourage the perception to switch?

• Banks Market Millennial [9]
  Authenticity, Purpose and Mobility Are Key Things Millennial Are Looking For. The question: Is Indonesia Urban Millennial thinking it important?
  More than any other generation, millennial want to do things on their own terms. It’s not new to reject institutions, but that thirst to discover their own path is amplified in an age of seemingly limitless choices. The question: Indonesia UM (Urban Millennial) want to have informed choices?
  Indonesia UM feel more online needs?
  They're on social media 24/7; they trust friends and not big business. But millennial really aren't that different. They're just better at figuring out what’s authentic and what isn’t, and consuming only what speaks to them. That's why it's critical to reach them through voices they trust. The question: Indonesia UM thinks virality matter most on banking choices?

• Financial Brand [10]
  Millennia’s Are Redefining Financial Success. “Millennial are the most educated generation in U.S. history,” says Face book in its report, “and they continue to pay a heavy price for it. But whether its student loans or credit card debt, millennial say paying down debt is their top priority.”
  The question: What is Indonesian UM thinking about financial success?
  Millennal Are Looking For a New Kind of Financial Partner. Millennal are 1.5 times more likely than Gen Xers and Boomers to be engaged, and 1.4 times more likely to move. These moments have major financial implications that many Millennial do not know how to deal with. In fact, 83% of Millennial in Face book’s study say they seek financial guidance during those times, with buying a home being the main trigger (at 48%). But half of all Millennial say they have no one to turn to for financial guidance. Only 36% talk to their parents about money and just 8% trust financial institutions. The question: What is Indonesia UM like to know for their banking/financial needs?
  Unfortunately, Millennia’s don’t see a lot of viable options among today’s banking providers. A third of Millennia’s describe their primary financial institution in unflattering terms — e.g., “used car salesman” or “aggressor” which likely explains why they are 1.4 time more likely than other generations to switch. The good news? They are open-minded and optimistic. Nearly half (45%) say they would switch (banks, credit cards, or brokerage accounts) if a better option came along. The question: Indonesia Banks not help in understanding financial/banking needs?

• Insight Report [11]
  Millennia’s are a demographic that’s rapidly maturing in terms of their economic strength, social influence and political power. They represent the greatest challenge and growth potential for banks today. The question: Is it the case in UM Indonesia?
  Millennia’s are more likely to consider non-traditional payment companies. They see value in the convenience, mobile support and ease of use. Conversely, the consideration of non-traditional payment providers decreases with age. For all age groups, customer satisfaction with a primary bank has no significant impact on consideration, with an equal number of satisfied and dissatisfied consumers now using non-traditional payment companies. The question: Is it the case of Indonesia UM?

• American Bank Association [12]
  Millennal are the largest generation in the workforce, according to Pew Research and poised to receive about $30 trillion in inheritances from their baby boomer parents. In the course of our research, millennial told us what they expect from their bank: High savings account interest rates, Low loan interest rates, No fees, especially hidden fees, Transparency, Privacy and safety, A
financial institution that isn’t ‘too big’, Easy account management. The question: What is Indonesia UM expectation on the future?

Recognize that millennials want a banking relationship. The good news is that the vast majority (90%) of millennials use some form of banking product. Of those, 59% have a bank account, 11% have a credit union account, and 19% have both a bank and credit union account. The question: What kind of relationship expected by Indonesia UM?

- Independent Community Bankers of America [13]

Things Millenials should consider before choosing their next bank:

Trend # 1: Being locally owned and operated is important to us. Millennials want a local connection when it comes to doing business. We seek out locally sourced food, artists and musicians, and look for locally owned and operated restaurants and stores. This passion for supporting and being a valued part of our local community is true even when it comes to banking. Fifty-four percent of millennials surveyed said they prefer to work with locally owned and locally operated community banks to handle their financial needs.

Trend # 2: We do not want to be treated like a number. As a millennial, many of us were raised with the desire to feel included, valued and recognized for what we have to offer. One of the worst things a bank can do is to treat us like a number. It shows complete disrespect for the faith we are putting in them. But our research shows that millennials are the generation that most strongly feels that banks treat us like a number (58 percent of us feel this way). Not cool.

Trend # 3: We want to own our own business—or have the option to. Our generation may come to be known as the Great Entrepreneur Generation because so many of us want to own our own business. So we need to know which types of banks make the most loans for small business—and it’s probably not what you think.

Trend # 4: Cash is not king, but financial education gives us power. What this means is that we as a generation recognize that cash may no longer be king and that financial education is critical to our future. What we see is that for us millennials, our focus is not just on becoming financially successful, but also on creating a financial situation in which we can have the lifestyle we want—which often means being able to pursue activities we enjoy outside of work. This will only be possible if we get the financial education we need to start making smart decisions now.

Trend # 5: Mobile and online banking define millennial banking. This makes sense as we’ve come of age being able to perform and track most transactions via a screen—initially our laptop or desktop, and now a phone or tablet. Furthermore, when we think about mobile banking, we don’t just want to check our balance. We want to be able to do all of our basic banking needs via our phone, including balance transfers, making payments and more.

- Millennial Banking Infographic [14]

Millenials want digital solutions to manage their money and help them build their finances.

a. Three times more likely to open a new account with their phone vs. in person
b. Say that mobile has made tracking and spending their money better

- Forbes [15]

On how banks are missing the marks on millennial: Make ETC (Education, Transparency & Choices) your mantra.

Education: Brochures on financial planning advice just won’t cut it with this generation. Banks need a comprehensive and interactive approach to educating Millennials. Think funny yet insightful YouTube videos, webinars (delivered by a fellow Millennial!) on how to build your credit, and info graphics on how to finance higher education.

Transparency: Make your offerings and practices as transparent as possible. This generation isn’t opposed to paying for value, but they will chafe at unexplained fees and “just because” policies. Banks should also highlight all corporate social responsibility initiatives, as supporting social causes and being part of a greater movement is something this generation actively seeks
out. They want to align themselves with brands which they feel are making a greater difference in society.

Choices: The tech-savviest of consumers, this is a generation raised on choices. They have never been tethered to a single form of delivery: cable (Netflix), taxis (Uber), books (Kindle), radio (Pandora, Spotify). Banks would be wise to take a page from other industries and disrupt from within. Give Millennial choices in regards to how they bank, with which banker, and allow them to use the platform of their choice. More often than not, that platform will be mobile.

3.2 Customer Experience Leadership

Customer interaction, as the total sum of all interactions in relation to the brand, is becoming the key differentiation in today’s competition. Customer willing to pay more for better customer experience [16]. There are seven lessons related to customer experience leaders [17], there are two key notes that may be relevant to this research:

- Organizational political agenda that hindering the effort in develop further customer experience that important findings:
  a. Customer experience is the business differentiation other than the product and the price
  b. Negative experience will spread easily, especially in the age of social media
  c. Most of the customer that having poor experience definitely switch to competitor
  d. Some significant number of customer will complaints in social media and will go viral
  e. Customer experience is a collective effort in the whole organization

- Many business problems are as the result of customer experience problems.
  a. Customer top needs is the main consideration of the product development
  b. Staff turnover may impact on customer experience, therefore stronger knowledge of customers and markets.
  c. Communication issues with vendors and contractors are influencing the total customer experience.

3.3 Organizational Innovation

Organization sustainable innovation that respond to the new growth, strategies, new product & services, new ventures, new markets, new business model, new partnerships, new business practices can in the form of incremental to break trough innovation with the range of serendipitous to intentional. The highest business growth is possible if this is strategic innovation quadrant [18] as shown in the next figure:

![Strategic Innovation Quadrant](image)

Figure 2. Strategic Innovation Quadrant [19]
There are seven dimensions to produce a portfolio of outcomes that drive growth. These dimensions are:

a. A Managed Innovation Process; Combining Non-Traditional and Traditional Approaches to Business Strategy
b. Strategic Alignment; Building Support
c. Industry Foresight; Understanding Emerging Trends
d. Consumer/Customer Insight; Understanding Articulated and Unarticulated Needs
e. Core Technologies and Competencies; Leveraging and Extending Corporate Assets
f. Organizational Readiness; The Ability to Take Action
g. Disciplined Implementation; Managing the Path From Inspiration To Business Impact

4. Result Analysis

The result analysis will be incorporated the two sources of studies (interview and FGD) into draft analysis that will be further discussed with Relevant bank staff and management.

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<th>1. How the Bank's response about Fintech?</th>
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<tr>
<td>Yoana Ustriani</td>
<td>Fintech became a lot of impact in the bank business</td>
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<tr>
<td>Rony Andry</td>
<td>Fintech development needs to be well anticipated because otherwise fintech will undermine the Bank's business</td>
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<tr>
<td>Antonius Andy Wijaya</td>
<td>Banks feel threatened. The bank must be a financial company that cooperates with fintech. The possibility of banks will still exist even though fintech is growing There are some bank systems that cannot be done by fintech The concept of a bank will still be needed even though fintech is growing For example the lending process at the bank</td>
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<th>2. How the Bank's prepare to threat of Fintech ?</th>
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<tr>
<td>Yoana Ustriani</td>
<td>BRI targets to become a strong bank in Southeast Asia by continuously transforming on an ongoing basis. This transformation movement is called &quot;The Most Valuable Bank in Indonesia.&quot; BRI targets in advancing technological updates and on the basis of the transformation movement, BRI has launched a financial satellite called BRI sat in June 2016 and is the only bank in the world to have satellites. BRI is currently in progress to adopt fintech which is one of BRI's Business Strategy. In the process of adopting fintech, BRI has prepared reliable human resources because Fintech is the goal and the success of BRI.</td>
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<tr>
<td>Rony Andry</td>
<td>Banks have not been able to focus because there is no regulatory regulation But has done the first step in facing the threat of fintech</td>
</tr>
<tr>
<td>Antonius Andy Wijaya</td>
<td>The bank has made a digital transformation Banks believe fintech will have an effect The possibility of banks will still exist even though fintech is growing There are some bank systems that cannot be done by fintech The concept of a bank will still be needed even though fintech is growing For example the lending process at the bank</td>
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3. What have been or will be done banks to threats of Fintech?

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<tr>
<td>Yoana Ustriani</td>
<td>As for the preparation of what has been and will be done to adopt fintech, it is still a secret and cannot be published to the public.</td>
</tr>
<tr>
<td>Rony Andry</td>
<td>Preparation of Fintech since 2015 by holding partners MCI (Mandiri Capital Indonesia) in cooperation with Korea (Korea Telecommunications)</td>
</tr>
<tr>
<td>Antonius Andy Wijaya</td>
<td>Banks collect human resources to conduct research about services to the community that would otherwise be needed. Has analyzed the potential for fintech that will be more developed but has not done anything</td>
</tr>
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5. Conclusion

The result of this research show the digital finance of Indonesia Banking integrates several banking services in an integrated manner by providing several facilities. Banks in Indonesia have also made preparations to improve productivity through digital technology.

Reference

[16] 2011 Customer Experience Impact Report conducted by Harris Interactive
[19] www.leapfrogging.com