



# Tailored Banking is the Next Step in Digital Banking Transformation

A series focused on the next-gen digital banking platform and the endless digital opportunities it brings to financial institutions.

# Does it fit?

Fran Lebowitz's distinctive uniform of Anderson & Sheppard suits, Calder cufflinks, and boots has caught attention in promotion of her new documentary called Pretend it's a City. While her style may not be accessible to everyone, it prompts consideration for the next step in digital banking transformation - tailor-made experiences. Tailor-made is the next step in digital banking transformation. During the first round of digital banking, many banks implemented better, more personalized customer experiences and journeys. But banks continue to offer the same products and services through these personalized experiences.

Tailored banking takes the next step. Custom-made tailored clothing is based on the customer specific measurements, preferences, needs. The end result is a suit or shirt or shoe that fits you exactly. Similarly, tailored banking uses customer data to create products for specific customers.

## **Tailor-made banking poses two challenges for banks:**

1. Access to a lot of different types of data. It is key that banks identify new types of customer data that can help them identify needs. Not everyone wants a tailored suit from Anderson & Sheppard. Some people are more particular about basketball shoes. Many people are satisfied with Levi's and t-shirts from Old Navy or Target.

2. Ability to meet different types of customer needs. Banks don't make just one product; they offer many products and services to all kinds of customers. True transformation demands that the bank create innovative products. But which products and services? The permutations of data and products are infinite. Data, however, is key to identifying those products customers actually need







# Data leads to tailor-made banking.

Lebowitz has said that she couldn't get the tailor to make her suits at first – because Anderson and Sheppard didn't make women's suits. But once they agreed to make suits for her, they probably followed the same process to create her suits they use for men's suits. It turns out that the key to perfectly tailor-made suits that fit well is data. Anderson & Sheppard gathers data about each customer: measurements, garment style, fabric.

The firm uses this data with multiple fittings and coordinates measurements across garments that comprise the suit. The pants pattern takes into account suit jacket measurements. No garment is created in a silo. Each garment references the customer's specific data. Data, then is key to overcoming these challenges. But banks cannot rely only on the same old data that has traditionally driven product development.

A bank that wants to be proactive rather than reactive to customers' needs should strive to respond to requirements detected by listening to and analyzing 3 types of data:

## TRANSACTIONAL DATA

What are customers buying, paying for? Who do they pay? How often? How many use credit cards to pay for daily expenses like groceries, transportation cards, restaurants?

## BEHAVIORAL DATA

How many and which customers use mobile banking or online banking, use third party payment apps, or visit branches and ATMs? How often do consumers shift from their regular behavior of using a bank account to pay a gas or electric bill to using a credit card to pay that bill? Which customers make purchases within 2 miles of their home? What kind of purchases cause a customer to go 50 miles from their home? Does a customer purchase a major appliance every year in December after an extra payroll deposit is made to her account?

## PRODUCT & SERVICES DATA

Which customers use mobile payments, p2p payment apps, bill pay, checks? How many people transfer funds to bank accounts outside the bank? How many business customers also have consumer accounts with the bank? How many customers have taken out a car loan with the bank in the last 5 years? How many customers have never taken a loan with the bank but appear to be paying car insurance?

This data is not segmented according to traditional demographics. After analysis this data can uncover needs that escape those demographic groupings.

# Tailored banking requires an architecture with structural flexibility for dynamic product creation.

With the ability to gather data and analyze it to identify customer needs, the bank can start creating tailored products and services, dynamically, based on data rather than on a predefined product catalog.

To do that, banks are best served to use an architecture that enables them to build on demand. Not once, but all the time. Then, the bank can address the constant and changing flow of customer data and needs.

The boundaries between the core system and other sources of data, including delivery channels, must be fluid. This architecture, designed with structural flexibility, will leverage any or all of the types of data I've outlined above to identify a customer need and create the product or service to fulfill that specific need, dynamically.

Some new products may use features of existing products and combine them in new ways. Other products may not.

For example, most banks have some kind of tool that lets customers manage their personal finances. These tools have a wide range of capabilities that typically let customers pay bills, figure out whether they have enough funds to pay a bill, review budget and select payment methods.

Banks that can leverage all of these types of data and architecture capabilities can do more than general financial management designed to support all customers. Below are use cases that address specific, niche needs. While not designed to meet the needs of a majority of customers, a niche product might "break out" and become more attractive to customers not previously identified with the need.

A bank's architecture that supports structural flexibility is best able to adapt functionality and scale the product to meet the needs of even more customers.



# Use cases

## Improving personal financial management during a crisis.

Most banks offer personal financial management capabilities. They are useful to create a budget and monitoring one's cash flow. What happens, though, in a crisis situation? For example, a bank that can deliver tailored banking can help its customers in Texas, which was recently hit by a cold snap in the middle of the pandemic that resulted in a broken power infrastructure in new ways. It can quickly identify customers who will have trouble paying upcoming electric bills.

These bills, due to the way the power infrastructure is set up, will reportedly result in bills for thousands of dollars for some customers. Armed with this data, a bank could leverage its API ecosystem to access the utility company customer data and analyze it with the bank's own customer payment and account data in new ways. The bank could proactively create and set up payment plans that take into account both the power failure, but also pandemic-related unemployment.

By identifying the number of its customers impacted by these unusually high utility bills, the bank could negotiate lower rates and digital payments with the utility companies that reduces costs for both customers and utilities.

Similarly, banks who have customers located in areas such as California and Oregon where residents lost homes, possessions, and businesses from wildfires could use APIs to enable them to collaborate more quickly with insurance companies, FEMA and other organizations to facilitate payments that will get people back on their feet more quickly.

Banks that leverage these "one-off" crisis services to tailor personal financial management capabilities to assist customers, including small business customers, during any crisis – such as weather extremes or seasonal weather crises.

## Implement microcredit lending.

Many customers who don't have sufficient credit scores or small business owners who don't have enough revenue fail to qualify for traditional bank loan products. Microlending has traditionally been the domain of microcredit organizations – not retail banks. Many bankers seek to reach new customers within their communities. This means reaching those consumers and small businesses. Banks that support tailored banking can identify a customer who needs a small amount of money to pay bills due before she receives outstanding accounts payable to her business or gets her regular paycheck. Leveraging dynamic product creation capabilities, the bank can create a small loan product that offers the owner \$250

The bank is not becoming a microcredit institution, but rather proactively reaching out to the customer before she goes to another lending source, such as a payday lender or another bank. Through its API ecosystem, the bank can support credit risk assessment by accessing data about the customer's bill payment history at the bank or through her use of third-party payment apps. For example, what is a small business owner's cash flow through Venmo? This type of lending can also support the customer by improving her credit risk and increasing her profitability to the bank.

## MOTIVATING CUSTOMERS TO CHANGE BEHAVIOR

Banks that offer tailored banking should also consider identifying customer financial problems and challenges and creating services that offer to help the customer change his behavior feeding that problem. Many banks are incorporating Buy Now, Pay Later (BNPL) into point-of-sale payment method offers both offline and online. But this service may not be appropriate for some customers. Instead of relying on his own self-restraint, the customer may allow the bank to help him change his spending behavior – before he spends money at the point-of-sale – not afterwards. A customer who has an outstanding credit card balance and pays only the minimum amount allows the bank to suggest that he uses cash stored in his PayPal account, put off the purchase until he pays off his credit card balance or suggest alternative, lower cost products.

The customer may welcome the assistance in changing his behavior, rather than simply offering an after-the-fact analysis or admonition not to spend money. The next step in the path towards digital transformation may start with a tailor-made suit, but it requires an architecture designed with structural flexibility to enable dynamic data analysis, product creation and delivery for banks to realize it. Despite the uniqueness and specificity of Lebowitz's uniform, magazines are starting to help people recreate it. Do people want a style based on Fran Lebowitz's uniform? I don't know. What they are trying to recreate is a look that is designed to fit just one person. I hope their efforts are based on data



**Stessa Cohen,**  
CEO/Founder,  
PivotAssets LLC

### ABOUT STESSA COHEN

Stessa Cohen, CEO & Founder, PivotAssets LLC, a consultancy that provides advisory, coaching and evangelist expertise to help fintechs, investors and vendors compete effectively in the changing global banking market.



Galileo is a leading financial technology company whose platform, open API technology and proven expertise enable fintechs, emerging and established brands to create differentiated financial solutions that expand the financial frontier.



[galileo-ft.com](https://galileo-ft.com)