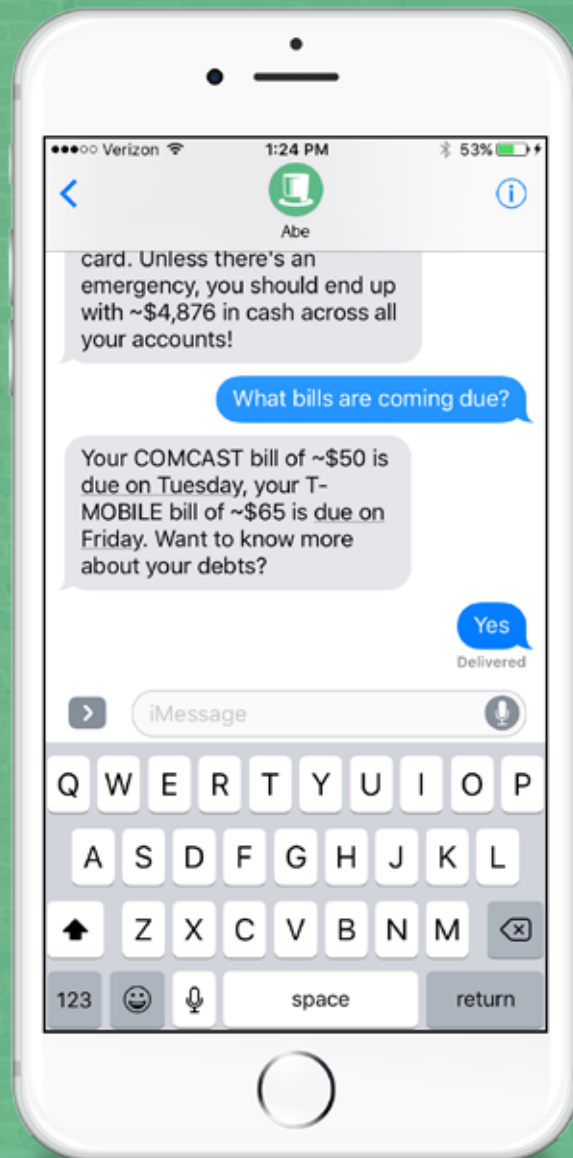


How Financial Chatbots Are Transforming Digital Banking



Produced by Abe

Abe builds conversational banking solutions for progressive community banks.

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Keeping Pace with Evolving Financial Technologies

Banking is one of the industries most at risk of major disruption in the next three years.¹

At the heart of this disruption are innovative financial technologies, the implementation of which is rapidly transforming the digital banking landscape. As tech-savvy consumers—especially Millennials—develop higher standards for customer service and convenient, friction-free digital experiences, banks must evolve in order to remain competitive and profitable.

This white paper discusses the recent developments in consumer financial technologies and how conversational software powered by artificial intelligence (financial chatbots) will impact the digital banking industry. These insights can be applied to the development of both short- and long-term strategies that will position progressive banks for future profitability.

¹ Accenture 2016 Technology Vision Survey



The next phase of digital banking will be ushered in by artificial intelligence capable of thinking and acting on behalf of users

Financial Innovation Trends

The digitalization of the banking industry is an ongoing trend that has fundamentally altered the way consumers interact with their bank over the last fifteen years.

The first phase of digital banking innovation, which moved paper-based statements and transactions online, reduced the level of friction between a customer and their financial information by eliminating the need for visits to physical banking branches.

The second phase moved online banking to mobile platforms, allowing customers even easier access to their financial information through smartphone apps. However, while this information is now more readily available, it isn't directly actionable. Charts and graphs depicting customer financial data still require the user to interpret and act on this information on their own.

The next phase of digital banking will be ushered in by artificial intelligence capable of thinking and acting on behalf of users, removing the last layer of friction between the customer and their bank for a truly seamless banking experience.

What Is a Chatbot?

A chatbot is a piece of conversational software that uses artificial intelligence to mimic human interactions through a chat interface. This technology allows users to obtain the information they want using natural conversational language, rather than complicated menus and graphical user interfaces (GUIs). Users simply type a question as if they were contacting a friend, and the chatbot replies with a relevant response.

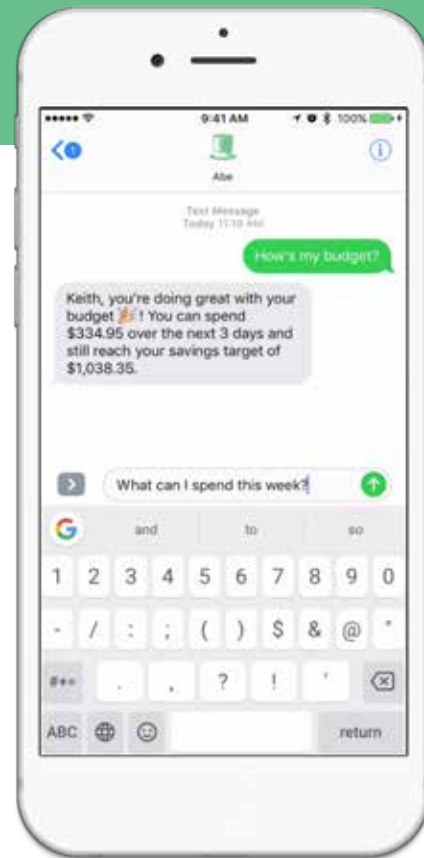
Chatbots work through existing messaging platforms such as SMS messaging, Facebook Messenger, and Slack. Messaging apps have recently become the most popular channels of mobile engagement, overtaking social media networks in active monthly users.² Of these, Facebook Messenger is the most widely accessed messaging app, with over one billion users worldwide.³ Digital banking technologies that operate through these channels provide direct access to a large, highly engaged segment of the consumer market.

Because chatbots provide convenient and straightforward access to information through popular messaging channels, they have clear financial applications. Forward-thinking financial institutions—including Bank of America, Mastercard, Capital One, and American Express—understand this and have already invested in chatbot technology to attract new customers, particularly in the Millennial market.⁴

² Business Insider Intelligence Report, September 2016

³ Reuters Press Release, July 2016

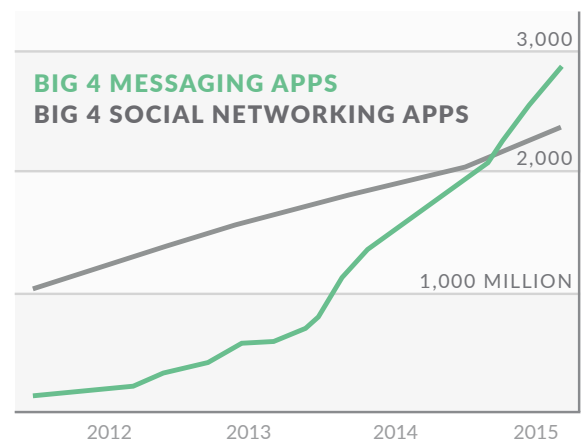
⁴ "Banks Bet on the Next Big Thing: Financial Chatbots," The New York Times, October 2016



A chatbot is a piece of conversational software that uses artificial intelligence to mimic human interactions through a chat interface

Messaging apps have surpassed social networks

Monthly active users for top 4 social networks and messaging apps



Source: Business Insider 2016 Messaging App Intelligence Report

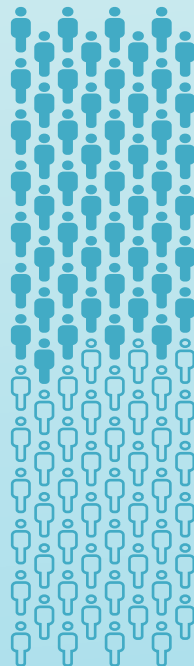
Millennials will spend nearly



annually by 2017

53%
of Millennials

don't think
their bank
offers
anything
different
than other
banks



The Millennial Consumer

Millennials—the largest generation in American history—are the primary driving force behind the next phase of digital banking innovation. Having grown up with the Internet at their fingertips, Millennials are digital natives with high standards for convenience and customer support. And they're a major consumer demographic with significant spending power; it's estimated that Millennials will spend nearly \$200 billion annually by 2017.⁵ As these young consumers increasingly come of age and enter the global economy, they're demanding more than the traditional banking experience.

As a consumer cohort, Millennials have unique characteristics and challenges, and banks must be sensitive to their needs. Due to stagnant wages, rising education and healthcare costs, and a heavy debt burden, Millennials have a fundamentally different financial picture than their parents' generation. Moreover, because of the financial crash of 2008 and subsequent market volatility, Millennials feel a general sense of distrust toward financial institutions. According to a 3-year survey of more than 10,000 Millennial consumers, 53% of Millennials don't think their bank offers anything different than other banks, and 1 in 3 are open to switching banks in the next ninety days.⁶

As a generation of digital natives, Millennials trust and expect more from technology and are quick to adopt new technologies that make their lives easier. To attract and retain their business, banks must innovate with new digital technologies that provide a world-class customer experience. Early adoption and implementation of these new technologies will allow banks to secure Millennial market share and retain a competitive edge.

5 "The Millennial Generation," US Chamber of Commerce Research Review, 2012

6 "The Millennial Disruption Index," Viacom Media, 2013



New interfaces have always had the largest effect on the technologies consumers adopt

The Future of Banking: *Financial Chatbots*

For the average consumer, money management is confusing, difficult, and time-consuming. It takes an enormous amount of mental effort to manage cash flow, track spending habits, and plan for both short- and long-term savings. Many Americans—Millennials in particular—are struggling to manage a complex financial reality. Banks can address these pain points by providing convenient and helpful financial planning advice through innovative digital technologies.

Financial chatbots have the potential to remove the stress of financial planning by delivering vital information and directives to consumers instantly and through familiar, conversational channels. By implementing this technology, banks will earn the trust and loyalty of Millennials, winning increased market share and driving new revenue.

How Banks Can Benefit from Bots

ATTRACT DIGITAL NATIVES

New interfaces have always had the largest effect on the technologies consumers adopt. When Steve Jobs introduced the first iPhone with a touch-screen, banks rushed to develop an app in order to provide a more convenient digital banking experience for their customers. Now, the largest financial institutions in the world are setting a new benchmark for innovative banking products, shifting toward more conversational-centered experiences through voice and messaging channels.

57%



of Americans
are struggling
financially

By offering a convenient chat interface for banking activities and financial insights, you'll attract and retain Millennial customers who grew up using messaging apps. Because chatbots work within existing popular messaging platforms, you'll reach Millennial customers where they already are, providing them more convenient access to your products and services. Increased access to the Millennial market will earn your bank a larger share of this important customer base that can grow with you throughout their financial journey.

INCREASE ENGAGEMENT

With the rise of digital banking, interactions between banks and their customers have become significantly less personal. In today's economy, the majority of transactions occur through digital channels, with most customers viewing their relationship with their primary financial provider as purely transactional.⁷ As conversational interfaces that mimic human interaction, financial chatbots have the potential to restore the personal aspect of banking in a digital world.

The chat interface is a powerful medium for promoting active engagement through conversation. From a user experience perspective, it's more intuitive to ask a straightforward question than to search for the answer in predetermined menus. Moreover, chatbot technology can be programmed to automatically contact banking customers to update them with their latest financial information. This proactive outreach further increases the customer's engagement with their bank, building brand loyalty.

BUILD CUSTOMER FINANCIAL HEALTH

The Center for Financial Services Innovation (CFSI) has been leading the conversation about consumer financial health for over 10 years. According to their latest study, 57% of Americans are struggling financially.⁸ Due to complex financial circumstances, many consumers make short-term decisions based on emotion that over time can sabotage their long-term financial health.

⁷ Accenture 2016 North America Consumer Digital Payments Survey

⁸ CFSI 2015 Consumer Financial Health Study

Financial chatbots can guide customers through the complexities of day-to-day cash management, empowering them to make smarter spending decisions and improve their overall financial health.

Despite their relative distrust of the financial sector, 84% of Millennials seek financial advice, highlighting the continued need for world-class, personalized financial planning services.⁹ Your bank can leverage a financial chatbot to earn Millennial market share by delivering them the same personalized, one-on-one advice usually reserved for only the wealthiest clients. As your customers develop better financial habits and reach a healthier financial position, you'll open up new opportunities to provide them with advanced banking products.

84%
of Millennials
seek financial
advice

UNLOCK VALUE IN DATA

Although banks receive and store an incredible amount of information about their customers, it can be difficult to distill actionable insights from this data. Artificially intelligent chat software offers a solution to this problem. Because customers communicate personal information through their conversations with chatbots, banks can gain unique insights into customers' behaviors, hopes, and concerns. The combination of this data with customer transaction information produces meaningful and actionable patterns that can be used to identify previously unknown marketing opportunities. With the intelligent insights provided by chatbot technology, your marketing team will be empowered to identify and capitalize on personalized cross-selling opportunities for any financial persona.

⁹ "Millennials and Wealth Management: Trends and Challenges of the New Clientele," Deloitte, 2015

PROVIDE AN ALL-IN-ONE BANKING SOLUTION

Nearly half of all Americans hold bank accounts and credit cards with multiple institutions such that their finances are spread out across various proprietary and third-party platforms.¹⁰ As a result, many Americans struggle to understand and manage their full financial history. Certain chatbot technologies offer built-in account aggregation tools that allow your customers to consolidate their entire financial life into a single location accessible through a convenient chat interface. By providing your customers with streamlined access to all of their financial information, your bank will gain a competitive advantage to become the primary institution of engagement.

Product Innovation Strategy

To remain competitive in the evolving financial landscape, banks need to quickly establish and implement a product innovation strategy that leverages financial chatbot technology. However, internal innovation may pose a significant challenge to banks that lack the necessary financial and technological resources.

A solution to this problem is external innovation. A recent financial innovation trend is for banking institutions to partner with financial technology (fintech) companies to implement new technologies.¹¹ These partnerships allow banks to quickly and easily reap the benefits of financial chatbot technology without the high cost and burden of innovating internally. This approach may be especially helpful for community banks and credit unions that wish to remain competitive against larger institutions but lack the resources to develop, build, and maintain a financial chatbot in-house. Choosing the right fintech provider will help your bank maintain its culture and values, ensure regulatory compliance, and achieve your strategic vision for the future.



¹⁰ GoBankingRates 2015 Consumer Banking Survey

¹¹ Efma 2016 Innovation in Retail Banking Report



CONCLUSION

As the digitalization of the banking industry continues to change the relationship between financial institutions and their customers, it is critical that institutions innovate rapidly to keep pace with market demand. Offering a streamlined customer experience and marketable consumer insights, artificially intelligent chatbots are the next phase of digital banking. Banks that take a proactive approach and implement this technology now will align themselves for the future, increase market share, and ensure continued profitability.



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your financial
chatbot strategy?**

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