Generation Y and digital banking
How can traditional Swedish retail banks address the needs and behavior of Generation Y in digital banking?

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Abstract

The financial sector is transforming as a result of PSD2 and open banking. The traditional retail banks face new competition from FinTechs and BigTechs. 78 percent of Nordic banks are concerned by the threat of disruption and 88 percent think that they need to rethink their business model. Customer experience and customer journeys are crucial as customer expectations is one of the major driving forces for the changing industry.

Generation Y (1989 - 2000) is often defined as early adopters and digital natives which makes them an important but challenging customer segment. According to the Millennial Disruption Index, the banking industry is at the highest risk of disruption from generation Y. This study focus on how traditional Swedish retail banks can manage digital transformation and the needs and behavior of the Swedish generation Y. To identify the needs and demands of generation Y, four focus groups was conducted with 31 participants and four semi-structured interviews. The results was analyzed and related to a customer journey framework and the concept of platform banking.

The results indicate that the Swedish generation Y demands personalized services and products as well as tailored Omni-channel experiences. They demand an expansion of financial services in the form of a “one-stop-shop”. In order to meet these demands, traditional Swedish retail banks must utilize their customer data and weight the Swedish generation Y’s trust in their security. This will enable them to develop superior customer experiences as well as extending their context and establish themselves as banking platforms.
Abstrakt

Den finansiella sektorn förändras till följd av PSD2 och open banking. De traditionella bankerna möter ny konkurrens från FinTechs och BigTechs. 78 procent av de nordiska bankerna är oroade av förändringarna och 88 procent tycker att de behöver ompröva sin affärsmodell. Kundupplevelser och kundresor är avgörande eftersom kundernas förväntningar är en av de viktigaste drivkrafterna för den föränderliga industrin.


Resultaten indikerar att den svenska generation Y kräver personliga tjänster och produkter samt skräddarsydda Omni-kanalupplevelser. De kräver en expansion av finansiella tjänster i form av en "one-stop-shop". För att möta dessa krav måste traditionella svenska banker använda deras kunddata och utnyttja den svenska generation Ys förtroende för deras säkerhet. Detta kommer att göra det möjligt för dem att utveckla överlägsna kundupplevelser såväl som att utvidga sitt sammanhang och etablera sig som bankplattformar.
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ABSTRACT
The financial sector is transforming as a result of PSD2 and open banking. The traditional retail banks face new competition from FinTechs and BigTechs. 78 percent of Nordic banks are concerned by the threat of disruption and 88 percent think that they need to rethink their business model. Customer experience and customer journeys are crucial as customer expectations is one of the major driving forces for the changing industry. Generation Y (1989 - 2000) is often defined as early adopters and digital natives which makes them an important but challenging customer segment. According to the Millennial Disruption Index, the banking industry is at the highest risk of disruption from Generation Y. This study focus on how traditional Swedish retail banks can manage digital transformation and the needs and behavior of the Swedish generation Y. To identify the needs and demands of generation Y, four focus groups was conducted with 31 participants and four semi-structured interviews. The results was analyzed and related to a customer journey framework and the concept of platform banking. The results indicate that the Swedish generation Y demands personalized services and products as well as tailored Omni-channel experiences. They demand an expansion of financial services in the form of a “one-stop-shop”. In order to meet these demands, traditional Swedish retail banks must utilize their customer data and weight the Swedish generation Y’s trust in their security. This will enable them to develop superior customer experiences as well as extending their context and establish themselves as banking platforms.

Keywords
Open banking; PSD2; Multisided platforms; Personalization; Customer experience; Customer journey; Generation Y

INTRODUCTION
Traditional Nordic retail banks are very profitable businesses, especially compared to other European actors. This might have led to a lower sense of urgency for Nordic banks to transform in the digital spaces. 78 percent of Nordic banks are concerned by the threat of disruption and 88 percent think that they need to rethink their business model. Despite that, less than 40 percent have a clear strategy in place how to handle this. Nearly 33 percent of their revenues are at risk if banks don’t act. Customer expectations is one of the major driving forces and in order for banks to stay relevant, they need grasp the full picture of digital disruption. Traditional Nordic retail banks need the competence to develop and launch new ideas faster, they need partnerships to gain external capabilities from other players and they need to understand and leverage consumer insights [19]. Traditional retail banks are important institutions for social and economic sustainability and stability, and to stay ahead of disruption, they need to challenge their assumptions and traditional strategies [19] [15].

As a result of PSD2 (Second Payment Service Directive) banks are obligated to share their customer data to certified third-parties through Application programming interfaces (API). PSD2 is expected to lower the barriers for market entry and will change the dynamics of the financial ecosystem [27] [10]. Open banking describes the shift from a closed model to one where data is shared between different actors within the ecosystem of banking with the customers’ authorization. This new model require traditional banks to rethink their current approach and how to handle the great technological advances of recent decades [22]. API enable the development of multisided markets and platforms where financial actors can serve as centers for interaction between different customer groups and service providers [7]. The explosion of new, agile
financial technology companies, FinTechs, and large technology companies, BigTechs, are combining innovative business models and technology to enable, enhance and disrupt financial services by improving and transforming customer experience and services [12][13]. These new entrants offer personalized and engaging services that traditional banks lack the flexibility and capability to offer. The use of data about users’ preferences, behavior and history enable them to create a unique digital experience that engage consumers in a new fashion [10].

Customer expectations in financial services are increasingly being conditioned by experiences in other industries. New entrants are likely to adopt this customer-centric approach forcing a shift in the industry. Open banking demands traditional banks to rethink their current strategy and consider a more customer-centric approach [23]. Understanding customer experience and the customer journey over time is critical for firms. Customers now interact with firms through a myriad of touch points in multiple channels and media, resulting in more complex customer journeys [16]. Products and services is not enough to win over or keep the customers for traditional retail banks. Value is attributed to the experience and journey that the customers are engaging in. Delivering a satisfactory customer journey has become vital to attracting and keeping customers [1].

Generation Y have especially high expectations in terms of digital and tailored solutions and are often defined as digital natives and early adopters [5]. Generation Y is attracted to financial service providers that make their services engaging and personalized and traditional retail banks needs to re-assess their strategy in order to attract and serve this high-value segment [12][13]. This generation no longer accept traditional developed services but are demanding tailored solutions and the ability to bank at their own convenience. They expect companies to know their preferences and understand their needs and they are willing to share a lot of data in exchange for personalized and engaging financial services [10]. By looking into the needs and demands of generation Y in relation to the changing financial sector, this study aims to get a deeper understanding of how traditional Swedish retail banks can manage this high value customer segment and provide a valuable offering.

Scope of the study
The purpose of this study is to look into the needs and demands of the Swedish generation Y’s relation to banking. The banking sector is undergoing changes as a result of digital transformation and new regulations. New entrants are competing with traditional retail banks and are offering personalized and engaging services that traditional banks lack the flexibility and capability to offer. Generation Y is often described as digital natives and early adopters which makes them a valuable customer segment, but also a demanding one. This study aims to get a deeper understanding of how traditional Swedish retail banks can manage this high value customer segment and provide a valuable offering. Generation Y, also known as Millennials, is broadly defined as individuals born in late 1970’s or early 1980’s until 2000 [20]. There is however several definitions and according to the social psychologist, Jean Twenge, there are some evidence that there are two groups within this generation, one older and one younger, that act like self-contained generations [24]. Due to the uncertainty of the definition and the differences within the generation, this particular study will focus on the younger part of generation as they grew up with technology, internet and social media to a higher extent than the older individuals in Generation Y. The exact interval will be 1989 – 2000 as this is the closest to how traditional Swedish retail banks divide their segments.

Research question:

How can traditional Swedish retail banks address the needs and behavior of Generation Y in digital banking?

THEORY

The transformation of Banking

Technological and digital innovation often has significant strategic implications for firms by shifting the competitive landscape and changing the market dynamics in an industry [18]. Digital transformation and new regulations are changing the banking industry which require traditional retail banks to rethink their strategy and become more customer-centric [24] [26]. As a result of PSD2, banks are obliged to share customer data with certified third-parties through Application Programming Interfaces (API). It is expected that this will lower the barriers for market entry and will change the dynamics of the financial ecosystem [24] [27] [10]. Open banking refers to the shift from a closed industry to one where data is shared between different actors within the ecosystem of banking with the customers’ authorization. The EU’s General Data Protection Regulation (GDPR) does however require that customer are fully aware how of their personal data will be used and by whom. PSD2 could mean that banks lose ownership of the customer interface and therefore, the primary customer relationship if customers increasingly choose to manage their finances via a third-
party interface (figure 1). Open banking regulation could enable customers to perform all their banking activities at different banks, using a third-party application that provides data-enabled tools to help them manage and optimize their finances [23]. APIs enable banks to provide a platform, manage open accessed data and interaction between internal and external users. Furthermore, it enables interaction in an open ecosystem where the customers can chose what providers to turn to for different services. It does also offer possibilities to establish an industry platform and interacting with the greater ecosystem of market actors and other service providers [27]. Industry platforms can be defined as the foundation of an ecosystem where actors can develop complementary products or services. To maintain a platform, third-parties must develop services that meets the customer needs. A large platform can dominate a market and make it difficult for other actors to compete [21]. By functioning as an industry platform, it is possible to facilitate value-creating interactions for the customers (demand-side) and external producers (supply-side) and produce a multisided market. This could create a convenient and secure platform for the customers with a multitude of services from third-party providers [27] [6]. Ecosystems does however require strong network effects, which means that the more users who adopt the platform, the greater incentive for third-parties to adopt the platform and join the ecosystem, and vice versa [11].

New entrants

There has been an increase of new technology entrants in the financial services during the last years, generally called FinTechs. FinTechs can be defined as firms that are combining technology with innovative business models [12] [10]. FinTechs have been gaining attention and investment in the past few years. With new technological infrastructure, they are more efficient and cheaper than the banks’ legacy systems. The services they offer are flexible and customizable and often address the needs of financial services customers in very direct, valuable and future-forward ways [13]. Innovative products and superior infrastructure also has a significant impact on customer loyalty and firm competitiveness [2]. They offer customer access outside branches and normal banking hours and have achieved higher levels of personalization with the use of big data analytics [13]. FinTechs “steal” customers from banks by specializing in one or a few of the services that traditional banks offer, such as payments, lending and wealth management. By selecting the areas they enter, they avoid the regulatory burden that traditional banks suffers. This creates an unequal playing field beneficial for FinTechs [10]. The industry have been disrupted by emerging FinTech innovations in fundamental ways. New business models, infrastructures, the disintermediation of banks and cross-border innovations are examples of what is causing disruptive effects [13]. The Swedish FinTech company Klarna was founded in 2005 and is one of Europe’s leading payment provider and has been added to the list of top 50 “disruptor” companies by CNBC. Their success lies in removing friction from checkout processes for customers online. They use advances data analytics in order to offer a better experience and a smooth customer journey. Klarna were valued at $2.5 billion in 2015 and is now a fully licensed bank [14]. The use of FinTech skews toward younger, higher income groups and the increase of FinTech is threatening the banks share of this important customer segment. While traditional retail banks use traditional customer segmentation, focusing on the customers’ wealth, FinTechs have a more nuanced segmentation strategy in how they assess customer value [12].

BigTechs, on the other hand, are large technology companies like Google, Facebook, Apple and Amazon who have the capacity and incentives to provide traditional banking services. They can offer increased context, relevance and engagement to the services by combining financial data, spending data and online behavior with locational data. Amazon provide loans to sellers on its marketplace, Apple lets consumers pay with their devices and money can be sent via Google. BigTechs have the opportunity to build on platforms that consumers already use on a daily basis and integrate financial services in the users’ contexts [10].

Customer Journey

Customer journeys include things that happen before, during, and after the experience or service. Journeys can be long, stretching over several channels and touchpoints. Customers interact with companies through a myriad of touchpoints and multiple channels and media [17]. Customer expectations in financial services are increasingly being conditioned by experiences from other industries. Delivering a smooth customer experience and journey has become vital to attract and keep customers [23] [1]. Understanding customer experience and customer journey is critical for companies and understanding the fundamental needs and wants of the customers, is critical in determining what a good experience and journey should look like. [17]. The increase of channels, devices and applications leads to a more complex customer journey with multiple touchpoints. In order to manage
this, it is important to manage the journey and not simply the touchpoints. Customer journey are more strongly correlated with customer satisfaction than touchpoints and performance on customer journey is significantly stronger correlated with business outcomes such as revenue [8].

David Edelman and Marc Singer have developed a framework of capabilities that the most effective customer journeys have mastered. Automation, proactive personalization, contextual interaction and innovation. They argue that these capabilities improves the customer experience and increase the chance of capturing the customers. Automating involves digitalization and streamlining the journey in order to create a smooth experience. With proactive personalization, companies should use customer data about past interactions in order to tailor the experience. [9]. Incumbent banks have traditionally been unable to make full use of the data they have at their disposal but the vast amount of customer data they possess enables them to conduct large-scale customer experience analytics and gain deeper insights [22]. Another key capability is contextual interaction, the knowledge about the customers context can be used and enhance the experience and journey. The last capability, innovation, occurs through ongoing experimentation and analysis of customer needs, technologies and services in order to find new opportunities to extend or strengthen the value offering [9]. By streamlining the customer journey and creating value at every step, it is possible to place customers in a loyalty loop, eliminating consideration and evaluation [9].

**Generation Y**

Generation Y (Gen Y) is the first generation to grow up with technology and the internet. As a result of their exposure of fast changing technologies, Gen Y have adopted technology as a part of their life. They are often described as digital natives and early adopters which makes them a valuable customer segment, but also a demanding one [5]. They have high expectations on digital solutions and are open to financial services from non-bank actors. In the Millennial Disruption Index, Scratch surveyed over 10,000 millennials (Gen Y) about 73 companies spanning 15 industries. The results indicated that banks are at the highest risk of disruption. This study show that Gen Y believe that innovation will come from outside the industry. Nearly half are counting on that FinTechs to overhaul the way banks work. 73 percent would be more excited about a new offering from Google, Apple and Amazon than their own bank [20]. 88 percent of millennials do their banking online and half use their smartphones. 33 percent believe that they will not need a bank at all in the future [20]. Gen Y no longer accept traditional developed services but are demanding tailored solutions and the ability to bank at their own convenience and terms. They expect companies to know their preferences and understand their needs and they are willing to share a lot of data in exchange for a personalized and engaging financial services [10]. Some studies indicate that this customer segment is disloyal towards brands which is a challenge for companies such as traditional retail banks [5]. Gen Y is attracted to financial service providers that make their services engaging and personalized which FinTechs have been able to capitalize on. Traditional retail banks needs to re-assess their strategy in order to attract and serve this high-value segment and compete with the new entrants [12] [13].

**METHOD**

A mixed method research design was used in order to answer the research question. The combination of methods is considered to enable a more cohesive account of a specific question [4]. The qualitative data was collected through four focus groups with 31 participants and four semi-structured interviews. The aim was to gather individuals with varied background in order to get a broad understanding and knowledge about this particular segment and thus identify a wide-ranging spectrum of perspectives. The focus groups were used to collect data regarding the participants’ attitudes, opinions and experiences regarding the topic. Studying how individuals discuss a certain issue or question as a group rather than individuals can contribute to a deeper understanding of the topic. The process of discussing and responding to other views can provide a more detailed account of the participants’ opinions and experiences as they interact with each other [4].

The participants were chosen based on their ability to add value to the study and based on their age. All the participants were born 1989 – 2000, and “Generation Y” will from this point on refer to individuals within this age span. There were 31 participants divided in four different focus groups. The sessions lasted for approximately one hour and were recorded and transcribed, with the written consent of the participants’, in order to analyze and structure the data. The discussion questions and topics were aimed to get an understanding regarding Gen Y in digital banking in order to understand how traditional Swedish retail banks can handle this segment and digitalization. The questions focused amongst other things on how they use digital banking today, what they feel is lacking and
how they feel towards different types of financial service actors. This was complemented with four semi-structured interviews in order to get an even more detailed account of the participants’ experiences and opinions related to digital banking. There were no questions concerning income or any sensitive topics in the focus groups or interviews. The data from the focus groups and interviews were coded and analyzed in a thematic manner. Thematic analysis is useful to systematically identifying and organizing insights into patterns or themes [3].

RESULTS

The results from this study are five themes. The themes are the outcome of the focus groups and interviews, and are the foundation for the analysis and recommendations.

Tailored banking

There is a strong interest in personalization of banking. This includes tailored offers, advice, products and services based on the participants’ personal use and actions. However, they don’t just want to be told how they are spending their money. The personalized services should add value to the customers’ everyday lives. Their goal is to use banking services in order to simplify and streamline their banking experience. One problem that participants have today is the lack of overview and control over their economy.

“I would like to get more tailored services and offers to make it easier to control my finances”

They would like services that understand their use and can help them more actively with things like savings. They feel that traditional and niche banks are not offering services like this while Fintechs are offering more personalized ways of saving and managing their money. They are also interested in tailored offers or advice concerning products as well. If they are getting a new insurance, they would be open to get tailored offers based on their financial situation. They want to feel that they are benefited from the services by receiving custom made offers or promotions. Even if it is not available today, the participants are aware of the progress and the possibilities in the near future.

“I would like to get custom made offers and advice concerning what products or services that suits my lifestyle”

A mobile experience

Mobile devices are central when it comes to banking. The mobile applications are highly valued by the participants. They manage more or less every bank errand through digital channels and most often through mobile applications. This is due to their frequent use of their mobile devices and the need for fast and easy banking experience. They expect instant and smooth interactions from their providers. They want the interaction to be adapted to their mobile use. There are many functions and services that are not available on bank applications, and some are difficult to use. Paying bills is one example that many participants had troubles while using their mobile devices.

“I use my phone for almost every banking errand, I only use my computer if it’s necessary”

As they use their mobile devices for almost all of their errands, the banks applications becomes vital. If the providers’ applications are not easy and convenient, they have no value for these customers. They will go to such lengths that they consider changing financial service provider if the provider cannot offer a satisfactory digital experience.

“I have switched banks in the past due to bad applications...”

They think that app driven banking is crucial as this is almost the only interaction they have with their providers. One example of this is active feedback. They want to be able to create budgets in their bank applications that are not only showing their spending, but actually are actively updating them through notifications. There are applications that use notifications for other purposes, so why not banking?

“I want apps that are more active in the way they help me. That gives me notifications or something”

The Omni-channel expectation

A clear theme from the focus groups was that they want to be able to use different ways of interacting with the providers. Even though they mostly use digital channels, such as their mobile devices, they want to be able to start an interaction on one channel with the possibility to end it over another.

“I would like to be able to combine or switch channels, both digital and physical, to interact in a way that best suits me...”

The participants wants to be able to use different channels at their convenience. They want the possibility to finish and errand they started of their mobile device and finish it on the web if necessary or to pick up the phone and talk to someone and finish something they started on the web. Paying bills is one example of something that could be difficult while using the phone and the participants expressed that they do not want to start the process over when switching channel.
does not only concern the digital channels, they still want to combine the digital with the physical. There is a frustration that traditional banks branch opening hours does not match their real life needs but there is still interest in face-to-face meetings. This contributes to their increasing focus on the digital channels as this is more accessible than the branch offices.

**Cherry picking**

There is a trend for the participants in this study to hold financial products and services at several financial providers simultaneously, and to cherry pick the products and services that are best suited to their needs. They want to be able to make easy choices concerning specific services and products. It is common to have several services and products from different traditional Swedish retail banks as well as niche banks and FinTechs. The focus groups revealed that one of the reasons for this is to leverage the best benefits across actors. The participants are not disloyal for the sake of being disloyal, they are choosing the products that meet all of their demands. There are innovative offers from FinTech, niche banks, big techs and other financial institutions that have been added to the consideration pool. They are not necessarily closing their accounts at the traditional retail banks but they are dividing their value across several actors.

“I have services and products from six different actors right now, I’ll just take the best provider for the specific service”

The participants do not feel any obligation to stay with their current primary bank. They will chose whatever provider that offer them the best services and terms. They would prefer to keep all their services and products in one place but they will split their services across actors to get the best deal. They view traditional retail bank as a necessity today as most other actors lack current accounts and mortgages, but that’s how far their loyalty go.

“I don’t care that much about the provider, it’s about the services and conditions, I just want the best possible deal...”

They would prefer to combine services and products from different providers as they do today but with the possibility to manage it from one single place. The participants express that they would have no problem leaving Traditional retail banks if there are any secure and viable options. This does however, not mean that they want to leave if traditional banks would offer relevant services and products that suits them. The focus is first and foremost on the service, not the provider.

“I would prefer to manage all services from one place. That would make it much easier to get an overview of my finance”

**Data cautious**

Even though they are very interested in personalized services and offers, they are very cautious about sharing data. They are willing to share data in order to get personalized services but it is not without hesitation. They want to know what their data is used for and by whom. They are very aware of the value of data today and does not approve that their data is being used without transparency. They would prefer that their data is solely being used to personalize and optimize the services and offers and not be sold to other actors. It feels safer to share data with traditional and niche banks as they feel more secure and less inclined to sell data to other actors. The participants are very aware that they share data to a lot of different actors but would like to keep it under control. The traditional banks already have a lot of data about their customers’ finances and spending patterns and the participants would prefer to have personalized services through their traditional banks in order to avoid sharing data to other actors.

“It seems a bit risky to share data with Non-banks as they don’t have to follow the same regulations. Banks feels safer in that regard”

The participants would not consider offers from BigTechs such Facebook, Google or Amazon due to the fact that these companies already have a lot of information about their users and that these companies does not feel as secure as traditional banks. They are aware of the fact that they do not act according to these believes however. All of the participants use social media or similar services that collect data about their users. They admit that they rarely read terms and conditions and lack knowledge about what they are sharing with different companies. Their attitudes and opinions does not necessarily reflect their actions. They do feel that it is more important to be careful when it concerns financial matters though. Even though they are cautious about sharing data, it is not enough to keep them from trying out services from new actors. They express that privacy and integrity is important, but that good experiences, services and costs would be more essential when choosing their financial provider. As traditional retail banks have more regulations, the participants felt that they have a higher security standard than other service providers. Even though they trust traditional retail banks ability to safeguard their money, they don’t trust the banks incentives. They
don’t trust that the banks communicate their incentives when they are selling services and products.

“I trust the banks when it comes to keeping my money safe, but not as much with selling products. I think they have their own incentives that I am not aware of”

They feel that niche banks or FinTechs are more transparent and therefore more trustworthy when it concerns services, advice or investments. Trust is not necessarily a driver of loyalty though. Even though they trust the traditional banks’ security, they would leave it altogether for a better offer somewhere else. A clear theme from the focus groups was that they value the banks’ security and ability to keep their money safe, but that it is not their main reason for choosing their provider.

ANALYSIS

How can traditional Swedish retail banks address the need for tailored banking?

Customer expectations in financial services are being conditioned by experiences from other industries [23] and the Swedish Gen Y is not an exception. The participants want personalized services and products that simplify their banking errands. This is a challenge for traditional Swedish retail banks as competitors such as FinTechs are stealing customers by specializing in specific services and customer segments. FinTechs offer better digital experiences according to the participants, by making their services more tailored after this customer segment’s needs. The customer journey framework by Edelman and Singer focus on four capabilities; Automation, proactive personalization, contextual interaction and innovation [9]. By automating the interaction, the banks can offer an instant and smooth experience which is something the participants expressed a great interest in. Personalization is a significant theme from the results and this is a major opportunity for the banks. The traditional retail banks have a lot of customer data that they do not fully utilize [22]. By integrating predictive analytics and automatic decision making, traditional banks could offer and promote the rights products, services and improve the individual experience. Not only could they offer customers personalized experiences but they could also conduct large-scale customer experience analytics in order to gain general insights and drive revenue. FinTechs offer services that are flexible and customized and they address their customers’ needs in a very direct and valuable fashion. Traditional Swedish retail banks offer a “One size fits all” solution that does not actually fit. If they utilize the user data they have access to, they can address the customers need for personalization to a higher degree. By tailoring the experience and journey after the user data, it is possible to create an experience better suited for the individual’s needs. Different customers may get customer journey’s that are different from each other’s based on their personal use and needs. The customers do however need to be informed what their data is used for according to GDPR and receive the option to opt out. Innovation is crucial for traditional retail banks if they are going to be able to compete in the changing business landscape as it increases competitiveness [16] [2]. FinTechs and similar competitors are more agile and flexible, but if traditional banks could fully utilize their customer data, they would have a superior customer knowledge which would be instrumental. By streamlining the customer journey and creating value at every step, the banks can eliminate the customers’ consideration and evaluation and place them in a loyalty loop [9]. In order to personalize services, banks require data analytics skills and tools and the capacity to automatically perform actions. To convert data to action is a challenge, but by adopting a platform-based solution, banks could meet their customers’ demands not only through personalization but also by offering a wider set of services and products from third-parties that appeals to diverse customer needs.

How can traditional Swedish retail banks address the need for a mobile and Omni-channel experience?

The mobile experience is crucial when it comes to the Swedish Gen Y according to this study. They manage their banking errands almost exclusively through digital channel, especially through mobile devices. The participants expressed that they would consider changing provider if their current provider could not offer a pleasing mobile experience. The participants want the interaction adapted by what kind of device they use. If they use their mobile device, they want to use notifications in a practical and helpful way, as other services are. Traditional Swedish retail banks should not ignore how their customer interact with them and how other services affects their expectations. Understanding the customers’ needs and wants is critical in creating a good customer experience and customer journey [17]. Contextual interaction is an important capability that the banks should incorporate. By knowing what context the users act in, it is possible to adapt the interaction. Taking advantage of the fact that they are using their mobile devices create an experience designed for this. Adapting the interaction to their device in order to create a better experience [9]. The participants asks for services that are designed for a mobile use. Banks should take advantage of the possibilities that interaction by phone offers, through
active feedback by notifications for example. By adapting the customer journey to better fit a mobile interaction, banks can create more valuable services. The participants also have high Omni-channel expectations. Both between digital channels but also physical. They want to be able to use different channels when necessary and even though the digital and mobile are most important, the need for face-to-face meetings remains. Traditional banks should weight their physical footprint and invest in integration between physical and digital channels to meet their customers’ needs more efficiently. Banks can offer a multichannel experience that allows customers to choose how to interact depending on what suits them, which a lot of competitors cannot match as they lack the diversity of channels. It is important to take the Omni-channel need into account when designing a customer journey. The participants want to be able to switch channels during the interaction. This is not necessarily complex, a simple option to switch from mobile to computer, or from computer to a physical meeting would be one way of addressing this need.

**How can traditional Swedish retail banks address cherry picking?**

The participants in this study showed an inclination to cherry pick services from several different providers, both traditional and non-traditional. This “lack of loyalty” is disruptive for the banks as it means that the customers divide their assets, and traditional banks lose some of their business. By choosing the areas they enter, FinTechs can avoid the regulatory burden that banks suffer and act more flexible. This unequal playing field is problematic for the banks [10]. As a result of PSD2, traditional retail banks could also lose ownership of the customer interface and the primary customer interaction. Creating a loyalty loop through a tailored customer journey could potentially address this issue but the participants in this study explicitly expressed that they wanted to manage all of their financial errands from one place regardless of the service provider, a “One-stop-shop”. This is possible through PSD2 regulations and it could enable customers to perform all activities through a third-party application [23]. In order to avoid losing their customers to non-traditional providers, traditional Swedish retail banks can transform themselves into digital platform-based banking ecosystems. A banking platform allows third-party FinTechs to build products and services while allowing the banks to deliver a cohesive banking experience. It also allows banks to own the end-to-end experience and interaction with the customers. The banks would contribute to the platform their security, authentication and customer base, while the FinTech companies would provide customer centered capabilities. A platform bank could intermediate between a wide range of financial services from third-parties and the customers. This could strengthen their relationship to their customers by offering a wider range of financial services from a single source. The result is a digital and secure financial platform for customers with personalized services and would put banks in a position to operate with greater potency against competitors [6]. The bank, and its complementors form an ecosystem that can increase the value of the platform and its complementors as more customers adopt the platform. Banks have already solved one of the biggest challenges that industry platforms and multisided markets face. They have a large customer base which can facilitate strong network effects and interconnectivity between users and third-party providers [11]. The participants expressed a need for budget creating services but instead of competing with providers that offer that, they can form mutually beneficial partnerships through platform banking. Banks can offer access to a large customer base and third parties can offer complementary services. Instead of losing the customer to those service providers, they can monetize on each other. The participants divide their services because they feel they have to, not because they want to.

The reason to why the participants are cherry picking their services is because they want the best service and deal. The participants divide their services over several different providers which results in a complex journey for the individual customer. It might not be enough to streamline the customer journey to keep them in a loyalty loop as they are constantly comparing services and providers. Platform banking could therefore be a viable option. With API’s and platform banking, banks can create an umbrella for new services developed by both the banks and by third parties and thus improve the customer experience and journey. By leveraging the power of third-parties, they can increase their value offering to the customers and decrease their incentives to switch provider. By placing themselves in the center of the ecosystem, banks can also extract monetary value, direct monetization by charging for API licenses for example, but also indirect through higher ecosystem traffic and increased revenue from core business services. With platform banking, traditional Swedish retail banks can allow third-parties to connect to the banks’ data and infrastructure to build applications. This also allow banks to manage the rules for what third-parties can do and standards for business practices [19].
How can traditional Swedish retail banks address their data cautious attitude?

Gen Y is described as a customer segment that are willing to share a lot of data in order to get personalized services and products [10]. While it is true that they are interested in personalization, this study indicate that the Swedish Gen Y are cautious about sharing data and have high demands concerning security. They are aware of the value of their data and they want to know why it is being used, by whom and for what which is their right through GDPR [23]. Customers will need to provide explicit consent for usage of their transaction data and the participants expressed that they are not comfortable sharing data to all financial service providers. Even though it would not stop them from choosing the provider with the best services, it does affect their choice. If traditional retail banks or niche banks would offer similar services, they would prefer sharing data with them as they already possess the information and feel more secure. This is an opportunity for traditional Swedish retail banks to weight their trust. They should create stronger incentives in order to encourage their customers to share data. They should clearly communicate what measures they have invested in to protect customer data. Personalization require data and these customers are more willing to share data to banks than to FinTechs. This means that the banks does not need to trump their competitors, just deliver something of the same value as the customers feel more comfortable with the banks security. If traditional retail banks can offer personalized services while leveraging their customers trust, they will stand to gain a stronger competitive advantage. Trust in their security is also an important aspect of an ecosystem and platform banking. Participating in ecosystems relies on the seamless sharing of data between parties and security becomes even more integral. As the participants have more trust towards banks than other actors, they have a better starting point of establishing a platform. The participants expressed that they did not trust the traditional retail banks incentives with services and products and that FinTech, niche banks and similar providers are more transparent. By leveraging the customers trust in the traditional banks security and combining it with services and products from third-parties in an ecosystem, a cross-fertilization between actors could be achieved that benefits all collaborators.

DISCUSSION

The banking sector is undergoing a digital transformation and customer expectations is one of the major driving forces [19]. FinTech companies have disrupting effects on the industry through new business models and the disintermediation of banks for example. Klarna was founded in 2005 and since then gone from removing friction in online purchases to a fully licensed bank worth $2.5 billion. The Swedish generation Y show a willingness to accept new actors like these and abandon traditional banks. The purpose of this study was to look into what are the Swedish Generation Y’s needs and behavior in digital banking, and how can traditional retail banks address these. The study was qualitative and consisted of four focus groups with 31 participants and four semi-structured interviews.

The study identified five themes concerning the participants’ needs and behaviors for digital banking and how traditional Swedish retail banks can address these. Firstly, the participants have a need for tailored and personalized services. By focusing on automating, proactive personalization and utilizing their vast amount of data they can meet this need and create custom made experiences. They could also adopt a platform based solution in order to be able to offer services to a more diverse customer needs. This does however require transparency and some ethical considerations about data sharing and tailoring. GDPR states that the customers must be informed what their data is used for and by whom and have the option to revoke their consent at any time. Secondly, the participants expressed a need for a mobile experience. The participants are explicitly asking for services such as budget tools adapted to their smartphones and the fact that services like that is lacking is one of the reasons to why they divide their services over several providers. The banks can address this by working with contextual interaction and adapt the interaction after a mobile device. Thirdly, the participants have high Omni-channel expectations which the banks can address by leveraging their physical footprint and offer a smooth transitions between digital as well as physical channels. Fourthly, the participants showed a predisposition to cherry pick services from several different providers. This is not because they want to divide their assets but in order to get the best services. Banks cannot rely on the customers’ loyalty and aversion to switching service provider. This behavior also leads to a more complex customer journey for the individual customer. This indicate that it could be difficult to keep customers in a loyalty loop. By transforming them themselves into banking platforms, they could address this behavior by offering a more diverse set of services. It would allow them to benefit from innovative third-party actors services while still maintaining control over the context. The ability to monetize on third-party services would decrease the need for personalization as it would allow banks to provide a wider set of services and meet a
more diverse set of needs but it would make them more dependent of other actors. Personalization and platform banking are not excluding each other but it could be argued that investing in one, decreases the need for the other. Fifth, the participants expressed a greater trust towards traditional banks security. The participants feel more comfortable with sharing data with the banks. This indicate that traditional retail banks have an advantage as sharing data and establishing a banking platform as both require trust in security from the customers.

Traditional banking is at the highest risk of disruption according to the MDI. The fact that Klarna have gone from a FinTech company to a fully licensed bank show that the threat towards traditional banks is significant. MDI further claims that Gen Y are disloyal and that they do not see any differences between the providers [20]. This study confirms that this customer segment are open to switching provider but that they are not disloyal for the sake of being disloyal, it is about getting the best service and deal. This study indicate that they do see differences between providers, concerning both security and services. MDI is based on a survey with 10 000 participants from Gen Y. The MDI study was however conducted in USA and the differences between MDI and this study could indicate dissimilarities between the Swedish Gen Y and the American. Traditional Swedish retail banks might have a better opportunity to manage digital transformation and new competition than their American counterparts. This study disclosed that the participants have a higher trust towards traditional banks security than other actors, while MDI reported that the American Gen Y see no differences between actors [20].

The methods used in this study was qualitative and focused on collecting data regarding the participants attitudes, opinions and experiences in order to get a deeper understanding of their needs and demands in banking. The focus groups was the primary method and the semi-structured interviews was conducted as a complement in order to reach a greater knowledge about the focus group results. The process of discussing and responding to others views was helpful in order to get a more detailed account of the participants’ opinions and experiences as they were forced to reflect and revise their views and not simply respond to a question. It is however more difficult to control the discussion in focus groups than in interviews as the participants are more in control over the conversation and it produce a lot of qualitative data. Interviews were therefore a suitable complement as it offered the possibility to go back to specific topics. As this is a qualitative study with 31 participants, it cannot be argued to be representative for the entire Swedish Gen Y and it may be difficult to reproduce as the data is subjective. A survey could have added generalizability but not add a deeper understanding of their needs and demands. The collected and analyzed qualitative data is based on human experience and is more compelling and descriptive than quantitative data. This method allows a deeper understanding of the participants’ attitudes and opinions compared to a quantitative approach [4]. The transformation of the banking sector is still ongoing and there is more to investigate within this area. Customer expectations is a driving force for digital transformation but digital transformation is in turn changing customer expectations. As previously mentioned, customer expectations in financial services are increasingly being conditioned by experiences from other industries [22]. This study contributes to an understanding of the Swedish Gen Y’s needs and demands in banking and how traditional banks can address these needs. Future studies could contribute by focusing on generalizability and representation. This study identified several opportunities for traditional banks but there is need for future studies concerning these opportunities and how they could be implemented.

CONCLUSIONS

Competition and disruption from non-traditional providers is increasing and according to this study, the Swedish Gen Y show a willingness to accept these actors and entrust their financial welfare to them. Gen Y are cherry picking services and traditional banks cannot rely on customer inertia to switching provider. This segment want tailored solutions and offers as well as a smooth mobile experience even though they expect a diverse set of channels. So, how can traditional Swedish retail banks address the needs and behavior of Generation Y in digital banking then? They need to create value for their customers and adapt to the changing circumstances of the industry. Personalization, integrated propositions and focusing on robust security are potential possibilities for strengthening customer loyalty and their position. Traditional banks should utilize their extensive customer data and create services and journey tailored for the needs of Gen Y. Through platform banking, traditional Swedish retail banks can create an umbrella for new services and offers developed by both the banks and by third parties and thus improve the customer experience and journey. This cross-fertilization between actors would be mutually beneficial while the banks still maintain control. No matter what direction the banks choose, customer expectations is a major driving force for the changing industry and they need to take this into consideration when moving forward.
REFERENCES


