

The Bundling Dilemma – Effective Bundling Strategies for Modern Banking

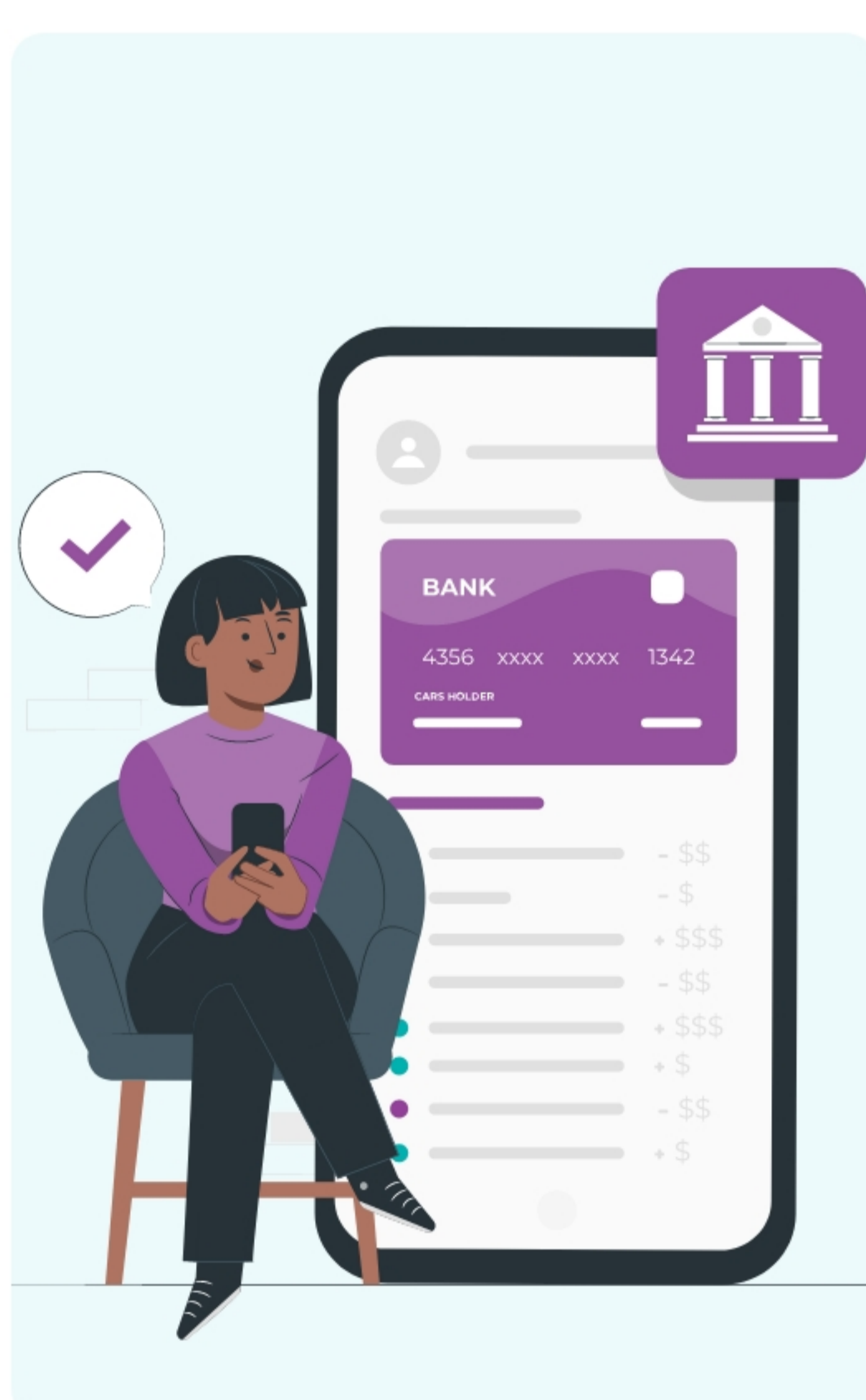
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The stable, sedate world of banking has changed. Digital native Fintechs and large technology companies have changed the very way banking was conducted. Earlier banks were the only options when it came to financial requirements. Today, customers can choose from a wide array of fintechs and technology based financial services companies who offer greater personalization, on demand access and tech powered solutions. Most importantly, fintechs have changed the way banking products were bundled and marketed. The question now is not whether traditional banks should transform their product bundling strategies but rather how they should do so to best counter the competitive threat posed by fintechs.

What is Bundling?

Bundling refers to the clubbing together or packaging related products and services into a single offering for the customer. It helps sellers spread cost across products and secure long term customer value and loyalty. This is an established marketing strategy in the banking world and has proved effective in increasing sales for slow moving products. Product bundling in banking help establish greater customer connect and deepens relationships by offering a single platform for all their needs.



The Bundling Transformation

Before the advent of fintechs, customers placed their money and their trust in traditional banks. The relationship between a bank and its customer was almost always a lifelong one and involved multiple products and services which were often bundled based on broad segmentation strategies. Fintechs systematically unbundled banking products to carve out a niche space for themselves. They leveraged their technology prowess to transform specific banking functions like lending or payments and offered customers a whole new way of managing their financial requirements. The introduction of open banking regulations helped them expand their services to include the complete banking portfolio.

In fact, open banking regulations now require banks to share data and allow access to customer accounts via APIs. This will fuel a new wave of product innovations which will transform the sector further.

After establishing and consolidating their presence in the financial services market, fintechs moved to rebundling products to further strengthen their customer relationships. New age players like Revolut are investing in strategic partnerships to offer an expanded portfolio to their customer base who initially came onboard for their travel spend management product. Transferwise is launching cross border bank accounts. And Zopa, initially a P2P lending platform, has already applied for a full banking license with the intent of offering more savings products. Most of these fintechs still don't have the depth of customer data that traditional banks enjoy. But they have proved that they can pose stiff competition in terms of customer experience and smart pricing models. In the months to come, bundling will emerge to be a key market strategy for both traditional banks and fintechs as the fight for customer loyalty intensifies.



Building Successful Bundling Strategies

An in-depth understanding of customer behavior, engagements and transactions is the key to understanding their needs in real time and offering a compelling bundling value proposition. And this depth of insight can only be acquired by leveraging cutting edge technologies like Artificial Intelligence, Machine Learning and data analytics. Fintechs are using these advanced technologies to not only offer a hyper personalized customer experience, but also build and communicate compelling bundled offers. At this juncture, banks must focus on accelerating their digitization strategies to better understand customer behavior and offer far more personalized, relevant, and intuitive bundled offers. They could even take a leaf out of the telecom handbook by offering a basic account with a few value-added services and a menu of services available a la carte. The good news is that many banks have already started offering flexible bundled offers. For example MUFG Union Bank in New York allows customers total control and transparency in pricing by letting them build their own checking account from a number of options. Customized accounts can be created online or with the assistance of a personal banker. Key Bank of Cleveland has started offering customers a bundle of products intended to reward them for working towards their financial goals.

At the most basic level, bundled offers are based on broad segmentation like homeowners, or families, or frequent travelers. But to be truly successful, bundling strategies need to go deeper to predict the lifetime monetary value of each customer to offer packages will address all their needs. Bundling must also be a dynamic activity that changes in real time based on constant analysis of customer behavior. Traditional banks are impeded by their outdated core systems that are simply not agile enough to handle such continual change requests or powerful enough to allow the deployment of new technologies. Separating pricing systems from the core systems is essential. But to do so, the core systems must be modernized which can be a risky, time and cost intensive affair. The better option is to work with third party solutions that can form an agile middle layer capable of orchestrating the banking ecosystem of the future.

Bundling as a strategy has proved to be highly successful for diverse sectors like ecommerce and telecom and holds tremendous potential for the BFSI sector as well. New age banking will have technology at its core and will be based on hyper personalized product and services offerings to customers. Banks already enjoy a tremendous amount of customer trust and have a gold mine of data already available with them. The right use of technology can help unlock the value of this data to help them establish dynamic, and personalized bundled offers.