Banking on the Internet of Things: More than Restocking Fridges

The trope at industry conferences about how the internet of things could change banking involves a smart refrigerator detecting that its owner is out of milk and then automatically debiting a bank account to order more.

While that may be a possibility, the sheer volume of data that internet-connected "things" — including cars, homes, wearable devices and yes, fridges — collect about customers is likely to have a bigger impact on financial services. On the one hand, such data could help deepen the relationship between banks and customers, as well as provide consumers with a greater degree of convenience. On the other, it adds even more avenues for security breaches, not to mention privacy concerns.

"In this connected world, with the proliferation of mobile devices and things like wearables, it means banks have the ability to collect enormous amounts of data," said Geri-Lynn Clark, vice president and head of client services and partnerships at NextAngles, a compliance technology vendor that is part of IT services company Mphasis. "Fifteen years ago, banks would learn about their customers only when they had major financial events, like applying for a mortgage. But the ability to collect data now means banks can offer a much more personalized experience to their customers."

Clark, who was the chief information officer for Citigroup's North American retail bank from 2004 to 2007, said the "banking of things" could be the most disruptive force in financial services since the advent of the credit card.

The rise of cloud infrastructure and storage services means banks can now reinvest money previously earmarked for general upkeep and maintenance towards collecting and analyzing all the new data there is to serve customers better.

"For the retail bank [at Citi] a large percentage of the budget was essentially earmarked for infrastructure: data centers, mainframes," she said. "But now being able to offset in-house costs and move to the cloud for that stuff provides tremendous opportunity."

So, for example, Clark says banks can — and should — invest in data and analytics capabilities to power things like recommendation engines. With all the data they could potentially have on customers, banks have no excuse not to be providing the most relevant and targeted products and offers, she says.

It also opens up the possibility for offering new products using this new access to data, said Alexander Makeyenkov, senior vice president of the finance practice at DataArt, a consulting firm.

For example, Makeyenkov said his firm is advising a European bank, which he would not name, that is piloting a "healthy savings account." Customers who opt in for this account would allow the bank to track their fitness levels via a wearable device, such as how often they go jogging or go to the gym. They could then get higher rates on their savings depending on how many calories they burn per week or month. Also, the bank is exploring partnering with sporting goods retailers, who would provide offers to these customers on running shoes or other sporting equipment.

"For the clients it's motivational, and they get a bit of a financial benefit," Makeyenkov said. "For the bank it's a bit promotional for them, and it allows them to establish a footprint on [the customer's] smartwatch."

But, he added, uses like this must always be something customers opt in for, and in general banks need to be careful to walk the fine line between being helpful and being too involved in a customer's life.

"Banks need to tread very, very carefully," he said. "They need to be very mindful of security, and that they are offering something that provides both a benefit to the customer as well as the bank."

Indeed, as banks delve more into the new paradigm of interconnectivity, security should always be of paramount concern, said Steve Pedersen, head of North American corporate credit card products at BMO Financial Group.

"There's a lot of risk when you expose banking information to all these form factors," he said. "You have to ask: Are they secure and are you creating avenues for someone malicious to come in?"

Nevertheless, the internet of things "is something banks can't ignore," Pedersen said. "You have to figure out a secure way to be involved."

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