

EMOTIONAL BANKING

We support banks in creating new customer connections,
building business models based on values and emotions.



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1 NEW CHALLENGES OF THE BANKING MARKET



The banking sector is going through a phase of profound change driven by a complex set of factors: some already underway for some time, others certainly more recent, often triggered or accelerated by the effects of the pandemic. Among the latter, the growing interest in issues related to sustainability has certainly played a particularly decisive role.

Social and environmental responsibility are issues that have for some time now attracted growing attention from institutions, companies and individuals. Many initiatives and agreements aimed at sustainability have been set up by public and private bodies and in particular by the supervisory authorities. To name a few: the Paris Agreements for climate change (2015), the UN 2030 Agenda for Sustainable Development (2015) focused on the 17 Sustainable Development Goals (SDGs), the Action Plan to finance sustainable growth published by the EC in 2018, the Climate Benchmark Regulation (July 2020), the Sustainable Finance Disclosure Regulation (SFDR, 2019), etc.

The recent pandemic has contributed strongly to raising the general public's awareness about issues of sustainability and individual well-being, to generating a more widespread awareness of the environment, justice and social well-being, definitively marking the cultural transition towards sustainability in the broadest sense of the term. The changes in our habits and the consequent need to rethink the life/work balance have directed people's attention to global and social issues and the evident impact they have on them as individuals. **People are reviewing their needs and priorities and trying to find a way to contribute to the change the world needs to see.** They have embarked on a path of reflection not only about global challenges but also about personal balance and "happiness", demanding that they be engaged in terms of values and through proposals in line with their "sensitivity" rather than linked to a product/service.

All sectors, first and foremost the banking sector, which in many respects is still tied to a traditional approach, find themselves having to respond to this change in needs by reviewing corporate value identity, communications, storytelling, as well as products and service models.

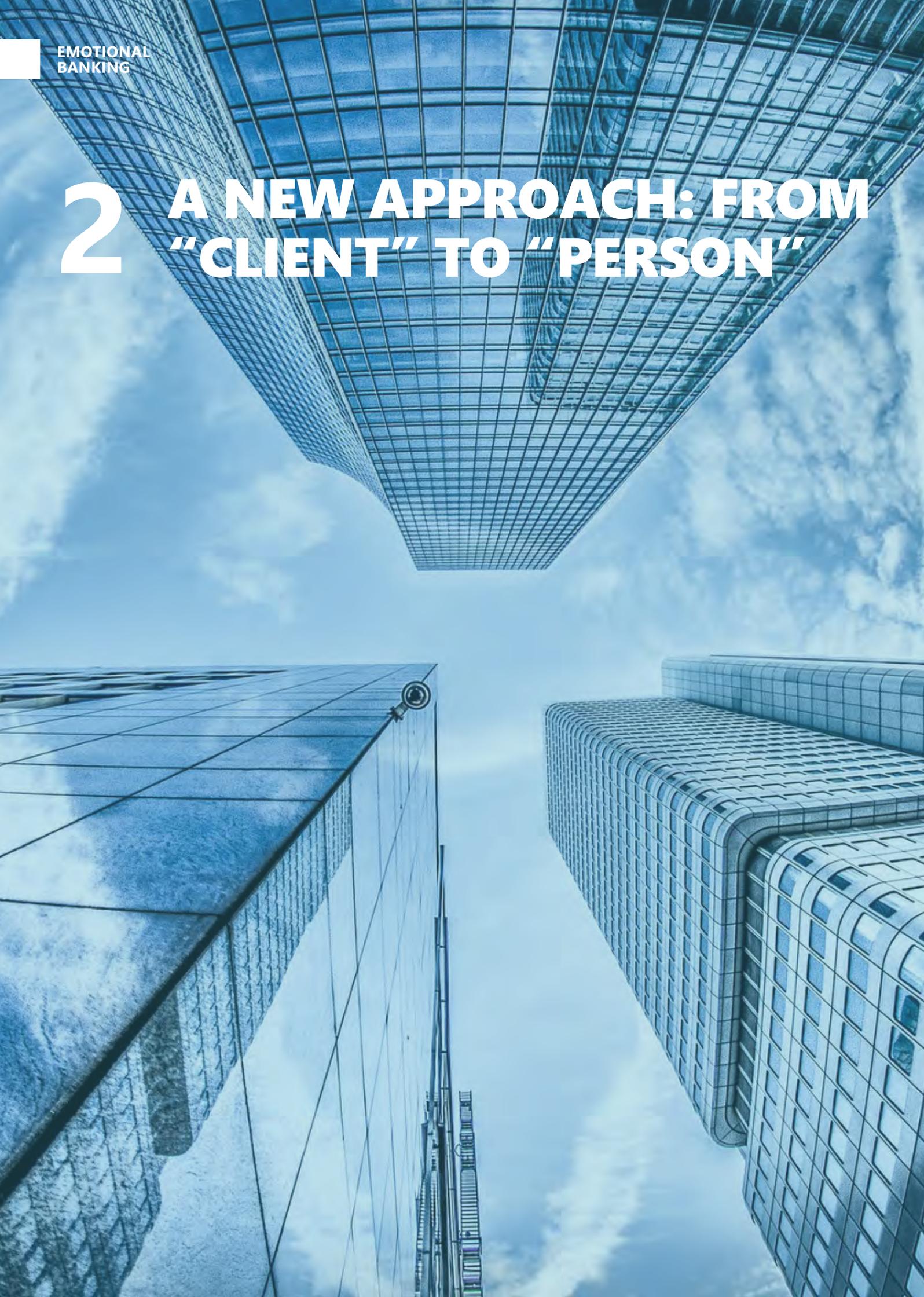
To all this are added further elements of complexity which, although not as recent as those attributable to the pandemic, have just as strong an impact, involving a profound break with the past and imposing on financial intermediaries a total rethink of the business model so as to be able to continue operating profitably on the market. In fact, banks have for some time been witnessing a decline in the margins of their core business resulting from the reduction in interest rates and increased competition due to the entry into the market of new players. The latter, thanks to the adoption of innovative technologies and scalable models, are able to offer some “core” banking services in a much more immediate and attractive way, while significantly reducing the cost of providing the service.

Technological innovation, which in recent years has actually absorbed most of the sector's investments and resources, has certainly played a decisive role, in particular in the retail segment, especially in terms of the efficiency and immediacy of the service, responding to a need for ease of use. **However, the entire digitization process that ensued has also greatly exacerbated competition, favouring the entry of new fintech players, improving the quality of the services offered and the expectations of an increasingly demanding clientele.** These newcomers, who focus for the most part on specific services in the market, are able to meet specific needs with intuitive, digital solutions at extremely competitive prices, accentuating the difficulties of established players, already unable to allocate the necessary investments to adapt as regards technology, skills and approach to innovation, due to the cost of the interventions imposed by the regulatory changes, which is also often oriented towards issues of sustainability. See the SFDR regulation which came into effect on 10 March 2021.

To respond to reduced levels of profitability and the increasing need for investment on the technological and legislative fronts, banks are resorting to large merger and acquisition projects, destined to definitively skew the geography of the banking system towards a scenario of ever greater concentration. Looking at the domestic picture, there are several institutions that are moving in this direction, creating increasingly larger banking hubs to compete at the international level. In this, they are following the example of the big banking players of other European countries that, having already adopted this policy of aggregation for some time, now have investment capacity, greater solidity and the ability to compete on the market. **Even in their relationships with fintechs, traditional operators have been forced to rethink the way they relate, favouring collaborations and partnerships that exploit the ties and historical trust of incumbent players, on the one hand, and technology, skills and newcomer approach, on the other.**



2 A NEW APPROACH: FROM "CLIENT" TO "PERSON"



A similar context, which due to concentration, technological evolution and the increasingly sophisticated needs of the customer has become more liquid and competitive, has generated a profound change in the rules of the game, which sees financial institutions forced to switch from a client-centred to a person-centred approach, where each subject has unique values, needs and preferences

The quality of banking services/products has now become a condition necessary, but not in itself sufficient, to completely satisfy the customer, also due to the nature of the products and services themselves, which are less and less distinguishable from those of their competitors. Banks therefore need new levers of advantage to stay ahead of the competition.

Customization remains one of the most solid elements, but it needs to be targeted to satisfy increasingly complex and hidden needs. The banking world therefore finds itself having to align itself not to the customer as a profit generator, but to the individual, including his entire emotional and values system.

Whilst the traditional economy has always seen the investor and the consumer as rational beings whose sole purpose is the maximization of their financial returns and their own usefulness, reality shows that, on the contrary, they are individuals who are emotionally involved in the decisions they make: choices that are often irrational and, in any case, not always oriented towards maximizing profit.



Investors seek to investments that satisfy not only an economic but also an emotive/emotional need. In this case, therefore, we are not talking about irrational behaviour by investors caused by fear/euphoria, relating to decisions about entering and exiting the financial markets, but rather about the need for engagement on an emotional level: what really involves, interests and motivates the person besides the economic returns.

The customer needs to be wooed through communications that leverage their value system, allowing them to re-direct his attention from the expectation of a possible economic return towards the satisfaction of their emotional need such as, for example, the opportunity to contribute to something they believe in.

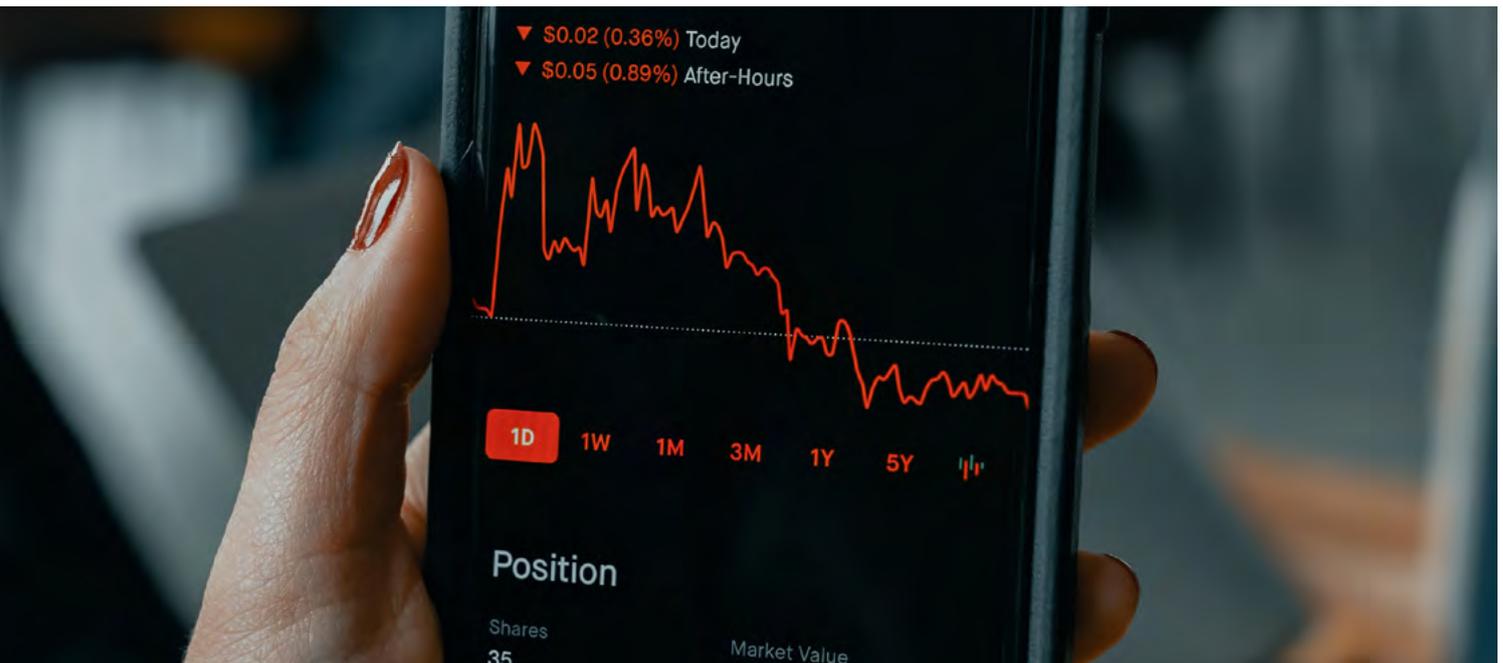
Customization must therefore be based on a deep understanding of the unique needs of each client and the orchestration of tailor-made experiences through digital channels, adapted to reflect a human dimension.

Only in this way can we break away from the coldness and standardization traditionally associated with communications in the financial sector, transforming what until now have always been considered simple contacts with the customer into genuine "relationships", increasing their trust and financial loyalty to the point of developing a real emotional connection with them.



3 PASSION ASSETS AND VALUE ALLIES





Financial institutions can draw on a variety of tools to offer services based on strategies that focus on the personal and social sphere, and therefore on the satisfaction of the individual's basic goals, objectives and needs. There are now many financial products that allow people to invest in companies that offer support to great global challenges, that reduce ESG risks and that are better positioned to thrive in the transition to a more sustainable world: **subjects that guarantee investors the possibility of making a tangible contribution to the planet, while benefiting from positive returns.** In fact, the most recent studies show that organizations that pay more attention to ESG issues perform better than the competition, guaranteeing investors the best risk-adjusted returns.

In addition to environmentally friendly products, the market also offers funds to invest in companies that contribute to people's self-fulfilment in the professional, family and social fields, or in companies that provide products and services aimed at revolutionizing the traditional approach to teaching with a view to facilitating access to education. It's possible to find products focused on the themes of gender equality and women's financial emancipation, or even funds that invest in listed companies whose products are designed to provide feelings of happiness, pleasure and fulfilment.

In addition to all the traditional tools, the asset management world today provides financial intermediaries with alternative asset classes that allow them to intercept an individuals needs in terms of their emotional aspects.

On the one hand, private assets tools help support communities' social fabric and the development of the real economy through investment in high-potential ideas. On the other, funds investing in "passion goods" (art, wine, watches, vintage cars, etc.) make it possible to respond in a targeted, effective way to instinctual needs and create a personalized offer oriented to the investor's expectations.

By leveraging traditional deep-value tools and passion assets, intermediaries are also able to intercept the needs of market segments that have until recently been excluded from investment world, as is the case with women.

With the narrowing of the wealth and investment gap between genders, women are increasingly taking lead roles in the economic and financial sector. The number of women achieving economic emancipation and actively managing their savings is growing rapidly. Here, intermediaries must adapt to meet the demand for increasingly personalized, female-oriented investment services, characterised by a higher aversion to risk compared to male investors and a particular focus on issues of responsibility, and therefore seek investment solutions with a positive impact on society and the environment.



This change in perspective places the focus on the individual, a complex being endowed with a specific system of values and emotions, and revolutionizes the role of the intermediary, who must involve the emotional sphere in their offer and communication with clients and stakeholders, earning their trust and loyalty in time as they come to feel a "connection" with the Bank's values, communication, partnerships and beliefs.

In this way, the role of the bank evolves from simple financial intermediary to true financial partner committed to accompanying the client on their journey, and capable of communicating values and providing services to meet the client's ever-changing needs, thus establishing an authentic relationship founded on shared values, identities and ventures.

By proposing strategies that embody the company's commitment to building a more sustainable world, the intermediary also serves as a tool to promote the virtues of personal savings, giving clients the opportunity to direct their money towards people with whom they have common goals. Effective communication, combined with the ability to provide appropriate, responsible advice, afford the bank the opportunity to play a crucial role in orienting clients towards virtuous choices and behaviour, to the benefit of both individuals and society as a whole.



4 EMOTIONAL BANKING: A HOLISTIC APPROACH



In view of all this, it's clear that banks are facing a complex challenge involving a complete overhaul of the rules and dynamics that have always governed competition within the sector. Being required to meet these deeply rooted needs and assume the role of a life partner compels agents to consider clients in a new way, carrying out a thorough analysis of their wishes and expectations and establishing with them a lasting and solid relationship founded on shared values.

The solution is to channel every effort towards providing a holistic dimension that will be of value to the client. The objective is to achieve the necessary convergence of two factors: the economic return on the investment and the emotional return, the latter being the driving force behind every purchasing decision, including financial investments.

As they pursue their investment objectives, the client has the opportunity to give something back to society by supporting the causes dearest to them, or can simply support the companies he feels most aligned to, thus benefiting from an emotional payoff that, combined with the economic return, fulfils their innermost personal needs.

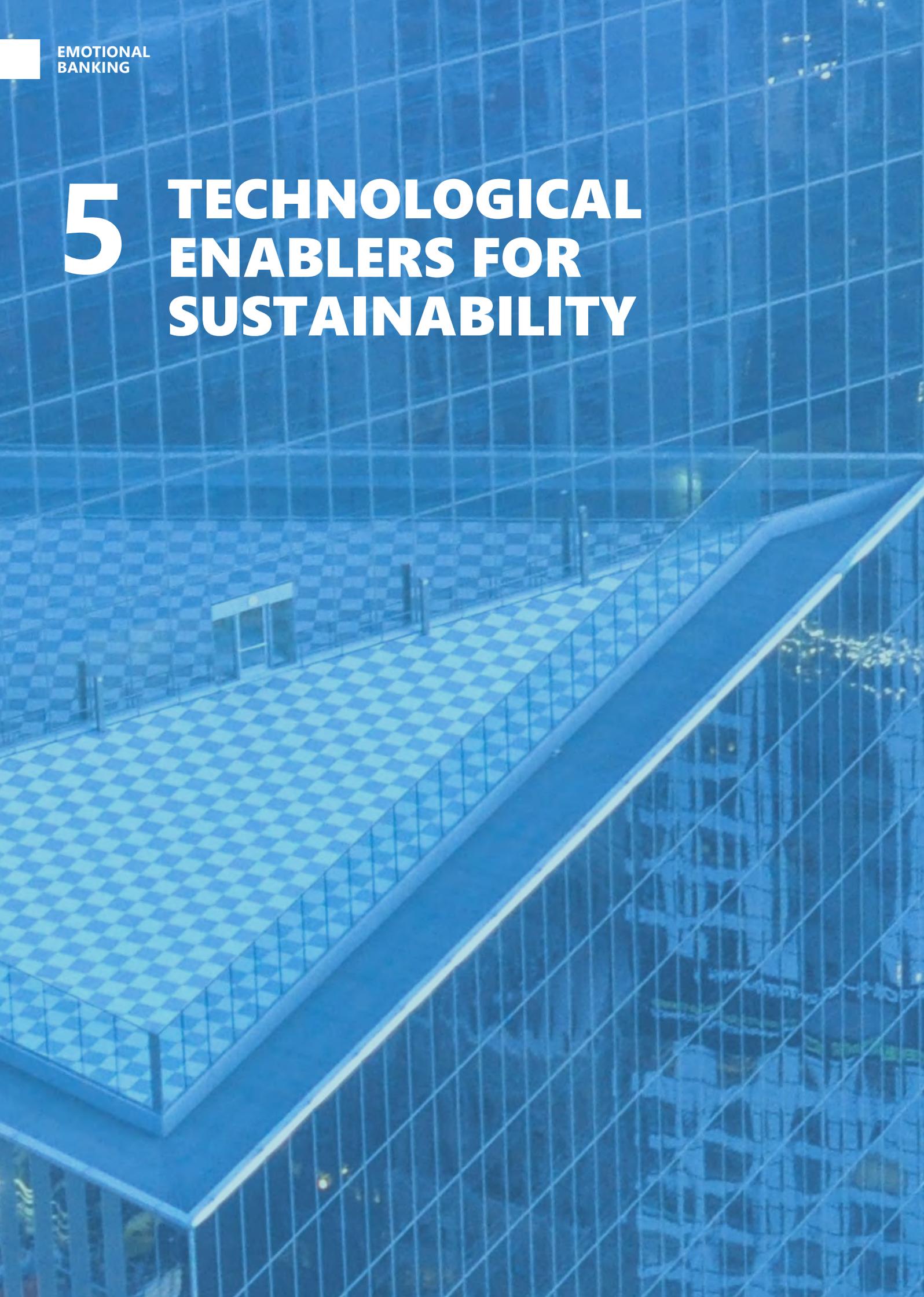
Several companies have started moving in this direction, kickstarting what might be described as a trend usually referred to with the term "**emotional banking**" or "**soul banking**".

The primary goal of this approach isn't to offer financial products and services, but to provide an authentic response to the client's priorities, **focusing on aspects such as their life experience, values, dreams and personal goals and giving a strongly principled, humane touch to proposals and communications.**

Powerful storytelling and an unprecedented user experience are the backbone of this innovative outlook.

In this way, the bank moves away from the old-fashioned notion of proposals necessarily involving products/services and establishes itself as a brand: a community devoted to sharing and promoting a unique idea and view of the world and the company, and connecting with likeminded individuals.

5 TECHNOLOGICAL ENABLERS FOR SUSTAINABILITY





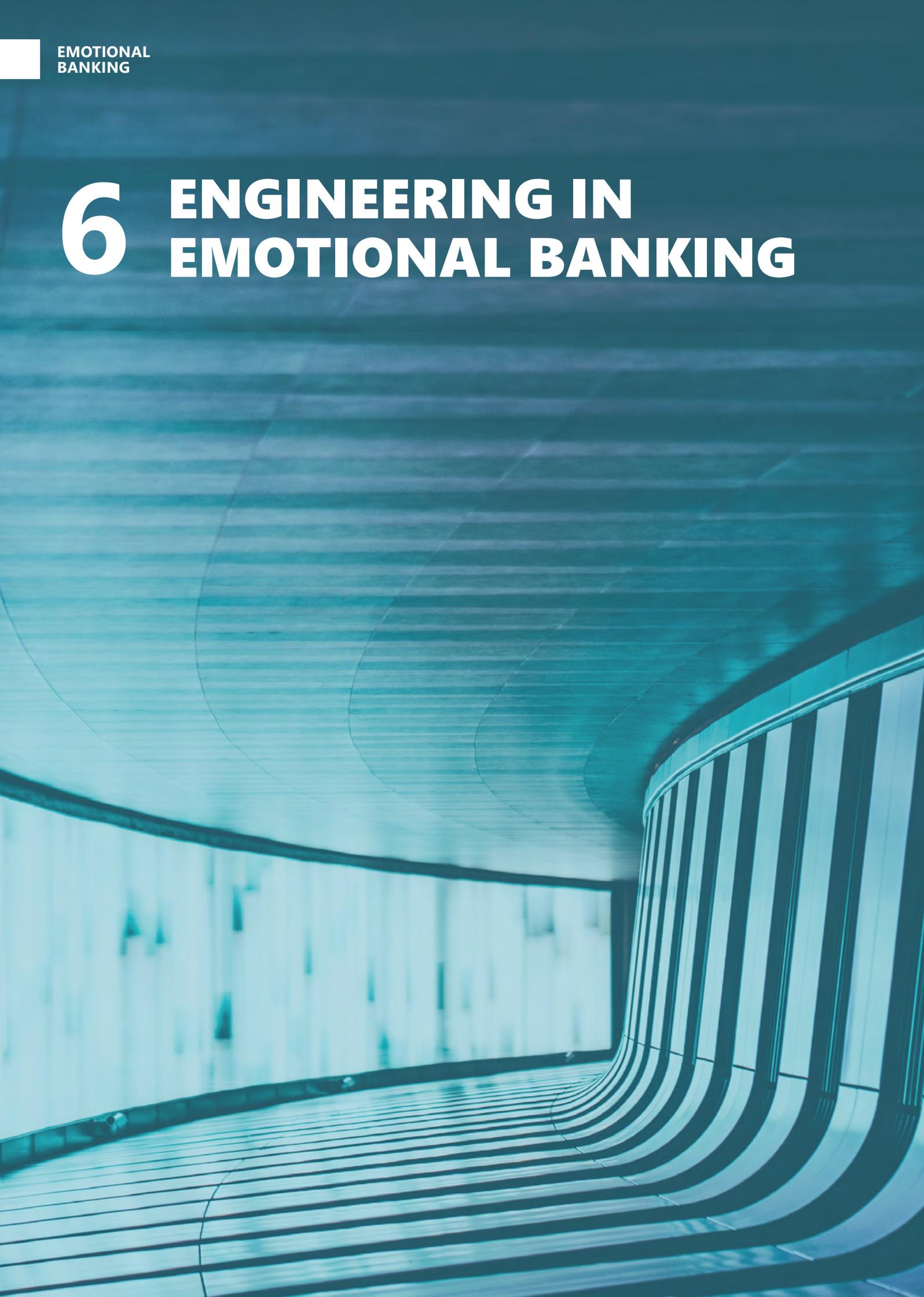
First-movers in emotional banking aren't exclusively new market players. Several existing actors are outlining a clear, effective trend in the retail sector.

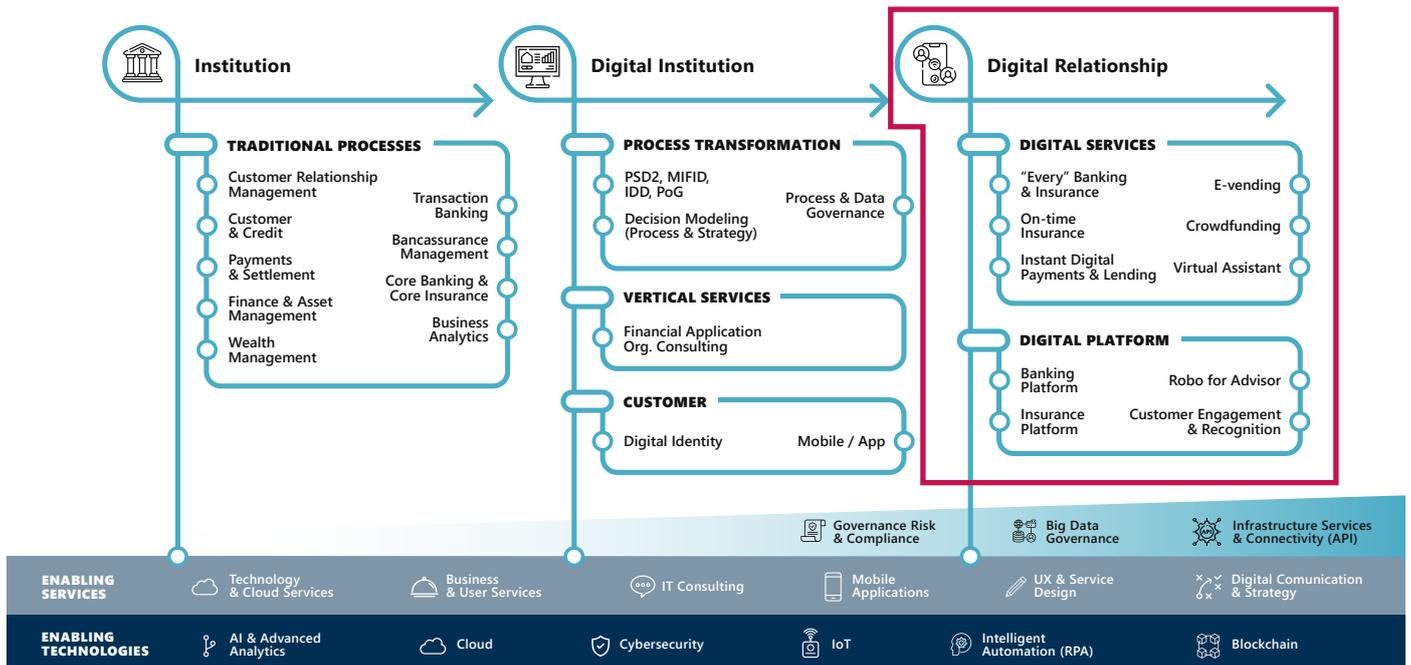
To gain a full understanding of this transition process, one must necessarily investigate the role of FinTech enablers of digital investment models for retail clients as the inevitable evolution of traditional agents. These companies should help intermediaries assimilate the notion of customization, not merely in relation to the client's specific financial needs and preferences on ESG issues, but on a more general level as well, by employing value-based levers. Robo-advisory solutions, which make it possible to provide a fully digital, round-the-clock customized service, can be developed still further by introducing a value-based dimension.

The FinTech enabler thus evolves from mere technological partner to bona fide sustainability enabler, providing the intermediary with solutions that allow the client to make a concrete contribution to society and the planet through partnerships with institutions pursuing charitable goals.

Thanks to sustainability enablers, banks can push their customers towards virtuous choices and behaviours and lend their support to causes perceived to be important, cementing their involvement on a value level and allowing the bank to pursue its goals of sustainable development more easily.

6 ENGINEERING IN EMOTIONAL BANKING





How can we better support industry players in shaping a new bank model focused on a person's needs, mindset and sensitivity?

The creation of an outstanding human experience can only result from a careful analysis of the data. Financial intermediaries have at their disposal a large amount of data from customers' account activity (transactional data) - a precious source of information that banks are often unable to exploit.

At Engineering, advanced analytic tools are employed to harness the data's potential and channel it towards a better understanding of a person's unique needs.

Advanced data enrichment strategies allow us to provide the bank with a high-quality profiling service the intermediary can rely upon to obtain an accurate profile of the customer, on the basis of their available personal, financial and transactional data, lifestyle, shopping habits), mindset (inclinations online, attachment to values, sensitivity towards sustainability issues), desires, objective needs (financial/banking/ insurance needs and others) and interests.

This serves as a starting point to outline a customized offer, tailored to the individual customer. **Predictive analytics systems can manage this personalized proposal dynamically, adapting to the customer's ever-changing needs.** The customer sees that their bank is ready to meet their needs before they're even aware of what these are, reassessing what the key elements of the bank-customer relationship are. The latter, traditionally based on the intermediary filling an institutional role, is now gearing towards achieving a deeper level of guidance and trust.

Thanks to our skills and technological solutions in the field of wellness management, our investment services can work as a tool to connect with the customer in every phase of their journey, through a shared set of values and interests.

We are equipped with advanced application modules to select financial tools that allow for the inclusion of thematic and value-related variables and attributes, in order to build investment strategies that not only meet the customer's economic goals and expectations, but also fit their personal preferences, traits and attitude

The Group's expert management and enhancement of data (including ESG) on financial tools can be harnessed to create sustainability/impact scoring systems. Intermediaries can make use of these to dynamically develop thematic showcases tailored to the individual customer, emphasizing those products that are likely to arouse the customer's interest and match their sensitivities

The technology at our disposal allows us to proactively propose investment solutions to the customer through banners and notifications. The strategies are based on available data (i.e. current account balance, forecast cash-flow analysis etc.), as is the case with existing lending strategies. Via Home Banking, the customer has round-the-clock access to investment advice based on their present and future situation, with proposal analysis and simulation features

The goal is to provide bank customers with a genuine experience of emotional investing.

Gamification features have been included to increase the entertainment factor, and the value-based and emotional issues involved in the experience will attract new categories of customers. With this innovative game-oriented approach that capitalises on users' interests and passions, the investment decision is made on the back of a wave of enthusiasm and emotional involvement, during which the customer experiences the typical ease of use and interaction of e-commerce platforms.

Furthermore, through partnerships with companies that embrace sustainability as a cornerstone of their business and support social and environmental initiatives - reforestation projects, marine ecosystem protection, conservation of environmental and architectural heritage - we are able to provide robo-advisory solutions, allowing the customer to make a positive, tangible impact with minimum effort during the investment process.





We act as technological enablers between the Bank and charities, guaranteeing the customer's full involvement throughout and giving them the opportunity to track the progress, impact and benefits of the initiatives they backed.

To give a concrete example of a "green" initiative, our partnership with a leading tree-planting organisation enables us to calculate an investment strategy's impact in terms of carbon dioxide emissions, and to counteract it by purchasing trees to plant. Our partner company looks after them and keeps us updated on their growth and health over time, while we fulfil our role as sustainability enablers by providing the technological infrastructure to make the information available to investors and including it in their portfolios.

The customer is kept updated on the state of the forest in their financial reports. In this manner, traditional tools like commercial reports, known for their cold, impersonal and detached communication style, are given new life and enriched with previously unreleased information and metrics that are conveyed to the customer in a clear, immediate way, by means of engaging storytelling.

Lastly, there is no shortage of features devoted to financial education. **These are designed for customers with little financial experience and to raise awareness about virtuous behaviours.** They can be accessed straightforwardly through chatbot channels that have benefited from specialized financial training and can provide exceptionally effective and speedy responses, guaranteeing a positive user experience.

Our offer helps us support industry players in defining new factors to promote customer relations, and aid intermediaries in tackling the challenge embodied by the paradigm of "ethical banking".

An approach that leverages innovation elements like those described above stimulates user interaction and takes customer involvement to a deeper level, making it possible for the intermediary to acquire relevance and value in people's lives by establishing lasting relationships with them.



7 IN CONCLUSION





The banking sector is clearly undergoing a phase of profound change. This change is being driven by a number of trends. **Digitization, market conditions and the changing needs of consumers mean that incumbents must radically change their approach and the way they present themselves on the market.** Competition is no longer all about products, but instead concerns ability to engage the customer as regards their values and emotions, focusing on the customer not as an investor and profit generator, but as a person with all his individual needs and characteristics.

Digital services for the banking world have moved on from their traditional role, becoming more complex and articulated: **a portfolio rich in innovative content and services to which the customer can also resort in relation to their needs and requirements in the personal sphere (sustainability, wellbeing and interests),** which until recently they would never have associated with the banking world

In what we refer to as emotional banking, what is going to make the difference will be ideas and aspects relating to the individual. And we at Engineering are ready to make that difference.

ENGINEERING

Engineering Group is the Digital Transformation Company, leader in Italy and expanding its global footprint, with around 12,000 associates and with over 40 offices.

The Engineering Group, consisting of over 20 companies in 12 countries, has been supporting the continuous evolution of companies and organizations for more than 40 years, thanks to a deep understanding of business processes in all market segments, fully leveraging the opportunities offered by advanced digital technologies and proprietary solutions.

It integrates best-of-breed market solutions, managed services, and continues to expand its expertise through M&As and partnerships with leading technology players. The Group strongly invests both in innovation, through its R&I division, and in human capital, with the internal IT & Management Academy. Engineering is a key player in the creation of digital ecosystems that bridge the gap between different markets, while developing composable solutions that ultimately foster a continuous Business transformation.

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Our point of view on



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