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SCHOOL OF BUSINESS, ECONOMICS AND LAW

Master Degree Project in Innovation and Industrial Management

The Digital Revolution:

Structural transformation and changing demand of the banking industry

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ABSTRACT

Due to technological revolutions, the digitalization has drastically changed the conditions for all actors competing in the banking industry. As a result of new technological advances and digital innovations facilitating for private banking customers to become self-going, it is very important for all banks to be aware of what implications changing customer habits might have on their businesses. In terms of a growing customer group with high strategic relevance, focus in this thesis has been directed at young adults, who are believed to be key indicators of where the future banking industry is heading. The purpose of the study is to, in-depth, identify the pattern of how young banking customers in Sweden currently are valuing digital banking services and how their adoption of digital banking might impact the future of Swedish banks. In the conducted research, both qualitative and quantitative measures are adopted, with hopes of adequately covering necessary components of the given research question. Thus, both survey and interviews are carried out successfully within our quality requirement, through large samples and highly insightful interviewees. Conclusively, the results indicate a very large adoption of new digital banking services among young adults. The results further indicate a cannibalization effect in which most young customers tend to conduct much of their banking activities online through applications in their cell phones rather than through the traditional communication channels. In order to cope with the lowered personal contact, banks thus need to incorporate a more customer-centric digital strategy as well as to challenge their traditional comfort zones. Meanwhile, they also have to cope with the emergence of new non-traditional actors.

DEFINITIONS

Digitalization - The balance between digital and physical presence in the market.

Digital Banking Services - Digitalization concerns conversion of analogue data into digital signals, in which data is represented by digits in a default number system rather than continuous physical quantities. For the banking industry, this is illustrated by services based on Internet features that allows the customer to conduct his or her banking services online by herself instead of visiting a local bank office. Examples of such services are Internet Services, Mobile Phone Services, Swish, and Mobile BankID.

Internet Service – The service in which one is logged in through the bank’s web page using a computer and a personal login.

Lending Club - Lending Club is an American online marketplace, facilitating personal loans, business loans, and other financing. The basic business idea is that customers interested in a loan complete a simple online application. Lending Club then assess risk, determines a credit rating and assign appropriate interest rates after which the borrower is matched with an investor. The investors range from other individuals to institutions and the whole process is defined as peer-to-peer lending. The company thus operate fully online with no branch infrastructure (Lending Club, 2016).

Mobile Phone Service – The service in which one is logged in through the bank’s application (what will further be denoted as ‘apps’) on a mobile phone.

Swish - Swish is a Swedish innovation in terms of an app that allows different banking customers to transfer money between their accounts without knowing the other person’s account number. Instead, all members have linked one of their account numbers to their mobile phone number. Hence, all you need in order to transfer money to another member is the mobile phone number. This service is available both for individuals and companies and works for all bank customers of Danske Bank, Handelsbanken, ICA Banken, Länsförsäkringar, Nordea, SEB, Skandia, Swedbank as well as Sparbankerna (Swish, 2016).

Traditional Banks - In this report, we are defining traditional banks accordingly to the Swedish National Encyclopaedia (NE): A bank is a company that has been approved by the government to conduct banking and financing services, i.e. the right to offer public deposits, to borrow from the Swedish Central Bank without any securities and to invest money in interest-bearing accounts at the Swedish Central Bank. In addition, we have further chosen to adjust the definition to only include banks that are covered by the Governmental Deposit Guarantee (Den Statliga Insättningsgarantin), which equals a statutory protection system in which the Swedish Government guarantees repayments of deposits up to an amount of maximum 100,000 Euro in case the bank would end up in bankruptcy. Another prerequisite for being defined as a traditional bank in this thesis is that the bank needs to have experience of physical presence in the market in terms of running local branches.

Value Proposition - Value Proposition is defined as “a clear, compelling and credible expression of the experience that a customer will receive from a supplier’s measurably value-creating offering” (Barnes et al., 2009).

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1. INTRODUCTION

This first chapter will principally present a short juxtaposition regarding the emergence of the digital banking system and the subsequent opportunities and challenges this intricate development has brought to the actors in the market. Further, the choice of target market will be justified, and ultimately the background and problem discussion will lead up to the purpose and research question of the report.

1.1 BACKGROUND

The development and growth of the world economy is accelerating in an expeditious speed, and a key component for this fast-moving evolution derives from new technological advances (Eurostat, 2016; Foscht et al., 2010; Gupta and Khanna, 2015; Jorgenson and Vu, 2010; Schön, 2010; Schön, 2013). In a historical perspective, researchers seem to agree that industrial revolutions follow certain trends and cyclical transformations (Freeman and Louca, 2002; Perez, 2013; Schön, 2013). According to Lennart Schön (2013), professor in economic history, all these revolutions are launched by one or several major innovations facilitating rapid growth, a phenomenon usually denoted as ‘Big Waves’. The breakthrough of such innovation normally create a greater spread of global modernization and economic growth as transaction costs are lowered, which in turn favours world trade (Schön, 2013). The most recent industrial revolution was a late twentieth-century phenomenon building on new innovations in microelectronics along with the emergence of Information and Communication Technology (ICT) (Schön, 2013). With new IT-technology as well as a more knowledge-intensive interaction among industries, costs for communication and distribution were significantly reduced and new platforms were created. Ever since, the role of digital platforms has witnessed increased significance, where substantial focus is currently placed on digital self-service in several industries that traditionally have been characterized by physical transactions and customer relationships (McKinsey and Company, 2013; Schön, 2013; The Boston Consulting Group, 2012b).

One interesting example of how a traditional industry has been affected by this development is the banking industry. The banking industry is one of the oldest existing industries there are, with roots back in the 18th century BC, where records show that priests in Babylon granted loans to local citizens (HistoryWorld, 2015). Gradually, the banks have emerged to become one of the most important institutes for the wellbeing of our world economy as it governs and supports both the economies of corporate businesses, as well as the individual households (Schön, 2010; Sjögren et al., 2008; Swedish Bankers’ Association, 2016b). Consequently, banks have become obvious gathering points in most city centres and much of the world’s economic conditions now revolve around the banking industry (Sjögren et al., 2008; Swedish Bankers’ Association, 2016b). With its rich history and old traditions, the impact of new digital innovations and solutions is thus very interesting from various aspects. To begin with, new technological advances have enabled banks to streamline multiple internal processes that historically have been carried out manually (McKinsey and Company, 2013; Swedish Bankers’ Association, 2016b). The emergence of self-service products such as Internet services and applications for mobile phones and tablets have further facilitated digital platforms for customers to conduct most of their banking activities at home or on the go (McKinsey and Company, 2013; The Boston Consulting Group, 2012b). The spread of recent

technologies have also enabled more global standards, which in turn have facilitated transactions across borders (Sun and Takieddine, 2015).

However, while a structural revolution enables a wide range of possibilities, the intensified modernization and economic growth also creates bottlenecks that have to be addressed both technologically as well as institutionally in order to fully take advantage of the new innovations (Schön, 2013). Lennart Schön (2013) claims that radical and disruptive innovations challenge existing structures and processes, and thus puts immense transformation pressure on existing industries. This in turn leads to a pressure on the different institutions and social organizations as new technologies are supposed to be transformed into General Purpose Technologies (GPTs), which are technologies ought to become natural parts of the new commonwealth (Schön, 2013). As both the services provided as well as the competitive environment have remained rather unchanged historically, relatively few major adjustments have been needed with regard to the basic business models of banks (Cho et al., 2012; Swedish Bankers' Association, 2016b). Hence, the banking industry is now facing its biggest transformation in modern history as studies report that more and more banking services are carried out through different digital platforms; challenging much of the traditional business models (McKinsey and Company, 2013; Rygby, 2004; The Boston Consulting Group, 2012b). With customers becoming more and more self-going, the challenge mainly targets banks' value propositions, concerning how value creation is acquired. Furthermore, it includes the aspect of benefiting from the value creation and maintaining profitable relationships with their customer base (Cho et al., 2012; Finansliv, 2015; McKinsey and Company, 2013; Prahalad and Lieberthal, 1998; Rygby, 2004; The Boston Consulting Group, 2012a; Vaidyanathan, 2008).

The emergence of digital banking is however not simply a question of managing a bank's own internal strategy. The availability of contemporary distribution channels and a globalized world economy has opened up for new non-traditional actors entering the banking industry and specialize in digital platform operations (Gamble and Mankila, 2009; Swedish Bankers' Association, 2016b; The Boston Consulting Group, 2012b). In addition to traditional competitors, telecom giants like Verizon, payment systems like PayPal and Swish, and multinational search engines like Google and Yahoo are likely to also compete in the new digital banking industry (Busch and Moreno, 2014; Cho et al., 2012). This, of course, has affected the competitive landscape and placed greater pressure on traditional banks, since new competitors are said to be able to leverage on a more cost-efficient structure compared to old players. This might be very problematic for traditional actors whose systems tend to be large and complex, making restructuring and investments substantial in change efforts (Cho et al., 2012; Finansliv, 2015; Vaidyanathan, 2008). Furthermore, traditional banks are often privileged with a large customer base that needs to be convinced in order to readjust from systems they have learned and are now well familiar with (Gupta and Khanna, 2015; Montazemi and Qahri-Saremi, 2014). Digital solutions have also facilitated a shift in bargaining power due to a decrement in information asymmetry. The emergence of Internet and various companies offering price comparisons have facilitated transparency in terms of customers obtaining and using information that has previously been exclusively disclosed by the banks (Bain and Company, 2014). As switching costs are believed to constantly decrease, the bargaining power of the customer is thus increased, forcing the banks to continually sharpen their offerings (Prahalad and Lieberthal, 1998).

Although digital banking is a relatively young phenomenon, prominent researchers have highlighted the relevance of the topic (Bain and Company, 2014; Degerli and Türkmen, 2015; Gamble and Mankila, 2009; Gupta and Khanna, 2015; McKinsey and Company, 2013; Rygby, 2004; Sun and Takiieddine, 2015; The Boston Consulting Group, 2012a-b). The emergence of digital banking is a key factor for all banks aiming to compete in the banking industry, as it sets the framework for future competition (Svenskt KvalitetsIndex, 2015). However, just as the majority of earlier conducted research, many banks have solely been focusing on technological aspects, while often neglecting the customer perspective (McKinsey and Company, 2013; The Boston Consulting Group, 2012a). This distorted focus might become very problematic since the integration of customer experience is likely to be foreseen, as most banks are narrowly focusing their digital efforts on processing transactions and lowering their structural costs rather than innovating according to what the customer is actually demanding (Cho et al., 2012). If this trend continues, a great deal of digital initiatives will eventually end up delivering new superfluous IT systems increasing the total spending, rather than enhancing the competitive advantage by providing features the customer demands (Cho et al., 2012). Johnson et al. (2008) further describe the significance of continuously scrutinizing and developing the customer value proposition of a company in order to be able to deliver solutions that successfully meet a developing customer demand.

This report will therefore adopt a rather disciplined approach where emphasis will be placed on customer behaviour to further enhance the understanding of current and projected customer needs. Such an approach can be justified by the report presented by McKinsey and Company (2013), arguing that even though investing in digital solutions, no bank will ever be successful unless they address the customer's real demand; forming an organization supporting the new digital business model. Much focus will be directed towards the combination of physical- (branches, personal communication etc.) and digital services (Internet services, applications for mobile phones and tablets etc.) as the bulk of prior research highlights the importance of balancing the two approaches instead of exclusively concentrating on the new digital devices (Cho et al., 2012; McKinsey and Company, 2013; Rygby, 2004; The Boston Consulting Group, 2012a).

As the speed of the development and the extent of adoption of new technological solutions differ widely between countries and regions around the world (Sun and Takiieddine, 2015), the phenomenon of digital banking in a global perspective could be argued to still be in a continuous development phase (Eurostat, 2016). As main focus will be on private banking customers, this report requires a region with a rather mature digital banking market, which eventually has led us to Sweden. In Sweden, the financial sector has long been a fundamental factor for the wellbeing of the domestic economy and a prerequisite for both the business life and the private households to operate adequately (Swedish Bankers' Association, 2016b). With more than 100.000 employees, the Swedish banking industry is one of the largest employers in the country and it accounts for approximately four percent of Sweden's total GNP (Svenskt KvalitetsIndex, 2015, Swedish Bankers' Association, 2016b). During the past ten years, many of the established and traditional actors have been extending their operations in both domestic and foreign markets (Gamble and Mankila, 2009). At the same time, several new companies have entered the Swedish market, which has increased and spread the competitive network. Having the advantage of operating in a mature and industrialized market, most banks, including both new and traditional actors, have been able to place emphasis on new technological advances. The Swedish banks are thus believed to act as innovators leading the digital development (Eurostat, 2016; Swedish Bankers' Association, 2016b).

Although the population of Sweden is rather small in a global perspective, it is still too large in order to include everyone when conducting a survey. As all banks are striving to generate profitable business models, it is important to identify both current- and future customer segments (Foscht et al., 2010). As a result of such segmentation, banks could gain a greater understanding of their customers' needs and characteristics, while it serves as a mean to identify new potential and/or underserved customer groups (Dibb and Simkin, 1997). Due to the characteristics of an increasing customer group with growing incomes, much attention have lately been directed toward the youth market, which is also the chosen target group for this report. Building a well-anchored relationship at an early age with potential customers aims to generate a greater and more profitable customer base in the long run (Martensen, 2007; Thwaites and Vere, 1995). 'Young adults' is thus a key segment to focus on for all banks in order to capitalize on future market share. They are a rather influential customer group as they both represent the future, while also influencing the older generations such as their parents or grandparents (Foscht et al., 2010). With knowledge about these advantages, many banks seek to attract younger customers and retain them as long as possible. However, In order to be successful with such a strategy, it is of utter importance to offer products that meet the expectations of this customer group. Hence, it is vital to understand how these customers think, act and what they require (Foscht et al., 2010).

1.2 PURPOSE AND RESEARCH QUESTION

With background in the importance of the digitalization process for the future prosperity of the banking industry, as well as the large interest in the habits of younger adults, the purpose of this study will be *to, in-depth, identify the pattern of how young banking customers in Sweden currently are valuing digital banking services and how their adoption of digital banking might impact the future of Swedish banks.*

Determined and based on the purpose of the study, the following research question have been formulated:

“How might a broader adoption of digital banking services among young adults affect the value propositions of Swedish banks?”

To be able to answer this research question in a clear manner, and thus fulfil the purpose of the study, two sub-questions have been formulated to portray what this thesis aims to answer:

- How are young Swedish adults incorporating digital banking services into their consumption?
- How do Swedish banks adapt to new digital market conditions?

2. THEORETICAL FRAMEWORK

In this chapter, the theoretical framework will be presented and elaborated. Focus will principally lie on the emergence of digital banking, the emergence of non-traditional banks, and how to manage the changing banking industry. The latter will include challenges like the interplay between digital and physical solutions, how to create, and maintain, profitable customer relationships as well as possible adoption barriers. Finally, potential strategies for adjusting to the digitalization will be presented.

2.1 THE EMERGENCE OF DIGITAL BANKING

2.1.1 TECHNOLOGICAL WAVES AND INDUSTRY CLOCKSPEED

When looking at the historical development of any industry, one cannot overlook the cyclical trends in technological breakthroughs and standards. According to Lennart Schön (2013), there have been three modern industrial revolutions in world economy, all launched by some major innovation facilitating a more rapid growth. Schön (2013) defines this phenomenon as ‘Big waves’, and within each big wave, one can further recognise two different epochs of approximately four decades forming long waves. The first long wave consists of a breakthrough in some kind of radical innovation resulting in an industrial revolution. These innovations usually create a greater spread of global modernization and economic growth as transaction costs are lowered, which in turn favours world trade. However, radical and disruptive innovations simultaneously challenge the existing structures and processes. Hence, a strong transformation pressure is put on each industry, which in turn also leads to a second long wave as a result of a higher pressure on the different institutions and social organizations. In this second wave, society tries to turn the radical innovations into General Purpose Technologies (GPTs) which are technologies ought to become natural parts of the new commonwealth. Schön (2013) acknowledges the fact that inability to successfully adopt such new trends will likely result in lagging behind.

In today’s banking industry, some argue that this phase can be witnessed already, as cash and branch offices gradually are being replaced by digital alternatives (Bain and Company, 2014; Finansliv, 2015). The digitalization comes with a huge structural transformation in how banks approach the customers, which indefinitely brings up the risks of being pioneer within a field with high uncertainties in terms of demand, time frame and size of investments (The Boston Consulting Group, 2012b). Throughout the years, each wave has witnessed a shortened length, due to technical characteristics and the pressure of continuous innovation in our new creative society (Schön, 2013). Highly related to the shortened waves is further what Fine et al. (2002) define as industry clockspeed. Every industry has its own rate of evolution, which is dependent on the industry’s products, processes, customer requirements and how rapidly the underlying technologies in the industry are changing. According to Fine et al. (2002), the faster the industry clockspeed, the shorter the lifetime of every given competitive advantage will be. Hence, a company’s only real core capability is argued to be its ability to continually design and redesign the value chain in order to constantly create new temporary competitive advantages.

2.1.2 RADICAL AND DISRUPTIVE INNOVATIONS

As previously stated, cyclical waves of business transformation is correlated to the degree of disruption in the driving innovation, which brings up the concepts of radical versus disruptive innovations. Radical innovations are innovations that are completely new and different from prior solutions, making it possible to transform the way business could be conducted in the industry (Schilling, 2013; Schön, 2013). Ettlie et al. (1984) acknowledge the importance of organizational flexibility; in order to successfully cope with uncertainties and tough competition, a company should be able to restructure the organization depending on the degree of radicalness of the new innovations. However, as can sometimes be witnessed in the banking industry, there are often misconceptions where banks think they have lots of time to adapt a new innovation, and thus they underestimate the overall radicalness in digital banking (Cho et al. 2012). Rayna and Striukova (2015) explain that the way in which an industry adapts to radical, game-changing, innovations is carried out in stages and thus it affects different parts of the business model in different ways.

Alongside the concept of radical innovations, there are innovations that are characterized as completely disruptive in nature. To begin with, Bower and Christensen (1995) define disruptive innovations as *“new designs of products, processes, or business models whose quality and performance do not match their high-end counterparts, but which nevertheless can drastically change the industrial organization”*. Another important characteristic of these innovations is that they are only adapted by underserved markets, or by markets that are not served at all. Hence, disruptive innovations create new markets that did not exist before (Bower and Christensen, 1995). In this setting, preparation may be even more important and complex, since anticipating disruptive tendencies is practically impossible.

2.1.3 GLOBAL TRENDS IN DIGITAL BANKING

Few would today question the emergence and potential of new digital advances in the banking industries, such as Internet- or Mobile phone services. However, as European consumers tend to move online, McKinsey and Company (2013) reports that many retail banks experience difficulties in their efforts to follow the digital development. While Bain and Company (2014) showed that a large majority of banking customers in 18 of the world's leading banking countries conducted their interactions through digital channels, McKinsey and Company (2013) highlighted that retail banks in Europe have only digitalized 20 to 40 percent of their processes. In addition, almost 90 percent of the European banks were investing less than 0.5 percent of their total spending on new digital solutions.

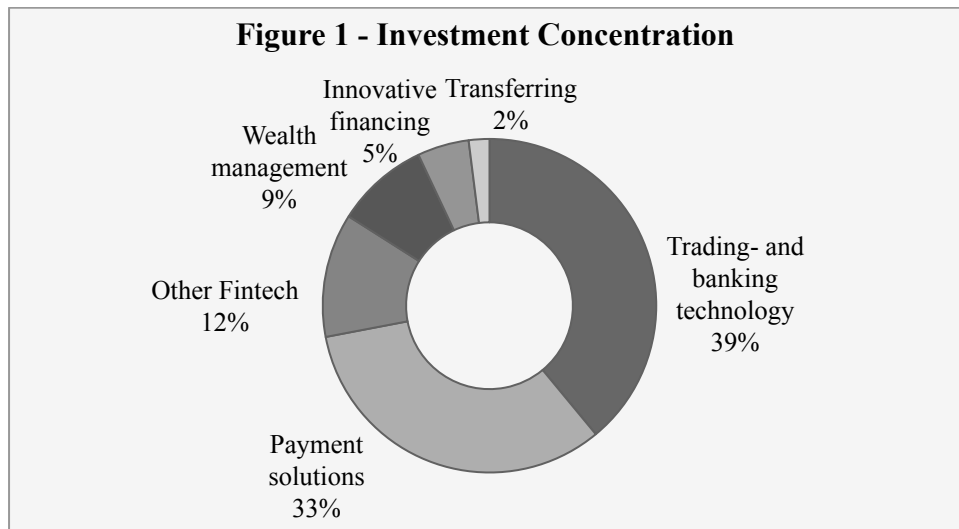
Nonetheless, the digital movement is evolving at a tremendous rate and the product offerings are continuously subject to new updates with all the latest features (Bain and Company, 2014). Noticeable is that substantial investments have recently been directed at the bank's applications for smartphones and tablets rather than the Internet service for computers (Cho et al., 2012). Bain and Company (2014) talks about a cannibalization effect as focus is directed from the Internet service, which requires a computer, to more mobile devices such as cell phones and tablets. The trend can further be seen in the customer habits, as a report published by Bain and Company (2014) shows that online computer usage dropped by approximately 3 percent compared to previous year while usage of mobile applications rose with 19 percent. Most digital updates today therefore seek to simplify the banking experience in terms of enabling the customers to conduct their banking activities on the go, which according to Cho et al. (2012) aims at making the customer self-going. Despite already maintaining a rapid pace of development, McKinsey and Company (2013) believes that this

trend will only accelerate. In their recent analysis (2013) they predict a future where the majority of all banking customers in Europe are likely to be completely self-directed already within the next five years.

2.1.4 DIGITAL BANKING IN SWEDEN

In Sweden, the digital development has followed a clear path where the number of physical branches has decreased dramatically in favour of the rapid digitalization process. In 2014, 48 branches were closed in total in Sweden (Svenskt KvalitetsIndex, 2015) and since 2001, the four largest banks have together shut down approximately 380 branches (Swedish Bankers' Association, 2016a). While traditional banks are decreasing their physical presence in terms of local branches, most new non-traditional actors build their organizations on totally digitalized platforms, skipping the local branches completely (Gamble and Mankila, 2009; Swedish Bankers' Association, 2016a). Naturally, this development goes hand in hand with banking customers adopting more digital banking habits. According to Svenskt KvalitetsIndex (2015), 80 percent of all Swedish banking customers used their bank's Internet service in 2015. Looking at the statistics provided by Eurostat (2016), one can see that the percentage of individuals in Sweden using Internet for banking activities has steadily risen from only 51 percent in 2005 up to 82 percent in 2014. However, between 2014 and 2015 this increasing trend was terminated, as the development decreased for the first time in the Swedish digital banking history. If looking at the adaption of banks' mobile phone applications, one can see that this service is clearly lagging behind the Internet service. In 2014, only 43 percent of the Swedish banking customers used the bank's mobile application (Svenskt KvalitetsIndex, 2015).

The rise of the digital services in the Swedish banking market is however clear, and two big banking actors that symbolize this trend are SEB and Swedbank. Both banks have decided to clearly shrink their local presence and together they have shut down almost 300 branches since 2001 (Swedish Bankers' Association, 2016a). The main argument for this development is said to have its roots in the changes in customer habits, and focus has instead been directed to new digital platforms rather than the traditional branches (Finansliv, 2015). Instead of meeting the customers in real life, both banks are for instance far ahead in the development of Internet and Mobile phone services. In addition, Swedbank recently introduced video meetings, which is one of their latest services, where the customers can call a personal advisor instead of setting up a physical meeting in a local office (Finansliv, 2015; Swedbank 2015). Swedbank and SEB are however not the only banks making large investment in new digital solutions but most Swedish banks are actually increasing their yearly investments in new digital technologies. As can be seen in Figure 1, most investments in 2013 were made to improve the trading- and banking technology and to provide smoother payment solutions (Finansliv, 2016b). Although the size of the investments are steadily increasing from year to year, there are however those who argue that the investments should be even higher, and that the reason for the lack of larger investments is connected to the rather low level of digital experience in the banks' leading boards (Finansliv, 2016a). According to a report published by Accenture (2016), only five percent of all board members in Scandinavian banks have professional experience within IT.



Source: Finansliv 2016b

Despite a clear trend where most Swedish banks are shutting down many of their offices and directing their focus at the digital platforms, there are numbers pointing at the benefits of maintaining a high physical presence, while simultaneously focusing on digital development. When Svenskt KvalitetsIndex (2015) investigated the customer satisfaction in 2015, they found that customers, despite a growing trust in digital banks, were increasingly asking for more personal communication. Regardless of great Internet services or brilliant mobile phone applications, Swedish customers still seem to value the possibility to talk to a personal advisor as even more important. Hence, Finansliv (2015) argue that there is a positive relation between satisfied customers and personal communication. The central importance of personal communication can further be seen when looking at the top scorer in customer satisfaction at the Swedish banking market. In 2015, Länsförsäkringar was crowned as the Swedish bank with most satisfied private customers, while Handelsbanken had the most satisfied corporate customers. What is interesting with both these banks is that they, in contrast to many of their competitors, have chosen to increase their number of branches over the last ten years (Finansliv, 2015).

2.2 DIGITAL STRATEGY AND PLATFORM INTEGRATION

Naturally, some banks will take the digital transformation extremely serious, and make large internal investments, while others might decide to merge or acquire external knowledge in order to cope with the development (The Boston Consulting Group, 2012b). Despite a great awareness of the magnitude of the digital development, there is however still a considerable inertia among many of the existing banks. According to Cho et al. (2012) there is a myth among traditional retail banks that being a digital pioneer is too risky, as competitors are given the opportunity to simply copy innovations and then publish them as their own. Brunier (2015) provides another argument for the caution and slow movements of traditional banks, by showing that the return of the bank's digital investments tends to be relatively flat. In contrast to industries such as retail, consumer goods or media who have been able to link the digital spending to economic gains, there is no obvious correlation between the bank's performance and their digital investments, which obviously slows down the amount of large investments (Brunier, 2015). Since 2010, when most large banks started to make serious efforts to improve their digital operations, average return on equity has stagnated at approximately 6 percent (Brunier, 2015).

In contrast, Cho et al. (2012) as well as McKinsey and Company (2013) and The Boston Consulting Group (2012b) argue that there are still huge first-mover advantages to capture. Primarily, it has to do with the organizational understanding stemming from a digital strategy. Being an early mover, the organization will learn from trial and error and thus a larger digital focus is likely to be carried out throughout the whole organization. Thanks to more manageable digital platforms the banks will be able to shrink their physical presence while simultaneously reducing costs for rent and properties (Brunier, 2015; Cho et al., 2012; Gupta and Khanna, 2015; The Boston Consulting Group, 2012a; McKinsey and Company, 2013). McKinsey and Company (2013) further claims that European retail banks that manage to pursue a full digital transformation will be able to realize improvements in terms of EBITDA of more than 40 percent within the next five years. About two-thirds of this huge potential increase has its roots in the effect on the cost savings a digital structure would generate, rather than an increase in revenue. Primarily, the cost reductions can be derived from streamlining of internal processes such as careful deployment and self-servicing capabilities. Using the digital channels might also reduce the amount of paperwork and facilitate maximum utilization of specialist knowledge by use of videoconferences (Gupta and Khanna, 2015; McKinsey and Company, 2013).

However, the digital focus provides more advantages than just lower costs. Banks that manage to successfully implement the digital platforms and integrate the customers will be able to increase their customization, expand the product variety, accelerate the delivery time for certain services and tap new revenue pools that would help boost profitability (Brunier, 2015; Cho et al., 2012). Cho et al. (2012) thus claim that the risk is actually higher for the banks who neglect the transformative trend, as those banks will subsequently be forced to play catch-up in order to avoid falling irrevocably far behind plausible frontrunners. McKinsey and Company (2013) takes it one step further, arguing that digital banking is a do-or-die challenge.

2.3 THE EMERGENCE OF NON-TRADITIONAL BANKS

According to research published by the international money-transfer company TransferWise, there is a huge expected shift in the banking customers' behaviour over the next five years (TransferWise, 2016). In 2015, 68 percent of banking customers had never conducted their financial services through a non-traditional bank. However, within a time frame of five years, TransferWise (2016) expects the majority of European banking customers to use technology providers for at least one of their activities, whereas one third is expected to use it for 50 percent or more. Looking more deeply into specific services, every fifth customer is predicted to be using a technology provider for typical day-to-day services (TransferWise, 2016). For the banking market, McKinsey and Company (2013) claims that this will most likely mean tougher competition in the market, as customer adoption is expected to be breathtakingly fast and actors who are not able to keep up with the high digital development pace will be rendered obsolete and exposed.

The banking industry is already facing growing competition from non-traditional banks, who have witnessed the inertia among existing banks, and are now aiming to make further investments in order to increase revenues even more (Busch and Moreno, 2014; Gamble and Mankila, 2009; The Boston Consulting Group, 2012b). Just like the digitalization in general, these actors have records of moving really fast. Most of them, like Google, Apple, Facebook and Alibaba, have long experience within the IT, Big data and Fintech industries. The Chinese giant Alibaba, for instance, became a \$16 billion lender in less than three years and

then moved to become the largest seller of money market funds in China within the next seven months (Busch and Moreno, 2014).

In a survey published by Accenture (Brunier, 2015), it is described that the majority of the world's largest companies are planning to make some kind of move towards the digital banking market within the next five years. Normally, these diversifications are made through alliances, joint ventures and acquisitions, and typically they are directed towards the digital solutions and transaction systems (Brunier, 2015). The non-traditional banking actors are aggressively capturing more and more of the banking value chain, which of course represents a major challenge for the whole banking industry, as the existing banks risk to become back-office utilizers rather than customer-oriented commercial banks (Busch and Moreno, 2014). Although the adoption of non-traditional banks is still very small in proportion to the traditional banking, this is likely to change. Along with a higher awareness, many customers are believed to consider these actors as an alternative equal or even better than a traditional bank (Hinrikus, 2016). Moreover, companies engaged in fintech are very attractive in terms of investments from Venture Capitals and holding companies, which implies strong financial capacities (Brunier, 2015). The hype surrounding fintech companies can be summarized in one sentence, tweeted by the chief editor of Financial Times, Lionel Barber during the 2016 World Economic Forum in Davos:

“Nobody wants to be in banking, everyone wants to be in fintech”

- Tweeted by the chief editor of Financial Times, Lionel Barber, during the 2016 World Economic Forum in Davos (Lionelbarber, 2016).

2.4 MANAGING A CHANGING BANKING INDUSTRY

2.4.1 CHALLENGES IN THE NEW DIGITALIZED BANKING INDUSTRY

Managing new market conditions in the banking industry is far more complex than just pursuing a cutting-edge digital strategy and monitor competitors. It also confronts the business models and value propositions of the banks and challenges each company to rethink their view of how banking should be done (Cho et al., 2012; McKinsey and Company, 2013; The Boston Consulting Group, 2012b). Among other things, this includes how to handle the huge amount of customer data that will be available, how to successfully meet the changing customer demand, how to balance the physical and digital presence and how to overcome adoption barriers and create a strong customer relationship.

2.4.1.1 Data Utilization

One great challenge for today's traditional banks concerns management and utilization of customer data (Cho et al., 2012; The Boston Consulting Group, 2012b). Due to the digital transformation, banks are now able to track customer habits and transaction patterns in a far more effective manner than they were before. Today, numerous banks possess a treasure trove of data, highly valuable for both internal marketing and segmentations, but also for multiple external parties outside the banking industry (Cho et al., 2012). However, the banks need to learn how to effectively utilize these massive flows of information without disrespecting the privacy of their customers (Brunier, 2015).

According to The Boston Consulting Group (2012a), all retail banks should adopt a well-structured approach when collecting data in order to deepen the understanding of the customer preferences. If this can be done successfully, the banks would possess information

about everything from simple purchasing patterns, individual preferences, financial goals and life time events such as education, marriage, child births, purchases of new houses, retirements and so on. Such information could then be used to form a strong customer knowledge base, which in turn could be used for marketing and development purposes. If possible, some general and anonymous information could further be sold to other external organizations that may be willing to pay high prices for such valid information (The Boston Consulting Group, 2012a).

2.4.1.2 Technological Focus vs. Customer Preferences

Being aware of all the benefits stemming from the rapid digital development, it is important to bear in mind the treacherous outcome of focusing too much on cost reduction and technological updates, rather than emphasizing what should be the main focus for all companies; namely the customers. Both McKinsey and Company (2013) and Bain and Company (2014) mention in their reports about the banking industry that they believe that the majority of banks are repeatedly concentrating too narrowly on cost reduction and new technological advances instead of integrating the preferences of the customers. Cho et al. (2012) follow the same track and argue that success will demand a lot more than trendy, high-tech applications and gadgets for the banks to be able to turn the digitalization process into a profitable part of their business model. This becomes particularly clear when looking at the issue from a competitive perspective, as technology on its own is unlikely to create any competitive advantage if not the personalized customer experience is also taken into consideration (Bain and Company, 2014). Of course, high-tech solutions are necessary in order to keep up with the fast-moving digitalization process, but it has to co-exist together with the customer focus. When Bain and Company (2014) conducted research with the purpose of investigating what experiences mattered the most for banking customers regarding digital services, they found that the most frequently used features with the highest emotional value were the comparatively simple features rather than complex problem solving ones. Furthermore, their report showed that the by far most important feature was being able to comfortably check the balance on the account, which is a remarkably simple feature. Knowing what the customers want is therefore of utter importance in order not to make large investments that are only believed to be superfluous and unnecessary from a customer perspective. Finally, Cho et al (2012) argue that the technology itself is a very costly process and if not successfully meeting the customer demand with the new technologies, costs will escalate quickly.

2.4.1.3 Customer Relations and Customer Loyalty

Customer relationships and customer loyalty is something that has always been essential for the banking industry, which is why it is important to consider also in periods of a digital transformation (Foscht et al., 2010). For most international banks, the main communication channel has historically been local bank offices; if problems emerged, then one went to visit the local branch or called the account manager in order to find a solution (Finansliv, 2015). However, as more and more customers have chosen to conduct the majority of their banking activities online, the online platform have instead grown to become the main communication channel (Bain and Company, 2014). Consequently, Bain and Company (2014) found that the mobile channels have grown to become key elements also when building customer loyalty. This development brings a completely new challenge for the banks; how should they communicate if the customers do not visit the branches? And how can they manage to maintain a high customer loyalty? (Finansliv, 2015).

When customers gain more knowledge and are capable of finding valuable information on their own, banks need to find contemporary ways of creating value for the customers in order to maintain their competitive advantage (Prahalad and Lieberthal, 1998). In Sweden, Gamble and Mankila (2009) found that banking customers, to a greater extent than before, are using multiple banks when conducting their banking activities. The proportion of Swedish consumers that uses one bank has steadily decreased since 2007, as approximately 50 percent today are customers at two or more banks (Synovate Sweden AB, 2008). However, looking at the historical propensity to switch main bank, Holmberg and Mankila (2009) found that 75 percent of Swedish banking customers have never changed main bank. The average customer relationship lasts for approximately twenty years, and the customer loyalty in the Swedish banking industry is thus believed by Gamble and Mankila (2009) to be rather high.

Despite a relatively strong historical loyalty, banks still need to determine what communication the customers are expecting for the future and then construct its business model around this (Johnson et al., 2008). The Boston Consulting Group (2012a) argue that being truly customer-centric is no longer a strategic choice - it is an imperative for long-term survival. These thoughts may seem ridiculously logical at a first glance. However, as is often the case for many traditional banks, the same factors that grounded the success of the company, is usually also a barrier when adopting essential change-efforts in how to conduct banking, since the values are so deeply rooted in the organization (Johnson et al., 2008). Hence, it is important to understand that the requirements of today's customers might be remarkably different from the historical demand. How to build loyal customer relationships is thus a key question for all banks as it is shown that loyal customers tend to buy more products, which in turn will generate a higher profitability (Bain and Company, 2014; Prahalad and Lieberthal, 1998; The Boston Consulting Group, 2012a-b).

2.4.1.4 Digital Solutions and the Survival of the Physical Branch

As a result of the discussion in the previous section, one of the most frequently debated challenges with regard to the digitalization process of the banking industry is the survival of physical branches (Cho et al., 2012; Finansliv, 2015; Gupta and Khanna, 2015; McKinsey and Company, 2013; Rygby, 2004; The Boston Consulting Group, 2012b). Some argue that the dismantling process of physical branches is the only way to go, (Hinrikus, 2016; McKinsey and Company, 2013; Gupta and Khanna, 2015) while others claim that many banks have been too eager and naive when switching to completely digital platforms (Cho et al., 2012; Finansliv, 2015; Rygby, 2004). As previously stated, an attractive motivation for making use of the new digital systems is the possibility to lower the total costs of operations. Forcing the customers to websites, mobile applications and ATMs instead of the local branches enables the shutdown of the traditional full-service office, including office rents and labour costs (Cho et al., 2012). In relation the previous section on customer loyalty, Rygby (2004) however highlights the risk of becoming too digital and compromise on the personal service as those customers used to the traditional system might then choose to switch to another bank that provides the same services as they are used to. In order to avoid these risks, Rygby (2004) argues that banks should thrive to balance the digital self-service approach with traditional and physical personal service. He also claims that too many banks are running their physical and digital operations independently, which might create confused and annoyed customers. According to Cho et al. (2012), the act of balancing the digital and physical solutions might however be tremendously hard to manage. The majority of the customer base is getting more experienced and familiar with using online channels when searching for information and conducting their daily banking activities. Hence, the online channel has emerged as the primary channel for the high-volume activities, such as balance

and statement viewing, transferring money as well as purchasing of funds and stocks (The Boston Consulting Group, 2012b).

Conversely, Cho et al. (2012) show that local branches are getting more and more important, both as showrooms but also as a place where customers can ask for financial advice from experts. Furthermore, Cho et al. (2012) found that the majority of the customer base value the advice they receive from their account managers as either ‘important’ or ‘very important’ when making a financial decision. Hence, the branches remain the predominant channel when creating and deepening customer relationships, and the first choice of support when facing problems that are perceived as too complex and difficult to manage without guidance (The Boston Consulting Group, 2012b). The separate communication channels thus have their own exclusive advantages and drawbacks, and together they force the banks to carefully review their digital strategies. Because, although conducting most of the activities online, many existing customers still seem to expect a high level of personal service and want the quality of service to be the same, regardless of the chosen communication channel (Cho et al., 2012). Furthermore, like in other industries such as retail clothing or electronics, banking customers will most likely expect the same deals at local branch offices as those available at the digital meeting-points. Hence, The Boston Consulting Group (2012a) argue that retail banks must pursue a totally integrated channel strategy, where different distribution channels should support each other rather than create internal competition. They (2014) further describe that customers using multiple channels tend to be the most profitable customers, which should work as clear motivation for pursuing a multi-channel strategy.

2.4.1.5 Adoption- and Implementation Barriers

With knowledge about the challenges stemming from the digital transformation described in previous sections, one must understand that there are no easy solutions to the digital revolution. If a bank seeks to successfully manage the digital transformation, it is not enough to just adopt a new digital approach. The road to success is far more complex than that. Although convincing the board to make large investments and develop new digital services, there is still one group to persuade. One of the most crucial causes for market success or market failure when dealing with new innovations and change management is the experienced resistance from the customers (Ram and Sheth, 1989). According to Ram and Sheth (1989), such resistance might occur as a result of two major reasons, namely functional and psychological barriers. The functional barriers mainly relate to product usage patterns, product value and risks connected to the usage of goods or services. Mutual for all these barriers are that the new innovation is believed to force the customer to make major changes when conducting one’s daily activities, thus affecting old routines and habits. Gerrard et al. (2006) found an example of such barriers when investigating why customers in Singapore were resistant to Internet banking. They found that one of the largest motivations was that many customers perceived a lack of genuine need for new modern services as the “old and traditional services were working just fine”.

In contrast, psychological barriers are more related to customer perceptions. A barrier might arise if the new innovation is violating old traditions or a certain product image. It could also originate from negative stereotypes related to a specific industry or country (Gerrard et al., 2006). Psychological barriers are thus often a result of a conflict between the new innovation and the customer’s prior knowledge or beliefs. One such possible conflict is described by Gupta and Khanna (2015) as well as Gerrard et al. (2006) and concerns the suspicion, often expressed by the older customer generations, regarding the safety of new digital banking services, which leads to a barrier in terms of mistrust. Montazemi and Qahri-Saremi (2014)

also investigated factors affecting adoption of online banking and they found that the adoption was influenced by both direct and indirect factors, similar to the theory presented by Ram and Sheth (1989) The direct factors were motivations such as low trust in the physical bank, low perceived usefulness of online banking and low trust in online banking in general. The more indirect factors were rather related to the quality of the products, the ease of use and social influences.

2.4.1.6 Switching Costs

Switching costs in terms of a banking industry approach can be related both to the banks costs when switching business models or what customers value when considering the decision to switch banks. As this thesis mainly concerns private customers, focus will be on the latter. The Boston Consulting Group (2012a) chooses to divide customers' switching costs into two different dimensions of a customer-centricity framework; namely the customer-facing side and the internal side. On the customer-facing side, the primary enablers are marketing and communications, service and sales, products and service as well as the overall experience. On the internal side of the framework, more internal aspects can be found, which primarily encompass customer intelligence and IT landscape, processes and governance. This places emphasis on the combination of adopting new technologies in operations alongside a potentially altered customer demand and accessibility. Proving what has the biggest impact on success may be hard to point out, but The Boston Consulting Group's (2012a) investigations portray a result where 50 percent switch banks because of customer-facing dimensions. According to Gamble and Mankila (2009), the most influential forces when Swedes are choosing main bank is what bank family members and close friends are using. However, when it comes to switching from one bank to another, the possibility to receive better economical terms at the new bank seems to be the most deciding factor (Gamble and Mankila, 2009). Customer satisfaction with regard to pricing is in turn found to be a multidimensional construction, consisting of price in relation to quality, fairness, transparency, reliability and competitors' offerings (Matzler et al., 2006; Matzler et al., 2007).

2.4.2 POTENTIAL STRATEGIES TO COPE WITH FUTURE DIGITALIZATION

To fully take advantage of the new digital advances, while managing a more intense competition, it becomes evident that it is no longer an option for Swedish banks to think and act like traditional banks (Brunier, 2015; Cho et al., 2012; McKinsey and Company, 2013; Rygby, 2004; The Boston Consulting Group, 2012b). Instead, Accenture (Brunier, 2015) argues that actors in the banking industry need to act like digital entrepreneurs with a much deeper understanding in new digital solutions. Together with a salubrious economic model and data-driven insights, this will allow the banks to re-imagine their digital strategies in order to put greater emphasis on what will pay off in the future. By adopting such strategies, the traditional banks might find it easier to retain their customers as the non-traditional banks are entering the market. Accenture (Brunier, 2015) present three strategies that banks could pursue in order to make sure that their digital initiatives pay off:

Use knowledge from other digitalized industries

As customer expectations tend to be set by best practices in other digitalized industries, banks could learn a lot from observing such actors. Furthermore, they must learn to consider the new digital solutions as profitable business and not just distribution channels complementing the traditional ones. Connected to this, Brunier (2015) argues that all banks need to create a fast-moving organization in order to increase the possibility to adapt to rapid innovation

cycles. Brunier (2015) proposes a strategy including open innovation and a more customer-centric view, in which customers are invited to participate in the innovation process. Learning more about the customer demand, banks can adjust their value propositions and incorporate the customers' thoughts and ideas into profitable business models.

Dare to challenge the traditional comfort zones.

As margins on traditional banking products are steadily decreasing, Brunier (2015) suggests that banks need to look outside the traditional banking market in order to find profitable activities that could generate new sources of growth. Mainly, this strategy is related to exploring potential opportunities in untapped market segments, providing customers with non-traditional banking services. According to Brunier (2015), the future of banking is strongly connected to an everyday relationship between the bank and the customers. Hence, all banks must strive to come up with solutions simplifying the lives for the customers.

Pursue a cost-reduction potential

Brunier (2015) further highlights the importance of exploiting the digitalization for cost-reduction purposes. In contrast to previous research, he argues that the digitalization should not only be used to improve internal systems, but also the external systems that are directed at the customers. This could be done in many ways, with straight-through-processing as the most efficient one. Using the Internet service, for instance, the process for mortgage applications in many banks have both become more cost- and time efficient. Streamlining of physical distribution networks, using public cloud systems and just-in-time transactions are other solutions that could enable banks to make further cuts in unnecessary costs.

3. RESEARCH METHODS

The following research methods chapter will describe this report's research design and motivate why certain choices regarding population, sample size, data collection and data analysis have been made. As a result of a twofold purpose, there are consequently two kinds of target groups for the report, and thus these will be presented separately. Finally, it all culminates in a discussion about the quality and possible limitations of the methodological endeavours.

3.1 RESEARCH STRATEGIES AND DESIGN

In order to answer the research question, with following sub-questions, in a desirable way, this study has been built upon a mixture of both deductive and inductive approaches. Substantial parts of the theory are outcome from our own research, including interviews and observations regarding patterns and regularities in customer banking habits. This approach has been valuable, as little research has been conducted within our focused target group and geographical region. Hence, generation of new theories have been possible as new data was collected. However, the report also entails elements of a deductive approach, as the basic understanding of the topic has been based on existing research and theories regarding digitalization in the banking industry in general. As a result of a twofold purpose, where we were aiming both to *identify the pattern of how young banking customers in Sweden currently are valuing digital banking services* as well as to investigate *how their adoption of digital banking might impact the future of Swedish banks*, the research has been conducted through a combination of quantitative and qualitative data collection. In order to fulfil the first part, a quantitative survey was conducted. This survey aimed at creating an understanding of customers' current banking habits with regard to the growing digital transformation. However, it also included aspects such as banking preferences, and what the customers value as significant features of digital services. Hence, it was imperative in order to be able to answer the first sub-question of the research question.

The second part of the purpose is to show how the adoption of digital banking services among young adults might have implications for Swedish banks. Along with the quantitative approach, a qualitative study was therefore conducted simultaneously. This enabled us to gain a deeper understanding of how banks envision the future, involving the potential development of a more digitalized customer base and how they can capitalize on the opportunity. Therefore, three qualitative interviews were conducted with employees highly integrated in the banking industry and with experience and focus on the digital development. As a result, the qualitative approach added a completely new dimension to the study as both the supply- and demand side were investigated. The mixture intends to provide the reader with real life examples, which according to Siggelkow (2007) facilitates the understanding for how a theory could be applied and interpreted. Furthermore, it was necessary in order to answer our second sub-question, which is derived from the ultimate research question.

3.2 SYSTEMATIC LITERATURE REVIEW

As a first step, a systematic literature review was performed in order to gain a basic understanding of the topic as well as to collect "first-knowledge" information. Bell and Bryman (2015) argue that such a process is vital when building a solid knowledge base, but

also in order to avoid “reinventing the wheel”. Using the literature review, it thus became easier to motivate exactly what this report would be adding to pre-existing knowledge. It also helped when we constructed the questions for both the quantitative survey and the qualitative interviews. Most of the theories and statistics were gathered by using different search engines and electronic databases, such as Web of Science, Emerald, ScienceDirect and Elsevier. Another helpful tool when searching for suitable literature was ‘Summon’, which is a search engine provided by the electronic library of the Gothenburg University. As a mean to increase the likelihood of finding satisfactory literary texts, while streamlining the process, special keywords have been used. Here, a juxtaposition of some of the concepts is presented: *Banking, Banks, Banking services, Banking habits, Digital banking, Digitalization, Digital platforms, Non-traditional banks, Innovation, Radical Innovation, Disruptive innovation, Technology, Adoption barriers, Internet, and Mobile.*

3.3 QUANTITATIVE SURVEY

3.3.1 POPULATION AND SAMPLE

As this report aimed at investigating how a broader adoption of digital banking services among young adults might affect the value propositions of Swedish banks, we initially needed to map the habits and preferences of the chosen target group that would induce such effects. As described in the introduction, the choice of focusing on young adults within the particular field of Digital Banking is supported by several researchers (Coffey and Palm, 1999; Dibb and Simkin, 1997; Foscht et al., 2010; Martensen, 2007; Thwaites and Vere, 1995). The definition of ‘young adults’ is however rather vague. Generally, it is defined as a person of age between 20 and 39 (Farrington et al., 2012; Levinson, 1978). Levinson (1978) further divides the phase of being a young adult in two trailing stages. The first stage lasts up until the age of 30, after which the average person tend to settle down in the second stage with a more stable family life. In this report, focus is directed at the first stage as this is believed to capture the younger and more inquisitive generations capable of adding new dimensions to the existing banking industry. The lower bound is however expanded to also include people at the age of 18, which in Sweden is the age at which a person takes on the rights and responsibilities of an adult.

Although limiting the term of young adults to Swedes in the age between 18 and 30, the total population is still very large. As this report aimed at creating a trustworthy and reliable depiction of how young customers in Sweden perceive the value of digital banking services, the need to sample was thus consistently encountered and was a fundamental requirement in order to be able to draw any reliable generalizations at all. According to Bell and Bryman (2015), good practice within quantitative research is strongly associated with probability- or random sampling. Although it might have been preferable, this report is not based on random sampling but on a non-probability sample. Several aspects can motivate such an approach. The first motivation has to do with the complexity and difficulty in obtaining a high quality probability sample. In order to perform a proper probability sample, in which each unit of the population has an equal probability of inclusion in the sample, some kind of register of all population units would have been required (Bell and Bryman, 2015). As our chosen population concerns young Swedish adults in the age between 18 and 30, a public register is however hard to obtain. In addition, as this research is part of a Master’s thesis rather than a financially supported report, neither enough time nor capital was available in order to acquire any register or to perform a timely sampling process. Although limited by time and money, the vision has always been to maximize the sample size. Bell and Bryman (2015) argue that

the general rule for making a sample as representative as possible, is the size of the sample - the larger the sample size, the more representative it is likely to be. Another argument for a large sample size is the great heterogeneity among our chosen population. Due to differences in gender, age, occupation and/or geographical location it might have been difficult to uncover patterns or to draw conclusions from the research unless the sample wasn't large enough. According to Bell and Bryman (2015), the best way to perform a high quality study when limited by both time and money, is by doing a mini-survey where the number of interviews is maximized with regard to the budget and set time frame. Based on the previous discussion, a convenience sample, where the researchers exploit their own surrounding, has therefore been chosen as sample method. Ferber (1977) describes this method as fast, easy, readily available and cost effective, making it a very attractive approach not only for students. Furthermore, it was motivated as it enabled us to maximize the number of interview units, thus generating a larger, and hopefully more representative, sample.

3.3.2 ELECTRONIC SURVEY

According to Bell and Bryman (2015) there are two ways in how to carry out a survey. The first option is structured interviews, which includes meeting the interview object or talking on telephone. Just like the motivation of not choosing a probability sample, such an approach would however have been too time consuming and costly as we were aiming to get an as high number of respondents as possible. Hence, the second approach, self-completion questionnaires, was used for the quantitative survey. With self-completion questionnaires respondents are able to answer the questions by completing the questionnaire by themselves (Bell and Bryman, 2015). Instead of mailing all the copies to the respondents or to hand them over in person, a completely digital survey was used. The greatest advantage with this approach is that we were able to distribute our questionnaire in very large quantities without any geographical limit. Another important advantage is that digital self-completion questionnaires are seen as more convenient for the respondents as they can be completed whenever, and in any way, the respondent wants. Hence, the likelihood to receive a large quantity of answers was higher than if asking the same amount of people if they would agree upon participating in a personal interview or to fill in a physical survey and send it back by mail (Bell and Bryman, 2015). Some authors (Sudman and Bradburn, 1982; Tourangeau and Smith, 1996), further argue that the approach of using self-completion questionnaires results in more objective findings as the interviewer effect is likely to be eliminated, meaning that the respondent is not influenced by the person asking the questions.

The final survey consists of 35 questions and was made using an online survey-maker launched by the company Webropol, which provides online surveys and analysis software. The main focus was directed at digital banking habits, and in order to collect answers about this, the respondents were asked both if they were using the different digital services, how often, and what features they value the most when using them. Constructing alternatives for each question, much focus has been put on not steering the results in any direction. For instance, when listing the number of possible features in the mobile phone service, research was first conducted where different applications were explored, in order to include all possible alternatives available at different banks. As both authors have professional experience within the field of banking, this further ensured a solid base of representative alternatives. In addition, all questions consisting of multiple alternatives always contained one alternative in which the respondents could type in their own alternative, thus limiting the risk of excluding any answers. In such a way, a clear and unbiased pattern representing the sample could be depicted for each of the different services. In order to avoid a situation where each service was only evaluated individually, which would have made the answers

hard to compare, the respondents were also asked to rank them internally with regard to each other. This strategy was also used when comparing the perceived value of the different communication/distribution channels. As a mean to be able to discern the respondents from each other, and to be able to find out if there were any differences in answers that could be explained by the diversity among the sample, basic questions were initially asked about gender, age, main occupation and so on. In order to avoid misspellings and misunderstandings, the survey was also tested in different pilots, which gave us the opportunity to include external opinions if there were any alternatives missing.

A link to the final survey was eventually constructed and sent to all respondents in the sample group. The sample consists of 150 young adults in the age between 18 and 30. It is equally divided by gender and includes old and current classmates as well as people in our personal and professional networks. Beyond applying a gender equality mind-set, the respondents includes people with different geographical origins as well as a mixture of youths who are studying, and those who are full time employees. All respondents thus fulfil the criteria to be representatives for young Swedish adults. In order to distribute the survey, the digital link was sent both through the university's internal email system but also on Facebook and personal email addresses for those who were not studying. Out of the 150 copies that were sent, we received 93 answers. According to Bell and Bryman (2015), a response rate below 50 percent is not acceptable. However, the rate should be higher than 60 percent in order to be more than just barely acceptable. Our total response rate equals 62 percent and includes respondents across all criteria such as gender, age and occupation. Hence, our response rate indicates an acceptable level of response.

3.4 QUALITATIVE INTERVIEWS

3.4.1 INTERVIEW COMPANIES

Apart from our quantitative survey approach, we also conducted three personal interviews with individuals from prominent corporations within the banking industry. By doing so, we were able to complement our quantitative data with insightful information from real life organizations. Hence, our research is meant to capture complexity to a greater extent; providing information from the inside of the banking network (Jacobsen, 2002). In our interviews, we highlighted the important topics surrounding the company's approach to digital banking today, thoughts behind their way of tackling the conundrum and how they visualize the future.

According to Swedish Bankers' Association (2016a) there were a total of 117 banks in Sweden in 2014. Out of these banks, 38 were Swedish commercial banks, 29 foreign banks, 49 savings banks and two were co-operative banks. The heterogeneity among Swedish banks is thus rather widespread and several different strategies are exercised in order to manage the digital development. In 2014, the four largest banks in Sweden together constituted for approximately 75 percent of the total market. Their importance and influence regarding the development of the Swedish banking market is thus of major significance. Hence, interviews have been conducted with representatives from two of these four giants. As one of the respondents requested anonymity, the participating banks are henceforth referred to as Company Y and Company Z. Both these banks are, due to their large customer bases and wide range of products, seen as traditional commercial banks that are both physically present through local branches as well as accessible through digital platforms such as Internet and Mobile phone applications. Although classified as traditional banks, they are nonetheless

implementing two quite different banking approaches, which is of interest when investigating the process of digitalization. The CEO of Company Y, stated in the 2014 annual report that as much as 96 percent of the bank’s customers are using the digital platforms when conducting banking activities. Alongside this, the bank has simultaneously decided to shut down a large number of branches the past ten years (Finansliv, 2015). Company Y’s belief in the digital development is thus rather obvious and their thoughts about the future is therefore highly valuable when mapping the banking habits of Swedish banking customers and relating it to the strategies of Swedish banks. In contrast, Company Z has chosen to maintain a rather high level of physical presence in terms of local branches while simultaneously focusing on new digital solutions. In their annual report from 2015, it is stated that the local branches is the heart of the organization, and although focusing on the digital development, the key to success is still believed to be high quality personal service. During the past ten years, Company Z has contrary to many other Swedish banks, opened up more branches than they have closed (Finansliv, 2015). Although these new branches are not always traditional offices located in the city centre, it is still interesting to see why such a large bank is choosing a strategy completely inconsistent with how the other competitors are acting.

Despite the domination of the four largest banks, a growing segment in the Swedish banking market is the emergence of different niche banks (Gamble and Mankila, 2009; Swedish Bankers’ Association, 2016a). These banks are often emerging as a result of an unmet demand in the existing market, which the largest banks might have difficulties in specializing on (Busch and Moreno, 2014; Gamble and Mankila, 2009). Niche banks also tend to have the advantage of starting from scratch, leapfrogging the old structures and move directly to the latest digital solutions (Vaidyanathan, 2008). Hence they tend to be more flexible and push for new technological solutions. One such niche bank is Company X, which belongs to one of the upcoming banks, riding the new technological wave. The company mainly provides its services through well-elaborated digital platforms and have no local bank offices. As a niche bank, they mainly focus on the younger generations who are believed to require new and innovative mobility as well as an unlimited usage. With a revenue growth rate comparably larger than the average in the market, and a stated innovative approach including large focus on digital solutions, Company X is thus a very interesting company to investigate.

Respondent 1
Company X Title: Communication and Marketing Manager Location: Gothenburg
Respondent 2
Company Y Title: Head of Electronic Customer Channels Location: Stockholm
Respondent 2
Company Z Title: Accessibility Manager, Global digital meeting points Location: Stockholm

Table 1 - List of interviewees

As can be seen in Table 1, the final interviewees at each of the chosen companies have responsibility for the whole, or parts of, the digital strategy for the bank they represent. This has been a very important criterion when conducting the interviews as these people are well

versed in both advantages and disadvantages with the digitalization process. In addition, and perhaps most important of all, they all possess knowledge about new potential innovations and are thus able to evaluate these with regard to the change in customer habits. Hence, their knowledge and predictions were key in order to fulfil the second part of the purpose, namely to investigate how the adoption of digital banking among young adults might impact the future of Swedish banks.

3.4.2 PERSONAL INTERVIEWS

In contrast to our quantitative survey, which ought to generate answers that could be coded and processed quickly, we aimed for more detailed answers as we were trying to fulfil the second part of the purpose. Hence, qualitative interviews were chosen as research method as a mean to capture the interviewees' own perspectives. Our intention was from the beginning to conduct all the interviews in person as the possibility to meet face-to-face tend to facilitate the mutual understanding between the interviewer and the interviewee (Bell and Bryman, 2015; Holme and Solvang, 1997). In addition, meeting the interviewee in their home milieu tends to make them more relaxed, which in turn is expected to increase the quality of the interview (Bell and Bryman, 2015). However, as two of the interviewees were located in their companies' headquarter in Stockholm, these interviews were conducted through Skype. The possibility to actually see each other while talking thus made the interviews very similar to face-to-face interviews. When conducting the interviews, we used a semi-structured approach in order to cover as much information as possible. The interview was structured widely, and thus formed as an interview guide with rather flexible and general questions, but determined topics to cover (Bell and Bryman, 2015). In addition, the layout of the interview guide provided natural characteristics of open-ended questions and continuous discussions, as deviating from intended sequence was demanded rather than prohibited. Therefore, we believe that the interview flowed in a more natural way, where the interviewee was free to elaborate to a great extent in discussions. Meanwhile, we had the opportunity to respond with follow-up questions specific for the individual interviews. When it comes to the procedure of collecting and examining the information from the interviews, we underwent the actions of recording and transcribing the interviews. Bell and Bryman (2015) acknowledges the significant advantage of being able to complement the inadequate natural memory of human beings. This enables a more thorough examination of what was said in the interview, where repeated examination is an option. Throughout our research, we found that this was the case, as we always had the opportunity to make sure what was said; which in turn gave deeper analysis and a substantial amount of reliability.

3.5 RESEARCH ANALYSIS

For the quantitative part, all answers were coded and transferred using the survey maker program (Webropol) that we used when creating the digital survey. All answers were organized in different charts and tables from which we made further investigations, before transferring them to an independent Excel sheet. First, each question was analysed separately with regard to different criteria in order to determine if there were any differences between gender, age or occupation. The results were then compared with existing theories and with each other in order to see if any patterns or indications emerged.

For the qualitative interviews, a slightly different method was used. All interviews were carried out with the same prepared interview guide as a foundation. After the interviews, which were all recorded, the answers were transcribed and categorized according to certain titles- and subtitles that cover the theoretical framework. The interviews were then compared

with regard to each other and all unnecessary information was deleted to only preserve data relevant for this thesis. In the final analysis, all collected data, both qualitative and quantitative, was put together in the context of the purpose and research question.

3.6 RESEARCH QUALITY

When conducting research, the main objective is normally to be able to explain how things work, why they work as they do or how a phenomenon will be developed in the future (Bell and Bryman, 2015). For this report, our research question aimed at investigating how a broader adoption of digital banking services among young adults might affect the value propositions of Swedish banks. As for all research, the aim was further to achieve a high enough research quality to facilitate a possibility to implement and generalize the findings within the context it was conducted. Just like every researcher needs to persuade the reader about the reliability and validity in order to guarantee such quality, the sections below will contain evaluations regarding the chosen research methods of this study.

3.6.1 RELIABILITY AND VALIDITY IN THE QUANTITATIVE RESEARCH

According to Bell and Bryman (2015), reliability is a term concerning the consistency of a measure, which should answer the question whether the results of a study are repeatable or not. To begin with, reliability should guarantee a high level of stability. Stability concerns whether or not a measure is stable over time, or if the result would be altered if the same survey would be replicated in the future (Bell and Bryman, 2015). As for this study, there are no specific factors influencing the results in any certain direction, which would suggest for a high likelihood for replication in the short run. However, since the purpose of the report is to, in-depth, identify the pattern of how young banking customers in Sweden *currently* are valuing digital banking services and how their adoption of digital banking might impact the future of Swedish banks, it is hard to tell how consistent the results will be in the long run. Dealing with technological advances and a very rapid development, the circumstances for this kind of study might be completely changed within a reasonably near future. Hence, whether the exact same result would be achieved if conducting the study again is highly dependent on the time span between the two surveys as it is empirically proven that if there is a long time span between the investigations, respondents are likely to be affected by changes in the economy and/or personal financial circumstances (Bell and Bryman, 2015; Holme and Solvang, 1997).

When conducting a quantitative survey, including multiple-item measures where the answers of all respondents are aggregated to create an overall score, there is a possibility that the questions might be interpreted in different ways or that the same scale is perceived to be divergent for different questions. Hence, emphasis was put into making the survey easy to understand and to make sure all questions were clear and unambiguous. All questions that were not self-evident, were, for instance, added an explanatory text in order to help the respondent fill in the survey in a correct manner. In addition, several test surveys were sent to a pilot group before the final survey was published and distributed to the sample units. In such a way, adjustments could be made if there were any defects, if the survey was too complex, or if there were any other opinions or concerns within the pilot group. Another related term when evaluating the reliability of a research is Inter-rater reliability, which mainly concerns the level of subjective judgements involved when putting together a survey, recording observations or translating data into categories (Bell and Bryman, 2015). As described in previous sections, the survey was constructed using a pilot group in order to avoid subjective survey characteristics with biased response alternatives. For all questions

with multiple alternatives, one alternative was always left for own proposals as a mean not to exclude any suggestions.

Another criterion of research quality is Validity. Validity in quantitative research refers to what extent an indicator or measurement manages to measure the actual concept. This evaluation mind-set is mainly applicable at the questions and measures included in the digital survey. Face validity was established as all questions were initially sent to a pilot group consisting of both people with, and without, banking experience. As both authors have professional experience from the banking industry, much of the logics and questions have been based upon own expertise considered to be appropriate for the concept in question. In addition, a kind of convergent validity has been established, as the measures from the quantitative survey have been compared to measures of the same concept while conducting the qualitative interviews.

3.6.2 RELIABILITY AND VALIDITY IN THE QUALITATIVE RESEARCH

In quantitative research, reliability and validity has always been important criteria when establishing and assessing the quality for the research (Bell and Bryman, 2015). In qualitative research, however, many voices have been raised towards the relevance of these measures (LeCompte and Goetz, 1982; Lincoln and Guba, 1985; Mason, 1996). Since measurement is not a major part of qualitative research, the issue of validity has little or no value for this research approach (Bell and Bryman, 2015). As a result, Lincoln and Guba (1985; 1994) have instead suggested that qualitative research rather should be evaluated according to Trustworthiness and Authenticity. Trustworthiness in turn consists of four criteria; credibility, transferability, dependability, and conformability. Hence, the quality of our qualitative part will be evaluated according to these factors instead.

In a social context, there can be several simultaneous truths and perceptions of the surrounding environment. Hence, credibility is of major importance when presenting a result (Bell and Bryman, 2015). To ensure the credibility of this report, emphasis has been placed on verifying that the research has been carried out according to good practice. All interviews were recorded as a mean not to misrepresent what have been said in the interviews. Furthermore, the report has been submitted to all the interviewees before publication to confirm that we have correctly understood what has been described in the interviews. With help of such respondent validation, correspondence between our findings and the perspectives of our interviewees has been ensured. Highly connected to credibility is conformability, which concerns the objectivity of the research. Recognizing complete objectivity is virtually impossible in qualitative research (Bell and Bryman, 2015). However, acting in good faith and disallowing personal values to be manifested in the report has been of utter importance when writing this report. In order to further improve the trustworthiness of the report, an auditing approach was adopted, which is a main criterion to ensure dependability. The auditing approach entails ensuring that complete records have been kept for all research phases including problem formulation, systematic literature review, sampling as well as notes and recordings from interviews. Participating in continuous meetings and discussions with our supervisor, who has revised and commented on the research procedures, has also contributed to the auditing process.

In addition to the four criteria constituting trustworthiness, qualitative research is also evaluated according to Authenticity. Authenticity concerns the wider political impact of the research and is mainly related to objectivity and fairness. Much emphasis has therefore been put in trying to create an objective picture of the Swedish banking industry aimed to help the

reader to gain a better understanding of the social milieu. The comprehensive systematic literature review and the mixed research approach are both evidence of this.

3.6.3 GENERALIZATION AND APPLICABILITY

As mentioned in the beginning of this chapter, all decisions regarding the research design sought to enable the report to answer the stated research question, and thus fulfil the set purpose. Furthermore, the intention was to achieve an as high research quality as possible, making it feasible to implement and generalize the findings within the context it was conducted. Aiming high, the big issue attributed to drawing good generalizations is to assess whether the chosen sample is perfectly representative or not. With knowledge about this report being a Master Thesis, without any financial support and with a strict time limitation, a perfectly representative sample has not been possible to achieve, which of course has implication for the level of generalizations. Choosing a convenience sample instead of a probability sample, we are well aware that the possibility to draw perfect generalizations about all young adults in Sweden might be lowered, as the sample could arguably be influenced by personal judgements. However, as described by Bell and Bryman (2015), the use of a random selection process does not guarantee a representative sample, as there are always factors external to the selection system that can jeopardize the representativeness. Hence, given the circumstances, the results generated from this survey is still based on a rather large amount of respondents, all of whom are representatives for Swedish young adults in the age between 18 and 30. Although this report cannot be said to represent all young adults in Sweden, it could yet act as a valuable indication of how young banking customers today perceive the value of digital banking services. Taking into consideration that the report also includes interviews with prominent individuals within the field of digital banking in Sweden, the results are thus believed to be able to, in a trustworthy and reliable way, portray the current situation among young Swedish adults in the digital banking industry as well as possible developments for the future.

4. EMPIRICAL RESULTS

In the fourth chapter the results from the conducted research is presented. First, the collected data from the electronic survey is manifested, mainly in terms of statistics and charts describing the current banking habits of young adults in Sweden. Finally, the outcome from the qualitative interviews is introduced, including the different managers' thoughts on their digital strategy and platform integration, how to manage a changing banking industry, the emergence of non-traditional banks, and their future outlooks.

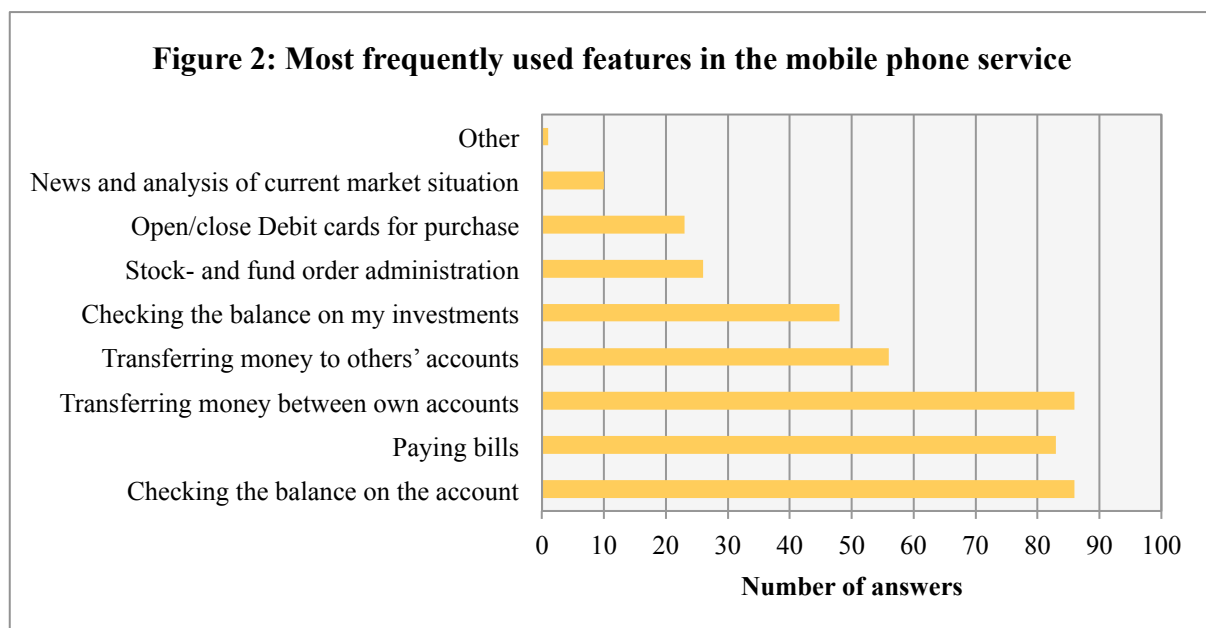
4.1 DIGITAL SURVEY

The survey was sent to 150 interviewees with a response rate of 62 percent. The results are thus based on the answers of 93 young Swedish adults, of whom 47 are men and 46 are women. All respondents are of an age between 18 and 30 with an average age of 22,7 and a median of 24. Approximately 65 percent are students while the remaining 45 percent are full time workers.

4.1.1 USAGE OF DIGITAL SERVICES

The usage of banking applications for mobile phones and tablets is shown to be large and widely adopted among all respondents since as much as 89 out of 93 (96 percent) answered that they actively use their bank's mobile phone application. Looking at the four respondents who answered that they were not using their mobile phones for banking activities, three claimed that "I can do everything online on my Internet service" while one stated, "I don't have a need for such an app".

Knowing the level of adoption of the mobile phone service, the respondents were also asked what kind of features they normally are using while logged in. As can be seen in Figure 2, the features that are most frequently used when logged in through the mobile phone application are 'Checking the balance on the account', 'Transferring money between own accounts', and 'Paying bills'.



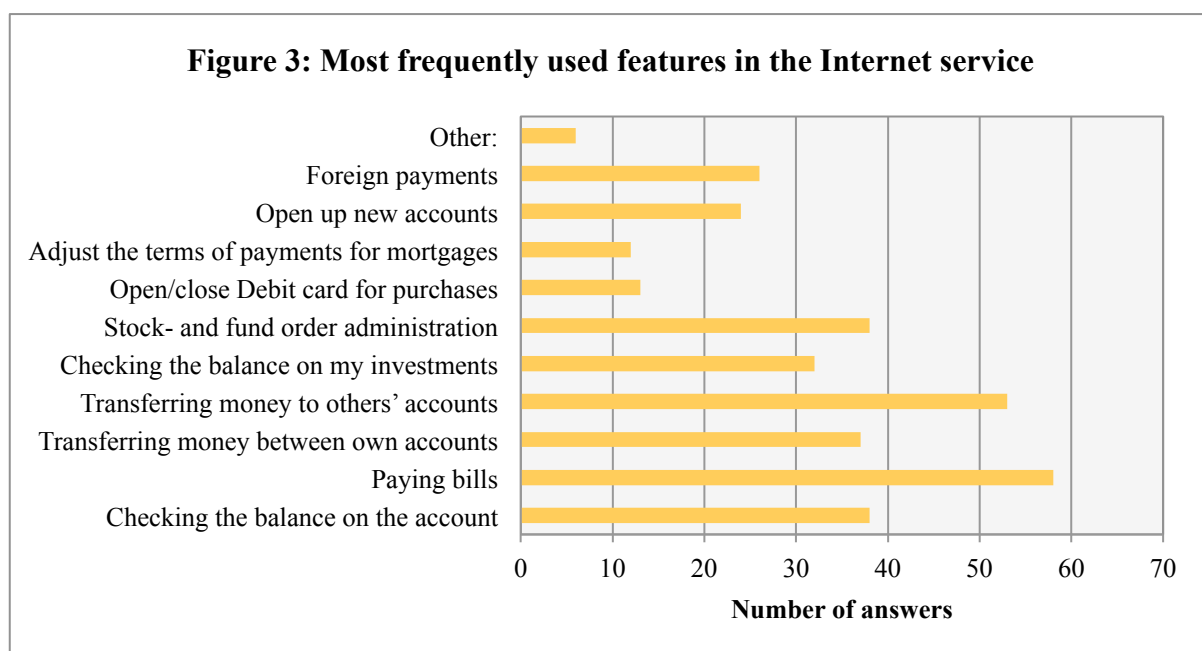
The same three alternatives were also shown to be in top as the respondents were asked to rank the importance of different features in the mobile phone service. All features were ranked in comparison to each other, with the most important feature being assigned with a value of eight and the least important with a value of one. The average score was then calculated for each feature and is presented below in Table 2.

	Score
Checking the balance on the account	7,28
Transferring money between own accounts	6,50
Paying bills	6,27
Transferring money to others' accounts	4,65
Checking the balance on my investments (Stocks, funds, pensions etc.)	4,24
Open/close Debit cards for purchases	2,85
Stock- and fund order administration	2,80
News and analysis of current market situation	1,88

Table 2 – Ranking features in the mobile phone service in comparison to each other.

In order to confirm the respondents' thoughts on the banks' mobile phone applications, they were finally asked to choose the three most important features when evaluating a mobile banking application in general, and the self-same alternatives were once again among the most common answers. The most important feature, however, was shown to be the simplicity of the app.

Just as for mobile banking applications, the usage of bank's Internet services was shown to be rather high. 82 out of 93 (88 percent) claimed that they were active users of the Internet service, while eleven (12 percent) stated they were not. Out of these eleven, eight mentioned that the possibility to do everything they needed in their mobile phone application was the main reason for not using the Internet service. When asked what features the respondents normally use when logged in to their banks' Internet service, the most frequently chosen activities were 'Paying bills' and 'Transferring money to others' accounts'. However, as can be seen in Figure 3, there is a rather large spread of different response alternatives.

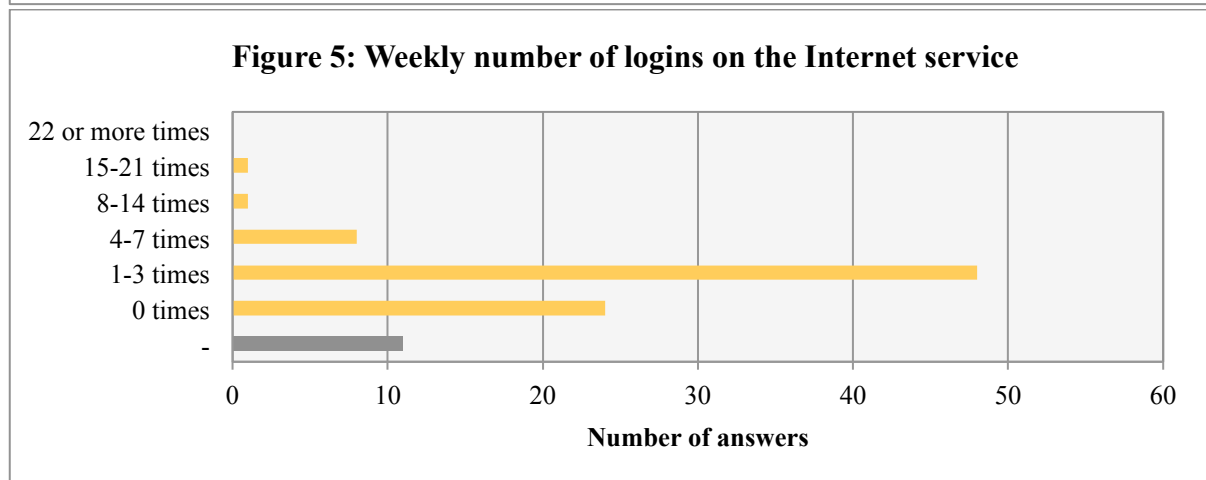
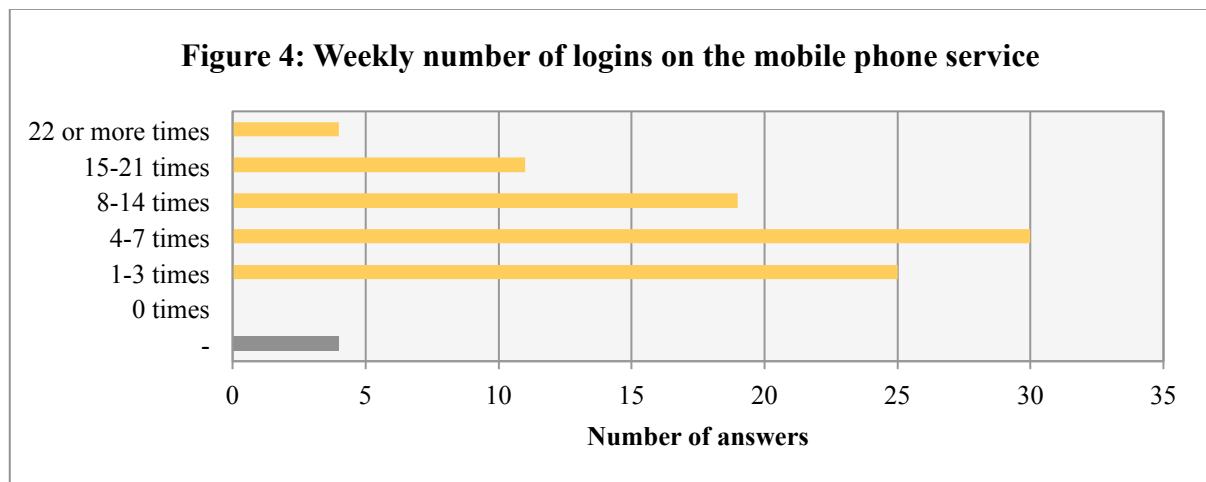


Just as for the mobile phone service, the respondents were also asked to rank the importance of the different features available in the Internet service in relation to each other. The most important feature was assigned with a value of ten, while the least important feature was assigned with a value of one. The average score for each feature was then calculated and the result is presented below in Table 3.

	Score
Paying bills	8,58
Checking the balance on the account	7,30
Transferring money to others' accounts	7,13
Transferring money between own accounts	6,82
Checking the balance on my investments (Stocks, funds, pensions etc.)	5,62
Stock- and fund order administration	5,45
Open up new accounts	4,23
Foreign payments	4,20
Open/close Debit cards for purchases	3,61
Adjust the terms of payments for mortgages (durations, amortization etc.)	3,51

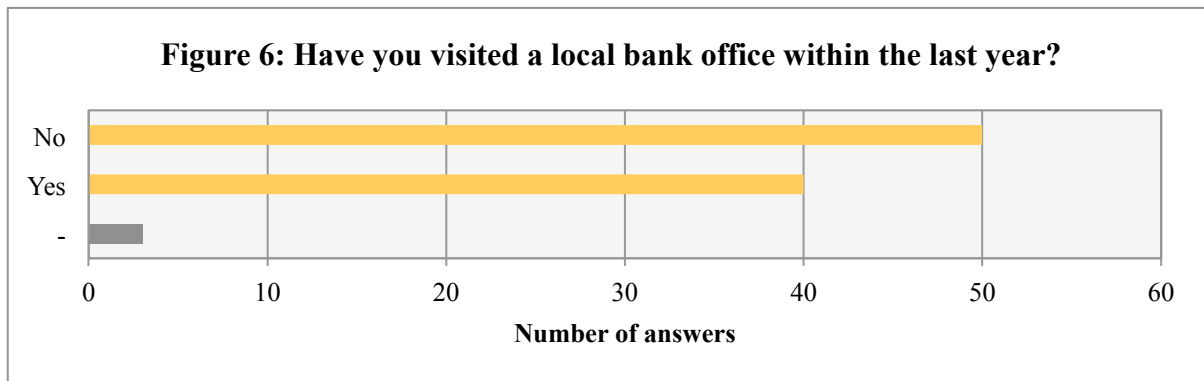
Table 3 – Ranking features in the Internet service in comparison to each other.

In order to further track the habits of the young banking adults, and to gain an understanding of how intensively they were using the digital services, all respondents were asked how frequently they were logged in to the mobile phone service and Internet service respectively. The results are presented in Figure 4 and 5 and show that there seem to be a higher level of usage for the mobile phone service.

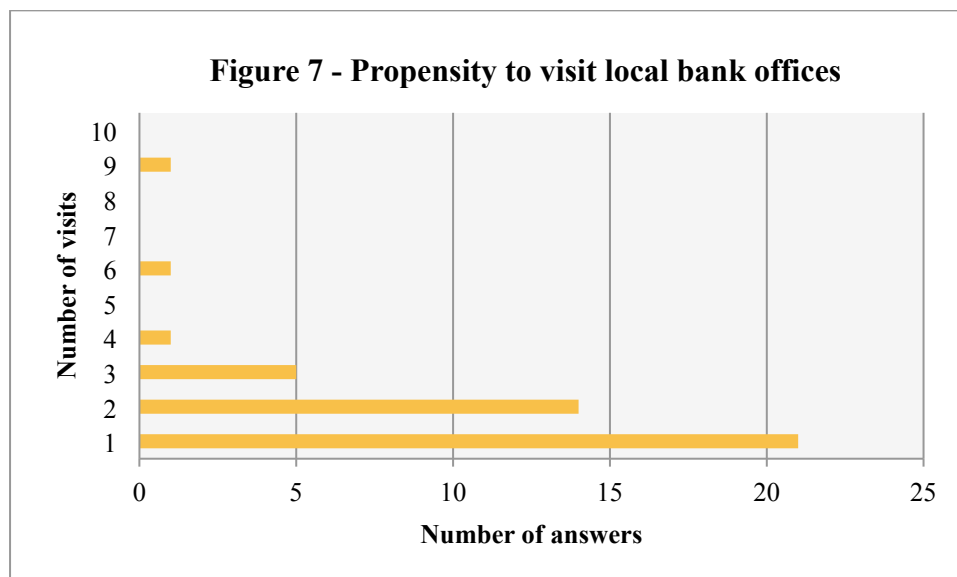


4.1.2 SURVIVAL OF PHYSICAL BRANCHES

With knowledge about the growing adoption of digital services (Bain and Company, 2014; McKinsey and Company, 2013; The Boston Consulting Group, 2012b) as well as the massive reduction of local bank offices in the Swedish banking market (Finansliv, 2015; Swedish Bankers' Association, 2016a), we found it interesting to investigate if this development has affected the younger generation's incentives to visit the local bank offices, compared to the older generations. As can be seen in Figure 6, the trend is not excessively clear. Out of 93 respondents, 50 replied that they had not visited a local bank office within the last year, whereas 40 claimed the opposite.

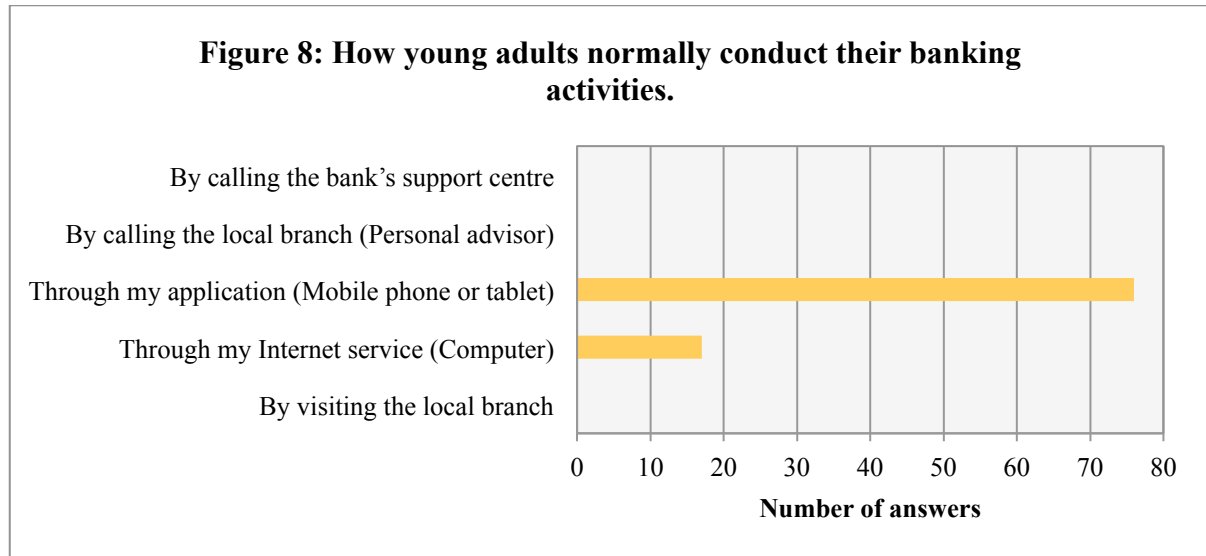


Looking deeper into the answers, of those who visited the bank physically the previous year, 21 of them were there just once, while fourteen visited the branch two times. The rest of the answers, as can be seen in Figure 7, were spread on higher and more specific number of visits. Scrutinizing the most common reasons for the visits, the most frequently replied motivations were 'to apply for housing mortgages (8 respondents) and to collect devices or activation codes for Internet and/or Mobile phone services (8). Other popular answers were to negotiate housing mortgages' (7) and to get advice regarding savings and investments (6).



4.1.3 COMMUNICATION CHANNEL PREFERENCES

To begin with, all respondents were asked how they normally conduct most of their banking activities, and as can be seen in Figure 8, 76 out of 93 respondents (82 percent) answered that their main platforms are the banks' applications, which can be accessed either through mobile phone or tablet.



In addition to asking about the specific distribution channels and how they normally conduct most of their banking activities, the respondents were also requested to rank the importance of the existing distribution channels to each other when choosing/evaluating a bank. The most valuable channel was assigned with a value of five whereas the least important was assigned with a value of one. The total value for each distribution channel was then divided by the number of replies, which resulted in a final score. Examining Table 4, it is evident that the digital platforms in terms of mobile applications and Internet services are seen as more important than call centres, local branches and digital meetings. Furthermore, it is noticeable that the applications for smartphones and tablets were valued as more important than the Internet services, and that the majority of the respondents valued digital meetings as the least important communication channel.

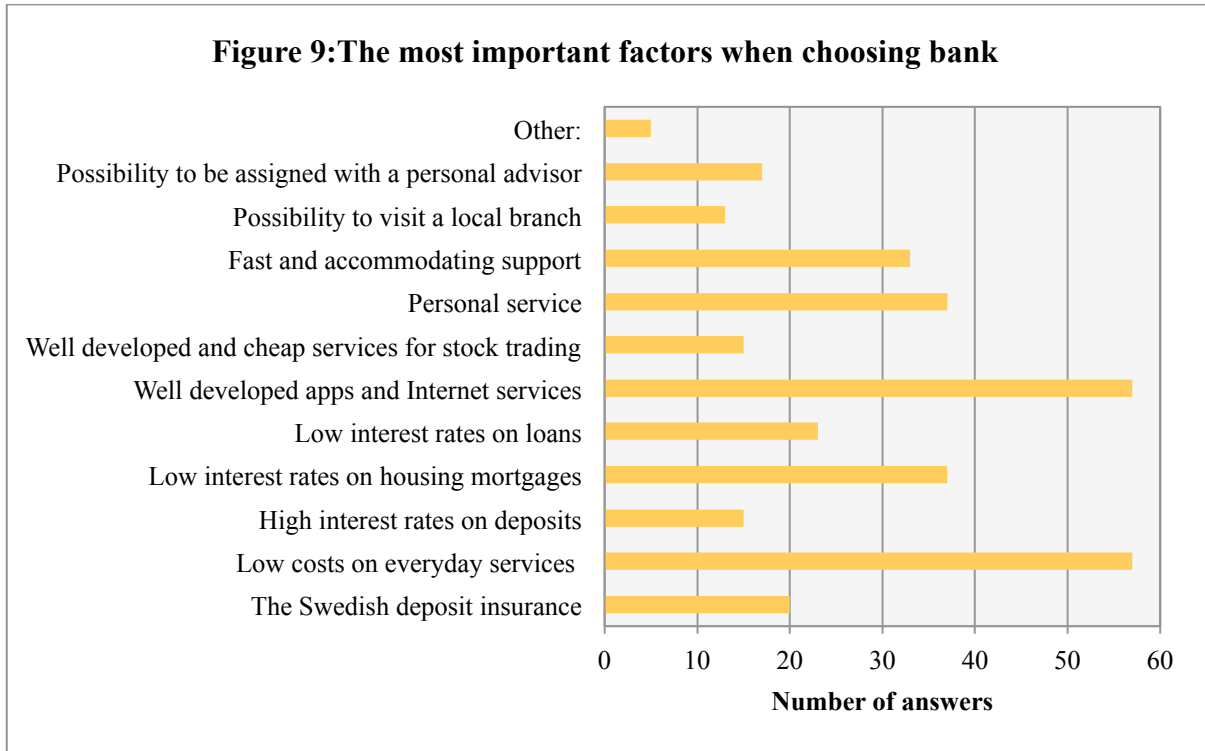
	Score
Smartphone and tablet applications	4,38
Internet service	4,14
Call centre	2,44
Local branch	2,16
Digital meeting	1,88

Table 4 – Ranking communication channels in comparison to each other.

4.1.4 BANKING PREFERENCES AND CUSTOMER LOYALTY

With a growing digitalization there are those who argue that brand loyalty within banking is likely to decrease. These thoughts are normally connected to the fact that the future bulk of communication is likely to be carried out on digital platforms rather than through personal contact, which in turn is expected to lower the personal relation to the bank (Bain and Company, 2014; Cho et al., 2012; Martensen, 2007; The Boston Consulting Group, 2012a). Hence, we found it interesting to see what kind of loyalty the customers have to their banks

and what characteristics they value the most when choosing/evaluating a bank. To begin with, all respondents were asked what they value as the most important factor(s) when choosing a bank. As illustrated in Figure 9, the two most frequently stated factors were ‘Well developed apps and Internet services’ and ‘Low costs on everyday services such as debit cards, mobile apps and Internet services’. Other popular answers included ‘Personal service’ and ‘Low interest rates in housing mortgages’.



Looking at the tendency for young adults in Sweden to switch main bank, Figure 10 shows that as much as 71 percent of all respondents have never switched from one main bank to another. If further examining Figure 11, it illustrates how many banks each individual respondent is currently using. The result displays that the majority of young adults tend to conduct their banking activities at two or more different banks.

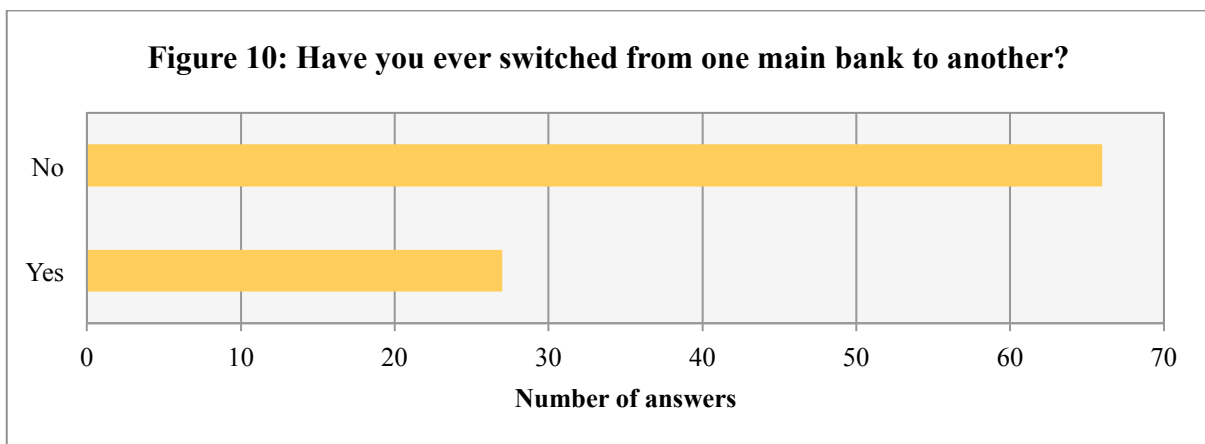
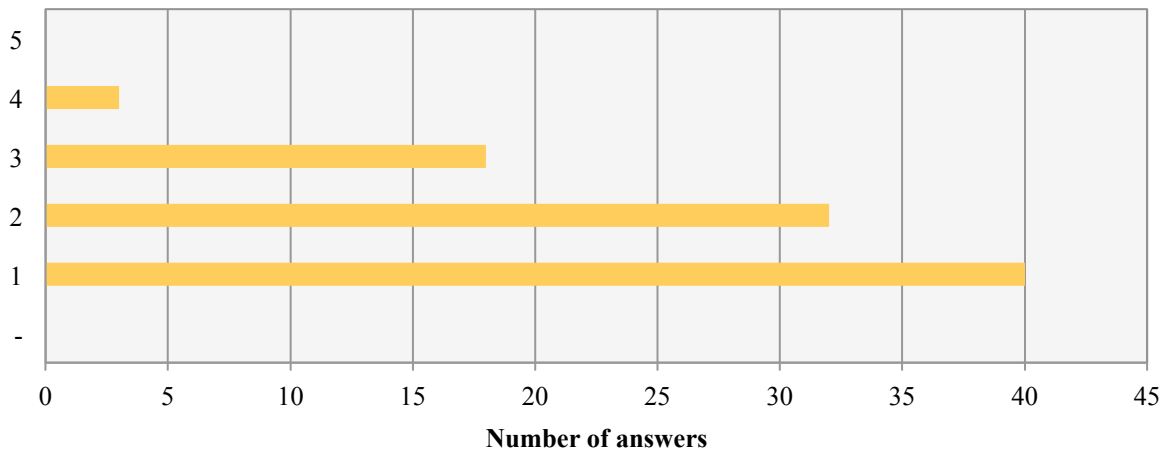
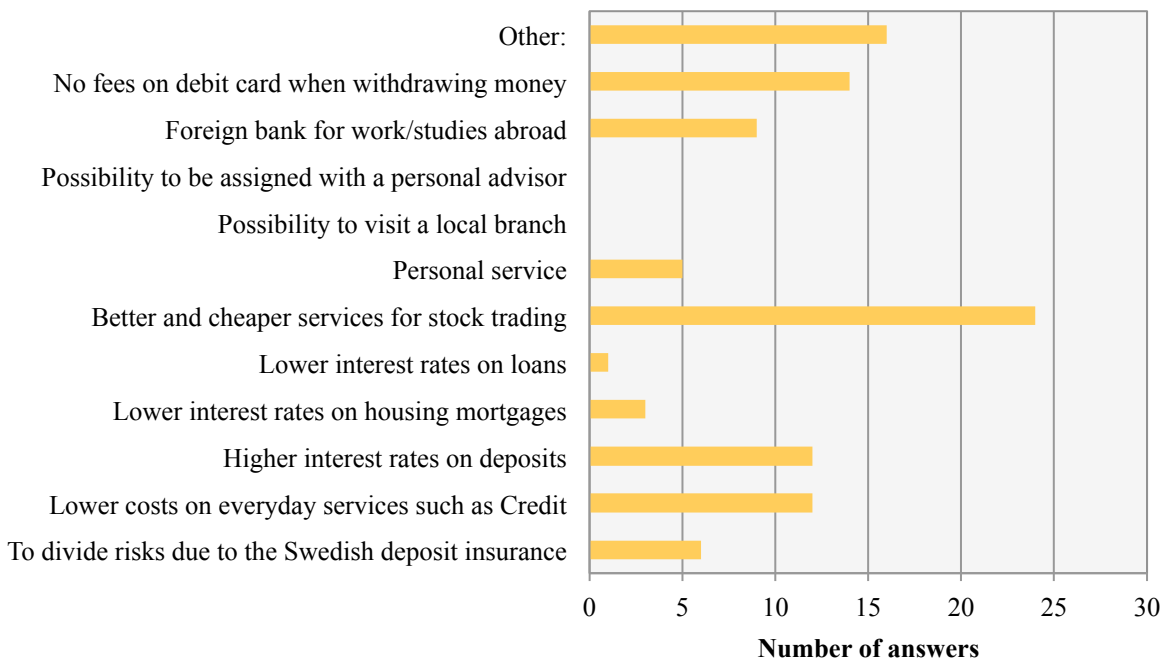


Figure 11: Number of banks used by the respondents

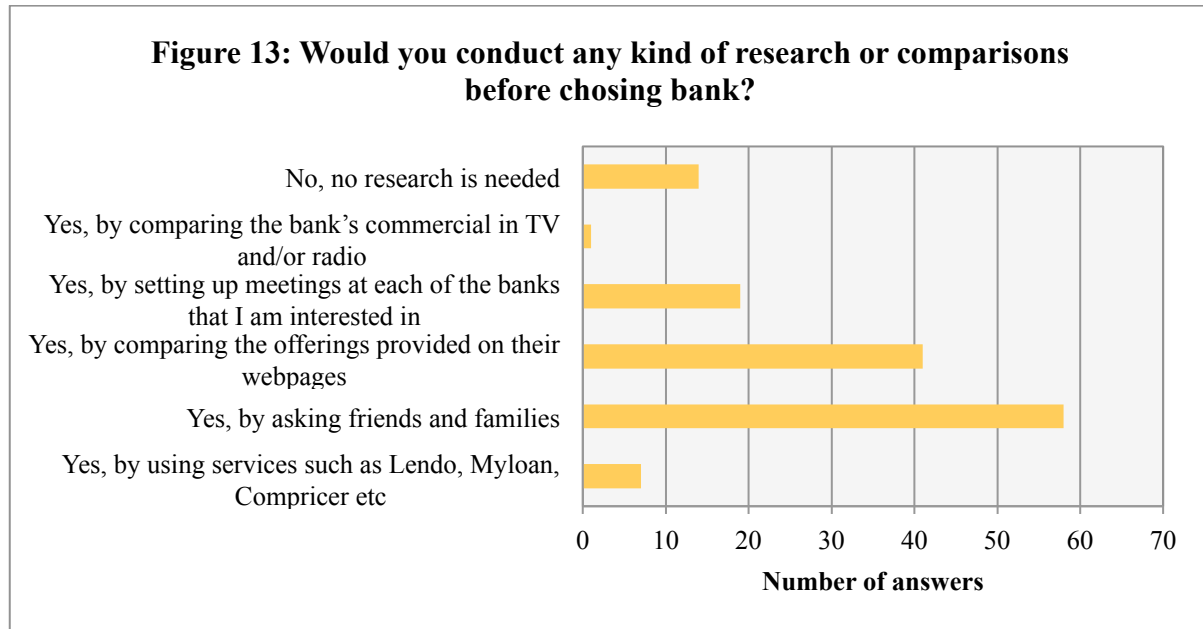


Asking about the number of banks each respondent is currently using, we further found it interesting to gain an understanding of why multiple banks would be preferable in contrast to only using one main bank. Figure 12 illustrates the main reasons for adding another bank according to our respondents, and as can be seen, the most popular motivations were to access better and cheaper services for stock trading and to avoid fees on debit cards when withdrawing money. Noticeable is that the second largest motivation, ‘Other’, mainly consists of reasons like “to receive bonus when buying food” and “to receive student discounts”.

Figure 12: Main reasons for adding another bank



Related to the tendency to switch bank, the respondents were also asked if they would do any specific research before choosing a bank. The results, shown in Figure 13, clearly indicate that the most influential factor when deciding upon a bank is the opinions of friends and family members. The result also indicates that a common way to compare the different offerings is by visiting the bank’s web pages.



4.1.5 ADOPTION OF NEW SERVICES AND TECHNOLOGIES

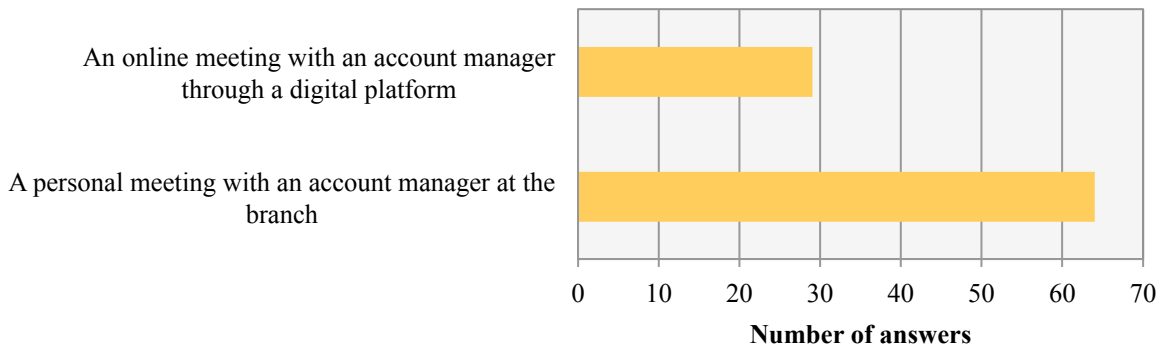
Based on the emergence of the digital era as well as the dismantling of local offices, digital meetings are described by many as the next realistic technological revolution within the banking industry (Finansliv, 2015; Swedbank, 2015; Swedish Bankers’ Association, 2016b; The Boston Consulting Group, 2012b). Hence, in addition to the questions above, where the respondents were about to rank the different distribution channels, one question was formulated as to investigate how the respondents value the possibility to arrange digital meetings with an account manager at the bank. Each respondent were asked to evaluate the possibility to conduct digital meetings with a personal advisor with regard to a five-point scale, in which five represents ‘Very important’ and one ‘Not important at all’. According to the result presented in Table 5, digital meetings are met with rather moderate enthusiasm. With ‘3’ representing a neutral value, one can however see that the majority have a positive approach to the service.

	1	2	3	4	5		Score
Not important at all	7	16	24	36	10	Very Important	3,28

Table 5 – Valuing the importance of digital meetings.

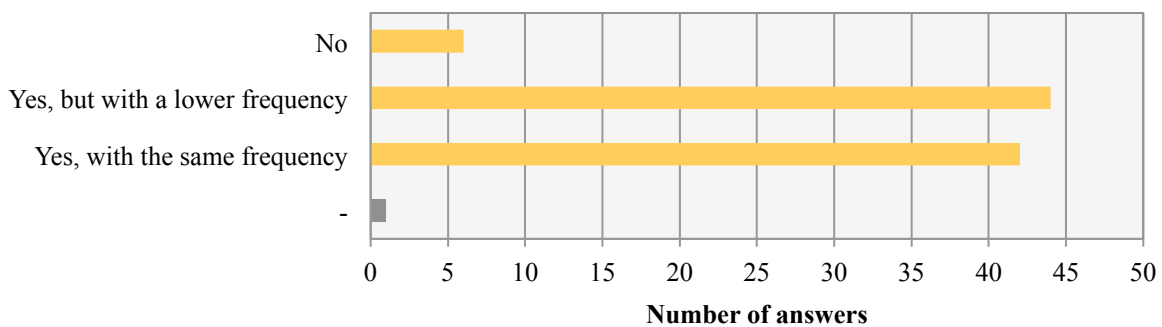
The respondents were also asked to put the possibility of arranging digital meetings in comparison to having traditional face-to-face meetings. The result is presented below in Figure 14 and shows that as many as 64 respondents out of 93 (69 percent) prefer to meet their account manager in real life rather than through a digital platform.

Table 14: What would you rather prefer?



A service that is already thought to be widely accepted in the Swedish banking market is the payment application ‘Swish’, which is available for all smartphones. Hence, we wanted to look deeper into how large the actual adoption was among our sample of young adults. The result showed a strikingly large adoption as 90 out of 93 (97 percent) answered that they were active users of the application. Today, transactions using Swish is free of charge and thus, one question was also formulated as to investigate if the same amount of young adults would use the application if there was a fee involved. The result is pictured below in Figure 15.

Figure 15: Use of Swish should a fee be installed



As described in the theoretical framework, the number of non-traditional banks has been growing their presence in the banking market. One such company is the American company Lending Club that offers peer-to-peer lending (LendingClub, 2016). With a very strong and traditional banking industry in Sweden, we thought that it would be interesting to see if the younger generation would place trust in such a non-traditional bank. According to our survey, 38 respondents (41 percent) stated that they would never trust a company like Lending Club. Out of the remaining 55 respondents, 32 (34 percent) answered that they would consider peer-to-peer lending if it could be guaranteed that the company behind is serious and well known, while the last 23 (25 percent) stated that they would trust the company if it was possible to guarantee the creditworthiness of the lender/borrower.

4.2 PERSONAL INTERVIEWS

In this section, all qualitative interviews will be presented. This is done in summarized texts accompanied with direct citations from our meetings. All interviews followed the same four main topics, and hence they will be presented accordingly, namely: Digital strategy and platform integration, Managing a changing banking industry, Emergence of non-traditional banks and Future outlook.

4.2.1 RESPONDENT 1

The respondent has the title of Communication and Marketing Manager at Company X. The interview was conducted 2016-03-09.

4.2.1.1 Digital Strategy and Platform Integration

From Company X's perspective, respondent 1 highlights the importance of being a first mover. She is hesitant to claim that they are a start-up bank; nonetheless, they are a rather new player in the banking industry, which comes with significant benefits. Most importantly, Company X captures a competitive advantage by being able to construct a completely new platform, rather than rigidly dwell in complex and obsolete structures. As Respondent 1 so eloquently claims:

“We do not have rigid and complex systems to depreciate or change; we can handle the situation with a clean sheet and say: ok, this is how our customers behave, how can we build a successful system with that in mind?”

– Respondent 1, Communication and Marketing Manager at Company X (Interview, 2016-03-09).

Furthermore, Respondent 1 proclaims that the availability of such a system brings huge advantages in terms of data collection regarding customer behaviour and consumption patterns. However, capitalizing on this availability demands a huge amount of know-how when sorting and analysing big data. She thus believes that tracking this behaviour is key in Company X's attempts to continuously generate value for the end customer; including the value customers might subliminally have.

Around 2005 the company chose to develop and direct their systems into what they are today, with highly digitalized and integrated platforms. Being a part of the Swedish banking industry, they are highly regulated by institutions such as Finansinspektionen in terms of safety and policies. With that in mind, Company X's philosophy is to maintain a flexible and changeable digital platform within all the regulatory boundaries. When it comes to integration and development of the different digital meeting-points; Company X aims for a clear and cohesive structure. First, Respondent 1 realizes the differences in which platforms are dominant in terms of usage, and also how frequencies can be different depending on geographical- and customer segments. For example, she has noticed that mobile phone usage in banking services has increased by approximately 60 percent in only two years. With the uncertainty involved in the platform usage, Company X therefore aims for consistency, where the main priority is to meet the customer in a similar manner across all platforms; clearly stating their confusion over competitors' neglecting this approach. According to Respondent 1, Company X's prominence can be connected to the company's ability to attract young and innovative employees along with a completely digitalized platform, without providing physical branch offices. She explains:

“We are completely uninterested in physical branches, as the leverage of our business lies in the reach of our digital channels. It is in our DNA, we want to work with the digital tools as much as possible”

– Respondent 1, Communication and Marketing Manager at Company X (Interview, 2016-03-09).

4.2.1.2 Managing a Changing Banking Industry

With the pace of change in mind, Company X knows where they shall lay focus. Respondent 1 believes that they equally must develop their current channels, while promoting collective characteristics of their platforms; simplicity, transparency and customer service. Being a part of the banking industry, the company acknowledges the correlation between handling money and trust, which is where the significance of customer service comes into play. Therefore, Company X focus on combining their digital presence with an extensive customer support, in order to be accessible when customers have problems or inquiries. This part of the business is continuously altered amidst the wide range of customer surveys, to ensure that service meets expectations. As Respondent 1 puts it:

“We believe in the combination that the digitalized needs have to be complemented by an extensive human presence”

– Respondent 1, Communication and Marketing Manager at Company X (Interview, 2016-03-09).

In the midst of the digital revolution, banks inevitably offer segments different value propositions, and as a result customers tend to have lower switching costs. At Company X, they believe that this is true to a certain extent. In the near future, Nordic culture and trust is believed to still promote loyalty to the bank, which according to Respondent 1 is manifested in terms of a rather peculiar gratitude from the customer towards the banks. Respondent 1 is startled as to how this could be the case amidst new services and opportunities in the competitive sector, and she argues that the bargaining power among customers should be higher than it is today. Compared to other Nordic countries however, she experiences that Sweden is noticeably moving more towards lower switching costs; making it harder for banks to keep their customers. Respondent 1 can see both advantages and disadvantages from this development. First of all, Company X is a niche bank with exclusive core competencies on which they will focus on and be the best at providing. Therefore, they have no intention at the moment to be a direct competitor to the big banks. Company X rather envisions a future where banking offerings will be divided and different banks provide different solutions for the customers. For example, Respondent 1 claims that customers will most likely have different banks for loans, corporate services, credits or even extraordinary banking services, which is where specialized banks as Company X will gain advantage. Furthermore, the loyal bank customer will most likely get lost in the generational shift, as the young generations of today have rather weak bonds to their bank and instead seek for convenience.

Respondent 1 further highlights the importance of employing the right people, which according to Company X is tech-people with the ability to think outside of the box. Hence, they tend to neglect the stereotype financial employee to open up for, and being up to date with, the changes in the technological realm. Respondent 1 places emphasis on “being your target group”, meaning that it is hard to communicate with your customers if not understanding how they think. Shall a company use this approach; consistency across the business along with flexibility is thus key to success. This is because change is moving extremely fast in the banking industry. As Respondent 1 claims, short periods away from work, like for example parental leave, can render the knowledge of an employee obsolete upon return. Therefore, keeping all parts of the business up to date, including personnel on

leave, is of utmost importance to promote a spread of knowledge and ideas within the company.

4.2.1.3 Emergence of Non-traditional Banks

Looking at some of the new fintech solutions, Respondent 1 continued by discussing Company X's view on innovation and being up to date in a rapidly changing environment. She stated that people today still tend to have a rather obsolete view on what constitutes a bank and what the customer relationship looks like. She however places emphasis on two services that indicates change in this area, namely Swish and PayPal who integrates financial solutions in a different kind of "bank" and has over a couple of years become vital parts in many customers' everyday financial needs. Respondent 1 strongly believes that these types of fintech and complementary services will emerge more in the banking industry, and rapidly gain foothold in the banking industry.

With knowledge about the potential of such new innovative services, Company X works actively with innovation and hedging against disruptive tendencies in the industry. In order to do so effectively, Respondent 1 places emphasis on their employee-profiles and their benchmarking. Being a niche-bank, they focus their benchmarking on tech-solution corporations rather than "old banks", as they believe to be part of the transaction industry rather than banking industry. This is deeply rooted in a philosophy where the concept of the word bank is changing, which Respondent 1 clearly formulates:

"Bank is a rather uninteresting concept for us, as it is hard to grasp its meaning today"

– Respondent 1, Communication and Marketing Manager at Company X (Interview, 2016-03-09).

When looking at the emergence of peer-to-peer solutions such as Lending club as well as non-traditional banking corporations such as Google and Alibaba, Respondent 1 cannot currently notice its foothold in the Swedish market. However, she does acknowledge the fact that it has become widely adopted in other markets such as in the United Kingdom. Nonetheless, she sees the emergence of such services as something positive; something that contributes to structural transformation in a rather conservative industry. It is further something that large banks tend to have difficulties in doing, but are forced to do because of the collective disruption of such innovations and services. Why it hasn't gained ground in Sweden at the moment is argued by Respondent 1 to be connected to Swedish customers' will to hold on to traditional banking values such as trust, loyalty and safety. She also claims that this could perhaps be because of a more rapid development within digitalization; where generational shifts move slower and cannot keep up. Therefore, this places further emphasis on being up to date with market tendencies, as disruption could be enhanced when the transformation suddenly booms. Looking at the economic growth, Company X thus has prosperous financial development and seeks to grow continuously. The company is however well aware that it is a highly competitive industry, and thus approaches business in a rather different way than large traditional banks.

4.2.1.4 Future Outlook

For the future, Respondent 1 expects a growing competition in the banking industry where multiple actors compete for different segments. Mainly, she believes that new non-traditional actors will drive the tougher competition:

“It is definitely not traditional banks that frighten us, it is far more interesting for us if a company like Facebook would implement transaction-services to their business”

– Respondent 1, Communication and Marketing Manager at Company X (Interview, 2016-03-09).

She basically emphasises the leverage companies with close contact to customers, distribution channels and capital could exert if they innovate by creating new products or services in the banking sector; their reach and accessibility would be a serious advantage. Nonetheless, Respondent 1 claims that they look upon these changes as something positive; something that forces change and subsequently drives Company X further in their development. With that said, she also believes that traditional banks that do not follow the development will be phased out as the essential change is hard to achieve for them. This is evident in their philosophies grounded in obsolete values, but also the immense costs associated with changing deeply rooted systems and habits. Respondent 1 portrays it as following:

“Their rooted values and systems in what they call a bank makes their change-response look like turning around a tank-ship, while we can turn like a M32”

– Respondent 1, Communication and Marketing Manager at Company X (Interview, 2016-03-09).

Conclusively, positioning for the future, Respondent 1 places significant emphasis on being different and leveraging their structure and digital offerings. By being up to date with technological breakthroughs, they seek to revolutionize and replace the obsolete banking structures before traditional actors can change old habits.

4.2.2 RESPONDENT 2

The respondent has the title of Head of Electronic Customer Channels at Company Y. The interview was conducted 2016-03-23.

4.2.2.1 Digital Strategy and Platform Integration

Looking at the approach Company Y employs today it goes against the traditional strategy-philosophy in the banking industry. Respondent 2 makes clear that Company Y sees digitalization as three different things; namely programming, services and flows for the customers, automation of back-office processes and simplifying systems, as well as advanced analytics and big data. According to Respondent 2, many banks have throughout the years had a product from which they built a customer demand. This is something that Company Y now tries to avoid, in order to instead focus on how the bank can create a unique customer experience; customizing the products to the customers' specific consumption processes. Hence, they have large focus on delivering unique and personal banking experience, while simplifying internal digital processes; something they deem essential in today's competitive environment.

With this in mind, Respondent 2 continues by explaining the importance of integrated platforms in regard of the different distribution channels. He highlights the fact that apps are extremely important today and have many different forms depending on the device needed. Every type or model of a phone needs a different software, which implies separate testing and development; resulting in huge costs. Company Y believes that apps are essential, but that they are somewhat temporary in the industry, considering the hype currently surrounding

banking-apps. Respondent 2 rather believes that apps will complement services delivered directly from the bank, for example a bookmark on the webpage. Therefore, in order to cut the costs, Company Y are working on hybrid versions of their applications, where the same software can be used in order to ensure exactly the same designs and features on all devices or distribution channels; enabling efficiency in R&D and consistency. When having these hybrid apps in place, the company can subsequently easily be responsive in particular devices; for example one could tweak the mobile phone application by simply adding an OCR scanner should there be a demand. So, basically, Respondent 2 sees this not only as their strategy to integrate the different platforms used, but also as a way to meet specific customer demand. Company Y strives to ensure their presence wherever the customer deems it necessary; should the customer need to pay bills on the bus, they shall be able to. Thus, Company Y don't focus on a specific platform or device in their R&D, they seek to integrate all platforms needed to meet customer demand.

With that said, it is also important to acknowledge the fact that Company Y has a wide range of customers; all of which constitute a wide range of segments in terms of age, income and so on. As it is today, they inevitably have customized relationships with different segments, where they employ Private banking for high-income segments as an example. However, on the digital meeting points, there are currently no differences depending on segments. Nonetheless, this is something of utmost importance in the future, ensuring a sense of special treatment for every specific type of customer. As Respondent 2 says:

“The experience for me and the experience for you has to be different, since we are in different stages of our lives”

- Respondent 2, Head of Electronic Customer Channels at Company Y (Interview, 2016-03-23).

With that said, Company Y wants to be able to provide support online depending on where you are in life. Whether you want to apply for loans, increase or structure your pensions or administer stock and fund order, your online experience shall be customized to help you with that. Respondent 2 believes that, to achieve this customization, Company Y can use their access to big data from their customer base in order to determine trends and individual interests of the customer.

4.2.2.2 Managing a Changing Banking Industry

A significant dimension to the digitalization trend involves the self-going aspect of the customers. This is something that Respondent 2 acknowledges as well, where for example private banking may survive, but look completely different. However, this development doesn't leave Company Y paralyzed, they can adapt to the situation. Respondent 2 for instance believes that there will instead be a greater demand for being informed. Rather than the physical network of today, where you have meetings, go through material and discuss with your advisor what to do, he expects an increased usage of Skype-contact, continuous push-notifications and customized agreements. For example, if there is an act of terror in Brussels, the customer should receive informative push-notifications of how this might affect one's personal investments. Therefore, future efforts shall be aimed at providing the foundation on which the customer can be self-sufficient, keeping the customer up to date on specific needs. Also, in specific segments, such as extremely wealthy customers, it is important to acknowledge that there may be certain trust aspects that favour old structures rather than digital solutions.

Looking at the growing focus on customization and self-service features, Respondent 2 further expects that the digitalization will affect the traditional banking structure including local branches. However, he still believes that customers currently feel a need to visit a local branch office; and it is primarily not distrust in the digital alternatives that dictates. It is rather the aspect of a feeling of getting personal reassurance when making an important decision that dictates who visits an office or calls the bank customer support. For example when applying for a house loan or restructuring one's savings portfolio, the customer often wants a second opinion or some sort of reassurance that they are making a sensible decision. Furthermore, some needs cannot be fulfilled without contacting the bank. Although admitting he might sound naive, Respondent 2 highlights that he believes that no customer really wants to visit branch offices between 9-15; they have to in order to feel satisfied with important decisions. Therefore, a sensible direction for Company Y to take is to strive for fulfilling this need in digital ways, as the digital platforms inadequately provide this today. In the current market, however, there are still segments that may demand physical meeting points and Company Y is thus well aware of the risks of a too rapid digital shift. Respondent 2 believes that the conflict in moving to digital solutions is highly dependent on the characteristics of the customer base and how the bank manages to package and formulate their digital offerings. First of all, looking at the customer base, a majority of older generation customers will most likely demand branch office availability no matter how good the app is. Furthermore, banks that aim at being 100 percent digital may have difficulties in attracting customers should there be competitors that employ digital and physical aspects, since many are reluctant to being completely digital. However, Respondent 2 can see resemblances in other industries, for example grocery stores and the evolution of home-delivery services. Ten years ago, no one would order food online and receive packages to the door and today it is extremely popular. The success in this case has been the company's ability to package and market their offerings. If you ask customers today, Respondent 2 has noticed that many value the branch office, but have only visited once throughout an entire year. The office seems to be a reassuring factor or subliminal need, rather than an actual demand. Respondent 2 claims that, according to studies, the banking industry is moving towards more digitalized characteristics as well, where younger generations feel safe in banking money at both companies like H&M and Google. Hence the challenge for Company Y, according to Respondent 2, is to successfully package their new digital offerings in a persuasive, but still reassuring, manner in order to catch all segments. He points at Company Y having a very broad customer base, where certain segments highly value branch offices and the physical aspects, which calls for a certain amount of repercussions.

“Hence, it is all about how you package it. Online tends to, if you don’t do it correctly, have a risk of making customers feel tricked; no matter if bank or not”

- Respondent 2, Head of Electronic Customer Channels at Company Y (Interview, 2016-03-23).

Speaking a lot about trust and loyalty, Respondent 2 further highlights the importance of the customer experience in the modern banking industry. Company Y works with a belief that trust will somewhat be replaced by cool experiences in the younger generations, where it will be more important to provide a prominent experience. Respondent 2 uses the resemblance in any app as an example, where switching costs are highly attributed to convenience and experiential factors; customers try a similar app immediately should it not be adequately satisfying.

“It doesn’t matter that we have the customers’ money on a savings account with zero interest, because that is available elsewhere as well. It is the experience that will win the battle”

- Respondent 2, Head of Electronic Customer Channels at Company Y (Interview, 2016-03-23).

4.2.2.3 The Emergence of Non-traditional Banks

Non-traditional banks are players that have somewhat emerged with the digital revolution, and they have the potential to be a serious threat to traditional banks, including Company Y. This is something that Respondent 2 confirms, but he also believes that in the current competitive setting, barriers such as capital availability and regulatory constraints will prove traditional banks superior. Respondent 2 does specifically acknowledge the fact that traditional banks have far more advanced structures in terms of safety, which is very important for many customers. He also highlights that a majority of the customers that use non-traditional banking are cutting edge, curious customers; not the average, large customer segment. With that said, barriers may prove to be hard to overcome, which has been evident as many fintech companies have gone bankrupt. Nonetheless, Respondent 2 also agrees that many fintech companies have good ideas. Consequently, Company Y’s hedging strategy aims at being as flexible and up to date as possible. Respondent 2 sees Company Y’s last couple of years as a transformation from solely delivering in-house products to being open minded:

“We come from a setting where we have delivered our own products, to a setting where we have a more open environment. This leads to us delivering our services to other actors, but also other actors complementing our portfolio with their services”

- Respondent 2, Head of Electronic Customer Channels at Company Y (Interview, 2016-03-23).

Having spoken extensively about non-traditional- and niche banks, Respondent 2 claims that it is rather unclear as to how they affect Company Y should they gain foothold in the market. First of all, the primary uncertainty is the direct effect for traditional banks - negative and positive. Negative effects could of course be that they gain market share on Company Y’s expense. However, Respondent 2 states that this is unlikely as the companies providing non-traditional banking services often uses the services provided by traditional banks for own purposes. Thus, if a new non-traditional actor would be a corporate customer at a traditional bank, their growth may result in some sort of customer theft with regard to the traditional bank’s private customers. However, it would simultaneously generate earnings, as the company would also become a better corporate customer.

Furthermore, Respondent 2 claims that he has faith in providers of complete solutions in the future as well. He can see banks such as Avanza and Nordnet who specialize in trading, and doing it successfully; however, there are always limits to growth of a niche-bank. This has its foundation in the fact that customers don’t want to work with huge amounts of apps because of convenience issues. Hence, banks could take advantage of these trends and consider abandoning the philosophy that Company Y should only provide their own services. Respondent 2 uses an example where H&M potentially offers their customers to open up bank accounts at H&M:

“Then it could be through our bank, but H&M labels the account. The customer could for example see their H&M account on our web page, if the bank swallows its pride. Thereby, we could subsequently offer our own services as well”

- Respondent 2, Head of Electronic Customer Channels at Company Y (Interview, 2016-03-23).

4.2.2.4 Future Outlook

When Company Y benchmarks to be cutting edge in times of change, they focus on digital actors as a whole, while keeping in mind a vision of being a world class service provider. Therefore, they place emphasis on actively benchmarking all types of digital actors, and working with plausible implementations to their business. Looking at it economically, with strict focus on competitive financial alterations, Company Y however sees traditional banks as their main competitors, not fintech non-trationals. Nonetheless, should they gain attraction, Company Y will be well aware and take immediate action in specific ways. Respondent 2 describes the competitive setting as following:

“We see fintechs as piranhas and traditional banks as sharks. When a shark comes it will hurt more. Meanwhile, piranhas could potentially come in shoals, and then they could also seize a large piece of the market”

- Respondent 2, Head of Electronic Customer Channels at Company Y (Interview, 2016-03-23).

Company Y continuously works with improving all parts of the digitalization reform, but place particular interest in big data to capitalize on future opportunities. Partly because they perceive that they have better access to big data than many of their competitors, but mostly because they can use it to improve their products and services. As the experience factor will be determinant, capturing the needs and desires of the customer are essential, which big data analytics will provide. In that way, Company Y can alter their offerings not only on large-scale segments, but personalize offerings and informative messages to specific customers. However, Respondent 2 also highlights the importance of balancing the bank’s knowledge of their customers and personal integrity, while providing a customized experience:

“We need to know a lot about the customer to make the experience smooth. However, you need to find that balance between personal integrity, while trying to make the experience extraordinary”

- Respondent 2, Head of Electronic Customer Channels at Company Y (Interview, 2016-03-23).

4.2.3 RESPONDENT 3

The respondent has the title of Accessibility Manager for Global Digital Meeting Points at Company Z. The interview was conducted 2016-03-24.

4.2.3.1 Digital Strategy and Platform Integration

In regards of Company Z’s digital strategy, Respondent 3 clearly states that they have a general digital strategy from the top of the hierarchy, encompassing the whole corporation. In contrast to many other traditional banks, Company Z however works in a decentralized structure, meaning that all departments answer for their own specific strategies. Respondent 3 emphasizes that the structure is not of concern, since the departments in charge of the systems and channels are located in connection to other departments. Meetings are held continuously to align the business, while should there be doubts; one can just lift their head and simply ask the department located in the same building. Although it might look like the largest focus is directed on the mobile phone service, Respondent 3 argues that this has to do with the application being a rather new communication channel, which is why changes and new features are easier to interpret. The general direction from the top, and from the department in charge of digital channels, however points toward an equally large focus on Internet and mobile application platforms. He acknowledges the importance of the network connection

through their webpage that both customer and bank uses. Hence, Company Z sees their platforms as a system of internal and external meeting points, working towards consistency for the customer both independently on internet or mobile device, but also when in contact with the bank. Furthermore, they use different software and apps depending on type of device, IOS vs. Android for example.

In terms of the integration of different platforms, Company Z are looking for consistency, which means that they want the customer to be approached similarly on all channels; they must know and recognize that they are using a service provided by Company Z. Therefore, all systems are custom made in relation to the different software in order to create such consistency. Although focusing a lot on the digital platforms, the company doesn't see their new digital solutions as the only way to go. Hierarchically, the local branch offices are still believed to be the heart of the organization. Respondent 3 speaks of the importance of being able to physically meet customers and that the employees holding up-to-date-knowledge are essential to maintain a trustworthy relation towards the customers. The local offices are then followed by the web page, which is well developed and integrated into the business model. The apps are finally seen as a complement to the offices and the Internet service, and although very popular today, he highlights that the future of apps is rather unclear.

4.2.3.2 Managing a Changing Banking Industry

Looking at the future of Company Z, Respondent 3 states that despite putting large focus on digitalization, it all needs to be done according to the 'Company Z way'. Although they have rather insignificant focus on the apps in comparison to other platforms, they acknowledge their necessity in the current market. Respondent 3 believes that, on the private customer market, it is of utter significance to be able to meet the customers wherever they are, whether it being on the bus stop or at work; and today, this is only enabled by the apps. However, in the future Respondent 3 believes that it might as well be through a Playstation or Apple TV. Therefore, focus is not only on developing the app, but being sure that Company Z can meet their customers wherever is most suitable in the future.

Respondent 3 further acknowledges the fact that the average customer visits the office less than once every year, while logging on to the webpage or application is far more frequent. Therefore, Company Z now aims at providing the same personal approach in the apps that has traditionally been provided by the local offices.

“We need to meet our customers in a personal way in the application, and offer them quick contact with the office through videoconference and such, in order to achieve that personal touch”

– Respondent 3, Accessibility Manager at Company Z (Interview, 2016-03-24).

With that said, he also stresses the importance of standing out in a competitive environment. Meeting people when they are in the midst of making huge life-decisions, such as house-loans, with a personal approach is important to quickly create trust and attract customers. As most customers tend to have “inherited” the same bank as their parents use, there is usually no own personal relation to the bank. In fact, since offerings are very similar among traditional banks, Respondent 3 rather thinks that customers tend to choose bank with regard to the logotype. In this setting, physical presence could simultaneously be seen as both superfluous and something that distinguish Company Z from the rest of the Swedish banks.

4.2.3.3 The Emergence of Non-Traditional Banks

In regards of non-traditional banks, Respondent 3 cannot see that they will reach status of a serious competitor on a short-term horizon. Digital banking services are something that traditional banks can offer on a higher level, with substantial security. Looking at a long-term horizon, however, Respondent 3 opens up to the possibility that non-traditional banks can gain serious foothold. However, he doesn't believe that alternative loan providers such as Lending club and Alibaba will pose the biggest threat; it will rather be new technologies such as Block Chain. Nonetheless, Respondent 3 is confident that the traditional banks will not be outcompeted on the market, since barriers to entry and regulations are extremely thorough. Instead, he predicts a future where fintechs and non-traditional banks exercise their offerings through traditional banks' platforms. That is, in the systems and infrastructure, the transactions are monitored by for example Company Z, but the service itself is promoted by the other actor.

“Someone comes up with the brilliant idea and sells it to its customers, while there is a traditional bank in the background. Which is something that doesn't bother the customers”

– Respondent 3, Accessibility Manager at Company Z (Interview, 2016-03-24).

Respondent 3 has a general belief that digitalization and emerging alternative competitors tend to expand too fast in terms of posing serious threat for Company Z. First of all, he cannot see that the physical meeting points will be phased out in the near future and the demand noticed in their own customer base strengthens this conclusion. He draws a parallel to grocery stores and traditional bookstores, whose products are now also sold online. In the beginning of the digitalization, everyone said that the physical book stores would disappear immediately. However, as for today, they are still going strong. Secondly, he believes that non-traditional and fintech actors sometimes develop too fast for their own good, trying to expand too quickly rather than slowly bringing products to market and expanding successively.

Respondent 3 further describes the banking market as a market with rather high entry barriers in terms of network externalities; everyone cannot adopt each new product. He gives the example of Swish and PayPal, which are two different payment solutions, and describes that the more companies offering different unconnected products, the larger the probability will be that two customers have different solutions. As a result of the complexity to connect two different payment solutions, Respondent 3 thinks that most people tend to adopt the solution with the already highest number of users, which in turn makes it hard for new actors even though their products are superior. The problems and challenges for new start-ups is however something that he considers to be very distorted in general, as media tend to just cover the exceptions that actually make money. Respondent 3 is however quick to say that the high trust for new start-ups is likely to change in the future, as younger generations approach banking services in a different way. He states that these customers are only likely to have this trusting attitude until something actually happens. He gives the example that leaving your codes in a new app may seem extremely comfortable until someone actually uses information to take your money. Hence, Respondent 3 highlights that traditional banks will always have an upper hand in terms of safety, both short- and long term. Thus, shall Company Z achieve close to similar convenience as many new services; the safety dimension gives superior competitive edge.

4.2.3.4 Future Outlook

The decentralized structure of Company Z results in different departments benchmarking different competitors. For example, mortgage-departments benchmark direct competitors for the specific market, while software departments for iOS-apps benchmark against their direct competitors' software. Generally, Respondent 3 acknowledges that product development is mostly benchmarked against Swedish traditional bank competitors, while software departments look at non-traditional actors as well. However, he believes that they need to be better at hedging against change in the market, as costs and time consumption for such a large actor as Company Z are immense. One example to do so is not only to benchmark, but also to scout for potential acquisitions. Thus, they can, rather than develop and spend time on change, acquire and complement their current portfolio.

“There are many actors out there who are very creative and innovative. If their ideas are good enough, then we should buy them!”

– Respondent 3, Accessibility Manager at Company Z (Interview, 2016-03-24).

Looking short-term and at what is going to be a key determinant and future breakthrough, Respondent 3 claims that Company Z needs to widen its horizon slightly on the digital platforms. Today they are present on the web and in apps, but that will not be sufficient. The respondent uses Netflix as an example as they are present on almost 40 platforms – Company Z need to be present there as well. Just observing younger individuals within his own realm, he can see that they access Youtube from the TV, the Playstation or telephone before even considering using a computer. Hence, he expects smart TV's to be key in a digital future. When speaking of the next big breakthrough, he strongly believes in the VR-technology and virtual assistance services. For example, Respondent 3 predicts a future where one can have an earpiece and talk to a digital voice in order to conduct services; comparable with Siri on an iPhone.

5. ANALYSIS

To fulfil the purpose and answer the research question of the study, all discussions and analysis in this chapter will revolve around the digital banking habits found in the quantitative survey. The results will then be compared to previous research, existing theories and the conducted qualitative interviews in order to analyse what implications the digitalization might have on the Swedish banking industry. This includes discussions concerning how to manage a changing banking industry, the emergence of new non-traditional banks and future outlooks.

5.1 DIGITAL BANKING HABITS

Looking at all tables and figures concerning the respondents' banking habits, it becomes obvious that the young adults included in this report strongly prefer the digital communication channels rather than the physical alternatives. To begin with, both the applications for mobile phones as well as the Internet services are widely adopted among the respondents, 96 percent and 85 percent respectively. In 2015, 80 percent of Swedish banking customers were reported to be using the Internet service, while only 43 percent were using the mobile phone applications (Svenskt Kvalitetsindex, 2015). One can thus see that the biggest difference between our survey and the report presented by Svenskt Kvalitetsindex concerns the mobile phone applications. The results in our survey are however interesting from various different aspects.

Firstly, the adoption rates confirm a rather high level of adoption of digital banking services in Sweden, which to a certain extent would strengthen the picture of Sweden as an innovator in the banking industry. Secondly, the answers indicate a larger adoption of digital banking services among young Swedish adults than what has previously been reported for the total population. Mainly, this has to do with a much higher adoption rate of mobile phone services, where rates are more than twice as frequent in comparison to the total population. This might in turn be explained by the general belief that the willingness to adopt new innovations is very high among younger generations. Thirdly, the findings in the quantitative survey unveils an indication of an expected 'Cannibalization effect', meaning that the decrease in usage of Internet service, reported by Svenskt Kvalitetsindex (2015), might be correlated to the emergence of new banking applications for mobile phones and tablets. Although the Internet service is an older service than banking applications, the results in our survey show that more respondents prefer mobile phone services, which would indicate a possible digital shift. These assumptions are however not just based upon the adoption level of the two different services, but on multiple aspects, like for instance the motivations for not using them. As described when presenting the results from the digital survey, 11 out of 93 respondents answered that they were not using the Internet service. What is interesting about this is not just that the number is higher than for mobile applications, but that the majority of these respondents motivated the absence of an Internet service with the possibility to do everything they needed in their mobile phone applications. Investigating approximately 83,000 customers in 22 countries, Bain and Company (2014) concluded a similar pattern, where the share of consumers using the mobile applications rose with as much as 19 percentage points in 2014, while the traditional Internet services dropped with three percentage points. Although the majority of the respondents in our survey are still using both services, the rise of new mobile phone applications can definitely be argued to be a factor contributing to the lowered cumulative use of the Internet services.

The massive digitalization, as well as the implied cannibalization effect, becomes obvious when looking at the results provided in Figure 8, where all respondents were asked to describe how they normally conduct their banking activities. The table shows that the possibility to log on through applications on mobile phones or tablets is perceived as superior compared to the Internet service. As much as 82 percent of all respondents answered that they used the applications as their main channel when conducting normal banking activities, while only 18 percent held the Internet service as their main preference. A possible explanation for these numbers is likely to be related to accessibility. While the Internet service requires the customers to have a computer ready available, mobile phone applications enable the customers to conduct their banking activities while on the go, something that was mentioned as a very important advantage in all interviews with the banks. What might further strengthen this theory of digital cannibalization is the usage frequency of the different services. According to our survey, the average respondent tends to be logged on to the Internet service one to three times a normal week, while the average number of logins on the mobile application is four to seven times. Noticeable was also that fifteen respondents (16 percent) were logged on to the application fifteen times or more a normal week, which equals more than two times per day. In contrast, a large share of the respondents stated that they never visit the Internet service a normal week. This trend in valuing the mobile phone application as the most important communication channel was further confirmed when the respondents were asked to rank the different channels in relation to each other, as can be seen in Table 4. Although both banking applications and Internet services were, by far, the two alternatives with the highest scores, smartphones and tablet applications were once again valued as more important than the Internet service.

With a clear indication of a digital cannibalization effect reformatting the status of digital communication channels, the findings inevitably have implications for the bank's physical branches. As shown in Figure 8, none of the respondents replied that local bank offices were used for their normal banking activities. When ranking the importance of the different channels, local bank offices were actually valued as less important than call centres, which traditionally have been seen as a complement to the branches. In Sweden, the number of bank offices has decreased rapidly the last ten years and most new actors, such as Company X, pursue their business on completely digital platforms. According to our survey, 40 respondents out of the total 93 had visited a local bank office within the last year, which might sound like a surprisingly high number with regard to the growing usage of digital services. However, almost all visits were attributed to demands that today are impossible for customers to satisfy on their own, such as applying/negotiating of housing mortgages or collecting devices and activation codes for Internet and/or mobile phone services. Talking about the survival of physical branches, Respondent 2 at Company Y argued that there is still a segment of banking customers that demand physical meeting points, no matter how great the digital services are. Mainly, he believed that it has to do with uncertainty when making important decisions, for which a personal meeting might be able to reassure a correct solution. He, however, highlighted that he thinks no customers actually wants to visit the branch on regular basis or during traditional opening hours. These thoughts correspond quite well to the propensity to visit a local bank office shown in our survey. Respondent 3 at Company Z also followed the same track, as he described that most customers are believed to experience banking activities as a necessary evil rather than something fun and exciting.

As described above, the number of logins through mobile applications and Internet services are considerably higher than the rather low rate of physical visits. Hence, it is further

interesting to look deeper into what kind of communication that exists between the customer and the bank while logged on to the digital devices. According to Bain and Company (2014), the most frequently used features tend to be the same as those with the highest emotional value for the customer. For instance, their report showed that the by far most important feature in the mobile phone service was the possibility to comfortably check the balance on the account. Asking the respondents in our survey about what features they normally use when logged in through the mobile phone application, the same trend is established, as the top answers were 'Checking the balance on the account', 'Transferring money between own accounts', and 'Paying bills'. Apart from 'Stock- and fund order administration', which was a top answer for the Internet service, more or less the same features were mentioned when asking about the different services, which indicates the high importance of rather simple and obvious features in both digital channels.

In general terms, it thus becomes hard for each bank to differentiate its services among competitors, as most banks are capable of creating applications and web pages containing the same popular features. At the same time, these basic features are believed to be hygiene factors among most customers, which together with a faster industry clockspeed would mean that the lifetime of every competitive advantage is shortened. According to Fine et al. (2002), a company's only real core capability in such situations is its ability to continually design and redesign the value chain in order to create new temporary competitive advantages. Ironically, many banks have however been criticized for placing too much emphasis on developing trendy high-tech gadgets rather than listening to what the customer is actually demanding, which puts the banks in a even more complex situation (Bain and Company, 2014; Cho et al., 2012; McKinsey and Company, 2013). Respondent 2 argued that banks regularly developed products from which a customer demand has been built, rather than the other way around. According to Bain and Company (2014), such a strategy is weak, as technology on its own is unlikely to create any competitive advantage if not the personalized customer experience is also taken into consideration. As more and more customers are moving onto digital communication channels that are rather standardized, and becoming more or less self-serving, one key question for all banks in the future Swedish banking market should therefore be how to maintain a strong and loyal customer relation.

Looking at customer loyalty, the propensity for customers to switch main bank is usually the most distinctive factor. In 2009, Holmberg and Mankila (2009) found that as much as 75 percent of Swedish banking customers have never changed main bank, and that the average customer relationship lasts for almost twenty years, which would suggest a rather high level of customer loyalty among Swedish customers. According to our study, focusing on young adults, more or less the same pattern can be seen. As much as 71 percent answered that they have never changed main bank, while the remaining 29 percent claimed the opposite. As a possible explanation for this, Respondent 1 at Company X mentions that, although historically low switching costs, there still seems to be a special gratitude towards the banks, which is very typical for Swedish banking customers. Despite being assigned with a higher bargaining power as a result of a shift in the information asymmetry, this gratitude makes customers rather passive and pleased. However, in the future, Respondent 1 predicts that switching costs will be lowered even more, making it easier to switch bank. Although Swedes are perceived to be rather conservative when it comes to switching main bank, Gamble and Mankila (2009) found a new trend in which banking customers, to a greater extent than before, are using multiple banks when conducting their banking activities. According to Synovate Sweden AB (2008) there are strong reasons to believe in these trends, as the proportion of Swedish banking customers only using one bank has steadily decreased since

2007. According to our study, the results indicate the same pattern among young Swedish adults. Even though the most frequently answered alternative was to use only one bank, the majority of the respondents were actually using two or more banks, which can be seen in Figure 11. Looking at the reasons for adding another bank, the most frequent reason was to access better and cheaper services for stock trading. Other popular reasons were to avoid costs on everyday services, to avoid fees on debit cards when withdrawing money, or to receive higher interest rates on deposits. The large focus on prices and fees is consistent with a study made by The Boston Consulting Group (2012a), showing that 50 percent switch banks because of such customer-facing dimensions. The possibility to receive better economical terms at a new bank is also found to be the most decisive factor in a study made by Gamble and Mankila (2009). For the banks, this trend tends to be rather problematic, as customer satisfaction with regard to pricing is normally rather complex since it tends to be a construction in which the customer is putting the actual price in relation to quality, fairness, transparency and reliability, while also comparing it to the offerings of competitors (Matzler et al., 2006; Matzler et al., 2007). It is thus hard for a bank to clearly distinguish a common customer view. In addition, this development will make it even harder for banks to create long-term relationships with their customers, as the relations are mainly built on low prices; if a lower price can be found somewhere else, then the propensity to remain loyal is expected to be rather low.

However, in contrast to the main reasons for adding another bank, all respondents in our survey were also asked about what factors they think are the most important factors when choosing a bank in general. Although much focus was once again directed at obtaining low costs on everyday services and low interest rates on housing mortgages, the respondents also seemed to value well developed banking applications and internet services, personal service and a fast and accommodating support. What makes customers chose or leave a bank is thus more complex than just looking at the prices or interest rates. Another factor that contradicts the narrow price-focus is evident when the respondents were asked what kind of research they would conduct before choosing a bank. According to our survey, the single most popular way to conduct research before choosing a bank among young adults is by asking friends and family members, which was stated by 58 of the 93 respondents. 41 would compare the different offerings provided on the banks' web pages, while only seven would utilize services such as Lendo, Myloan or any other comprising company. The results manifested in Figure 13 thus indicate that the most influential factor when deciding upon a bank is the opinions of friends and family, something which is further supported by the studies by Gamble and Mankila (2009). Respondent 3 at Company Z also pointed out the importance of parental influences, as most customers are not actively choosing their main bank, but it is rather inherited. He further argued that he thought that most customers do not know the differences between the existing banks and merely think of them as different logotypes. With regard to this rather impersonal relationship young adults have to their banks, which is highlighted in both previous research and our study, Respondent 1 at Company X is convinced that the banking industry will be even more divided in the future. This is likely to be manifested by customers using one bank for housing mortgages, one bank for corporate services and one bank for debit and credit cards and so on. A very clear example of this, was shown in our survey as a rather frequent reason for adding another bank was the possibility to receive bonuses and discounts when buying food. Several respondents highlighted that they had added the food retailer ICA, who is also a provider of some banking services, as a complementary bank. Using ICA's debit cards, the customer receive bonuses and discounts when buying food, and due to preferential prices for students, many young adults seem to consider the offerings provided by ICA. Although just one example, this is still an additional

indication that the young generations of today tend to have rather weak bonds to their main bank and seek for convenience and low costs instead. Connecting this to the fact that most respondents are conducting their normal banking activities online, the personal bond to the banks should be rather low. Respondent 1 therefore stated that she thinks traditional customers who are faithful to the same bank throughout their lives, now have high probability of being lost over time.

5.2 EMERGENCE OF NON-TRADITIONAL BANKS

Beyond changing customer habits and new market conditions in the banking industry, with a widespread digitalization and low switching costs, it is highly recognized that fintech companies and non-traditional banks are gaining significant foothold in the banking industry. Many have recognized the inertia within traditional banks in terms of digitalizing their offerings, while heavy investment and growth is observed within actors such as Google, Alibaba, Starbucks and Lending Club (Busch and Moreno, 2014; Gamble and Mankila, 2009; The Boston Consulting Group, 2012b). Speaking of the inertia within traditional banks, it is often highly connected to the lack of IT-experience in-house (Finansliv, 2016a), something that non-traditional actors may possess. This is something that Respondent 1 at Company X clearly stated as their advantage as a non-traditional, digital, actor. Not only can they build new flexible platforms and internal systems, constructed initially with digitalization in mind, but they are also able to attract employees who have knowledge to take it to the next level.

Looking at the survey conducted, it is evident that the majority of young adults are frequent users of new digital services, where for instance 97 percent of all respondents are users of Swish. Although jointly developed by the large Swedish banks, the service is still a completely new phenomenon in the banking market, which would suggest some kind of resistance and adoption barriers. In contrast, Swish however seems to have gained a strong foothold despite its rather short existence. The convenient nature of the service further implies that only six percent of the respondents will stop using the service should a fee be installed. Looking at a non-traditional player such as Lending Club, we can however see the significance of gaining trust when conducting digital banking business. 41 percent of all respondents claim that they could never lend out money through such an actor, while the rest could consider it if reassured that the company is serious or if creditworthiness of the other party can be guaranteed. The mistrust is thus considered to be deeply rooted in current banking customers' behaviour; strengthened by the fact that 68 percent of them have never conducted services through non-traditional actors (TransferWise, 2016).

Swish and Lending Club are two examples of new actors in the banking industry. Busch and Moreno (2014) however refer to the fact that many of the world's largest companies will move into the banking industry, mostly through alliances, joint ventures and acquisitions. How this shall affect the Swedish banks of today is hard to determine, but some indications were found in our interviews. Company X, being a non-traditional actor, benchmarks against pretty much all IT companies who may be able to contribute to a banking service. Respondent 1 sees their emergence as motivating and that it contributes to their own growth; where the obsolete picture of a bank is somewhat being replaced by a service-oriented entity that is hard to grasp. She also highlights a belief that generational shifts move slower than digitalization, implying that when the generational shift occurs, the digital revolution will come into effect with devastating effects for lagging actors.

This approach may seem to serve as a wake-up call for many traditional actors, as both previous research and non-traditional Company X seem to believe in substantial competition from non-traditional actors and fintech companies. However, speaking to Respondent 2 and 3, a significantly different view was portrayed. According to them, and the direction of their companies, this is attributed to three characteristics of non-traditional competitiveness, namely: short-term demand, barriers to entry and positioning in the market. Both respondents do believe that on a short-term horizon, their customers still seek for security and trust rather than the lowest price in real terms, which is something Respondent 2 further highlights as superior at traditional banks. This is also empowered by the barriers to entry, where he acknowledges that traditional banks will have superior competitiveness in the foreseeable future, as the market is also highly regulated in terms of safety and regulative legislation. The transaction infrastructure is something that non-traditional actors won't be able to achieve.

With that said, how come certain non-traditional actors still gain market share? It has most likely to do with their position in the market. Both Respondent 2 and 3 believe that the threat from these actors is not substantial at the moment, but that other traditional banks pose a bigger threat. Meanwhile, we can see that Respondent 1 at Company X, a non-traditional actor, doesn't see the traditional banks as their biggest threat, but rather creative companies that could revolutionize the financial services. This could be explained by how Respondent 2 and 3 notice non-traditional banks' positioning, where they may work through traditional banks to offer their own service. Respondent 2 introduced the concept of Company Y working towards abandoning old philosophies and the concept of mutually exclusive costs and benefits. First of all, non-traditional actors could complement the Company Y-portfolio by for example acquisitions or providing their infrastructure, acknowledging that old beliefs of solely offering in-house services. Furthermore, he acknowledges that non-traditional actors often are customers at traditional banks, were losing market share to them may imply more capital from corporate customers; thus being mutually exclusive in a way. This is something Respondent 3 describes as well, where traditional banks should try to benefit from these companies by either buying or providing the structures they so superiorly possess. In the long-term however, both Company Y and Z pay close attention to their development, and acknowledge that if they continue to grow, they could potentially become a more direct threat. Nonetheless, the growth of these non-traditional actors provides a clear indication that customers are looking for a unique experience and convenience.

Conclusively, non-traditional and fintech actors may not be as threatening to the traditional banks as expected. In fact, it is easy to overestimate their growth, as media only covers the success stories, which Respondent 3 at Company Z points out. Nonetheless, there are companies that come up with great, revolutionary services that do grow and no player in the industry should neglect. In those cases, players can seem to complement each other rather than replace, as all responding companies see opportunities in the development rather than direct competition, at least in the short-term horizon. It seems that the traditional banks possess an infrastructure that is secure and trustworthy, while non-traditional players have the creativity that attract the experience-seeking younger generations (Respondent 2, 2016-03-23). Openness, or will to add external influences to one's portfolio, could thus create great experiences within regulatory boundaries and trustworthy recognition.

5.3 MANAGING A CHANGING BANKING INDUSTRY

With the emergence of non-traditional banks as a result of a larger digitalization, the contemporary banking industry is constantly transforming. Taking changing customer relationships into account, where customers tend to be completely self-going rather than permanent visitors at local branches, Swedish banks are facing a very challenging future. They need to be able to provide high quality products at low prices, while simultaneously delivering high quality service and maintaining a personal relationship to their customers. In order to adjust to these changing market conditions, our belief is that the main priority should be to provide customized services that are ready and available for all customers, at all time and all occasions; something that was highlighted in all interviews.

All respondents clearly stated that every bank that seeks competitive edge in the digital banking industry have to establish a personal approach in how they meet customers, no matter what communication channel. As the majority of customers virtually are becoming self-sufficient, this includes personal settings on the digital platforms as well as customized offerings and marketing. Although still holding the local offices as their main communication channel, Respondent 3 at Company Z argues that they need to meet their customers in a personal way also in the applications to maintain the important customer relationship. As shown in our survey, all visits at the local branches were motivated by errands that were not possible to conduct independently at home. The importance of a fast and accommodating support is thus of utter importance. Despite the fact that she is not supporting the survival of physical branches, Respondent 1 at Company X also claims that all digital solutions need to be combined with an extensive customer support in order to be accessible when the customers face problems; creating a more personal customer relationship. This customer focused development is also suggested in reports published by large consulting firms such as McKinsey and Company (2013), The Boston Consulting Group (2012b) and Bain and Company (2014), who all mention that most banks have been concentrating too much on launching new technological advances rather than integrating the preferences of the actual customers. According to Respondent 2 at Company Y, the traditional banking industry has been hypnotized by strategies where focus has been directed at developing front edge products from which a customer demand then has been created. This is something that Swedish banks need to avoid, and instead focus on how the bank can create a unique customer experience; totally customized with regard to individual requirements. As could be seen in Table 2 and Table 3 from our survey, providing the most frequently used features while logged in on the digital platforms, rather simple features were the most popular ones. The larger focus on customization might thus also become a mean to distinguish one's digital services from competitors, while creating a stronger personal bond to the customers. In terms of switching costs, customers having completely customized services should hopefully be less likely to consider a change of bank, as the customization makes their banking experience much more convenient and efficient.

In order to create such personal features, banks will have to learn how to utilize large flows of data that will be available as a result of the widespread digitalization. This data will enable the banks to effectively track the banking habits of their customers. Respondent 3 elaborated on the importance of meeting people when they are in the midst of making huge life-decisions, and Respondent 2 explained that every bank need to be able to provide support online depending on where you are in life. Just like the experience is different for various customers when meeting an account manager in real life, the online experience should also be customized with regard to individual preferences and life situation. The backside of all these

suggestions and visions is that they require vast data handling and tracking, which might be very costly. Furthermore, in order to maintain a high level of trust, banks must not violate the personal integrity of the customers, and their customized offerings must not become too similar to pop-up advertising or anything that could be perceived as disturbing.

Talking to individuals highly involved in the development of new digital banking services, it is obvious that much focus is directed at the importance of high accessibility. Historically, accessibility for banks has been measured in terms of number of branches, as all banking activities were carried out in the offices. Respondent 3 at Company Z mentions, when talking about the survival of physical branch offices, that although associated with high costs, local branches are still important in order to remain accessible and to maintain loyal contact with the banking customers. An interesting development, emerging after the conducted interview with Respondent 3, was however that Company Z in their latest quarterly report announced that they expect to close approximately 50-60 branches in the near future. Furthermore, the bank reserves SEK 700 millions in order to facilitate the adjustment to changing customer habits stemming from the digitalization process. What is interesting about this is not the fact that a traditional bank is closing down local offices, but the fact that it is Company Z who does it. As described earlier in the report, almost all traditional Swedish banks have chosen this path already. Company Z, however, has for a very long time proudly promoted the local bank offices, and in contrast to their competitors, they have chosen to open up more branches the last ten years. When they now finally step back and reduce their physical presence, this once again proves the speed and extensive effects of growing digitalization. It further highlights the importance of being accessible where the customers are, not where they traditionally have been. With a trend where more customers are conducting a majority of their banking activities online, the need to balance the digital presence is important in order to be constantly available as a bank, while keeping operational costs low.

Already before the announcement, Respondent 3 however highlighted the significance of transferring the personal communication at the offices to the new digital platforms. He believes that, on the private customer market, it is of utter importance to be able to meet the customers wherever they are, whether it means being accessible and available through a mobile app while waiting at the bus stop or if the customer wants to talk to an advisor regarding pensions. With regard to the different digital platforms, this development would suggest an even higher cannibalization effect in the future, as the narrow focus on mobile platforms might create large differences in terms of quality between the existing communication channels. In order to avoid that these cannibalization effects have negative influences on the banks' value propositions, it will thus become very important to pursue a totally integrated channel strategy, where the different distribution channels should support each other rather than create internal competition. A lot of consulting companies have reported an expected increase in revenues for all banks applying a well-structured digital strategy. However, in these reports, as well as in the interviews conducted in our study, it is stated that such advantages will only be achieved if a full digital transformation is pursued. Hence, it is not enough to only develop new high-tech apps, but the digital strategy must be entrenched throughout the whole company. Not only is it important in terms of efficiency, it is of significance as a mean to maintain a trustworthy digital approach. In rhetoric and ethics, the term Ethos is normally used as to describe the trustworthiness of a person or company. Applied in the sense of digital banking, it will be much harder for a bank to convince a customer to adopt new digital services if not perceived as a trustworthy digital actor, pursuing a totally digitalized strategy. As an example, Respondent 1 highlighted the importance of having well educated and genuinely interested employees who serves as a facilitating force

when introducing new services, both internally and externally. Only employing the right people will not be enough though. With regard to the higher industrial clockspeed, all banks must continually develop their digital strategy and stay up to date with new technological improvements.

To conclude how to successfully manage the changing banking industry, both the results from our survey and previous research suggest a more digital communication between banks and customers. The majority of this communication today includes simple problem-solving activities performed by the customer, without any physical involvement from the bank. Although a lower personal communication, most customers still tend to have permanent digital communication with their banks, which is why the banks need to adopt a more customer-centric approach. Finansliv (2015) showed that there is a positive relation between personal communication and satisfied customers. Hence, customization and customer-centricity will be important both in order to create and maintain long-term customer relationships, but also to continuously develop a strong competitive advantage, enabling the banks to distinguish themselves from the rest of the actors in the market. All the respondents also supported this, and it can all be summarized in a very satisfying way in the expression of Respondent 2 at Company Y:

“It doesn’t matter that we have the customers’ money on a savings account with zero interest, because that is available elsewhere as well. It is the experience that will win the battle”

- Respondent 2, Head of Electronic Customer Channels at Company Y (Interview, 2016-03-23).

5.4 FUTURE OUTLOOK

Something that most financial corporations can agree upon is that there are distinct technological movements of change in the banking industry, and whether to simply neglect this movement or alter operations to incorporate it into the business model is up for discussion. This is especially noticeable among the traditional banks, who have mixed feelings regarding the degree of disruption among new fintech and non-traditional actors. Nonetheless, customer demand in the industry is indisputably changing in favour of new technologies, forcing banks to at least plan for the future. Looking at the frequency among new services such as apps and digital services, the technological clockspeed of the industry is picking up pace. With that said, short lifetimes of every new competitive advantage will be brutally obvious, which will put pressure on corporations to be prepared and flexible in revolutionary movements. This is something that Respondent 1 at Company X promptly claims to be their advantage. Their position of a niche bank has given them the possibility to recruit insightful employees and adopt flexible internal systems that handle future disruptions and new movements. Respondent 1 further claims that their highly digitalized platforms reveal advantages in big data accessibility, which implies thorough analysis of consumer demand.

When considering the future movements, a relevant question to contemplate upon is thus the degree of disruption. Respondent 1 portrays the industry as a highly disruptive one, where inability to rapidly alter the corporations’ direction will result in lagging behind and being outcompeted, but that may not be the case in a short-term horizon. Looking at the most recent changes in customer habits, the most essential services lie in applications and Internet banking, which is part of all traditional bank’s business models. Furthermore, Respondent 2 and 3 claims that apps are continuously being developed in order to be where the customer is

when the customer wants. Having not yet been overthrown by new, quicker and responsive players, this may show that the industry clockspeed is not yet quicker than traditional banks' ability to respond. Respondent 2 clearly states that Company Y is still working on customizing design and software among devices to cut costs and generate continuity in how one interacts with the customer, even years after applications gained foothold in the industry. Company Z, who still employ a greater focus on physical presence, have complemented their business with apps in order to meet the new commonly accepted technology. Thus, both banks have successfully employed commonly accepted technologies when forced to, in their own distinct ways. Subsequently, in the midst of digital hype in financial publications, one must acknowledge the fact that innovations and new technologies are not implemented in one day, and that common perception that traditional banks will not be able to respond quick enough may currently be exaggerated.

So, speaking of planning for the future, our interviews have given the common indicative perception that traditional banks' primary focus lies in benchmarking other traditional banks, while non-traditional stick to their distinct niche in the market and technological breakthrough innovators that may revolutionize their offerings. This can be connected to the discussion of traditional banks having essential characteristics of trustworthiness and security, while new actors may test the boundaries of convenience and interesting experiences. Thus, both Company Y and Z claim that their banking services will not be replaced as it is now, there is rather an opportunity to complement their business with external services; either by acquisition or cooperation. This further enhances the approach that traditional banks may actually not have the need to be extremely responsive in the changes. Simply being up to date on the development and considering adopting external services over in-house R&D may be enough. Nonetheless, despite a traditional focus, Company Y and Z still focus some of their research and benchmarking on new potential technologies in order to stay relevant and being prepared when change may incur, but not in the extent as for example Company X.

Furthermore, in the short-term horizon, our survey indicated some sort of resistance to further development. Applications and different apps have indeed gained foothold, but large segments of the customer base still seek physical presence. In our survey, 64 percent of the respondents would prefer physical contact with an advisor rather than digital meetings. Also, theory concludes that changing habits within banking is extremely difficult due to psychological and functional barriers; customers don't want to change a rooted and functional way of conducting services (Ram and Sheth, 1989). This is also stated by Finansliv (2015), where they notice a movement towards greater demand for physical contact. Therefore, short-term development may not be, for the mass of the customer base, more radical than applications. McKinsey and Company (2013) acknowledges these tendencies as well, that short-term changes will most likely solely affect short-tenure services like mortgage administration and payments solutions. This development is something that both Company Y and Z may see as reassuring and justifies their approach to non-traditional services, where they don't see them as a direct threat to the business. Both banks are however reluctant in stating that long-term tendencies may differ, where Company Y clearly states that the experience will be the deal-breaker in the future and providing interesting services will ensure competitiveness.

Having covered the future perceptions on a short-term horizon, which is pretty much based on current and previous developments, one must also consider unexpected and disruptive innovations that may pick up the pace of the technological clockspeed. This is something that

only Company X places great emphasis on hedging against, while both Company Y and Z passively acknowledge the possibility of such tendencies. When prospecting what such technologies could imply, Respondent 1 believes that it is almost impossible to predict, as innovation is endless and highly spontaneous. Corporations can simply be flexible and attract creativity in order to seize opportunities as they arise. Looking at the traditional actors, Company Z envisions a plausible breakthrough within platform usage and customer service. Respondent 3 states that being where the customer is will be essential and therefore banks will probably be forced to broaden their reach to platforms such as Playstation and Apple TV. Furthermore, he believes in a far more automated, virtual customer service, where customers most likely will talk directly to a digital service, similar to Siri in Apple's iPhone. Respondent 2 further believes in a breakthrough within Big data, where internal operations in handling data will become extremely important. This is similar to what Respondent 1 said, where it is difficult to know what will have an impact on the market. Therefore, knowledge of customer preferences is essential, while being careful not to violate personal integrity, which in a worst-case scenario would imply negative impact.

As can be seen in the discussions above, concluding whether new digital banking solutions are radical or disruptive is difficult. Innovations such as the Internet service and mobile phone applications are indeed new and different from prior banking solutions, and as a result of these innovations new segments and markets are emerging in the banking industry. Comparing to traditional banking services, it is thus not wrong to argue that these innovations are radical. In order to be defined as disruptive innovations, one must however evaluate the level of market creation, and if the old one is rendered obsolete. Looking at the traditional banks, who still retain traditional services while adapting the new ones, it is obvious that it is currently possible to manage the digital shift without excluding any part of the business. Nonetheless, both radicalness and disruptiveness are relative, which means they may change over time or with respect to different observers. A very clear example of this was given as both Respondent 2 and 3 drew parallels to the traditional grocery stores. As Respondent 2 talked about the unpredicted and extremely fast pace of adoption, Respondent 3 on the other hand described the false general conviction that every physical store would be shut down since everyone would purchase one's groceries online instead. They are both right in some way, which highlights the complexity in evaluating the radicalness of innovations. We thus confine ourselves by determining that the digitalization of the banking industry has the potential of being disruptive. McKinsey (2013) predicts a future in which all banking customers are likely to be completely self-directed. Looking back at a time where customers actually visited physical branches, one could then argue that the new digital innovations were completely disruptive. However, if that will be the case, only the time will tell.

6. CONCLUSION

Looking back at the purpose of the paper, it is of a twofold nature, which is why our research question was divided into two sub-questions in order to clarify what this thesis aims to answer. After presenting the results and analysing the different parts, this chapter now comprises our conclusion, which will be presented according to the same sub-questions. Finally, a general conclusion is given at the end together with suggestions on future research.

6.1 HOW YOUNG ADULTS INCORPORATE DIGITAL BANKING SERVICES INTO THEIR CONSUMPTION

From the survey conducted in the study, one can draw the conclusion that digital services are gaining ground on traditional banking. In terms of industry clockspeed, we can state that the financial industries have witnessed an inexorable speed in latter years, as a clear majority of young customers have incorporated digital alternatives into their everyday banking experience. Simultaneously, one can acknowledge that visiting the branch office is gradually being phased out by digital solutions, where the minority that actually visit the office merely does it when they are forced to, at rare occasions. This gradual development has been shown in previous research, and our static research once again manifests that the propensity to visit local offices is rather low. As a whole, the general direction of customer demand reveals an evident cannibalization effect, resulting in a shift from physical branches to digital platforms. However, a certain cannibalization effect can be witnessed internally among the digital platforms as well, since the majority of young banking customers seem to have abandoned the Internet service as their main communication channel in favour of the mobile phone service. Such a development suggests that the private banking customers will become even more independent in their everyday life as banking can be conducted while on the go. It further puts a high pressure on the banks to be accessible and available at all time.

In the survey, we also covered two sorts of non-traditional banking services, namely Swish and Lending Club. Swish, being a product created from traditional bank collaboration, has become a widely adopted application among young adults in Sweden, where approximately 97 percent of all respondents use it frequently. For Lending Club, however, a large portion of the respondents would never consider using the service, while the remaining part could consider usage if safety can be guaranteed. With this in mind, we can conclude that safety and trust is something that young adults consider essential in today's banking industry, something that traditional banks perhaps are exclusive to adequately incorporate in their operations. On the other hand, we can also see that a clear majority of the respondents have more than one bank as a service provider, which shows a tendency that bargaining power has indeed witnessed increased strength from customers perspective. As private customers seek better prices and convenient services this might further have implications for an increased competition within the industry, while the customer loyalty most likely will be reduced.

6.2 HOW SWEDISH BANKS ADAPT TO NEW MARKET CONDITIONS

As our survey, as well as previous research, indicates that the majority of young adults are using the digital platforms for their normal banking activities rather than the traditional bank office, all Swedish banks eventually need to adapt to these new digital market conditions. This is essential in order to maintain a strong customer loyalty, which historically has been a resilient competitive advantage for all traditional banks compared to completely digital actors. Just like all customers have been treated differently when visiting the physical branches, the digital customer will also have different demands, and focus thus needs to be on digital customization and accessibility. The participating interview companies have all highlighted the importance of valuing the unique experiences, where appropriate internal data handling and digitalization could provide information needed to customize the customer's individual needs. Digitalization inevitably has a direct impact on the customer's behavioural patterns, where mobility implies that the bank has to be accessible wherever the customer is. This is acknowledged at both the traditional banks, Company Y and Z, who are constantly contemplating over new platforms where future customers might conduct their banking activities. While preparing for the future, which is predicted to be fully digitalized, it is however important to bear in mind the importance of digitalization, as the technological development is moving faster than generational shifts. The digitalization process thus has an important role internally, in making the older systems more efficient, while simultaneously creating competitive platforms for the future.

Since banking customers more frequently choose a completely digital path, niche banks, non-traditional actors and fintechs have become a noteworthy topic of discussion when considering future value propositions of Swedish banks. From the interviews conducted with managers at prominent actors in the market, one can conclude that they all acknowledge the growth of new actors, with different opinions regarding their competitive potential. Speaking to two of the largest traditional banks in Sweden, one can draw the conclusion that they do not see these actors as a direct threat, looking at it from a short-term perspective. This is because of the yet rather limited development of digital services, where widely adopted technologies stop at general banking applications and Internet services. Furthermore, it is connected to the fact that they witness a demand that is still rather conservative and, as of now, only implies tendencies of disruption. Therefore, the traditional banks seem to prioritize the adopted new technologies and their existing services in order to surreptitiously ride the wave.

Looking into the near future, traditional banks seem to have adequate control of the change, where non-traditional actors lure in the periphery of the traditional banking industry. The non-traditional services covered in the paper are of course significant contributions to the future of digitalization of the industry, but as of now, customer preferences are conservative enough for banks to solely focus on commonly accepted technologies. However, being aware of the unpredictable future, remaining up to date is essential in terms of technical breakthroughs, putting pressure on benchmarking the industry participants. However, significant R&D within technical solutions does not necessary need to be a problem for the traditional banks, as they might adopt an M&A approach, where innovators create and banks incorporate. Therefore, commonly accepted suggestions that traditional banks aren't flexible enough in what has become dynamic market, may be flawed as they actually do not need to be as flexible as new participants; they have managed to incorporate apps successfully as demand emerged. This is also connected to safety and infrastructure, where barriers to be able to seriously compete with traditional actors, are immense. These barriers imply the possibility

for traditional banks to actually take benefit from new actors, as they can provide the highly complex and regulated transactional infrastructure, while the new technologies can be integrated from external actors. Nonetheless, in order to facilitate the bank's adjustment according to changing customer behaviour, Swedish banks' main priority should be to balance the physical and digital presence. As investigations portray the correlation between physical presence and capturing customer loyalty, one cannot overemphasize the importance of transferring this characteristic in the balancing process. Thus, this puts further pressure on distinguishing the bank through implementing customized and personal elements to the digital services, and successfully circumvent diminished customer loyalty through standardised operations.

6.3 GENERAL CONCLUSION

Conclusively, to answer our research question, both our digital survey and conducted interviews highlight a greater shift towards digital contact with the bank, where apps and Internet services have become widely adopted by the mass of young adults in Sweden. In terms of the value propositions of Swedish banks, there are two approaches. First, banks tend to focus on cost-savings and internal digitalization in order to make operations profitable, which indeed is important. However, the challenge at hand is the way in which one approaches the needs of the digital banking customer. In this challenge, customization and accessibility will be key factors in order to emerge victorious in an increasingly competitive industry. The new actors in the market do indeed affect the traditional banks, but as of now, the direct competitiveness is lurking in the background. Nonetheless, they serve as facilitators of change, as well as a cautious reminder that the future may hold disruptive breakthroughs where traditional banks will be forced to broaden their horizon in terms of integrating digital innovations in their business models.

6.4 FUTURE RESEARCH

The amount of interesting topics regarding digitalization within the banking industry is monumental. As this study, in the shape of a Master's thesis, was conducted with a rather short time frame and limited financial resources, the possibility to include a desirable amount of respondents was restricted. For future research, it would thus be interesting to investigate if the same patterns will be found if a random probability sample is used for a larger sample size.

Although convinced that young adults in highly developed countries normally work as opinion leaders for new innovations, it would be interesting to look at other demographics as well. One fascinating aspect could be to dig deeper into digital banking in bottom-of-the-pyramid regions, so called BOPs. BOP markets tend to be relieved of the burden of legacy systems and legacy mind-sets, and their forgetting curve is thus believed to be rather low, which would suggest a rapid development when new innovations become General Purpose Technologies.

Other suggestions for further research could be to more narrowly investigate the emergence of specific non-traditional banking actors, such as Google, Alibaba, Starbucks or Facebook, and examine the implications of their presence for the traditional banking industry. Further, similar research could be done with focus on specific innovations, for example services like virtual assistance or platforms like Smart TV and Playstation.

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