

Over-performing on customer experience



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Every year, Gartner surveys bank executives to find out their strategy priorities for the next 12 months. Unsurprisingly for 2007, the top priority was competitiveness – in very large part, this means operating cost.¹ The second highest ranking strategic focus was new business development. Like most customer service businesses, banks are great at managing the cost base to improve efficiencies, and they are increasingly imaginative in their drive for new business.

At first glance, this is no different to any other consumer service industry. But wait: what about customer retention? Food retailers spend tens of millions on loyalty programmes. Airlines are obsessive about building long-term relationships with their customers, while mail order businesses write routinely to those who have not placed an order for more than a set number of months. Do banks really believe that all their customers are captives? Well, according to Gartner, customer retention has been sliding down the priority list since 2005, so perhaps they do.²

To date, banking has been largely immune to the risk of customer promiscuity. Certainly, in developed markets, consumers expect to shop around for elements of their savings and loans requirements, especially medium-term savings plans and credit cards. But for the vast majority, switching current account is perceived as simply too much hassle. Plus such accounts are normally linked to other higher margin products. Direct debits and standing orders would have to be cancelled and restarted, the paperwork would be endless and there is no guarantee that the next bank will be any better than the current one.

In the UK, First Direct – part of HSBC and

leader in the 2008 customer satisfaction survey recently completed by the BBC – has just launched a remarkably bold offer: \$200 to switch to their current account and a further \$200 if a customer should switch again after six months because they are not satisfied. This is a seriously generous offer and, in any other market, we might expect to see the competing brands panicking as their customers stampede for the door. But, whilst it is too early to measure the success of the campaign, the lack of comment in the industry suggests that even a very generous offer is not enough to cause a significant ripple.

The end of customer captivity?

However, there are signs to suggest that the times may be changing. Over the last three years in Western markets, most financially aware consumers have at least considered changing to a new credit card, tempted by new incentives or interest-free offers. In Ireland, at the end of last year, Halifax Bank – one of FIS's fastest growing customers – was offering interest-free balance transfers and purchases for six months, plus EU100 of real money on top.

The problem for the banks is that the majority of people who have opened a new credit card account will have found the experience to be relatively straightforward and painless. They may not have got the deal they thought they were getting, but they will have gained confidence in the process. As a result, they may be thinking that perhaps switching current account would not be so hard after all.

Another problem is the apparent absence of a social contract in today's banking relationships. There are exceptions, such as

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Handelsbanken who proudly claims that the branch is the bank and where decision making is exceptionally devolved. But for most, the drive for efficiency has rather de-personalised the relationship. For customers of the majority of Tier 1 banks, there will have been a shift from friendly face to friendly voice and from friendly team to neutral call centre in just a few years.

By way of comparison, the retail sector thinks differently. Many years ago, Sam Walton introduced the concept of a store greeter to the Walmart customer experience. Typically retired, these friendly people would welcome the shopper into the store and make sure they knew where to go if they needed any help. Walton wanted to improve the customer experience for competitive advantage, whilst making sure that people did not walk out of the shop without buying things simply because they could not find them.

To Walton's surprise, the store greeters had a direct impact on the business in quite an unexpected way: theft fell by more than the cost of the greeter's salary almost immediately. Not because these older people were a menacing presence that intimidated the potential shop-lifter, but simply because nobody wanted to steal from someone who reminded them of a grandparent. The greeter had effectively turned Walmart from faceless corporation into everyday people.

The consumer gets smarter

A word about comparison shopping: the Financial Services sector is well aware of the threat from comparison web sites that can quickly commoditise our portfolio. To date, these have only worked for identical products and have enabled only rudimentary price comparison.

However, today we are seeing the launch of increasingly advanced new comparison shopping web sites such as Twenga, recently exported from France. Whilst it is yet to compare financial services, this site has moved on from simple price comparison to a far more sophisticated sorting capability. For example, a look at laptop computers reveals that you can search on price, brand, screen size, capacity and much more, constantly refining the list of best-price providers before clicking to buy. What about bank accounts? Why not search on charges, interest rates, annual fees, reputation and introductory offers?

As fraud and identity theft grow, more consumers will find themselves in disagreement with their bank. The way in which the bank handles such situations is going to be a critical test of the relationship, but if it is through an unresponsive call centre that lacks empowerment, many will exit the experience with their loyalty seriously tested.

The economists are unanimous in predicting a tough 2008 for most. As money gets tight, consumers will look more closely at the costs of things that they previously took for granted, such as the cost of their regular coffee shop visits, their energy supplier – and even their bank charges.

We are now seeing a proliferation of one-product specialists geared towards simplifying finance. ING Direct, one of our sector's great success stories (and an FIS customer), has already taken a significant bite out of the European savings market. I am sure there will be many more bites to come. Furthermore, as switching banks becomes more commonplace, it is becoming more socially acceptable.

I think it also worth remembering that consumer behaviour does not change in smooth lines.

There comes a 'tipping' point when doing something differently becomes the norm and, at that point, the majority want to move with the crowd. In short, if customer retention has not been a strategic focus up to now, I believe it is going to have to become one in the very near future.

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In case this comes across as a lone voice or a vendor sales pitch, it is worth considering the output of the BBC's February 2008 customer poll on attitudes to banks. Whilst the whole document makes for interesting reading, this was probably the most revealing statistic:

What is the main reason you stay with your bank/building society?

Happy with rates and products it offers 27.6%

Too complicated to switch banks 10.3%

Habit 7.2%

Do not believe will get a better service elsewhere 30.9%

Currently considering changing account provider 21.9%

Don't know 1.9%

The good news

However, the good news is that customer retention projects also tend to hit a lot of other strategic points of focus, especially cross selling and through references - new business. There is a fine line: in Dec 2007's Retail Banking Insider magazine, Jim Kitay talked about the dangers of overly aggressive sales targets for branch staff. He found that when staff members were pushed too hard to sell products, their discomfort and lack of confidence actually drove customers away.

"When I interviewed people in branches, they would never just say 'sell' once. They used to say 'They want me to sell, sell, sell!'"

**Jim Kitay,
University of Sydney
Retail Banking Insider,
December 2007**

In contrast, successful banks focused on a consultative sell that drew out needs and introduced products late into the process – an approach that is very straightforward in an environment where the clients are loyal and engaged. Take a look at the pioneering work of British marketing experts Quickheart in retail banking to see what a consultative process can do to cross-selling and retention rates.

Leading by example

So who is doing retention well? Here are three examples, all of which are FIS clients.

Coast Capital is a Canadian bank and a long standing user of Profile: FIS's scalable core banking system. The bank made a decision to target the teaching profession and noted that in Canada, teachers were not paid monthly as in most professions, but in 10 annual instalments (nine equal, plus a larger one in June to cover the summer break). Coast Capital realised that every other lender was providing mortgages with 12 instalments per year. They switched to a 10 instalment plan and secured a strong share of a loyal and stable customer base

for just a few hours of work with the Profile product factory. Today, teachers there are paid every two weeks, so it is a good job the system is so adaptable!

Scottish Widows bank – a part of LloydsTSB – realised that by targeting the right niche, they could build a competitive edge and lasting loyalty. They focus on professionals in medicine, law and other sectors (although, interestingly enough, not banking), where their deep understanding of the market and their sophisticated products meet a well defined need. For example, whereas most banks would see a 27 year old earning £35k, Scottish Widows sees a junior doctor who is three years from earning £100k. Wealthy professionals are demanding so, to retain their customer base, Scottish Widows has had to build in high levels of service and unusually sophisticated products, such as multi-currency home loans.

Interestingly, Scottish Widows capitalised on LloydsTSB's excellent data centre, but chose to run Profile within that infrastructure to have access to the Profile product factory – the clever part that enables the bank to get new products and functionality out very quickly, just as Coast Capital did. Scottish Widows has made another smart move in collocating its IT people, FIS's people and its marketing staff on the same floor, enabling small and large decisions alike to be made quickly.

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Bank Leumi is an Israeli bank (and an FIS customer) shortlisted for The Banker Innovation awards in 2007 for its '*leumi online*' service. Designed for small businesses, *leumi online* is a great example of automated personal service. The design focus in *leumi online* is to provide services that cut staff and professional fee costs for smaller, yet sophisticated businesses. Business users can set floor limits and staff access rights, download custom reports into Excel, and upload and download straight into their accounting systems. They can even operate their payroll through the system. The service scores because it genuinely enables the smaller business to cut professional fees and even headcount. Today, why on earth would any customer want to move?

What next?

Most of us are focused on the implications of the credit crunch today, and this means looking at cutting costs in everything we do. At FIS, we are seeing – on a global scale – an increasing demand from banks for core system software provided on a hosted, rather than a licensed, basis. Although this is relatively new in EMEA, it has been standard practice in the US for many years. However, this growing demand can be seen as clear evidence that our clients are thinking far more about capital expenditure, cash flow and IT costs than they may have been a year ago.

There is always a balance to be struck between efficiency and effectiveness, and it is dangerous to run projects that ignore the impact on customer retention.

A few years ago, we in the IT sector could justify projects on the basis of new revenue opportunities alone. Today, projects have to save money and make new revenues. For the next couple of years, projects are going to have to do both of those things, as well as improve the customer experience – at least for sizeable parts of the customer base. This is a demanding requirement, but it is certainly not impossible.

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