



IR PODCAST

IBM AND THE FUTURE OF BANKING

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For many of us, banking is more of a chore than a pleasure. But the future of banking could be much brighter. As banks compete increasingly with non-bank retailers and other companies, some are learning to behave like them. New technologies and new ways of doing business will bring big changes to the customer experience.

EDWARDS: I'm Ben Edwards. For most of us, banking is more of a chore than a pleasure. Crowded and badly-designed bank branches, weak deployment of technology and the use of push marketing and junk mail have all combined to erode customer satisfaction and loyalty.

The future of banking could be much brighter. As banks compete increasingly with non-bank retailers and other companies, some are beginning to learn to behave like them. The smartest will adapt successful retailing practices to their industry. After the internet briefly threatened to make the branch extinct, there is new interest in making branches attractive and engaging. Sympathetically applied, a whole variety of technologies are likely to improve the customer experience beyond recognition.

With me today to discuss the future of banking are two IBM authorities on the industry, Mark Greene and Rusty Wiley. Mark heads IBM's banking industry sales organization. Rusty heads IBM's banking consulting practice.

Welcome to you both.

GREENE: Thank you

WILEY: Thank you very much

EDWARDS: You know, let's start. I don't enjoy banking. Am I alone in this?

WILEY: No. No. And if you think about banking, you as a customer of a bank, first of all, over the last 10 years, it's very likely that the bank you came to know and trust has changed the names three times.

So think of that as your major retailer that you go and do business with on a regular basis, that every two to three years they change names, they change product sets, they change the way you get service and support and help when there is an issue on something you've procured.

And the other thing is, if you think about the experience in a bank versus a normal retailer, when you go into a bank, it doesn't exactly feel very exciting. It doesn't have a retail look and feel to it.

So one of the studies that Mark and I have seen recently is there is a direct correlation between the type of music that's played in a bank and the number of new loans that they're able to generate in the bank.

Now, if you're in banking, you hear that and you go, wow! That is brand new, that's a great thing. Let's go and put new Muzak in all the different bank branches.

You know, the retail industry discovered that 20 years ago

GREENE: Well, and the way that shows up is, there's another famous study in the banking industry that shows that pedestrians walking down the street actually walk faster when they're going past their branch bank than elsewhere on the sidewalk. It's sort of a mentally not pleasant association you're having with your bank.

EDWARDS: Right. You speed up.

GREENE: It's like going to your dentist...you speed up, you don't want to be there. And it doesn't have to be that way, and we'll talk, I'm sure, about ways the banks can and are starting to turn that around. But the historical association consumers have with banks is not pleasant.

EDWARDS: Why do you think banks have been so slow to embrace the consumer or to view their business as making the consumer happier?

GREENE: It's a great question, because there's a rich irony here. I mean, the products the bank sells are all digital in nature, so it should be one of the industries that is first to sort of take advantage of new technologies and improve customer service.

One of the reasons perhaps is it's been a pretty lucrative business. There hasn't been the sort of competitive pressure to change and to improve service levels. But that is now changing for two reasons.

One, the banking industry itself is consolidating, and so you're seeing more competition for market share. But I think the equally important factor is the sophistication of the customer. People feel better well served in other retailing interactions than they do by their bank.

And so when you do...banks are famous for doing surveys of recently defected customers: why did you leave us? And what you used to hear a few years ago was people were leaving for reasons of price. They were looking for a cheaper mortgage, higher passbook savings accounts.

In the last year or two the banks are starting to hear that customers are leaving because of service dissatisfaction. I've been banking with you for 20 years; I'm never greeted by name. I have five different banking relationships with you but you never seem to know that when I show up in the branch.

WILEY: If you think about the way banking grew up, it grew up very much as a product centric business. And Mark's right, it's a very electronic business in terms of the way it's modeled and the way it's run. But each part of the bank knew you.

The problem was the banks built the entire business on a product basis. So everything is designed top to bottom including service.

So when I would enter a branch, you would think of that as being their primary interface and most highly valued interface to their customers. That branch would not be able to recognize you as a customer that has a mortgage and has a credit card and has a checking account with you and might have a home equity line. And oh, by the way, even more importantly, would have no clue that last night you logged on to that Internet site and asked for and requested information about a boat loan.

GREENE: Now, this is changing for the better. I mean, one of the exciting developments that consumers can look to see is the more integrated bank that really does recognize you across channels and across products.

It doesn't happen overnight, but there's lots of investments going on now in many organizations around sort of improved customer experience, integrated know your customer kind of mentality.

And so I think there's reason for hope here. This is an industry that's about to get dramatically better in customer service.

WILEY: Some of the more innovative things that are coming online now are things that we would consider like proximity cards. So I can walk into a retailer as a bank's customer

and I have a card that if the retailer is properly equipped with RFID, radio frequency equipment, I walk in, I pick out what I want in the store...

[BRIEF TALKING OVER]

WILEY: Just wave it, walk by the register, I'm out the door.

GREENE: Chase has this now, it's the Chase Blink card, that's exactly right.

WILEY: The Blink Card, is a great example.

So the banks are, you know, they're struggling to try to create products that differentiate them, because banking is, particularly retail banking, is a highly commoditized business. There's not much uniqueness in terms of products. And so things like proximity credit cards get more exciting.

Now, the risk to that is if you're a banker -- or the flipside of that, a consumer -- there will be choices in the future that suggest maybe the credit card is not the way I'm going to shop anyway. I'm going to shop with my cell phone.

So now I have an integrate device that is a cell phone that's probably my iPod of the future with my music on it, and oh, by the way, it's now my credit card. So I have the ability to walk through a retailer, I have the ability to purchase a product with that iPod / cellphone combination device.

All of that actually gets managed by the telecommunications industry [with] my account, and then a low-cost bulk payment transaction goes to the bank. So the banks get thoroughly disintermediated in that, and it's an exciting way to shop.

So the banks are having to come to the...having to come to the table quickly now with new innovative products in that space not only because they're trying to drive up customer satisfaction and differentiate themselves; they're trying to do it because there are real threats in the industry to their bank franchise.

GREENE: Yes, there's actually sort of three types of innovation I think we see in the banking industry. First is around products, so you're right, the banking products tend to be kind of dry and not so exciting.

But ING Direct, for instance, taking sort of a novel approach to high interest savings accounts, and paying you for your checking deposits and so on, there's possibility of making some innovative products.

Second is the technology. We were talking about some of the payments technologies. I think cell phone banking, we're seeing lots of cell phone banking, for instance, showing up now in Japan and Korea, and it's only a matter of time before it comes to the US. So, different ways of interacting with different advanced technologies.

And then quite importantly, the third area of innovation is around customer service. You're seeing the traditional bankers hours giving way to much more convenient style banking. In the New York area, Commerce Bank is the leader in this sort of always there. You know, Sunday morning at 7am, there's [even] a teller if you want them, right?

You're seeing Washington Mutual with its sort of retailing format as actually an attractive destination. The kids like to go into Washington Mutual while mom is doing the banking because there's a place for them to color and play.

EDWARDS: Just on that third point, how much, you know, interest is there in reviving the branch, the bank branch as a destination? And give us some examples of what banks are doing.

GREENE: Well, one of the things that banks have learned a bit painfully over the years is that no channel ever goes away.

WILEY: You could have had a dialogue with a senior bank executive five to seven years ago and you would have had a great story that said, we're going to get rid of most of the fixed costs of the bank and we're going to migrate people to electronic channels -- either the Internet or to the call center in terms of service and sales.

The reality is the banks open 90-plus percent of their new accounts within the branch. And a key part of their bank brand and their bank franchise is having the convenience of those branches to bring new customers into the branch and retain them.

So you're beginning to see -- and I had a very interesting discussion with a senior bank executive in the south east here recently -- they're beginning to look at the customer experience in terms of what are the type of transactions or interactions that you as a customer do with a bank, and where do you likely do them.

So account opening versus opening a car loan versus the different services you would do with a bank. And they're beginning to try to model their service structure and their information structure to support which channel you're most likely going to use from the bank.

GREENE: They're learning here from some of the online brokers. That's a model that's been common ever since there's been Internet brokerage capabilities, which is, let's use the stores to get new customers or acquire new customers, set them up, open up their accounts.

But then let's let the majority of their transactions take place over the Internet or through the telephone, and not have to see them face to face. So different channels for different business purposes, as Rusty is saying. That's starting to show up in banking.

WILEY: Yes, and a little more on the branch basis. I actually think the branch is a fairly exciting area for banks today.

If you look at some of the more innovative players like, and we've referenced it before, Washington Mutual that has [acosio] strategy for their branches, it's radically different than a traditional bank branch.

So as an example, when you go into the branch -- and I talked earlier about the music that's in the background -- the colors in the branch, they use a lot of plasma displays for merchandising.

You know, you're used to tellers being behind the counter. You know, when I walk in the traditional branch, I walk 25 paces from the door, I walk past the counter with the forms, I go up, I wait in line. They don't know who I am, they [swipe] my card, they still might not know who I am, and I'll go through all that.

EDWARDS: Right, like going to a government department or something, right?

WILEY: A Department of Motor Vehicles is the best example.

[LAUGHTER]

Right, we all know and love that one.

So today if you walk into a Washington Mutual branch, first thing, you're going to walk in and the whole environment is different. Number two, the teller is not going to be behind the counter. The teller is going to be out from behind the counter coming in to greet you to see if they can interactively help you.

Are you here to make the deposit? Are you here to take out a loan? Are you here regarding a dispute with your credit card? Whatever it might be.

They're out from behind the branch and they're there in a service function. I was a little uncomfortable, by the way. The first time you walk in that branch it seems a bit odd because you're so used to the traditional branch. So they're changing how they interact with you, they're changing the environment.

The other piece is, some really innovative technology. I talked earlier about proximity technology, radio frequency technology. So play ahead for just a minute. And they're not quite there yet, but I now carry a card that identifies me when I walk into the branch, just as it would identify me when I walk into a retailer.

As I move through that branch it picks up on me and there is a plasma display sitting right there in front of me that knows based on the fact that I hit the Internet last night looking at student loans, student college loans, that I'll probably have some interest.

So think about the information system that's in the background, which is normally the Achilles Heel. But I now walk past this plasma display that says, oh, by the way, you know, if you're a Crown Account customer...that's not their particular brand...we have a unique proposition for you in student loans.

Right? Interest only payments for the next four years until they exit college. You know, that type of thinking ahead and being able to relate to the customer in an interactive format, changing the environment, being able to customize the merchandising and the marketing when you enter the branch...

EDWARDS: Make it relevant.

WILEY: Make it relevant, make it real, make you feel like that bank actually understands you is where they're headed. And to a great extent, the branch has a unique capability to do that, right, I mean, if you think about it.

GREENE: We're talking about making things relevant and thinking ahead, and so far the discussion has been around relevance and forward looking for a particular transaction.

There's another exciting thing that's happening in banking, which is that banks are beginning to be proactive about thinking about the whole set of services and transactions you should have and anticipating your needs rather than just waiting for you to show up in the branch to do a transaction.

This is sometimes called the life cycle modeling approach. But if the bank knows that I recently had a child, then the bank should realize that at age five that child needs to start having a college savings account in place. And they can call me in five years' time, and then offer me some tuition planning assistance.

If they know that I have an elderly parent and I need some elder care funding, or if they know that I myself am planning for my retirement, they can anticipate these needs.

GREENE: So what does it require to be successful at that kind of improved retailing and improved customer service? And it comes down to what the consumer would perceive as personalization, and what the bank will recognize as much better use of business intelligence and data mining.

And one of the interesting things about banks is they acquire huge amounts of transactional information. They know what every one of their customers has done with every product in every channel at every point in time, ever since they've been in the bank.

But traditionally they've not made a lot of use of that information. It turns out there's phenomenally powerful information to be discovered from that. You can, for instance, as a bank,

predict with great accuracy when one of your customers has gotten married because certain transactional patterns suggest a wedding.

Now, what do you do with that knowledge if you've figured out with 99 percent probability that this customer over here has just gotten married? Well, what do we know about newlyweds? They buy new homes.

So what if we targeted our mortgage offers to just those individuals rather than sending out mortgage solicitations to every one of our customers?

Well, there's a bank that's doing exactly that in the UK, and they get about eight times a better acceptance rate on those mortgage solicitations compared with the conventional direct market approach.

So this is data driven personalization. This is, I know something about your life cycle and I know something about your needs, and I'm going to tailor a particular product offering, a mortgage, just for you, because I know where you are and the fact that you just got married.

And what it requires is pretty sophisticated data mining. And so some of the most exciting innovations we see taking place are in this area of business intelligence, analytics, data mining.

EDWARDS: What do banks do with their data? Do they throw it away, or...?

GREENE: It's sort of been dormant, right? You store large warehouses of data, but they have not actively mined it to figure out how they can better serve their clients. And that's what changing now.

EDWARDS: They're discovering the value of it.

GREENE: They're discovering the value.

You know, in another example, retailers learned long ago, there's a famous story about 7-Elevens, where they discovered that on Friday afternoons if they move baby diapers closer to beer you sell more of both.

And it turns out there are analogies in the banking industry. Certain products can be sold as pairs more readily than as individuals.

And what that requires is pretty sophisticated correlation analysis, data mining and so on. And that's what we're starting to see. I'm not sure that we'll see diapers being paired with any banking productivity, but the notion of sort of combined bundles of product offerings is an example of where the industry is going.

GREENE: So we talked about product innovation and technology innovation, customer service innovation. I think there's sort of an over arching theme that describes these different trends, and that is, in banking the consumer increasingly is taking charge.

The competitive market dynamics, the improved sophistication of the consumers and other lines of interactions they have, really tell them that now is the time for them to ask better of their banks. And they're starting to do so. So it's a pretty exciting time, especially to be the customer of a bank but even to be a banker itself. The industry is reinventing itself as we sit here.

EDWARDS: Well, thanks very much to Mark Greene and Rusty Wiley. This has been an IBM podcast.

GREENE: Thank you.

WILEY: Thank you very much.

[END OF SEGMENT]