IBM Global Business Services
White Paper

Banking

Bank on the Customer:

How customer-centric transformation can lead to deeper relationships, increased revenue and streamlined operations

IBM

The global financial crisis of 2008 still reverberates today. Sluggish economic growth, stricter regulatory requirements and rapidly changing consumer behavior are placing unprecedented demands on the banking industry. In recent years, banks – particularly those with substantial retail operations – have relied on the lethargy of their customers to maintain their business. Customer loyalty has been based more on proximity of local branches and convenience of ATM networks than the quality of customer care or products and services priced and tailored to a bank's best customers. In response to the financial crisis, banks have focused on wringing complexity and costs from their systems – exacerbated by mergers and acquisitions – while dealing with new and tighter regulations. Yet, their traditional "one-size-fits-all" mass-marketing approach to customers has remained constant.

Indeed, many banks have even taken a punitive approach to customers by adding fees to grow revenues or recover income lost to regulations. New U.S. regulations enacted in the wake of the recent financial crisis cap or even prohibit certain fees. Also, privacy regulations, including "do-not-call" legislation and "opt-out" requirements for email solicitation, have greatly lowered outbound telemarketing and direct mail response rates. Moreover, changing consumer behavior has rapidly shifted business online, where it is much more susceptible to customer churn. The recent capitulation of major U.S. banks that attempted to impose new fees on their debit-card holders is just one example. Hoping to recapture revenue lost to new federal caps on debit-card fees charged to retailers, several major banks tested or announced plans to impose monthly fees on card holders – only to be forced to backtrack by a groundswell of customer anger and defections.

The captive-customer model no longer works. For banks to regain their footing and grow in the twenty-first century, they must become more client-centric. Established product-oriented processes must give way to holistic, enterprise-wide treatment of customers across all products and channels. Such a substantial business transformation will require breaking down silos and leveraging sophisticated customer insights to improve risk management, pricing, channel performance and customer satisfaction.

Real relationship banking

Banks have been promoting "relationship banking" for years, but many continue to maintain across-the-board pricing and treat customers the same regardless of their tenure with the bank, account balances or the number of accounts they hold. In its most recent survey of the top 200 banks worldwide, conducted with the Economist Intelligence Unit, the IBM Institute for Business Value (IBV) found that at least 25 percent of banks employ standard "across-the-board" pricing regardless of the relationship.[1] It's no wonder that in MSN Money's fifth annual survey of customer service, conducted with pollster IBOPE Zogby International, four of the ten worst-ranked companies – and two of the bottom three – were large U.S. banks.[2]

True relationship banking requires a new operating model – one that eliminates silos between products such as deposit accounts, credit cards, mortgages and loans, investments and the like – and provides an integrated, 360-degree view of customers from all channels. A single view of the customer is paramount.

Such a 360-degree customer view was critical to Scotiabank's shift from a traditional account-based operation to the customer-based model, helping it earn Global Finance magazine's award for the "Best Trade Finance Bank" in Canada for five consecutive years. Scotiabank Group – widely viewed as among Canada's most international banks – serves some 19 million customers in more than 55 countries around the world. Its sales reporting system spans its retail, corporate, wholesale and investment banking lines of business, allowing sales officers at the bank's 1,100 branches to sell credit cards, credit lines, mortgages and other financial products

Quoted in a Computerworld Honors Program case study, Mike Bekic, Scotiabank's Director of Branch and CRM Technologies, said: "Whether it's lending, investments, small business banking, or what have you, we now have current information to follow up with customers based on their perceived needs and profiles."[4]

In addition to a 360-degree view of the client, a fully customer-centric model requires these key operating elements:

- Customer differentiation
- Relationship pricing and product bundling
- Consistency across all channels
- Improved customer engagement.

Customer differentiation

In its recent study, the IBV found that 40 percent of banks, to some degree, did not have a common client-segmentation methodology across their lines of business. Yet a customer-centric operating model requires banks to know their client base and to distinguish among different segments in order to address their unique needs. Sophisticated customer segmentation strategies should be based on standard banking metrics – tenure with the bank, number of accounts, balances of accounts and loans, frequency of interaction with the bank, channel preferences, and the like – and also on both psychographic and demographic variables.

The familiar demographics of age, gender, ethnicity, etc., can be used as a proxy for determining customer needs (See sidebar, "Student banking 101."). But increasingly, banks – particularly in emerging markets – are poised to move toward needs-based and behavior-based segmentation over the next three years. Rather than focusing primarily on demographics, banks worldwide plan to focus more intensely on behavior segmentation and client needs.

Relationship pricing and product bundling

Many banks remain mired in a product-centric operating model and few have consistently used pricing and product bundling competitive differentiators in their client relationships. Banking products are often priced and structured simply by following or matching competitors, rather than letting risk and client needs drive pricing. Operating silos between and among deposit accounts, credit cards, mortgage lending and other products have prevented bundling and pricing tailored to meet the needs of different types of customers – particularly the best, most profitable clients. In today's hyper-competitive market, banks need to move beyond a "one-size-fits-all" pricing model.

Case Study: Student banking 101

A U.S. Bank was among the first to recognize the benefit of targeting young adults as customers who would produce extraordinary "lifetime value." It was already a leader in providing checking accounts and credit cards to college-aged students – when it launched a new marketing campaign aimed at high school students. Its research indicated many students already had their first bank account before entering college. Yet, its customer data revealed only a small percentage of its new student-banking accounts came from high school students.

The campaign was highly successful, increasing sales to high school students by nearly half the first year. Yet the bank had to come to grips with a painful reality. It was losing money on most of those customers in the target 18- to 24-year-old demographic.

High school and college students tend to maintain low balances, avoid fees and initiate more in-branch transactions – albeit at a lower average dollar value – than more mature bank customers. The bank needed to trim the cost of its student customers without driving them away and losing future revenue streams as they mature and prosper financially.

So the bank adjusted the pricing of this student banking offering, waiving the monthly maintenance fee only when customers choose online paperless statements and make deposits and withdrawals online or by ATM, without a teller. The accounts also feature mobile banking and text alerts aimed at appealing to tech-savvy young people, plus online money management and budgeting tools and an offer to apply for a student credit card. The whole package is geared to keeping the cost of student customers at bay, while keeping them loyal to the brand as they mature into more profitable customers and realize a greater lifetime value for the bank.

Case Study: Customer-centricity yields marketing efficiency

When one large Taiwanese bank needed to become more customer-focused, it found itself ill-equipped to maximize its return on marketing investments because customer data was siloed by business unit. Multiple marketing campaigns and offers were reaching individual customers with little or no coordination or intelligent targeting. Core banking applications like deposits, lending, credit card systems, wealth management applications, call center operations, and the bank's ATM networks, as well as back office functions like email and collaboration, were disjointed. Both to better optimize marketing efforts and to provide better service to customers, the bank needed an integrated data warehouse that would combine data from various customer applications and integrate multiple channels for cross-selling, service delivery and better marketing execution.

The resulting event-based marketing management system provides cross-channel coordination and allows the bank's marketers to assess, and adjust when necessary, the effectiveness of ongoing campaigns. Instead of indiscriminately and repeatedly reaching out to the same customer, the new system allows the bank to do better customer segmentation and its marketers to prioritize and customize offers for each customer, based on financial events such as meeting account balance thresholds, submission of a mortgage application, the buying or selling of stock or other banking transactions.

By implementing an event-based marketing system, the bank is now able to design and create marketing campaigns and support new customer segment initiatives and customer insights. The bank's marketing campaigns are now event-based, customer-oriented and centrally managed, instead of product-driven and disintegrated. In addition, integrated business intelligence collects the latest results of a campaign, and automatically alerts campaign managers if the response to it is below pre-determined thresholds, enabling real-time adjustments before the campaign runs its course.

Not only should they be using well-priced bundled products to attract new clients, they should also be aggressively offering existing customers additional products at preferential prices to earn more of their business.

Consistency across all channels

One set of channels that many banks have developed solid cross-product integration with is their online and mobile offerings. But few have achieved the same level of consistency across all customer touch points, including branch banking, mortgage loans, wealth management and various outbound marketing channels that don't feed into a comprehensive solicitation history. Channel strategies and individual lines of business must be integrated and unified to engage customers when, where and how they want to interact with the bank, in the manner they choose and in a way that presents a consistent and coherent customer experience across all channels and products.

Customer engagement

Beyond simply deploying new digital and mobile channels for clients, banks must develop new means to engage customers based on life events or behavioral triggers. This engagement must reflect rapidly changing consumer habits and transaction preferences, while recognizing all the business a specific customer does with the bank, not individual accounts in isolation.

Deepening customer insights – transformational imperatives

There is much more at stake for banks than simply better ratings in customer service surveys. Industry consolidation and the rise of new non-banking competitors has heightened competition just as slow economic growth and the sovereign debt crises across the globe has dampened demand for financial services. Banks, in particular, are struggling to regain consumer trust after the near-collapse of the financial system in 2008. In addition to trustworthiness, clients now demand transparency, offerings tailored to their needs, and multiple channels through which to transact business.

Banks must operate differently to maintain profitability and growth going forward. Using analytics to glean deeper customer insights, a client-centric operating model can help attract and retain customers, deepen client relationships to increase revenue, streamline operations and proactively manage risk and regulatory requirements. Specifically, to generate these business benefits, banks should implement the following transformational processes:

- Integrate customer information – Banks must maintain an authoritative source of customer data that improves customer service and increases sales effectiveness. Though such customer data needs to be accessible across various lines of business, banks must manage data distribution and access carefully to meet regulatory and privacy requirements.
- Develop customer-centric insights – Analytics should be deployed to help banks constantly improve their understanding of product usage, profitability and risk. Deep understanding of customer preferences, buying behavior and financial needs can generate sales, enhance products, refine pricing and improve customer satisfaction and loyalty.
- Use real-time cross-selling/up-selling – Banks can use real-time events and deep customer insight to offer cross-channel marketing campaigns where "moments-of-truth" (wedding, home purchase/sale, new job, stock transactions, etc.) are acted on as a way to deepen customer relationships and effectively generate more revenue. The more individual products from a single bank a client uses, the higher are the barriers to switching banks.
- Automate customer care – In the digital age, customers demand more self-service options and any-time, anywhere service. So expanding customer self-service, case management, dispute management and event-based decision-making can be perceived as better customer care, while also lowering a bank's operational costs and increasing effectiveness. However, banks should continue to make compelling offers as incentives for customers to use lower cost channels.

Case Study: Banking on customer insight

With a number of disparate customer applications and the explosion of new channels– from telephone and online banking to text-messaging – a central European bank found significant challenges in creating a single view of its customers. Its "green screen" branch banking systems and disjointed processes slowed down its efforts to drive increased sales by providing its customers with faster service that better met their needs.

To address this issue, the bank developed a new front-office system that offers a 360-degree view of customer information on a single screen. Tellers and other bank staff now have real-time access to every recorded interaction with a client—pulling data from each of its systems, including online, telephone, branch banking applications, and customer call center records. Both in-branch and outbound marketing efforts have access to customer analysis and product recommendations designed to cater to a customer's specific needs. Comparing known customer behavior against real-time account statuses and established business rules, the system illuminates patterns and marketplace trends previously invisible to the bank.

The bank can better track and manage its entire business, automating marketing efforts based on real-time account data and a holistic view of customers, while leveraging complex analytics tools and real-world customer data to develop tested sales strategies that offer a higher probability of success. The system has resulted in a significant rise in sales within the bank's outbound marketing organization and substantially boosted productivity of the bank's call center staff, providing faster, more responsive customer service.

Case Study: Untangling the data mess

Like many of the biggest banks, one U.S. bank has grown both organically and through acquisitions. It's nationwide retail, commercial and credit card businesses have grown through numerous acquisitions of regional banks and card issuers over the years. The bank also acquired capabilities in wealth management and mortgage lending.

The integration of all these related businesses was not without hiccups. Yet by far the biggest challenge was consolidating information systems that had been cobbled together with each acquisition. A complex data environment was preventing the bank from enabling critical business capabilities. With millions of credit card holders, deposit account holders and mortgage borrowers, many Americans were already customers, but there was surprisingly little overlap – few households had more than one product from this bank.

The bank had very little visibility across its various product portfolios. Parallel use of multiple deposit account systems,along with various credit card, wealth management and mortgage platforms made the single view of the customer impossible. In response, the bank embarked on a program to build an end-to-end data and platform strategy with integration points across the enterprise.

Yet such cost savings were just low-hanging fruit. Soon additional benefits became apparent from expanding the project to provide a common data repository with master data management to enable a single view of the bank's customers.

- Provide superior customer experience – Beyond automated self-service and attractively priced product bundles, banks should seek to attract and retain customers with a compelling multi-channel experience across all touch points (branches, online, mortgage and investment advisors, etc.), offering personalized service based on what, when and how customers and prospects choose to interact.

Mastering Information

Customer insights gained through analytics are only as good as the data on which they are based. Inconsistent client information and insight pose a significant challenge for many banks as they try to better segment their market and link client profitability and client behavior. Though banks worldwide plan to focus more intensely on behavior segmentation and client needs over the next three years, bankers believe behavior segmentation and client needs-based segmentation are their top two priorities that require information not available today, according to the IBV study.

The biggest challenge for banks is changing their operating model, which leads to how products and pricing are developed and how offers to clients and prospective are structured. But these fundamental changes also require new ways of organizing and structuring customer data. The technical challenges are straight forward and addressable when business models are appropriately aligned. But banks must still ensure that they have clean data within a common data model, a common business language, a single data dictionary, and a repository that contains all the necessary metadata.

One key to twenty-first century banking is master data management, which enables banks to connect disparate pieces of customer information across departments, branch locations and lines of business, into a single, actionable view. Such a 360-degree view of the customer relationship can help banks:

- Create a consistent client experience, whether online, by phone, on a mobile device or in a branch
- Better assess and manage credit risks
- Craft wealth-management product bundles and targeted promotional offers to attract and deepen relationships with high-value customers
- Comply more strictly with privacy regulations, anti-money laundering statutes, "Know Your Customer" requirements, and other regulations
- Speed integration and data-consolidation projects after mergers and acquisitions.

Conclusion

Half the world's adult population – 2.5 billion people – do not currently use formal financial services to save or borrow. The vast majority of these "unbanked" people live in emerging economies that will, collectively, expand by an average of 4.7 percent per year between 2011 and 2025, according to the World Bank, while the world's developed economies expand at a 2.3 percent rate. Though the global economy is still sluggishly shaking off the effects of the near meltdown in 2008 and the ongoing sovereign debt crisis, banks in both the emerging and developed economies have as opportunity to manage enormous capital growth and wealth creation. But to regain customer confidence and earn their slice of the increasingly competitive market, banks must transform themselves. They must jettison decades-old, product-oriented operating models and become fully client-centric. Banks must develop deeper customer insights through advanced analytics and generate accurate, consistent and well-structured customer data accessible and integrated throughout all channels and parts of the organization.

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David Turner joined IBM at the end of 2010 as the Global Analytics Leader for Banking and Financial Markets. Leveraging his years of banking experience working for MBNA and then Bank of America as a P&L owner of the credit card and savings businesses he was asked by the head of the retail bank to lead the analytics transformation to drive business value for the bank. His new role at IBM is to develop the vision and strategy including identification of key plays for the Banking and Financial Markets industry, develop external relationships with relevant industry players, lead development of the global industry strategy for Analytics solutions, support achievement of global revenue and sales targets for Analytics in the Banking and Financial Markets industries, and to engage on selected anchor client engagements. He has worked with clients such as JP Morgan Chase, American Express, RBS, Westpac, Bank of America, Barclay's, ABN Amro, MPS, BNPP, BMO, Banco Bradesco and many other regional and global banks. Mr. Turner can be reached at daturner@us.ibm.com.

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