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Why customer experience matters in consumer banking

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Ensuring good customer experience is an increasingly important task in retail banking. In a sector still working to repair its reputation from the 2008 financial crisis, new technology increases the avenues of engagement. Customers are becoming more connected, although less forgiving. With new players entering the market, they also have more choice.

Banks need to place customer experience at the front and centre of their operations to ensure their customers remain, as well as to protect a reputation that can quickly become fragile when exposed to online communities. One of the best ways to achieve this is with the right customer relationship management (CRM) software, with tools that are flexible and adaptable; although software alone is not enough and a customer-centric strategy as equally vital.

The customer is changing

Today's customer is more empowered, less loyal and likely to maintain a relationship with more than one financial institution. Retail banks need to see the world from their customers' point of view, understand what competitors are doing and develop an effective customer relationship strategy which maximises value for all sides.

The importance of positive customer experience is revealed in a Deloitte recent report entitled *'Reshaping the retail banking experience for the customer of tomorrow'*. Ninety per cent of customers trust peer reference – seven times more than from an advertisement. If a customer experiences poor customer service, he/she may never return.

Customers are sceptical about financial services. Only 44% say they trust financial service institutions. With the growth in social media, complaints make a bigger impact and word of mouth advertising is stronger than ever before.

A new age of retail banking

A more demanding environment means the retail banking sector has to change. As the PwC report *'Retail Banking 2020, Evolution or Revolution?'* acknowledges, retail banking will have to contend with several issues including the tightening grip of regulation, the rise of financial technology (fintech) and low growth.

Several of these issues will present challenges, others will offer opportunities. The rise of fintech, for example, sees smaller, mobile financial institutions offer faster and more affordable services; providing opportunities for growth and new revenue streams.

It is less about disruptive technology; more a collaborative opportunity to build value for a bank's client base. Retail banking might face challenges but the outlook is still reasonably good. Analysts at India-based market researcher Wise Guy Reports expect the global retail banking market to grow at a compound annual growth rate (CAGR) of 6.08% to 2020. The industry will, however, change significantly in the way it uses technology and in how it presents itself.

The *2016 World Retail Banking Report* published by Capgemini, however, found banks admitting to not yet having got a grip on the emerging fintech revolution. Furthermore, while attempts to improve customer services were bearing fruit, they had not yet had a major impact on revenues. Customers are more likely to refer friends to their fintech firm than to their bank.

Regional variations

The experience of retail banking varies considerably from region to region. More developed Western European and North American institutions are already coping with regulations and putting technology to good use. In Eastern Europe the picture is more mixed, with funding hard to come by in Russia and negative assessments causing a decline in revenues.

Poland's banks, however, have proved highly effective in managing their customer experience. They have focused on segmenting their customer bases using customer management software and made efficient use of digital technologies, including mobile banking, digitally-driven simplification and more effective on-boarding.

The Markets in Financial Instruments Directive (MiFID II) regulation will be applied to all European Union (EU) members in January 2018. This new regulation aims to improve the functioning of financial markets; making them more efficient, resilient and transparent, and will have a huge impact on CRM implementations. It will require tools that are able to handle risk assessments, data analyses, segmentations and recordings of conversations with customer, which is where a CRM solution will be crucial and mandatory.

The role of technology in customer experience

Poland's example illustrates how technology can be used to drive better customer experience. It begins with defining what good customer experience looks like. Retail banks need to get to know their customers and understand what they are looking for. It is not enough to only provide good rates and good service. Ernst & Young's *2016 Global Consumer Banking Survey* highlights several strategies to improve customer retention.

Banking should be simplified, suggests the survey. What customers want is concise, transparent and clear services. Banks should be open about the fees they charge, rates, services and communications.

Customers also want a choice of ways to communicate with their banks, including social media, web, email, text and in-person. Customers expect to be replied to on their channel of choice. If you can't fulfil that, your competitor will.

They also want a more interactive relationship with a bank, particularly when it comes to customer support. More than 70% of survey respondents said they would increase the amount of business with their bank if its advisory services improved. A bank can respond by making use of a combination of internal and external resources, including a network of financial advisors and experts; big data to increase knowledge of customers and their behaviour; and the provision of personal finance tools.

Finally, the industry can be proactive in resolving problems. Customers showed a surprising willingness to reward positive behaviour from banks. Of those customers who were very satisfied with problem resolution, more than half (58%) gave most, or all of their business to that institution.

It is crucial for banks to develop a strategy that will allow them to reach customers based on their habits and preferences. The survey helps banks by breaking customers down into different segments:

- *Upwardly mobiles:* Young, highly educated with significant levels of income; they use the most services and are most likely to defect, regarding banks as simply another service provider.
- *Elites:* Older, highly educated with high household incomes and likely to act as advocates. Offer repeat business to institutions which help them achieve their financial goals.
- *New world adopters:* Young, highly educated with moderate incomes, but high levels of savings. Big users of technology and highly receptive to new entrants.
- *Balancers:* Use remote channels but value a long-term relationship with a trusted bank. Strong emphasis on transparency over fees and problem resolution.
- *Safety seekers:* Largest group; less educated and with limited cash. Enjoy using a local branch for their services. Value banks which can keep personal information safe.
- *Traditionalists:* Very traditional approach to banking. Lowest remote channel usage and heavy users of automated teller machines (ATMs). Willing to increase engagement when offered new products.
- *Self-sufficients:* Low levels of trust. Little money to spend and rarely open or close accounts.
- *Unhappy and Unmoving:* Most difficult group to reach. Oldest, and least educated. Unhappy, yet unwilling to move believing all banks are equally bad.

The future of metrics

The advent of big data is changing the way that banks measure customer engagement. The majority use multiple measures, including retention rates, customer satisfaction scores and the number of products per customer. Others use their net promoter score. Surveys are popular; but as a method the weakness is in measuring intention rather than action. What a customer actually does reveals their intentions, giving a much clearer answer. Two of the key indicators of loyalty are buying more products and referring the service to a friend.

Avoiding the risk of data overload demands a more coherent view from this volume of information. CRM tools can play an important role in collecting and segmenting information around customer needs and expectations. They can give banks a truly 360-degree customer view, operating as a single central hub to create a source of truth and a repository for all customer interactions from very first contact. CRM is not only about capturing interactions but using this information to go above and beyond customer expectation.

Change is coming

Entrenchment is the biggest problem. Traditional banking is based around a suite of services which suit the bank and is viewed as a model which does not put the customer first. Banks have been used to working in their own way and have had the market very much to themselves.

The balance is changing. To maximise customer return on investment (ROI), banks need to think of a new way to cross-sell. The future of retail banking will be one in which consumers receive a bespoke relationship.

CRM tools will see consumers receiving the range of flexibility and personalisation they expect in other areas of retail. In this challenging and uncertain future it will be those institutions which adapt most successfully that will have the edge.