

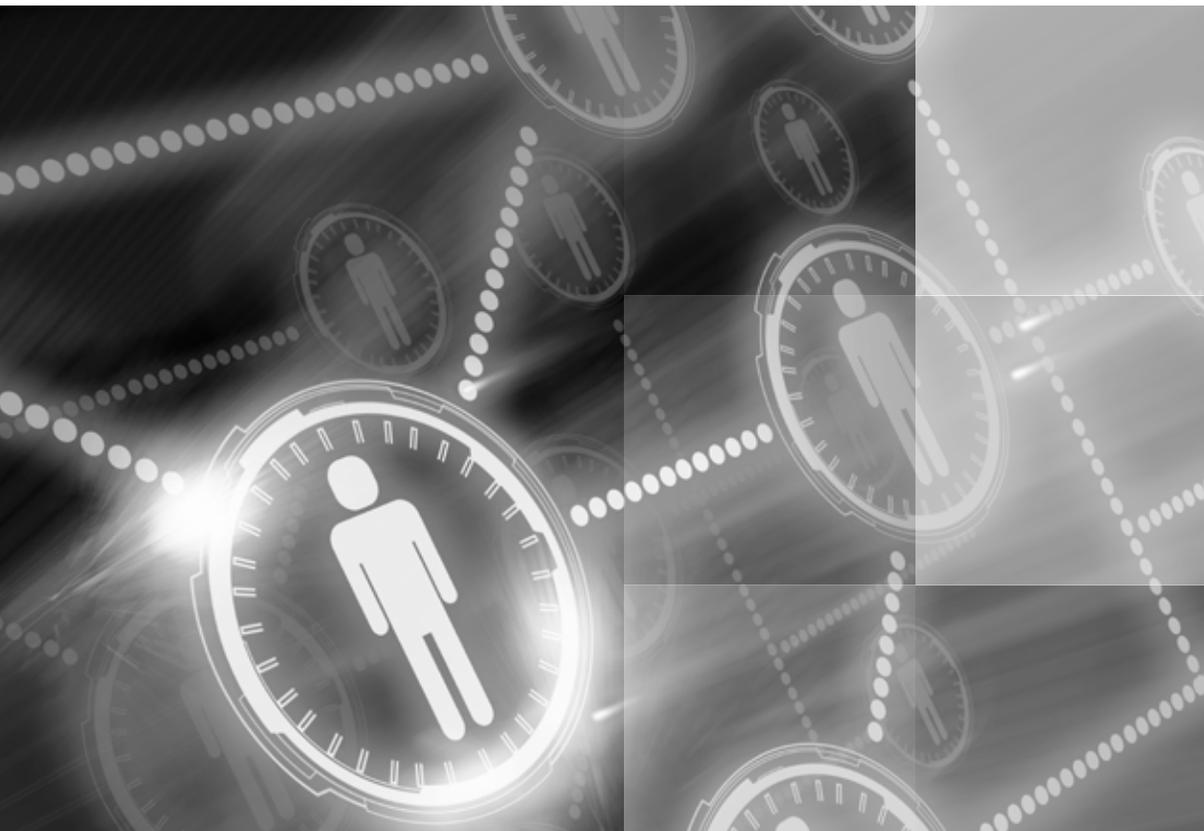


Management  
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POINT OF VIEW

# Retail Banking: regaining customers' confidence

*How to remain a trusted partner in  
a commoditised banking world*





## Editorial

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### **Retail Banking: regaining customers' confidence**

*How to remain a trusted partner in a commoditised banking world*

The current economic environment has highlighted just how significant a role retail banks play in our society. In the midst of the financial turmoil, retail banks have found themselves firmly in the spotlight.

Although the sector has, in the main, weathered the economic storm, it has prompted banks to reconsider their activities and put customer service back at the heart of their strategies, thus contributing to rebuilding trust. However, retail banks are still facing many challenges: customers' changing behaviour, the impact of new technologies, but also the emergence of new competitors and new banking models from emerging countries.

How retail banks control their position and image in society and coordinate their multi-channel offerings, such as online and mobile banking, contact centres and social media, all need to be discussed and understood in the context of this constantly-changing environment.

BearingPoint would like to share some of our thoughts on the trends in retail banking and in doing so, highlight a number of best practices among retail banks. To do this, we have drawn on the expertise of our consultants in the fields of retail banking and customer relationship management across Europe.

We hope you find the following points of view useful and insightful.

**Philippe Auther**  
Partner

**Werner Kreutzmann**  
Partner

# Customer trends in a fast-moving world

“You can’t just ask customers what they want and then try to give that to them. By the time you get it built, they’ll want something new” – Steve Jobs

## Customer trends in a fast-moving world

Gauging what customers expect from their bank has never been easy. Rising education levels, greater wealth and major technological shifts<sup>1</sup> have all had an impact on the relationship between customers and retail banks. Customers are now more demanding, they expect more from their banks. The recent financial crisis and the associated scandals within the financial services sector have only served to make customers even more discerning.

### A “bank for life” is a thing of the past

As illustrated by the advertising slogan “To be honest, I’m interested in your money”<sup>2</sup>, the banking model of the 1970s put the bank and often, its local branch manager, as the sole point of contact for customers. The customer accepted the bank’s standard offerings and bowed to the bank’s expertise without questioning it. Indeed, because the customer had little or no information on other banks’ offerings, and limited financial knowledge, the bank could easily “manage” the customer.

This captivity was increased by a generational effect, as children would simply go on to be customers at their parents’ or grandparents’ banks. The customer was putting the bank at the heart of their life, just as they did with their solicitor or employer.

<sup>1</sup> Further insights into these digital technologies can be found in BearingPoint’s book “Customer Paradoxes in the digital world”

<sup>2</sup> Original advertising slogan “Pour parler franchement, votre argent m’intéresse” created by Daniel Robert in 1973 for the French bank BNP

### A shift in the balance of power

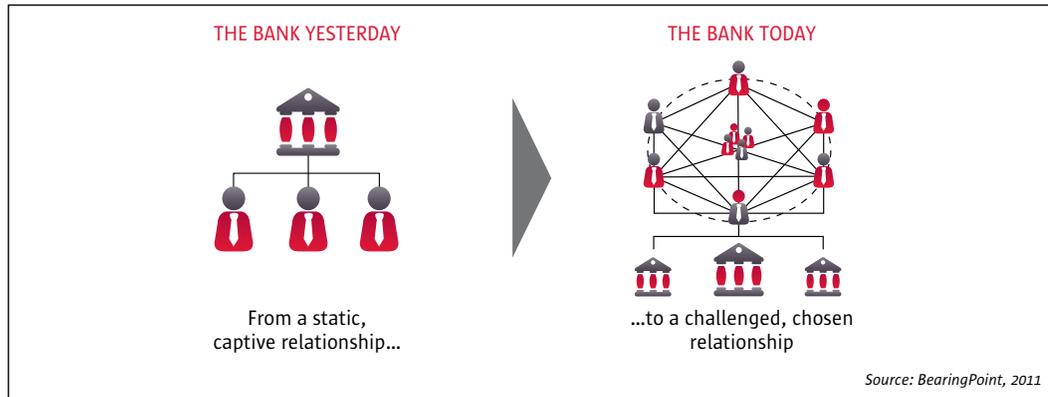
The balance of power has now shifted in the customer’s favour. Customers are much more financially savvy and are better informed about different banking offerings, notably through various communication channels (TV, websites, social media). This means that when customers now shops for a new bank product they will almost always compare different products from different banks. In other words, banks have become providers of basic goods and services that can be easily substituted by a competitor. Even worse, with the increasing use of social media, banks’ reputations can be gained or lost overnight as customers voice their opinions in cyberspace.

As a result of these trends, the exclusive “bank for life” relationship has become less and less common. The banking relationship is now often fragmented among various financial establishments. Customers view their bank as just one part of their network alongside other banks or financial services providers.

So how can banks fight back and adapt, while still taking into account key issues for an optimal customer relationship?

We believe banks must provide customers with:

- Access to their bank anywhere, anytime and anyplace,
- Simple offerings that are still personalised,
- Transparent, risk adverse, ethical products and services.



## Anywhere, anytime, anyplace

Customers want access to information immediately and everywhere. In that respect, they have become more sensitive to the benefits of multi-modal/alternative relationships (online access, mobile, call centre, ATM, branches relationship managers). For instance, in a standard credit purchasing process, the customer may first find the information on the internet, then may call a remote assistance desk for additional information, go back again on the internet to compare competitive offerings and finally confirm the credit request in a branch nearby.

Optimal development of cross-channel relationships is certainly the best response banks could make to meet these expectations. However, leveraging the most appropriate channel for the interaction at the right time still remains a real challenge for most banks.

For example, banks work hard to ensure basic products can be bought online. However, trying to offer more complex products online is often more difficult because of regulatory constraints, and often leads to endless discussions between marketing and compliance departments.

A key trend we are seeing in response to customers' request for quick access to information and services is the growth of self-care technologies, both online and in branches. These technologies have obvious cost advantages and provide clients with quick access to their account balances, IBAN printing, cheque book orders, bank transfers and so on.

Mobile phones also represent a tremendous opportunity to slip the bank into the customers' pocket by helping to facilitate everyday life with services such as mobile banking or mobile payment. Despite this opportunity, banks have actually been very slow to position themselves at the forefront of mobile payment solutions. We discuss this in more detail in "Money goes mobile: payments on the move".

## Simple yet personal

Customers are often overwhelmed with the choice and range of financial products. They are becoming more discerning about the quality of product and service provided, the relationship with their bank and the value added by the bank's relationship managers. More and more customers are seeking simple and easy to understand products, most notably in terms of pricing.

On the other hand, customers still want to have products tailored to their needs. In response to this, banks have created semi-standardised products similar to the auto or computer manufacturers of the 90s. The offerings are based on a limited number of platforms, but have many additional options that can be chosen by the customer. We can clearly see this in the banking card business where there is a wide range of personalisation options ranging from product functionalities (credit-debit) to affinity (football club credit card) and co-branding (American Express/Skyteam).

Customers are also seeking recognition and are increasingly interested in loyalty programmes. These can take various forms:

- Transactional point scheme: Points can be collected based on transactions and may be used for discounts or other benefits. An example is the "loyalty saver" proposed by ING where they offer a higher rate of interest for not making withdrawals on savings.
- Relational loyalty programme: Benefits are based on an enhanced customer experience rather than on collecting points. One example is the high-end partnership programme offered by HSBC (VIP access to hotels, restaurants and so on).

## Security, ethics and transparency

### Need for more secure investments

In the recent uncertain economic environment, customers have become much more concerned with their financial security. In response, banks have recently made big efforts to adapt their offerings around key moments of life. For example, there are now products that are built around refunding healthcare expenses, investments encompassing death and disability insurance, mortgages, and pensions.

### Need for more ethical products

Customers increasingly consider themselves to be part of a wider, more socially-responsible community, and have expressed the need for products that have an obvious social usefulness. Banks have therefore developed financial products with a positive social/environmental impact, such as ethical investment funds. In parallel, community-focused solutions such as micro-finance or peer-to-peer finance arise as well.

### Need for more transparency

Customers want clear product information from their banks. Mainly as a result of pressure from regulators, banks are working on giving customers more understandable advice, thus avoiding some of the misunderstandings of the past. In practical terms, this means training customer relationship managers to be better able to embed key product information in the sales pitch. Improved transparency will benefit the customer, as they will be more aware of possible product risks. The drawback for the bank would be that, because of the new transparency requirements, some relationship managers will stop pushing offerings they may find too complex to sell.

## A paradigm shift

The shift in power has definitely moved from the bank to the customer. As a result customers are less loyal, more ambivalent and quicker to criticise their relationship with banks.

The future leaders in the field of retail banking will be the ones who can anticipate these needs most accurately and respond to them swiftly.

## Spotlight on... Retail banks' leading role in society

**"It is well enough that people do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning" – Henry Ford**

### Community vs. profitability

Banks play a pivotal role in our economic system – put simply, they link society's financing needs. In an economy where the tertiary sector has overtaken the industrial sector, the role of banks has become more and more significant. Through their products and services, banks – and in particular, retail banks – have become one of the most important players within Western societies. However, this significance has created a challenge for retail banks: how can they continue to show a "common public interest" whilst still maintaining their ability to pay dividends to their private shareholders?

This situation is not really new. In France, for instance, the four main banks were nationalised in 1945 to avoid speculation and to support the country's post-war reconstruction. The banks' role was to be part of a large public services spectrum and was considered by customers as such.

### Banks are not average companies

The increasing need for liquidity at the beginning of the 80s and transaction margin levels have

changed the role of banking institutions in Western societies. Banks have moved towards a model where the "common public interest" is less easy to grasp. This is particularly the case when banks go public, as this puts increased pressure and scrutiny on their financial results.

For example, fees have been implemented on some transactions such as cash withdrawals at the counter, or ATM withdrawals in non-partner banks. Many customers feel that this shift in banks' strategies is a betrayal of their "common public interest" role. Customers feel trapped between the obligation to have a bank account and the requirement to potentially pay fees on it. Public suspicion and scepticism about banking institutions have increased significantly, especially as the state/taxpayer has had to bail out some Western banks in the wake of the economic crisis (for instance, RBS in the UK, ABN AMRO in the Netherlands, Allied Irish Banks and Bank of Ireland in Ireland and Commerzbank in Germany).

The reputation of retail banks in Europe has been seriously damaged, and they must work hard to regain their customers' trust. They must redefine their role within society, or at least, become more transparent. To achieve these goals, banks need to support growth through financing, stress their services' added value and ensure that their entire operation is more customer focused.



### Regaining ground

#### Support growth through financing

The capability of banks to support growth through corporate and individual customer financing is key. However, short-term credit profitability is today at stake because of pressure on margins and the increased requirement for regulatory capital. In this context, it is imperative for credit specialists to rethink their business model. To that end, they are already investigating new initiatives, which include enlarging their product offering to encompass insurance and savings products. These could contribute to rebuilding economical sustainability.

#### Stress banking services' added value

Facing low intermediation margins and high volatility, banks developed services generating fee-based revenues, thus securing Net Banking Income. However, financial services are by definition dematerialised and intangible. For instance, although people have no problem paying fees to access mobile phone services, it's often more difficult for customers to grasp the

necessity to pay for financial services (interests margin or fees). In order to change this customer perception, banks have to better communicate their proposed services' added value. One can already observe this trend as banks place customers and value at the heart of their TV and web communication campaigns.

#### Focus operations on the customer

Showing added value means banks need to develop a more customer-focused culture across the whole of its value chain. Back offices or any other customer support functions should be involved in overall customer relationship management. Even though they are not front-office staff like branch advisors, they should still be made aware that they are a fundamental part of the overall customer relationship. Senior management can do much to instill this attitude across the organisation.

In order rebuild trust and to retain, banks need to continually adapt their role for a changing society.

# Multi-channels: the right channel at the right time

“Coming together is a beginning, staying together is progress, and working together is success” – Henry Ford

## Multi-channels: the right channel at the right time

Over the past decade, one question has gone through every retail banker's mind: should the bank attempt to take control of its customer relationship? Too much control is dangerous.

The continuous evolution of customer behaviour, combined with the fact that telecommunication and digitalisation methods have reached maturity, has increased the use of multiple channels in the banking environment.

In fact, convinced that the local branch would no longer play a pivotal role in the customer relationship, banks have devoted impressive financial resources to develop new remote functionalities and to implement integrated customer relationship tools. Banks have also changed their organisation in order to be more customer-focused and to break down barriers between their traditional distribution channels.

The reasoning behind these changes was mainly to take over the new multi-channel behaviour of customers. At the very beginning, banks wanted to take advantage of the fantastic development in internet digital communication to drive the customer-buying process. This could be tailored according to the value of the interaction: for example, customised processing for high potential customers vs. automated processing for low potential customers.

However, while initiating these changes, banks have forgotten the key principle, which is that customer relationship is a long-term issue and that customers only become comfortable with their relationship with their bank after repeated low-value contacts.

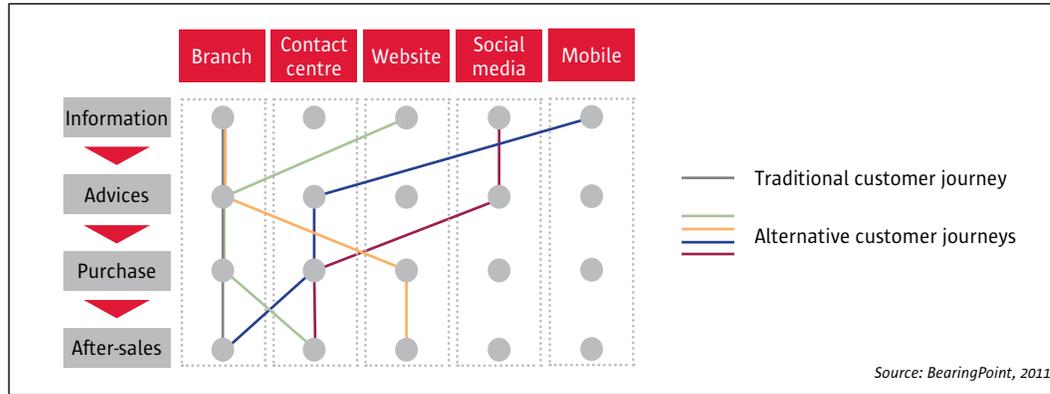
To their credit, banks have quickly understood that they were losing control of the customer relationship and that it was important not to have such a mechanical approach towards it. Banks are also facing dual, even schizophrenic, customer behaviour: customers, who are already sceptical about banks after the recent financial turmoil, are loudly proclaiming their right to freely use banking services.

### Traditionnal channels are back in favour

The financial crisis has confirmed to banks that they should view customer management on a long-term basis in order to limit the attrition rate, secure the customer portfolio and, most of all, create an enhanced customer experience.

One of the most significant results of this situation is that local branches are back in favour. They now have a key role with respect to customer experience. This explains why banks such as Deutsche bank or La Banque Postale are trialling new types of branches. These look more like Internet cafés and aim to enhance customer experience, most notably by combining humanness and immediatness (for instance, by providing web conferencing facilities for customers to have access to relevant bank expertise).

But is redesigning local branches and setting up new sales methods effective enough to bring customers back into local branches and, most of all, make them stay loyal to the bank?



## Understand the customer journey

We believe that retail banks should change their global organisation to be more flexible in their multi-channel approach. Of course, optimising the branches or their website is important, but banks should also be more focused on the excellence of their internal processes and on the smoothness and efficiency of the customer journey through each of the channels.

A relevant multi-channel strategy should be designed to understand a customer's typical journey. By doing this, banks could identify and then improve some critical points of the journey. This could prevent some current situations, where branch managers are unable to handle operations that have been started by customers on the internet or over the phone.

The customer journey could be interpreted as a sequence of interactions (from the information-seeking phase to the post-sales support) between the bank and the customer. To qualify as a multi-channel journey, the customer should be able to move from one phase to the other by using a different channel easily (online information seeking, receiving advice at the local branch, and so on).

## Guide the customer

Embracing the typical customer journey, however, should not prevent banks from guiding the customer across the different channels by using either incentive or deterrence policies.

An incentive policy consists in promoting the use of a defined way of interaction with the bank. This could be done by giving customers a bonus for using selected channels (for instance, via special offers or financial incentives). Barclays, for example, offers higher deposit rates for new accounts 100% opened on the internet, while BNP Paribas has introduced promotional offers solely for its internet customers.

A deterrence policy charges customers that are choosing non-target interaction channels. Penalties could be either financial (billing of additional services) or service related (by limiting the offering). A multi-channel approach should lean upon appropriate organisation and sales policies. Each customer-facing employee should be encouraged to direct customers to multiple channels.

However, such a responsibility could not be performed without an increased flexibility in the

decision-making process of the bank's employees. Banks should enlarge the employee's responsibilities and design a new management hierarchy to convert them to being "bank ambassadors".

This new organisational chart must also be complemented by improvements to the bank's intelligence and knowledge of social networks or consumer advocacy groups. Indeed, understanding social media or consumer advocacy groups, which are efficient trend indicators, could be a good method to foresee customer needs and to master their related risks (mainly reputational risk or class action). As an example, BNP Paribas uses its Facebook group "L'Atelier" to manage a community of interests around new banking concepts and customer uses.

## Multi-channels drive the customer experience forwards

Multi-channel management in retail banking is a powerful tool. Banks should adopt a multi-channel master plan and define an associated three-to-five year roadmap to drive the strategy onwards. Such a plan is designed around two main stages:

**Stage 1:** Collate and examine both external and internal data about multi-channel opportunities.

- Analyse customer needs and expectations (quantitative surveys, customer satisfaction enquiries, external analysis).
- Conduct a quantitative analysis of the internal situation (number of customer interactions, customer acquisition, processing costs).
- Insert in the multi-channel master plan the bank's key objectives (customer satisfaction improvement, increasing the sales, cost cutting, reducing the attrition rate).
- Illustrate the master plan with best practices and trends (benchmarks).

**Stage 2:** Conduct simulations on volume and on cost aspects to assess the feasibility of different multi-channel scenarios. The identification of priority channels in this particular stage should be used to drive investment and organisational decisions.

A useful additional stage could be to assess the complexity of incoming tasks and to better organise the timeframe. This could bring a new perspective on the multi-channel role, processing costs, organisation and on management.

## In it to win it: build a successful multi-channel strategy

Some prerequisites are necessary to build an efficient multi-channel strategy.

First, all banking channels should be continuously improved, as customers are linking the relevance of bank's offerings with the technology used.

Secondly, banks should thoroughly understand their customers' multi-channel behaviour. This could be done by the implementation of customer information-gathering tools and data warehouses.

Third, bridges and connections between the channels should be almost perfect, so customers can experience an easy and smooth journey.

Retail banks need to put in place a robust multi-channel strategy which uses joined-up thinking to answer and anticipate customers' questions and requests – with the sole aim of providing first-class, innovative customer service.

## Spotlight on... Reinventing customer intimacy through contact centres

**“There are no traffic jams along the extra mile”  
Roger Staubach**

Across all sectors, retail banking has been lagging behind in terms of contact centre maturity. Sales orientation, leverage of outsourcing capabilities<sup>1</sup>, development of formalised procedures and knowledge bases have developed more slowly than in other service lines like telecommunications or utilities.

The retail banking contact centre has traditionally been considered as a supplementary channel within a branch-led business. This “alternative” channel has been positioned to deal with lower value-added transactions. Cost constraints, lack of customer records’ availability and relatively weak advisor training are some of the reasons for this “second-hand” positioning. A major internal impediment to value contact centres properly is also the branches’ perception of them: a potential enemy screening their portfolio and cannibalising their commissions.

From an external standpoint, customers have historically opted for a personalised relationship with their trustworthy bank advisor. Due to a lack of information on how to access the contact

<sup>1</sup> Based on BearingPoint’s SP2C annual study involving the main French outsourcers, the banking industry is the third outsourcing sector behind telecommunications and utilities (8% of total turnover)

centre and what to expect from it, only 34% of customers say they are regular or occasional users of the contact centre of their main bank<sup>2</sup>.

### The evolution of the contact centre

Recent major technological shifts and evolving customers’ expectations call for reinventing the contact centre as we know it. We’re witnessing the rise of a wealthy, dynamic, mobile customer segment, looking to interact with their main (and multiple!) banks through remote channels. They are increasingly reluctant to enter a branch. The contact centre is a key differentiator for many upcoming pure players (Bforbank, Monabanq, Fortuneo, and others). Their focus is on service, reactivity, building trust and loyalty through each and every transaction. For retail banks leveraging a physical network, the focus is on giving customers a “choice” of channel and emphasising personalisation.

Providing high-value services, up- and cross-selling product bundles and retaining customers are at the heart of the business model. To that end, BNP Paribas now provides their customers with the phone and email contacts of their advisor. Like Société Générale, they have recently rerouted calls towards local branches. Cortal Consors offers a dedicated pool of four advisors,

<sup>2</sup> Ibid.



identified on their website, to embody a reactive, personalised relationship.

### Join the dots to improve the customer journey

So are these models sustainable? Well, managing phone numbers, staffing and retention are just a few pitfalls behind these recent set-ups. And based on BearingPoint’s annual Customer Award survey<sup>3</sup>, retail banking customers’ expectations are more about getting a complete, personalised answer fast (“once and done”) than in interacting with a single banker.

Long-term call handling in retail banking must enable large-scale operations while allowing for personalisation and building trust. Several initiatives can support this goal:

<sup>3</sup> BearingPoint’s eighth edition of the Annual Customer Award Event in partnership with TNS Sofres, assesses CRM best practices of 130 companies in 11 sectors, based on 4,000 customer interviews

- Sharing customer knowledge across all touch points
- Leveraging communications tools (visio, web conferencing, click to call)
- Boosting sales and training for advisors,
- Simplifying and demystifying procedures (for instance, authentication)
- Reviewing portfolio definition and commissioning to create synergy with the branches.

Put simply, banks have to develop intimacy and trust with their customers while promoting the merits of both remote and physical channels. As mobile banking applications and online communities expand, the next challenge will be for banks to integrate new contact centre capabilities around online community management, claims handling, and predictive behavioural customer data mining.

# Moving to next generation branches

“We see our customers as invited guests to a party, and we are the hosts. It’s our job every day to make every important aspect of the customer experience a little bit better” – Jeff Bezos

## Moving to next generation branches

### Bank branches fight back

With the arrival of Automated Teller Machines (ATM), internet banking, and more recently, mobile banking, many financial analysts predicted a huge decrease in the number of local branches. It was expected that other channels would take the place of the traditional bank branch. Many examples support this expectation, such as statistics showing the decline in cashier transactions and bank visits, as well as the increasing use of mobile and internet banking. The growth of direct and discount banking also demonstrates that certain customer segments no longer need a traditional branch and traditional account managers.

However, we are now witnessing a renaissance of the bank branch, which is best explain by a too fast alternative channel ramp-up as well as further customer intimacy requirements. Many banks have invested in their branch network and have upgraded their physical presence on the high street.

### One size does not fit all

The kind of branch and branch network a bank needs depends on which segments they are serving, what products they are offering, where they are located and what competition they are facing.

For instance, some banks, such as Citibank and BNP Paribas, are investing heavily in so-called “flagship branches”. With the help of new technologies and concepts from the retail sector, these new flagship branches are designed to meet both customers’ higher expectations in terms of reception, know-how/expertise, aftersales services and a more professional customer relationship. Equipped with everything from

enhanced image ATMs to interactive sales screens, the flagship branch concept uses technology to make life a little easier for customers. And because they are open 24/7, customers visiting after hours can access banking support via live video conferencing.

While the creation of these next generation branches is in full swing and results have been positive, there are actually many different types of branches co-existing today.

Some direct banks only need a small kiosk with a few ATMs where people can make deposits. Internet-only banks are creating places where actual transactions are not even possible; the sole goal is relationship building. For example, ING Direct is an online bank, but the bank’s management realised the bank needed some physical presence to reassure the public its offering was more than a billboard. So executives devised the ING café, which looks like Starbucks; people can go to have coffee, smoothies, use a free wireless connection and learn about ING if they choose. These “branches” have no transactional ability whatsoever; people still must sign up and do transactions online.

In addition, we can see the rise of specialised, segment-oriented, type of branches (SME, private banking...) which focus their services toward specific customers’ needs. These dedicated branches formats allow the bank to further develop its customer relationship.

Branch design and “in-flight” technology also differ, not only from one country to another, but also within countries themselves. For example, customers in more rural areas may prefer to enter the branch and

see their advisor on a regular basis, whereas in urban areas, customers may be more likely to leverage technologies within the branch or from home.

Whatever the branch design, the branch is still a channel of choice to build customer relationships. “The biggest thing in banking is the relationship, and you can’t do that online”, says Lani Hayward, Executive Vice-President of Creative Strategies at Umpqua Bank. “You can make mistake after mistake after mistake, and the customer will stay with you if they believe you’ll take care of them”.

The challenge is therefore to create branches that will help build this relationship and encourage employees to engage with customers. Branch design and technology can only contribute so much to a customer experience. Relationship building requires advanced, face-to-face customer service. This needs to come from the bank employee.

### The bank workers of the future

To meet the changing needs and interaction preferences of their customers, next generation branches will need to evaluate and to change their branch workforce strategies.

Branch bank managers will be expected to take a much bigger lead in marketing and business development. This also includes ensuring the bank and bank employees take an active role in the community as a sponsor of all kinds of events and activities.

Tasks performed by cashiers will become more complex and service-orientated, rather than mainly transaction-based. The transition of moving cashiers and sales representatives into multi-functional positions that require them to act in a financial advisory role goes hand in hand with effective training. This means that

bank employees need to be trained across functions and will require advanced skill sets.

Sales representatives will need in-depth training on relationship management and financial advice counselling. Frequent updates on the latest products and services being offered by the bank will need to be quickly and clearly conveyed to customers. The objective however is to develop intimacy by assisting customers with medium-term projects rather than pushing products onto them.

To ensure staff turnover rates stay low, it is key that employers offer flexibility within the workplace, as well as training and personal development opportunities.

### Always put the customer first

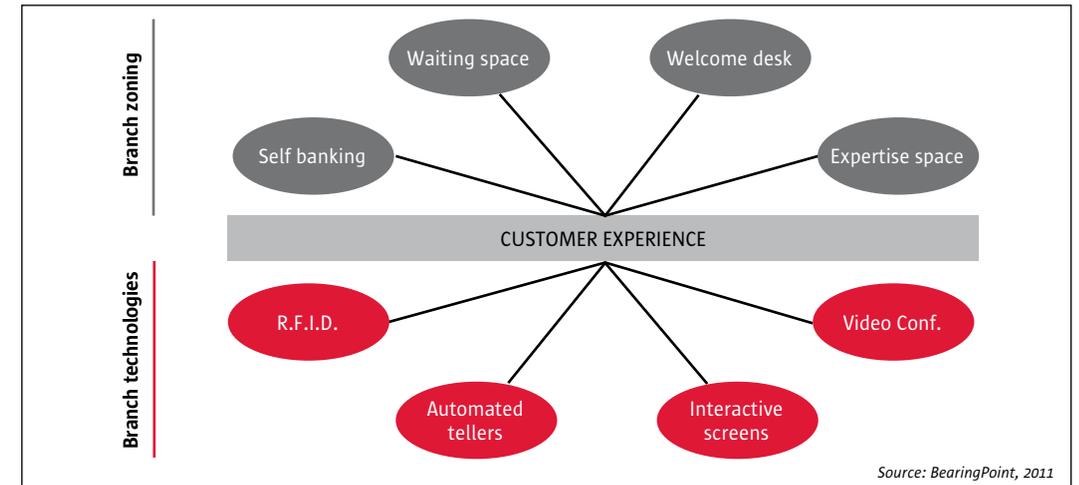
So what exactly does the bank of the future look like?

Firstly, with every element specified to the highest quality, from technology to flooring, furniture and lighting, these banks look more like a five star hotel than a traditional bank branch.

Secondly, these banks have a different view on how they communicate with customers, how they advise their customers and how they manage the customer relationship in general.

### Effective communication is key

Branches have invested heavily in communication over the past decade. Whereas it used to be impossible to reach your bank except by phone, it is now possible to email or even text a relationship manager. The bank of the future goes much further. As an example, banks are experimenting with new enhanced communication means with round-the-clock services in their branches. In some of Citi’s local branches, for instance, customer



communication is made either via automated cashiers, interactive wall screen advertisements and promotions (Citi’s “Interactive Media Wall”) or via virtual branch relationship managers. Much attention is given to ensuring that the customer can easily navigate through all the content (by using touch buttons placed outside the window, for example).

### Give the right kind of advice to customers

In today’s complex world, very few branch managers have total expertise on the bank’s complete offering. In order to give the customer as much information as possible, the bank branch of the future focuses on expanding its advisory role. For example, BNP Paribas is experimenting in its Paris flagship store a concept organised around nine “life points” in which the customer can freely move from one event to another via interactive screens. Citi is developing a concept in which local branches customers can easily reach online experts all around the world.

### Manage the relationship with your customers carefully

It is clear that customers will be using a number of channels for their banking needs. For the bank branch of the future to provide the service and advice customers require, it is imperative to invest in a solid multi-channel strategy. Only then can local branches be as reactive as other digital channels. This last point is particularly important, as quick answers and transparency are perceived as two main differentiation drivers.

It’s clear that local bank branches are being challenged as never before. The economic crisis, as well as the recent growth of other channels and non-banking competitors means local branches must change and adapt. While other channels must be leveraged, the branch remains a key channel for building an engaging customer experience. Banks that do this most effectively will certainly gain a decisive competitive advantage.

## Spotlight on... Technology in branches: improving the customer journey

**“The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency” – Bill Gates**

Banks are increasingly experimenting with new organisational ideas and services for customers – all of which are supported by an extended use of new technologies.

From futuristic and experimental devices to more commonly-used technologies, all could be leveraged in local branches.

### Attract the customer into the branch

One of the first purposes of introducing new technologies in local branches is to attract and drive the customer inside the local branch. In order to do so, compelling digital store fronts advertising a new campaign or providing other interesting information have been trialed to increase customer footfall into the branch. Inside the branch, new queue management systems can be used to efficiently help and give advice to the customer. Experimented by HSBC Premier in Hong Kong or Yes Bank in India, RFID (Radio Frequency Identification) in local branches quickly helps staff in the branch to distinguish customers between different segments, thus

ensuring that their best customers receive more personalised attention. For instance, as soon as a card-bearing Premier customer enters the branch, RFID readers automatically recognise them as a priority customer, prompting bank personnel to give them immediate preferential treatment. These particular cards also allow bank staff to detect the purpose of the Premier customer’s visit.

### Make it easier for the customer

Technology in local branches is also widely used to ease the customer journey within the local branch. First of all, advanced self-help ATMs and recycling machines have been introduced in many local branches. These new devices allow people to carry out standard transactions without having to queue (potentially for a long time) to see a bank cashier.

Access to wi-fi, or other everyday technological devices such as iPads in attractive open spaces are also making the customer journey easier and more comfortable. In this way, technology is supporting the vision of a branch designed like a “living space” where customers are offered an environment where they are able to keep on working or do whatever they need.



### Improve the customer experience

Improving and enhancing the customer experience might be the most relevant use of technology in local branches. Technology is a fantastic way for banks to provide the customer with tailor-made and interactive advices. In some local branch concept stores, colossal interactive touch screens providing product information have been implemented. They are designed to channel screen information to people’s personal tablets or smartphones. For more complex advice, Visio teleconference systems can be used to reach bank advisors with specific experience and information for the customer. These advisors may be located in the branch back office or be miles away in “expertise pools”. Some retail banks such as Barclays are also developing surface technology

for their retail networks. Using this new Microsoft technology, customers could grab digital contents on a screen with their hands and could navigate to look for information on products and services with simple gestures and touches.

Surveys have shown that customers are open to using technological devices within local branches. Technology can be an efficient way to improve customer satisfaction as well as customer loyalty. Like loyalty programmes or promotional offers, high-tech local branches in which the customer can easily move around and feel “unique” in the very middle of a new technological world should be part of the “package” banks are offering. Retail banks which ignore these seismic technological shifts do so at their peril.

# Online banking: an essential component of the new banking model

“The internet is the first thing that humanity has built that humanity doesn’t understand, the largest experiment in anarchy that we have ever had” – Eric Schmidt

## Online banking: an essential component of the new banking model

### Listen to what the customer wants

The internet revolution and the growing popularity of remote interactions mean that customers are keen to have easy ways to deal with their bank on secure channels. They prefer to use direct channels that give them 24/7 remote access, and avoid visiting branches for transactions they can manage online.

To meet this demand, banks must aim to develop their websites and propose attractive offers for customers. Banks need to keep looking for new products/services to automate and adapt into processes which customers can easily access online.

Online banking answers banks’ and customers’ needs by offering many advantages to both parties:

- Comfort: it is much more convenient for customers, as they no longer have to visit their branch and waste time in endless queues for simple transactions they could have done quickly without help.
- Ubiquity: customers can access their bank account anywhere as long as they have internet access. With online banking, customers can manage their account from home, work or abroad, through a few clicks of the mouse. And now, with the emergence of internet on mobiles, customers can communicate with their bank online, everywhere.
- Cost: online banking transfers a substantial workload from the branch onto the customer, leading to a significant cost reduction for the bank that benefits to some extent end customers through price drop-offs.

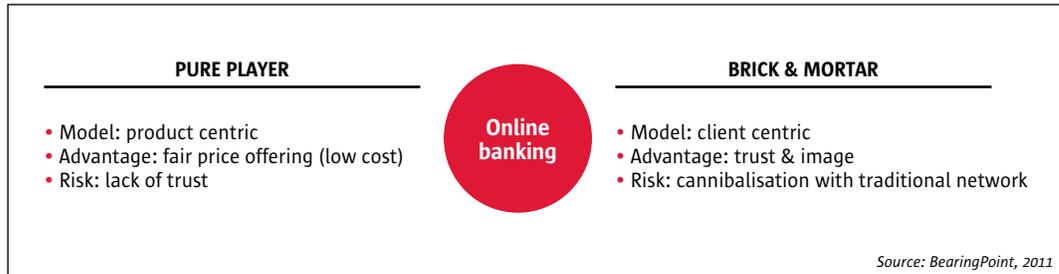
### The competition heats up

Nowadays, there are two types of online banking in operation: the “pure players” and the “brick and mortar” (online players from traditional banks).

“Pure players” are only present on the internet. They took the risk of starting online banking (usually) without any physical branch. Most pure players are historically brokers or savings institutions, such as Boursorama and ING Direct. While ING Direct’s strategy was to enter the online banking market quickly, and at the lowest cost, Boursorama played it safer by keeping 14 small branches as a point of contact to reassure customers. Besides brokers and saving institutions, only a few niche players, like BforBank, the Credit Agricole online premium banking or Monabanq, the standalone online bank, entered the pure players’ environment.

Pure players started online banking with a “low-cost” strategy to attract customers and compete with traditional banks. However, they still rely on these traditional players as, at the moment, a customer cannot open an account on a pure player’s website without their usual bank account details.

The main concern for pure players is to acquire new customers. Unfortunately, they face a big problem of trust because they are new to the financial service market. Customers need to trust the bank in which they invest their money and brand recognition is a major factor in their choice of institution.



Also, as pure players are new to the field, they do not control all aspects of customer relationship nor the levers in order to develop long-term relationship and loyalty.

The first customers for pure players were affluent and autonomous. Most affluent customers have very little time during the day to do their bank transactions. By banking online, they can access their accounts whenever and wherever they want.

Nevertheless, as margins are low in this low-cost model, pure players need to generate volume to increase their revenues. Therefore, they are trying to target mass-market customers with traditional day-to-day products. For example, ING Direct proposes online loans subscription and Boursorama has recently extended their offers with mortgages. However, mass-market customers are less profitable than affluent customers. Pure players, therefore, need to identify the limit of their low-cost model to define the scope of customers they can integrate.

The challenge for pure players will be to succeed in extending their customers' scope but differentiate between segments in terms of the level of advice they give about new offerings, such as complex financing or inheritance management.

### Traditional banks step into the fray

Following the success of pure players, traditional banks have adopted a defensive approach. They had to implement an internet channel to provide online services to their customers in addition to their branches, so as not to lose those customers interested in remote banking.

Most traditional banks have already invested in their online bank such as Rabobank (RaboDirect), Santander's (Online banking service), Abbey National (Cahoot), BNP Paribas (Net Agence) and many others.

Their main concerns are customer retention and loyalty. Therefore, they have developed online banking to respond to their customers' new behaviours. They have spotted an opportunity for "self-care" where the customer takes charge of straightforward transactions such as balance enquiries or payment transfers.

Those online banks, part of known traditional bank groups, benefit from a long banking history and expertise in the banking sector. They enjoy customers' trust in their brand and have a good experience of how to build and maintain strong customer relationships.

These online services target two kinds of customers: those who need self-care offerings in parallel with their branches, and those who want to become pure internet customers, cutting off most contact with their branches.

### Mix "n" match for the perfect combination

In order to migrate branch customers towards online banking for self-care products/services, banks have to identify customers who are open to using the internet to manage their finances and define incentives to use this channel over visiting a bank branch. Education is also a major key success factor to support customers who need to be reassured about the security and reliability of online banking, or who need to be guided through new processes.

Traditional banks adopted a strategy of almost similar costs between their branches and websites for products. However, to attract customers, some have offered promotions on products such as BNP Net Agence, which offered a 50% discount on their credit card for new online customers during their first year.

However, as margins are under pressure, banks need to innovate in order to attract customers. For example, BNP Paribas pioneered its videoconference solution, allowing a customer to chat and see their advisor through videoconference for an appointment as if they were face-to-face in a branch. BNP Paribas also bet on social media by proposing to open accounts through a single tweet via Twitter. Digital evolutions have paved the way for many innovation opportunities that banks should exploit in order to always be active and competitive.

Today's main challenge of developing online banking for traditional banks is to mitigate cannibalisation between the branches and the website. The objective of online strategies was to decrease costs by transferring onto the website non-value added transactions that didn't require mandatory advisor intervention and to focus on other value-added processes in branches where the advisor would be of major importance. There are two ways of avoiding cannibalisation: the first one is to communicate internally with advisors to explain the role of the internet and its benefits for the customers, and the second is to motivate them to promote the website by giving them incentives to increase customers' usage of online services.

### If you reassure customers, you retain them

Online banking is now an essential way of banking. It is a powerful marketing "weapon" in an increasingly competitive environment where trust and reassurance remain the key factors of success. However, as much as a customer can be digital and connected, branches will continue to give the customer the option to have face-to-face interaction in case they need guidance or advice.

## Spotlight on... Social media: banks join the party

**“Right now, with social networks and other tools on the internet, millions of people have a way to say what they’re thinking and have their voice heard” – Mark Zuckerberg**

### Social media is here to stay

With the explosion of social media platforms like Facebook, Google+, Twitter, Xing, YouTube and LinkedIn, banks have a new and highly scalable channel of communication and a powerful relational tool. Social media allows them to target most of their customer base, and in particular, the generation of “digital natives” who have grown up with technology and feel more comfortable engaging online than on the phone or the branch.

A BearingPoint study on social media in 2011 assessed the level of maturity of existing social media initiatives undertaken by retail banks in Europe. Although Northern countries (Nordic, UK, the Netherlands) have a clear lead, most banks are still struggling to find their right social media strategy. Banks are traditionally very conservative in adopting new ways of communication. Contrary to other industries, they also are very apprehensive of the operational risks emerging from social media in terms of communication control or compliance.

### Social media matters

Although very few banks have engaged a fully dedicated approach, many isolated initiatives have emerged, revealing different potential uses for social media.

As a new channel of communication, social media can help banks reach digital natives in a more personalised and dynamic way: for example, via Facebook “fan pages” (official ones or specific ones such as “Barclays Football”), Twitter accounts, blogs or YouTube (for ads, short movies, releases) and so on. Uses are not only for marketing: Société Générale, for instance, initiated a Twitter account to recruit new employees in parallel with LinkedIn.

Other banks use social media as a way to animate online communities. They can offer exclusive content, organise online contests with prizes, new experiences or games. Some banks like BNP Paribas have even opened a dedicated Twitter account for customer service.

Social media creates a unique opportunity to develop a participative approach, to generate new concepts, improve services/processes or products or simply listen to customers. For instance, in Denmark, Danske IdeBank has launched the “Better Bank” initiative, a Facebook page to improve its mobile banking solution. Similarly, American Express uses an online “Express Lab” to test every new product with some customers before releasing it.

New services can also emerge from social media, such as peer-to-peer payments, P2P credits, personal finance management tools (with budget comparison with peers) and account aggregation.

Social media is currently very seldom used as a transactional channel. Although levers do exist, most studies show that customers are much more

interested in it as an information and relationship channel: for instance, to pick up other customers’ opinions, or interact with the bank. Probably the most appreciated function of social media by customers is the possibility to review and rate products and services (including relationship managers).

All these initiatives tend to increase brand awareness, better understand customers and improve their satisfaction. Even though some initiatives might seem trivial, developing a presence on social media has become essential.

### Fine tune your social media strategy

Prior to any initiatives, retail banks need to select the right channels and strategy. They have to establish a baseline and clear objectives about what they want to achieve. Depending on the level of commitment, several stages can help structure the social media approach.

- Firstly, listen to the voice of customers online to identify who is talking (influencers, namely anyone that can have impact on the company), where they are talking and what they’re talking about.
- Secondly, engage a dialogue with the various communities and then start building your own community.
- Measure the success of the initiative with specific KPIs (number of followers, community sentiment, net promoter index, customer loyalty).
- Provide customer support by leveraging the online communities to help answer common questions.
- Innovate by co-creating new products with communities and improve service levels.

### Making social media work

There are specific difficulties which banks need to overcome when engaging with social media. Because banks handle sensitive personal data, it seems difficult to broadly develop transactional services via social media (although certain initiatives are emerging). For security and confidentiality reasons, regulations (case law from 1924) mean financial services companies cannot publicly identify an individual who has an account with them, which makes responding to customer queries via quasi-public forums such as Twitter a legal minefield.

As social media is time consuming and can implicate many know-hows within the bank, it is essential to align the organisation: generally, a community manager coordinates the bank’s presence on social media and represents online communities within the bank. The manager’s hierarchical link depends on the maturity of the digital presence in the organisation.

Opening up communication in an uncontrolled environment can appear risky for a bank. But this approach implies great transparency between the bank, employees and customers, where everyone can share the same information. In this respect, employee empowerment is critical; not only to be reactive, but also to ensure consistent and appropriate communication; this means specific training, reviewing internal policy and driving cultural change, keeping, above all, customer satisfaction as the top priority.

The final challenge for banks will be to integrate social media into their multi-channel strategy to ensure customers enjoy a seamless experience.

# Money goes mobile: payments on the move

“Life is like riding a bicycle. To keep your balance you must keep moving” – Albert Einstein

## Money goes mobile: payments on the move

Digital payments, and mobile payments in particular, are seen as the next big wave of innovation in personal banking services. Not a day goes by without a news announcement about mobile payments. However, banks are not making the biggest headlines in this area, despite being the obvious payment facilitator for most of us.

Mobile payments have been embraced by some companies, but ones who we normally don't associate with financial services and making payments. They offer us fantastic products in a digital world. And they have bet their commercial future on the ever-increasing importance of addressing three innate needs of humans: feeling empowered, forming meaningful relationships and being entertained.

### Knowledge is power

Being smart the old way required everyone to remember things or write them down. Then came along Google and made everyone (look) smart with internet search engines. With the rise of smartphones, people can carry this powerful tool around at all times, making them feel empowered wherever they go.

### We are social animals

If the 1990s belonged to Microsoft and the first half of 2000s to Google, then probably few would argue that Facebook comes out on top for the second half of 2000s, hitting 1bn users in nearly half the time than Google. The success of social networking is closely linked to the rise of the smartphone; the first true “personal” computing device.

### Entertaining the masses

The whole music industry has gone digital. Xbox and Wii have forever changed the layout of people's living rooms. There are more than 340m active social gamers on the internet every month. And with smartphone and tablet PCs, many more people are holding a gaming console in our hands.

Companies that address these human needs with their products have captured the public's imagination and loyalty – just think of Google, Facebook, Apple, Microsoft and Zynga<sup>1</sup>.

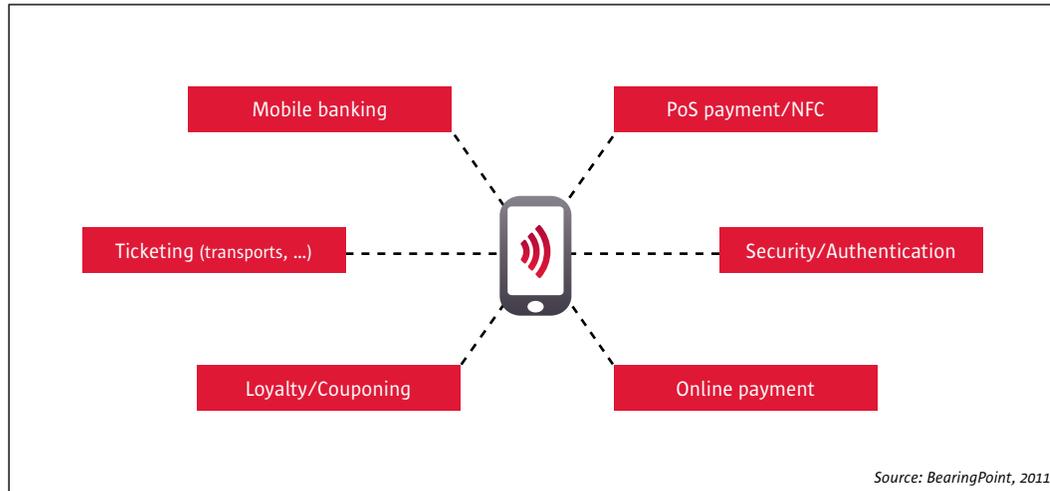
These companies are also leveraging two massive drivers and trends of mass consumer behaviour: social networking and mobility. Never before was a digital device so personal as the smartphone (do people ever even consider lending their iPhone to anyone else?). And never was a device so tightly linked into someone's social network (a phone = a person's contacts, and all the different islands of social contacts are all merged into one device).

Companies that exploit these human needs and trends are at the forefront of shaping the future of digital and digital payments.

Very few – if any – banks are active participants in this virtuous cycle of product development and consumer engagement. Is this the “Kodak moment”

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<sup>1</sup> Zynga is the leading online and social gaming company with over 200m regular monthly users



for banks<sup>2</sup>? Have they missed the biggest change in consumer behaviour and competitive landscape for a generation?

### Why mobile matters

The mobile phone has become a gateway for consumers to use services and purchase physical and virtual goods. It's a companion for daily digital and real life. So it's only natural to ask the question: why are credit cards and bank accounts not yet "linked" to this phone? Or are they already linked, and people haven't realised it?

Whenever someone buys a song, downloads an app, or a chicken in the Farmville game app using their smartphone, they are happily consenting to payment via their Apple ID, Google Account,

<sup>2</sup> "Kodak moment" is an industry being turned on its head by advances in technology, customer behaviour or competitive entrants to the market

Blackberry ID and so on. This simple payment/checkout experience is completely owned by the app store providers who have pushed the actual payment mechanism completely into the background and via auto-pilot (who still remembers which of our cards is linked to what app store?!). Clearly, in this world of in-app mobile commerce there is little value added to consumers if banks were to enter this value chain.

However, there is a gap in two additional forms of mobile commerce/payment: non-app-related purchases on a mobile and payment in the real world via a mobile device (often referred to as m-payment via point-of-sale (POS)). For non-app purchases on a mobile, the app store providers are well placed to leverage their payment mechanism if they apply a different commission model (in-app it's 30%).

For m-commerce via POS, the balance of power, the corresponding business model and the share of profits are not that clear yet. There are successful examples of this type of commerce without any bank involvement (for example, the Starbucks Loyalty app that gives customers the ability to pay for their coffee via the Starbucks iPhone app). And there are other entrants into the payment value chain wanting to have a share of the profits – for instance, the telco operators.

Two big telco consortia are working on large-scale initiatives to develop m-payments for POS based on Near Field Communication (NFC) chips in mobile phones. ISIS<sup>3</sup> is a joint venture by AT&T, Verizon and T-Mobile with the aim to establish a new m-payment network in the US. In order to deliver the core payments functionality, ISIS had to partner with payment networks (Discover, Visa) and credit card issuers (initially Barclaycard US<sup>4</sup> with more to follow). They had to provide requirements and standards to phone manufacturers, SIM manufacturers and trusted service managers, but also ensure compatibility with existing merchant payment terminals.

Another joint venture was recently announced in Europe by Vodafone, Telefonica and T-Mobile<sup>5</sup>. As of yet, their business model and scope of partner ecosystem is still unclear.

Finally, there are other players like Google, which is heading a consortium to develop the Google

<sup>3</sup> <http://www.paywithisis.com/>

<sup>4</sup> Barclaycard is already in the market with a m-payments service via its partnership with Orange in the UK

<sup>5</sup> <http://www.bloomberg.com/news/2011-06-16/vodafone-telefonica-everything-everywhere-form-payment-venture.html>

Wallet<sup>6</sup> for POS purchases in partnership with MasterCard, Citigroup, First Data and Sprint. And PayPal is not far away with its push to leverage its online payment service via mobile.

For banks, having lost the app store and probably about to lose the non-app m-commerce arena, POS m-payments is the last hope to get back into the mindset of consumers and top of wallet again.

### Key success factors for m-payments

Banks that want to play a major role and not just be the payment settlement engine at the end of the consumer purchasing and payment value chain need to invest in several key capabilities.

<sup>6</sup> <http://www.google.com/wallet/>





### Consider the needs of customers on the move

The success of the digital power players is based on their ability to exploit core human needs in the digital world. This is not an area of expertise that is typically well developed at banks. We see a major gap between the need and the actual investment in digital experts (for instance, strategy, customer experience design, data management & analytics and so on) needed to help banks understand what really drives consumer behaviour and needs, and how to address those needs with innovative products and services.

### Make m-payments work for you – and the customer!

Banks need to develop a clear strategy to determine what role they want to play in the digital payments industry (and beyond). And they need to do it quickly. Moving from online money transfer and credit/debit card to payments needs to be managed by the brightest minds in the organisation, with a comprehensive strategy that holistically addresses mobile payments in the wider context of digital payments, mobile payments, mobile couponing, mobile advertising and so on.

### Choose your partners carefully

The route to POS m-payments is currently littered with consortia going for a land grab. Success will be based on smartly partnering with organisations that have captive customer segments or merchant groups, have superior technology and have the capability to innovate in a changing environment. We would include the wider ecosystem beyond the immediate participants in the payment space, including app developers, game designers, video artists, product designers, hardware manufacturers, security specialists and so on.

### Don't run before you can walk

Many banks still struggle to deliver multi-device, multi-platform mobile banking to their customers that includes basic functionality for information, transaction and help. Linking payment formats to mobile devices in a secure way requires a much higher level of sophistication in terms of software security, hardware security, mobile device management and application maintenance. Every function of the bank (marketing, risk, operations, IT) needs to increase its maturity of dealing with mobile channels and technology before it can think of unleashing a mobile payments product across its organisation.

### Maximise your digital resources

What makes digital power players like Google, Facebook, Microsoft and others so effective in innovating and delivering digital products is the fact that they are the digital natives. They were born to be digital from day one. They are also very adept in integrating other products/companies to plug a gap in their offering. Banks do not have that

same heritage and therefore need to work much harder to attract digital talent and to develop organisational models that bring the best forth of its digital resources. Successful banks will actively hire digital evangelists into their organisation in order to create a delivery partner network with digital agencies, experienced consultancies and software development companies.

## Spotlight on... Mobile banking: time to get ahead

**“To be happy in this world, first you need a cell phone and then you need an airplane. Then you’re truly wireless” – Ted Turner**

Only a few banks “dare” to not invest in mobile banking. In Europe, 59% of banks have a mobile site and 47% have some sort of mobile banking app. The vast majority of banks are planning to have those capabilities within 12 months. Providing comprehensive m-banking services to customers is not only an opportunity for servicing, marketing and communication, but also a foundation for any more advanced mobile services like m-payments. There are several key success factors for any new mobile banking initiative.

### Think beyond m-banking

The business case for m-banking has typically included an even mix of cost reduction through digital self-service by customers, increased sales through additional customer contacts and an improvement in acquisition and retention through some kind of “halo” effect on customers who are clearly in awe that their bank has joined the 21st century. Given that mobile banking will become a generic asset within the next 12 months, banks need to think beyond basic mobile banking and have a deep understanding of their customers’ needs and expectations in regards to the customer experience, type of m-banking services, delivery channels and how it complements their other banking and non-banking needs.

### Start thinking like a gamer

People are great in managing their Farmville dollars, but struggle to manage their credit card bill or current account statement. Designing a meaningful customer experience in the mobile and social era of today requires a user experience that is playful, intuitive and educational. Playful means that it’s fun and rewarding to engage and interact. Intuitive means that anyone needs to be able to understand how it works by just trying it (have you ever seen an Apple manual?). And educational means that the interactions need to build on each other and make customers smarter, as they use more and more functionality.

### Keep it smart but simple

M-banking services typically provide functionality for information purposes (balance enquiries and transactions), actions (pay bills, transfer money, request a credit limit increase), help (search/browse FAQs, use a two way message centre). Banks need to think about this channel as a wider communication and engagement platform, which means they must include an ad server, location-based offers/coupons, loyalty management, customer to-customer interactions and customer feedback management.

### Construct solid platforms

M-banking is another channel that needs to be deeply embedded in the bank’s ecosystem of the single view of the customer and which fits in



seamlessly with all other channels, both digital and non-digital. Banks cannot afford for customers to have a better view of their banking relationship than the banks themselves. This requires a multi-device, multi-platform approach to delivering well thought-out m-banking services, instead of the “let’s get an app out before the end of the year” approach.

### Make marketing matter

After so many years of not getting any m-banking service, customers have probably given up looking for it or waiting for it. Banks need to be well prepared by building up a list of marketable email addresses, confirmed mobile phone numbers, statistics on online active/in-active over the last three to six months, and any dormant segments that might have a high mobile propensity. Banks also need to define an incentive plan with offerings and referrals in a mobile context. This will require a new level of sophistication for banks in terms of data acquisition, data sharing, merchant partnerships and loyalty partnerships.

### Teach everyone to be mobile-savvy

Adding a new channel to a bank is not just a marketing initiative. It requires careful planning and preparation for every function in the bank (brand, marketing, risk, customer care, collections, fraud, IT and so on) with regards to policies, procedures, customer experience planning and customer satisfaction tracking. Positioning m-banking as a stepping stone to m-payments requires a new staff skill set, new technology, new partnerships and new governance processes that go way beyond anything the banks will have gone through with online banking.

Mobile banking and mobile payments are only going to become more popular. With contactless payments, for example, gaining ground, it makes sense for banks to get ahead and really make mobile matter in their business.

# Performance management: exceeding short-term financial vision

“In the business world, the rear-view mirror is always clearer than the windshield” – Warren Buffett

## Performance management: exceeding short-term financial vision

Retail banking has traditionally enjoyed low volatility, a stable margin and long-term relationships. It's therefore set its focus on quantitative and financial dashboards. However, with the recent financial turmoil, new competitors (mainly pure online and wholesale players) have entered the market with aggressive strategies. Customers' changing behaviours have also compelled banks to review their strategies and align dashboards with appropriate KPIs. Managers want dashboards to be a genuine decision-support tool with no more than 20 indicators.

### Improve the effectiveness of quantitative dashboards

Retail banks are struggling to maintain their market share and improve their operating ratios. Therefore, pressure on sales and distribution units is still very strong. In a multi-channel environment, where customers carry out low-value operations themselves through self-care, local branches are expected to re-focus on high-value advisory and sales.

Some recent initiatives to improve the effectiveness of quantitative dashboards tend to generalise within the branch networks.

- Contribution to the overall profitability can be measured by unit, product and customer relationship (for example, Net Banking Income (NBI) generated per individual = average NBI per customer x number of customers).

- Aligning performance indicators and objectives, resource planning and allocation with the motivation system, (collective and individual) to focus the whole organisation and management model towards the same strategy.
- In-house benchmarks, such as Top 10 or Worst 10, can be a good practice and can develop the spirit of challenge between branches. However, indicators must be common and data comparable and steer the whole branch network to reach the first quartile performance.
- Monitoring performance using variance analysis, that is, breaking down performance by tracking variations between the forecast and actual effects (such as impact of interest variation, customer mix, number of active customers, NBI variation).
- Automation and integration within ERP to reduce the lead times and workload of producing dashboards.

### Limits of traditional quantitative dashboards

According to BearingPoint's third Finance-Management Monitor on Dashboards (2010-2011), current dashboards do not live up to managers' expectations. Various, they are not sufficiently orientated towards action (61% of respondents) or do not provide enough qualitative information (50%). Also, they should be more forward-looking (44%) and have more relevant indicators (44%).

Although critical to drive business, quantitative and financial KPIs offer mostly ex-post analyses used as warning systems to see if objectives have



been reached. Financial indicators are, by their very nature, orientated towards a result, but can be too focused on static observation and not sufficiently geared towards action. However they very often hide some very basic levers. Bank managers expect to be able to contextualise performance results with market trends, customer perception and satisfaction and employee motivation.

Moreover, quantitative-driven performance measures for sales and distribution units are mostly focused on short-term targets and can have a negative impact on long-term strategy if not counterbalanced. The constant pressure to deliver quantifiable results (such as the number of premium credit cards sold, or volume of loan estate credits...) can adversely influence a bank advisor to recommend unsuitable products for the customer, in order purely to meet targets.

Finally, as a performance dashboard is designed to help bank managers drive their strategy and follow up their objectives, it can't simply focus only on financial information but must also take into account other structuring dimensions such

as customer satisfaction, quality of service, brand awareness, HR, sustainable development issues and so on.

### Adopt a qualitative approach

Emerging practices should respond to these complementary needs.

Qualitative information is essential, in addition to the raw figures. Analyses such as internal and external benchmarks and macroeconomic trends are regularly requested by management boards. Four fifth (80%) of respondents of the BearingPoint study think qualitative comments are the best way of understanding the results of indicators.

To drive a long-term strategy, retail banks need to focus on quality of service and customer satisfaction. These new performance indicators can help ensure there is coherence between delivered performance and perceived quality.

HR indicators can also help humanise performance monitoring. Some banks today use indicators and

advanced simulations of their staff levels and wage bills (age pyramid, productivity ratios). New indicators to monitor added value of human capital are also appearing. They measure the performance of the administrative processes, quality of service, social climate (turnover, resignations) or management of skills.

Sustainable development issues also need to be taken into account. Banks are firmly committed to reduce the use of natural resources and control their dependence on them. In fact, banks are taking groundbreaking measures in this area. These changes must be overseen and their costs and impact identified.

### Stay SMART to stay ahead

Qualitative KPIs need to obey SMART criteria: Specific, Measurable, Achievable, Responsible and Time-bound. Even though some indicators may be based on estimates or do not have definite or certified sources, they must above all remain consistent and reliable. This consistency can be hard to achieve for a net promoter index or for a global employee motivation score. The assessment of its reliability should be defined beforehand.

A mixed bottom-up / top-down approach is legitimate for some qualitative KPI such as "customer satisfaction". Employee empowerment is critical to ensure a general mobilisation of the organisation towards these strategic objectives.

The rationalisation and automation of those qualitative KPIs can become a real challenge. As reporting and dashboards are always more integrated into the information systems for automatic generation, the results of a satisfaction survey, for instance, may still not be integrated

and be treated manually. These processes can be time-consuming and confusing, depending on the frequency of the reporting, and thus, lead to higher costs.

As dimensions of the dashboard exceed the financial sphere, the legitimacy of management controlling the collection and production of non-financial information can be an issue. In BearingPoint's study, 72% of general management respondents regard management controlling as legitimate. Coordination and general governance between entities is critical.

### Be flexible to gain the whole picture

Managing performance in retail banking networks needs to mix both a quantitative and a qualitative approach to grasp a complete set of actionable levers by the management. However, the real challenge and expected value added resides in the reconciliation between those different KPIs, the relevant analysis from all those data and the capacity to identify appropriate action plans and follow-ups.

## Spotlight on... Satisfaction: how to ensure customers keep coming back

**“The single most important thing to remember about any enterprise is that there are no results inside its walls. The result of a business is a satisfied customer” – Peter Drucker**

Customer satisfaction is not only a major loyalty issue but can also snatch a few more market share points through brand image and customer advocacy.

Recent initiatives such as French LCL’s campaign of a 48-hour promise for a real estate loan or general banks’ communication shifts towards greater proximity and advice for customers reveal a better awareness of customer expectations.

### Traditional reporting has its limits

Most leaders acknowledge the difficulty in predicting their customers’ behaviour. Although compulsory, operational reporting which follows commercial activity, Net Banking Income (NBI), and credit outstanding reveal only the results from the last period. Any downturn in customer activity can’t always be explained by the wider economic situation, and very often, when noticing customers in debit positions, it is too late to catch up. A major issue is to adopt a proactive approach on claims / incidents.

The first step in terms of operational reporting should be to define a bank’s commitments to its

customer base in terms of its main activities, its reliability or reactivity in case of an incident, and then to follow up globally if those commitments have been fulfilled on a local level. Step two should be to refine the bank’s commitments based on its customers’ expectations. Major dissatisfaction might emerge from a gap between perceived quality and delivered quality.

To be able to define an action plan when dissatisfaction is growing, bank leaders can’t just rely on buzzes coming from their retail network, or worse from social media or traditional media. This very “qualitative” data should be rationalised, measured and integrated into reporting systems.

### Consider customers’ behaviour carefully

Some general indicators can help to measure customer satisfaction if they are combined with a renewed communication approach:

- The Net Promoter Index, extracted from traditional customer surveys, can be a unique and simple indicator to reflect not only customer satisfaction but also brand advocacy. A standardised satisfaction scale and results reliability are critical to make this index relevant.
- Facebook fans and Twitter followers can also reflect brand awareness.

- Systematically measuring customers’ satisfaction for each service using a simple survey is also a good tool to measure general “satisfaction” and identify specific areas for improvement.

Satisfaction levels can be identified with more “raw” input such as regular focus groups, ad hoc customer surveys, external “surveys”, or even claim management. The challenge lies in synthesising the information into a few indicators and using these to improve processes.

For instance, ISO 9001-certified banks are expected to put in place a “continuous” quality of service customer survey. In reality, very few banks have implemented this.

### Get customer service right – the rest will follow

- Integrate the quality of customer service into the bank’s core strategy: defining ambitious objectives for service quality within the organisation are critical to initiate positive change.
- Drive cultural change with employees to make customer satisfaction a priority in everyday service. Empowering and incentivising employees to improve customer satisfaction at POS level can be easily and effectively measured.
- Measure quality of service with a systematic approach for each “service delivered” (credit, appointment, credit card use, mobile services and so on).

Much can be done to improve the quality of service throughout the whole bank. Reacting quickly and effectively towards major dissatisfaction issues is probably one of the most efficient approaches.

Furthermore, implementing a rigorous approach towards quality of service can help measure not only the cost of non-quality (claim management, processes inefficiency, customer attrition) but also pockets of over-quality, such as for services which don’t directly affect customers and which might be more effective being directed to a more customer-facing project.

Using social media within the bank can be a real catalyst for this approach. For instance, in France, when Credit Agricole Pyrenées Gascogne started a social media experience, 95% of feedback was negative. However, under the CEO, each complaint received a reply and the bank endeavoured to improve these very specific points within the year. By the end of the year, most detractors had become very active advocates.

The biggest challenge for retail banks might be to reconcile operational performance reporting with customer satisfaction reporting, and draw an appropriate action plan for the short and long term. Strengthening proximity with customers and improving customer relationships and service should remain key success factors.

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<b>United Kingdom</b> Population: 64.0 M GDP: 2.8 T	<b>France</b> Population: 64.0 M GDP: 2.8 T	<b>Switzerland</b> Population: 7.4 M GDP: 0.4 T	<b>Netherlands</b> Population: 16.4 M GDP: 0.9 T	<b>Germany</b> Population: 82.7 M GDP: 4.0 T	<b>Austria</b> Population: 8.5 M GDP: 0.4 T	<b>Czech Republic</b> Population: 10.2 M GDP: 0.5 T	<b>Poland</b> Population: 38.4 M GDP: 1.9 T	<b>Hungary</b> Population: 10.0 M GDP: 0.5 T	<b>Slovenia</b> Population: 2.1 M GDP: 0.1 T	<b>Ukraine</b> Population: 45.8 M GDP: 0.4 T	<b>Russia</b> Population: 143.8 M GDP: 1.8 T
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**REGIONAL FOCUS: GERMANY, SWITZERLAND, AUSTRIA**

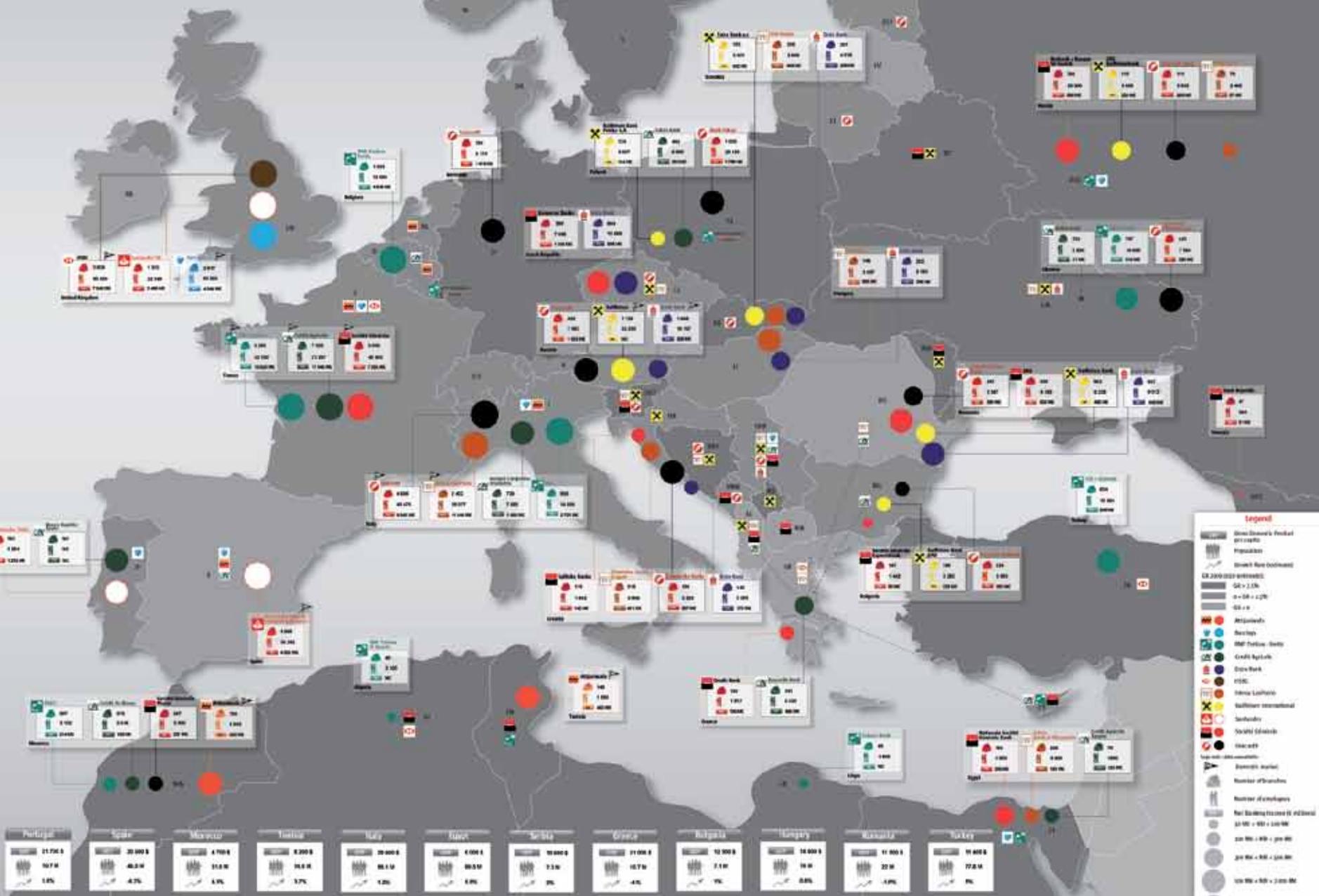
Callouts for Germany, Switzerland, and Austria showing bank names and key statistics.

**REGIONAL FOCUS: NORDICS**

Callouts for Denmark, Finland, Sweden, and Norway showing bank names and key statistics.

**REGIONAL FOCUS: UNITED KINGDOM**

Callouts for United Kingdom showing bank names and key statistics.



**Legend**

- Bank Group's Product portfolio
- Population
- GDP
- Bank Group's Brand
- Bank Group's Size
- Bank Group's Type
- Bank Group's Focus
- Bank Group's Network
- Bank Group's Status
- Bank Group's Location
- Bank Group's History
- Bank Group's Future
- Bank Group's Impact
- Bank Group's Contribution
- Bank Group's Role
- Bank Group's Influence
- Bank Group's Power
- Bank Group's Authority
- Bank Group's Prestige
- Bank Group's Reputation
- Bank Group's Image
- Bank Group's Identity
- Bank Group's Character
- Bank Group's Personality
- Bank Group's Soul
- Bank Group's Spirit
- Bank Group's Essence
- Bank Group's Core
- Bank Group's Heart
- Bank Group's Mind
- Bank Group's Brain
- Bank Group's Intellect
- Bank Group's Wisdom
- Bank Group's Knowledge
- Bank Group's Experience
- Bank Group's Expertise
- Bank Group's Skill
- Bank Group's Ability
- Bank Group's Capacity
- Bank Group's Potential
- Bank Group's Power
- Bank Group's Strength
- Bank Group's Resilience
- Bank Group's Flexibility
- Bank Group's Adaptability
- Bank Group's Agility
- Bank Group's Speed
- Bank Group's Efficiency
- Bank Group's Effectiveness
- Bank Group's Productivity
- Bank Group's Performance
- Bank Group's Success
- Bank Group's Achievement
- Bank Group's Contribution
- Bank Group's Impact
- Bank Group's Influence
- Bank Group's Power
- Bank Group's Authority
- Bank Group's Prestige
- Bank Group's Reputation
- Bank Group's Image
- Bank Group's Identity
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- Bank Group's Expertise
- Bank Group's Skill
- Bank Group's Ability
- Bank Group's Capacity
- Bank Group's Potential

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