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SATISFIED, NOT POSITIVE

Banks have historically had difficulty distinguishing their products from one another, and in recent years the problem has only intensified, according to several recent industry reports, as **Bernard Kellerman** explains.

WHILE BANKS' MARKETING campaigns would have the world believe otherwise, in mature markets customers are not delighted and not engaged by their banks. This is especially true where the sector is structured along the lines of having several very large dominant banks and a number of smaller competitors and other financial service providers such as building societies.

Worldwide, commoditisation is diluting the customer experience, as the look and feel of basic banking products has remained largely the same, with "very little innovation forged in terms of linking products or developing them outside their traditional silos," noted the authors of a report co-sponsored by global consulting firm Capgemini and financial industry networking organisation, Efma.

Attempts to differentiate on price have been curtailed in recent years, too, due to regulatory and cost pressures that are keeping rates universally low, the authors of the World Retail Banking Report observed.

Further, while countries such as Australia and Canada have weathered the financial storms in far better shape than most of their OECD peers, and while customers in both these markets report being both more satisfied and having a better customer experience than they did in 2011, polling of bank customers by the likes of Roy Morgan Research show that very few people are giving any one bank a large slice of their business (see page 4).

The question as why not a single bank - even among the Big Four, with their "full service" offerings - has managed to create a range of products that matches its customers' needs is a truly open one.

Efficiency, profits v personality, warmth

According to some of Capgemini's commentary, the global banking sector is in some ways a victim of its own success in keeping customers out of branches, and off the line from call centres.

"Banks are increasingly encouraging customers to use the lower-cost internet and mobile channels [and] the result has been a banking experience that is more remote and less personalised than it has ever been," the Capgemini report noted.

Thus, the push to reward profits over personality has meant that while the branch offers the best opportunity to bring warmth to the banking experience, many customers are beginning to prefer the ease and efficiency of remote channels.

On the other hand, if a particular bank can delight its customers by delivering exactly what they want via the increasingly large range of distribution channels available, said Capgemini, it has a better chance of standing out from the crowd.

Looking to leave

Other top line findings from the Capgemini report were that, despite having more positive experiences this year than in 2012, less than half of the many thousands of banking customers polled worldwide said they are likely to stay with their banks.

Globally, nearly 10 per cent of customers say they are likely to switch banks in the next six months, while more than 40 per cent are not sure if they will stay with their bank in the next six months.

"The quality of overall service is the primary factor that drives customers to leave their bank," according to the report.

"Positive customer experiences are strongly correlated with the trust customers place in their banks and with the customers' belief that their banks have a good understanding of their needs.

"Customer satisfaction levels often overestimate customers' likelihood to stay with their bank, whereas positive experiences are more closely correlated with retention."

Trust is 'somewhat' covered

Research is suggesting that trust is by far the biggest component and influence on how banks' retail customers interact with their financial services provider.

According to Stefan Grafe, the Australian managing partner for Mext, a specialist customer and consumer engagement consultancy, trust is the single biggest influence on whether a bank executive's key performance indicators (KPIs) will be met in any given year - so for any banker to suggest they have the issue of customer trust "somewhat covered"- as he was once told - is looking for trouble.

"Banks make the mistake of not looking at trust properly. They don't understand that their KPIs are influenced 70 to 80 per cent by trust, and they don't have a handle on that," he said.

And because of this, their efforts to ramp up the numbers for any of their KPIs will be inefficient. And here Grafe conceded that there will always be "some discrepancy" between what banks say and what they do. Clearly talking his own book, Grafe said what matters is the psychological reaction by customers, and his firm measures this, based on a system of complementary pairings.

On his scale, ticking any number up to four on a scale of 10 indicates a positive distrust, while five or six means they're 'trust neutral' or 'sitting on the fence'. "It's not necessarily a good thing, it's still a lack of trust," Grafe said.

A score of seven is 'slightly positive' and eight or nine are highly favourable - and notably, no customers in Australia gave these ratings to their banks.

Looking at the comparison (see chart, page 4), the correlation and relativity measures for the major banks and the regional bank Bendigo and Adelaide are quite similar for all three major metrics, and the measures for customer satisfaction from Mext are very much in line with those published by other competitors such as Roy Morgan Research (see breakout, page 4).

"The biggest difference is in banks not understanding what they need to be trusted for," Grafe said.

"Typically they look at net promoter scores (NPS) and customer satisfaction, and they look to then vary operationally to drive that up or down a bit [using phrases like] 'we've got to listen, we've got to be customer oriented, we've got to have ATMs everywhere, we've got to be accessible', etcetera, etcetera."

Grafe, while not dismissing the metric, also suggested that NPS was "very dry", in terms of data. "What drives this score, though, is about 70 per cent explained by trust. Similarly, for reputation, none of our banks will have a deliberate and sound strategy for building trust," he said.

If you look at the strengths and weaknesses of all the four major banks and each of their facets, they basically look like identical

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PHOTO ILLUSTRATION

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quadruplets. The only obvious differences have been when NAB was out with its breaking up campaign and Westpac was out with their sustainability, but they were unable to capitalise on these advantages.

And we know the banks have big problems differentiating themselves [from each other]. What the trust driver analysis shows though, is that they are very significant differences in what customers would want to trust one bank for against the other. But there is ample opportunity to differentiate because, for example, for CBA trust in development is really important, whereas for the NAB, it's trust in stability.

So these factors can be used by the banks to differentiate themselves and get a competitive advantage.

Comparison with Germany

"In Europe, all the commercial banks are pretty much in deep trouble," noted Grafe in piece of pure understatement. He also asserted that many advanced economies had a banking hierarchy roughly similar to Australia, in that there were three or four big banks and a number of community based banks - and his native Germany was no different.

"What we see in Germany is much the same picture we saw with the Big Four and Bendigo Bank here at the end of the GFC -trust had evaporated.

"Currently the community-based banks-Sparkasse and Genossenschaftsbank - therefore rank a bit higher in trust than do the commercial banks."

Grafe added that, in his view, German customers were not any better informed than Australian customers, which made for a valid comparison between consumers of banking services in the two countries.

"What we feel is very significant, when you look at Commerzbank, which is really down on its knees and Deutsche Bank, which have really been in a lot of scandals and other issues at the moment, their trust is still only 0.5 or 0.7 lower than the Australian banks.

"So, what we're asking is that, considering we are in one the strongest economies in the world, with strongly performing banks; customers are told every day how well our banks are performing - it does not seem to be registering.

"Our banks basically have been dismal at harnessing that momentum they got from all the great publicity and government support," Grafe said.

Dorus van den Bizenbos, from Capgemini Australia, was involved with another recently completed detailed examination of what customers of global banks have been asking for.

"This kind of comparison shows that trust by consumers of their banks is at an all time low," he said.

The latest Capgemini World Banking Report, drawing on information collected at the end of 2012, shows that general satisfaction levels among bank customers are much higher than the levels of positive customer experience reported. That is, in every country analysed, there were far more satisfied customers than there were customers having a positive experience with their banks.

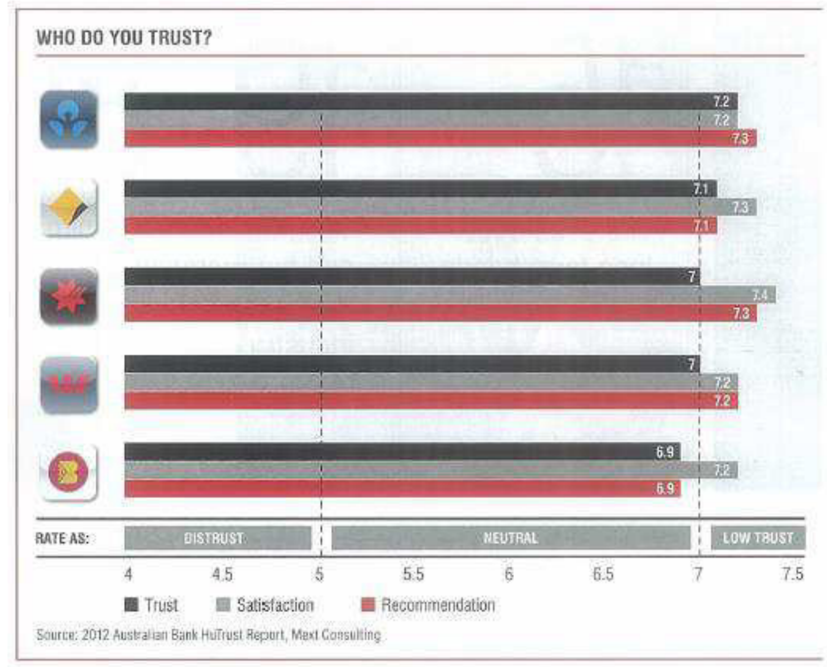
In Italy, for example, banks were approaching the global average of 65 per cent in satisfaction among their customers, but rated a positive customer experience of only about 25 per cent.

These findings indicate that banks should proceed with caution when it comes to measuring customer satisfaction.

Clearly, high customer satisfaction levels are easier to achieve than high levels of positive customer experience, warn the report's authors, who added "it is only through the ability to 'wow' customers through positive experiences that banks can expect to generate high levels of loyalty".

Banks in a handful of countries measurably improved their levels of both general satisfaction and positive customer experience between 2011 and 2012. These include banks from Canada, the US, and Australia, as well as the European nations of Norway, Germany, and Turkey.

Banks in other countries, including India, Italy, and Switzerland, increased overall satisfaction, but had virtually no impact on positive customer experience.



Source: 2012 Australian Bank HuTrust Report, Mext Consulting

Global vs Australia, Canada

Capgemini's van den Bizenbos, referring to his firm's World Banking Report, pointed out that only 15 per cent of customers, worldwide, have trust and confidence in the banking industry.

"On the other side of the spectrum there are 31 per cent of customers who have little or no trust in the banking industry," he said.

"Looking at this [metric] from an Australia-specific perspective, we see that the people here who do have trust in the banking industry is higher than the [worldwide] average, at around 20 per cent; whereas the number with limited or not trust in the banks is lower than the global average, at 18.5 per cent."

The reason for the difference between the global and local averages that Australia hasn't been hit as hard by the GFC, and the same applies to Canada - often cited as the most comparable country to Australia on a range of measures. In this case, said van den Bizenbos, the Canadians had been working on the problem of customer experience more effectively and started earlier.

"In Canada there has been quite a focus on innovation, technology investment and really understanding what the customer really wants," he said.

"If you focus what on the customers really want, satisfaction will increase."

According to van den Bizenbos, what really matters to bank customers are:

- quality of service
- fees
- interest rates
- ease of use

"The top item is really the predominant one, and drives customer satisfaction and the customer experience," van den Bizenbos said.

He added that the defining characteristics between these two measures are that "customer

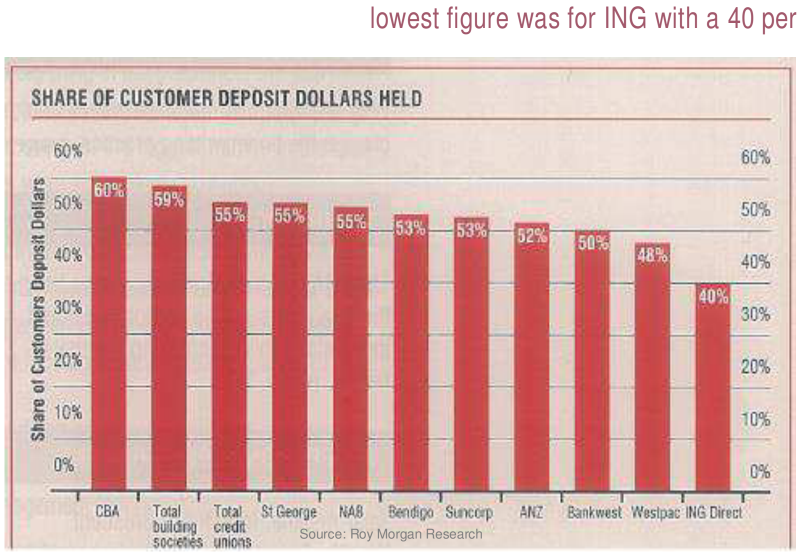
CUSTOMERS SHARE THE WEALTH

The customers of the major financial institutions show very little loyalty when it comes to where they hold their deposits, with only just over half (average 53 per cent) of their deposit dollars being held with any one institution.

Despite "share of wallet" being a key metric in bank marketing it has declined marginally (down from 55 per cent) over the last four years, according to a recent Roy Morgan Research Consumer Finance Survey, based on 50,000 interviews annually. Over the 12 months to Feb 2013, the Commonwealth Bank had the highest share of their customers' deposit wallet with 60 per cent.

This means that CommBank holds 60 per cent of the total funds on deposit by its customers (defined as those having a banking relationship, such as cards, loans or accounts), with the other 40 per cent being held at other financial institutions.

This result, nevertheless, places CBA well ahead of its nearest Big Four competitor, the National Australia Bank (55 per cent), followed by the ANZ (52 per cent), and Westpac (48 per cent). The lowest figure was for ING with a 40 per cent deposit wallet share.



Can do better

The scope for financial institutions to increase deposits from existing customers is close to 100 per cent but very little progress has been made to date for a number of reasons, asserted Roy Morgan.

"Generally there is insufficient incentive or benefit for customers to consolidate and so they just select the best or most convenient account at the time of making a decision," said Norman Morris, industry communications director at Roy Morgan Research.

"In the case of the higher balance customers, the concept of risk or putting 'all their eggs in one basket' is also likely to play a part, particularly following the GFC."

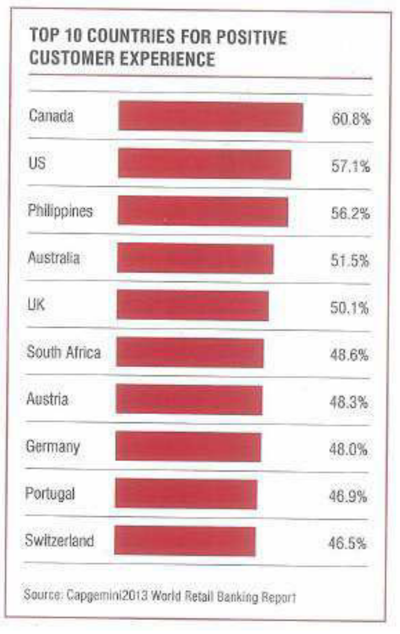
He also suggested that one major reason for the strong performance of owned bank, and therefore some customers perceive it as being more secure.

"Likewise, St George, as the largest regional bank in Australia, has a heritage that leads to it capturing a large proportion of its customer's deposits. These results may support Westpac's multi-brand strategy with a stronger performance by its subsidiary brands St. George (55 per cent) and BankSA (60 per cent) than for the main brand Westpac (48 per cent)," said Morris.

"It's likely that ING Direct with its internet-only business model is not viewed as being able to cater to the breadth of its customer's deposit needs.

On Roy Morgan's numbers, other institutions that do not capture large proportions of their customer's deposit dollars are Rabobank (45 per cent) and Macquarie Bank (37 per cent).

This article first appeared on AB+F Online.



satisfaction is a one-off measure: 'are your needs met, yes or no?' Whereas customer experience involves taking a much longer running view on what really matters to the customer".

The challenge is always to compare these variables in the right context, he warned, and observed that Australia is catching up on its technology investments, like many of their peers. "So, there a lot of banks going through the re-platforming of their core banking upgrades to launch the more flexible nimble services; and new mobile services. Look at Europe and the US, where similar projects in the past have enabled that growth and change to happen," said van den Bizenbos.

Transparency

If the financial services sector is so strong, and becoming stronger, why is there a low level of trust in the banking industry among its customers?

"The GFC didn't help, where people lost a lot of money if their bank accounts weren't fully insured," is the take van den Bizenbos has on this apparent conundrum.

"There was also the sales driven and bonus culture prevalent in the US and Europe. But the final part is the lack of transparency - there are internal cost structures in all sorts of financial products that make retail customers wary.

"What financial services firms could do in the short to medium term [to raise their customer satisfaction levels] is to provide more transparency about their products about their cost structures and about their fee structures; and their operations and their processes, everything that matters to the customer," said van den Bizenbos.

Then, warming to a topic that he admitted was "top of mind" for him, van den Bizenbos recalled that in the Netherlands, working for one of the global banks two years ago, he was helping to introduce activity-based costing. The regulator had told the bank not to give one product for free and try to make up the costs by charging more for other services.

"It is not transparent to say a current account is free and then charge someone in an undisclosed manner for their investment portfolio - for example the cost of managing $lm in assets under management for a wealthy client bears no relationship to an investment portfolio of $50,000, yet firms are charging the same percentage. You need to look at different fee structures and different ways of combining that. It's really a 'back to basics' approach," van den Bizenbos said, and noted: "I'm not going to comment on any specific cases, but the [various class actions on bank fees] are all about proactively informing customers about what the different criteria and conditions are about different fees."

In 2011 Capgemini did measure an increase in trust and confidence in US and Europe - not by a large amount, but maybe 10 per cent - mainly driven by the fact that many of these banks had been taken over by their respective governments which cleared out the bonus cultures and capped the incomes of the bank leaders.

He suggested this was part of the reason for a reversal in the slide down the trust scales seen in 2011, but the question of how effective the raft of regulation proves to be is yet to be assessed. **AB+ F**

THE PATH TO INDUSTRIAL STRENGTH ANALYTICS

Innovation remains top-of-mind for many financial institutions as they seek to remain competitive in a lower growth environment. Yet in focusing on innovation, many remain ill-equipped to make better decisions in a world of increasing constraints and regulatory limitations. So how have leading organisations addressed the challenge of making better business decisions?

Leading organisations recognise that effective decision making is an amalgam of the right people, processes, information and technology. They are placing more reliance on analytic models to support executives and line managers and help them make better decisions, and this is both positive and to be encouraged.

Analytical models are at the heart of many critical business decisions whether finding new opportunities, managing uncertainty, assessing and scoring new or existing customers or pricing risk. As such, the number of models used to support real-time decision making can be expected to increase very considerably.

With analytic models being used in this way, they should be treated as the high-value assets that they are. Their creation should come from robust and industrial-strength processes and be managed for optimal performance throughout their entire lifecycle. Business analytics and technology teams need a repeatable and efficient process and a reliable architecture for creating, testing and deploying predictive analytic models into production systems.

Managing complexity

In recognising analytic models as essential corporate assets, leading organisations seek to create the best models possible. However, few fully manage all the complexities of the interactive and iterative model life cycle. This is a multi-faceted task for large institutions as they manage through the key stages of problem identification, analytical data preparation, data exploration, model development, model validation and testing, deployment and assessment monitoring.

In an effective analytical environment, data is created and accessed in the correct structure. Models are then rapidly built, tested and deployed into a production environment to generate trusted output. Their performance is constantly monitored and underperforming models are quickly replaced.

Analytics means more than creating a powerfully predictive model. It is about managing each of these lifecycle stages holistically across the entire portfolio of models. This is no easy task when analysts are developing multiple and competing models which are at various stages of development and customisation for different products and business units.

An analytical life cycle is iterative and interactive in nature and models are continually revised and updated during testing and as new results and data become available. People from business and technology streams with differing backgrounds and capabilities are involved at various stages and success requires more than relying solely on the technology element.

For the best results, organisations must look at the processes and have people with the right skills in place and working collaboratively in their designated roles.

The analytics 'model factory'

The growing complexity and magnitude of the task - of managing potentially hundreds or even thousands of models in flux - puts organisations at the cusp of an information revolution. The old and inefficient "hand crafted" approach must evolve to a more effective "factory" approach.

A predictive analytics factory formalises ongoing processes for analytic data preparation, model building, management and deployment - with particular attention to managing.

As demand for predictive models rises, a structured approach enables an enterprise view of the organisation's portfolio of models.

A formal model management framework enables analysts to register, validate, deploy, monitor and retrain analytical models in the shortest possible time. A predictive analytics factory makes it far easier to document models and collaborate across internal and external teams. With a mechanism for feeding results back into the process for continuous improvement, it becomes clear which models continue adding value and which need to be retired.

By bringing cohesion to a fragmented process, a predictive analytics factory enables more strategic thinking about models and how you can treat them as corporate assets. Analytics projects and talent can evolve from the current technical focus into a stronger focus on business drivers and the understanding of problems in business terms. By starting with a decision in mind, the business and analytics teams are encouraged to think about how to operationalise the model, integrate it into businesses processes, and determine when it has outlived its original purpose.

With a formal model management framework, the "best" models get into production faster to start serving the business sooner. The organisation can generate more models, and more sophisticated models, with a large variety of analytic methods, with fewer resources. Analytical models are continually monitored and refined, so they remain up-to-date and accurate. The process is also more transparent, making it easy to explain analytics-based decisions to regulators and business leaders.

Reliable processes, positive outcomes

As more and more organisations are discovering, a predictive analytics factory approach delivers a host of benefits covering efficient development, faster deployment, faster scoring, active monitoring and management, and reduced risk. Such benefits are already being realised by leading organisations that have been able to reduce model development and promotion cycles from three months to just days, decrease data preparation times by 40 per cent and improve analyst productivity by 50 per cent.

These are impressive gains and very much aligned to the productivity agenda.

Predictive models use your data to tell you about the likelihood of future events. Since nobody knows exactly what's going to happen in the future, managing predictive models is about managing the uncertainty of future outcomes.

That's important enough to deserve rigorous process controls - a predictive analytics factory approach to analytical lifecycle management. For those seeking to become more innovative by harnessing their data assets for competitive advantage, such an industrialised approach is fundamental to commercialising new ideas.