



Customers expectations compared to banks perception

Brussels, 25 May 2012

The E&Y Global Consumer Banking Survey 2012

- ▶ This is Ernst & Young's latest survey of retail banking customers around the world.
- ▶ It builds on our previous global customer survey in 2011 and our European customer survey in 2010, and examines the views of more than 28,000 banking customers in 34 countries, gathered in March 2012.
- ▶ The survey places particular emphasis on answering the following questions:
 - ▶ How likely are customers to change banks, and if so, why?
 - ▶ Is customer behavior towards their banks changing, and if so how?
 - ▶ How are customers using different channels, and what do they expect from them?
 - ▶ What is driving customers' satisfaction, and what improvements do they want to see?
 - ▶ What steps can banks take to enhance customer loyalty and advocacy?
- ▶ In addition, in order to get a comparison between customers and bankers perception, EFMA surveyed its European members through all EFMA countries, with the same questions.
Current presentation integrates answers received from near a hundred of banks

Customers are taking control of their banking relationships Banks need to adapt and give more power to their customers

What customers are telling us:

Customers are taking control

- ▶ They are changing banks
- ▶ They prefer turning to other sources than their bank for financial advice and to find the best deals
- ▶ They want to play an active role in tailoring their products and services.
- ▶ They want better value and improved service
- ▶ They want to be able to choose - between different channels, service levels and costs



What it means for banks:

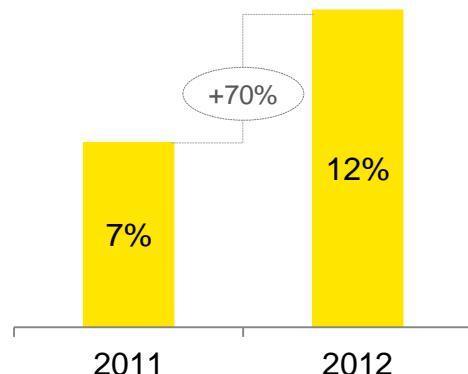
Embrace the shifting balance of power

- ▶ **Give customers flexibility to choose.** Make pricing and service promises transparent, offer segmented levels of service and seamless 'omni-channel' distribution
- ▶ **Help customers shape their experience.** Encourage customer self-service, shift marketing from 'push' to 'pull', and develop flexible loyalty programs
- ▶ **Shape the business model around customer needs.** Make low cost digital channels customers' preferred choice, prioritize investments on critical customer interactions, and use innovative technology to deliver the retail bank of the future.

Customers are increasingly likely to use other banks

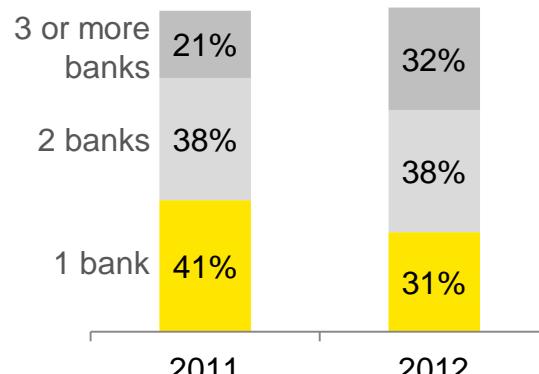
Attrition

% of customers planning to change bank



Multi-banking

% of customers with one vs. multiple banking relationships



Why customers are changing banks

Top reasons for attrition.
% of customers

- 50%** High fees or charges
- 31%** Poor branch experience
- 28%** Poor rates on accounts
- 26%** Lack of personalized contact / service

- **Customers are becoming less loyal.** The proportion of customers planning to change banks has increased from 7% to 12% since 2011.

- **Multi-banking is on the rise globally.** Only one-third of customers have a single banking relationship.

- **Sensitivity to fees and charges** is the leading driver of attrition.



Bankers point of view

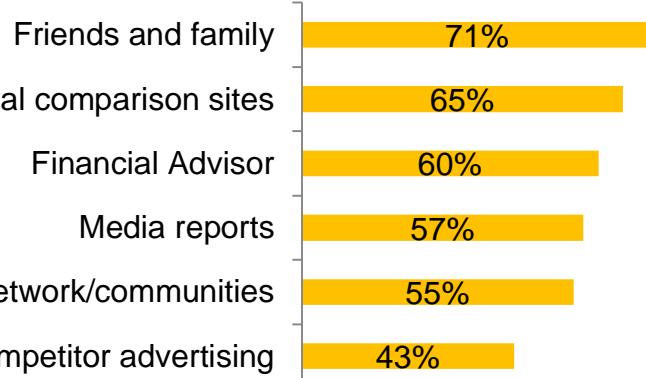
Banks correctly estimate level of customers who have more than 2 banks, around 23% (a bit less in European Union, but more in emerging markets). Main difference with customers is on the split between 1 and 2 banks where they think customers are less monobank than they are in fact. It means that banks can still have disappointments as they can lose more than they think from their existing customer base

Customer advocacy is gaining power

Customers' increasing willingness to actively manage their banking relationships represents a major change for the industry.

Advice

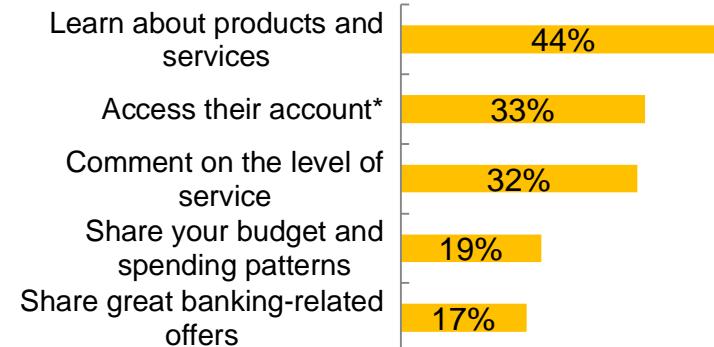
Top sources valued by customers to keep them informed on banking products



- ▶ Customers prefer turning to other sources than their bank for financial advice and to find the best deals.
- ▶ Comparison websites, relatively unknown five years ago, are now a major source of influence

Social Networking Interaction

% of customers who use social networking to perform the following activities



- ▶ The use of social media as a source of banking information is amplifying customers' voices, giving them greater power as advocates or critics

* In emerging markets many customers are accessing their accounts via social networking sites whereas this is uncommon in mature markets



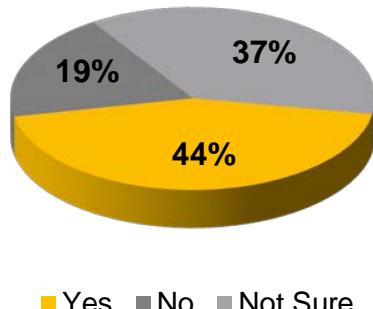
Bankers point of view

- ▶ Banks confirm that « family and friends » have become main source of information just followed by comparison websites. Banks overestimate (or maybe just anticipate?) the actual role of online personal networks (identified as the major source of information for emerging countries, when replacing a product)
- ▶ Banks also overestimate the use of social network for commenting on service level, that they place far ahead as the main usage. It could mean they are still more afraid of, than confident in social networks

Customers want to play an active role in tailoring their products and services

Tailored Offerings

% of customers who say their bank adapts the products and services to meet their needs

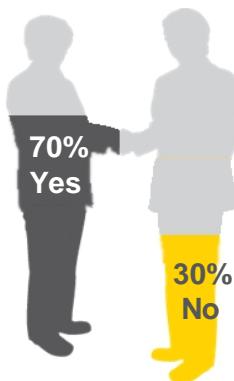


■ Yes ■ No ■ Not Sure

- **The majority of customers do not feel that products and services are customized to meet their needs.** Only 44% of customers feel they are provided tailored offerings.

Personal Information

% of customers willing to provide their bank more personal information



- **Customers are embracing the benefits that come from providing personal information.** 70% of customers are willing to provide more information in order to receive more personalized service.

Update Frequency

How often customers would be prepared to update their information for their bank

- 44%** When circumstances change
- 26%** Every six months
- 24%** Every year
- 6%** Only at the beginning of the banking relationship

- Moreover, a significant proportion of customers are willing to **actively maintain** their personal information with their bank.
- In return, they expect to receive tangible improvements in the suitability of products and services they are offered.

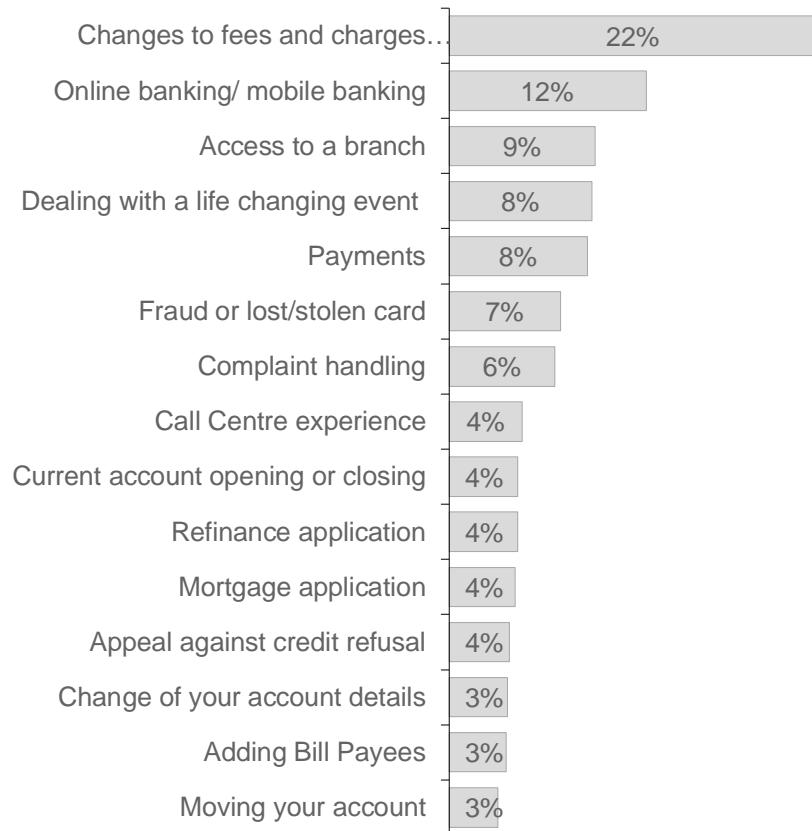


Bankers point of view

All over Europe, bankers are even more convinced (closed to 90 %) that customers would be ready to provide more information for a more personalized service. It indicates that there should be progress on that side if banks are able to manage this data properly, underlining the key issue of data analytics capabilities

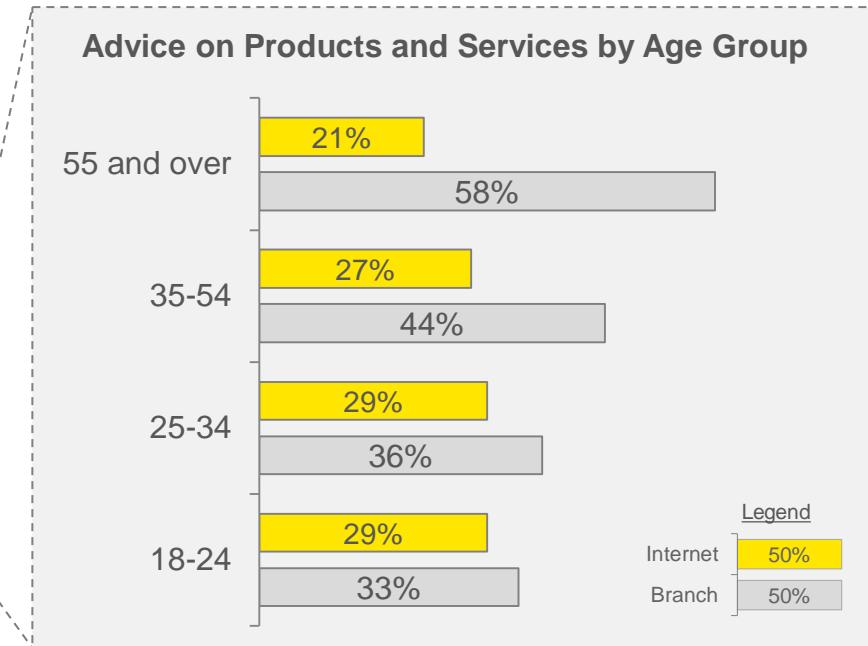
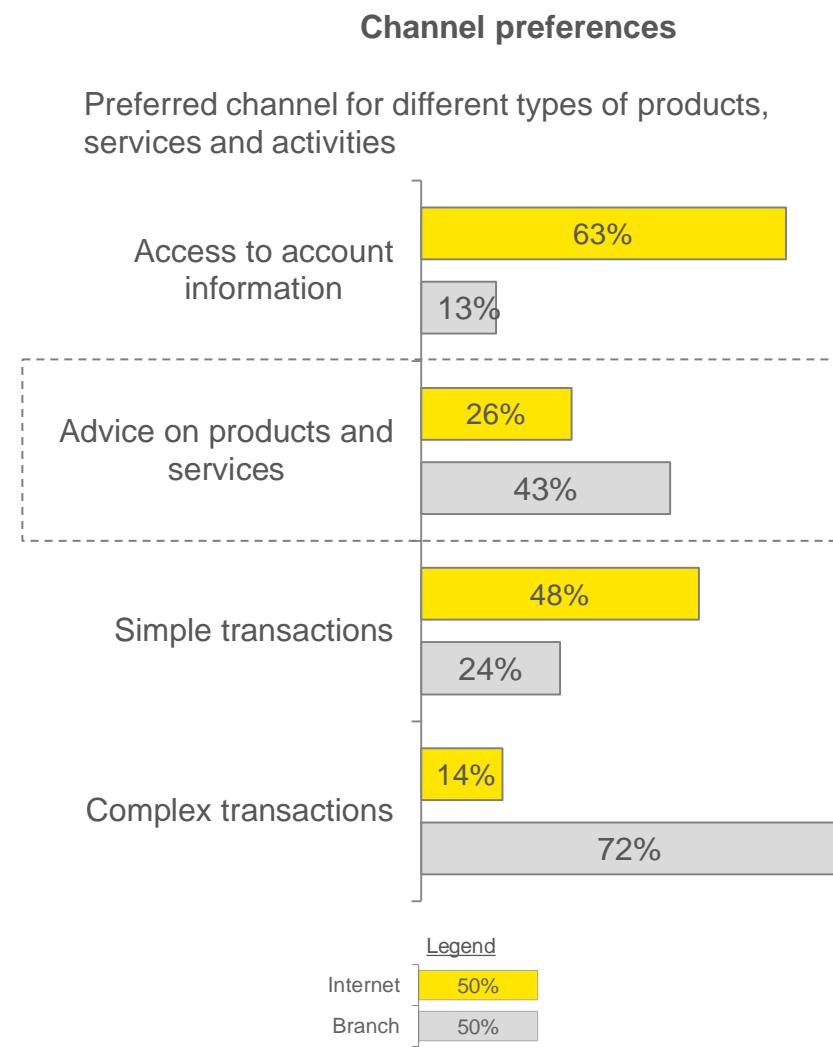
Customers want better value and improved service

Improvements that would increase customer satisfaction



- ▶ Not surprisingly, customers want lower costs and better service. The most important improvement, cited by 22%, is to improve fees and charges.
- ▶ Customers' second priority is to strengthen online and mobile banking
- ▶ But customers want much more than just a better deal...

They want the flexibility to shape the relationship, contacting their bank whenever and however they choose...

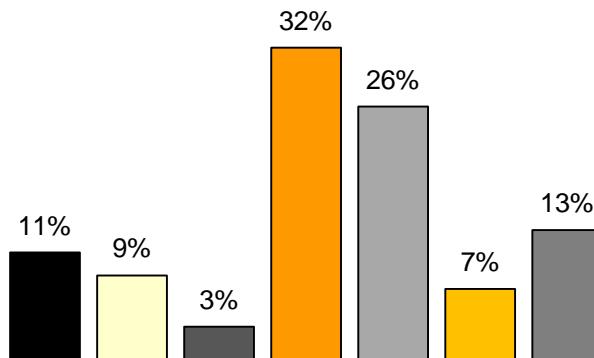


- ▶ Across all age groups, customers prefer online channels for simple transactions, but also demand high quality personal service for more complex transactions and advice.
- ▶ Interestingly, when seeking advice on banking products and services **people aged below 25 only marginally prefer using a branch instead of the internet (33% vs. 29%)**.
- ▶ **Banks need to let customers personalize their distribution choices, with different cost and accessibility options.**

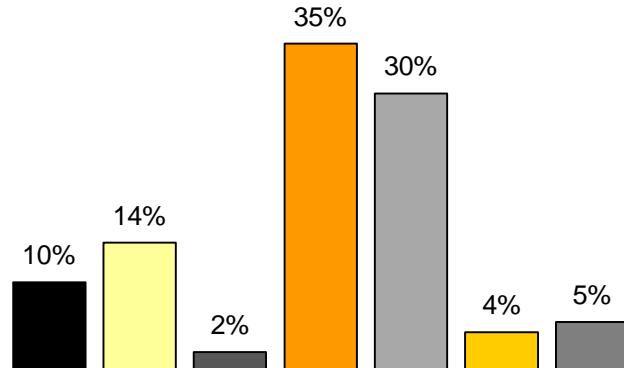
...and they want to be rewarded for their loyalty...

What do customers value the most from a loyalty program?

What customers are telling us:



What it means for banks:



- Gifts
- Airmiles / hotel points
- Price reductions on bank products and services
- Nothing, I don't pay any attention to loyalty/rewards programs in banks

- Premium services from the bank?
- Cash back on credit/ debit cards
- Price reductions for partnerships (cinema, retailer...)



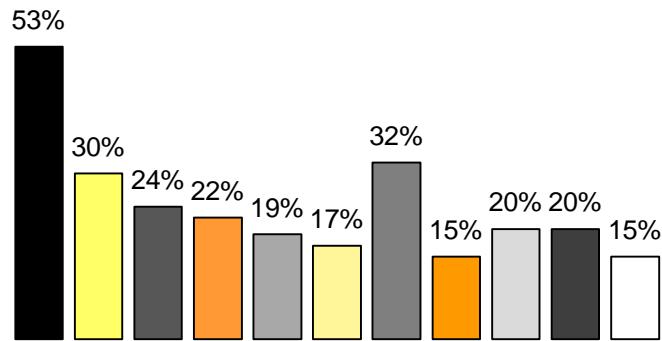
Bankers point of view

Banks agree on importance of financial reward for loyalty, but overestimate the premium service approach as a priority reward in emerging countries, while customers vote clearly for financial reward first, in all regions

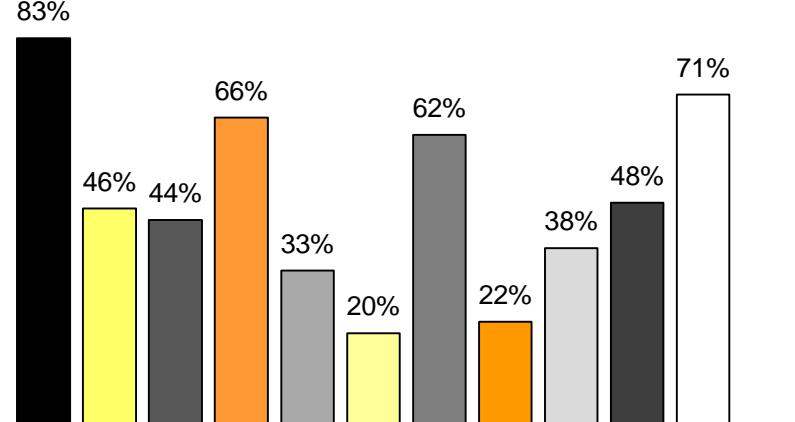
But first thing, banks need to get the basics right

What reasons would make customers change their banking provider?

What customers are telling us:



What it means for banks:



- High fees or charges
- A specific service failing
- Poor branch experience
- Poor Financial Advisor's competencies

- Poor rates on accounts
- Poor range of products and services
- Poor customer call centre experience
- Poor Brand image / reputation

- Lack of personalized contact / service
- Proximity of branches
- Poor internet / mobile banking experience



Bankers point of view

In the top 4 reasons, all agree on fees / charges and poor branch experience but bankers overvalue brand image / reputation and specific service failing where customers mention rates and personalized contact / service

Banks need to embrace the shifting balance of power

- ▶ Banks are competing for the business and loyalty of increasingly demanding customers.
- ▶ Different models are emerging to serve different customer needs. **Some are based on low cost competition, some on high touch service and some on accessibility.**
- ▶ Large full-service banks need to **defend market share** against specialist competitors focusing on particular products or customer segments, as well as new entrants in the payments space. At the same time, they need to retain the ability to **meet a broad range of customer needs**



- ▶ **For large retail banks, choosing where and how to compete is a complex challenge. They need to deliver the level of personalization and flexibility customers want, and develop differentiated products and services, while lowering costs and generating sustainable profitability.**
- ▶ **There is no simple solution**, but looking across the industry we identify nine key implications...

Give customers flexibility to choose

1

Make pricing and service promises transparent

- ▶ Pricing is critical to customer satisfaction, and customers want to be able to choose between different costs, service and levels of functionality.
- ▶ Transparency over pricing and service promises is vital if banks are to enable the customer's choice.
- ▶ It is also critical for banks to rebalance fee structures to achieve the clarity and sustainability demanded by regulators and investors.

2

Offer segmented levels of customer service

- ▶ Banks should offer customers a tiered choice of products, service and pricing.
- ▶ Customers should have the option to buy into certain products and services, and the ability to earn upgrades through loyalty, whether in terms of longevity, share of wallet or the value they generate.

3

Move from multi-channel to omni-channel distribution

- ▶ Customers care more about convenience than about channels.
- ▶ Banks need to look beyond multi-channel distribution towards a seamless omni-channel approach.
- ▶ Omni-channel marketing uses customer data gathered from branches, website visits, social media and elsewhere. Customers might purchase a product in a branch that they had researched or seen promoted via another channel.

Help customers to shape their experience

4

Encourage customer self-service

- ▶ To regain influence over customers' decisions and their own revenue streams, banks need to improve the way they provide information and advice.
- ▶ They need to interest and convince self-directed customers, encouraging self-service.
- ▶ Examples include financial planning tools, demonstrations of 'how people like you are investing' or ranges of product and pricing bundles.

5

Shift marketing from 'push' to 'pull'

- ▶ The growing importance of word of mouth and the waning power of direct selling have implications for banks' marketing, which needs to shift from 'push' to 'pull'.
- ▶ Banks should aim to recruit their satisfied customers as advocates and online affinity groups as marketers by letting them select and shape the marketing they receive.

6

Develop flexible loyalty programs

- ▶ Banks need to capitalize on customers' growing enrollment in loyalty programs
- ▶ Most customers want financial rewards. These are costly, but offer huge potential benefits in loyalty and advocacy.
- ▶ Banks should tailor programs for affinity groups, and let customers choose rewards depending on the size and share of wallet they give the bank.

Example of SmarterBank

SmarterBank is an online US bank targeting student communities. It has a loyalty program specifically designed to help customers repay their student loans. The 'SmarterBucks' rewards program uses rewards for debit card use to pay down student loan balances. Family members can also directly contribute loan payments.

Shape business models around customer needs

7

Make low-cost digital channels customers' preferred choice

- ▶ Banks should encourage customers to use digital channels whenever possible.
- ▶ Banks should understand which services customers want to handle through branches, and encourage – not force - other transactions to move to digital channels

8

Prioritize investment on critical customer interactions

- ▶ Customers identify a number of bank interactions as being particularly important.
- ▶ Banks focusing operational improvements on these areas will optimize the resulting impact on attrition, dormancy and loyalty. They will also achieve a benefit in terms of their costs to serve.
- ▶ Banks recognize the importance of operational investment, but they will need to carefully target their limited capital spending budgets for maximum effect on customer satisfaction

Based on research conducted in 2011, E&Y identified ten critical customer interactions:

- Changes to fees and charges structures
- Account switching
- Account opening or closing
- Life changing events
- Change of account details
- Complaint handling
- First time in collections
- Lost or stolen card
- Setting up a payment
- Buying a new product

9

Use innovative technology to deliver the retail bank of the future

- ▶ The use of cutting edge technology is vital to all of the other implications we identify.
- ▶ This includes breaking down silos, creating omni-channel distribution, developing innovative rewards for loyalty and giving customers the ability to personalize their products and services.
- ▶ Technology can also help to maintain intimacy as customers move towards digital banking and greater self-service. To achieve this, banks will need to partner with technology innovators.

In closing...

Banks need to embrace change by giving greater choice and control to their customers

Even if this may feel uncomfortable, in the long run, banks that give more power to their customers will gain more control over their own destinies

Thank you!