Providing a rich proposition

For many banks, the affluent sector has become more important than ever over the past 12 months. A shift towards retail funding and away from the traditional wholesale funding model has meant that many banks are increasingly looking for new ways to court their most lucrative customers, as **John Hill** reports

A recent report issued by European financial researcher Finalta and the European Financial Management and Marketing Association (EFMA), entitled *Affluent Segment in Europe – February 2010*, highlights many of the issues currently facing the premium banking market, including the erosion of consumer confidence and a significant shift in consumer strategy.

Strategically, the affluent segment is more vital than ever. For 76 percent of banks, this segment is more, or significantly more, important than 12 months ago.

According to the report, business priorities for the segment have changed. In 2008, increasing sales productivity was the top priority for European banks.

In 2009, customer satisfaction overtook it as affluent customer satisfaction fell by an average of 2.6 percent in Western Europe, wiping out two years worth of industry gains. The main causes of this fall were reputation damage, poor product performance and the quality of financial advice.

George Greer, head of consumer credit and charge products in Europe at MasterCard, thinks the definition of the affluent sector is changing.

"The premium segment is not just one indigenous segment – it is a huge diversity of segments. The affluent sector in the past has always been seen as being very one-dimensional, based on your affluence or your wealth," he says.

"There is certainly still a strong element of this, but affluence has come to be based a lot more on income as well as wealth – also from a card perspective, the potential to be a high transactor.

"If you base it on those two aspects – income and propensity to use the card – it actually changes the focus quite a bit. For example there are many people on high incomes who actually don't transact a great deal with their plastic.

"Conversely we can also find people who are on a middle income who put everything on their plastic. That's the basis of the affluent target segment for us, and it's because of this complication that sometimes the definition can cause confusion."

Despite challenges, opportunities remain

According to the EFMA/Finalta report, in 2009, affluent segment income fell by an average of 10 percent for European retail banks. A decrease in customer investment activity, thin or even negative margins on deposits and a slump in mortgage lending were the main contributors.

Despite this, Greer explains why the affluent segment is still an attractive proposition.

"The affluent segment consumers are usually high transactors and are less likely to default. They are a less risky proposition and essentially a flight to safety for many banks. So issuers at the moment are focusing on the affluent because they are safe," he says.

"There's also a huge opportunity within the affluent sector for banks to package and to cross-sell, which is something that has not been fully utilised to date. In fact, bank packages and financial services on the whole have left the affluent sector slightly underserved.

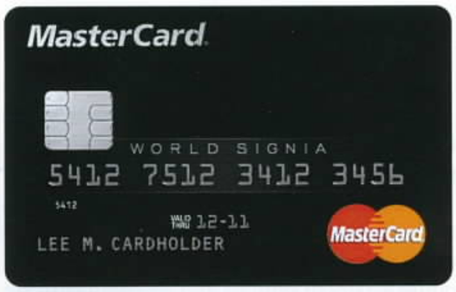
"When it comes to growth in the affluent sector, we are going through a temporary blip, so it really depends what timeline you take. On a medium-term timeline of five years, or a longer-term timeline of ten years, it is only going to go one way – and that is up.

"What we've seen up until recently is a 30-year to 40-year period of continuous prosperity in Europe and some huge fundamental changes in terms of the rise of the BRIC [Brazil, Russia, India, China] economies, as well as the rise of Asia as a whole. That again can only be good for the affluent segment because they are best-placed to benefit from globalisation and the emerging wealth in the emerging markets."

Statistics by EFMA show that to reduce costs, banks are re-examining their portfolios and cutting out some accountholders. On average, 30 percent of affluent customers do not meet their banks' qualifying criteria.

To better align distribution costs with customer income, banks are therefore implementing much stricter processes to downgrade non-qualifying customers to the mass market segment.

Despite this, Greer explains how one of the greatest opportunities for the affluent



MasterCard's affluent premium card

card segment is the promotion of standard cardholders into premium schemes.

"We see a huge opportunity when we have standard cardholders who are high spenders to promote them into premium schemes. I think that these are the so-called low hanging fruit within the affluent sector," he says.

"On the other hand, if you don't have a spend history, then the next task is identifying potential high earners who don't have a premium card. Surprisingly, the majority of high earners only have a standard card. In recent research, and this of course varies by market, we have seen that 60 percent of the premium target segment do not have a premium card product.

"So there is a huge segment of the premium population who, for one reason or another, have not been attracted by a premium product. It is these cardholders that present one of the biggest opportunities for affluent cards in Europe."

Redefining customer engagement

In part to address costs, but also to offer a distinct proposition for certain customers, remote relationship managers are increasingly common. Some 26 percent of Western European banks had such a model in place in 2009 with a further 13 percent in development.

When integrated with internet and mobile propositions, such an approach can deliver a compelling proposition for the 15 percent to 20 percent of affluent customers who rarely visit the branch. Although less widely used, Central and Eastern European banks are also starting to look at non-branch-based relationship models.

While there is the possibility of moving the banking relationship out of the branch completely, Greer thinks one of the more important issues concerning the market is how some segments are currently underserved, including over-50s and women.

"Women in general are underserved in the premium space, yet they make many of the choices and decisions in affluent households on expenditures. This is not just in terms of everyday living costs, but also items like travel, holidays, renovations and so on. The problem is they just don't have many product propositions that are targeted specifically at them," Greer told *CI*.

"As well as women, there is a massive opportunity for the 50-plus segment. We are now seeing demographics whereby people over 50 are living longer, they are healthier, they are wealthier, they are adopting the internet, embracing technology and they want to start to use the time between retirement and old age constructively and purposefully. The 50-plus segment is emerging as a huge opportunity."

As 2010 unfolds, the greatest challenge for affluent segment heads is meeting short-term revenue needs while maintaining a long-term focus on segment development.

The global economic crisis arrived just as many banks were implementing longer-term strategies for the affluent segment, for example shifting from upfront fees to more sustainable, recurring revenue models. The urgent need for revenues threatens to unwind some of the progress made.

For a long time the American Express model, involving a small number of well-defined premium card types, has been the norm. With the increasing availability of vast amounts of consumer information, Greer thinks there are enormous opportunities around the possibility of tailoring programmes to specific customers.

Evolution of the affluent sector

"Looking purely at a bank balance is actually too simplistic in today's society," Greer says. "From what we've seen and research we've done, if you have a basic gold or platinum card of whatever type, it simply says how much money you have in the bank – it is just an extension of your bank balance.

"Conversely, from what we have heard from our research, many customers were saying they would rather have a product that speaks to their passion in life, and caters to their interests – something that is specific to them, and that is what traditional premium products have not done.

"You can take most standard premium products and you know what is going to be on there. It is going to be travel insurance, some medical insurance, concierge services, priority passes or lounge access and possibly a rewards programme as well. Given the size of the premium segment, and its huge diversity – after all it is basically a microcosm of society in general – the segment cannot be being fully served."

George Greer, head of consumer credit and charge products at MasterCard

Greer continued: "What this means is that there are severe limitations in the choices available to the affluent segment, and that they are just not being served with the products that meet their specific needs.

"One of the reasons why we have such a high degree of affluent consumers that don't actually carry an affluent product is because the affluent product has been, for such a long time, a one-size-fits-all proposition – and the affluent segment is not a uniform one by any means. In fact it is one of the most literate, intelligent, savvy segments in existence. It's the most difficult segment to service from a product proposition perspective and I think the opportunity is to find product propositions that meet the specific needs of the whole affluent segment."

Prepaid cards seem to be the current hot proposition all across the geographical cards market and the affluent sector is no exception. Greer thinks that the possibilities for gaining the loyalty of new customers while they are still children is huge.

"I think we are starting to touch upon it. Affluent extends beyond credit and charge, it extends to debit and prepaid. How we are starting to see the inclusion of prepaid is that if a bank has affluent products, consumer credit or charge products and they have a relationship with an affluent consumer who has that product, it makes sense that if that consumer had a family, the ability to offer prepaid products to the children of affluent consumers is where there is a natural synergy in the affluent space," Greer told *CI*.

"But that's only because this is an emerging segment and we are only now starting to look at where prepaid will really come into its own and where the optimisation is. The initial area I see is that it's a prepaid card for the children, so that wherever the children are, that is their allowance.

"There are several benefits to giving prepaid cards to the children of affluent families. For the actual children themselves, it helps them to understand how to manage money and plastic in a very controlled fashion. Secondly, it gives the child a sort of safety line in case anything happens to them, For the bank, it gives them a chance to introduce their brand to the next generation of affluent consumers, so it's a very early engagement, but a positive one."