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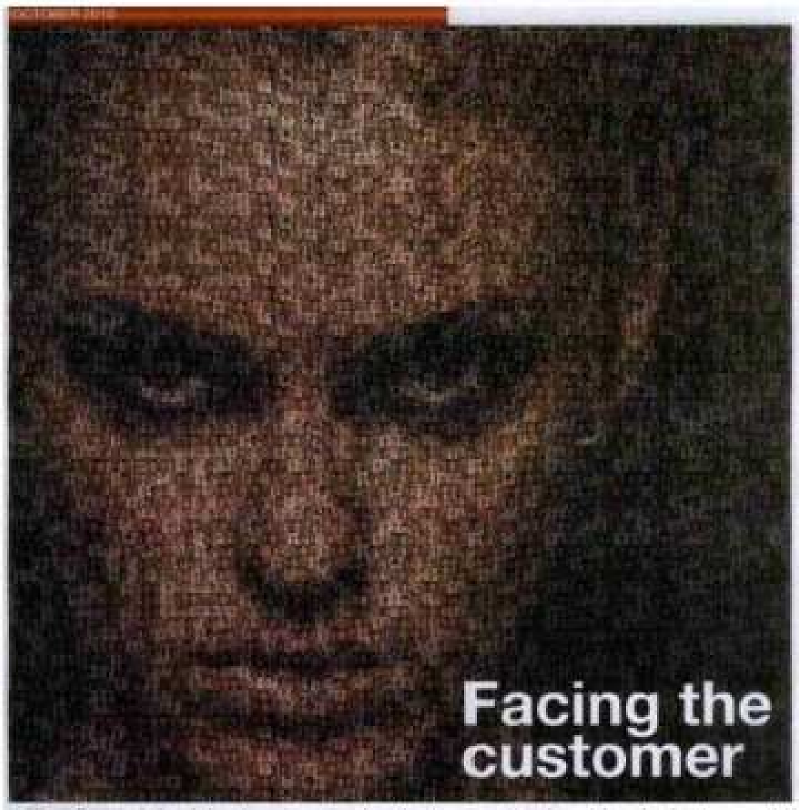

Facing the customer

The financial crisis drove a wedge between the banking industry and the consumer. **David Bannister** examines what, if anything, can be done to restore customer confidence.

Banks and their customers have never really seen eye-to-eye, but the financial crisis and subsequent economic slump have increased customer antipathy towards banks to unprecedented levels.

So much so, in fact, that researchers studying the sector found that there was no longer a correlation between service levels and customer satisfaction – the customers are just dissatisfied, no matter what service you give them.

Christine Johnston, director of Finalta and author of the sixth annual Customer Service in Europe Report for the European Financial Markets Association, says, "the link between satisfaction and service delivery got broken". The latest EFMA report, published just last month, therefore had to update the set of customer service metrics tracked in the series since 2005, reflecting changes in performance over the last year.

The UK Financial Ombudsman Service's recently released complaints data relating to individual financial businesses shows a total of 84,212 new complaints in the first half of this year– a small increase on the 82,136 cases received in the second half of 2009.

More important, however, is the way that some institutions have incorporated service.

"The latest set of complaints data shows that some businesses are really committed to ensuring that complaints are handled well, and are used to inform and improve the service they offer their customers," said Natalie Ceeney, chief executive and chief ombudsman. "However, the complaints data also shows there is still more that some businesses need to do to ensure that complaints are properly investigated and fairly resolved. The ombudsman is keen to continue to play its part and help businesses draw lessons from the complaints that we see, so disputes can be sorted out at the earliest opportunity."

The UK and European markets are not alone in seeing this level of customer disaffection: earlier this year in the US the biannual BAI & Finacle Index of Bank Consumer Sentiment reports a growing divide between the way bankers and consumers view the banking industry. The biannual index, sponsored by NewGround, surveyed bankers and a representative sample of 2,501 customers about the economy; bank fees; innovation; managing finances; and, trust in financial institutions.

The baseline for consumer sentiment was established with a score of 100, and at that time, the industry opinion of how consumers felt about banks overall reflected a slightly more optimistic outlook, coming in 26 points higher than the consumer baseline at 126. Now, the latest edition of the index shows bankers' opinions of consumer sentiment improving, rising to 137, an indication that bankers believe consumers are feeling even better about banks than they were six months ago. However, during the same time period, the consumer sentiment index, which is a measure of how the bank customers actually feel, has moved in the opposite direction, dropping 19 points and widening the previous gap that existed last August by more than 50%.

"Our latest research indicates that consumer sentiment toward the banking industry as a whole has declined in the past six months. In this same time period, many banks have experienced strengthened customer loyalty with their own customer base, as measured by improving customer satisfaction and engagement metrics. But, when you look at sentiment toward the industry as a whole, the gap between what consumers and bank executives think has widened considerably," said Debbie Bianucci, president and chief executive of BAI.

"As the industry comes to terms with the differences between what executives believe, and consumer attitudes, there are positive indicators that may provide clues that will help rebuild declining consumer sentiment toward banks. While customer loyalty for large national and regional banks dropped from August 2009 to February 2010, other industry sectors saw loyalty scores remain steady, or increase during the same time period. Understanding why these differences in specific banking experience are occurring, and the types of customers that are being positively impacted, can provide valuable insights on what will drive increased trust and confidence in banks".

In August 2009, 52% of customers said their bank was "okay" at providing quality mobile banking. That number dropped to 48% in February 2010. Regional banks fared the worst in this regard with a rating of only 42%, followed by large banks at 43%. Credit unions achieved a 59% approval rating from customers for quality mobile banking.

"In the research, bankers tell us that they are making innovations aimed at making customer experience a priority, which is where customers say they want improvement," explains Haragopal Mangipudi, global head, Finacle, Infosys Technologies. "This latest feedback also shows that in cases where a bank has maintained or increased its investment in innovation during the last six months, its performance – in every aspect, from acquiring customers to extending credit – has improved. Overall, there are very strong indicators that investments in innovation will be critical to lead the industry back to a level of high consumer trust and confidence".

Gareth Jones, retail business development director at Temenos, says that the links between customer satisfaction, loyalty and profitability are also not well understood. "Certainly, most people would intuitively imply a connection, yet it has also been found to be true that some 'loyal' customers are unprofitable – marketers sometimes call these individuals 'limpets' or 'leeches – some dissatisfied customers remain incredibly loyal, yet others leave instantly. Moreover, some studies indicate that as many as 85% of leaving customers had indicated they were 'satisfied'," he says.

Jones believes that despite these challenges, a customer-centric organisation needs to first establish and model what it believes are key loyalty, satisfaction and profitability determinants for its target customers. "Only with this can you start to compose a series of propositions around these. Most institutions today have forums and mechanisms to poll and talk with customers – start here, but bear in mind that they may require significant additional investment to actually work," he says.

Equally important is a comprehensive current customer profitability analysis. "This offers an 'overlay' to a segmentation approach that helps institutions better understand how to best serve all customers," says Jones. "Current unprofitable customers, who may be as many as 25% of a retail bank's client base, can be steered towards a more appropriate, yet mutually beneficial offering. It's worth stressing the robustness of profitability model needed – if the transfer pricing and cost allocation is incomplete, the result of managing customers out may have a shocking outcome when the full impact of cost cover is established."

The EFMA/Finalta report identifies three critical areas of service management in 2010: improving customer experience through process design and management; enhancing branch staff service capabilities and reviewing service measurement objectives and techniques.

Finalta's Johnston says that banks should look at these priorities and "start with the ones that have the highest emotional impact". For customers, she says, there are moments of truth as they go through a process or transaction with a bank, and fixing issues at those points can be one of the easiest ways to improve service levels. "Very often there are very small tweaks that can be made that will have big results," she says.

The most important of the moments of truth identified by the Finalta research were reporting complaints, meeting relationship managers and opening a current or checking account.

It is perhaps a good sign that it is in these basic areas that the industry is looking to focus on improving service levels – at least it matches what the consumer end of the equation seems to be most irate about.

In the UK, The Future of Banking Commission, set up by government to review the industry post-crisis sought to hear the views and stories of as many consumers as possible, to help shape the conclusions of this report. In response, the consumer group Which? launched its "Big Banking Debate", which saw 300 people gather in central London discuss the future of the banking industry. Interviews were also conducted and, while consumers were encouraged to leave their views on the Commission's website.