INDUSTRY OUTLOOK REPORT | Q2 2021

BANKINGDIVE

Three Cornerstones of a Better Customer Experience in Banking:

The Only Path to Success in the Digital Age

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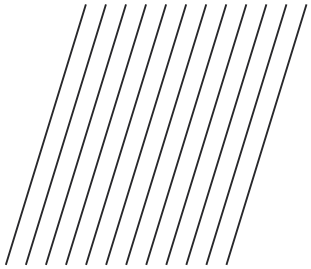
Executive Summary

Identifying your customers, understanding their needs and behaviors, and rewarding them for their relationship with you — this is the foundation of a good customer experience in banking.

And in a financial landscape where customers are increasingly drawn to banks that offer an exceptional experience over all else, banks that go all in on customer experience can improve satisfaction and retention, expand relationships, and positively affect the bottom line.

But today, as banking customers of all demographics shift into the digital age, the only way to meet the requirements of that foundation is to leverage data and analytics and create the most engaging, personalized and seamless experience possible — something that doesn't always come naturally to a traditional industry wrestling with the way things have always been done.

In this Industry Outlook Report, we'll explore three trends that form the backbone of an engaging customer experience in banking and what it takes to deliver on them:



Digital access that delivers a consistent, unrestricted experience for the customer no matter what channel they choose to use.

Personalization that goes beyond the surface to understand the customer and customize their experience.

Frictionless experiences that remove obstacles throughout the customer journey and provide the highest quality of convenience and service.

Introduction

"Business as usual" has long been the motto of the banking world, and so far the strategy has delivered: Over the past decade, profitability has doubled for some of the largest banks in the U.S.[1]

But change has come. The advancement and adoption of consumer technology among banking customers are incredible, to the extent that banking customers expect banks to interact more like technology brands;[2] and the sudden acceleration of the adoption of that technology because of COVID-19 has pushed customers of all demographics out of the branches[3] and onto their smartphones.[4]

For the first time in the history of financial services, banks are presented with the opportunity to make a real digital transformation — led by the customer.

"Banks are on a mad dash to meet the needs of new, next-gen customers," said Rina Pandalai, strategy and transformation partner in financial services at Publicis Sapient. "To some degree, they've invested in building in-house capabilities, but they're now moving to mass scale in terms of data, data assets and higher orders of personalization — and that requires a total overhaul of customer data and data assets beyond marketing and communications."

Of course, if it were easy to shift to meet these demands, financial institutions would do so immediately. But many obstacles stand in the way, some with deeper roots than others.

For example, considering the long history of many financial institutions, digital transformation can sometimes be seen as a threat to a bank's existing business model and community-focused mission.[5] Other institutions, reassured by good performance on past- and present-facing metrics, feel no real urgency to change. And even for those that recognize the shift taking place, it can be difficult to secure the right tech talent[6] or approach the transformation in a holistic way.

What must banks overcome to transform the customer experience?

Evolve traditional business models

Sometimes digital transformation can be viewed as a threat to the financial institution's existing business model and mission.

Compete for high-tech talent

In-demand tech talent is often attracted to the technology space over the more traditional banking space.

Avoid project-based transformation

Financial institutions frequently approach digital transformation as a project rather than a process of becoming digital to the core.

Monitor the right metrics

Continued success as measured by traditional past- and present-facing KPIs can camouflage the need for change.

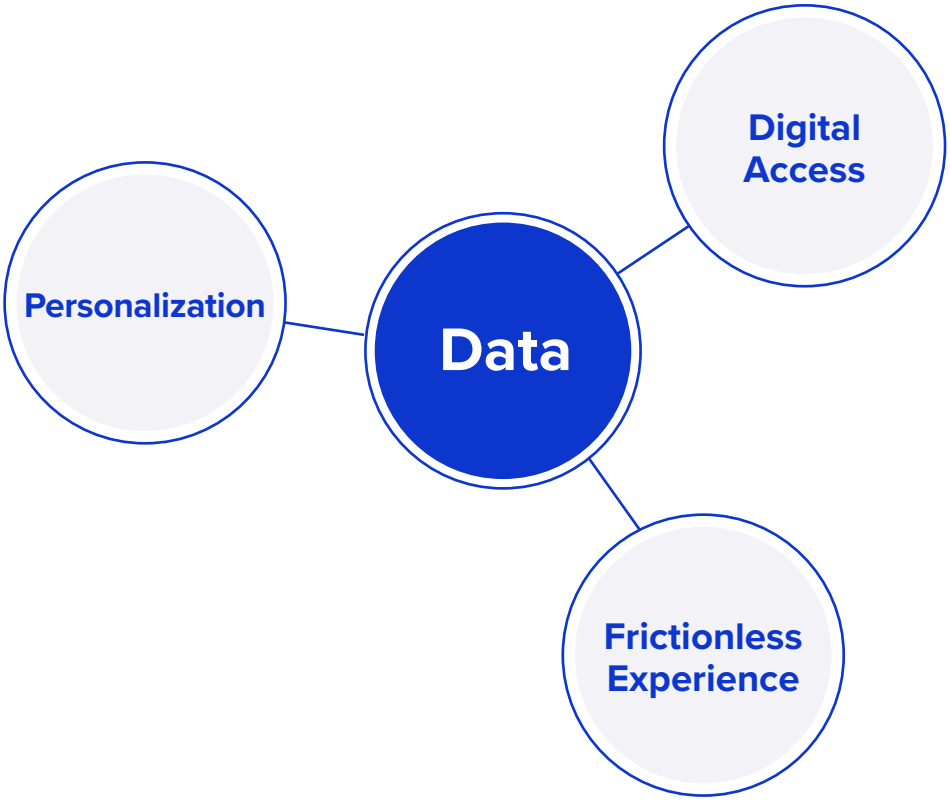
It's important that banks not give in to these obstacles as immovable. As customer experience continues to separate the rising stars from the fading giants,[7] banks that lean heavily into data and analytics will meet the needs of the consumer at every point of their journey despite these challenges and be able to...

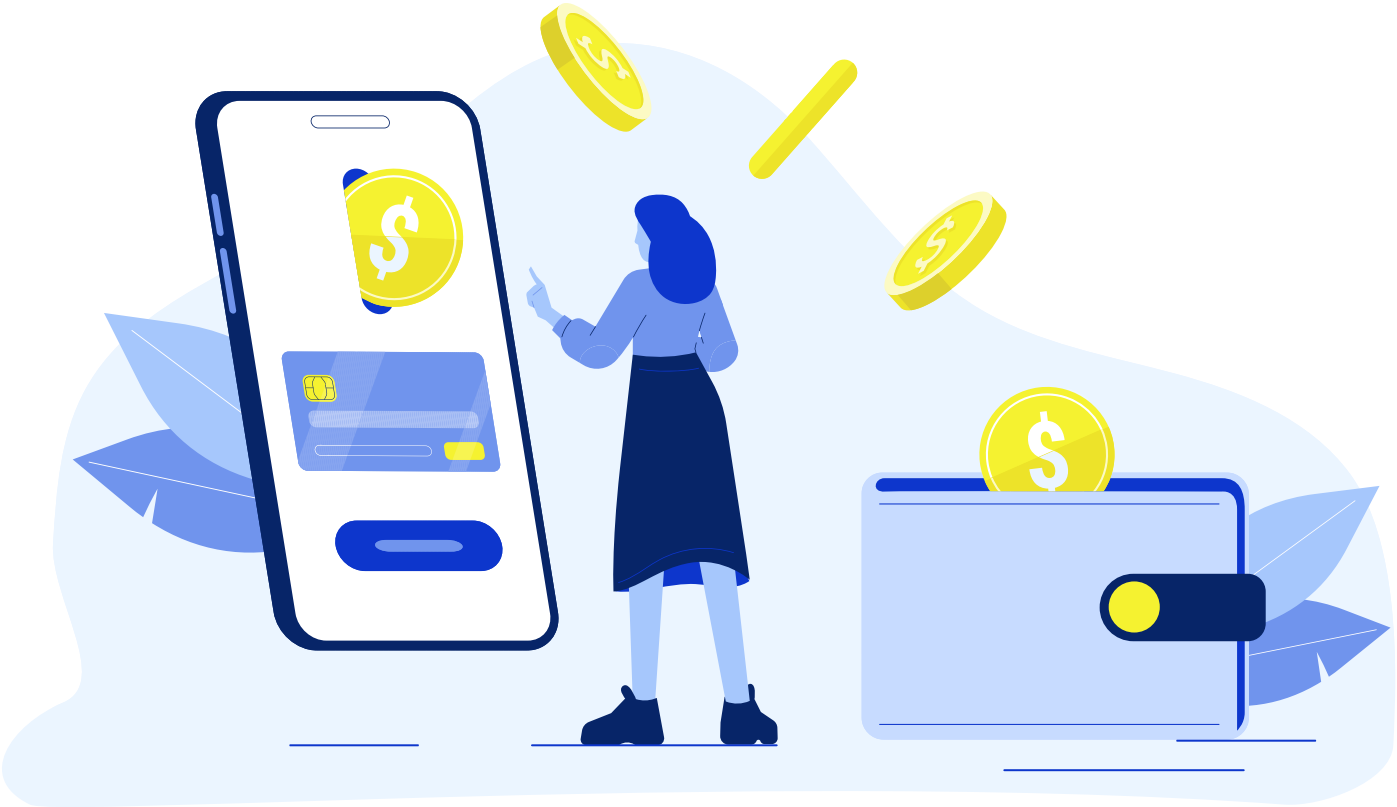
- Earn new business through compelling digital account opening and onboarding.
- Expand the relationship with the customer through personalized additional products and services.
- Win loyalty and retention by delivering those experiences as seamlessly as possible.

As Aaron Byrne, U.S. financial services and strategy and transactions principal at Ernst & Young, wrote, "Complacency will breed failure in this new environment. Banks of all sizes and scale (community, regional, national, global) must not get caught 'flat-footed' as the pace of change gains momentum and causes greater disruption."[8]

Here are the requirements for achieving each of these important outcomes of success:

Data at the heart of the customer experience in banking



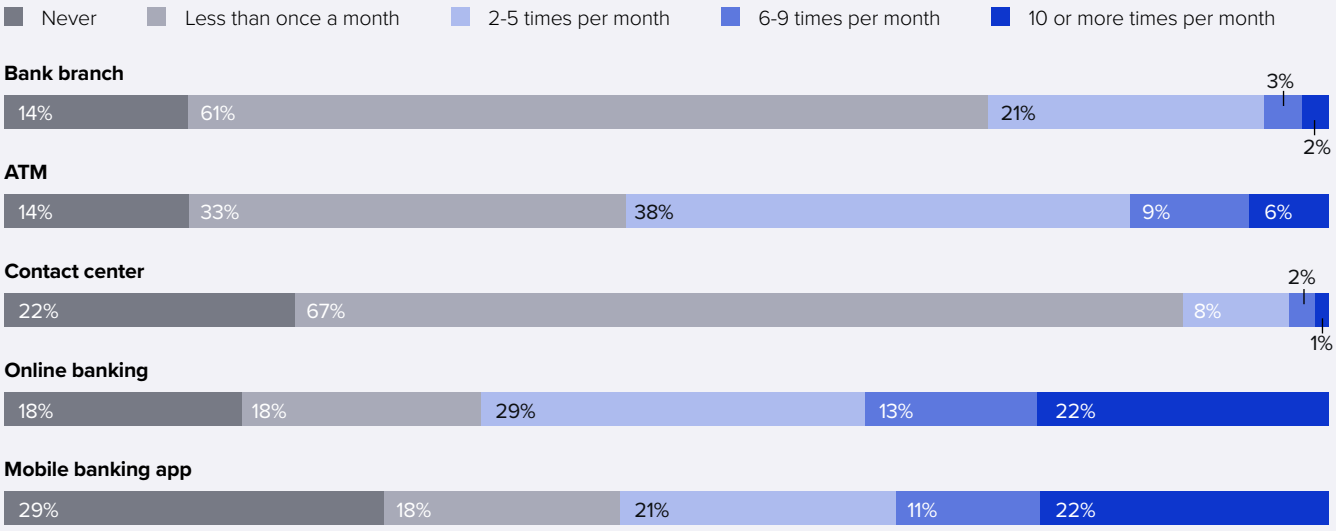


Customer Experience Success Built On... Digital Access

Research from Deloitte indicates that banking customers increasingly use digital channels more than traditional channels.[9] For example, while slightly more total customers use branches and ATMs than digital channels, digital channels as a whole are used more frequently than branches and ATMs across all generations, and in all countries. This is one example of why high-tech fintech companies such as Self Financial expect bank branches to be extinct by 2034.[10]

It's tempting to idealize the simpler days, when the full range of the customer experience took place in the branch and on the phone. Today, when customers access banking services through multiple digital channels, the number of touch points that make up the customer experience almost feels out of control. But banks need to reframe this transition not as a proliferation of channels but as a completely self-directed experience on behalf of the customer.

Customer experience happens across channels



Note: Percentages may not total 100% due to rounding.

Source: Deloitte.

"Digital access does not represent an option or a channel — from your customer's perspective, it is the how of communicating with your bank," said Vincent Bezemer, senior vice president Americas at Backbase. "Your member selects how they want to engage with you, and from their perspective, it is completely omnichannel. Everything needs to be completely available, to the same degree, so that your customer can engage the way they want to engage without missing out on something."

We can also see the roots of the self-direction imperative in the shifting demographics of banking customers.

Darshan Dave, consultant and executive leader in the financial services customer experience space, noted that as younger generations such as Gen X and millennials mature and reach new phases of life, their needs change, too. They're no longer students or just entering the workforce, and they bring their preferences for the digital experience along with them as they explore new products and services to support their lifestyles.

Considering that, according to the Pew Research Center, the Gen X and younger populations now make up more than 73% of the workforce,[11] it's an important nuance to consider.

"Banks used to be the source of all transactions, like insurance, mortgages or business transactions, but now there are startups and fintech companies that offer these specialized, niche services, and they're offering them in a way that is fast and appealing for younger demographics," Dave said. "Traditional financial services institutions have had to shift dramatically to compete with the expansion of the fintech world and the resulting changes to customer expectations."

The ultimate goal is for a customer to experience consistent brand messaging, engaging customer service and seamless access to information, regardless of the method of engagement that is most convenient to them at the time. While a bank's traditional metrics might indicate performance is fine — number of branches, steady deposits, etc. — it's rarely possible to see disruption coming. Digital access is a primary candidate for that disruption if banks don't take action now.

Here are a few of the most critical best practices banks must embrace to meet today's standards for digital access:

Consistent brand elements

Uniform branding across visual, text and customer service scripts ensures customers have a consistent experience, which builds trust the more they interact with a banking brand.

State-of-the-art digital infrastructure

Advanced digital infrastructure supports an app- and page-load speed that makes it easy for customers to get what they need on the schedule they need it.

Centralized customer data

Empowered customer support teams have access to centralized customer data so as to provide the best possible service, regardless of which channel a customer decides to use.

Personalized product recommendations

Product recommendations based on customer data, customer behavior and relevant times of the year, such as tax season, provide a more engaging customer experience.

Advanced security and fraud prevention

Collect, store and analyze personal financial data using the highest possible standards to build trust with your customers.

Customer Experience Success From... Personalization

The Amazon Effect is a well-documented phenomenon in which customers come to expect highly advanced technological experiences from every brand they interact with based on the most technologically advanced experiences they have.[12] In the banking space, this plays out in what researchers at Deloitte call high expectations for hyperpersonalization of services and recommendations based on existing customer data.[13]

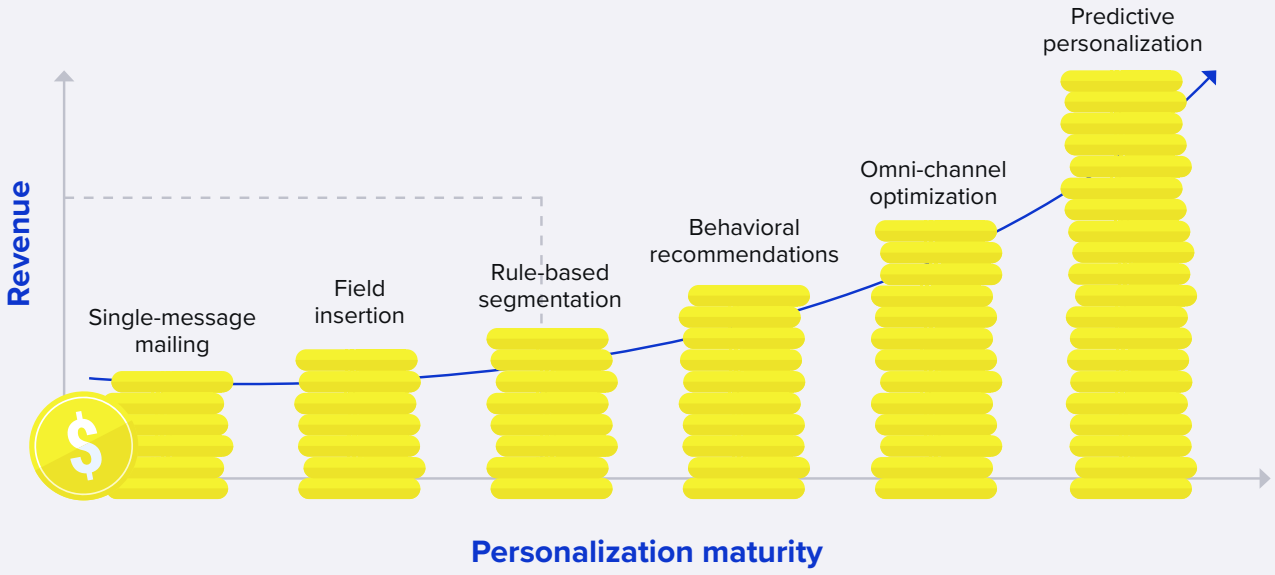
Personalization throughout the customer experience in banking continues to rise in importance because of its effect on a bank's financial success.

First, there's a contribution to the bottom line, with data from McKinsey & Company indicating that a firm's revenue tends to increase after achieving a certain level of personalization and hyperpersonalization,[14] and Boston Consulting Group estimating that a bank can achieve as much as $300 million in revenue for

every $100 billion in assets it has by personalizing its customer interactions.[15] Then there's the direct effect on customer satisfaction and loyalty, where digital leaders in banking report as much as 44% more growth than less digitally mature banks.[16]

From the customer's perspective, the connection between personalization and loyalty and engagement is clear. If a bank has years of data about my behavior and investments, if they care about me, they'll use that data to serve me the most relevant suggestions to make the most of my time. Customers know banks have the capability because they've experienced it with other brands. So if banks don't use it, it communicates a lack of interest or thoughtfulness in maintaining a customer's business.

Journey to hyperpersonalization



Source: Deloitte.

"We see definitively that more customers expect a heightened, curated personalization than ever before," Pandalai said. "And it's no longer just about a personalized experience within a mobile banking app. The expectation is that their experience will be a lot more connected to other adjacent life experiences, whether that's intersecting financial services with health expenses, retail shopping or life experiences."

Unfortunately, even for the banks adopting basic personalized automations, the effects are only skin deep. Investing in the look and function of digital channels as far as messaging, imagery and user experience is common, but the moment a customer logs in, they can't expect much beyond a greeting by name and access to their data.

The pursuit of personalization and hyperpersonalization is critical for banks that want to differentiate: "Personalization is not about showing an avatar or greeting a customer upon login," Bezemer said. "It's about customizing the product set a customer is likely to consume when they log in. This is complex, as banks must navigate relevant regulations and restrictions, but the payoff is enormous when banks are no longer pushing cookie-cutter products toward customers who are obviously not interested."

Here are a few of the most relevant opportunities for personalization in banking today:

Least Advanced ⟵ ⟶ **Most Advanced**

1

Automated Language

Basic personalization, such as greeting customers by name and allowing customers to customize details of their login experience.

2

Traditional Segmentation and Segment of One

Traditional customer segmentation by age, product, demographic, etc., is a good place to start, leading to a segment of one personalization where recommendations are tailored to the characteristics and settings of individual customers.

3

Real-Time Personalization

Personalization that uses real-time customer data and historical data to make recommendations for active customers.

4

Prescriptive Personalization

Personalization that uses advanced technology to anticipate and predict customer needs and provide solutions.

5

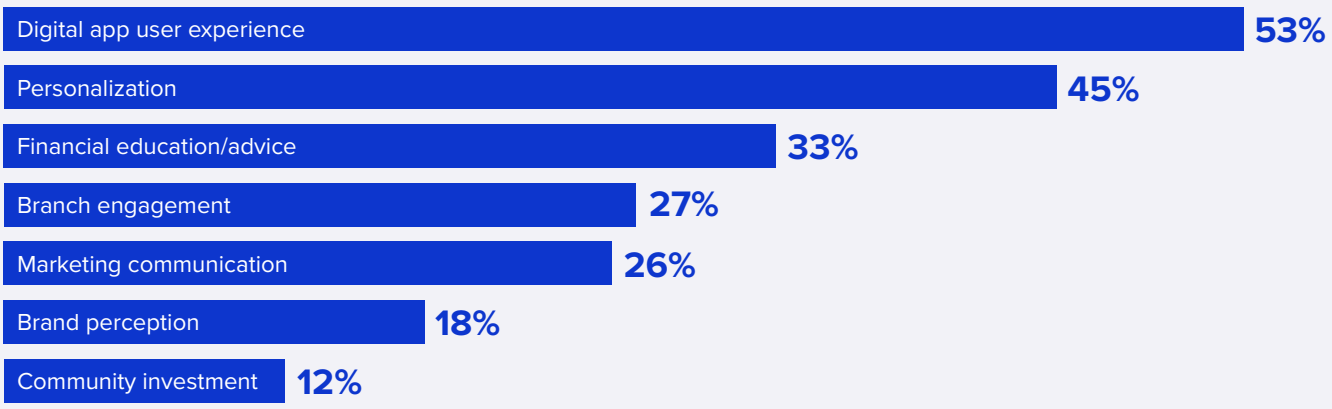
Machine Learning and Artificial Intelligence

Programming personalization with machine learning and artificial intelligence allows banks to create a system that becomes more advanced over time.

Customer Experience Success From... Seamless Customer Journey

According to Deloitte, 80% of customers prioritize improved technical and functional use, such as an accessible app and an easy-to-use website when opening a new bank account.[17] That explains why so many banking executives think the initiatives that will have the most positive effect on customer experience in 2021 are digital app user experience (53%) and personalization (45%).

What will have the most positive impact on client experience in 2021?



Source: The Financial Brand.

This data also reinforces that consumer choice in banking often comes down to convenience and service. A bank's ability to remove friction along all points of the customer journey is what makes it easy for a customer to stay — an increasingly important step in an environment where digital-centric consumers are significantly less likely than branch-dependent consumers to say they will definitely stay with their primary bank for their next financial services product purchase.[18]

"It's the little details, like my existing bank sending me a promotion only for new customers," Dave said. "And then you find that marketing has no correlation with the customer service team or the administrators of different financial departments. These moments of disconnect, where you must repeat yourself and be passed around the different silos within a financial institution, create frustration."

Dave pointed out that removing friction from the customer journey is an important way to retain existing customers. Customer loyalty is critical because investing in customer retention is less expensive than acquiring new customers[19] and because, according to research from Bain & Company, companies that rank at the top of their industries in loyalty for three or more years increase revenue more than twice as fast as their industry peers.[20]

"Customers today don't think twice about switching banks for one with a better experience because the cost of switching today is very low — there's always another bank or fintech provider ready to win their business," Dave explained. "It can take as little as one point of friction to impact customer perception and get them in the mind to look around for another option."

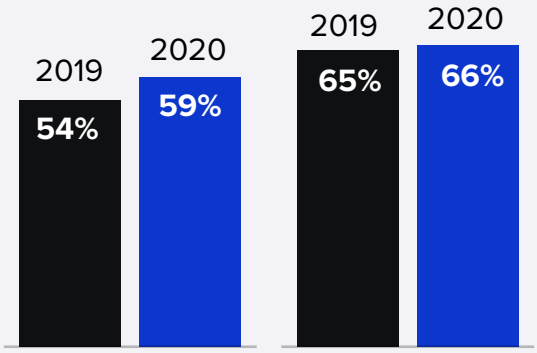
Making real progress on a frictionless customer journey, however, is rarely as simple as mapping out the customer journey and identifying points of friction to remove, and the majority of customers don't feel their financial institutions are presenting that omnichannel experience.[21] The most intuitive and loyalty-building experiences must rebuild the customer journey from the customer's perspective start to finish.

"Ultimately, this is an organizational reframe that operates from a customer-centered view, not a bank-centered view," Pandalai said. "A customer journey that takes its lead from how customers engage with the bank leads to true transformation and inspires relevant changes along everything that touches the customer journey, such as product development, communication, and any service related issues."

Pandalai continued: "This is where it becomes clear that digital transformation in banking is not about technology exclusively, that technology is only a piece of the puzzle. In reality, it's much more about creating permanent changes in how a bank thinks about value and its customers. It starts with strategy and ripples out into the day-to-day operations of the institution, finally arriving at the technology we choose to deliver this transformation."

Companies lack consistent view of consumer across organization

Customers who agree with the following statements:



Source: Salesforce/ The Financial Brand.

Reshaping Banks Around the Customer Experience

The foundation of a good customer experience in banking is **knowing your customers**, **understanding their needs and behaviors**, and then **rewarding them for their relationship with you** with the financial guidance and recommendations they need based on real-time scenarios.

But there's a tough question banks must ask themselves before they can make progress in this area: Is it possible to do this when often different departmental silos own those customer journeys?

The path forward requires traditional financial institutions to relentlessly reshape their organization around delivering that cohesive, frictionless customer experience. It's not something that can be done when the customer experience is shared across marketing, support, IT and more. But with the right vendors and partners, you can identify the overall strategy, divide it into smaller parts and slowly build up a holistic program that doesn't just fix retail banking but transforms retail banking into digital banking.

Conclusion

Loyalty as a two-way street

For as much as service has always been a priority for bankers, the origins of banking revolve around meeting the needs of the bank, not the customer. Today, banks must replace their loyalty to the way things have always been done with loyalty to the customer — and the customer's habits and preferences are changing. As traditional banks react to changes in technology, consumer habits and upstart competition, data and automation will play an increasingly important role in delivering the experience customers expect. The financial institutions that master that shift — or at least lay a strong groundwork for it — will have the structures, automation and outcomes individuals need to remain loyal and active customers.

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