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What sort of service do customers want from their bank?

Executive Summary

Retail banks are under the spotlight as never before. Given their current role as the public's favourite object of hate, it is no surprise that a mammoth 62% of the 3,388 Santander customers who voted in Money Saving Experts August 2010 customer service poll, (which attracted 17,675 respondents) rated its service as 'poor'. Halifax / Bank of Scotland (HBOS) had 48% of its customers rate their experience as 'poor'. Almost half of the 2,044 HBOS customers surveyed also describe service as 'poor'. Some 41% of Barclays' customers think the same about their bank, as do 41% of Lloyds TSB account holders.

It is not all bad however, 75% of Co-op customers and 85% of First Direct customers described their customer service as 'great', so not all banks are equal and the problems are not insurmountable. Cutting costs whilst transforming customer service in retail banking is both essential and possible.

In 2011 it is clear banks are trying to redress the balance. NatWest is promoting customer service improvements such as their lost card service; Lloyds Bank has been running 'for the journey' advertising since 2007 promoting a friendly image; and Santander's advertising talks about 'building a better bank for you and we believe we must deliver not simply promise'. This all sounds good, but is this really supported by any significant differences in the services or customer experience? The reality is that however worthy the intention might be, at grass roots level it appears the message is not getting through. The highly publicised staff reductions across all the major banks may be judicious in the drive to improve efficiency and profitability. Antonio Horta-Osario, shortly after he was appointed the Chief Executive of Lloyds Banking Group, was reportedly obsessed about reducing costs, looking for a further £1 billion to be cut from the bank's current £11 billion overheads. He quoted: "This is likely to lead to a further 15,000 job losses in addition to the 28,000 posts that have been wiped out in the past two years".

This is damaging however, if the customer:

- Sees a reduced number of tellers on duty serving customers, even at peak times, when there is an increased use of self service in branches
- Experiences an increasingly distant and vanilla service
- Has a relationship with the bank that is more likely to be strongest with a gap-year student in a customer call centre than it is with the local bank branch or bank manager.

Start by thinking like a bank customer not a bank

The first thing to understand is that customers are unhappy and unreasonable because they feel they are not getting the value or service they desire. Banks will therefore have to change their service and behaviours before customers will change their attitudes.

Re-establishing customer trust must be the first step. Concentrate on doing everyday things really well. One of the principal roles of a bank is to lend money based on a fair assessment of the risk and a mutually agreed rate of return. When things do go wrong demonstrate genuine remorse, make it easy for customers to remonstrate, and provide a comprehensive and rapid solution so that the problem does not re-occur. This is not the case, at the moment, for many bank customers.

An Illustration:

A simple loan enquiry to a dedicated service line from one of the major banks involved a 10 minute wait for the call to be answered, conversations with four different call centre staff who all asked the same questions resulting in a loan rate of 8.5% APR over three years. The local Fiat dealer took one call answered within three rings and offered 5.4% APR, guess which one the customer went for? What is more worrying is that the relationship that the customer had built face-to-face with the car salesman at the dealership was far stronger than the relationship the customer had built with the bank call centre. So even if the offers were identical the bank may still have lost out. Going back even 10 years ago, the idea that customers would have a better relationship with a car salesman than their bank would have been laughable!

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Deliver on the good intentions proclaimed in bank advertising with practical action to improve the customer experience. Ask yourself:-

- If a customer has taken the trouble to visit a branch are they likely to be seeking a predominantly self service experience or do you think it likely they want to deal with another human being?
- Is giving the customer a bad experience at a branch the way to persuade them to switch to other channels better suited to administrative activities eg on-line?
- Will customers seek to buy what they see as more complex and high value products from banks if they experience problems with what they see as simple low value ones?

These are not complex questions to answer. They get to the nub of the question about the nature of the service banks provide now and what they will need to provide in the future, at a cost the customer is prepared and happy to pay.

Good business and excellent customer service are complimentary

The key to achieving excellent customer service has four parts:

1. Understanding the nature of the emotional and business contract between the bank and the customer. This boils down to the provision of banking and financial services for a fair return that reflects the degree of risk taken by buyer (normally the customer) or the lender (normally the bank).
2. Being accessible, responsible and responsive to customer needs and concerns.
3. Providing the expertise, security and convenience necessary to make purchase by the customer easy, pleasurable and transparent.
4. Ensuring that operationally you can deliver on the above.

1. Understanding the nature of the emotional and business contract

Customers don't want to directly pay for error free service provision; this is something they implicitly expect that banks will always do in exchange for being able to use customers' money to lend to others. Service provision should be considered to be any activity that is viewed by the customer to be administrative and mostly transactional in nature with low emotional commitment, eg money transfers and direct debit activities. This may extend to mandatory requirement products and services like car insurance.

Once retail banks achieve error-free service, as an absolute minimum level, they can move on from mere service provision to

profitable 'added value services' which form the basis of excellent customer service as opposed to error-free service provision.

This can only be achieved if retail banks get to grips with measures that accurately reflect operational performance and customer satisfaction. This is an area that may best be handled by outside specialists who can take a dispassionate and comprehensive view of the operational and customer data. This will ensure it reflects the true business state, is robust enough to inform business decisions and is benchmarked against comparable competitors.

2. Re-establishing the link between risk and reward

Much of the customer dissatisfaction comes from a feeling that banks are driven by profitability and targets where lending is driven by centralised policy, not from an understanding of the risk and return of a particular transaction. What retail banking research has consistently suggested is that banks no longer have the degree of 'customer intimacy' that they once enjoyed when bank managers were at the epicentre of lending decisions. It could be said that, these days, a customer has greater loyalty to their choice of supermarket brand, than they do to their bank. In the eyes of consumers the interest rates applied by banks are driven by scale and potential profit and insufficiently by degree of risk and strength of relationship. Customers will build their relationship with a bank if they see benefit in doing so. In retail banking this translates into gaining added value services at reasonable cost and better interest rates.

3. Being responsive to customer needs and providing expertise

Customers will pay for added value services. These can even extend to helplines, but they have to be high quality and provide resolution. Apple does this with the iPhone tech line - customers pay for the phone call but the service is fast, efficient and comprehensive.

Contrast this with a banking helpline, where it may be free but the wait is long, the outcome uncertain, and the latitude given to call centre staff to resolve the situation before escalating it to a higher level is minimal.

Banks should think outside banking norms when looking for new added value services. Consider the success of NHS Direct. For the year 2010 / 2011, Chief Executive Nick Chapman reported 4.7 million patients had called in, and a further 5.6 million patients made use of their range of online health and symptom checkers. Significantly, there had been a notable increase in the numbers who make initial contact online, in preference to using the phone.

4. Ensuring operationally you can deliver

This is where operational processes take on a degree of importance that retail banks have yet to come to terms with. The ability to distinguish between service provision processes and 'added value' services is critical to success. Service provision processes need to be delivered with complete certainty at minimum cost. Here the use of technology is vital in two ways. First to remove the opportunity for operational error and cut the cost to serve. The second to make 'self service' for all tasks the customer sees as low value and administrative as easy and convenient as possible. On-line banking, ATM machines and electronic payments are examples that are already in place. Added value services are quite different. These need to be delivered in a customer centric way that builds trust, customer intimacy and repeat business. Currently retail banks are unable to adequately operate business processes in this way, or identify and replicate best practice to achieve true operational excellence that is reflective of the customer desire and expectation. Whilst this may be complex to achieve, it is cost effective and sustainable if approached in the right way. Other industry sectors have mastered it to some degree such as aerospace, automotive and FMCG. In these sectors it is not unusual to find a continuous improvement culture embedded in most aspects of operational performance. Even the NHS has made significant strides and retail banking is in danger of being left behind.

So what should retail banks consider?

Retail banks need to take a long, hard look at the make-up of their existing business, the level of investment they are prepared to make and what the medium to long term ambitions for the retail bank and its shareholders are. For some banks this may lead to the conclusion that they should exit the retail banking market completely and focus on investment banking. For others it may mean that they need to focus on providing more specialist and 'high value' services to a narrower more defined target audience and in the light of this have a very different organisational structure, customer relationship, channel strategy and income generation model. For others it may remain very much business as usual but competing with a range of new and emerging generalist banking service providers such as supermarkets, retailers, building societies and institutions, taking a more price led approach. Whatever emerges, it is increasingly unlikely that the banking customer will continue to buy the existing 'generalist' banking service when a comparable service will be readily available from outlets such as supermarkets, but with the additional attraction of extra points on your store card. After recent turmoil in the financial markets the traditional consumer barriers to switching banks such as, security, relationship, customer inertia and administrative hassle are significantly undermined.

Death by a thousand cuts

The long term paradigm of banks competing against each other in a 'closed market, boy's club' are over. Retail banks either have to get back to providing an added value, high margin service or change the cost structure and product mix to compete more directly with retailer banks like M&S, Tesco and Sainsbury. In addition to this now established and growing retail brand competition, comes the rivalry of service providers such as Paypal, carving out large elements from the traditional banking market and adding to the slow reduction in profitability established banks have monopolised for decades.

The approach we would recommend

If retail banks are genuinely concerned about treading that fine line between making necessary cost-savings and seriously upsetting their customer-base, they need as a matter of urgency to undertake a review of how they provide service. Regardless of whether or not you seek support of external specialists, you must as a minimum:

1. Undertake a dispassionate review of the experience your customers receive, and compare the results with non-Financial Services organisations that consistently receive plaudits for excellent customer service.
2. Take seriously the encroachment by the UK supermarkets, and other recent entrants into the retail banking market, and respond proactively to the threat which they offer to your traditional products and services.
3. Assess what value-added services the customer will really be prepared to pay for; and accept that many basic services we, the customer, expect are not only to be free of charge, but still of a high level of quality.

In addition, there are many other improvement activities which have a proven track record in delivery in Financial Services. Capita's Operational Performance Management (OPM) framework for Financial Services organisations has proved highly successful in improving the cost-effectiveness of client operations, while having no adverse impact whatever on the service to the end customer. Further details can be found at: www.capita.co.uk/consulting.

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The cost of achieving operational performance at the required level of competence?

When looking at cost, much depends on the degree of operational maturity that you have now. That said, typically we are able to make savings on your operational costs of around 30% in most areas, whilst setting the bank up for success by establishing key performance indicators that provide customer satisfaction and productivity measures that truly reflect the business state. This approach provides the bedrock for achieving and maintaining best practice and moving to the establishment of a true continuous improvement culture, where changes in operational activity and support can be linked to changes in customer behaviour and improved satisfaction levels. Perhaps the biggest question to ask is: can you afford not to?

Contact Us

For further information on the management consultancy business of Capita Plc please contact:

Tel: 020 7901 0068

Email: consulting@capita.co.uk

Website: www.capita.co.uk/consulting
