

The true power of on-line banking



Roger Peverelli

Partner

VODW

rpeverelli@vodw.com

A bank's front door is no longer at a branch office on Main Street; it's on the Internet. Most banks are revamping their Web presence. Cost-cutting and operational excellence are aimed at ensuring that the base of the customer pyramid is served more efficiently. Self-service is being used to transfer an increasing number of processes to the customer. The real challenge lies in creating new added value and differentiation. Unlocking the true power of on line is the solution.

People rarely visit their bank branch anymore. A lot of branches see 20 customers per day, at most. New research shows that visits to the Web sites of most major Western banks outnumber branch visits by a factor of 50 to 100. App-users make contact with their bank through their smartphone three to four times more often than the average on-line customer. The future of every retail bank is on line: no doubt about that.

The on-line environment is, moreover, essential for restoring and expanding customers' trust in their bank. The frequency and quality of contact between customer and bank dictate the pace of growth in trust. The level of contact frequency underscores how crucial on-line performance is to restoring customer trust.

The quest for transparency and simplicity is another reason that a bank's on-line presentation is of the utmost importance. Herein lies the risk that products from different competitors start to look alike, resulting in commoditisation and competitive pricing, which in turn put pressure on margins. The only way for a bank to escape this is to combine transparency and simplicity with specific value-added services and a superior customer experience that differentiates it from the competition. Given the contact intensity, the Internet plays a crucial role.

Banks are competing more and more in their on-line performance, but at the same time their Web sites are very hard to differentiate. Viewed objectively, all banks are offering similar functionalities, in the same functional manner. In realising operational excellence and self-service, a bank will qualify as an acceptable service provider but will no longer stand out. Especially when a bank's front door is on line, the on-line presence should be treated as the most important point of differentiation. As part of our ongoing research for our book *Reinventing Financial Services* [see page 85 of this issue of the Efma



Reggy de Feniks

Partner

9senses

rdefeniks@9senses.com

journal], we've come across a vast number of financial institutions that view the Internet in a positive and radically different way. These best practices show there are many ways to reach out and distinguish oneself from your competitors – if you understand the true power of on line and use it.

1. Getting to know the customer better

High contact frequency generates a wealth in data that tells us a lot about our customers. Analysing on-line behaviour gives us a great opportunity to understand much more about customers. What really moves them? What do they value most? BBVA's Tu Cuentas and Japan's Rakuten Bank show us how far we can go.

Tu Cuentas

Tu Cuentas, from Spain's BBVA, is an on-line household budget tool that helps people get a grasp of and keep a grip on their day-to-day spending. Tu Cuentas, for example, enables users to compare their own spending and saving behaviour to that of people with a similar profile. "How much are people like me spending on travel each month? How much are they saving? What insurance are they buying?"

More than half (!) of BBVA's on-line banking clients are now using the programme, which makes the information richer and the comparisons more valuable. It also keeps people from buying financial products they don't really need – a noble trait in a bank seeking to build trust.

BBVA doesn't view Tu Cuentas as a nice sales promotion, but as a fundamental part of its service offering. It has invested the time and effort required to make it a success.

We see that programmes such as these – there are over 30 of them across Europe – are not only helping to increase the numbers of consumers to tune their monthly income and spending, but also encouraging

them to save for bigger dreams. Eventually these tools will develop into more powerful financial-planning tools that have accumulated and processed knowledge from the individual customer.

Rakuten Bank

Rakuten is by far the largest e-commerce platform in Japan. It's like Amazon, Ebay and Expedia put together. Rakuten's success lies in its diversification strategy.

Recently, Rakuten acquired e-Bank, the country's largest on-line bank, and rebranded it Rakuten Bank. A few advantages of this takeover are obvious, such as the lower costs of funding, access to millions of account holders, and use of the user-friendly payment systems from the former e-Bank. But the real advantage lies in the contribution of all these activities to Rakuten's business model. Rakuten takes the Tu Cuentas game a step further: whether it's e-commerce, auction, travel or banking – in the end everything is linked to one database. This enables Rakuten to understand its customers much better – their preferences and behaviour – and come up with much more tailored offerings.

Last year, Rakuten started a joint venture with Baidu, China's version of Google, making it possible to include even search data in this single database.

2. Involving customers

The Internet makes it easy for banks to involve their customers in the process of developing and improving their products.

It enables banks to make customers part of the change, to virtually incorporate them into the organisation, and structurally keep them involved. Insurance Australia Group works in this way, as does, to some degree, Fidor Bank.

The Buzz

The Buzz, Insurance Australia Group's new insurance

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company, was created according to the tastes and requirements of future customers. About 4,000 consumers took part in discussions about what they expect from an insurer and more. The consumer panel supplied abundant ideas for products and services, thus contributing towards an entirely new customer experience. The Buzz hit the right note from the outset and stands out among its competitors, which don't involve their customers to anything like this degree. The collaboration with clients, of course, continues. It keeps the buzz constantly in touch with what is happening, and ahead of the pack.

Fidor Bank

The German bank Fidor is doing something similar. Fidor Bank rewards customers for every active contribution towards improving service. Every suggestion for improvement earns the client one euro and no less than a thousand euros in the event that their recommendation is implemented.

3. Participating in the customer's world

It may sound like a paradox for a "remote channel", but on line offers a unique opportunity to be close to the customer, to increase significantly the number of positive experiences and to use these to enhance the relationship. American Express and State Farm show us how to manage the human dimension remotely.

Shine a light

A lot of the companies that accept the American Express credit card are small businesses such as shops and restaurants. American Express gained an important insight into these users: many of their customers are worried about the future of the small businesses and view them as vulnerable. The average Amex cardholder is happy to lend a hand. "Shine a light" is American Express's platform for people to tell their story about their favourite shop nearby. These stories are boosting sales and allow American Express to show that it values and supports small businesses. The credit-card company is also reacting to an important consumer trend: a preference for being "close", authentic, personal. In short, the human dimension. American Express has managed to make "close" tangible in the on-line world.

State Farm

This American general insurer realised it had hardly any contact with

its customers. Once a year it sent out a notification that the premium had gone up – not exactly a welcome message. To address that, State Farm developed a simple app that enables customers to view weather conditions and forecasts daily on their smartphone. In a simple way it ensures one daily positive contact, instead of a yearly negative one.

State Farm plays on an important consumer insight: the recognition of the smartphone as an essential part of everyday life. It's often the only thing they always carry with them and the last thing they check at night.

Understanding what a smartphone means to your customer, and how it relates to your brand, product, or service is the basis for apps that truly add value. So review the context in which your product is used and examine the situations where it plays a part. This will yield consumer insights and opportunities to help in specific instances in your customers' lives. For a suntan lotion manufacturer it would be the beach, for insurers it would be situations that put consumers at risk, and for a bank it would be the moment a consumer spends money. Mobile services make you a part of the consumer's life, right where it matters the most, on a smartphone or on a tablet like the iPad.

Putting the customer, not processes and systems, first

The true power of on line is in the unprecedented possibilities the Internet offers (a) to get to know customers much better, (b) to involve them in the organisation, and (c) to participate in the world customers live in. These should be the most important goals in the further development of the on-line presence. And this is what will make you relevant and distinctive.

On-line best practice is evolving constantly, and to date the forerunners in new ways of putting the customer first have only scratched the surface of what is possible. What we have learned thus far is: put the customer – not processes and systems – first. Actively look for ways to open a dialogue with customers, and use your findings to create distinctive services that fit their needs. ■

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Reinventing financial services

What consumers expect from future banks and insurers

ROGER PEVERELLI, REGGY DE FENIKS

The financial crisis and the subsequent economic meltdown have forever changed the relationship between consumers and financial-services firms. Roger Peverelli and Reggy de Feniks present a thought-provoking and insightful vision on the future of banks and insurance companies. This book puts the customer at centre stage. It uncovers the radical shift in consumer perception and identifies the six key consumer trends that financial institutions must heed. These trends set the stage for the future of finance and are inevitably connected with the way banks and insurance companies must change. Included is a list that will help financial-services providers find the right answers to challenges of the new financial reality: how to restore consumer trust, how to become close to consumers across channels, how to leverage social media and mobile services, how to align customer-centricity and profitable growth, and last but not least, where to start to create a new future. The book includes contributions of more than 50 executives of leading financial institutions and industry experts of top business schools from across the globe.

[See page 8 in this issue of the Efma journal.]

Pearson Education, 2010, 288 p.
www.pearsoneducation.nl



Money for nothing and your cheques for free

How banks process payments from small transactions on your mobile to billion-dollar international transfers

CHRIS SKINNER

If money is important, then so is the ability to process it – in other words, payments. This book is about: from processing payments over the Internet and on your mobile telephone; to payments via cards, cash and cheques; to massive international payments operations and the challenges that banks face in these areas, including the continual vigilance needed to avoid money launderers as well as terrorists.

Searching finance, 2010, 200 p.
www.searchingfinance.com



Channel Innovation in Financial Services

A practitioner's guide to development and integration

SANDY VACI

How do I set up a sales-agent network? How will I control it? How much time will it take to build? How should I layer functionalities across different electronic channels? How can I design the best contract for brokers and alliance partners? Are there templates I can trust to evaluate potential branch locations? What do I ask for in terms of customer relationship management (CRM) to best integrate my sales channels? How should my service quality benchmarks change across channels? What works and what doesn't, in social-media channels? What will be the next wave in Internet banking? What is community banking, and how can I use it to build my network?

This book answers all these questions, as a practical guide through the many different channel possibilities that exist today in financial services, with examples, implementation templates, and case studies.

Searching finance, 2010, 138 p.
www.searchingfinance.com

