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INDUSTRY OUTLOOK 2014

No 'Sudden Stop': Demand for Microfinance Soars

As economies slow, microfinance markets remain largely unaffected in emerging markets

2014: What to Expect?

Maybank President and CEO Datuk Abdul Farid Alias shares his outlook on the financial services industry for next year

Crowdfunding: A Game-Changing Financing Option

Will crowdfunding really make a dent in the current entrepreneurial landscape and change the future of investment?

Six Key Consumer Trends Financial Institutions Should Heed

We take a look at what makes the new breed of consumers tick



How will consumers' needs change in the next five years? What makes consumers tick? How should we respond to this? For their book *Reinventing Financial Services: What Consumers Expect from Future Banks and Insurers*, Roger Peverelli and Reggy de Feniks spoke to

more than 100 industry executives and thought leaders worldwide to outline the six most important consumer trends that financial institutions should heed. These are the trends that set the stage for the future of finance and the design imperatives for the successful financial company of the future.

Consumers' relationship with financial institutions has changed

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Commercial transactions include an element of trust. Research shows that touchpoint performance, the quality of customer-facing employees and the ease of doing day-to-day business are the most important elements in building or reinforcing trust. But trust cannot be built simply by talking about it in advertising. Rather, it is won back by excelling in the daily provision of services. Financial institutions should create service excellence on top of operational excellence. This requires proactive relationship management: maintaining a dialogue with customers, acting in their best interests and coming up with solutions for personal financial situations. It is in these interactions that a financial service provider can demonstrate that it is truly engaged in thinking solutions. The processes and touchpoints that immediately relate to the customer experience should be scrutinised first to provide flawless, consistent, exceptional service and add value whenever possible.

Consumers are calling for transparency and simplicity

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Transparency is the most important factor in corporate reputation. In an increasingly complex world, consumers are often overwhelmed. Hence, they look for ways to reduce effort and save precious time. They prefer products and services that are easy to understand. There is a desire for greater transparency and simplicity in all segments – not only in retail or the mass affluent segments, but also among private banking clients. Research by VODW revealed six dimensions of simplicity: comprehensibility, accessibility, overview, time, effort and flexibility. The research also shows that the association with simplicity differs per product, purchasing cycle phase and consumer segment. However, differentiation will become more difficult when financial products are increasingly transparent and simple. Therefore, the points of differentiation of financial services will shift to service and customer experience: journeys that are simple, engaging and distinctive.

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Consumers become more and more self-directed

Self-directed consumers value independence and rely on their own judgment, although they also value expert and peer advice. Higher educated, intelligent and critical; they often have above-average incomes and are extensive users of technology. Generation Y has significantly enlarged the number of this pool – they grew up with a variety of digital resources and are projected to become the wealthiest ever. However, this self-directedness has a flip side: they may overestimate their understanding of finance. The abundance of information on the internet reinforces their conviction that they can do it all themselves. However, research indicates that most consumers are financially illiterate. This may result in consumers purchasing unsuitable financial products. Self-directed consumers do not necessarily want self-service – just control and empowerment. Offer guidance to help them manage their financial situation. This will become a core part of the company's service identity and therefore important proof points of the brand.

Consumers rely on the wisdom of crowds

People prefer the unbiased opinions of fellow consumers to the beautifully wrapped messages of companies. One example of this is TripAdvisor, which ranks hotels based on consumer ratings. This can be broken down into cleanliness, food, staff, etc. Mostly, they paint a more realistic picture than professional photographs from the brochure and all this information can have a huge impact on our decision-making process. When this kind of data is included on comparison sites, the set of purchase criteria will definitely change as well. This is the real impact of the wisdom of crowds: service is becoming a much more important purchase driver. Mikael Andersson of Expedia (parent company of TripAdvisor) confirmed this: "Our statistics show that hotels with an average user rating of 3-3.9 have a 1.7 times higher conversion than hotels with a 1-2.9 score. Hotels with a 4-5 score have an even higher conversion, at 2.2 times."

Consumers are revaluing values

Across the globe, consumers are longing more than ever for institutions that care. Many board members of banks and insurance companies are convinced that ethics is a key building block in the future of financial services. Compared to all other trends, the gap between the ethics trend and current industry perception is the largest. That is probably why bankers and insurers struggle so much with the question of what its implications could be. Questions such as: "When does ethics conflict with business objectives such as sales and profits? How do we solve this?" and

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"How does it create financial value?" naturally come up. In essence, ethics is all about doing business decently – in an honest, open and fair manner. Recommend only those products you would buy yourself. Treat customers the way you would like to be treated. This provides new points of departure for financial services.

Consumers prefer to feel close

In a world ruled by globalisation and mass production, more and more consumers value closeness. This means more than physical proximity. The essence of this trend includes identity and community, authenticity as well as customised recognition and treatment. It is about added value, the human dimension across all channels and the entire customer journey. The rise of smartphones and tablets adds another dimension. The smartphone is an essential part of everyday life – the only thing you always carry with you and the last thing you check before you go to sleep. Reviewing the context in which financial services are used will yield consumers insights and opportunities to help in specific instances. For insurers, it would be situations that put consumers at risk. For a bank, it would be the moment a consumer spends money. Mobile apps make financial services a part of the consumer's life – right where it matters most.

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Roger Peverelli is a partner at strategy consultancy VODW, based in the Netherlands. Reggy de Feniks is a partner at strategy consultancy 9Senses, based in Spain. They have a vast track record working for banks and insurance firms in Europe, the Americas and Asia. Peverelli and de Feniks are currently working on their new book, *Reinventing Customer Engagement. The winning business model of future banks and insurers.*