Phygital and other digital challenges for retail banks

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Kurt Salmon

Efma
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Executive summary

Banks’ economic models are under increasing pressure. Client churn rates are on the rise, as are network fixed costs, and this is causing a general drop in revenues. Digital, however, provides banks with an opportunity to rethink their operating models in order to address these current challenges and return to increased profitability.

Digital is not just the use of the internet to cross-sell or attract new customers. Digital refers to all products and services that can be completely or partially delivered through virtual technology. It is the sum of all online media resources that establish, maintain, develop and expand the relationship between a brand and its stakeholders. “Phygital” is the contraction of physical and digital, and refers to the integration of digital in the physical world. Retail banks need to bear this in mind to drive their own digital transformation strategies.

The winners of this digital transformation will need to focus on five areas:

• Acquisition through digital channels: retail banks have to focus on the client experience as well as the mobile channel, simplify the online subscription process and provide user-friendly interfaces. Constant optimisation of the search engine marketing (SEM) and search engine optimisation (SEO) strategy is also key to enhancing acquisition through digital channels.

• Retention and cross-selling via digital channels: retail banks will have to take into account each channel’s relevance throughout the client lifecycle. This means understanding the client’s digital behaviour to customise products and services, and provide an enhanced value proposition.

• Integration of digital in the physical world: branch closure cannot be the solution. Retail banks will have to adapt the network format and integrate digital into the cornerstone of the banking relationship.

• Digital as a sustainable model: to be profitable, both online and in bricks and mortar branches, players will have to switch from offering low price to high value products and services. Both customer education in paying for online services and definition of a customised offer will enable banks to define this new profitable model.

• Big data and analytics: to be more effective than a buzzword or new trend, the big data strategy will have to be led step-by-step, based on the bank’s existing assets. To tap into its true potential, first the bank will need to define how it will use big data, then it will need to create a virtuous dynamic (for example, investing in dedicated resources).
Introduction

From client acquisition to client intimacy, from branch transformation to service model enhancement – digital is impacting everything.

Today:

• It is being led by retailers
• It is customer centric and must enhance the customer experience across all channels.

As such, which new retail trends should banks analyse and customise to achieve digital innovation and better serve their own clients? How can banks internalise the new drivers of digital transformation?

This study conducted by Kurt Salmon and Efma provides key insights and presents a clear roadmap for how to deliver a simple and value-added digital client experience. It highlights ten case studies that detail the concrete actions that have driven these players to achieve digital success and/or drive innovation.

The study is based on a survey lead with over 50 Efma members, Kurt Salmon’s in-depth expertise and interviews from key retail banking players. It consists of five chapters that provide banking and non-banking insights on how to set the rules for digital innovation and successful transformation:

• Client acquisition via digital channels
• Customer stickiness and intimacy development through digital
• Phygital or physical networks digitisation and co-existence of both physical and digital channels
• Digital as a profitable model
• Big data and analytics effective usage.

Jocelyne Amegan, Manager, Kurt Salmon
Joel Nadjar, Senior managing partner, Kurt Salmon
Patrick Desmarès, Secretary General, Efma
Foreword: what is digital?

Digital refers to all products and services completely or partially delivered through virtual technology. It is the sum of all online media resources that establish, maintain, develop and expand the relationship between a brand and its stakeholders or the benefits among them.

Digital is delivered by different media types:

- Digital channels: a media that conveys information digitally, such as the internet
- Digital support/device: a product used to receive the information conveyed by a digital channel, such as a tablet.

The meaning of digital has been evolving over the last few years, mainly because it has been enriched and refined as innovations and technological facilities have emerged (see chart below).

The Phygital concept refers to the integration of digital in the physical world. It embraces all virtual technologies that can be included in a branch.
Acquiring clients via digital channels: a dream come true?

Across the globe, complete online banking models have emerged. In fact, according to the Kurt Salmon and Efma survey, 63% of retail banks think that the digital channel will be the primary channel for attracting new customers. However, customers are still very attached to face-to-face contact with advisors when it comes to buying complex products. This makes it difficult to manage the full client relationship online. mBank is one of the only online banks which has succeeding in attracting and retaining a large number of clients. In the last ten years, it has attracted four million customers, making it the third largest retail bank in Poland. Most online banks do not achieve such significant growth in client numbers.

So what makes it so hard to attract customers via the online channel? Depending on the country, there can be several reasons. In addition to legal requirements, here are some other factors:

- The physical presence of an advisor is required to complete the signing-up process of a new customer
- Electronic signature equipment and legal authorisation required
- Customers’ lack of confidence towards online players
- Banking product being ‘cold’ and complex.

Considering all that, what are the key ways to build a successful online acquisition model?

Mobile banking acquisition: a way towards success

Mobile technology, in both advanced and emerging countries, has been booming. If smartphone penetration rates remain low in some countries, its exponential development and the upcoming release of low-cost smartphones should turn this around.

Mobile represents a key opportunity for boosting client acquisition: clients tend to carry their mobile devices with them wherever they go, accessing online content and making purchases. Banks are well aware of this: according to the Kurt Salmon and Efma survey, 76% think that mobile will be very effective for selling simple products.

How effective do you expect digital channels to be in the next five years for simple product sales?

![Graph showing the effectiveness of different digital channels](image)

Source: Kurt Salmon and Efma survey
Some banks have developed dedicated processes for mobile account applications. Launched in late 2012, Moven has acquired the majority of its customers through the mobile channel with a simple and rapid process where “all will happen electronically.” Hello bank!, the new pan-European digital bank from BNP Paribas, is, before anything else, a mobile bank and has developed simple and dedicated mobile user interfaces. As highlighted by ING Belgium: “the mobile channel has real potential as it is the most frequent touch point for the bank.” A good example of this is Jibun Bank. By developing user interfaces specifically for mobile devices, Jibun has become a real success in Japan and has more than 1.5 million clients.

Case study: Jibun Bank

Jibun Bank is a joint venture between the Bank of Tokyo Mitsubishi UFJ (BTMU) and KDDI, a telecom operator. BTMU is one the top three Japanese banks and KDDI is the second-largest mobile network operator (MNO). Each stakeholder has 50% ownership of Jibun. This partnership between a bank and a telecom operator is unique and there have not been any similar initiatives in Europe yet.

The new bank was launched in July 2008 after a two-year preparation period, including an exploratory venture phase.

Targeting the digital natives
BTMU wanted to enhance the relationship with Generation Y as it was convinced that enhancing its relationship with younger customers was instrumental. As the banking usage and needs of this customer segment continues to change with the growing adoption of mobile and smartphone technology, Jibun decided to interact with these customers through these new channels and use mobile as a key contact point. It recognised that by meeting the mobile lifestyle needs of this generation, it had a better chance of attracting them as clients. The successful launch of this pioneering mobile-only bank in Japan is no coincidence; mobile technology and adoption rates are particularly high in this country.

Phenomenal growth since its launch
With over 1.5 million clients by early 2013, Jibun is turning out to be a real success. Even though marketing efforts were targeted at all prospects with a mobile phone, one of the main reasons for setting up the bank was to attract younger customers. The bank’s efforts paid off: in December 2012, 60% of Jibun’s clients were in their 20s (30%) or 30s (30%).

A new, exhaustive approach to mobile
Not only is mobile considered a channel, among others, but it also has to be the main point of contact by enabling customers to perform advanced actions and offering innovative solutions. Jibun proposes a full range of services through mobile: account opening, saving accounts, bill pay, person-to-person transfers and “Passbook” (Jibun’s mobile wallet app, including services such as balances, transaction history and graphical interfaces). The major innovation of the business model lies in the fact that Jibun Bank is designed purely and simply for mobile access, whereas most other banks have considered the mobile channel as an extension of other channels. Moreover, Jibun clients have access to the BTMU branch network.

Simple subscription process and user-friendly interface
By leveraging KDDI’s expertise, the bank managed to design a screen that is easy to read and to operate. While transactions through traditional mobile banking apps require five or six clicks, Jibun’s clients can complete the same operation in only one or two.

Jibun’s savings programme, for example, illustrates this user-friendly interface well. Clients can set a target for the amount they
want to save and then track their progress on a colourful bar graph. As a result, 90% of Jibun Bank transactions occur via the customer’s mobile phone.

The “any time, anywhere, only mobile” model to provide information 24/7
A branch network is restrictive for many people as it has limited operating hours. A mobile bank, however, achieves the objective of being available anytime and anywhere by offering full service access 24/7. Jibun Bank is clearly meeting its customers’ needs: it has reported that its transactions peak before morning office hours, at noon and after work in the evening.

Instantaneous communication with customers is another edge Jibun Bank has over its more conventional counterparts. Jibun’s customers benefit from instant updates as the bank is able to communicate with all its clients by e-mail on their mobile devices. A much lower percentage of clients at other banks are available via e-mail.

As of March 2013, Jibun Bank serves more than 1.5 million clients with only 154 employees – almost reaching the deposit-to-employee ratios of the top Japanese banks.

Key lessons for banks

Believe in mobile acquisition
The mobile channel can significantly boost customer acquisition. Enabling a fast and simple process, it is in the customer’s pocket and can enable instant acquisition.

Set up an autonomous entity
As it is hard for a large bank to completely rethink its business model, the creation of an entirely separate entity with its own brand, people and technology infrastructure is a real possibility to circumvent this difficulty.

Leverage the strengths of a bank and an MNO
Jibun Bank remains an exception and its success to acquire new clients is largely the result of the leveraging of both partners’ strengths as well as a timely launch. Indeed, Japan was and remains the most advanced country in the world for 3G mobile penetration and mobile handset sophistication.

The partnership between a bank and an MNO enabled Jibun to rapidly deliver a comprehensive mobile banking offering in a rapidly changing market. Leveraging the banking expertise of BTMU and the mobile expertise of KDDI was the only solution to quickly and successfully face the challenge of meeting these new customers’ mobile needs.

Think about the physical touchpoint
Mobile has played a key part in Jibun’s success, but one has to keep in mind that people are also welcome to go to BTMU’s branches to open a Jibun account. The BTMU ATM network is also accessible to Jibun’s clients. BTMU’s management rightly betted on launching a full mobile bank, but it was not ready to sacrifice branches for the customer acquisition process. (NB: BTMU branches only accept account-opening applications; they do not process Jibun Bank transactions)
Mobile is a key channel for online acquisition success, but banks must bear in mind that:

- In many (European) countries, full online account applications are not legally allowed, and remote or physical back-up is then needed to finalise an application
- Online acquisition should be adapted to clients’ behaviours and therefore should be a channel to provide an enhanced value proposition.

**More than device based, digital acquisition must rely on an enhanced value proposition**

Providing clients with a value-added experience is key for online acquisition:

For price, online acquisition requires transparency. In a self-service model, clients expect to be rewarded for their autonomy and contribution to the process. According to Knab: “We also acquire clients because we provide them with a good interest rate on saving accounts.”

Offering a simple and high-speed subscription process is now a must have. On the go or at home, if a client applies online, they are planning to save time for not visiting and queuing in the branch. Banks are launching smooth, “five clicks” subscription processes, for both simple and more complex products. As an example, Alior Sync has developed a full online credit application process. Consisting of six steps, the process is paperless and does not require any branch visit.
The same applies for mBank: “We offer a very short purchasing process with a limited number of clicks.” The process should also be supported by a consistent client experience/user interface. In the survey, however, only 53% of online applicants for opening an account managed to do it successfully. Prospects tend to abandon the process when the website layout changes and/or a payment is required. Supporting the customer with a seamless look and feel experience, and clear interfaces is essential. It requires a user-friendly interface and landing page combined with marketing techniques to encourage the user to carry on with the application process.

Be more visible: enhance your SEO/SEM strategy!

One of the best ways to attract clients on the internet is to be visible and identifiable when searched for on the internet. Retailers have already heavily invested in SEO and SEM to do this. In other words, they have identified the “key words” that could link the client needs to their business. For example, when searching for a book, an internet user is likely to be directed to a link on Amazon.

Banks seem to have missed out on some of these solutions to attract and acquire new customers. But it is particularly important for online banks, which are not as well known as traditional players, to catch up. What can retail banks do to bridge the gap?

Better identifying keywords for search engines – in order to bring the client to the right web page and decrease the number of clicks required to reach the required product – improves the conversion ratio. Registering clients’ navigation habits – by following their browsing history through cookies – helps to target the right customers with the right advertisements. For example, a user that has visited some vehicle websites is likely to buy a car. Banks should target car loan advertising for this person. Google Analytics is a very useful tool to get information about internet users’ practices (see Google case study). For example, HSBC Private Bank uses cookies to tailor both the design and content of its website to suit its clients’ interests.

The use of keywords requires a day-to-day analysis of their efficiency and performance in terms of leads generated, rebound page analysis and impact on acquisition. Keyword efficiency can change depending on economical context, interest rates, time of year and so on.
Careful monitoring of keywords should lead to adapted landing pages that can increase hit rates by 20% or more.

Here are some optimised keywords relating to the banking industry

- Finance my college
- Save my money
- Buy a car
- Current account
- Organise a wedding
- Subscribe to a credit
- Find a Premium credit card
- Moving in another city
- Find a car insurance
- Pay with my mobile
- Find a good interest rate for a loan

Using cookies to gather information can also help make the dialogue with the client easier. An acquisition/subscription process can take place based on the client’s online behaviour, for example a financial assessment can already include personal customer data.

This can be achieved by the bank, allowing the client to authorise access to the navigation journey with cookies or other tools. The bank reassures self-directed clients, and can propose a better acquisition journey with more accurate data.
Case study: Google AdWords

Google AdWords is the online advertising system developed by Google, based on keyword-targeted advertising. It was launched in 2000 and currently represents Google’s main advertising product and source of revenue (95% in 2012). It has become an essential marketing tool for all sectors. Increasing online visibility through Google represents the main challenge for most advertisers.

Remuneration based on the click generation
The concept is clear. Each time an internet user makes a search on Google, two lists of results appear: the first one is linked to the research carried out by the user, while the second one contains some advertisements selected by AdWords. Each time the user clicks on a link, the advertiser pays a fee to Google.

The advertisements appearing in Google may also appear on Google partner pages (AOL, Amazon and Netscape), thanks to the Google AdSense program. Google AdSense also allows companies to sell ad spaces on their own websites.

According to an Optify study, nearly 60% of internet users click on the top three advertising links ranked at the top of the web page and almost all do not even look at the other results pages. With this in mind, optimised referencing on search engines is key for successfully engaging with a client through digital avenues.

An effective e-marketing strategy to optimise referencing relies on SEM as well as SEO. SEM is a set of marketing techniques aimed at increasing the visibility of a website or a web page in search engine results. It relies mainly on SEO, which consists of optimising the content of a website for a search engine to increase organic traffic by improving the appearance, frequency and positioning of the website or the web page in the search engine results list.

SEM/SEO have to be considered as a tool to engage in dialogue with a prospect. Therefore, following and maintaining dialogue with the visitor requires provision of the maximum and most relevant information regarding the content of a web page – allowing the search engine to match it with the relevant keywords entered by an internet user.

The finance and insurance industry spends the most on Google advertising, but generates less clicks than other sectors. Advertising based on search as well as banners on websites concern almost all industries. In 2011, it was the finance and insurance industry that spent the most on Google advertising (US$4 billion) just ahead of the retail, general merchandise and the travel and tourism industries.

continued…
However, the finance and insurance industry generates fewer clicks than other industries. Indeed, the cost per click for financial products are among the most expensive: an advertiser has to pay US$8.15 for using the “refinance mortgage” keyword, while the cost per click for “zumba dance dvd”, for example, does not exceed US$5.18. It is likely that banks do not buy the right keywords and do not target the best banner ads.

**Key lessons for banks**

A set of tips for better identifying keywords

**Optimise the choice of keywords**

Choosing the keywords that best fit customers’ expectations, without using the most popular and costly ones, is a challenge for banks. One idea is to use long keyword phrases. For example, using “How can I open a checking account” is as relevant as “checking account”, but the cost per click should be lower.

Knowing the target market is a first step in identifying the best keywords to improve the links ranking for banks. Choosing the right language, the right geographical area and the right product names should improve the keyword relevancy and thus the Google ranking of your website.

**Improve the density of a keyword**

Google is very sensitive to word density in a web page for calculating its relative relevancy to a keyword. So increasing the use of a keyword like “mortgage” or “credit” in a web page of a bank offering these types of products should increase the relevancy of such a page – and then enhance the ranking of the link.

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*continued...*
Use negative keywords to better identify customers
Google allows advertisers to use negative keywords, preventing the search engine from showing the ad if a specific keyword is entered. This allows advertisers to only target internet users looking for the products they offer. So not only do advertisers improve their lead transformation by not paying for irrelevant clicks, but they also improve the Google ranking of their website.

Enhance the attractiveness of the displayed result
Use extensions to the links. Google allows advertisers to add some information relevant to the website – like product description or a phone number – that appears with the ad on Google’s page. This additional information aims to give internet users more reasons to click on the link and bring more customers to the website.

Use the Google Conversion Tracking tool.
One of the most useful services offered by Google is conversion tracking. Getting internet users to visit your website is good, but making that person purchase the product on offer is better. Google Conversion Tracking not only allows advertisers to know how many clicks on a Google ad resulted in purchases, but also to identify which keywords are most effective to the business.

How to smartly re-use the customer navigation journey?
Integrate re-marketing. Google has developed long term re-marketing in order to better explore search visits on a specific universe – this is valuable for the client.

Leverage visibility on other websites
Affiliate marketing. This consists of publishing advertisements on another website – the publisher (the affiliate) pays a fee to the website (the merchant) each time the visitor clicks on the advertising link. Banks could use real estate websites to advertise their mortgage lending offers, or vehicle websites to distribute their car loan offers. Some banks, such as Saxo Banque, ING and Boursorama, are already using this e-marketing strategy.

Practical roadmap: how to drive your acquisition through digital channels in four steps

• Full client acquisition is hard to achieve: define simple subscription/application processes with dedicated user interfaces to reduce abandon rates
• Develop a real mobile acquisition strategy to attract “on the go” clients: define which value-added products you can sell by phone, with paperless convenient procedures
• Invest in your SEO/SEM strategy: be visible and relevant to your client
• Test and monitor your internet toolkit on a regular basis, using KPI keywords and landing pages to be sure of its efficiency.
Phygital and other digital challenges for retail banks

Digital: the deep dive into client intimacy and stickiness

In ten years, clients have moved from managing 60% of banking transactions via branches to 90% through the web, ATMs and contact centres. Digital channels have become a key driver for the client relationship as customers increase their willingness to be able to complete financial operations in an any time, anywhere, any device (ATAWAD) manner.

In a financial environment where banks are offering relatively similar products, the competitive advantage is likely to come from customisation. Digital has enabled the emergence of many value-added services like personal financial management (PFM) tools.

Digital channels are key to offering “sticky” services and building an intimate relationship with customers.

Products, services and gimmicks: the explosion of digital equipment

Retailers and banks understand that their clients, whether they’re a “geek” or they’re more traditional, are all looking for digital, value-added experiences. More than half of customers today are registered for online banking and 27% of them are using it at least once a month.

What percentage of your customer base is using online banking?

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Registered</th>
<th>Registered and using</th>
<th>Registered and using at least every month</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>51</td>
<td>33</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Kurt Salmon and Efma survey

Providing basic services like account management, money transfers or branch geo-location was a first step that almost all banks achieved. To deepen the relationship, banks should now adapt to client behaviour and offer PFM, for example.
However, services like this will quickly be regarded as basic – 37% of banks currently provide a PFM tool and 30% intend to have one in less than a year. Only 17% of banks currently offer interactive services such as web chat, but 31% plan to develop one in the coming year.

Now, it’s all about providing a simple, behaviour driven, value-added experience. The channel should be used differently throughout the client lifecycle.

<table>
<thead>
<tr>
<th>What functionality do you provide in online banking (%)?</th>
<th>Current</th>
<th>Plan &lt;1 year</th>
<th>Plan 1-3 years</th>
<th>No plans</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secure email</td>
<td>48</td>
<td>13</td>
<td>19</td>
<td>19</td>
<td>1</td>
</tr>
<tr>
<td>Personal financial management tools</td>
<td>37</td>
<td>30</td>
<td>30</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Interactive services such as web chat or click to call</td>
<td>17</td>
<td>31</td>
<td>39</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>Self-configuration of products and product bundles</td>
<td>15</td>
<td>19</td>
<td>30</td>
<td>31</td>
<td>5</td>
</tr>
<tr>
<td>Self-profiling for providing advice on products and services</td>
<td>9</td>
<td>11</td>
<td>52</td>
<td>17</td>
<td>11</td>
</tr>
<tr>
<td>Live web meeting</td>
<td>2</td>
<td>13</td>
<td>43</td>
<td>37</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Kurt Salmon and Efma survey
Mastering digital channels: from a single moment of truth approach to a global client lifecycle approach

Even if adopting an omni-channel approach is key, each channel has a specific role and capability. Digital tools are a wonderful opportunity for banks to address customers’ needs throughout the lifecycle.

### Optimised channels all over the customer lifecycle

*Increasing client knowledge*

<table>
<thead>
<tr>
<th></th>
<th>Cross-selling</th>
<th>Loyalty</th>
<th>Retention</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Increase stickiness</td>
<td>Develop client intimacy</td>
<td>Be the main bank</td>
</tr>
<tr>
<td>ATM</td>
<td><img src="http://example.com" alt="High" /></td>
<td><img src="http://example.com" alt="Low" /></td>
<td><img src="http://example.com" alt="Low" /></td>
</tr>
<tr>
<td>Branch</td>
<td><img src="http://example.com" alt="High" /></td>
<td><img src="http://example.com" alt="Low" /></td>
<td><img src="http://example.com" alt="Low" /></td>
</tr>
<tr>
<td>Mobile</td>
<td><img src="http://example.com" alt="High" /></td>
<td><img src="http://example.com" alt="High" /></td>
<td><img src="http://example.com" alt="Low" /></td>
</tr>
<tr>
<td>Social media</td>
<td><img src="http://example.com" alt="Low" /></td>
<td><img src="http://example.com" alt="High" /></td>
<td><img src="http://example.com" alt="Low" /></td>
</tr>
<tr>
<td>Tablet</td>
<td><img src="http://example.com" alt="High" /></td>
<td><img src="http://example.com" alt="Low" /></td>
<td><img src="http://example.com" alt="Low" /></td>
</tr>
<tr>
<td>Website</td>
<td><img src="http://example.com" alt="Low" /></td>
<td><img src="http://example.com" alt="Low" /></td>
<td><img src="http://example.com" alt="High" /></td>
</tr>
<tr>
<td>(internet banking)</td>
<td><img src="http://example.com" alt="Low" /></td>
<td><img src="http://example.com" alt="Low" /></td>
<td><img src="http://example.com" alt="High" /></td>
</tr>
</tbody>
</table>

Source: Kurt Salmon study
Increase stickiness with long-term and customised products

For ING, mobile is a real cross-sell and up-sell tool. Through the mobile channel “the bank has never been as intimate as today”: it is always in the client’s pocket and enables the customer to interact with the bank at any time. A good example of mobile usage to foster cross-selling is Bank of America. It experienced a real success with customised offers and dedicated deals (see case study on page 20).

Internet banking is also an effective channel for cross-selling as customers become used to checking their balance on the web. Offering targeted and personalised sales enhances digital cross-selling. In Poland, Bank Millennium has developed a personalised offering with its private sales and happy hours. Every week, a specific product is offered at a special price and for a limited period. Creating dedicated platforms for client feedback is another way to develop more adapted products and enhance cross-selling. Knab, for example, has developed a dedicated community platform helping “customers in giving feedback and coming up with ideas.”

Long-term products or services like mortgage loans are also instrumental in creating stickiness. By subscribing to such a contract, the client commits himself to a long-term relationship that could lead, for example (and when possible), to current account repatriation. For those long-term products, the branch remains the most appropriate channel, as most subscribers are willing to meet an expert for a major event in their entire life that requires consideration and careful attention.

The most important aspect for banks is to digitally reproduce the intimacy between an advisor and its client. Hello bank!, is well aware of that and is focusing on its “human” side. In order to increase stickiness, banks should leverage digital to ease the purchase process and reassure the client. This can be done via avatars and artificial intelligence.

Some other factors are effective to increase stickiness:

- Customise loan offers proposed on the client tablet app with simulations and late chats with advisors
- Develop “private sales” in branch or dedicated campaigns and push alerts on the client mobile
- Develop complementary services (access to experts, newsletters, communities) for dedicated client segments
- Enhance the PFM experience by enabling clients to manage several short/mid-term budgets (for example tax).
Case study: Bank of America

Bank of America is among the leading financial institutions in the United States, offering various banking services, investment banking, asset management, mortgage loans and other financial services. It operates in 50 states and more than 40 countries.

Enhancing client retention is a big challenge for Bank of America to maintain leadership in its historical area. Since early 2007, Bank of America has provided its clients with mobile banking services including account checking, payment and transfer services, budget tracking and an ATM finder. Currently 50,000 customers download the mobile app each week and the traffic is expanding rapidly, with 250 million to 300 million customers logging in through online banking each month.

Despite Bank of America’s digital success mainly relying on its first mover position, the bank has managed to retain its customer database and expand it by continuously offering new, innovative digital services and products.

Create an intimate relationship, beyond a traditional banking one, by providing non-financial services

- Bank of America has developed online non-financial services to target specific customer segments. For example, the Bank of America Chicago Marathon website is providing runners and spectators with information relevant to an event. Additionally, educational websites like BetterMoneyHabits.com have been developed with the Khan Academy and aim at helping people better understand mortgages and other financial products.
- The bank has also created online communities like the Small Business Online Community (SBOC), helping young entrepreneurs find information and best practices to launch their business. SBOC put together small business owners to share experiences and ideas aimed at helping beginners in their entrepreneurship adventure.

Provide advanced and friendly financial services enabling the client to take control of their financial situation

- The “Keep the change” programme allows customers to transfer instantaneously an amount of money from their checking account to savings account. Each time a customer makes a purchase with his credit card, the amount of money paid is rounded up and the difference is transferred automatically from the checking account to the savings account. For example, when a client buys a sandwich at US$6.30, a rounded up amount of US$7 is debited from his checking account. The difference of US$0.70 is automatically transferred to the savings account.
- BankAmeriDeals is a free online service for customers providing them with cash back deals from numerous retail categories such as restaurants, fast-food outlets and discount department stores. The customer logs into his/her online banking account and chooses the stores they are interested in. Then, when visiting the selected retailer, he uses his credit card while making a purchase and the cash back is automatically credited to his/her account at the end of the month. The programme has seen more than 130 million cash back deals served to customers.

continued...
Develop intimacy and an extra-banking experience

To develop a relationship, banks need to develop trust. Moven, for example, gives back personal information to its clients to help them make spending decisions. Banks expect to see a sustainable increase in PFM tool subscriptions by 2017, with almost 40% of the online customer base registered. Knab bank is already providing its clients with advanced PFM (initially developed for advisors) and mBank is launching a brand new platform to help it engage in real conversations with customers to provide relevant products based on real-time marketing.

Key lessons for banks

Develop a long-term client relationship by providing non-financial, value-added services that are relevant to their daily lives.

Collaborating with educational entities or non-profitable associations to offer free instructive advice should enhance banks’ attractiveness and client retention by engaging in long-term dialogue. Additionally, creating digital communities over a social issue like entrepreneurship should build a strong connection with customers beyond the traditional banking relationship.

Enhance client intimacy with financial services by providing concrete benefits

Services that enable clients to reach a savings goal or to benefit from cash-back deals are key to promoting loyalty. It allows banks to position themselves as a partner, helping the client to improve their financial situation.

Push personalised products thanks to customer proximity

Bank of America has developed a personalised online push offer system for its clients. Depending on the behaviour of a customer when he visits BankofAmerica.com, and his interest in some specific products, the offers posted on the website changes to fit the client’s expectations.

What percentage of your online customer base is registered to use personal financial management tools in 2012 and expected in 2017?

<table>
<thead>
<tr>
<th>Year</th>
<th>Registered</th>
<th>Registered and regularly using</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>2017</td>
<td>39</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: Kurt Salmon and Efma survey
Creating intimacy is also about developing a global relationship with the client, beyond banking. Social media helps to create informal interactions with the client. The German bank Fidor offers an innovative business model using social media: for every 2,000 “likes” it gets on its page, it raises the interest rate on all current account deposits by 0.1%. A “share” button also allows clients to collect some “likes” from friends.

The recently launched Moven paves the way for an untapped use of social media. According to their financial behaviour, each new client gets a financial profile called CRED and has the opportunity to improve it when recommending the bank on social media. Moven also offers Facebook login capabilities to banking accounts.

Banks can also develop their social side by creating communities for their customers, according to their interests, segment and so on. Not only will banks retrieve information but they will also increase their intimacy with the client, enabling them to share experiences with peers.
Launched in 1994, Amazon is one of the most famous US online merchants. First known as a bookseller, its activity has been largely diversified to include sales of cultural products such as music and movies, electronic devices and home equipment. The company is now considered a full member of the internet “big four” with Apple, Google and Facebook.

The name Amazon reflects the ambition of the CEO to produce a large-scale phenomenon like the river called by the same name. This ambition became a reality as it took only eight years for the firm to reach US$5 billion sales – Walmart needed 20 years to achieve this.

Amazon has become a global brand with more than 76 million active customers.

In order to develop such a large platform, offering one of the world’s biggest selection of products, Amazon bet on cross-selling to become the tech company making the most revenue per user. While in 2010 eBay ranked second after Amazon, generating US$39 per customer, Amazon’s clients spent an average of US$189 per year.

Source: Comscore, Bloomberg, JP Morgan estimates (2011)
Client satisfaction as the main driver of Amazon growth
The aim of Amazon is to become a partner of the consumer’s daily life by offering an increasingly comprehensive and price competitive offer – generating fast growing traffic on its platform. Thus, client satisfaction has always been at the heart of its strategy – helping to be the main driver of boosting traffic and ensuring business expansion. Amazon has used many tips to improve the customer experience and enhance client satisfaction – mainly related to personalisation and client recognition.

Easy repeated purchases
Amazon’s one-click payments are a big part of its online success; they encourage shoppers to keep coming back to the platform. This consists of recording a customer’s data such as address and card details to facilitate their second purchase by only entering a username and password.

This is especially useful for smartphone users that want to save time and make purchases as simply as possible without having to enter information such as credit card details or the shipping address.

Offer customised content
Amazon deployed a lot of tips to provide a customised experience for online shopping in order to make it as real as in-person shopping. Personal data provided by the client during their shopping experience is used to develop one-to-one marketing and push personalised offers.

Browsing any Amazon page, a recognised customer will be offered some targeted advertisements and recommended products based on their previous purchases and any data provided, such as preferences and browsing history.

Reward loyalty customers with better services
Amazon Prime is another example of the strategy driven by client satisfaction. It is a delivery service enabling subscribers to benefit from express and free delivery without any minimum purchase amount. In the US, the annual fee is set at US$79.

Spectacular results have been noticed for this offer. When a customer subscribes to Amazon Prime, its Amazon purchases are on average three times higher than a non-Amazon Prime registered client.

Subscribers not only order more often, but after paying the US$79 fee, they start buying things at Amazon that they probably wouldn’t have in the past. Since shipping is always faster and free, members save themselves a trip to the store for things like batteries and coffee beans.

continued...
Key lessons for banks

Development of client stickiness
Amazon demonstrates that enhancing client stickiness is a key success factor in client retention and business expansion. The company has managed to expand its business by improving customer satisfaction with innovative and customer-oriented services. Through the following, most of these value-added services meet one of the clients’ main expectations – customisation:

• Client recognition with the “easy purchase” function
• Personalisation of services with Amazon Prime
• Loyalty programmes.

Push targeted offers
Leveraging customer data enables Amazon to better address customer needs and encourage cross-selling. For example, the suggestion of correlated offers after a purchase is among one of Amazon’s major successes. This challenge is all the more important for banks given that they collect so much information from their clients and prospects. It could be a good way to address customised offers to specific customer sub-segments.

Optimise the client experience
Being at the forefront of the client experience is critical to ensuring the success of a digital strategy. Amazon has developed a convenient and user-friendly platform allowing customers to access considerable amounts of information and customised services in only one or two clicks. But client experience is not confined to a user friendly platform. Having innovative post-purchase services is a key driver of client retention. In the banking environment, a convenient PFM tool is one of the best ways to ensure daily contact with the client and to meet their new mobile lifestyle.
Retain clients by giving them tools for a self-directed relationship with the bank

Developing a full online relationship seems appropriate, as clients have few reasons to visit the branch. With their permission, banks provide them with a confidential global account view; enabling all accounts to be managed from a single platform.

Similarly, enabling clients to get in touch with the bank’s experts through chat or video conference provides an instant service that prevents the client from looking for more customised products from competitors.

Most banks have already deployed such functionality: 87% already provide chat and click-to-call tools or are planning to. 63% use or intend to use product self-configuration.

What online banking functionality do you already provide or are you planning to provide in the next three years?

Banks highlight what key functionality they are currently offering or planning to offer their customers

<table>
<thead>
<tr>
<th>Functionality</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal financial management tools</td>
<td>96%</td>
</tr>
<tr>
<td>Interactive services such as web chat or click to call</td>
<td>87%</td>
</tr>
<tr>
<td>Secure email</td>
<td>80%</td>
</tr>
<tr>
<td>Self-profiling for providing advice on products and services</td>
<td>72%</td>
</tr>
<tr>
<td>Self-configuration of products and product bundles</td>
<td>63%</td>
</tr>
<tr>
<td>Live web meeting</td>
<td>57%</td>
</tr>
</tbody>
</table>

Source: Kurt Salmon and Efma survey

Optimise your cross-selling according to the client’s digital behaviour

If providing the client with the right product at the right time through the right channel is good, providing a value proposition according to the client’s behaviour is even better. Alior “looks at how the client behaves, and then tries to adapt the offering and the service to their behaviour, as this is the way of Alior segmentation.” Other banks should also customise their offer according to the customer’s profile, providing “direct where possible, advice where needed.” – like ING.
The cross-selling and retention approach should be global, considering the client behaviour as much as their pure financial needs. The bank has to review all the service criteria according the type of behaviour – from account statement to account manager role, from communication to performance indicators.

**Practical roadmap: cross-sell in three steps**

- Build an omni-channel approach, but focus on relevant channels according to the client lifecycle
- Empower your client with more autonomy: offer enhanced PFM, co-ideation to build a trust-based and intimate relationship and collect even more information on your client
- Consider your customers’ digital behaviour, and build a global cross-selling strategy based on the moment of truth, the lifecycle and each client’s digital appetite.

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**Digital behaviours, three client profiles**

- **The relational**
  I want to have human contact in my banking relationship. I rely on my advisor for any financial decision. For me, digital is not key.

- **The down-to-earth**
  I like to use digital when it is easier and faster than visiting the branch. I am looking for transparency and simplicity. Digital is an enabler.

- **The self-directed**
  I am my own advisor. I want to do everything, anytime. Digital is instrumental for me as it enables me to manage my money on my own. Digital is an empowerment.

Source: Kurt Salmon study
Over the past few years, digital innovations have deeply impacted retail in-store sales with e-commerce growing exponentially. In addition, digital tools have flourished in stores and have transformed the clients’ buying journey, offering them new possibilities that bring value to their experience (for example, they can compare products online, gather client feedback in the store with their smartphone and continue shopping outside opening hours).

This trend is also visible in the banking industry, with the development of self-service devices in branches. However, branch traffic has been decreasing in the past few years and, according to an Efma study, is forecasted to drop by another 20% by 2016. In addition, as stated by Unicredit: “In Central and Eastern European countries, clients are often acquired through third parties and most of them very seldom visit the branch.”

Despite this trend, bankers believe that the best online tool to generate leads and sales is to drive the customers into the branch. As a matter of fact, traditional branches and bricks-and-mortar stores are not outdated and still drive 90% of sales.

What is your vision for your bank’s online and mobile banking proposition in the next five years (%)?

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary channels for transactions</td>
<td>89</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Complementary channels to branches for all banking services</td>
<td>76</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>Primary channels for customer service</td>
<td>67</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Primary channels for attracting new customers</td>
<td>63</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Primary channels for new banking activities</td>
<td>41</td>
<td>52</td>
<td>7</td>
</tr>
<tr>
<td>Primary channels for sales and advcise</td>
<td>31</td>
<td>63</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Kurt Salmon and Efma survey
Successful developments for banks should integrate digital in branch to offer an enhanced client experience. In other words, it is no longer about “bricks vs clicks”; branches have to switch to phygital.

**The branch – advisor tandem: cornerstone of the client relationship**

Banks are under significant pressure to keep costs down to improve profitability. Branch networks remain extremely costly to run, so bankers could be tempted to reduce the size of their network or close it completely. This could help to reduce costs, but banks should not close their branches, at least in the short term, for several reasons:

**Branch: “The” subscription channel**

The branch remains the main channel for subscription, with over 75% of product sales carried through the branch, according to an Efma study. For many banks, such as Wells Fargo, which is a “big believer in the branch network”, branches are not dead as “75% to 80% of the customer base has visited the branch in the last six months.” Indeed, the Kurt Salmon and Efma study revealed that bankers believe that branches will remain the key channel in coming years, with less than a third of them estimating that online and mobile banking will be the primary channel for sales and advice in the next five years. The branch is instrumental in driving client acquisition, as an Efma study shows that more than 30% of customers choose their bank because of the proximity of the branch to their home. The branch and relationship manager (RM) play a key role throughout the client lifecycle. According to Fineco: “customers directly managed by an advisor have a longer lifecycle and better return ratios.”
The ability to provide real human contact
Banks with a physical network benefit from a key advantage versus a full online/remote model: the presence of human contact. Customers may be more willing to carry out transactions and subscriptions online, but they still cherish the human contact which reassures them and to which they turn to for advice or if they have a problem. Banks that have developed an online/remote model are aware of this situation and have difficulties to fully emancipate themselves from a physical network (Jibun Bank, for example, allows its clients to use the branch network of BTMU). In addition, branches are key to enable banks to establish their brand. Hence, banks such as Knab “may open in the future one or two flagship stores for the people to see that we really exist,” although the bank model is based on online banking and that they “don’t believe in the branch anymore.”

The closing-cost dilemma
While closing branches will result in cost savings, additional costs incurred by these closures have to be taken into account. For instance, closing branches will have a significant impact on the communication expenses of the bank. As a matter of fact, banks with a physical network benefit from a tremendous communication channel. The branch window promotes the image of the bank and its various offerings throughout the year. In order to maintain the same level of communication without a physical network of branches, banks would have to significantly increase their communication expenses.

Moreover, even if banks were willing to close their branch network, it might not be feasible for legal and HR reasons. In addition, by closing their network, banks risk facing client erosion from those who are still attached to the branch and to human contact.

Rather than closing branches, banks should rethink their branch format and how they are operated. A key element for this transformation is to embrace phygital with the integration of digital technology into branches.

Phygital: a new customer experience
A recent common trend to reduce the cost of the physical network is downsizing the branch size. Yet, if smaller branches could be relevant, the most important evolution branches have to go through is to focus on bringing value-added services to the client, whatever the size or format of the branch.

To drive this transformation, banks have to develop new digital technologies and integrate them in their branches. These new digital elements will not only enable clients to have access to a wider range of self-service operations and subscriptions, but also simplify the processes to be more intuitive and user friendly. This phygital strategy relies on several key devices, including ATMs. Indeed, today, the most advanced ATMs can participate in cross-selling. Bankers are well aware of this potential and are developing (or planning to develop) new functionalities such as deposit taking and information services.
In addition to advanced ATMs, branches should also house a range of interactive touch screens or tablets. These screens should enable clients to demo some products and carry out simple subscriptions directly on screen (for example, BNP Paribas has a “Digital Store” in its concept store in Paris).

Another key element that banks have to use in their branches is video conferencing. In order to chat with an expert in a specific field, who is not present in the branch, or to contact their personal advisor while travelling, clients need remote communication systems. To answer these needs, branches should have dedicated areas/rooms with full equipment to support video conferencing – enabling clients to share documents with advisors (such as a scanner to send a copy of some documents or a USB port to upload already digitised ones).

In parallel with the installation of these digital devices, banks must face another digital challenge: integrate mobile in branch. In order to provide a consistent buying journey across multiple channels, clients should be able to continue transactions started on the internet or with their advisor on their mobile. Banks should enable the mobile channel to interact with other digital devices in the branch. Some initiatives already exist and should be extended – such as Brazilian bank Bradesco which offers its clients the possibility to synchronise the transactions made on self-service devices with their mobile and to receive the transaction receipt on their mobile (see following case study for more details). Moreover, banks can offer new possibilities to clients using their mobile. For instance, a customer could check-in to branches with their mobile so that their dedicated advisor is aware that their client is present and can enquire if he can offer his services. The advantage of using this path is that the client decides whether or not they want the advisor to know about his presence in the branch. Another possible function would be to link the mobile with ATMs so that the client could withdraw money without his/her card in case of emergency (as offered by Akbank in Turkey).

If branches are developing self-service devices and mobile functionalities, they also have to focus on educating their customers to use them. Just as Apple did with its Apple Stores, they could provide tips or lessons on how to use these new elements in an interactive way. This could enable clients to adopt new habits such as doing m-payments, or using portfolio financial management tools.

With the development of self-service – due to the extension of its scope to perform even more transactions and subscription possibilities and the ramp-up of clients’ usage of these devices – the sales force in branches will be relieved from numerous administrative and low value-added tasks. They will have more time to spend on high value-added tasks such as providing clients with advice and in-depth expertise.
The idea of phygital is also to develop omni-channel advisors, which are able to do face-to-face meetings, video chat and conference calls. The traditional organisation of retail banks with fixed staff in dedicated branches is no longer adapted to customers’ banking usages. And, in order to lighten their cost, it might be more effective to adapt a flexible organisation: flying-team, 75% staffed branch, for example.

Advisors in branches should mostly focus on valued-added tasks. In order to do so, the network could be adapted with the creation of a large hub branch and smaller annex ones to cover a specific area. The hub could have dedicated areas for self-service, information and simple subscription; in addition it could house a large salesforce composed of advisors and experts that could either meet clients face-to-face or answer their needs remotely if the client goes into a smaller branch and connects via a web conference.

In addition to this new organisation, branches should digitise their store front so that it becomes more interactive and enhances the communication around the bank and and shows off its offering. Furthermore, similar to the Adidas interactive digital shop windows which enable clients to shop with their smartphones outside store opening hours, banks’ store fronts could be used as a 24/7 vending area. Clients could subscribe to products using their mobile device and the elements highlighted in the branch windows. Hence these windows could be a real link between the banking and non-banking world.

Phygital: a new sales force experience

The phygital experience should also be integrated internally within the salesforce. Phygital can be leveraged in order to enable advisors to provide their clients with high value-added services and expertise.

With the digital evolution, the salesforce can be equipped with tablets or other electronic devices that are loaded with extra information. This additional information is key since an increasing number of clients that come into the branches have already carried out online research and have extensive knowledge of the product they want to buy. It is then crucial for the salesforce to be the expert and to provide well-informed customers with new and useful information in the branch. This technique is used by retailers such as the French travel agency Club Med, whose new stores are equipped with digital devices loaded with dedicated content not accessible on the internet.

A system of web conference applications can be installed and used by advisors during meetings with their clients. For complex sales or specific advice, an expert could be contacted to provide insight on his specific field of expertise (for example, an investment specialist). Via this web conference, the point of view of this expert could be presented live – and relevant documents could be shared online. By the end of the conference, the client could have an up-to-date view and make an informed decision.

This system of web conference applications could also be extended to traditional advisors who could operate as a remote salesforce. Given that they have more time due to the increasing usage of self-service, they could give advice to clients in multiple branches. This system already exists in some online banks such as the polish bank mBank, which “offers a click-to-video-chat solution without any program to install for the client.” The installation of this remote salesforce covering multiple branches would also be advantageous for the bank. The productivity of the salesforce would be increased by covering more clients and providing advice to clients in remote branches.
Branch network

Hub branch (Large sales force)

Annex branches

Organisation of an ‘annex’ branch

- Branch entrance
- Self-service area with extended hours
- Chat rooms with access to remote advisors/experts
- Physical advisor/expert office

- Employee dedicated to help clients use the devices in the self-service area
- Access to extended hours remote meeting
- Digital equipment to upload and share documents (scanner, USB port...)
- Subscription of advanced products
- High-value added advice

- High functionalities ATMs (cash withdrawals, cash/cheque deposit, ...)
- Transaction receipt on mobile phone/email
- Touch-screens loaded with information on the full range of products and services
- Simulation of product subscriptions
- Simple product subscription
- Synchronisation with mobile phone
- Subscription of advanced products
- High-value added advice
- Web conference with a remote expert if needed

Source: Kurt Salmon study
Phygital and other digital challenges for retail banks

Should banks evolve across all digital models?

Three models are emerging:

• Bricks-and-mortar banks with banking functionality on the internet. This model corresponds with the most traditional banks, with an increasing number of operations accessible online and remotely on self-service devices.

• Remote branches of bricks-and-mortar banks. This model is the extension of the first model and offers clients enhanced remote accessibility with an emphasis on remote channels (telephone, internet). The client is not attached to a physical branch and interacts with advisors remotely during extended hours. The client can also benefit from the physical network of the bank if needed.

• Full online banks. With this model, interactions with clients are only delivered online (via the internet or mobile). The client subscribes online to all products offered by the bank; they also receive advice and manage their account online.

Some banks have decided to have a full digital footprint, covering all of these models, but this strategy might not be relevant for all banking actors. The compatibility of the models has to be assessed: is it necessary for an online bank to open a branch network? If a bank already has a bricks-and-mortar model and a full online one, what will be the benefit of launching a remote branch model?

Each model should refer to dedicated objectives and have a distinct value proposition in order to avoid client confusion. Here, simplicity is key. In addition, in order to coexist, these models should target different client segments to avoid cannibalisation.

On top of that, brand image and consistency should be considered before launching a new model. For instance, if a traditional bricks-and-mortar bank decides to launch a full online bank, it might consider launching it under a different brand name to highlight that the business model is different. Thus, the new model can have a clear brand strategy and a different image to the traditional bricks-and-mortar bank – even if it is backed by it and benefits from its image of a true and sound bank.

Best practices: digitise the physical world

Some banks and retailers have already successfully “phygitised” their stores. But what areas have they focused on and how have they benefited? Bradesco and Sport Chek are some good examples.
Case study: Bradesco Next

Listed on NYSE, Bradesco is one of the largest private sector banks in Brazil in terms of assets. It offers its 6.5 million clients (including over 25 million account holders) products and services through the retail, prime, middle market, corporate and private segments.

Bradesco is mainly present throughout Brazil, with 7,586 branches, but also operates eight subsidiaries in foreign countries to meet corporate customers’ needs.

Bradesco, which is the largest private-sector employer in the country with 103,385 employees, was considered the best Brazilian Bank in 2012 according to The Banker magazine.

Bradesco opened a new branch concept in Sao Polo in August 2012: Bradesco Next. This branch is entirely digitised with no human presence – with the exception of hostesses to explain the branch concept. Clients are welcomed by a robot, which invites people to discover the branch and is programmed to hover near the bank entrance to attract customers when branch traffic is low.

With biometric hand readers instead of a traditional login process, Bradesco is a pioneer in this area, further enforcing its reputation of being innovative. More than ten million user profiles have been registered for biometric account access since the launch in 2006.

Once logged into one of the interactive touch screens/touchless screens (controlled by hand with a Kinect-like system), clients have access to personalised banking information, can conduct a various range of transactions and manage their accounts. Customers can interact with all these screens through their smartphone (via the use of QR codes) and transactions can be synchronised with it. ATMs in the branch are also tactile with biometric login and the receipt given at the end of the transaction is sent to the client either by mail or SMS.

The branch has dedicated rooms for one-to-one services with the customer: the glass automatically frosts to offer maximum privacy; clients can interact with a digital consultant who provides dedicated information and offers products/solutions for the customer. If the client wants some more specific financial information, they can request a video conference with a human investment specialist in real time.

Bradesco also introduced an interactive tactile table called Life Cycle. In this application, which is an interactive financial advisor, the client indicates his project (buying a car/home, set up a personal pension plan) and his financial situation. The application then analyses the client’s financial situation, their consumption patterns and predicts the ideal time and best options to accomplish the project. The predictions and information collected can be forwarded to the client’s e-mail or discussed in further detail with a bank officer.

Bradesco Next also has a lounge corner with a touchscreen table where customers can read magazines, order mineral water or find out the next cultural events planned in town.

Key lessons for banks

Aside from the technological/futuristic aspect of Bradesco Next, which contributes to the brand awareness and attracts customers who want to discover the experience offered by the branch, three main best practices can be drawn from the bank:

Being phygital
• The Bradesco Next concept creates a strong integration of different channels by merging the branch and digital channels. Thanks to this integration, the bank can offer a consist experience across all channels with the client starting a process in one channel and finishing it in another.

continued...
• This development of an omni-channel approach is key to meet clients’ expectations and to enhance their experience.

Developing customer empowerment through a unique experience

• With the introduction of state-of-the-art digital technology in its branch, Bradesco Next adapts to its clients’ needs and transforms painful processes into interactive and engaging ones (the Life Cycle application)

• Thanks to the development of digital, clients can manage transactions/subscriptions more easily and increase their interactions with the bank, which collects valuable information regarding its customers.

Rethinking the role of the RM in the branch

• The introduction of innovative digital devices (interactive touch screens, ATMs and digital avatars) encourages clients to use self-service to perform most of their daily banking activities and basic/low valued-added services. Hence, the RM can focus on providing more high value-added services to its clients, for example offering specific investment advice tailored to the customer

• Bradesco Next takes this logic even further with RMs that are not physically in the branch but are accessible through video conference; since the RMs have less low value-added tasks to perform, they have more available time, and they can serve more clients in multiple branches.
Case study: Sport Chek

Sport Chek is a Canadian retailer of sporting goods, footwear and apparel, which offers a large range of brand-name and private-brand products across its 163 stores across the country. Sport Chek stores are part of FGL Sports, the largest and only national sporting goods retailer in Canada.

Sport Chek opened a “retail lab” store in Toronto in January 2013, which offers its clients a broad range of digital tools to enhance the shopping experience through facilitated contact and information delivered at the point of sale. With this store, Sport Chek aims to develop a digital strategy in order to find new ways of reaching its clients: 80% of their clients are under the age of 45 and are increasingly using digital technology.

The store, which is a testing ground for new technology with the introduction of new elements every six to eight months, is equipped with 140 digital touch screens with NFC technology ranging from small tiles in tables to larger 55” screens which clearly present product information and promote customer interaction.

Staff members in the store – who are experts in the specific area of the store they are assigned to – are equipped with tablets loaded with vendor extra content to better serve customers. Through these tablets, they can take over the numerous screens in the store and upload/manage dedicated content to better serve the client (vendor content or community content).

One of the various screens in the store is an interactive “community board” that can connect customers to each other and provides them with real-time information on sporting events (schedules, results, stats) and fitness classes. The clients can interact with each other by leaving comments/message on the “community board”.

Sport Chek also introduced a mobile app (Scan&Save) that allows customers to benefit from special discounts through a mechanism of augmented reality with the use of the phone’s camera in store. The client uses their smartphone to scan a marker in store and then has to pick a ski run to reveal the percentage of savings he can get (10-50% discounts). Once gathered, the client can activate their coupon, which is valid for a 24-hour period.

As a “retail lab”, Sport Chek shelters several brands’ digital concepts, including:

continued...
An Adidas Virtual Footwear:
Following the observation that 57% of potential clients leave traditional stores because they don’t find the appropriate shoes, Adidas decided to create a digital wall based on touch screens which encompasses the 8,000 different shoes from the Adidas catalogue. Through this digital wall, clients can explore the entire catalogue in 3D and access a large source of information about the shoes (product features, comments on social networks, videos and interesting facts about athletes’ accomplishments while wearing that specific model of shoe). After the client selects the shoes of his/her choice, an employee receives the request and brings up the box within minutes. If the shoes are not available, the client can order them online via dedicated staff members equipped with a tablet.

The installation of this digital wall enables Adidas to boost its brand image and also increase sales (sales of products highlighted on the wall increased by 500% in the London Adidas flagship store).

“Build your own Reebok” kiosk:
Reebok has installed – in its dedicated corner of the shop – touch screens that enable the client to build their own shoe. This system, which is also available on the Reebok website, allows clients to customise every part of the trainer. Once customised, clients can place an order and receive their unique pair of shoes by mail within four to six weeks. On average, a customised pair of shoes cost an extra US$20-25 over a standard pair of the same shoes.

Key lessons for banks
Based on the Sport Chek example, several best practices could be used in the banking industry:

Integrate digital technology in branches to facilitate the buying journey and enhance the client experience
By installing digital devices in the branch (touch-screens, tablets ...) clients can access handy information about the products & services offered by the bank. In addition, if these devices are connected to social networks, clients can benefit from customers feedback and comments on the offerings, helping them to have an opinion on the product they are willing to subscribe to.

Moreover, the installation of digital self-service machines enables clients to get used to remote channel and to make an increasing number of transactions and simple subscriptions online – enabling RM to focus on more value added services.

Equip the sales force with digital devices to enhance and highlight their expertise
Clients visiting branches have an increasing knowledge of the products offered by the bank and their features since they are doing research on the internet prior to their visit. By providing the sales force with digital devices loaded with extra information about products offered by the bank – the sales force can easily access the needed information and can deliver more value-added information and advice to their clients.

Practical roadmap: be phygital in three steps
• Keep branches open. Their role and footprint are instrumental to the customer proposition. Instead, adapt their format in order to incorporate new digital technology, enhancing the client experience.
• Branches are the core element of your digital strategy, phygitise them! Develop self-care corners and educate your customers to use digital devices (touch screens, high functionality ATMs) for their daily banking operations and simple subscriptions.
• Invest in your teams to provide them with digital tools so that they can answer client requests more effectively and deliver informed and value-added advice.
Digital: low cost or premium model?

Pure online models are hurting the more traditional banks with “zero fee” policies. To compete, some banks are launching full online models that are supposed to attract customers with a brand new “low cost banking style.”

An online player has less fixed costs and a smaller payroll. In this sense, an online platform can positively impact pricing policies, providing clients with cheaper offers.

Given that price is only the third criteria for buying online, does a real low-cost digital model match customers’ expectations? Can a pure online offer be profitable in the long run for banks? Undoubtedly, price is a key lever to generate increased revenue, but alone it is not enough to sustain customer loyalty.

Digital offers: price killers have entered the market...

A low cost business model has four fundamental components:

The four pillars of a low cost model

<table>
<thead>
<tr>
<th>Low prices</th>
<th>Standardised and limited offer</th>
<th>Industrialised process requiring less manpower</th>
<th>Economical business model relying on customer autonomy</th>
</tr>
</thead>
</table>

Source: Kurt Salmon study

In a low cost model, the standardised offer is very limited and any additional service is charged to the client. The business model is based on economies of scale and the transfer of costs to the customer is maximised.

Where does digital stand in all of this? It is true that banks, as retailers, have leveraged digital and internet potential to minimise their costs and provide clients with lower fees.

However, online banks that adopted this low cost stance face structural profit falls. What does it highlight? Pure online banks that propose low cost offers are not profitable. It shows that digital should not be confused with low cost. Instead, digital should be a way to charge clients for value-added services, because of its ability to sell clients customised offers. However, like Unicredit, banks should “offer cheaper prices on online banking only if it is sustainable.”

A good example of that is CheBanca!. Launched in early 2008, the bank proposed a simple offer with competitive prices. At first glance, the offer seems “low cost”, but it’s the customised buying experience that makes it a successful model.
Phygital and other digital challenges for retail banks

Case study: Chebanca!

Chebanca! (which means “What a bank!” in Italian) constitutes the retail banking part of the global investment firm Mediobanca.

Since its creation in 2008, Chebanca! as a high-tech, low price, multi-channel bank has served a steadily growing, young and affluent customer base of more than 500,000, to which it has sold 650,000 products ranging from deposits to mortgages.

Used as a funding arm of the parent bank, it has supplied Mediobanca with nearly €12 billion in deposits and 4.3 billion in mortgages loans in four years. In 2012, Chebanca!’s deposits amounted to 20% of Mediobanca group total funding.

The bank has achieved high brand recognition through three pillars: a simple product offer, transparent and highly competitive pricing, and a relaxed yet innovative image.

Simple to understand, easy to buy and convenient to use products
Chebanca! provides five types of products: current account, deposit account, portable account, mortgages, and insurance products. The purchase process is not complex and can be achieved in three clicks across all Chebanca!’s distribution channels.

The most successful products in terms of sales are the deposit accounts (interests can be paid in advance), and the portable account.

Transparent and low prices coupled with quality customer services
Chebanca! applies a disruptively low-pricing model in the traditional Italian retail banking

Chebanca! current performance

<table>
<thead>
<tr>
<th>Years</th>
<th>Customers (in thousands)</th>
<th>Products sold (in thousands)</th>
<th>Deposits (in €bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>50</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>2009</td>
<td>210</td>
<td>230</td>
<td>6,2</td>
</tr>
<tr>
<td>2010</td>
<td>340</td>
<td>410</td>
<td>9,6</td>
</tr>
<tr>
<td>2011</td>
<td>430</td>
<td>530</td>
<td>10</td>
</tr>
<tr>
<td>2012</td>
<td>500</td>
<td>650</td>
<td>11,6</td>
</tr>
</tbody>
</table>

Source: Mediobanca, 2012

continued...
market: products perform rather well, are attractively priced yet innovative and there are mostly no transaction or management fees. The emphasis on “do-it-yourself” operations in all channels allows the bank to cut costs.

The current account, for instance, offers customers two options: in branch assistance included or excluded. In the first case, the customer will pay a monthly €2 fee for advisory services and will not be charged for in branch or online transactions, while the pure online customer pays zero fees online but is charged €3 per branch transaction.

With relatively low prices, Chebanca! nonetheless provides quality customer services which have contributed to its recognition in

3-click buying process, consistent across all channels

Sales by type of product

Source: Mediobanca, 2012

continued...
Phygital and other digital challenges for retail banks

2012 as “Best online current account.” The bank prides itself on its customer-centric mindset, with high-end innovative branches and an upmarket image. This is reflected on its mostly young, tech-savy and affluent customer base.

**Hybrid channels offering both low costs online and premium network branches**

Even if Chebanca! is considered as an online bank, it has developed consistent multi-channel operations and more than 50% of sales are done through physical channels. Indeed, the bank has strongly invested in modern and customer-centric light branches, which empower the customer through self-service booths. The branches also keep retail hours, more convenient for customers than traditional banking hours.

The same concepts are applied on the mobile counters set in high traffic areas.

The remote channels are also diversified, with an institutional website for information,

**Distribution channels and their performance**

![Distribution channels and their performance diagram](image)

Source: Mediobanca, 2012
a Home Banking website for operations, a mobile application and a call centre. Chebanca! also uses social media platforms such as Facebook to push marketing events.

Chebanca!’s model is not a low cost one. It emphasises advisory services and a value-added customer experience, even though products prices are kept low.

This has been possible because the bank’s remote channels require fewer expenses, and positive repercussions are visible, for instance through preferential prices offered to online-only customers.

Branches were also designed to be cost saving, with self-transaction booths, paperless option and minimal payroll (one director, two employees with desks and two employees without desks dedicated to offering proactive advice to customers). The physical network’s success confirms the importance of providing a value-added experience to customers.

Key lessons for banks

Adapt low-cost to market expectations
Chebanca! has applied a low-cost model online, but invested in light branches to differentiate their offering from competitors. However, the branches are also cost optimised: they provide client self-service booths, run on a small payroll and are less than 200 sq metres but designed to feel spacious.

Enhance customer experience
While offering low prices, the bank focuses on a customer value-added experience and quality service on all channels: convenient and empowering branches, user-friendly and powerful home banking capabilities. Digital for Chebanca! does not mean low quality. “They do banking, but not in a banking way” says one customer.

Keep prices transparent
Chebanca! website details through simple tables all the fees the customer would have to pay. There are no additional surprise charges, which are not listed. This helps build a trusted relationship with the customer.

Chebanca! key figures (€m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total income</th>
<th>Total costs</th>
<th>Net result after tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>-80</td>
<td>-156</td>
<td>-180</td>
</tr>
<tr>
<td>2009</td>
<td>-30</td>
<td>-100</td>
<td>-184</td>
</tr>
<tr>
<td>2010</td>
<td>49</td>
<td>-79</td>
<td>-184</td>
</tr>
<tr>
<td>2011</td>
<td>30</td>
<td>-39</td>
<td>-168</td>
</tr>
<tr>
<td>2012</td>
<td>123</td>
<td>-43</td>
<td></td>
</tr>
</tbody>
</table>

Source: Mediobanca, 2012
Case study: Happyview

Happyview is a pioneer in selling glasses online and has become, since its creation in 2009, the top retailer in this distribution channel.

Happyview’s business model is price-oriented, with offers three to four times cheaper than a traditional bricks-and-mortar optician. The website sells on average 70 to 80 pairs of glasses a day and has served 11,000 customers in 2011, which is ten times more than the average traditional optical store. Moreover, it has an agreement with complementary health insurance companies for customer reimbursement.

Within a market (physical and online) of more than €5 billion, Happyview is still small (€1.8 million revenue in 2011), but its fast growth is undeniable.

An attractive offer coupled with innovative ways of trying the product

Happyview attracts a market of middle-revenue customers with loss leader offers beginning at €39. After getting a prescription, instead of buying in a physical store, customers can buy their glasses online. Happyview displays information on each model, including description and dimension, pictures, other customers’ comments, as well as propositions of similar frames the customer could like.

Displaying models through the website also allows Happyview to offer more than 1,500 frame models, including upmarket brands such as Rayban and Vogue – that is nearly four times more choices than a traditional store.

In addition to their standard offer, options can be added for a price, such as non-reflective, tinted or thinner lenses.

But glasses are an item most people are reluctant to buy without first trying them on. In order to mitigate the prejudice of not having a physical network, the start-up offers three different ways of trying the glasses:

- A virtual try-on: the customer can upload an image of themselves and try multiple frames on it. They can then share the images via email or social media.
- A try-in-one-click option: Happyview can send one to five frames chosen by the customer for trying at home, in exchange for a small delivery fee, which is then reimbursed should the customer buy one of the frames.
- Upon appointment: fitting is also possible at Happyview’s single physical store in Paris.

In short, Happyview offers the same quality of glasses but at a lower price than traditional opticians, to customers who are willing to overlook the discomfort or uncertainty of buying a healthcare product on the internet.

A model associating distribution through the internet with partners in physical stores

Happyview is a pure player but it has one location in Paris and has signed partnerships with a network of two dozen bricks-and-mortar opticians in France. In its sole physical store, customers can – after taking an appointment – ask for adjustments if needed. The adjustments can also be done at one of the partner opticians’ stores.

A price-oriented business model to disrupt a traditionally high-margin market

In order to not cut on the quality of the lenses, which is crucial for a healthcare item, Happyview has structured a specific low-cost type of pricing strategy.

The average cost price for a pair of non-progressive glasses is €50, while the average market price is €300. In order to offer glasses starting at €39, Happyview relies on its pure player position as well as an optimised supply chain. 

continued...
No physical branches other than the sole store in Paris, which is appointment-only, meaning less rent and stock-in-trade

A small payroll in view of the annual revenue: 15 people including four certified opticians is sufficient to run the business

Just in time production with nearly no stock, meaning less carrying and holding costs

Reduced communication expenses

Higher break-even point due to smaller commercial margin, to be compensated by higher sales volume (balance at 200 pairs a day compared to three pairs for a traditional optician)

No intermediary whenever possible, meaning less commission expenses

Less storage costs – the partner glass maker’s warehouses are rented whenever necessary.

However, it still has the same suppliers as bricks-and-mortar opticians and prides itself on providing the same quality of glasses as them.

In other words, even if the business model is low cost, the glasses are not.

**Customer services which are not low cost**

Customers expect more and more services to come with a product. At Happyview, customers have various ways of contacting the team of opticians: through phone, mail or the physical store in Paris, or through social platforms such as Facebook, Twitter (@Happyview_fr), Google+ or Pinterest.

Questions are also answered online by the team through a real live chat and not an automated robot as is the trend for lots of retailers’ websites. The opticians can provide support in decision-making and customer service throughout the buy phase. Happyview also provides a “satisfied or money back” clause, a wider choice range and compensatory ways of trying on the glasses.

**Happyview virtual try-on**

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[Image: Happyview virtual try-on]

**Essayez nos lunettes sur votre visage**

[Image: Virtual try-on interface]

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continued...
Restrictions on the model
But there are also some restrictions too. Some options cannot be provided (anti-fogging, anti-drip) and not all corrective ranges are covered. Happyview only offers small to medium correction, and will redirect the customer to one of the partner opticians if the correction falls outside the average range. Moreover, the try-at-home option is only available in France, even though glasses orders can be worldwide.

Key lessons for banks
Pricing transparency is important for an online model
Glasses should be an item not easily sold online; however, Happyview has achieved this feat, notably through a transparent agreement with the customers. If they can forfeit the comfort of buying in physical stores, Happyview can give back part of the money saved on the supply chain and still keep the same quality of product. Customers want to be reassured as to why the product they are buying is so cheap compared to competitors: the questions “Why are your glasses so cheap?” and “What is the quality of your glasses?” are among the top questions on the website’s frequently asked questions page.

Low price should not mean low quality
Happyview has cut costs on advertisements and physical stores, but is not sacrificing on the quality of lenses or the customer service, and is even surpassing traditional opticians in terms of choice range. Low price should not mean low quality, at least not on the value-added items the customer is not ready to forsake.

The four pillars of a low cost model as used at Happyview

<table>
<thead>
<tr>
<th>Low prices</th>
<th>Standardised and limited offer</th>
<th>Industrialised process requiring less manpower</th>
<th>Economical business model relying on customer autonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>On average 3 to 4 times cheaper than traditional competition</td>
<td>Non-standard corrections or customisations not available. Options like brand frames or thinner lenses charged</td>
<td>No physical stores network</td>
<td>Client self measurement for glasses adjustment</td>
</tr>
</tbody>
</table>

Source: Happyview, Kurt Salmon study

continued...
Hybrid networks and options are appreciated
Happyview has partnered with physical stores in order to give customers the possibility of getting adjustments there, and the website’s try-at-home option has a high conversion rate, as 75% of customers buy a pair of the glasses they have tried on. Offering options to overcome the digital barrier is a real plus.

Customer reviews can help turn around the mentalities
Displaying up-to-date customer reviews, whether they are positive or negative, can improve brand perception more efficiently than heavy advertisement.

Cost structure for one pair of progressive glasses
*Traditional optician vs Happyview*

<table>
<thead>
<tr>
<th></th>
<th>Traditional</th>
<th>Happyview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>112</td>
<td>38</td>
</tr>
<tr>
<td>Labour</td>
<td>112</td>
<td>38</td>
</tr>
<tr>
<td>Stores</td>
<td>108</td>
<td>31</td>
</tr>
<tr>
<td>Tax</td>
<td>98</td>
<td>16</td>
</tr>
<tr>
<td>Advertisement</td>
<td>72</td>
<td>31</td>
</tr>
<tr>
<td>Frames and lenses</td>
<td>58</td>
<td>58</td>
</tr>
<tr>
<td>Intermediary</td>
<td>30</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Happyview
Digital: a lever for cost reduction?

Superficially, online banks appear to have an economic advantage. However, there are a lot of hidden costs that come from client acquisition, information systems, communication or remote sales force. For example Hello bank! invested €80 million in client acquisition alone. An ING spokesperson confirms this: “If well done, digital requires a lot of investment”.

The digital saving/expenses balance

- Savings
  - Real estate rent
  - Payroll
- Expenses
  - Information system
  - Dematerialisation facilities
  - Call centre remote human resources
  - Self-care equipment
  - Omnichannel innovation
  - Communication and marketing

mBank has been successful with its online strategy. It has positioned itself as a low price, low cost bank that offers a high quality service with a focus on technology. Targeting mass affluent customers, mBank has extended its product range over the years, and has also created a dedicated network. Recognising that the best client experiences cannot be achieved through the online channel alone, the company also offers human touchpoints. The success of the model is not based on low cost but rather on remote resource effectiveness, the product offering and intensive marketing.

Revenues generated from online customers are lower than those generated by traditional ones because new clients generally bring with them fewer assets. The net banking income (NBI) per client is lower for the young online players. For example, Hello bank! customers have a lower NBI than those who bank with BNP Paribas.

While its impact on cost efficiency is negligible, digital has a significant impact on productivity and plays a big role in achieving resource effectiveness. According to Hello bank!, “our advisors handle more clients than a traditional BNP Paribas advisor”. Indeed, relationship managers are free to focus on more valuable advice when customers manage simple operations themselves.

Artificial intelligence and other software can also improve resource effectiveness, handling simple operations such as organising meetings with an advisor, sending out SMS confirmations etc. When the relationship manager becomes an expert the client is more autonomous and the result is that production increases without using valuable resources.
Digital can also be complementary to the bricks and mortar channel. It enables banks to serve digital native clients the way they want: with more autonomy and with lower prices. However, with a different brand and positioning, it enables banks to acquire and retain clients looking for self-banking and avoids cannibalisation.

**Effective model for digital banks: from low cost to premium**

To achieve a successful digital strategy it doesn’t have to be all about low costs. The demand for human engagement, added value services and greater customisation of products means that it is possible to develop a hybrid model.

This model should be underpinned by physical elements. By integrating both the simplicity and the transparency of the low cost (pure digital) strategy, with a value added premium service, the results can be spectacular. The goal is to provide a customised service that can be charged to the customer. Digital is the perfect medium to sell – at a higher price – an offer that perfectly matches customer needs. This is illustrated by a comment from Moven: “Because of the highly personalised experience, Moven’s service is one that the customer will pay for”.

Another example comes from Orange. The mobile telecommunications company created a premium offer called Parnasse. With a €1,000 entry fee, and a monthly charge between €130 and €200, Orange justifies its pricing by saying that it offers ‘exceptional’ products and services, providing its customers with international phone packages, a luxury concierge service and ‘à la carte’ offers including private sales and loans of tablets. The offer generates value to the client, and this enables pricing which provides a high return for Orange.

With this in mind it is important for retail banks to understand which products or services they can charge for. Whether basic or expert, digital packages can be set with a different price tag. For example, Knab bank, which provides its clients with the latest technologies and a very personalised service, charges customers €15 per month. Additional services, like a one hour chat with an expert advisor, are charged to clients. René Frijters, Knab’s CEO says: “Knab gives customers smart services and they have to pay for them”.

All value added products and services should be tailored to client needs, whether it’s a 24/7 helpdesk, a dedicated digital banking coach, banking apps or digital banking clubs with invitation only access.

What’s for sure is that digital can no longer be a synonym of ‘free’. It is time to shift from the low cost model to a high value model.

**Practical roadmap: switching to a premium strategy in three steps**

- Define the products and value added services than can be charged for online
- Identify non-productivity pockets to industrialise and incorporate client self-care via digital channels (simple subscriptions, simple products)
- Build interfaces that enable customers to create a customised and personal banking offer online.
Big data: another buzzword or a must-have for a customised client experience?

Technological possibilities are expanding exponentially, both in terms of process and storage capacities. New analytics are able to handle data complexity and are evolving from simply tracking what the customer has bought to more predictive insights, working out what the customer is likely to buy.

More consumers have easy access to products, services and information. Like Hansel and Gretel left breadcrumbs, consumers leave a digitised trail of data when they communicate, buy, share, like or search. This data trail amounts to staggering volumes due to the ATAWAD trend of digital consumption.

A while ago, this topic might have been confined to IT specialists, but now this sheer volume of available data is a tremendous opportunity for the entire financial sector. Big data and customer analytics can create real competitive advantage.

### Key figures for big data

<table>
<thead>
<tr>
<th>Internet</th>
<th>Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>667 exabytes</strong></td>
<td><strong>50%</strong> use partially or completely personalised, real-time marketing in digital channels</td>
</tr>
<tr>
<td>of internet traffic in 2013</td>
<td>out of which</td>
</tr>
<tr>
<td><strong>1bn internet users worldwide in 2005</strong></td>
<td><strong>70%</strong> have launched or will in the short term projects dedicated to collecting and using unstructured information from digital channels</td>
</tr>
<tr>
<td><strong>2.7bn internet users worldwide in 2013</strong></td>
<td>currently have or are planning projects on cross-channel event management</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>YouTube</th>
<th>Facebook</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1bn unique visitors each month</strong></td>
<td><strong>1bn active users in 2013</strong></td>
</tr>
<tr>
<td><strong>72 hours of video uploaded each minute</strong></td>
<td><strong>2.7bn likes each day</strong></td>
</tr>
<tr>
<td><strong>1bn unique visitors each month</strong></td>
<td><strong>500+ terabytes of new data ingested into the databases each day</strong></td>
</tr>
<tr>
<td><strong>2.5bn items shared each day</strong></td>
<td><strong>2.5bn items shared each day</strong></td>
</tr>
</tbody>
</table>

Source: Kurt Salmon and Efma survey, Google, Facebook and YouTube press releases
Taking advantage of big data and analytics

Big data refers to sets of information not captured by current information services and which companies strive to integrate and analyse. Analytics are then used to exploit the information in order to provide a better offer to the customer.

These datasets are characterised by the following:

- **Volume** – previously gigabytes ($10^9$ bytes), now petabytes ($10^{15}$ bytes) and potentially scaling to exabytes ($10^{18}$ bytes) or zettabytes ($10^{21}$ bytes)
- **Variety** – structured/unstructured data from various sources
- **Velocity** – real-time data.

Often, a fourth critical characteristic is added: value – because big data has big value.

Handling large volumes of data is not new territory for most IT departments, but previous techniques of data warehousing, data mining and business intelligence analysis will not work as well for big data. This is because it also includes raw and unstructured data – the infamous ‘grey data’.

Data can be classified into three types:

- **Rational data**: factual information such as name, gender, date of birth
- **Behavioural data**: buying habits, brand preferences, product usage for instance
- **Emotional data**: subjective information such as opinion on a brand, feelings about a particular event or product.

The three combined can yield insights as to what a customer is thinking, and thus help a bank to improve its relationship with each of them. Identifying and analysing emotional data is a real challenge.

Banks are just beginning to embrace the data usage, with 70% of banks launching big data projects, according to the Efma and Kurt Salmon study. Actually, big data ranks both amongst the top priorities in terms of digitisation and the most effective levers for generating value. Now, big, intelligent and cheap data management is available for all.

The new challenge is to succeed in making those big data projects efficient and useful, and to unlock the big data potential for banks.
Banks expect more customers to use digital tools in the coming years, thus generating a steady influx of data. Less than a third are able to completely customise their online marketing actions.

**Can you do personalised, real time, event based marketing in digital channels (%)?**

<table>
<thead>
<tr>
<th>Channel</th>
<th>Yes</th>
<th>Partial</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online</td>
<td>31</td>
<td>26</td>
<td>43</td>
<td></td>
</tr>
<tr>
<td>Contact centre</td>
<td>22</td>
<td>31</td>
<td>43</td>
<td>4</td>
</tr>
<tr>
<td>Mobile</td>
<td>15</td>
<td>26</td>
<td>57</td>
<td>2</td>
</tr>
<tr>
<td>ATM</td>
<td>13</td>
<td>19</td>
<td>63</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Kurt Salmon and Efma survey
How can big data create value?

The value lies in data that leads to concrete business actions. Based on six key functions, big data levers can be used by banks to derive value.

<table>
<thead>
<tr>
<th>Function</th>
<th>Big data levers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer management</td>
<td>Cross-selling, Customer micro-segmentation, Targeted marketing, Customer behaviour analysis, Sentiment analysis</td>
</tr>
<tr>
<td>Product and offer development</td>
<td>Product offer panel optimisation, Pricing optimisation, Real-time feedbacks on new tests products</td>
</tr>
<tr>
<td>Distribution channels</td>
<td>Web-based markets experimentation, Multi-channel enhancement, Identification of non-traditional channel opportunities</td>
</tr>
<tr>
<td>Operations and sales</td>
<td>Transparency creation, Improvement of sales, Commercial value of data and insights</td>
</tr>
<tr>
<td>Risk management</td>
<td>Anti-fraud combat, Transparency for regulatory compliance</td>
</tr>
<tr>
<td>Performance management</td>
<td>Decision support systems, Data visualisation</td>
</tr>
</tbody>
</table>

Source: Kurt Salmon study

Customer relationship management: know your customer in the era of mass customisation

The major function in which big data can yield benefits is CRM.

Analysing big data helps cross-selling. Through link analysis (a technique used to evaluate relationships between objects such as organisations, people and transactions) or association rule learning (a data-mining method for discovering interesting relationships between variables in a large database), relevant products can be defined and thus enhance the ratio of products per customer. Alior, for example, “uses the collected data to provide dedicated offers and adjusted products, and to prepare customised marketing campaigns based on client behaviour analysis.”
Through cluster analysis (a method for grouping related objects) or other statistical means, customer segmentation can be refined in order to better customise marketing actions. This targeted one to one servicing will enhance customer experience, and keep the customer engaged. Customised services and offers can be the incremental difference needed to create loyalty. As an example, Fineco has “strong capabilities for analysing customer behaviour”.

Big data can also support the understanding of the client’s behaviour and his/her purchasing patterns, by defining the levers to influence each behaviour.

Any bank would love to know what customers think about their brand. With big data and sentiment analysis, this is now possible. Subjective information from unstructured text sources, such as social media comments, can be extracted and then measured as positive, negative or neutral. Is it a low, middle or strong reaction? This is particularly useful when launching a new product.

Although the relationship between cross sell, loyalty satisfaction and commitment to the brand is difficult to assess, we intuitively believe that the more committed a customer is, the more loyal they will become.

**Product and offer development: profitability-optimised product mix**

Big data analysis results can help improve the product offer panel, both in terms of product range and price. It can unveil the most profitable products in the mix, and also find the optimised price at which specific types of customers would engage with the bank or – on the contrary – leave the bank. This enables a more flexible, agile and reactive pricing strategy.

**Distribution channels: exploring the digital ways**

Web-based markets are tremendous sources of data. Each click can be significant and the time between clicks can be meaningful. All this can be analysed in order to decipher the customer’s purchase behaviour. When tracking information from cookies is coupled with database information such as gender or location, a detailed profile can be drawn and the customer classified.

At Moven, they “have social data, transactional data and global data as customers are able to link other accounts to the Moven service”. Big data and analytics can also support information availability and homogeneity across various channels (internet, mobile, branch locations etc.) and provide a real-time performance map of how each channel is performing against the others. An underselling channel could be identified faster and improved. Similarly, untapped opportunities within a channel can also be displayed.

**Operations and Sales: experiment test-and-learn and predictive purchase**

If a big data strategy is implemented, uniform and standardised data would be available throughout all departments, thus saving time and costs and creating transparency.
Sales can also benefit from it in several ways: they can use it to determine which factors are levers for increasing sales and customer engagement. Indeed pilot product tests can be carried out with more ease, less costs/time – and above all, with real-time adjustment according to customer feedback.

Secondly, predictive modelling and life-pattern analysis can help the sales force understand the probability of next product purchase by customer type, thus enhancing cross-selling possibilities. Data can also support the customer on his/her decision-making journey. At Moven, for instance, “the data collected is given back to customers, to help them in their spending decisions”.

There is another frontier beyond predicting a product’s appeal level: indeed, data could also present attractiveness scores to support selling discussions and distribution channel choices, i.e., helping sales forces find the appropriate way to trigger the sale. In other words, saying the right thing, the right way, through the right channel, to the right person.

Once customer data insights have been derived, banks can also make data anonymous and sell it to third parties to increase revenues.

**Risk management: helping anti-fraud protection**
Instead of applying basic conditional testing to a small sample of transactions, big data frameworks can process all transactions and find fraudulent links where traditional risk management cannot. In the event of a compliance audit or lawsuit, the information can be precisely located and dated.

**Performance management: decision making like never before**
Real-time data synthesis, interactive visualisation dashboards, aggregation of complex data… big data can provide tools to support human decision making quickly.
Deep dive the big data approach

How to build an effective big data strategy.

Big data is not only a technological issue; it can be a strong weapon for a company-level business strategy, or even a line of business in its own right.

To build an effective big data strategy, companies have to develop a vision to serve a specific purpose, clarify the data and models to be used and be backed by strong personnel and IT support. It will also require substantial change management.

<table>
<thead>
<tr>
<th>Key components for big data strategy</th>
</tr>
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<tbody>
<tr>
<td><strong>Vision and purpose</strong></td>
</tr>
<tr>
<td>1. Decide on an objective: enhance client knowledge, increase profit, improve product mix, support decision making</td>
</tr>
<tr>
<td>2. Outline issue(s) to tackle: knowing the client’s buying patterns or scaling products for profitability for instance. End-users feedback can be useful at this stage to collect added-value propositions</td>
</tr>
<tr>
<td>3. Build a first business case. Include the long run objectives and gains considering impact on IS</td>
</tr>
<tr>
<td><strong>Game plan for business-relevant data</strong></td>
</tr>
<tr>
<td>1. Define a data collection and integration roadmap. Think about sources (internal, external), types (structured, unstructured), quality and accuracy of data, and data variability across the systems</td>
</tr>
<tr>
<td>2. Keep ownership of the data: monitor policies around historical storage and data usage across all channels</td>
</tr>
<tr>
<td>3. Ensure customer data protection and keep regulatory compliance atop your list of concerns</td>
</tr>
<tr>
<td><strong>Data talents and IT support</strong></td>
</tr>
<tr>
<td>1. Plan for the needed infrastructures and related investments</td>
</tr>
<tr>
<td>2. Think about the organisational changes</td>
</tr>
<tr>
<td>3. Define the talents to be trained or hired</td>
</tr>
<tr>
<td><strong>Value-added analytics and models</strong></td>
</tr>
<tr>
<td>1. Identify value-added analytics models accross the organisation and potential synergies or links between the models</td>
</tr>
<tr>
<td>2. Develop a roadmap for new models implementation</td>
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<tr>
<td>3. Define shared guidelines to limit the complexity of the models</td>
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Banks do not need to launch big projects that can take several years; on the contrary, leveraging first the existing internal data can yield profitable returns in a shorter time. Instead of going for a ‘big bang’ project, companies could choose an iterative approach and leverage concentric circles of data: first party data, then second and finally third party data¹. The strategy can encompass all steps of the iterative approach or concern only the first, and be reapplied at each milestone.

¹ First party data: the company CRM data. Second party data: ad serving data (clicks, views), web analytics platform data. Third party data: specific data segments from external provider
What kind of new talents will be needed?
Big data is not only about technology, it’s about transformation, mindset and execution. In order to implement a successful big data strategy, having the adequate people with the adequate set of skills, whether they have been trained by the company or newly hired, is instrumental.

New data talents

<table>
<thead>
<tr>
<th>Function</th>
<th>Role</th>
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<tbody>
<tr>
<td>Business solution architect</td>
<td>Create and maintain data warehouse</td>
</tr>
<tr>
<td>Advanced modeler</td>
<td>Develop and scale the models</td>
</tr>
<tr>
<td>Data scientist</td>
<td>Analyse the data</td>
</tr>
<tr>
<td>Data manager</td>
<td>Derive insights</td>
</tr>
<tr>
<td>Data business expert</td>
<td>Translate insights into concrete actions</td>
</tr>
</tbody>
</table>

Source: Kurt Salmon study
Phygital and other digital challenges for retail banks

Case study: Tesco

Headquartered in Hertfordshire, England, the grocery and general merchandising giant Tesco plc was created in 1919. Initially a small, rather downmarket retailer, Tesco has steadily grown to third-largest retailer in the world by revenues (UK£64 billion in 2012) and second largest by profits (nearly UK£4 billion in 2012). It is now the market leader in the UK (around 30% share) and has more than 6,000 stores across 14 countries in Asia, Europe and North America.

Loyalty programme efficiency
At the core of Tesco’s growth lies an innovative business intelligence scheme, fuelled by data from its 44 million customers. This is collected via the retailer’s loyalty programme, Tesco Clubcard.

Tesco uses the data from Clubcard holders’ application form and purchase history, coupled with data from other sources, to continuously improve its business model.

First, Tesco outsources the data analysis to marketing insight company dunnhumby, which processes nearly five billion pieces of data each week in the UK (from 15 million Clubcard holders).

At dunnhumby a monster database called Crucible pools data from various sources such as social media, information services (Experian, Equifax…), official bodies (Land Registry, the Office for National Statistics…) and adds to that the massive pool of customer data derived from the Clubcard program. A software system called Zodiac then does the intelligent profiling and targeting. When coupled, Crucible and Zodiac can generate a map of how an individual thinks, behaves and shops.

Tesco then applies the derived insights four ways:

• Enhancing the customer relationship management
• Optimising the supply chain
• Supporting decision-making
• Selling insights to third parties.

The first and foremost lever is for CRM. Big data and analytics deliver great value for customer acquisition, retention, and cross-selling.

Customer acquisition
Tesco uses customer data to improve its internal business model. Tesco’s customer segments cover all segments of the market, including for instance “Loyal Low Spenders”, “Can’t Stay Aways”, “Weekly Shoppers”, “Snacking and Lunch Box” or “High Spending Superstore Families”.

Creating CRM value

<table>
<thead>
<tr>
<th>Customer acquisition</th>
<th>Customer retention</th>
<th>Cross-selling</th>
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<tbody>
<tr>
<td>Business model</td>
<td>Tailored marketing</td>
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<td>Experimentation</td>
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<td>Predictive analysis</td>
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<tr>
<td>Store profiling</td>
<td>Innovative channels and services</td>
<td>Recapturing lost customers</td>
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continued...
New shopping patterns found through statistical analysis were used to create new client segments, instead of slotting customers into predefined ones.

Tesco experiments with new products or sales models and checks customer data to verify the initiative’s success. For instance, when Tesco rolled out ethnic foods for specific segments, data analysis showed that white affluent customers liked the products too, so coupons were also quickly sent to them. Another example is the creation of the upmarket product line, ‘Tesco Finest’, which was triggered because Tesco discovered that affluent customers did not buy some quality products at the retailer.

Tesco also adjusts its shelves to accommodate the profile of the local area. In Brixton, where Caribbean immigrants like to settle, Tesco sells plantains (a specific kind of bananas), but these fruits are not present in central London stores where Tesco would rather sell lunch sandwiches and ready-meals to office workers.

Customer retention
Tesco’s marketing actions are customised to each customer’s preferences – a base example would be that a vegetarian will never get a meat voucher. The approach’s relevance is confirmed as nearly 95% of the quarterly sent coupons are redeemed. Tesco is now customising its online offer in the same way, starting with a series of tests. Tesco used Clubcard data to discover whether the online shopper was more price-sensitive or quality-sensitive when purchasing mattresses. For this test, sales grew by 10%. Tesco will also use customer data in order to better target the TV adverts of its future ‘Clubcard TV channel’, an online channel supplying films and TV shows on demand, free of charge to Clubcard holders.

Data insights also support Tesco’s pricing strategy. The retailer identified the 300 items most frequently purchased by price-sensitive buyers and lowered their prices, in order to keep these shoppers from defecting to cheaper retailers.

In terms of innovative channels, the retailer has installed virtual shopping walls in the UK’s Gatwick Airport, and in a subway station in South Korea’s Seoul. Using customer data, targeted goods are displayed on electronic boards. Transactions can be completed via mobile and the goods are then delivered to the home or the office of the consumer. Tesco also offers an innovative service: using in-store Wi-Fi, the retailer’s mobile app can suggest deals when nearing a relevant shopping aisle, and guide customers towards specific products.

Tesco also dedicates part of its customer analysis resources to recapturing profitable customers lapsed to other retailers by analysing the customer’s behaviour and then sending personalised deals.

Cross-selling
When Tesco discovers a buying pattern among a customer segment, it sends coupons in anticipation of customers presenting the same characteristics. In the UK, this has led, for instance, to sending beer coupons to families buying baby products, as new fathers are likely to have less time to go to the pub. As well as understanding what the customer has bought, Tesco’s business intelligence also knows what the customer will want to buy. Personalised coupons sent by Tesco include deals on items frequently bought, but also on items the customer is likely to buy.

Other applications
Tesco has applied big data intelligence on its supply chain, to efficiently plan which products, and in what quantity, each store would need, in real-time. It also provides support to decision-making executives through real-time data crunching, summarised into dashboards and data visualisation charts.

continued...
A final area of economic value for Tesco is to sell the customer insights it has collected. Indeed, Tesco negotiates access to its customer database to other consumer groups, such as Sky, Kimberly-Clark, Orange and Gillette.

The Clubcard comes free of charge to Tesco shoppers. They have to fill a form with the following information: name, address, household size, ages of children, dietary preferences, and income level.

The information is coupled afterwards with the client’s purchase history data such as frequency of visit, content of shopping cart, or Clubcard coupons redemption.

Customers collect points for each transaction in a Tesco physical or online store or affiliated branches such as Tesco Mobile or Tesco Bank. Merchandise discounts are offered and points can be redeemed for cash vouchers.

Tesco’s loyalty programme is very expensive to maintain, but it brings more than UK£100 million in incremental revenue for the company every year. In the five years following the implementation of the programme, sales have increased by more than 50%.

Key lessons for banks

Find out what actual business value and benefits the data strategy can bring. Tesco has found multiple concrete ideas to work the insights yielded by customer data. It did not use analytics for analytics’ sake, but has worked the insights into something useful for the business. A successful data strategy has to leverage data and its analytics into action levers and business value.

Outsource the analytics expertise if analytics is not part of your core activity. Tesco’s value is in leveraging the data insights into business actions, and not in data crunching and analytics. Since the start, this part of the process has been outsourced to an expert in the field.

Adopt a ‘test and learn’ approach for product launch. The approach can be used within banks to roll-out new products on a smaller scale, and quickly adjust and fine-tune the offer to fit the customers’ need, before deploying them more widely.

Use data to provide a customised offer. Tesco Bank, the financial services branch of Tesco, uses Clubcard data to provide personalised offers to customers, and might also assess a customer’s creditworthiness based on his or her grocery shopping. Moreover, the banking sector has a running start in this matter, as most banks already have a lot of customer data, through customer files and appended credit card use. In collecting relevant data about shopping patterns, a credit or debit card can serve the same purpose as a loyalty card, and is even more efficient because it gives insight on every part of the customer’s life.

Support the pricing strategy with analytics to yield more profitability. According to what you want to know, what are the best balance prices at which the maximum number of profitable customers will be retained? What impact will each price modification have on each segment of the customer base? Analytics can give actual insights on price sensitivity and the threshold at which a customer is likely to defect. In the case of Tesco, the 300 items were successfully identified and priced. Let concrete data feed into your business model. Instead of forcing the data into pre-defined moulds, deciphering the analytic results can give new insights to the business model and bring out emerging consumption patterns or original customer segmentation. Tesco, for instance, has defined new customer segments which had emerged from analysis.

Produce revenue from sharing data with third parties. Banks have a wealth of gold in the data collected through credit and debit cards use. Subject to compliance with personal data protection regulations, customer data or insights might be sold to relevant third parties and yield revenue for the banks.
Case study: Capital One

Founded in 1988 in the United States, the bank holding company Capital One Financial Corporation has deposit, savings, loan and treasury management activities. It is present online and in branch networks across America, Europe and Canada for 46 million customers.

Capital One is known for its successful expansion from monoline lending to other segments such as retail banking. Capital One is now the sixth largest retail bank in the United States, and the fifth largest issuer of credit cards in terms of purchase volume.

Its tremendous growth was mainly attributed to the business intelligence strategy implemented by the founders Richard Fairbanks and Nigel Morris. They were the first to use customer data to tailor credit card offers to customers, and were therefore pioneers in credit card mass marketing.

Capital One uses technology to collect and exploit information extracted from huge data volumes. The company’s Information-Based Strategy (IBS) encompasses all levels and layers of the company, from customer profiling to HR stakes, performance evaluation and accounts management. Below is a look at the operational chain of the IBS.

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<tr>
<th>Collecting the data</th>
<th>Processing the data</th>
<th>Using the insights</th>
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</thead>
<tbody>
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<td>Account information</td>
<td>Test and learn approach</td>
<td>Innovative tailored products</td>
</tr>
<tr>
<td>Credit bureaux</td>
<td>Segmentation analysis</td>
<td>Customer retention</td>
</tr>
<tr>
<td>Webpage visits</td>
<td>Real-time analysis</td>
<td>Anti-fraud management</td>
</tr>
<tr>
<td>Social media</td>
<td></td>
<td>Third parties deals</td>
</tr>
</tbody>
</table>

Collecting the data
When a customer applies for an account, Capital One gathers basic data from the application form and collects related data from Credit Bureaus such as Experian, TransUnion, or Equifax to check the applicant’s credit history.

Capital One also records data online, through cookies and web bugs on their webpages: for instance whether a customer is interested in the products and services displayed.

Additionally, Capital One dedicates a team to leverage social media data, through five pillars of use: brand marketing, direct sales, company’s servicing strategy, reputation monitoring and customer satisfaction monitoring.

continued...
Processing the data
Capital One applies a test-and-learn approach for launching new products. More than 30,000 tests are carried out each year, with variables ranging from interest rates to package service, marketing process and incentives. Thus, the products which will maximise the chances of signing up a profitable customer are built in an iterative way.

Capital One also analyses real-time data to optimise the company’s risk management process and historic data to fine-tune customer segmentation.

Using the insights
Innovative tailor-fitted products
Most banking companies do not regularly perform customer profitability analysis, and charge prices based on average costs. Capital One, on the contrary, exploits the profitability gradient to the maximum: instead of offering one product based on the group the customer might fit in, Capital One tailor-fits each account to each individual’s circumstances. The bank currently has more than 3,000 credit cards offers in its product mix.

For customer acquisition, the company customises the offer based on segmentation, market channels, products, pricings, credit limits, and credit approval policies. For customer retention, the company customises on re-pricing, credit lines modifications, transaction and intervention fees and cross-selling.

The offer is then fine-tuned to take into account the customer’s hobbies, and the customer’s current point in life (study, wedding, move, birth etc). For instance, the “Lifestyle” line for credit cards has a range of credit limits across the full credit spectrum.

Customer retention
Capital One has a team dedicated to retaining customers calling to cancel their accounts. To these retention specialists, Capital One provides models which display in real-time the impact on profitability when a customer annual percentage rate is modified, and results of sentiment analysis, showing how the customer is feeling about the overall user experience at Capital One.

Anti-fraud detection
Traditional anti-fraud detection applies basic checks on small transaction volumes, for instance whether a credit card has been used in far apart transactions in a short amount of time. Capital One’s more sophisticated analytics systems search for unusual patterns or connections in a huge volume of transactions. This has allowed the bank to detect fraud attempts where traditional detection would not have worked.

Third-party deals
Finally, the data collected also allows Capital One to direct other business partners’ relevant offers to customers who might be interested. If the third party’s deal is accepted, Capital One gets additional revenue, which is sometimes partly passed on to the customer, through lower rates and fees.

The applying process for a credit card is fast and simple. After filling the form, only 60 seconds are necessary to know if the credit demand has been accepted, and to see several customised products propositions.

Key lessons for banks
Centralise the data strategy
Common leadership, common resources pool and common technology and tools are necessary to ensure that critical data can be easily shared through an organisation and that aggregated indicators are relevant. Capital One’s data strategy is not managed at department level but at company level. All analytics, report processes and tools are standardised across all levels and departments in order to centralise a small number of relevant key indicators.

continued...
Invest strongly in personnel and infrastructures, because they are at the core of a successful data strategy
For their quantitative experiments, Capital One employs three times as many analysts as operational people. The company’s care in hiring the right analytical talents was and continues to be one of its core strengths.

Capital One also views technology not as a support but as a weapon of choice. Capital One invested heavily at the beginning to build infrastructures to support their IBS: databases, accounts management systems, implementation of analytics process and reporting.

Implement a test and learn methodology
Capital One’s methodology consists in running marketing-based tests (direct marketing solicitations), analysing both successes and failures of the tests, deep-diving the successful tests, analysing the results for this second batch, and so on. This way, process and products can be tested on a smaller scale before they are more widely deployed.

Use data to find the most profitable pricing strategy
Statistics and modelling, when well used, can support the pricing strategy of a bank by identifying the price at which each product will yield maximum profit. For each application, instead of using the traditional ‘black box’ of credit scoring when deciding to accept an applicant customer, Capital One uses its own scoring models during tests offerings, feeding the data it slowly gathered to define which combinations of product, price and credit limit could be more profitable. After a lengthy test period, the profitable packages defined are rolled-out at a larger scale. This approach has allowed Capital One to find untapped pockets of profitability.

Exploit data to improve your risk management
Using payment history data, banks can complement their existing risk management programmes with innovative risk models that can quickly and more accurately assess a potential customer’s ability to repay loans.

Use social media to monitor customer satisfaction
Use social media to collect data, but use it primarily to monitor your brand. Additionally, being active on social media improves the customer experience by humanising the brand. For instance, instead of being a faceless interlocutor on social networks, Capital One employs associates to interact with customers, listen to what people want (Facebook, Pinterest etc) and give personalised answers.

Continuously enhance the data strategy and its implementation
One of the company’s competitive advantages is its ability to constantly and continuously improve its expertise. Big data is a weapon to be continuously enhanced, monitored and modified, in order to keep up with the technology updates and evolution in the sector.
Practical roadmap: leveraging big data in three points

- Sketch your game plan. What problem are you trying to solve? What business goals do you want to achieve?
- Invest in big data! Upgrade to distributed framework solutions, embrace the company infrastructures, and train or hire skilful data talents.
- Manage your data. Leverage your existing internal data: aggregation of different data from different systems is the hardest but necessary part. Internal data can be translated into insights, and the insights into concrete business actions. Finally, integrate external data to expand your insights, while keeping your database secure and regulatory compliant, to yield new profitable actions.

Big data maturity map

Legacy versus vision
- Tapping from existing resources
- Support from data specialists can secure quick wins
- Data strategy is being sketched

Simple metrics
- New IT tools are collecting data from various sources
- Organisational evolution has begun
- Simple analytics are implemented

Data centric
- All brand touch points are monitored and analysed through advanced analytics
- Powerful data analysis tools have been deployed
- Substantial history of data has been collected

Customer centric
- Derived insights are translated into business actions and help strengthen customer relationship
- Continuous optimisation is implemented (Feedback loops)

Source: Kurt Salmon study
Conclusion

The rise of digital channels changes the communication and marketing approach from product push versus customer pull. The move from “product push” (sophisticated CRM and aggressive selling) to “customer pull” (respect the customer needs, channels preferences, ways of shopping) seems a natural way for most of banks. But how do they do it while growing revenues?

At the end of the day, the retail banks that will succeed in winning current digital challenges are the ones that will achieve a simple and customised consumer experience:

- Simple: with a few clicks acquisition process, user friendly user interfaces on mobile and easy identification online for customers (enhanced SEO/SEM strategy)

- Customised: with a value proposition adapted to the client behaviour and capacities as identified through big data advanced analytics.

With both simple and customised offers, banks can help their clients to switch to digital and, through real added value, be able to charge for their online offer, creating a sustainable model. Switching to digital should now be synonymous with digital integration across all channels and points of sale. The digital era is over, now banks have to be phygital, supporting their customers with real human engagement, in an omni-channel way.
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About us

Efma

As a global not-for-profit organisation, Efma brings together more than 3,300 retail financial services companies from over 130 countries. With a membership base consisting of almost a third of all large retail banks worldwide, Efma has proven to be a valuable resource for the global industry, offering members exclusive access to a multitude of resources, databases, studies, articles, news feeds and publications. Efma also provides numerous networking opportunities through working groups, online communities and international meetings.

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About the authors

Joel Nadjar is a senior and managing partner in Kurt Salmon’s Paris office. He leads the Financial Services Industry Practice worldwide. He is member of the Kurt Salmon’s cross-industry worldwide Digital taskforce.

Contact: joel.nadjar@kurtsalmon.com

Jocelyne Amègan is a manager in Kurt Salmon’s Paris office. She works in the Financial Services Industry department in the Retail Banking team. She is member of the Kurt Salmon’s cross-industry worldwide Digital taskforce.

Contact: jocelyne.amegan@kurtsalmon.com
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