2011 WORLD RETAIL BANKING REPORT

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UniCredit Group

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Preface

Capgemini, UniCredit Group, and Efma are pleased to present the *2011 World Retail Banking Report*.

In the aftermath of the financial crisis, retail banks around the globe are struggling to make a positive impression on customers. Differentiating on price and product innovation is becoming increasingly difficult, and firms face the added complications of changing customer preferences and increasingly stringent regulations.

The *2011 World Retail Banking Report* addresses these challenges by establishing a new framework for identifying and measuring success in retail banking. Our new tool helps banks lay the groundwork for a more effective retail delivery strategy and ultimately a new era of profit generation in this dynamic business.

The 2011 World Retail Banking Report publishes Customer Experience analysis by region only for North America, Latin America, Central and Western Europe, as well as Asia Pacific.

For a more detailed presentation, we invite financial services professionals to e-mail requests to banking@capgemini.com.

Creation of the tool began with an extensive survey of customer behavior. We conducted a large, in-depth study of the many voices and opinions around the world that make up the modern bank's retail customer base. Our Voice of the Customer surveys queried nearly 14,000 customers across the globe on more than 80 parameters, making it one of the most detailed studies of its kind.

We used this data to create the Customer Experience Index (CEI), a new approach to gauge how customers perceive the quality of their interactions with their bank. The CEI captures important emotional attributes by taking customers' personal values and standards into account. It incorporates customers' channel preferences and sheds light on whether customers are having positive experiences in the areas most important to them. Consider the CEI a flexible tool to help take the pulse of customers at a time of great flux in the industry. Insights gained from the CEI can help banks stay one step ahead of trends in customer behavior.

Findings from the CEI led to our decision to spotlight the branch. While the branch remains a key delivery channel, it is important to understand how attitudes toward the branch and usage patterns are shifting among different customer segments. The *2011 World Retail Banking Report* identifies the major challenges facing branch networks. These are occurring in the areas of branch layout & design, technology, sales & service, and staff & people.

As banks address these challenges, they are putting into play six themes that redefine the role of the branch. We present these themes in detail, along with the CEI, as an aid to banks grappling with the serious matter of retail delivery and branch transformation.

It is a pleasure to provide you with our findings, and we hope you find continued value in the World Retail Banking Report's insights.

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CHAPTER 1

Customers Are Generally Satisfied, but Opportunities Exist to Increase Satisfaction in the Areas That Matter Most

- **Despite low levels of trust and confidence in the banking industry, 59% of customers across 25 countries are satisfied or very satisfied with their banks, while only 4% are dissatisfied or very dissatisfied.**
- **Globally, banks' success in delivering positive customer experiences is high, with an average rating of 72.2 out of 100, according to the new 2011 Capgemini Customer Experience Index.** The United States has the highest ranking for North America at 78.0. Switzerland led Europe at 76.2, and India ranked highest in Asia-Pacific with 77.0.
- **While banks have had very strong success in minimizing negative experiences, they have been far less successful in generating high levels of satisfaction in the areas that matter most to customers.** Banks achieved a global average of only 35.8% of satisfaction with regards to experience levers that are most important to customers.
- **Achieving satisfaction on the most important customer experience dimensions may be difficult for banks relying solely on overall customer satisfaction measures.** In every country, satisfaction on the most important customer experience dimensions underperformed compared to overall satisfaction levels.
- **Across countries, banks have achieved varying levels of success in providing positive customer experiences by transaction type, product, and channel.** For example, France provides more positive experiences through the branch, while Netherlands does so via the internet, and the U.S. across all channels.

Despite Being Generally Satisfied, Customers Still Lack Trust and Confidence in the Banking Industry

AFTERSHOCKS OF CRISIS STILL BEING FELT IN BANKING MARKET

The global financial crisis destabilized the financial services industry. Numerous firms went bankrupt, were forced into expedient mergers, or had to be bailed out by governments around the world at enormous taxpayer expense. While retail banks were not immune, many weathered the period somewhat better than their counterparts in insurance, and investment and private banking. The unprecedented events triggered more stringent regulations, demands for greater transparency, and a significant erosion of trust.

Capgemini's 2011 Voice of the Customer Survey underscores the current low levels of trust in the banking industry. The lack of confidence is particularly strong in Latin America, where 68% of the customers said they do not trust the banking industry (see Figure 1). Even though Asia-Pacific was largely spared the impact of the financial crisis, 58% of customers there say they also have high levels of distrust for the industry. Western European customers had the lowest levels of distrust at 36%.

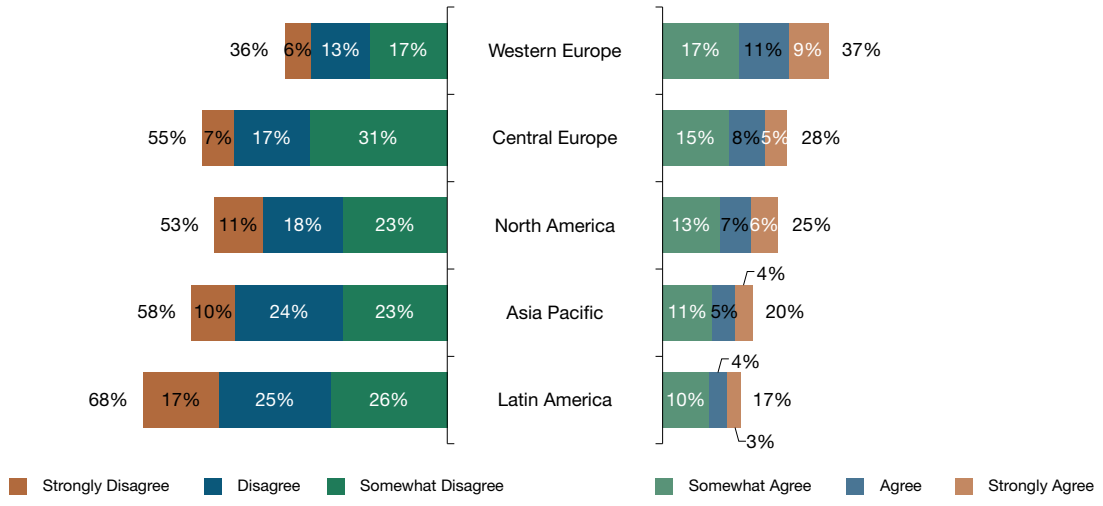
LOW TRUST LEVELS HAVE HAD MINIMAL IMPACT ON SATISFACTION LEVELS

Despite the trust issue, customers around the globe expressed general satisfaction with their banks. Globally, banks achieved an average of 59% in terms of customer satisfaction, with banks in the United States and Switzerland achieving the high of 73% (see Figure 2). Banks in Australia, Canada, Austria and Sweden also emerged at the high end. Banks in Japan and Hong Kong came in at the lowest level of the customer satisfaction spectrum.

CUSTOMER EXPERIENCE IS THE KEY DIFFERENTIATOR

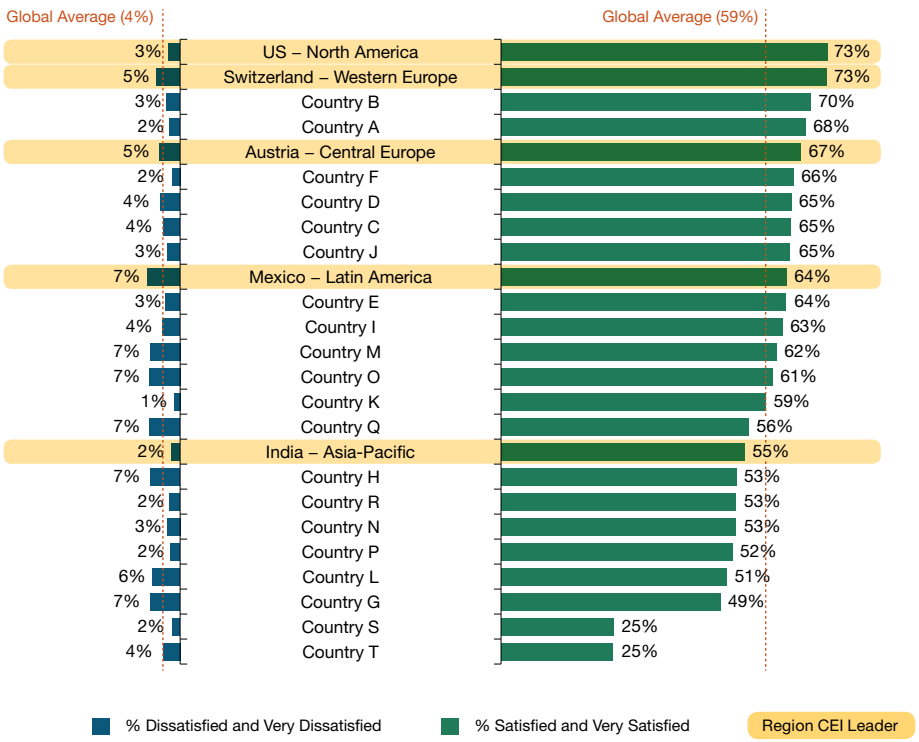
Tools banks have used in the past to differentiate themselves – low prices and innovative products – are quickly losing their ability to provide an edge. Banks can no longer reduce prices in a competitive manner due to increased competition, new regulations, and heightened capital standards, all of which are putting retail banking margins under enormous pressure. At the same time, financial products have been largely commoditized, limiting the impact of product innovation.

Figure 1 Level of Agreement That Banking Customers Have Trust and Confidence in the Banking Industry (%), 2011



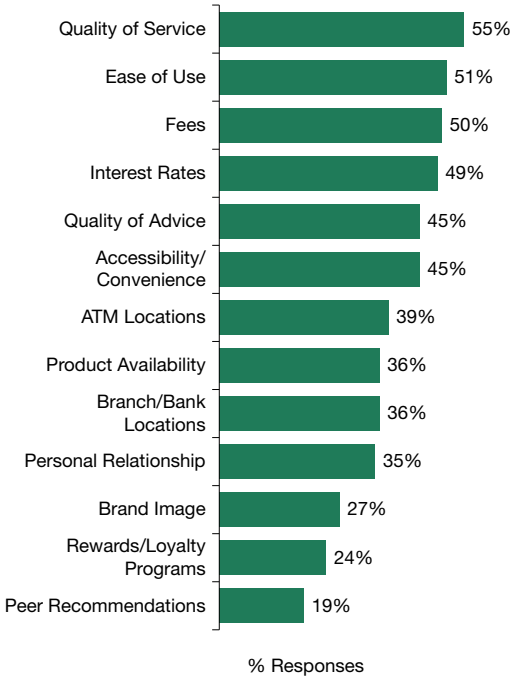
Note: Total may not add to 100% as the percentage of respondents with neutral answers has not been shown
Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

Figure 2 Customer Satisfaction with Primary Bank, Regional Leaders (%), 2011



Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

Figure 3 Factors That Affect Why Customers Leave a Bank (%), 2011



Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

Delivering a positive customer experience is one of the few levers banks can use to stand out in today's market. The *2011 World Retail Banking Report* Voice of the Customer survey findings show that banks have more reason than ever before to focus on customer experience as a competitive differentiator. More than any other factor, customers care about the quality of service they receive from their banks.

Fifty-five percent of customers globally cite service quality as the most important factor prompting them to sever a banking relationship (see Figure 3). Ease of use and fees are the second and third most important reasons for leaving a bank.

Even at a time when trust in banks is low, receiving superior service is far more important to customers than the reputation of their banks. Globally only 27% of customers said brand image is a major contributor to leaving a bank. In effect, high-quality service can help banks overcome short-term negative perceptions.

Introducing Capgemini's Retail Banking Customer Experience Index

MEASURING SATISFACTION ALONG THE DIMENSIONS MOST IMPORTANT TO CUSTOMERS

A common misperception in evaluating customer experience is to assume it is the same as customer satisfaction. Customer satisfaction is a one-time measure of how products and services meet or surpass customer expectations.

Customer experience, in contrast, requires a deeper understanding of customers over a longer period of time. It measures how customers perceive the quality of their interactions with a company, taking customers' personal values and standards into account. It tracks not only specific transactions, but the sum total of a customer's journey with a bank, from awareness to discovery, attraction, interaction, purchase, use, cultivation, and advocacy.

Customer experience captures important emotional attributes, such as whether a customer feels happy, cared for and respected, starting from the first contact through the whole relationship. It incorporates the different touch points – including the branch, internet, ATM, mobile and phone – that support customers through their interactions, as well as the product and service ecosystems that influence the customer experience.

The ability to deliver a positive customer experience – not just satisfaction – is essential to success in today's competitive market. Customers who have positive experiences are more likely to stay longer, use more products, and recommend the bank to others. Institutions with well-developed customer experience approaches are also likely to gain a competitive edge over other firms as they use the insights gained from their customer experience initiatives to devise strategies to deepen and expand their customer relationships.

DELIVERING A CONSISTENT, CONNECTED CUSTOMER EXPERIENCE

Most retail banks across the globe have struggled to define and produce consistent and differentiating customer experiences. They have yet to align their products, channels and lifecycle stages in such a way that would support an enhanced customer experience and foster long-term relationships. The ability to identify the product/channel/lifecycle levers most important to customers – including the optimal relationship between each – is the first step. The end goal is to deliver an experience that exceeds customers' personal standards along each dimension.

For the *2011 World Retail Banking Report*, Capgemini developed a proprietary Customer Experience Index (CEI) that seeks to align the product, life cycle, and delivery-channel capabilities of banks with the values and standards of their customers. The index was built with the understanding that a gap exists between what banks perceive as important to customers and what customers say is most important.

CAPGEMINI'S CEI FOCUSES ON THE LEVERS MOST IMPORTANT TO CUSTOMERS

The CEI addresses this gap by identifying the factors that are most important to customers, and then measuring satisfaction specifically along those dimensions. The result is a view of customer satisfaction that is more in-depth and better aligned with customer values than can be provided by a simple satisfaction measure focusing on general satisfaction or satisfaction in broad categories.

Capgemini's CEI differs from traditional satisfaction measurement approaches in other ways, as well. Traditional measures typically gauge satisfaction immediately following a single interaction or transaction, so they do not support a comprehensive view of customer attitudes. They also lack insight into the multitude of factors that affect customer experience throughout the duration of a banking relationship. The CEI, in contrast, measures experiences over time, across each of the areas in which a customer interacts with a bank.

A HOLISTIC, GRANULAR APPROACH TO UNDERSTANDING CUSTOMER EXPERIENCE

Traditional measures also lack a granular view of the elements that affect customer experience during a banking relationship. The CEI addresses that issue by providing in-depth views of customer experience along three dimensions (see Figure 4). These dimensions consist of: products (including current, depository accounts and payments; credit cards; loans, and mortgages), channels (including branch, internet, mobile, phone, and ATM) and lifecycle stage (including information gathering, transacting, problem resolution, and account status and history).

The three-dimensional CEI provides much greater insight into the customer experience. By drilling down along different perspectives, banks can uncover a wide range of compelling views, such as how customers use different channels, and which ones they prefer to use to achieve different goals. Or which types of customers

in which regions prefer to use specific channels for certain purposes. This three-dimensional approach offers a holistic indicator of the long-term experiences customers have with their bank.

The CEI is built from data captured through our 2011 Voice of the Customer Survey. The survey queried customers on their general satisfaction with their bank, and also inquired more specifically about the importance of specific channels for executing different types of transactions and for different types of products. Lastly, it questioned customers about their satisfaction with all those interactions. The resulting 80 data points represent a much more in-depth investigation of customer attitudes than typical customer satisfaction surveys.

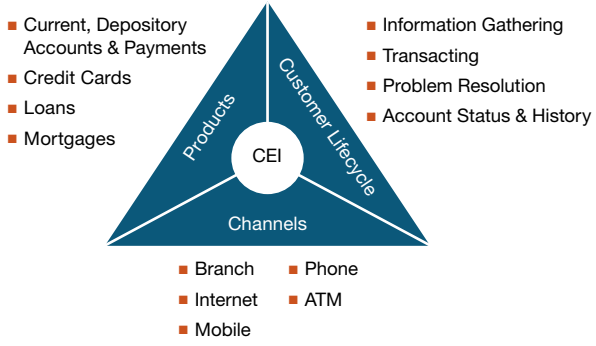
Finally, the CEI is built upon data from nearly 14,000 banking customers in 25 countries across five major geographic regions (see Figure 5). The resulting data can be segmented by a wide range of customer variables, including the region, country, or size of the city customers live in; their age, sex, use of technology, investable assets, employment, education, and other factors.

UNDERSTANDING THE CUSTOMER IS THE FIRST, AND OFTEN HARDEST, STEP FOR BANKS

The CEI is built on the premise that understanding customers at a more granular level is essential. It delivers on that premise by providing exhaustive insight into what customers perceive as important and how well they perceive banks delivering on those dimensions. The perception of how banks deliver against these dimensions is heavily influenced by customer expectations. Banks have not always had the tools to allow them to gain these critical perspectives on their customers.

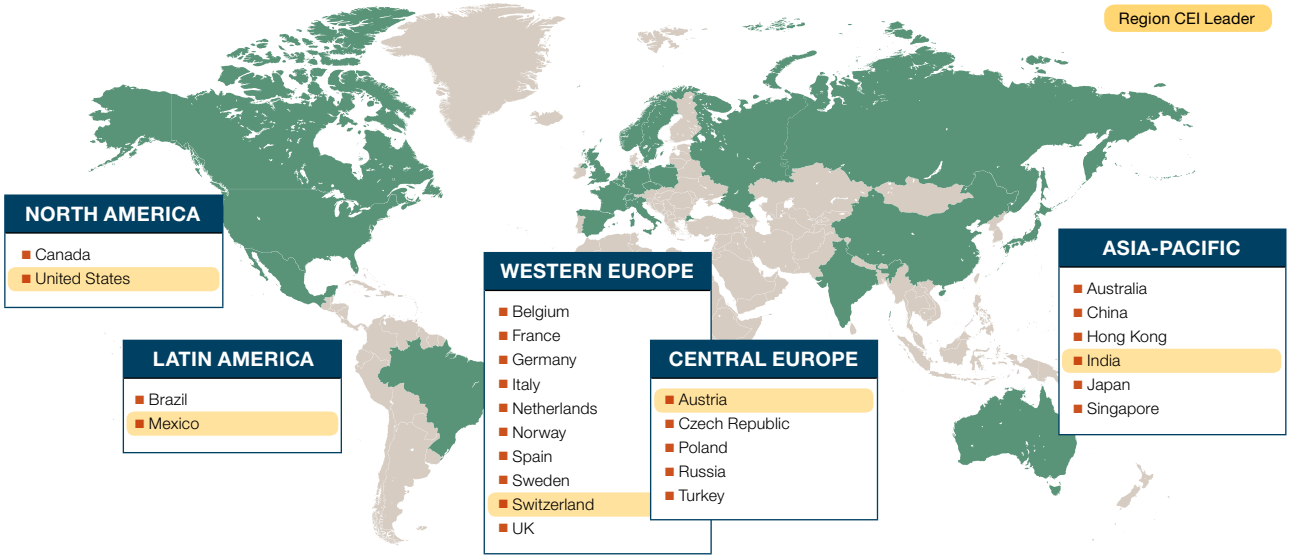
Understanding customers is the first step not only in improving their experiences, but in building an effective business plan and growth strategy. Using the CEI to evaluate customers at a deep level from multiple perspectives supports the development of targeted customer strategies. This leads to more consistent sales and service efforts across channels and ultimately, greater penetration of the customer portfolio.

Figure 4 Dimensions of Capgemini's Customer Experience Index (CEI)



Source: Capgemini analysis, 2011.

Figure 5 Geographic Scope of Customer Experience Index, 2011



Note: Country boundaries on diagram are approximate and representative only.
Source: Capgemini analysis, 2011.

Banks Are Struggling to "Wow" Customers in Areas That Matter Most

OVERALL CUSTOMER EXPERIENCE LEVELS ACROSS THE GLOBE ARE POSITIVE

When examined across all products, channels and lifecycle stages, banks around the world are doing a decent job of delivering an overall positive customer experience. The vast majority is quite close to the global average of 72.2, with the United States achieving the highest score of 78.0.

POSITIVE CUSTOMER EXPERIENCE VARIES BY COUNTRY

While banks have minimized negative experiences, they have been much less successful when it comes to delivering positive experiences along the dimensions most important to customers. Viewed from this more in-depth perspective, banks achieved a global positive customer experience average of only 35.8% (see Figure 7). Positive customer experience is defined as positive or very positive satisfaction levels within the touch points or levers identified by customers as most important.

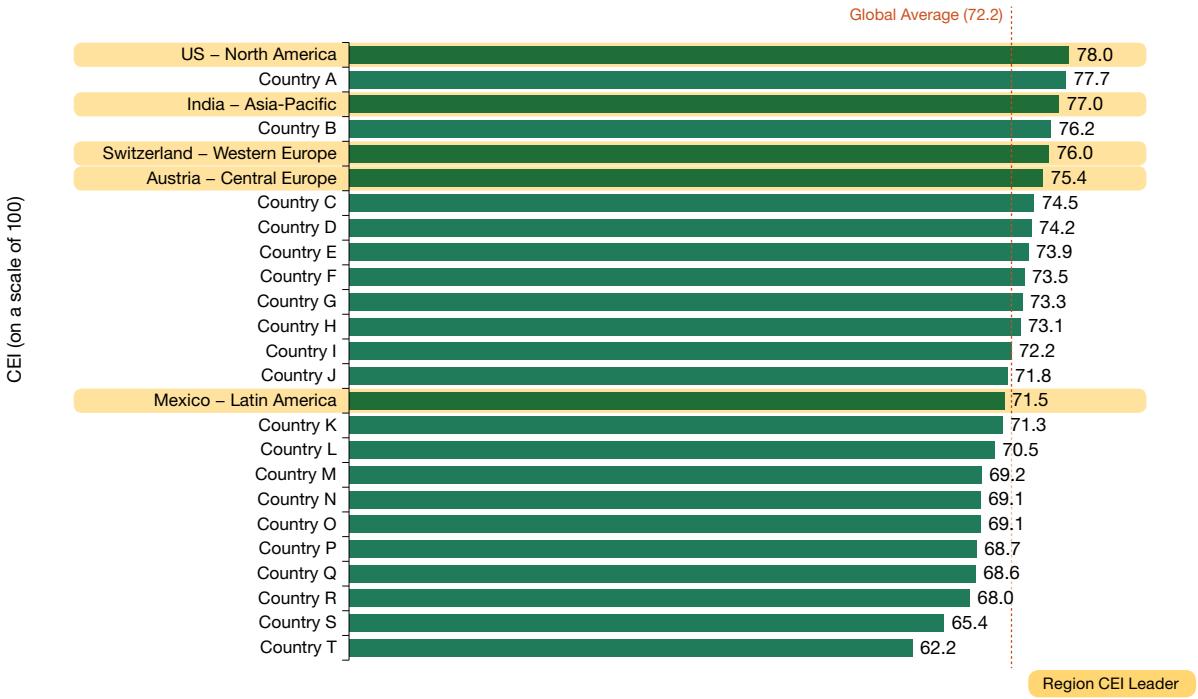
The variability between countries was also much greater in the more in-depth assessment of positive customer experience, compared to the overall CEI. Banks in the U.S. were the most successful in delivering positive experiences along the levers most important to customers, achieving 53%, followed by India with 50%. Banks toward the end of this spectrum scored as low as 15%.

Banks in the U.S. appear to be successful in identifying the factors and channels that are most important to customers and are delivering accordingly. Their higher-than-average ranking is likely a result of banks in these countries having made significant investments in channels and customer information systems aimed at better meeting customer needs.

EXPECTATION LEVELS HEAVILY INFLUENCE PERCEPTIONS OF POSITIVE EXPERIENCE

Customer expectations and how well banks are perceived to deliver on them can significantly affect a country's standing on the indices. Expectations can

Figure 6 Customer Experience Index with Regional Leaders, 2011



Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

differ greatly from country to country, depending on the maturity of a country's banking industry and the general state of its economy.

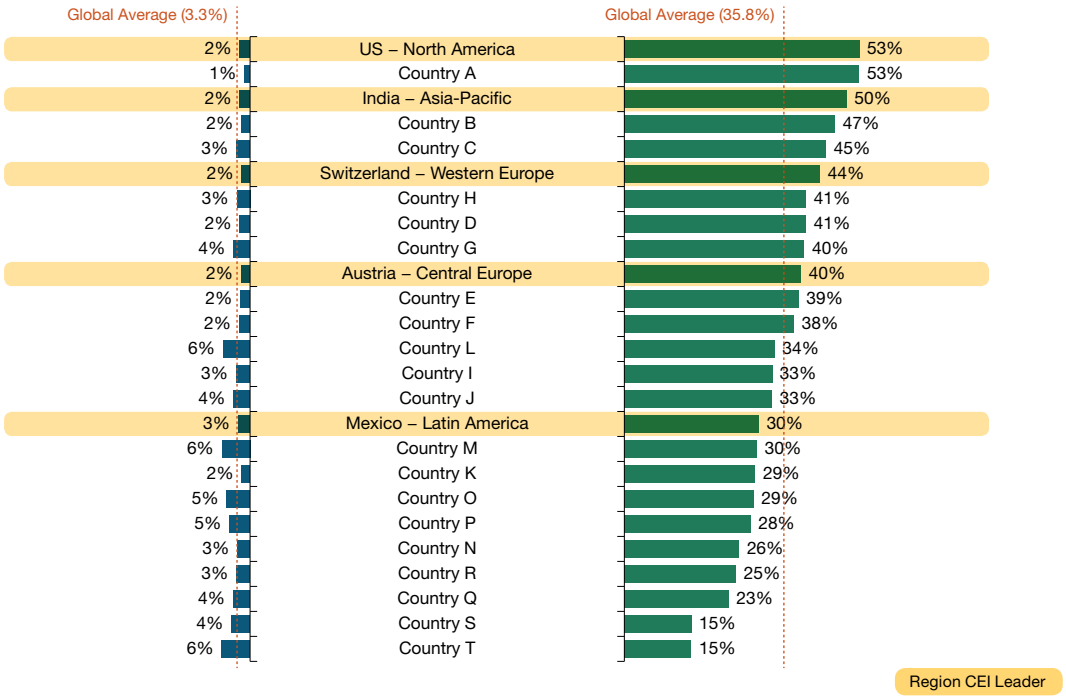
The expectation factor helps to explain some of the findings. India, for example, performed very well compared to banks in more developed countries. This is because customers there have not yet become fully accustomed to the significant infrastructure improvements Indian banks have made in recent years. While such advancements are common in more developed countries, low expectations by Indian customers likely led to improved customer experiences.

Similarly, very high expectations by customers in Western and Central European countries likely led to less positive customer experiences in those countries. In Switzerland, where customer expectations can be quite high, banks achieved an above average rating of only 44%. Austria, as the regional leader in Central Europe, further supports this with a score of 40%. While both countries are above the global average, for a mature banking market less than half of the banking customers in each region are having a positive experience in the areas that are most important.

While Mexico was the leader in Latin America with a score of 30%, this trailed the global average by 5.8%. Over the last few years, Latin America has experienced considerable amounts of turmoil which could account for the low levels of satisfaction and trust in banks.

The index found that the global average for negative experiences was only 3.3%. While the industry can be commended for keeping negative experiences to a minimum, banks need to move toward providing more positive experiences in ways that are most meaningful to customers. Banks that can offer truly positive customer experiences are far more likely to succeed in an increasingly competitive marketplace than those that offer only average experiences.

Figure 7 Customers with a Positive/Negative Experience by Country (%), 2011



Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

CUSTOMER EXPERIENCE LAGS CUSTOMER SATISFACTION

High customer satisfaction levels do not translate into equally high positive customer experience rankings. In every one of the countries studied, customers had higher levels of overall positive satisfaction than positive experience. Consider Switzerland: 73% of customers say they are satisfied, but only 44% are having positive experiences (see Figure 8). In fact, most countries achieved positive satisfaction scores of 50% to 70%, but positive customer experience scores of only 30% to 40%.

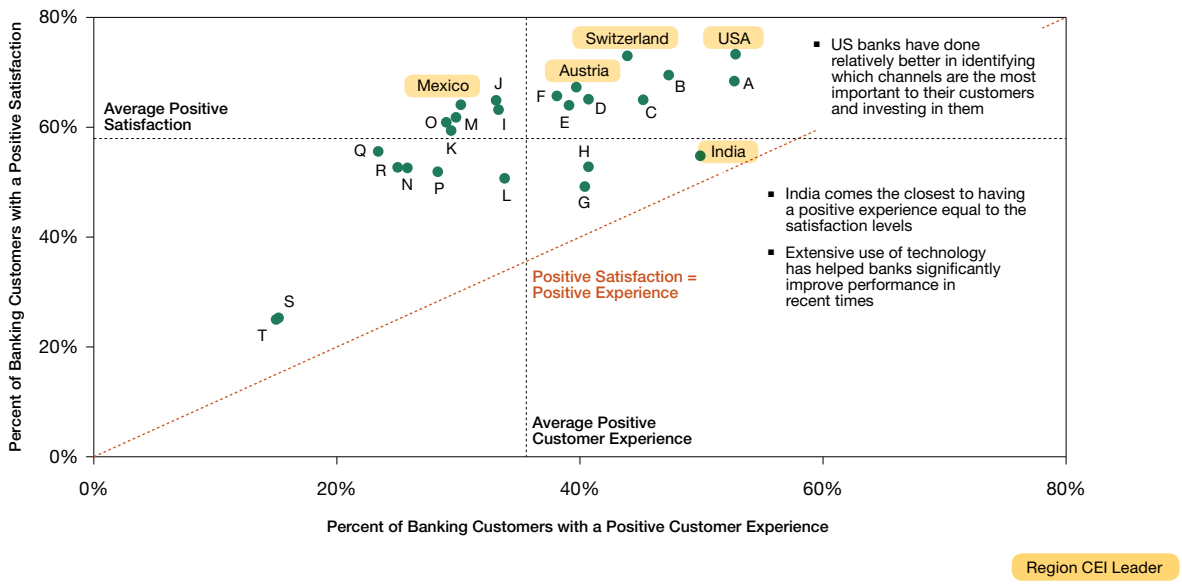
Not a single country exhibits a positive customer experience ranking that is higher than its satisfaction ranking. The country that comes the closest is India, whose customer experience ranking of 50% is within reach of its satisfaction ranking of 55%. This likely reflects the modest improvements Indian banks have made in recent years, combined with the low expectations of Indian customers based on minimal services historically provided.

The gap between positive experience and positive satisfaction underscores the reality that relying on high-level customer satisfaction measures alone may be misleading. Customer satisfaction in isolation does not provide critical insight into what customers consider important and may cause banks to overestimate their ability to drive customer loyalty and retention. Banks need to understand the reasons behind the satisfaction-experience gap, before they can devise a strategy on how to improve the customer experience.

CHANNELS ARE THE KEY INTERACTION POINTS FOR BANKS

Understanding customer channel preference is an important element of delivering highly positive customer experiences. Customer interactions begin and end with channels, making them the prism through which customers gauge their experiences. Across regions and demographics, the gap between what customers perceive as important and how banks deliver on those perceptions is greatest in the case of channels.

Figure 8 Positive Customer Satisfaction[a] vs. Positive Customer Experience[b], 2011



a) Positive Satisfaction has been defined as positive or very positive
b) Positive Experience has been defined as positive or very positive
Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

Customers in different regions have varying perceptions of the importance of different channels. Local factors, such as a country's technological infrastructure, and customer comfort and experience with technology, are important variables. Banks need to identify the channels that are most important to their customers and offer the most positive experiences on those particular ones. Banks in North America have so far been the most successful in understanding what customers perceive as important in terms of channels, and delivering on those expectations.

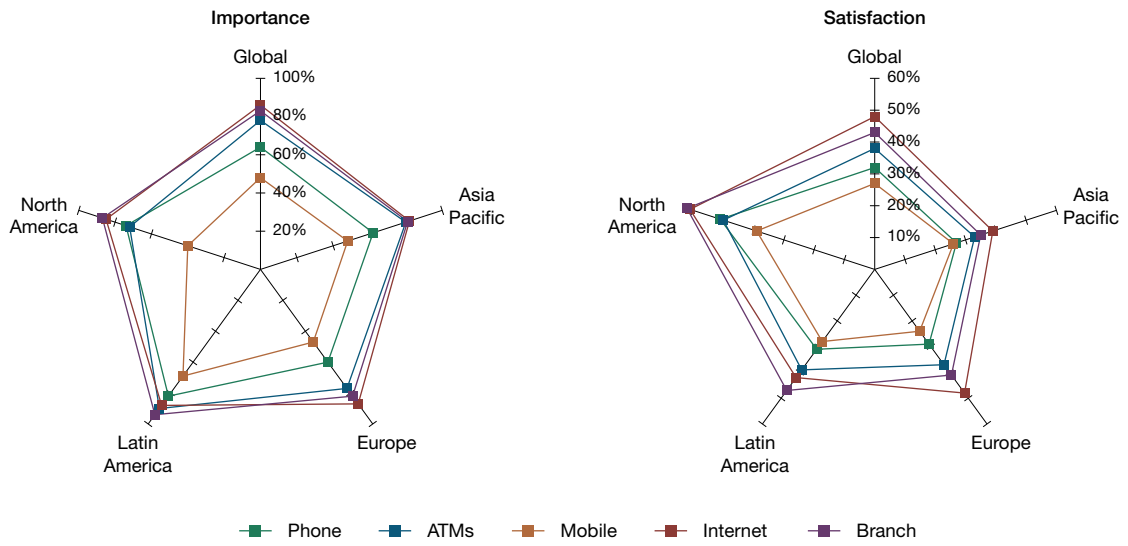
BRANCH, INTERNET RANK HIGH IN IMPORTANCE, SATISFACTION; MOBILE RANKS LOW

The Voice of the Customer survey found that customers in every region perceive the branch and the internet as the most important channels (see Figure 9). But for the most part, customers are not receiving positive experiences through those channels. With the exception of customers in North America, less than half the customers across the globe report having positive experiences through either one of those channels.

Customers around the world showed regional differences in how they value the various channels. In the Americas, the branch edged out the internet as the most important channel, while in Europe and Asia-Pacific, the internet exhibited a slight lead over the branch. Mobile was considered the least important channel in all the regions, though Latin Americans valued it much more highly than customers in other regions.

Positive experiences correlated with the regional importance placed on each channel. Customers in the Americas said their most positive experiences occur in the branch, while customers in Europe and Asia-Pacific indicate that their internet experiences are more positive than their branch experiences. North American customers have more positive experiences through the remaining channels – ATM, mobile and phone – than customers in the other regions.

Figure 9 Importance and Satisfaction of Channels by Region (%), 2011



Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

BRANCH, INTERNET APPEAL TO ALL AGES IN ALL REGIONS

When the dimension of age is added to the regional view, the branch and the internet continue to outrank the other channels in their ability to offer positive experiences. In general, older customers tend to be more positive about their branch and internet experiences than younger ones, perhaps due to lower expectations. Across all age groups, customers rated their experiences as less positive through the mobile channel.

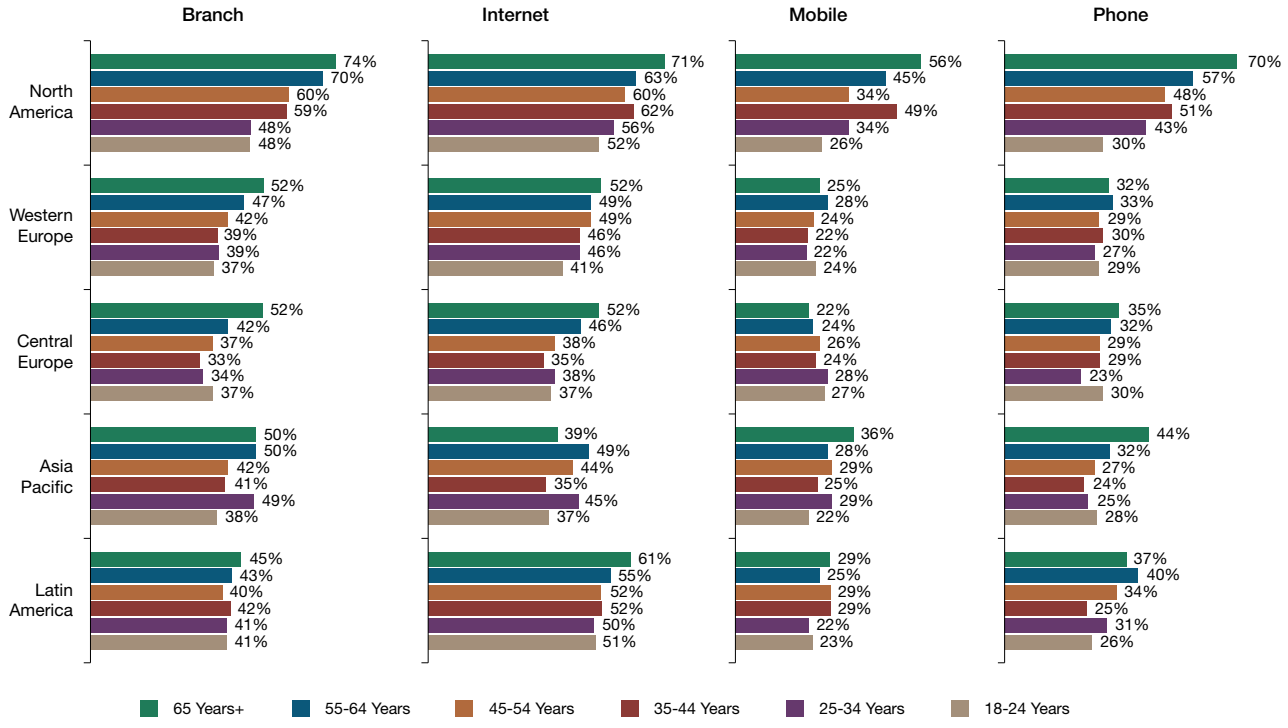
In some regions, the difference between young and old was pronounced. In North America, for example, 74% of customers aged 65 years and older have positive experiences with the branch, compared to only 48% of customers aged 18 to 24 years (see Figure 10). But in Latin America, the difference between young and old was barely noticeable, with 45% of older customers and 41% of young customers having positive experiences with the branch.

CUSTOMERS PERCEIVE DIFFERENT STRENGTHS FOR DIFFERENT CHANNELS

Additional insight about channels emerges when viewed according to the type of transaction customers are executing. From this perspective, channel satisfaction corresponds to the perceived importance of the channel, with the most important channels delivering the greatest satisfaction. Again, the branch and the internet emerge as the leading channels for all types of transactions (see Figure 11).

It is clear, however, that customers view the branch and internet as having different strengths. The internet excels in information gathering, transacting, and looking up account status, customers said. The branch is the preferred channel for solving problems, indicating the value of having a human touch in certain situations.

Figure 10 Customers with a Positive Experience by Channel, Region, and Age (%), 2011



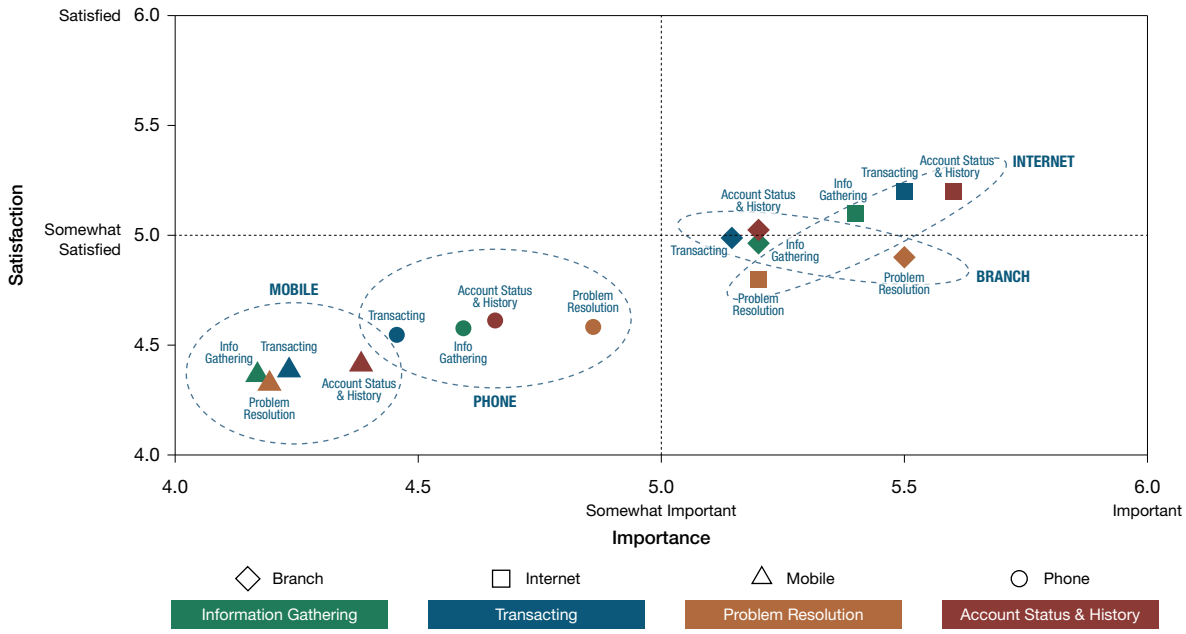
Source: Capgemini analysis, 2011.

Mobile banking has yet to make a positive impression. Customers consider mobile to be the least important and least satisfying channel across all lifecycle stages, perhaps due to its still relatively immature state. Given this finding, banks should analyze their overall channel strategy to determine whether investing in mobile or making additional investments in the branch and internet would provide greater return.

The telephone channel is ranked slightly higher than mobile in importance and satisfaction. Though the telephone channel has been in use for many years, it is also increasingly expensive to maintain. This helps explain the movement of call centers to lower-cost regions all over the world.

Banks seeking to "wow" their customers need to recognize the importance of channels in creating a positive customer experience. Banks should gain a detailed understanding of how different types of customers view the importance of different channels, and how satisfied they are with those channels. Being able to devise an overall channel strategy based on such specific insights into the customer experience will lay the groundwork for delivering a more consistent, connected positive customer experience.

Figure 11 Global Customer Importance Vs. Satisfaction of Channels by Life Cycle, Across all Products, 2011



Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

Customer Experience Levels Differ Significantly by Region and Transaction Type

BANKS IN DIFFERENT COUNTRIES EXCEL AT DIFFERENT ASPECTS OF PROVIDING A POSITIVE EXPERIENCE

Opportunities for delivering positive customer experiences differ widely by region. Examined by country, banks demonstrated varying levels of success in their ability to deliver positive customer experiences along different types of transactions, touch points and products.

Our survey found that banks in every country are able to offer most customers a positive experience in at least some areas. The most successful banks consistently offer positive experiences across the majority of areas.

Banks can explore opportunities to improve customer experiences by identifying those areas where customer experiences are lacking. Using Capgemini's CEI, they can identify the specific touch points, transactions or products, by country, in which customers say their experiences are sub-par. By targeting those areas for improvement, they can then begin implementing retail delivery strategies aimed at increasing positive experiences along the dimensions customers currently find the most dissatisfying.

EXAMPLE A: U.S. BANKS ARE MOST SUCCESSFUL IN OFFERING A WIDE RANGE OF POSITIVE EXPERIENCES

Banks in the U.S. hold the distinction of consistently delivering positive experiences across every type of transaction, touch point, and product. Even in the areas where U.S. banks are least successful in offering positive experiences, still more than half the customers are having them. Further, the least positive experiences for U.S. customers are often still relatively better than many of the most positive experiences for customers in other countries.

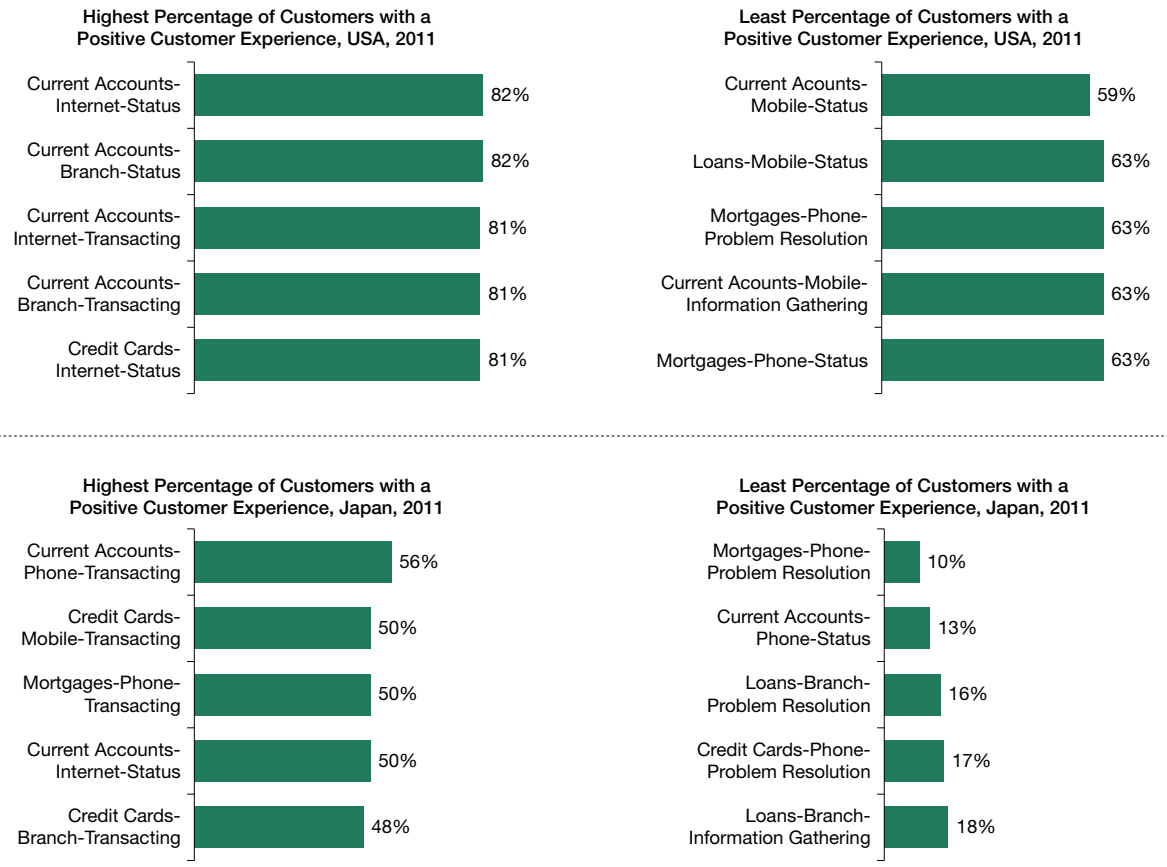
Even so, the CEI indicates that there are still significant areas where U.S. banks could focus on improvement. Many customers are not happy with varying types of mobile and phone transactions. The least positive type of experience for U.S. customers is checking their account status over their mobile phone. Only 59% of customers said they had a positive experience when executing this type of transaction. U.S. customers are most likely to be satisfied with experiences that involve looking up an account status or transacting, for current or deposit products, through the internet or branch.

EXAMPLE B: JAPANESE BANKS CAN BENEFIT FROM IMPROVEMENT ACROSS SEVERAL AREAS

Japanese banks have not been very successful in delivering positive experiences to their customers. There is only one type of interaction– current-account transactions over the phone – in which more than half of Japanese customers (56%) say they are having a positive experience.

In general, Japanese banks offer their most positive customer experiences for transactions executed through direct or non-branch channels, particularly the phone and mobile. The least positive customer experiences occur when customers try to resolve problems or gather information through the phone or branch. While there are several areas Japanese banks could focus on to gain improvements, the greatest impact will be had in helping customers resolve problems, especially when customers are seeking a human touch through the branch or phone.

Figure 12 Transaction Point Analysis: USA and Japan (%), 2011



Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

EXAMPLE C: FRENCH BANKS EFFECTIVELY LEVERAGE THE BRANCH, BUT OPPORTUNITIES EXIST WITH PHONE AND MOBILE

Banks in France are most successful at delivering positive experiences around mortgage activities conducted in the branch. Three of the top five positive experiences for customers involve those elements.

French banks are least successful at delivering positive experiences over the phone or mobile, particularly if they involve resolving problems or looking up statuses for credit card or current-account products.

EXAMPLE D: DUTCH BANKING CUSTOMERS HAVE VERY POSITIVE EXPERIENCES WITH INTERNET

In keeping with the high penetration level of the internet in Netherlands, banks there deliver their most positive customer experiences via that channel. More than two-thirds of customers say they have a positive experience when looking up a status or executing a transaction via the internet for a credit card or current account.

Customers have their least positive experiences when dealing with any aspect of their mortgage over the phone or mobile. Given that customers in Netherlands already exhibit an affinity for the internet, banks there could benefit by improving service levels through the other remote channels of phone and mobile.

Figure 13 Transaction Point Analysis: France and Netherlands (%), 2011

Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

Deep Analysis Into the Drivers of Positive Customer Experiences Can Help Set Priorities in Retail Delivery Investments

BANKS NEED TO UNDERSTAND SATISFACTION ALONG THE DIMENSIONS OF GREATEST IMPORTANCE TO CUSTOMERS

Globally, banks are doing a good job of ensuring customers are satisfied and have few negative experiences. However, in most countries, less than half of customers report having positive experiences across the touch points that matter most to them. With distrust in primary banks already running high, banks stand the risk of heavy customer attrition if they are not able to significantly improve customer experiences.

Use of simple customer satisfaction measures can lead to an incomplete view of customer attitudes. In every country, customer satisfaction levels are higher than positive customer experience levels, and in some cases they are much higher. Relying on customer satisfaction measures alone may cause banks to overestimate their ability to increase customer loyalty and retention.

Banks need to improve customer experiences by driving satisfaction specifically along those dimensions that customers perceive as most important. Developing a strategy around positive experiences will boost retention and loyalty, while also helping banks prioritize investments in areas most meaningful to customers.

Capgemini's CEI illustrates that delivery channels differ widely in importance and satisfaction to different customer segments around the world. It also shows that banks have achieved varying levels of success, by country, in meeting customer demands. Understanding all these differences provides useful insight into customer expectations in different regions, as well as the ability of banks in different countries to meet those expectations. This insight, in turn, can help banks allocate resources, even across a global footprint, to maximize benefits from their delivery channel investments.

CHAPTER 2

The Branch Remains Important to Customers Despite the Growing Popularity and Availability of Direct Banking Channels

- **Customers still consider the branch a top channel for carrying out their banking business, despite the growing influence of direct channels.** Customers like visiting branches for face-to-face interactions and quality of service.
- **A shift is underway in customer perception related to branch sales and service.** Customers increasingly view the branch as fulfilling an advisory role, though they still use the branch to carry out basic financial transactions. Product complexity and regulatory changes are pulling customers into the branch for more personalized service and advice.
- **Positioning the branch to play an efficient and valued role in an overall retail delivery strategy will require changes across four areas.** These are: branch layout & design; technology; sales & service, and staff & people. Transforming the branch will present challenges, but key trends and leading practices are emerging around the globe to address this.
- **Banks are evaluating six major themes for adoption as they transition their branch networks to play a more effective role in today's retail environment.** While there is no "one-size-fits-all" approach to the evolution underway, each bank will gradually shift to one or more of these themes as they redefine the role of the branch.

Banks Seek to Minimize Distribution Costs, While Maximizing the Customer Experience

Retail banks today are under enormous pressure to both improve service quality and reduce costs.

Banks face a highly competitive and saturated market where product innovation and price no longer provide effective means of differentiation. In addition, today's high-value customers exhibit reduced loyalty and have an increased ability to spread their relationships across multiple banks. Further, because of technological advancements and demographic shifts, customer expectations are steadily rising. When it comes to banking, customers are most interested in receiving top-quality, personalized service from their banks.

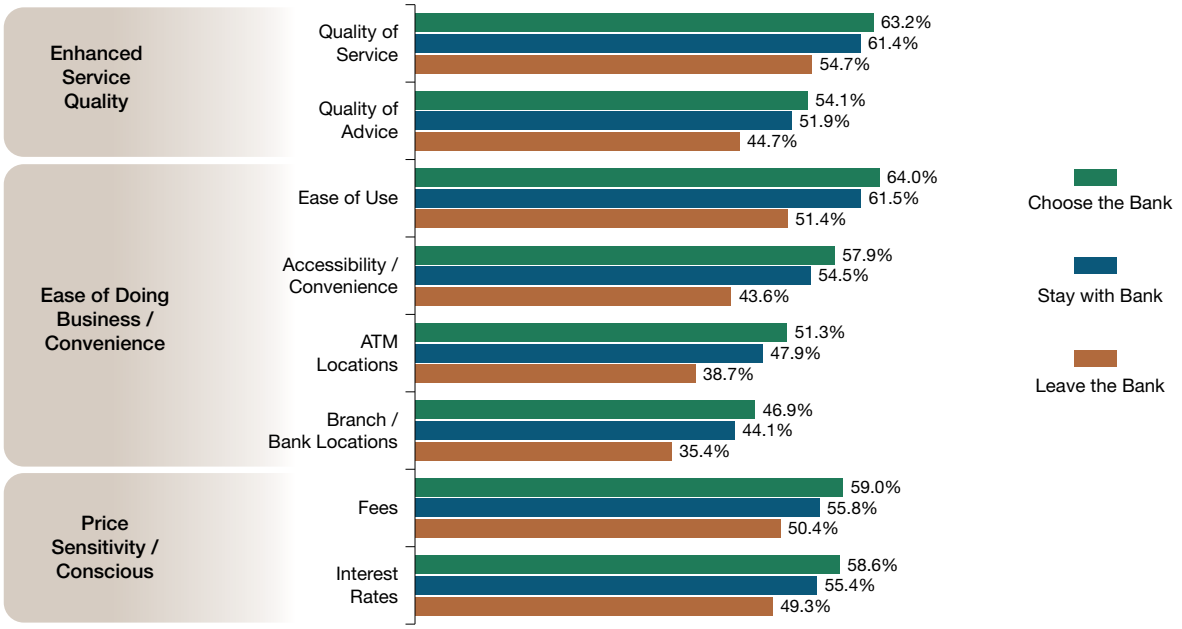
Customers perceive the branch as the premier channel for delivering high-quality service. Yet the branch is the highest-cost delivery channel. Despite the fact that more than 80%[1] of sales are still driven through the branch, the costs of running a branch network are not expected to be sustainable over time.

As customers expand their use of direct or non-branch channels, the number of transactions occurring in the branch is undergoing a significant decline. At the same time, banks are pouring resources into supporting the wide range of direct channels that customers have come to expect. Simply to remain profitable, branches either need to evolve into a lower-cost format, or attract higher-margin transactions.

Whatever strategy they choose, banks need to be able to balance the cost of providing retail services with delivering an enhanced customer experience. Capgemini's Voice of the Customer survey underscores that service is a top priority to customers. It found that service quality and ease of use are the most important factors for choosing a bank, for 63% and 64% of customers respectively. Fees and interest rates are nearly as important, ranking third (59%) and fourth (58%) in importance.

All of these variables are prompting firms to reevaluate their channel strategies. At the heart of the matter is the question of the branch and how to effectively leverage it.

Figure 14 Importance of Factors Influencing Customers Decisions to Choose, Stay, and Leave the Bank (%), 2011



Note: The chart above includes very important and important responses of customers who rated the importance of various factors that influence their decision to choose, stay and leave their primary banks on a scale of 1-7 with 7 being very important and 1 being not at all important.
Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

[1] The Future Role of the "Bank Store" and its Interconnectivity with Other Channels, Efma, 2008

A Multi-Channel, Multi-Product Environment Requires a Revamped Delivery Approach

MARKET DYNAMICS CHALLENGE THE CURRENT ROLE OF THE BRANCH

Branches today are at an inflection point in their evolution, due to several major market factors. Branch revenue growth is becoming harder to achieve due to a reduction in lending and a focus on deposit gathering. Regulatory mandates have further magnified this problem by putting additional pressures on margins and/or adding to the high cost of branch operations.

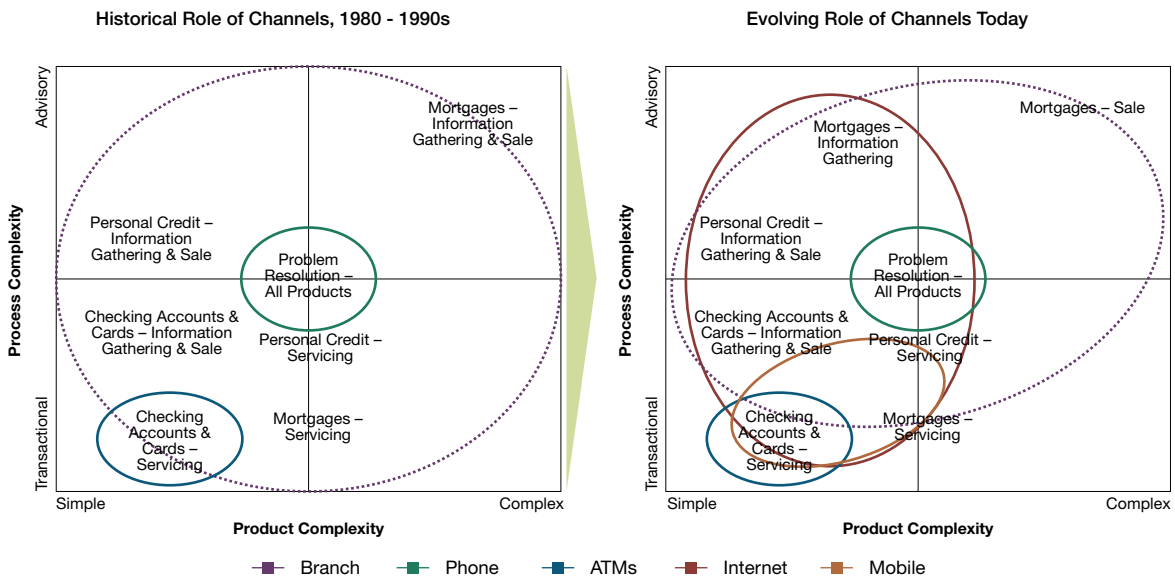
At the same time, technological advancements are driving steady improvement in the direct channels. They now perform a large percentage of the transaction processing that used to take place in the branch. In addition, as channels become more integrated, they are increasingly capable of managing customer relationships in a way that used to occur exclusively in the branch.

MULTIPLE CHANNELS, PRODUCTS COMPLICATE SALES AND SERVICE

Twenty to thirty years ago, branches were the primary channel for conducting transactions of every type – from opening accounts and loans, to depositing checks and money. Over time, the number and complexity of products increased, along with the number of channels customers could use to execute transactions. The result has been a diminished role for the branch, as other channels have become favored access points for certain types of transactions.

The multi-product, multi-channel environment of retail banks today presents a number of challenges. The first is an unfocused approach to delivering products and services to the market. Banks can easily fall into the "3E trap" of trying to be Everything to Everyone, Everywhere. Another challenge is the difficulty of integrating channels so that customers can enjoy a seamless experience as they move from channel to channel.

Figure 15 Historical and Evolving Role of Channels in a Multi-Channel, Multi-Product Environment, 1980–2011



Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

DISTRIBUTION STRATEGIES MUST INCORPORATE CUSTOMER SEGMENTATION AND CHANNEL INTEGRATION

To address these challenges, banks need to develop channel strategies that incorporate customer segmentation and profiling. The goal is to direct the right product to the right customer through the right channel. Careful analysis of customer needs, expectations, and channel usage patterns is necessary to identify the channel preferences of different customer segments. Banks can turn to tools such as Capgemini's CEI to help them develop focused distribution strategies for each customer segment. Creating a better distribution network also entails breaking down the product and channel silos that have been built up over time to support today's multiple channels and products.

The other priority in streamlining today's complex environment is to achieve seamless, multi-channel integration. Customers say that banks have made progress in integrating distribution channels, but could do more. Customers specifically want to be able to switch fluidly back and forth between different channels during the same sales or service event. Only about two-thirds of customers in North America say their bank has been successful in providing consistent interactions across all channels. In Asia-Pacific, not even half (46%) of customers think so.

Banks recognize the need and importance of seamless multi-channel integration and have invested heavily to accomplish it, but have yet to realize this goal. They need to overcome a variety of challenges limiting these efforts, including updating their legacy systems, eliminating siloed operational processes, and providing training for staff to function in a multi-channel environment.

Customers Are Slowly Expanding Their Use of the Branch Beyond Basic Transactions As Advisory Services Become More Important

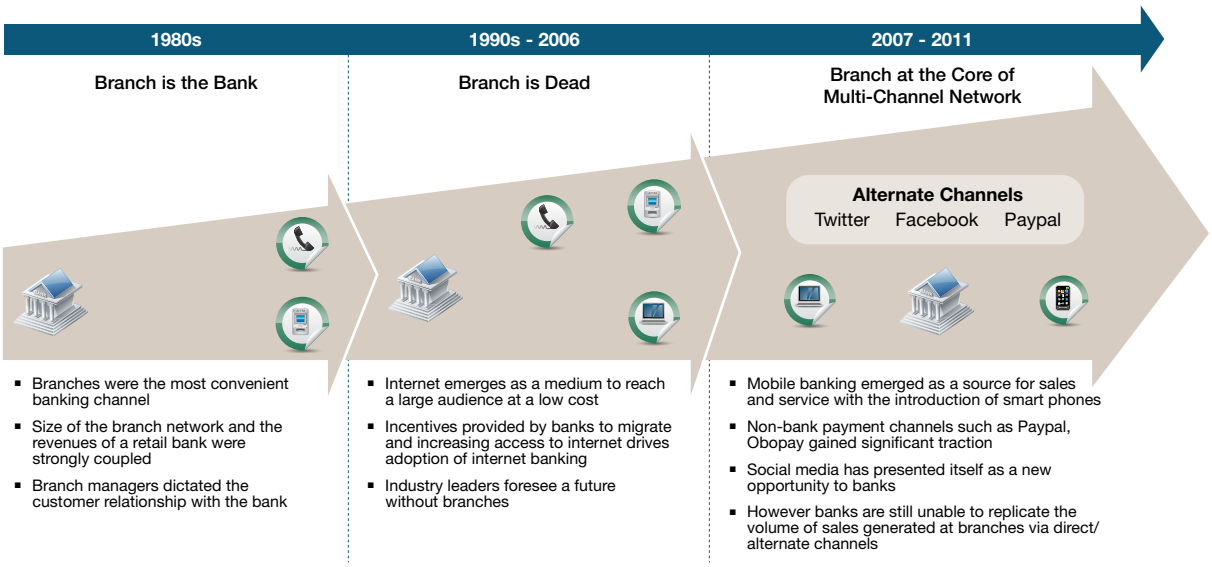
CUSTOMERS CONTINUE TO VALUE THE BRANCH

The branch continues to be a cornerstone of banking distribution networks, despite the growing influence of direct channels. The branch survived a phase during the late 1990's when the industry briefly contemplated a future without branches. Some banks experimented with branches that steered customers away from live tellers and toward automated systems, in an attempt to wean customers off of human interaction. Many banks opened internet-only banks that had no branches at all, but featured low fees and high interest rates. Firms had varying levels of success and failure in their efforts to completely remove the branch as a channel.

Capgemini's Voice of the Customer survey, viewed from a number of perspectives, confirms the fact that branches continue to play an important role in bank distribution networks.

Customers in most regions indicated their preference to continue using the branch into the foreseeable future. Asia-Pacific customers, for example, said the number of branch interactions in a year would increase from 21 in 2005 to 27 in 2015. North American customers, meanwhile, expect their number of yearly interactions to decrease by a similar amount over that same time, but still consist of nearly 28 visits a year in 2015. Europeans had fewer interactions with the branch in 2010 compared to 2005, but expect the number to rebound slightly into 2015, to nearly 18 visits a year.

Figure 16 Evolving Role of the Branch in a Multi-Channel Environment, 1980-2011



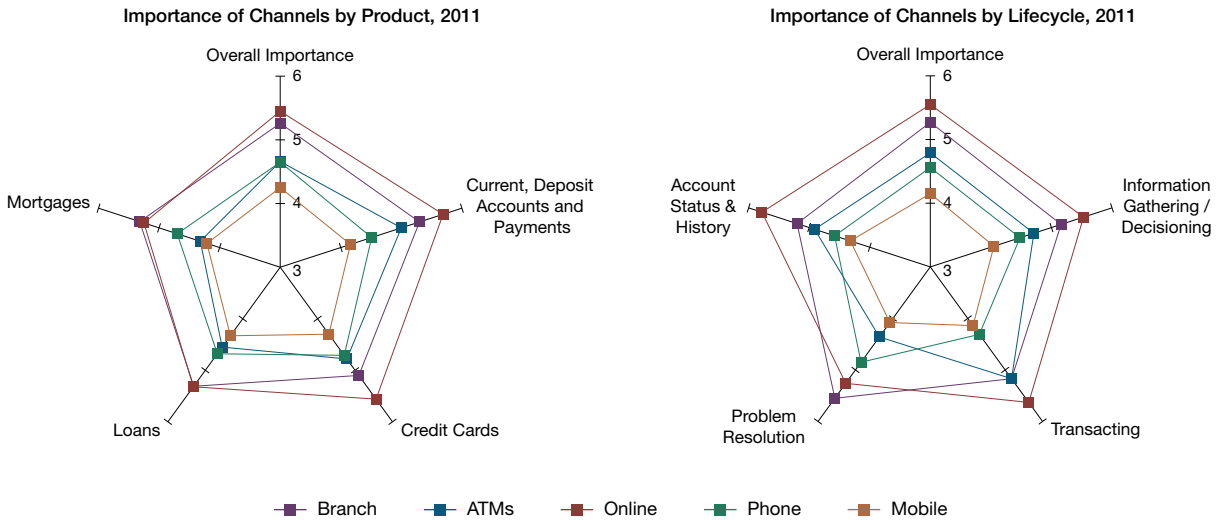
Source: Capgemini analysis, 2011.

CUSTOMERS CONSISTENTLY RELY ON THE BRANCH FOR A WIDE RANGE OF ACTIVITIES

Compared to other channels, branches are preferred when it comes to complicated tasks like resolving problems and applying for complex products like mortgages and loans. The internet scored slightly higher for carrying out more common activities like transacting, information gathering, and looking up account status, while the branch was ranked second for these activities.

Capgemini's Voice of the Customer further shows that customers increasingly view the branch as the preferred channel for receiving advisory and relationship management services. Customers are expected to expand their use of the branch for such services, from 28% in 2010, to 31% in 2015. Though executing basic financial transactions in the branch remains important, customers are expected to marginally decrease their use of the branch for such activities, from 37% in 2010 to 34% in 2015.

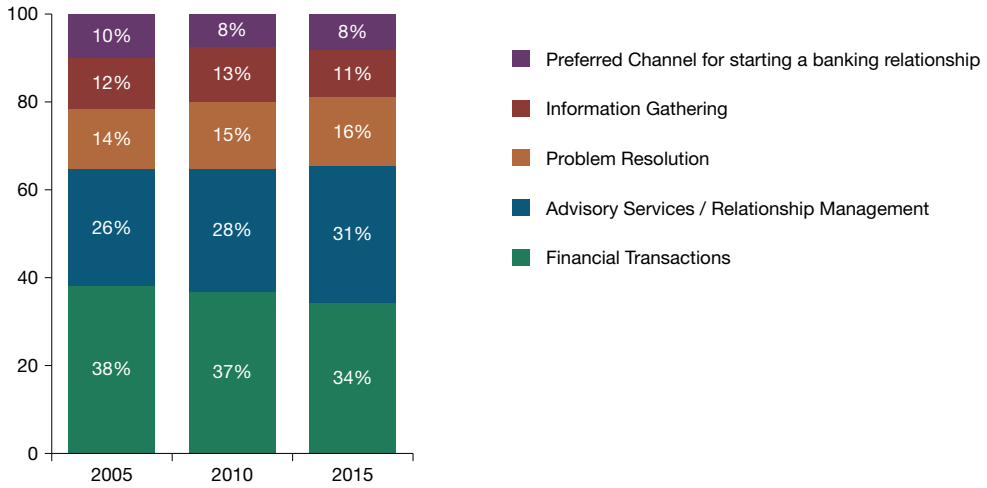
Figure 17 Importance of Channels by Product and Lifecycle (%), 2011



Note: The importance of the branch relative to direct channels by products and lifecycle stages is rated on a scale of 1-7 with 7 being very important and 1 being not at all important

Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

Figure 18 Most Important Role of the Branch to Customers in the Past, Present, and Future (%), 2005-2015



Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011.

Banks Are Facing Challenges across Four Areas While Transforming the Branch to Play a More Effective Role in Retail Delivery

LEADING PRACTICES ARE EMERGING AS BANKS BEGIN IMPLEMENTING CHANGES

Though the branch remains a favored channel, it cannot persist in its current form. The pressures related to the need to lower costs while improving the customer experience are too great. The need to also decrease the complexities of today's multi-channel, multi-product environment provides an entree for rethinking the branch's role in a revamped retail delivery strategy.

Banks must make changes in four areas in order to reposition the branch to play a new, more valued role in an overall delivery strategy.

These areas include:

- Branch Layout and Design
- Technology
- Sales and Service
- Staff and People

Capgemini interviewed retail banking executives around the globe and conducted extensive secondary research to identify the most important steps banks are taking to address these pressing branch-related issues. The interviews led to the identification of a number of market trends and leading practices related to the evolving role of the branch.

BANKS ARE REDESIGNING BRANCHES TO BETTER ENABLE EVOLVING SERVICE MODELS

Branch layout and design has a significant impact on customer perception and experience. Banks are beginning to realize they can alter customer usage patterns and satisfaction rates simply by updating the look and feel of their branches.

Banks must overcome numerous obstacles when it comes to optimizing the layout and design of their branches:

- **Awkward and outdated layouts** leave customers confused about how to navigate the branch, while also decreasing efficiency.
- **Generic branches** fail to generate interest or the sense that the bank is able to deliver a personalized customer experience.
- **Inefficient service models** require staffers to spend more time on administrative tasks than customer service, increasing costs and leading to negative customer experiences.
- **Low-tech, older** branches fail to recognize that the branch is moving into an advisory role where customers need to feel welcomed and comfortable addressing everything from their most basic to their most advanced financial concerns.

INNOVATIVE DESIGNS ARE REDEFINING CUSTOMER INTERACTIONS

- **Branch Re-Design:** Inspired by retail stores, banks are seeking to create more attractive surroundings, along with helpful signage to ease customers' transitions throughout the branch. Taking a page from retailers, they are deploying roving assistants and greeters to give direction and assistance to customers. ***Umpqua Bank's*** Innovation Lab organizes its branches around areas labeled work, discover, connect, collaborate, interact and play, and features supporting resources for each one. Customers who want to work, for example, can access the bank's web site or on-demand videoconferencing, while those who want to play can grab a complimentary cappuccino and peruse merchandise from local retailers. ***Barclays'*** Branch of the Future spans 8,000 square feet over three floors and features open counters, an evolving video wall installation that graphically represents London life, and Microsoft Surface technology to let users grab digital content about Barclays' product offerings with simple gestures and touches.

- **Branch Automation to Improve Convenience:** Banks are equipping their branches with ATMs and check deposit machines to encourage customers to execute transactions themselves. They are also deploying technology at the teller line to make routine transactions, such as check deposits, bill payments and money transfers, more efficient. *BNP Paribas*' Concept Store includes a self-service area where customers can carry out cash and check transactions independently during extended hours. In addition to minimizing the need for tellers, the self-service machines are expected to improve security through decreased cash handling. The store is divided into four distinct areas, including reception, advice and consulting, services and storefront.
- **Customized Branches for Different Client Segments:** From a branch network perspective, banks are using demographic analyses to determine the correct branch format for different markets. For example, they may design a branch with the ambience of a coffee shop for an area filled with young customers, while sticking to a more traditional look in a branch aimed at baby boomers. *UniCredit Group* studied the micro-markets in which it operates to come up with a variety of branch designs that appeal to different types of customers. Its most spacious branches are aimed at affluent customers with high profit potential. Other branches are targeted to small businesses and private banking clients. UniCredit Group used demographic analyses to map the optimal branch format for each segment, by location. It also identified opportunities for opening, closing and reconfiguring branches.

EFFECTIVE USE OF TECHNOLOGY IS CRITICAL

While the primary role of technology is business enablement, it is often cited as a hindrance in keeping banks from reaching their full potential. Banks face a wide variety of technology challenges related to the branch:

- **Disparate legacy systems** often result in incomplete customer views, hampering relationship management.
- **Bank systems lack connectivity** and are not able to communicate with one another or present a full view of the customer relationship. For example, the system that maintains customer data might not speak to the one that opens customer accounts, necessitating manual entries.
- **Poor access to customer analytics and intelligence** prevents staffers from gaining access to information that would help them provide the best solutions for particular customer situations and manage relationships.
- **A lack of connectivity between branches and direct channels** means banks are unable to support a consistent customer experience across channels.

TARGETED TECHNOLOGY INVESTMENTS ARE ESSENTIAL

Although equipping a large branch network with advanced technology can be a huge expense, banks are recognizing the value of making major branch-related technology investments. These include outlays for customer intelligence tools, channel integration, videoconferencing, and even radio frequency identification.

- **Seamless Multi-Channel Integration:** Banks are developing multi-channel delivery strategies that seek to optimize the strengths of individual channels. They are also taking steps to minimize channel conflict, as more customers take to switching between channels during the sales process. This requires organizing sales teams and processes around geographies rather than channels, and implementing cross-channel campaign management solutions to orchestrate marketing efforts. *SNS Bank* developed an overall delivery strategy that eliminates cash handling in the branch, thus emphasizing the branch's advisory role. A state-of-the-art web site establishes the internet as the bank's main channel for service functions.
- **Customer Analytics Software:** Another area of focus for banks in the technology space is to bring greater customer insight and intelligence to the front line. To that end, banks are building master data sets to provide comprehensive views of customers. These are combined with analytical tools to develop client segmentation strategies. They also feed into predictive tools to support real-time sales triggers as employees interact with customers. *ING Netherlands* revamped its customer response models to proactively identify products best-suited to clients. This initiative led to a significant increase in the quality of sales prompts provided to customer service representatives.
- **Adoption of Modern Technologies:** Banks are thinking more boldly about how to use advanced technologies not typically associated with banking to significantly change the nature of branch interactions. Digital signage and radio frequency identification are among the technologies being used to promote better in-branch customer service. *HSBC* has implemented a networked, centrally managed digital display solution that lets it quickly present time-sensitive marketing information to customer-facing screens in the branches. *Jyske Bank* has installed 1,000 digital signage displays throughout its branches that present product information in an entertaining format. It also installed 500 interactive plasma displays in conference rooms to support more complicated product sales. *Yes Bank* is using radio frequency identification technology to let branch employees identify customers as they walk in the door and provide more customized service.

- **Personalization Technology:** Banks are using videoconferencing to promote customer access to product specialists. Videoconferencing provides personalized service to customers, while eliminating the cost of deploying experts throughout the network. Banks are putting videoconferencing terminals in lobbies where they are accessible 24 hours a day, as well as in meeting rooms, where customers can conduct business with specialists in greater privacy. *ABN Amro's* Teleportal branch uses the latest in TV technology to provide a high-quality interactive experience for the customer. A 3-D projection onto a screen provides a near-live meeting experience, while eliminating the need for bank employees to be physically present. *Umpqua Bank's* Ask an Expert videoconferencing capability lets customers consult and share documents with remote advisors.

BANKS CANNOT OVERLOOK BASIC SALES AND SERVICE PROCESSES

As direct or non-branch channels become more popular, banks need to improve the way sales and services are originated and closed across all channels. They face a number of impediments in this area:

- **A lack of multi-channel sales and service strategies** means that customers cannot easily move from one channel to another during different stages of the sales cycle.
- **More advisory-based sales** will require banks to deploy technology and develop strategies to ensure the in-branch sales process is proficient and professional.
- **Inefficient processes** are frustrating to customers and decrease the ability of the bank to generate more sales and provide better quality of service.
- **A lack of targeted sales and service strategies** in an era of price transparency and product commoditization makes it difficult for banks to stand out from the competition.

NEW SALES AND SERVICE APPROACHES CAN PROVIDE MORE CUSTOMIZED AND EFFECTIVE CUSTOMER EXPERIENCES

Inefficient sales and service processes, involving paper forms and long wait times for product fulfillment, have long bedeviled banks. They are striving to improve efficiency by creating product sets that appeal to different types of customers, based on their demographic profiles or their channel preferences; installing sales automation tools, and adding resources to support advisory sales.

- **Shifting from Transactional to Advisory Sales:** Banks are training employees to be better equipped in an advisory role to build customer trust and confidence. They are also developing mobile sales forces to reach out to customers. *Deutsche Bank's* sales pods feature low counters and comfortable seating to facilitate open engagement between customers and branch employees. *Hypo NOE Landesbank's* relationship managers serve as "one face to the customer," responsible for managing customer relationships across the entire product portfolio.
- **Targeted Service Strategies for Customer Segments:** Banks are using insights gained from comprehensive views of customer data to develop sales and service strategies that appeal to different customer segments. Checking-account products, for example, might be differentiated by minimum balance requirements or restrictions on branch usage. *Santander* uses a customer relationship management system to track a wide range of customer data and gain insights that can be used to improve targeted marketing. Capabilities include tracking recent purchases to identify a young couple expecting a child, for example. The bank can then offer relevant banking products.
- **Improving Sales Processes through Automation:** Banks are using workflow optimization tools, forms automation, and straight-through processing to improve turnaround times on sales and eliminate inefficiencies. Automated sales platforms are enabling beginning-to-end sales processes to occur without any human intervention. *MetroBank's* 15-minute account opening procedure vets customers while providing them with a debit card, credit card, checks, and an online banking account. *DenizBank's* instant card machines dispense ATM or credit cards with specified limits based on credit checks initiated when customers enter their citizenship numbers.
- **Providing a 360-Degree View of Customer Accounts:** A full view of customer relationships is essential for front-office personnel to be able to analyze customer needs, as well as the appropriate products or services for fulfilling those needs. Many firms have initiatives underway to achieve the 360-degree view, but few have been completely successful to date.

HIGHLY EFFECTIVE STAFF AND PEOPLE ARE MORE VITAL THAN EVER

Banks recognize skill sets of branch staff need to improve and adapt to keep up with the expectations of their customers. These changes can come in the form of hiring non-traditional banking employees, adding new training courses and empowering branch staff. The key issues around branch staff & people include:

- **Outdated skill sets** that are increasingly inadequate as products become more complex and customers more demanding in their service expectations.
- **A lack of authority** for branch staff to act in the best interests of customers and in the way they are accustomed to being treated by other service providers.
- **Misaligned incentive systems** that fail to appropriately reward employees for actions that contribute to the bottom line.
- **Unavailability of tools to support face-to-face interaction with customers.** Such tools are critical not only for improving sales efficiency but enhancing the customer experience.
- **Unfocused recruitment and inadequate training practices** that reduce a bank's ability to effectively provide the right products and services to customers.

UNIQUE STRATEGIES ARE REQUIRED TO MEET PEOPLE MANAGEMENT CHALLENGES

Finding, training and keeping skilled professionals have always been major challenges for banks. They are addressing these issues by granting employees and managers more flexibility and authority, improving their recruiting and training practices, and revamping their employee incentive programs.

- **Employee Training and Development:** Banks are investing in staff training to enable employees to sell more complex products requiring advisory skills. They are also seeking to improve the leadership abilities of branch managers.
- **Re-aligning Performance Measurements:** Banks are taking a closer look at the ways in which they incent and reward branch employees. Increasingly, they are using customer satisfaction as a key measure of employee performance. This process requires more frequent measurements of customer satisfaction and clear communication of the results to branch staffers. ***SEB's*** four-minute customer surveys proactively measure the customer experience after interactions through any channel. The surveys help the bank quickly identify and resolve tactical, one-off problems.
- **Enhancing the Quality of Branch Staff:** Banks are more and more recruiting from the hospitality and other service industries to attract employees with the people skills necessary to build lasting customer relationships. This focus represents a shift away from seeking people with traditional banking skills. ***Scotiabank's*** employee engagement program recognizes employees for building a better customer service environment. Newly developed quantitative and qualitative metrics measure employee achievements.
- **Empowerment of Branch Staff:** Banks are delegating greater responsibility and authority to local branch managers, enabling them to more quickly resolve customer problems or respond to inquiries, enhancing the customer experience. ***Barclays Bank*** equips staff members at larger branches with handheld computers to let them book appointments with appropriate advisors. ***Bank of New Zealand*** gave branch managers the flexibility to set branch operating hours to better serve customers. It also eliminated a managerial layer to give branch officers greater control and P&L responsibility, leading to a number of employee-driven innovations.

Six Key Themes Are Shaping the Channel Landscape and Redefining the Role of the Branch

THE BRANCH REMAINS A KEY CONSIDERATION IN OVERALL DELIVERY STRATEGY

In today's environment, the most important consideration in developing an overall channel strategy is determining the role of the branch. Some banks will choose to put the branch near or at the center of the customer relationship, while others will minimize its role, or eliminate it completely. Banks may choose one or several approaches, depending on the preferences of specific segments within their customer base. These segments may be differentiated on the basis of geography, age, channel usage, or any one of a number of other factors.

Once the branch's appropriate role in the delivery strategy has been identified, banks need to develop an execution strategy. This will require banks to selectively address the current branch challenges related to layout & design, technology, sales & service, and staffing. For example, banks that choose to put the branch at the core of all channels will need to address the issue of empowering branch staff and managers. This is less of a factor for banks seeking to move their branches into partnerships with existing retail outlets, and not one at all for banks pursuing a branchless scenario.

BRANCH TRANSFORMATION IS CONSTRAINED BY BUDGETS AND STRATEGIC FOCUS

Some branch-related challenges will need to be addressed during a one- to three-year timeframe to gain competitive advantage, while others will have longer time horizons of three to five, or even five to ten years. Budgetary constraints will likely play an important role in determining strategic timelines. Multi-channel integration, for example, should be addressed within three to five years, while customer personalization can be addressed over a five- to ten-year time horizon.

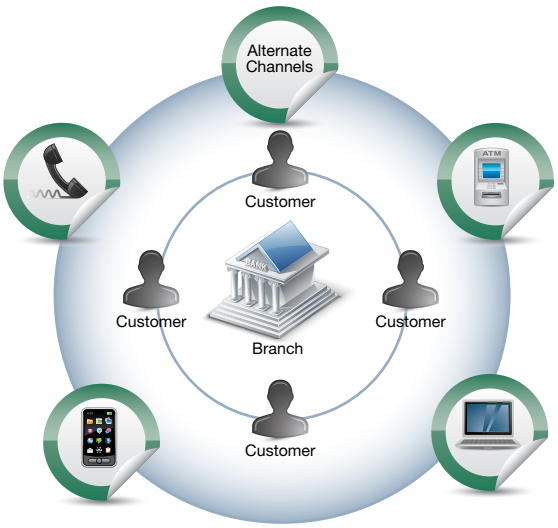
Banks have begun to experiment with different approaches to the branch, but few have articulated an overall channel strategy that clearly defines the role of the branch in a multi-channel, multi-product environment. We have identified six themes that are emerging around the future role of the branch in retail delivery. The themes differ from each other in terms of the emphasis they place on the branch and serve as a foundation for addressing channel preferences among different customer segments.

1. **The Branch at the Core of a Multi-Channel Network** puts the branch at the center of the customer relationship. These full-service branches open and manage customer relationships, providing a full array of advisory and day-to-day transactional services. Direct channels are deployed more as aids to help customers carry out basic financial transactions or gather information on an ad-hoc basis.

   Banks that deploy the branch at the core of the network need to design and equip their branches accordingly. These branches must have a comfortable layout and a welcoming environment. They should be conveniently located and easy for customers to navigate. They should be staffed with trained professionals and take advantage of modern technology designed to let employees better serve customers.

   Emphasizing the branch over all other channels is an ideal strategy for attracting high-value customers who are interested in pursuing a high-touch relationship with the bank. The drawback of such branches is their high operating costs, which include professionally trained staffers, design refreshes and upgrades, and sophisticated technology to support full views of the customer relationship.

Figure 19 Branch at the Core of a Multi-Channel Network



Source: Capgemini analysis, 2011.

CASE STUDY

Danish Bank Overhauls the Branch to Deliver an Improved Customer Experience

After decades of competing against bigger Danish banks, this bank sought to radically change the customer experience in every one of its branches. The goal of the program was to differentiate itself by truly meeting customers' needs, while promoting the bank's distinctive, low-key culture.

The bank redesigned each facility to be attractive, open and airy, and to draw customers in with free coffee, flat-screen TVs and lounge areas with magazines. The branches present products on shelves in physical boxes, much as merchandise is displayed in a retail outlet. Further, the products are designed around customer life stages. A mortgage loan, for example, might be positioned as a First Home product and combined with advice on how to purchase real estate.

Perhaps the biggest difference at the branches is in how customers are treated. The bank does not try to sell to customers, but instead creates an ambience that lets them relax and buy if they are so inspired. In addition, customers receive personal advisors who help them manage their finances and navigate the bank. The informal, quirky culture shows through in its logo, the amusing quotes it puts on bank statements and the games it stocks in its branch-based meeting rooms.

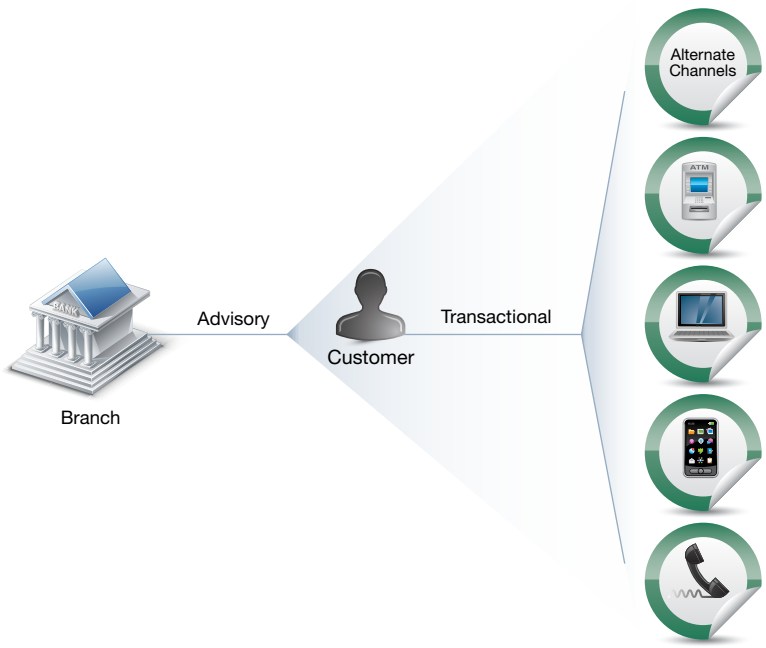
The program succeeded in attracting new customers to the bank. In the first six months after the program's launch, the number of new customers doubled. In addition, cross-sell ratios are increasing. Needs-based product presentations and the more retail-oriented environment are causing customers to purchase more products.

2. **The Branch As a Trusted Advisor** is an approach that recognizes the branch is moving toward providing advisory services and building trusted relationships, as day-to-day financial transactions move to direct channels. In this role, the branch is responsible for establishing relationships with clients and then deepening them through predictive sales processes and excellent customer support.

   Banks that deploy the branch as a trusted advisor should focus on developing an in-depth understanding of customers, with the aim of delivering deeply customized and personalized services. Employees should be trained to act in the best interests of customers and be attuned to their needs. In-branch technology should focus on providing full views of customers, as well as relief from administrative duties so staff members have more time to focus on enriching the customer experience. Outside the branch, direct channels must run smoothly and reliably to encourage customers to keep executing basic transactions through those touch points.

   Positioning the branch as the focal point for advisory services requires a significant upgrading of staff skills. In particular, employees need to understand the regulatory guidelines covering branch sales of advisory products. They also need training in needs-based selling and in the products themselves, which are more complex than basic deposit products. The branch-as-advisor strategy also requires clear segmentation of the customer base to help identify customer needs and the best products for meeting them. Successfully implemented, this strategy should lead to greater volumes of high-margin sales in the branch, with low-value transactions being pushed to the direct channels.

Figure 20 Branch As a Trusted Advisor for Customers



Source: Capgemini analysis, 2011.

CASE STUDY

European Bank Pushes the Branch into an Advisory Role

A European bank had become a victim of its own success in getting customers to execute transactions online. Exponential growth in its number of online banking customers led to a drastic reduction in the number of customers using the branch. The resulting pressure on branch profitability required the bank to significantly shift the role of the branch.

The bank responded with a two-fold strategy. It first sought to maximize self-service capabilities within each branch to handle routine transactions. It installed ATMs and kiosks, as well as online banking pods and assisted cash counters to facilitate basic banking transactions without heavy involvement by branch staff. Secondly, it enhanced the capability of the branch staff to provide advice. It hired and trained more relationship managers and advisors to provide customers with guidance around the bank's products and services. It also deployed a specialized sales force to assist customers on complex products like loans, mortgages and pensions.

Improving self-service capabilities in the branch helped the bank bring down the cost of operations throughout the branch network. Enhancing its advisory capabilities helped to expand customer relationships, while also strengthening the bank's brand positioning.

3. **Branch As an Independent Network** enables current and prospective customers to visit more often. In this approach, banks optimize the branch's role in customer acquisition by putting branches in places where customers already go, such as the grocery store, supermarket or post office.

   By working with other consumer-facing organizations, banks gain access to existing delivery infrastructures and built-in customer bases, reducing their costs and enhancing their acquisition and marketing efforts.

Drawbacks include a narrow focus on simple, low-value products and the small footprint of most of these outlets, which is not conducive to creating a welcoming banking environment. In addition, banks must be careful about privacy issues related to sharing data on customers. Finally, bank partners may become competitors. Retailers like Wal-Mart and Tesco, for example, have begun cross-selling basic banking services to their customers.

Figure 21 Branch As an Independent Network

Source: Capgemini analysis, 2011.

CASE STUDY

Belgium's BPO Pursuing Growth through Non-Proprietary Branches

When Banque de La Poste/Bank van De Post (BPO) was founded in 1995, it was at the forefront of banks distributing services through an independent network. This 50/50 partnership between the Belgian Post and BNP Paribas-Fortis, now serving more than one million customers, uses Belgian Post's postal offices to distribute a full range of retail banking services. With assets of more than € 9 billion, it is a medium-sized institution with the distribution power of a Tier 1 Belgian bank.

BPO is seeking to utilize its distribution capabilities by pursuing an ambitious growth plan. Its goal is to achieve annual sales growth of 6% over the next five years, compared to average annual growth of Belgian retail banks of 4% to 5%. A first step BPO undertook in this plan was to double its external communications spending during the financial crisis to position itself as a trusted model at a time when confidence in traditional banking was low. Today, 97% of all Belgians are familiar with the BPO brand and 95% (study 2010) of customers are satisfied or very satisfied with the service provided.

Another part of BPO's growth plan is to alter the stodgy image of the post office by introducing the "Bank-in-the-Post" concept. By carving out a modern and visible space in the post office, BPO aims to deliver financial services in a more professional and discrete way. BPO introduced 40 such concept areas in major post offices throughout Belgium by the end of 2010. By the end of 2011, it expects to establish 130 "Bank-in-the-Post" areas and 350 by the end of 2013. BPO is also making a € 40 million investment in technology to extend its multi-channel strategy. By 2014, it expects 10% of all products and services will be purchased through direct channels. BPO has always positioned itself as a bank with a human face where everyone is welcome and is further backing up its approach with the new tagline, "Simple, Secure and for All."

4. **The Branchless Bank** has no brick-and-mortar presence at all. It delivers banking products and services strictly through direct channels, including the internet, phone, mobile device, ATM, and even social networks. Branchless banks have been able to attract a loyal customer base by emphasizing their convenience and passing along the savings gained by not having a branch network in the form of attractive interest rates and reduced fees.

   Branchless banks have taken different approaches to the market. Some offer everything from checking accounts to loans while others may emphasize a specific product; say a high-yield savings account, as the core product.

With no physical presence, branchless banks face a challenge in making themselves known to customers. Deprived of the marketing power that a widespread branch network can provide, branchless banks must rely on advertising and/or a prominent online or mobile presence. They then must sell customers on the promise of lower fees and higher rates, which is their primary differentiator. The main advantage of running a branchless bank is its greatly reduced cost structure.

Figure 22 The Branchless Bank

Source: Capgemini analysis, 2011.

CASE STUDY

Japanese Bank Becomes the World's First Mobile-Only Bank

For years, this large Japanese bank could see that it was losing touch with younger customers. As early and avid adopters of Japan's advanced mobile lifestyle, younger customers were less inclined to visit branches, making it difficult for the bank to expand relationships with them.

The bank decided to build a suite of mobile financial services so functional that they could stand on their own, without the assistance of complementary delivery channels. It opted to work directly with one of Japan's largest mobile phone carriers, to create a 50/50 joint venture that could quickly bring a rich set of new mobile banking services to market, without being bogged down by the bank's existing front- and back-end systems.

The resulting stand-alone institution was introduced in mid-2008 with the aim of being a full-service mobile institution. The bank offers a broad range of products, including transactional accounts, personal loans, credit cards, and even foreign currency-denominated savings accounts. The bank has worked to streamline account opening and banking activities to make them an easy and natural part of a mobile lifestyle.

The mobile-only bank has resonated with Japanese consumers. The bank added 1 million customers by May 2010, which equates to a compound annual growth rate of nearly 1,000%. Deposit growth has been even more impressive, reaching JPY 150 billion, for a CAGR of almost 6,000%. Nearly two-thirds of its customers are younger than 40. With 90 employees or about $15.5 million in deposits per employee, the bank has approached the deposit-to-employee ratios of the Japanese megabanks in only two years.

5. **The Branch As Part of a Seamless Multi-Channel Network** is an approach that makes the branch an equal partner with the direct channels in managing the customer relationship. This approach recognizes that direct channels have become essential elements of the retail delivery experience. It also recognizes that banks have succeeded in pushing large volumes of low margin transactions from branches to the more cost-effective direct channels.

   The biggest priority for banks pursuing the "branch as one channel of many" strategy is to break down the channel silos that currently hinder a seamless retail delivery experience. Depending on a bank's current level of channel integration, this could involve a large upfront technology investment and a high degree of business transformation risk.

   Banks that succeed in making the branch an equal part of the multi-channel network will benefit by creating strong multi-channel capabilities and eliminating channel conflict. This will give them an advantage over their peers in being able to optimize channels to meet the needs of particular customer segments and in creating a more integrated overall channel experience for customers.

Figure 23 Branch As Part of a Seamless Multi-Channel Network

Source: Capgemini analysis, 2011.

CASE STUDY

Rabobank Striving for Seamless Channel Integration

Rabobank is at an advanced stage of its branch banking evolution. The Netherlands-based bank has long offered robust access through direct channels: it currently hosts 20 million sessions of Internet banking and 2.5 million sessions of mobile banking every month, and in 2010 its customers downloaded 300,000 smart phone apps. The massive customer shift to online channels caused Rabobank to long ago improve the quality of its in-branch staff so it could position its branches to provide more advice-driven service.

Over time, Rabobank has sought to further clarify the role of each channel. Online channels are for executing transactions, ATMs are for distributing cash, and branches are for dispensing advice. At this point of its branch evolution, Rabobank's biggest challenge is to integrate all of its channels into a seamless network. The ability for a customer to initiate a mortgage loan on the internet and conclude it in the branch without repeating any steps, for example, is critical. By integrating the channels, Rabobank believes it can achieve its goal of making customers the main focus of the bank.

Rabobank has succeeded in optimizing channels. Branch visits now account for a small percentage of overall customer contacts and are oriented toward providing advice. Most routine transactions, meanwhile, go through direct channels. Nearly 45% of basic savings were held in internet savings accounts by the beginning of 2008. Having put channel optimization in place, Rabobank is prepared to establish a significant lead in achieving seamless multi-channel integration. In doing so, it expects to build long-lasting relationships with its clients through all channels.

6. **The Branch As a Physical Space for Virtual Interactions** is a premise that seeks to enhance trust and create brand awareness. In this model, the branch serves as an anchor for customers executing virtual transactions. These transactions may occur at self-service machines or through devices that use videoconferencing to connect to centrally located product specialists.

   Often in this role, the branches also act as "experience centers," designed to reinforce a particular brand image or value proposition. Such branches often feature banking as a secondary function, after customers explore more compelling activities like browsing merchandise, shopping online, enjoying a cup of coffee or taking part in a community event.

   Banks pursuing this approach seek to draw customers in, while reframing the basic concept of banking. They may do this either by making the banking itself more enticing, say through videoconferencing or a comfortable lounge area to discuss products, or by positioning the banking alongside other activities that may be of interest, say attending a small business presentation. Creating the desired look and feel in a destination branch can be an expensive proposition, requiring extensive creative input and an upgrading of staff skills. In addition, banks will have to work at shifting customer perceptions to accept the new concepts.

   Banks that succeed in executing this approach will stand out in the market for their innovation. They will have a unique way of connecting with and engaging customers. Properly executed, this approach should have a strong impact on reinforcing a bank's brand image and customer value proposition.

Figure 24 Branch As a Physical Space for Virtual Relationship Management

Source: Capgemini analysis, 2011.

CASE STUDY

European Bank Positions Banking As a Shopping Expedition

This bank had a network of nearly 2,000 branches that were uninspiring, unattractive, and virtually indistinguishable from those of other banks. It wanted to introduce a futuristic banking experience that would re-energize both customers and employees.

The bank introduced its fresh take on the branch by creating a concept store that solidly evokes the idea that the bank branch is a place to shop. The bank sells not only its own products – packaged in attractive tin boxes stacked on shelves -- but also football merchandise and products from a revolving cast of high-end retailers. Bank employees circulate around the store, assisting customers just as sales clerks at retail outlets do. The branch features food and drinks, as well as a lounge area with books and magazines. Videoconferencing and smart technology like digital surface tablets support efficient, on-the-spot discussions.

The branch has made an extremely favorable impression on customers. The branch adds 50% more new customers compared to its traditional branches. In addition, more than 90% of visitors to the branch rate their experience there as excellent or good. The bank has succeeded in making banking a more pleasurable experience, while appealing to both the self-service and high-touch customer demographics.

Although Challenges Impede Branch Transformation, Evolving Customer Expectations Provide a Case for Change

A RADICAL REPURPOSING OF THE BRANCH WILL BE DIFFICULT TO ACHIEVE

Retail banking executives face a full set of obstacles when it comes to revamping their branch and channel strategies.

The first one involves branch employees and managers. Staffers -- essential to bringing energy and a human touch to banking -- are also most often responsible for the success or failure of transformation projects. Budgets rarely allow for the type of large investments necessary to significantly upgrade training and recruitment programs, making people issues an ongoing concern for banks.

Another problem is that employees and customers alike are naturally hesitant to embrace change. Adopting a branch strategy that requires people to modify their behavior creates significant business risks for banks. Without the proper mix of hand-holding and incentives, banks that make major shifts in how business is conducted face the prospect of falling short of their branch transformation goals.

Finally, the legacy systems that support branch banking are major barriers to change. These systems have been compiled and customized over years of use, making them among the most complex in banking today. Yet banks are extremely reluctant to move them to more modern platforms. They recognize the massive risk of losing customer trust in the case of a major technology project jeopardizing customer interactions.

CUSTOMER EXPECTATIONS WILL DICTATE THE NATURE OF BRANCH CHANGE

Despite these impediments, banks need to move forward in redefining the role of the branch. Customers highly value the branch. Nearly 80% of sales still get closed in the branch. But customer expectations of how the branch best serves them are vastly different. Some customers prefer to use direct channels for most of their needs, and view the branch more as a place to resolve problems. Others are seeking high-quality financial advice from branches. Still others just want to execute basic transactions in the branch.

Clearly, branches still play a major role in a multi-product, multi-channel retail banking environment. But exactly how that role should evolve will differ bank to bank, depending on careful analysis of each bank's customer base, including demographic shifts, regional expectations, and channel preferences. Only by redefining the branch to meet the specific needs of their customers will banks reach the critical goal of enhancing the customer experience.

Methodology

2011 Global Banking Voice of the Customer Survey

A global survey of customer attitudes toward retail banking forms the basis of the eighth annual *World Retail Banking Report*. Our comprehensive Voice of the Customer survey polled nearly 14,000 retail banking customers in 25 countries. The survey sought to gain deep insight into customer preferences, expectations and behaviors with respect to specific types of retail banking transactions. The survey questioned customers on their general satisfaction with their bank, the importance of specific channels for executing different types of transactions, and their satisfaction with those transactions, among other factors. The survey also questioned customers on their trust and confidence in their bank, why they choose to stay with their bank, how they view the role of the branch, where they would like to see their bank make improvements, and other issues. We supplemented these detailed findings with in-depth interviews with senior banking executives around the world.

Capgemini's Customer Experience Index

The responses from the global Voice of the Customer survey, which analyzed customer experiences across 80 data points, provide the underlying input for our Customer Experience Index (CEI). The CEI calculates a customer experience score that can be analyzed across a number of variables. The scores provide insight on how customers perceive the quality of their bank interactions. They can be dissected by product, channel and lifecycle stage, as well as by demographic variables, such as country, age, investable assets and comfort level with technology. The result is an unparalleled view of how customers regard their banks, and the specific levers banks can push to increase the number of positive experiences for customers. The index provides a foundation for banks to develop an overall retail delivery strategy that will increase satisfaction in ways that are most meaningful to customers.

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For more information: www.efma.com

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