

Retail Banking: Managing Complexity without Reducing Choice

*Report on Executive Panels and
Roundtable Discussions*

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Retail Banking: Managing Complexity without Reducing Choice

By Susan Abbott, special to the Access Group

"How do you architect your data management to meet all the needs and still keep functioning as a bank?"
FI Executive

Executive Summary

Retail bankers are giving more than lip-service to the concept of customer focus and integrated delivery across channels. The channel development mantra now is consistency, not expansion of all functionality to all channels.

The data management challenges of new environmental demands such as privacy and regulatory tracking combine with new internal requirements for performance management data, and expanding external requirements to deliver consistently and effectively for customers.

These were the major themes of a day-long series of executive panels kicked off with a consumer round-table discussion.

All the Channels, all the Time

A major challenge for FIs is responding effectively to the explosion of customer segments in the *long tail*.¹ The *long tail* concept refers to the large numbers of niche market segments that can flourish in the conditions made possible by electronic distribution. The marketplace is training consumers to expect this wide range of availability and choice.

This was illustrated neatly by a handful of twenty-somethings² in a consumer panel who described a wide range of behaviors and attitudes towards retail financial services. Some already value their friendly relationship with their local tellers, who they see as a source of help and good advice. Others use telephone banking almost exclusively. Still others rely so much on ATMs, they can no longer remember at what branch they opened their account.

Cash continues to resonate at the emotional level for some, providing a sense of ownership and control. Debit is great for day-to-day purchasing, especially for anything over \$20, but not "for a bagel". For some, debit helps with staying on their budget, whereas cash just disappears. But cash holds its place in the social world – you may pay for the movie ticket with a debit card, but you take cash along for drinks out with your friends.

The consumer panelists had a relatively pessimistic view of their ability to move out of the parental home, anticipating they would be in their 30's before being able to afford their own place. The burdens of tuition weigh heavily on those in university and professional schools, many of whom lead lives of surprising financial complexity.

"I feel like my \$40K education has given me nothing ... it's useless"

~

"I have so much debt, it will take me till my 30's to pay off"

2 Students

Learning the ways of adult financial affairs was a painful and frustrating experience for some, of “lessons learned” from overextending on credit card financing and the need to “feed the VISA”. The suggestion that credit card debt could be consolidated into a cheaper term loan sparked interest from one individual financing her own orthodontics by credit card.

As representatives of their cohort, this panel suggests that a tremendous opportunity exists to provide education in the basics of household finance. FI communication efforts to reach those starting out appear to be missing their target: no one is picking up the household budgeting brochure.

Savvy Consumers: Banks are Businesses

Although the young adults were not very knowledgeable about financial products, they harbored no illusions about the bank as a business with profit goals that is looking after its own interests. They are also conscious of their own lack of context – they don’t know if they are getting good service or not.

At the same time, there is a desire for personal advocates, for help and advice to achieve a particular goal. When there is no significant lending relationship in place, the teller is the person who is seen as the source of this guidance – even though the teller might be no older or truly more knowledgeable than the customer. And there is some affection for the first bank that helps, “like your first love”.

The Migration Myth

For the financial executives, the channel discussion among the young adults was another confirmation of a well-established trend: old channels don’t go away when new channels enter the mix. Awareness is high that even discussing the concept of channels is just so much “bank-speak” when it comes to customers, who are thinking in terms of access, not channels.

While multiple channels bring strategic and operational challenges, they are also a source of competitive advantage for banks vis-à-vis non-banks. Adding new functionality to a channel is an expensive proposition, and not necessarily desirable as an end in itself.

Some observers noted that consumers are seeking assistance in achieving personal goals from the bank, not looking for specific products, even as a young adult.

FIs see the branch as the touch-point that drives 90% of a customer’s choices, despite being present in only 10% of the transactions.

“The bank always finds a way to get more money from the customers. It won’t benefit me as much as I’d like it to”
19 year old employed male

“People do not migrate. Each channel is important in its own right”
FI Executive

The Quest for Consistency: the Challenge of Integration

The notion that all channels need to offer all things to customers has been replaced by concerns about consistency. Consistency is not necessarily about *what* a customer can do in a given channel, but more about consistency in *expectations* and consistency in *delivery*.

This increasing focus on creating a differentiated customer experience is leading to greater efforts to integrate across organizational silos. Organizations are changing their structures to achieve better alignment around the importance of the customer experience. One example: RBC Financial Group has created a head of distribution strategy, bringing banking, investments, insurance, and branch location decisions under one individual.

Overcoming the fragmented feel of multi-channel banking is about creating a consistent and integrated customer experience that supports brand differentiation.

Access Strategy versus Distribution Strategy

Dr. Alan Middleton, Executive Director, Schulich Executive Education Centre, challenged FIs to stop talking about distribution and start thinking about access – where customers want to use the capabilities that banks can provide. He acknowledged the tension between meeting the diverse needs of a large number of customer segments, and the challenge of serving many segments profitably. Among his prescriptions for change:

- Learn to understand what the lives of your customers are about and stop thinking of them as just customers
- Focus on managing the experience at all customer touch-points as the key input to the brand, much more important than the brochures
- Develop partnerships to support access strategies, rather than trying to own channels

Industry executives, however, noted that being all things to all people may not be popular from the standpoint of business theory, but it has protected the industry from any number of wrong moves in the past as a natural hedging strategy.

Customers themselves are forces in shifting the landscape, turning offerings targeted at one segment into utilities for another. Direct investing was offered as a case in point, which quickly became popular with the affluent investors that banks were prepared to provide personalized services for. While access to good behavioral data has

“It’s not necessarily about a seamless experience across all channels; it could be a consistent experience within the channels”
FI Executive

“You’ve got to get over the mindset of thinking of yourselves as the destination. You’re not. You’re a very important enabler”
Dr. Alan C. Middleton

grown, it is still “rear-view mirror”, and cannot provide insight into the demographic and psychographic trends that ultimately drive changes in future behavior.

Although conversant with the concept of lifetime value of a customer, the executives were somewhat unwilling to accept the premise that they can truly measure or manage this, despite access to excellent CRM data. The operative theory is that being sufficiently proactive will mean you offer the customer what they need before they enter the shopping phase, and avoid losing their business elsewhere.

As providers of the full value chain, retail banks struggle at times to form a view of where value lies. The mutual funds industry, by contrast, was offered as an example where competitive advantage lies in distribution, but profitability is better in manufacturing.

The somewhat arbitrary alignment of revenues and expenses integral to internal accounting and profit measurement were seen by many as an impediment, at times, to doing the right thing for customers and for the enterprise. Some of the FIs present allocate all revenues and expenses to branch transits, while others have shifted to a system of recording internal P+L along the lines of customer segments (CIBC for example).

Service Experiences Difficult to Brand

Executives are thinking about branding strategies, but acknowledged that few banks have distinctive brands. They attribute this to the complex and nebulous nature of service experiences, as well as the difficulty in achieving consistent delivery.

While access to touch-points may be critical to stay in the game, it may be a weak differentiator compared to the quality of the experience. People are still the essential element in creating the experience, especially when things go wrong.

Other challenges include making standardized advice feel personalized and individualized to customers. Rather than trying to inject artificial intelligence into the customer experience, there is some shift to seeing these systems as a complement to well-trained staff to maximize the potential of personal interactions between banker and customer.

Data Meta-Strategies Needed

New environment forces are creating other types of pressures on the legacy organization structures of banks, where systems and people are aligned around products, not clients. Operational effectiveness in a multi-

“How you do your accounting systems drives your silos – the accounting is huge”
FI Executive

“It’s a leap of faith: if we understand your needs and help you make money, you will buy our product”
FI Executive

channel environment is an important theme, but data security and new reporting requirements are closely related.

Cross-channel delivery is often dependent on manual interventions between systems not designed to integrate; and manual processes are seen as sources of error that irritate customers as well as being inefficient.

... To Protect Data Security in an Integrated Way

Multi-channel, multi-product fraud has led at least one FI to consolidate all fraud management in a single organizational unit. This has improved their ability to identify and respond to situations early that might have gone undetected in product-centric monitoring.

FIs are looking at data security as a specific class of multi-dimensional risk to be managed. While they want to manage the situation, they believe that no strategy can be 100% certain, and it is impossible for them to eliminate risk. The cat-and-mouse game with criminal elements has led to the creation of 24/7 monitoring groups that are always challenged to stay one step ahead of new incursion strategies.

"Fraudsters are not product centric"
FI Executive

... To Protect Customer Privacy, and Respect Preferences

Ontario's Information and Privacy Commissioner, Dr. Anne Cavoukian challenged the industry to shift the mindset from one of avoiding privacy risks, to thinking of the regulations as an opportunity to create a competitive advantage.

The recent security scandal at ChoicePoint³ in the US was offered as a watershed event that will change people's views of the value and importance of privacy regulations. The Commission's research shows that about one-quarter of citizens are "*Privacy Fundamentalists*", two-thirds are "*Privacy Pragmatists*", and one-in-ten are "*Unconcerned*".

The banks have noticed a shift in customer perceptions of fraud security: rather than being annoyed at being contacted about a questionable transaction, customers are now grateful that their bank "is watching".

Where CRM infrastructure was largely seen as a marketing tool in the past, it now offers the potential to capture and honor customer preferences about information sharing.

... And to Support Performance Management Goals

Incentive and performance management systems have created their own layer of data requirements that are shifting and evolving. Regardless of the measurements used, FIs believe that staffs know how to "game" any

"We talk about authenticating the customer. But how do customers authenticate that the bank is the bank?"
FI Executive

system, and significant effort is expended to “negate unintended bad behaviors”.

Outsourcing of back-office functions also raises the issue of data security. Some jurisdictions, notably India, are seen as strongly supportive of data security; others, less so. Gartner director Stessa Cohen noted that at least one US bank, known to have outsourced cheque processing, will not confirm either the country or the outsource supplier, suggesting they fear the reputational repercussions of making this information public.

All agreed with Dr. Cavoukian that the FI cannot outsource their ultimate responsibility for ensuring the quality and security of information.

... Using a Common Language that is Still Evolving

FIs are still at the early stages of accommodating the new demands on data provision and data security. They are striving to develop a shared language to discuss the issues both internally and with customers. They are still forming views of the life cycle of information.

Current data architectures were not built to accommodate the needs of various regulatory bodies, privacy protection, and cross-channel, customer-centric data management. They are seeing a need for data meta-strategies that go beyond the tactics needed to achieve any one of these missions.

Operational Automation: Crossing Silos

Where back-office automations have been truly successful, these have created completely different processes, and can sometimes support the customer experience. One example mentioned was RBC’s cheque imaging project, which cut retrieval time – and customer enquiry resolution time – by 8 days. The ideal in operational efficiency improvements is creating a much better customer experience as well as a more efficient process.

FI executives are looking to have a set of decision-making factors in place before introducing new technologies or processes. They are looking to see that the changes benefit more than one line of business, and are neutral or favorable to customer experience. They are working towards more integrated inter-operability of systems, even as they acknowledge the organizational forces at play that support fragmentation.

A given technology is not seen as being secure – security comes from looking at the end-to-end process, including fulfillment, and securing the entire process. Once a process has been redesigned, the key is putting it into operation successfully.

“The technology gets easier; it’s the processes that are tough”
FI Executive

Operational Execution: Courage and Decision Making

Brendan Calder, Effective Executive in Residence and Professor, Rotman School of Management, offered up his view of the responsibility matrix as the path to good execution, where clear roles are established for everyone: Who is responsible (R), who is going to do the work (W), who is involved in consensus (C), who has input to decisions (I), who is advised before (AB), and who is advised later (AL).

“There are no challenges to execution for effective executives in effective firms”

Brendan Calder

While most agreed that senior management support is the key essential to prevent projects from becoming derailed, establishing who is at “the top” for many types of decisions is not always clear. Because of the organization structures, the cross-over point between silos may be higher than initially seems necessary.

Misalignment of objectives or success measures across lines of business can be a major impediment to getting things done. Executives advised others to focus persistent efforts for as long as needed to obtain buy-in from diverse groups of internal stakeholders with different needs and objectives.

Effective execution relies on the courage of leaders inside an organization that supports honesty, and focuses on fixing problems rather than laying blame.

Working with External Partners

A forthright discussion between FI and their key external partners presented some courageous admissions, and some useful observations on the process:

- FIs don't always confess that they just want competitive intelligence from their supplier representatives, and instead suggest that “*fake BS projects*” may be in development
- External partners don't always acknowledge the complexity of either the systems environment or the regulatory environment when they are approaching FIs with solutions
- External suppliers would be greatly assisted with context by being invited to occasional customer research debriefs or interactions with front line staff
- When looking at outsourcing, there need to be real arbitrage opportunities, skill deficits or strategy gains to be achieved – not hoped for efficiencies just by virtue of moving a function out. No

one accepts the notion that outsourcers can make a profit while retaining all the staff and all the functionality as before

- Partners need to be clear where their solution fits inside the end-to-end value chain, and consider the other parts of the process in terms of both design and implementation
- Efforts of external partners to understand the complex environment of FI stakeholders and decision-making processes are appreciated
- FIs find it frustrating when external suppliers suggest that “out-of-the-box” technology will integrate with their legacy infrastructure, as this is rarely their experience
- FIs generally believe that no system or process is error-free, and would rather hear an honest appraisal of risks, mitigation and recovery strategies than claims for perfect processing
- FIs acknowledge it is inappropriate for an FI to push all the risk for achieving project objectives and effective execution onto technology suppliers – although they sometimes try

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Taimour Zaman

The Access Group

¹ “The Long Tail”, by Chris Anderson, Wired Magazine, October 2004. Concept refers to the explosion of small segments in consumer purchasing behavior made possible by electronic distribution

² A moderated discussion among 18 – 23 year olds in a round-table format was used to kick off a day of discussions among financial services executives

³ ChoicePoint, a large information broker in the US, was spun off from Equifax in 1997. In February 2005, ChoicePoint spokespeople confirmed that as many as 145,000 individuals had their personal data including names, addresses, Social Security Numbers, and credit reports compromised when their data was sold to criminals posing as legitimate companies.