

# FORUM FINANCE

Middle East, Turkey and North Africa



## Measuring and strengthening customer loyalty

In 2010, Bain & Company launched the 'Financial Majlis': a series of events bringing together a small group of selected executives from the Financial institutions corporate world for informal discussions on industry issues.

We provide a platform with knowledge and on-the-ground experience presented by the best experts and help facilitate an off-the-record discussion among peers on the topics relating to burning questions for the region.

The 'Financial Majlis' is also an opportunity to meet other leaders in financial services, most facing similar challenges, and expand your existing network - all in a very informal and friendly environment.

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Bain & Company's Forum Finance is a quarterly publication that focuses on the critical issues facing banks, insurance companies and other financial institutions in the Middle East, Turkey and North Africa.

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In this issue of Forum Finance, we examine customer satisfaction as a proven driver of profitability and value creation.

According to a Bain study, 80% of companies believe that they provide a superior experience to customers, while customers concur in only 8% of cases. We will discuss why customer experience is so difficult to create and control, how to accurately measure it, and how to embed it in a bank's day-to-day operations.

This issue also features an interview with Simon N. Cooper of HSBC Middle East. At the helm of an international bank with one of the largest footprints in the region, Mr. Cooper shares his views on customer experience as well as on broader trends and opportunities in the financial services sector.

We are also pleased to announce that we have successfully held our last Financial Majlis event which focused on the topic of customer loyalty in financial institutions. We were joined by Rob Markey, a Bain fellow and a leading authority on business loyalty. He is also the best-selling author of several books on loyalty, most recently, "*The Ultimate Question 2.0*." Please contact us for more information.



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# BANKS NEED A SYSTEM FOR MEASURING AND STRENGTHENING CUSTOMER LOYALTY



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As the Middle East banking sector becomes increasingly competitive and consolidated, regional banks will face shareholder pressure to focus on value rather than revenue growth. However, a recent Bain study of companies from a wide range of industries in 12 countries shows how difficult this is to achieve. Over the past decade, just one company in eight proved to be a Sustained Value Creator, by registering 5.5 percent annual sales and earnings growth and above-average total shareholder return.

One key to sustainable value creation for regional banks is scale; among Saudi banks, for example, the largest players are also the most profitable. Given that scale is important, banks must focus on retaining their customers and capturing those of the competition through improving customer satisfaction. Indeed, Bain studies have shown that Sustained Value Creators enjoy

customer satisfaction nearly 2.5 times higher than competitors (as measured by our Net Promoter® Score).

■ *Key to sustainable value creation for regional banks is scale* ■

Despite the proven importance of customer satisfaction as a key factor in profitability and value creation, companies have a poor understanding of their customers' level of satisfaction. According to a Bain study, 80 percent of companies believe they provide a superior experience, while customers concur in only 8 percent of cases.

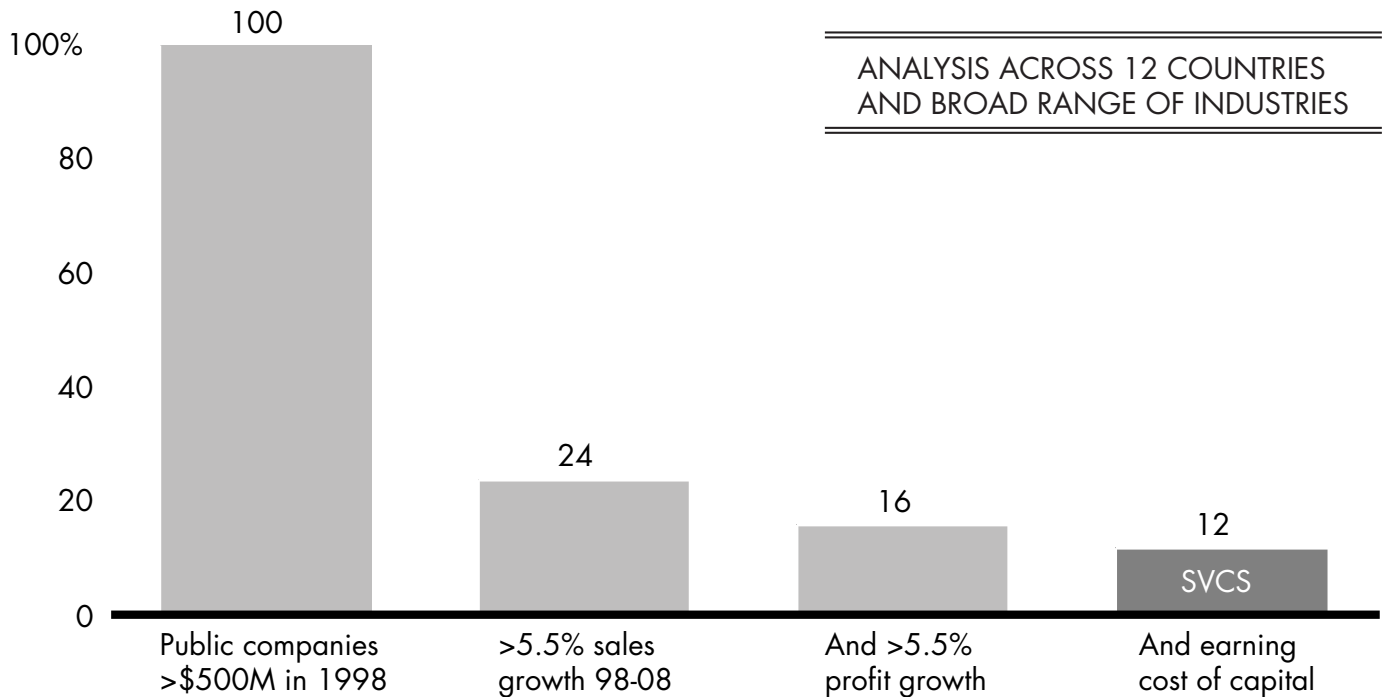
This suggests three big challenges for regional banks that set out to improve customer experience:

1. Customer experience is difficult to **design and control**
2. It needs to be **accurately measured**
3. Disciplines that sustain and improve it need to be embedded in the bank culture in order to achieve customer-led **growth**

One big reason why a coherent customer experience is so difficult to achieve is that it is influenced by a wide range of variables, from “hard” inputs, such as products and pricing, to “soft” inputs, such as service delivery, brand image, and convenience. This broad range of

Figure 1: Achieving sustainable growth is not easy: only 1 in 8 companies is a Sustained Value Creator

Growth performance 1998-2008  
Percentage of companies



Note: Earning cost of capital defined as above average total shareholder return  
 Note: 5.5% required growth rate is CAGR in real terms (i.e. after correction for inflation)  
 Note: Analysis of 2,000+ companies in 12 developed and emerging economies  
 Source: Worldscope Database; Bain Analysis

inputs helps explain the absence of accurate customer satisfaction measurements within most organizations.

While measuring financial profit has been well developed for more than a century, measuring customer loyalty is not as far advanced. Most customer loyalty measurements face several challenges, including: limited track records, lack of standards, lack of focus throughout the organization, and inconsistent and often improvised data gathering processes. Loyalty measurement tools in use today tend to be cumbersome, reach a small percentage of customers, have limited proven impact, and lack tangible outcomes. Banks need a new system to manage customer satisfaction effectively.

A single, holistic query is more useful for

management than a detailed survey based on a complex breakdown of factors. For example, Bain has defined a metric called the Net Promoter® Score (NPS®) based on a single, key question. It asks customers, “On a scale of 0-10, how likely would you be to recommend our company to a friend or colleague?” To compute its NPS®, the company subtracts the percentage of detractors (those giving a score from 0 to 6) from the percentage of promoters (those answering 9 or 10).

While the Net Promoter® Score is simple, it is also a powerful and robust tool with proven results in measuring customer loyalty. In a Bain study of banking customers, promoters:

- **Stayed longer** - Promoters’ attrition rate was 67 percent below that of detractors

- **Bought more** – Promoters’ share of spending with their primary bank was 44 percent higher than that of detractors
- **Referred others** - Promoters were over five times more likely to recommend the bank than detractors

▄▄ The total value of creating promoters is compelling ▄▄

The total value of creating promoters is compelling. Over a five year period, on average, promoters generate revenue that is 2.4 times higher than that of detractors.

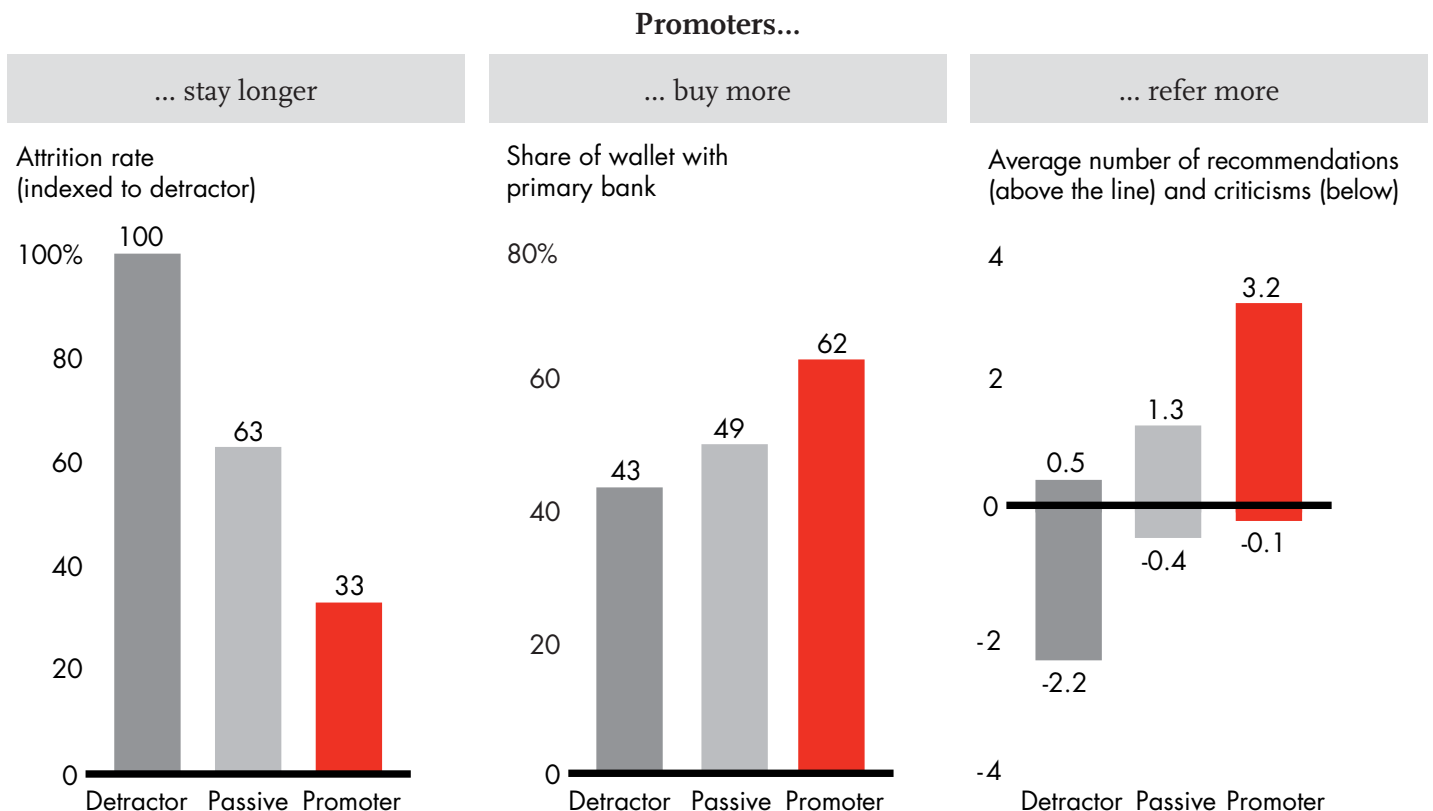
To be effective, the Net Promoter® Score must be embedded in a bank’s operations. This involves

both a top-down and bottom-up approach. The top-down approach uses an NPS® survey to gauge the bank’s performance and help decision makers set improvement targets. The complementary bottom-up approach provides feedback to employees for improvement. In our experience, implementing a full potential Net Promoter® System requires eight key elements:

**Measure performance.** It is important to design a robust metric that allows a bank to understand its baseline performance, define improvement targets, and evaluate progress.

**Understand the economics of loyal customers.** To evaluate which actions are most likely to win promoters or avoid creating detractors, banks need to quantify the incremental value of a satisfied customer. Loyalty economics are critical

Figure 2: NPS® works in banking because it correlates well with actual customer behavior



Source: Bain Research 2008 (N=3,427)

for developing a business case based on customer satisfaction.

**Identify “moments of truth.”** Just a few customer interactions, such as taking out a loan, reporting fraud, or replacing a lost or stolen credit card have disproportionate influence on earning customers’ loyalty and deserve the disproportionate attention of bank employees. Banks need to be able to identify and monitor these closely.

**Close the loop.** Defining a closed-loop feedback process enables employees to monitor and improve performance continuously. This includes identifying customer feedback touch points, defining the method and frequency of feedback, and putting in place a standard reporting format across the organization.

**Engage the front line.** It is also important to motivate employees to embrace customer satisfaction through training programs and financial incentives that reinforce customer loyalty, real time feedback, and coaching on customer service.

**Instill a bias for action.** Once the measurement process is in place, the next step is to set up cross-functional teams to lead NPS® improvement initiatives and facilitate the sharing of best practices.

**Support with robust infrastructure.** Throughout the transformation process to a customer-centric model, firms must develop a robust infrastructure to support the NPS® implementation, including adequate resources, well-defined reporting tools, and sufficient IT support to sustain the effort.

**Lead and communicate.** Customer-centric banks need to embed a loyalty focus deep in their organization through clear communication and leadership. Critical for doing this are direct

employee participation, a centralized team to manage cultural transformation, loyalty report cards for tracking employees’ performance, and alignment of management compensation with loyalty targets.

Much more than a one-off initiative, the Net Promoter® System is a holistic transformational approach to achieve a durable customer-centric organization and lay the foundation for sustained value creation.

“ If you look at the returns that HSBC generates region by region, the Middle East is one of the top performers ”

## INTERVIEW

Simon N. Cooper,  
Deputy Chairman and  
Chief Executive Officer  
HSBC Bank Middle East



**Julien Faye, Bain & Company: As one of the international banks with the widest presence in the Middle East and North Africa, what is your view on the recent events in the region?**

Simon N. Cooper, HSBC Bank Middle East: There clearly has been major change in a number of the countries we operate in. We have benefited from our history in the region, our understanding of it. For example, we were very pleased to be the first bank to re-open in Egypt; we were only closed for a day in Bahrain, while many of our peers closed for much longer. Using our experience and the fact that we are a truly regional bank meant we were able to redirect decision making processes and support functions in real time, with the end result that we were able to provide a business-as-usual service to our customers throughout some very disruptive times. I think our customers felt the benefit of being part of HSBC's network during that time.

What does it mean for the future? Among the policy changes that emerged, I think now there is a real will to push forward the regional infrastructure spend that has been talked about for a long time. Infrastructure spending of the size that is being planned requires financing, strategic partners - everything that the likes of HSBC can assist with. This provides a tremendous opportunity to the Financial Services sector.

**Bianca Leodari, Bain & Company: If we look at HSBC's wide footprint in the Middle East, where do you see the most interesting opportunities in the future?**

SC: In terms of profit contribution, the four largest markets are the UAE, Saudi Arabia, Egypt and Qatar, and I don't see that changing. Our strategy is to focus on core markets, but I think there are interesting opportunities in some other markets too. In general, we need to invest to help our customers in these markets. This doesn't

mean having hundreds of branches; it can mean having one or two branches in the right locations, or giving our corporate clients access to world-class wholesale products. For instance, we are offering RMB accounts for companies in the UAE; that sort of product innovation has a region-wide impact.

“ We will start seeing the emergence of some strong regional players. Is that a threat? Of course, but it is also an opportunity, because it will raise the financial services standards in the region ”

**JF: Relative scarcity of capital and liquidity are affecting the global banking business. Many multinational banks are focusing on efficiency at a global level. Do you see any of these factors constraining the development of HSBC's business in the Middle East?**

SC: If you look at the returns that HSBC generates region by region, the Middle East is one of the top performers. It is for us an attractive region to allocate capital to. At this time of turbulence in the region, we have re-emphasized our commitment and desire to continue investing here; that hasn't changed, and we definitely see this as a very attractive area. So HSBC Middle East is not suffering from a lack of investment or focus.

As to operations, we will continue to focus on improving efficiency, to help our customers and maximize returns. We need to offer our clients, be they Retail or Wholesale, HSBC's global

standards of products and services. That means doing things in a standardized and consistent way: we cannot have individual business pockets running their own show and expect brand delivery to meet clients' requirements.

**BL: What would be the potential challenges when competing vs. local banks in the region?**

SC: Many of the local banks in the marketplace are incredibly strong; I am a big admirer of a number of them. I hope that we will start seeing the emergence of some strong regional players. Is that a threat? Of course, but it is also an opportunity, because it will raise the financial services standards in the region. To date, we have one of the largest regional footprints; I would welcome more regional players to help open the market further.

**JF: We believe customer experience might become the new "battlefield" for banks in the region. How high does this topic rank in your agenda, and how do you approach it?**

SC: Your identification of customer experience as a key differentiator going forward is absolutely right. I see two possibly divergent routes to achieve excellent customer experience. The local banks play a strong role in physical presence and branch network accessibility; they will continue to dominate and invest in this space. HSBC will differentiate itself through a global brand, global offering and connectivity, global standards, and technology use. And frankly, I do not think our levels of service in this region are as high as they need to be in some markets. As we move towards more standardization, that will improve customer experience. But we will never have a branch on every corner!

**BL: How do you run your business in a customer-centric way?**

SC: It boils down to knowing and meeting

customers' needs and doing so in a flawless way. In Retail, customer expectation is moving towards technology, distribution and touchpoints: the MENA region is one of the world's fastest-growing markets for internet penetration, for example. And that is hugely important for many Wholesale clients too, but it is often taken for granted. For Wholesale clients, key success factors are: understanding in depth of their business, and developing a strong relationship (beyond the "cup of coffee"); providing global connectivity and access to the markets which they are interested in - China, Korea and so forth; and having the financial strength to stick with chosen customers throughout the cycle.

▮▮ *I see increasing opportunities ahead to link the Middle East and the Far East, certainly for HSBC, and hopefully for regional banks too!* ▮▮

**JF: What is your view of the trends in the MENA banking system over the next 3-5 years?**

SC: Besides consolidation in the regional Financial Services sector, I think that we will see increasing sophistication in capital markets. Infrastructure investment will require more financing than the banking system alone can provide, and will be a catalyst for the development of capital markets. For example we have a strong pipeline for equity raising, but for that demand to be met you need more liquidity and more investment focus – which will come. My sense is that debt capital markets will evolve faster.

We will also see more connectivity between the Middle East and the Far East: more trade, capital flows, and barter flows. I cannot emphasize enough the theme of increasing connectivity between these two regions: I see more and more of that. The entry of Chinese banks in the Middle East over recent years and their strong performance are tangible evidence of this trend. These are strong players, and their moves will be interesting to watch. They will hopefully be able to accelerate even further trade and capital flows. I see increasing opportunities ahead to link the Middle East and the Far East, certainly for HSBC, and hopefully for regional banks too!

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We realize that helping an organization change requires more than just a recommendation. So we try to put ourselves in our clients' shoes and focus on practical actions.

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