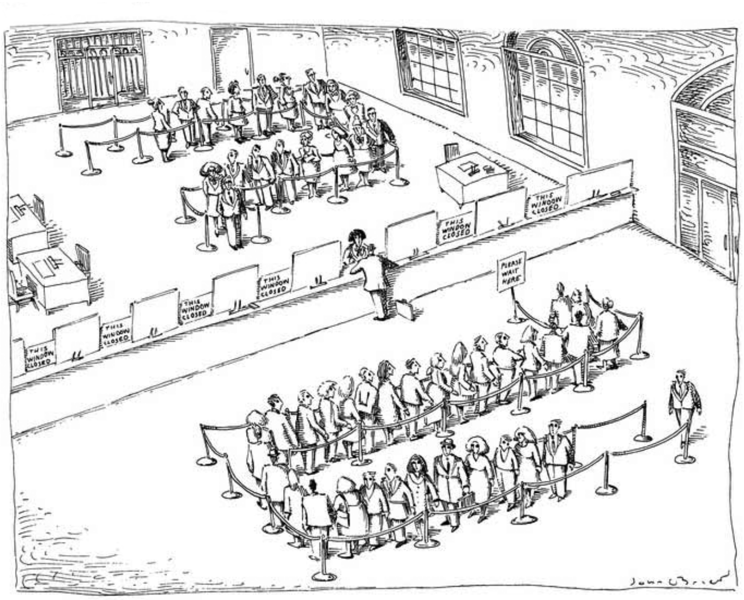


Turning customers
into advocates

The new growth challenge in Asian financial services

by Edmund Lin, Gary Turner, Scott Tanner, Oliver Stratton,
Sunny Yi and Shinji Yamamoto

BAIN & COMPANY

Edmund Lin is a partner based in Bain & Company's Singapore office. Scott Tanner and Gary Turner are partners in the firm's Sydney office. Sunny Yi is a partner based in Seoul. Oliver Stratton is a partner in Hong Kong and Shinji Yamamoto is a partner in the firm's Tokyo office. The authors lead Bain's Asian Financial Services Practice.

Editorial team: Lou Richman and Elaine Cummings
Layout: Global Design

Turning customers into advocates

As the race to win the hearts and wallets of consumers in Asia heats up, financial services companies still face an uphill climb: These organizations are alienating customers and undermining consumer loyalty across Asia and Australia, according to recent surveys of consumers in the regions. The findings of that study, commissioned by Bain & Company, held true in sector after sector. From retail banking and mortgage lending to credit-card issuers and every variety of insurance, these companies are stunting their best prospects for growth.

All this floundering customer performance comes at a time of unprecedented opportunity and peril. In Japan, for instance, the financial services industry is finally emerging from a protracted restructuring. In Hong Kong, Singapore, South Korea and Australia, deregulation, consolidation and cross-border mergers are transforming financial services. And in China, the opening of the sector later this year to global competition under World Trade Organization rules has set off a stampede among international firms looking to invest in local companies.

To assess how the region's financial service providers are truly performing in the eyes of their customers, we asked survey respondents to rate, on a scale of zero to 10, *"How likely are you to recommend this company to a friend or colleague?"* Those responding with top scores of 9 or 10 were classified as *promoters*; they're a company's biggest fans and most loyal customers. Those answering with a 7 or 8 were *passives*; they're lukewarm about their customer experience. Those giving a score of 6 or less were *detractors*; this group is dissatisfied, vocal about it and driving away potential new customers. Subtracting the percentage of detractors from the percentage of promoters yields a company's Net Promoter® Score (NPS)—a metric that provides an accurate picture of consumers' loyalty. The sobering result: Customers in every market across the region could not have been clearer about their dissatisfaction. Among the 10 industries we examined, financial services companies across Asia and Australia ranked near or dead last in customer ratings. (See Figures.)

While Net Promoter Scores reveal that the industry has a long way to go in pleasing consumers, the scores also point the way back to customers' good graces. The rewards of taking that path are compelling. Companies that anchor their growth plans to a loyal customer base consistently outgrow their peers. That's because, by definition, loyal customers are less likely to shop for a better deal from competitors. They purchase more of a company's products and services. They spur growth by enthusiastically talking up the company's

Figure 1: Australia

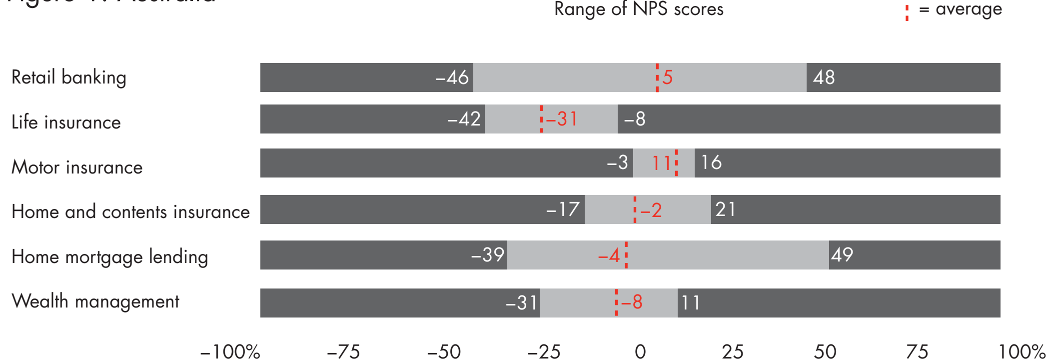
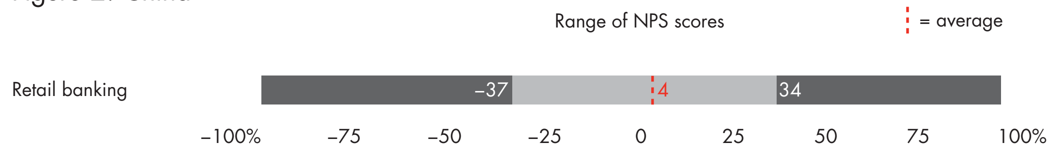


Figure 2: China



products to their friends, and they take the time to provide constructive feedback. Bain's analysis shows that a 5% increase in customer loyalty can raise the long-term value of customer relationships by between 75% and 90%.

To convert detractors and passives into promoters, successful financial services companies master three disciplines:

- First, they invest in customer relationships, not just customer acquisition;
- Second, they adapt to shifts in local market conditions. In a region of vast cultural diversity and evolving consumer tastes, one size just doesn't fit all;
- Finally, they imbue the entire organization with a passion for pleasing customers. They design products that offer exceptional value, deliver service their rivals cannot match and develop customer insights that enable them to refresh their offerings again and again.

Invest in customer relationships, not just customer acquisition

As Asia rode a tide of strong economic growth and rising consumer prosperity, financial services companies spent heavily to build market share and expand their customer base. For a long time, regulatory barriers restrained foreign competitors, so domestic banks, insurance companies and credit-card issuers could count on holding consumers captive once they acquired their business. Now the scramble to sign up new customers is reaching a point of diminishing returns.

Deregulation and market saturation are putting established customers in play for poaching by rivals. Many financial services firms have failed to adapt to the new realities. They're still concentrating 80% or more of their marketing expenditures on acquiring customers and activating their accounts, even though it usually takes two to three years to recoup that investment.

Recent trends in Singapore's crowded credit-card market highlight where such unbalanced spending can lead. Served principally by a half-dozen large domestic and international banks, the relatively small Singapore market is mature, leaving little room for card issuers to grow other than by luring customers away from their equally aggressive rivals. On average, Singaporean cardholders pack more than five cards in their wallets, but no single issuer holds a dominant share. The rivalry among issuers—and the cost of recruiting new cardholders—has increased sharply in recent years as high-powered foreign card issuers like Citibank, HSBC and Standard Chartered stepped up efforts to increase their presence.

United Overseas Bank (UOB) has taken another tack. Rather than adding costly benefits indiscriminately, UOB tailored its card offerings to serve the distinct needs of its best customers. The bank's market researchers found that cardholders were more likely to remain UOB customers, use their cards more often and talk up the bank's card with their friends and colleagues if their cards came with bonus perks. Based on this insight, UOB launched and then steadily upgraded its comprehensive dining privileges program with discounts at a wide range of restaurants in Singapore. In turn, cardholders rewarded UOB with Singapore's highest NPS—a positive 14% versus an industry average of minus 15%.

Investing in customer relationships is also a priority for companies trying to establish a beachhead in Asia's emerging markets, especially China, where the potential rewards for winning consumers' favor are enormous. Chinese savers hold some 325 million individual accounts, totaling nearly $1.8 trillion.

Anticipating the market opening, domestic banks have been shoring up balance sheets, and foreign competitors are staking out new territory and spending on infrastructure. But as important as these maneuvers are, banks that aspire to win in China must also tend to the essential work of cultivating a loyal customer base. Face-to-face interviews commissioned by Bain with 7,500 bank customers in 20 major cities across China's mainland found that the country's banking masses are restless, and its consumers' business is up for grabs. China's fast-growing population of relatively affluent consumers—currently some 75 million households with annual incomes exceeding RMB 20,000 ($2,500)—are an especially attractive but hard-to-please group. They account for more than half of all bank profits, but our survey found that as incomes rise, these discriminating clients are the likeliest to switch financial services providers.

China Merchants Bank is writing a new script to capitalize on such opportunities. One of a new breed of national joint-stock-company banks, the bank was overshadowed by huge state-owned rivals that dominate corporate lending. Its senior management team recognized that it would have to set the institution apart through innovation.

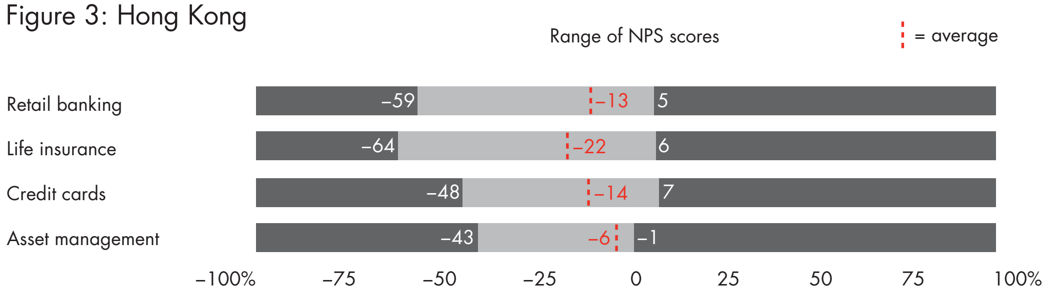
That approach is working. Though it is only China's sixth largest in terms of total assets, China Merchants has become one of the nation's foremost issuers of credit cards, with 5 million in circulation. Over the past three years, the bank became one of the first to offer fixed-rate mortgages, giving qualified applicants willing to open long-term accounts the lowest borrowing rates in the industry. Through the end of 2005, customer deposits grew nearly 24% over the prior year, to some $80 billion, and profits grew at a double-digit rate. China Merchants' president, Ma Weihua, expects retail revenues to double as a proportion of total revenues, to 40% by 2010. In the Bain NPS study, China Merchants garnered a solid score of 19%.

Adapt to shifting local market conditions

As financial service companies move into new markets, they quickly discover customers with different tastes, needs and expectations, and they learn that success in one market does not guarantee the same result in another. Net Promoter Score is not directly transferable from one market to the next. (In Japan, for instance, customers only grudgingly hand out high scores, while Australians are less stinting in their praise.) Nor are the condi-

China's fast-growing population of relatively affluent consumers accounts for more than half of all bank profits, and those customers are the ones most likely to switch their financial services provider.

Figure 3: Hong Kong



tions that create NPS leadership in a given market fixed and permanent. But the scores do help companies compare how they stack up relative to the competition.

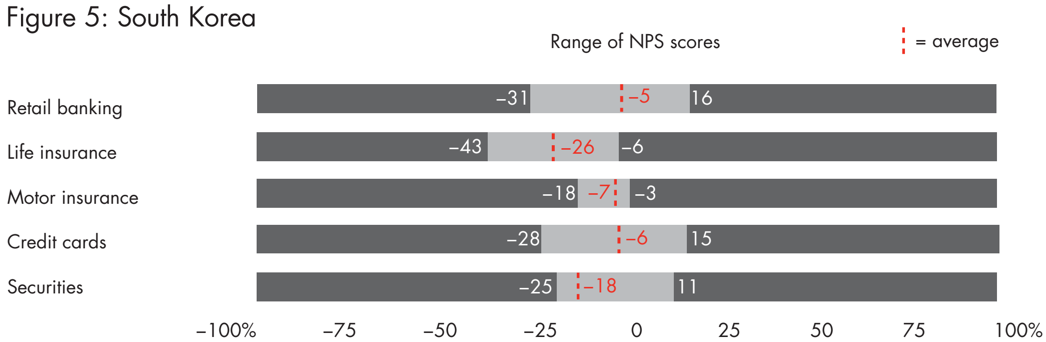
Even in their home markets, banks have to adapt to shifts in their industry's competitive landscape. In Japan's retail banking market, for example, nimble Shinsei Bank wins rare plaudits, with an NPS of 7% versus an average score of minus 69% for the sector overall. The successor to the failed Long-Term Credit Bank of Japan, Shinsei (the name means "new life") spent the past five years restructuring operations with a goal of winning customer trust and loyalty. The fruits of that effort are ripening: Shinsei now has more than five times as many promoters as its competitors. How has it managed to do that? Though it has one of the smallest branch networks in the industry, Shinsei makes its presence felt where it matters most in Japan. The bank provides the greatest number of automated teller machines in the Tokyo metro system, in post offices and in 7-Eleven convenience stores across the nation. What's more, Shinsei doesn't saddle its customers with account maintenance and ATM fees or transfer charges common across the industry. Sixty-two percent of Shinsei's promoters cited the low- and no-fee policies as the principal reason they would recommend the bank to friends and colleagues.

Build a customer-centric organization for long-term leadership

It takes commitment to build an organization that excels year after year at cultivating customer advocacy. Bain has found that companies that are customer champions apply what we call the "three Ds" of customer-led growth. They start by identifying the customers they understand best. Then they *design* unique product offerings for them. They *deliver* on their promises by focusing on flawlessly executing interactions with customers. Finally, they continuously monitor their contact with customers in real time and internalize that feedback to *develop* their capacity to delight customers again and again.

Figure 4: Japan (top), Singapore (bottom)

Figure 5: South Korea



These are practices that Hang Seng Bank, Hong Kong's largest retail bank, has embedded deep into its growth strategy. The bank places customers at the core of its product and service innovation process by engaging account holders in an ongoing dialogue to uncover scores of incremental ways to enhance the customer experience. In early 2004, Hang Seng launched its Customer Innovation Group (CIG), using panels, phone surveys and an online forum to let customers guide the bank's product development. Participants in the CIG have generated numerous ideas for improvements across a broad spectrum—from identifying a need to quicken redemptions of credit-card bonus points to changing how customers queue up for service at branch offices to speed their visits. The bank posts customers' requests on its website and responds to each. Giving customers a voice has helped Hang Seng earn the top NPS in Hong Kong's banking, life insurance and asset management sectors.

Delivering outstanding value to customers is not just a prerequisite for steady growth, it can also be a lifeline for survival during times of industry upheaval. The experience of Korean securities firms in the wake of the Seoul stock market meltdown of 2000 and 2001 demonstrates the point. As share prices climbed in the late 1990s, fueled by heavy trading by small investors, the securities industry grew rapidly. But as the market tanked and customers fled, the brokerages discovered little that distinguished themselves from their cutthroat competitors. Most chopped prices and tried to shore up margins through round after round of service cuts that caused still more customers to defect. By 2004, the industry was spiraling into a doom loop as the securities sector's Net Promoter Score plunged to an average of minus 60%.

Executives at Samsung Securities decided that to pull out of this death spiral, they would need to fundamentally change the firm's relationship with customers. Instead of continuing to shrink investment in customer service to hold down costs, Samsung poured resources into new technology that gave small investors greater flexibility to manage their own accounts. Order processing time fell from more than three hours to less than 30 minutes. And because the new technology enables Samsung to track customers' relationships with the firm across all product and service channels, sales reps are better able to target offers that serve individual customers' needs. The results have been dramatic. Since 2004, Samsung raised its NPS by 59 percentage points.

The Net Promoter approach is ultimately a tool for business transformation, providing a single measure for which every division, department or individual in the company can be held accountable. Consumers of financial services across the Asia-Pacific region deserve no less, and they will reward the banks, insurers, credit companies and brokers that make customer service their abiding mission.

Bain's business is helping make companies more valuable.

Founded in 1973 on the principle that consultants must measure their success in terms of their clients' financial results, Bain works with top management teams to beat competitors and generate substantial, lasting financial impact. Our clients have historically outperformed the stock market by 4:1.

Who we work with

Our clients are typically bold, ambitious business leaders. They have the talent, the will and the open-mindedness required to succeed. They are not satisfied with the status quo.

What we do

We help companies find where to make their money, make more of it faster and sustain its growth longer. We help management make the big decisions: on strategy, operations, technology, mergers and acquisitions and organization. Where appropriate, we work with them to make it happen.

How we do it

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.

BAIN & COMPANY

For more information, please visit **www.bain.com**

Amsterdam • Atlanta • Beijing • Boston • Brussels • Chicago • Dallas • Düsseldorf • Hong Kong • Johannesburg • London
Los Angeles • Madrid • Melbourne • Mexico City • Milan • Munich • New York • New Delhi • Palo Alto • Paris • Rome
San Francisco • São Paulo • Seoul • Shanghai • Singapore • Stockholm • Sydney • Tokyo • Toronto • Zurich