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Winning customer advocacy in UK retail banking

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Nearly every bank can recognise the importance of winning loyal customers, but most find it difficult to mobilise to achieve it.

Leaving town for an eagerly anticipated weekend getaway abroad, Anne, a longtime customer of a leading high street bank, stopped by her local branch to make an ATM withdrawal. When her card did not work, she went inside to report the problem. The service representative could not immediately diagnose what had gone wrong, but suspecting fraud, cancelled the customer's debit card and, in the process, suspended her credit card as well.

Unable to rely on convenient plastic to pay for her trip, Anne asked to buy euros, so she would at least have cash. Sorry, the service rep replied. He explained that to purchase the foreign currency Anne would have had to call ahead to ensure that the branch had an adequate supply on hand.

Well, then, how about withdrawing cash from her current account? Surely, with £6,000 on deposit and her account set up to be replenished automatically with her monthly paycheck that should be possible. Of course, the rep answered, but no more than £200. Bank policy!

Ultimately forced to borrow from a companion to cover her travel costs, Anne spent her holiday weekend fuming over how much she would like to dump her unhelpful bank. But as she reflected on the horror stories her friends had told her about their own banks, she reluctantly recognised that switching would be an enormous hassle with little to be gained. The best Anne could look forward to would be taking a small measure of revenge by telling others how poorly her bank had treated her and going elsewhere for her new mortgage.

In the 21st-century world of 24/7, have-it-your-way customer convenience, sorry tales like Anne's are played out day after day in bank branches, call centres and ATMs across the UK. Retail banks have long been more preoccupied, appropriately, with countering threats of fraud and satisfying regulators than focusing on the damage that their me-too products, hidden fees and indifferent service have done to undermine consumer trust. They now face unprecedented customer unrest at a time when regulatory scrutiny is ramping up under the aegis of the newly created Financial Conduct Authority (FCA). The FCA will have a delicate role to play erecting new customer safeguards while not throwing up barriers that could hinder banks from delivering a better customer experience.

The world of UK banking is also being rocked by a feisty new crop of competitors. Some, like Tesco, the supermarket chain, or Metro Bank, a new bank patterned on the successful model pioneered by Commerce Bank in the US, come armed with the customer-friendly techniques of modern retailing. Other nimble newcomers are racing to compete for sales of banks or parts of banks, such as the upcoming sale of 600 branches by Lloyds Banking Group. Many of the new entrants are unencumbered by the legacy infrastructure and processes that burden the industry incumbents.

This combination of economic, regulatory and competitive factors threatens to make UK retail banking a significantly less profitable business than it was pre-crisis. But it also opens up a new competitive "white space" for banks—both the big high street incumbents and the new entrants—to capture market share and lift profitability by rebuilding customer relationships. The implications for how retail banks compete are already disruptive and will be transformational. To seize this new opportunity, leading banks will set themselves apart from the competition by designing products and services and delivering experiences that provide real benefit to their customers. By doing so, they will be able to stand out in a category where most customers think their bank is nothing special.

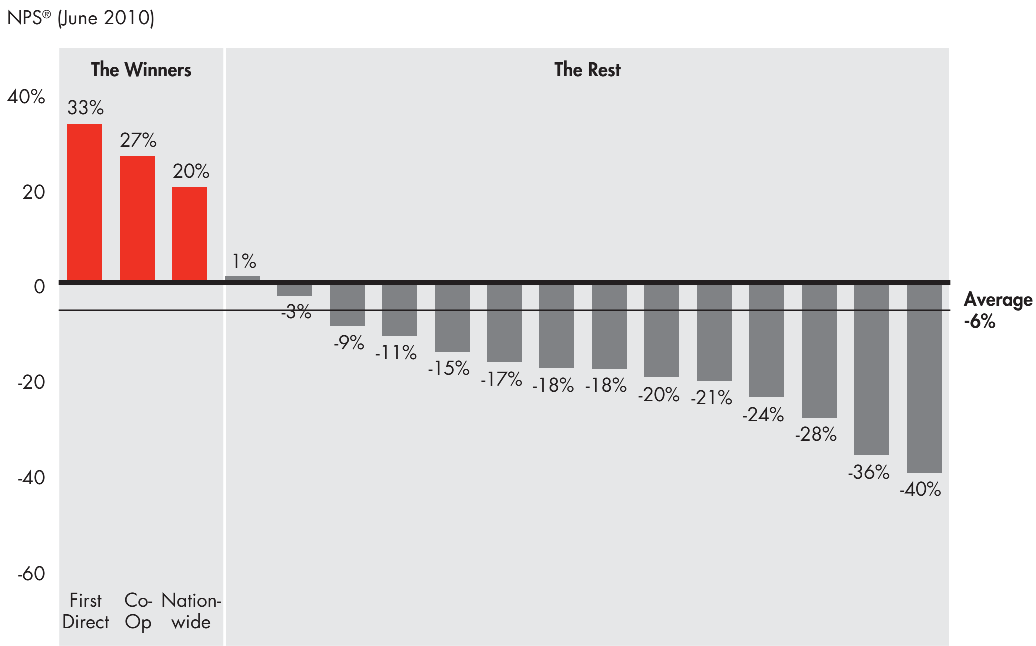
In this environment, banks will need to focus on converting customers from frustrated detractors into loyal advocates. Bain & Company's work with banks in markets around the world has consistently demonstrated the power of customer advocacy. Loyal bank customers in the UK buy more products, maintain higher balances and usage in the products they own, and cost less to serve. They also recommend their bank to their friends and colleagues, becoming, in effect, a highly credible volunteer salesforce. Our analysis has found that customers who give their principal bank top marks are worth 35 per cent more over a five-year period than those who are only lukewarm about the treatment they receive and fully 60 per cent more than detractors who give the lowest ratings. In other words, banks that invest in winning advocates can generate more attractive returns than rolling out an ambitious new marketing plan or adding new branches.

Some incumbent banks and most new ones are already embracing the challenge—others will be left behind. However, most UK banks—and the big high street banks, in particular—are a long way from being able to capitalise on the attractive economics of customer advocacy. To determine what sets banks that are earning customer loyalty apart from ones that are not, Bain collaborated with Research Now, the online polling firm, to survey people best able to render a judgment—the banks' own customers. Research Now asked 9,064 bank customers to rate on a scale of zero to 10 how likely they would be to recommend their principal bank to a friend or relative. To derive a measure of the strength of a bank's overall customer advocacy, we subtracted from the percentage of its customers who gave top scores (nine or 10) the percentage of respondents who identified themselves as clear detractors (with ratings between zero and six).

As the results in Figure 1 show, customers are largely unhappy with their banks, with fewer than one in three earning positive scores. Indeed, each of the advocacy leaders—First Direct, the Co-Operative Bank and Nationwide Building Society—is a niche player, operating a customer-focused business model that is strikingly different from the one traditional banks are pursuing. Especially worrisome for incumbents, the most-profitable affluent customers with annual household incomes topping £100,000 gave higher scores to the winners and lower scores to the laggards than less affluent respondents did (see Figure 2).

Where do the largest retail banks fall short? Our survey found that they are unable to design offers or deliver experiences that delight their customers. Fully half of the respondents who self-identified as detractors told us there was simply nothing at all special about their bank (see Figure 3). The failure to give customers a reason to feel a modicum of enthusiasm

Figure 1: Leading and lagging UK banks and finance companies



Note: Average lines represent a straight average of relevant banks and consumer finance companies where N>30;
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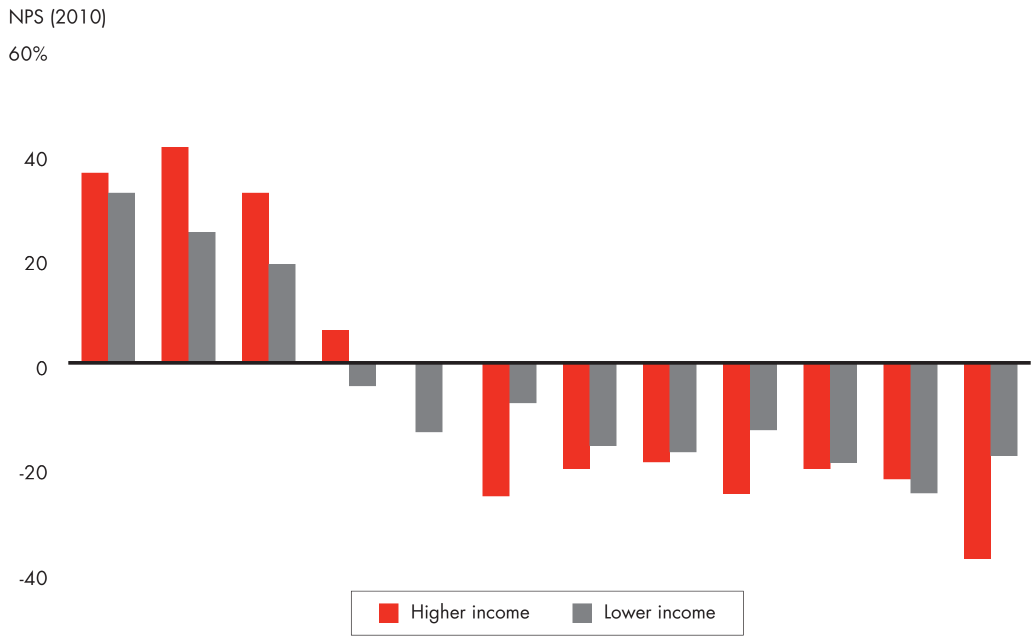
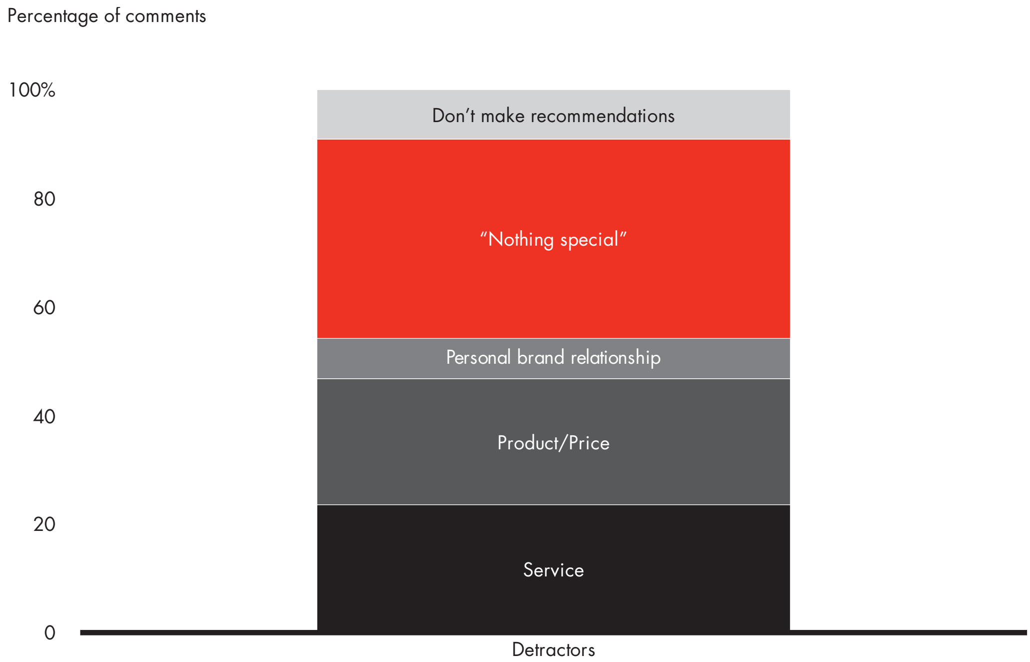
Source: Bain/Research Now UK Net Promoter Research, June 2010, N=9,064 responses

Figure 2: Loyalty leaders earn higher scores from affluent customers



Note: High income is £100K+ per household per year, Low income is <£100K per household per year.
Amex high income sample is small (N=29) and therefore potentially unrepresentative
Source: Bain/Research Now UK Net Promoter Research, June 2010, N=3,370

Figure 3: Detractors find UK banks "nothing special"



Note: N=6,046; Responses weighted by profit pool
Source: Bain Financial Services practice

for what is fundamentally a relationship business overshadowed all other reasons respondents cited for giving their bank low marks, including product quality and price.

Banks are not alone in struggling to deliver superior customer experiences. Our research indicates that just one company in eight gets it right, despite the obvious business case for delighting customers. But that shouldn't give bankers comfort that the implications of mediocrity are anything less than profound. It condemns organisations that cannot rise above it to being mere commodity providers, sapping them of the ability to command premium prices from customers unwilling to pay more because they perceive they are not getting precisely what they need and want. It demoralises customer-facing frontline employees, reinforcing a vicious cycle of a disengaged workforce further alienating a disconnected client base. Finally, it opens up a large competitive "white space", inviting competitors to pick off prized customers eager to defect for a better deal.

Certainly the big-bank laggards are burdened by more challenges than are faced by adroit competitors like First Direct, Co-Op Bank and Nationwide with their far simpler business models. Our survey reveals that customer advocacy is won or lost based on how banks deliver a few critical factors. Overwhelmingly, customers told us that outstanding and consistent service is the quality they most value. With nearly half of all respondents willing to make recommendations citing it as their most important reason for giving a top score, service showed up three times as often as the bank's brand and twice as frequently as price and product. Among detractors, poor service along with deficient products and high prices were root causes of their dissatisfaction.

Nearly every banker can recognise the importance of winning customer advocacy, of course, but their banks find it difficult to mobilise to achieve it. A Bain survey that asked senior executives whether their company delivered a superior customer experience revealed that 80 per cent believed they did. But when we asked their customers the same question, just 8 per cent agreed.

Digging deeper, we found that the "believers" fail to measure up to the "achievers" across several critical dimensions. First, they either lack reliable metrics that help them understand where they stand with their customers or they misread what customers are actually telling them. For example, companies are often lulled into a sense of overconfidence by high scores from customers who say they are "satisfied" or "very satisfied". Yet, Bain's cross-industry analysis has found that as many as 80 per cent of these self-proclaimed satisfied customers end up defecting to another company or remaining with their current company but taking their most profitable business elsewhere.

In UK banking, where the barriers to switching are high, unhappy customers end up as disgruntled "hostages". Their fear of missing a mortgage payment while transitioning to another bank, for example, may lead them to retain their current account with their principal bank. But they are unwilling to buy additional products and services and typically do not hold high balances or exhibit other profitable behaviour. Banks with customers like these not only miss out on profitable cross-selling opportunities. Increasingly, competitors are wooing them with "guaranteed, hassle-free" switching services. Incumbent banks no longer have the luxury of confusing customers' begrudging endurance of the ill treatment they receive with "loyalty". They will need to earn their loyalty—by offering consistently outstanding service to capture a larger share of wallet. They will also need to make switching a more convenient option in order to poach their competitors' "hostages".

A second reason why banks fail to make delighting their customers the priority it ought to be is that they are unable to isolate—or correctly put a value upon—the near- and longer-term benefits they create through their efforts to build advocacy. What bank has not launched an initiative to spur customer-led growth by instituting a loyalty program or by recognising frontline employees who project a "friendlier" image only to have those efforts give way once senior management is distracted in the next round of cost-cutting? The patience needed to define and deliver a desirable customer experience is sacrificed to expediency.

More insidiously, banks find it difficult to wean themselves off "bad profits" generated by luring customers with "free" services, then hitting them with penalties, fees and other charges for a wide variety of account transgressions. They let their drive to hit short-term profitability goals overwhelm longer-term efforts to build advocacy.

Finally, instead of taking an integrated view of how to strengthen the customer experience, their initiatives tend to be separated into functional silos that render them ineffective or, worse, work at cross-purposes. For example, attempts by many banks to strengthen their relationships with affluent clients typically overpromise and underdeliver.

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The process of transforming a retail bank to achieve superior customer advocacy starts by defining the base case for change, articulating a vision of what the destination looks like and drawing a road map to reach it. To build momentum for change, an organisation needs to align its operating cadence to what its customers confront on a daily basis. In our experience, the most effective way to do this is by gathering direct customer feedback at frontline contact points, identifying the highest-priority sources of pain and opportunities to delight and taking actions that yield high-return quick wins. Leading banks and other customer-focused companies are putting their frontline in direct touch with customers using a closed-loop feedback process that enables employees to listen and learn directly from the customers they serve. Direct customer feedback also lets frontline employees "hear the applause" when they go above and beyond.

Banks can draw inspiration from successful new approaches adopted both by their financial services rivals and by pioneers in other industries, such as retailing. They should also look within their own organisation to uncover hidden customer assets, undervalued business platforms and underutilised capabilities they can mine for new sources of growth.

Where will the journey to the customer-centred bank of the future take UK banks? Short answer: into territory far from where they stand today and following a trail that is already being blazed by innovative competitors. Efforts to construct a positive and distinctive retail banking proposition need to address all elements that create advocacy—product, brand and customer experience. Let's examine each in turn.

Products that deliver real value

Banking has seen plenty of product innovation over the years—much of it working to the disadvantage of bank customers, for example, "free" current accounts and "teaser" introductory credit card and savings rates. Banks that aim to win customer advocacy turn that self-serving approach on its head with products that are straightforward, transparent and predictable.

Nationwide is one loyalty leader that is reaping benefits by bringing customer-friendly products to market. The bank describes its goal to offer "a broad range of great value… financial products, while charging a little as possible for day-to-day services", and it empowers frontline employees to waive a customer's fees at their own discretion. Its distinctive credit card does not charge users exchange rate commissions when they use the card when traveling in Europe, winning praise among more-affluent target customers.

Brands that live up to their promise

Banks create dissonance and undermine their credibility with customers when their communications, advertising and marketing are at odds with how they run their businesses. Brands that are built on a foundation of customer trust, in contrast, communicate that the bank's values are aligned with its customers' and convey what the bank is doing to further them.

Co-Op Bank, the full-service community bank, has built affinity with its customers around its branding as an "ethical bank". An industry innovator, Co-Op was one of the first UK banks to offer comprehensive online service and was a pioneer in 24-hour telephone banking. Yet, it hews close to its century-old tradition of building durable relationships with old-fashioned personal service. Co-Op's projection of its ethical brand image resonates with customers. "They are an ethical financial provider...different from any of the other banks", said a savings account customer. "The only high street bank with an ethical policy and one that they abide by!" echoed a mortgage customer.

Among the big banks, NatWest Bank, part of the Royal Bank of Scotland Group, has launched a campaign, called "helpful banking", to align its brand image with its promise of superior service delivery. Through documentary-style advertisements that show NatWest staff consulting with clients, the bank emphasises the one-on-one relationship it aims to build with customers. The marketing campaign is NatWest's down-payment on its renewed, long-term commitment to differentiate itself from the competition by delivering expert personal financial advice.

Customer experiences that delight

Opportunities to create a promoter or detractor accumulate transaction by transaction—at teller windows, on the website, through call centres or via ATMs—over hundreds of interactions customers have with their banks. First Direct, the online bank, focuses on delivering 24-hour convenience through its website and phone channels with service and a community focus that emulates a local building society. In the Bain survey, 79 per cent of First Direct's customers cited outstanding service as the principal reason why they are promoters. The reputation it has established with its core customers does not require First Direct to offer premium rates on its savings products, further increasing its bottom line.

But zero-defect execution is not the only criterion by which customers evaluate the interactions they have with their banks. The emotional reaction their experiences elicit can be every bit as important as their rational assessment. Indeed, Bain has found that customers are willing to put up with a fair amount of inconvenience or sacrifice a better deal, provided they are treated with respect and genuine caring.

For example, Metro Bank, a high street newcomer, is bringing mould-breaking empathic change to the customer experience it delivers. Applying practices that made its American cousin, Commerce Bank, a loyalty leader in US retail banking, Metro Bank overinvests in staff recruitment and training and adds customer-winning amenities to its branches. For instance, each Metro outlet features a coin machine, free pens and even bowls of water for customers' dogs. Under a policy the bank calls "one to say yes, two to say no", every frontline employee is empowered to act on his or her own initiative to help customers. Metro is confident that these high-impact customer-focused features will fuel its UK growth as they did in the US, where any operating cost disadvantage was more than offset by a 75 basis point lower cost of funding. With several branches now up and running in London, Metro aims to grow organically to 200 stores and capture 10 per cent of London deposits by 2020.

Barclays Bank is putting the "shock and awe" advantages of scale to work in a new initiative to wow customers. Last summer, the multi-

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national giant announced it would spend £1 billion to boost customer service across its retail network. It is upgrading its branch network and investing heavily in new technology to support mobile banking, among other features that Barclays hopes will reinforce customers' perception of the bank's service leadership.

While no mainstream bank has yet to break away from the pack by assembling all of the elements needed to transform the experience it offers customers, some are beginning to embrace changes calculated to earn advocacy. Targeting affluent customers, for example, HSBC has redesigned its "Premier" and "Advance" accounts to forge personalised global relationships. Recognising that customers in this high-value segment combine personal and business banking needs on an international basis, HSBC is capitalising on its worldwide reach by providing global travel assistance and enabling account holders to transfer funds cost-free between HSBC accounts. To guard against service fragmentation that can undermine customer trust, the bank has built a globally integrated account management platform to provide a uniformly high-quality customer experience across channels and geographies.

Lloyds Banking Group, too, is launching a major drive to differentiate itself from the competition using a customer advocacy approach. Last December, Lloyds' chief executive announced the bank would take the lead in 2011 to bring greater transparency to the bank's financial products. The bank aims to make it easier for customers to track rates paid on their checking and deposit account statements. Lloyds also intends to address regulators' complaints that banks supress competition by breaking down barriers that customers perceive in contemplating switching banks. "We are going to act unilaterally—whether the rest of the sector follows or not…" Lloyds' CEO said.

At this critical juncture for the UK financial services sector, the pressure for banks to change will only intensify. Many are taking action, but the effort requires laser-like focus on what matters most to customers and a sustained commitment reaching from the very top of the organisation to frontline employees. For those institutions that embrace the challenge, the race towards creating a customer-centred bank will be an exhilarating, profitable voyage. For laggards that fail to win customer advocacy, however, the journey will be a painful forced march, as they steadily lose customers and profits to fleeter rivals.

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