Towards a customer -focused distribution model

WE CAN CONSIDER THAT THE MULTICHANNEL APPROACH IN ITS CURRENT FORMAT HAS NOW REACHED MATURITY. THE OPTIMIZATION OF A NEW MODEL REQUIRES FROM 3 TO 5 YEARS AND THE GREAT MAJORITY OF MULTICHANNEL PROGRAMS STARTED IN 1997-1998. THUS, AN IMPARTIAL ASSESSMENT IS CALLED FOR TO GAUGE THE EXTENT TO WHICH THE CURRENT BANKING MODEL HAS REACHED ITS LIMITS. NEW OPPORTUNITIES SHOULD ALSO BE EXAMINED TO HELP RETAIL BANKING CEOS TO FRAME THE FORMAT OF THE NEXT RETAIL BANKING MODEL. THIS IS THE RIGHT TIME TO EMBARK ON A NEW STRATEGY.

By Jean-Marc Gottero - CISCO

At a time when retail banks in Europe are showing record profits, it may seem out of place to talk of the pressing need to change the current banking model.

The first indicator in such an analysis is provided by the customers themselves. Broadly speaking, European studies show that customer satisfaction levels with retail banks are high. As an example, 80% of the customers of French and English banks are "satisfied" or "very satisfied" with their current banking relationship. However, this falls sharply to around 60% for affluent individuals, who have higher expectations in terms of the bank's services and availability. With such levels of satisfaction, cross-selling opportunities are few and far between, whereas this is precisely the customer segment with the highest potential.

> “The bank can be reinvented and changed into a **customer-focused** distribution model harnessing the added value of a powerful **distribution system**.”

The frustrations expressed in customer surveys aimed at the entire clientele can be broken down into two main groups:

- Frustrations with regard to the bank's internal complexities; the bank still operates in a silo-oriented approach creating gaps in customer services; rigid and imposed procedures, difficult access to expertise, and limited information-sharing between channels.

- Increasingly numerous frustrations regarding the difficulty of communicating with one's bank. At the top of the list of stated frustrations, the excessive use of IVR (interactive voice response) telephone systems, the difficulty of contacting advisors when one needs them, the often long waiting times both at the branch and on the phone, the limited options of communicating via electronic channels such as e-mail or even chat.

These indicators reveal a real discrepancy between the reality of mutichannel banking and the demand of the general public, most of whom very quickly take up electronic communications and use them to reshape their habits and consumption patterns. In developed countries over the past 10 years, household spending on communications has grown considerably, and this trend is continuing, showing a need and desire to be constantly linked to one's environment. Being close to customers will require further efforts on the part of banks in terms of seamless interaction capabilities.

Retail banks must respond quickly, if they fail to do so, >>>

they will lose a proportion of their customers (almost certainly the most profitable ones), which would have significant impact on their financial performance. Without immediate action, they would also open the door to new models and newcomers.

TECHNOLOGICAL OPPORTUNITIES

The multichannel strategy of retail banks was built on implicit technological assumptions that are now inhibiting effective management of the multichannel system. Two assumptions, in particular, greatly contributed to the current model:

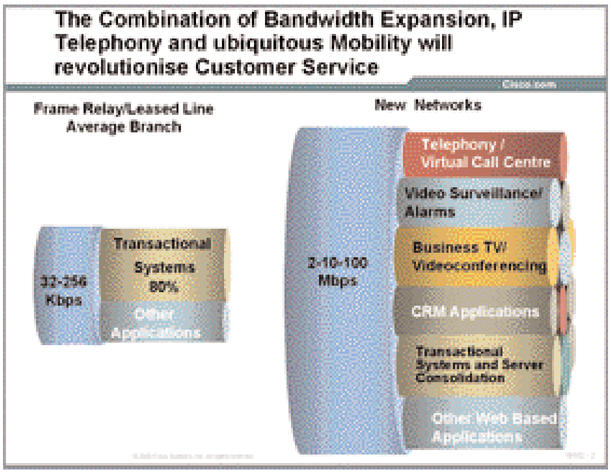
- Each channel is specific in nature. Applications were developed for each channel, only serving to accentuate the "siloed" nature of the organisation.

- The networking capacities of branches would remain limited. Proximity to the customer would continue to be primarily geographical in nature, via the branches. There again, the time and motion silo (sales are concluded at the branch by a customer advisor) established itself as the only realistic model from a technological point of view.

Both those assumptions have since been shattered, given the extremely rapid and widespread implementation of new technologies. Recent years have seen the development of three technologies enabling us to work together and interact on a larger scale: broadband, the IP communications protocol (which includes IP telephony) and ubiquitous mobility, namely wireless technology.

Bank branches were designed in a dial-up context, much slower than what we typically have at home nowadays. Broadband, and, soon, very high-speed broadband, is becoming widely available to branches. Speeds of 2 to 10 Mbps will allow staff to use a wide range of applications. For instance, virtual call centres extended to branches and experts, videoconferencing tools, operational CRM, multimedia marketing, e-learning and communication, as well as new more mobile workstations, will be some of the opportunities available which will transform the role of the branch. All these technologies have a common basis – the IP protocol – which enables rapid and global deployment of all applications on a consistent common platform, thereby greatly speeding up the innovation and differentiation cycle.

They are all opportunities for rethinking the banking model.



Historically speaking, the new channels, both call centres and the Internet, were positioned as being a support for the branch. In fact, the banking industry has moved on from a branch-focused organisational model to a multichannel model for service and support only. On the other hand, sales and customer added value have remained the prerogative of the branch.

MAKING THE MOST OF ALL CONTACT POINTS

That model has already started changing. As BNP Paribas CEO, Mr Baudoin Prot, recently said, "if one counts branches, the Internet, call centres, voice response systems, withdrawals at cash dispensers and account statements sent out by La Poste, the density of contacts between customers and banks has tripled in the space of a few years."

Making the most of the increasing number of contacts to drive additional revenues will require strong changes in the organisational models and even the business model of retail banks. The race to be leader on each channel loses some of its meaning, since overall consistency will increasingly be what creates added value.

We are witnessing the advent of extended call centres combining centralised branches and branch staff in a single entity. We start to imagine customers remotely accessing the bank's expert resources. The rapid development of different forms of collaboration and internal sharing of skills are also a powerful source of organisational innovation. Lastly, we are seeing commercial systems becoming fully multichannel in nature, each level contributing to the sales drive in a coordinated fashion.

These changes will require large-scale changes in staff management and will force us to call into question the principles we feel are robust and perennial, shifting the focus to the virtual world, greater collaboration and flexibility.

ADVOCATING A NEW RETAIL BANKING MODEL

New customer usages, technological opportunities and new organisational models. The three converging opportunities we have just reviewed will bring in a new banking model, which should aim to broaden considerably the bank's field of action in the world of mass consumerism and enable the bank to continue industrialising its service offering.

> “In the future, **interactions will be the source of value.**”

More specifically, in this article, we focus on the evolution of the multichannel system towards a collaborative distribution model.

The notion of customer interaction will be at the heart of the new model. Overall, banks have already extensively automated transactions of all types, thereby reaping gains in productivity. In the future, interactions will be the source of value, additional opportunities and a catalyst of the customer's experience, that of the staff and the bank's partners, through exchanges of information (person-to-person, person-to-machine and machine-to-machine).

All such interactions deserve to be rethought and reorganised in a new framework according to a few fundamental principles:

- construct forms of interaction customers find practical rather than constructing ones the bank prefers;

- integrate all the various channels to ensure they all interact, and increase the value proposition anytime, anyplace and any channel;

- access the right resource to differentiate the value proposition, make it easier to collaborate and access expert advice;

- make sure information and interaction are fully available on all channels and ensure a higher first-touch problems resolution rate.

With such principles, the bank can be reinvented and changed into a customer-focused distribution model harnessing the added value of a powerful distribution system, both directly and remotely, both human and electronic.

IDENTIFYING THE PRIORITY AREAS FOR TRANSFORMATION

The retail banking model can only evolve in stages, given the size of the organisation and the complexity of the changes involved. In our view, there are three areas in which this can realistically be implemented in the short term, the business potential of which is highly significant:

- Widespread use of self-service to cut back-office and customer service costs incurred on the distribution side, which are often vastly underestimated. While 70% of the European population have access to and use Internet connections, the rate of subscription to Internet banking services averages only 15% to 20% and actual usage still varies greatly from one customer to the next.

Obviously a number of tools such as terminals in branches, intelligent IVR systems, chat and convergence present many opportunities for banks to increase the level of self-service and the overall productivity of their customer services.

Our studies reveal that accelerated migration of basic transactions towards electronic channels could potentially cut customer service costs by around 10% in the space of 5 years. This is a major productivity issue, which presupposes dedicated resources and, more importantly, a high level of commitment from the management.

La Caixa has deployed a real-time banking program widely supported by the increasing use of self-service systems. For instance, La Caixa's customers can access a wide range of services at cash dispensers, including the issue of theatre tickets or paying one’s taxes.

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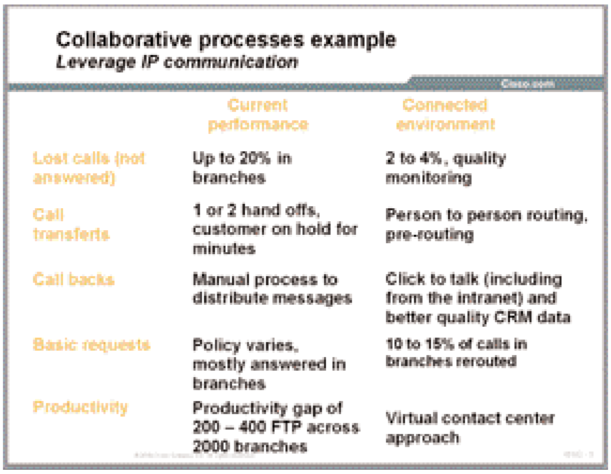
- An increasing number of options for internal collaboration. Unlike self-service, assisted service, whether it is at the branch, via call centres or any other form of organisation within or outside the retail bank, will have to cope with increasingly specialised requests from customers.

The collaborative model is an opportunity for the bank to rid itself of its "siloed organisation" and allow customers access to all the right resources, instantly and in a coherent manner. BNP Paribas is an excellent example of a bank that has embarked on transforming its service model into a coherent one, encouraging the sharing of processes and customer information on all channels. The results speak for themselves: a high level of customer satisfaction, greater productivity and a refocusing of resources on value-added activities.

One area where this transformation can immediately be applied is the telephone, an area in which banks have chronically underinvested over the past years. A rate of 20% of all the calls made to branches going unanswered is not uncommon, which can only have an adverse effect on customer satisfaction. By combining all the various technological innovations of IP telephony, such as call pre-routing, person-to-person routing, click-to-talk, an extended virtual contact centre encompassing the branches, the rate of lost calls may fall to under 3% of all incoming calls. Moreover, the level of interaction with high net worth customers could be greatly increased by correctly routing contacts to the right resource. Our studies show that better routing management can represent productivity gains of between 200 to 400 full-time staff for a major bank.

- The third priority the revenue growth opportunities. Pilots on collaborative selling via 3 or more channels are showing sales efficiency rates in excess of 100% compared to the traditional "siloed" model. Many factors account for such performance. Some are related to capacity increase, such as better and more accurate targeting of customers through the increasing use of e-mail, or outgoing call campaigns mobilising the call centre and branches in a coordinated fashion. On the effectiveness side, a greater capacity to listen to customers' needs means that more selling opportunities can be identified and more appropriate responses given to customers contacting their bank, whether in person, on the phone or via the Internet. Lastly, a greater awareness of the customer's preferred contact channel, according to the time and the purpose of the contact, can only improve business.



Collaborative processes example
Leverage IP communication

	Current performance	Connected environment
Lost calls (not answered)	Up to 20% in branches	2 to 4%, quality monitoring
Call transferts	1 or 2 hand offs, customer on hold for minutes	Person to person routing, pre-routing
Call backs	Manual process to distribute messages	Click to talk (including from the intranet) and better quality CRM data
Basic requests	Policy varies, mostly answered in branches	10 to 15% of calls in branches rerouted
Productivity	Productivity gap of 200 – 400 FTP across 2000 branches	Virtual contact center approach

Wells Fargo, on the American market, already uses such a system. A single figure suffices to prove the system's benefits: 20% of the bank's loans are generated through online pre-approvals which are, subsequently, finalised at the branch. As for the additional credit facilities service, it almost exclusively operates online, thereby freeing up a lot of time in branches. ■