Digital Services Play a Key Part in Customer Acquisition and Retention

WHITE PAPER

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IN THIS WHITE PAPER

In early 2009, Financial Insights conducted a global consumer survey and in-depth bank interviews on financial digital services. Financial digital services is defined as the distribution of content, information, or product across the Internet, mobile device, or other electronic delivery channel. The goal was to better understand consumers' usage of and satisfaction with the digital services provided by their financial institutions while financial institutions gauged their current customer satisfaction levels along with their investment strategies. We compared customers' use of and satisfaction with specific digital products available and have defined those that stand out as needing further investment. We also found areas where financial institutions gauged that the perceived level of customer satisfaction is not congruent with the actual level of customer satisfaction.

Highlights of this document include the following:

- Channel Usage Correlates to Satisfaction
- Areas Primed for Increased Investment
  - New Account Opening
  - Online Help and Chat
  - Budgeting and Reporting
  - eStatement Delivery
  - Product Selector Tools
- Digital Services Are Important in Customer Retention
- Existing Customer Adoption Is Key
- Security Is a Given, Convenience Is True Value-Add

SITUATION OVERVIEW

Channel Usage and Satisfaction

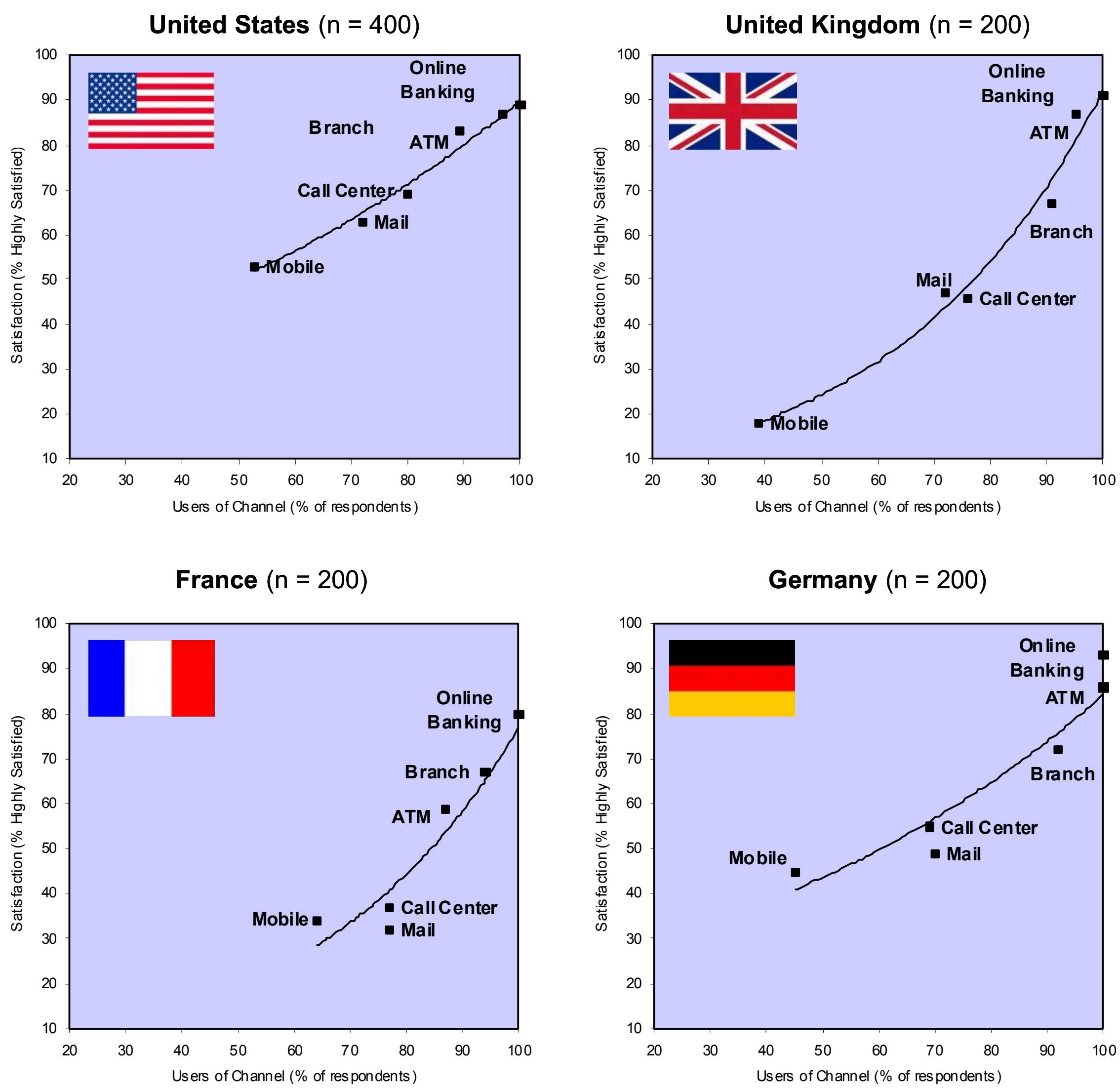
The survey results clearly show that usage equates to satisfaction, as illustrated in Figure 1.

FIGURE 1

Global Bank Channel Usage and Satisfaction Rates

Q. Do you use the following banking channel?

Q. How satisfied are you with that channel?



Source: Financial Insights, 2009

Across the globe, the survey proves that the more active a user is in a channel, the more satisfied the user is with that channel. A satisfied customer utilizing low-cost delivery channels should equate to a more profitable and long-term customer relationship. Financial institutions should drive their customer base to these low-cost delivery channels by demonstrating their value to the customer and making them easy to use.

What Is Going on with Mobile Banking?

Use of mobile banking is low across the board. Subsequently, satisfaction levels are particularly low, especially in the United Kingdom where only 20% of mobile users were highly satisfied with the channel. This finding may be attributed to the fact that financial institutions have approached mobile banking as a defensive strategy and have not effectively proven what the value is to the consumer. Simply providing a new cost-effective channel is not enough; there needs to be a compelling reason to use the channel in order to keep the customer satisfied.

Where Bankers Should Be Investing in Digital Services

A satisfaction gap exists in quite a few product and feature areas, according to our survey. A gap is defined as a disconnect between actual customer satisfaction and perceived customer satisfaction. In those areas where customers are more dissatisfied than bankers assume, it makes sense to increase investment focus (see Figure 2).

FIGURE 2

Investment Analysis: Fill in Satisfaction Gaps

Investment Strategy	Products/ Features	Satisfaction Gap
Invest More $$$	**•New Account Opening** **•Online Help or Chat** **•Digital Vault** **•Budgeting & Reporting**	Customers are more ***dissatisfied*** than the bankers assume.
Invest More Where It Makes Sense $$	**•eStatement – (high satisfaction)** **•Product Selector Tool** •Retirement Planning (low satisfaction)	Customers and bankers have same level of satisfaction.
Maintain Investments $	•eBill Presentment & Payment •Bank Bill Presentment for Loans •Investments •Transfer Between Accounts •Account Aggregation	Customers are more ***satisfied*** than the bankers assume.

Source: Financial Insights, 2009

New Account Opening

Customers are not satisfied with the process for opening new accounts online. From our research, new account opening is the area with the largest gap between actual customer satisfaction and financial institutions' perception of customer satisfaction. Granted, with increased regulatory pressure, it will be a challenge to improve convenience while limiting exposure, but this is an area in which financial institutions should be investing more. The ability to attract new customers, or allow existing customers easy access to new accounts, will go a long way toward getting more low-cost deposit accounts. The technology exists; therefore, more banks should take advantage of automated online account opening and funding solutions.

Online Help and Chat Lead to Collaboration

Financial institutions have struggled with how best to support and provide bidirectional communication to their customers. While traditional call centers are an important part of providing good customer service, more consideration should be given to those who prefer to work exclusively online. The ability to share documents, allowing customers to provide data securely back and forth to prevent trips to the branch, would be looked upon favorably by online customers. Within applications, context-sensitive help can also be beneficial, but it needs to be up to date and easy to use. Even better, financial institutions should provide tutorial videos or audio clips to explain functions, features, or products. Videos or audio clips are also a terrific way to provide foreign language support.

Budgeting and Reporting

Web 2.0 is beyond being a buzzword; it represents the new standard for delivery of content. The next-generation online platforms have improved design and provide deeper budgeting and reporting capabilities. Allowing customers to more accurately forecast balances, provide visually appealing customized content, and generate real usable reports and balance projections resonates with today's banking customers. If financial institutions do not offer these online solutions, there are numerous non-financial players out there that are, including Intuit, Mint, Wesabe, and mvelopes.

eStatement Delivery

The operational efficiencies to the financial institution are probably reason enough to invest in estatement delivery. Survey results show, however, that trying to tie in saving the environment to accepting estatements is not effective. It is more effective to provide incentive to customers or show them the value of moving to estatements. This value can be in the form of increased security, ease of use, or special offers to customers who accept electronic delivery. The environmental angle is important and should not be neglected, but that is not the driver for the majority of customers in switching to estatements.

Product Selector Tools

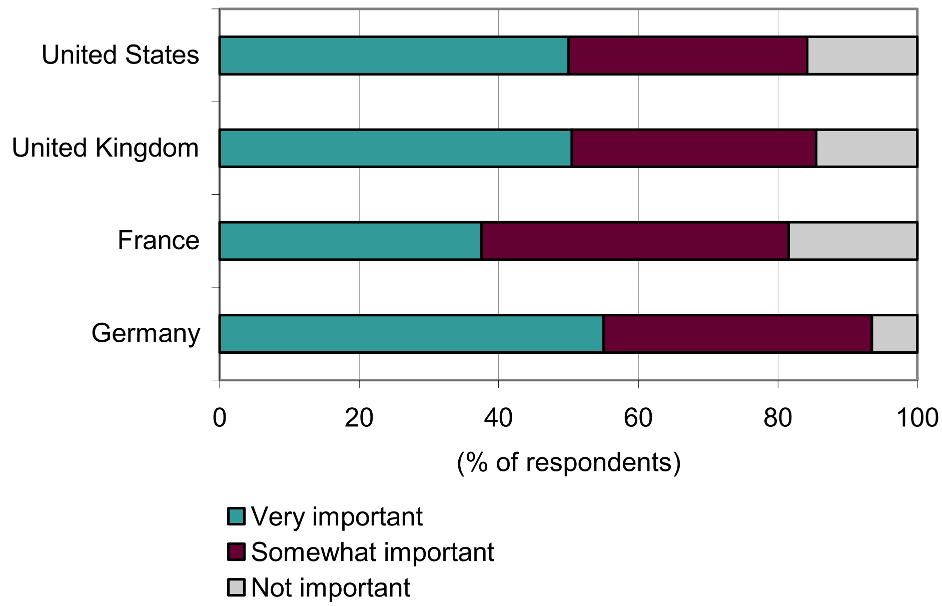
Ease of use and value-added results should be stressed when developing an online product selector. Customers may be wary of being driven to a product that benefits the financial institution more than them. This is where it is important that customers be given multiple options that clearly show the difference in rates, fees, terms, and conditions so that they can make a more educated decision.

Importance of Digital Services to Customer Retention

When looking across all digital services offered on the Internet — whether for shopping, travel, search, or news — consumers feel that financial services are offering digital services that meet or exceed those of other industries. Financial digital services were perceived to be superior by a ratio of 2:1 in Europe and 3:1 in the United States. Sentiment among customers is that digital services are very important in keeping them as clients (see Figure 3). In all countries, over 80% of respondents felt that digital services were either very or somewhat important in keeping them as a client. In Germany, that number was over 90%.

FIGURE 3

Importance of Digital Services in Keeping Customers



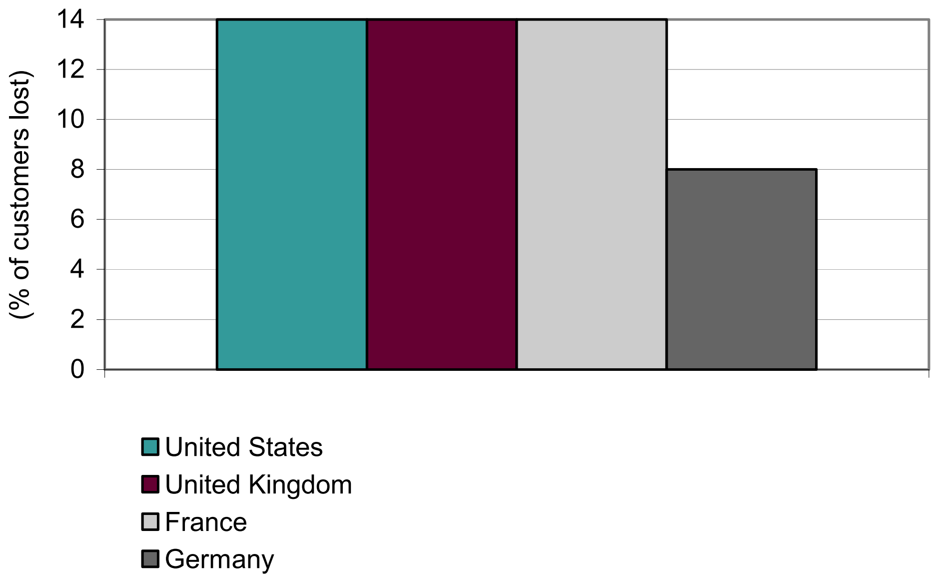
Source: Financial Insights, 2009

Consumers May Vote with Their Feet

Respondents were also asked whether or not they had closed an account primarily because of a lack of or poor digital services offered at their prior financial institution (see Figure 4). The fact that 14% of respondents in the United States, United Kingdom, and France had left should be a wake-up call for product managers. Customer attrition through a lack of technical offering will only be magnified as members of the digital generation (those born after 1980) become bank clients and look for financial institutions that cater to their product and technical needs. The Internet has become the great leveler of the playing field, and financial institutions that invest in the technology that is offered are more likely to retain existing customers and attract new customers.

FIGURE 4

Percentage of Clients Who Have Left a Bank Because of a Lack of or Poor Digital Services



Source: Financial Insights, 2009

Opportunities Exist — Marketing Is Key

Those financial institutions that had implemented a digital services solution overwhelmingly saw the solutions deliver on their promise of reducing costs, improving customer service, or increasing revenue opportunities. In the United States, for example, 15% of customers who are currently banking online are not using any other digital services. Some customers do not even know if their bank offers these services, and while some (see Table 1) would consider using digital services, others just have not gotten around to it. Unless these customers see the value of adopting additional digital services, they may be content with the traditional delivery channels. In France, where satisfaction levels generally were lower than those of the other countries surveyed, usage of digital services was noticeably lower. This trend may be attributed in part to the nature of banking in France, which is generally more conservative than that of the other countries surveyed.

TABLE 1

Opportunity Exists for Customers Not Currently Using Digital Services

	United States (n = 400)	United Kingdom (n = 200)	France (n = 200)	Germany (n = 200)
% not using digital services	28	33	53	25
% who would consider using digital services	15	11	8	4

Source: Financial Insights, 2009

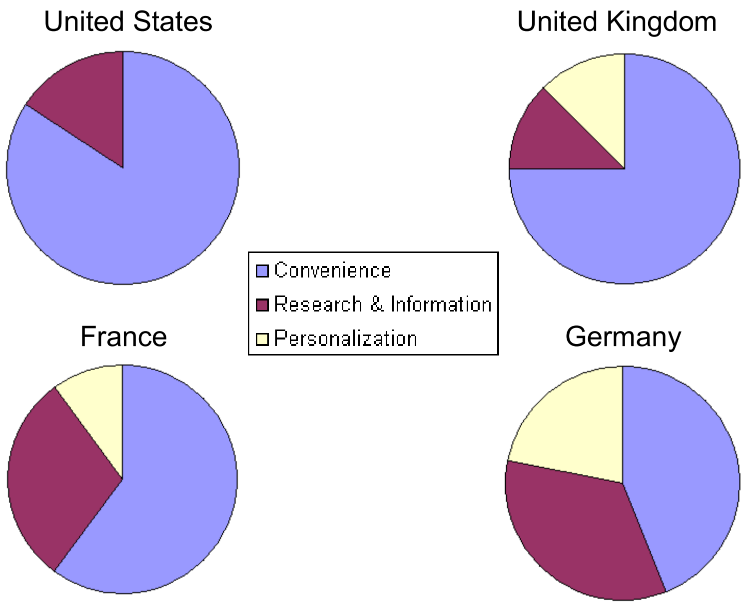
To attract existing customers who are contemplating the services, financial institutions might find it worthwhile to provide incentives such as reduced loan rates, better deposit rates, or free cash to use digital services. In addition, aggressive and potentially nontraditional marketing efforts may also be worthwhile. PNC's launch of its Virtual Wallet product in the summer of 2008 had a unique marketing approach that appealed to Gen Y demographics. Interactive videos, new terminology for banking transactions such as "punching the pig" for transferring money into a savings account, and "danger days" when funds are getting low are just some of the unique ways PNC is promoting its digital platforms.

Security Is a Given, Convenience Is True Value-Add

Globally, security remains the most important component for digital services. In fact, 90% of all respondents worldwide felt that security was the most important component. If we take security as table stakes, then the story becomes more interesting. Convenience was cited most often by consumers as a primary driver for utilizing digital services (see Figure 5). In the United States, the United Kingdom, and France, half of all respondents would have chosen convenience as their number 1 benefit excluding security. Convenience means reducing the barriers that prevent customers from interacting with their financial institution. This can be in the form of opening new accounts, onboarding for new services, or collaborating through a secure channel — however it is done, it needs to be perceived as being done on the customers' terms.

FIGURE 5

Security as a Given — What Else Is Important About Digital Services to Consumers?



Source: Financial Insights, 2009

One finding common across all countries was that going green may be trendy, but it does not seem to resonate with consumers. The environmental benefits are a beneficial by-product of offering a more secure and convenient delivery mechanism, but they are not reason alone for customers to embrace digital services. Financial institutions should make more of an effort to improve the experience for their customers rather than focus on the cost and environmental benefits.

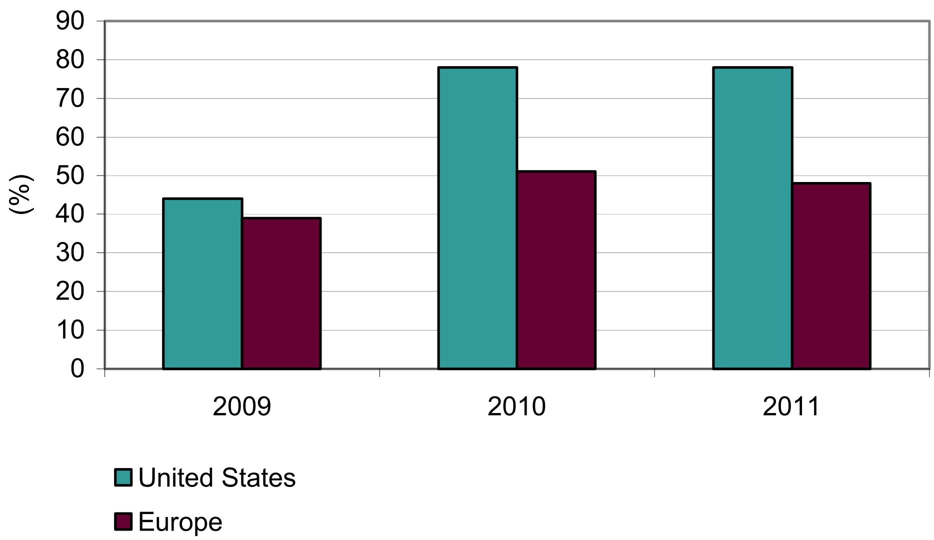
FUTURE OUTLOOK

Financial Institutions' Investment Horizon

Financial Insights is projecting a 4% decline in IT spending compared with adjusted 2008 levels for the North American banking industry. For the forecast period between 2007 and 2012, spending will fall with a -1.5% CAGR. Bright spots will be innovative projects focused on customer experience and acquisition as well as investment in the online and mobile channels. Figure 6 illustrates that both U.S. and European financial institutions are taking a more aggressive approach and will be investing a larger percentage in digital services over the next three years. 2010 appears to be the breakout year for investments, which means that the budget planning process may have already started and that financial institutions that do not act quickly may find themselves in a rapid game of catch up.

FIGURE 6

Percentage of Banks Whose Investment in Digital Services Will Increase



Source: Financial Insights, 2009

CONCLUSION

The adoption of digital services continues to grow, and financial institutions recognize the need to invest in this channel. While there is currently little appetite for large transformation projects, the ROI for digital services should appeal to most CIOs and CFOs. Cost savings, improved efficiency, and strong security all play into the strengths of digital services. As financial institutions' time lines for recognizing payback for their investments continue to shrink, Financial Insights feels that cost/benefit analysis around digital services will be favorable and worthy of budget dollars. Driving customers to low-cost delivery channels while maintaining favorable satisfaction levels is just good business. Satisfied customers stay with their financial institution during both good times and bad times.

METHODOLOGY

Financial Insights conducted hundreds of online surveys in early 2009, both in the United States and in Europe. We also interviewed financial institutions for more in-depth analysis (see Table 2).

TABLE 2

Digital Services Survey Sizes

	United States	United Kingdom	France	Germany
Consumer surveys	400	200	200	200
Bank interviews	9	8	6	6

Source: Financial Insights, 2009

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