How Banks Can Generate More Revenue and Profit by Enabling Customer Centricity

Customer centricity is not a new concept. For the past 15 years, banks have been talking about overcoming the barriers of account-centricity and enabling a 360 degree view of the customer to drive their operations. However, executives have found it is far more difficult to put customer centricity into action than it is to prescribe a customer-centric strategy. Account-centric systems and a focus on growth through mergers and acquisitions have made it difficult to evolve operations from revolving around accounts to revolving around customers. This executive brief explains how banks can generate more revenue and profit by enabling customer centricity and empowering employees with a complete view of a customer’s relationship across the bank.

Why Is Customer Centricity Important?

If banks, and other financial institutions, fail to successfully enable a customer-centric approach, they forgo the opportunity to generate significantly more revenue and establish a compelling competitive advantage by more effectively serving customers. Why is customer centricity important? Let’s examine this question from the points of view of the customer and the bank:

- The customer uses a mix of financial products, which are usually modified during his or her life from young adulthood until the end of life. These needs involve a wide range of financial services, as Figure 1 illustrates. Customers often think of financial products as commodities and they have lots of choices from which to pick as their needs evolve.

- Every financial institution realizes there is stiff competition for the customer’s business. The competitive landscape is in constant flux. Many companies try to meet customer needs and fail. In the U.S. market alone, the number of FDIC-insured institutions declined from just over 18,000 in 1984 to just over 7,000 at the end of 2009. Credit unions also declined from more than 15,000 in 1984 to only 7,800 today.

- Banks face significant obstacles: the number of customers is finite and growing very slowly, customer loyalty to financial institutions is low, and acquiring new customers is expensive.

Two measures showcase the power of successfully enabling customer centricity: decreasing the rate of customer attrition and increasing the share of wallet served by a bank. Operational success is marked by empowered employees who are no longer restricted in a business silo, eliminating manual searches for information needed to serve customers, and achieving the strategic potential associated with fulfilling each customer’s needs as they evolve.
How Big Is the Customer’s Financial Wallet?

The range of financial services depicted in Figure 1 encompasses the retail customer’s financial wallet and its four primary dimensions: deposit transactions/payments, credit services, investments, and protection/planning. Each has its own method for generating revenue and profit from the customer. In the United States, total consumer spending for all financial services was $1.1 trillion in 2008, lead by credit services ($473 billion) and protection/planning ($418 billion). Transactions/payments and investments account for a combined total of $209 billion. The size of the consumer’s financial wallet declined in 2008. During periods of normal economic growth, it expands at less than 4 percent per year.

- **Deposit transactions and payments** charge separate fees (monthly account fees, per transaction fees) for each type of service

- **Credit services** charge interest expense per loan as well as a wide range of fees, depending on the circumstance (e.g., origination fees for new loans; late fees for delinquent loans)

- **Investments** charge commission fees (trading stocks, bonds, some mutual funds), asset management fees (mutual funds, managed accounts), and trust account fees (per trust, per transaction fees) among others

- **Protection and planning services** charge premiums for a range of insurance products covering both life and property/casualty policies while financial advisors charge fees for estate and financial planning services

The Consumer’s Financial Services Wallet

<table>
<thead>
<tr>
<th>Protection &amp; Planning</th>
<th>Deposit Transactions and Payments</th>
<th>Credit Services</th>
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</thead>
<tbody>
<tr>
<td>38% ($418b)</td>
<td>8% ($83b)</td>
<td>43% ($473b)</td>
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Figure 1 illustrates the range of financial services that encompass the retail consumer’s financial wallet. Consumers spend about $1.1 Trillion per year on various financial services.
Capturing the Lifecycle Potential for Each Customer

The ability to capitalize on a customer’s lifecycle potential, which changes over time, is a key driver for enabling customer centricity. Financial institutions can generate more revenue and profit by guiding customers throughout their lifecycle and helping them navigate through multiple purchase decisions by offering the best product based on their current needs.

The aggregate effect of building a long-term customer relationship will lower acquisition costs, reduce attrition, and increase revenue and profits because the bank has helped create the best match between customer needs and the bank’s offerings. However, this long-term customer relationship approach can only be executed if employees have a customer-centric view rather than a product-centric view. Answering the questions below will provide bankers with a quick analysis of their customer-centric readiness:

- Do employees have easy access to a complete view of a customer’s relationships across the bank?
- Does the management team believe every customer has lifetime potential?
- Can your bank create “customer plans” by the thousands or millions?
- Can employees analyze variations at the customer plan level?

Multigenerational Lifecycle Potential Is Exponential

Harnessing the power of compounding, banks that capture the lifecycle potential of first-generation customers position themselves favorably for realizing the exponential value of creating long and profitable relationships with the second and third generations of customers. In addition, this approach can be broadened to include immediate and extended family members, business partners, and friends.

Figure 2 displays three generations of customers mapped against a set of financial products that are normally purchased and used during a customer’s lifetime. Each generation’s purchase and usage activity is a potential customer plan for your bank. The second generation’s lifecycle potential is given by its length and the types of financial products it uses. The third generation’s lifecycle potential is calculated by multiplying the second generation’s length and the types of financial products it uses.
generation uses financial products with the guidance of the parents (e.g., savings accounts, auto insurance) before reaching young adulthood. The third generation will follow a similar adoption cycle. The final lifecycle stage of the first generation will be the transfer of wealth to second or third generations. Without a customer-centric view, banks cannot begin to capitalize on the multigenerational potential of their customers in any systematic and scalable way.

Merrill Lynch Wealth Management successfully operationalized its customer centricity capabilities through its “Client Experience Data Program.” Merrill Lynch empowered employees with direct access to a complete view of its customers, its products and services, and an extended view into the value of the relationships. This program increased the productivity of 16,000 financial advisors by 30 percent, generating $50 million of additional revenue per year and increasing the lifetime value of its clients.

Wells Fargo, which is committed to serving all four dimensions of the customer’s wallet, is the banking industry “wallet share” leader. The bank has been measuring multiproduct usage at the customer level since 1993. The average Wells Fargo retail customer product usage ratio ended 2009 at 5.95 up from 5.5 in 2007 and less than 3.5 in 1993. Wells Fargo quickly implemented its operating model after its Wachovia acquisition. The customer product usage growth rate among former Wachovia customers, while lower, is catching up to the Wells Fargo level before the acquisition. Former Wachovia colleagues report that the customer-level analytics and merged bank’s operational execution are far superior to its former systems and processes.

**Conclusion: Essential Guidance for Bankers**

Despite the importance of enabling customer centricity across the bank, it is no easy task from an IT standpoint primarily due to account-centric systems and, in many cases, the inherited operational limits tied to M&A integration challenges. Only a few leading financial institutions have successfully enabled customer centricity.

To successfully put a customer-centric approach into action, banks must explore how technology solutions such as master data management can overcome the barriers of account-centric systems. Banks should start with a plan that is based on small incremental steps each of which delivers improved capability and business value.
For example one step might develop and test customer-centric business processes that include integrated customer analytics and business metrics. Pursuing a flexible, enterprise-wide approach will enable a bank to share and use customer data that:

- accurately integrates customer data with these business processes;
- extends the processes’ value into actionable decisions implemented by staff (e.g., branch, personal bankers) and the self-service channels used by customers; and
- consistently measures customer wallet share.

About the Author

With experience in the financial services industry that spans over thirty years, Bill Bradway has served in senior executive roles in banking, consulting, and research. His experience as a banker covered a wide range of senior level responsibilities including several lines of business and IT. As a senior industry analyst, he pioneered industry-specific research on retail and commercial bank applications, including how institutions pursued CRM strategies and IT solutions. He has authored more than 200 research reports and completed over 60 industry-specific custom research and consulting projects for both institutions and IT vendors.

About Bradway Research

Bradway Research LLC is focused on analyzing the strategies and IT investments that impact in the performance of banks and other financial institutions.

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