Tailoring the data driven customer experience
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Executive summary

The European banking market continues to evolve rapidly – in fact, so rapidly that some banks are struggling to keep up. EY and Efma want to help banks address these challenges. Our collaboration, focused on the customer experience in banking, is now in its third year.

In 2014, we examined banking from the customer point of view, identifying the drivers of satisfaction, retention and advocacy. In 2015, we conducted a pilot project that tested a framework for integrating internal data with customer opinions.

In this paper we compare and contrast the views of consumers with the experience of bankers. Our goal is to provide a roadmap for banks looking to harness the power of customer data and take their customer experiences to the next level. To meet that goal, we draw on EY’s 2016 Global Consumer Banking Survey and in-depth interviews with a number of customer experience leaders from major European banks.

Our findings are that:
1. Technological disruption, regulatory change and customer evolution are threatening the relevance of European banks.
2. Banks need to maintain ownership of the customer relationship to avoid commoditisation, and can take inspiration from other industries.
3. Banks face many obstacles to making the best use of their customer data.
4. Understanding the complexity of customers’ needs, preferences and capabilities is crucial.
5. Customer data analytics (CDA) is fundamental to delivering tailored customer experiences.
6. A life events-driven marketing campaign is a valuable and pragmatic way to apply CDA.
7. To extract full value from CDA, banks may need to consider changing internal and external structures.

In our view, the ability to deliver tailored customer experiences represents the surest route to sustainable profitability for European banks. Becoming a customer experience winner means using CDA to achieve ‘experience governance’ and deliver tailored customer journeys. In contrast, losers will fail to understand their customers’ complex needs and will only succeed in providing them with ‘experience anarchy’.

Banks that can deliver high quality experiences will be able to defend and strengthen their customer relationships, fighting off the threat from technology-enabled entrants. That in turn will allow them to use their traditional strengths such as distribution, financial expertise, product range and human advice to grow their revenues. For European banks, the threats are significant – but so is the prize.

We hope that readers find this paper informative and useful, and would like to thank the bankers who generously contributed their time and insights. We would, of course, be delighted to hear your views.

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Unprecedented disruption is threatening the relevance of European banks

EY interviewed more than 55,000 customers in 32 countries for its 2016 Global Consumer Banking Survey. The survey shows that the European retail banking industry faces some major challenges that threaten to erode its relevance to customers. Some of the most important threats are:

- **Customer expectation evolution.** Technology leaders such as Alphabet, Apple, Facebook and Amazon (AAFA) are setting the standard for customer experiences in many industries. These companies not only provide unprecedented accessibility and convenience, but also create an emotional bond with their customers. This represents a direct threat to incumbent banks, few of which can boast the same mastery of technology. Our survey shows that four of the top five reasons that banking customers consider switching to a non-bank provider relate to customer experience.

- **FinTech disruption.** FinTechs are increasingly able to disrupt European banking markets. Their ability to provide simple, intuitive experiences is highly appealing to ‘digital natives’, especially Millennials. Compared with just two to three years ago, FinTechs also face much lower barriers to entry. They enjoy rapid inflows of investment capital; support from governments and regulators - such as the UK’s Project Innovate - and falling costs of entry. FinTechs are entering regulated markets and moving across European borders. They offer services that most banks cannot, for example by blending online chat with payments. As more consumers turn to multi-banking, FinTechs that provide customers with a consolidated view will have an additional advantage over incumbents.

- **Erosion of trust.** Many European banks think that their trustworthiness will be sufficient to retain customers, but this may not be true anymore. Although most customers continue to trust their primary bank, their confidence in the industry is less than impressive. For example, 22% have little or no faith that banks will provide them with unbiased advice. Customers trust new entrants such as technology firms, online retailers and social networks as much as their primary banks – if not more.

- **Regulatory upheaval.** The approach of the European Union’s second Payment Services Directive (PSD2) threatens to open up the ‘plumbing’ of European payments markets, exposing incumbents to greater competition from other banks and non-banks alike.

The effect of these threats is stark. European customers are increasingly looking beyond traditional providers for their banking needs. In fact, one in ten now consider non-financial companies as being among their primary providers of financial services.

True, there is some good news for consolidated players. Many customers still prefer to seek out traditional banks for more complex products such as mortgages. For now at least, bankers feel less threatened by FinTechs in these areas. But that is a limited source of consolation. Looking ahead, 34% of global consumers believe that there will eventually be no need for traditional banks at all. As one banker put it:

“Feedback systems show that in some cases, the customers we lose think their financial needs are elementary and can therefore be served by a digital bank. Actually, while they probably have simple needs today, their needs will evolve throughout their life and they will build tomorrow’s customer base.”

Francesca Nieddu, Head of CRM and Customer Experience, Intesa Sanpaolo

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1 The study conducted 25,466 online interviews with nationally representative samples of the banked online population across 16 European countries.
Banks need to respond, and should look to other sectors for inspiration

The evolution of technology and the fast-changing dynamics of consumer behaviour are putting European banks in a dangerous position. If they are to avoid being permanently devalued in the eyes of customers, banks need to maintain ownership of the customer relationship. Banks that cannot build strong engagement with their customers risk being commoditised and reduced to utility status. Such a loss of relationship will inevitably lead to less loyalty, higher churn and, ultimately, lower revenues.

Banks seeking inspiration can emulate their own customers by looking beyond the traditional limits of their sector. Digitally native companies\(^2\) illustrate the type of customer experience models that banks should aim for, but traditional industries can also provide inspiration. Many of our interviewees stated that they are looking at companies in other sectors for ideas. Some are also seeking to develop external partnerships, for example with technology or telecoms companies.

*“First I would look at pure retailers who know marketing inside out; I think this is still the core of how to delight and manage customers’ behaviour and experience”*
Stefan Winkler, Head of Sales and Distribution, Raiffeisen Bank International

*“We could get inspiration from the travel industry – their destinations management could be a model for financial solutions management instead of product management”*
Irena Cuk, General Manager CRM & Marketing, Nova Ljubljanska Banka

Looking beyond traditional sector borders is not just a valuable way for banks to learn from customer experience experts. It is also vital to avoid being left behind by the rapid evolution of technology. Banks need to stay in touch with technology leaders, whose innovations are constantly changing the digital landscape, if they are to have a hope of holding onto high quality customer relationships.

*“More than looking at other industries, we are urged to constantly maintain an ecosystem with AAFA’s because the vastness of their customer base and their reach into the everyday lives of customers puts them constantly in the position to set new standards and change the rules of the game for everyone else. When Apple pops up with the TouchID, there’s no option but to adopt, and fast”*
Antonio Fratta Pasini, Head of Multichannel & CRM, CheBanca!

Unfortunately, many banks face significant customer data obstacles

If banks are to deliver the sort of customer experiences that other industries provide, most will need to understand their own customers far better than at present. This provides the starting point from which banks can go on to design and deliver pro-active customer experiences. Banks need the ability to develop a single customer view, but face a number of major challenges when it comes to gathering, standardising and analysing customer data. Drawing together customer data from all systems represents the ideal approach, but it will be hard for many banks to emulate the success of industry leaders:

*“Most banks are not able to build a single customer view from the data in their systems, because they are siloed. Those who don’t lose important insight capabilities to serve customers and to make their insights fully actionable.”*
Francesca Nieddu, Head of CRM and Customer Experience, Intesa Sanpaolo

These data problems will not be easy for banks to overcome. The gradual automation of recent decades means that banks actually have fewer customer touch points – and therefore fewer data points – than in the past. At the same time, new entrants from other industries have developed a powerful flow of data points from their digital interactions with customers.

\(^2\) Both high profile companies (AAFA) and smaller companies where the user experience is delivered primarily via digital channels.
As a result, many banks today find themselves in a “no man’s land”. They have not managed to retain the high quality, insightful customer interactions that professionals such as accountants or wealth advisors enjoy. Nor do they have access to the high volume data gathered by digital experts. Furthermore, when banks do have insightful interactions with their customers – such as when branch advisors meet customers face to face – it is difficult for them to turn that contact into standardised data suitable for use in data analytics.

“Banks are used to getting insight from the customer once he is sitting in front of an advisor at the desk. The problem is, nowadays most customers would never sit there, not even to open an account, so it is important we look to translate this active knowledge processes.”

Stefan Winkler, Head of Sales and Distribution, Raiffeisen Bank International

Finally, a large proportion of banks’ customer base is ‘hiding’, putting them beyond the reach of existing data analytics. Banks need to work hard to understand this group if they are to avoid a customer dialogue paradox: Talking repeatedly to a small group, while a large part of the client base remains out of touch. That can mislead banks into basing their decisions on the view of a small, self-selecting group of customers.

“We measure Net Promoter Score and we close the loop asking relationship managers to contact all respondents. In this way we work every day to improve our service capabilities and liaise with customers.”

Francesca Nieddu, Head of CRM and Customer Experience, Intesa Sanpaolo

Banks need to understand the complexity of their customer base

Drawing on the global survey, EY has devised a ‘Maturity Matrix’ to give banks a new way to view the characteristics of their customer base. This shows that the links between customers’ financial and digital behaviour are far from straightforward. The matrix challenges commonly held assumptions that all customers are migrating to digital channels, or that there is a nexus between financial acumen and digital aptitude (see Figure 1).

Figure 1: EY customer banking maturity matrix

![Maturity Matrix Diagram]

Source: EY Global Consumer Banking Survey 2016
The matrix helps banks to understand how varied their customers’ preferences are. For example, only 16% of our global survey sample consider themselves to be both digitally and financially savvy. This is the customer group whose expectations are developing at the fastest rate. They are ideally placed to make the best use of digital banking services, but are also increasingly open to buying financial products and services from non-financial companies.

In contrast, more than twice as many customers are digitally savvy but less confident in their own financial capabilities (37%). This is a poorly serviced customer group because although they want to interact with the bank via digital, they need better advice and more hand holding through digital channels than is currently available in the market.

At the opposite end of the matrix, another large contingent of customers (36%) considers themselves to be neither digitally nor financially savvy. All in all, nearly half of all customers (47%) are not confident users of digital technology. Serving these customers in a cost-effective way is a major challenge. So too is capturing data from this group in a standardised way that lends itself to subsequent data analysis.

“We have to work on every channel and try to understand the particularity of each channel, but we also have to be cross channel because customers are not on each channel and we must build this transversal point of view”

Aleix Escassi Pascual, Head of Customer Experience, Banco Sabadell

The diversity of customer behaviour illustrates the complexity of the customer experience challenge for consolidated banks. Unlike FinTechs – whose customers are all, by definition, digitally savvy – banks need to maintain the ability to deliver human interactions. Nor can they simply divide their customers into ‘digitals’ and ‘the rest’. The majority of digitally savvy consumers still like to speak to an advisor on particular occasions (see Figure 2). For example, while 65% of customers think that it is highly important for a bank to have a digital presence, 60% also feel that a physical presence matters.

![Figure 2: Customer engagement – the need for multiple touchpoints](source: EY Global Consumer Banking Survey 2016)
In other words, banks need to offer customers multiple touch points – and it seems likely that this will remain true in the future. This is not only costly. It also adds to the complex challenges of banks’ data management and customer experience design.

“It does not matter how far the digital experience goes, it will always be necessary for the customer to interface with a physical advisor. That is why bank branches will always exist”
Stefan Winkler, Head of Sales and Distribution, Raiffeisen Bank International

“We not only want our customers to know that we are here should they need it, we also want them to get used to our presence in their everyday lives. As a partner, it’s natural for customers to turn to us when needs arise”
Francesca Nieddu, Head of CRM and Customer Experience, Intesa Sanpaolo

Customer data analytics is fundamental to improving customer experiences

We believe that the best way for European banks to respond to the threats and obstacles they face is to use CDA to deliver better customer experiences. The first step is to improve the quality of the customer data they hold. Banks have two broad options open to them here. The first is simply to ask customers for more data about themselves, and this is an option that many of our interviewees’ banks favour.

“The best data to collect is demographic, financial and behavioural as it will predict future purchases and life time customer value”
Irena Cuk, General Manager CRM & Marketing, Nova Ljubljanska Banka

Of course interviews, Q&A or full questionnaires are demanding of customers’ time. However, several bankers we interviewed feel that many customers are happy to share their views if it leads to them receiving a more tailored service. Our survey shows that ‘digital stars’ are particularly willing to share data in exchange for better experiences. Independent research reinforces this view, and suggests that customers are more willing to share their personal data than many banks may think. One recent report shows that only 17% of US consumers are wholly unwilling to share data, while another suggests that most would be willing to share personal data in exchange for cash benefits, discounts or loyalty rewards.

“I would opt for asking [for data] whenever I am able to show clearly to the client the reason why I am asking and what he or she gets by answering. Banks should start to treat clients like adults before someone else does”
Antonio Fratta Pasini, Head of Multichannel & CRM, CheBanca!

The second option for banks is to make better use of the data they already hold, or can acquire from third parties. Data mining holds out huge promise for those that can get it right - the prize is to acquire far-reaching knowledge and insight with less customer intrusion. Set against that, digital mining is expensive and is still proving its worth in banking. It also requires careful management to ensure that banks do not infringe on privacy restrictions.

Improving the quantity and quality of customer data is only the start. The ultimate goal is for banks to harness CDA to deliver pro-active customer experiences. That means establishing a direct link between raw customer data and the creation of personalised experiences that drive stronger loyalty and higher revenues (see Figure 3).
CDA allows banks to develop those links, by obtaining sound insights and helping banks to act on them in the best possible way. Applied to different functions, CDA can tell banks who their customers are, what they are doing, what they want and how banks should interact with them. For example, by integrating and analysing internal data from CRM platforms and external data from customers, CDA allows banks to build a catalogue of customer personas. Those personas can then be used to understand customer lifecycles, build customer journeys and empower superior customer experiences.

“We have the ambition to assign each customer to a particular persona with specific life cycle events. For each important event a customer journey map will enable us to measure and improve customer experience”
Irena Cuk, General Manager CRM & Marketing, Nova Ljubljanska Banka

Understanding customer lifecycles should be at the core of predictive analytics

We believe that a life events-driven campaign is a particularly valuable way for banks to leverage their understanding of customers and improve experiences. It provides a practical framework to identify the events that have the greatest impact on customers’ lives and drive the bulk of their financial choices. Those events range from the relatively minor, such as a holiday or job change, to the highly significant – like marriage, divorce or the birth of a child.

Life events are of paramount importance for effective marketing, because customers going through the same events are likely to be more similar in their financial behaviour than customers with the same demographic features. Identifying and even predicting life events should be at the heart of banks’ efforts to analyse customer data, strengthen customer relationships and increase revenue.

EY has developed a life events-driven campaign platform that works in compliance with privacy and data control regulations to provide targeted marketing, based on the detection and prediction of major life events. The platform leverages data collected from customers’ social media activity, matches them with real identities from banks’ CRM systems, and uses advanced analytics to predict and identify customers’ life events (see Figure 4).
Advanced analytics is a crucial element of a life events-driven campaign. It comprises several elements:

- Machine learning – to learn the correlation between different features of customer behaviour
- Text mining – to extract relevant information from unstructured textual data such as user posts
- Stream analysis – to process the data flow as it arrives in a continuous stream
- Semantic analysis – to identify and extract the life cycle significance of items in the text

Rapid advances in computing power and analytic capabilities mean that some banks are already extracting significant value from lifecycle focused programmes of CDA.

How can banks put these insights into action – now and in the future?

The insights created by a life events-driven campaign are of limited use if banks are unable to translate them into action. Unfortunately, many banks have a fragmented customer view, which makes it hard to grasp insight, let alone make it actionable. It is not unusual to find inside-out customer views in one silo (the CRM function), outside-in customer experience perspectives in another, and responsibility for customer dialogue or channel management in a third.

A single point of control with responsibility for customer experiences can help banks to derive optimum value from CDA. In a truly customer experience centred bank, a Chief Customer Manager (CCM) can orchestrate internal data, external data, channel management and customer experience design. The CCM is best placed to make a connection between the measurement of customer experience, the design of customer journeys and the delivery of the bank’s capabilities.

“For a multichannel data driven bank, analytics are the blood and customer dialogue are the veins. It would be really unwise not to manage it as a single organisational entity. We have loads of customers whose relationship with the bank is purely CRM driven”
Antonio Fratta Pasini, Head of Multichannel & CRM, CheBanca!
Looking ahead, banks may be tempted to ask whether there are any other ways for them to monetise their understanding of customer data. One possibility is to charge customers for the highly valued ‘soft’ aspects of their experience, such as accessibility and reliability. These factors represent the bulk of customer experiences delivered, and a large slice of banks’ costs to serve. Unlike tangible features such as products, transactions or advice, these elements are not usually priced separately. Even so, most bankers consider that this is unlikely to be a practical option for the foreseeable future.

Nonetheless, there may be other ways for banks to extract greater value from customer data – not only for themselves, but also for customers.

**PSD2 and open banking: threats or opportunities?**

The rapid change in regulatory framework is enabling new players to enter the financial services sector, intermediating the relationship between customers and banks, and consequently the flow of data.

This is the case for UK banks, where the UK’s Competition Markets Authority, through their retail banking market investigation, has mandated the delivery of open banking. By 2018, the largest banks in the UK will have to develop an open application programming interface (API) standard and create open APIs to facilitate data sharing in the banking industry. In this new environment, customers will take control of their financial data, with the possibility to share information with third parties in return for value-added propositions.

This will require banks to establish transformational programs to comply with incoming regulations and be aware of parallel and overlapping regulations, including the revised payment services directive – PSD2.

Access to accounts (XS2A) is one of the six main challenges that can be distilled from the PSD2 legislation, allowing other parties to use data from banking platforms. This is the case for account information service providers who will integrate financial data from multiple account service payment service providers and present it in one single dashboard. Some banks may seize the opportunity to develop dashboards to integrate broader sets of customer data and enhance customer understanding. For those that don’t, the main threat for banks is the potential to lose valuable customer insights through disintermediation of the customer relationship.

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**Figure 5: Access to accounts (XS2A)**

<table>
<thead>
<tr>
<th>Current situation</th>
<th>Potential future state</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank consumer</td>
<td>Bank consumer</td>
</tr>
<tr>
<td>Consumer</td>
<td>Consumer</td>
</tr>
<tr>
<td>Customer transaction data:</td>
<td>Customer transaction data:</td>
</tr>
<tr>
<td>• New clothes €150</td>
<td>• New clothes €150</td>
</tr>
<tr>
<td>• Restaurant €100</td>
<td>• Restaurant €100</td>
</tr>
<tr>
<td>• Television €650</td>
<td>• Television €650</td>
</tr>
</tbody>
</table>

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- [Bank consumer](#)
- [Consumer](#)
- [Bank account](#)
- [Payment initiating service provider (PISP)](#)
- [XS2A](#)
Delivering tailored customer experiences will help banks face these radical shifts, allowing them to compete with new third-party providers by aggregating financial data from multiple account servicing payment service providers.

This is not the only opportunity banks can seize; open banking, new data availability and push payment are identifying new use cases for retail and SME banking, such as those synthetically represented below.

Figure 6: Illustrative retail and SME banking use cases

- Real-time performance tracking
- Real-time reconciliations
- Programmable expensing
- Auto-invoice discounting
- Liquidity sweeping
- Event-based notifications
- Fraud detection
- Pre-eligibility checker
- Auto-applications
- Paperless know your customer (KYC)

**Inform and manage**
- API-led aggregation
- Spending transparency
- Master account management
- Recommendation engineers
- Midata via APIs
- Program and automate
- Overdraft surfing
- Account sweeping
- Programmable money
- Personalised lending
- On-demand and predictive credit

**Compare and recommend**
- Product recommendation engineers
- Midata for business accounts
- Targeted deals and offers
- **Understand and personalise**
- Predictive working capital
- Cheaper international payments
- Cheaper foreign exchange (FX)

SME banking
Retail banking
Conclusion

Defence is the best form of attack for European banks. Faced with exceptional levels of disruption, banks need to take their customer experiences to a new level.

In our view, that means using CDA to enhance banks’ understanding of customer behaviour and preferences; develop personas; design customer journeys; and deliver pro-active marketing tailored to the circumstances of individual customers. In our view, a life events-driven campaign represents a pragmatic, valuable way to put CDA into action.

An approach like this allows banks to go from delivering incidental journeys – where excessive choice gives confused customers an impression of ‘experience anarchy’ – to intentional journeys where the bank can use ‘experience governance’ to deliver a tailored customer journey.

It is a tall order for incumbent banks to compete head-on with FinTechs and other new entrants. In some ways, they start at a disadvantage. They need to serve all their customers, not just the digitally savvy ones. Many face significant obstacles, such as patchy and inconsistent data, fragmented technology, silo structures or the lack of a truly customer-centric culture. And of course no bank has a limitless supply of skills or investment capital.

On the upside, many banks are increasingly aware of the possibilities that emerging technology is creating, most notably in advanced analytics. Banks are also becoming more open to partnering with other companies with complementary capabilities. And they remain customers’ preferred suppliers for more complex services.

European banks that develop the ability to deliver pro-active customer experiences will not only reclaim their traditional position at the centre of their customers’ lives. They will also be ready to respond to future developments in technology and customer behaviour.
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About us

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