For Effective Digital Banking Channels, Put Customers First
(Part II of III)

The mandate is clear for banks: Know thy customer, and develop more meaningful – and profitable – relationships.
Executive Summary

To build and fortify customer relationships – and generate long-term profits – banks need to view customers as individuals rather than as a series of disparate accounts. To do that, they need to develop sophisticated data analytics capabilities that lead to meaningful action. Specifically, they need to mine and aggregate customer interaction and transactional data from all bank channels and social media, make meaning from it and then develop tailored offerings and services that suit each consumer’s preferences and needs. It’s what we call Code Halo™ thinking,1 in which businesses focus on creating unique virtual identities from the digital data swirling around people, processes, organizations and devices.

Banking’s typically siloed processes have hampered the industry’s efforts to deliver consistent customer experiences. But with digital channels playing an increasingly important role in banks’ overall customer experience, cultivating consistent, reliable and customer-focused online and mobile channels is a must. It’s no longer an option.

To drive the customer journey, banks need to develop techniques to derive customer insight, such as customer personas and journey maps, to better understand customer behavior and deliver critical outcomes.

Successful customer-centric initiatives typically proceed as follows:

• Evangelize the need for increased customer insight and the types of data and process sharing required to deliver it.

• Determine potential sources of data from all channels.
• Assess the organizational changes, such as retraining or functional role modifications, that are required to support the objectives.

• Review existing technology against short- and long-term objectives, and determine the required changes.

• Examine must-have analytics capabilities and tools.

This white paper, the second in our three-part series on the bank of the future, reveals how banks can embrace customers as individuals – and prepare their organizations for success. (For more insight, read our first installment, “Digital Banking: Enhancing Customer Experience; Generating Long-Term Loyalty.”)
Banking Customers: Reaching the Individuals Behind the Numbers

When banks began tracking customers as account numbers, it made eminent sense. But that was before those account numbers shopped online and shared their likes, dislikes, accomplishments and setbacks on social media. Today’s bank customers deposit checks by snapping photos with their smartphones. They spend Bitcoin. Their lives revolve around digital technology.

Bank customers have changed. Now it’s the industry’s turn.

For banks, building customer relationships – and long-term profits – means acquiring a central view of customers. Instead of seeing them as a series of disparate accounts containing various transactions, banks need to take a holistic view. And that extends beyond pure demographic profiling. It requires a deep understanding of what makes each customer click as a human being: their needs, wants, desires and preferences for banking.

Getting there requires a new set of disciplines and IT-business capabilities that distills and applies unique customer attributes, gleaned from customer Code Halos, to help banks create segments of one.

Customer centricity is a strategic pivot for banks that enables them to provide a satisfying customer experience – and to grow. What’s required to make the shift? First and foremost is data. Mining and aggregating customer interaction and transactional data from all bank channels is key. Equally important is marshaling consumers’ online data – their unique virtual identity, or personal Code Halo – and delivering tailored offerings that spur loyalty and increase share of wallet.

Here’s how banks put the new data to work: Customer interactions with social media and mobile geolocations, for instance, provide qualitative and quantitative attributes that banks can track and analyze to extract insights. By blending these insights with transactional data from their own systems of record and aggregated third-party information, banks can treat customers to a unique, curated experience that extends beyond their account numbers (see sidebar, next page).

The Truth about Digital Adoption

Like all businesses, banks are taking their cue from the revolution in consumer electronics. While banks worked to recover from the financial crisis, technology companies surged forward with innovations that took consumers by storm. Customers emerged with recharged expectations based on their engaging experiences with sites such as Amazon and Apple iTunes.

Some traditional businesses responded quickly. Companies such as Delta Airlines and British retailer Burberry created digital channels that drove customer satisfaction and market dominance. They got it.

The same cannot be said of branch and call-center-based banking. With few exceptions – Wells Fargo and Bank of America were among those that quickly adopted Facebook as a vehicle for client feedback – banks’ approached online channels as separate digital platforms and processes, siloed from their branch and call-center data.

This siloed approach and attendant lack of channel integration has hampered banking ever since, delivering inconsistent customer experiences that do little to advance the industry from its customers-as-account-numbers history.
Contrary to the sunny reports on Internet banking and mobile adoption that analysts and the banking industry regularly release, a survey by management consulting firm Bain & Co. finds that consumers continue to use bank contact centers and branches in surprising numbers.²

What’s behind bank customers’ slow digital adoption? For one thing, they appear to prefer more of a blend of in-person and online service than originally predicted. McKinsey & Co. reports that customers who use mobile and online banking more than once a week remain much more likely to be active retail branch users than those who do not³ (see sidebar 2, next page).

For another, banks’ stovepipe processes often block customer journeys across touchpoints and products, resulting in frustrated customers turning to costlier hands-on channels. A study by Booz & Co. found that defects within banks’ own systems drive more than half of inbound calls.⁴

Quick Take

Understanding Code Halos

Like digital consumer companies, banks can use data and analytics to find meaning in the swirl of online ad clicks, IP addresses, search queries and social network posts that make up customers’ Code Halos.

Decoding consumers’ digital attributes and preferences will help banks create the personalized customer experiences that are the hallmark of online channels. An example is using location services to generate customized offers related to retention and loyalty, basing content on personal interests or integrating multiple accounts.

For now, banks are making progress by using social sentiment to gain efficiency and deepen customer loyalty. For example, using the @AskCiti Twitter handle, Citibank agents send customers direct tweets that contain a link to start a live chat. Internet-only Ally Bank actively uses all social media channels for customer engagement.

Learning to correlate the social data they collect, however, will enable banks to transform social media to a strategic channel for driving new business.
Can Customers Spot Your Value-Added Services?

So far, banks’ disaggregated implementation of digital channels has failed to improve the cost-effectiveness of their operations. Bank servicing costs are actually increasing, even as they fall short of delivering a satisfactory user experience.

Customers are looking for value-added services — and having a hard time finding them. Banks face an especially steep climb to acquire and retain young customers. Fifty-three percent of millennials — those born between 1981 and 1996 — report that their bank offers nothing different from any other bank, according to a three-year study of 10,000 respondents by Scratch, Viacom’s brand consulting division.

Moreover, digital natives who encounter trouble online are unlikely to contact customer service right away. One study found only 1% of millennials would use the phone or e-mail to notify their bank of a problem.

Connecting with older customers online is equally challenging. The silver-haired set presents its own dilemma for banks: While seniors stand to benefit enormously from the convenience of digital banking, they often require assistance learning to use it. To help close the gap, banks are launching innovative programs, such as Barclays’ branch-based Digital Eagles program, which teaches basic Internet skills.

The upshot? Digital channels play an increasingly important role in banks’ overall customer experience. Cultivating reliable, customer-focused channels for every demographic is a pressing priority for banks.

Quick Take

What’s the Future for Branch Banking?

Bank branches will continue to play a key role in the digital banking world. Customer surveys indicate a preference for in-person support to resolve claims and provide advice for complex, high-value transactions such as mortgage loans or retirement planning. Branches will also retain a prevalent role in acquiring and retaining customers, with nearly 80% of consumers affirming that the location of bank branches influences their choice of institution, according to a study conducted by Cognizant’s Equinox consulting group and EFMA, an association that promotes innovation in retail finance.

But with branch revenue expected to decline 20% to 30% in the next five to eight years, banks are under pressure to reduce the cost of branch operations, even as the in-branch customer experience becomes an increasingly flexible (and optional) step in the customer’s cross-channel journey, according to the study.

Technology can help banks make judicious branch investments. For example, smart use of analytics can reveal demographic trends and lead to optimized locations and staffing for branches. Enhanced CRM solutions can help banks service high-touch clientele and improve the ROI from this expensive channel.

Looking ahead, emerging technologies may place robot ushers in bank branches, along with tablet-surfing couches, interactive digital signage and workflows that easily transfer data and documents between branch staff and customers.
Reshaping Channel Strategies around Customers

Banks that put customers at the heart of their channel strategies are seeing results, some of which are shooting straight at these banks’ bottom lines. According to new research from Forrester Research, Inc., a more holistic customer experience drives banking revenue in several areas. Incremental purchases from existing customers generate a revenue benefit for banks of $81 million, and reduced churn produces retained revenue of $73 million. Forrester pegs incremental sales from positive word of mouth at $7 million.

Here are a few of the customer-centric channel initiatives that we’ve observed in banks around the world:

• In Europe, French bank BNP Paribas rolled out a multi-channel model that provides customers with uniform, high-quality service. To better serve customers, the Paris-based company migrated its retail banking contact centers, branches and Web site to a common CRM environment. It implemented the system at 150 business centers over a period of six years and has replicated it in small business and private banking.

• Société Générale relies on a multi-channel strategy to advance its relationship banking, which enables it to view customers holistically. The retail bank has bet heavily on mobile and social channels, even running a series of TV ads in 2013 promoting a 30-minute response time for inquiries that it receives via Twitter.

• Santander carefully customizes its multi-channel strategy by market geographic segment. In Spain, it deploys tablet apps and integrated CRM, and it also measures customer propensity for next probable purchases. In Chile, it emphasizes online sales, especially for commercial customers. In Mexico, its focus is the call center. The result? A differentiated experience in each region.

• HSBC UK lets customers choose their preferred channel. Following local custom, many UK customers prefer to carry out banking transactions at the local branch rather than online. The most profitable customers, however, are going online. HSBC says its goal is to offer guidance – “Help us to help you” – and enable customers to take more control over their banking interactions.

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To Sidestep the Hype, Start Assessing Benchmarks

How can banks sidestep the multi-channel hype to stay relevant to consumers and derive operational efficiency? What’s missing from digital strategies that lead to poor customer experience? Banks can start to find the answers by first assessing benchmarks and optimizing customer touchpoints. Successfully integrating digital channels requires analyzing customer utilization and preference, providing cross-channel consistency and encouraging the use of lower cost channels.

It also requires thinking big. Imagine, for example, presenting contextual offers to customers at their preferred point of consumption. As customers pay for goods or services with bank debit or credit cards or mobile wallets, they might receive
merchant-funded offers that can be redeemed digitally. Or perhaps as they make ATM transactions, they might view targeted on-screen offers based on their Web browsing.

The idea is to share information with customers, partly because they are happy to reciprocate. According to Cisco Systems, Inc., the majority of bank customers are willing to provide more information to banks in exchange for personalized service (78%) or simplified management of their finances (56%). The more data that banks have on customers, the greater their opportunities are to make use of Code Halos and know their customers better.

**Taking Steps to Better Understand Your Customers**

To drive the customer journey through digital channels, banks also need to develop the underlying data techniques that help them better understand customer behavior. Mass marketing remains institutionalized within most banks. To realize the business potential of segments of one, banks need to make a cultural shift in how they engage with consumers.

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The first step is understanding who your customers are – or who you want them to be – and creating customer personas. Personas are detailed, three-dimensional representations of your customers and prospects that let you better understand their motivations and propensities. As such, they are instrumental in shaping products and marketing strategies and determining customer needs and preferences. (For a look at how companies are putting personas to use, read “Rethinking Enterprise Mobility Strategies.”)

**Journey Maps: Exploring the Uncharted Customer Experience**

While personas identify your customers’ attributes, customer journey maps let you walk in their shoes. Journey maps are powerful visual tools that trace customers’ steps as they travel through your bank’s processes, such as opening accounts, exploring additional products and services, and resolving problems.

Journey maps provide the big picture. They deconstruct banking processes from the outside in. Instead of viewing customer experience from an organizational point of view, journey maps follow customers through channels, decision paths and, perhaps most important, emotions. They also determine customers’ perception of the level of effort required by each channel. Ease of use ranks as an important benchmark, as customers’ perception of effort is the primary determinant for loyalty.

For many banks, journey maps are eye-openers. Having never traveled as customers through their organization, many institutions only guess at the routes that consumers follow. They often find the reality is quite different from what they thought. Barriers become apparent, and frustrations are noted. The customer journey is frequently revealed to be far more non-linear than organizations realized.
To begin mapping your customers' journey, keep in mind these main points:

- **Remember that your organization has lots of different kinds of customers.** Journey mapping needs to reflect all of them.
- **The task brings together multiple stakeholders.** One of mapping’s greatest advantages is that it is collaborative. Multiple departments contribute to – and benefit from observing – the ups and downs of the customer journey. The process educates all participants. Figure 1 depicts a suggested timeline for the collaboration.

### Linking the Customer Journey to Key Outcomes

What can you determine from customer journey maps? Because journey maps provide banks with many more data points, they serve as a form of computer modeling to determine the likelihood of occurrences. Instead of operating on guesswork, your organization can make accurate predictions of customer behavior. The more variables you track, the more accurate you will be.

Banks can determine, for example, the likelihood that customers with specific attributes will buy new products. They can predict how much change customers are likely to accept, such as pointing banks to the customers who will be most receptive to encouragement for self-service channels, for example. You can map for multiple objectives, including attrition, market penetration and preferred channels.

Micro-segmentation is an important outcome of journey mapping. Banks with sophisticated IT functions can tweak and personalize products right down to the level of individual customers. But journey mapping allows all banks to micro-segment to some degree regardless of their technology capabilities. Even if they are unable to tailor products to segments of one, banks can address smaller segments with more targeted products, growing the number of market segments they serve from five or six, for example, to several dozen.

### Suggested Project Timeline

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<thead>
<tr>
<th>Project Phase</th>
<th>Week</th>
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<tbody>
<tr>
<td>Immersion</td>
<td>2 Weeks</td>
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<tr>
<td>Data Collection</td>
<td>6 Weeks</td>
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<tr>
<td>Analysis and Journey Map Creation</td>
<td>2 Weeks</td>
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<tr>
<td>Insights and Next Steps</td>
<td>2 Weeks</td>
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Figure 1
The Technology Behind Journey Maps

How can banks link the customer journey to key outcomes? Correlating customer journeys to produce actionable information requires a detailed analysis of customer interactions.

At most banks, the underlying data — Web behavioral data, IVR pathing and call center transcripts — is at least partially available, although it is largely ignored for this purpose. While all channel interactions produce useful information, most banks are challenged to apply these insights to micro-segmentation and develop each customer’s unique digital persona.

The analysis and correlation of customer journeys requires causal and non-causal input to build and determine actionable information. Causal data input includes semantic information using natural language processing from human-assisted channel interactions, and incorporates data that is input from social channels and/or survey data where customers have self-identified.

Once the data is analyzed and correlated, banks can offer each customer a personalized experience. Informed pricing is a powerful tool for attracting and encouraging digital customers and interactions. A deeper understanding of customer preferences and habits makes that possible. For example, because digital self-service is said to decrease servicing costs by a factor of 1:11, banks might offer pricing incentives to customers who use online and mobile channels.

Going from no digital segmentation toward micro-segmentation and finally arriving at individual customer digital personas is an evolutionary journey.

In addition, by determining the information that customers regularly request and then proactively providing it, banks can predict, preempt and prevent use of human channels for low-value interactions. Conversely, for high-value customer interactions — such as financial advisement and complex sales — and for customers with little digital propensity, banks can encourage the use of human channels that better facilitate customer relationships.

Imagine your organization being able to take advantage of the following techniques:

- Agents empowered by insight that lets them offer a personal apology for a poor customer interaction, inadequate performance or channel function — and remediating with the customer in real time.
- Dynamic digital and non-digital product offers, customized for each customer and, therefore, offering higher chances of acceptance.
- Feedback loops that continuously boost channel performance with improved functionality, customer service and offers.
Looking Ahead: Five Steps to Becoming Customer-Centric

The customer-centric strategy your bank adopts depends on the data, analytics and direction it wants to pursue. Objectives might include increasing market share, penetrating new markets or lowering costs. Other goals might be reducing attrition, improving product take-up and increasing loyalty or lowering risk.

It is important to not do everything at once. Start small and show early success, gradually building your program and fine-tuning it based on your findings and success as you go.

Here are five steps your bank can take to begin:

1. **Evangelize the need for increased customer insight and the types of data and process sharing required to meet it.** Determine any inherent organizational constraints in sharing customer data across lines of business. Examine siloed channel processes such as line-of-business-based call centers and determine the changes that will work in your environment with the least initial disruption.

2. **Determine potential sources of data from all channels.** Prioritize the highest cost and lowest cost channels, as these areas will yield the most benefit from the least effort. Audit the data sources for availability and suitability. Assess data gaps and determine remediation. Create a data strategy that supports your objectives.

3. **Assess organizational changes such as retraining or functional role modifications that will be required to support the objectives.**

4. **Review your existing technology against your short- and long-term objectives, and determine the required changes.** The short-term changes should build toward long-term goals.

5. **Examine must-have analytics capabilities and tools.** Analytics is the cornerstone of achieving insights into customer behaviors and their propensity toward certain behaviors, as is correlating the data needed to achieve a suitable degree of digital segmentation. Going from no digital segmentation toward micro-segmentation and finally arriving at individual customer digital personas is an evolutionary journey.

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*Part III, the conclusion of this series on digital banking, examines the organizational and technology changes required to make a full digital pivot.*
Footnotes


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