

Executive summary



Welcome to the 14th report in our global financial services briefing programme, entitled **Winning the battle for growth: Building the customer-centric financial institution**

PricewaterhouseCoopers Global Financial Services Briefing Programme

This briefing, written in co-operation with the Economist Intelligence Unit, examines **customer-centric growth** issues within the financial services industry. Few executives in the financial services industry would disagree with the aim of becoming more customer-centric – structuring and running their organisations with the goal of providing a better customer experience. But what does the customer-centric organisation really look like, how do financial institutions plan to change to meet this goal, and how can organisations maximise their growth potential as a result?

The research effort for this briefing comprised two global initiatives:

- The Economist Intelligence Unit held over 20 one-to-one interviews with senior executives at financial institutions in Asia, Europe and the Americas.
- The Economist Intelligence Unit and PricewaterhouseCoopers conducted a special online survey of senior executives in financial institutions on the subject of customer-centric growth. Executives from over **250 institutions in Asia, Europe and the Americas** participated in the survey, which was conducted during March and April 2006.

The interviews and survey findings were further supplemented by significant desk research.

I am confident that you will find this briefing thought-provoking and insightful. Electronic copies of this, along with our previous briefings on **Wealth Management, Economic Capital, Risk Management, The Trust Challenge, IFRS, Compliance, Restructuring, Governance, Performance Improvement, Growth and Offshoring** are all available free of charge from our website www.pwc.com/financialservices

If you would like to discuss any of the issues addressed in this briefing in more detail, please speak to your usual contact at PricewaterhouseCoopers or one of the editorial board members listed at the end of this briefing. We would also appreciate your feedback on this briefing as it helps us to ensure that we are addressing the issues that you are focusing on.

Jeremy Scott
Chairman, Global Financial Services Leadership Team

Executive summary continued



Financial institutions face a stark choice: grow or die. To win the battle for growth, organisations must put the customer at the heart of their operations. To date, many institutions have been better at the rhetoric of customer-centricity than the practice.

To become truly customer-centric, financial institutions need first and foremost to gear their cultures towards serving the customer. That means putting customer needs, not short-term profits, first. It means providing customers with a choice of channels and interfaces – the more business that clients do, the more channels they tend to use. It means breaking down product silos so that customers can be served effectively at their first point of contact. And it means motivating staff on the basis of customer-related metrics as well as financial ones.

According to a survey of 252 financial services executives carried out exclusively for this briefing, institutions are often more focused on financial performance metrics than they are on customer-related metrics. Data are more likely to be focused on customers' product histories than on their future value to the organisation or their loyalty profile. Responsibility for the quality of the customer experience is often dispersed among business unit heads and product line managers.

The winners of tomorrow will focus on three areas in particular:

Technology. Asked to identify the obstacles in the way of becoming more customer-centric, survey respondents point first to technology that inhibits the sharing of data across products, business units and customer channels and also requires customers to resubmit the same information to the organisation on multiple occasions. Improving IT systems cost-effectively will be the top area of focus for survey respondents next year, as firms aim to retrieve relevant customer data in real time and to analyse customer behaviour in order to anticipate and meet their needs.

Information. Enabling information to be shared is one thing; using that information effectively is another. 'It is no good drowning in data. You need focused information that will enable your staff to do a better job,' says John Bromfield, a partner in PricewaterhouseCoopers' advisory practice focusing on revenue growth. As well as filtering data to get a single view of existing customers, leading institutions also analyse customer data for pre-sales purposes – whether using customer acquisition models to identify new branch locations, churn

models to improve retention levels, or customer life-cycle models to design and link different products.

People. The quality of customer-facing staff is critical in fostering loyalty, managing specific complaints that have the capacity to damage customer satisfaction irrevocably, and ultimately in driving revenue growth. Yet fewer than 30% of respondents rate the performance of their customer-facing staff across a number of dimensions – the extent to which staff are 'enabled and engaged' to deal with customers both 'efficiently and effectively' – as being of the highest quality. Improving the quality of people in customer-facing roles is second only to improved IT in respondents' list of priorities. 'The winners will be those firms which focus on the problem, invest in their people and integrate their whole approach to human resources,' says Ron Collard, PricewaterhouseCoopers' Global Leader for HR Consulting in Financial Services.

Pioneering institutions, such as Commerce Bank in the US and First Direct in the UK, have shown that such customer-centric approaches can drive considerable commercial success. Others have no choice but to follow.

Executive summary continued



Five steps to customer-centric growth

1 Abandon product silos.

Survey respondents believe existing customers will be their main source of organic growth over the next three years. But making the most of current customers requires organisations to share data on customers across product lines. Some of this represents the technical challenge of knitting together different IT systems. But it's also a cultural challenge – accepting that the value of a customer may shift between different parts of the business over time and incentivising staff to share customer data for the good of the overall organisation.

2 Understand the customer.

Anticipating and addressing shifting customer needs requires organisations to gather and analyse demographic data more effectively, to offer products that are more tailored to personal circumstances and to view the customer through the prism of future as well as present value, something that few organisations currently do. Such analysis enables organisations both to maximise cross-selling and upselling opportunities and to prevent customer churn – one of the main reasons that customers leave organisations is change in their circumstances and requirements.

3 Identify and appoint a customer champion.

Just one in ten survey respondents have a head of customer service in charge of the customer experience. At many institutions, responsibility for the quality of the customer experience is dispersed among different business units or resides with the head of marketing or sales as one of a number of duties. Having a specific and senior appointment whose job it is to view the institution – or the intermediaries through which institutions such as insurers and investment managers often reach end-users – from the outside in will help to ensure the customer's perspective is represented when key decisions are made. CEOs also need to provide a clear lead on how firms should work to improve their relationships with customers.

4 Empower customer-facing staff.

The people on the front line are critical – survey respondents are clear that their interactions with customers at moments of truth, when a complaint is being made or an urgent query is being addressed, have a greater impact on customer loyalty than product performance or process efficiency. Reducing the number of hand-offs to other people and enabling problems to be solved at the first attempt through the provision of the right information to customer-facing staff are both key measures of effective customer service.

5 Fashion and follow suitable customer metrics.

Financial institutions are more likely to collect financial metrics, such as average revenue per customer, than non-financial ones, such as customer satisfaction and loyalty. They also prioritise financial metrics when setting development priorities for staff. Yet respondents also recognise that financial metrics are generally less effective than non-financial metrics in showing how customer-friendly organisations are. Measuring and rewarding performance on the basis of non-financial customer-related metrics will encourage better behaviour.



The branch is dead; long live the branch

A few years ago, at the height of the internet boom, future-gazers were convinced that, sooner or later, everybody would be doing everything online. In financial services, retail branches which customers could visit were widely reckoned to have outlived their usefulness. And sure enough, internet-only banks like ING Direct and First Direct have shone.

Why, then, are many banks falling over themselves to extend their physical networks? In quick succession, HSBC and HBOS (Halifax Bank of Scotland) recently announced that they would spend £400 million and £100 million respectively over the next few years on opening new branches and refurbishing existing ones in the UK. In countries from Latin America to Asia, with varying degrees of enthusiasm, other banks are doing the same.

The drivers behind this renewed enthusiasm for bricks and mortar are manifold but one reason stands out: customers like them. Banks know from their own experience that, even among households who actively use the internet, customers still like to visit branches and to use the telephone to carry out transactions. Indeed, the more business customers do with a particular financial institution, the more channels they tend to use.

After years of closing branches in order to slice costs, retail banks are waking up to the fact that forcing customers to do what the institution wants, not what they want, is bad

for business. Those that court the customer are profiting. Institutions like the US's Commerce Bank, which bends over backwards to be friendly to its customers, grew what it calls its 'core deposits' last year by a hefty 27% despite offering modest rates of interest.

'We have a culture of serving first and selling afterwards,' says Brendan Nevin, Director of Retail Strategy and Marketing for Bank of Ireland, which boasts 14 consecutive years of growth in profits and 13 consecutive years of increasing its dividend to shareholders.

Yet such companies remain the exceptions. Financial institutions in general still have a lot to learn from successful retailers like Sears in the US and Tesco in the UK about how to grow their profits by getting closer to the customer. In our survey, which covered a range of sectors from insurance to investment management, we found fresh evidence that too many banks and insurers are still concentrating their efforts on products and services, while paying too little attention to the needs of customers themselves. Even where products are designed in response to

customers' requests, many firms are let down by technology and by a failure to recruit, train and motivate customer-facing staff.



Technology troubles

Five steps to customer-centric growth

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When asked to cite the main barriers to making their organisations more customer-centric, just under half of the respondents to our survey pointed to problems with information technology. Many firms are still unable to share customer data across products, business units or customer channels, depriving institutions of a single view of the customer, making it difficult to field customer queries on multiple products and often obscuring potential selling opportunities.

Two-thirds of respondents said that improving their IT systems is a strategic priority over the next year in order to make their firms more customer-facing.

Take ABN AMRO Mortgage Group in the US, which last year handled US\$53bn in loans. At the moment the group, which includes LaSalle Bank in Chicago, uses several different systems to manage its portfolio. 'Over time, the mortgage group developed proprietary systems as well as acquiring businesses that have resulted in processing silos for its business channels. It is the company's vision to eliminate these silos and create standard business processes and workflows across the enterprise,' says Randall Conte, Chief Operations Officer for ABN AMRO Mortgage Group.

We've been here before, of course. Financial services companies around the world have spent huge amounts over the past few years with specialist CRM suppliers to upgrade their creaking IT systems and to improve the way they manage their relationships with customers. Despite this investment, many companies found that the updated systems

they installed were either too complicated, making it hard to mine the data even if it was there, or too inflexible, making it difficult for staff to share and retrieve data across their organisations.

Having suffered before at the hands of expensive systems which failed to produce the benefits expected of them, institutions are wary of further technology investment. They want smart spending that delivers results each step of the way and reflects the requirements of the customer-facing end-user. That is good news for firms like Fiserv, a US firm which has pioneered a different approach to the technology of customer service. Its approach combines ways of tracking contacts with a tool that enables staff to get a complete picture of a customer's relationship with the financial institution.

Often this involves paring down the information to what is known as 'master data' – the bits that really count in building and maintaining a relationship with the customer, including in some cases an assessment of the risk they pose to the institution. From a single computer terminal, a bank can now find out

when a customer contacted which division, what action was taken and what effect (if any) a particular incentive or sales programme has had. As important, institutions can match products to customers and vice versa. 'Lots of organisations are still unable to get a single view of their customer,' says John Bromfield of PricewaterhouseCoopers. 'In tackling this, what is really important is to decide what the customer wants in their interaction with the institution.'

Consider First Community Bank and Trust in Illinois, which recently installed some of Fiserv's software. 'We're able to track customer contacts, prospects, marketing efforts and customer service in one integrated application,' says Greg Ohlendorf, First Community's President and CEO. 'Not having to run a loan file to track recent events with a customer or needing to look back on a string of emails is a big plus.'

Similarly, Commonwealth Bank of Australia expects to redirect up to A\$200 million in investment on new and improved technology in its efforts to get closer to the customer. As part of an initiative led by

Technology troubles continued



Michael Harte, the bank's newly appointed Chief Information Officer, Commonwealth is to simplify and speed up its processes – for business as well as retail customers – so that staff are better able to provide solutions at the first point of contact.

Achieving a single view of the customer is only part of the solution, says David Holtzman, a partner in PricewaterhouseCoopers' New York office. Institutions also need to banish product silos. It is no good being able to exchange data between business units, branches or call centres if the people who work there are neither encouraged nor motivated to work together. Instead of treating each division as a separate profit centre, says Mr Holtzman, firms need to ensure that all parts of the organisation pull together in the interest of the customer, which means constructing profit centres around customers and customer segments.

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Brazilian banks: Up close and personal

Less than half of Brazil's adult population has a bank account. Yet the country's banks are among the most advanced in the world in terms of technology. Each year, Brazilian banks invest some R\$17bn (US\$7.5bn) in their information technology, according to Fernando Martins, Customer Relations and Marketing Director of the Brazilian banking federation (Febraban). 'The agility of our technological infrastructure is the vital heart of our system,' he says.

'Brazilian banks have acquired a precious edge in data mining,' says Ricardo Baldin of PricewaterhouseCoopers in Brazil. 'Their strength is an ability to analyse customers' profiles and behaviour. In doing so, they are

able to anticipate the customer's next move and take steps to sell him or her additional financial products. The banks' aim is to find out which product best fits each kind of customer, and which is the best channel to reach them, says Andre Carpes Blanco, Superintendent of Relationship Marketing at Unibanco, one of the largest retail banks in Brazil.

Depositors and borrowers alike are ranked in terms of their 'life cycle'. Each customer is segmented according to his or her use of financial services and the stage of their relationship with the bank:

Activation stage: the customer is a low user of banking services and may need to understand the benefits of simple financial products before moving on to more complex ones;

Stabilisation stage: the customer is already using a range of financial products;

Retention stage: the customer has reduced his or her relationship with the bank and may be offered products that foster some loyalty.

'It is important to know what their consumers' habits are and their behaviour in relation to the bank in order to improve the offer of banking products, and to use the most efficient channel to communicate with them,' says Ms Carpes Blanco.

Segmentation and data accuracy are key to reaching the target. Warehousing data is also critical. Banks have various channels through which they contact their customers, including branches, the internet, ATMs, telemarketing and e-mail. Each has its own cost structure and varies, according to each customer and product, in its efficiency. 'A comprehensive optimisation process allows us to orient the bank to use the most cost-efficient channel, so enabling it to maximise returns on the investment in customer relationship management,' says Eduardo Prado, Credit and Performance Optimisation Director at Itaú, the country's second largest bank.

Brazilian banks have also stepped up their investment in call centres and internet banking during the past decade.

Continued overleaf



Technology troubles continued

Brazilian banks: Up close and personal continued

The number of home-banking users has increased from 8.3 million in 2000 to some 20 million today, according to estimates by Febraban. Customers have benefited not only from greater convenience but, in most cases, from swifter operations too. The state-owned Banco do Brasil, the country's largest bank, has recently increased the number of services, including personal loans, that its customers can access via their mobile phones. The bank says that 170,000 customers are already regular users of 'mobile banking'; and it plans to extend the service to as many as 3 million customers by the beginning of 2007.

In most banks, new account holders can now benefit from an instant credit limit on their current account, depending on the information they provide to the bank. Existing customers may be offered an even greater credit limit, according to their

record. 'We also have a large number of customers with a pre-approved credit limit, who may therefore use the automatic credit facility, including at ATMs, on an instant basis,' says Itaú's Mr Prado.

Such credit limits are reviewed every three to six months, depending on the bank. Banks are also planning to introduce a so-called

positive register nationwide. So far, credit information is scattered among various financial institutions, though there is a central register that compiles payment arrears (Serasa, a private body, tracks bad payers). The aim is to introduce an equivalent system for borrowers who pay back their loans on time. 'Good payers should be prized,' says Mr Martins, of Febraban.

Brazil: banking profile (2004, unless otherwise indicated)

Number of banks:	164
Number of deposit accounts:	74m
Number of account holders:	45m
2006 estimate:	more than 50m
Number of internet banking account holders:	18.1m
2006 estimate:	20.0m
Number of branches:	17,000
Number of ATMs:	25,000

Source: Febraban (2004)



In the customers' shoes

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Institutions and their staff must also learn to take the customers' perspective. Work by Gartner, a market research and analysis firm, suggests that customers prefer to use certain channels for certain tasks and hate to be pushed from one channel to another. Their research showed that customers who use self-service banking channels for routine transactions make greater than average use of branches and call centres when they have a problem to solve or when they consider buying a new product.

So why do banks persist in shoving customers around against their will?

One reason may be that too few institutions have somebody at the centre of the organisation in explicit charge of the customer experience. For almost one-quarter of survey respondents, for example, this responsibility lies with the heads of the various business units or product lines – a sign that in many organisations territoriality still reigns supreme. One-third of respondents say that the CEO himself is responsible – recognition that this is a board-level issue, to be sure, but also a sign that the job of championing the customer's corner is often part of a portfolio of responsibilities rather than a full-time role in itself.

Choose your channel

It is not just those who deal directly with their customers who need to re-think the way they do business. Those for whom the intermediary or adviser is the initial point of contact can also benefit from a closer scrutiny of what they are offering and to whom. More than 40% of respondents to our survey ranked the performance of intermediaries as critical or important to the future growth of their organisation.

Many investment managers, for example, see the growing trend for international companies to recruit a manager to offer pensions and other investment schemes to their employees as a convenient way to grow their business without having to court the customer individually, says Simon Jeffreys, PricewaterhouseCoopers' Global Leader on Investment Management.

Yet, as we shall see, it is often not so much the quantity but the quality of relationships with intermediaries that counts. Consider Winterthur Life, part of the Swiss-based Winterthur Group, which has gone through a major cultural change programme to switch from a product to a customer emphasis. By concentrating on the top end of the market for insured pensions in the UK, the company saw its business grow last year by no less than 30%. Not only is Winterthur able to concentrate more of its resources on the part of the market which is expanding most strongly; the company has also developed the consultancy side of its business which, in the long run, it believes will yield even greater results. Under the banner 'Professional Edge', the company offers a wide range of services, such as helping independent financial advisers (IFAs) work

with other professional advisers such as lawyers and accountants to develop their businesses.

Although in many ways the intermediary is Winterthur Life's immediate customer, everything is designed as transparently as possible to suit the needs of the high-net-worth end-user. 'We have deliberately not tried to be all things to all people. We are operating at the top end of the market where the service proposition is vital,' says David Thompson, a director.

Winterthur has pioneered a radical approach to remunerating advisers. Traditionally, insurance companies pay a set commission to advisers, irrespective of the complexity of the case or the amount of time it may take an adviser to work on it. Winterthur allows the client and the IFA to agree on an appropriate amount that should be paid for advice; if required, this is then deducted from the client's fund.

Since the majority of intermediaries in the mass market operate on commission only, this has naturally had the effect of helping Winterthur to concentrate on advisers at the premium end, who are more comfortable about discussing the value of advice.

In the customers' shoes continued



And since Winterthur believes the current high levels of commission paid to intermediaries is in any case unsustainable in the long run, the firm should be able to continue to grow its business as the market changes. As a result, the firm's future looks bright: 'We expect the segment aimed at high-net-worth individuals to grow by 7–8% a year,' says Mr Thompson.

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On the front line

When asked what makes their firm's existing customers more likely to do more business with them, no fewer than 65% of respondents cited well-trained, responsive staff. Executives think that the quality of institutions' customer service and staff is more important than product performance as a driver of revenue growth from new and existing customers alike.

In particular, dealing with customer problems smoothly and efficiently not only engenders trust and loyalty; it can also lead to extra sales. But fluff that 'moment of truth' and you can lose the customer for good. No fewer than 78% of respondents agree that addressing a customer's problems well had a significant effect on their loyalty, almost twice the number who pointed to the impact of high-quality financial performance or offers of suitable new products and services.

Bank of Ireland is among those institutions that are stepping up the amount of training they do in order to improve the level of service offered to customers. More staff are being deployed in the bank's branches too. 'Our view is that if you get the proposition and the level of service right, then you will do more business and so generate more attention across all channels,' says Brendan Nevin.

In a recent strategy presentation, Ralph Norris, CEO of Commonwealth Bank of Australia, agreed: 'Getting the people side right is an essential element to achieving our other goals. Success with our people, through building trust

and team spirit, will lead to success with our customers and, ultimately, will be to the benefit of our shareholders,' he says.

Yet the evidence suggests that many firms are better at talking the talk than walking the walk when it comes to developing a customer-centric approach to human capital development. Survey respondents give the impression that their firms are likely to continue to fall back on ad hoc, product-centric solutions when a much more integrated approach is required. When asked where their firm had invested most over the past three years to improve the performance of their staff, the highest proportion (48%) of those questioned said training on products and services, more than three times the number who cited behavioural programmes to change and develop the attitude of staff to customers. When respondents were asked what their companies plan to do over the next 12 months to make their staff work more effectively, behavioural training is given somewhat more weight, but the emphasis remains on product-based approaches.

The levels of attention given to engaging employees who face customers are also surprisingly low. 'The survey evidence indicates more hope than execution in this area,' says Ron Collard at PricewaterhouseCoopers. 'There is perhaps a need for less 'talk' and more 'walk'.'

Researchers have done a lot of work on the links between the behaviour of employees and a range of outcomes such as higher levels of satisfaction among customers and even better financial returns. Tracing cause and effect is tricky, says Bruce Rayton, of the University of Bath, but he and two other researchers from the university's School of Management have found evidence that employees' perceptions of corporate social responsibility can have a major impact on their commitment to an organisation¹. The effect of such policies on the commitment of some employees was found to be at least as great as other measures of job satisfaction. So firms that spend money on demonstrating how socially responsible they are may be motivating their employees as well as enhancing their reputations with outsiders.

¹ The Contribution of Corporate Social Responsibility to Organisational Commitment, Steven Brammer, Andrew Millington and Bruce Rayton, University of Bath School of Management Working Paper Series 2005.20.

In the customers' shoes continued



UBS: Asia's private banker

Few businesses are more customer-centric than private banks – people with a lot of money like to be taken care of, and in a special way. And few banks are more successful at it, both globally and specifically in Asia, than UBS. Last year alone, UBS was voted the Best Global Private Bank and the Best Private Bank Asia by *Euromoney*, and secured Best Private Bank by one of Asia's leading financial publications, *Finance Asia*. 'Almost half of the billionaires in Asia are clients of ours,' says Kathryn Shih, Head of Wealth Management, Asia Pacific, for UBS.

Operating out of eight locations in Asia – Tokyo, Osaka, Sydney, Melbourne, Beijing, Taipei, Hong Kong and Singapore – the bank had CHF114bn of private wealth under management at the end of 2005. The

invested assets of UBS's private banking arm in Asia have grown by 45% each year since 2000, while the number of its wealth management advisers has increased from fewer than 200 six years ago to 530 at the end of 2005.

Why is UBS so successful? The bank's history and track record play their part. With 140 years of wealth management behind it, the bank can point to families in Europe that it has assisted over several generations. And with wealth management accounting for 40% of its worldwide income, UBS can also boast a degree of specialisation that others find hard to match. At Citigroup and HSBC, wealth management accounts for only around 5% of total income.

But the importance of understanding the customer is also critical. 'It's all down to the basics: being very relevant to clients and

knowing what they need,' says Ms Shih. 'From our research, we understand that what our clients really want is that we listen to them, then meet their needs.'

Listening, however, is only the beginning of a process whose end goal is a client with confidence in the decisions he or she takes about his or her wealth. This involves four main steps:

- Taking the time to listen to a client and understand him or her.
- Proactively preparing solutions for the management of the client's wealth.
- Implementing these solutions.
- Conducting regular reviews and follow-ups.

Most of UBS's new customers come by word of mouth. Recommendations and suggestions are followed up by the bank's team of advisers: each specialises in a region which allows them to work with people from the same country or region, where they are familiar with local regulations, tax regimes and even the clients' industries. 'It's a very competitive market for staff,' says Ms Shih. 'But we have a lower turnover rate than our competition,' a fact she attributes to the bank's dominant position and the reputation that comes with it.

Measurement matters



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Improving the recruitment and training of staff may tilt an organisation more towards its customers. But sometimes this is not enough. A wholesale change of culture is needed, one that requires a broader shift in attitudes towards customer-facing staff and toward customer-related performance metrics within an organisation.

Many institutions fail even to collect basic data on levels of customer satisfaction and loyalty. Only 60% of those questioned said their firm regularly collects data on customer satisfaction levels, even though this metric is also regarded by respondents as the best indicator of how customer-friendly their institution is. Far fewer collect data on customer loyalty levels, commonly regarded as an even better predictor of customer spending than levels of satisfaction.

Gathering data is only the first step, however. 'Often the problem is not so much about getting the data but about how firms use it,' says David Holtzman of PricewaterhouseCoopers. Tellingly, a mere 38% of those surveyed said that customer-related metrics (such as satisfaction levels, feedback etc.) were used to identify and prioritise the development of staff within their company.

ING is one institution to have decided to close gaps between customers' expectations and its various business units on a truly international scale. Under Michel Tilmant, the Chairman of the Executive Board, the

company has embarked on a plan based on three over-riding values: that ING delivers on its promises; that it is easy for customers to deal with; and that it treats them fairly.

Each business unit is tested regularly on how satisfied its customers are. If there is a gap between what customers expect and what the unit is delivering, the business unit has to come up with a plan as to how to close it. According to Nick Jue, Managing Director of ING's Corporate Communications: 'We measure markets taking into account our best competitor too. When we started some businesses didn't regularly measure levels of customer satisfaction. So in some cases the change has been quite marked.'

ING is not the only example of an institution trying to build its culture around the customer. Commerce Bank and First Direct are both pioneers in forging cultures that are different and enduring (see box overleaf). Commonwealth Bank of Australia is a very proactive user of mystery shopper programmes, and the feedback is a core element of branch manager remuneration.

Another institution that has set itself on a different course from many of its competitors is Australia's St. George Bank, the country's fifth largest bank. As Gail Kelly, the bank's Managing Director, put it at a recent conference in New York, St. George aims 'creatively to differentiate itself on customer service'. St. George's staff are encouraged (and motivated) to judge their success or otherwise in terms of customer satisfaction. And it must be doing something right if 53% of its customers say they would definitely recommend it and when none of those questioned in a recent poll will admit to wanting to change banks within the next six months.

Measurement matters continue



Bow to the customer

At first glance, Commerce Bank and First Direct don't seem to have much in common. They operate in different continents – the first in the US, the latter in the UK.

Commerce Bank was started from scratch in 1973 by Vernon Hill, who is still its chairman. First Direct began life at the stroke of midnight on 1 October 1989. As a telephone (and later an internet) bank that has no branches but stays open 24 hours a day, seven days a week, 365 days a year. First Direct likes to say it has not closed its doors since. At the last count Commerce Bank had nearly 400 branches (or 'stores', as Mr Hill prefers to call them), mainly in New Jersey and America's north east. But these two banks are united by cultures that dote on their customers.

In 2005, a difficult year for US banks in general because of a squeeze on their interest margins, Commerce Bank still managed to grow at a rate that many of its competitors can only dream about. Not only is the bank expanding by modest acquisitions; it is also opening new branches at an enviable rate.

Last year alone, what Commerce Bank calls its core deposits rose by 27%. The result of paying depositors over the odds? Not a bit of it. The bank prides itself on having some of the lowest deposit rates among its peers. The reason that customers beat a path to its doors, insists Mr Hill, is that they feel looked after.

'All we have done is to take a retailing model and apply it to banking,' says Mr Hill. 'We create a customer experience that is better this year and next. This is a concept that is completely alien to most banks.'

Commerce Bank makes a point of opening its branches seven days a week, rain or shine. It doesn't matter that every branch may not be full of customers every minute of every day, says Mr Hill. 'Part of being open seven days a week is that it is sending a message to customers that you are there for their convenience, not yours.'

As a result, Commerce Bank has managed to grow its deposits per branch at an annualised rate of US\$20m. That is several times the industry average. 'A retailer runs the business from the store up,' explains Mr Hill. 'As long as we are operating on a per store basis, then we can keep on growing.'

But won't Commerce Bank's sheer size make it harder and harder to pull off that trick? 'No,' retorts Mr Hill, who is clear that large institutions can sustain and even improve customer-centric behaviour. 'If you use size to improve the service, then it becomes a plus.' The irony, too, is that Commerce Bank's commercial business is now beginning to grow even more quickly than its retail side. How? Simply by applying higher standards of customer service to that part of the business as well.

First Direct, a subsidiary of HSBC, may not be growing at the same rate as Commerce Bank, but it is certainly causing ripples among its peers. Like Commerce Bank, it bends over backwards to satisfy its customers. First Direct has little truck with such things as anonymous account numbers: it links everything – from current (checking) accounts to credit cards and mortgages – to the individual customer.

First Direct doesn't even like to call itself a bank. 'We think of ourselves as a service provider which deals with financial services,' says Kath Parrington, a spokesperson for the bank. Small wonder then that 40% of

all telephone calls to First Direct are outside normal office hours; or that 70% of transactions come over the internet.

Like Commerce Bank, First Direct is careful to nurture the customer-facing skills of its workforce. Indeed, staff are picked more for their attitude and ability to communicate than for their knowledge (or even interest in) banking and finance. The latter, says Ms Parrington, can always be taught. Training is high on the agenda. As well as a comprehensive induction, recruits are regularly schooled in customer-facing techniques to make sure that they are up to scratch.

The result is that as much as 80% of business (from existing as well as new customers) is handled by frontline staff in the company's two call centres; as little as possible is handed off to specialists. Frontline staff are encouraged to think for themselves and to minimise the hoops through which customers have to pass. It must count for something because more than one in three of First Direct's 1.2m customers joined because of a personal recommendation.



Customer kings

Those who predicted a few years ago that there would be a wholesale shift towards the internet were not entirely wrong. More and more customers are doing business online and liking it.

More than half of those questioned in our survey said that their organisation planned to focus on the internet over the next three years in order to encourage growth.

But what few observers understood at the time was the degree to which the internet would complement contacts with customers through other channels – whether in branches, over the telephone or through advisers. Customers, it seems, want all these channels and more.

Organisations that aspire to becoming truly customer-centric must learn to service their customers on a series of fronts while maintaining a single view of each customer and responding appropriately to his or her needs. Above all, financial institutions should remember that customers are fed up with being pushed around in the name of efficiency and cost cutting.

As competition intensifies, being nice to customers is no longer an option. It is a prerequisite for doing repeat business. Whether they are large or small, companies need to invest in systems that give them the right information and in people who are able to use that information effectively. Nor should firms be afraid to re-orientate their businesses so that earnings are measured on the basis of what specific customer segments buy, not how many specific products are sold.

Training and motivation can do much to orientate a firm towards its customers. But they cannot on their own overcome the roadblocks erected by territorial managers. Only by integrating information and procedures across channels with flexible technology and an open culture can firms satisfy today's customers. And only by satisfying customers can retail financial institutions hope to grow their businesses in a sustainable way. 'At many organisations, there is a need to return to basics,' says PricewaterhouseCoopers' John Bromfield. 'What is required is a determination to focus on the customer from outside and to take a longer-term view of what he or she wants over a life cycle.' □



Appendix: Survey results

The Economist Intelligence Unit and PricewaterhouseCoopers conducted a special online survey of senior executives in financial institutions on the subject of customer-centric growth. Executives from over 250 institutions in Asia, Europe and the Americas participated in the survey, which was conducted during April 2006. Our thanks are due to all those who participated for sharing their insights with us.

Please note that totals do not always add up to 100 because of rounding, or because respondents could choose more than one answer.

1. Which of the following strategies will be most important to your organisation as it seeks to achieve its growth targets over the next three years? Rate each strategy on a scale of 1 to 5, where 1 = Critical and 5 = Irrelevant.

Scale	Critical					Irrelevant				
	1	2	3	4	5	1	2	3	4	5
Growth through alliances and joint ventures	23%	36%	26%	11%	5%					
Growth through M&A	17%	22%	27%	20%	13%					
Organic growth	53%	33%	11%	2%	0%					

2. What are likely to be your organisation's top three sources of organic growth over the next three years? Select up to three responses.

Existing customer penetration (cross-/upselling) with new products/services	57%
New customer acquisition with existing products/services	52%
Existing customer penetration (cross-/upselling) with existing products/services	50%
New customer acquisition with new products/services	35%
Geographic expansion into new markets	33%
Changes in channel and distribution strategy	25%
New customer acquisition with price/margin change on existing products/services	17%
Existing customer penetration with price/margin change on existing products/services	10%
Improved performance by intermediaries	9%
Encouraging exit of unprofitable customers	5%
Other, please specify	0%



Appendix: Survey results continued

3. What are the factors that attract new customers to your organisation?

Rate each factor on a scale of 1 to 5, where 1 = Critical and 5 = Unimportant.

	Critical 1	2	3	4	Unimportant 5	NA/Don't know
Financial performance (low prices/high returns)	20%	37%	22%	11%	8%	2%
Mass-market advertising and marketing campaigns	6%	18%	35%	18%	22%	2%
Performance of intermediaries	13%	29%	29%	11%	14%	5%
Product or service differentiation	42%	36%	16%	4%	1%	1%
Product packaging	10%	30%	29%	14%	15%	2%
Quality of our service and staff	67%	26%	6%	0%	0%	0%
Recommendations from existing customers	42%	35%	16%	4%	2%	1%
Special promotional offers	10%	22%	21%	17%	27%	3%
Targeted advertising and marketing campaigns	17%	41%	25%	10%	5%	2%
Underlying brand strength and awareness	43%	36%	16%	4%	1%	1%



Appendix: Survey results continued

4. What are the factors that make your organisation's existing customers more likely to spend money with you?
Rate each factor on a scale of 1 to 5, where 1 = Critical and 5 = Unimportant.

	Critical 1	2	3	4	Unimportant 5	NA/Don't know
Access to additional products	10%	37%	34%	13%	4%	1%
A specific incident in which customer expectations were met or exceeded	25%	35%	24%	9%	5%	3%
Convenience and accessibility of service	30%	40%	22%	5%	2%	0%
Depth and quality of interpersonal relationships with the client	40%	40%	16%	4%	0%	0%
Difficulty of switching providers	7%	23%	30%	24%	12%	4%
Emotional loyalty to the brand and organisation	20%	35%	30%	12%	3%	0%
Geographic reach	18%	37%	26%	10%	7%	2%
Low prices/high returns	20%	31%	32%	12%	4%	2%
Quality of intermediaries	9%	29%	29%	14%	12%	7%
Quality or performance of product/service	62%	32%	5%	1%	0%	0%
Simplicity of processes	25%	42%	19%	10%	4%	1%
Well-trained, responsive staff	65%	29%	6%	0%	0%	0%



Appendix: Survey results continued

5. What are the three main reasons your customers voluntarily leave your organisation?
Select up to three choices.

Better competitor offerings	43%
Changing customer needs/circumstances	42%
Failure to deliver on promised performance	35%
Poor general quality of customer service	31%
A specific incident in which customer expectations were not met	27%
Our prices are too high	27%
Poor investment returns/poor performance of product/service	21%
Lack of emotional attachment to the brand and organisation	17%
Complexity of processes	15%
Lack of personalised advice and information	13%
Don't know	4%
Other, please specify	4%

6. What proportion of your customer base voluntarily leaves your organisation each year, on average?

None	2%
Up to 5%	37%
5 % to 10%	29%
10% to 15%	14%
15% to 20%	5%
20% to 30%	1%
30% to 40%	1%
40% to 50%	1%
Above 50%	0%
Don't know	10%



Appendix: Survey results continued

7. Which of the following types of customer-related metrics does your organisation already collect or plan to collect?

	Already collect	Plan to collect	Don't plan to collect	Don't know
Average revenue per customer	75%	14%	8%	3%
Changes (upward or downward) in customer spend	38%	33%	17%	12%
Current customer value	55%	31%	6%	8%
Customer attrition	48%	27%	13%	12%
Customer feedback (e.g. praise, complaints)	72%	21%	4%	3%
Customer loyalty levels	35%	40%	15%	10%
Customer profitability	62%	24%	8%	6%
Customer satisfaction levels	60%	26%	9%	4%
Future customer value	22%	46%	18%	14%
Number of products sold to each customer	63%	19%	12%	6%

8. How effective are the following types of customer-related metrics at showing how customer-friendly your organisation is? Rate on a scale of 1 to 5, where 1 = Very effective and 5 = Ineffective.

	Very effective		3	4	Ineffective		NA/Don't know
	1	2			5		
Average revenue per customer	28%	30%	17%	8%	11%	6%	
Changes (upward or downward) in customer spend	21%	33%	21%	8%	8%	10%	
Current customer value	20%	36%	22%	3%	8%	10%	
Customer attrition	30%	31%	19%	4%	6%	9%	
Customer feedback (e.g. praise, complaints)	49%	25%	13%	6%	4%	4%	
Customer loyalty levels	39%	27%	16%	4%	7%	8%	
Customer profitability	29%	29%	22%	6%	8%	6%	
Customer satisfaction levels	51%	28%	10%	2%	4%	4%	
Future customer value	15%	28%	24%	10%	9%	14%	
Number of products sold to each customer	25%	29%	22%	8%	10%	6%	



Appendix: Survey results continued

9. What are the principal barriers in the way of turning your organisation into a more customer-centric organisation? Which of the following statements do you feel apply to your organisation? Select all that apply.

Our IT infrastructure does not allow us to share data across products, business units and customer channels easily	48%
Our organisation is structured around products, not customers	38%
Our personnel are not incentivised on the basis of customer-facing performance	33%
We lack good information on customer satisfaction and expectations	33%
We have dependencies on others (e.g. intermediaries) that are hard to manage	25%
Being more customer-centric will increase our costs	23%
Our customer-facing staff lack the requisite people skills	23%
Regulatory barriers impede sharing of customer data	23%
Our corporate culture is not customer-centric	21%
We have too many customers and/or we are growing too fast to offer proper service	17%
The returns from becoming more customer-centric are not proven	13%
Our customers don't want us to change	5%

10. Are the following types of regulatory initiatives helping or hindering improved customer service at your organisation? Please rate on a scale of 1 to 5, where 1 = Substantial positive effect and 5 = Substantial negative effect.

	Substantial positive effect				Substantial negative effect	NA/ Don't know
	1	2	3	4	5	
Anti-money laundering regulations	12%	20%	33%	18%	5%	13%
Data protection and privacy rules	14%	22%	38%	16%	2%	8%
EU Savings Directive	6%	10%	22%	6%	1%	55%
Know your customer regulations	29%	30%	22%	6%	4%	9%



Appendix: Survey results continued

11. Which of the following strategies will your organisation adopt over the next 12 months in order to make itself more customer-centric? Select all that apply.

Improving IT systems	67%
Improving quality of customer-facing staff	58%
Simplifying processes	48%
Developing more personal relationships between staff and customers	45%
Improving quality and timeliness of customer-related metrics	42%
Providing more customised product design	39%
Offering more products	36%
Offering wider choice of channels for customers to contact the organisation	33%
Simplifying product offering and information	29%
Providing more self-service options for customers	23%
Improving performance of intermediaries	20%
Deploying more customer-facing staff	22%
Limiting numbers of new customers	6%
Other, please specify	2%



Appendix: Survey results continued

12. In your experience, what level of impact does each of the following types of customer interactions have on customer loyalty?
Rate each interaction on a scale of 1 to 5, where 1 = Significant impact and 5 = No impact.

	Significant impact				No impact	NA/Don't know
	1	2	3	4	5	
Addressing a specific customer problem well	78%	18%	3%	1%	0%	0%
Offering suitable new products and services	36%	33%	22%	6%	1%	1%
Processing routine transactions efficiently	27%	47%	19%	6%	1%	0%
Providing clear information on changes in price and performance	26%	43%	23%	5%	2%	1%
Providing high-quality financial advice	44%	34%	17%	2%	2%	2%

13. How does your organisation segment, or plan to segment, its customer base for operational purposes?

	Already segment	Plan to segment	Don't plan to segment	Don't know
By current value	61%	17%	17%	5%
By degree of loyalty	14%	31%	46%	10%
By demographic profile (age, sex, income)	42%	20%	31%	7%
By future value	20%	35%	31%	13%
By product	65%	15%	17%	4%



Appendix: Survey results continued

14. Please indicate the type of data on customers that is routinely available to customer-facing staff in real time when they interact with customers.

Customer history on specific products	73%
Customer history across multiple products within business unit	54%
Current value of customer	50%
Customer's demographic profiling information	41%
Customer history across the entire organisation	41%
Customer loyalty profile	17%
Future value of customer	13%
Other, please specify	3%

15. On what basis does your organisation offer additional products and services to its existing customers? Select all that apply.

On a personalised basis, after consideration of customers' personal needs	66%
Reactively, in response to specific requests for information	55%
Automatically and across the customer base (e.g. whenever we have contact with them or whenever we run a promotional campaign)	47%
Automatically in response to changes in the customer's demographic profile (i.e. moving location, getting married, etc.)	19%
Automatically in response to customers' loyalty profile	16%
Other, please specify	4%

16. Which of the following customer channels does your organisation plan to focus on over the next three years in order to drive growth? For each channel, please indicate whether your organisation intends to devote more effort, less effort or the same effort relative to now.

	More effort	Same effort	Less effort	NA/Don't know
Branches	48%	29%	7%	16%
Call centres	27%	38%	8%	27%
Direct mail	20%	41%	13%	26%
Direct sales force	59%	28%	5%	8%
Intermediaries	26%	41%	15%	18%
Internet	56%	27%	6%	11%
Mobile phones and devices	20%	32%	12%	36%

17. Who is in charge of quality of the customer experience at your organisation?

CEO	33%
Heads of business units	23%
Head of marketing and sales	20%
Head of customer service	11%
Product line heads	5%
No one	3%
Head of compliance	2%
Other, please specify	4%



Appendix: Survey results continued

18. How would you rate the following characteristics and capabilities of your customer-facing staff?
Rate on a scale of 1 to 5, where 1 = High-quality performance and 5 = Low-quality performance.

	High-quality performance			Low-quality performance		NA/ Don't know
	1	2	3	4	5	
Effectiveness (the extent to which customer-facing staff deal successfully with customer issues and requests at the first contact)	20%	45%	25%	7%	2%	2%
Efficiency (the extent to which customer-facing staff spend more time dealing directly with customers than with internal administrative tasks)	21%	35%	29%	11%	2%	2%
Enablement (the extent to which customer-facing staff have the right tools and data to service customers)	26%	46%	19%	6%	2%	2%
Engagement (the extent to which customer-facing staff are motivated by and rewarded for customer-centric behaviour)	24%	40%	23%	8%	3%	2%



Appendix: Survey results continued

19. Where has your organisation invested the most effort over the past three years to improve its human capital performance? Select up to three choices.

Training on products and services	48%
Workplace culture	36%
Recruitment	34%
Performance management	24%
Career development options	22%
Remuneration and/or remuneration structure	21%
Communication	17%
Behavioural change programmes on attitudes to customers	15%
Employee engagement	15%
Organisational and job design	15%
Leadership visibility	11%
Change management	9%
Work-life balance	8%
Employee and customer matching (e.g. demographic matching)	4%
Other, please specify	1%

20. Over the next 12 months in which areas will your organisation invest the most effort to improve its human capital performance? Select up to three choices.

Training on products and services	43%
Performance management	33%
Recruitment	26%
Workplace culture	25%
Career development options	23%
Behavioural change programmes on attitudes to customers	20%
Remuneration and/or remuneration structure	18%
Employee engagement	17%
Organisational and job design	17%
Leadership visibility	15%
Communication	13%
Work-life balance	11%
Change management	10%
Employee and customer matching (e.g. demographic matching)	6%
Other, please specify	1%



Appendix: Survey results continued

21. Within your organisation what do you consider to be the most important inhibitors/barriers to improving your human capital performance? Select up to three responses.

Culture and resistance to change	48%
Talent retention	48%
Infrastructure (systems and/or processes)	42%
Clarity of strategic direction	40%
Talent availability	40%
Investment funds availability	21%
Workplace regulation/legislation	13%
Trade union influence	5%

22. What types of techniques/metrics does your organisation use to identify, measure and prioritise human capability development initiatives? Select all that apply.

Financial metrics (e.g. volumes, revenue)	68%
Staff satisfaction metrics	42%
Operational metrics (e.g. call handling time)	40%
One-to-one staff quality interviews	39%
Customer-related metrics (satisfaction levels, feedback)	38%
Staff retention/turnover metrics	38%
Staff exit reviews	36%
Staff feedback and suggestions	36%
360° feedback from team members	25%
Human capital management systems (e.g. ERP systems)	24%
Staff engagement metrics	22%
Other, please specify	2%



Appendix: Survey results continued

23. What impact do the following staff groups within your organisation have on customer service?

Rate on a scale of 1 to 5, where 1 = Significant positive impact, 3 = No impact and 5 = Significant negative impact.

	Significant positive impact		No impact	Significant negative impact		Don't know
	1	2	3	4	5	
Compliance	16%	24%	36%	14%	5%	7%
Credit management	7%	35%	33%	13%	2%	10%
Customer service representatives	59%	27%	8%	1%	1%	4%
General management	21%	49%	23%	4%	1%	2%
Information technology	27%	39%	22%	7%	2%	2%
Operations	23%	50%	17%	7%	1%	2%
Risk management	11%	34%	36%	11%	1%	6%
Sales and marketing	45%	41%	9%	1%	1%	2%



Appendix: Survey results continued

24. In which region are you personally based?

Americas	25%
Asia-Pacific (excluding Australia/NZ)	34%
Australia/NZ	9%
Europe	26%
Middle East/North Africa	2%
Sub-Saharan Africa	2%
Other	2%

25. What is your title and area of responsibility? Select all that apply.

Board member (executive director)	13%
Board member (non-executive director)	1%
Finance	16%
Human resources	3%
Internal audit	1%
Investor Relations	2%
Legal	2%
Line manager	17%
Marketing and communications	20%
Operations	7%
Risk Management	9%
Senior management	34%
Strategy/planning	19%
Other	9%

26. What area of financial services do you personally work in? Please check one answer only.

Business & corporate banking	19%
Investment management	22%
Life insurance	6%
Non-life insurance	7%
Private banking	9%
Retail banking	23%
Other, please specify	14%

27. What was your organisation's total global income, in US dollars, in 2005?

Less than \$500m	39%
\$500m to \$1bn	18%
\$1bn to \$5bn	16%
\$5bn to \$10bn	8%
Over \$10bn	20%

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Winning the battle for growth: Building the customer-centric financial institution

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