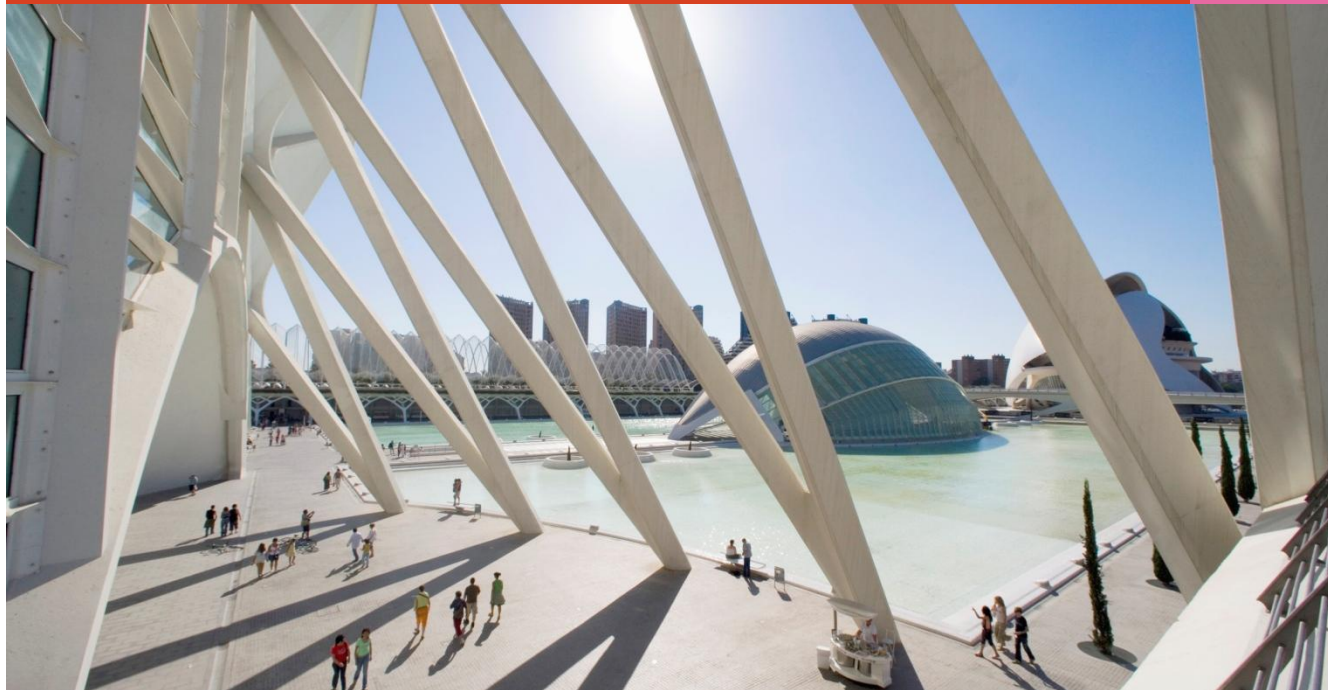


A publication of PwC's Financial Services Institute (FSI)

Getting to Know You: Building a Customer-Centric Business Model for Retail Banks



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Section 1

Point of view

Point of view

Retail banking in the United States is built largely around product silos—a model that is creating serious problems in the current economic environment.

Innovations in retail banking over the past few decades typically have been launched and maintained in silos—each with its own sales and distribution model, technology, and operational infrastructure.

The invention of the electronic demand deposit account decades ago triggered a revolution in retail banking. This was soon followed by innovations such as the ATM, credit card, floating-rate mortgage, home equity line of credit (HELOC), and various personal lending products. Each innovation was generally launched and maintained within its own silo, leading to the operational models that we observe at US banks today.

This history, combined with numerous mergers and acquisitions over the years, has left the retail banking industry in the following situation:

- While cross-selling has always been a goal, most banks do not have an enterprise-wide cross-selling strategy, do not provide incentives to cross sell, and/or do not have a high level of brand loyalty.
- The credit card business is typically separate from the rest of the retail business (mortgages, HELOCs, and other personal lending products).
- Although mortgages have historically been considered relationship products, banks have made little investment in increasing mortgage customer satisfaction and retention.
- There are separate, often redundant technology platforms and IT, operational, and support groups (e.g., risk management, finance, HR) supporting each product silo.
- “Brick and mortar” investments in branches are rarely leveraged to the fullest extent.
- Timely aggregation and reporting of information for key functions such as risk management, finance, regulatory, business and customer analysis is difficult, if not impossible.

Point of view

Retail banks that dismantle their product silos will quickly differentiate themselves from competitors by staying profitable in an era of shrinking revenues and expanding regulation.

We do not view the shift to a customer-centric organization as optional. Rather, this shift will be necessary if banks wish to maintain acceptable levels of profitability given significant changes in the regulatory environment. Retail banks that are up to the challenge will quickly differentiate themselves from competitors that cling to their silos.

Most of the cost cutting that took place during the financial crisis of 2007-2009 was of the “slash and burn” variety. Staff were quickly eliminated, projects cut, and salaries and perks reduced. Many banks have implemented web-based customer front ends, shared call centers, data centers, networks, and even shared support functions such as finance, risk management, and human resources. These efforts are a first step in the direction of cost rationalization, but they have had little or no impact on improving the ability of banks to cross-sell products, break down product silos, or improve the customer experience.

With the advent of Basel III and new regulatory rules in the United States (such as the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Credit Card Accountability, Responsibility, and Disclosure Act), customer acquisition and retention will become even more expensive. Worldwide, revenues of individual product lines are under assault by regulators and consumer advocates. A longer-term reassessment of business models, particularly in the US, has been put on hold by most banks pending clarification of the details related to new regulatory rules and structures. With the passage of Dodd-Frank in the US and agreement on Basel III, financial institutions are establishing structures and working groups to consider the impact of the new rules on compliance activities, overall business models, and cost structures.

A number of foreign banks that are expanding in the US have started to embrace the difficult changes in organization, technology, and compensation required to dismantle product silos and become world class customer-centric organizations. They are implementing these changes in their US businesses, posing a significant challenge to US-based financial institutions that have just begun to embrace customer-centric models.

Point of view

Positioning themselves for competitive advantage, leading retail banks are learning more about their customers' needs, wants, and expectations to help them boost sales.

Retail banks are striving to differentiate their products and services, develop a deeper understanding of customer needs, and build customer relationships—at a price that is competitive but leaves room for profit.

Leading retail banks are positioning themselves for the recovery by staying connected with customers, even those who have stopped buying or have deferred major purchases.

These banks are making the most of the economic lull by devoting resources to learning more about their customers' needs, wants, and expectations of their banking relationships. Many banks are investing in new technology to capture better data for profiling customers, enabling these institutions to gain deeper insight into ways to build more loyal and profitable customer relationships. Leading banks also are developing the next generation of products and services to meet the projected needs and expectations of customers and prospects going forward.

Rather than investing in a high volume of advertising to the masses, leading banks are emphasizing “contact optimization.”

This more scientific approach to advertising helps organizations decide whom to contact and when, which products and services to discuss, which offers to make, and which channels to use—all in an effort to build more loyal, and profitable, customer relationships.

Contact optimization can eliminate the risk that customers will be annoyed—a common problem with high-volume mass advertising. Statistics show that the customer response rate decreases as the rate of contact increases, which ultimately can diminish brand value and ROI. The key to successful contact optimization is a program of integrated marketing communications—keeping careful tabs on how recently and how frequently companies engage customers, carefully coordinating which channels are used, and systematically monitoring results.

Point of view

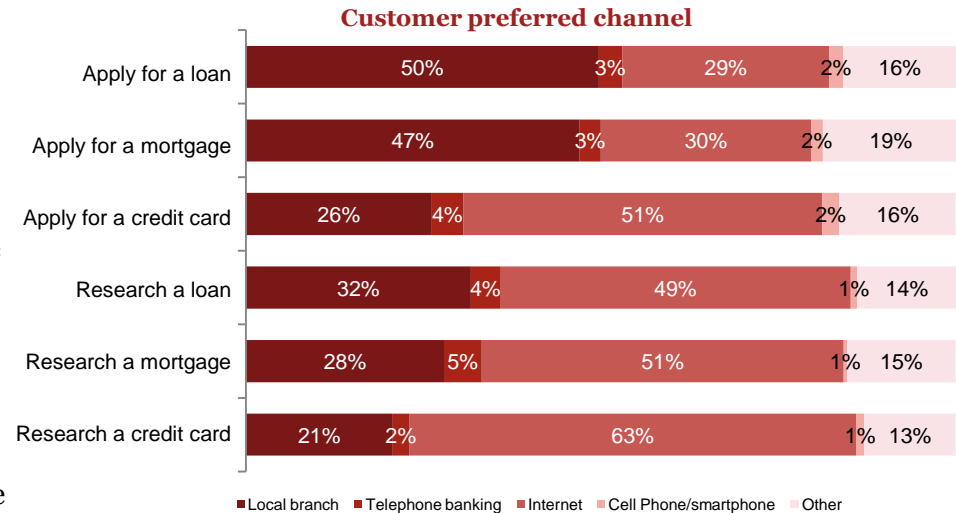
Mobile technology and social media are presenting new opportunities and challenges for retail banks. Customers have changing expectations and are sharing their experiences.

Banks must adapt to the era of “anytime, anywhere, and right now.”

The use of the Internet to research and apply for loans, mortgages, and credit cards is now a given (see chart), whereas it was virtually unheard of 10 years ago.

Currently, the use of mobile devices for these purposes is very small, but the uptake among consumers is increasing rapidly as customers become increasingly comfortable conducting mobile banking transactions. The result is yet another new channel for retail banks to maintain, secure, and operate.

Increasingly, customers are demanding that banking services come to them, when and where they want them, and they expect to receive an almost immediate response to their requests.



Source: PwC survey of consumer retail banking, Feb 2011

Customers are sharing their experiences in real time. Banks with poor service have nowhere to hide.

The proliferation of social media has taken word-of-mouth marketing to exponential levels. Customers are using this platform to actively spread the word in real time about their customer-service experiences. The average Facebook user has 150 friends who can find out about a bad banking experience within seconds, and well-treated customers are becoming unofficial spokespeople for certain brands.

Banks must respect the power of social media to build or tarnish reputations, and focus on delivering the quality of service they will want to read about online. It is better to invest in processes that anticipate issues and address them immediately than to learn about a problem after the fact in a blog.

Point of view

Many US retail banks have resisted further moves toward a customer-centric model because of personal incentives, integration challenges, and organizational structures.

In our view, the following three institutional impediments have decreased the ability of financial institutions to embrace customer-centric operating models.

Personal risk—

Historically, the personal risk-reward ratio for key decision makers in the banking industry tilted in favor of the status quo. Each product line operated in a silo and tended to be profitable. Consolidation meant lost jobs and, potentially, a reduction in job responsibilities and authority of business-unit leaders. In addition, few institutions had the courage to invest in the systems integration efforts needed to gain an enterprise-wide view of the customer. Instead, they focused resources on improving the “product experience” and introducing new product variations and features to support revenue growth.

Integration complexity—

Consolidating the technology platforms and operations of multiple product lines is a highly complex process that is fraught with execution risk. The more business units involved, the greater the complexity and risk. Designing shared processes, workflows, forms, and technology necessitates reconciling the diverse and often conflicting business and technology requirements of various product groups. Product features and functions are designed with the consumer experience in mind rather than the needs of product managers. Individual business units lose absolute control over the product-development process in a multi-product, customer-centric world.

Conflicting priorities across silos—

Product-line investments, revenue, and cost allocation models typically do not support multi-product or entity-level projects that might improve operational efficiency and organizational profits (for example, shared underwriting and marketing processes for credit cards, auto loans, and home loans). Instead, incentives tend to be tilted toward funding and implementing projects within silos, thus driving the market share and profitability of each silo rather than of the organization as a whole.

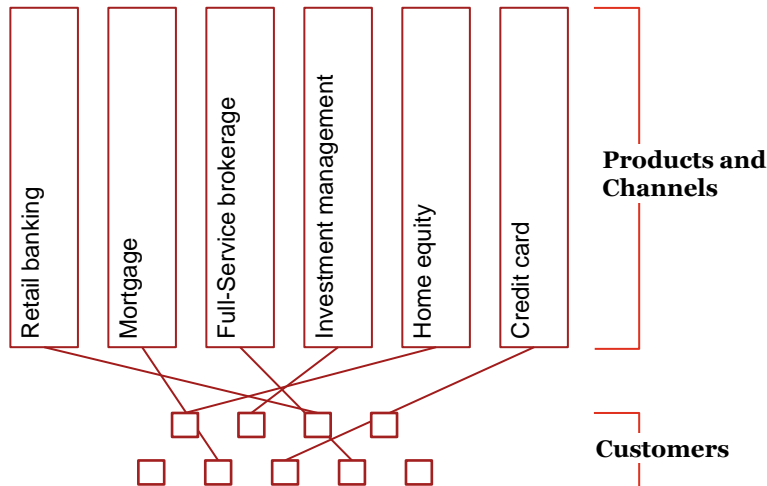
Point of view

In our view, banks should adopt a new, customer-centric model integrated around customer needs.

The traditional banking model, structured around internal product groups (silos), is organization-centric. It prevents banks from understanding which products and services their customers have purchased across the enterprise. In this difficult economic environment, lending-product silos are struggling to stay profitable on a standalone basis, and the challenge will only increase.

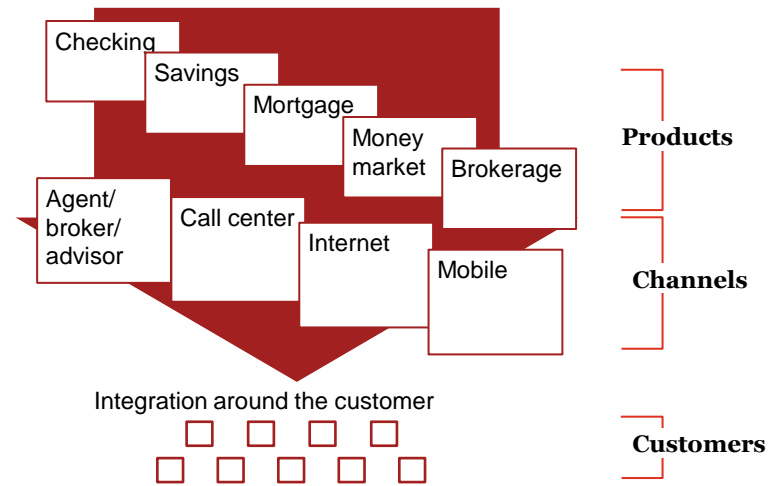
In our view, banks should adopt a new, customer-centric model that is integrated around the customer's needs.

Traditional model organizational centric



Customers get what you can sell them

New model customer centric



Customers get what they want

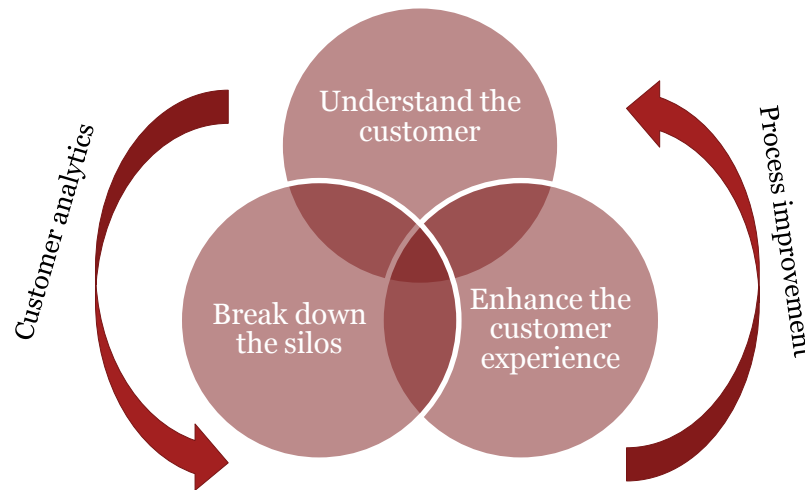
Point of view

Leading institutions are implementing customer-centric strategies by focusing on three critical elements: breaking down product silos, understanding their customers, and enhancing the customer's experience.

In our view, there are three keys to developing a customer-centric retail banking strategy:

- Break down organizational silos and structure incentives to promote a customer-centric culture.
- Understand customer needs, behavioral drivers, and profitability.
- Deliver a consistently high-quality customer experience.

Each of these elements requires sound customer analytics and an approach to process improvement that focuses on the customer.



Section 2

Current situation

Current situation—PwC survey of consumers

PwC's recent survey of US consumers reveals preferences and trends in retail banking.

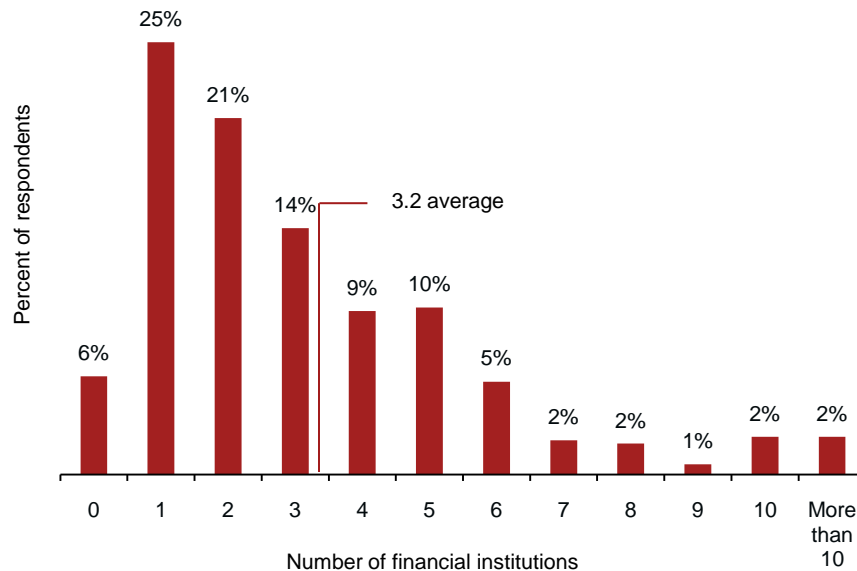
The PwC survey of consumer retail banking preferences was conducted in late January/early February 2011.

- Consumers reported currently having relationships with an average of 3.2 financial institutions.
- The majority of respondents define their primary financial institution as the bank with which they have their checking account. More than 37% of respondents indicated that their primary banking relationship is with a large national bank.
- The top six financial products purchased by consumers are checking, savings, credit card, insurance, mortgage, and IRAs.
- Consumers ranked competitive pricing, convenient branch/ATM locations and hours, online banking, and personalized customer service as the most important bank features.
- Consumers hold an average of 3.3 products at their primary financial institution. Over 40 percent of survey respondents have been customers with their existing primary financial institution for more than 10 years.
- Most respondents cited physical locations and low cost/fees as considerations in their decision about where to open a checking account.
- Primary reasons for selecting a primary financial institution differ by respondent age. Of the consumers who indicated that they define their primary financial institution as where they have their checking account, primary reasons for selecting an institution have changed over time.
- Consumers are generally satisfied with the service that they receive from their primary financial institutions. However, of those respondents with a specific recommendation as to what they would change about their primary financial institution, 27 percent cited better or more personalized customer service. Opinions as to what financial institutions should change differ by income.
- Consumers prefer to apply for a loan or mortgage in-person but seem to be increasingly comfortable applying for a credit card online.
- Bank customers continue to frequent bank branches, primarily to make deposits or withdrawals. The timing of consumers' last branch visits differs by respondent age. The usage of different branch service differs by total annual household income.
- Of those who reported refinancing a mortgage in the past 5 years, most cited interest rates or simplicity of the process as factors in their decision.

Current situation—PwC survey of consumers

Consumers reported currently having relationships with an average of 3.2 financial institutions.

Consumers reported having relationships with an average of 3.2 financial institutions. The median number of relationships with financial institutions was 2.



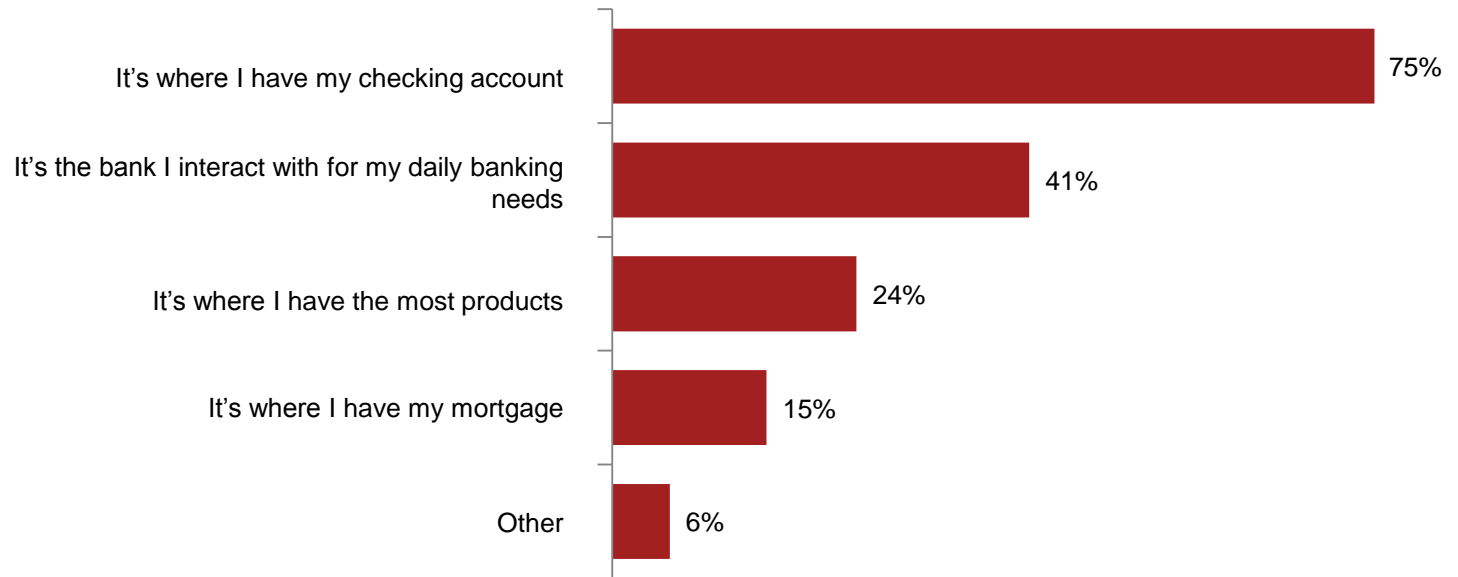
Percentile	Value
10	1
25	1
50 (median)	2
75	4
90	6

Question: How many banks/financial institutions do you currently have products with? (Examples include checking account, savings account, credit card, retail store credit card, home mortgage, auto loan, installment loan, home equity line of credit, student loan, retirement account, brokerage account, and business loans).

Current situation—PwC survey of consumers

The majority of respondents define their primary financial institution as the bank with which they have their checking account.

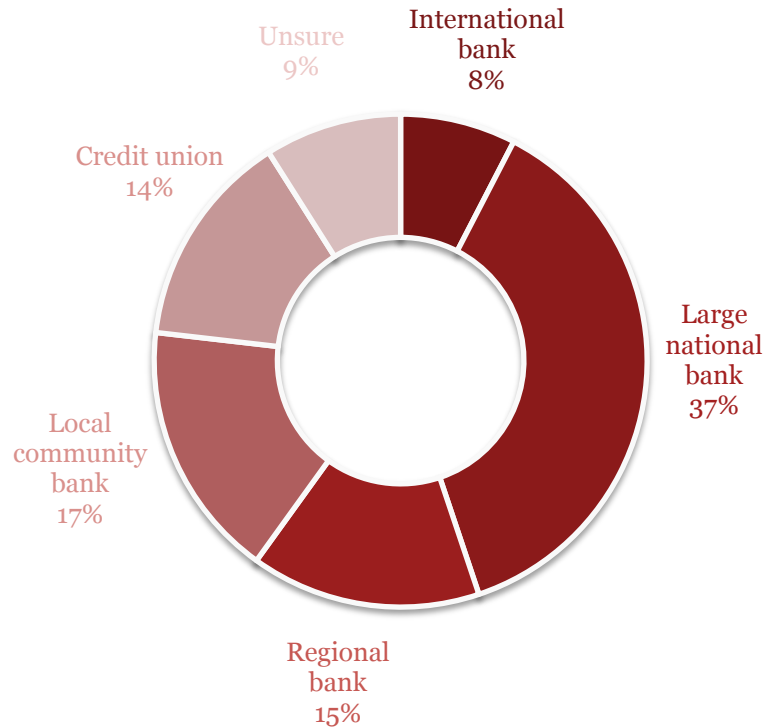
Question: How do you define your primary financial institution? (Select all that apply.)



Current situation—PwC survey of consumers

More than 37% of respondents indicated that their primary banking relationship is with a large national bank.

Question: Which of the following best describes your primary financial institution? (Select one.)



Current situation—PwC survey of consumers

The top six financial products are checking, savings, credit card, insurance, mortgage, and IRAs.

Percent of respondents indicating that they purchased each of the following products, either at their primary financial institution or at another institution.

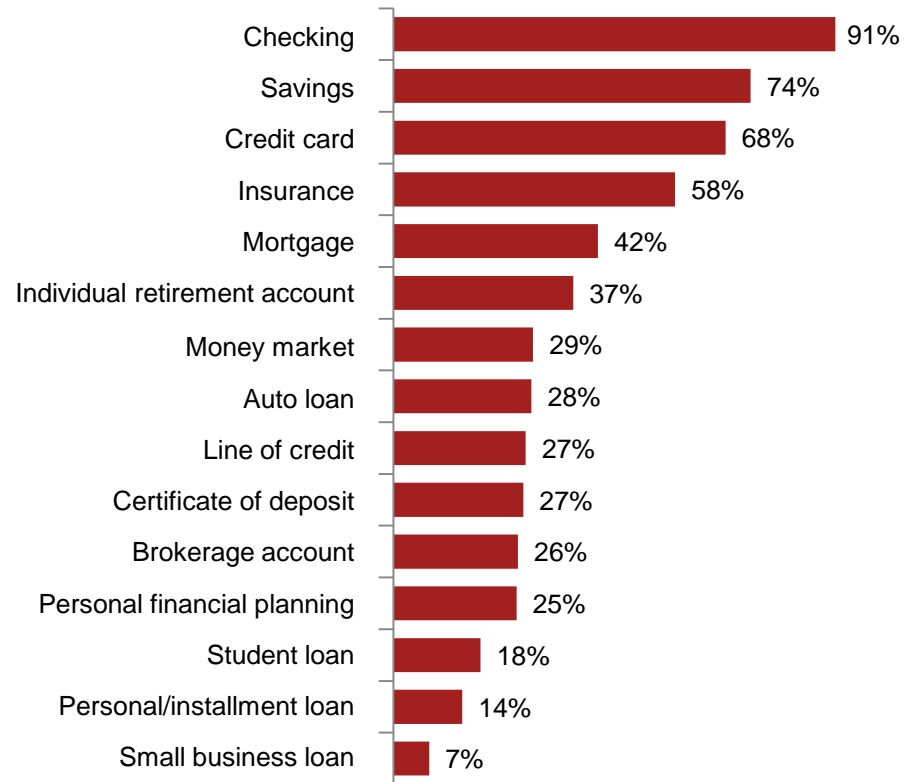
Checking and savings are the most widely purchased products.

91

Percent of respondents who indicated that they have a checking account, either with their primary financial institution or elsewhere.

74

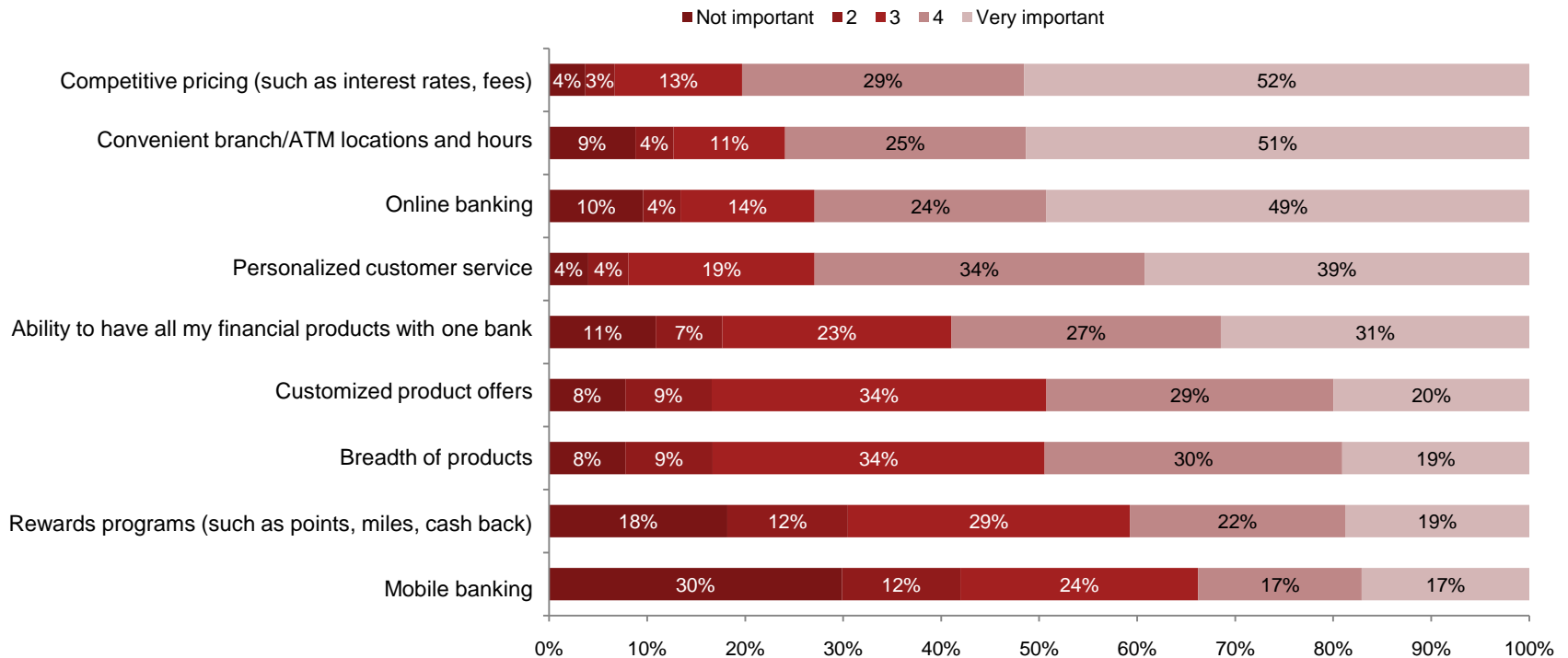
Percent of respondents who indicated that they have a savings account, either with their primary financial institution or elsewhere.



Current situation—PwC survey of consumers

Consumers ranked competitive pricing, convenient branch/ATM locations and hours, online banking, and personalized customer service as the most important bank features.

Question: Please rate the importance of the following bank features.



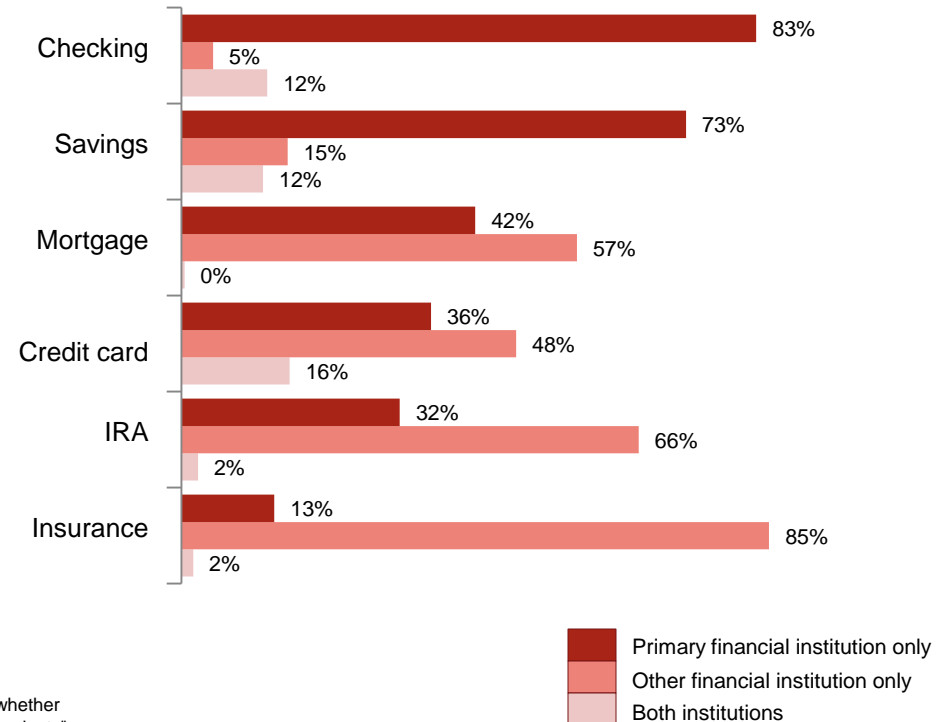
Note: Percentages may not sum to 100 due to rounding.

Current situation—PwC survey of consumers

Consumers hold an average of 3.3 products at their primary financial institution. Credit cards, insurance, and mortgages are more often obtained from financial institutions other than the primary one.

Consumers reported purchasing an average of 3.3 products at their primary financial institution. Of the top six products that consumers reported purchasing, two are held more often at primary financial institutions than elsewhere: checking and savings.

- Of those with checking accounts, 83% have them at their primary financial institutions and 12% have them at both their PFI and another institution.
- Of those with savings accounts, 73% have them at their primary financial institution, 15% at other, and 12% at both.
- The other most commonly purchased financial products are credit cards, insurance, mortgage, and IRAs, all of which are more often purchased from financial institutions other than a consumer's primary financial institution.

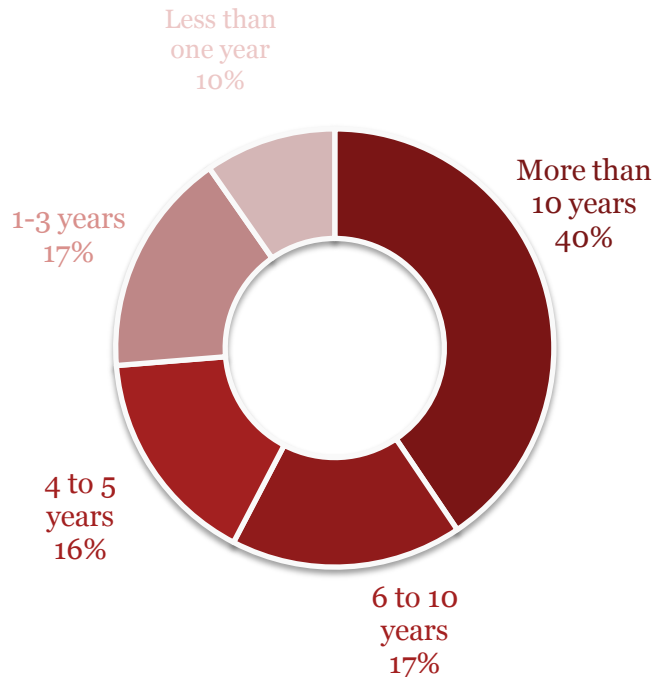


We asked respondents to indicate whether or not they had this type of product, and if so, whether they had purchased it from their primary institution or another institution. The "number of products" here is calculated based on whether or not the customer has that product, not the number of accounts. For example, someone with 10 credit cards at institutions other than their primary financial institution would, in this analysis, count as "1 product at other."

Current situation—PwC survey of consumers

Over 40 percent of survey respondents have been customers with their existing primary financial institution for more than 10 years.

Question: How long have you been a customer at your primary financial institution? (Select one.)



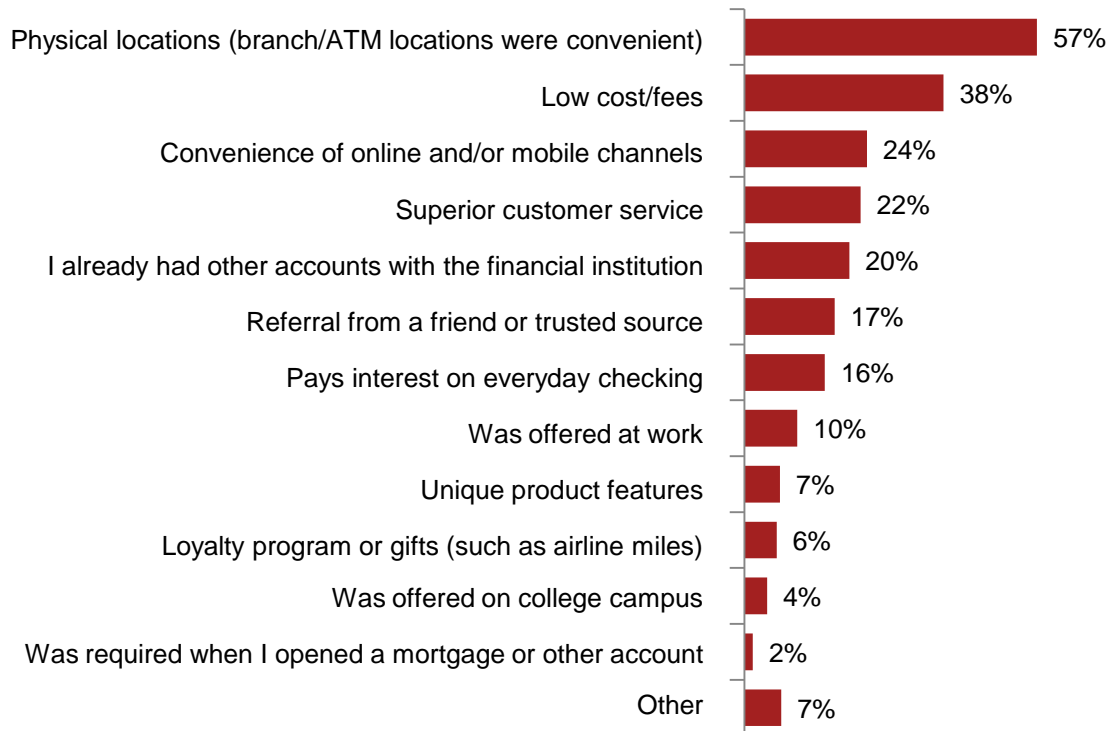
40% of respondents indicated that they had been a customer with their existing primary financial institution for more than 10 years.

10% of respondents indicated that they had opened accounts with their primary financial institution less than one year ago.

Current situation—PwC survey of consumers

Most respondents cited physical locations and low cost/fees as considerations in their decision about where to open a checking account.

Question: You indicated above that you have a checking account. What were the main reasons you decided to open a checking account at that particular institution (or institutions)? (Select all that apply.)



Current situation—PwC survey of consumers

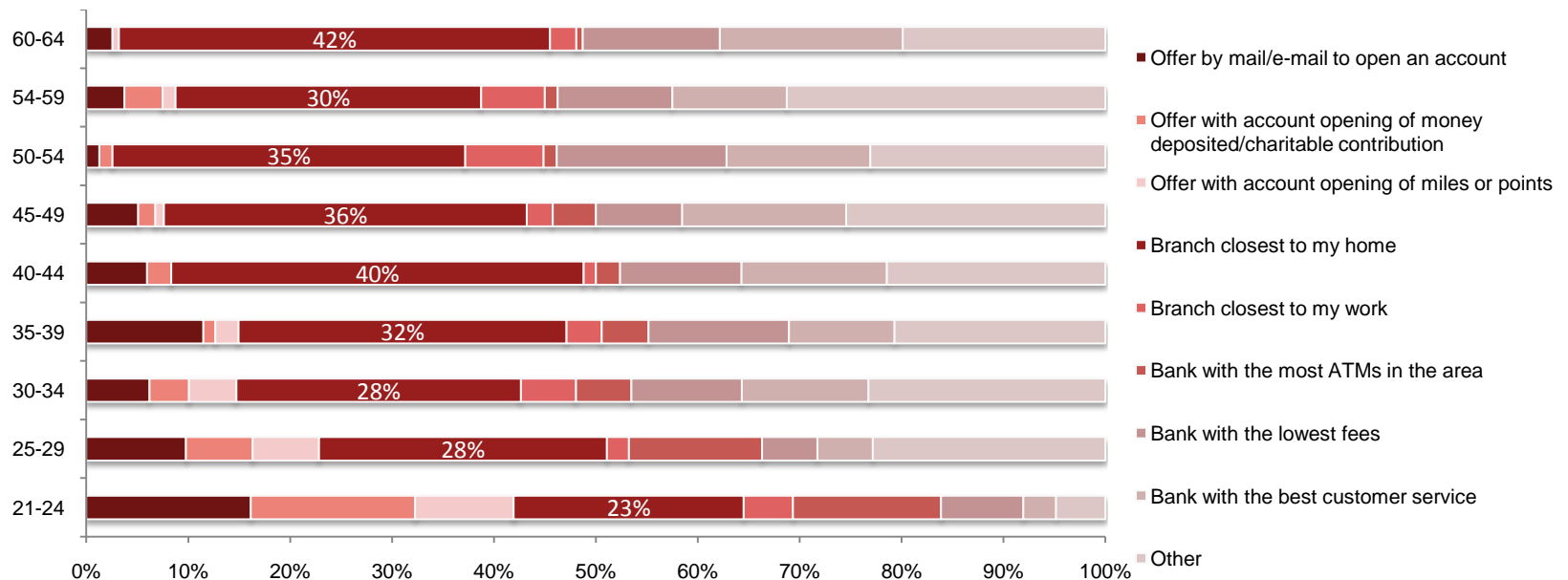
Primary reasons for selecting a primary financial institution differ by respondent age.

23

Percent of respondents aged **21-24** who indicated that **branch location close to home** was the primary reason for selecting that institution.

42

Percent of respondents aged **60-64** who indicated that **branch location close to home** was the primary reason for selecting that institution.



Questions: What was the most important factor when you selected your primary financial institution? (Select one.)
Which of the following categories best describes your age?

Current situation—PwC survey of consumers

Of the consumers who indicated that they define their primary financial institution as where they have their checking account, primary reasons for selecting an institution have changed over time.

Branch closest to home not as important as 10 years ago.

41

Percent of respondents with **ten or more years** with primary financial institution who indicated that **branch location close to home** was the primary reason for selecting that institution.

31

Percent of respondents with **less than three years** with primary financial institution who indicated that **branch location close to home** was the primary reason for selecting that institution.

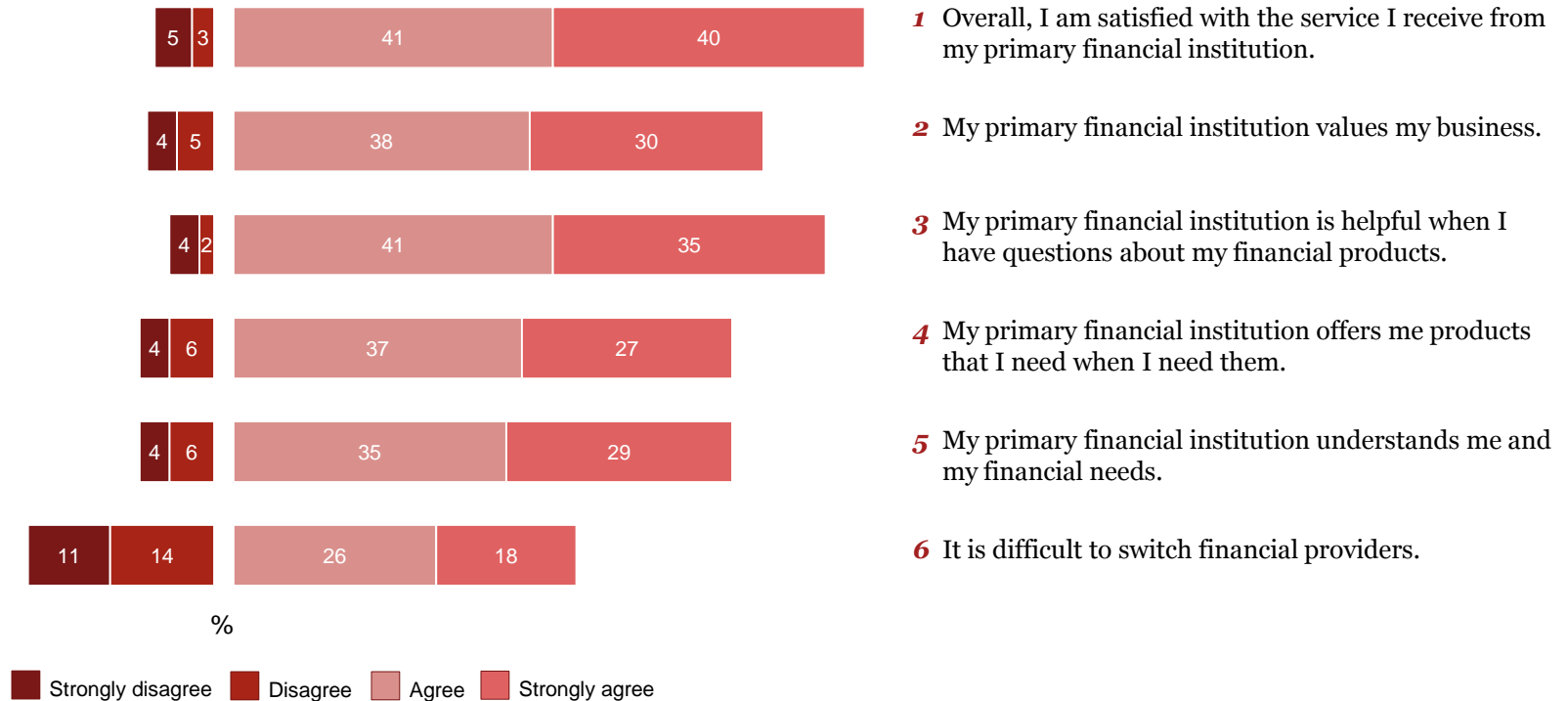
Special offers gaining in importance

Primary reason for selecting primary financial institution	Years with primary financial institution		
	0-3	4-9	10 or more
Branch closest to my home	31%	35%	41%
Bank with the best customer service	11%	10%	14%
Bank with the lowest fees	12%	10%	13%
Branch closest to my work	5%	4%	4%
Bank with the best online/mobile banking capabilities	5%	6%	3%
Bank with the most ATMs in the area	5%	7%	2%
Best terms/lowest interest rate on mortgage	1%	2%	2%
I received an offer by mail/e-mail to open a free checking/savings account	10%	7%	1%
Special offer with account opening of money deposited/charitable contribution on your behalf	7%	3%	1%
Special offer with account opening of miles or points	4%	3%	1%
Other	9%	12%	19%

Current situation—PwC survey of consumers

Consumers are generally satisfied with the service that they receive from their primary financial institutions.

Question: Please indicate your level of agreement with the following statements.

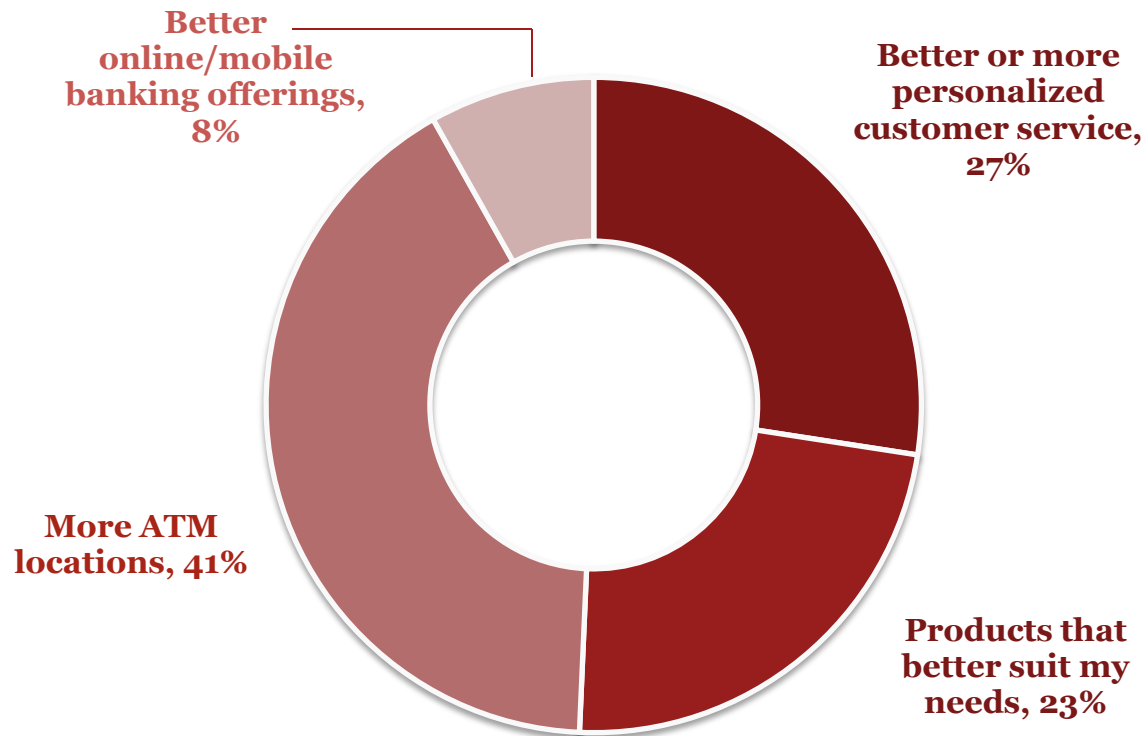


Note: Percentages do not sum to 100 because "neither agree nor disagree" was removed from responses for reporting purposes.

Current situation—PwC survey of consumers

Of those respondents with a specific recommendation as to what they would change about their primary financial institution, most selected ATM locations and better customer service.

Question: If you could change one thing about your primary financial institution, what would it be? (Select one.)



Current situation—PwC survey of consumers

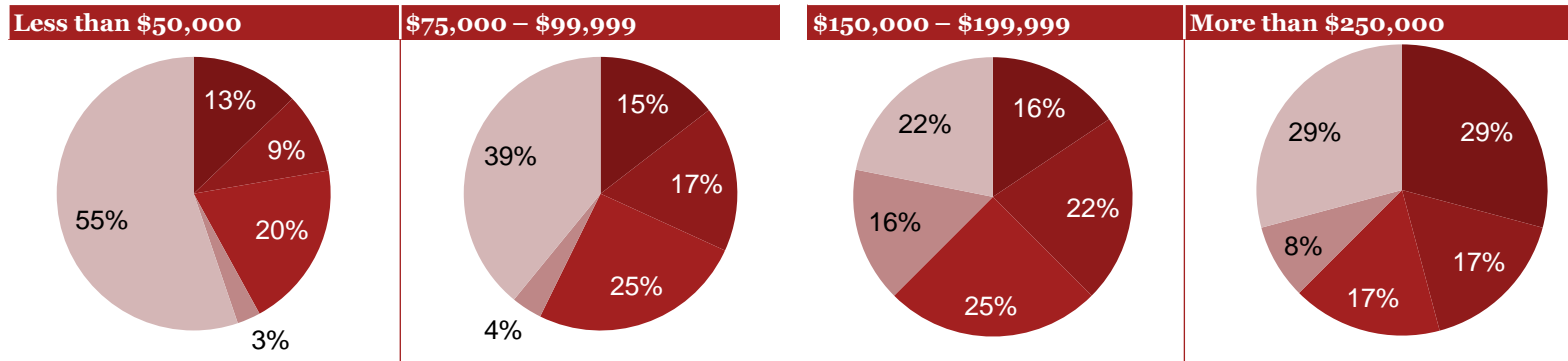
Opinions as to what financial institutions should change differ by income.

13

Percent of respondents with **income less than \$50,000** which indicated they would like **better or more personalized customer service**

29

Percent of respondents with **income more than \$250,000** which indicated they would like **better or more personalized customer service**



Questions: If you could change one thing about your primary financial institution, what would it be?
Which of the following categories best describes your total annual income?

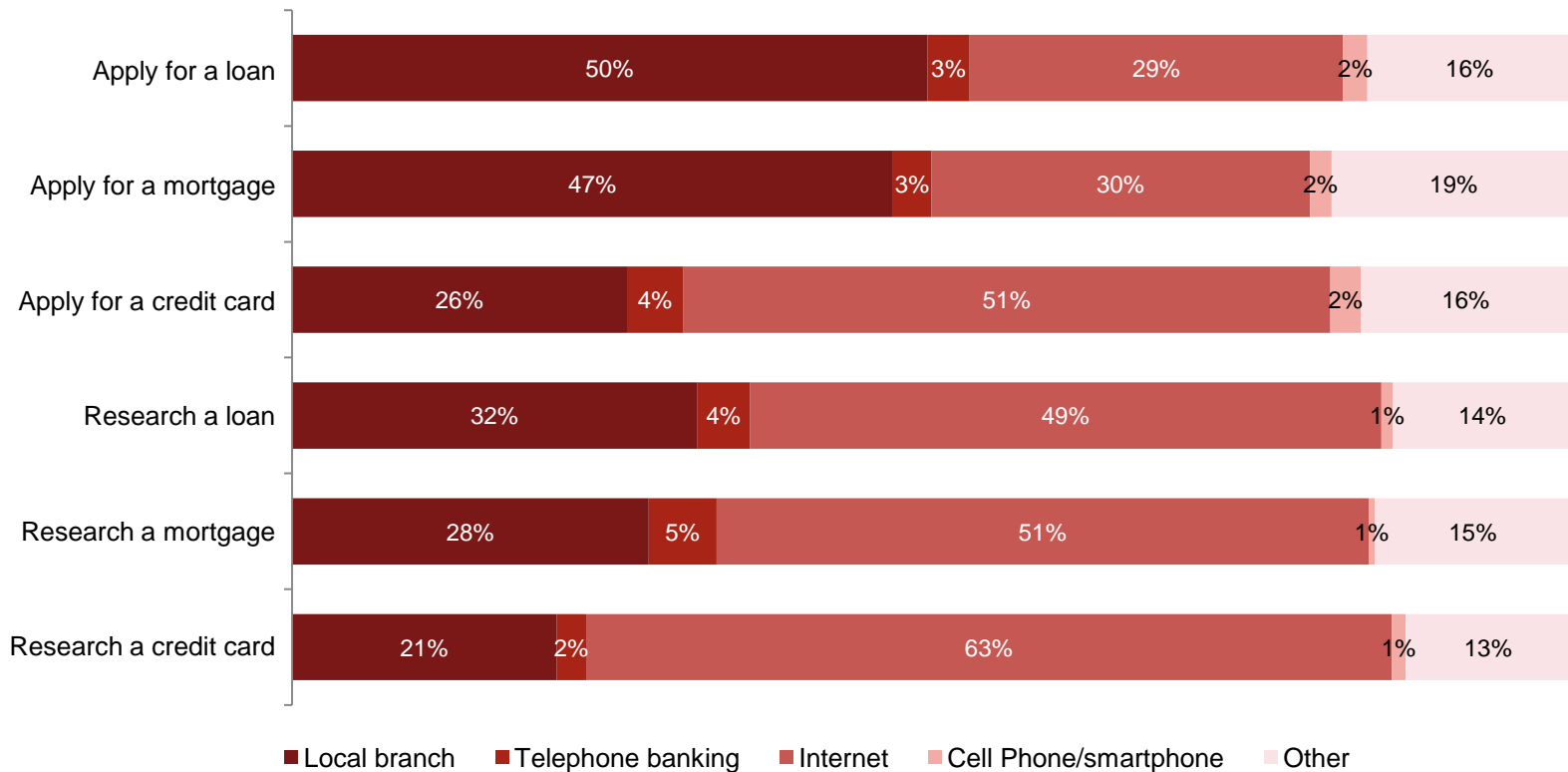
- None of the above
- Better online/mobile banking offerings
- More ATM locations
- Products that better suit my needs
- Better or more personalized customer service

Note: Percentages may not sum to 100 due to rounding.

Current situation—PwC survey of consumers

Consumers prefer to apply for a loan or mortgage in-person but seem to be increasingly comfortable applying for a credit card online.

Customer preferred channel



Question: Please indicate which channel you prefer to use for each of the following? (Select one for each row.)

Note: Percentages may not sum to 100 due to rounding.

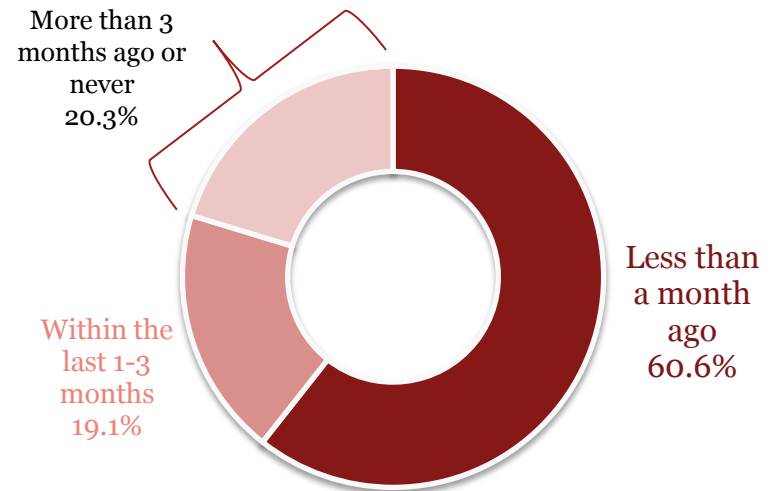
Current situation—PwC survey of consumers

Bank customers continue to frequent bank branches, primarily to make deposits or withdrawals.

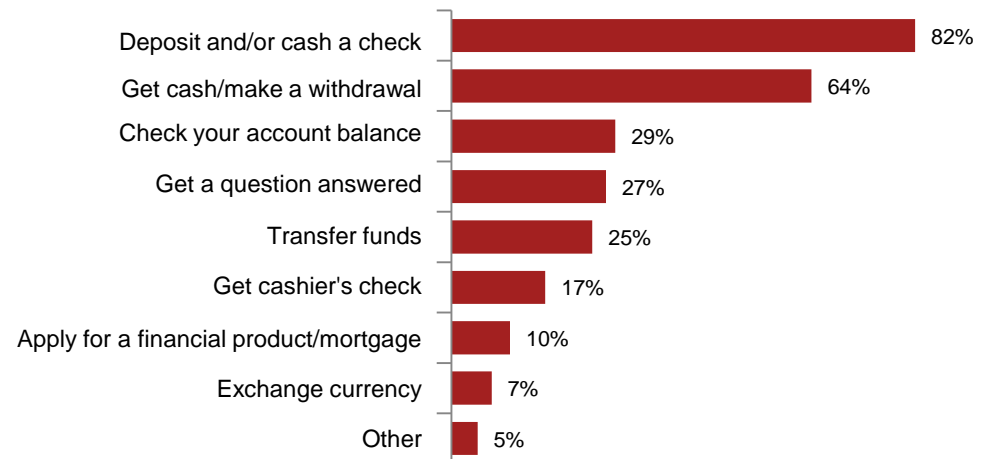
Question: When was the last time you visited a bank branch?

More than 60 percent of respondents indicated that they had visited a branch in the past month.

Eighty percent had visited a branch within the past 3 months.



Question: Which of the following banking services do you use at the branch? (Select all that apply).



Current situation—PwC survey of consumers

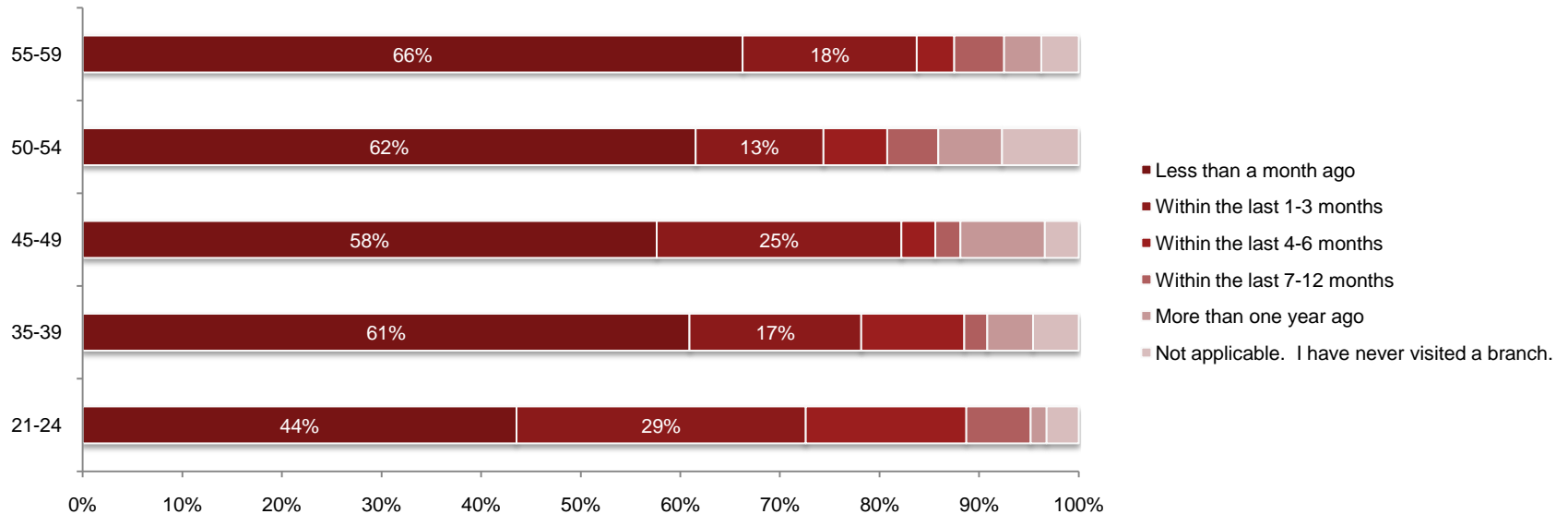
The timing of consumers' last branch visits differs by respondent age.

44

Percent of respondents aged **21-24** who indicated that they have visited a bank branch **within the past month.**

66

Percent of respondents aged **55-59** who indicated that they have visited a bank branch **within the past month.**



Questions: When was the last time you visited a bank branch?
Which of the following categories best describes your age?

Current situation—PwC survey of consumers

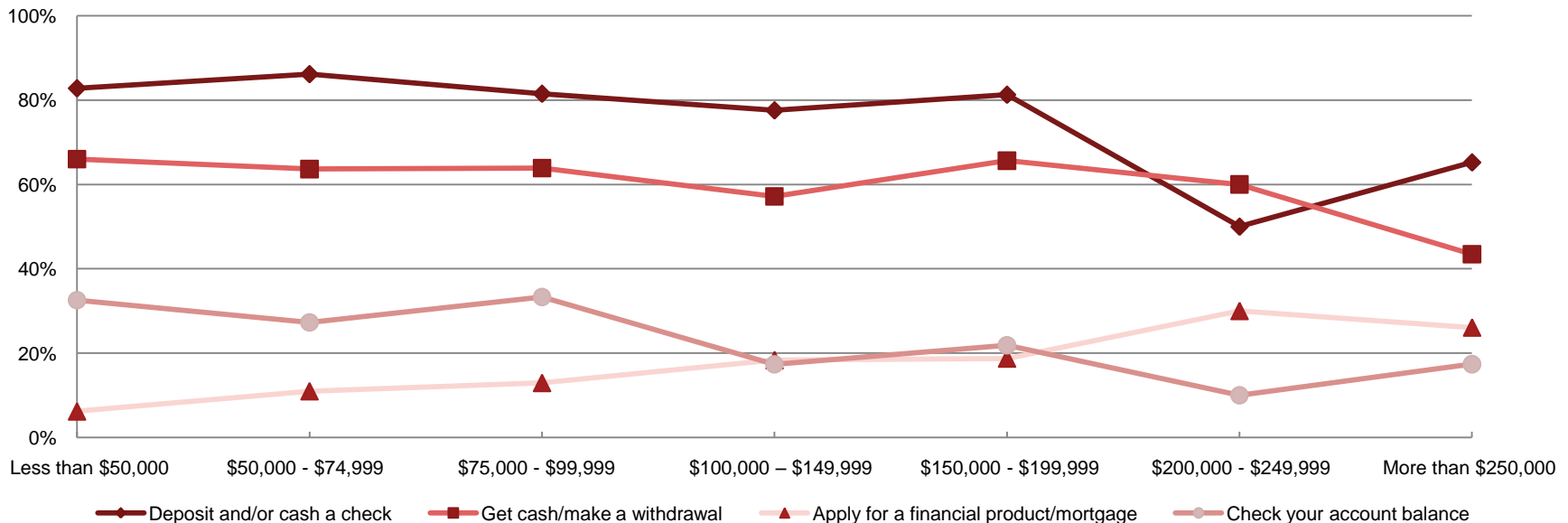
The usage of different branch services differs by total annual household income.

83

Percent of respondents with total household annual income of **less than \$50,000** indicated that they **deposit and/or cash a check** at their bank branch.

65

Percent of respondents with total household annual income of **more than \$250,000** indicated that they **deposit and/or cash a check** at their bank branch.



Questions: Which of the following banking services do you use at the branch? (Select all.)

Which of the following categories best describes your total annual household income for calendar year 2010 before taxes?

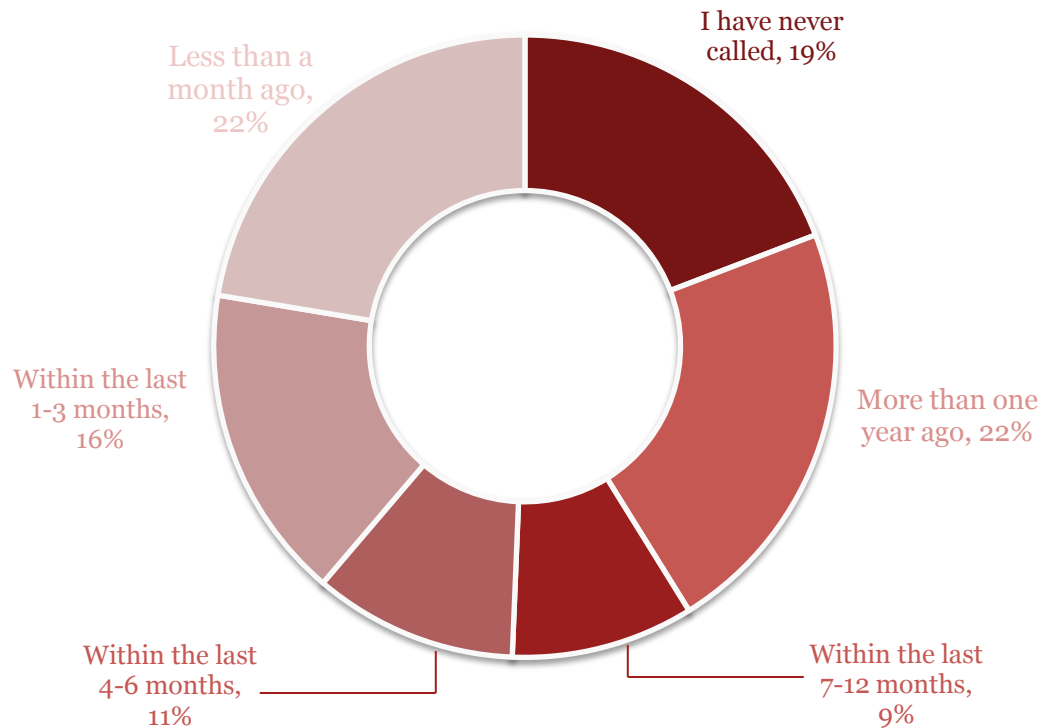
Current situation—PwC survey of consumers

Bank customers continue to call their financial institutions' customer service centers.

Question: When was the last time you called a financial institution's customer service center?

49

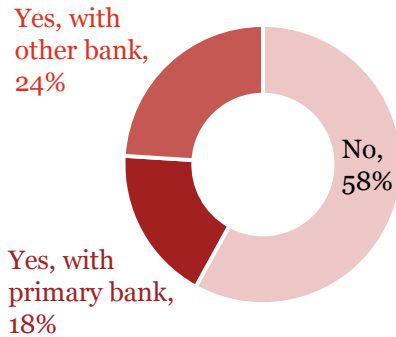
Percent of respondents who have called their financial institution's customer service center within the past 6 months.



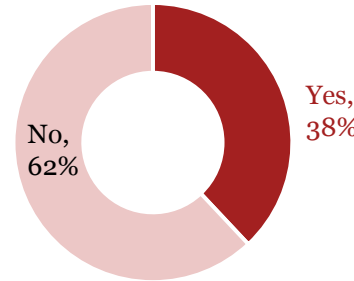
Current situation—PwC survey of consumers

Of those who reported refinancing a mortgage in the past 5 years, most cited interest rates or simplicity of the process as factors in their decision.

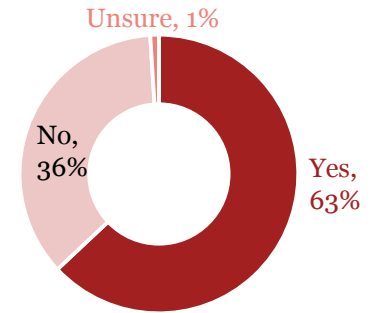
Do you have a mortgage?



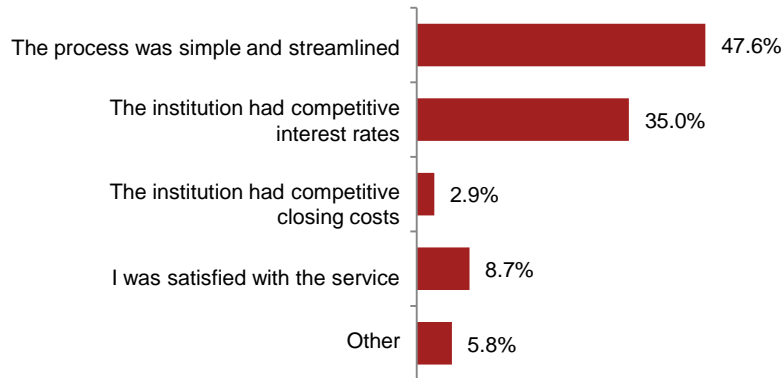
Have you refinanced your mortgage in the past 5 years?



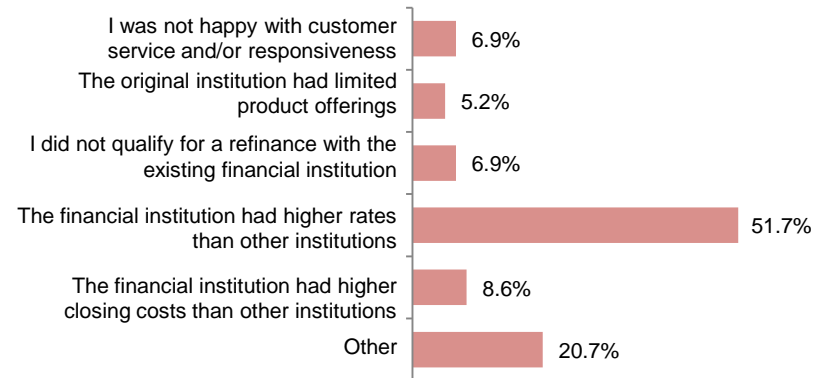
Did you refinance with the same financial institution?



Main reason for refinancing with the same financial institution



Main reason for **not** refinancing with same financial institution



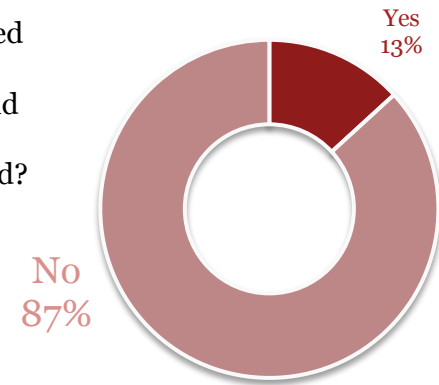
Survey results

Consumers reported largely that there was nothing a financial institution could have done differently when they closed their account.

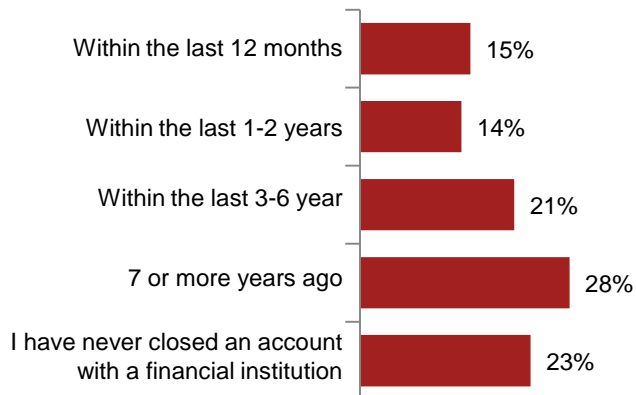
When asked whether or not they had closed an account with a financial institution, 29% of respondents indicated that they had done so within the past 2 years.

Of those who reported that they had closed an account, 87% indicated there was nothing their financial institution could have done to prevent them from closing the account.

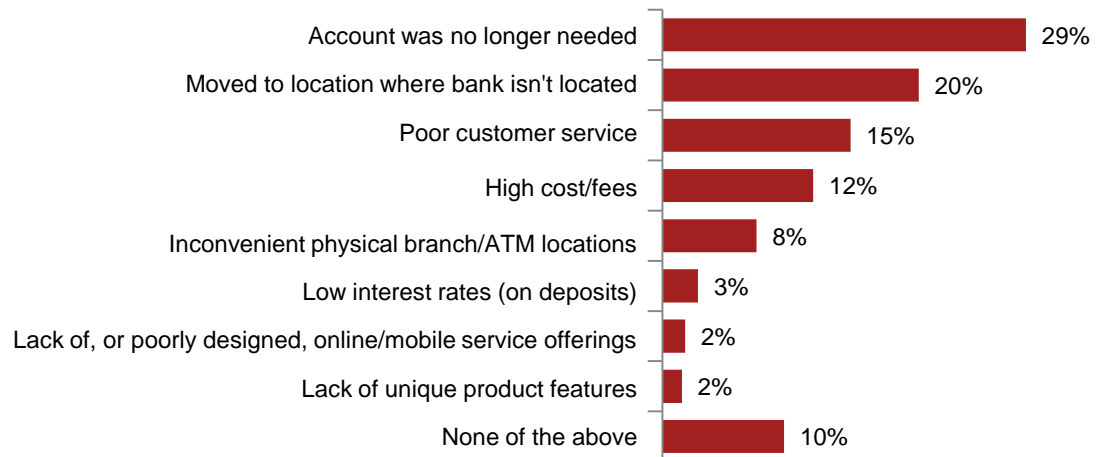
Question: When you closed the account, was there anything that the bank could have done that would have made you change your mind?



Question: When was the last time you closed an account with a financial institution?



Question: What was the primary reason for closing that account?



Note: Percentages may not sum to 100 due to rounding.

Section 3

Competitive intelligence

Competitive intelligence—Break down the silos

In our experience, most banks follow a traditional or hybrid customer centricity strategy. Almost none currently have a leading-edge strategy.

Break down the silos	Level 1 – Traditional strategy	Level 2 – Hybrid strategy	Level 3 – Leading-edge strategy
	<ul style="list-style-type: none"> ▪ Marketing/business intelligence are the only groups actively analyzing customer data. Other groups are focused on product or channel analysis. ▪ Typically no consistent customer strategy defined at the parent level applied by all lines of business. ▪ Some information is shared with customer service and new product development. ▪ Companies with different origination/servicing platforms (such as mortgage, credit cards, student loans) do not have a single view of the customer (portfolio of products, profitability, tenure) so all the analysis is performed in an ad-hoc basis. ▪ Company has not actively implemented a universal customer identifier. ▪ Most retail banks lack a centralized customer data warehouse that captures customers’ activities across the enterprise and can be used to analyze key data such as customer profitability, preferred interaction channels, and household dynamics. 	<ul style="list-style-type: none"> ▪ Marketing, New Product Development, BI, and Operations groups are actively involved in customer analytics discussions. ▪ Data is received from and shared with customer service representatives, loan officers and other individuals that have direct customer contact. ▪ Legacy systems might still prevent the creation of a universal client identifier. But company starts tracking customers’ activities across the enterprise through the creation of a customer data repository. ▪ Customer information is available on a monthly / quarterly basis and not on a real time basis. ▪ While several banks link employee incentives to customer satisfaction, retention, and cross-selling efforts, these incentives rarely represent a significant portion of overall compensation. 	<ul style="list-style-type: none"> ▪ Customer strategy becomes an independent group that interacts with marketing, strategic planning, and credit risk management. ▪ Customer analytics and segments are refined on a periodic basis and include feedback from front office and back office functions. ▪ Customer profitability and customer retention become key drivers of compensation. ▪ The universal client identifier is included in all the systems. ▪ Information is updated daily or on a real-time basis. ▪ All employees have access to a “customer dashboard” that allows different levels of the organization to understand the customers’ needs and wants.

Competitive intelligence—Understand your customer

In our experience, most banks follow a traditional or hybrid customer centricity strategy. Almost none currently have a leading-edge strategy. (Continued)

Understand your customer	Level 1 – Traditional strategy	Level 2 – Hybrid strategy	Level 3 – Leading-edge strategy
	<ul style="list-style-type: none">▪ Bank primarily segments customers by product and credit score.▪ Additional customer data points might be captured at origination but are not used.▪ Customer service metrics often are tracked at the business unit level (such as branch banking, mortgage servicing call center, direct sales channel), and the metrics usually focus on the efficiency of the interaction (such as number of customers served, average talk time) rather than the quality or effectiveness of the interaction (for example, first time resolution of problems, customer effort score).▪ Front-line employees across different lines of business do not have access to a consolidated “customer dashboard” that would enable them to quickly identify information such as products the customer has purchased, the date of the customer’s last interaction with the bank, which products have been offered and refused in the past.	<ul style="list-style-type: none">▪ Company uses product attributes (such as credit score, LTV,) as well as basic customer attributes (age, marital status, income) to define segments.▪ Third party information is also incorporated into the segmentation model.▪ Bank starts tracking certain customer metrics across different channels.	<ul style="list-style-type: none">▪ Bank uses product and customer attributes to define segments but also incorporates psychographic elements (client dynamics depending on the household composition).▪ Customer retention and cross-selling information also becomes a critical part of the segmentation efforts.▪ A customer dashboard can be accessed by staff at the branch, the call center and other groups in the organization.▪ Customer activities across the organization are updated daily, or in some cases, real-time.

Competitive intelligence—Enhance the customer experience

In our experience, most banks follow a traditional or hybrid customer centricity strategy. Almost none currently have a leading-edge strategy. (Continued)

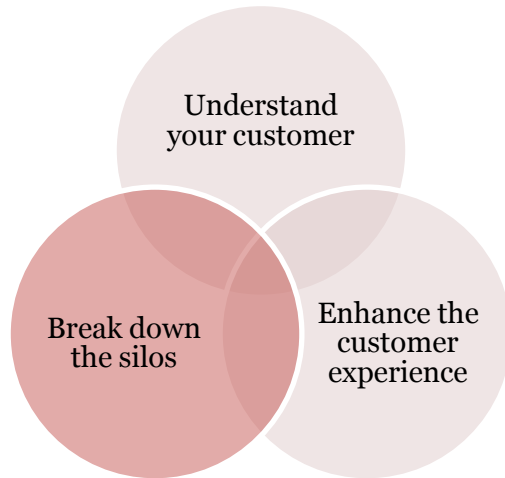
Enhance the customer experience	Level 1 – Traditional strategy	Level 2 – Hybrid strategy	Level 3 – Leading-edge strategy
	<ul style="list-style-type: none">▪ Strategy is driven based on the asset class.▪ Profitability is calculated only based on actual results and on a product (not customer) basis.▪ A cross-selling benefit might be assumed, but it is not measured.▪ A well-defined customer strategy is not shared with any C-suite executives.▪ Retail banks generally do not have a formal “voice of the customer” program in place to capture and respond to customer feedback.	<ul style="list-style-type: none">▪ Actual profitability numbers are calculated on a customer basis. Information is extrapolated to calculate a customer lifetime value that can be used for relative comparisons across segments.▪ Some information is shared with C-suite executives and starts to be used for new products/markets/service offering decisions.▪ While customer centricity is a strategic priority at several banks, this priority rarely is translated into actionable plans that are communicated throughout the organization.	<ul style="list-style-type: none">▪ Customer analytics are actively used by the credit groups to analyze the capacity and willingness to pay as well as to assess the overall risk exposure of a particular segment.▪ Customer profitability and risk results are shared with senior executives and the information is used to make pricing and other strategic decisions.

Section 4

A framework for response

A framework for response—Break down the silos

Identify and begin to address the barriers to implementing a customer-centric strategy, including organizational and compensation structures.



Key goals:

- Transitioning from an organizational/product to a customer view of the portfolio.
- Aligning incentives with enterprise-wide value maximization rather than rewarding individual business units for volume generated.
- Sharing of best practices across channels and customer-entry points.

Roadmap activities

Short term (0-6 months)

- Analyze the existing barriers to effective retention and cross-selling efforts.
- Analyze changes required to make the compensation structure customer-centric.

Medium term (1-2 years)

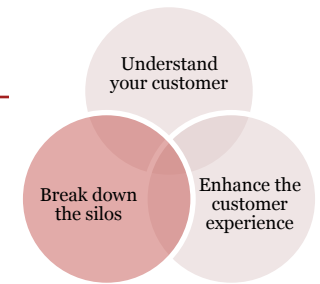
- Implement robust retention and cross-selling metrics.
- Make necessary changes to the organizational structure.

Long term (>2 years)

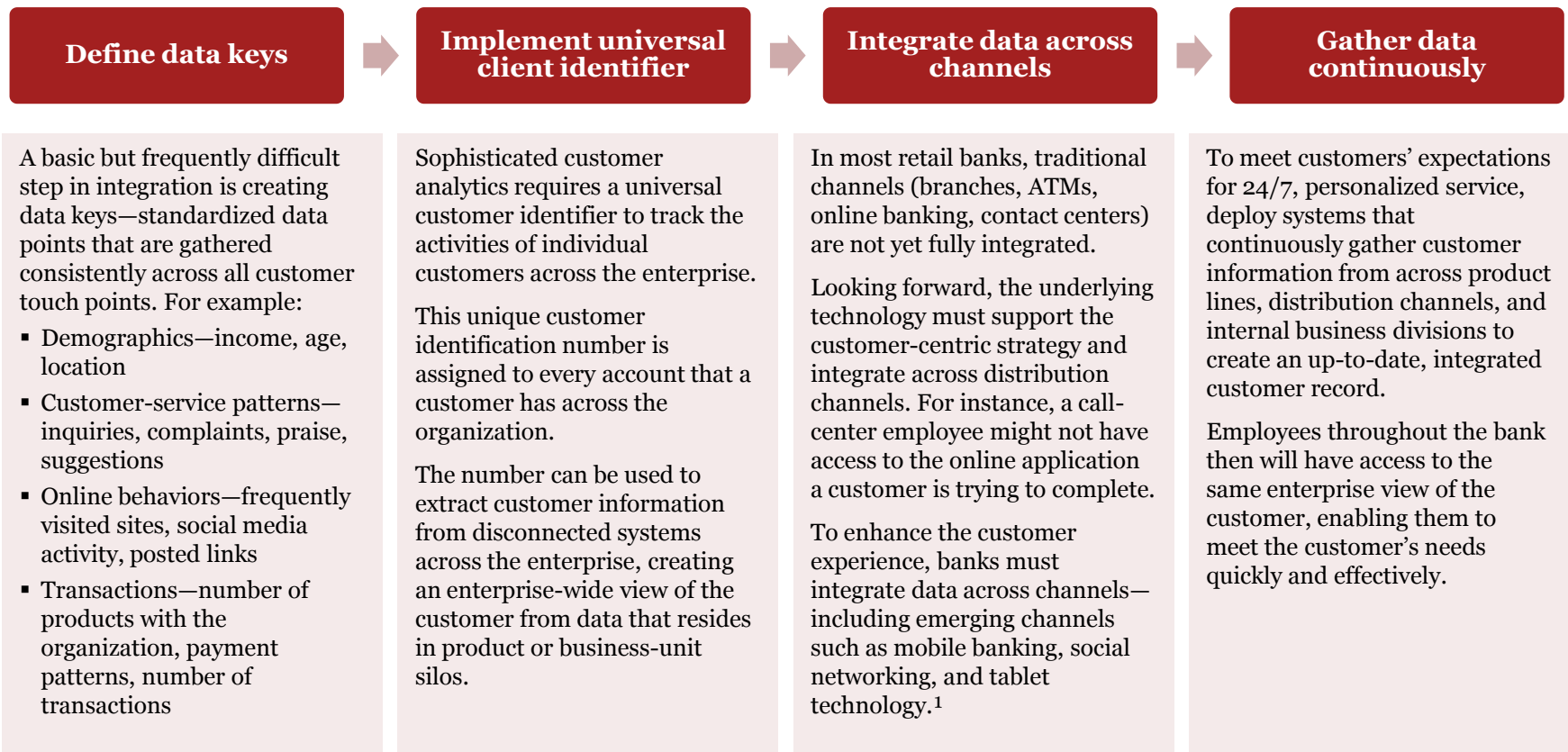
- Implement a shared-services model for activities such as online and mobile banking, customer retention, and customer analytics.
- Implement customer-centric employee incentives enterprise-wide.

A framework for response—Break down the silos

Integrate customer data across channels to create an enterprise view of the customer.



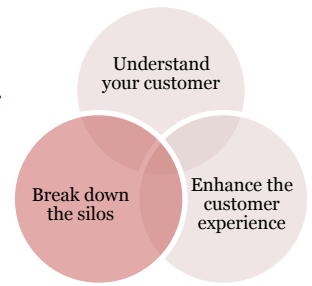
The process of integrating customer data can catalyze organizational change because it brings various functions together to create a common lexicon of consumer definitions and common goals for data gathering.



¹Source: TowerGroup. Retail Banking & Delivery Channels: Top 10 Technology Initiatives for 2011

A framework for response—Break down the silos

Moving from a disjointed set of data repositories to an integrated system that can provide an enterprise-wide view of the customer will not happen overnight.



While having a reliable customer data set is challenging, especially for institutions that rely on legacy systems that were developed many years ago, it is always better to do analysis with a limited amount of data than to do nothing until a robust customer-data warehouse or CRM application is fully implemented.

Be prepared to spend months building the required data architecture. Developing an enterprise-wide view of the customer is challenging because customer data may be housed in multiple systems, divisions, departments, regions, and countries. Be prepared to spend a considerable amount of time (possibly years, depending on the size of the bank and the amount of data) building the architecture required to consolidate customer data, and to set overall goals for customer strategies.

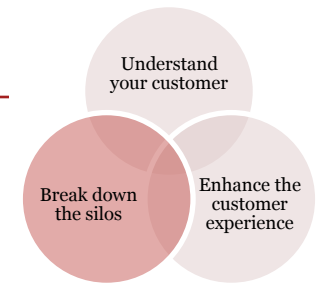
Expect data integration to be a long-term project. Data integration is a challenging, time-consuming project. It is a long-term project that requires a thorough evaluation of integration objectives, existing IT systems and security requirements, and an ever-changing software market.

Building a single view of the customer is an iterative process— it won't be perfect right out of the gate, but it should be reasonably sound and can be refined over time.

Be careful to avoid a common pitfall of segmentation—spending too much time in the analysis stage in an attempt to obtain perfect data.

The quest for perfection usually prevents companies from moving forward to develop products, services, and pricing because they become stuck in a perpetual cycle of analysis. Instead, target relative accuracy when creating segments and determining their lifetime value. Keep in mind that the most successful segmentation programs are agile and include the capability to monitor and adapt to inevitable changes in the business environment.

A framework for response—Break down the silos Reshape incentives and performance metrics to reward customer-focused behaviors.



Data integration alone cannot successfully bring about bank-wide collaboration and customer focus. Many banks' organizational structures, reporting lines, and incentive systems have been constructed over time around products, channels, and business units. In order to truly promote customer centricity, bank leaders will need to realign employee behaviors by modifying the organization, incentives, and reporting systems.

Establish hiring, onboarding, and training processes that support a “customer-first” mindset.

- When hiring, focus on specific skill sets that the bank needs to be successful in deepening customer relationships (e.g. sales, communication skills).
- Use training to coach employees on how to recognize customer life-cycle triggers and suggest products that are relevant.



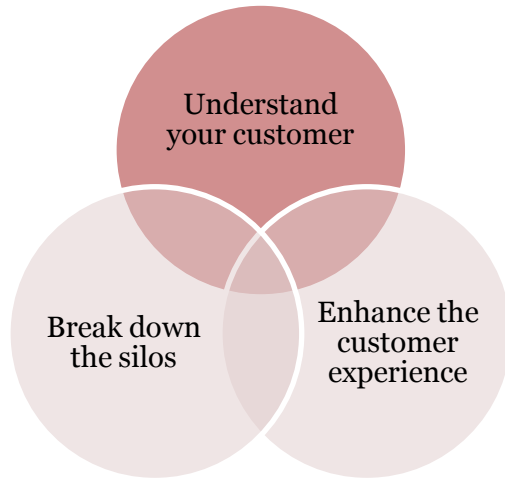
Develop a communications and reporting strategy that reinforces the customer culture.

- Leadership’s messaging about customer focus should be consistent, straight-forward, and frequently heard by both front-line and back-office employees.
- Performance metrics should include measures of customer satisfaction and profitability.

Make employees accountable for achieving customer-related goals by linking compensation and rewards with realization of those goals. For example, relationship managers may be responsible for achieving a certain rate of cross-selling for their customers. Loan-operations staff may be rewarded for decreasing the error rate in the loan-boarding process.

A framework for response—Understand your customer

Retail banks must understand their customers and their activities throughout the organization.



Key goals:

- Clearly define your organizational goals as well as the customers you are prepared to serve now and those you would like to serve in the future.
- Identify which customers and households generate the greatest current and/or long-term value to the organization.
- Use robust customer analytics to support strategic decision making in areas such as pricing, new products and services, and markets.
- Achieve clear visibility into the drivers of loyalty or attrition and cross-selling.

Roadmap activities

Short-term (0-6 months)

- Evaluate the effectiveness of customer data being gathered across the organization.
- If specific customer segments have not yet been defined, then at a minimum, group customers according to the stages of the financial life cycle.
- Define the business rules to calculate customer and household profitability, and identify data sources.

Medium term (1-2 years)

- Define and implement enterprise-wide rules for calculating customer profitability.
- Map each customer to an individual household.
- Begin to estimate customer lifetime value for each customer and household.

Long term (>2 years)

- Implement a system to capture and analyze customer data across channels (such as phone, branch, or social media).
- Base pricing and product-development decisions on maximizing customer value, not sales volume.

Understand your customer

Break down the silos

Enhance the customer experience

A framework for response—Understand your customer

Capture and analyze the right customer data—those that provide insight into customer needs.

Traditional data points analyzed

- Current assets
- Potential assets
- Income
- Credit score
- Current products



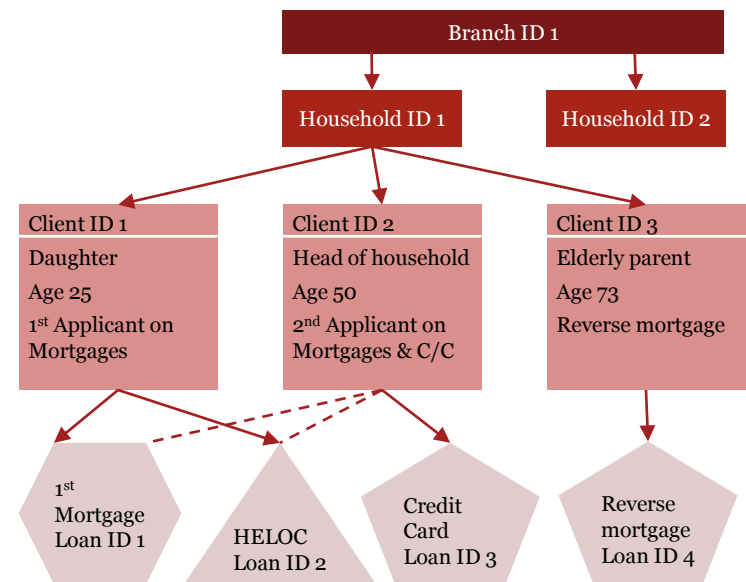
More insightful data

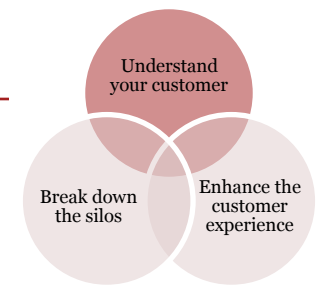
- Marital status
- Birth date
- Address / geography
- Loan-to-value ratio
- Number and age of dependents
- Preferred channel
- Transaction history

Capturing the right data exposes significant information about customers’ purchasing habits, financial needs, and life stages—all factors that drive their expected purchasing decisions. As customers move through the various stages of their lives, their financial needs change based not only on their own circumstances, but also on those of the entire household.

Gaining insight into the dynamics of a customer’s household is as important as knowing and meeting the needs of the individual. More households today are considered to be “nontraditional” (roommates, single parents, sons and daughters living with their parents after college, etc.), and their needs should be assessed accordingly.

Starting with the enterprise-wide view of the customer, create a household view by aggregating information for all customers residing at the same address. This will enable you to perform a more sophisticated customer-value analysis by considering the customer’s financial needs in a broader context.





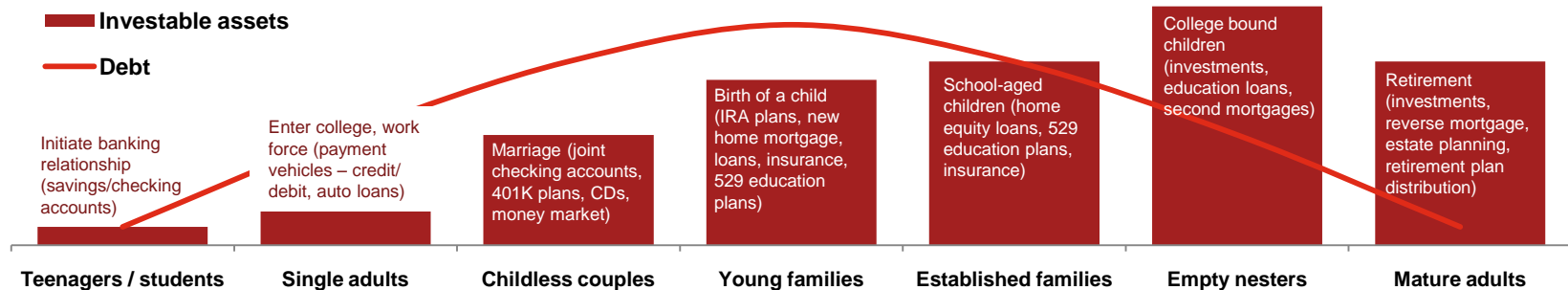
A framework for response—Understand your customer

Estimate lifetime customer value by analyzing household as well as individual customer dynamics.

Calculating an estimated customer- and household-lifetime value is a useful tool for performing comparisons across segments and identifying segments where targeting efforts may yield more revenues. It also helps to justify investments in segments that might not be profitable in the short term but have potential to be significant revenue drivers in the future (such as mobile banking investments to accommodate the needs of millennial-generation customers).

When calculating lifetime value, consider the value of not only the **expected immediate gain** that current loan products will generate, but also the **potential value of future business opportunities** that could arise from the existing relationship.

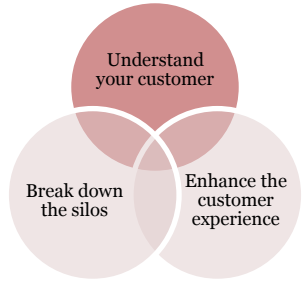
Consumer financial planning life cycle



Calculating customer lifetime value involves making educated assumptions about a customer's behavior based on historical data and likely future needs using the customer's place in the financial planning life cycle.

Key considerations:

- Assumptions should be based on historical customer data (e.g. likelihood that a customer will adopt a product, average duration they will hold the product) and external market data (e.g. probability that interest rates will rise or fall in the next 10 years).
- Start with one year of historical data and refine the model each year as more data is collected. During the first few periods, it may only be possible to use the data on a relative (rather than absolute) basis.
- Over time, the assumptions that were used initially can be replaced with actual historical information, creating a more accurate and refined model.



Understand
your customer

Break down
the silos

Enhance the
customer
experience

A framework for response—Understand your customer

Target the right customers with the right products at the right price using the right delivery channels.

Once you have identified the most profitable customer segments and their needs and preferences, you can begin making targeted offers when the time is right. Timing is critical—to avoid frustrating customers with offers that they don't need, it's important to know how to identify life cycle triggers and to respond appropriately with only the products that address those needs. There is no single right way to do this—but the following considerations can help banks organize their approaches.

Customize products

- Understand the drivers of loyalty and attrition for each customer segment.
- Break down products into a set of shared elements that can be easily combined to create customized product bundles. Bundle products based on demands of the customer segment, the type of product/feature growth desired, and how well the products complement each other.
- Provide simple messaging to enable front-line employees to articulate the value of bank products to customers in a language that is easy to understand.
- Unify the system architecture such that product bundles can be easily customized and operated across traditional product lines.

Differentiate pricing

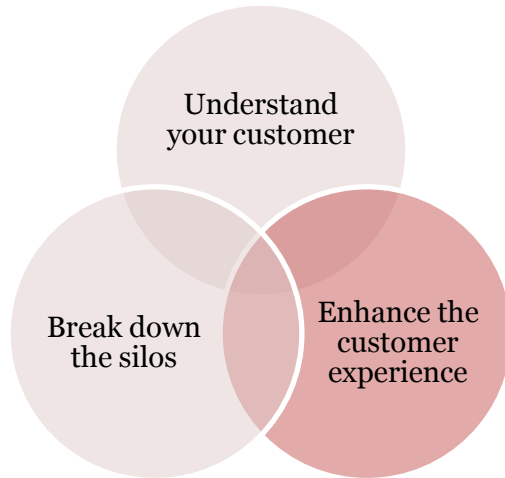
- Understand each customer segment's "willingness to pay" for a given product.
- Explore where customers may be more flexible about rates and set prices accordingly.
- Assign clear ownership and responsibility for pricing decisions to coordinate across marketing, sales, and product groups.

Enhance cross-channel delivery

- Develop customized delivery channel strategies for each customer segment.
- Strive to provide a consistent experience across all channels while directing customers to their channels of choice.
- Develop channel-specific strategies that capitalize on the distinct and complementary role of each channel; e.g. low-cost mobile and internet for routine transactions and higher-cost branch and call center for developing new relationships.

A framework for response—Enhance the customer experience

Retail banking customers are increasingly looking for a customized experience. They can now quickly communicate their dissatisfaction to their network.



Key goals:

- Ensuring a consistent high-quality experience regardless of the channel
- Having a formal process to solicit and respond positively to customer feedback
- Being proactive in responding to customer needs and wants

Roadmap activities

Short term (0-6 months)

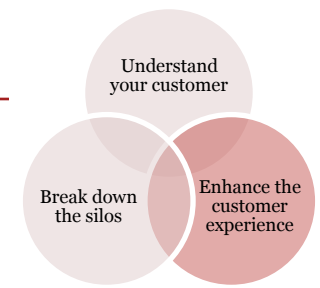
- Create journey maps for critical processes /moments of truth.
- Design a basic (but formal) voice of the customer (VOC) program and pilot it in a business unit.
- Create an initial customer satisfaction scorecard and begin to define key customer KPIs.

Medium term (1-2 years)

- Implement a formal VOC program across the organization.
- Make customer satisfaction scorecards available to different levels of the organization.
- Involve senior executives in the VOC process by asking them to listen to calls, visit branches, and review customer complaints on a periodic basis.

Long term (>2 years)

- Use VOC results to drive process improvements across the organization and to provide a consistent, high quality customer experience.
- Make customer retention, satisfaction, and profitability KPIs for all business units and supporting groups.



A framework for response—Enhance the customer experience

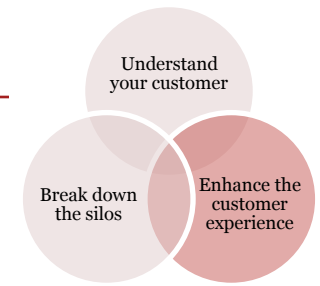
Develop a voice-of-the-customer program to gather feedback.

Create a program to gather customer feedback from a variety of sources—

An effective voice-of-the-customer (VOC) program can help you to gain an accurate, real-time understanding of customers; enhance customer segmentation efforts; improve positioning and messaging to customers; provide insight into the most profitable sources of revenue from current customers and their likely future needs; improve customer relationships; and strengthen loyalty. VOC feedback can be solicited through formal customer surveys, focus groups, and unsolicited verbal or written customer comments as well as through market studies, information provided by employees who have direct contact with customers, and comments delivered by third parties such as credit counseling agencies and regulators. Increasingly, social media is an important source of feedback.

Create	Gather/assess	Implement/measure/respond
<ul style="list-style-type: none"> • Build a core competency around VOC • Identify a dedicated, experienced team to manage the customer experience process • Develop objectives of customer experience program • Develop an analytic competency for analysis, insight generation, and reporting • Link VOC and customer-facing activities • Socialize VOC program to key internal and external stakeholders 	<ul style="list-style-type: none"> • Solicit feedback from customers via: <ul style="list-style-type: none"> – Website – Social media – Email – Phone – Focus groups – Interviews • Collect available data within the organization (e.g., collect trends through the normal course of work) • Assemble available benchmarking information from within and outside industry • Consolidate data into a single dataset and interpret data to identify trends or anomalies • Compare data to available benchmarks • Develop actionable improvements 	<ul style="list-style-type: none"> • Prioritize action plans according to objectives • Assign resources to implement and measure action plans • Review success and implement continual improvement mechanisms • Empower employees to collect and share customer feedback with those who can implement change • Dedicate employees to monitor and respond to social media comments • Involve customers in piloting and testing of new processes or products – listen to and respond to their feedback

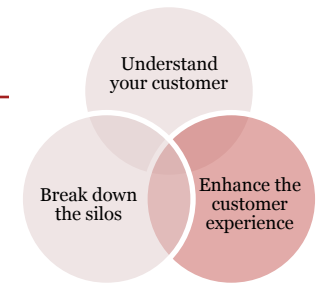
A framework for response—Enhance the customer experience
Create customer-journey maps to identify inconsistencies and potential sources of customer dissatisfaction.



Customer-journey maps describe a customer’s experience throughout a relationship with an organization. Creating journey maps can help identify inconsistencies across products and/or channels as well as potential sources of customer dissatisfaction. The findings from these analyses can help to identify specific actionable steps to improve the customer experience.

Example – Mortgage refinance process				
	Pre-application	Application	Underwriting	Closing
Satisfaction drivers	<ul style="list-style-type: none"> Customer receives an unsolicited offer to refinance mortgage. It is easy to find refinance information when accessing the account online. 	<ul style="list-style-type: none"> All refinance steps are clearly explained, including what information must be submitted. Forms can be completed online and are user-friendly. 	<ul style="list-style-type: none"> Customer receives frequent status updates and can access the real-time status of the refinance online. 	<ul style="list-style-type: none"> E-signature is available, so borrower can complete the process online or via a mobile device. Refinance is completed in the time frame promised.
Dissatisfaction drivers	<ul style="list-style-type: none"> It is difficult to find refinance information on the company’s website, or it takes a long time to get the information via the toll-free number. 	<ul style="list-style-type: none"> Documents must be submitted several times, as instructions were not clear. The application must be filled out manually and requires information that the bank already has. 	<ul style="list-style-type: none"> Due to capacity issues, certain documents “expire” and must be resubmitted. Customer does not receive status updates unless he or she calls to request them. Updates provided are not clear. 	<ul style="list-style-type: none"> Closing takes place in four months (rather than one month, as the loan officer had promised) due to capacity issues and processing errors.

A framework for response—Enhance the customer experience
Develop metrics that measure the effectiveness of customer interactions, not just their efficiency.



The traditional metrics that most banks use to track customer interactions are of limited use in measuring employees’ success in addressing customer needs.

Traditional metrics measure efficiency

- Average talk time
- Abandon rate
- Average speed of answer



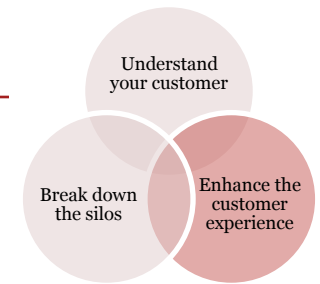
Better metrics measure effectiveness

- Net promoter score—how likely are customers to recommend the company to others?
- Customer-effort score—how much effort the customer felt he/she needed to put in to get his/her issue resolved
- First-contact resolution
- Channel switching

Timeframe	Activities
Short term: Start with the basics	<ul style="list-style-type: none"> ▪ Leverage existing reporting capabilities to start tracking call reasons: percentage of calls being transferred, homeowners calling multiple times in a specific period of time, percentage of homeowners calling in the month prior to transfer as well as during the transfer month. ▪ Perform a detailed analysis of root causes for customer inquiries. ▪ Develop satisfaction standards and include specific customer-satisfaction criteria in quality assurance review.
Medium term: Involve the client	<ul style="list-style-type: none"> ▪ Start conducting more targeted customer surveys and acting on customer feedback (see voice-of-the-customer section). ▪ Define specific satisfaction metrics that will be tracked. ▪ Benchmark customer satisfaction against other companies and other industries.
Long term: Become best-in-class	<ul style="list-style-type: none"> ▪ Make customer satisfaction a corporate key performance indicator. ▪ Publish the customer-satisfaction scorecard across the organization. ▪ Analyze unsolicited feedback (social media). ▪ Strive for real-time responsiveness to critical issues or complaints.

A framework for response—Enhance the customer experience

Consider the impact on customer satisfaction of moving processes to shared service centers.



A traditional shared-services assessment evaluates candidate processes based on three criteria: business impact, difficulty of implementation, and potential cost savings. The focus has generally been on cost reduction rather than enhancing the customer experience. Banks should evaluate candidate processes using a fourth dimension: impact on customer experience.

Business impact is assessed by answering questions such as:

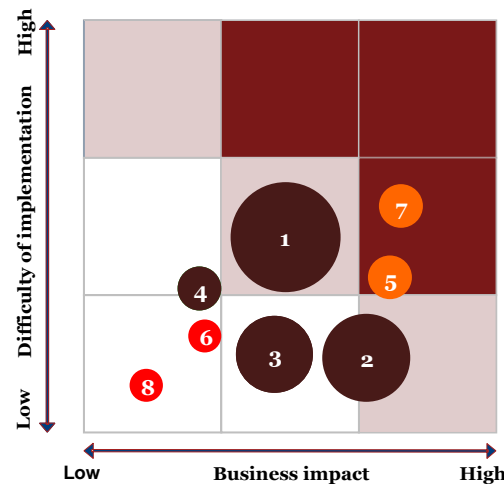
- How critical or core is the function to the business?
- What is the acceptable level of risk?
- Which risks can be mitigated and at what cost?
- Which functions have associated risks that are too great and cannot be mitigated such that consolidating in a shared-services environment is not a viable option?

Implementation difficulty is assessed by answering questions such as:

- How standardized are the processes and systems within a function?
- What is potential adverse impact on ongoing operations?
- Are there significant barriers to implementation (e.g., ongoing initiative, regulatory requirements)?

Customer impact should be assessed by understanding:

- How will this change impact customer-service levels and customer satisfaction?
- What will be the potential impact on customer retention?
- Is a proactive social-media campaign necessary to communicate the change?
- Do the people interacting with customers understand why the change is being made and what they need to communicate to clients?



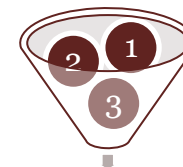
Candidate processes

- | | |
|--------------------------|-------------------------|
| (1) Loan Servicing | (5) Secondary Marketing |
| (2) Collections | (6) Marketing |
| (3) Quality Assurance | (7) Legal |
| (4) Information Services | (8) Facilities |

Note: Size of circle indicates cost reductions and savings opportunity

Recommendations

- Viable shared-services candidate
- Additional evaluation required
- Not shared-services candidate



Examine potential impact on customer satisfaction and retention.

Section 5

How PwC can help

How PwC can help Core competencies

Breaking down the silos

- Perform an analysis on the existing barriers to effective retention and cross-selling efforts.
- Analyze required changes to the compensation structure to make it customer-centric.

Understanding your customers

- Perform an assessment of customer data being captured across the organization and provide recommendations on how to leverage this data to perform enhanced customer analytics.
- Assist in the development of customer segments that can be used to better understand the existing customer base and to refine the bank's targeting efforts.
- Work with clients in the definition of business rules to calculate customer/household profitability and identify data sources.

Enhancing the customer experience

- Create an initial customer-satisfaction scorecard and assist in the definition of key customer performance indicators.
- Creation of journey maps for critical processes.
- Assist in the design of a formal VOC program and pilot it in one of the business units.

How PwC can help Client needs and issues

We look across the entire organization—focusing on strategy, structure, people, process, and technology—to help our clients improve business processes, transform organizations, and implement technologies needed to run the business.

Client needs	Issues we help clients to address
Innovate and grow profitably	<ul style="list-style-type: none"> Reshaping the IT function into a source of innovation Transforming business information to drive insight and fact-based decision making Evaluating acquisition and divestiture strategies to position for the future Realizing deal synergy and value Developing sustainability programs that add value
Build effective organizations	<ul style="list-style-type: none"> Rethinking strategy in terms of markets, geographies, channels, and clients Restructuring organizational models in terms of structures, policies, and roles Establishing effective strategic sourcing and procurement Transforming the close and consolidation process to work for rather than against you
Manage risk, regulation, and financial reporting	<ul style="list-style-type: none"> Building a risk-resilient organization Implementing and realizing the benefits of ERM Managing ERP investment and project execution risk Safeguarding the currency of business; keeping sensitive data out of the wrong hands Affirming capital project governance and accountability Assessing and mitigating corruption risk in your global business operations Accounting and financial reporting Third-party assurance Compliance with tax law and regulation
Reduce costs	<ul style="list-style-type: none"> Driving efficiency through shared services Redesigning finance to realize efficiency and competitive advantage Taking control of cost through effective spend management and cash forecasting practices Driving sustainable cost reduction
Leverage talent	<ul style="list-style-type: none"> Defining and implementing an effective HR organization Rethinking pivotal talent



How PwC can help Our Financial Services practice

PwC is an advisor to 44 of the world's top 50 banks and 46 of the world's top 50 insurance companies, and is the leading service provider to investment managers, pension funds, and hedge funds around the world. This diverse client base provides us with unique access to develop peer insights and to understand from experience what works in specific client circumstances. In the United States alone, we are able to call upon our 800-person Financial Services Advisory practice and over 3,000 financial services professionals.

Accountability and cost effectiveness

Our comprehensive approach to serving our clients provides them with a single point of accountability, which creates an efficient and effective day-to-day working arrangement and, most importantly, best positions our clients for success. We have significant experience in helping to drive complex programs and feel strongly that we can work successfully in a cost-effective manner to meet your organization's needs and objectives.

Trusted brand

We offer a truly independent view, without prejudice or favor regarding specific vendors, solutions, or approaches. We approach each situation and develop the most appropriate solutions depending upon the client's individual circumstances.

Global footprint

PwC works in a globally integrated manner. This benefits clients in terms of consistent service delivery and quality by taking advantages of the best ideas, resources, and solutions from around the world.

How PwC can help

For further information, please contact:

Americas

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Section 6

Select qualifications

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Customer analytics—Top-five US retail bank

Issues	The client requested assistance in developing a methodology to calculate expected lifetime value profitability at the customer and household levels.
Approach	PwC performed an analysis to determine the gap between current and desired loan-customer profitability. We identified the revenue and cost data points required to calculate customer and household value (current and future), and helped to develop business requirements for creating a customer-profitability platform. We also worked with management to define customer segments, calculate retention, and evaluate cross-selling efforts for each of the segments.
Benefits	By the end of the engagement, the client was able to begin designing incentive programs that were based on customer profitability, not just volume. The bank also identified households that were under-penetrated and therefore presented significant opportunities for cross-selling. With this information, the client began to tailor offers to the customer segments with the greatest profit potential.

Select qualifications

Customer experience—Leading US mortgage company

Issues	The client needed assistance in identifying ways to enhance the end-to-end customer experience.
Approach	<p>PwC analyzed existing documentation (welcome letter/package, additional written correspondence, website information, IVR structure, call scripts, policies, procedures, customer strategies, etc.). We provided observations and recommendations for enhancing the customer experience, improving employee awareness of the importance of customer interaction, tracking results, and other relevant opportunities.</p> <p>Working closely with the client, PwC also:</p> <ul style="list-style-type: none">▪ Developed "journey maps" designed to identify the customer's expected experience in selected areas▪ Assisted in the development of a customer-experience metrics dashboard, which was then used to measure customer satisfaction using direct and indirect sources▪ Assisted in the development of a VOC framework
Benefits	Based on PwC's recommendations, the client made several changes to its loan-boarding process, which resulted in greater customer satisfaction and lower costs due to a reduction in call volumes and the number of complaint letters. The client also implemented a customer-satisfaction survey, began capturing customer feedback about "pain points" relayed by employees who have direct contact with customers, and began monitoring indirect customer feedback on social-media sites. The journey maps PwC developed were leveraged to link operational processes with customer experience benchmarks, enabling a consistent set of expectations for customers and operational employees.

Select qualifications

Customer experience—Leading independent Canadian consumer-finance institution

Issues	The client sought to implement a business-intelligence solution for a leading Canadian mortgage company, which would allow them to gain an enterprise-wide view of customers' relationships with the organization.
Approach	PwC helped to develop a customer segmentation strategy and a methodology for calculating customer profitability. This included a prototype model that was used to allocate revenue and cost information down to the customer level. We developed a methodology for calculating lifetime value for each customer segment. Finally, PwC helped to create detailed customer profiles and broker scorecards to be used in strategic planning and default management, as well as for refining marketing campaigns.
Benefits	After PwC's analysis revealed that the products were increasing customer churn, the client decided to eliminate two of what it had considered its most profitable products. The client also decided to launch a direct origination channel as a result of PwC's identification of underserved segments with significant profit potential.

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“Getting to Know You: Building a Customer-Centric Business Model for Retail Banks,” PwC FS Viewpoint, April 2011.

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