

Your money and your life

In a volatile market, customers are being over-serviced as banks and other financial services companies compete for brand share. But as **Ashley Campbell** finds, there is still a lot of demystifying and explaining to do. (*Marketing*, December 2007)

They're probably the most intimate business relationships you will ever have, and they follow you from the cradle to the grave.

They play a major role in your decisions about when to get married, and how, when to travel, and how, whether to open a business, have children, retire, or even have those varicose veins done.

You probably don't talk about them in polite company, but you think about them all the time – whether you're a man or a woman. Chances are your relationships occur mostly over the phone or internet, possibly late at night, and definitely when no one else can see or overhear.

In these relationships you divulge personal information you would never, ever tell anyone else – sometimes not even your spouse or your mother. Even so, you are likely to cheat on your main provider, putting most of your business their way, but going behind their back to a rival for one or two services, and perhaps even developing a "significant other".

Then, if your main relationship starts going sour – they start taking you for granted, stop meeting your needs, are never available when you call or start wanting too much money for their services – you can gradually transfer everything to a more accommodating partner and ditch them on your own terms.

Who would ever have thought of your bank or insurance provider like that?

Traditionally, very few people. "The old branch manager you don't imagine as a particularly emotional creature," says Suzie Marsden, Westpac's head of brand and marketing. But that has all changed.

"I believe the category of banks globally has evolved from the position of being a very rational, risk-based business and we are now moving beyond that," she says.

It's something that's showing up clearly in the bank's own brand research. In recent focus groups one message has come loud and clear from Westpac customers. "It's been interesting that you get people in the room, they say 'We don't talk a lot ... to our families about our banking, but we think about it a lot – it plays a really important role in our lives'."

Marsden had her own "aha moment" late last year while working on brand development. "We are part of people's lives when they are getting married, buying their first home. There are some major life events that we are enabling our customers to experience."

Vena Crawley, head of marketing and product management at insurance and financial services provider Sovereign, agrees. When you ask people what's really important to them, eight times out of ten they will name exactly the same things, he says: their family, house and mortgage, savings and retirement, and jobs.

“When you let people talk about what’s important in their life, that’s what’s important to them. Most of our products are designed to protect these.”

And so, no longer are we seeing banks, insurance and mortgage providers building their brand on the concepts of dispassionate rationality and financial probity. Undoubtedly, the latter is still a subtext (who wants a financial services provider that’s irresponsible with your funds?), but these organisations are now primarily out to woo you. They want to have a relationship with you.

As Crawley says: “We have had to tap emotional, rational and functional needs of end customers all at once.”

Now we have Westpac being promoted by a young couple debating whether to buy an engagement ring or go travelling; Sovereign pulling on your heart-strings with a few tear-jerking messages from beyond the grave; KiwiBank appealing to your irrational desire to stick one up the Aussies; Rabobank tempting you with a well-endowed bit on the side; and Ira Goldstein making you smile and come over all fond and protective.

It would be easy for stiff-upper-lip, no-emotion types to think our finance sector had gone all soft. But quite the opposite – it’s realised that its products have become commodities, and it has few options left for attracting customers.

A Lincoln University study last year on bank customer retention pointed out banks (and you could add insurance and mortgage providers) were in the mature phase of the product lifecycle.

“Most bank product developments are easy to duplicate, and when banks provide nearly identical services they can only distinguish themselves on the basis of price and quality,” the authors stated. But distinguishing on price brings with it the very high-risk, and potentially fatal, probability of a downward spiral of discounting, which leaves quality as the only commercially viable option.

That study pointed out the three most important factors influencing customers’ bank selection – including their decision to stay.

Despite the perception out there that we stay where we are only because it’s too difficult to move, bank customers see it differently. The things that make them decide on one provider over another, and then keep them loyal, are customer satisfaction, corporate image and then, and only then, barriers to switching.

The stakes are high – by cutting customer defections by just 5%, banks could double their profits, the study stated. So if you’re already working on improving customer satisfaction (and the surveys show they are), that leaves corporate image.

Cue those emotive ads.

New Zealand is over-banked, says Marsden – we could survive on fewer deposit-takers, investment options, mortgage and insurance providers – and New Zealanders like to multi-bank. They may have their mortgage and current account with one bank, but their term deposits, savings, even a credit card somewhere else.

“Most customers would prefer to have everything with one supplier. It’s up to us as their main bank to ensure that we are making it as easy for them as possible.”

There are several aspects to our new, emotionally charged relationship with financial services providers. One of them is customers' increasing assertiveness and expectation that they will be treated as individuals, not simply offered one-size-fits-all products.

This is especially so in the insurance sector, says Crawley. Just take the relatively straightforward product of life insurance – years ago people would buy standard whole-of-life and endowment products that would cover them for 30 years.

“People aren't looking for cover for these periods of time anymore; they are looking for specific periods of cover. Consumers are the ones that are driving that. People used to take policies out for 30 years, now they are taking them out for five years. Consumers are a lot more savvy to their own needs.”

Insurance providers have had to develop products that are more relevant to modern family in all its many and varied forms, so we see products such as income protection, mortgage repayment insurance and hospital-only health insurance being marketed.

But the other challenge is customer fear in the face of financial complexity – and if your products frighten them, if they don't understand them, they're unlikely to buy.

“The challenge for financial services companies is to not make their offerings complex,” says Crawley. “We need to demystify all that.”

Bank products aren't necessarily complex, and everyone knows they need at least the basic current account and eftpos card, says Marsden. But banks still have a lot of demystifying and explaining of their own to do. “What we have done as an industry over time, and we need to change, is that we haven't justified for customer why, for example, they need to pay fees for these things.”

When asked if banks actually are getting better at doing that, her response is diplomatic: “I would say that we are on a journey and we are probably somewhere near the beginning.”

In trying to woo their customers, banks and other financial service companies are getting better, but they're all getting better together, she says. And that means the current, over-served market is likely to remain as customers decide on incremental improvements in service.

“I think there's room for growth, but I think what that means is that some places will grow at the expense of others ... I don't think any organisation will win on product innovation alone. I think they will win by deepening the relationship with their customers, by truly understanding and meeting their needs.”

Online or face to face?

Undoubtedly the biggest change in the relationship between financial service providers and their customers over the past decade has been the wide adoption of remote banking. Whether it's over the internet or over the phone, customers are now having more contact with their bank or mortgage provider online than through a branch.

In a service industry that's betting its future on building a relationship with you, some might think that is a potential disaster. How, you might ask, can an organisation build a relationship if you make personal contact only once or twice a year – if at all?

There's the cynical view – without personal interaction, there's no chance of being annoyed by someone who's having a bad day. "If you deal with the bank mechanically, it's unlikely that you'll have an unsatisfactory customer service experience," says David Tripe, director of Massey University's Centre for Banking Studies.

But then there's the view that internet banking, in particular, opens up opportunities for even more customer contact, so you can build an even stronger relationship.

Westpac's online transactions now outnumber branch transactions by a ratio of 1.5:1, says Suzie Marsden. That is at least partially due to the fact that if you're sitting at your PC, it's easy to log on and see if that cheque you've been waiting to clear is in your account. "To do that at a branch would be a huge hassle."

Making use of that increased online contact, Westpac recently introduced a messaging service that lets it send targeted messages to customers, highlighting products and services they might be interested in.

When a customer logs on, they will be told they have messages waiting for them. One of those might be "We have noticed that you've got some money that would probably be better in our online bonus saver account."

The bank also used the system to contact all its customers without a credit card, alerting them to the bank's newly introduced debit card, saying "We thought you might like one of these".

And Sovereign has made a feature of what is, for all intents and purposes, an online banking facility through its Go Home Loans – revolving credit loans through which customers transact all their finances.

"For our model it actually works very well," says Vena Crawley. With no branch network, and products that are sold through third-party distributors, customers know they're not buying into face-to-face contact. "Therefore the customers that are on board with us are coming on board with the fact that we are not a bank, that we are providing them with similar services as a bank and this is the way it's geared up."

But he adds a word of caution – there seems to be a groundswell of financial services customers who want more face-to-face interaction. "We have to be careful in the way we use technology. It should be used to improve your processes internally, so that your offering appears simple."

Tripe reckons the proportion of customers wanting face-to-face contact at branches will decrease over time, as those who have grown up used to this level of interaction age and eventually die. But not everyone's convinced.

"There has been very little change in consumers' desire to access a branch to conduct some of their banking," says Leslie Morton, finance sector director of researcher Roy Morgan New Zealand. "Under 50% of all bank consumers agree with the statement that 'it would be ideal if I could conduct all my banking without ever having to go to a branch'. This has largely remained unchanged over the past five years.

"It is clear that branches form an important service channel which many consumers still value even while driving the growth of other forms of transactions. This has been behind an overall increase in bank branches over the past several years which reversed the previous trend of branch closures especially during the 1990s."

Marsden sees elements of truth in both points of view. "A lot of people say that there's nothing that can substitute for a personal interaction – my thoughts on that are that for certain interactions that's probably right. It's not common for customers to want to raise a mortgage, for example as a remote transaction. Hugely, we prefer to sit down and talk. But I don't think that that's necessarily going to be the case going forward."

Sticking it to the Aussies?

Is there value in building your brand on being Kiwi-owned, given the overwhelming Australian ownership in the banking sector? The answer is a resounding "Maybe".

Suzie Marsden, of Westpac, doesn't think it's the nationality of an institution's owners that matters.

"I think that what customers associate with being Australian-owned is a focus on profit, potentially at the expense of satisfied customers ... As a category we have been seen to be focusing on growing profit at the expense of looking after our customers. Until KiwiBank came along, we were all in the same boat."

However, KiwiBank, and the increasing assertiveness of other Kiwi-owned providers, changed that, she says. "What we have to do, what we have to do anyway in a competitive market, is make sure we are delivering what our customers need us to do."

We asked the two overtly kiwi-branded banks, KiwiBank and TSB for their views on the sector – KiwiBank declined to take part, TSB could not meet our deadline. However, David Murray, general manager of marketing and products for PSIS (not a bank, but a very co-operative co-operative) thought service wasn't enough to differentiate a financial services provider – and that Kiwi-owned was a valid brand.

However, he said, "as a differentiating factor, being Kiwi-owned is a territory well covered by TSB and KiwiBank – and SBS and the credit unions to a lesser extent.

"While we are obviously proud to be a customer-owned co-operative, we think a much more compelling [than just being kiwi-owned] value proposition is required, hence our family banking positioning."

If being Kiwi-owned is important to customers, they're not showing it in the institutions they bank with. A Roy Morgan survey shows that, at June this year just 10.5% of New Zealanders chose KiwiBank, TSB, PSIS, SBS or a credit union as their main financial institution, compared with BNZ's 12.7% – the lowest figure for a major bank.

Over the past five years, more than half of New Zealanders have consistently said they would like to bank with a locally owned institution, says Roy Morgan's finance sector director, Leslie Morton. But few of them act on it, because "price, service, convenience and security all contribute more heavily in most people's minds".

"The strength of kiwi branding varies considerably among different parts of the community," says Morton. "Rural plays more strongly to favouring buying kiwi than urban, South Island more than North Island, older more than young. Interestingly, potentially more profitable customers have a heavier focus on buying kiwi than less profitable."

The trick, not yet fully realised, will be to get those potentially more profitable customers to do something about it.