

CUSTOMER EXPERIENCE: THE 14BN RISK NOTES FOR DISCUSSION

SEPTEMBER 2018



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Why does customer experience matter?

€14bn of customer value at risk due to customer experience



Customer Experience

- 2/3 of clients work with more than one bank and 40% of them are looking for banking alternatives
- There are different client behaviours coexisting in most markets, digital only and branch only clients, but most of them are heavy users of all channels
- Banking clients are increasingly open to share their data and engage with third parties to satisfy their financial needs



Digitisation

- “Digital” customers are more satisfied across all aspects of their relationship with the bank
- Strong correlation between digitalization, customer experience and client attrition
- Negative experiences are concentrated in non digital channels, especially within the higher value segments
- There are new alternatives (e.g. financial platforms) that are shifting the understanding the financial services industry
- Flow of customers from less digital to more digital banks

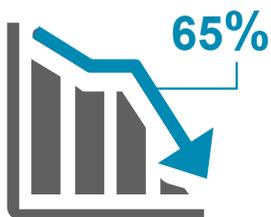


- Estimated value at risk of up to **15% of net margin – €14bn¹**
 - Value at risk is typically linked not to one but to several different hassles by segment
- Customer experience needs to be linked to economics and actions need to be prioritized to be efficient
 - Leaders are improving economics by better targeting investments and better protecting revenue

1. Countries in scope of the analysis: Germany, Spain, France, Italy

Poor customer experience has strong impact on client value

Quantified impact of hassles in retail banking Customer Experience (Spain example)



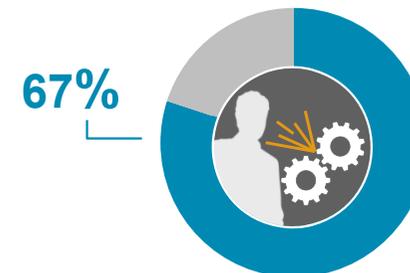
Have **downgraded or maintained their opinion** of their bank



Would not recommend their primary bank to anyone



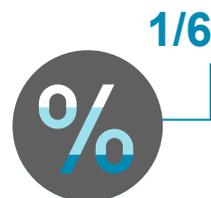
Overall satisfaction score less than 5 with their bank



Experienced **at least one hassle** with their bank in the last year, **29% experienced more than 3 hassles**



Abandon the bank (half of them maintain a c.a. and may not be accounted as churn)



Reduce their relationship with the bank



State **their intention to reduce relationship** – 25% of them do not know where to go; further 11% is not sure whether they will intend to change

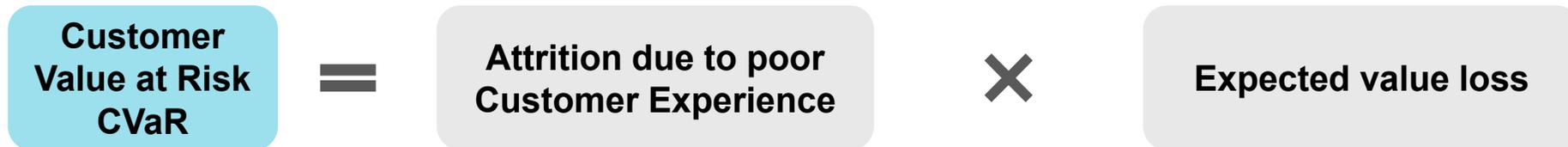


15% Customer margin base at risk due to bad experiences....

€14BN for the 4 largest European countries¹

Source: OW customer survey
1. Germany, France, Italy and Spain

CVaR is calculated as the probability of decreasing relation because of bad experiences times the expected loss on value



- The probability of reducing relation will be calculated according to the data obtained with the survey, having previously identified the clients who decreased their relation with the bank
- This way, the probability of reducing relation for clients with bad experiences will be calculated as:

- Loss on value will be calculated based on historic data from clients who have reduced their relation
- Therefore, expected loss on value will be calculated as:

Probability of reducing relation because of bad exp (%) =
$$\frac{\text{\# clients who reduced relation because of bad experiences}}{\text{\# clients who have had bad experiences}}$$

Expected loss on value (%) =
$$\sum \frac{\text{Gross margin}_t}{\text{Gross margin}_{t-1}} - 1$$

In the four largest European countries, we estimate the total CVaR to be €14bn

	Value ¹		Probability of attrition		Expected Value Loss		CVaR
	21	X	45%	X	52%	=	5
	37	X	25%	X	46%	=	5
	11	X	42%	X	53%	=	2
	17	X	24%	X	50%	=	2

1. Net Interest Margin of Domestic banking groups and stand-alone banks. Source: ECB
 2. "Intend to change" or "might consider changing" of primary bank. Source: OW analysis

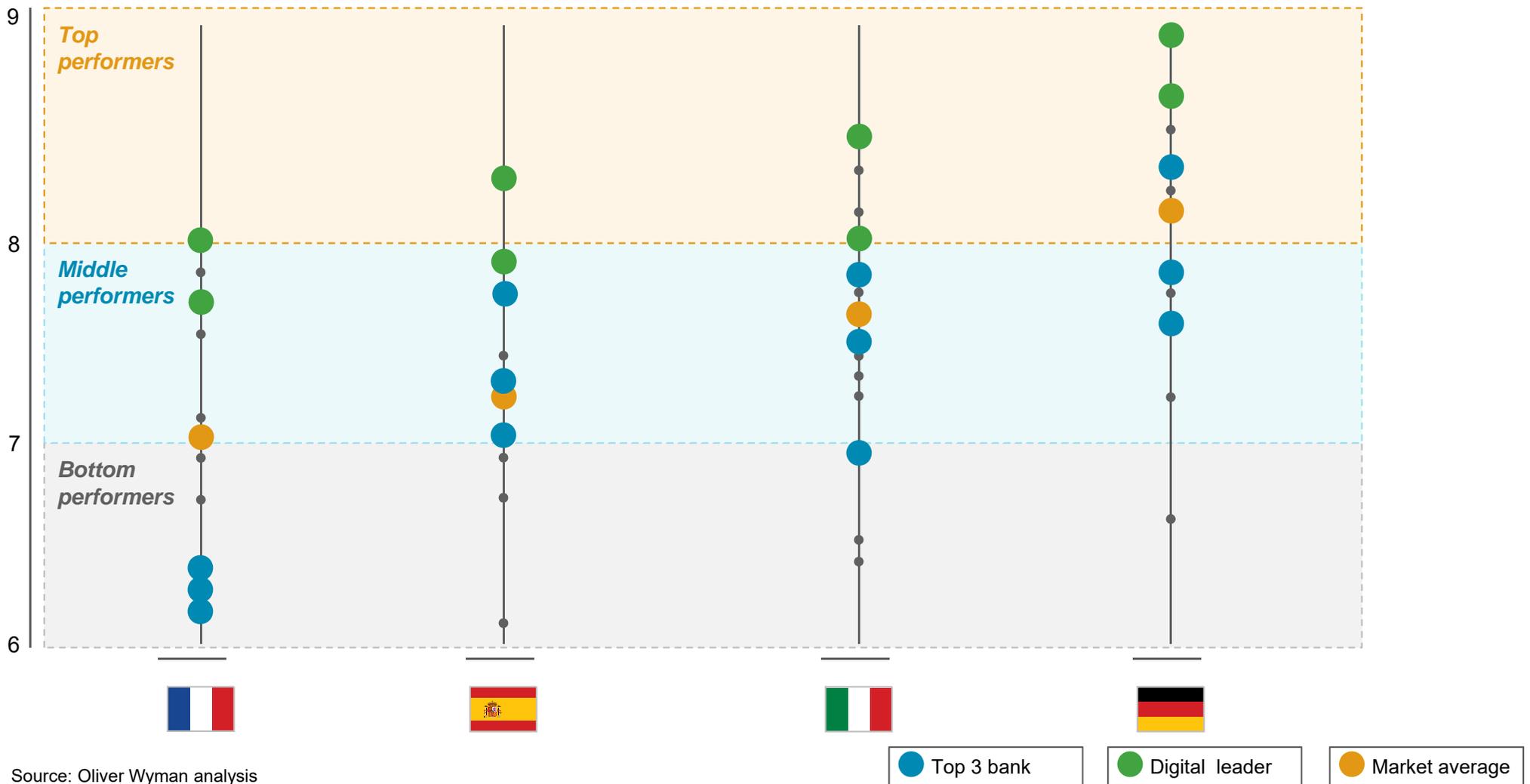
Section 2 | Customer Experience and Digitisation

Customer Experience satisfaction

Digital leaders are best performers and biggest entities are typically at or below average

CX satisfaction across countries and banks

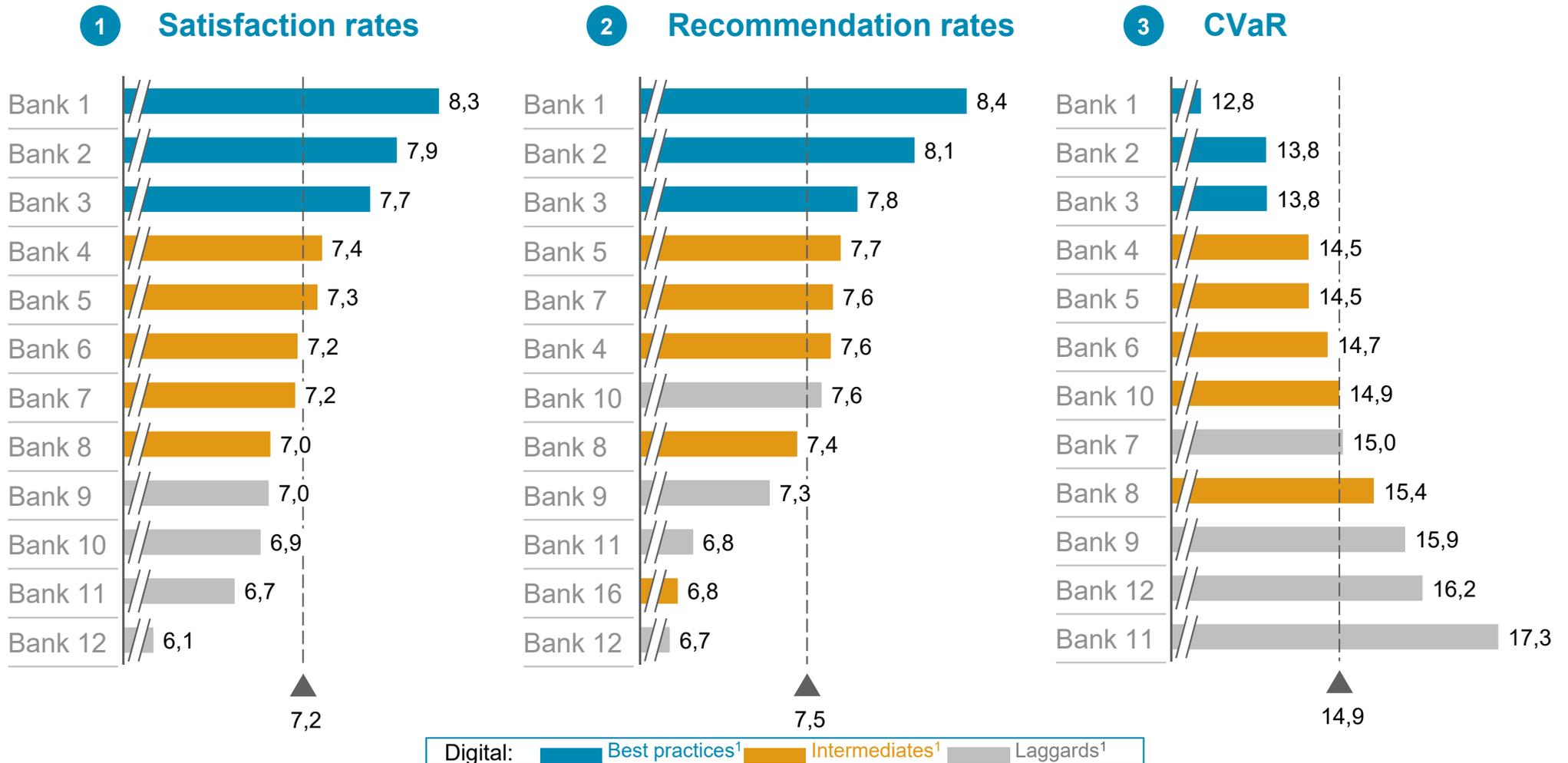
0-10



Source: Oliver Wyman analysis

Despite the metric used to monitor CEX, Digital banks perform better

Illustrative example



We classified banks into digital best practice, intermediates and laggards according to 16 digitisation KPIs

1. Clusters defined based on OW Digital Banking Index, April 2017
 Source: OW study, 2,241 surveyed customers in Spain, April 2017

Net Promoter Score

NPS is better for digital banks – Traditional banks wouldn't be “net” recommended by their clients in Europe

Spain
NPS



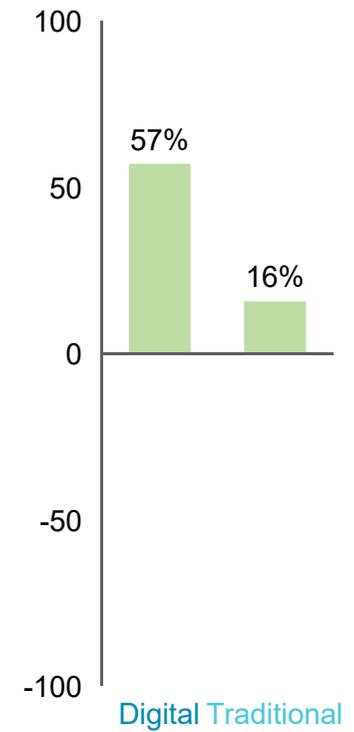
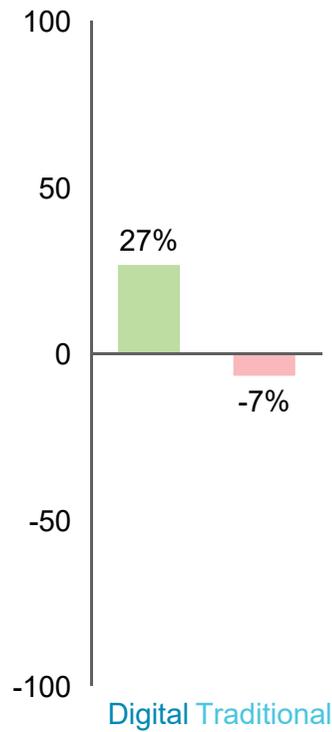
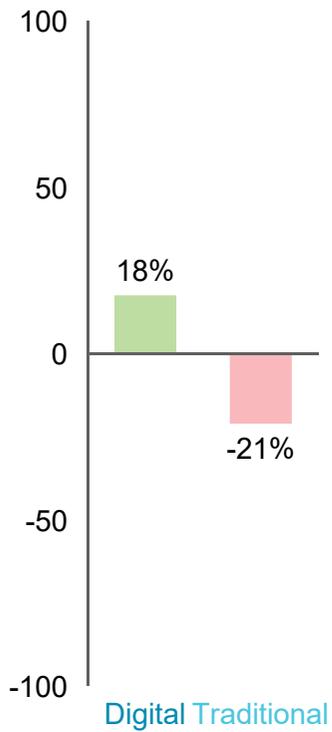
Italy
NPS



France
NPS



Germany
NPS



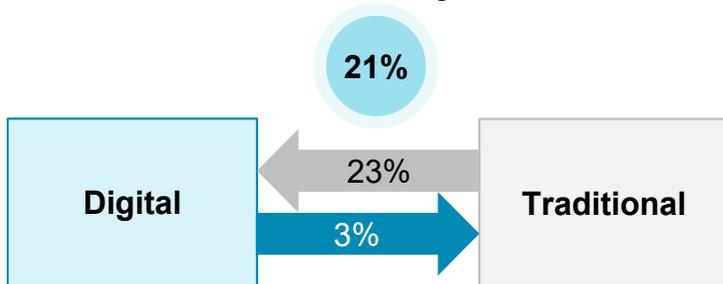
Source: Oliver Wyman analysis

Whilst the full benefits of “digital” are yet to be fully demonstrated, it is true that digital players are more successful in attracting customers

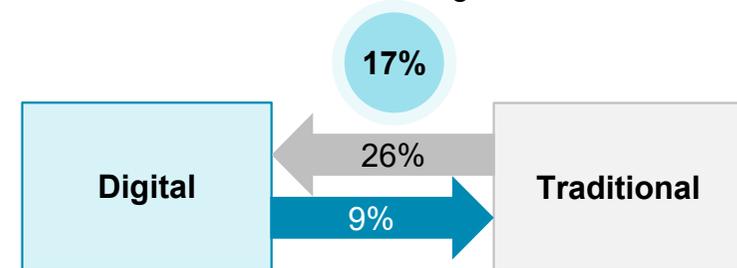
Net flow of customers between digital and traditional
% of customers switching bank segment



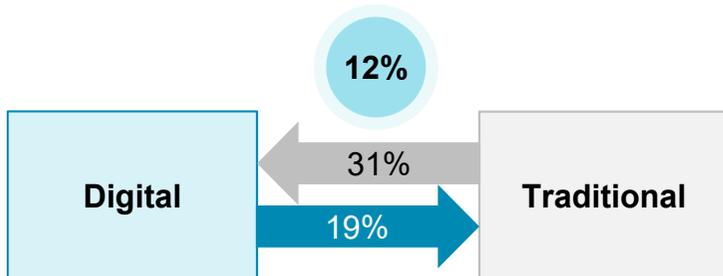
Net flow to digital



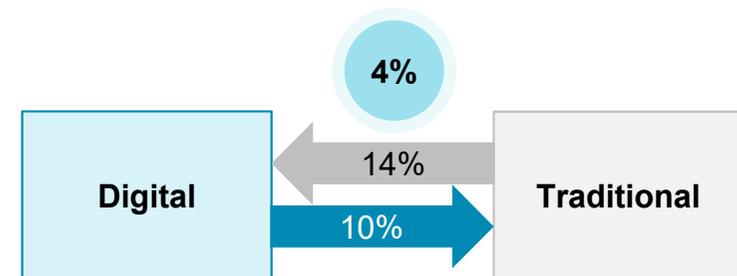
Net flow to digital



12%



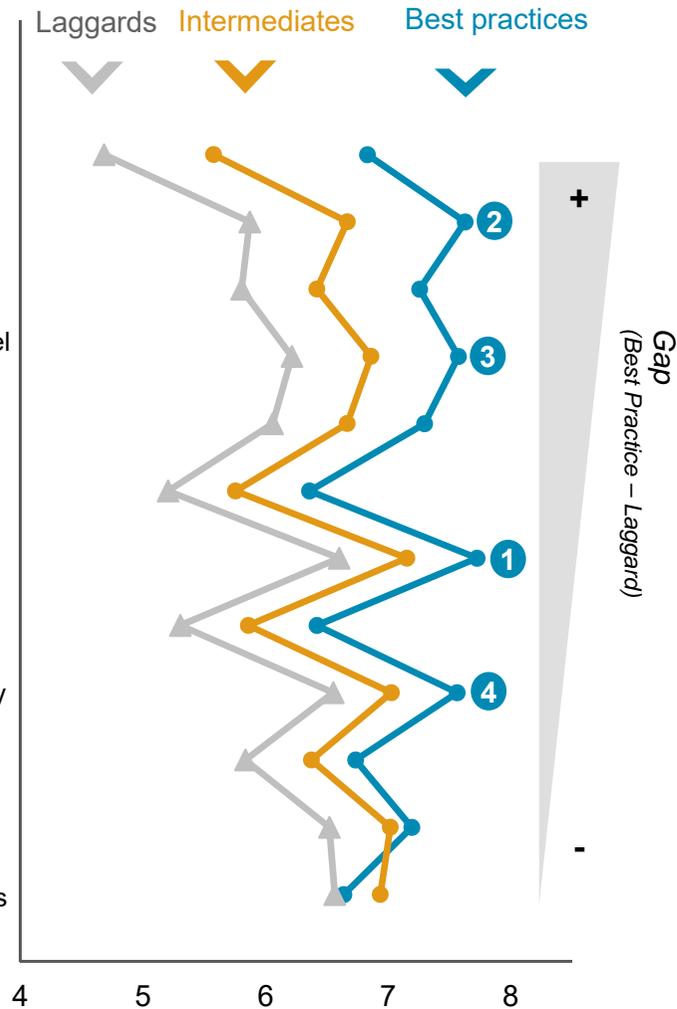
Net flow to digital



Source: Oliver Wyman analysis

“Digital” customers are more satisfied across all aspects of their relationship with the bank

Primary bank customer satisfaction Client perception on... (out of 10)



Comments

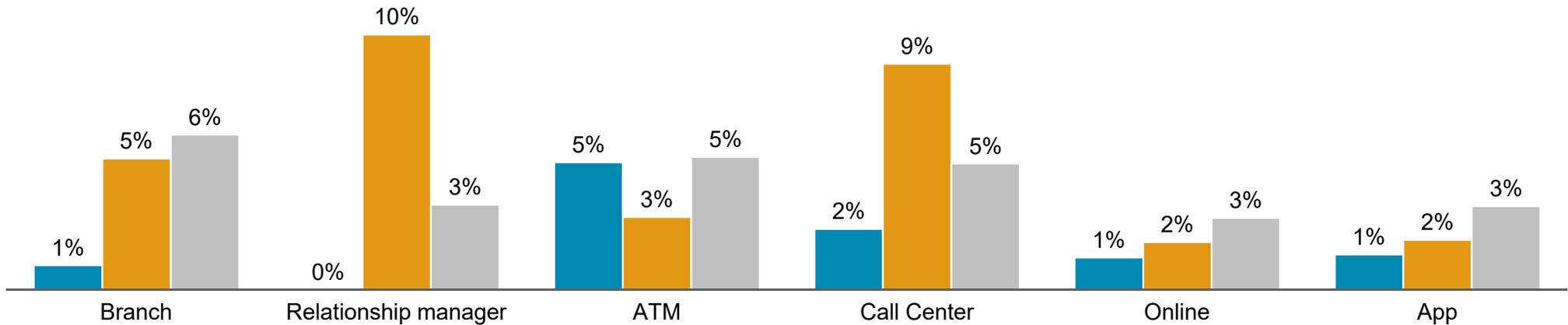
- Accessibility** shows to be the category in which Best Practice's banks are **most valued**
- Reliability and transparency** presents one of the most exacerbated **gap** between Laggards and Best Practices
- Online channel convenience** shows to be **highly valued** among Best Practices and greatly **differentiated** from that of Laggards
- Service quality** also shows to be among the **most valued categories** among Best Practices despite the gap being smaller compared to other banks

Source: OW study, 2,241 surveyed customers in Spain, April 2017

Negative experiences are concentrated in non digital channels, especially within the Affluent segment

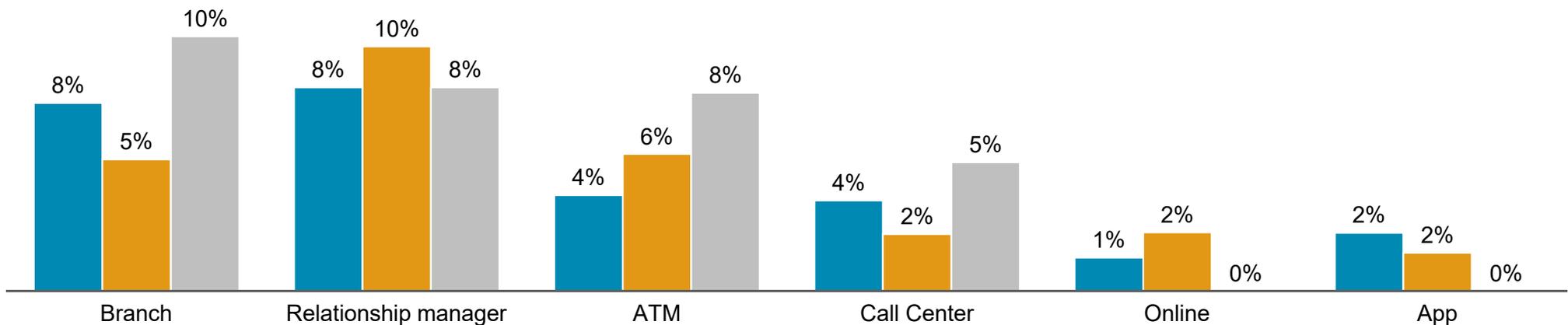
Hassle rate by channel (%)

Mass market – Online banks are excluded for branch and relationship manager



Hassle rate by channel (%)

Affluent – Online banks are excluded for branch and relationship manager



Source: Oliver Wyman Observatory of clients' experience, May 2015 - May 2017

Best practice Intermediate Laggard

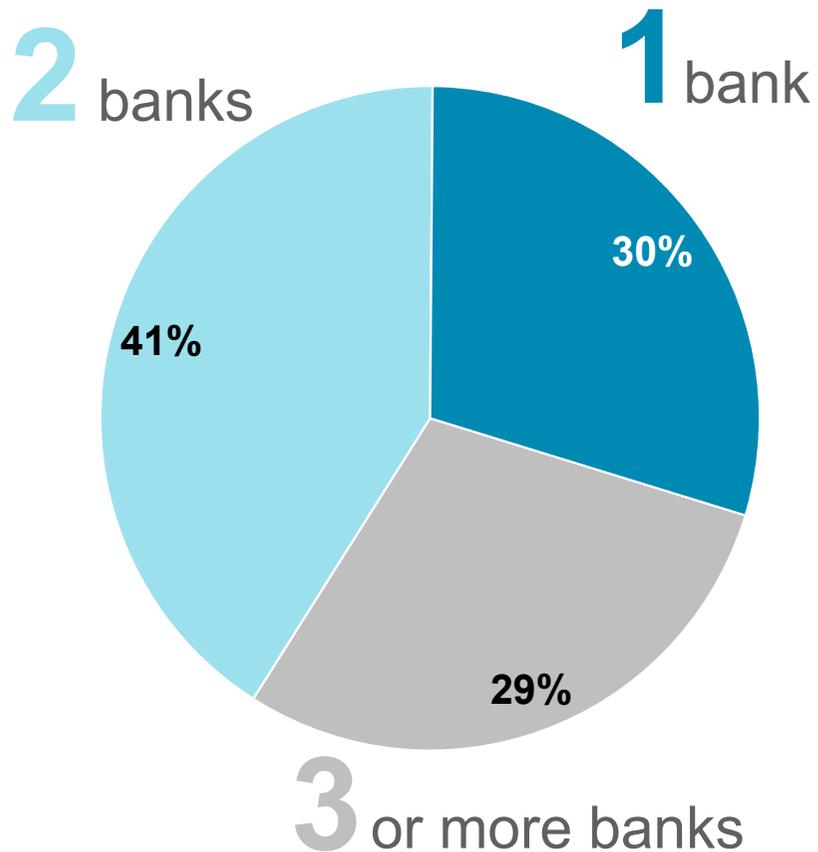
Section 3

Customer Experience
as a value driver

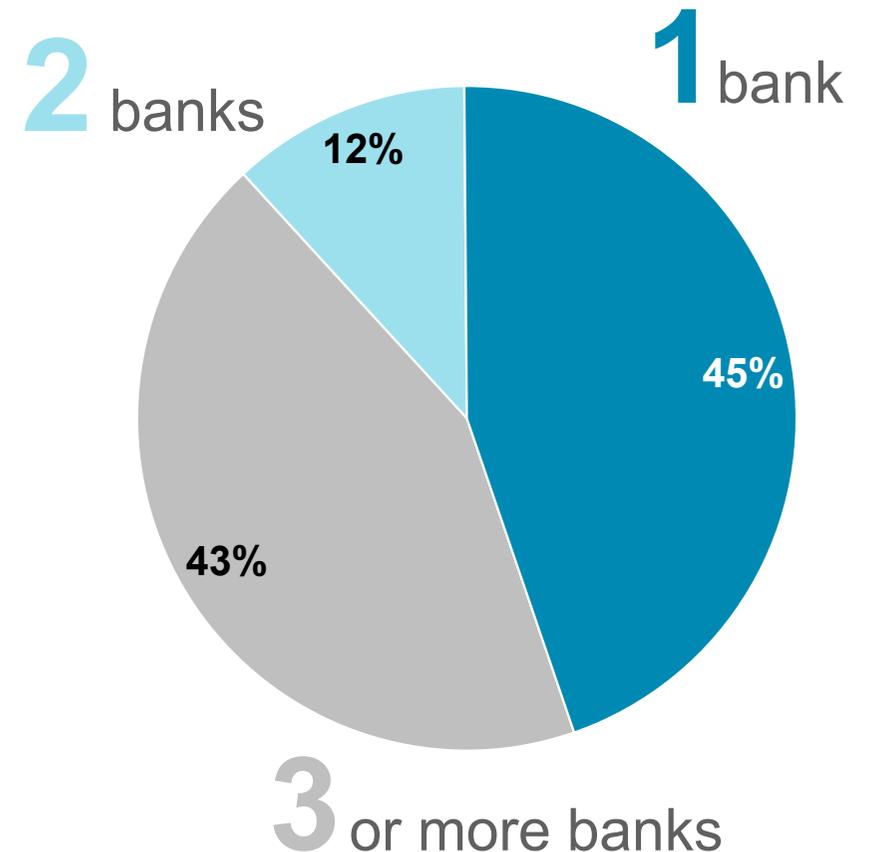
Banking relations per customer

Most customers already work with more than 1 bank

Number of banking relations per household
Germany 🇩🇪



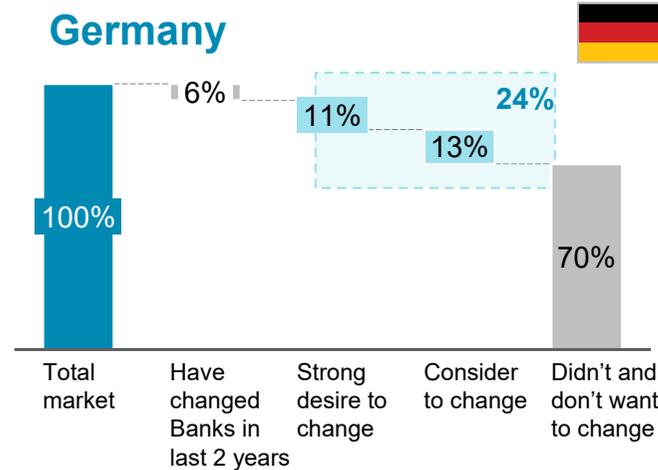
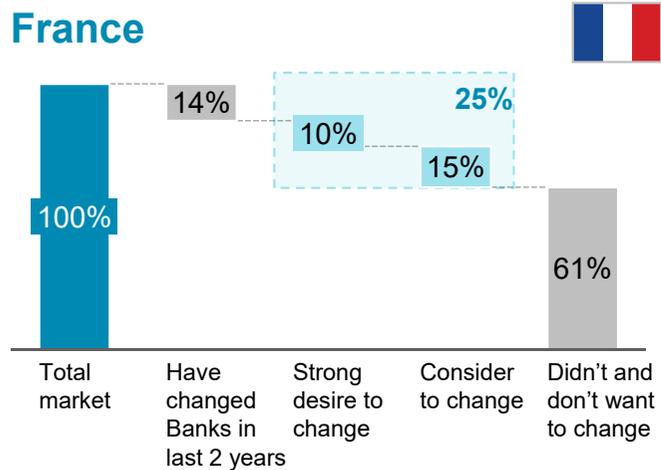
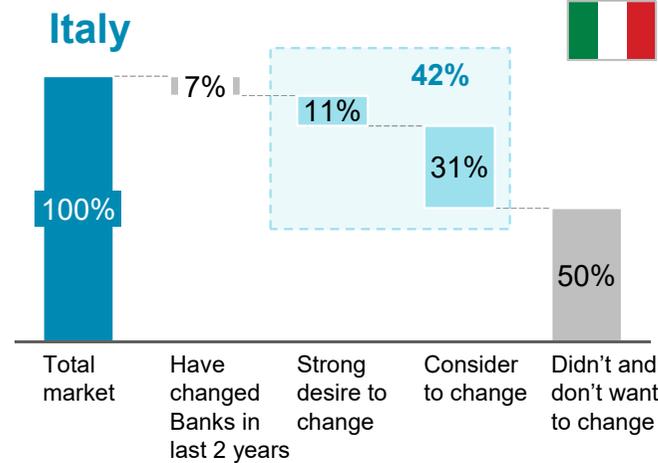
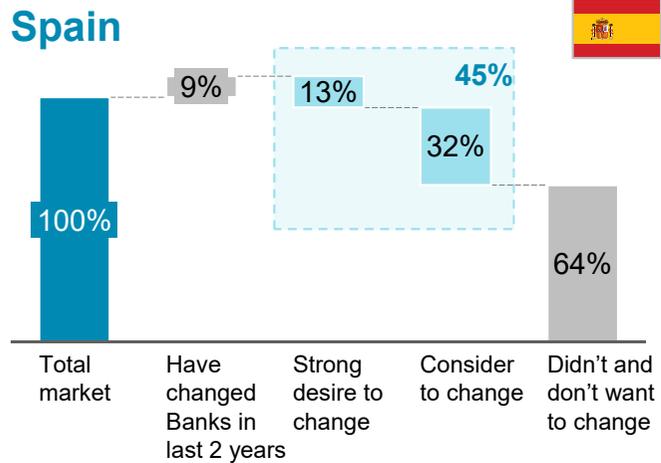
Number of banking relations per household
Spain 🇪🇸



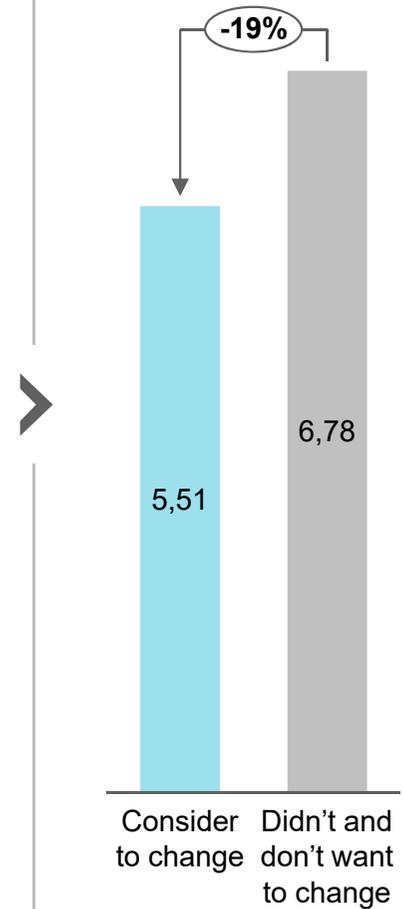
Sources: Oliver Wyman Digital Banking Survey Germany July 2017 | N = 2,006, OW study, 2,241 surveyed customers in Spain, April 2017

Desire to switch bank

Despite better average customer experience, Italian clients are less sticky than others



Satisfaction rate

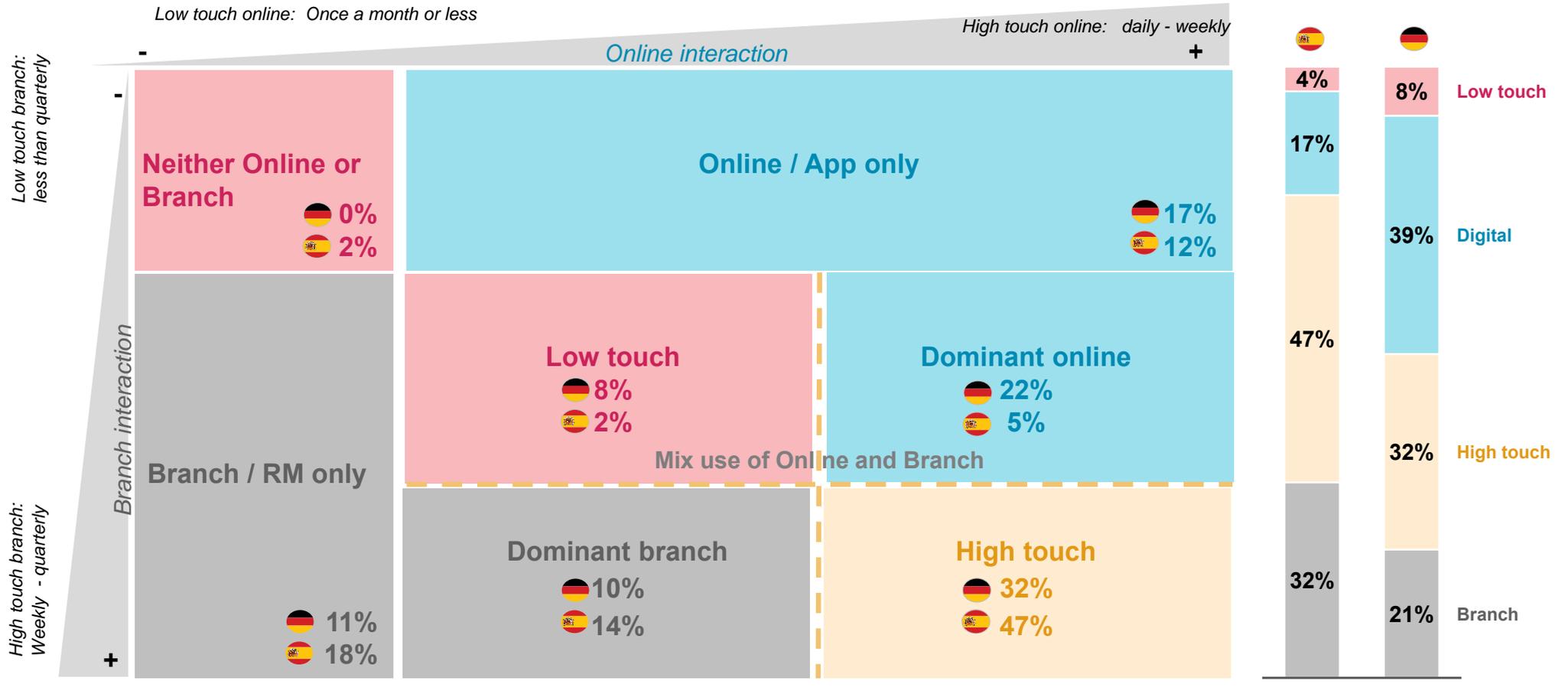


Source: Oliver Wyman analysis

Channel usage

Despite the fast increase in the digital channels, customers still have frequent branch interaction

Segmentation of users interacting with the bank depending on channels and frequency



Spanish customers are still more “branch” than German ones

Sources: Oliver Wyman Digital Banking Survey Germany July 2017 | N = 2,006, OW study, 2,241 surveyed customers in Spain, April 2017 – Sample: 1,826

Note: In Germany Clients were asked how often they use mobile banking, how often the mobile app and how often they visit the branch for any activity beside cash withdrawal while in Spain the question was “In the last 12 months, how frequently have you used the following channels to interact with your bank?”

Channel usage

Key hassles are different by channel behaviour, making enhancements “trickier”

Low touch

Despite limited interaction, they **care about availability**



Number and location of ATMs



Option to speak with a representative when using online



Commuting time to reach the branch

Digital¹

ATMs are key to digital users



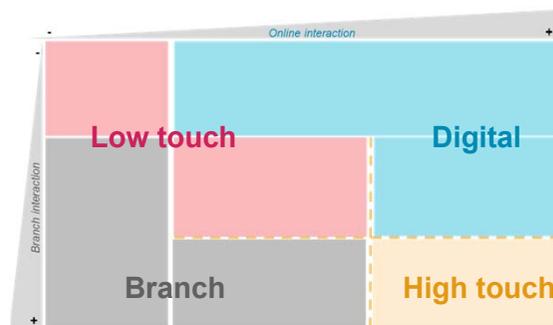
Number and location of ATMs



Option to speak with a representative when using app/mobile



ATM operational status



Branch¹

Branch efficiency is important for



Branch opening and closing hours



Employees availability to assist you in procedures



Time required to execute basic operation

High touch

Branch hassles are more important than digital for hybrid clients



Branch opening and closing hours



Commuting time to reach the branch



Option to speak with a representative when using online

1. Branch includes dominant branch and “Digital” includes dominant online
Source: Oliver Wyman Digital Banking Survey Spain April 2017 | N = 2,241

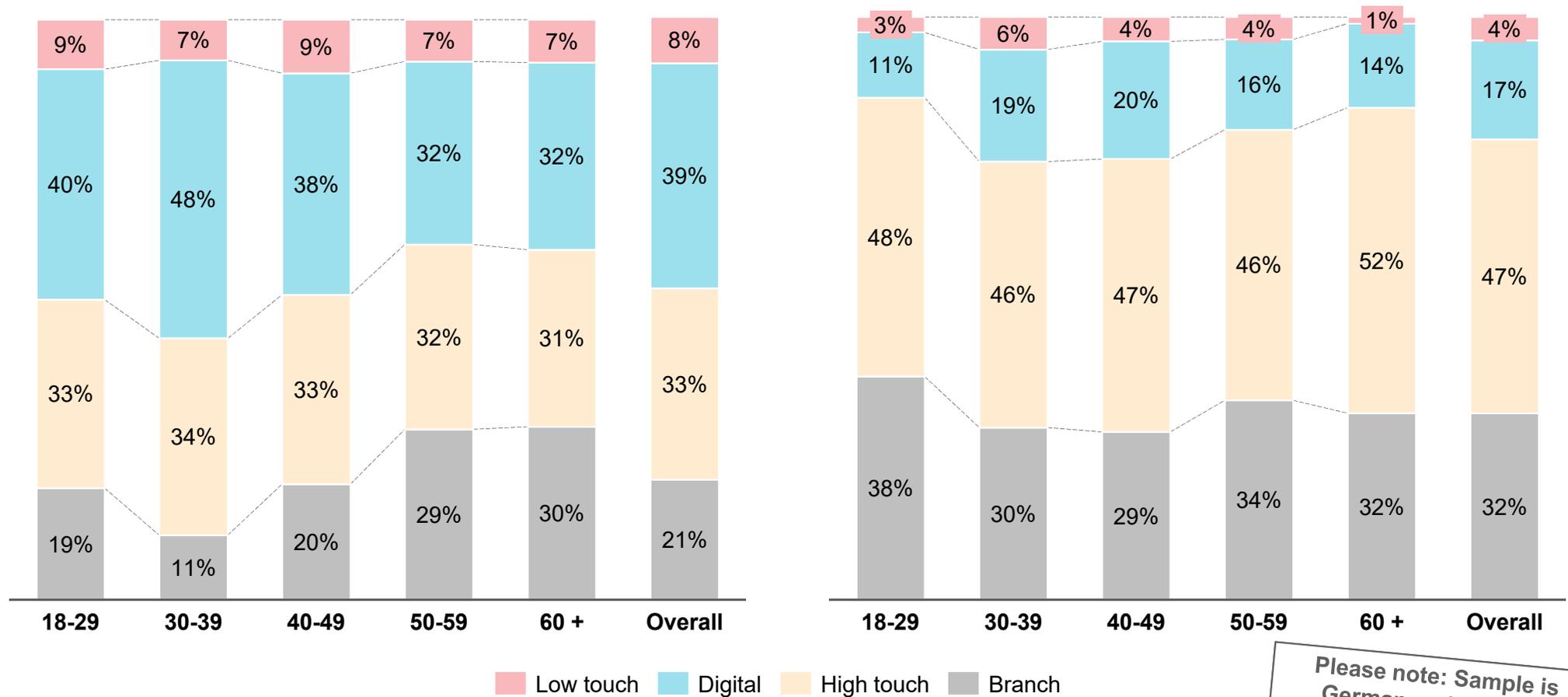
Channel usage by age group

We observe the highest degree of online/mobile banking activity for clients in their thirties

Segmentation of users interacting with the bank depending on channels and frequency by age group

Germany 

Spain 



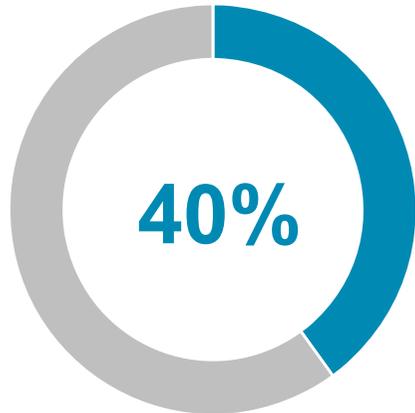
Please note: Sample is German and Spanish online population

Sources: Oliver Wyman Digital Banking Survey Germany July 2017 | N = 2,006, OW study, 2,241 surveyed customers in Spain, April 2017

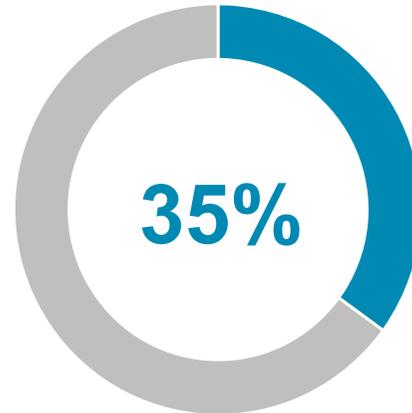
Note: Clients were asked how often they use mobile banking, how often the mobile app and how often they visit the branch for any activity beside cash withdrawal

Product offerings and extra services

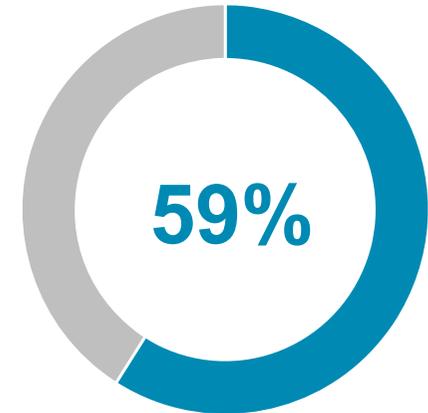
Bank relationships are becoming increasingly “open”



...would provide their **data** for concrete **product offers**

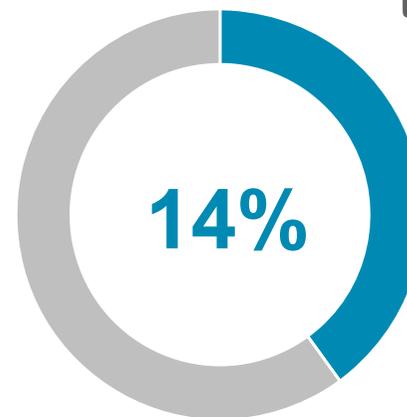
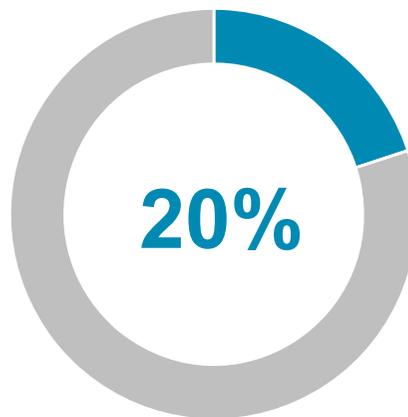


...expect their bank to support with **financial planning**



...would purchase **third party products** through their **primary bank**

... knows that their bank offers the **feature to connect different bank accounts**



...are familiar with the **concept of robo advisors**

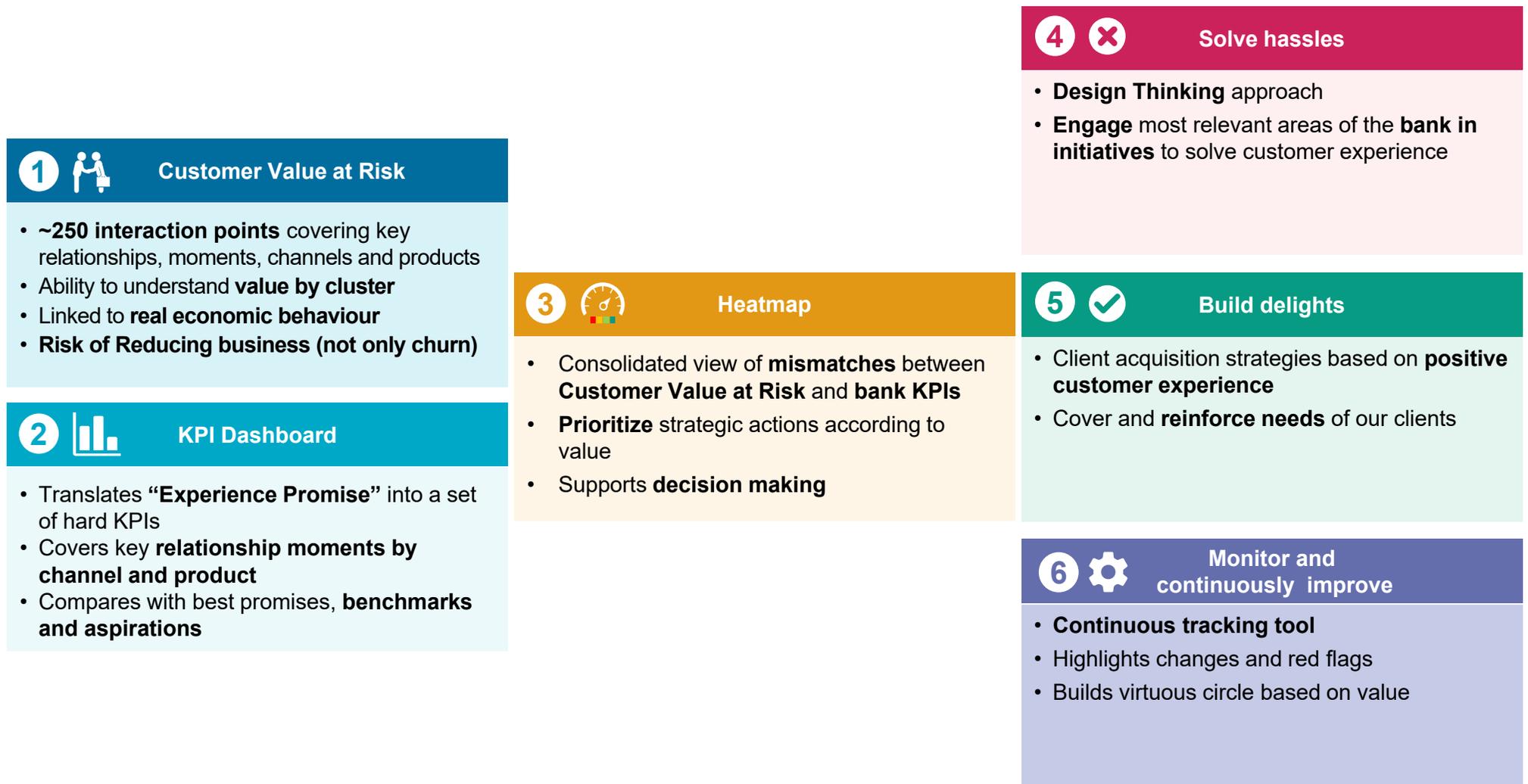
Source: Oliver Wyman Digital Banking Survey Germany July 2017 | N = 2,006

Section 4 | How can Oliver Wyman help?

Our approach

A tested, quant based and result driven approach towards customer experience

Oliver Wyman Customer Experience approach



1 Our competitive advantage

We have proprietary data and experience to support our project development

	<h2>Our Survey</h2>
	Proprietary survey across multiple countries in Europe :
	<ul style="list-style-type: none">• ~250 interaction points• Key relationship moments• All channels• All product families
	Hassles & delights
	Sociodemographic
	Expected behaviour

	<h2>Our Client Work</h2>
	Tailored to client strategy
	Linked to real economic behaviour
	Granularity fits with strategy and operational model (e.g. channels to be considered)

Define customer value at risk, typically 15% of gross margin margin

1 The first step is to understand the underlying value of our customer's needs – CVaR approach

CVaR Methodology

Customer Value at Risk CVaR

Bank's potential value loss if customer needs are not met

=

Attrition due to poor Customer Experience (ACX)

Through a **survey and observed client behaviours**, we analyse the customer experience drivers of those clients **reducing** their relationship with the bank

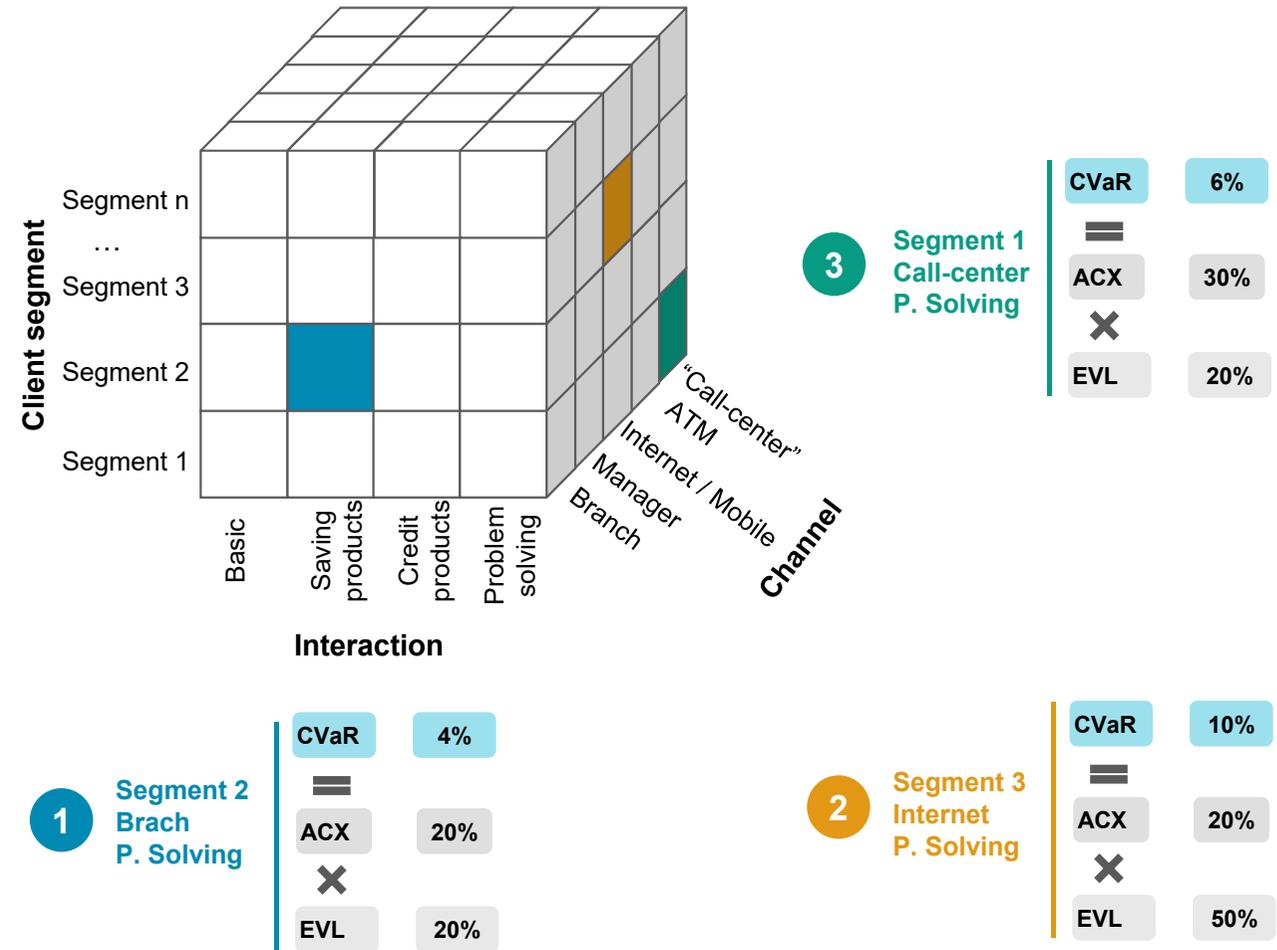
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Expected value loss (EVL)

Value loss from those clients who have reduced their relation

Several **client metrics can be used** (gross margin, net present value, potential value, etc.)

Calculation dimensions of CVaR Illustrative

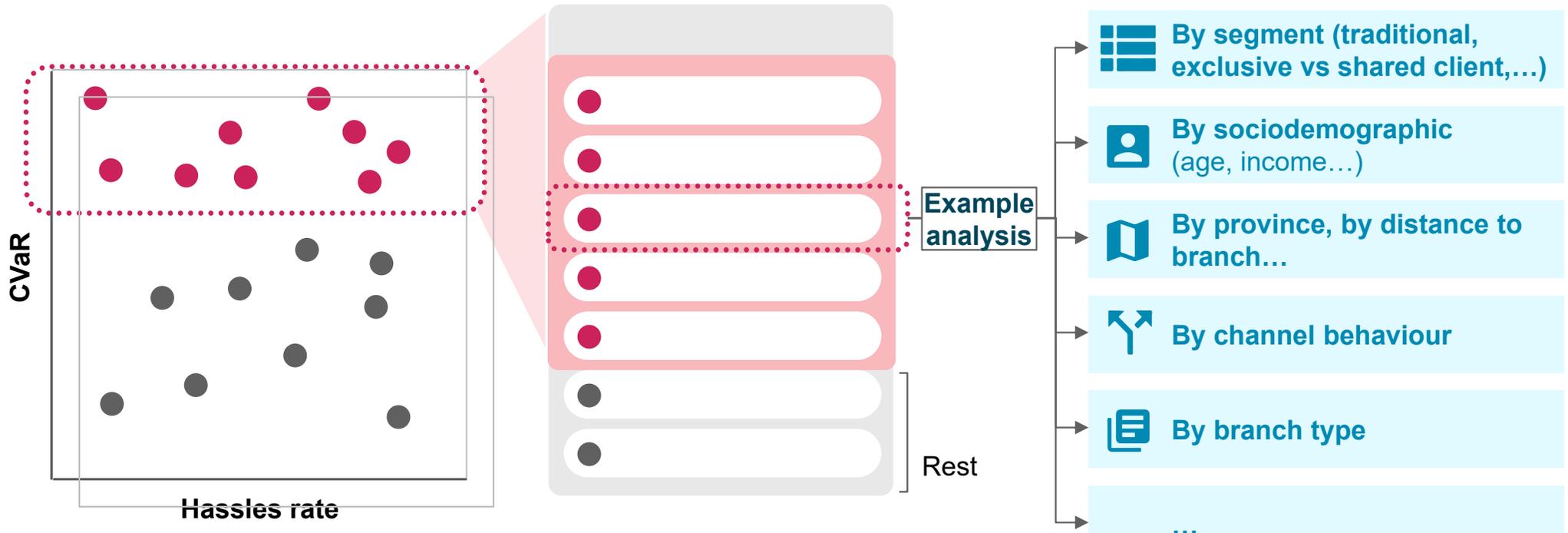


1 A granular analysis helps prioritize efficient areas of intervention

Hassles ≠ CVaR

Some hassles are worth more than others

Some clients more affected than others



Some hassles are not linked to value destruction

Typically no "1 big issue to fix" but several

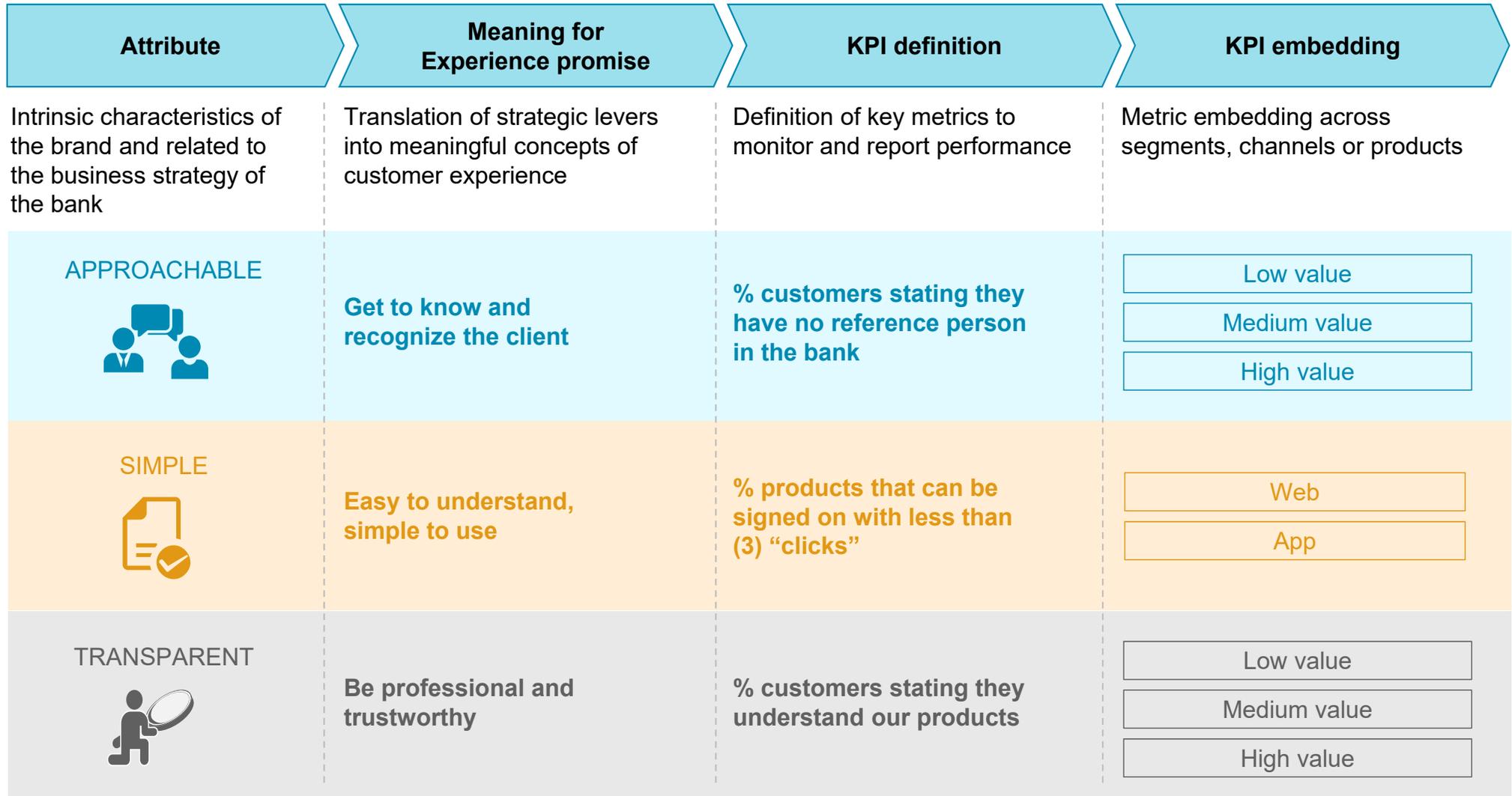
Example: segment mentioned has higher hassle rate

Legend: No significant differences across segments Medium differences Large differences

Point of contact	Value	Territories	Province	Age	Branch type	Competence	Multichannel	Branch use	Portfolio
Office hours		Core areas	MAL, VAL, SEV, MAD	Median age (30 – 50) years are worse	Affluent branches	-	Digital clients, Multichannel clients	-	-
Waiting office times	Low value clients	East (35%)	AVI, CAST	Median age (30 – 50) years are worse	Transactional branches	Shared clients		Heavy users	Clients who are not in a portfolio
Branch proximity	Low value clients	Non-core areas	TAR, GRA, MAL, CAD	Median age (30 – 50) years are worse		Shared clients	Digital clients, Branch clients	Heavy users	

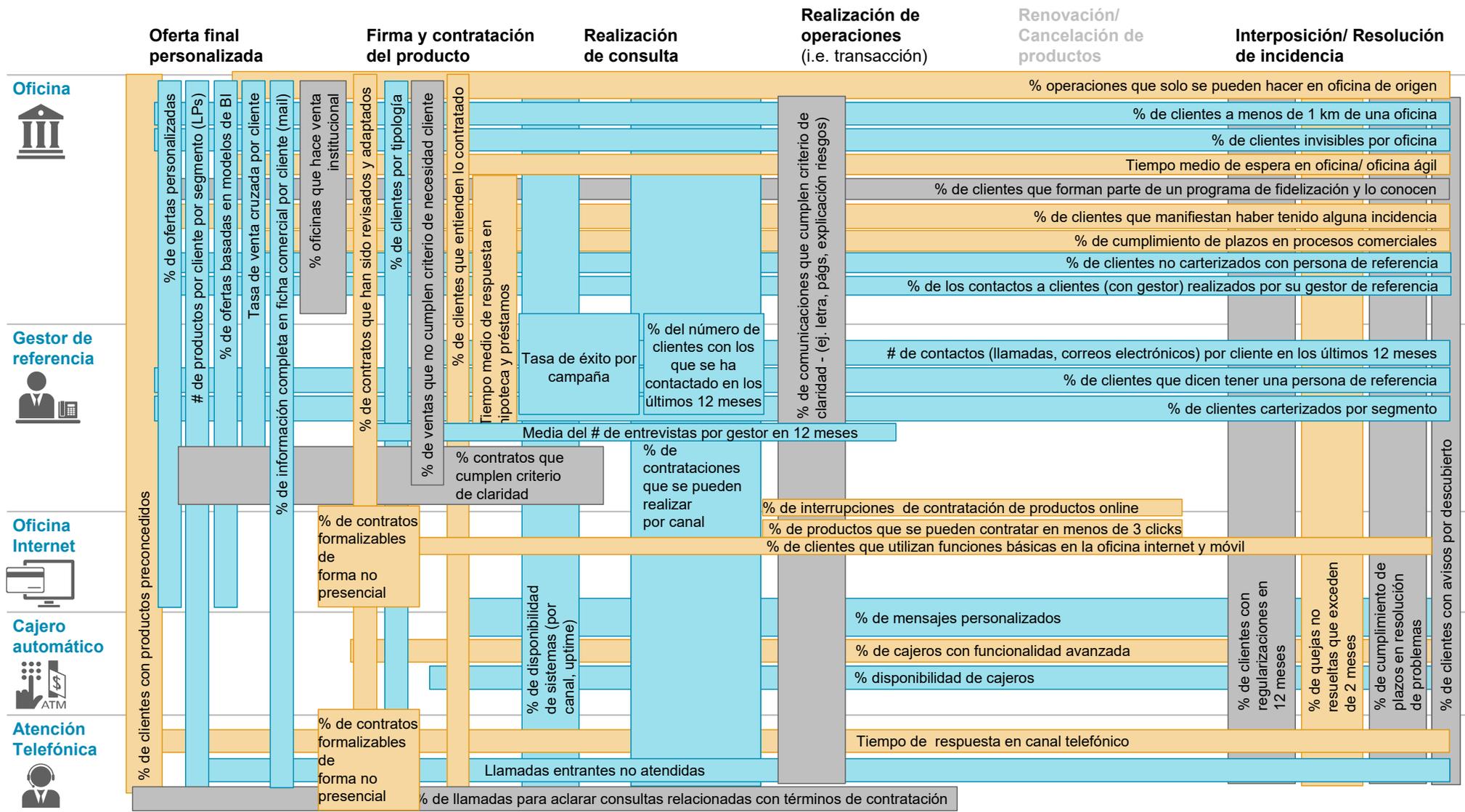
2 In parallel, from the bank's perspective a set of KPIs are defined to help the organisation embed its customer experience strategy in the business

Experience promise layers



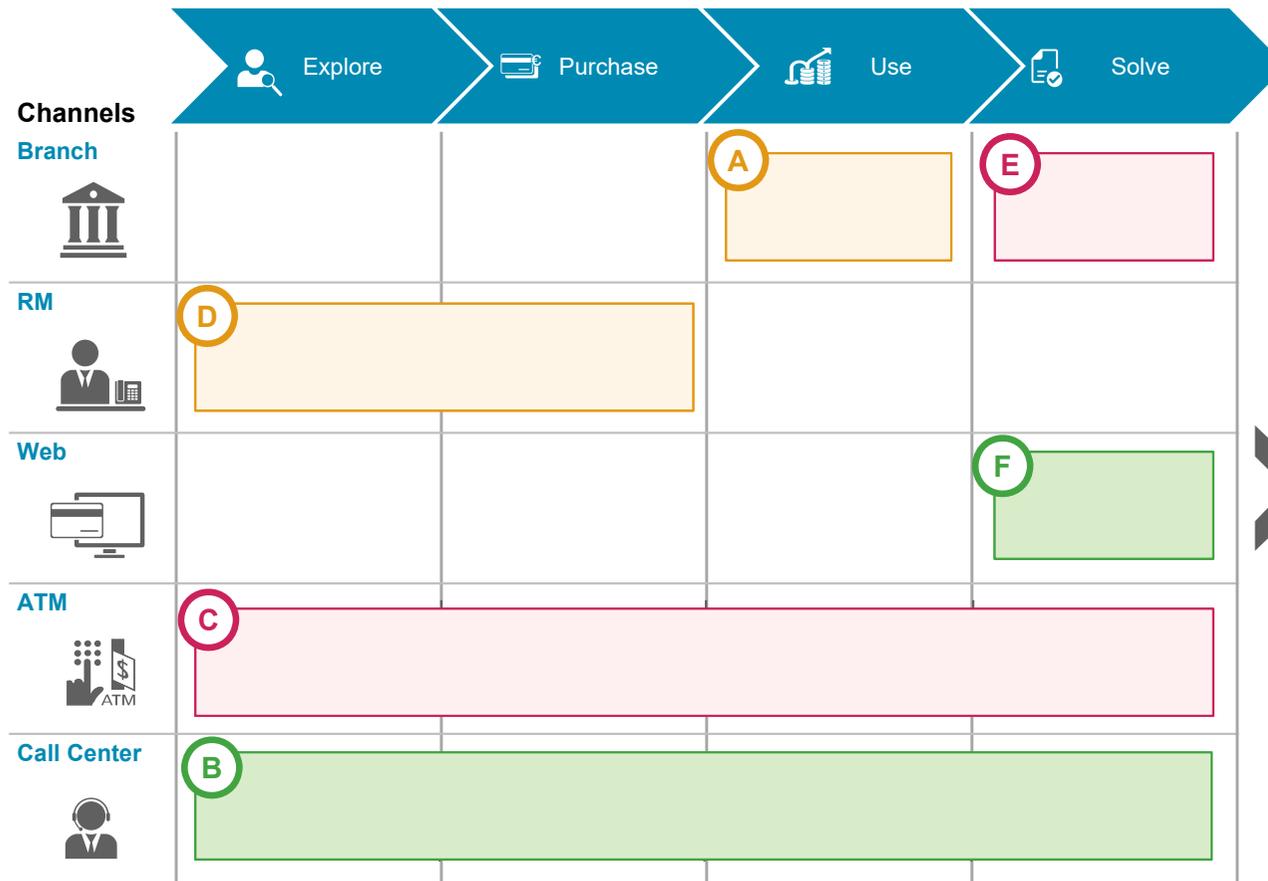
2 Selected KPIs cover the whole spectrum of client interactions

KPIs by channel and contact



2 A target ambition is set for each KPI, ensuring full coverage of the bank's customer experience touchpoints

Illustrative KPI distribution in a bank- by channel and high level customer journey



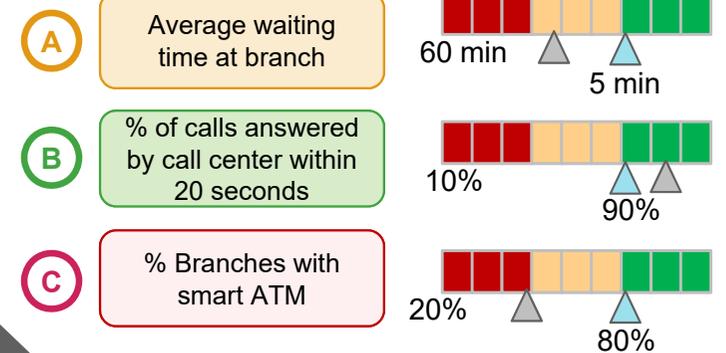
■ KPI

KPI typology and ambition setting

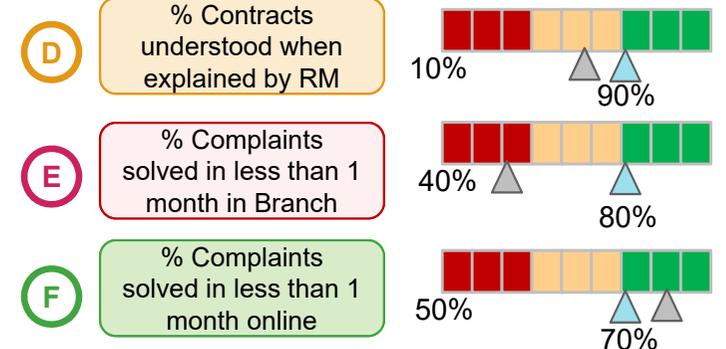
KPI type

KPI ambition

KPI per channel



KPI per phase

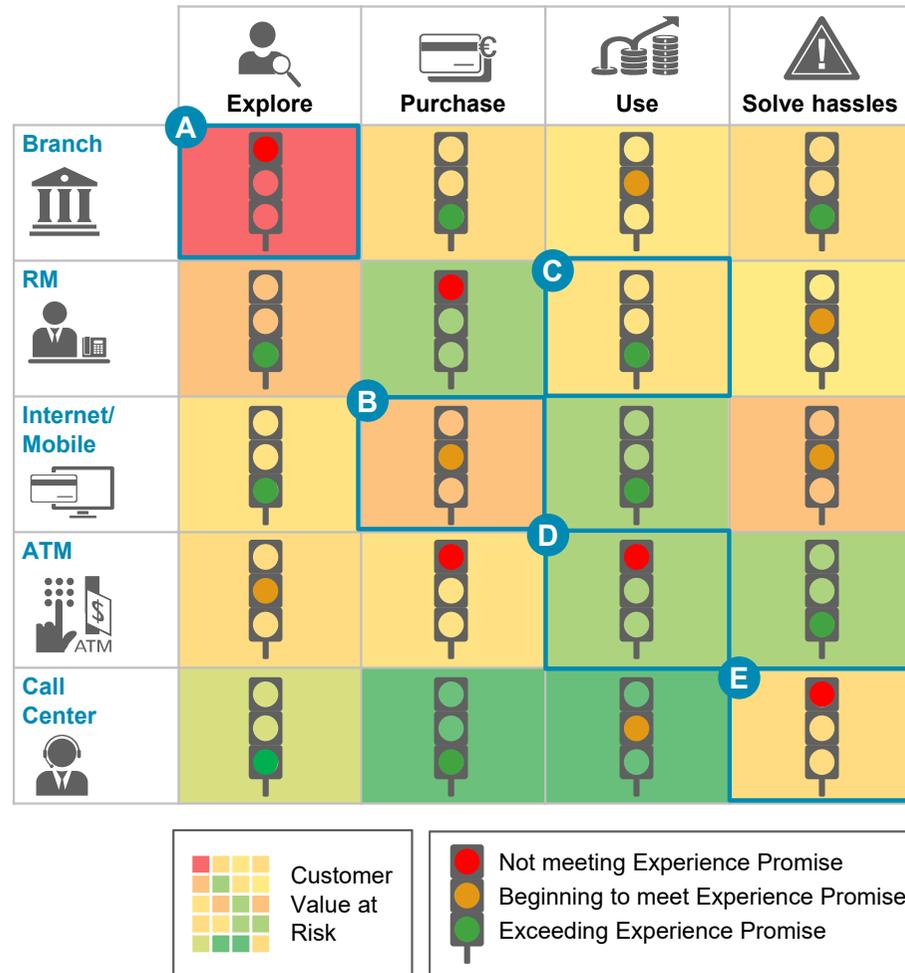


▲ Current ▲ Target/ ambition

3 Identifying areas of focus of customer value and deviation on experience promise are the initial steps to improve customer experience

Illustrative example

CVaR and Experience Promise dashboard

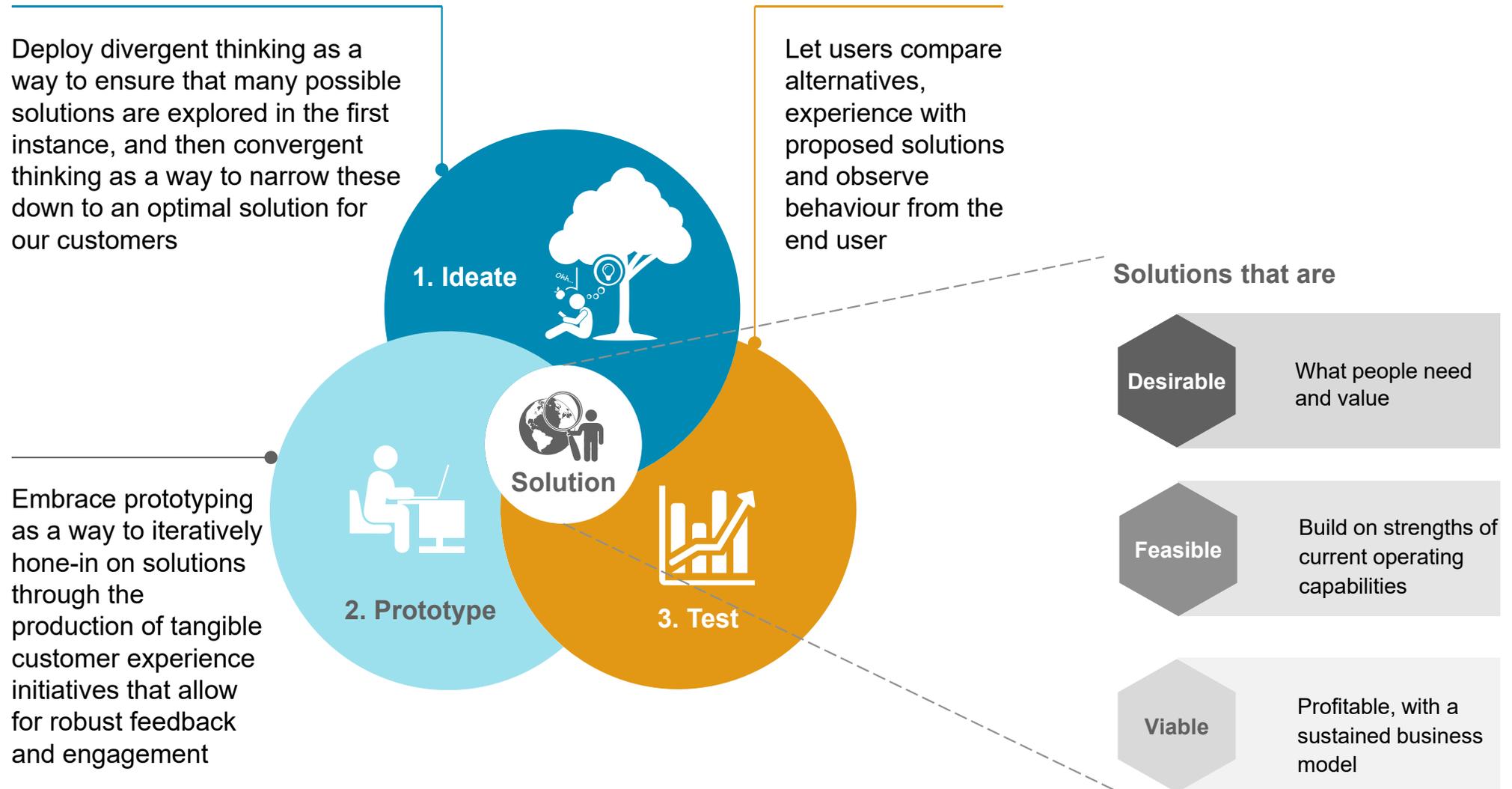


Touch point	Customer need	Experience promise
A	<ul style="list-style-type: none"> Customer visits a couple of times the branch looking for advise to buy a car All employees are busy and the customer leaves 	<ul style="list-style-type: none"> The bank has set a target of 5 minutes maximum average waiting time Currently, the average waiting time is 13 minutes
B	<ul style="list-style-type: none"> Mortgage application process cannot be completed online They are required to file paper work at the branch 	<ul style="list-style-type: none"> The bank is reducing the time needed to grant a mortgage (17 days vs. a target of 15) Some steps that still need to be performed at the branch
C	<ul style="list-style-type: none"> Customers feel that they have less attention by their usual RMs However, they appreciate the advantages of the newly developed online service model 	<ul style="list-style-type: none"> Recently, the bank has reduced its physical RM coverage The online RM model is still to reach its full potential
D	<ul style="list-style-type: none"> Customers still use traditional ATM They rely on the branch tellers for more complex transactions 	<ul style="list-style-type: none"> The bank is pushing for a wider network of smart ATMs At the moment they are only available in 25% of branches while the target is 90%
E	<ul style="list-style-type: none"> Customers contact the Call Center to solve their issues Waiting times have increased 	<ul style="list-style-type: none"> The bank has set an strategy to attend customer calls in less than 20 seconds Their current outsourcer has an average time to answer the calls of 1 minute

4 Design-led Customer Experience

5 To align the organization in defining the solution to solve existing hassles

Design-led Customer Experience



4 Interactive workshops

5 We will use our proven “StudioModel” methodology to further build on customer delights

About our StudioModel

An open space to share, ideate, and create...



...facilitated by our experienced coaches that help your team get creative (but still be pragmatic)...



...getting buy-in from stakeholders, identifying potential challenges and efficiently prioritising based on user input



Workshop approach & format

- A number of **workshops** to solicit feedback and generate ideas
- **Cross functional & senior team engaged**
- **Background work** to frame the issues and provide a factbase for informed discussion
- **Peer insights** used to complement internal learnings

Illustrative potential discussion topics

- Branch lay-out
- Client onboarding process
- Credit process pain points
- Product understanding
- Branch operating hours
- Governance
- Data and tools for RMs
- Implementation challenges

Roles



- **Define scope and agenda** of the workshops
- **Prepare materials** for discussion for each session
- Facilitate workshops using **collaborative methodology** (StudioModel method)
- **Synthesize and summarize findings** from all of the workshops

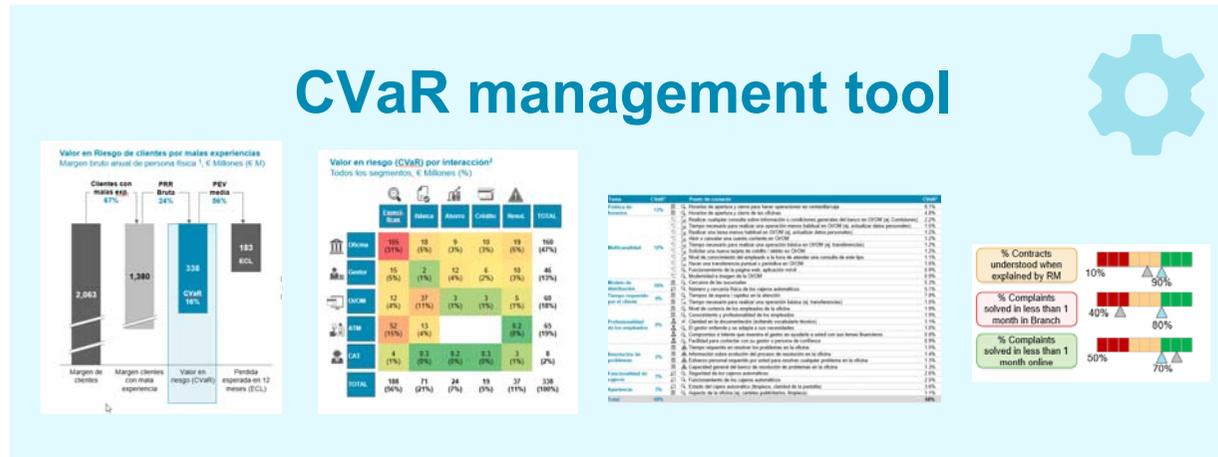
Credit institution

- **Define teams** to participate in workshops
- **Organize logistics** (e.g., invites, etc.)
- **Participate in the workshops**

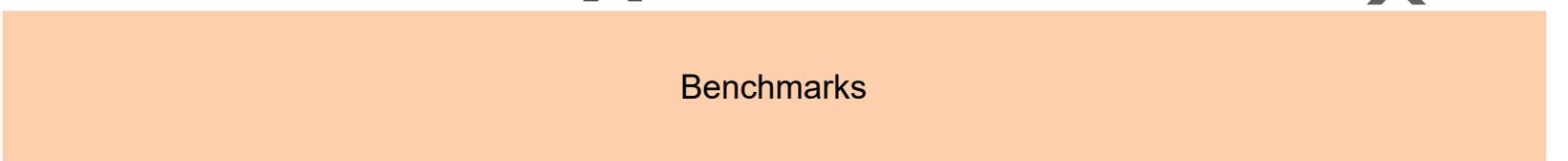
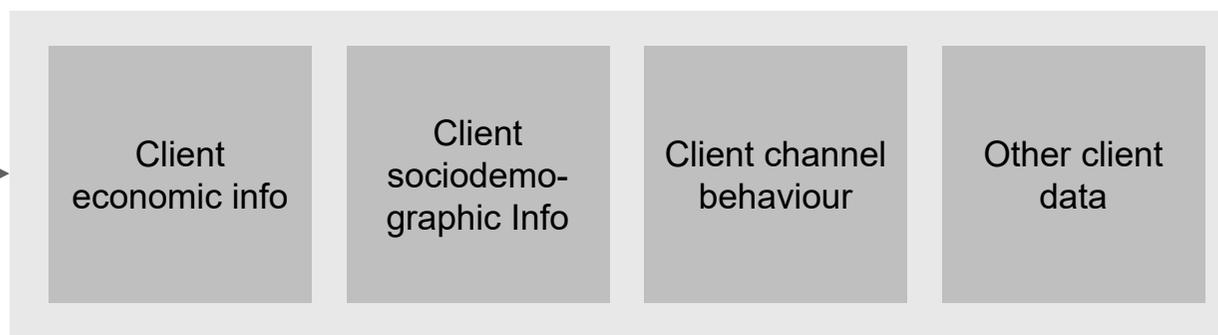
5 An automated tool helps ongoing tracking, management and evaluation
6

Tool Description

- Periodical online survey
 - Random
 - Significant
 - 3-6 months
- Source 250 point survey

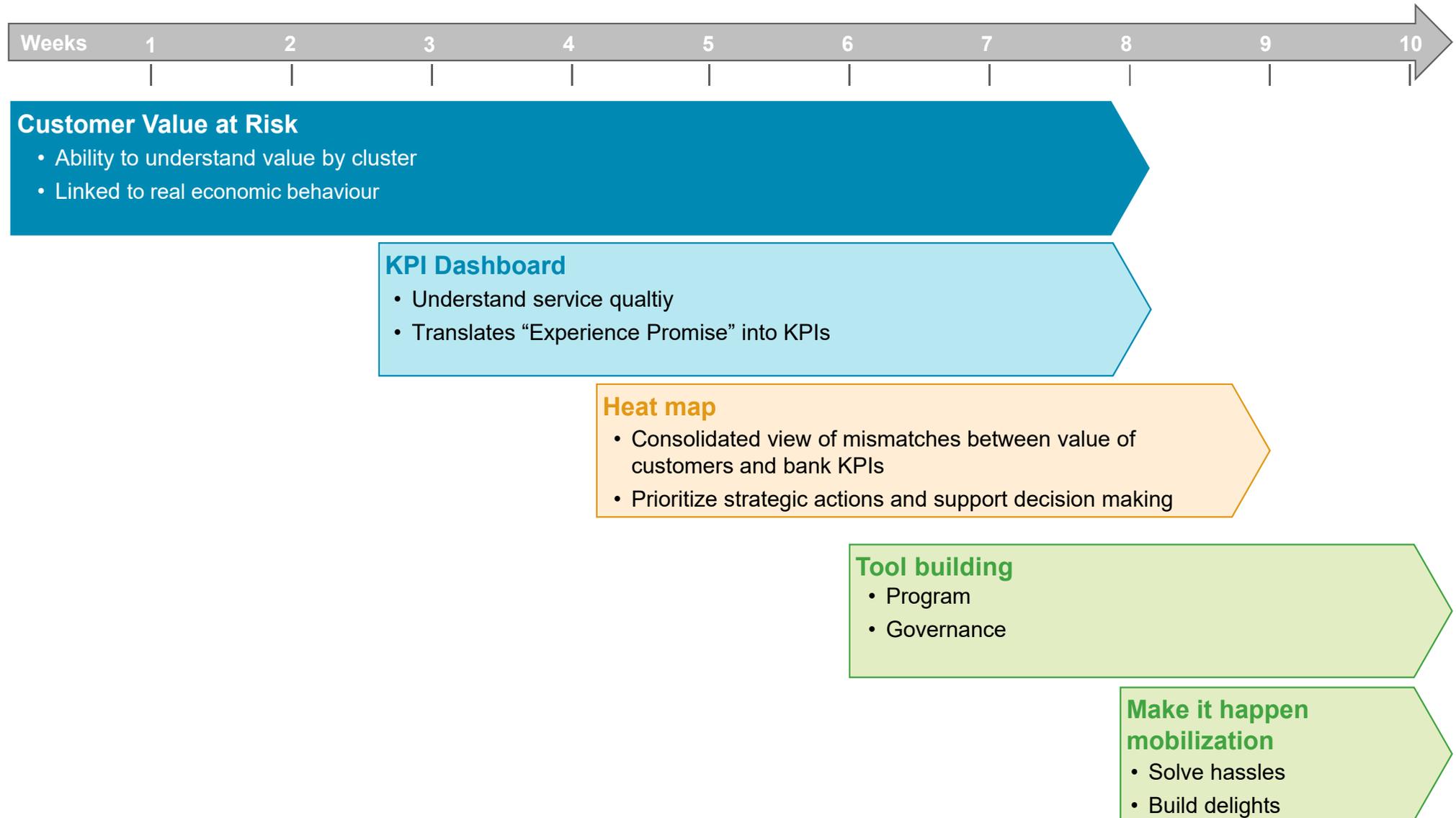


Experience based client management model



High-level project plan example

To be tailored to client situation



Note: additionally there will be a phase zero to organise data request

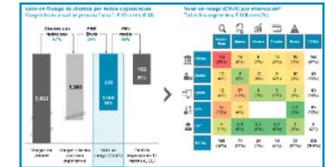
Section 5 | Why Oliver Wyman?

Why Oliver Wyman

1

Unique credentials and client experience

- We have extraordinary experience in customer experience strategy and implementation for leading banks globally and locally – *client contact can be established*



2

Deep industry knowledge

- Extensive market knowledge
- Regular industry and reports
- Customer experience Centre of Excellence, with >30 partners focused on Customer Experience and continuous capturing of relevant benchmarks, methods and best practice models



3

CVaR methodology

- Proprietary methodology that creates a value based approach to customer experience
- Facilitate decision making of initiative prioritisation

$$\text{CVaR} = \text{ACX} \times \text{EVL}$$

4

Customer experience management tools

- Methodology to embed outputs of 1,2,3, into the management and reporting systems of the bank
- Customer experience visualisation prototypes to enable senior executives to see rapid output



5

Studio model capabilities

- A constructive dialogue approach that brings stakeholders together into productive design driven discussions
- Cocreation of all materials in a collaborative environment



6

The Lippincott factor

- We bring together the acumen, rigor and preparedness of a premier business consulting firm – and the spirit, courage and imagination of a world-class innovation and design firm

LIPPINCOTT

Case study 1

Customer Experience Strategy: Leading Spanish Bank

CONTEXT AND BACKGROUND

- Large domestic retail bank rethinking their customer experience strategy
- Unclear approach to customer experience management, new responsibility of the marketing department
- Need to assess the impact of customer experience improvements

IMPACT

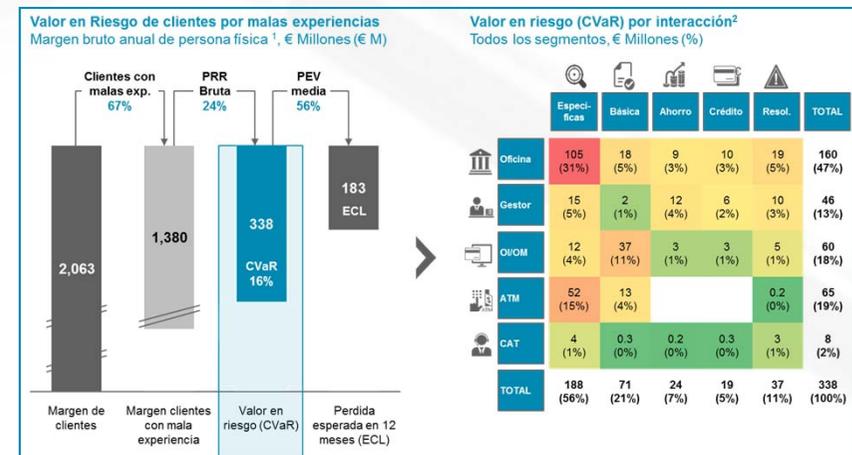
- Define a monitoring framework including 40 operational KPIs
- Identify areas of improvement and key action points including
 - Distribution model and customer management
 - Multichannel, Relationship managers, ATM functionality, etc.

Our approach

- Assess the key threats on digital and identifying the “best in class” innovations
 - Develop a comprehensive framework structured on two axis:
 - Brand Promise and operational KPIs:
 - Identify a set of operational KPIs to decline and measure brand promise, setting an ambition level
 - Customer Value at Risk (CVaR) development
 - Ensure monitoring and implementation in bank system

Illustrative example

- CVaR Map:



Deep industry knowledge

Leading intellectual capital



OW Customer experience Centre of Excellence

- >30 partners with focus on retail business and operating model transformation, focussed on Customer Experience
- Continuous capturing of relevant benchmarks, methods and best practice models from across the globe
- Ongoing online surveys on ~3,000 clients per country, around approx. 200 key customer experience interactions with the intention of understanding how retail customer experience dynamics affect client intention of increasing or decreasing business with their banks
- This survey is part of a series of surveys already performed in France, Italy, UK, Germany, Spain, Nordics and Russia

The Lippincott factor Who we are and what makes us different



LIPPINCOTT

Oliver Wyman is a strategy consulting firm

We are a leading consulting firm with deep industry expertise and unmatched understanding of banking

Lippincott is a creative consultancy

We are a team of strategists, designers, innovators and change agents that help leaders design businesses that succeed on the edge of change

We bring together the acumen, rigor and preparedness of a premier business consulting firm – and the spirit, courage and imagination of a world-class innovation and design firm

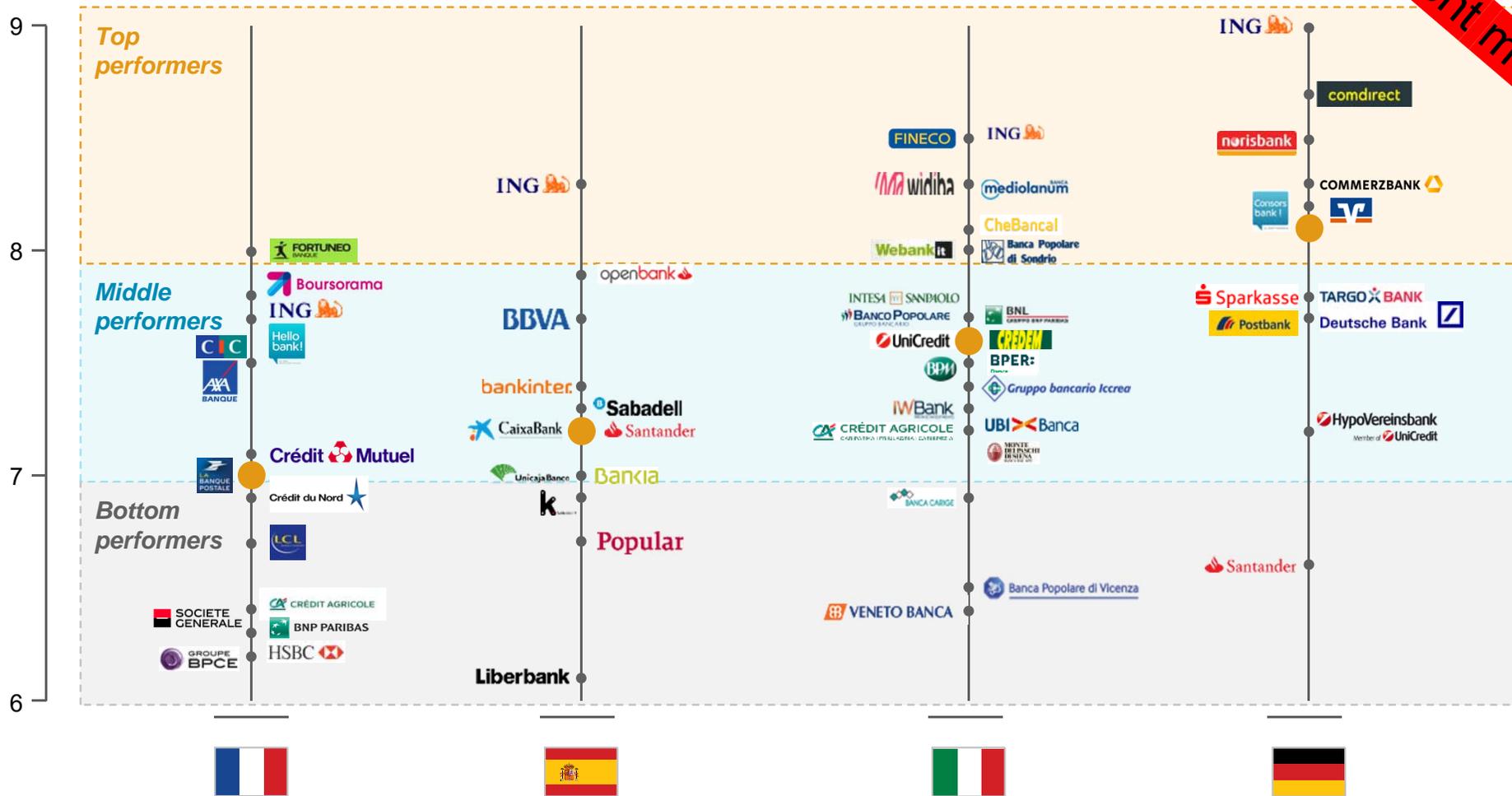
Cuts- not to be used in client meetings

Customer Experience satisfaction by bank

Not to be used in client meetings

CX satisfaction across countries and banks (Q3 2017)

0-10



Source: Oliver Wyman survey Q3 2017

● Market average

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