

AN EXCLUSIVE SURVEY AND RESEARCH REPORT FROM BLOOMBERG BUSINESSWEEK RESEARCH SERVICES

Methodology

Bloomberg Businessweek Research Services and SAP launched a global survey in summer 2013 to analyze the views of banking sector executives on customer centricity and the use and benefits of analytics.

100 banking executives from the following regions were surveyed:

- ▶ 38% North America
- ▶ 31% EMEA
- ▶ 31% Asia

The organizations surveyed included small, midsize and large banks:

- ▶ 35% Large (\$3 billion or more)
- ▶ 30% Midsize (\$1–\$2.9 billion)
- ▶ 35% Small (\$500–\$999.99 million)

Banks Betting Big on Big Data and Real-Time Customer Insight

Winning new business and satisfying customers are top agenda items in bank boardrooms worldwide. Executives are bullish on new technologies to meet these objectives.

BY TOM GROENFELDT

For years, banks have filled the airwaves with declarations of their superior personalized service. But for many customers, their daily business with banks has not changed much in recent years.

Those interactions may be about to shift. According to a summer 2013 survey by Bloomberg Businessweek Research Services (BBRS) of banking executives around the world, more than 70 percent say customer centricity is very important to them. Among other attributes, they cite customer centricity as key to helping staff better understand customer profitability. Bankers also see it as the doorway to providing customers with a consistent and personalized experience (see Figure 1, “Key Components of Customer Centricity”).

In short, the survey evidence is strong that banks are finally ready to focus on the customer experience—and to leverage big data and advanced real-time analytics tools to help build better relationships and deliver exactly what customers want.

In the immediate aftermath of the financial crisis, banks were compelled to manage risk and direct most of their IT investments toward meeting new regulatory requirements. But new priorities and budgets now focus on building customer trust, transparency and business capabilities for higher profitability. “Now they are launching initiatives with customer dashboards and portals where consumers can get a more customized experience online,” says Christine Barry, research director at Aité Group, a financial services analytical firm.

Bankers are facing tremendous frustration in their pursuit of customer centricity, though, and it is often a result of aging, inflexible systems. Only 55 percent of survey respondents say they have mature systems for analyzing current customer activities such as deposits, withdrawals and payments. Even fewer are able to analyze customers’ social media sentiments and online behavior. Yet these

FIGURE 1 Key Components of Customer Centricity

How important will each of the following attributes of customer centricity be in two years? (mean score based on a ranking of 1 to 5, in ascending level of importance)



Base: 100 executives at small, midsize and large banks worldwide
Source: BBRS 2013 Banking Customer Centricity Study

basic sources of information are a key to understanding everything from personal preferences to channel usage (see Figure 2, “Big Gaps in What Can Be Done Today”).

Rewards for Getting It Right

Banks earn big dividends when they understand customers and identify trends. At Cleveland-based

KeyBank, for example, analyzing transaction data was just the starting point for its business analytics team. The bank wanted to better understand customers and offer them differentiated and targeted advice to meet their needs, according to William Koehler, community bank president.

David Bonalle, KeyBank's executive vice president and director of marketing who leads the analytics group, says analytical results now feed into strategic decisions, such as shifts in branch hours, as more customers use online and mobile banking. By changing hours and staffing, for example, the bank saved \$35 million in one year. And by using data to adjust its approach to new client communications, Bonalle says KeyBank has reduced attrition by over 25 percent.¹

It is easier to sell additional products to existing customers than it is to find new customers. And the more relationships a customer has with a bank, the more likely he or she will stay. But among bankers responding to the BBRS survey, only 29 percent can currently analyze wallet share—one of the most fundamental measures of a bank's relationship with its customers (see Figure 2, "Big Gaps in What Can Be Done Today"). Wallet share is considered so critical that leaders such as Wells Fargo have made it a central theme of their operations.

Banks that monitor wallet share effectively can offer customers relationship pricing to reward them for using multiple products and services. At the National Bank of Canada, for example, each customer used, on average, just 1.9 of the bank's products. But after a new CRM system was implemented to streamline processing time on standard items such as loan approvals, the bank increased its wallet share to 4.5 products per customer.²

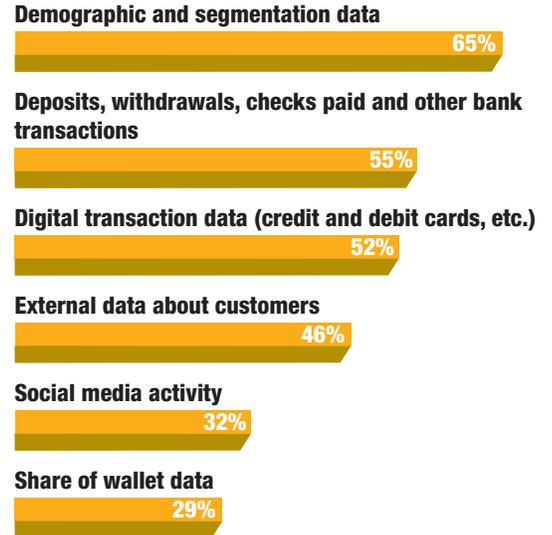
"I think customer centricity will be a real differentiator for banks that can do it sooner rather than later," says Aitè Group's Barry.

Existing Systems Are Overwhelmed

So what has been slowing the pace of progress? High on the list are the huge volumes of data from customer transactions and other sources such as social media, mobile apps and the Web. In fact, 40 percent of survey respondents describe this as a top obstacle to customer

FIGURE 2 Big Gaps in What Can Be Done Today

What banks say they can do today with many of their technology initiatives is quite limited. (percent indicating a mature initiative)



Base: 100 executives at small, midsize and large banks worldwide
Source: BBRS 2013 Banking Customer Centricity Study

centricity (see Figure 3, "Numerous Obstacles to Customer Centricity"). The BBRS survey shows that larger banks are doing better with "big data" than smaller banks.

Bankers also say their analytical tools are difficult to use, with Asian banks reporting significantly higher dissatisfaction with analytics than banks in the rest of the world. One reason: Legacy systems and their underlying information infrastructures were not built for today's real-time environment. Another drawback of older systems, cited by 29 percent of respondents, is the multiple silos of information scattered throughout the bank in different regions and formats. Add to this the latency introduced by traditional data warehouses, and it is easy to see why 26 percent say they cannot cope with today's volume and complexity of data (see Figure 3, "Numerous Obstacles to Customer Centricity").

The size of a bank's centralized operation can be another factor in making data difficult to analyze, although it is not necessarily an obvious one. Andy Lark, outgoing chief marketing officer at Commonwealth Bank of Australia (CBA), says banks there are often in a single building or at

1. Groenfeldt, Tom. "KeyBank Moves To Data Driven Decision Making." *Forbes*, June 3, 2013. <http://tinyurl.com/mwvxjma>
2. Klobucher, Derek. "Enslin: "Financial Services is the No. 1 Industry in SAP" at SAPHIRE NOW." SAP Community Network Blog, May 15, 2013. <http://tinyurl.com/l7wvs7a>

least within a neighborhood. That gives them an advantage in consolidating information. Elsewhere in Asia, though, some banks operate across several countries, often with several different core banking systems. “And with America, the credit card group can be in a completely different time zone and city than the home loan group,” Lark says.

Core banking systems, which banks today use for transaction processing and to store customer records, share much of the blame for the slow progress. Many are decades old, and banks have added layers to make these systems as multichannel as possible. Still, the underlying technologies and architectures are obsolete.

Achieving Competitive Advantage

Newer architectures, analysts say, are designed around customers. They enable banks to link products and services to customers over multiple channels; keep track by customer not product; and gather and store large amounts of detailed, granular transactional data. They provide banks with real-time insights and predictive analytics to plan and deliver highly personalized products and offers.

In the case of CBA, a new core platform capable of supporting the latest analytics tools is credited for giving the bank a real advantage in the Australian market. “One of the largest surprises to us was the extent to which customers wanted our Web site to be personalized to them,” Lark says. Ongoing analysis of Web metrics enables CBA to focus on making the entire site more relevant to customers.

Not surprisingly, bankers in the BBRS survey say collection and analysis of bread-and-butter data such as deposits and withdrawals are important now and will remain so in two years. But respondents also admit to placing less importance today on the analysis of demographic and digital transaction data, such as credit and debit cards, than they anticipate doing in 2015.

Banks that are able to analyze customer data, gain accurate insights and predict future trends will have a competitive advantage. “We start with the customer and we leverage technology to provide solutions,” is how Danny Pelz, executive vice president and head of

FIGURE 3 Numerous Obstacles to Customer Centricity

Which of the following obstacles currently prevent or slow your organization’s ability to more efficiently and effectively gather, analyze and profit from information about your customers? (percent of respondents; limit of 5 answers)



Base: 100 executives at small, midsize and large banks worldwide
 Source: BBRS 2013 Banking Customer Centricity Study

Wells Fargo Treasury Management, describes his bank’s approach to commercial customers.

Pelz credits the bank’s emphasis on big data and real-time customer analysis as key to its success with mobile banking. Wells Fargo’s mobile business council analyzes the latest customer data collected from text banking, its mobile Web site and smartphone apps to “share best practices, road maps and our learnings,” Pelz says.

Leading banks worldwide place equal emphasis on mobile to enhance the banking experience. Nationwide Building Society in the United Kingdom, which recently rolled out a new core system, says its mobile app was downloaded 400,000 times in the months after the launch.³ Some studies show that mobile users check their balance as often as 60 times a month. Although this volume places heavy loads on bank systems, it also provides a treasure trove of customer data.

Betting Big on Technology

Although they may be frustrated with current systems, the bankers surveyed expect technology will lead to success in the future. For example, more than half of the respondents rate real-time data processing, predictive analytics and data visualization, among other information technologies, as extremely valuable in achieving their strategic objectives in two years (see Figure 4, “Broad Endorsement of High-Tech Value”). Executives are also bullish on cloud and mobile delivery models, ranking them high-priority items for 2015.

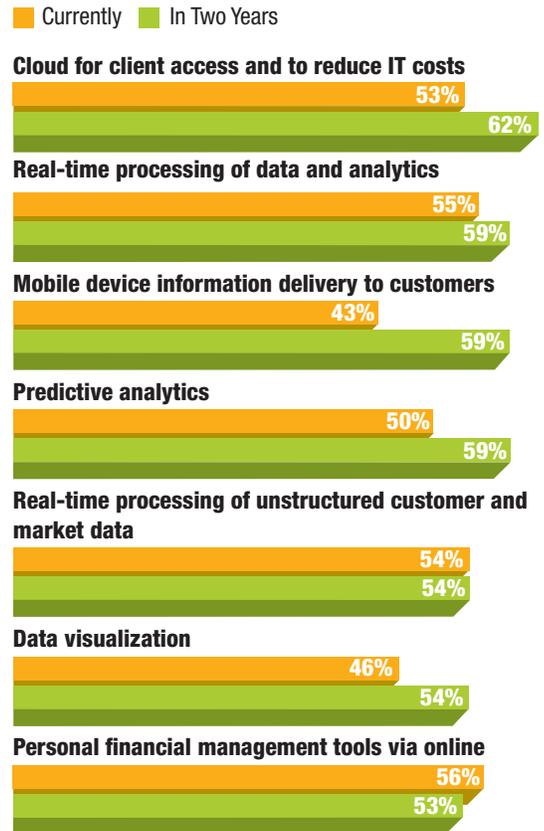
Despite early hesitation about cloud computing for finance, 62 percent of survey respondents say cloud will be extremely valuable for client access and to reduce IT costs in two years. Many banks are already using the cloud for non-core applications, such as social media analytics. But experts say core banking will be the last to move into the cloud.

Banks clearly have a sense of what they need to do in customer centricity. They are painfully aware of their shortcomings in analyzing the data they already have, even as they brace for more data arriving everyday from social media, external data sources and mobile users who access their accounts at rates far higher than other customers. And although today’s analytical tools frustrate bankers, many expect that by 2015 the analysis of demographic and digital transaction data will be routine.

The bankers also have great faith that technology will provide a better future for banks and their customers, a finding from this survey that dovetails well with other recent research. Nearly 90 percent of bankers in another global survey, for example, state that moving away from the status quo is critical to their future profitability. A key

FIGURE 4 Broad Endorsement of High-Tech Value

How do you rate the following technologies in terms of their current and future value? (percent of respondents indicating “extremely valuable”)



Base: 100 executives at small, midsize and large banks worldwide
Source: BBRS 2013 Banking Customer Centricity Study

reason is that banks have “a new focus on the customer through improved customer information, insight and interaction. Banks that invest in these areas will cultivate customer centricity, build trust and drive profitable growth,” according to that survey.⁴

As one industry expert notes, analytics will get you only so far. You have to be able to act on what you learn. •

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3. Joseph, Manfred. “A Tale of Two Markets—The Global Challenge for Financial Services Institutions.” SAP Banking View Blog, July 25, 2013. <http://tinyurl.com/lbybod3>
4. Sinha, Saket; Dan Hartman; Jim Brill; Pablo Suarez; and Santhosh Kumaran. “Core Banking Modernization: For improved operating leverage, increased flexibility and sustainable competitive differentiation.” IBM Financial Services, 2011. <http://tinyurl.com/kmzepjz>

SAP Recipe for Success

- ▶ **SAP HANA** platform to handle your big data challenges and support true real-time banking
- ▶ **SAP BusinessObjects Business Intelligence and SAP Lumira** enable every individual in the organization to easily visualize big data and get unique insights anytime, anywhere
- ▶ **SAP Predictive Analysis** empowers business users to get predictive insights easily, model alternatives and take action based on advanced analytics
- ▶ **SAP Solutions for Social Media Engagement** for listening to and analyzing social commentary and providing rapid responses
- ▶ **SAP Services for Banking** to help you differentiate your bank and make more profitable business decisions

Big Data Analytics Delivers Customer Centricity for Banks

The new survey, qualitative interviews and report from Bloomberg Businessweek Research Services clearly show that many banks struggle to achieve customer centricity as the primary way to attract and keep customers. Bankers confront inflexible legacy systems, lack of enterprise-wide analytics tools and a flood of transaction data, creating what is known as the big data problem. SAP's banking industry team provides insights about how to solve these problems.

Which innovations solve the customer centricity challenges faced by most banks today and into the future?

A fast analytical platform that can handle large amounts of data quickly and effectively in real-time is the foundation solution. The in-memory computing platform called SAP HANA is built to store and analyze big data from multiple systems. It helps banks achieve a more comprehensive—and instant—view of their customers and business performance.

In addition, an analytics solution that provides information in real-time throughout the enterprise is crucial, as the survey notes. The solution from SAP consists of an integrated business intelligence platform, agile data visualization by SAP Lumira, and the ability to leverage sophisticated models and algorithms to predict customer behavior with SAP Predictive Analysis.

Another important innovation is omnichannel delivery models. They enable employees and users to seamlessly interact with bank systems through cloud, mobile, Web, text and other preferred channels.

What can banks do in the short term to start their customer centricity journey and see immediate benefits?

First and foremost, a bank needs to assess its current status. Have you achieved real-time banking? Have you integrated the customer experience across all your channels, including

new ones like social? Are you able to deliver the right insight to your internal stakeholders to support decision-making and customer service?

Second, define your vision for the future. How will your customer needs change? How will your bank's offerings need to change? How will you deliver products and services to your future customers?

Third, consider taking a phased approach to your transformation. Your first initiative may be to integrate the modern digital channels into your multichannel strategy, including capabilities like social sentiment analysis. This is one area where a real-time data platform can really provide an immediate payback. Another approach is to select a line of business or region as a test bed. For that unit, implement an integrated real-time reporting and analytics solution and make it available to all. The SAP HANA platform enables bank staff to quickly discover how the sheer speed and flexibility of the platform can immediately start to unleash value for your business users.

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