Innovation or bust:

Why financial services must embrace customer-driven data challenges

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Overview

In the last decade, the financial services industry has been transformed by a combination of historically low interest rates, new fintech players, and the ascendancy of financial comparison websites. This has led to increased commodification by consumers – reducing loyalty and lifetime customer value.

One of the most important remaining differentiators in the market is user experience (UX). But with communication channels often isolated, and data living in silos, financial services providers are under pressure to transform their operations to capitalise on customer behaviour, generate perceived value, and increase loyalty.

This report examines the challenges and opportunities facing the industry and how businesses can address them via the power of Microsoft Dynamics 365 Customer Insights.

Introduction

> **"Historically, if you banked with one bank, it was going to be a lot easier for you to have your credit cards, mortgage, and personal loans – maybe your home and life insurance too – with that same one.**
>
> **"Because of the difficulties of managing financial products across multiple providers, there used to be a convenience factor in sticking with a single provider.**
>
> **"That's gone. Financial services brands now have to compete as much on UX as they do on being top of the 'best buy' tables. That's a huge mindset shift for a lot of these brands, particularly some of the more established financial services brands."**
>
> Alex Holt, Associate Director of Strategic Consulting, Edit Kin + Carta

The world of financial services is changing. Greater transparency, choice, and simplicity have led to fiercer industry competition and broader participation. This is in no small part down to the need for greater security and governance – which is now being actively enforced by the industry itself through self-regulatory legislation. For example, in Europe, second Payment Services Directive or PSD2 allows online service providers to request, access, and process their customers' financial information.

Similarly, third parties can now provide financial processes and account information monitoring under two separate licences: PISP and AISP.

This allows service providers to collate financial information from all accounts authorised by a single user in a single platform (AISP) and connect to a bank account and set up payments for their user (PISP).

Here in the UK, following an investigation into retail banking in 2016, the Competition and Markets Authority (CMA) introduced a 'package of measures' designed to accelerate the adoption of open banking. This was partly to ensure a fairer, more competitive consumer landscape.

The immediate beneficiaries of API-led banking have been a new breed of challenger banks – Monzo, Revolut, and Starling Bank in Britain. These banks are able to apply a digital-first layer of accessibility and, ultimately, an improved user experience.

But where does that leave traditional banks and financial services providers?

Long-established institutions such as Royal Bank of Scotland, Santander, Barclays, Bank of Ireland, Allied Irish Bank, and HSBC face continued challenges in terms of adjusting to the new open banking landscape.

Staying relevant means finding ways to maintain loyalty. Doing that effectively means providing a better customer experience across all touchpoints. That said, the advantage that more established financial institutions have – other than their legacy – is information and an understanding of customer behaviours.

However, being able to leverage their data and insight in a way that can keep them and their services competitive, essentially means aligning how they operate with the way their customers want to do business. In other words: embracing digital transformation is mission critical.

Reimagining financial services’ loyalty in the digital age

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In times past, the relationship between a bank and a customer was a very personal one. Long before even ATM cash points became commonplace, interactions between bank tellers and customers flourished into more sophisticated conversations around mortgages, loans, and other financial products in one central location: the branch.

Similar dynamics played out in the insurance world. Doorstep collection agents quickly became known as financial advisers. And as conversations took place around a customer's specific needs, the right kinds of upsell and cross-sell opportunities manifested.

So, what changed? Well, in part, the technological advances that were designed to increase operational efficiencies began to negate the need for regular face-to-face contact – long before the pandemic shift to remote working. And, as more and more physical branches closed – and in-person exchanges became less frequent – there was little to substitute the human touch.

> **"If you think about the big financial decisions people make at different life stages – mortgages, education, investments – while there will be those comfortable with a fully digital service, banks need to account for a full spectrum of needs. That means understanding what consumers want and when – establishing how to maintain the option for person-to-person interactions efficiently and in a cost-effective way."**
>
> Janet Jones, Head of Industry Strategy, Financial Services UK, Microsoft

Online banking has proved popular. As a result, brand loyalty was based on habit, familiarity, hassle, and, to some extent, fear – rather than choice, incentives, and service. And so, it was against this backdrop that open banking came in and became something of a consumer rights champion.

These developments also dovetailed nicely with the Current Account Switch Guarantee here in the UK. Established in 2013, this was a promise to consumers that, if they decided to change banks, all of their account details – outgoings, incomings, direct debits, standing orders, and so on – would be active in their new account within seven days.

Yet, despite these promises and a successful track record, take-up has been slow. According to a report by Pay.uk, in the six years between the guarantee's inception and the end of 2019, just 6 million British consumers have actually made the switch – less than 10% of the population.

However, research from consultancy, A.T. Kearney, shows that over 20% of UK consumers "state their primary banking relationship is with a challenger bank".

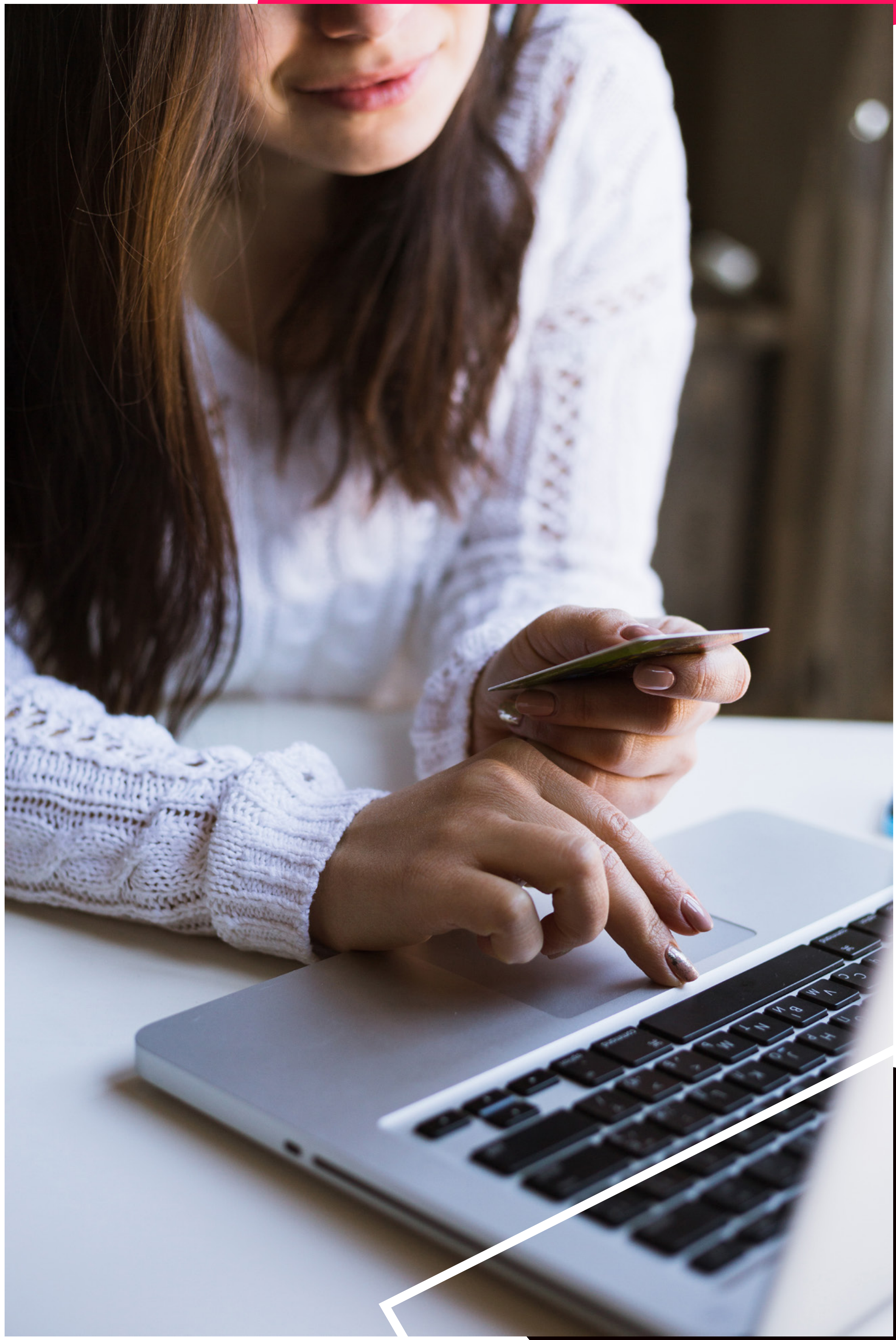
That number is even higher among millennials – rising to 32%. Given that these stats became apparent over a much shorter period of time, this is all the more impressive.

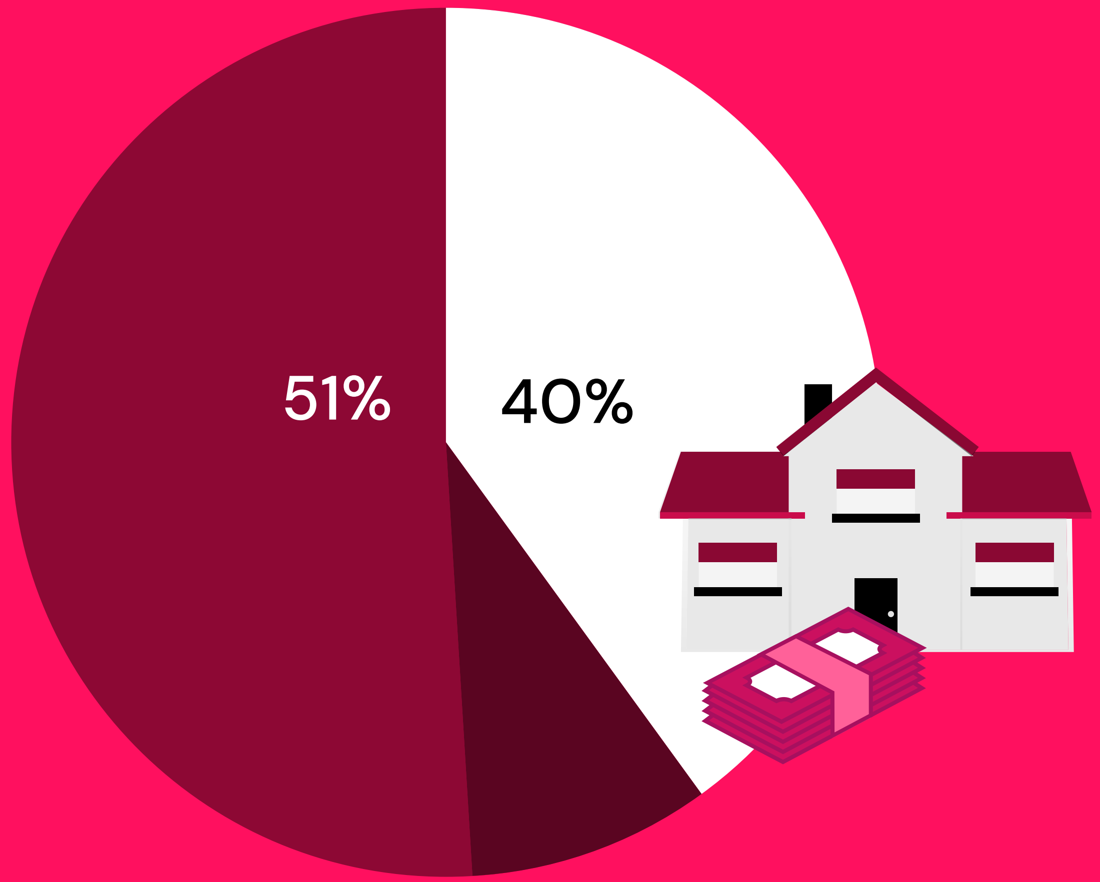
So, how can we account for the disparities here? It appears that people aren't changing banks lock, stock, and barrel in the way it was anticipated. Instead, they're opening multiple accounts, embracing challenger banks with their mobile-first, app-based digital experience but without moving away from their existing bank accounts. While this may indicate that a gradual transition is underway – as consumers test the waters – it's worth noting that even those intent on switching still regard existing banks as less volatile and risk-prone.

> **"Customer service is important but equally so is trust. At the moment, there's still a good level of trust in legacy banks. But I expect that we are heading to a point where that balance tips more towards digital native challengers and FinTechs as they capture more and more direct customer engagement and disintermediate the legacy banks".**
>
> Janet Jones, Head of Industry Strategy, Financial Services UK, Microsoft

The same A.T. Kearney survey shows that "almost one in three challenger bank customers regard financial stability as one of the chief attractions of traditional banks (32%)". But that said, "an increasing number of challenger bank customers would consider taking out a loan with their bank (40%) or using them as a mortgage provider (49%)".

What can we deduce from here? While it's clear that these newer banks are ticking all of the right boxes where consumer appetite for technology,





"...an increasing number of challenger bank customers would consider taking out a loan with their bank (40%) or using them as a mortgage provider (49%)".

accessibility, and both UX and customer experience are concerned, what they don't have is as much trust as the legacy banks. But that doesn't mean that legacy banks can afford to be complacent. Not in the slightest.

So, what are they actually doing wrong? Perhaps the perception is that they're not trying hard enough to understand their customers. Microsoft's Hayley Kingh, who, prior to joining the software giant, worked in banking for a decade, offers some insight here:

> **"While banks and financial services companies have an understanding of what customers want, they're increasingly challenged in how they're meeting those demands – not just through digitisation, but everything that comes with it, including personalisation. For example, they can see that someone has switched banks or has a current account – but, in a lot of cases, they remain in an individual product-selling mindset rather than trying to nurture an enhanced relationship."**
>
> Hayley Kingh, Financial Services Specialist, Microsoft

What all of this arguably points towards is a need for convergence. Traditional banks need to do more to cater to individual customers' needs and provide greater relevance. While fintech start-ups need a greater degree of credibility to demonstrate they're not simply a novelty act that's capable of distracting customers' attention through 'shiny and new' apps and online services.

As we have witnessed across other industries, there's only one way for all parties, new and old, to truly get that complete customer view: a comprehensive data strategy.

Delivering with data: Obstacles and opportunities

Delivering with data: Obstacles and opportunities

Although it may not seem apparent, given many of the mass communications that financial services providers are prone to sending to their customers, many have had some sort of single customer view for a really long time. It's pretty much mandatory now, given the regulatory landscape – KYC (know your customer) and AML (anti-money laundering) regulations, as well as the Financial Services Compensation Scheme (FSCS).

The idea of consolidating data about your customers from lots of different systems into one place is not new to banks at all. In fact, most of the larger legacy financial service institutions will have access to many different customer data points already – especially if they've grown by acquisition.

However, that data isn't necessarily marketer-friendly. In most cases, it's still very much owned by the IT department and, in many cases, doesn't incorporate data from marketing channels. This is in part because banking and finance have always taken a security-first approach. As a result, data access has been more restricted.

But given all of the new security, data loss prevention, and governance tools that are out there, IT no longer needs to keep as tight a hold on data anymore – at least internally. So, as many begin to transition to a point where they can do more with data, what exactly should they be doing?

Well, for one, they need to make sure that they're using all of the information that a customer shares with them when they're deciding how to communicate with that customer. But knowing communication preferences is just a small part of the equation.

Marc Dallimore, Director of Data Science at Edit Kin + Carta, has worked on some very high-profile financial services clients, and knows first-hand how data and insights can translate into repeat business.

A major project he worked on several years ago, pre-GDPR, was propensity modelling for a large bank in Ireland, which – unlike the vast majority of financial services providers – went to the other extreme where using customers data was concerned, as he explains.

> **"Let's say you were a current account customer. One of the things the data science team would be looking at is your propensity to get other services from the bank. Say you wanted a loan, mortgage, or credit card, what is the likelihood you would go with your bank rather than look elsewhere?**
>
> **"We overlaid a lot of their customer data by looking at the probability that they would be eligible for certain elements of those products. We could also see spending habits and determine the probability that the customer could get a loan or a mortgage for a certain amount."**
>
> Marc Dallimore, Director of Data Science, Edit Kin + Carta

However, this is only part of propensity modelling's capabilities. The other aspect to this level of data visibility was, at the time, the ability to track customers' online ad behaviours and use that information to serve highly-targeted ads from the bank.

> **"We know Customer A. We know his money and spending habits. We know where he's bringing money in. And we know that he's looking at car adverts online.**
>
> **"We'd be able to glimpse all of that data from each customer profile. We'd then be able to use that information to trigger the bank's own ads around borrowing.**
>
> **"So, if you were on a car website and the bank knew you had £2,000 in savings, but had been spending money on a PCP car for the last 18 months, we'd show you a car loan ad specific to the value of the cars that you're looking at, and that you could easily afford to pay back."**
>
> Marc Dallimore, Director of Data Science, Edit Kin + Carta

While this approach proved highly effective, yielding a 15% increase in loans and mortgages from existing customers over a 12-month period, the way this data was once used is a lot less likely given the advent of permission-based retargeting.

So, given that this level of insight and targeting is possible – but now has to comply with GDPR and other regulations – what kind of data-driven campaigns are permissible right now?

Referring to another large financial services customer, which offers loans and insurance services as well as banking, Marc discusses how there's been a shift towards attracting high-value customers to other products rather than targeting every existing customer looking for something very specific.

An end-to-end measurement platform that Marc and his team built has been crucial in these efforts. Able to corroborate ad impressions from the brand itself, the platform also looks at onsite customer behaviours, such as loan applications and outcomes, drop off rates, loan calculators. It can then cross reference that information with CRM data, and make targeting decisions based on customers able to pay back loans over a certain amount.

The difference here is the need to treat the data in an anonymous way – not to pick customers based on their individual behaviours, but to gauge overall demand and trends and then proactively home in on the most profitable prospects.

That doesn't mean that the bank doing this is elitist when it comes to lending, but it demonstrates a drive toward responsible online ad targeting – using the available data in a way that will still yield engagement from what would be termed 'good debt' customers.

What's really interesting here is that it's still possible to achieve highly relevant levels of insight even with aggregated data. You can still serve the right ads based on those kinds of customer profiles.

While there was far less regulation pre-GDPR, now, with the right software, deep insights and highly targeted actions are still possible within a single organisation's data.

However, the convergence required still has some way to go to better align the use of data, insights, and subsequent actions to truly create an overall enhanced multichannel customer experience.

Aligning insights with actions

Aligning insights with actions

Something we haven't addressed in any detail is the term 'personalisation'. As mentioned earlier, the introduction of tech-driven efficiencies took away that personal relationship consumers had traditionally enjoyed with branch staff and managers. Now, we've come full circle. We can use technology to introduce it once again.

There is a big opportunity in the financial sector to make things a lot more personable. But personalisation in that respect doesn't require a second person. In fact, younger generations don't necessarily want face-to-face or even telephone interaction if they can get things done quicker and simpler on an app. But that doesn't mean they don't want a personalised experience.

In some respects, what defines 'personalised' is different between generations, as research from Santander and Which? indicates. There's still a significant proportion of over 55s who are reluctant to go digital. Meanwhile, 49% of all the banking customers surveyed said they weren't confident using an app to apply for a credit card or loan and 42% said they weren't confident using a website to complete the same task.

Customers that are 50 plus, for the most part, enjoy the convenience of digital services and online banking. But when it comes to loyalty, personal interactions with advisors and representatives they speak to in the bank is what's holding them there rather than the actual experience and features.

"...49% of all the banking customers surveyed said they weren't confident using an app to apply for a credit card or loan".

…"25% of over 50s would move banks if the local branch of their current provider closed".

"I don't think the endgame is total automation. There's always going to be people that want to have phone calls with their advisors, want to ask questions in person, and want to talk through the scenarios.

"As of right now, what I see is a digitalisation plus human touch option. There's always going to be people that want to have that, and I think there's always going to be a motivation for financial firms to offer that – particularly if they can charge more for it."

Jared Johnson, Director of Financial Services Digital Strategy, Kin+Carta

A survey conducted by Saga in 2017 showed that 25% of over 50s would move banks if the local branch of their current provider closed. Contrast that with the A.T. Kearney research referred to earlier in this piece, which said "almost a quarter of Gen Z customers (24%) say they would switch from a challenger bank back to a traditional bank if their bank suffered a data breach".

Generations may have different priorities. It's clear that the nature of trust is viewed differently but it's an issue for all, nonetheless.

So, in their efforts to digitise and essentially decentralise their networks, how can banks – or any financial services provider – maintain meaningful customer relationships and therefore build more trust and loyalty?

> **"Every company strives to achieve loyalty, especially in financial services. But it can only exist if you get the utopia of perfect customer experience. Big legacy organisations are doing everything they can to try and make onboarding, applying, and getting approved as frictionless and as seamless as possible. The problem is, making it easier to come in also makes it easier for people to leave. The playing field is pretty level, in that respect."**
>
> Eric Rosenzweig, Financial Services, Managing Director, Kin + Carta

Looking at insurance specifically for a moment, which is more 'low touch, low frequency' than banking – the digital shifts in this sector are, on the whole, fairly well-streamlined. And, while there's obviously demand for a more personalised customer experience, does this increase loyalty and trust per se?

Here in the UK, there are reports that insurers are 'price walking' – inflating premiums year-on-year when there's no discernible change in cover criteria. Loyal customers are being clamped down on.

While it's clearly questionable that some financial institutions are using that single customer view to gain an advantage, given how fiercely competitive the market is now, it's hardly surprising. However, given this is possible, it's all the more surprising that other providers – chiefly banks – aren't able to do more with data.

That's not to say that banking and other financial services aren't doing anything positive or proactive. In fact, the Chases, RBS, Charles Schwabs, and Santander are following suit in many different ways. But ultimately, it comes down to the point mentioned above – the fact so many banks continue to silo customer data, making it inaccessible for marketing purposes.

This brings us back to the point that, because a lot of banks are still using legacy technology, they haven't built harmonised data platforms from scratch. Unlike challenger banks, there's nothing that they can easily glean insights from. Unless, that is, they're using a customer data platform (CDP).

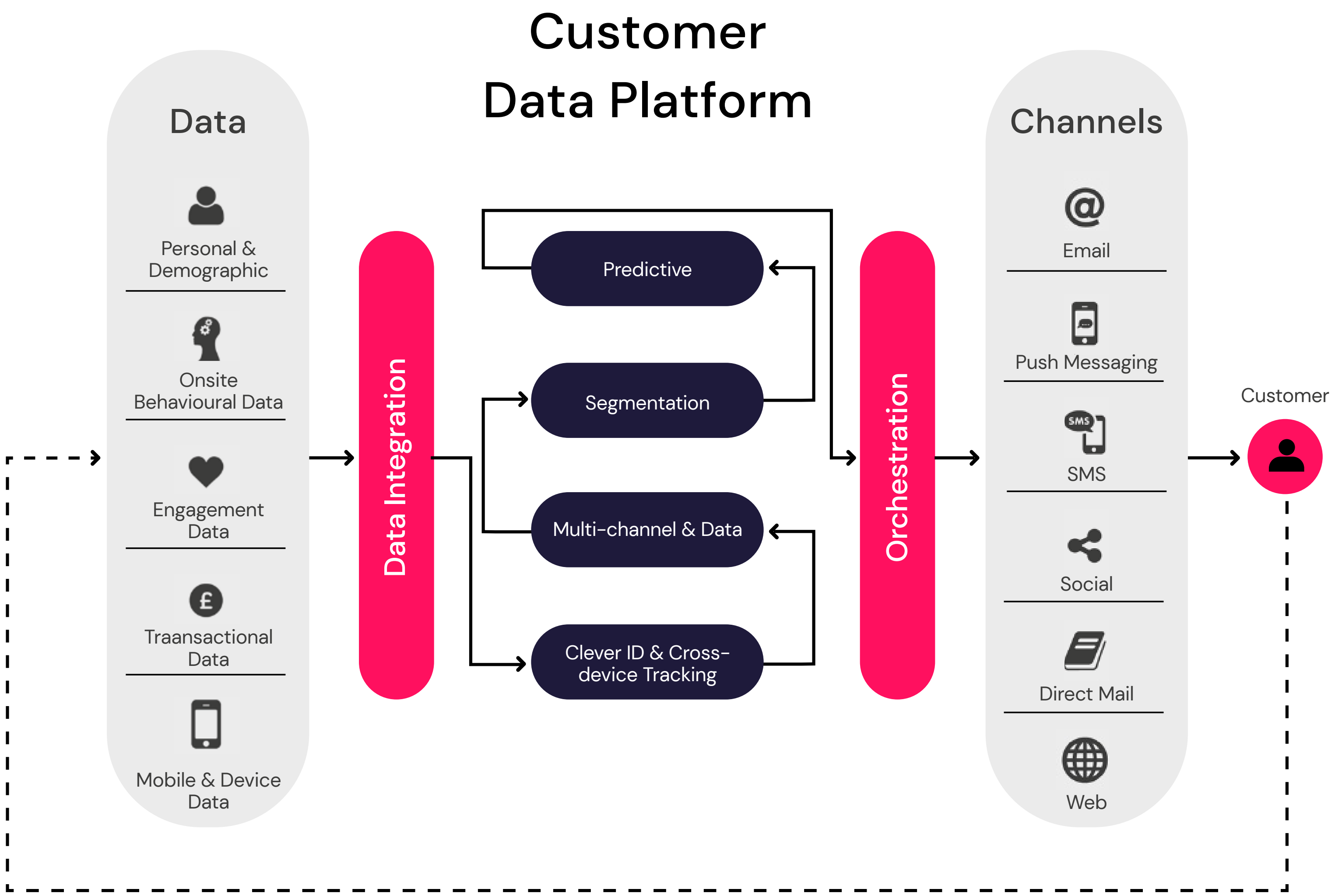
Customer data platforms: Essential for financial services marketers

Customer data platforms: Essential for financial services marketers

We've covered the need for a single customer view in some detail now, but the question remains: how can financial services marketers unlock this level of insight from legacy data?

Simply put, they need a CDP. Different from a CRM system, which is essentially a system designed to support sales professionals, a CDP has two crucial roles: data aggregation and integration. One of a CDP's biggest advantages is that it can extract structured data from a range of online and offline sources. This including transactional data, customer activity such as website visits or app

> **"In financial services, there's still a lot of focus on NPS scores and there are also regulatory requirements to publish customer satisfaction scores. These remain survey-led and are not real time. However, the industry is starting to use data and technology such as artificial intelligence (AI), machine learning, and sentiment analysis to understand their customers, anticipate needs, and more dynamically react accordingly. The banks that do this well have the opportunity to develop an advantage in market, which should naturally translate into improved customer engagement, client acquisition and increased wallet-share."**
>
> Janet Jones, Head of Industry Strategy, Financial Services UK, Microsoft



usage, customer information, customer-brand interactions like calls or emails, and evaluation data such as net promoter score (NPS).

For marketers looking to segment their audiences, create and deploy targeted campaigns, gain deeper customer insights, and identify individual customer behaviours based on real-time activity, CDPs offer distinct advantages over CRM and data management platforms. And when combined with marketing automation systems, such as campaign management tools, they can prove very powerful indeed.

Through a single customer view, what CDPs offer is the ability to personalise communications. This not only enables effective communication, it also reduces the cost and effort needed to cross- or upsell to existing customers, as all of their behaviours related to a single company are visible and accessible.

However, where financial services companies are concerned – at least in the UK – for the past ten years it's been mandatory for businesses in the sector to maintain a single customer view as per Financial Services Compensation Scheme (FSCS) rules. Doing this ensures that the FSCS can maintain full visibility – and compensate a customer if a financial services firm goes bankrupt.

So, given that having a single customer view is a must for new and legacy financial institutions, why aren't more companies using them for marketing purposes?

Perhaps, again, the data needed to fulfil the requirement is 'owned' by compliance and legal departments and not made available to marketers. There may be security concerns. Or, perhaps, considering the longevity of a single customer's relationship with a financial institution, using the data in this way hasn't been seen as a necessity. Until now.

The fintech future

The fintech future

Unlike ecommerce brands, financial services – particularly banks – have a long-term relationship with consumers – up to 30 or 40 years in many cases. But loyal though many customers may be, the marketplace's continued fragmentation is an indication that they're going to need to adapt to maintain consumer trust.

While there can be no doubt that the technological barriers to entry have been lowered in financial services, tech itself is not a cure-all for the issue of personalisation. But it is an enabler – a translator of those needs.

The fact is, financial services providers can do a lot more to encourage loyalty, trust, and personalisation. But regardless of what's actually possible, the first thing they need to do is align their business objectives with true customer needs.

They need to look at what they are doing – rather than listening to them say what they want.

Are they still calling customer services helplines when there's a problem? Are they opening marketing emails? Are they using the mobile app regularly? Are there features of an app they've never used?

These kinds of cues will illustrate how they want to be communicated with. And how financial service providers can adapt in line with their existing customers' needs.

A single customer view is a great starting point. But the ability and willingness to put customers first, integrate their innovation efforts, and look at the bigger picture of industry trends balanced with regulatory requirements is what will foster trust, loyalty, and a better customer experience.

With the right technology stack, anything is possible.

Microsoft Dynamics 365 Customer Insights

Microsoft Dynamics 365 Customer Insights

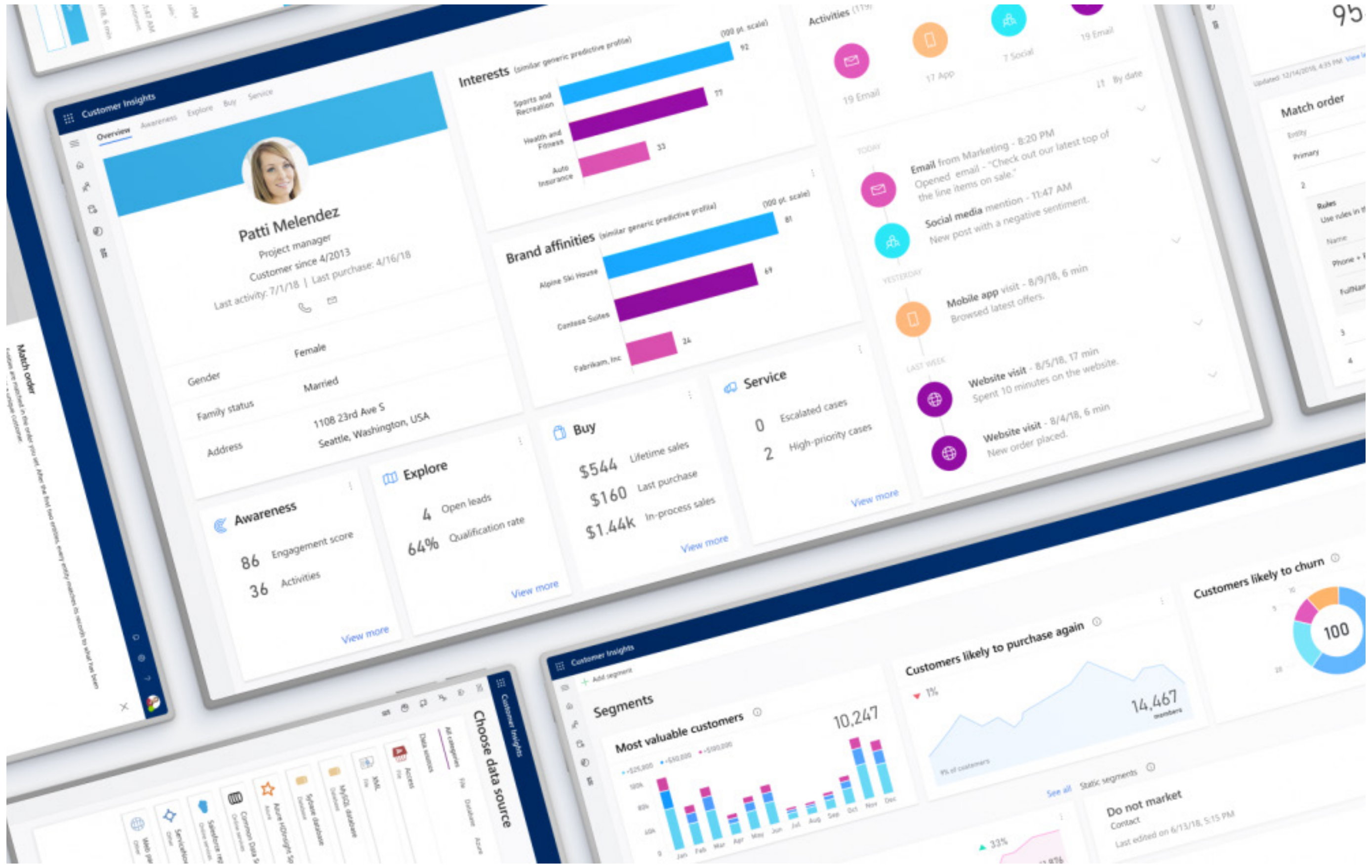
> **"Microsoft's tech stack helps financial services companies actually understand the customer better. This is what Customer Insights does. It gives you that power to be able to identify what your customers need, and predict what they want."**
>
> Hayley Kingh, Financial Services Specialist, Microsoft

Financial services providers that are looking for a complete customer view, one that fuses data aggregation and analysis alongside real-time activity, need look no further than Microsoft Dynamics 365 Customer Insights.

Customer Insights sits above operational sales and marketing activity, allowing users to draw out the data they need and create personal targeted messages that give customers the most value and the most impact. But Customer Insights is just one component of the Microsoft solution. While it's fantastic as a standalone platform, its real value comes from how well it integrates with the huge raft of capabilities that Microsoft has. Through Azure and Dynamics, users have access to a complete data-driven digital marketing system.

Customer Insights might sit at the heart of a solution that improves customer experience, but it also opens the door to AI from Azure, enterprise security from Active Directory, or Microsoft Teams for improved productivity and collaboration.

Essentially, it's a holistic rather than a siloed solution. One that leverages an entire technology stack to improve the customer experience and make customers more loyal, grow their share of wallet, increase their cross-product holding, increase renewal rates, and reduce churn.



> **"Financial services is a priority industry for Microsoft, globally. We recently launched our Cloud for Financial Services offering with trust and security at its core, focussed on helping the sector address common customer journey pain points and business challenges.**
>
> Janet Jones, Head of Industry Strategy, Financial Services UK, Microsoft

Ready to unlock insights that'll boost loyalty, trust, and an improved customer experience?

Find out more about Microsoft Dynamics 365 Customer Insights.

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Lets connect...

T: 01225 480480
E: hello@edit.co.uk
W: www.edit.co.uk