a meeting of MINDS

owenjames

# The Findings

*Thursday 12 October 2017, The Berkeley, London*

## Contents

## Summary

The twenty-second Meeting of Minds Bank and Brand Distribution of Retail Financial Services took place on 12 October 2017 at The Berkeley Hotel in Knightsbridge, London. This document summarises key issues raised in the topics discussed during the roundtables that took place on the day.

A Meeting of Minds Bank and Brand Distribution of Retail Financial Services is a strategic forum organised by Owen James. It is an opportunity for 70 senior level decision makers from the largest high street banks, building societies, affinity groups, product and service providers and industry experts to meet in a neutral environment where they can examine industry issues and opportunities and develop business strategies to address them.

Participants enjoy access to strategic insight, active involvement in shaping the industry and networking at the highest level.

At the core of these Meetings is a series of boardroom style sessions addressing a pre-researched and pre-agreed agenda, with open discussion led by objective and professional moderators. External speakers spark debate and encourage fresh and original thinking.

To find out more about taking part, please contact John Hall at Owen James: johnhall@owenjamesgroup.com or you can contact him at 01483 861334.

## This Report

The Roundtable Sessions were moderated by:

- *Mr Phil Alcock – Raisin UK*
- *Mr Glen Ward – Nationwide Building Society*
- *Mrs Collette Dunn – Milliman*
- *Mr Peter Smith – TISA*
- *Mr Andy Follows – Aquilae*
- *Mr Rod Bryson – CapGemini Consulting*
- *Mr Simon Cocker – Simon Cocker Consultancy*
- *Mr James Alexander - KPMG*

We are very grateful for the time and energy they have expended on making A Meeting of Minds Bank and Brand Distribution of Retail Financial Services a success and hope you will consider this report an interesting, thought-provoking and accessible read. As ever your feedback is much appreciated.

We would also like to thank the independent experts who were part of the sessions for sharing their knowledge and giving us their time and energy both in the run up and on the day.

## The Sponsors

We would like to thank all our sponsors, without whom the event would not have been possible. The following groups took part in the Meeting and their motivation for taking part is threefold:

- To be, and to be seen as being supportive of the industry
- To understand the stresses and strains being placed on the industry and, where possible, respond to them
- To talk openly with these business leaders with a view to ensuring that their businesses are strategically aligned






## Will the UK Challenger Banks become the platform of choice for consumers in the new open banking ecosystem?

**Moderator:** *Phil Alcock - Raisin UK*
**Expert:** *Kevin Mountford - Raisin UK*

- The Challenger banks don't have the cumbersome legacy that the high street banks do. They are more nimble and able to access new technology. They are also able to employ savvy, tech friendly people keen to be part of something new and exciting. They don't employ 'lifers' just working for their pension with no genuine desire for change. Does this give them the edge over the advantage that the incumbent banks have due to their brand strength?

- What is the level of take up by the challenger banks? How do they attract attention and new clients when they don't have a physical infrastructure?

### HEADLINE FINDINGS FROM THE SESSION:

The term 'Challenger Banks' is neither necessarily intuitive nor helpful.

Included within this are:

- Larger challengers eg Virgin, TSB
- Smaller challengers eg Shawbrook and Aldermore
- Retailers eg Sainsburys and Tesco
- Specialist lenders eg Masthaven and Oaknorth
- Digital-only platform banks e.g. Monzo and Starling

The focus of the session was on this latter segment.

### Open Banking Ecosystem will be catalyst for structural change in the UK retail banking industry.

- As regulators such as FCA, PRA & BofE take action to further stimulate competition, the market in the near future will be increasingly varied and fractured, resulting in various different banking experiences for UK consumers.
- PSD2 is an opportunity for challenger banks to provide new innovative services e.g. developing apps that provide customers with enhanced insight into their spending habits and products; along with services that will allow them to manage their financial affairs and make decisions that fit their lifestyles.
- Feeling that PSD2 and Open Banking present both threats and opportunities. Banks are beginning to explore new opportunities to monetise APIs as well as develop new financial products and services through data analysis and insight.
- Open Banking will enable the evolution of new business models, with some challenger banks choosing to specialise in specific niches rather than offer a traditional suite of products or attempt to manage the customer's end-to-end experience.

- Others will compete by making it possible to integrate products and services from various different manufacturers in a seamless way. Banks take the potential threat of technology-led companies such as Google, Amazon, Apple and Facebook very seriously.
- While it was agreed that there will be fall-out and consolidation within the challenger banks, it was felt there will be sufficient opportunity in the UK (and EU/WW) market for many different banks and non-banks to succeed.

**Strengths of current crop of UK Challenger Banks:**

- Technology and UX - Modern platforms and apps
- Seemingly adopted scalable business models
- Perhaps due to millennial take-up they tap into strong online communities

**Future growth and success factors for UK Challenger Banks:**

- Need to attract customers and build trust
- Differentiation / branding from other digital challengers
- Take advantage of Open Banking and innovate accordingly
- Grow with a short-term view to profitability

**Collaboration between banks and fintechs**

- Majority of larger UK incumbent banks have declared strategy to collaborate, formally partner or acquire fintechs over the next 3-5 years
- Realisation that banks are not as nimble in terms of tech nor do they focus specifically on customer requirements and user experience
- Fintech platforms and marketplaces can allow banks to provide market-leading services without having to relinquish customer ownership – the example of German Bank N26/Raisin and Metro Bank/Zopa were discussed
- Mainly via APIs, the integration of third-party product and services is likely to accelerate

**Cultural Differences**

- Typically challenger banks do not have legacy / historic issues with company culture unlike incumbent banks
- Culture in challengers is usually clearly defined and starts and ends with the customer – needs, requirements and delivery of experience
- Incumbent banks to focussed on conduct risk which distracts from nurturing and improving their culture

## CONCLUSIONS

- Change will be slow and it is unlikely that the high street / incumbent banks are regarding the challenger bank sector as short-term competitive threats.
- It is much more likely that the traditional sector will seek to collaborate more proactively with fintechs and challengers. In time this will lead to acquisitions as the sector consolidates.
- With PSD2 and other regulatory initiatives leading the market towards a data-sharing economy, challenger banks in the UK and Europe are inevitably moving towards embracing a marketplace mentality that promotes all of a consumer's money considerations in one central location.
- Several newly-launched challenger banks, such as Starling, Tandem, and Monzo, are already aiming to be the go-to place for a consumer to handle everything with their money.
- APIs are going to play a big role within the banking industry as PSD2 makes open banking mandatory.
- Consumers, and in particular Millennials, will embrace new platforms that are better at delivering specific services which resonate with them.
- 73% of Millennials have said that they would be more excited about a new offering in financial services from Google, Amazon, Apple, Paypal or Square, than from their own traditional bank.

## Is it time to change the way we segment our customers?

**Moderator:** *Andy Follows - Aquilae*
**Expert:** *Ingrid Sierra - Affinion*

Ingrid began the session by inviting participants to share what had brought them along to discuss this session on customer segmentation. Group members' situations included:

- wanting to find out what's new in the field
- the challenge of transition to new ownership with conflicting customer sets
- a desire to break current focus on SME down further
- curiosity about segmentation viewed through a behavioural economics paradigm
- selling a significantly different product type to a huge database of existing customers
- helping members to better understand the consumers coming into their businesses
- branching into new product markets
- wanting to do better
- managing conflict in new markets

Ingrid used the example of the recently introduced new segment of Xennials, those people born between 1977-1983 to illustrate how traditional segmentation no longer works, the rationale being that, if you have to go back and alter the framework to reclassify people, clearly the framework is broken. Other examples of flaws in the current methodology included being targeted according to a perceived life stage, e.g. as the mother of a 10 year old and addressed by PayPal as a "heavy spender" who would probably like a loan when she is simply using the service for convenience and is actually quite credit averse.

Customers accept the trade of giving data in return for appropriate offers. But, if the offer is wrong, it results in a negative experience. It's time we took segmentation to the next level in our journey towards what Affinion likes to call the "segment of one".
The question of the potential impact of open banking was raised. Banks claim to have invested a lot of effort in understanding their customer data in order to make relevant offers that are valuable to their customers. They are concerned that with many new third party providers able to enter the market customers will be served up offers from aggregators that will be wide of the mark resulting in negative feedback about the industry with banks and insurance providers getting the blame. GDPR helps customers to understand the information that is being used and gives them the opportunity to opt in once again, which is positive. "The fundamentals have not changed," says Ingrid. Get clear on the information that you need to help you answer the age old questions:

- What shall I offer?
- How (i.e. through which channel) shall I offer it?
- When shall I offer it?

This last question of timing can now mean, "At what time of day should I send the email?"
"With multiple channels and more data, is there a risk of confusing the customer?" voiced one participant. The advice was to take a testing approach. Test, learn and repeat.

The group touched on the topic of banking systems and the banks' gradual acquisition of other banks over the years resulting in them having multiple legacy systems and no single view of the customer. Mapping the customer journey step by step enables providers to identify pain points and moments of truth. Interfacing with legacy systems through APIs and a partner's more user friendly technology is one way to get others to do some of the hard work for you. Sometimes customer behaviour is counter intuitive. Whilst millennials are understood to live much of their lives online and be most open to internet purchases there are items, like holidays, that they still prefer to buy face to face. When it comes to cars, there is a shift to usage versus ownership, but how can we identify which customers are likely to hand their current car back at the end of its lease and decide to switch to car sharing models instead? The advice here was for dealers to stay close to customers during the lease term and develop a relationship that will enable them to know their customer's preferences.

For us all as subjects of segmentation as well as practitioners the future promises to be fascinating. Thank you to Ingrid for her insights.

**How Affinion approaches this topic:**

We combine our portfolio of value-added services with our insight-led data-driven marketing and multi-channel service delivery capabilities; we create tailored customer engagement programs for our clients. We analyse data and apply insights to profile and segment your customers ensuring that we deliver the right message at the right time based on their behaviour and preferences. Analytics enable optimisation of customer journeys and interactions across touch-points and channels to create engaging and personalised customer experiences, which maximise conversion, increase utilisation and boost loyalty and ROI. We respond to different client needs whether they need to drive a specific short term outcome or drive long term engagement.

## Shifting the needle! What practical ways can you encourage innovation in your organization?

**Moderator:** *Andy Follows - Aquilae*
**Expert:** *Steve Parsons - Affinion*

"Innovation, what does it mean to you?"

Steve started by sharing this high level question that sits at the top of the funnel he uses to symbolize the start of an innovation journey. The morning's keynote from David Black of Google had introduced the concepts of 10% and 10x innovation, neatly illustrating the breadth of the topic. Steve explained that he would be sharing a view of innovation through the Affinion lens including some of the typical hurdles that organisations find themselves faced with. The group were invited to share their own drivers for joining the session and topics that they were currently wrestling with. These included:

- how to make innovation everyone's responsibility
- a desire to hear about other hurdles people were experiencing
- how to encourage people to make innovation part of their business as usual thinking
- how to decide what to dismantle when you are a mature organization that's struggling to move fast enough
- how to dismantle culture and processes
- how to keep going with energy, without dampening spirits

Steve pointed out that Stefan Lindegaard says we should drop the innovation word. Sometimes innovation is perceived as akin to alchemy, whereas in reality it's perfectly natural that businesses find themselves in a state of constant flux and this is not a recent phenomenon. The pace of change and extent of potential disruption is what makes our current situation significant. There was no comfort from the reminder that today's pace of change is as slow as we are ever going to know! The key to success is to not get tied up in semantics but to adopt a process grounded in execution with a focus on addressing a specific challenge, driving through to execute that end point which will deliver value to all parties in a relationship. Affinion is often working in a B2B2C environment where the focus is on adding value to their client and to the client's end user.

When it comes to sifting priorities, Steve advocates a 70:20:10 approach with 70% of focus going on improvements that will be delivered within 12-18 months, 20% on initiatives that will bring about the next leap in technology and innovation and 10% of resources going into what will come after that. In response to the question on how to make continuous improvement part of business as usual for everyone there was agreement that an organisations attitude and response to failure and mistakes was a key factor. If mistakes are career limiting, people will avoid challenging the status quo. Another enabler to continuous improvement comes from empowering people to make decisions for themselves. Hierarchical decision structures delay execution and can even cause improvements to be blocked completely. Make sure senior managers are enablers rather than gatekeepers advised one participant. When gathering improvement ideas from employees, Steve explained the importance of consistency. People get demoralized if their ideas are not used.

When aiming for those "10x" initiatives, evidence supports setting up separate teams away from the restrictive influence of the existing culture. Dedicated project teams, comprising diverse experts reminiscent of the Apollo 13 approach represent the best way to break free of silo thinking. One member of the group had recently been exposed to thinking around prioritisation that is based entirely on time to execute instead of cost. This approach seems to acknowledge the impact of our ever increasing pace of change in which projects that are going to take what would have historically been a reasonable amount of time to deliver now carries too high a risk of being obsolete before completion.

The start-ups in the room seemed quite used to launching multiple initiatives and pivoting or killing off early those which fail to show early promise. For the mature organisations the advice is to aim for a minimum viable product (MVP) approach and use a small subset of customers and well thought start-up partnerships to accelerate change and gain feedback within meaningful time frames.


## Is everything 'brand news?' What steps must you take to protect your company's hard earned reputation?

**Moderator:** *Colette Dunn - Milliman*
**Expert:** *Sacha Sadan - Legal & General Investment Management*

Sacha introduced the concept of ESG (environment, social and governance) and how it relates directly to the bottom line. It is not about ethics. It is about factors that are material to a particular company. We discussed the example of Sports Direct where there have been failures with tax payments, minimum wage policies and, outside the UK, a role in the deaths of 1,400 low paid workers. Not only have the failures in ESG in Sports Direct led to a media and customer backlash, its bottom line has also been significantly affected.

Organisations represented in the working session had a similar approach to ESG with formal structures in place for dealing with its implementation and management. Some said that all senior managers had elements of ESG, such as increasing sustainability, in their objectives. Smaller organisations had to work harder at ESG due to fewer resources. However, some of the small, start up brands in the session felt they 'flew under the radar' to some extent, although they were all keenly pursuing good ESG policies.

Most of the organisations represented in the working session had established partnerships and due diligence in selecting partners was vigorous. Brand association with partners needed to be closely managed. One of the benefits to larger organisations was the removal of emotion from the process of partnership selection. Often different parts of the business selected partners, ran the partnership process and implemented the ESG policy.

It was accepted that, for very large global organisations, there may be something happening in some part of the world which does not measure up in ESG terms. In these cases, it is important that the global organisation can demonstrate that steps are being taken to remedy the situation. The view was that this would not exclude them as a potential partner.

One of the most fundamental themes in partner selection, to ensure a good brand experience, was the cultural fit. Everyone admitted that there was an element of 'gut feel' involved too.
Brand association was good news for larger brands and is of significant value to smaller, newer brands. It was widely agreed that a good disaster recovery plan was needed in case there was a major problem with your own organisation or with a partner brand.

## Is it time to help the Millennials and the following generations both understand and benefit from financial services

**Moderator:** *Collette Dunn, Milliman*
**Expert:** *Mark Adams – Vice Media*

Millennials are likely to be the first generation since the turn of the last century to be financially worse off than the previous generation. The reasons are multiple and include university debt, unaffordability of housing and wage stagnation. In light of this, it is a good time for financial services to engage with Millennials and to ensure that they understand the world of FS and how they can turn that knowledge to their advantage.

Mark introduced the session with Vice's model for innovation. Starting with their target customers, Vice seeks genuine 'empathy' with them. This 'empathy' means a high level of understanding of their wants, needs, behaviours as well as reactions to products and services. Vice then moves to the 'deposit' stage which involves content development in terms of tangible services which are either differentiated or low cost. Throughout this innovation process, Vice ensures that 'authentic ROI' is at the forefront, which means that profitability is a key concern throughout.

Millennials are much more inclined to be influenced by the 'gamification.' Targeting by social demographic needs to stop – A key segment of consumers are being misrepresented due to the generalisation of age, gender and other demographics. Building confidence is a key factor – Jargon, information needs to be explained. Very little patience and no sense of loyalty so the initial online experience has to be slick and seamless. FS providers should be looking at online communities and social media to enhance their product distribution.

Millennials are all online, this massive emerging market must be utilised to its full capability.
Vice has captured a huge audience and created massive engagement can banks do the same?
Loyalty has become tough to win over. Using emotion to drive engagement and connect with those millennials – a 'personal' relationship will engage them and win trust. Creating a sense of belonging and community is vital – Relating to loyalty as this will be a key determinant of whether they are loyal.

It was agreed that not many of the organisations in the room focussed on Millennials. Mark shared Vice's view that Millennials lacked confidence and interest in financial services, and found it boring. He said that many responses from Millennials relate to 'pain, stress and fear'. They need reassurance about their financial goals.

Mark posited, and it was generally agreed, that the term 'Millennial' is not constrained by age, but rather an attitude. There are 'Millennials' who are over 25 years of age! We discussed whether large financial services organisations can act like challenger organisations. We had some examples of incumbents trying to enable this behaviour, for example Aviva setting-up its 'Digital Garage'. Much of

social media and current Millennial behaviour is about seeking a sense of belonging and some mentioned that old mutual, for example the Co-op, had achieved this in the past.

We touched on brand and advertising and how social media cannot be bought. It is about engaging people and getting them to become advocates for your brand. We noted that regulations do not facilitate plain English and that current literature can create a sense of fear.


## Companies are investing millions in everything tech but are they losing sight of the customer and what they actually want? And how viable are they?

**Moderator:** *Rob Bryson – Capgemini Consulting*
**Experts:** *Niall Barton – Wrisk; Keith Webb – Capgemini Consulting*

- Mark - collaboration with BMW. App launch next year
- **Too many policies – want one policy that covers all**
- Collaboration to ensure tech is vital
- Consumers want dialogue, autonomous communication
- Organisations are being held down, how can they gain the characteristics of small start-ups?
- How do you plug into and form the right partnerships using the technology?
- Compliance is slow, how do we speed – continuous competitor analysis
- UBS – wealth management innovation – start-ups are getting preferential treatment
- FCA Regulators – greater systemic risk for larger organisation
- Change in last two years, FCA have become increasing hospitable to those who are acting in consumer's best interest.
- David Google – keeping talk back on consumer focus
- How many organisations have asked consumers directly what they want?
- Large amounts of research but insight is lacking
- Lacking engagement in financial services???
- Organisation structure having different department, need to change results driven
- Companies are struggling to do the things start-ups are doing
- Consumer satisfaction and customer focus is becoming a key area for innovation and change.
- What if major online companies start banking??? Nervousness
- Google tried and failed in financial world – didn't pass the toothbrush test. Problems due to API…

Quick Summary:

- Introducing change in large companies is tough. Small start-ups are benefiting from less regulation and have claimed market shares.
- Finding out what consumers want and need can't just be a research project done with large amounts of qualitative data and analytics. It needs to be done through direct and dynamic communication on an individual scale.

## Differentiation – how to stand out

**Moderator:** *Peter Smith - TISA*
**Experts:** *Rosemarie Diegnan - Wazoku*

This roundtable session looked to examine how to create customer differentiation in innovation within financial services. There was an amount of discussion around the resolution of problems where the customer does not receive a first class service or has a complaint. The main consensus particularly for call centres is they must solve the problem and do not stick to a pre-prepared corporate script. Do organisations miss the interaction for customer engagement known as the "radical middle." The core issue for innovative financial services firms is to establish what the customers actually want. Convenience may be less expensive but how do organisations address the radical middle. The main theme of the discussion was to think about overall customer experience and where can you meet the needs to satisfy those customers. How do we get the perfect customer experience has been demonstrated unanimously by the John Lewis partnership!

Firms should look to understand how they get their organisations the opportunity to give the full customer experience on what is your problem and how do I solve it.The group debated whether there was a disconnect between the company strategy or ethos and does this breakdown before providing perfect service or experience to the end customer. Should the corporate ethos be overridden at an individual consumer handling level? In considering service levels, don't set out to provide poor service within the culture of the organisation or call centre. Firms should seek to establish good individual culture with no negative output. This will require investment and resource to get the right culture. It was determined to be more difficult where there is no human intervention in the customer experience and concern around how you provide consistency with the digital experience and chat bots etc. Consideration needs to be given to digital experience of jackpots, telephone, digital, apps and web chat. The preferred method of improvement was not to try for big radical change but incremental improvements can be instrumental to keep innovation improving and therefore improving customer service and experience. Start with incremental improvements to culture as in “what can you do to improve your job today". Establish an everyday innovation incremental culture and innovate with small steps which everybody can keep pace with if done incrementally.

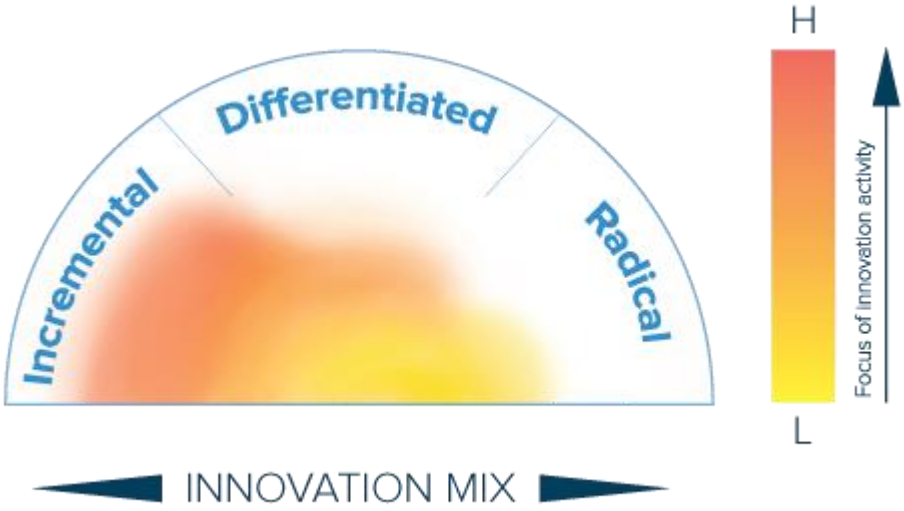
This should be tested with instant feedback from customers and there was a level of debate as to how firms research customer feedback as it is easier to keep existing customers rather than the expense of having to find and develop new ones. The culture should encourage people internally to stand up celebrate success ideas of the front-line staff and develop a culture that a volunteer with a new idea is a good thing and to be encouraged no matter how radical or off the wall. Firms should look to explore different ways for consumers to access the service whether its in-house or outsourced and is service 24/7 or six hours. The culture should encourage the fact that a complaint is an opportunity to secure a customer for life as mistakes happen it is what you do with a mistake which is the real key issue.

In terms of eliciting feedback there is a delicate balance between overloading or complicating a survey return for the customer and a simple method of response needs to be found. It was discussed that success is being had with sentiment analysis of customers using an algorithm to detect how the person sounded on the phone using speech analytics. The best research was from disatisfied customers as it is usually only disatisfied customers who complain others cannot be bothered! Within certain organisations it was the internal staff who came up with a lot of good ideas a number of them not at all practical but at least it's encouraging to create a culture of seeking and rewarding customer focused ideas from the front-line staff.

At the end of last year, we introduced the next report in our EveryDay innovation series, on Differentiated Innovation – putting the customer at the heart of your innovation programme. Wazoku's first report in the series, The New Innovation Conversation, introduced the notion that innovation applies to all businesses, in all sectors. It's also about making innovation part of everyone's role, in every team, every day. As such, innovation becomes the by-product of an innovative organisation. In this initial report, they also introduced a framework to work from, based on the five pillars of innovation: Strategy, Leadership, Management, Culture and Tools & Processes.

Next, was created the Guide to Becoming an EveryDay Innovator, providing actionable and practical steps for organisations to establish their own innovation culture and build their own repeatable and sustainable innovation models. This is based on discovering their starting point to innovate, using a tool such as Innovation Pulse. This now brings us to the most recent report in the series, on Differentiated Innovation which is focused on providing customer-centric innovation. This report focused on the first pillar, *Strategy*, and how to include Differentiated Innovation in your innovation mix.

**The innovation Mix**




The innovation spectrum includes three broad categories of innovation: incremental, differentiated and radical.

- **Incremental** – focused on improving existing products and services as well as continuous improvement/process improvement.
- **Differentiated** – focused on medium-scale changes with low to medium risk, that involves multiple teams. Innovations in this category are generally customer focused, to create competitive advantage.
- **Radical** – large-scale, radical projects, usually complex and typically requiring significant investment.

Digging deeper, what do we mean by Differentiated Innovation?

- External, customer-centric focus
- Clear objectives to identify and solve real customer problems with creative solutions.
- Focus on speed to market as customer needs evolve quickly.

**How to get started with Differentiated Innovation?**

Getting started can be daunting but if the building blocks of innovation have been put in place through incremental innovation initiatives, it will be much easier. If your staff are already involved in innovation and your organisation encourages them to participate and listens to their ideas and solutions to address internal problems, listening to customers and other external stakeholders is a natural progression.

Here are the necessary steps, succinctly put:

- Define the problem to be solved, which should be tied to your overall strategic objectives.
- Involve your internal stakeholders in coming up with ideas to improve customer experience.
- Take it a step further and involve external stakeholders, by looking at a broader group for help in delivering a better customer experience – Open Innovation

The report *Differentiated Innovation – Putting the customer at the heart of your innovation* programme expands on these ideas and concepts and provides real life examples from our customers such as Aviva or the British Library. To read it, head to the website to download for free.

iShares by BLACKROCK®

## D2C – The future of investment advice

**Moderator:** *Simon Cocker – Simon Cocker Consultancy*
**Expert:** *Joe Parkin – iShares by BlackRock*

Key findings:

- JP provided some evidence to suggest that the time is ripe for the growth in this area
  - However there are the 3 elements of regulation, technology and margin pressure creating the "perfect storm"
  - Also the advent of Open Banking next year is seen to be a game changer and will disrupt the top 5 UK banks monopoly of holding 85% of the population's bank accounts
  - The focus must be on customer outcomes not products

- There was a feeling across the attendees that have we not been here before? RDR, Pensions Freedoms, MMR etc. were all meant to be big game changers but consumers continue to be inert and not receptive to potentially doing things themselves, especially in the investment space. The top 20% are well served (and usually either advised or savvy enough to be self-select) but what about the mass market?

- Three clear themes emerged which everyone felt unless we crack these there we will be continual false dawns

  - Building consumer trust
  - Inspiring consumer confidence
  - Making it simple for the consumer
  - Ironically these themes were cited by the FCA in its Financial Advice Market Review, which was published last year.

- Whilst there is a desire to move to this place by FS providers, regulation, legacy systems, protecting their current stock (& profits) as well as the business case never has enough clout vs. "carry on doing what they are doing" are seen as major barriers.

- Hargreaves Lansdowne was cited as an example as an organisation that has broken this mould and given consumer's confidence, simplicity and therefore seen funds flow in. An empowered workforce operating in an open plan office was thought to be one of the reasons.

- The non FS participants pointed to their success in inspiring confidence and trust and making it simple by stating you should make everything transparent, try to humanise the data i.e. by bringing digital and people integration together and always add to the overall brand.

- Another finding was that there were still a lot of people who do not have the knowledge and education on financial matters ("50% of people don't know what 50% is!") With this lack of education there will be no confidence and trust however as these people tend to have

fewer savings are they the target audience anyhow? Some felt that they potentially could be in future years with the advent of Auto Enrolment.

- On this theme having a pensions dashboard which showed what customers are on track for may galvanise people into action if they become aware holistically across their pots that their future wealth and income will not achieve their planned retirement/lifestyle goals.

- In conclusion everyone felt that assisting consumers to invest more whether direct or via well-known brands was positive however until someone can really make it simpler, provide the customer with the knowledge and trust, there won't be a wholesale change!

## How do you create a sense of loyalty? Cash incentive? How about excellent customer service?-

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**Moderator**: *James Alexander - KPMG*
**Expert**: *Ross Cox - Bizfitech*

What are the challenges to creating loyalty for brands?

- Aggregator sites
- Price comparison sites
- Open banking

Many brands seek to differentiate with "value add services" on the side, but there are challenges with this:

- Can you actually engage the customer around these?
- Does the value add service really add value to the customer, and does it relate to the core service? Or is it just a random cross sell for someone (e.g. MS Office with a Vodafone contract)
- Is the value added worth the cost/effort needed to secure it? Does the customer trust you that this isn't just hiding a higher cost?
- Will the customer associate the value they get from the value add when they come to think about switching?
- Here is a danger that these offers are not affordable at scale (e.g. Waitrose free coffee, Monzo free overseas cash withdrawals)

True loyalty is about being trusted: as an advisor, to deliver on the customer promise and experience, and to make it easy for the customer. It is about creating "moments that delight", e.g. in retail same day online delivery that works.

**How do we create "delight" in FS?**

It is important to engage with customers, get real feedback and be easy to contact.

- Why doesn't every app and website have a "chat" link to give feedback?
- Open customer feedback forums are "like free consultancy" if you actually use them and read them.

- Every firm should seek more customer engagement and feedback, and not be afraid of complaints – dealing with problems really well is a key driver of loyalty!

Financial services has a generation challenge, but not the one that most people think about

- The assumption is the older people have all the wealth and are helping their kids, but one participant's research showed the real strain was on children looking after older parents, paying for care etc. This is too big a problem for any one organisation to tackle, and will need collaboration and partnership. Digital enablement will help, but F2F is also vital here.
- Making decisions around care, and more generally in financial services, come with far greater risks if it goes wrong than in e.g. retail. This is really scary for people, and then the FS industry makes it really hard with lots of complex jargon and endless incomprehensible forms and T&Cs.
- **Customers are desperate for someone they can trust, someone who can help them, someone to make it easy.**

Does AI help with any of this?

- Maybe, but big risks if set up wrong and doesn't work for complex customer journeys
- How do you know if you can trust the programmer? Lots and lots of testing of all possible journeys is the only way
- Beware the unintended consequences of using AI

Which brands are we loyal too?

- Four Seasons hotels: just brilliant, perfect service and experience at every touch point
- Cornerstone razors: had a problem with a missed delivery, moved me to an upgraded/premium package and new razor arrived next day; fixed my problem, and now unlikely to leave
- Amazon Prime: reliable delivery every time; know that Amazon are customer centric throughout the organisation, which counts for far more than concerns around warehouse labour practise or tax avoidance

**Conclusion**

- Loyalty is all about delivering consistent positive customer experience; "value add" services are gimmicks and don't work
- Beware of over-focussing on one narrow segment, and inadvertently disenfranchise the rest
- Digital is a great enabler, but don't rely on it to solve everything: face to face and human interaction is still really important.

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Nationwide

## The General Data Protection Regulation (GDPR)

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**Moderator**: *Glen Ward – Nationwide Building Society*
**Expert**: *Alan Baker – Farrer & Co*

- GDPR will take effect on 25 May 2018 - just 7 months away.
- Scope: applies to the use of all personal data by Data Controllers and extends this accountability to Data Processors.
- The conversation in the room largely centred on the area of consent and how this would impact the customer experience. Consent is one way to ensure "fair and lawful processing" of customer personal data under the GDPR. Where consent needs to be given it must be by an affirmative action and must be an 'unambiguous' indication of a person's wishes (as well as being specific, informed, and freely given). In view of this, firms should consider the validity of existing consents and whether a refresh is required.
- Further, gaining consent is not just a tick in the box supported by a general statement that, for example, "we will use your data for marketing purposes", even if this is provided with a generic description e.g. other financial services in the case of a financial services provider. An insurance company example was discussed with a suggestion that the consent would require specific description such as other insurances (house insurance, motor), and investments, etc. This goes to the consent having to be "specific" under the GDPR (as above).
- Firms relying on 'legitimate interest' as the basis for marketing or processing a client's personal data must clearly articulate the rationale and provide relevant communication to customers (in the form of a 'privacy notice' or 'privacy policy' which is compliant with GDPR). Judgement is required when adopting a legitimate interest approach – and it is advisable for firms to carry out a documented balancing exercise of their own legitimate interests (i.e. commercial business interests) weighed against the rights, interests and freedoms of the individuals in question. One indication of fairness in this balancing exercise is whether there is a genuine value exchange or whether the additional services were directly relevant.
- Personal data processing was described as the person effectively "lending" you their data for specific purposes and potentially for a limited amount of time, but not for any other purpose (unless the firm has a valid legal basis for further processing the data for another purpose).
- Another consideration is the PEC Regulations (and potentially more onerous ePrivacy Regulation, currently in draft but due to take effect some time in 2018) when engagement is via digital channels. Direct marketing by electronic means is considered more intrusive than direct mail and consequently has higher regulatory standards and consent requirements.
- The GDPR also brings with it tougher penalties for non-compliance with maximum penalties of 20 million euros or 4% of total worldwide annual turnover, if that is higher. This gave rise to a good discussion on the implications of contracting with third parties and the practicalities of the indemnity clause where a large data controller contracts with a smaller data processor, as an example.

- In summary, there was lively and active participation in a subject that is clearly getting a great deal of attention across many sectors that use personal data for ongoing engagement (from financial services to the charity sector).



## With the advent of PSD2, let's focus on mortgages and consider the strategies you might adopt to hang on to your customers

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**Moderator**: *Glen Ward - Nationwide*
**Expert**: *Michael Davidson – Freedom Finance*

PSD2 represents a change to the industry that effectively removes many of the barriers that previously advantaged the current incumbents. The key question in the room was – Is PSD2 a threat or opportunity? In summary, it is both depending on the firm's perspective and response. The difficulty being what is the appropriate response.

Many of the existing financial firms will continue to focus on developing their existing client propositions which for some of the smaller specialist or locally based providers has led to a resilient and loyal customer base. This was followed by a discussion on the importance of understanding the customer base and segmentation strategies to better respond to the opportunity or manage the risks presented by the change. It was also recognised that whilst this change has the potential to be highly disruptive, the pace of adoption was uncertain and therefore there was time for many to assess developments before responding with new strategies and propositions.

Of concern for some was the potential volatility and management of the balance sheet due to the potential ease that liabilities may move to optimise returns. One consideration was that open banking enhanced the ability to support a wider set of customers by partnering or co-operating with other third parties. In this regard, many incumbents currently use intermediaries for mortgage distribution which in its current form exists as an open market that is very competitive. This led to the conversation that whilst we may make the mortgage approval process quicker and easier, until the end to end process is transformed such as conveyancing, the process will remain challenging to complete in materially shorter timeframes. It was also highlighted that we should not be comforted by the assumption that open banking is only attractive to younger generations, where some highlighted the age range of digital users went from teens to the nineties.

PSD2, whilst not the drama of Brexit, has certainly got the interest of the financial services sector and although the implications are uncertain most agree that over time it has the potential to disrupt the industry. In turn, the ability to respond quickly may represent the difference between success and failure.

thefairbanking foundation®

## The power of nudging and subliminal messaging? Underestimate it at your peril

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**Moderator:** *Simon Cocker – Simon Cocker Consultancy*
**Expert**: *Antony Elliott – The Fairbanking Foundation*

Key findings:

- Using behavioural economics (BE) can assist in providing the consumer with what they want. Richard Thaler has just been awarded the Nobel prize for his contribution to this topic and is also the author of the best selling book "Nudge"
- Various non FS examples provided by AE (and is in his handout) on how to influence consumer behaviour; one being putting a picture of a fly on an urinal reduced the cleaning costs due to spillage by 80%!
- There are dangers to using BE especially when cross selling and upselling. A stark example of this was PPI!
- Should be used to provide customers with salient information and also to advise them the consequence of doing nothing (very effective in the collections arena)
- Good discussion on how to apply this to the FS market; whilst seen to be of value for retention and selling certain products, concern was raised about investment products and where regulation sits in terms of how is advice (if any) being given
- Challenger banks have been using it to help reduce new card account enquiries by being proactive with the answers they give online. Also use of "waiting lists" for new products meant people didn't want to miss out and demand increased.
- One of the unanswered questions raised by the group was "how long does nudging and delivering positive customer outcomes take to be embedded into an FS organisations DNA?"
- Journey mapping maybe a way to achieve this
- AE concluded the discussion by saying that after 10 years FS has moved into a positive place from a customer perspective but the industry really needs to capitalise on this by now exceeding customer expectations.

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KPMG

## How do you judge just how successful your customer engagement strategy is proving?

**Moderator –** *James Alexander – KPMG*

**Expert –** *Caroline Burkart – Scorpio Partnership*

Everyone in the room had some sort of customer feedback programme, but lots of different methods

- Focus groups
- Quant and qual surveys online/phone
- Client facing staff interviews
- CSAT
- NPS
- Conversion rates, drop out rates and A/B testing of alternate journeys
- Complaint trends and root cause analysis – real problem is often not what the customer is focussed on in their complaint

NPS is a bit crude, but it keeps you honest over time

- If you deliver something exceptional, initially get big NPS boost but then becomes expected and NPS drops, even if still doing something great.
- Important to understand the key drivers of NPS, and to track the changing score and drivers over time as relationship with customers matures

**Customer insight programmes need to be ongoing and part of a culture of continuous improvement, not just a one off or annual exercise**

How do you measure trust?

- Should be a combination of questions and measure to provide an aggregate score, rather than a single simple question
- Important to capture KPIs with right granularity and have scores for the firm, for teams and for individual and then benchmark and use high performers as role models both internally and for hiring

- Important to do quant research with big enough sample to get statistically robust findings; qualitative is fine but beware danger of skewed samples influencing, which is why quant so important.

Research widely, not just with your current customers

- Why haven't people renewed?
- Why haven't they completed their basket?
- Why have they only bought one product/proposition?
- Why are they using a competitor?
- Beware smart people in a business thinking they know better than the customer (historically, particularly likely in FS)

Understanding client segmentation and analysis

- Data scientists using big data, aggregation and analytics to target segments
- Loyalty card/store cards using individual data to specifically target individuals
    - NB the data protection requirements and permissions needed for this
- Do you segment by socio-economic group, wealth, past spending, hobbies/interest groups or psychometric persona/profiles?

Generally, retail miles ahead of FS in much of this, as greater focus driven by narrow operating margins; however, given costs of customer acquisition and the value of loyal customers, retailers are starting to think in terms of lifetime customer value and could learn a lot of from FS and particularly insurance on this.