

STARCOUNT

Whitepaper:
Customer Centricity and the
Future of Banking



The banking industry is facing its biggest shake-up in two hundred years.

A myriad of factors such as an increase in regulatory scrutiny, the deregulation around traditional structures, the explosion of FinTech companies, and market volatility caused by major socio-economic and political events such as Brexit, are causing significant disruption across the financial landscape. A perfect storm is brewing and, while it may be daunting, it's also an unprecedented opportunity for change and growth within the sector.

Digital and technological advances are driving banking innovation, with the industry being forced to respond to customers' changing expectations. In order to thrive in this new world order, banks need to create a customer experience that meets the demands of the modern consumer. How do they do this? By making better use of data and insight to build a new customer-centric business model.

What does disruption look like?

In order to understand how banks can put their customers at the heart of their organisations, first we need to break down and examine the two key sources of disruption within the financial industry.

The first is the introduction of Payment Service Directive 2 (PSD2), an Open API banking standard recommended by the Competition and Markets Authority (CMA), and already spawning fearmongering headlines such as 'The directive that will change banking as we know it'. In brief, PSD2 will allow consumers and businesses to manage their finances through third-party providers. This means that banks will be obligated to grant third parties access to their customers' accounts (with the customer's permission, of course). Despite understandable trepidation amongst the financial community, PSD2 does not herald inevitable disaster. In fact, if banks take the correct steps over the coming months, it could lead to much-needed innovation within the industry that will benefit established organisations as much as start-ups.

For example, some banks have more first-party data than others (depending on their product set and market share). Where a bank deals only with loans, mortgages, savings or insurance, they will engage less regularly with their customers, leading to more limited data. In cases such as these, each of their customers will be interacting more regularly with one of the bank's competitors (where they have their current account, for example). That competitor will be collecting much richer data on their customers and so will almost always have the potential to understand them in greater detail. With the introduction of an open API, banks will be in a position to share their data; suddenly, they'll be working on a level playing field.

The second disruptive factor is the emergence of a host of challenger brands using technology and mobile-first strategies that are more attractive to modern consumers. These include start-ups such as Monzo, Atom and Starling, whose websites sport words such as 'intuitive', 'easier' and 'smart' and who use innovative 'exclusivity' targeting such as beta cards to engage potential customers.

Omnichannel strategies like Metro and Virgin Money, and retail banks such as Tesco and M&S also pose new challenges to the status quo. Unlike established financial organisations, these start-ups and SMEs work from the assumption that their customers are already banking with multiple brands, so they sell themselves on a superior user experience, rather than relying on traditional incentives, such as better rates. Unburdened by size and legacy systems, these challengers can create strategies and develop products specifically to fit their customers, and can use data to anticipate their needs.

Where are banks currently headed?

Fears around compliance with PSD2 and data privacy regulations, not to mention the need to keep up with digital innovation, are pushing banks to move away from a product-centric, siloed culture, towards a single customer view. While it will require a prolonged effort for banks to get their data in order, most organisations are willing to invest significant time, effort and money, with the outlook that it will eventually enable them to better service their customers' needs. However, despite these good intentions, most banks aren't working towards a truly customer-centric ecosystem.

Instead, by assuming that banking is essentially binary – that an individual either is or isn't one of their customers - they are becoming increasingly bank-centric. As a result, banks fail to recognise that they are only one part of a 'choice set' of possible channels to solve customers' financial needs, and so need to identify the right triggers that would motivate a customer to choose them.

Bank-centricity stems from the flawed notion that a bank needs to have all of a customer's products in one place in order to improve their experience; in fact, many banks are likely to be caught out by the fact that the majority of customers prefer to spread their assets across a range of financial services. As it becomes easier to manage multiple accounts, this tendency will only increase.

"[FinTech start-ups] are prepared to give people the same level of control, real-time interaction and transparency they find in other sectors."
Peter Veash, CEO, The BIO Agency

The switching myth

Switching is a common concern in banking; many banks worry about losing their customers to competitors, lured away by incentives such as attractive interest rates or cash bonuses. In fact, the majority of customers don't switch accounts in the traditional sense; instead, they open a new, active account, keeping their old one but leaving it dormant. This has led to a large amount of people with multiple, inactive bank accounts.

As PSD2 comes into effect, new apps, comparison sites and switching services will emerge that enable customers to bring all of their banking data into one place. By enabling a seamless relationship between all of a customer's various financial products and loans, these comparison tools will unite first and third-party customer data to build genuinely customer-centric ecosystems. They may even begin to learn from a user's behaviour, using this data to suggest new and relevant products and services. Whilst many high-street banks are developing more sophisticated personal banking apps, these closed app environments will struggle to compete in a world that's becoming increasingly open.

As it becomes easier to switch, established banking organisations are in danger of falling into the same dilemma as utilities suppliers. Just as we don't visit a hydroelectricity plant every time a fuse blows, so customers will manage their diverse financial accounts through their mobiles without ever needing to walk into a branch.

In this scenario, banks risk becoming the dumb pipe through which money moves and the idea of loyalty in banking as we understand it today will become non-existent.

“Finance providers who remove complexity and offer the ability to shift money around in real-time, or compare bank rates with ease will therefore grow ever-more appealing.”

Peter Veash, CEO, The BIO Agency

| How do banks achieve true customer-centricity?

As the banking landscape shifts and changes, not all banks will survive; those who do will be the organisations that crack how to collaborate and innovate at speed and scale, and those who have the greatest understanding of their customers.

As well as investing for growth by exploring new customer channels and business models, banks need to make their first-party data work harder, rather than focusing on pricing and risk models. What's more, they should start looking outside their own data to other big data and third-party data sources, harnessing and exploiting a range of data to unlock provocative insight and challenge dominant logic.

A major weakness of the current banking data model is the over-reliance on bank's own data. With increasing dormancy or partial usage of high frequency accounts (such as current accounts or credit cards), it becomes difficult for banks to understand and market to a wide range of customers. Instead they focus their efforts on the small subset of customers who still do all their banking with them, especially when preapproving loans. This push marketing model – that is to say, delivering a message only to prescribed customers – has led to banks fishing in an increasingly smaller pond.

The future belongs to a model of making strong use of data from outside the acquisition, be it the PSD2 Open API or other data sets. Broadening the net to include a wider range of third-party data sources will give context and value to understanding the motivations and mindsets of customers in a more holistic manner.

FinTech start-ups and other challenger brands are small and agile with clear and regular access to customer data. Banks prepared to go against their risk-averse instincts and shake off the traditional mantle can flourish by collaborating, rather than competing with these ‘unicorns’, mimicking their ‘fail fast, learn faster’ attitude and partnering with them to move forward into the next generation of financial services.

If banks are to thrive in the modern era, they need to become comfortable with uncertainty and work out how they can best meet the needs of the new, customer-centric ecosystem. Those who dare to become leaders will be at the forefront of a seismic shift that could positively reimagine the way we bank.

What steps might help the banks prepare for change?

01

Connect the deep and rich knowledge of customers and their transaction/credit behaviour with intelligent and compliant lead generation, whatever the media channel.

02

Challenge the black box mentality of DMPs and build your own more sustainable, sensitive and transparent media targeting database and platform.

03

Start to embrace new era third party data to enhance and build knowledge around the triggers and motivations that drive consumer behaviour.

04

Adapt the bank Operating Model to deliver the right message at the right time to the small number of people whose behaviour indicates that they are “in the market” for an offer this week.

About the Author



Dr. Clive Humby

Chief Data Scientist

Clive is Chief Data Scientist at Starcount, pioneering consumer-centric Insights, analytics and profiling products.

Clive has nearly 40 years experience in customer analytics across 30 markets globally. From creating the first geodemographic system, ACORN, in the 1980s, to developing the use of motivational segmentation in his current role at Starcount, Clive is acknowledged as one of the world's pioneers in the discipline.

With his business partner, Edwina Dunn, he founded global consumer insights business, dunnhumby, which revolutionised the use of transaction data for the FMCG industry, before expanding to work with a wide range of consumer-facing businesses, from banking and telecommunications to department stores and online retailers.

He was first to coin the phrase "Data is the New Oil" and is consulted at all levels, from government on the implication of data science in the UK economy, through to individual clients where he leads key work streams designed to step change their businesses.



About Starcount

Starcount helps you to understand customers more than ever before by driving greater value from your customer data, and providing an additional enriched lens of insight into customer loyalty. We believe that knowing the customer better than anyone else helps to create a new customer-centric business culture – a focus on relevant and timely customer service and engagement.

Led by the transformational data pioneers, Edwina Dunn and Clive Humby, Starcount has a rich heritage of exploring and capturing current and fast moving data around customer loyalty.

Get in touch:

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We are not just data scientists and software engineers, but experienced customer storytellers.

Combining a wealth of customer insight with new era digital and social intelligence, we uncover consumers' wider motivations, mindsets and aspirations. This allows us to help you forge deeper emotional connections by reconsidering business strategy, capturing consumers at the perfect moment and nurturing brand love. We can help you find a true and sustainable competitive edge.

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