

Understanding customer behavior in retail banking

The impact of the credit crisis across Europe

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Introduction

In the last two years, the European banking market has witnessed unprecedented turmoil as it has undergone a period of massive uncertainty and change. With the financial institutions that had enjoyed record profits in 2007 now the subject of intense public scrutiny and, in many cases, the beneficiaries of taxpayer-funded support, an impact on customer relationships seems inevitable.

It costs retail banks as much as six times more to attract a new customer as it does to retain an existing one, and yet for many years the industry has not always focused on customer loyalty and the opportunities among its existing client base. In an economic climate as difficult as this one, fostering loyal customers is important to achieve growth.

In the research that follows, Ernst & Young surveyed bank customers (individual consumers) across six European countries - in Belgium, France, Germany, Italy, Spain and the UK. More than 6,100 respondents were asked about their relationships with their banks, and specifically about their levels of satisfaction, what they were looking for from the institutions, and their intentions and demands going forward.

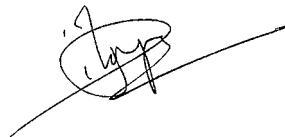
We conducted this research with the objectives of:

- ▶ Highlighting the risks and opportunities facing the retail banking sector with respect to managing customer relationships today across Europe.
- ▶ Analyzing what is relevant to a successful banking relationship, so as to achieve and maintain customer satisfaction in the current climate.
- ▶ Identifying and commenting on what we see as the key action points that banks must take if they are to continue expanding their customer base in a challenging market.

We would like to thank the participants for their valuable time and insights, and we hope that these findings will assist the sector as it responds to the dawning of a new era in the wake of the global credit crisis.



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Executive summary

Without doubt, the credit crisis has had a profound and lasting effect on the way in which European customers interact with the banks that they serve. Gone are the days when financial institutions were among the most respected and trusted organizations on the high street; today, customer trust in banks has fallen dramatically. Across Europe, some 45% of customers say the crisis has had a negative, or very negative, impact on their trust in the banking industry.

With diminishing trust comes diminishing loyalty and our survey uncovers a marked and significant demise in the fidelity banks enjoy among their customer base. The concept of the main bank with which customers hold most of their accounts and do the majority of their business is blurring across Europe.

Our survey found that 24% of respondents had at some point changed their bank account, with 10% of the change happening in the last two years alone. A further 11% of Europeans say that they plan to change their main provider in the future. Customers in Spain (20%) and Italy (14%) are the most likely to change their banks with only 6% in Belgium and France planning to do likewise.

These findings show that banks must work hard to meet the challenges of retaining customers, restoring public confidence and providing the services and products that customers really want.

Risks and opportunities

There is a new era of risk and opportunity, with customers increasingly mobile and ever-more demanding. Consumer perceptions are changing at a rapid rate, and banks face both a threat of customers accessing some, if not all, of their services from other providers, while similarly an opportunity to gain market share.

A lack of confidence in the system has further pushed consumers to consider spreading their allegiances across a number of providers. Almost a quarter of European customers now hold more than two accounts with a second bank, and one in ten source more than two services from a third provider. However, the fact that three quarters of customers who use more than one bank have only one product with each of their other banks, suggests that customers are more likely to select a specific bank for a particular product. Could this statistic highlight a move from the multipurpose bank to customer demand for new specialist banks?

Customers are requesting specialized products and high service quality, and these requirements need to be met to help reinforce trust and confidence in the industry. With business margins decreasing, multipurpose banks may need to revisit their strategic plans to find a balance between increasing specialization of products and service and the continuous drive towards efficiency rate improvement. Many banks are already reviewing their operational and distribution models in light of these issues.



We also found differences across the markets: customers in Spain (44%) and France (40%) are most likely to hold between five or six products with their main bank compared to the 30% average across the six countries. UK customers (27%) are most likely to have just one product with their main bank compared to 19% across Europe.

With these findings comes an opportunity for banks to identify those customers with whom to develop a better relationship based on current purchasing habits, and then maintain and adapt the product and services offered so as to meet their specific demands. Some 14% of European customers describe themselves as very satisfied advocates of their main bank: these are the customers that should be targeted most proactively as promoters of the bank to new customers. Services can be tailored differently to these customers using sophisticated customer analysis, while “Introduce a friend” schemes and loyalty programs help to value their commitment to the bank.

Building successful relationships

Customer satisfaction has never been such a major concern for European banking leaders. Now is the time for institutions to identify the specific satisfaction drivers that most influence their businesses, and act on those findings to improve the service quality and perception of customers. In our survey, the expected drivers of satisfaction; price, service and the product offering, are the three main causes of customer dissatisfaction. In light of the credit crisis, 25% of respondents who plan to leave their bank cited lack of trust as the reason to change.

The reasons for moving banks were different across the markets. Price was a key factor for Italian (50%) and German (55%) customers but not for French and UK customers, where only 16% cited this as the reason. French customers were most affected by bad service with 35% giving this as the main reason for changing banks.

These findings show the continued need for banks to segment their customer bases and target loyal customers. As service channels move towards online banking and telephone banking, customers still demand personal relationships with their banks. A third of our respondents, rate personal relationships as highly important and 46% considered the current level of personal service to be either bad or limited. This again varies across the markets with the most dissatisfaction appearing in the UK (12%) and Italy (13%) and 40% of Spanish customers describing the level of personal attention as excellent.

While capitalizing on the cost reduction opportunities offered by new channels, banks must be mindful of a return to traditional values brought about by the credit crisis, as customers once again seek one-to-one contact and personal relationships, perhaps in a bid to rebuild trust. Banks also need to ensure that the new channels meet the customer needs. We found that among the customers to whom online banking is available 13% do not use it and 43% of respondents were uninterested in mobile telephone banking.

Knowing your market

As well as segmenting the customer behaviors within each institution, it is clear from our findings that there are distinct differences between European markets. Each European jurisdiction has been impacted differently by the credit crisis. In particular, UK customers report a heightened loss of trust compared with those in other countries. There, 56% of customers say that their trust in banks has been negatively impacted, showing the clear need for work to be done by the institutions active in that market.

Banks need to consider ways in which they might enhance trust among their customer base, perhaps by better communicating messages around ethical practices and changes in behavior. It is also important to develop new customer strategies and focus on loyalty programs as a long-run source of income and enhanced relationships. Satisfaction drivers vary significantly across markets, and pan-European institutions should be mindful of these often marked differences when developing new products and new ways of providing customer service. The impact of the credit crisis has only exacerbated these disparities, and cross-border banks will have to address them in tailored ways across different markets.

The regulatory backdrop

All of these changes take place in an environment where banks find themselves under increased regulatory scrutiny, with many international financial services watchdogs focused on ways in which banks interact with their customers. For example, by now, all banks operating in the UK should have embedded the Financial Services Authority's principles of "Treating Customers Fairly" into their day-to-day activities after rules came into effect last year. Now might be a good time for banks to revisit policies on clear and accurate communications in the sales process to ensure the accompanying cultural changes have been incorporated into the business.

Banks should also be mindful of the new dispute regulations concerning customer complaints procedures, and the new Common Principles for Bank Account Switching, which will further impact customer relationships, and are covered later in this report.

Summary

Banks must now take a good look at their customer base, examine what customers want, which customers they would like to retain and sell-off non-profitable parts of the business. In this new retail banking world, focusing on the profitable both in terms of customers and products could gain a competitive advantage on the high street. Certain customers are interested in specific products so banks should take this opportunity to re-examine their products and services to truly differentiate themselves from the competition.

Key findings

The financial crisis has caused customers to change their attitudes towards their banks. Customers are looking to move provider or diversify their banking portfolio, spreading financial products across a number of different institutions to minimize their exposure to perceived risks.

Below is a summary of the key findings which are explained further in the following sections of the report.

The impact on trust

- ▶ Today's economic recession has had a negative impact on the trust that 45% of Europeans have in their banking providers.
- ▶ The UK has been most negatively impacted with 56% saying their trust in banks has decreased.
- ▶ In contrast, 60% of German respondents say the crisis has made no difference to their level of trust.

Loyalty

- ▶ Among customers who have more than one bank, 74% have only one product with each of their non-main banks, using them as specific banks for specific products.
- ▶ More than half (54%) agree they would join a loyalty program if their bank offered one.
- ▶ French and Belgium customers hold the longest relationships with their banks with 85% and 83% respectively banking with their main provider for more than five years.

Reasons customers look elsewhere

- ▶ 24% of respondents have changed their main banking provider at some point in their life, but 10% did it in the last two years.
- ▶ A further 11% plan to change imminently which points to a recent acceleration.
- ▶ Price (43%), service (42%) and products (31%) are the top three concerns driving customers to change their banks.

Measuring satisfaction

- ▶ Service quality is the most important criteria for customers when choosing a bank.
- ▶ Nearly a third of customers consider a personal relationship with their bank advisor to be highly important when choosing a bank.
- ▶ The greatest dissatisfaction is in the UK and Italy where (12%) and (13%) respectively say the attention they receive is bad. Whereas 40% of Spanish respondents describe the personal attention from their bank as excellent.

The impact on trust

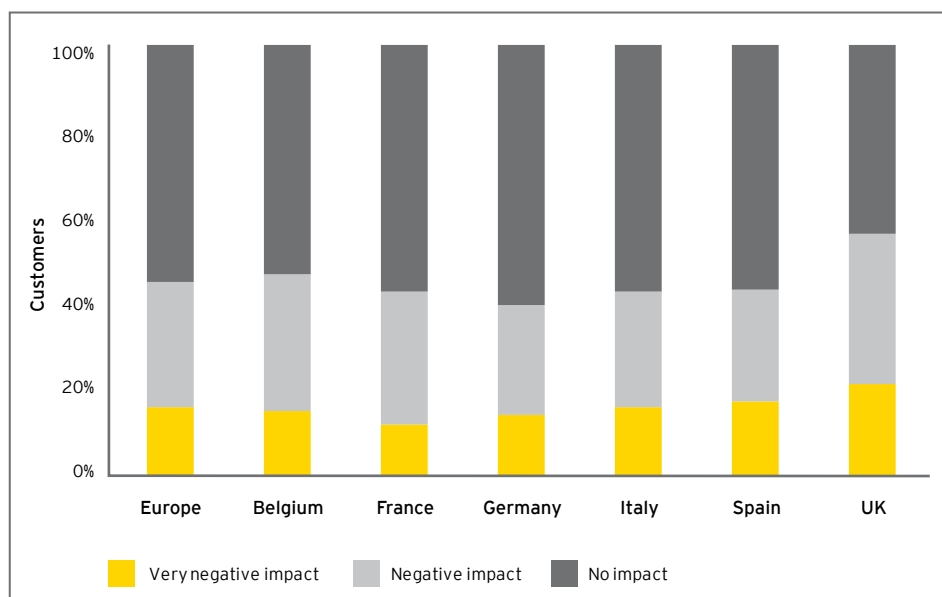
In a difficult economic environment, it is essential that banks maintain strong and mutually beneficial relationships with their customers. With a major crisis having affected the retail banking sector globally, causing bank failures and even systemic meltdowns in certain European jurisdictions, those relationships have never been more dependent on a level of trust.

Perhaps the most profound effect of the credit crisis on the banking industry is a dramatic fall in the amount of trust it enjoys among its customers. Across Europe, 45% of respondents said that the crisis has had a negative impact on their trust in financial institutions - a result that is perhaps compounded by the media attention that has been given to banking losses and collapses the world over. Further damage has been done to the industry by the global furore that has surrounded the payment of bonuses within banks that have sometimes absorbed many billions of euros in taxpayer support.

This decline in trust has in turn severely impacted customers' relationships with their banks, with many customers moving to diversify their exposure to one institution by sourcing more services elsewhere. As a result, a customer's relationship with its primary provider may have been diluted as they look to work with different entities. For the banks, we believe this creates a clear opportunity to improve trust levels, so as to remain the number one provider to their customers, and to present an ethical and robust image in a bid to attract new customers.

Across Europe, the effect of the crisis has differed and, as a result, the consequences of the crisis for trust in the banking industry have varied. Most negatively impacted of the six countries surveyed is the UK, where the majority of respondents - 56% - say their trust in banks has decreased. In Germany, by contrast, 60% of those questioned say that the crisis had made no difference at all to their level of trust in their bank. Clearly, in the UK market, there is a need and an opportunity for banks to improve their perception among customers.

What would you say is the impact of the crisis on your trust in the banking industry?





Banks have felt the crisis impacting their businesses in many ways and on many fronts, but those that have overlooked the resultant effects on customer confidence and loyalty risk losing further business long-term. Those institutions that fail to act quickly are merely shoring up further problems for the future.

Action – restoring trust

- ▶ It is time for a “back to basics” approach to retail banking, with simple products clearly explained to customers. Banks should increase clarity and transparency around complex products, and seek a return to easily understandable language and minimal “small print” in documents. Sales staff should be upfront about what a product does not offer, as well as what it does.
- ▶ Banks should innovate around the customer experience, so as to improve one-to-one relationships with better use of expanding channels that are growing in popularity, such as email.
- ▶ The opportunity to maximize business within the current customer base by developing existing relationships should be core to the cross-selling strategy.
- ▶ Customers are demanding better personal relationships with advisors, so banks must revisit call center staff training and consider the use of one-to-one emails through the website to improve the customer experience.
- ▶ Banks should invest in communication between departments, so as to improve the customer experience when an individual interacts with more than one department, and thereby develop a “single customer view” across channels, departments and divisions.

Loyalty: the end of an era?

The biggest tangible effect of the declining trust in the banking sector is a move by customers to diversify their banking relationships: we were surprised to see that the concept of the main bank appears to be under threat across Europe as customers seek to spread their allegiances.

This effect was felt by the sector immediately as the credit crisis and the fear of bank failures took hold. In the UK, for example, the government moved quickly in October 2008 to increase the State guarantee for bank deposits with a single provider to £50,000 from £35,000, after a lack of confidence about the safety of savings saw customers moving deposits among institutions. Similar changes were introduced across Europe, as depositors responded to uncertainty by spreading their savings between banks.

There are three principal characteristics that Europeans attribute to their main bank. In order of significance, the main bank is the institution where they do most of their normal banking activities, the account into which their salary is paid, and it is where they have the most long-standing relationship. Interestingly, only 6% of respondents say their main bank is the bank nearest to their home, indicating the decreasing importance of proximity when it comes to securing banking relationships.

The diminishing role of a main bank

In Europe, 19% of respondents now hold only one type of product with their main bank (when considering daily operations, savings, investments, loans, insurance and credit cards).

There are marked differences between countries on the respondents' faithfulness to a single provider. In the UK, only 11% of customers can be considered to be very loyal - holding more than four products with their main bank - whereas in Spain and France, more than 40% of customers are still extremely faithful to their primary bank.

In light of the fact that 74% of respondents had only one type of product in each of their other banks, it could suggest that customers are more frequently selecting a specific bank for a specific product. Could this mean the beginning of an era of banking specialization?

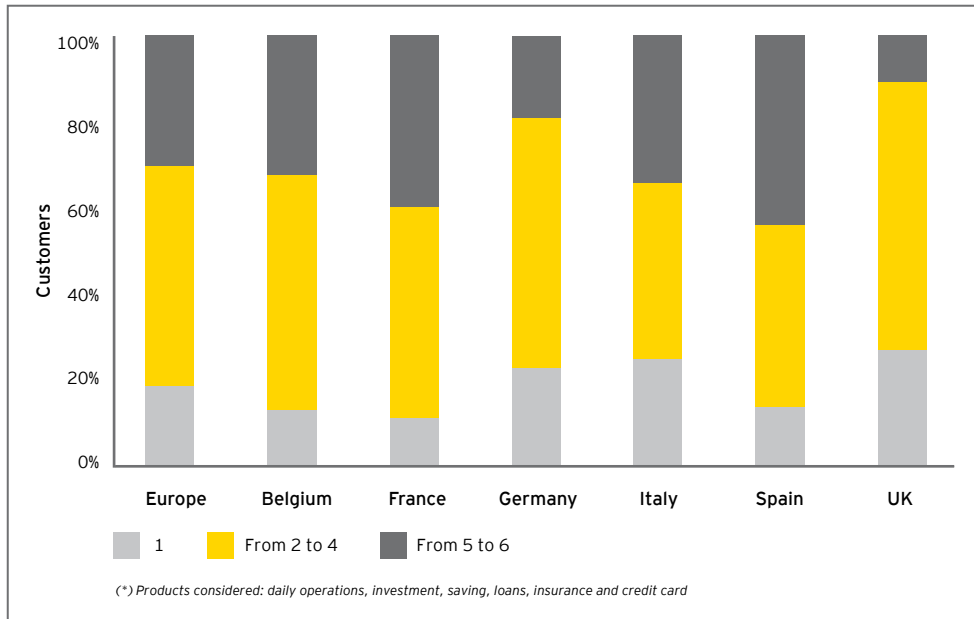
With the concept of the main bank under threat, it is time for banks to look more closely at the ways in which they interact with their customers. In the past, banks were satisfied to be considered a main bank, but today that term looks increasingly meaningless, and what matters far more is the amount of business and the number of products that consumers are sourcing from each provider.

With customers spreading their loyalties, the industry is facing both opportunities and threats. It is important for the banks to not only develop new strategies to target dissatisfied customers, but also to focus on strong relationships and loyalty as a long-term source of income. There is an opportunity to identify the most loyal members of a bank's customer base and to act on that information so as to develop and adapt the products and services offered to them in order to achieve even greater fidelity.

There is also room for banks to capitalize on the stable of brands that are often owned by single institutions, and even develop new ones to appeal to different customer bases and to counter negative connotations linked to damaged business units.



How many products do you hold with your main bank?



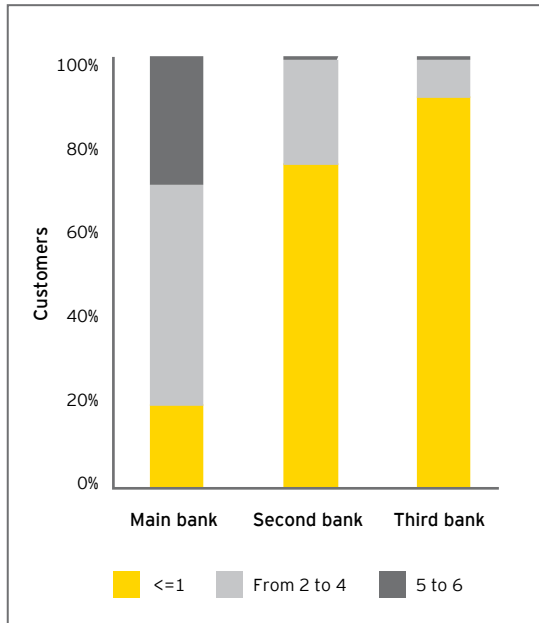
Customers increasingly shop around

The respondents are clearly diversifying their portfolios outside of their main bank. Almost a quarter of customers in Europe (24%) say that they access between two and four products from a second bank, while 91% hold one account with a third bank, and nearly 10% hold more than one account with a third bank.

Such statistics demonstrate a clear opportunity to increase fidelity and extend the level of cross-selling. Furthermore, cross-selling initiatives that have historically been focused on current account holders should be extended to customers who do not hold current accounts but instead buy other services from the bank. On the regulatory side, such initiatives require marketing consent, typically sourced from new current account customers when they join, but increasingly necessary from other bank users.

Again, there are clear distinctions between the principal banking economies of Europe. More customers appear to be loyal to their main bank in Italy, with 66% of customers saying they hold only one product or less with other banks, compared with 43% in Spain.

How many products do you hold with different banks?



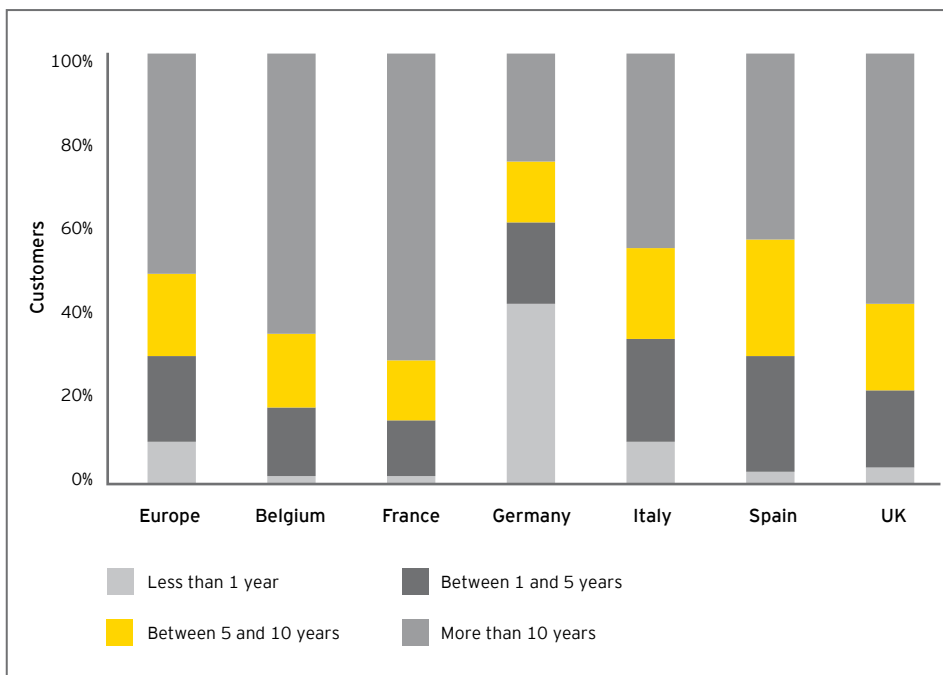
Building lasting relationships

These changes are taking place against a backdrop in which customers were historically very loyal to their number one banking provider. Our findings on the duration of the relationships that customers maintain with their main banks are positive: whether as a result of inertia or genuine satisfaction, more than half of customers in Europe have stayed with their main bank for more than 10 years. In fact, seven out of ten have remained loyal for more than five years.

France and Belgium appear to benefit from the most enduring relationships, with more than 80% of customers in both countries having stayed with their main bank for more than five years, in marked contrast to Germany where just a quarter have been with a bank for more than a decade and only a further 14% have stayed more than five years.

It is important for institutions to remember that the longevity of a customer relationship is not always an indicator of profitability; banks must be wary of customers that have lengthy ties to the institution but are no longer active or productive.

Duration of the relationships with the main bank per country



For retail banks, we believe there are important messages to take away from these statistics. Many customers are clearly looking to change banks, or at least diversify their banking portfolios, as a result of the credit crisis. Losing customers may not always be bad news, as certain customers will not be profitable, and it is possible that many long-standing customers will be inactive. But certain previously loyal customers may now be looking elsewhere, and while they may not leave altogether, they will very likely seek to buy other products from different providers.

For banks, therefore, it becomes imperative that there is a strategic focus, not necessarily on increasing the size of the customer base, but on targeting and maintaining the right kind of customer, whether they are students with potential earning power, or established high net worth individuals.

A further challenge exists in the form of new regulations that came into force at the end of 2009, affecting retail banking for consumers and small businesses. The European Banking Industry Committee has now adopted a set of Common Principles for Bank Account Switching, which will make it easier for consumers to switch their current accounts from one bank to another within their own country. Aimed at removing costs and paperwork that hold customers back from switching providers and getting the best deal, the principles state that the new bank will act as the primary contact point for a customer wishing to move, and will deal with the old bank to make sure the transfer of direct debits and standing orders, among other things, runs smoothly.

A European Commission report stated in 2008 that 56% of European consumers had saved money by moving banks, so by easing up the process it is hoped that competition will be increased among providers. Clearly this creates both opportunities and threats for retail banks, with the chance of many new customers taking advantage of the new rules, and the threat of increased competitive pressure.

Many banks have now set up customer retention units that identify and react to dissatisfied customers and respond accordingly. Too often these are focused in business units when they should in fact take a wholesale view of every customer's dealings with all parts of the bank.

Never before has it been so crucial for the retail banks to analyze their customer base, focus on long-standing, loyal customers, and concentrate cross-selling and trust-building exercises on the customers that count.

Action - addressing loyalty

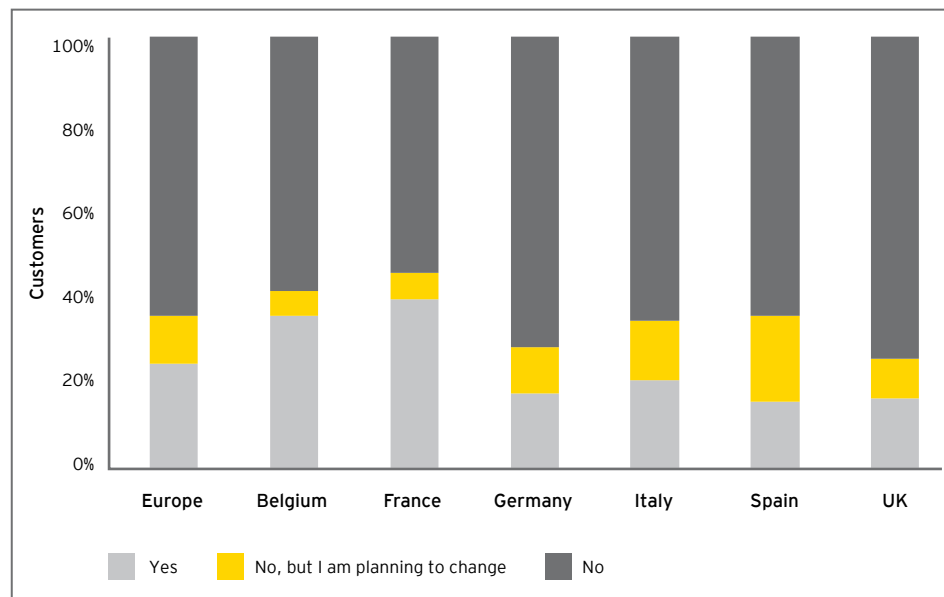
- ▶ Banks need to develop new strategies to target disaffected customers and prevent attrition. Improving customer service and service quality will have a major impact here, and staff incentive programs should be considered to reward superior service quality.
- ▶ A sophisticated understanding of the bank's customer base is vital. Banks must conduct analysis to identify and target resources towards key customers.
- ▶ Having achieved greater insight into the customer base, programs should address concerns among key customers and deliver a "back to basics", clear and simple service offering to all customers.
- ▶ To prevent customer attrition, banks should consider developing "product bundles" for customers, so that there are tangible benefits in purchasing a number of products from one provider as opposed to patronizing several banks.
- ▶ Banks must invest in and expand customer retention units to take a more holistic view of customer concerns across product areas.

Reasons customers look elsewhere

Given the enormous change that the European banking industry has undergone in the last two years, it is little wonder that customer attrition has become a real and pressing concern. Among the customers who have changed their main bank, 10% did it in the last two years and a further 11% of respondents plan to do so. This clearly demonstrates acceleration in attrition, even if these customers often keep one or more products with their former main bank.

Among those who have already changed their main bank, 63% of German respondents did it during the last two years. There is a similar trend for the UK and Italy, where half of main bank changes are concentrated within the last two years. The highest risk of attrition is in Spain, where a fifth of all customers expressed plans to move their primary provider (among them, 45% did it during the last two years). However, France and Belgium seem to be less impacted by the attrition acceleration.

Have you changed your main bank?

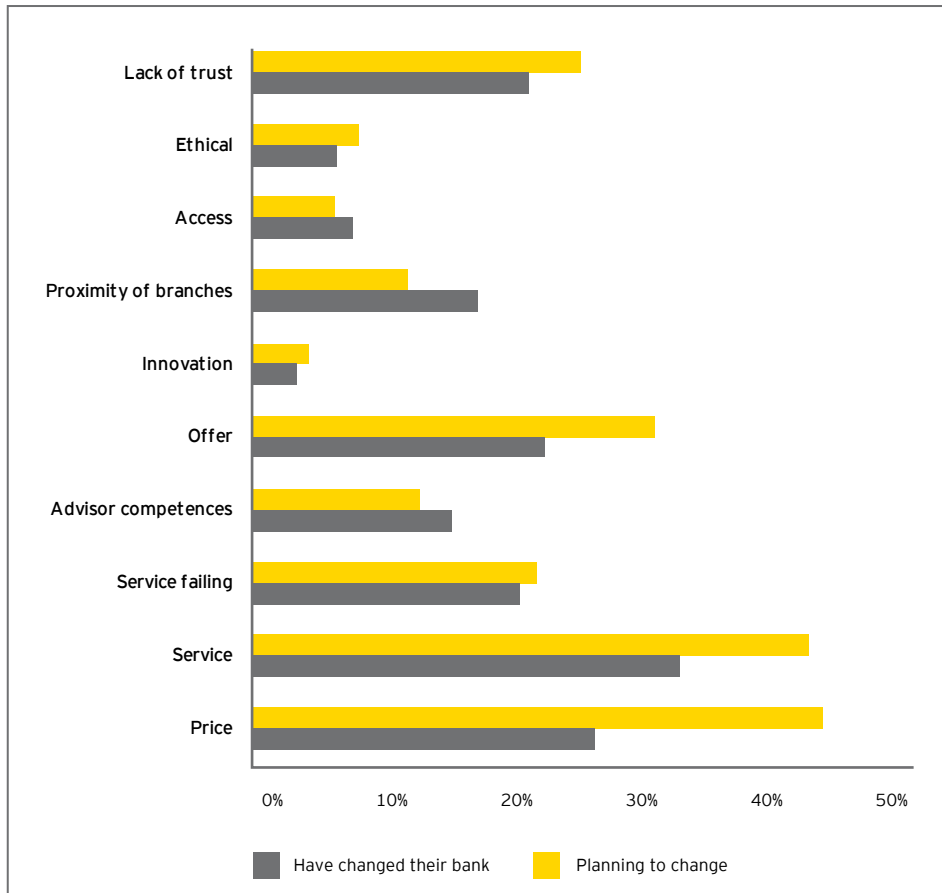


Factors influencing attrition

Before banks can begin to design and implement meaningful retention strategies, it is vital that they first investigate the factors driving customer attrition. Approximately a third of respondents (32%) attribute their decision to change banks to service levels, while 26% blame the price of products. Among those planning to leave, these issues take on even greater significance, with 43% blaming price and 42% attributing their dissatisfaction to service. Most worryingly, perhaps, a quarter of those customers planning to change their main bank say that they are doing so because of a lack of trust.



What are the main reasons for those who have changed their bank or are planning to change?



Why customers move - country by country

When asked about their reasons for changing bank, clear differences emerged among European countries. Price elasticity is at its lowest in France and the UK, where only 16% say they would change banking provider because of price. In Italy and Germany, by contrast, price is given as a reason by 50% and 55% respectively.

Trust is the greatest concern in the UK and Belgium, where 26% of customers blame their decision to leave on a lack of trust. Both these economies have suffered major bank failures in the last 18 months, which could be a factor in such a feeling.

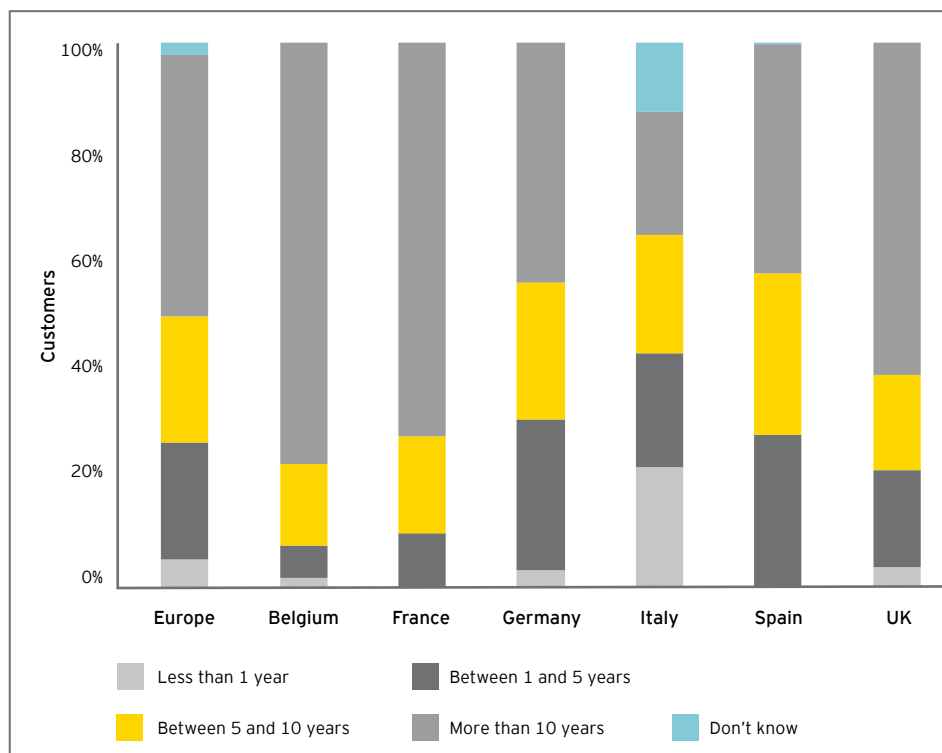
In France, the biggest worry is service, blamed by 35% for their move, while in Spain the same percentage attribute their dissatisfaction to the service offering available.

Banks should note that the current band of dissatisfied customers does not necessarily feature those that have historically been the least loyal. Contrary to the idea that certain customers move banks on a regular basis, our research reveals that many of those who are planning to change service provider are doing so after many years as a loyal customer.

Across Europe, almost half of those looking to move (48%) have been customers of their bank for more than 10 years, and nearly three-quarters (71%) have been customers for more than five years. In France and Belgium, the need to retain previously loyal customers would appear to be greatest - in each country three-quarters of the customers looking to switch their main bank have been customers of their current institution for more than a decade.

Clearly, expressing an intention to leave a main bank and actually doing so are two very different things, but banks should nevertheless address the need to improve retention as well as to adapt acquisition strategies so as to harness new customers.

Number of years customers considering leaving have been with bank



It is important to harness customers during their first few years with a new bank in order to build a good relationship and engender loyalty. Very few customers look to change their bank in their first five years with an institution - just 26% of Europeans intending to switch have been with their bank for under five years. Dissatisfaction apparently increases over time, and so providers would be prudent to consider policies aimed at improving service quality and pricing policies as the relationship matures.

Germany appears to have the most mobile customer base, with 22% of customers looking to move less than a year into a relationship with a new bank.

Action – preventing attrition

- ▶ Banks must address service levels and pricing for key customers using sophisticated customer segmentation to identify target beneficiaries of enhanced offerings.
- ▶ Banks also need to personalize and transform the customer relationship as customer satisfaction is not reliant on price. A personalized relationship program is a true differentiator which cannot be easily copied by the competition and protects margins.
- ▶ There is a need to better harness customers during their first few years, again using customer analytics to identify and nurture key relationships.
- ▶ Customer analysis must be improved to allow banks to understand which customers are leaving and why, and to then take a view on the best way in which to address attrition.
- ▶ Incentivizing the sales force should be used not only to encourage the selling of new products, but also to reward renewals and retention of key customers.

Measuring satisfaction

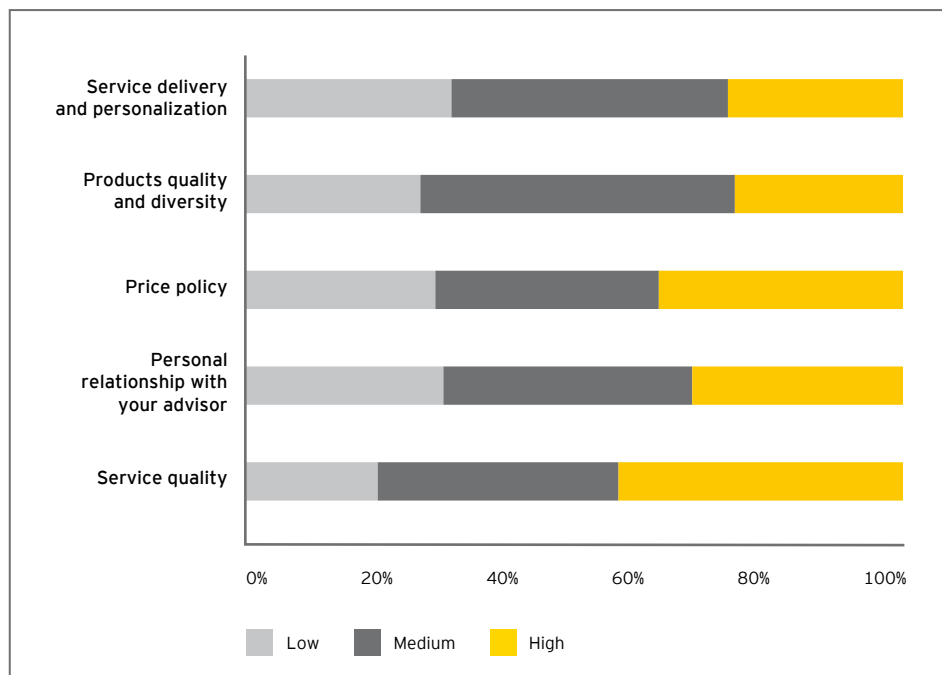
Avoiding customer attrition requires an innate and deep understanding of what exactly customers are looking for from their banks.

Service quality emerges from the respondents as a clear driver of customer satisfaction with 43% ranking it as “highly important.”

Pricing policies (37%) and personal relationships with advisors (32%) are the next two important factors. The crucial role played by personal relationships is perhaps most noteworthy in light of the declining notion of one-to-one ongoing contact with banking personnel, caused by the increased use of online and telephone banking services.

The majority of respondents rank product quality and diversity, and the delivery of services as of only medium importance.

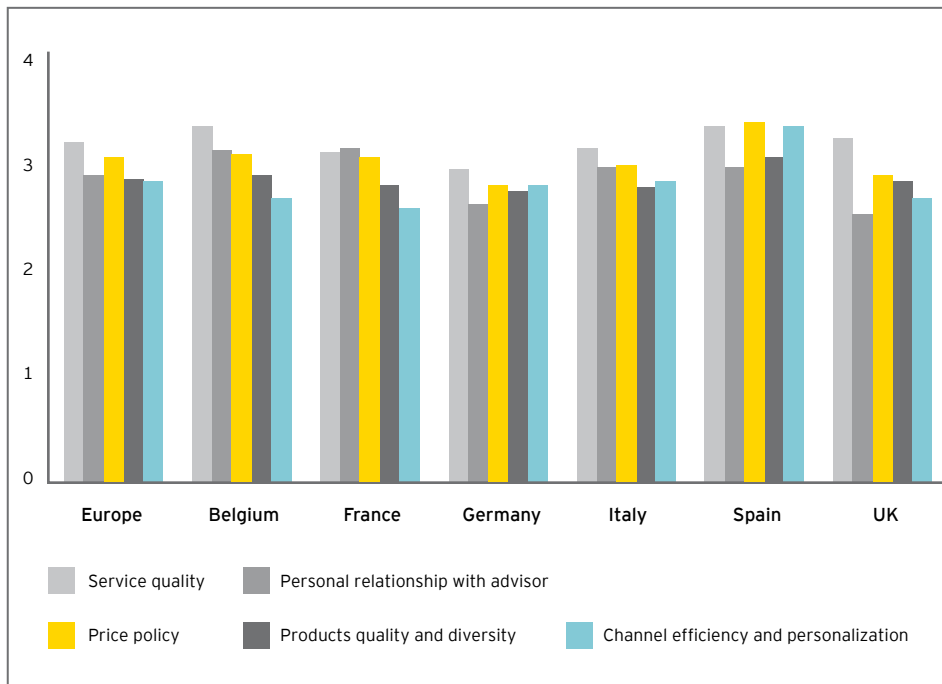
What is important to you in your relationship with your bank?



Satisfaction drivers vary for customers across countries. While service quality is the priority for the majority of European clients, it ranks behind personal relationships with advisors for customers in France, and behind pricing policies for those in Spain. Personal relationships with advisors are less important to account holders in the UK and Germany, where they consider this to be a low priority driving their satisfaction levels, compared with the rest of Europe.



**How would you rate each satisfaction driver?
(1 low value - 4 high value)**



Demanding attention

Despite the disparity across countries, a clear message emerges from our findings, and that is that customers throughout Europe would like more personal attention from their banks.

Nearly half of those questioned across the continent consider the level of personal service they receive to be either bad or limited (46%), with the greatest dissatisfaction appearing in Italy and the UK, where 13% and 12% respectively say that the attention they receive is bad. Most satisfied are customers in Spain where 40% describe the personal attention from their bank as excellent, and a further 34% describing it as good.

For financial institutions, there is a lesson to be learnt: despite the increasing demand from customers for services such as online and telephone banking, these should not be developed at the expense of personal relationships. There is an opportunity for banks to invest in retention models that appreciate customer needs and values. And, particularly in Italy and the UK, there is room to gain competitive advantage by improving personal contact offerings and focusing on relationships.

Furthermore, banks need to interact with their customers in order to fully understand what their personal service demands are. While historically personal attention was taken to mean face-to-face interaction, today's customers are often more concerned with streamlined web services and the ability to complete their needs across services, by, for example, filling out a form online, then going in to the branch to discuss the next steps or calling a telephone advice line.

Above all, evidence suggests that customers want their banks to know them, and in that respect still believe that the bank that handles their monthly incomings and outgoings should have some in-depth understanding of their needs.

Banks should make much more sophisticated use of the data that they hold on each of their customers, and use it to analyze and respond to customer needs and future demands. The bank that conquers the requirement to see the customer holistically and reward the customer for the depth and duration of their relationship with the bank will be the one that prospers going forward.

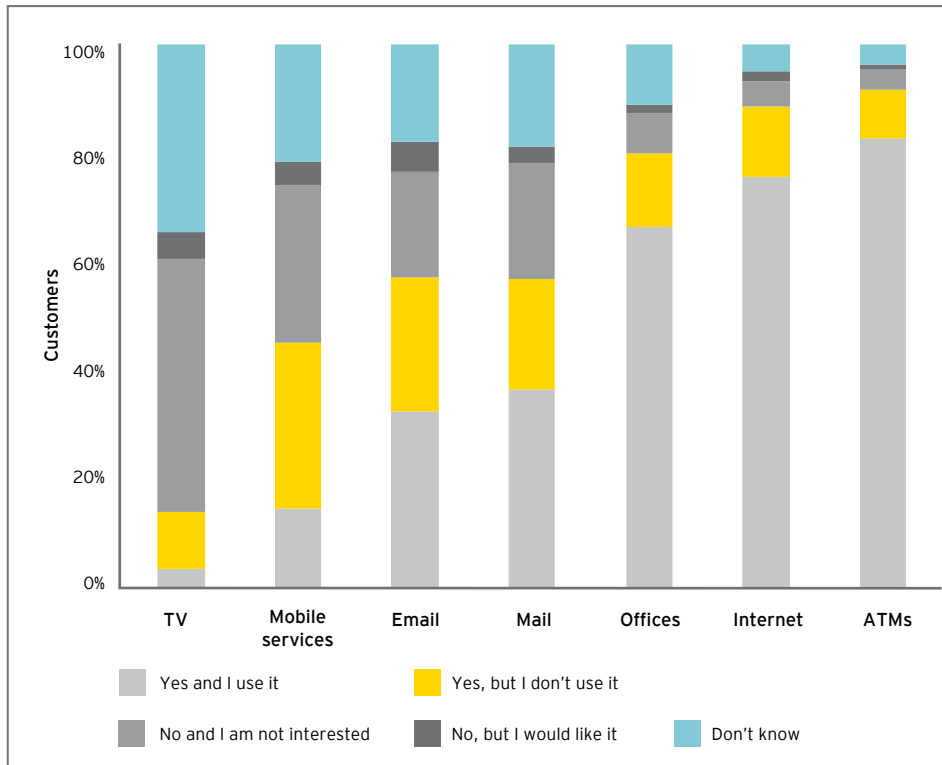
Access to banking

The most popular channels used by customers to access their accounts are clearly ATMs, the internet and branch offices. However, these are not the only channels available to customers and consideration must be taken of the fact that customers will not always be aware of the services on offer.

Where email and mobile phone services are available to customers, they are not always regarded as useful. Among the customers to whom online banking is available, some 13% say that they do not use it, while 29% of respondents offered mobile telephone banking are uninterested. These answers seem directly correlated to the transactional capacity of a channel as compared to its informational capacity - the channels that are rated most positively tend to be those that customers use on a regular basis to complete their transactions. Customers are less interested in channels that are currently used only to convey information, but would like to be able to use new channels for transactions.

Service offerings such as these offer clear cost reduction opportunities to banks, but evidence suggests they must improve their transactional capability and their marketing and communications efforts to ensure customers are aware of the services available to them. Banks also need to review their transformation programs across channels to ensure they are not spending on channels that are under-valued by their customers.

Which channels does your main bank offer?



Acting as advocates

The number of respondents who are very satisfied with their bank and therefore represent good advocates is 14%. Banks should ensure these happy customers are able to recommend their bank to others and thereby assist with the expansion of the customer base.

Banks that are not already doing so should consider “recommend a friend” or “member get member” initiatives that reward customers for generating new clients. We found that such schemes are attractive to more than one in ten customers. This is by far the most cost-effective way for a bank to attract new customers, and has the twin benefit of enhancing loyalty in the satisfied customer who benefits from spreading the word.

Action - increasing satisfaction

- ▶ There are some services that clients are receiving and not expecting - banks should identify opportunities to cut costs and ensure customers receive the service through their preferred channel.
- ▶ There are opportunities for increasing profits by maximizing cross-sell opportunities.
- ▶ Customers are demanding improved access to personal advisors - this does not mean banks must invest in more branches, but instead that they should improve access and communications using remote channels, and increase customer awareness of such offerings.
- ▶ Banks must think about the services they promise to customers versus what they actually deliver, and address deficiencies.
- ▶ Banks may wish to revisit their Net Promoter Scores, and spend more resources on identifying and engaging customers as advocates.





Conclusion

Our research confirms the impact that the credit crisis has had on the average customer's trust in, and relationship with, their retail bank. The industry across Europe has witnessed a wholesale shift in confidence, and never before has loyalty management and personal customer retention been such an issue for the sector.

With change comes both opportunities and threats: the banks that can react to rapidly shifting customer demands will emerge as stronger institutions as a result. We suggest that banks embrace the following action points in order to capitalize on these opportunities:

- ▶ Adopt a "back to basics" approach to banking, investing in and significantly improving advisory skills when bank staff interact directly with customers. Banks must upgrade the level of advisory skills for staff dealing with customers, whether they are working in branches, call centers, or delivering online services via email, and should embrace a "single customer view" mentality to maximize relationships with individuals.
- ▶ Work proactively to prevent attrition by analyzing the customer base and personalizing relationships. Banking must move away from the volume approach that had developed pre-crisis, as the institutions that will succeed going forward will be those that are individual-focused and customer-centric.
- ▶ Develop customer recognition programs that go beyond tried and tested loyalty schemes, to offer loyal customers real savings on products, either after a number of years as a customer, or when they purchase more than a certain number of products. There is a need to express gratitude, recognize loyalty, and give real rewards.

A winning bank will manage these important issues efficiently across Europe, being mindful of the important differences that exist between the many distinct national markets. Those that do will continue to prosper in the years ahead.

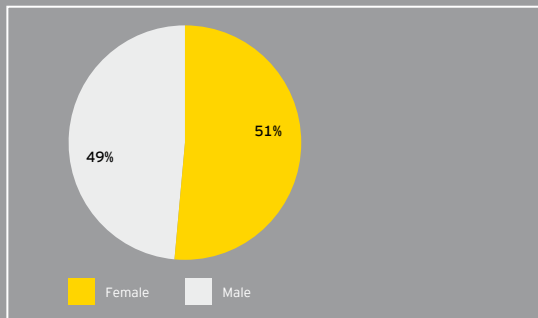


Methodology

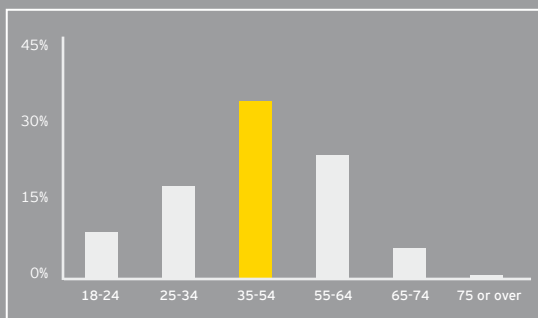
This research was conducted using an internet questionnaire between 25 August and 3 September 2009. A total of 6,134 Europeans were questioned: 1,020 French; 1,003 British; 1,004 German; 1,022 Spanish; 1,005 Italian and 1,080 Belgian.

Participants can be broken down as follows:

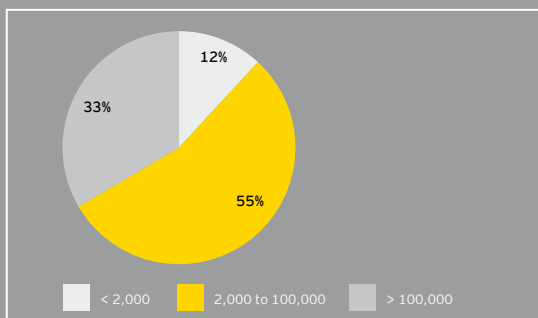
Gender



Age



Population (place of residence)



How Ernst & Young can help

Improving customer analysis, helping to transform knowledge into business actions and leading transformation programs across channels

A crucial learning point for banks that emerges from our research is the need for more sophisticated customer analysis, with improved data mining essential if banks are to identify their life-long valued customers and tailor services so as to reduce attrition among the core customer base.

We have conducted large transformation programs across channels, branches, call centers, intranets and ATMs with improved results in terms of sales rate increase and satisfaction. Our global customer practice has deep experience in:

- ▶ Customer intelligence and economics
- ▶ Customer strategy
- ▶ Sales and channel management
- ▶ Customer service

We have developed advanced customer management models to help banks build business strategies based on customer knowledge and the prediction of customer behaviors, which can result in improved business efficiency and income growth.

Customer analysis can help address pressures to grow, lack of customer insight, poor channel management and integration, poor customer service and the need for cost reductions. The introduction of sophisticated analytics can take banking into the 21st century by allowing the customer to receive a “back to basics” simple offering while behind-the-scenes work tailors products to clients’ specific needs.

Our advanced customer management and transformation programs have helped banks to achieve:

- ▶ A 50% increase in the success rate of activities aimed at acquiring customers
- ▶ A 25% increase in branches delivering proactive commercial activities
- ▶ A 40% increase in the business volume managed by branch specialists
- ▶ Definition and customer satisfaction strategies reducing attrition levels by 22%
- ▶ A 22% increase in sales efficiency in call center





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