



BANKING

Customer satisfaction: at what price?

How financial institutions are improving customer service and managing their costs

FINANCIAL SERVICES

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TNS is one of the world's leading market information groups with over 14,000 full-time employees across the world. From their global network, which spans 70 countries, TNS provide local expertise and knowledge, together with internationally consistent information and analysis to multi-national organizations.

Foreword

Retail financial services is a difficult business, subject to many pressures. The regulatory environment, risk and capital management, reporting and compliance are all major issues demanding the attention of board and executive alike. On top of this there is still a business to run, with customers to be won or retained, costs to be managed and shareholder value to be created, all in an increasingly dynamic and international environment, where failure on any of these counts can swiftly lead to the attention of predators, both domestic and international.

Important to the success of a retail financial service organization in this complex environment is the key relationship between the revenue generating client base and the cost of the infrastructure required to service, satisfy and delight them. The cost-income ratio remains one of the most closely watched and targeted numbers in any modern bank.

On the revenue side growth in customer numbers, customer retention, share of wallet, and cross sale ratio are all key metrics. While on the cost side the variables are around staff numbers, branch numbers, the range and variety of channels to the customer and the location of transaction processing, as offshoring develops as a means to both manage cost and, in some cases, improve customer service.

So, customer satisfaction: at what price? What are retail banks doing to attract, retain and sell more to their valued clients? What do they believe their clients' want and what have been their recent successes and failures in meeting these needs? Equally importantly, what are they doing to manage cost and improve their technical and operational capabilities and what have been some of their successes and failures in this area?

On behalf of KPMG International, TNS Financial and Professional Services, a specialist division of TNS, spoke to 54 senior decision makers in the marketing and operations functions in some of the leading retail banks in nine countries.

The survey highlighted some of the key developments in retail banking – for example, how the branch is experiencing something of a renaissance, even in those countries where customers have traditionally used multiple channels and multiple providers. Retail banks are increasingly recognizing that customers want a more personal service – longer banking hours, personalized telephone banking and additional client service personnel – and a number of respondents have focused on bringing a higher touch service, normally reserved for high net worth clients, down to their core retail customer base. The survey also highlights some of the key operational challenges facing the banks, for example the problems of adapting legacy systems to multiple delivery channels, creating cross-business unit processes and empowering their front line staff.

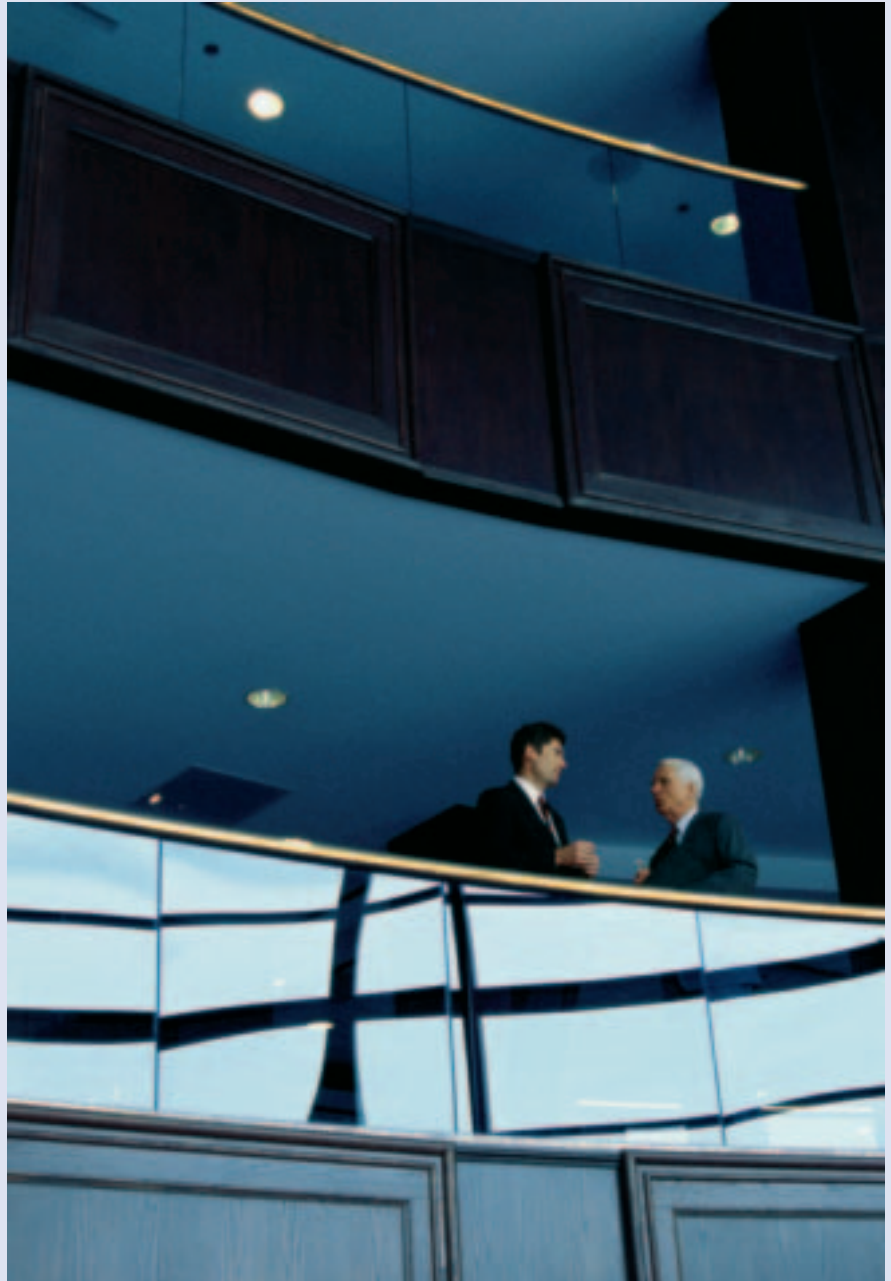
The difficulty for financial institutions, as always, is to generate additional revenues while managing their costs down. The cost-income ratio remains as big a challenge as ever.

Brendan Nelson, KPMG LLP (U.K.)

Global Chairman, KPMG's Financial Services practice

Executive summary

Important to the success of a retail banking organization is the balance between the revenue generating client base and the cost of the infrastructure required to service them in a manner which meets their expectations.



On behalf of KPMG International, TNS Financial and Professional Services, a specialist division of TNS, spoke to 54 senior decision makers in the marketing and operations functions in some of the leading retail banks in the following nine countries:

Australia	Spain
Germany	Switzerland
Hong Kong	U.K.
Ireland	U.S.
Netherlands	

Customer satisfaction

In their domestic markets banks are restricted to the natural turnover of their client base, capturing their competitors' existing clients with a superior product, channel and/or service, or selling more products to their current customers. Increasing share of wallet is a much used mantra, but the concept is important to increasing revenues and ensuring sustained business growth. Achieving these aims relies on a number of factors.

Channel

Despite the trend for customers to use multiple channels, the branch is enjoying something of a renaissance. Branch networks are being expanded, existing branches are being refurbished and modernized and opening hours are increasing markedly.

Internet banking was seen by the survey sample as the most important channel for their clients. However, banks' performance in this area is mixed. Delays in launching the service, access problems and security were all raised as significant ongoing issues.

The provision of automated telephone banking was the only area where banks believe they are 'over-delivering' – suggesting that past investments in this technology have overestimated the level of client acceptance. Banks would seem to be moving away from automated systems and towards personalized telephone banking services. Their perceived under-delivery in this area perhaps reflects the significant operational challenges inherent in delivering such a service.

Product

The survey highlights that having a suitable suite of products is of primary importance. The low interest environment has reduced the banks' ability to differentiate on price alone but two alternative strategies were evident:

- Gaining a better understanding of the customer base and tailoring products accordingly
- Innovation, and perhaps more importantly... being seen to innovate.

Personal service

Softer issues, such as the importance of 'friendly' branch staff and the desire to build a higher-touch trusting relationship, were seen as very important but an area where banks accept that they are under-delivering. This issue is being tackled and frontline staff are being empowered to build these relationships through the provision of better client information and incentivization schemes based on customer service metrics rather than hard sales targets.

Cost management

The operations function is central to a bank delivering on its customers' expectations. However, they have a further business objective to achieve; namely, generating greater efficiencies and often, cost cutting. Achieving balance between these conflicting pressures is a central tenet for every COO.

People

Banks are still struggling with the optimum balance between operational staffing costs and good quality customer service. Moves to fully automate the telephone banking process have proved unpopular with customers and new technologies have created their own challenges. Outsourcing and offshoring have been successful in helping to meet cost targets but there are examples of this resulting in a decline in service quality.

Systems and processes

The survey showed that while operations managers were confident they could deliver on their core transaction processes, they faced a number of other challenges. Systems and processes are in need of updating to help improve on the quality and timeliness of information and reduce the number of system failures.

Many large banking organizations have legacy systems that have difficulties interacting with one another. This clearly creates inefficiencies and the survey demonstrated that a significant problem area for operations is the difficulty of creating systems that work across all business units and channels.

Customer information

Good data management by operations is important to help meet the demands of marketing departments, in terms of generating information about customers and providing the systems to access and manipulate this data. Success in this area has been mixed and the survey revealed examples of where banks had no way of knowing how many customers they had for certain product areas.

Customer satisfaction

Customer satisfaction is important in retail banking and represents a key driver of success and value creation. While banks are increasingly international in their outlook (and some have taken important steps to move into developing markets), for many, their core retail markets are mature and well banked with stable and ageing populations. Banks are restricted to the natural turnover of their client base (capturing new clients as they mature into the financial services market) or capturing other banks' existing clients with a better product, channel or service. Holding on to them once you have them is even more important.



Figure 1 Customer service factors

**How important are the following in determining customer satisfaction? And how would you rate your bank's performance on each of the following factors?
1 = Low, 5 = High**



What then, are some of the most important elements of customer service in the current market and what has been going right and wrong for the banks? We asked a number of marketing professionals across our sample to score the importance of key elements of good customer service and assess the performance of their bank on each of these.

Marketing professionals believe that the most important factors for meeting the expectations of their customers are:

- the provision of a good range of quality products appropriate to the customers' needs
- speed and efficiency in dealing with customer requests and complaints
- a good quality branch experience.

Bottom of the list is the provision of other distribution channels such as WAP and iTV – perhaps a reflection of the extent to which these services were promoted and then largely failed to impress or deliver.

When asked to assess the performance of their bank on these factors, our respondents thought they were slightly below par on the provision of a range of products but, by their own assessment, are significantly under-delivering on the quality of personal service, the speed of response to customer requests and complaints and the quality of the branch experience.

We have explored these results under the headings of:

- Channel
- Product
- Personal service

Channel

A major dimension of customer service that we considered in our survey was the range and diversity of the channels available to banks' clients to purchase and service their products. This is, of course, not what it used to be – what is a pleasing array of choice for the clients can be a demanding operational problem for the banks as telephone banking (in a variety of flavors), Internet banking, branches and ATM networks, all need to be coordinated and managed. On a positive note the banks' self assessment and commentary on this issue suggests that channel management, in all its forms, is generally an area where the banks are performing well.

Branch networks

In the midst of the technology boom the branch network retains a very strong position among our sample as the second most important channel to market. Indeed, after a long period when bank branches have been the poor cousins to the more glamorous technical channels, they are enjoying something of a renaissance. The comments from our respondents highlighted branch opening programs, increased opening hours and changes in the number and types of branch staff as being important to helping improve customer service.

Other comments highlighted changes in bank design and layout to attract more people into the branch. The trend is towards placing customer service people literally in the front line (in front of the cashiers or tellers) and to use 'meeters and greeters' to walk the halls and help clients with their questions. This trend, which originated in the U.S., has been adopted enthusiastically, particularly in Australia and the U.K.

Good Internet capability and personalized telephone banking systems are core capabilities, but the branch is experiencing something of a renaissance



What do you think your greatest success with customers over the past year has been?

“The opening of new branches.”
(Australia)

“The introduction of Internet banking.”
(Netherlands)

“The Internet and the development of a multi-channel concept from an operational and commercial perspective. 24/7 access to all our services.” (Spain)

What have been the main problem areas within your bank over the last year which would have had a direct impact on customers?

“We were very late with the introduction of Internet banking.”
(Netherlands)

“We had problems with the speed of the Internet access. The quality of user interface, it was not as user friendly.” (Switzerland)

“We did experience some issues with an upgrade of one of our online banking sites and, regrettably, a number of our customers were impacted by this. However, the bank pro-actively contacted those affected customers to remedy the situation.”
(Australia)

“The readiness of the online banking tools was appalling. The download times were too long.” (Germany)

Source: KPMG International 2005, interview quotes

Case study

Increasing competition in the U.S. retail banking market has led to extended opening hours in order to improve customer service and satisfaction. The change is part of a national trend to provide services to people outside normal working hours, partly because the demand is there, and partly because it gives the banks an opportunity to sell more services.

According to American Bankers Association figures, 94 percent of the large banks now open their branches on Saturdays, and 18 percent open them on Sundays. One bank in particular is credited with starting the trend and the others had to follow. The bank opens new branches in the sort of high footfall downtown and suburban locations where fast-food establishments are popular and the branches look similar to fast-food outlets. They tend to open from 9.30am to 8pm on weekdays, 9.30am to 6pm on Saturdays and 11am to 4pm on Sundays.

The strategy seems to be paying off. Over the past three years, the bank in question has increased its deposits by 40 percent each year, all organically (rather than through acquiring other banks), compared with deposit growth in the U.S. banking sector generally of about 10 percent a year.

Another bank that decided to open for longer reported that it gained 331,000 new accounts in two years, compared with 60,000 new accounts in 2000 and 2001.

Source: American Bankers Association, October 2004, Retail Banker International, October 2004

Not all responses were positive, others highlighting personnel issues and response times in the branches leading to lengthy queues and dissatisfied clients.

Internet banking

Internet banking was seen by the survey sample as the most important channel to their clients, echoing the results of the KPMG International 2004 consumer survey (*Banking beyond borders*), which found that, apart from price, good Internet banking was the most important feature of European consumers' banking relationship. While the banks' overall performance in this area is seen as strong, opinions were heavily divided. As the quotes from the survey suggest, it was cited by different respondents as both the area of greatest success and greatest failure in delivering good quality customer service. Delays in launching the service, access problems and security all caused our marketing respondents to worry, while others were excited about the market possibilities of ubiquitous, 24/7 access. In short, Internet banking bears the hallmarks of what is still, for many, a new channel that banks are bedding down and optimizing.

Telephone banking

We asked about both personalized and automated telephone banking channels. Banks believe their clients place a higher value on their personalized telephone banking services than on their automated systems. Personalized telephone banking support was seen to be as important as the branch and ATM networks in the delivery of good customer service.

The provision of automated telephone banking was the only area where banks believe they are over-delivering – suggesting that past investments in this technology have overestimated the level of client acceptance. Banks seem to be moving away from automated systems and towards personalized telephone banking services – this was reflected also in the commentary.

Banks still feel they are slightly under-delivering in the area of personalized telephone banking, reflecting again the significant operational problems inherent in this area.

Product

Product is one of the most important drivers of bank strategy. Billions have been spent by banks anxious to gain access to new product areas. Strategic alliances have come and gone and the bank assurance model has been in and out of fashion on more than one occasion.

All this strategic angst is apparently for good reason, as the provision of a good range of products was confirmed in the survey and commentary as one of the most important determinants of customer satisfaction. The commentary highlighted two separate concerns – the need to understand clients’ needs and deliver the ‘right’ set of products in response, and the need to innovate, and be seen to be innovating. A marketing executive in Spain commented that their greatest client success in the last year had been in “tailoring our products to our clients’ needs” while another claimed success for their appealing and flexible mortgage. Others highlighted the importance of product innovation – launching new products is to some extent seen as an end in itself, designed to maintain or develop the bank’s positioning as an innovator and market leader.

Innovative and increasingly tailored products are seen as key differentiators



What do you think has been your greatest success with customers over the past year?

- “ Launching new products which represent a superior customer offer.” (U.K.)
- “ A revamped product line up.” (U.S.)
- “ Tailor made services for high net worth clients” (Switzerland)
- “ Building relationships, getting closer to customers. Product innovation and general improvements in the products offered.” (Ireland)
- “ Mortgages. We’ve achieved a good balance through our appealing and flexible mortgage offers.” (Spain)

What have been the main problem areas within your bank over the last year which would have had a direct impact on customers?

- “ In the product area, our offers are conditioned by low interest rates in the market – as a result our offers are not attractive enough and our clients unsatisfied.” (Spain)
- “ The main problems have been systems talking to one another, you can’t easily move from one product to another without closing it down first which is not good for customer relations. Also, competitive pressures in terms of pricing points.” (U.K.)
- “ Interest margins are very low, there is no scope to work with them and the product differentiators disappear.” (Spain)

Source: KPMG International 2005, interview quotes

Case study

Although the market for unsecured lending is growing rapidly in the U.K., it is being squeezed at the large end by continued growth in mortgages, and at the smaller end by zero percent finance on credit cards.

The problem is compounded for traditional banks with high street branches, who find it hard to beat building societies and direct banks on price without cutting margins.

This is forcing the traditional banks to think of innovative ways of marketing their unsecured loan products. One bank, for example, has developed a set of ‘bundled propositions’ launched in early 2005. One of these is an unsecured motor loan bundled with free breakdown cover for a set period of time.

While the banks in our sample believed they had been successful in delivering good quality products, the current low interest rate environment has affected pricing and the ability of banks to differentiate on price. A marketing director again in Spain commented “interest margins are very low, there is no scope to work with them and the product differentiators disappear.”

Finally the performance of equity and bond related funds was cited as a concern – poor market and investment performance has reflected badly on the banks.

Although it is an important part of customer satisfaction it is also one where the banks are, by their own judgment, under-delivering – their assessment of the importance of this element of customer service is higher than their assessment of how well they are performing. This no doubt reflects the fact that this is a very challenging area. The delivery of a good range of market leading products, tailored to the needs of the client base, throws up many operational and IT challenges, which will be explored further in this survey.

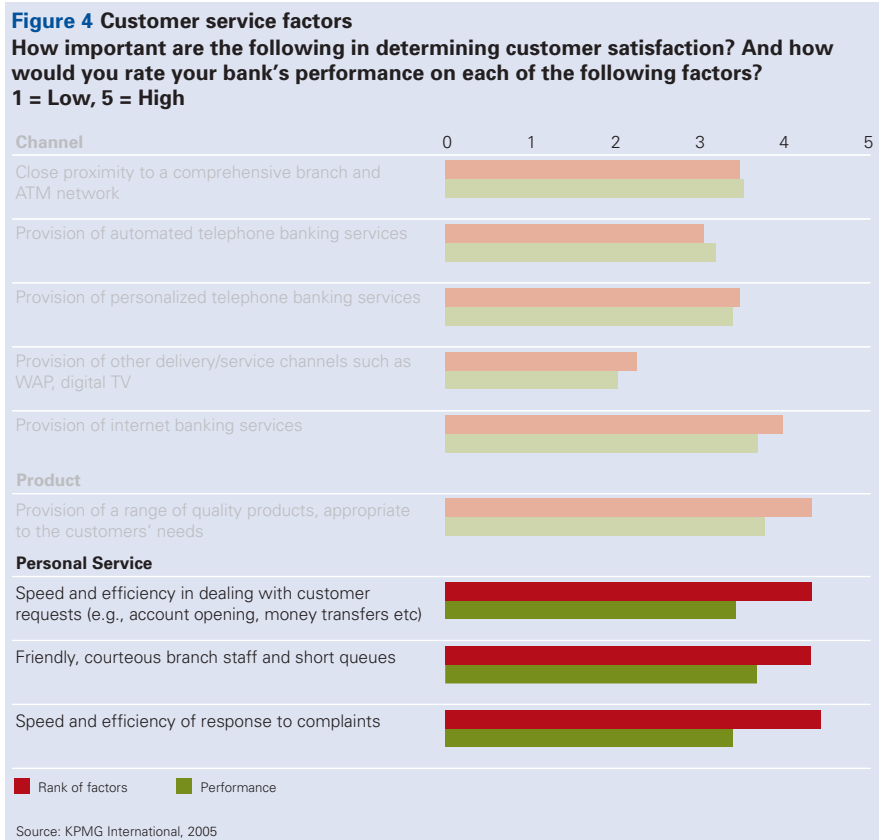
Personal service

Our respondents were asked to rank and comment on a number of the people issues in the delivery of good quality customer service, such as the importance of friendly and courteous bank staff, speed and efficiency in handling complaints and efficiency in dealing with customers' requests. These softer factors were seen as the most important elements of good customer service but are also some of the areas where banks, by their own assessment, are under-delivering.

Our respondents appear genuine in their desire to build a closer, trusting relationship with their clients. While a strong brand and reputation for financial solidity and stability can help with the trust issue, there seems to be a new willingness to rely on front line staff to build the bank's relationship with their clients. The commentary highlights the importance of the right type of staffing and style of interaction with the client. Training, in both technical issues and relationship skills, is very important.

Banks are making efforts to empower their front line staff to deliver better quality service – providing them with better management information and client information at the point of sale.

'Getting the basics right' is viewed as the most important element but banks believe they are under-performing



What do you think your greatest success with customers over the past year has been?

- “ Getting into building close relationships with clients.” (Australia)
- “ We have been able to provide a personalized service to our retail customers.” (Hong Kong)
- “ The two new things we’ve introduced. The first one is being able to speak to a real person 24 hours a day. The second one is being able to have your account balance texted to your mobile phone. And there has been an overall improvement in customer service.” (U.K.)
- “ Improved response time to requests. Recent growth means we have opened more branches and extended opening hours, so it is more convenient for customers.” (U.S.)
- “ We really improved the politeness and friendliness towards the customers which improved the service” (Switzerland)
- “ The quality of customer services and advice we give to clients at our branches.” (Spain)

What have been the main problem areas within your bank over the last year which would have had a direct impact on customers?

- “ Consistency of customer service. Provision of information and access to the right people within the organization.” (Australia)
- “ There is a constant issue with junior staff turnover.” (U.S.)
- “ A staff re-organization meant that clients had less access to advice and they weren’t happy with that.” (Netherlands)
- “ Probably our size. We’re a very large organization and our recent growth has caused changes in personnel, which of course affects customer service.” (U.S.)
- “ The complaints department wasn’t satisfactory. The speed/reaction time and personality was lacking. Our staff were too technical in their approach towards the customers.” (Switzerland)

Source: KPMG International 2005, interview quotes

Case study

A U.K. domiciled bank has increased focus on its branch network to help provide an effective sales and distribution channel and has invested heavily in staffing, training and technology. Their branches normally have significantly more staff on the branch floor than many of their peers.

“Staff nearly always introduce themselves by name, call customers by their name, smile, give you their business card, offer a tea or coffee, and during desk-based interviews will also explain the various codes of conduct and stick rigidly to the type of advice which they are authorized to give.”

It is also apparent that local managers keep a keen eye on counter queues, sending out more staff to patrol the queue and/or branch floor or serve at teller positions if the queues start to lengthen and there are spare resources ‘back office’.

Source: Retail Banker International, September 2004

Equally, front line staff are being incentivized in different ways. In some instances targeting is moving away from hard sales numbers and towards softer measures of value creation and customer service. All of the front line roles are also being upgraded and re-valued in many organizations.

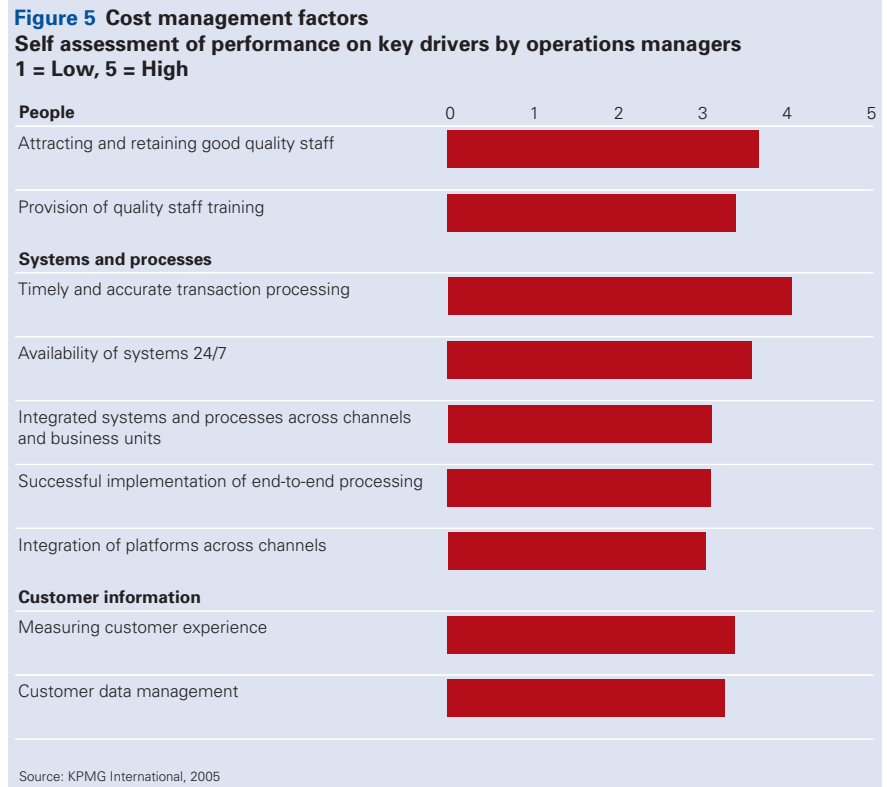
Finally, banks are increasing the hours of access to their staff. Our earlier case study illustrated a powerful trend in the U.S. towards much longer ‘retail’ hours, including Sunday opening, and a respondent from the U.K. cited the introduction of personalized 24-hour telephone banking as their customer service success in the last year.

Cost management

Operations – is it delivering?

While the marketing departments of retail banks can, quite rightly, claim to be facing some difficult challenges in attracting, retaining and satisfying their clients, they are still arguably better off than their colleagues in operations. In many banks the COO, or equivalent, 'owns' a large part of the cost base – they are one of the first people the CEO will call when talk turns to cost cutting and yet are also expected to deliver on the product and channel development that, as we have seen, is important to the marketing effort.





We asked operations management to assess the performance of their bank on a range of key drivers and comment on their recent successes and failures.

Our respondents were confident that they can supply a good quality transaction processing service and make their systems available 24/7. However, when operations managers assess their performance on systems issues such as integrating systems across channels and business units or implementing true end-to-end processing, the message is less positive.

Banks are confident in their ability to attract and retain staff but are less so on the provision of quality staff training.

Banks also scored relatively poorly on their ability to measure customer experience and to collate and manipulate customer data.

These factors have been broadly categorized under the following headings and will be discussed in the following sections:

- People
- Systems and processes
- Customer information

People

Staff cost can typically be the largest single element of cost in a bank's profit and loss account. While it is often difficult (even for the banks themselves) to evaluate how many of these are purely back office operational staff, the number is generally regarded as too many. It is unsurprising then that staff cuts in operational areas are seen as a quick way to reach those elusive cost-income targets and operational staff are usually the first to suffer the effect of bank merger and rationalization. Indeed operational cost and staff rationalization is normally cited as one of the prime drivers of mergers and acquisition activity.

New technology has brought with it new operational challenges. For example, as we have seen elsewhere in this survey, attempts to fully automate the telephone banking process have proved unpopular with clients, so banks find themselves managing large numbers of call center staff with challenges in recruitment, training, working hours, motivation and remuneration. In particular, the motivation and career management of large numbers of relatively junior staff is a challenge. There is a lack of obvious career prospects for those that work in call centers. A major U.K. bank has attempted to solve this by making the chief operating officer's performance development plan available to all staff, which is then used as the basis for their own objective setting. All staff, including part time, are expected to have personal development plans. This provides a clear line of sight to those making the strategic decision and also an indication of potential career progression.

Banks are engaged in a constant search for ways to reduce staff while not impacting on the quality of service delivery to their clients



What have been the main problem areas within the operations function over the last year?

- “ Problems with the level of knowledge and experience of branch staff” (Hong Kong)
- “...staff behavioral problems” (Ireland)
- “ Resourcing in our service centers when handling in-bound service calls” (U.K.)
- “ Staff attrition in key areas!” (U.K.)
- “ The attitude of our employees towards the clients. They should be more friendly” (Netherlands)
- “ Peaks in call center volumes” (Ireland)

What have been the main successes within the operations function over the last year?

- “ Making staff more attentive” (Hong Kong)
- “ We improved our employee motivation significantly” (Switzerland)

Source: KPMG International 2005, interview quotes

Case study

A decade ago the U.K. credit card market used to be a high margin market with limited competition ruled by U.K. banks. That changed significantly when U.S. firms and new U.K. participants entered the lucrative credit card market. The mounting competition has had an impact on costs which increased significantly and revenues from the annual fee all but disappeared.

A major U.K. retail bank was looking at its credit card services. It wasn't one of their core businesses and the bank provided a basic credit card, but it was a must have for its customers. As the card volume was low the bank had a large cost base, it therefore had to look for ways to reduce costs associated with its credit card business and turned to outsourcing.

By outsourcing the credit card services to a dedicated credit card provider the bank had access to larger production facilities and could generate cost synergies and economics of scale. On the customer side the key advantage of the partnership was an improved and more competitive credit card offering.

Within 18 months of the outsourcing agreement the bank had taken control of the cost of providing a credit card proposition and also issued around 400,000 new cards, almost doubling its existing customer base.

Source: Consolidation and outsourcing in Plastic Cards, Datamonitor, 2004

New channel development was seen as a solution until relatively recently. Banks hoped to convert their clients to the new technologies and, in the process, allow them to remove layers of operational cost from the branches. A number of banks experimented with operational charges for the use of branches to encourage their clients down this route. Although there has been some success in this area (ATM cash withdrawals are much cheaper than over the counter largely because of the difference in staffing cost), much of the promised impact of new technology has not been realized.

The next steps in the search to reduce operational cost have come with outsourcing and offshoring with banks arguing that non-core (and increasingly, core) operations could be sourced outside the bank or in alternative geographical locations. At this stage it is reasonable to conclude that well managed and implemented outsourcing or offshoring will have a significant impact on operational cost. The impact on customer service is more difficult to evaluate, with some of our survey respondents citing examples of outsourcing failure because of unacceptable customer service, while others quote examples where service quality has improved. This is a key area and banks are still evaluating the overall impact of outsourcing on customer service and revenues.

Unfortunately for the banks, reducing costs and improving customer service are not the only drivers of operational change. Banks have needed to increase staff in many areas to respond to increasing regulatory and legislative pressure. Compliance, risk management, reporting and internal audit are some of the areas that come to mind. While there are collateral benefits to this regulation (for example, know your customer legislation demands better record keeping; better records can mean better marketing) the main impact has been an increase in staff cost with no direct impact on revenues.

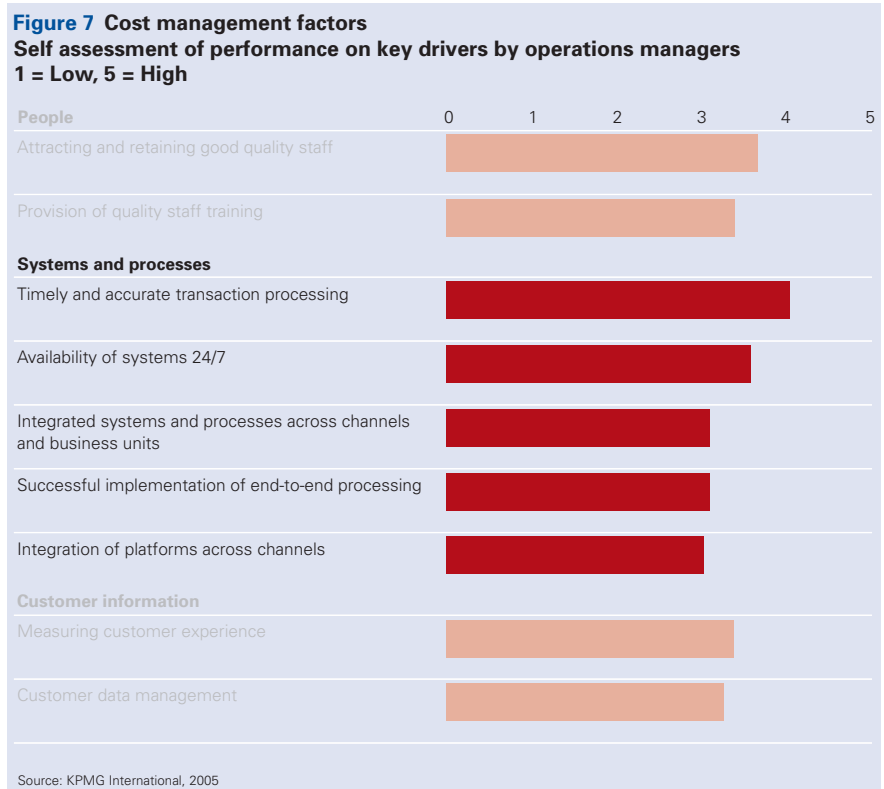
To conclude, banks continue to seek out the best possible balance between operational staffing cost and good quality customer service. There is no single right answer but continued innovation and vigilance will be vital to future competitiveness.

Systems and processes

Despite being an area of focus for some time, legacy systems still conspire to restrain growth

Of all the categories within the survey this section produced the widest range of responses. When rating themselves on their ability to conduct timely and accurate transaction processes and make their systems available 24/7, operations managers scored themselves relatively highly. However, they also gave a significant number of examples to the contrary. There was a feeling in many countries that IT systems were in need of updating in order to improve the 'timeliness' of information. The response to specific requests such as account opening and the processing of loan applications were also cited as areas which needed improvement. Examples of system failures were also widespread. Pointers to the age of many systems were also noted such as the levels of redundant data input and 'too much administration'.

Difficulties in creating cross-business unit systems and processes were more clear cut and will have to be resolved if operations functions are to assist with the need to increase cross-selling activities and create a single view of the customer.



What have been the main problem areas within the operations function over the last year?

“The incorrect processing of requests and adapting IT systems to new laws and regulations” (Netherlands)

“IT systems need upgrading in relation to timeliness of information, but we endeavor to make things right in the long term” (Australia)

“An inability to process certain transactions e.g., when there’s a system failure” (Australia)

“...responses to loan applications” (Spain)

“Too much administration at the IT level and redundant data input” (Switzerland)

What have been the main successes within the operations function over the last year?

“The clean up of some of our back end processes” (Australia)

Source: KPMG International 2005, interview quotes

Case study

A report from ALLTEL Corebanking Solutions found that many of the old core banking systems of retail banks have had their day. It found that “92 percent of European banks are not completely satisfied with the performance of their retail banking systems, largely because many are operating with outmoded infrastructures that are ill-suited to today’s banking environment.”

Source: The Banker, March 2003

Banks must also balance the costs of creating systems and processes with a multi-channel capability. Channel optimization is the next challenge – getting the customers to use the ‘right’ channel to suit their needs and expectations while lowering costs.

Many banks acknowledge that the efficiency of their operations capability is also being hampered in many areas by the inability to successfully implement true end-to-end processing. The difficulties experienced by banks in this area is a significant restraint to efficiency and significant investment in systems and processes will pay dividends in the longer term.

Customer information

Some front line staff benefit from 'real-time' customer data to build relationships. Other organizations don't know how many customers they have in some product groups

Meeting the demands of marketing departments to improve the customer experience, and the ability to cross sell, depends on generating information about customers and providing the systems to access and manipulate this data. The survey revealed instances of areas within banks which had no way of knowing how many customers they had. This is obviously an extreme example and many organizations and countries would appear to be more advanced in this respect. A number of organizations in Spain, for example, have developed advanced systems which allow real time customer information to be made available to all channels. This system provides data, not only on products held, but also their attitudes and buying behaviors.

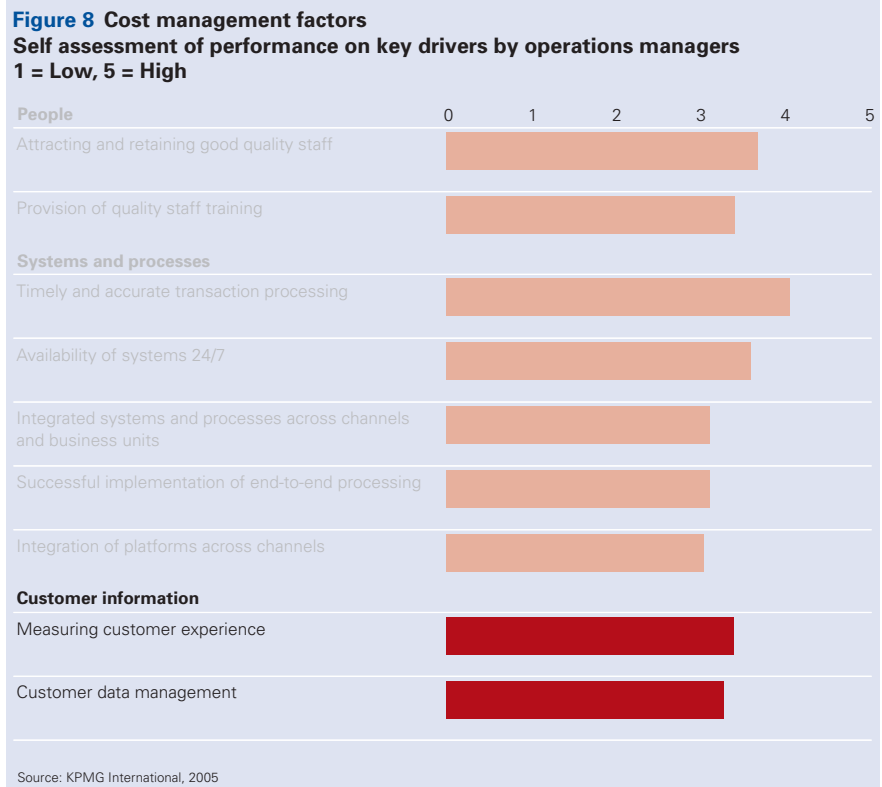
Also, many large banking organizations have a myriad of legacy systems which have difficulties in interacting with one another. This can make the collation of customer data at best inefficient or at worst, impossible.

What have been the main problem areas within the operations function over the last year?

"...effective measurement. Having the capability and systems in place to capture and measure customer feedback" (Australia)

"Provision of information and access to the right people within the organization" (Australia)

Source: KPMG International 2005 interview quotes



Country highlights

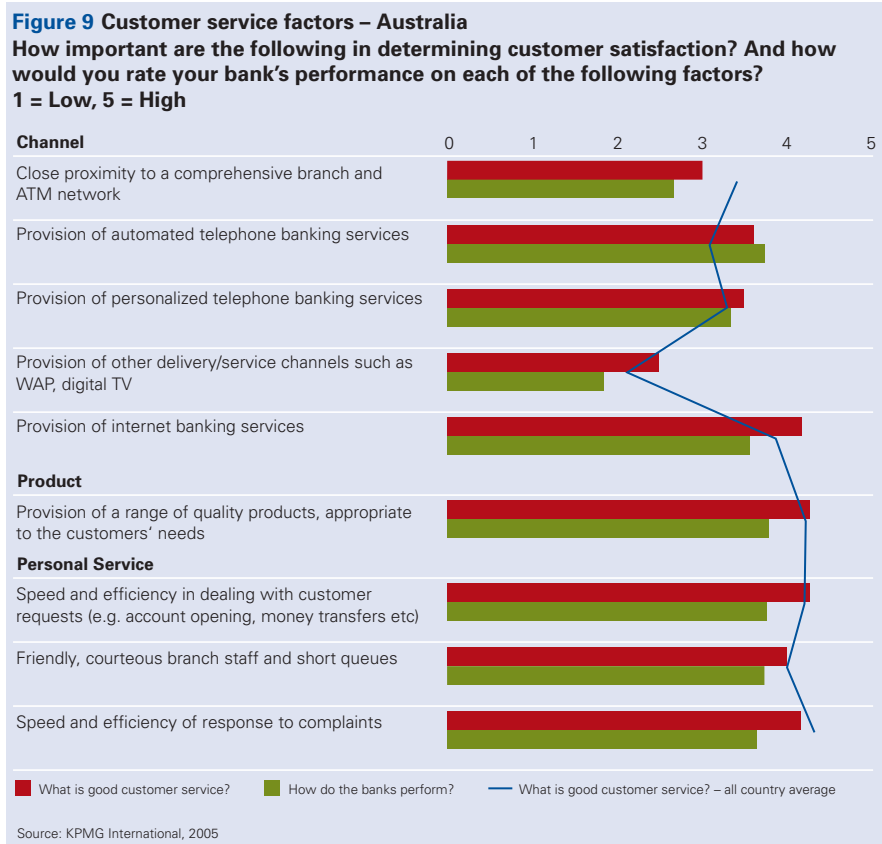


Australia



Australian banks are increasingly focused on getting back to the basics of service delivery. This is being reflected in marketing and advertising activity but can also be seen on the ground. Branch networks are being expanded and branches themselves are being re-designed, following a trend first seen in the U.S. Many branches now have more staff in the banking halls including 'meeters' and 'greeters'. As well as a more comprehensive branch network offering a 'better' branch experience, Australian customers also demand a wide range of channels with which to access their branch. Automated telephony, personalized telephone services and Internet banking score very highly, and banks are generally meeting customer expectations in these areas.

Massive cost control initiatives have been undertaken by many of the major banks in recent years but this cycle appears to be coming to an end. The strategic rhetoric from Australian banks has generally moved from the cost side of the cost-income ratio to the income side. With this in mind the good assessment of their ability to deliver integrated systems and processes across business units will facilitate cross-sales.



Australian banks are increasingly focused on getting back to the basics of service delivery. This is being reflected in marketing and advertising activity but can also be seen on the ground



The Australian banks compare well to their international peers in systems availability, end-to-end processing and integration across business units. This provides a solid operational base that will allow the banks to focus on customer service initiatives. Further investment in areas where performance is below the survey average such as integrated platforms across delivery channels and improvements in customer data management will prove beneficial.

Germany



In Germany, customer service factors such as 'friendly and courteous branch staff', 'speed and efficiency in dealing with customer requests' and 'speed and efficiency of responses to customer complaints' are highly rated while respondents were particularly dismissive of automated telephony and alternative channels such as WAP. This reflects the relatively high touch service customers demand from their banks.

However, for all these factors the banks acknowledge that they are under-performing. In addition there is a recent trend for customers to be increasingly price sensitive and this is compounded by the widely held view that some banks do not currently have risk adequate pricing on many products.

In line with customer demands, operations managers felt that they were better able to deliver 'customer data management', 'availability of systems 24/7' and 'timely and accurate transaction processing' than the survey average, suggesting that banks, largely, have superior operational and IT systems. Many respondents felt that their banks had too many branches but are unwilling to undertake large scale branch rationalization programs. Consequently, they have been looking to middle and back office processes to drive down costs.

Figure 11 Customer service factors – Germany

How important are the following in determining customer satisfaction? And how would you rate your bank's performance on each of the following factors? 1 = Low, 5 = High



Source: KPMG International, 2005

Customer service factors such as 'friendly and courteous branch staff', 'speed and efficiency in dealing with customer requests' and 'speed and efficiency of responses to customer complaints' are highly rated



Hong Kong



In Hong Kong, customers place great importance on the speed and efficiency with which banks deal with customer requests as well as their response to customer complaints; it was found that the banks in Hong Kong performed quite well in these two areas. Also, banks in Hong Kong provide a comprehensive branch and ATM network and other transaction channels, such as personalized telephone and Internet banking services to cope with customers' needs which also help ensure that they scored above the survey average.

Being an international finance centre, Hong Kong possesses the advantage of a free flow of capital as well as a sound and transparent legal system which helps enable banks to provide a wide range of financial services to their customers and fulfil their different personal and business needs.

Banks in Hong Kong felt that they were good at measuring the customer experience as well as attracting and retaining good quality staff. In these areas they scored above the survey average, suggesting that banks had taken customer care into consideration when establishing their business strategies. These initiatives have been supported by the emphasis put on providing more personalized, tailor-made priority banking services for high net-worth clients in the past few years.

Figure 13 Customer service factors – Hong Kong
How important are the following in determining customer satisfaction? And how would you rate your bank's performance on each of the following factors?
1 = Low, 5 = High



Source: KPMG International, 2005



However, the survey revealed that some operational factors such as timely and accurate transaction processing and customer data management handled by the banks in Hong Kong were below the survey average. It seems that there is still room for improvement for the banks to enhance their systems in these areas.

Ireland



Irish banks taking part in our survey placed 'range of good quality products' as the main determinant of a good quality customer service but they acknowledge that they are under-performing in this area. As a response to this, many banks have recently launched a range of new and innovative products aimed at specific customer segments, especially the younger age group who are being targeted by offset mortgages and improved Internet capability.

Interestingly, the proximity of a branch and personalized telephony fall further down the ranking of important indicators of customer service in Ireland but are both areas where banks are exceeding demand. This may be indicative of the fact that the proximity of branches is not seen as a major topical issue in Ireland as a comprehensive branch and ATM network already exists.

Banks rated their own performance on a range of indicators as below the survey average on all but two of the operational factors measured in this survey. However, operations managers believe they are able to attract and retain good quality staff and process transactions in a timely and accurate manner. The low rating banks gave themselves on 'customer data management' means that if tackled, this area represents a 'quick win' for banks in terms of customer service.

Figure 15 Customer service factors – Ireland

**How important are the following in determining customer satisfaction? And how would you rate your bank's performance on each of the following factors?
1 = Low, 5 = High**



Source: KPMG International, 2005

Many banks have recently launched a range of new and innovative products aimed at specific customer segments



Further reductions in the cost-income ratio remain a priority for the larger banks.

The smaller banks are leaner, partly because they don't have a large branch network, and are expected to benefit from a new code introduced in January 2005 which makes it easier for customers to switch banks.

Netherlands

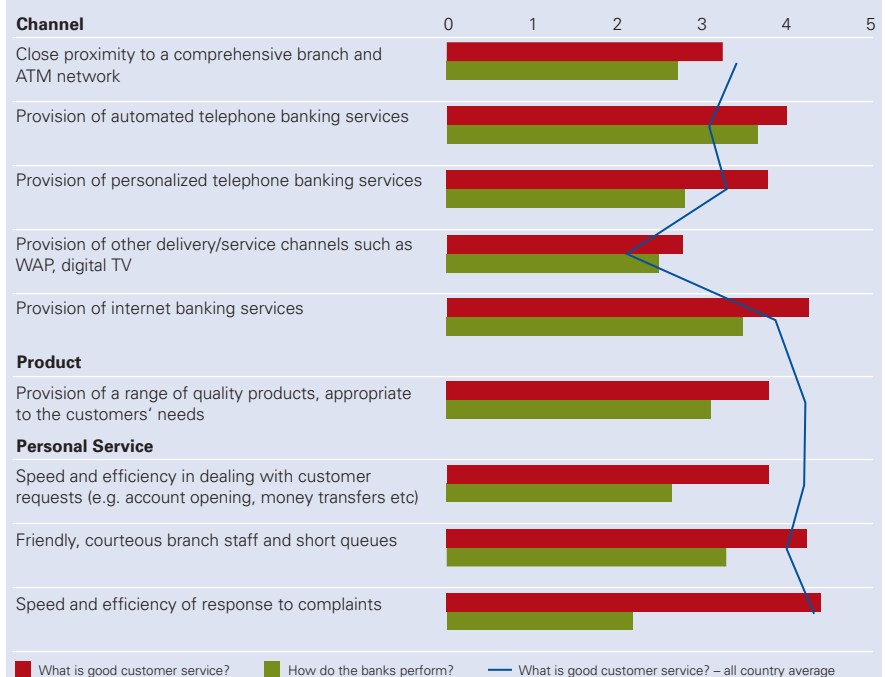


Many banks thought that recent branch rationalization programs had taken their branch capability below the 'minimum service level'. Despite this the 'proximity to a branch and ATM network' scored below the survey average as a customer service factor. Maybe banks are re-assessing the importance of the branch to their consumers who certainly value 'friendly and courteous branch staff and short queues'. This is an area where banks acknowledge they are under-performing and banks have responded by expanding their networks and refurbishing current branches. Also, a leading Dutch bank has just announced that it will be extending its opening hours to match normal shopping hours rather than closing at 4pm, including opening on Saturdays (Source: Financieele Dagblad, February 2005).

Dutch customers value a comprehensive range of channels more highly than in other countries and automated telephony, personalized telephone services and the Internet all score highly. Even alternative channels such as WAP and digital TV score well above the survey average. However, customers in the Netherlands make a very clear distinction between using these remote channels predominately for account servicing rather than purchasing.

Banks in the Netherlands recognize that their delivery on reacting quickly and effectively to both customer requests and complaints is below customer expectations. This is also reflected in the operations managers' perception of their delivery on timely and accurate transaction processing.

Figure 17 Customer service factors – Netherlands
How important are the following in determining customer satisfaction? And how would you rate your bank's performance on each of the following factors?
1 = Low, 5 = High



Dutch customers value a comprehensive range of channels more highly than in other countries and automated telephony, personalized telephone services and the Internet all score highly



Areas of reducing costs or increasing revenues have met with varying levels of success. Increased charges for basic banking services have not been well received by customers and offshoring has received a negative reaction, not because of a potential reduction in service levels but because of the loss of local jobs.

Other initiatives being discussed include branch sharing, with some discussions at a relatively advanced stage.

Marketing, sales and operations strategies in the Netherlands will benefit greatly from the banks' ability to measure customer experience and collate and manipulate customer data.

Spain



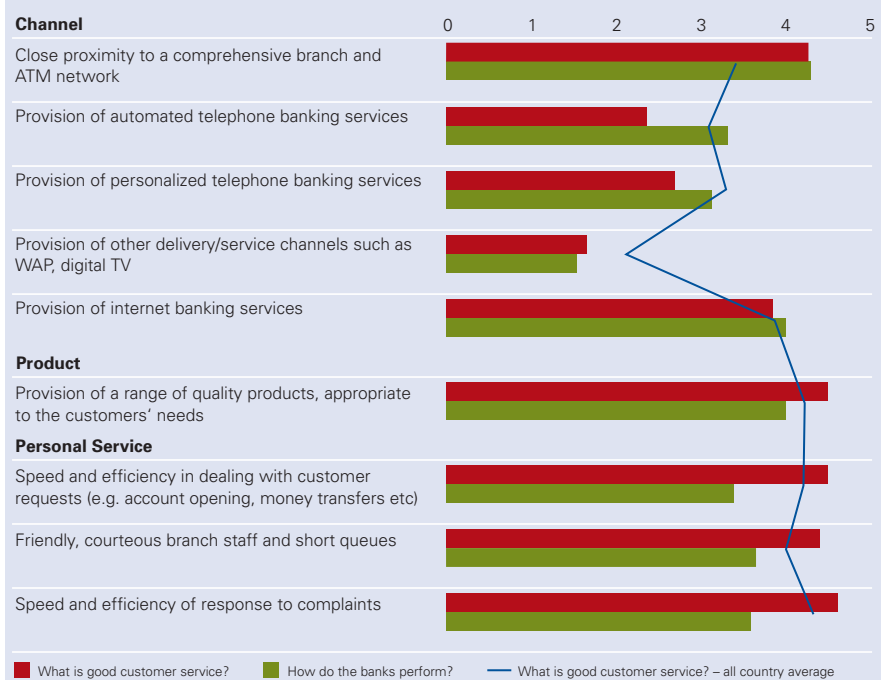
In Spain, as in many countries covered by our survey, the branch closure programs of the 1990s have been largely halted and in some cases reversed, with banks extending and improving their branch networks. Indeed, our survey reveals that 'proximity to a comprehensive branch and ATM network' and 'friendly courteous branch staff and short queues' are among the most important factors which determine a good quality customer service. Despite branch closure programs the branch density in Spain is high. Banks believe that they are meeting customer expectations on the numbers of branches (one of the few countries where this is the case) but that there is room for improvement in the provision of a good branch experience.

The demand for a predominantly branch based interaction with the bank is shown by the low scores attributed to all forms of telephony and alternative delivery channels. Interestingly though the Internet is seen as a key factor but as a service channel rather than a sales tool.

The survey also picked up that customers were unhappy about invasion of privacy. Under new data protection laws customers have taken their bank to court, complaining that their data has been used without permission. A number of these actions have resulted in banks being fined.

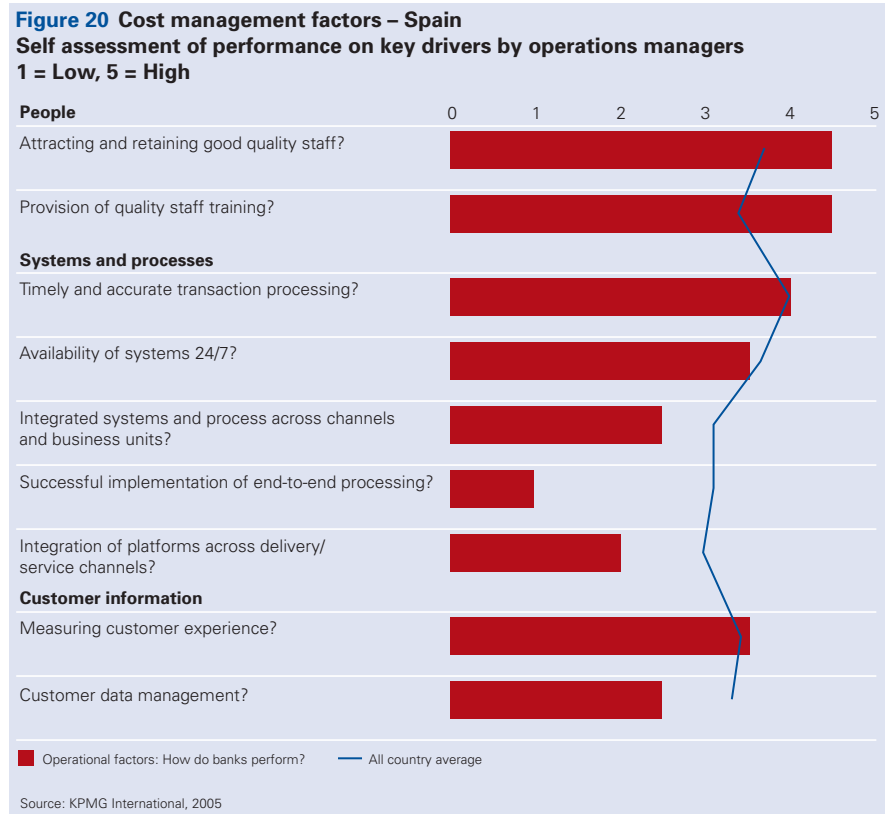
Figure 19 Customer service factors – Spain

How important are the following in determining customer satisfaction? And how would you rate your bank's performance on each of the following factors? 1 = Low, 5 = High



Source: KPMG International, 2005

'Proximity to a comprehensive branch and ATM network' and 'friendly courteous branch staff and short queues' are among the most important factors which determine a good quality customer service



In a market where a personalized banking service is required, operations managers can attract, retain and train good quality staff.

However, on a wide range of other operational factors Spanish banks are around the survey average or below. Offshoring of customer facing services has not taken off in Spain and there has been only limited IT offshoring. Banks acknowledge that they have room for improvement in integrating systems and processes across business units and channels and in the implementation of end-to-end processing. By improving the delivery of these factors, banks have the potential to significantly reduce costs and improve efficiency.

Switzerland



Swiss customers place great importance on the quality of their branch experience. In addition they demand a personalized service and that their bank 'gets things right'. The need for a more personalized service is re-iterated by the fact that automated telephony comes out in our survey as relatively unimportant and that branches are significantly extending their opening hours, often providing advisory services until 8pm.

More tailored products are being launched by many Swiss banks suggesting that the higher touch service demanded also translates into the products customers require.

As expected from a world renowned banking center, Swiss operations managers score higher than the survey average on their ability to deliver good quality operations. Of note are their good scores on attracting, retaining and training staff, providing good quality customer data management and effective transaction processing. This suggests that Swiss banks are 'getting the basics right' and also able to deliver the more tailored products expected of them.

Figure 21 Customer service factors – Switzerland
How important are the following in determining customer satisfaction? And how would you rate your bank's performance on each of the following factors?
1 = Low, 5 = High



Source: KPMG International, 2005

More tailored products are being launched by many Swiss banks suggesting that the higher touch service demanded also translates into the products they require



The Swiss banking market is dominated by just two players and smaller banks have sought innovative ways to compete by reducing costs. For example a number of cantonal banks have created shared service centers for payments and secure operations.

United States

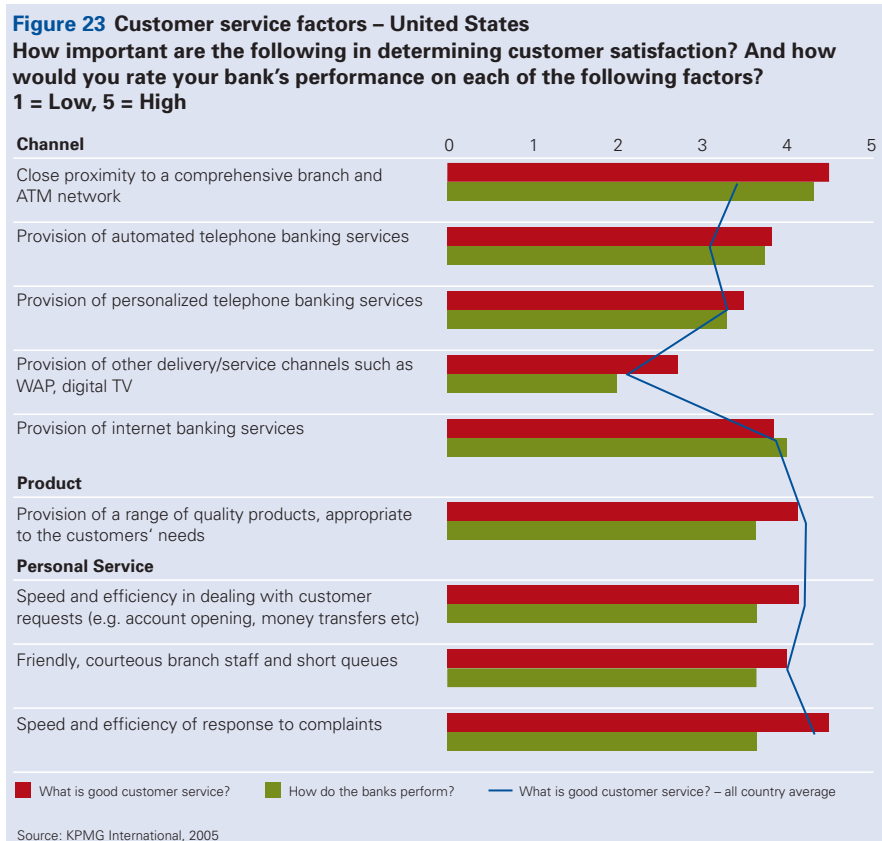


Respondents to our survey in the U.S. placed great weight on the 'proximity to a comprehensive branch and ATM network'. Their ability to match customer expectations in this area was above the survey average. U.S. banks have realized that branches attract depositors and are making steps to extend branch networks and refurbish branches. The U.S. leads the way in many respects for the redesign of the branch with the introduction of 'meeters' and 'greeters' and making the branch feel like a normal retail experience. We identified examples where banks were deliberately over-staffing their branches; for example a branch in a retirement community had more staff than was necessary because the elderly customers liked to talk and the bank decided that extra staffing was needed to boost customer service levels.

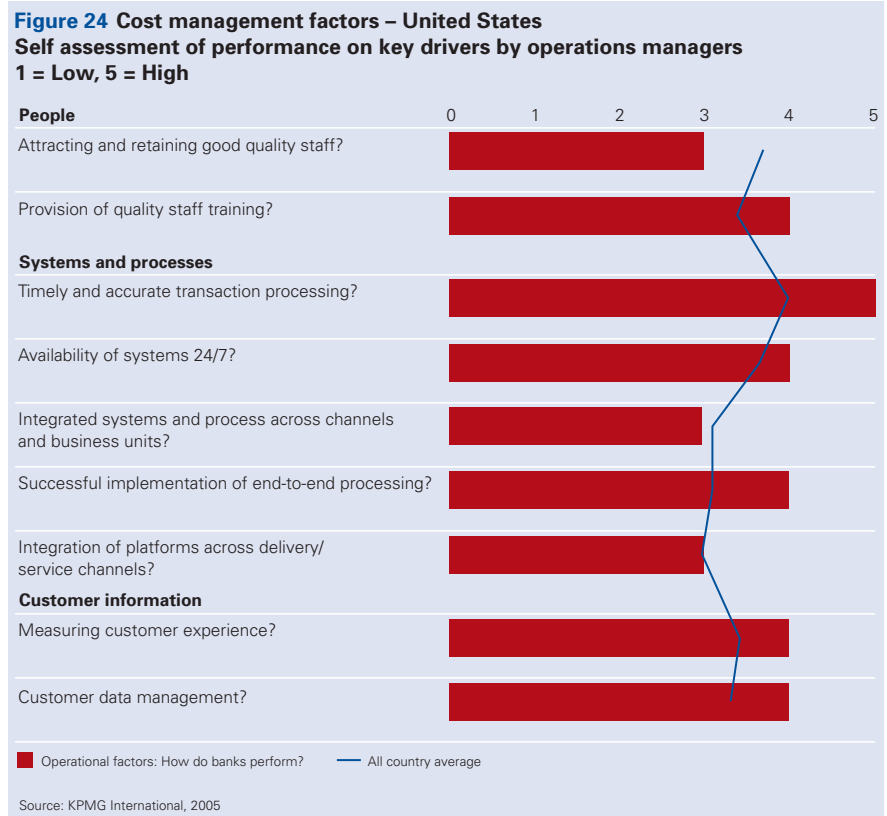
Many U.S. banks are also charging extra fees as a way of covering the costs of expanding their branch networks.

The Internet is not as important a distribution channel as the branch network. Our respondents felt they were over-delivering in this area. The Internet does remain a vital service channel.

Customer expectations are being met across most of these customer service factors and the survey indicates that marketing and operations in U.S. retail banks are well aligned. 'Marketing drives the bus' in the U.S. retail banking market and the success of many U.S. banks is attributed to this market driven approach.



The U.S. leads the way in many respects for the redesign of the branch with the introduction of 'meeters' and 'greeters' and making the branch feel like a normal retail experience



Outsourcing has been an important tool for controlling costs. However, the loss of domestic jobs and a perceived reduction in customer service have meant that some companies have repatriated off-shored customer facing services back to the U.S.. The outsourcing and offshoring of middle and back office functions is well advanced. The large U.S. global players have also benefited from looking at their business operating models with one bank, for example, undertaking all of its global account opening processes in a single location.

United Kingdom



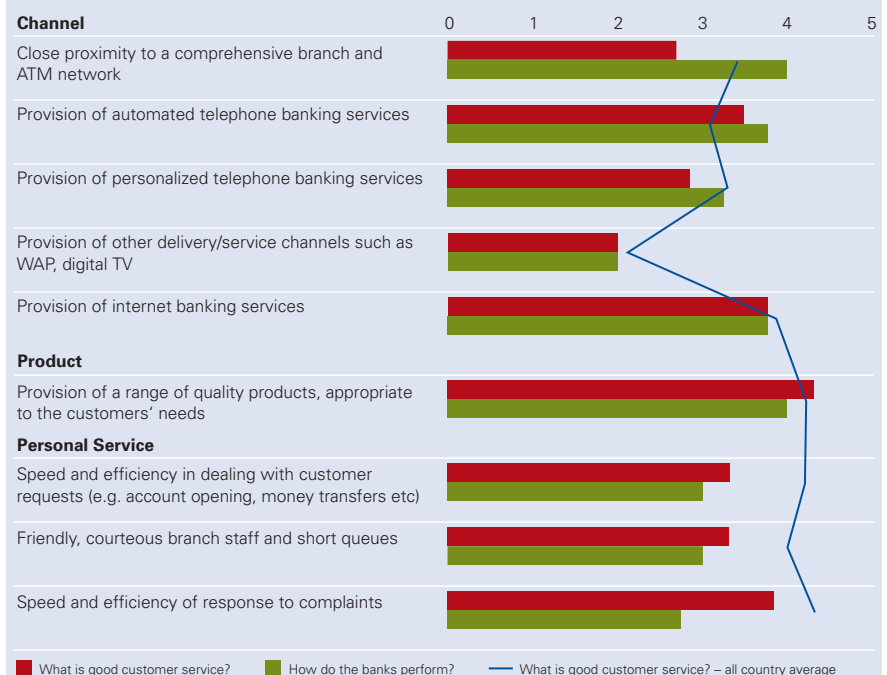
U.K. consumers may not be surprised at the survey results. Living in one of the world's most open, competitive and innovative banking markets they benefit from low prices but have suffered a little from the effects of banks trying to get their costs down. U.K. banking executives stress the importance of product innovation, spend a greater proportion of their marketing spend on customer acquisition and place less importance on the density of their branch networks than their European colleagues.

Two decades of strong price competition around current accounts and a decade of strong competition around credit cards from new entrants have encouraged U.K. banks to take a strong price and cost focus. The relative lack of enthusiasm for branches by U.K. executives is mirrored by their enthusiasm for automated telephone services.

The huge quantity of direct mail received by the U.K. population testifies to U.K. banks' greater interest in spending on customer acquisitions compared with the continental banks greater emphasis on spending on customer retention and cross selling. In the KPMG International 2004 survey *'Banking beyond borders'* we pointed out that 24 percent of U.K. consumers have a relationship with more than five financial services providers, a much higher proportion than is typical with continental European consumers. However, there is some evidence from

Figure 25 Customer service factors – United Kingdom

How important are the following in determining customer satisfaction? And how would you rate your bank's performance on each of the following factors? 1 = Low, 5 = High



Source: KPMG International, 2005

Banks are now pushing hard to improve the quality of customer service – many now have senior customer experience teams reporting directly to the board



the market that some U.K. banks are beginning to change these views, and a number have recently announced considerable investment in their branch networks to help create a more personal service and increase share of wallet.

Banks are now pushing hard to improve the quality of customer service – many now have senior customer experience teams reporting directly to the board. The Financial Services Authority’s (FSA’s) ‘treating customers fairly’ initiative, launched in 2004, has given an additional incentive. Complaints handling is also important for U.K. banks and increasingly seen as a potential creator of ‘magic’ moments if a complaint is handled quickly and resolved satisfactorily.

The survey also reveals that an area of focus for operations functions is the collation of customer information, including the measurement of customer experience, and its successful manipulation in order to increase revenues. This has proved difficult over recent years, especially as large scale investments in CRM have, in many cases, failed to deliver.

The results pose serious questions about the future direction of the U.K. retail banking market: will Europe follow the U.K. into a predominantly fragmented, price led market or will moves in the U.K. to expand branch networks and increase share of wallet persist?

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