



Asian Banker Research

THE ASIAN BANKER[®]
STRATEGIC BUSINESS INTELLIGENCE FOR THE FINANCIAL SERVICES COMMUNITY

Asia's developing retail banking landscape – Building sustainable customer relationships

In association with



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Asia's developing retail banking landscape

Since the beginning of the 21st century, the Asian region has been witnessing a slow but steady paradigm shift in retail banking. In the aftermath of the Asian financial crisis in 1997, banks' large-scale exposures to corporate defaults put the industry in an anaemic state that will last for years. At that time consumer banking was a negligible business accounting for less than 13% of banks' balance sheets. It was not until 2000, when most banks in Asia started to diversify their loan portfolios to include more consumer credit.

Today, retail financial services contribute on average 36% to a bank's total income in the region. Banks that were bold, that anticipated market challenges and that responded to retail customer needs, outperformed their peers over the subsequent eight years. Early movers with good strategies emerged as the region's top players in retail banking. Many claim to be consumer banks but there are only a few which have aligned their entire stewardship towards it.

Currently, with consumer banking contributing nearly three times more to a bank's income stream than in 2003, tactical and operational leadership in retail financial services demands more weight. This leadership was again put to extreme tests in 2009, forcing retail banking executives in mature and developing markets to think how to build a sustainable business model. Banks in Taiwan, Singapore, Hong Kong and Korea continue to face a low profit, slow growth context. India's retail banking landscape is decelerating

and banks are reeling under heavy losses in consumer financing. Meanwhile, consumer banking has been a key theme for Chinese banks in 2009 and will become even a stronger focus in 2010. China has seen record growth in consumer and mortgage lending, and banks are keen to grow their consumer finance and wealth management business.

After having mastered transactional capabilities during the last decade, banks are moving from transactional banking towards franchise building. The crisis has further accelerated the trend of moving from building the infrastructure and basic services model to the re-discovery of the customer.

Well-managed banks have been in a position to grow and rapidly take market share by making superior propositions and keeping expenses on a tight leash. Unsurprisingly, there has been an intense competition for retail assets being sold by western banks.

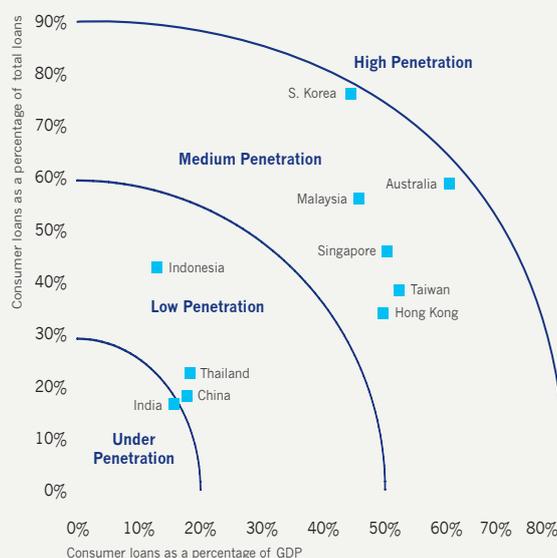
The crisis will reshape the industry for years to come and will change the way how banks represent, offer and sell products and services. Regulators will come back with a vengeance. In some of the mature markets, regulators have begun responding to change the sales process and how banks ought to communicate with their customers. Pressure is also building on altering the compensation and remuneration schemes among front line sales personnel.

Crisis management and re-strategising the business while at the same time building a scalable platform for growth and capturing new opportunities of growth, will continue to be important aspects.

Banks in the region have responded to the downturn with new and innovative products standing for important ideas that may shape the course of the industry in the next years ahead. Those players do not only want to outsell their peers, but also redefine the course of the industry. High performance players achieved an average cost efficiency of below 42% and retail profitability (ROE) of higher than 24% pre crisis. Banks with innovative and sustainable propositions will sustain those thresholds going forward.

Front line issues continue to be the predominant concerns among retail financial services players. Compared to 2008, banks have continued to set their focus areas in 2009 on e-banking. The biggest gainers are those that represent mobile phone banking and brand building. Banks also have re-allocated resourc-

Figure 1.1
Consumer lending penetration 2009



Source: Asian Banker Research

es into wealth management after a disastrous 2008 and 2009.

In the area of network distribution, banks have entered the next phase in building truly virtual and mobile communication platforms. A full-fledged mobile phone banking proposition has become mainstream in 2009, and the importance of internet banking has shifted from an information repository to a virtual branch complemented by a truly interactive audio visual platform with strong revenue generation and communication capabilities.

In recent years, although the financial services industry has paid significant attention to the development of e-banking channels, branches remain a key success element in the overall network architecture of banks. The next refreshment cycle in branch banking integrating alternative channels is already underway.

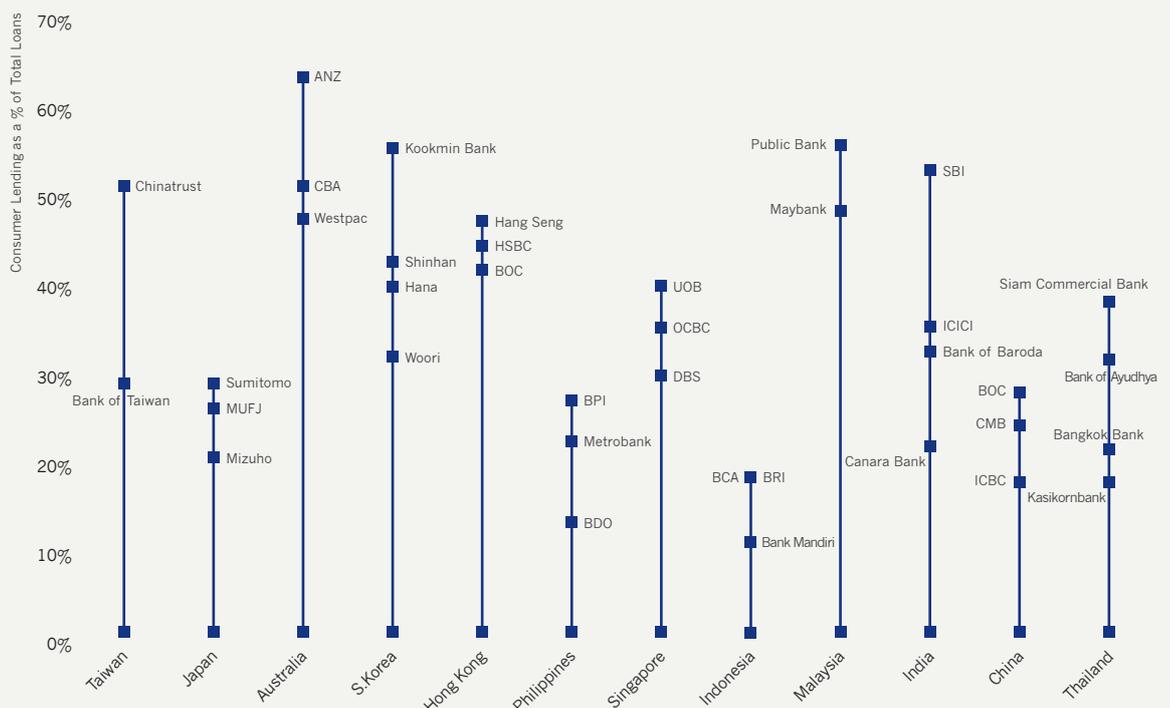
Banks will find it increasingly difficult to cater to a wide span of customer segments within the existing universal cost model. The industry will not only see the emergence of low cost discount and direct banking business models going forward but in the

effort to capture more market share, banks will likely create distinctive branded stand alone business models by customer segments. The shift is more likely in Australia, Singapore, Korea, Taiwan and Indonesia where markets are tightly integrated within the universal banking model. Independent (non-bank) financial institutions including mortgage mono-liners in Australia, e-banks in Japan and finance companies were absorbed by larger commercial banks or continue to struggle for survival.

According to The Asian Banker Excellence Survey, optimising workflow processes, customer relationship management, sales and branch automation and risk management will be key focus areas in banks' retail operations in 2010.

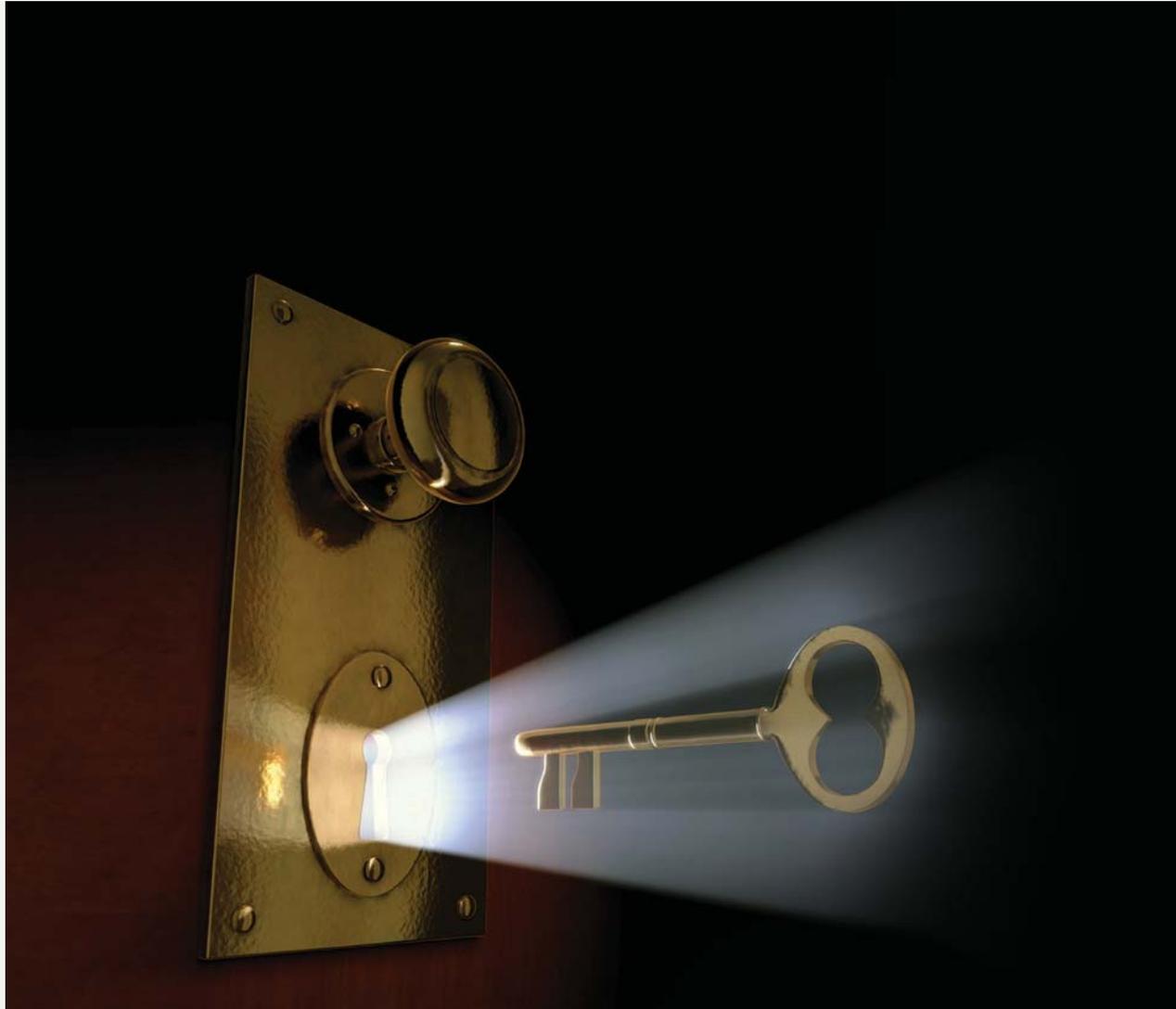
But advanced systems and processes that ushered in an era of 'mass banking' in the late 1990s were also disintermediating relationships at a scale never seen before. These days, increased automation, better data analytics and customer modelling alone will not make banks win the game. The future of retail banking in this region lies in an almost community type front line approach built on large scale banking infrastructure capabilities.

Figure 1.2
Consumer lending as percentage of total domestic loans for selected banks 2009



Source: Asian Banker Research

Banks response to the new operating environment in 2009/2010



As expected, 2009 continued to be a difficult year for Asia's retail banks. The industry was marked by a further decline in profitability and a rise in impairments. In some markets the industry client relationships were shaken, changing the way bank customers look towards their attitude of risk purchase behaviour.

In a number of markets, such as Hong Kong, Singapore, Taiwan, Thailand and Malaysia, the lending business suffered from excess liquidity. Banks flooded the retail and particularly the SME markets with money resulting in fierce competition on presumably safer loan products. This brought down interest rates and margins, particularly in the mortgage space.

In most emerging markets, the unsecured consumer finance business declined. In India, Malaysia and Indonesia, the auto and motorcycle loans were key

growth engines. Income from payments though, proved to be a good source of income, and delinquencies did not develop as badly as expected.

Increasing efforts driving cross-selling and a strong investment into customer relationship management solutions, did not impact cross-sell conversion rates significantly as they remained in the low teens with only a handful of domestic banks beyond 20%.

Banks tried to pro-actively manage their portfolio health. While origination processes were strengthened, banks were more open towards restructuring and refinancing loans. Collection efforts improved and in-source collections were a returning trend. Non-performing loans in most banks did not pose concerns, partially due to the massive surge in new balances booked in countries such as China, India and Thailand.

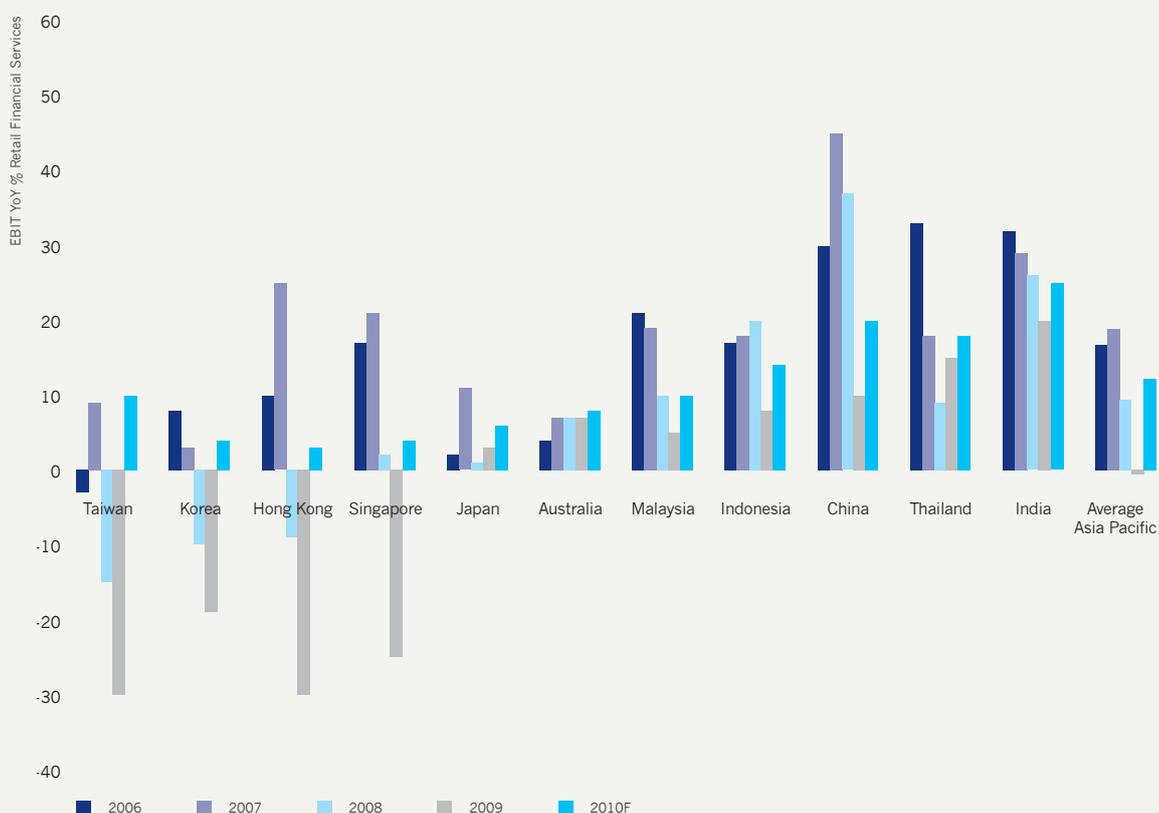
Cheap and excessive money hit strong deposit funded banks, whose cost of funds became relatively higher than what they could earn. For this reason, most banks tried to restructure their deposit base away from expensive time deposits and actively promoted low-cost CASA deposits. Customers on the other side adopted an observant stance due to the insecurity in the equity markets and waited for the right time to rebalance investment portfolios. A strong trend of fund-shifting from the higher risk investments to low-yield saving products was detected between 2008 and early 2009, something which reversed with the improving investment landscape in the middle of 2009. While banks needed to offer flexibility, they also needed to satisfy the demand for higher interest.

Wealth management continues to suffer with steep declines in income in 2009. Customers were mainly demanding risk averse and conservative products, such as fixed income investments, well-diversified mutual funds, quality corporate debentures, and attractive structured investment. The fund business, a major staple in banks income has yet to recover

and it is likely that this source of income will not return to pre-crisis levels. Increasing regulations hiked the cost of compliance and the surge of exchange traded funds will shift the centre of business away from the banks.

Regulators are back with a vengeance in 2009, and banks had to adapt to a variety of changes. Apart from tougher liquidity requirements in all countries, regulators were eager to originate a more responsible sales processes and customer protection not only in the mature markets, but also emerging ones like China and India. Regulators in Japan and Vietnam introduced interest caps in order to control the loan growth after the flooding the money with liquidity. Stricter lending requirements are also under consideration for countries such as Japan where the amount banks can lend to individual customers is limited to one-third of a borrower's annual income. Going forward, we expect increased activity in regulating the bank – client relationship such as in payment security, customer protection and notification, transparency and more restrictive credit requirements.

Figure 2.1
Operating profit growth in Asia Pacific



Source: Asian Banker Research

Most significant trends impacting consumer banking in Asia Pacific in 2009/2010

Future of branch banking

Branch networks constitute the single-largest cost component at major banks across the region, prompting players over the last years to build powerful e banking platforms and look into the next generation of branches – smaller, more agile and highly automated. Much of the attention earlier was focused on reducing back office space, connecting branches, and creating a consistent look and feel inside the branch. This has become de rigueur across consumer banks. Today, the focus is rapidly shifting from basic branch re-design into the territory of sales floor management, zoning, productivity and resource management as well as adopting a forensic approach towards marketing and site selection.

Branches remain a key success element in the overall network architecture of banks as the centre of building sustainable customer relationships and business growth. Yet banks will become ever more conscious to drive the integration of branches with other network points to offer a seamless customer experience. We believe, that in the next years, many players will revisit their branch concepts and plan a new branch refreshment cycle. As a result, banks will continue to invest in the next generation of branch infrastructure within the context of a strong multi-channel strategy.

Driving business value through social media

Banks have started to intensify their engagement with social media. Currently, only 1 out of 10 banks have a permanent presence in the social media space, and we expect this will increase to 5 out of 10 in 2010. Although most banks still do not see the business value and benefits behind the concept, banks in Australia and Taiwan are leading the way. The most common counter argument against this model is that people have hardly embraced internet banking and customers still want to bank in branches. But the fact is that people do use Twitter, Facebook, and other blog sites, as seen in the growth rates of these social network sites. People of all ages and all segments share information and communicate through social media actively.

While banks can use social media for marketing, the nature of the medium is merely in the ability to lead an active dialogue with customers and thus possibly influence public opinion. Although having a social media presence and following the discussion will not keep customers from complaining about the bank, but it gives the bank the chance to respond to such issues and to timely react on them. Best practice was displayed by a Malaysian bank that developed a new marketing strategy for a new lifestyle credit card, using social media to promote it. Despite the risk that this might back-fire, the

Figure 3.1
Retail banking trends in 2009/2010

Area	Concept	Issues and Initiatives
Channels	<ul style="list-style-type: none"> • Future of branch banking • Mobile banking • Branch centric integration 	<ul style="list-style-type: none"> • Customer first approach • Two tier branch banking • Instantaneous issuance of products
Disintermediation	<ul style="list-style-type: none"> • P2P lending portals • Social banking • Financial products and advisory 	<ul style="list-style-type: none"> • Increasing competition from non commercial banks • Alternative investment vehicles (e.g. ETFs) • Loss of trust
Sales management	<ul style="list-style-type: none"> • Long term business sustainability 	<ul style="list-style-type: none"> • Shift from commission to fee based income • Retaining incentives up to several years
Communication	<ul style="list-style-type: none"> • Paperless workflow • Real time interactivity • Transparency 	<ul style="list-style-type: none"> • Customer loyalty and retention • Increasing form and frequency of contacts • Improving on-boarding system
Payments	<ul style="list-style-type: none"> • Diversified electronic payment versions for small, medium and large size ticket purchases • Pre-paid cards and online cards payment not taken off yet 	<ul style="list-style-type: none"> • Contactless mobile phone payments the next step in the payments landscape • Banks have introduced smarter, more consolidated and flexible rewards and redemption themes • Consumer usage to be motivated by convenience, short term loans, cash backs and interest free installments funded by merchants
Regulations	<ul style="list-style-type: none"> • Moving away from principle based regulations • Increasing scrutiny across all functions and products 	<ul style="list-style-type: none"> • Customer communication • Risk screening • Branch zoning • Re-certification

Source: Asian Banker Research

bank exclusively revealed the new product to social network groups. This triggered a lively communication via Facebook, Google, Youtube and other forums.

Disintermediation – new players, new rules, new markets

Disintermediation will affect lending and payments through peer-to-peer (P2P) lending and financial planning via social networks. In a number of Asia Pacific countries such as Australia, China, India, and Korea, online auction houses have joined the lending business and mediate designated borrowers and creditors on their platforms. The crisis even supported the growth of loan auctions, as credit criteria are more relaxed and interest rates are higher than for deposits. In India P2P platform target the micro-finance segment, which works through the support of self-help groups. Such groups take over the major legwork and provide the internet access for the poor. In this regard P2P lending turns into social banking.

The assessment of credit ratings for individual borrowers remains problematic, as credit bureau information for individual unsecured lending is not satisfying in most emerging markets. P2P platforms try to counter this with “pseudo credit ratings” based on parameters like income, occupation, residence, intended purpose, etc. But even with the credit rating problem, the P2P lending model reportedly shows lower default rates than the conventional banking model.

Compensation

After the mis-selling incidents, some regulators started to relate aggressive sales approaches in some financial institutions with excessive risk-taking and biased recommendation, which led to the incidents in the first place. The traditional commission system, where an advisor is compensated by the investment distributor combined with high, unconditional incentives for sales people is considered to encourage an aggressive sales behaviour which eventually jeopardises an objective risk assessment of products and customers. The Australian regulator considers aligning remuneration with long-term financial soundness and prudent risk taking. In the UK, the Financial Services Authority thinks about banning investment distributors from offering commissions to adviser firms to support sales. Taiwan’s Financial Supervisory Commission introduced new rules, cutting the cap on distributors’ commissions from 1.5% to 0.5% and requiring sellers of structured products to maintain an onshore presence in Taiwan.

Hong Kong’s securities regulator, the Securities and Futures Commission (SFC), is pushing with a proposal to make intermediary commission disclosure mandatory as part of a wider beefing up of its investor protection regime, which is already mandatory in Singapore. Hong Kong is also looking to restrict distributors from offering gifts when promoting investment products.

Communication

Banks move strongly into a paperless future. This applies to both, communication with the customer, but also for internal document workflow. SMS has gained in popularity among bankers, due to the personal touch and its efficiency. Customers fall for the opportunities real-time notification offers on the marketing side as well as for transaction notification.

Customers demand a more interactive communication with their banks. The social media will play a more important role in customer query and complaint management. But banks need to improve response times across other channels like email, call centre and SMS.

Increased transparency is also a major trend in customer communication. Banks will have to adapt to a more open communication paradigm with the customers. Open dialogue about the conditions of a contract, remuneration of advisors, hidden costs and fees will become more common in the future. The regulators will do their part to urge banks to improve information disclosure and transparency.

Payments

Micropayments are an emerging trend in Asia. Though common in mass transit for years, the technology now spreads to retail and food outlets. Contactless payments in the cards space has been widely implemented across Asia Pacific. The big number of different standards and payment providers, requiring merchants to offer a manifold of different payment terminals at the POS remains the major problem. However, consolidation and cooperation has started in a number of countries, such as Singapore.

Mobile phone contactless payment is also gaining momentum in Asia Pacific. A number of banks and telecommunication providers rolled out pilots, such as Citibank in Singapore and India and Visa partnered with Maybank in Malaysia.

Winning the game at the frontline - strengthening relationships in mass banking

Onboarding and account opening

Facilitating the acceleration of the account opening process was a major target for banks in 2009. Simpler and fewer forms and the minimisation of drawing repetitive information helped speed up the process and increase customer satisfaction. The use of biometric readers and IC readers has further accelerated the Know Your Customer (KYC) obligations and has helped to improve security.

Banks also accelerated the issuance of cards. On the spot issuance of ATM cards is more and more becoming a standard. One regional bank even started issuing credit and debit cards on the spot. PIN generators in the branches further facilitate the process as they allow customers to generate, individualise and reset PINs instantly at the branch.

Apart from technical and operational innovation, a decent onboarding process following the account opening helps banks to introduce products to the new customer and guides them into the right direction. Such a direction could be the promotion of online services, such as online bill payment, etc. Onboarding also benefits the cross-selling capability, as

the first weeks and months usually are the most fruitful for customer re-engagement.

Successful onboarding needs to be well integrated into the customer management process across all channels and needs to be consistent in the frontline. This requires the cooperation between marketing and sales to achieve a consistent and timely program. The training and support of the frontline staff to administer the onboarding program effectively remains to be the most challenging aspect of the process. Customer centricity is the key for a successful onboarding program. This is why best practice banks integrate questions on customer preferences already into the account opening process, in order to get a first basic segmentation for the onboarding process.

Effective query and complaint management

As customer expectations rise, providing adequate support at multiple touch points to meet these expectations becomes an even bigger challenge. Banks have to upgrade technical integration within their systems to achieve this. However managing

Figure 4.1
Banks have built best practices in the account opening process

First Contact	Receptionist	Teller (Meeter Greeter was out)	Security Guard
Account Opening Location	Form Filing at 1. Reception 2. Consultation Area	PC Stand	Open Booth
Form Filing Method	Paper	Electronic	Paper
High Level Process (including post notification load)	1. ID Check 2. A/C Explanation 3. Form Filing 4. A/C Explanation 5. Sign Application 6. Staff Enters Details into System 7. PIN Setting for ATM Card & Phone Banking 8. Receive A/C Package	1. ID Check 2. Form Filing by PC 3. Wait 10 Minutes 4. Sign Application 5. Receive ATM Card 6. PIN Setting for ATM Card by PIN Pad 7. Channel Explanation Navigation (optional)	1. Form Filing 2. Sign Application 3. PIN Setting for ATM Card By PIN Pad 4. ID Check 5. Receive ATM Card 6. Channel Explanation/ Navigation (optional)
Time Taken for Account Opening	60 Minutes	15 Minutes	30 Minutes
Time to get ATM Card	7-10 Days	Instant	Instant
On-boarding Exp	✓	0	0
Ease Service	0	0	0
Relative Speed	0	✓	✓

Qualifiers

Customer Impact

Source: Asian Banker Research

costs and knowledge management remain challenging. Interactive voice response (IVR) optimisation and a query assistance knowledge base, which is a database with possible queries and their answers, are critical for speedy resolution. Our research shows that banks in the region have managed to reduce turnaround time and achieve an average first call resolution rate i.e. satisfactory resolution of query within the first call itself, of about 85 percent.

Selected best banks have achieved the target turnaround time of one day for 90 percent of their queries. But most banks have yet to achieve true single point interaction for query resolution.

Leading banks equip their agents with centralised customer information of present and past relationships and interactions through screen pop-ups even before the agent takes the call. A query assistance knowledge base with ready answers to the common queries can substantially reduce the turnaround time for query resolution in banks.

Building integrated loyalty programmes

The bottom-line for true customer loyalty is about establishing a relationship, that makes the customer feel special and to convey a bank's capability to understand the customer's needs. To achieve this, customer experience management requires the alignment of strategy across a bank to monitor the various interaction points. In terms of loyalty programmes this

“Having a consistently good experience with a bank over a long time and having a bank that gives the customer the impression that his feedback is appreciated and matters, turns out to be more important for customer loyalty than the best rewards scheme.”

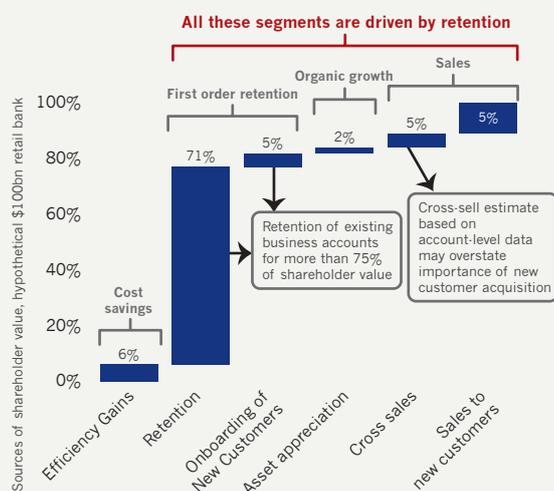
Senior executive from Hong Kong

means an integrated, bank-wide loyalty programme. Banks need to break up traditional loyalty schemes, which reward customers for the usage of very specific and limited products. Siloed loyalty schemes result in the inefficient use of marketing budgets and scare away customers.

New and innovative ideas in loyalty programmes are found lacking in 2009. Most banks offer largely identical products, rewards and redemption models. Particularly in the credit card business, co-branded cards and air miles redemption schemes are available in almost any bank. The reward catalogues look largely alike and merchant and dining discounts are widely available. Though not an innovation, the trend in loyalty programmes goes towards cash back and easy-redemption possibilities for customers.

Several banks already perceive loyalty schemes as a double-edged sword. Although there is a presumed increase in loyalty, there is a definite increase in cost. In how far loyalty programmes support customer retention is increasingly questioned by banks. Back-to-basic approaches with simple and cheap card products without expensive loyalty programmes proved successful in 2009 and banks who employed this strategy were able to gain market share.

Figure 4.2
Retention drives shareholder value



Source: Asian Banker Research

Key operational initiatives banks are paying attention to in 2010



Workflow process optimisation

The most important areas of process management for Asian banks are the streamlining of the loan origination process and a more efficient and reliable sales process. Streamlined processes result in higher efficiency, lower error rates, and faster processing times.

The loan origination process was already a major issue for banks in 2009. Banks believe the capacity to originate a loan quickly (in two days or less) is a key success factor for sales. Banks target end-to-end processes and the integration of loan application, cus-

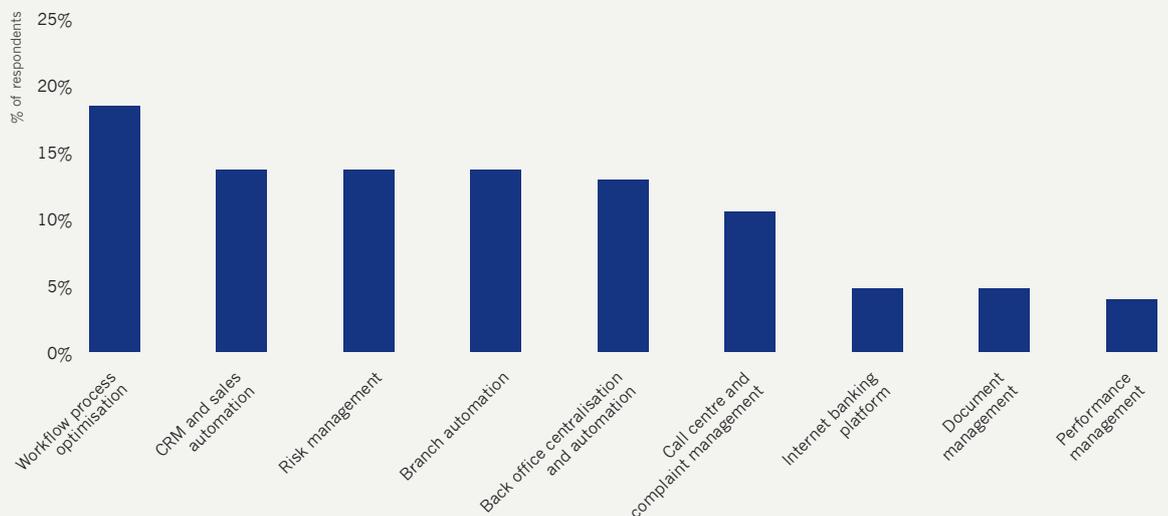
tomers due diligence, underwriting, pricing, loan disbursement in a straight-through processing manner.

A well-defined sales process will be a legacy from the financial crisis, and thus requires the integration of risk management into the sales process.

Customer relationship management

Customer Relationship Management remains a hot issue for Asian banks. Segmentation based marketing is common even in emerging markets. However, ana-

Figure 5.1
Operational initiatives in Asia Pacific banks in 2009/2010



Source: Asian Banker Research

Figure 5.2

Optimising the sales process in wealth management

Process	Description
Know your customer	All new account openings need to be well documented and verified in accordance to the bank guidelines.
Risk profiling	Before recommending any investment product to customers, sales staff must complete a detailed risk profile for customers.
Product recommendation	Sales staff must not recommend any product with a higher risk rating than the customer risk profile.
Document review	When inputting transactions into sales system, a strict documentation review process should be followed. All product documentation should be approved by legal and compliance.
Post-sales control	Wealth management product reports should be reviewed by sales supervisors and an independent sales monitoring unit on a monthly basis.
Post-sales control	Sales team is responsible for ongoing client communication after sales transactions. This includes periodic calls, branch level client seminars, and monthly statement communications.
Sales evaluation	A balanced approach to evaluating the performance of sales professionals, including revenue, service quality, customer satisfaction scores, transaction accuracy and adherence to compliance policies.

Source: Asian Banker Research

lytical capabilities still largely differ. The crucial issue rather seems to be frontline integration. Leads management remains largely neglected by most banks in emerging markets.

Personalised offers for the affluent and premium segment are common, but in the mass segment, product-push approaches are predominant in the emerging markets. Although many banks claim to use or implement need-based selling, overambitious management targets tend to jeopardise this approach and force employees to return to product-push approach.

Risk management

Most banks have implemented risk profiling and behavioural modelling and by fine tuning the scorecards and

automating the origination process. Banks have moved away from account management on a portfolio or segment level, and are now tracking customers on an individual level. However scorecards largely remain product specific, which is not efficient as customers hold multiple products with different risk levels, and therefore, different scorecards apply. A Taiwanese bank introduced a customer level scorecard, defining the lifecycle stage of the customer based on the entire credit bureau level.

As banks' analytical capabilities and credit bureau data improve, relation-based pricing and risk-based pricing will slowly become standard for banks in emerging markets.

Back office standardisation and centralisation

Back office standardisation and centralisation is an issue for almost every bank interviewed. Efficiency improvements and cost savings speak for themselves, as operational staff can be moved out of the branches and towards the hubs or take over revenue generating tasks. While local banks build up domestic operations centres, regional banks already centralise their operations across countries in operational hubs.

Many banks centralised operations such as card processing, cash processing, wealth management transaction processing, business intelligence, retail trading, as well as service centres for securities, funds administration, transaction services and data centre services.

“While 84% of banks in last year’s survey envisaged amendments to strengthen existing selling processes, only 1 out of 30 banks substantially changed the compensation theme in wealth management by 2010.”

Asian Banker Research

Key challenges for consumer banking in 2010

Rebuilding trust will be the major challenge that banks will deal with in the years to come. Shattered consumer confidence in the banking system needs to be rebuilt. Customers have started to diversify their portfolios across several banks in order to reduce their exposure to a single bank. Increasing competition from non-banks with attractive pricing will also change the competitive environment and bring down prices. Thus banks will have to further strengthen their cost management, while re-growing revenue and profits.

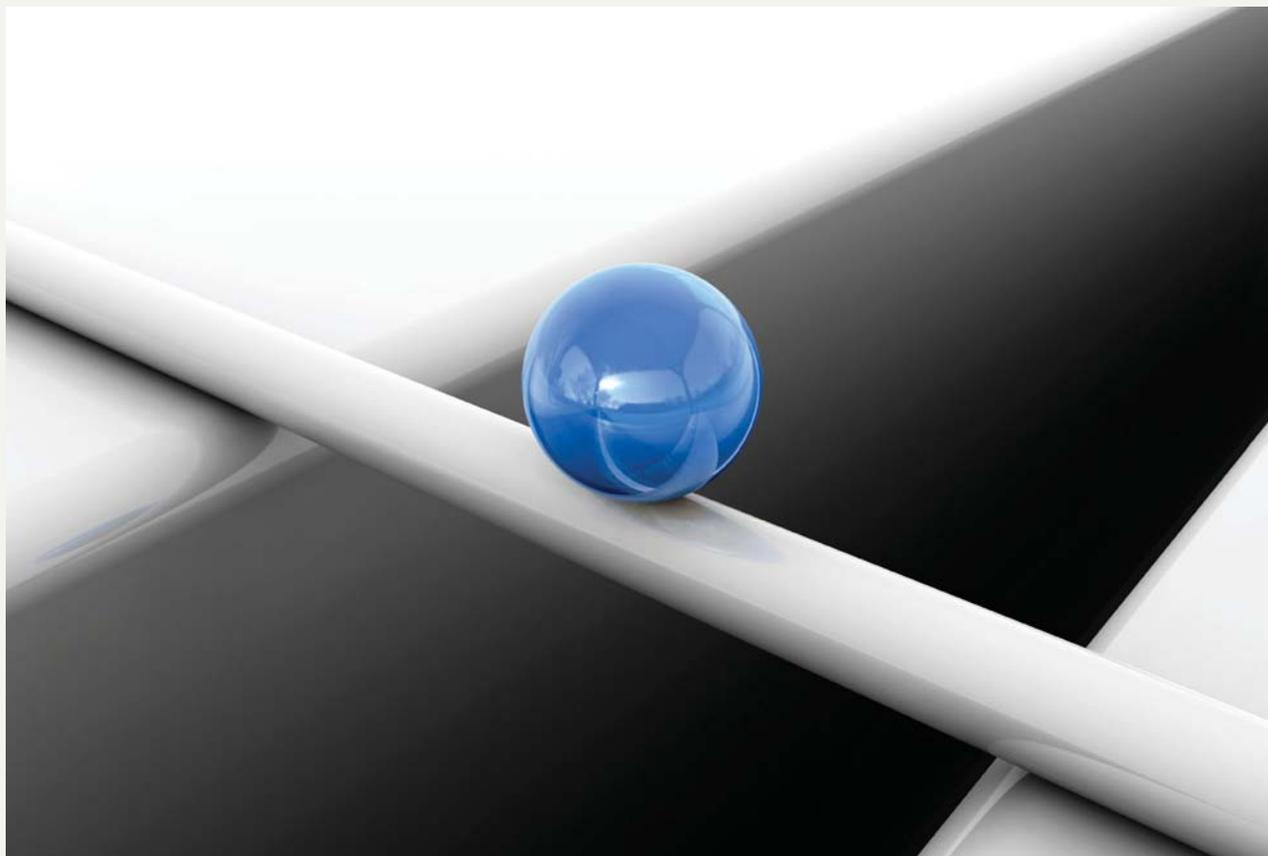
Balancing customer services and cost reduction: The use of alternative channels will be important to achieve cost efficiency. This however must be achieved in a way that customers do not feel neglected and banned from the personal relationship in the branch.

Customer attrition: Banks will have to proactively manage attrition and understand why attrition happens and define what kind of intervention is needed. Avoiding customer attrition requires an innate and deep understanding of what exactly customers are looking for from their banks. In order to satisfy the changing needs of their customers, banks have to constantly check, whether their products are still in demand. Too many banks in Asia still keep to unprof-

itable products in their portfolio. Quality, pricing and personal relationships play the most important roles in reducing customer attrition.

Competing on analytics: Another challenge for banks in emerging markets will be to properly make use of the findings from customer analysis and segmentation. Those banks targeting the mass affluent segment will have to adjust to the reality that this segment is handled differently. Thus the quantity and quality of relationship managers for affluent segment have to be improved through continuous training and financial advisory certifications.

Creating a seamless and consistent channel experience: Banks struggle to come towards leading a consistent, single dialogue with customers. The update progress of customer information is still too time intensive. Operational challenges arise not from the quantity of data but from the difficulty in integrating multiple data types from different systems. A good integration of the channels to the back office databases and customer information files is necessary to successfully tackle these issues. Most banks are also still relying heavily on the branches to sell higher value products and services, even if a good channel capability could be developed and deployed.



Rebuilding trust through open customer communication

The financial crisis has had a big impact on customer's attitudes towards banks. Lack of trust has become an important contributor to customer attrition. This does not mean that a customer leaves a bank for good. The general trend is the re-allocation of the customer's assets across several banks. Given this phenomenon, the share of prime relationships in banks declines. In order to counter the lack of trust, banks had to change their communication strategy towards customers. Banks have not only gone beyond a sales approach to their customers, but have also tried to position themselves as strong and reliable partners, which are worthy of their customer's trust and money.

Customers on the other hand demand more transparency, simpler products and reliable advice. This includes more understandable contracts, simplified fee structures and possibly even negotiable fees according to the customer relationship in the near future. Regulators in the Asia Pacific have also taken steps to improve the transparency and information disclosure of banks. Most bankers who were asked for what changed in customer communication confirmed this trend towards transparency.

Furthermore, an increasing number of customers demand for more independent product information, which will soon increasingly involve customer reviews on social media platforms. A rapidly growing number of people share their thoughts and opinions in blogs and forums.

Today's customers expect a more responsive, active and faster communication with a bank. The traditional one-way communication from bank to customer via marketing is outdated. Banks will have to learn to communicate more openly with customers in a two-way dialogue, and increasingly even in a multi-party communication paradigm.

This shift has not yet found its way into the understanding of good customer communication for a number of bankers. Being asked for what customer communication means, about 80% of the bankers interviewed referred to marketing in the first place. Dealing with customer queries and complaints are generally mentioned at the second position only by around 40% of the banks interviewed. Social responsibility was only mentioned by a limited number of banks.

“There is an increased level of consumer activism and customers are more challenging and questioning. Many of them demand not only more transparency and clarity from the banks, but also quality. I think that brand is incredibly important to banks.”

Senior executive from Australia

Trends in customer communication

Getting interactive

Good customer communication is dependent on the bank's ability to understand the needs of the individual customer and in this regard design products, pricing and the communication strategy. This requires good customer segmentation, based on solid analytics, centralised customer information, a CRM system enabling a single dialogue with the customer across all channels and the integration of query and complaint management infrastructure.

While almost 85-90% of queries are received through phone, leading banks are increasingly developing a multichannel response system. Banks firstly target a call resolution, but true single point interaction is not yet achieved as many queries need investigation or back end support.

Banks are targeting at centralised and integrated customer query resolution with the objective of improving customer service for higher retention. The objective has been to make the interaction user friendly which is why banks have introduced features like Interactive Voice Response (IVR), automated validation, auto tracking of queries etc.

Best banks now target customer query management from a long-term relationship perspective. They have developed intensive analytical tools that track, map

and analyse the root cause of complaints. These are utilised towards business process reengineering to reduce the customer service issues.

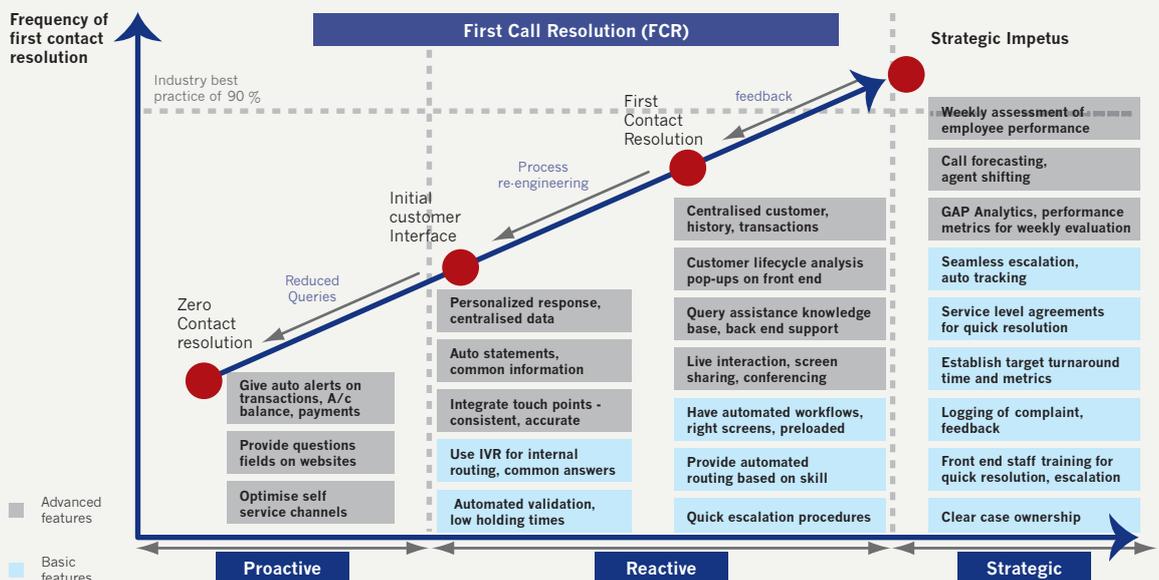
Banks also target to increase the usage of other channels to communicate with customers. In order to increase the traffic to their websites, banks partner with mobile providers, internet service providers, malls and online shops. For example, an Indian bank entered a partnership with several online merchants and in cases of a purchase the customer is redirected to the bank's website, where he can conduct the payment.

Transparency

Banks are carefully modifying the sales approach towards more conservative, reliable, trustworthy sales procedures. Customer risk profiling and profiling of investment products will result in a closer relationship between bank and customer, requiring intense communication and honest dialogue. In the wealth management segment, transparency, independent advice and remuneration issues will be an issue for banks, as first regulators are already considering stricter regulation.

Transparency also involves a more customer friendly communication, not only in terms of reach, but also in comprehensibility. Simpler forms, more understandable contracts and avoidance of small print, frank

Figure 6.1
Managing first call resolution



Source: Asian Banker Research

Figure 6.2

“What is the split between paper-based and e-communication in your bank?”



Source: Asian Banker Research

and identifiable risk ratings as well as a transparent fee structure are demanded by more discerning customers. In the wealth management and prime mortgage space this might even result in an open dialogue regarding the fee structure. This might possibly entail the negotiation between customer and bank regarding fees and remuneration in the future.

The paperless front office

One of the most imminent trends in Asia to save cost is the bank going paperless. Banks actively try to migrate customers to paperless communication, such as e-statements, online bills, e-newsletters, etc. In a number of countries regulatory requirements, poor internet penetration and conservative customer preferences remain the main obstacles.

Most banks state that the take up rate for e-statements and other paperless communication is good and is steadily increasing. Some banks incentivise customers to enrol for e-communication, while others penalise or charge for the luxury of paper.

Going green by avoiding paper is one of the more social-responsibility based arguments to convince customers, but the high cost-effectiveness and the minimal effort to reach a big audience are the main benefits for the bank itself.

In the marketing realm, we also saw a shift of branding and marketing into the e-channels. Some banks increasingly spend on web advertisements with the major e-portals. Banners on portals, such as Yahoo and MSN, link to microsites of the bank and generate

traffic to the main website. Some banks marketing spend already focuses more on the new media than on traditional print and TV commercials.

Segmented communication

When asked about the strategies for good communication, most banks’ start speaking about the premium segments and describe how highly motivated relationship managers use the full array of communicative means spanning personal meetings, direct calling and mailing, SMS services, but also trainings and seminars on investment products, brochures, newsletters and much more.

Communicating to the mass segment looks very different and banks all over Asia are trying to move customers to the cost-efficient channels such as the internet, EDMs, ATM notifications, call centres and recently, SMS. The branches are merely intended as sales points and all non-sales related customer traffic will be more or less removed. Personal contact to a banker will become a value-add for the premium and affluent segment.

This change might be better accepted by customers, if banks manage to personalise communication in the alternative channels. As long as customers are exposed to broad marketing, the impression that the bank does not understand or care about the individual needs will prevail. This will affect customer loyalty. Growing effective communication, utilising CRM and analytics to determine customer needs and establish a relationship, based on a single dialogue across all channels will help banks to grow their business cost-effectively.

Communicating effectively with customers

Taking only the cost aspect into consideration, email is the most effective means of customer communication. The medium is easy to distribute even in a personalised way and can reach thousands or millions of customers in real-time. However, the email's ability to touch people for marketing purposes is relatively limited. People mark emails as spam, do not read them or even state fake or spam email accounts to avoid the marketing bombardment. For this reason the new popular media is SMS. Most banks described the advantage of the personal touch that SMS offers generating an outstanding response from customers.

One of the most important advantages the SMS has towards all other media is that the customer constantly carries his/her mobile. Services like transaction notification to avoid fraud are very well received by customers. In the marketing space, the real-time element of SMS is unsurpassed as real-time dynamic offers are the key. For example a payment transaction at a merchant triggers an offer for a financing option, an insurance offer, or a rewards redemption the moment the payment transaction goes through the bank's system.

A number of banks have implemented two-way communication via the mobile phone. Customer convenience and the relief of other channels are the main advantages, as clients can enquire their account balance via SMS, relieving the call centre or ATM.

Communication via ATMs is also on the rise. Waiting times during the loading can be used to communi-

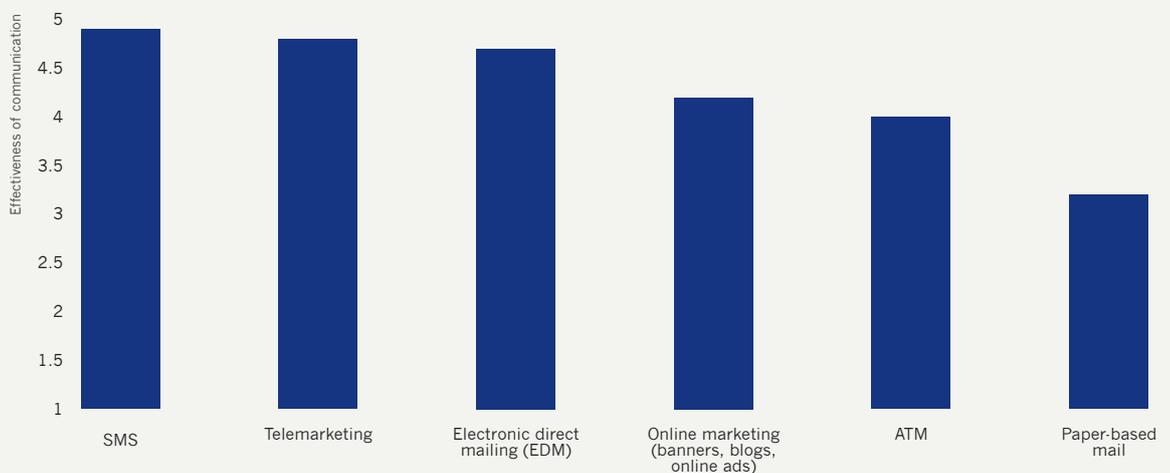
cate new products, security information, or check the correctness of contact information. However, ATM communication is only useful and sensible if it can quickly catch the attention of customers and create a lead and then invite the customer to address the branch. Banks do not want to create longer queues at the ATM. But ATM communication will only gradually be rolled-out, because banks need to create the infrastructure and install suitable machines first.

The internet plays an important role for the banks, which is reflected in the high attention and investments over the last years. Banks with limited branch footprint maximise the internet channel for customer communication. Some banks now offer all aspects of financial services over the internet, from asset products, transactional services, account handling, and investments. While transactions are fairly common, loans and investments over the internet are still limited. This is also due to KYC limitations, which require signatures and personal attendance of the customer. Banks that are able to solve key break points across channels, in particular between the branch and internet banking will drive deposit and client acquisition.

Banks described paper-based communication as the least effective means of communication. The average ranking on all 45 participating banks showed a score of 3.1, which is medium effective. In the mature markets Australia, Singapore, Taiwan, Japan, and Hong Kong the score is even lower with an average of 2.8.

Figure 7.1

"What are the most effective means of customer communication?"*



Source: Asian Banker Research
*1 least effective - 5 most effective

Key challenges in customer communication



Account opening is still a paper-based process and in emerging markets even the risk analytics for customers are still largely paper-based. As paper is relatively expensive it is a challenge for banks to bring down the cost. This is all the more true for the mass segment as the cost pressure is higher and this segment typically involves older people, people with limited access to internet, and with lower education requiring a more intense customer education. Although banks are trying to attract the younger generation, the fact remains that the elderly pose an important clientele for deposit products and basic services, but the adoption to the new media is challenging.

Customers increasingly become anxious about sharing contact information such as mobile numbers and email addresses, as they want to avoid

marketing and spam. Spam email addresses and fake emails are also common, and even if they are non-spam, people ignore or do not read emails. E-statements in this regard are helpful for banks, as customers generally want to receive their statements, even if it includes promotional adverts. The best selling argument for the promotion of e-statements is of course the environmental aspect of saving paper.

Marketing harassment remains a major obstacle to customer satisfaction. Customers are exposed to excessive marketing and sales attempts from a variety of banks as well as other industries. Responsible banks limit customer marketing internally and use it in a sensible way, such as sending personalised offers, which the customer might be really interested in.

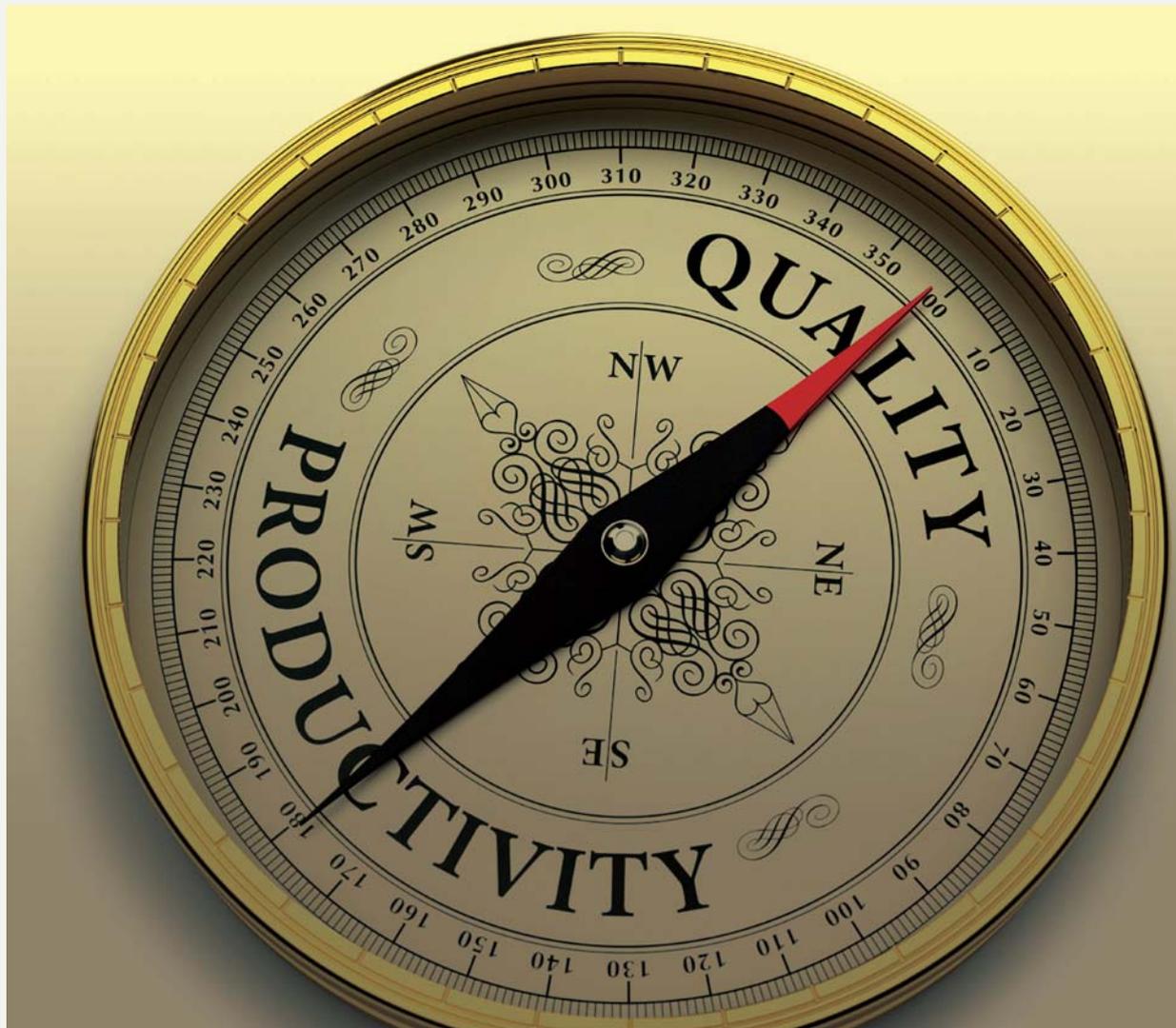
Measuring the effectiveness of communication

Banks measure the effectiveness of their communication in various ways. Some campaigns aim to strengthen the brand and create trust. Other campaigns target to create sales of a new product. While the success and efficiency of the first is difficult to measure, the second type of campaign is easier to quantify. However, there remains a considerable number of banks in Asia, particularly in the emerging markets, who still do not measure campaigns efficiently while some do not even do so at all.

Some banks put some effort into how customers perceive their brand and what they think of campaigns. Customers are interviewed on a regular basis by the bank or a third party market research provider, what they think of a specific campaign and how they value the brand. Mystery shoppers are used to control the quality of customer interaction across the channels.

For the product specific campaigns, banks deploy internal marketing systems to make sure that the cost of campaigns is controlled and that necessary action can be taken if a campaign is shown to be unsuccessful. Internal benchmarks and pre-set targets help to control and manage the success of campaigns. An Indian bank states that looking at the conversion rates across different communication channels event-based marketing is leading the field.

Asia Pacific banks measure the success for their campaigns by two predominant approaches. The channel effectiveness approach, measuring the success of marketing campaigns via its penetration rate, hit rate and response rates, and the profit and cost analysis approach, measuring the success according to profits attributable to the campaign against the cost of the campaign or return on investment (ROI). A majority of banks have now understood the importance of measuring the success of campaigns.



Paper-based communication

In customer communication, in internal communication and also in application forms, banks try to limit paper usage. The most important factor is cost savings, but going green is also a point which helps a bank to convince customers.

Statements, credit card offers, bill inserts and promotional inserts are the most frequently used means of customer communication.

The interesting difference between statements and bills is that banks include ads in the layout of a statement rather than in a bill. Bills are merely used to communicate changes in fees, rules and regulations and regulatory changes. For marketing promotions, banks prefer to use billing inserts since this offers more space and flexibility in design and thus increases the impact. The formats of bills are usually fixed and designed for the customers' ease of use. Frequent changes to this format would lead to confusion amongst customers. However, this development is largely happening in mature markets, whereas in emerging markets, banks still use bills as well as bill inserts for marketing.

Figure 8.1
"How frequently do you use the following document types?"

Mature markets

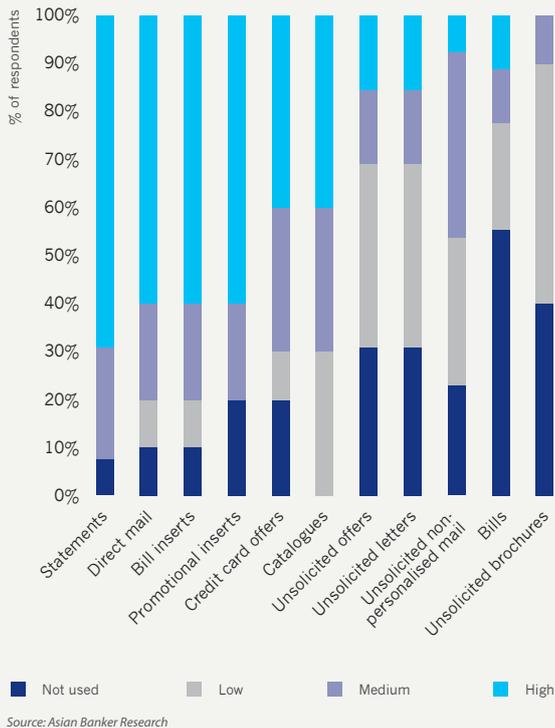
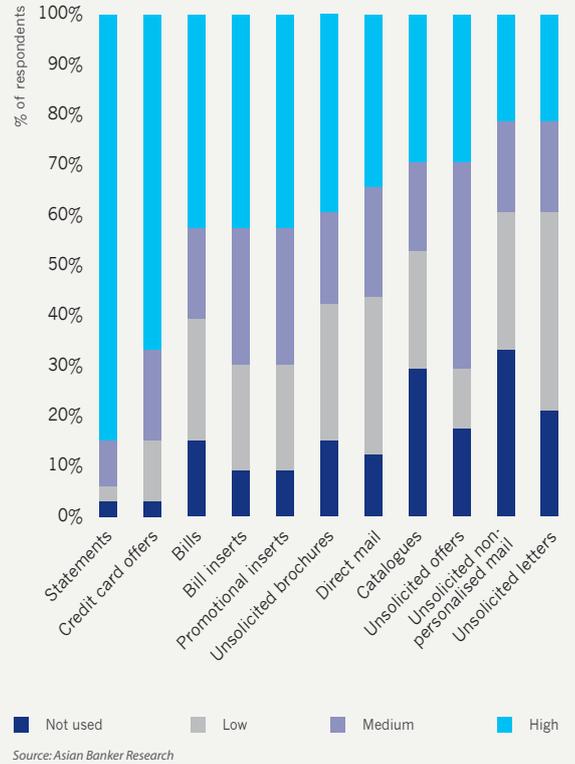


Figure 8.2
"How frequently do you use the following document types?"

Emerging markets



Unsolicited contacting of customers is neither perceived to be efficient, nor is it used very often by the majority of participants.

Surprisingly, direct mailing is more common in the mature markets which might be due to the higher share of wealth management and better CRM systems allowing a more personalised marketing. Statements are widely used for marketing in both mature and emerging markets.

While the usage of catalogues is common in mature markets, with 40% of the banks using it often, only 27% of emerging market banks use it often and one third doesn't use it at all. This might be caused by the relatively high cost of printing of catalogues, less complicated products, lower marketing budgets and probably lower educational efforts made by the banks.

Comparing mature and emerging markets, banks' contact frequency is about 8% higher in emerging markets (42%) than in mature markets

which is 34%. This indicates a higher marketing penetration of customers by paper-based means in emerging markets. Whether this means an overall higher marketing penetration cannot be concluded.

Banks in emerging markets obviously did a lot more on marketing credit cards. 84 % of the emerging markets banks stated they use credit card offers often, only 40% of mature market banks did likewise.

Efficiency of paper-based communication

Credit card offers are seen as the most efficient way of marketing communication, followed by catalogues. This is surprising as 75% of the banks participating in the survey came from emerging markets, whose use of catalogues is limited.

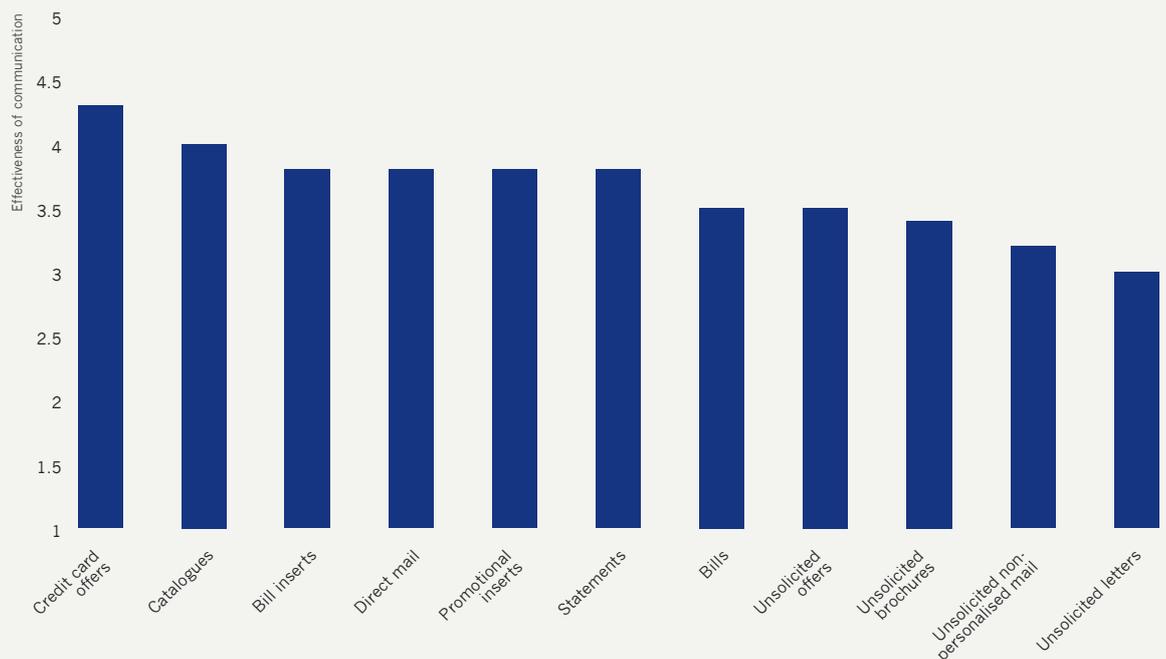
Bill inserts, direct mail, promotional inserts and statements are perceived to be equally effective.

“Any paper-based communication will be clutter. The customer and action to business does not happen through any of these. The communication has to be through the net, SMS, the branch, phone banking or customer call centre.”

Senior executive from Malaysia

Figure 8.3

“How effective are various document types in the communication with customers?!”*



Source: Asian Banker Research
*1 least effective - 5 most effective

Document processing

Enterprise content management was an issue for a number of banks. These banks target an integrated imaging and workflow management. The aim is to replace paper-based documentation by an electronic document workflow to provide substantial cost savings and service cycle improvements. The integration of loan and account opening into the workflow management enables banks to deliver quick and timely services to customers, but also eliminates pa-

per document processing inefficiencies and provide better control of operational procedures.

Most banks have already introduced scanners in branches or in the back office. The more challenging part seems to be to get the document image, where it is needed. Integrated sales desktops can help, offering amongst other things document management, scanning and imaging at POS.



Closer regulatory observation affecting customer communication

After mis-selling incidents, banks do a lot to show transparency and responsibility. Thus they are carefully modifying the sales approach towards more conservative, reliable, trustworthy sales procedures.

The regulators in most Asian countries now take a much closer look at the sales processes in banks and are stricter on customer protection. More transparency and better customer education are intended to allow customers a better assessment of their investment opportunities.

In particular, Singapore and Hong Kong have become very sensitive about the sales of investment products. The measures debated at the moment span cooling-off periods, which allow customers to cancel a product within a specific time frame; the audio recordings of selling processes; the prohibition to offer gifts to conclude a sale, and also the disclosure of monetary benefits for the distributor, such as fees, commissions, and other benefits for financial advisors.

Even though Japan did not see a Lehman mini-bonds impact, the banks expect a greater

focus on measures to enhance customer protection in the sale of investment products. The impact on communication is that banks need to follow much tighter disclosure related to the risks of investing.

In Australia, even stricter measures are currently being considered such as aligning remuneration and with long-term financial soundness and prudent risk taking. This means that compensation for investment distributors must be adjusted for all risk types, compensation outcomes must be symmetric with risk outcomes and must also be sensitive to the time horizon of risks.

The Malaysian regulator is very particular about responding to customer complaints and customer satisfaction. Banks are now obliged to publish the complaint management process on their website. Furthermore the regulator tightened transparency and disclosure requirements obliging banks to provide legal documents in both English and Bahasa Malaysia. Risk warnings for all communication materials on structured deposits in a specific font size are meant to ensure that key product information affect customer decisions.

The Indian regulator, traditionally already very restrictive, puts attention to customer complaints and transparency. Fairness towards the customer will be a major issue in the years to come and banks expect more regulation in this regard.

Chinese banks expect more stringent regulation not only in the wealth management space, but also for credit cards and personal loans. Thus financial literacy of consumers and active communication will become more important. A large-scale bank expects customer communication to focus more on comprehensive information around products, particularly the financial risk of investments. Furthermore privacy issues will become stricter. These changes urge banks to enhance the communication with customers and improve communication techniques.

A Hong Kong bank pointed out that the problem with HKMA's higher KYC requirements urging customers to disclose more information while being recorded, resulted in a longer process. This affected customer's receptivity for wealth management products because not all customers want to sit through a two hour process.

Figure 9.1
Regulatory changes affecting customer communication

Miss-selling: Sales of investment products	● ● ●	● ● ●	● ● ●	● ● ●	● ●	● ●	● ● ●
Customer education	○	○	● ● ●	○	● ● ●	○	○
Transparency and information disclosure	● ●	● ● ●	● ● ●	● ● ●	● ● ●	● ● ●	● ● ●
Remuneration for investment distributors	● ● ●	● ●	● ●	● ●	● ● ●	● ●	● ●
KYC and risk assessment	● ●	● ● ●	● ● ●	● ●	● ● ●	● ● ●	● ● ●
Complaint handling	● ●	● ●	● ●	● ●	● ● ●	● ● ●	● ●
Privacy and information sharing	● ●	● ● ●	● ● ●	● ●	● ● ●	● ●	● ●
Cooling off period for investors	● ●	● ●	● ● ●	● ●	● ●	● ●	● ● ●
	Australia	China	Hong Kong	India	Japan	Malaysia	Singapore

● ● ● Stricter regulation ● ● No changes expected ● Softer regulation ○ Voluntary action by banks

Source: Asian Banker Research



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About HP Exstream

HP Exstream software provides a single solution for design, creation, management and fulfillment delivery of any type of customer communications across the enterprise, regardless of complexity, variability or output channel—from fully customised high-volume statements, bills and complex publications, to on-demand marketing and self-service web applications, to personalised correspondence and proposals produced interactively by customer-facing employees.

The ability to do all of this using a single software platform allows you to eliminate siloed communications management creation systems, significantly reducing costs and ensuring consistency across all customer communications.

Leading financial services companies worldwide, including six of the top 10 US banks and four of the top 10 securities firms* are using HP Exstream solutions to reduce customer communications processing costs and retain and expand customer relationships for increased profitability. * *Fortune magazine, May 2009*