Cultivating the Customer Relationship in Banking

Europe’s retail banking market could capture €30 billion to €40 billion in new revenues by deploying the full power of next-level customer relationship management (CRM).
Banks and CRM: A Complicated Relationship

It’s been more than two decades since customer relationship management (CRM) entered the lexicon and became a go-to strategy for corporate success across industries. In the financial services industry, which is grappling with historically low interest rates, regulatory pressures, and digitization, CRM’s most relevant era is yet to come.

Retail banks in Europe lost more than 10 percent of revenues between 2007 and 2014, declining an average of 2 percent per year even as the real GDP in the Eurozone grew at 3.4 percent (see figure 1). The reasons range from central bank intervention in Europe and abroad to stabilizing the financial markets to ultra-low interest revenues at a time when banks need interest income. In 2007 interest income made up an average of 68 percent of retail bank revenues; today it’s closing in on 71 percent despite the low-interest investment.

And the troubles do not stop there. The regulatory push in Europe with PSD 2/XS2A will further increase competition for customers. Soon, third-party providers will be able to connect with a customer’s bank account and offer services without first requesting the bank’s consent (cost is negligible, as standard APIs are a key requirement of the regulatory push). Clearly, incumbents could end up no more than infrastructure providers to a set of fintech players that take over the customer interface altogether. With this in mind, it is imperative for banks to differentiate their offerings—not only in retail banking but across the entire spectrum of banking services.

In a time of shrinking revenues, growing commoditization, and new regulations that give rival banks or third-party upstarts a major advantage, next-level CRM can be the escape route that European retail banks have been looking for.

1 PSD is directive on payment services; XS2A is access to payment accounts

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**Figure 1**

European retail bank revenues have declined 2 percent per year since 2007

Retail banking revenue pool, 2007–2014 vs. 2014–2015, Europe

(2007 = index 100, adjusted for inflation)

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Source: A.T. Kearney analysis
According to our research, financial services firms that employ next-level CRM earn much more than their peers. We examined CRM’s impact on revenue at more than 100 retail banks across Europe and interviewed representatives from a dozen CRM solution providers. We found that Europe’s retail banking market could create between €30 billion and €40 billion in new revenues by deploying the full power of customer relationship management.

What Is Customer Relationship Management?

CRM systems are IT solutions that analyze customer data and provide insights to improve customer relationships and boost revenues. They also provide sales employees with a better understanding of customer preferences, transaction history, and ways to interact across many channels. CRM only thrives when it is employed organization-wide and becomes an integral part of a bank’s culture and daily routine. By placing the client at the very center of the business, processes and decisions are aligned for maximum impact, whether the goal is to improve customer satisfaction, revenues, or both.

Yet, banks are far from realizing all of the benefits of CRM. In our interviews with executives from a dozen providers of technology solutions, several issues came to the forefront. Yes, banks believe in and have invested in CRM, but the majority continue to suffer the consequences of decentralized customer management and “siloed” thinking. And legacy platforms, multiple systems, and individual interfaces are generally still in place despite years of research showing that open architecture principles are more effective (see sidebar: Flexing Your CRM Muscle). Even as most European banks understand the need to be more innovative, and to do whatever it takes to become more customer centric, only a handful of “champions” have made strides in these areas.

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Flexing Your CRM Muscle

Customer relationship management has changed a lot since the days of sales reps driving over dusty roads to visit customers while keeping hand-written diaries of customer names and their requirements. With European banks investing an estimated €20 billion in CRM technology over the past 20 years, by now sales reps should know their customers pretty well. Yet, most banks have yet to capture all the possible returns from their CRM installations. The following offers several ways to get more out of CRM.

**Customer profiles.** It is one thing to capture customer data and another to use the data strategically. A one-stop CRM solution is the answer to manage data for all customer segments and through all stages of the relationship.

**Customer contacts.** Vendor software solutions were designed to serve one channel. Today, CRM provides multi-channel and omni-channel capabilities to track each customer by history, channels, peer comparisons, and overall experience.

**Tailored products.** Every bank product can be customized for every customer in features, services, pricing, and even the timing of interactions. Imagine purchasing a bank product as you would book an airline flight where prices vary depending on day and time and include extras such as priority boarding and lounge access.

**Interactions.** Banks have yet to harness the full power of omni-channel interactions to communicate with clients and build communities of customers. Today’s CRM provides agile, channel-specific interactions.

**Sales force management.** CRM offers more supervision and control of campaigns, leads, sales force management, and task management. Organize routine and campaign-oriented tasks throughout the workforce and with all bank partners.
Secrets of the Next-Level CRM Champions

Improving CRM is a means for banks to grow and prosper. During a recent panel hosted by Efma and A.T. Kearney, most experts agreed that services, not products, are how banks stand out in a commoditized future. And with a large proportion of bank costs fixed, achieving scale requires maximizing the share of wallet of existing customers while simultaneously growing overall customer numbers at the lowest possible acquisition costs.

A few financial institutions are leading the CRM charge, according to our CRM Stages of Excellence in Banking shown in the Appendix on page 9. These champions focus on their people, their technology, or some combination of the two.

The people-focused CRM leaders generate anywhere from €1,000 to €1,700 in revenue per customer per year (compared to the European average of €666), and do so with fewer than 400 customers per employee (see figure 2). DNB (Norway) and UBS, Credit Suisse, and ZKB (Switzerland) are on the upper end of the scale and in some cases even bring in more than €1,700 per customer.

These banks produce the highest incomes per customer in our study, but their cost-to-income ratios and profitability levels tend to be lower, mainly because it is difficult to scale these banks. More business means more employees, and as customer demands shift from personal in-branch coverage to mobile and omnichannel, the concept begins to fall apart.

Only two European retail banks—ING (Germany) and Nationwide (UK)—manage to cover a large customer base with very few employees (1,800 to 2,400 customers per employee) while generating substantial income per employee (see figure 3 on page 4). Interestingly, both are present in Germany and the UK, two of the most price competitive retail banking markets in Europe.

Figure 2

People-focused CRM leaders have high employee-to-client ratios

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<th>Country</th>
<th>Average</th>
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<td>555</td>
<td>758</td>
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<tr>
<td>Scandinavia</td>
<td>649</td>
<td>1,074</td>
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<tr>
<td>UK</td>
<td>307</td>
<td>388</td>
</tr>
<tr>
<td>Poland</td>
<td>222</td>
<td>680</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis
The **technology-focused CRM leaders** rely on technology and analytics to manage their customer relationships. They cover a large customer base with very few employees while generating substantial revenues per employee. Rather than hiring more people, they invest in digital technology to better serve customers and therefore significantly outperform the costs and profitability of their in-country peers (see figure 4 on page 5). For example, Poland’s mBank earns as much as €322,000 per employee, which is 263 percent above the country’s average (see sidebar: mBank’s Digital Strategy Puts Customers First on page 5).

The followers in our sample have relatively low income per customer (roughly €200 to €500 per year) and a large number of employees. Not surprisingly, these banks are in shaky positions. Whether they opt to focus on their people or technology—or both—remains to be seen.

Although every market has its own peculiarities, it is essential to find a compromise between people- and technology-focused CRM strategies. Banks with state-of-the-art CRM capabilities simply perform better within and across markets than their competitors.
Five Steps to Revenue Growth

In the past two decades, banks have invested an estimated €20 billion in CRM technology, with advancements such as artificial intelligence and machine learning helping to strengthen customer relationships and provide multiple ways to communicate. These are smart investments, as CRM, when performed at the next level, can generate significant revenues—anywhere from €30 billion to €40 billion in new revenues over the medium term. When asked what investments deliver the biggest financial impact, we point to the five areas shown in figure 5 on page 6:

mBank’s Digital Strategy Puts Customers First

With its focus on customers, Poland’s mBank is generating more than twice as much revenue per employee as the competition. The bank started with a mobile-first focus, says Michał Panowicz, mBank’s director of marketing and business development for retail banking. “We designed mobile services to encompass the latest and greatest mobile capabilities and user interface benchmarks, with virtually no [features originating] from the financial services industry,” he said. *

The features include real-time CRM for relevant and timely notifications. The bank has reaped benefits in both financial services, such as offering a quick loan when making a purchase, and non-financial services-related offerings, such as collaborating with retailers to offer location-based coupons.

mBank’s mobile philosophy is to target the smallest screen available. Its site is optimized for mobile devices, giving customers access from anywhere. What mBank understands better than competitors is that a customer’s benchmark for a financial app is not another financial app, but all apps installed on smartphones. To succeed in mobile, banks must not compare their performance against industry peers but against the cross-industry digital leaders. And this is exactly what mBank has done.

*“Insights From a Mobile Banking Innovator,” The Financial Brand, June 2014
Reduction in churn. Customer churn is a problem. Not only does it reduce revenues and profits for financial institutions but also raises costs in operations and customer acquisition, including the costs associated with onboarding new customers and opening and closing products. In 2014 alone, 1.2 million bank customers switched a current account to a different bank in the UK, leading to revenue redistribution of at least €325 million per year. We estimate the total loss in bank revenues due to churn is between €4 billion and €6 billion per year across Europe.

CRM changes this dynamic. Based on our findings and work with clients, between 30 percent and 50 percent of lost customers would have never left their bank had they received superior customer service. (Note: die-hard price-sensitive customers cannot be stopped from switching.) Based on our calculations, less customer churn means anywhere from €1 billion to €3 billion in additional bank revenues per year.

Pricing. Pricing decisions based on individual exceptions and special conditions hurt revenue growth and profitability. While the strategy behind different prices for different customers is time-tested and proven, too many of today’s deals are based on gut instinct and salespeople who make deals too quickly for customers who neither ask for nor expect to get deals.

Next-level CRM adds structure to the pricing process, allowing for monitoring and review of decisions based on facts rather than feelings. A bank that prices appropriately can generate between €10 billion and €14 billion per year in revenues, with about two-thirds of incremental revenues coming from commission income. This is the case even though about two thirds of current retail banking income is from interest income.

New customer acquisition. Acquiring customers can be a costly proposition, often in double-digit millions of euros spent on marketing products across traditional channels. Smarter, less expensive strategies use social media channels and compile user data to launch targeted campaigns—allowing for low-cost customer acquisition while generating substantial revenues.
Fintechs, with little to no marketing expenses, are paving the way to triple-digit growth. In fact, one firm added 60,000 new clients in one quarter alone (see sidebar: The Digital Upstarts: Friend or Foe?).

Using CRM for new customer acquisitions can generate between €3 billion and €4 billion in revenues annually to the market. Indeed, over the past six years, the number of retail bank customer relationships has grown by 1.2 percent. Best practices include hook pricing, and consequential up-selling and cross-selling to turn profitable customers over time (ING is a good example of this).

**Cross-selling.** Depending on a bank’s business model (pure product versus advisory services) the average retail bank sells between two and three products per customer. Leading retail banks sell five or more products per customer. What do the leaders do that average retail banks fail to do? They leverage their data—using segmentation, timing, tailored offerings, and technology—and deploy CRM technology, such as next-best product and peer-to-peer comparisons, to support the sales force and build online sales. A data-focused CRM bank can increase its share of wallet and overall size of wallet anywhere from €8 billion to €11 billion per year.³

**Upselling.** Selling bank products can be likened to selling toothpaste—there are a vast number of brands, flavors, and textures but few real product and price-point areas of differentiation. The toothpaste peddler ends up selling the cheapest product, and in many cases so does the banker. In fact, in banking, there are instances in which 90 percent or more of a four-tiered portfolio is sold within the lowest tier.

Banks that use CRM to identify customers with more purchasing power and a willingness to pay could be worth an additional €5 billion to €7 billion in incremental revenue per year. This, of course, requires the knowledge and skill to communicate the value of more premium offerings first to your sales force and then to the customer.

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**The Digital Upstarts: Friend or Foe?**

Armed with CRM excellence, revenue pools can be grown and defended against digital entrants. A focus on three areas will have a direct impact on the top line.

- **Smart platform uplift.** Investment in IT, bolstered by a two-speed IT strategy, is the ticket to a business-oriented, agile organization. Leverage technology progress and the power of platform development with fintechs to reduce the gap from the past.

- **Culture transformation.** As Philip Kotler puts it, “The sales department isn’t the whole company, but the whole company better be the sales department.” Because traditional branch banks and their employees are used to providing services rather than selling products, a cultural transformation may be required. Without the right culture, the best systems and processes will fail or, at best, they will be ineffective.

- **Partner ecosystems.** Reap the benefits of customer satisfaction through value-enriched services. Opportunities in community building, e-learning, and AI-based customer self-service allow for more customer retention with less manual effort. API-based integration with fintechs not only allows for leveraging customer data but also provides more tailored offerings. This is a must for future success.

Fintechs, if managed intelligently and without giving up the customer interface, can serve incumbents across the entire customer life cycle.

Next-Level CRM: A Digital Defense

Understanding your customer relationships is only one part of the fundamental defense against banking’s digital upstarts. How to use organizational data is another. Only recently have banks begun to see fintechs as potential business partners in harnessing data rather than threats. The use of open standards in banking is the future. Start-ups such as Mondo and solarisBank, which offer interfaces to fintech start-ups and other companies, will either pose an existential threat to incumbent banks that refuse to change, or a partnership opportunity to banks that change their systems and cultures in order to use customer data more strategically.

To tap into this wealth of opportunities, more banks are taking an inside-out look. What IT investments are needed? How do we instill a culture that embraces digital technology? What partnerships will help reap the benefits of more satisfied customers more quickly and with less effort?

Of course, this all takes time—as every area will require its own effort. But it’s clear that excelling at CRM is no longer an option for European banks. It’s a necessity.

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Appendix: The 2016 CRM Stages of Excellence in Banking

A.T. Kearney regularly benchmarks European banks against international best practices. For the CRM benchmark, banks are evaluated against 40 criteria across six dimensions—strategy, people, processes, customer comprehension, customer service, and IT infrastructure. Banks are graded on a scale from below expectations to next-level performance. The following highlights where EMEA banks rank against the CRM leaders.

**Strategy**

**Next-level performance banks:** Consider CRM key to providing customer value, with a CRM strategy implemented across all service and sales channels; unified view of the customer at all customer touch points; customer interactions take place across all channels

**EMEA banks:**
- Recognize the importance of CRM, but the concept is not yet translated into a dedicated strategy
- Segment-specific processes are in place along all sales channels, but sales and service activities are only partially integrated
- Limited cross-channel integration

**Rank:**

| Below expectations | Next-level performance |

**People**

**Next-level performance banks:** Provide multifaceted training curriculums in combination with hands-on, on-the-job training; hire for attitude and then train the technical skills; regularly measure employee satisfaction and attrition to retain talent and know-how

**EMEA banks:**
- Hiring decisions supported by a “preferred employee” recruiting profile, but have not found the right mix to “hire for attitude” or train the technical skills; recruiting profiles do not clearly differentiate between shift types (full-time, part-time, or temporary)
- Employee KPIs focus largely on making a significant financial impact
- Employee training meets basic curricula; no employee development plans, real-time coaching, or on-the-job training; little training for management-level positions

**Rank:**

| Below expectations | Next-level performance |
Processes

**Next-level performance banks:** Interact fully with customers—from information to acquisition and retention; provide a smooth customer experience, flawless communication, and convenience

**EMEA banks:**
- All channels in play, but managed separately with little alignment (multichannel but not yet omnichannel)
- Outbound acquisition performed ad hoc, strong focus on branch level; service and sales processes characterized by many handovers and process interruptions
- Ongoing shift from ad hoc toward an ongoing, continuous process improvement routine based on sales, management input, and customer complaints

**Rank:**
- Below expectations
- Next-level performance

Customer Comprehension

**Next-level performance banks:** Able to analyze customer data, derive preferences, and predict behavior (for example, next best product); capable of setting up automatically generated and tailored campaign management and tracking; lead generation for cross- and up-selling

**EMEA banks:**
- “Single customer view” partially in place, but data not fully integrated
- Customer-centric analytics performed on ad hoc basis
- Able to set up basic campaign targets and financials
- Loyalty programs and incentives in place but rudimentary

**Rank:**
- Below expectations
- Next-level performance

Customer Service

**Next-level performance banks:** Have technical and organizational ability to use latest social media platforms, apps, and messenger to communicate with customers; establish basis for future means of communication and efficiency improvement measures, such as artificial intelligence-enriched FAQ, basic conversations (for example, via messenger) instead of e-mail conversations

**EMEA banks:**
- Customer experience not yet frictionless; partially active on social media but not integrated into existing CRM solutions
- Customer data updated in real time, but not yet online or at all customer touch points
• Offers and pricing dependent on customer segment
• Customer complaints captured; standard exception process for all incidents; no automated critical event detection

Rank:

Infrastructure

**Next-level performance banks:** Built state-of-the-art infrastructure; efficient and effective customer relationship management; availability of hardware and communications, application landscape, and data integration

**EMEA banks:**
• Partial best-in-class infrastructure
• Sales force desktops integrated with workflow management tools; not fully integrated across platforms
• KPI dashboards in place but no real-time performance updates
• CRM solution not adapted for mobile
• Basic ticketing process in place with manual tracking; no self-service options

Rank:
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