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Voice of the customer: Retail banking experience

A pulse check from Deloitte's US consumer banking survey

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Introduction

Digital technologies are transforming almost every industry, and banking is no exception. Many banks have embarked on digital change initiatives with the goal of improving the consumer experience and rebuilding business operations. However, while digital adoption in banking is growing, so far it remains transactional in nature. While many other industries have been able to establish an emotional connection with customers through digital channels, many banks have struggled to follow suit.

To understand how digital strategies can open opportunities for consumer banking, Deloitte surveyed 15,876 American adult banking consumers on their attitudes toward banks, the banking services they value most, who they are turning to for these services, and the importance of brand in their decisions. Our findings point to challenges banks will need to overcome and suggest how banks are seeking better ways to use digital technologies for competitive business advantage.

Banks and brand: A failure to connect

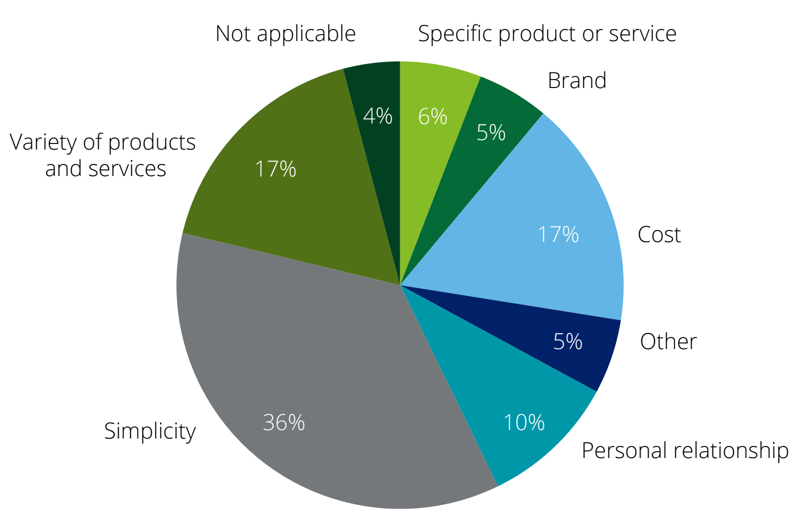
A generation ago, the local bank was viewed as a pillar of the community entrusted with the savings of its residents, a provider of mortgages, and the source of financial advice. Conversely, today many banks are struggling to maintain their relevance in the face of consumer indifference. It used to be the "branch" closest to you. As a result of the rise in digital banking, it is now about the "brand" closest to you.

Oftentimes, there may be lingering negative sentiment toward traditional banks as a result of the financial crisis. In tandem with that mindset, modern consumer needs are changing and, increasingly, they are being met by fintechs and other innovative business models, bypassing traditional financial services companies, including banks. In particular, new capabilities such as mobile payments and usage-based insurance solutions are satisfying consumer needs. However, at a more traditional level, fintechs are also taking existing products, simplifying them, and taking the friction out of the processes by offering an excellent customer experience.

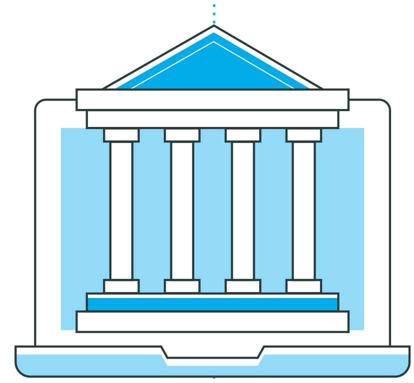
As a result of these changes, many consumers do not visit a physical bank anymore—they prefer to engage digitally, especially younger consumers: More than half of our survey respondents older than 45 said they visited a branch in person each time to purchase a banking product, while nearly half of young adult respondents used a mobile device. This trend is likely to continue as more and more people acquire smartphones and use them for transactions in their daily lives. Beyond that, as fintechs develop more of a full-service capability on the smartphone, digital adoption and engagement will likely accelerate. In fact, many Millennials think they may not even need a physical branch in the future.

Many banks are also failing to gain traction from their brands. Customers tend to see consumer banks as largely the same and do not know how to distinguish between them. Less than five percent of respondents considered brand an important driver in choosing their primary banking provider. Simplicity, variety of products and services, and personal relationships were reported as far more important differentiators (figure 1).

Figure 1. Reasons behind selection of primary banking provider



Source: Deloitte's US Consumer Banking Survey, 2019

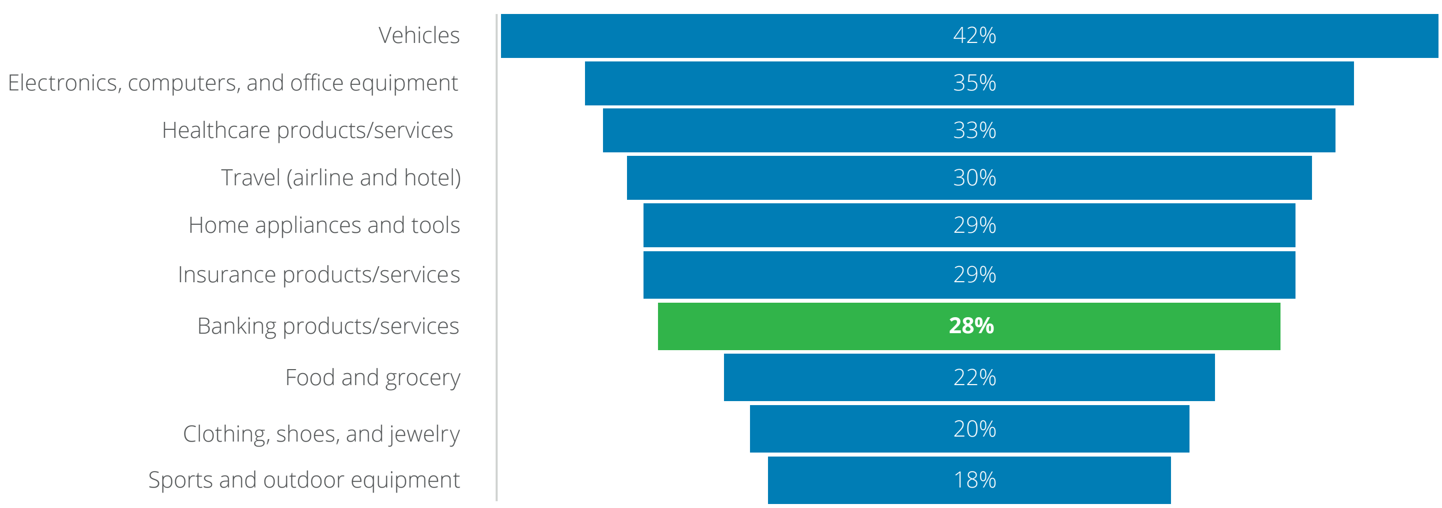


Increasingly, banks are often seen by consumers as interchangeable, and their service offerings are viewed as commodities: 66 percent of respondents think banks offer the same services, and 75 percent think that banking products and services are the same across all banks. Given this consumer indifference to brand, nonbanks with greater brand equity could well begin to take market share from traditional banks. This has already started to happen with fintechs, which are offering differentiated products and reward programs by incentivizing customers. However, there is also a real possibility that today's tech giants, most with significant cash on their books, could lead the next wave of financial ecosystem dominance.

Despite a failure to effectively use brand to lure customers, brand is not altogether meaningless. About a quarter of respondents (28 percent) believe that brand is very important when compared to other industries. This suggests that while brand may not be an important reason for selecting a bank, the quality and respectability of a bank's brand still matters and should not be overlooked (figure 2).

This raises the question: What can banks do to differentiate their services, win customer loyalty, and, as a result, bolster their brands? Our survey focused on a few areas that might help elevate this experience: a proactive focus on a customer life events and engaging in new business models with open banking.

Figure 2. Consumers surveyed who say brand is very important to their purchase decisions



Source: Deloitte's US Consumer Banking Survey, 2019

Open banking: Creating a marketplace with banks at the center of the ecosystem

Open banking is a business model that requires an alternate way of thinking and working with a product development mindset. Combining this concept with powerful execution capabilities and an effective and scaled partnership, banks can improve their competitive position.

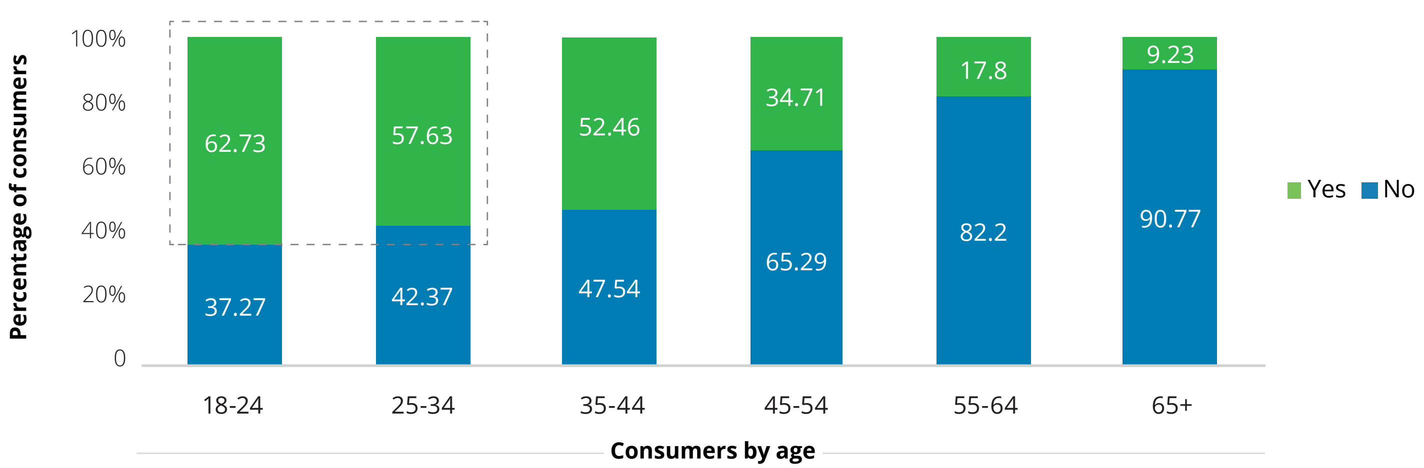
Open banking enables banks to broaden their ecosystems and offer a wider range of services to customers, moving away from simple transactional services and more toward a full-service banking experience. It also affords banks more opportunities for digital engagement with their target audience. For consumers, open banking offers greater transparency and access to a broader array of services from a single source called a "marketplace," as well as a more efficient customer experience. It is an enabler of the composite business model and the technology business model, which, together, can help lead to new sources of revenue for the bank.

Banks are at the center of this ecosystem, and open banking uses this by transforming the customer experience, offering value propositions developed by third parties and ultimately putting the control in the hands of the customer.

Open banking uses Application Programming Interfaces (APIs) to share consumers' financial data (with their permission) with third parties, including nonbanks. It requires that customers have a certain level of comfort with sharing their information with nonbank providers. It is important to note that consumers are not relinquishing ownership of their data to third parties, but merely providing interface access to their data through which third parties can draw insights. Our survey respondents indicate that this may not be as big a hurdle as one might think. For example, 61 percent of Millennials surveyed—when it comes to brand differentiation for banks—say they would be receptive to having banks share their information with other platforms (figure 3).

Figure 3. Consumers surveyed willing to share data by age

Would you be willing for your bank to share your information with external platforms or services to offer you better bundled banking products?



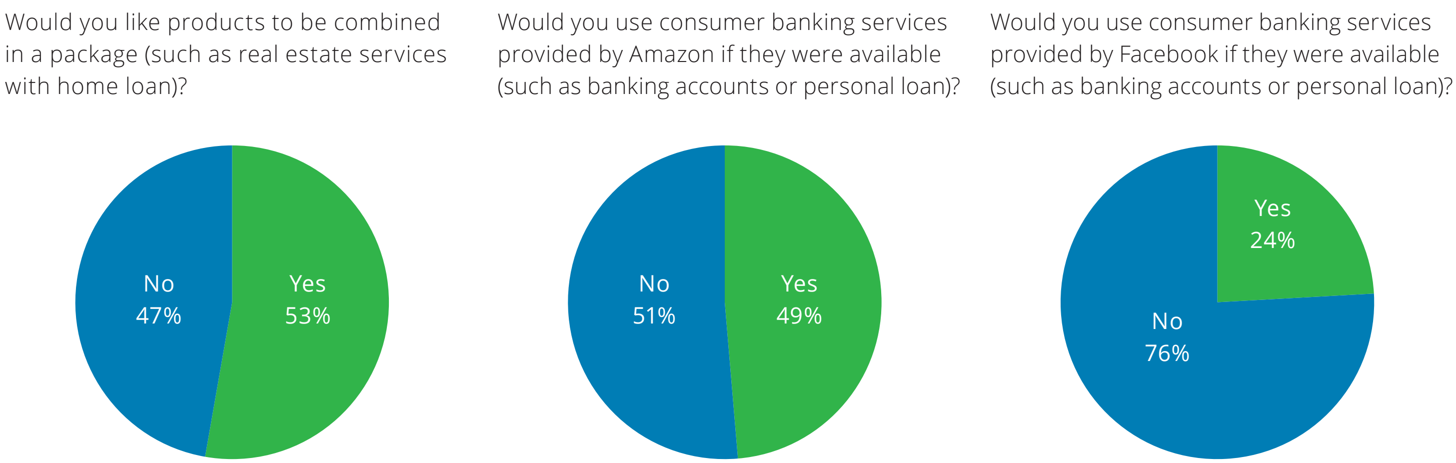
Source: Deloitte's US Consumer Banking Survey, 2019

Additionally, more than half (53 percent) of respondents said they would like being offered bundled products (e.g., real estate service with home loan or car deals with preapproved auto loan), indicating that banking product and service innovation is critical to being able to win customer loyalty and improve brand equity.

These findings are not only a sign of consumer receptiveness to open banking, but also a cause for reflection: If banks are not prepared to offer these types of services, many consumers are prepared to move away from traditional banks, potentially leaving them to become low-margin utilities. Indeed, 49 percent of respondents said they would be willing to use mainstream consumer banking services if Amazon provided them, and 24 percent said the same of Facebook (figure 4). With Amazon launching services in payments and lending and Facebook providing mobile wallet capabilities, banks may need to act sooner rather than later.

These changing consumer attitudes suggest that going it alone may not be the best route for banks to take. Partnering with other industries like retailers, universities, or hospitals and becoming the center of the customer's ecosystem can help distinguish them in the mind of their customer.

Figure 4. Respondents are willing to look beyond banks



Source: Deloitte's US Consumer Banking Survey, 2019

Embracing the human experience: Opportunity in life events

While open banking is a way for financial institutions to offer a one-stop shop, banks may need to take things a step further. Perhaps the most powerful path to winning a greater share of wallet is through personalization—and to be able to succeed at personalization, banks need to be proactive in harnessing data to anticipate when and where their customers could benefit from specific products or services.

For the typical consumer, the need for new banking products, services, or advice often arises when they experience a life event—for example, a significant percentage of consumers were prompted to purchase a banking product when buying a new home (28 percent), entering the workforce for the first time (22 percent), and enrolling in college (21 percent). Although respondents in 50 percent of cases said that their banks offered products that pertained to their life events, it was well after the life event had occurred or when they had already made a decision to go with another bank's product.

Our market research shows that consumers tend to make decisions well ahead of a life event. Unfortunately, banks often engage consumers experiencing these life events too late, after a decision has been made, and often miss the window to provide timely financial education to influence optimal decisions. For example, 48 percent of respondents said they began shopping for student loans as soon as they decided to attend college—but banks may wait until a loan application is submitted to them before making the effort to acquire or retain the customer (figure 5).

Banks tend to be reactive when they market products to address customer life events, which can result in lost opportunities. For example, during the planning phase of having a child, most consumers will research and purchase a college savings plan on their own. However, most banks miss the opportunity to advertise to their own customers about such an offering, which can mean lost business from their core customers.

Figure 5. Capturing key life events would lead to increased market share

As shown below, banks often engage consumers in their life events too late, when the decision is already made. To address this, banks should modernize and be radically proactive in engaging early and frequently.

College

Customer shortlists student loan(s) when planning for college

Bank sells when it receives application for education loan

First job

Customer shortlists checking account(s) when understanding their financial obligations

Bank sells when customer approaches it to set up a direct deposit

Marriage

Customer shortlists financial products when planning for marriage

Bank sells when customer approaches it for a joint bank account

Having a child

Customer shortlists 529 plan(s), life insurance when understanding the responsibility of having a child

Bank sells when approached for 529 or insurance plan

Home purchase

Customer shortlists mortgage products when searching for dream home

Bank sells when it receives mortgage application

Inheritance

Customer shortlists financial products(s) when becoming knowledgeable of the future receipt of inheritance

Bank sells when it is approached for investment solutions

Job change

Customer shortlists investment products upon receiving updated paycheck

Bank sells when consumer asks about new investment vehicles

Preparing for retirement

Customer shortlists financial product(s) when building a retirement plan

Bank sells when consulted about retirement investment products

Regardless of a positive or negative life event, market research shows that customers make their financial decisions well ahead of time. College attendance, like many life events, is something that is planned for in advance. Other life events, such as divorce, if anticipated, can also be planned for financially. Yet many banks are missing the boat and are unable to find ways to know their customers and potential customers better so that they can engage with them both early and often. But how can they reliably anticipate life events in order to personalize products and services that will command customer loyalty? One way may be to participate in an API-driven open banking ecosystem that alerts the bank to customers' life events based on information from people who have opted into sharing their publicly available social footprint or browsing activity.

Marriage: The beginning of a lifelong partnership (with a bank)

When a couple decides to marry, financial decisions are an important aspect of planning for their future. The typical life cycle for these decisions begins when the couple starts talking about potentially joining their finances. They conduct their research, decide on a bank, and open a joint account. Ultimately, the bank can expand its relationship via other products and services, yet it usually only becomes involved in the initial decision—opening a joint bank account—if the couple approaches it. But consider a different scenario—one in which the bank enters the decision-making life cycle much earlier and then stays on as a couple's financial partner through unfolding events in their lives.

Jessie and Alex had a lot to do. They were getting married in less than four months' time! They had already decided to combine their finances, but they were not sure how to go about it. They decided to set aside their decision for now and do something more enjoyable—plan their wedding. They set up an account on a wedding planning website and started creating registries and notifying friends and family about the upcoming event.

Meanwhile, Eleanor, an account manager at Jessie's bank, the Bank of Tomorrow, received a notification from the couples' wedding website that Jessie had opened an account. Bank of Tomorrow was part of an open banking system that included exclusive partnerships with various social apps and wedding-centric websites, including this particular wedding site. As a Bank of Tomorrow client, Jessie had given permission for certain personal data to be shared with her bank in exchange for customized products and services.

Before Jessie and Alex were able to turn their attention back to a discussion about combining their finances, Eleanor had emailed Jessie with a congratulatory note and an extremely attractive offer for a joint account. Jessie and Alex were not only impressed, but also delighted not to be saddled with yet another research project on top of everything else they had to do. They were able to set up the account remotely, saving them time in their very busy schedules.

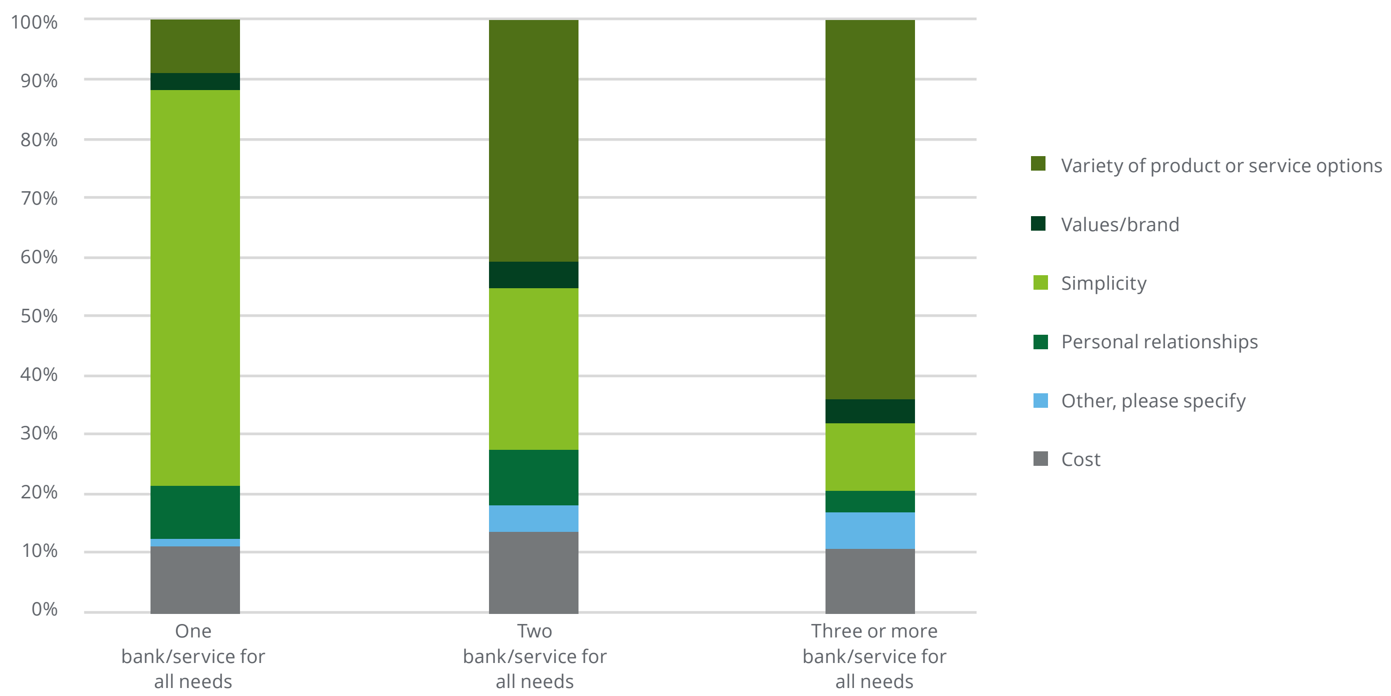
A few weeks before the big event, Eleanor sent Jessie and Alex an electronic gift to use toward their wedding registry. It was a personal gesture that not only won the couple's loyalty but launched a long-standing relationship with Bank of Tomorrow.

That became apparent just a few years later, when the couple was expecting their first child. Jessie wanted to learn everything she could about being pregnant, so she joined a mom's community group on a website for first-time moms. The website, which also partnered with Bank of Tomorrow, sent an automatic notification to Eleanor when Jessie opened her account. Aware that the couple could probably benefit from some financial advice about saving for their child's college costs, Eleanor sent a congratulatory email and explained that the bank had a special 529 plan available only to existing customers. She also sent a link to an article demonstrating the importance of starting to save early for such a big-ticket expense. Jessie and Alex were intrigued and set up a call with Eleanor, who outlined the plan and also suggested a life insurance product and a savings account for the baby linked to their account.

One week after welcoming their daughter into the world, Alex went online to Bank of Tomorrow's website and opened a 529 account with monthly contributions transferred automatically from his and Jessie's joint account. Given the bank's responsiveness to their needs, the couple had a good idea of what to expect in the future: continued valuable advice from a reliable financial partner.

Regardless of what approach a bank adopts, customization is key. Life events aren't just about a single transaction, but a pathway to learn and evolve together between the open bank and the modern consumer as they grow and experience new life events. Consumers may be more likely to stay with just one bank if their primary bank can meet all of their lifestyle needs. Among survey respondents who said they had three or more banks, 61 percent said this was because their lifestyle needs could only be met by using products at multiple banks. Banks that understand and embrace the human experience of their customers are better positioned to convert those multiple-bank users to single-bank devotees (figure 6).

Figure 6. Banks can differentiate their brand by becoming a lifestyle partner



Source: Deloitte's US Consumer Banking Survey, 2019

Position to win

As consumer preferences and priorities change, banks will need to address several challenges in order to be able to head off nonbanking competitors and remain at the center of the banking ecosystem. But this will almost certainly mean moving away from a traditional banking approach. Enabling success in this kind of competitive environment involves a disciplined approach:

- **Be targeted:** Know which customer segments matter most to your business and be laser-focused on the needs of these groups to help achieve cut-through. Truly differentiating services create a halo effect that can pull in other customer groups beyond your core.
- **Play to your strengths:** Know what your brand means to your customers and understand your right to play. Be honest about where you stand relative to peers and create experiences that stay true to your point of difference.
- **Make it relevant:** Customers are often more responsive during major life events, as they are pushed to address larger financial decisions they may have been putting off. Be proactive about these trigger events—communicate a simple offering that addresses their specific need in that moment and pulls them into your ecosystem.
- **Be human:** Never forget who you're designing for. Start with a grounding in your target customer needs and build experiences with them in mind, prototyping, testing, and iterating the design through to launch.
- **Be fast and experiment:** Don't waste time trying to get the "perfect idea"—it doesn't exist! Develop your idea quickly and get it to market. Keep experimenting with real customers as you go through build.

If banks can truly understand the broader spectrum of client needs, a host of new opportunities will likely open up. Specifically, banks will be better able to offer both advice and services to support all facets of the consumer's lifestyle—including home, travel, education, auto, real estate, taxes, and health. This can help banks move toward becoming an essential resource for a broad range of customers.

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