



The future of retail banking

The hyper-personalisation imperative

November 2020



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Foreword

In this report, we are addressing the medium term challenge around banks' business model. As such, we believe that hyper-personalisation is an imperative for banks, enabling them to respond to customers' manifest and latent needs.

This challenge has been exacerbated by COVID-19, as central banks around the world have scrambled to cut rates. Over the medium term, banks vertically-integrated business model faces disruption, as evolving customer needs are increasingly being met by innovative newcomers that are picking off some of banks' most profitable lines of business, like payments and foreign exchange. Over the long term, banks need to ensure that their purpose meets the expectations of a range of stakeholders well beyond shareholders who have held sway since the 1980s.

Deloitte has addressed both near- and long-term challenges in recent research. Following the spring lockdowns across Europe, we explored how European banks can respond, recover and thrive again, by outlining different routes to rebuild capital.¹

In a collaborative research effort with the European Investment Bank (EIB), the Global Alliance for Banking on Values (GABV), and KKS Advisors, we showed how commercial banks with good performance on material environmental, social and governance (ESG) issues financially outperform those with less good performance.²

In this report, we are addressing the medium term challenge around banks' business model. We believe that hyper-personalisation is an imperative for banks, enabling them to respond to customers' manifest and latent needs. In so doing, hyper-personalisation will differentiate their brand, boost their revenues, and improve financial inclusion. To achieve these objectives, we outline those building-blocks that banks must have – data science, behavioural science, and ethnographic research capabilities – and how these can be applied to innovate, in terms of both product functionality and product design.

In particular, we believe that banks must become more like corporates. In the past, banks' success rested on mastering a small number of capabilities, namely credit allocation, capital management and operations. There was little differentiation between various banks' product offerings, and limited understanding of customer needs. We believe that, in future, banks will have to understand customers much better, and to develop the marketing and branding skills that would enable them to foster an emotional connection with customers. These competences are commonplace in other sectors, such as fast-moving consumer goods and retail industries.

This report is of particular relevance to banks' boards and senior executives as well as to strategy, marketing, and digital specialists. We look forward to discussing its findings with you.



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Introduction

The advent of the digital age is inextricably linked with tailor-made offerings that deliver personalised services, products and pricing to customers. Over the past decade, banks have deployed personalised offerings (e.g., micro-segmentation, packaged products and services) to increase customer loyalty and maintain their competitive advantage.¹

Nonetheless, progress in other industries – ranging from retail (e.g., tailored products), transport (e.g., ride hailing), hospitality (e.g., home-sharing platforms), etc. – alongside advances in FinTech are contributing to redefine customers' expectations of banking. It is, therefore, unsurprising that 51% of consumers surveyed by Salesforce expect that banks will anticipate their needs and make relevant suggestions before they even make contact.³

As a result of the advances in other industries, banks are increasingly expected to deliver hyper-personalisation. Hyper-personalisation can be defined as using real-time data to generate insights by using behavioural science and data science to deliver services, products and pricing that are context-specific and relevant to customers' manifest and latent needs (i.e. those needs which, due to a lack of information or availability of a product or service, cannot be satisfied). These insights are garnered using Artificial Intelligence to analyse data.

This hyper-personalisation is the software equivalent of the mass customisation that emerge from supply chain re-engineering in the 1990s. HSBC foresees a new standard of customer service: "in the future, customers will increasingly be able to expect a highly-personalised service determined by their individual requirements, instead of based around a set of savings, borrowing and investment products, each with their own sales and servicing characteristics".⁴

Hyper-personalisation can be defined as harnessing real-time data to generate insights by using behavioural science and data science to deliver services, products and pricing that are context-specific and relevant to customers' manifest and latent needs.

¹ Granular segmentation approach that leads to highly personalised experiences that compel customers to action.



Smart devices, rapidly-evolving customer experience (CX) and real-time data processing are not the only factors creating the hyper-personalisation imperative for banks. Governmental and regulatory expectations have translated into a need for banks to play a fuller role in meeting society's financial needs. In particular, banks are increasingly expected to improve financial inclusion.⁵ Close to 35% of adults in the UK are at risk of financial exclusion, meaning that they do not have sufficient access to mainstream financial services and products.⁶ The factors that drive financial exclusion are both demand-driven (influenced by customers' choices) and supply-driven (influenced by banks' offering). The beauty of hyper-personalisation is that it can be deployed to address both.

In this report we focus on what banks need to do in order to truly meet their banked and underbanked – customers' manifest and latent needs. But we recognise that the imperative of truly embracing hyper-personalisation is by no means confined to banks: all financial services sectors have to.

This report examines hyper-personalisation in banking from a behavioural science perspective.

It is divided into three parts:

- Part 1 sets out why hyper-personalisation is imperative for banks.
- Part 2 sets out the obstacles faced by banks in adopting hyper-personalisation.

To further evidence these, results from a survey of more than 2,000 respondents have been included. Lastly,

- Part 3 outlines Deloitte's recommendations for overcoming these obstacles.

That is, it outlines which building-blocks banks must have – data scienceⁱⁱ, behavioural scienceⁱⁱⁱ, and ethnographic research capabilities^{iv} – and how these can be applied to innovate, in terms of both product functionality and product design. By adopting hyper-personalisation, banks will respond to customers' manifest and latent needs and, in doing so, will differentiate their brand, multiply their revenues and increase financial inclusion.

Smart devices, rapidly-evolving customer experience (CX) and real-time data processing are not the only factors creating the hyper-personalisation imperative for banks.



ⁱⁱ Inter-disciplinary field that uses scientific methods, processes, algorithms and systems to extract knowledge and insights from data.

ⁱⁱⁱ A branch of science (such as psychology, sociology, or anthropology) that deals primarily with human action and often seeks to generalize about human behavior in society.

^{iv} Qualitative method where researchers observe and/or interact with the participant in their real-life environment.



Why must banks adopt hyper-personalisation?



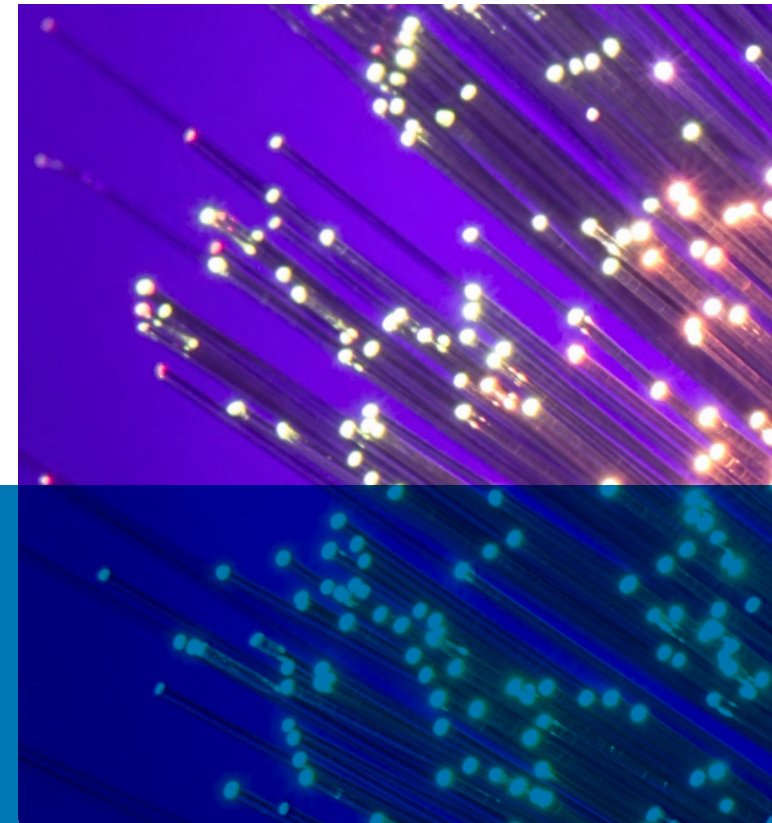


1.1. The brand differentiation argument

We believe that hyper-personalisation is an imperative, not an option, in a digital economy. Indeed, as various industries adopt technology “as” their business, rather than “in” their business, the combination of smart devices, rapidly-evolving CX capabilities and real-time processing of big data, means that new opportunities arise for banks to meet customers’ needs on a highly-personalised and dynamic basis.

Smart devices, by gathering and storing real-time data, are enabling firms to improve customer service and customer engagement. In terms of customer service, firms can advertise products based on a customer’s real-world context (e.g., offering products related to those previously bought). In terms of customer engagement, firms can now interact with their customers beyond the point of sale to respond to and even anticipate their customers’ latent needs. Overall, smart devices are facilitating a drive for hyper-personalisation, thus offering banks the possibility of further embedding them as part of their CX (e.g., a UK Challenger bank has been experimenting with Google Home to enable its customers to carry out balance enquiries and payments through voice commands).⁷

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CX is predicted to overtake price and product as a firm's brand differentiator.⁸ Rapidly-evolving CX means that customers want interactions with their bank to be as sophisticated, immediate and personalised as their experiences with other industries. As a result, financial services customers are willing to share data as long as they receive offerings tailored to their needs.⁹ Yet, 94% of banks cannot deliver on this hyper-personalisation potential.¹⁰

Behavioural science enables firms to understand, at a granular level, and anticipate customer needs through a consciousness of customers' motivations, perceptions, personality traits, values and goals. For example, behavioural science has identified that too much choice can be a bad thing. Customers can feel overwhelmed by too wide a range of products and services. Around 39% of customers leave a website and buy from a competitor after being inundated with options.¹¹

Hyper-personalisation helps to solve this by providing customers with only those options that are suited to their needs. For example, Netflix uses evidence selection (i.e. the process of endorsing a movie with the most effective cue, message, tag or label) to help customers choose what to watch before choice overload sets in.^v

CX is also fuelling societal expectations, which are supported by governments and regulatory expectations. Customers increasingly assess firms – including banks – based on their ethics (71% of European consumers).¹²

Having a good reputation is becoming essential to delivering customer satisfaction, building loyalty, and thereby driving profitability. For banks, being seen as a good corporate citizen depends, in part, on how well they fare on financial inclusion. Indeed, financial inclusion is a key priority for both the government and regulators.ⁱⁱⁱ Hence, banks need to tackle customers who are underbanked due to products and services that are:

- Charged at prices that are unaffordable or represent poor value-for-money
- Not granted for risk-management reasons
- Complex (i.e. difficult to understand).

Applying behavioural science to real-time processing of big data can provide a more comprehensive understanding of consumers' behaviour (and spell out the differences between their stated vs their observed behaviour) than was possible even in the recent past. For example, a UK InsurTech uses black-box data to calculate risk scores, which are reported, real-time, via mobile apps to drivers so that they can better understand and improve their driving behaviour. In addition, the driver's insurance premium is periodically recalculated to reflect the driver's performance.¹³



Applying behavioural science to real-time processing of big data can provide a more comprehensive understanding of consumers' behaviour.

^v Cognitive process in which an individual has a difficult time making a decision when faced with many options.

ⁱⁱⁱ At a governmental level, "Help to Save" allowed 90,000 working individuals on low incomes to create a bank account, with the UK Government offering a 50% bonus on deposits of up to £50 a month. In addition, the Government continued to improve consumers' financial capability by working with the Single Financial Guidance Body. At a regulatory level, the Financial Conduct Authority (FCA) continued its work on the high-cost credit market, including promoting alternatives to high-cost credit.



1.2. The growth-hacking argument

There is a strong revenue and valuation argument to be made in favour of hyper-personalisation. In terms of revenue, the personalisation maturity curve evidences that a firm's revenue tends to increase after a certain level of hyper-personalisation adoption (see Graph 1).¹⁴ For example, Amazon and Netflix have respectively derived 35% and 60% of their sales from hyper-personalised recommendations, whilst Starbucks' incremental revenue increased three-fold, via hyper-personalised offer redemptions.^{15, 16}

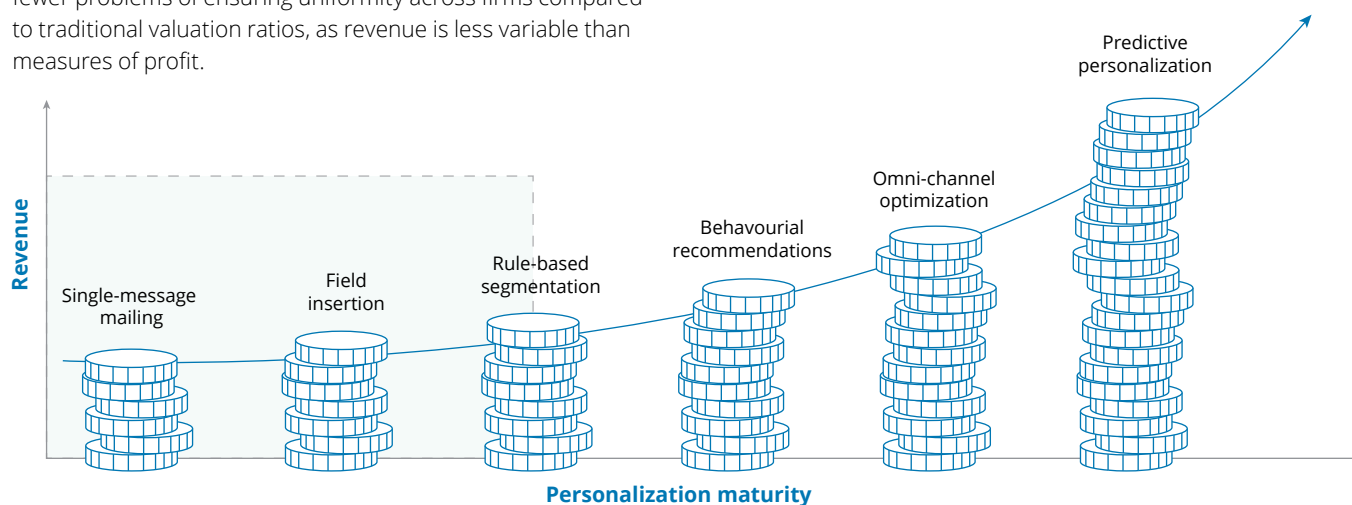
Graph 1: The revenue pay-off

This revenue argument is also further heightened by regulatory changes to how banks can charge for different products, which have led to pockets of revenue loss. A current example is the Financial Conduct Authority's (FCA's) biggest shake-up to the fees and charges on unarranged overdrafts. Currently, firms make more than £2.4bn from overdrafts alone, with around 30% of that from unarranged overdrafts.¹⁷ Deloitte estimates that the revenue for firms from unarranged overdrafts will drop from £720m per year (previous to the shake-up) to £280m. Hence, banks will need to look at new lucrative sources of revenues – and hyper-personalisation is a key lever – to make up for lost revenue.¹⁸

In terms of valuation, corporate value is shifting towards business models that Deloitte terms network orchestrators (i.e., they deliver value through network capital) as opposed to service providers (i.e., those that deliver value through human capital).¹⁹ This shift is especially relevant for stressing the imperative of hyper-personalisation, as network orchestrators are far more advanced than service providers in their adoption of hyper-personalisation.

To evidence this corporate value shift, we compared 16 firms, across both business models by calculating their enterprise-value-to-revenue multiple (EV/R)^{vii}. Using the EV/R multiple, poses fewer problems of ensuring uniformity across firms compared to traditional valuation ratios, as revenue is less variable than measures of profit.

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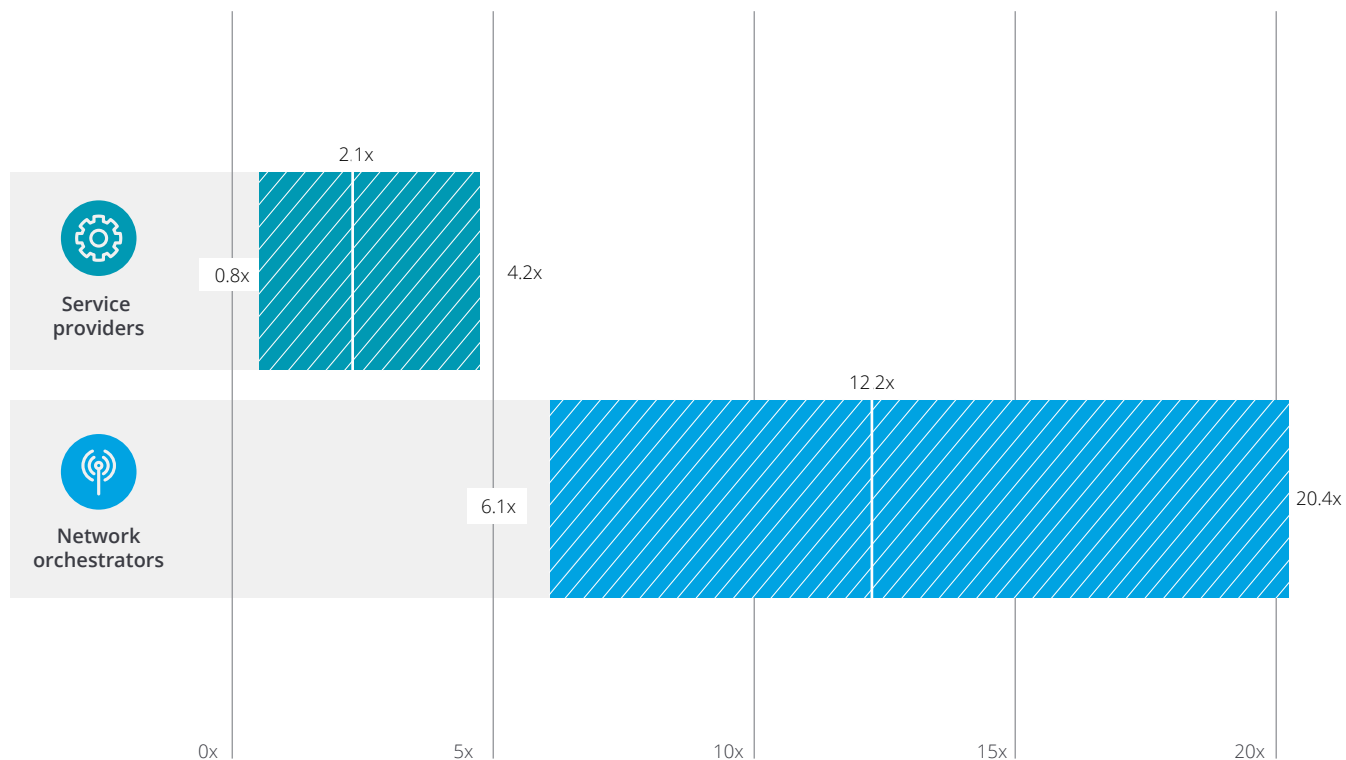
^{vii} The data was collected from December 2016 to December 2019. The sample included leading banks, financial services companies, and payment processing institutions.



Revenue is much less influenced by accounting decision (e.g., depreciation, R&D, etc.) than earnings ratios. Based on this comparison, network orchestrators (represented in the sample by payment providers) have an EV/R multiple that is 5.8 times higher than service providers (represented in the sample by banks) (see Graph 2).

In terms of valuation, corporate value is shifting towards business models that Deloitte terms network orchestrators (i.e., they deliver value through network capital) as opposed to service providers (i.e., those that deliver value through human capital).

Graph 2: The valuation pay-off





What obstacles are preventing banks from adopting hyper-personalisation?





Banks are particularly suited to adopting hyper-personalisation, as they enjoy both large customer bases, and a high amount of data per customer (see Graph 3). Therefore, it is initially difficult to see what has prevented a faster and more widespread adoption of hyper-personalisation.

Delving deeper, some of the obstacles, many inter-related, become apparent. To illustrate these challenges, Deloitte commissioned a survey of more than 2,000 respondents, including banked (income above £15,000/year, representing 30% of the sample) and underbanked (income below £15,000/year, representing 70% of the sample) customers.

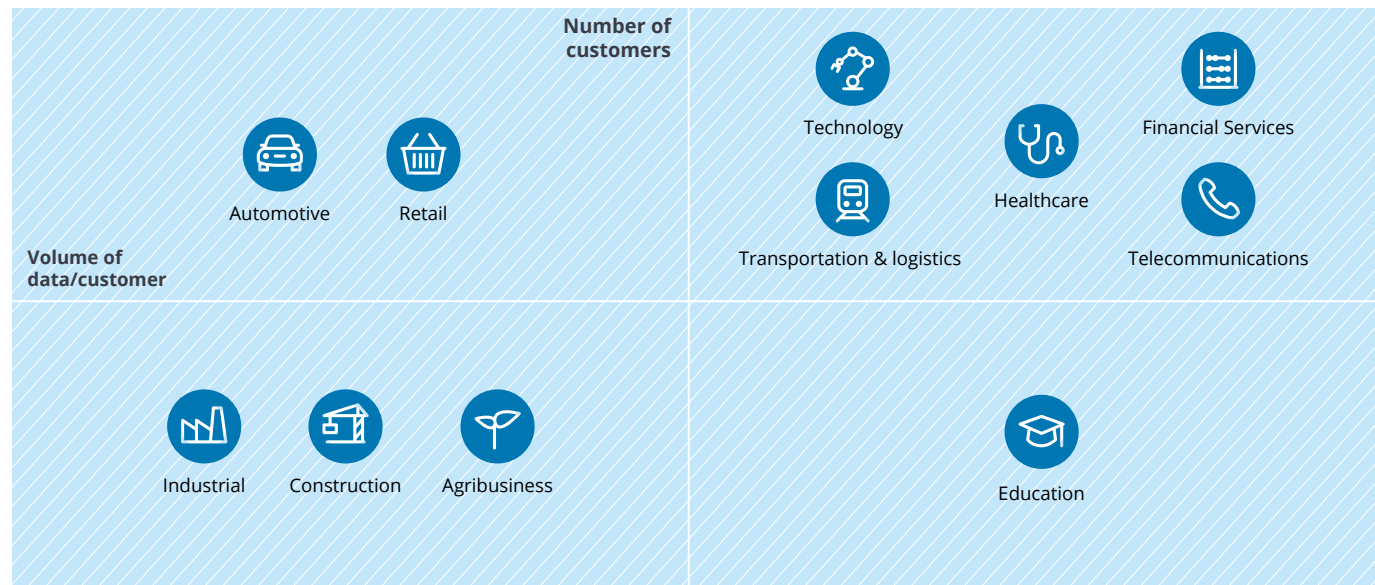
Overall, the survey results convey the sense that customers have lower-order needs because of internal (i.e. latent needs) and external factors (i.e. products and services do not deliver on customers' lower-order needs and lack of trust). Applying Maslow's hierarchy of needs model to the banking context can shed light on the relevance of these survey results.²⁰ Maslow's model considers that lower-order needs are the most fundamental needs. Hence, they must be satisfied before customers can attend to higher-order needs.

Similarly, in the banking context, banks must satisfy customers' lower-order needs (i.e. basic functional needs) in order for their customers to express – and seek to satisfy – higher-order needs (i.e. advanced functional, social and emotional needs).

This represents an opportunity for a disruptor to adopt hyper-personalisation to meet both lower-order and higher-order needs.

Delving deeper, some of the obstacles, many inter-related, become apparent.

Graph 3: Data volume and usage potential by sector





2.1. Not harnessing the building blocks of hyper-personalisation

First, banks are not harnessing the building blocks of hyper-personalisation. Customer data held by banks is a potential goldmine, but is still proving hard to access due to legacy technology.

As such, banks have not fully harnessed data analytics, nor have they harnessed behavioural science, to understand how to increase the utility of their products. Beyond these legacy technology issues, conduct regulation (e.g., stringent customer protection and data privacy and security regulations), has also acted as a perceived constraint in adopting hyper-personalisation.^{21, 22, viii} Turning to the survey results, it is hardly surprising that less than a third of respondents agree that their bank personalises their products/services (see Graph 4). This hints to the fact that customers want their banks to go beyond providing products/services that offer streamlined journeys, live alerts and that are accessible through immersive apps.

That is, customers do not perceive such products/services as being personalised to meet their needs. Hence, banks will need to move from a product-centric model to one that is customer-centric.

To achieve this, banks do not need more data to drive better actions but will need to derive more insight from the volumes of data they already have. Data analytics and behavioural science capabilities will prove to be fundamental in deriving that additional insight. Among other benefits, their combination can allow banks to create the much-sought-after 'single view' of each customer, micro-segment their customers (and thereby identify their most valuable ones) and take decisions based on real-time data.

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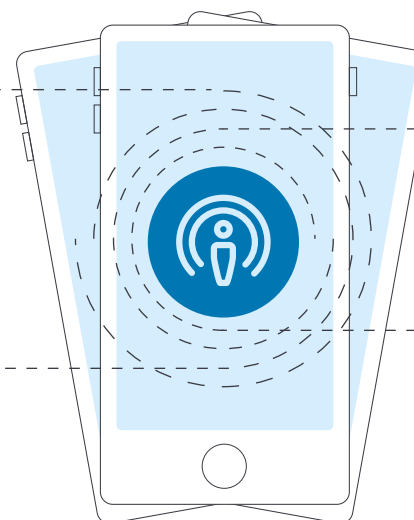
Graph 4: Do customers think they receive personalised products/services from their banks?

39.3%
Neither agree nor disagree

26.0%
Net disagree

30.0%
Net agree

4.7%
Don't know



^{viii} Denmark will introduce mandatory legislation for AI and data ethics. If asked, they must provide information on which algorithms they use in their platforms and prove that these algorithms live up to transparency requirements. Similar legislation might be applied in other countries too. <https://2021.ai/denmark-introduces-mandatory-legislation-ai-data-ethics/>



2.2. Not solving customers' issues

Second, banks are not solving customers' issues. Banks tend to focus more on selling products rather than addressing customers' needs. As such, banking products and services are seen as commodities that do not help customers fulfil their objectives.

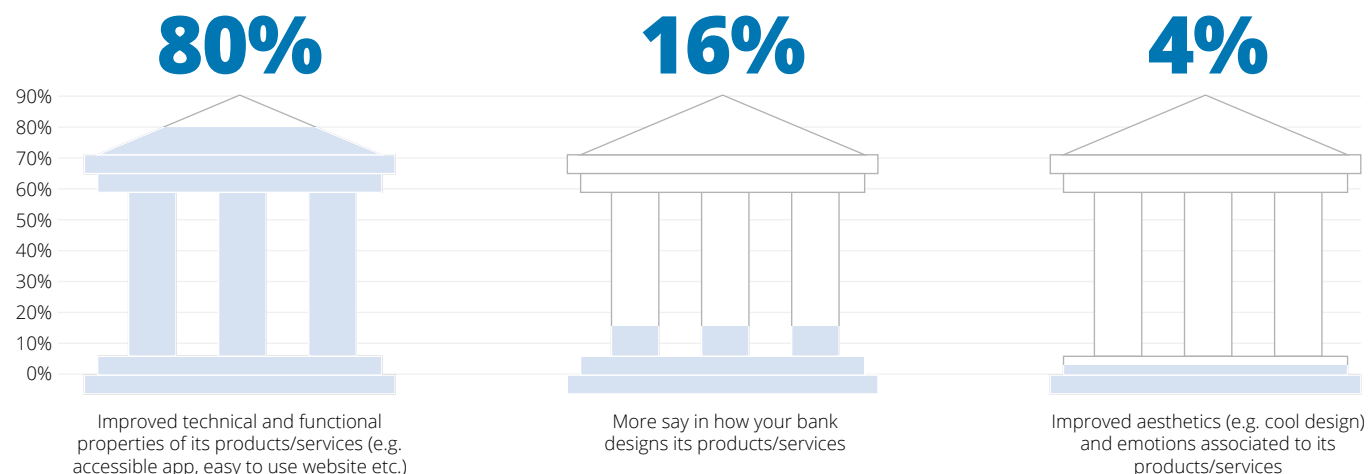
Meeting customers' needs is made difficult by the fact that customers are unaware of their latent needs. This lack of awareness is exacerbated by the lack of a "feel good" element of taking sound financial decisions. Indeed, taking sound financial decisions is generally difficult, and often requires short-to-medium term sacrifices in exchange for a much bigger gain in the longer term. One of the big lessons from behavioural science is that humans have a "present bias" (i.e. settle for small immediate rewards over larger, more distant rewards). Hyper-personalisation could help banks to evidence the monetary gain to customers, as this will activate their reward system, thus causing a gratifying sensation.²³

Turning to the survey results, improved technical and functional properties of products/services is the most important feature when selecting a new bank account, whereas nice-to-have features play a minimal role (see Graph 5).

This suggests that banks need to offer functional value before they offer more advanced features that would result in social and emotional value for the customers.²⁴ Value affects customers' behavioural intentions, which include: repurchasing, recommendation, willingness to pay more and complaining. But the behaviours differ depending on the perceived value received. Functional value affects customers' repurchasing and complaining intentions, whilst social and emotional value affects customers' recommendation and willingness to pay more intentions. Hence, banks will need to provide all of these values to their customers. Whilst banking customers have, so far, been sticky, a low customer value (across the three categories) provides opportunities for disruptors to usurp the places of current market leaders.

Improved technical and functional properties of products/services is the most important feature when selecting a new bank account, whereas nice-to-have features play a minimal role.

Graph 5: What do customers prioritise when opening a bank account?





2.3. Not being trusted

Finally, banks are not trusted. Trust is built on three distinct elements: integrity (i.e. honesty), benevolence (i.e. caring about one's best interests) and competence.²⁵

Partly as a legacy of the Global Financial Crisis, a number of banks were perceived as placing profits above ethical business practices and, specifically, above customers' best interests. As such, integrity and benevolence, two elements of trust, have been eroded. Partly, this lack of trust is exacerbated by the previously mentioned challenge, namely that banks are not meeting customers' needs. As such, competence, the third element of trust, has been eroded. In the absence of customers' trust and their subsequent willingness to share data about their finances, banks will struggle to deliver hyper-personalisation.

Trust is often reflected in customers' willingness to share personal data for some perceived benefit (e.g., discounts, convenience, personalisation, etc.). Turning to the survey results, when choosing what personal data customers would share with their banks, most respondents would share their geo-location, as opposed to more personal data (e.g., life stage events and health data) (see Graph 6). Indeed, as geo-location is tracked by several means (e.g., IP address, various mobile phone apps, etc.), it is perceived as being less personal.

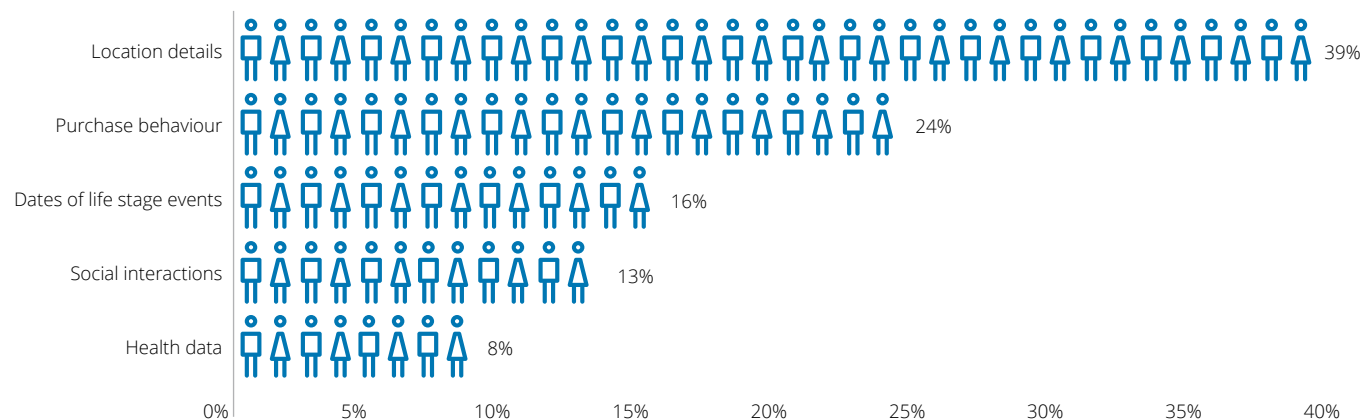
This suggests that growing awareness of data privacy has made customers more intentional about what data they share. In addition, not sharing more personal data can have a psychological gain – for example, often individuals do not want to admit what health problems they have, as it makes them feel ashamed. Hence, banks will need to strike a balance between their need for customers' data and customers' desire for privacy and wariness of a loss of control that firms surveillance implies.

In other words, what matters to customers is: who is asking for their data, why they are asking, what kind of data is being asked for, and how that data will be used. One way for striking that balance is for banks to take a more thoughtful approach when collecting data.

Customers are more likely to trust a bank that collects only data relevant to its current or future products – and that educates them about how the data will be used to help meet their needs.

When choosing what personal data customers would share with their banks, most respondents would share their geo-location, as opposed to more personal data.

Graph 6: What data are customers willing to share with their bank?





How can banks overcome these obstacles to adopt hyper-personalisation?





3.1. Harnessing the building blocks of hyper-personalisation

Three building blocks are underlying hyper-personalised recommendations: data analytics, behavioural science, and ethnographic research^{ix}. Taken together they are key in answering the “what”, “how”, and “why” of customers’ behaviour. Hence, banks will need to have all three capabilities in place.

Outside banking, there are some strong examples of firms successfully combining data analytics with behavioural science and ethnographic research. For example, through the use of real-time data, Starbucks can send hyper-personalised messages, recommendations, and offers to its 13 million customers through its app. Through the offers and games on its app, Starbucks is collecting behavioural real-time data on its customers.²⁶

Integrating and using structured and unstructured – especially real-time – data from internal and external sources continues to be a challenge for banks.

To alleviate this challenge, banks will need to set up a comprehensive data infrastructure with three components: input, platform, and sharing. That is, banks will need to ensure that widespread means of capturing data are in place and that new data are frequently generated, this could include partnering with third parties to collect complementary data on customers. By integrating and using data successfully, banks will be able to: (1) differentiate between actionable and non-actionable data^{vii} so as to develop algorithms that can identify behavioural patterns and model customers’ propensity to buy a product and (2) offer timely products/services to customers.

Behavioural science is a powerful tool to deliver hyper-personalisation, as it enables organisations to explore, measure, and predict consumer behaviour and tailor products and services accordingly. More than 30 years of research demonstrates that individuals have behavioural biases that can lead to poor financial decisions. One widespread example is the status quo bias, which can work against the customer’s financial interest (e.g., instead of investing money, the customer keeps it, over the years, in the same low-interest savings account). Behavioural science enables the design and development of habit-shaping products and services to help customers overcome such biases.

A prominent tool of behavioural science, the nudge, is used to leverage inherent behavioural patterns towards more constructive behaviour.²⁷ One of the highest-profile examples of the nudge was the UK’s government’s legislation requiring employers to automatically enrol employees into pension schemes.²⁸

Behavioural science is a powerful tool to deliver hyper-personalisation, as it enables organisations to explore, measure, and predict consumer behaviour and tailor products and services accordingly

To complement data analytics and behavioural science, banks should also consider investing in their ethnographic research capability, as it offers a different lens for answering the “why” of customers’ behaviour. By using ethnographic research, banks will be able to: (1) gather data on observed, rather than intended behaviour (or intentions as stated in surveys); (2) account for the contextual variables (i.e. cultural and social circumstances) involved in customers’ behaviour; and (3) reduce the impact of biases and beliefs about customers’ behaviour^x.

^{ix} Actionable data is defined as information that can be acted upon or information that gives enough insight into the future that the actions that should be taken become clear for decision makers

^x For example, a firm might believe that its customers are price-aware (i.e. seek low prices or discounts), when actually they are habitual (i.e. are loyal to the brand and follow a routine). In this case, understanding true behaviours would prevent the firm from wrongly using pricing as a lever for increasing its revenue/customer.



3.2. Meeting customer needs

Greg Satell, an expert in innovation, identified four types of innovation, which can be used to address different types of problem:

- Breakthrough innovation: explores unconventional skill domains and pushes the existing offering to the next level
- Disruptive innovation: creates a new market and value network and eventually disrupts an existing market and value network
- Routine innovation: occurs on an incremental basis by improving existing offerings
- Basic research: improve scientific theories for better understanding or prediction of phenomena.²⁹

In the context of adopting hyper-personalisation, banks can apply both basic research and routine innovation. On the one hand, research – through the three infrastructure building-blocks: data analytics, behavioural science, and ethnographic research – enables banks to better understand their customers. On the other hand, because the banking domain is already offering all the categories of products and services that a customer needs, routine innovation is necessary to help them improve these categories and therefore solve their customers' issues. Most FinTechs' and Challengers' products and services reflect routine innovation. It is the most economically-viable approach.

To deliver hyper-personalised products and services to both banked and underbanked customers, banks can apply routine innovation to achieve four outcomes (see Table 1):

- Reduce costs
- Tailor products
- Revise risk methods (to expand inclusion)
- Simplify products (to increase customers' financial health and to reduce costs for both banks and customers)

Reduce costs. Banks can reduce costs (e.g., commissions) by leveraging technology to cut out manual tasks and intermediaries. For example, new payments players are providing faster and cheaper products.

Tailor products. Banks can start tailoring banking products to increase financial inclusion. At the moment, banks' minimum thresholds are often high, thus preventing certain customers (i.e. underbanked customers) from accessing them. Examples of products tailored to be widely sold include fractional trading. For example, as certain stocks cost more than \$1000 per share, brokers have allowed fractions of shares to be traded, so that smaller investors can invest in them. Other products include micro insurance, micro credit, and micro savings. For example, in terms of micro savings, Moneybox allows customers to round up everyday purchases to the nearest pound and set aside the spare change.

Table 1: Identifying where routine innovation can be applied to products and services to be better aligned to customers' needs

Products and services /Outcome	Reduce costs	Tailor products	Revise risk methods (to expand inclusion)	Simplify products
Current account				✓
Savings account				✓
Credit and debit cards			✓ (for credit cards)	✓
Payment transfer service	✓			✓
Investment account (e.g., ISA)	✓	✓		✓
Retirement planning service	✓	✓		✓
Loan	✓	✓	✓	✓
Mortgage	✓	✓	✓	✓

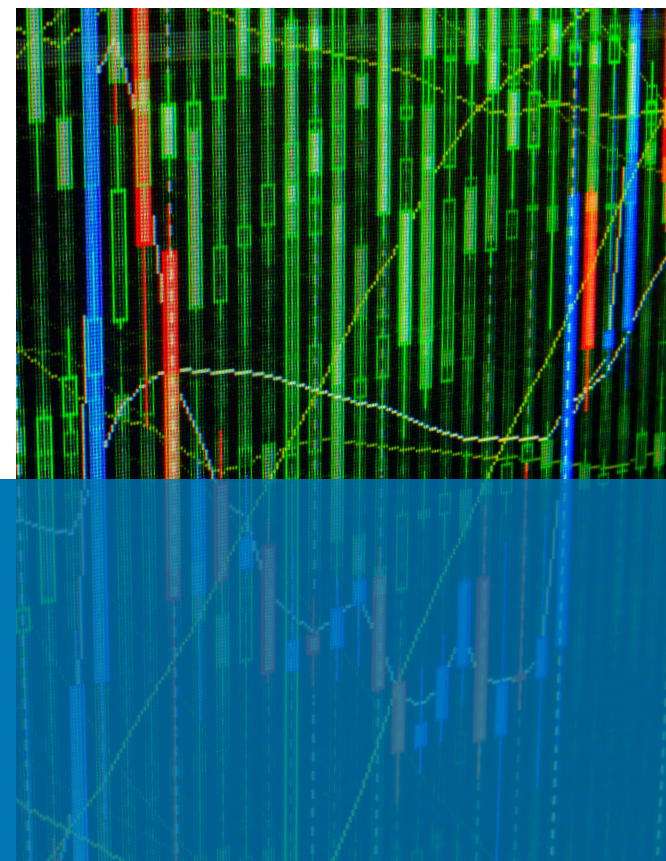


Revise risk methods (to expand inclusion). Banks can increase the penetration of their credit products (e.g. loans and mortgages) to a wider customer segment by developing more advanced risk-calculation methods that take into account non-financial factors. To do this, banks will need to move from traditional credit scoring to behavioural credit scoring. Traditional credit scoring typically draws on a thin stream of data collected regularly from a small number of sources (e.g., credit cards, savings accounts, and mortgages) – which is more difficult to collect for those customers that are already underbanked. This perpetuates the cycle of under-provision. Behavioural credit scoring, by contrast, draws on a large pool of data over a longer time period. For example, this larger pool of data could include information like the employment sector of the customer (public or private sector, industry), the customer's pension type (defined benefit or defined contribution plan) social media activity, browsing history, geolocation and other smartphone data to provide a new or revised credit score and subsequent access to credit products.

Simplify products. Banks can simplify existing financial products in several ways. As such, banks can offer products that provide more intuitive user experiences. In addition, banks can provide more transparency on costs and risks.

By simplifying products, banks can positively influence customers' financial health (e.g., increasing savings propensity). For example, gamification can be used to increase customers' savings by linking credit card spending with prize-linked savings. (In addition, to avoid addictive behaviour, gamification can be used to monitor risk behaviour and design elements can be incorporated to avoid overuse.) Or, spending monitoring can be implemented automatically to redirect bite-sized amounts into a savings account.

Banks can increase the penetration of their credit products to a wider customer segment by developing more advanced risk-calculation methods that take into account non-financial factors.





3.3. Being trusted

Emotional connection, through product design innovation, is one lever that banks should use to deliver hyper-personalisation to customers and to gain their trust. That is, banks should tap into customers' essential motivators to fulfil their deep manifest and latent needs.

Research across hundreds of brands in different sectors shows that the most effective way to maximise customer value is to move beyond mere customer satisfaction and to build an emotional connection.³⁰

On a lifetime-value basis, emotionally-connected customers are more than twice as valuable as even highly-satisfied customers.³¹ To increase the likelihood of building an emotional connection with customers, banks must understand a customer's specific motivation – through behavioural science and ethnographic research – for a given financial decision.

Table 2: Linking human motivators to product design

What are the types of motivators?	What does the customer need when making a financial decision?	What does this mean for how banks can design their products?
Feeling secure (i.e. to defend)	Security, predictability, and stability	Regular accurate information showing progress against financial objectives
Feeling successful (i.e. to acquire)	Recognition, respect, and social esteem	Rewards and status and provide clear (positive) financial objectives progression
Feeling a sense of belonging (i.e. to bond)	Belonging, friendships, and fulfilling relationships	Support, consultation, involvement and nudging
Making sense of the world (i.e. to comprehend)	Understanding (i.e. their role in society and how this can be linked to their financial decisions), knowledge, and specialisation	Purposeful banking by linking their financial objectives to wider (societal or environmental) impact and provide financial knowledge training ^{xi}

The field of behavioural science is rich with categorisations of human motivators^{32, 33}. Building on these categorisations, in the context of the financial decisions of both banked and underbanked customers, four significant motivators can be distinguished: (1) feeling secure (i.e. to defend); (2) feeling successful in life (i.e. to acquire); and (3) feeling a sense of belonging (i.e. to bond); and (4) making sense of the world (i.e. to comprehend). These significant motivators can then be linked to customers' specific needs when making a financial decision to inform how banks can design their products (see Table 2).

^{xi} In the context of the Covid-19 pandemic, this could translate into an explanation of, reassurance about, and guidance over what is happening (e.g., explain what has happened during previous pandemics and guide the customer over what financial actions to take to avoid a panic selling).



Focus on the trust needs of underbanked customers

Banks can integrate behavioural interventions (see Table 2) into their product design in order to reach underbanked customers.³⁴ There are both demand-driven and supply-driven factors that help explain why some customers are underbanked. On the demand side, prominent factors include: (1) the volatility and quantity of the customer's income and (2) behaviour and attitude (e.g., belief that alternative financial services are more accessible; distrust of banks; etc.). On the supply side, prominent factors include: (1) lack of appropriate products; (2) unattractiveness of products; and (3) lack of access. By embedding behavioural interventions within their product design, banks can build an emotional connection with their underbanked customers (see Table 3).

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Data analytics can be of particular assistance in designing products that build an emotional connection with customers and in offering products and services that are specifically curated. Indeed, complex algorithms are allowing programs to interpret new kinds of data, including detecting emotions, much more effectively. Emotional detection measures individuals' verbal and non-verbal communication through text, speech and/or facial analysis.

One example of speech analysis for emotional detection is Amazon's Alexa. Amazon has patented new acoustic technology features that enable Alexa to detect when someone is ill to offer them suitable recommendations (e.g., chicken-soup recipe or cough drops) that can be purchased through Alexa for home delivery.³⁵

Table 3: Linking factors of financial exclusion to product design

What are the supply and demand-side factors of financial exclusion?	What behavioural interventions can be used to overcome those factors?	How can banks design their products?
Lack of attractiveness of products	Client choice architecture (i.e. how products are presented to customers)	<ul style="list-style-type: none"> • Opt-in/opt-out default choices (e.g. savings contribution levels) • Prompted choices (e.g. choosing a monthly loan repayment amount)
Volatility and quantity of the customer's income	Commitment features (i.e., how product features are used to commit customers to a predefined course of action or goal)	<ul style="list-style-type: none"> • Goal feature to pre-commit to a behaviour (e.g. repayment date, savings amount, etc.) • Defaults to save with the flexibility to opt out in a pre-defined set of circumstances (e.g., illness, job loss, pandemic)
Lack of appropriate products	Pricing and other ancillary financial benefits	<ul style="list-style-type: none"> • Monetary and non-monetary incentives to promote or discourage behaviour (e.g. a transport voucher for every bank account opened) • Loss or gain framing of an outcome in terms of negative (loss) or positive (gain) features (e.g. outline the interest charges saved [gain frame] when paying higher monthly repayments to clear an outstanding credit more quickly)

Conclusion

Hyper-personalisation is a strategic imperative for banks – as evidenced by calls within the industry itself.

Those banks that seize the challenge most rapidly and deliver true end-to-end hyper-personalised products and services will create a significant advantage over their competitors. To do so, banks need three ingredients: (1) infrastructure building-blocks (i.e. data analytics, behavioural science, and ethnographic research capabilities); (2) product functionality innovation to improve the existing products and services; and (3) product design innovation to build an emotional connection with their customers. Those banks that will master these three ingredients will make significant progress in terms of differentiating their brands and multiplying their revenues. In addition these banks will also play an active corporate citizenship role by reducing the risk of financial exclusion.



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