THE FUTURE OF CUSTOMER ENGAGEMENT

What banking market leaders need to know

MERKLE | PEGA

BRINGING THE LOCAL BRANCH TO THE DIGITAL WORLD

Banking has changed dramatically since the days of visiting the local branch a few times a week. Online and mobile banking let customers conduct most of their daily transactions without ever setting foot in a brick-and-mortar bank. In fact, a new generation of online-only banks, such as Ally and GoBank, bypass the physical bank branch altogether. Traditional banks have embraced digital banking. Bank of America sees more deposits from its mobile channel than its branches and claims that digital banking capabilities have helped improve customer satisfaction.[1]

But while customers are gaining convenience from digital banking, personal relationships between banks and customers are eroding, as digital channels replace the trusted branch manager.

If anything, banks are able to gather more—and more accurate—data about customer preferences and habits than ever. But modern banks still struggle to converge digital convenience with personal attention in a meaningful way. Only 31 percent of people surveyed think that their banks are customer centric.[1] Only 23 percent believe that their bank can anticipate future needs.[2] Banks need to find a way to bring the personal touch back into the customer relationship, without sacrificing convenience or autonomy.

Providing a seamless, omni-channel customer experience is essential to capturing these new buyers and stoking revenue growth. According to a recent survey, 71 percent of consumers want a consistent experience across any channel.[3] Innovative brands of all kinds already make

Only 31% of people think their banks are customer centric

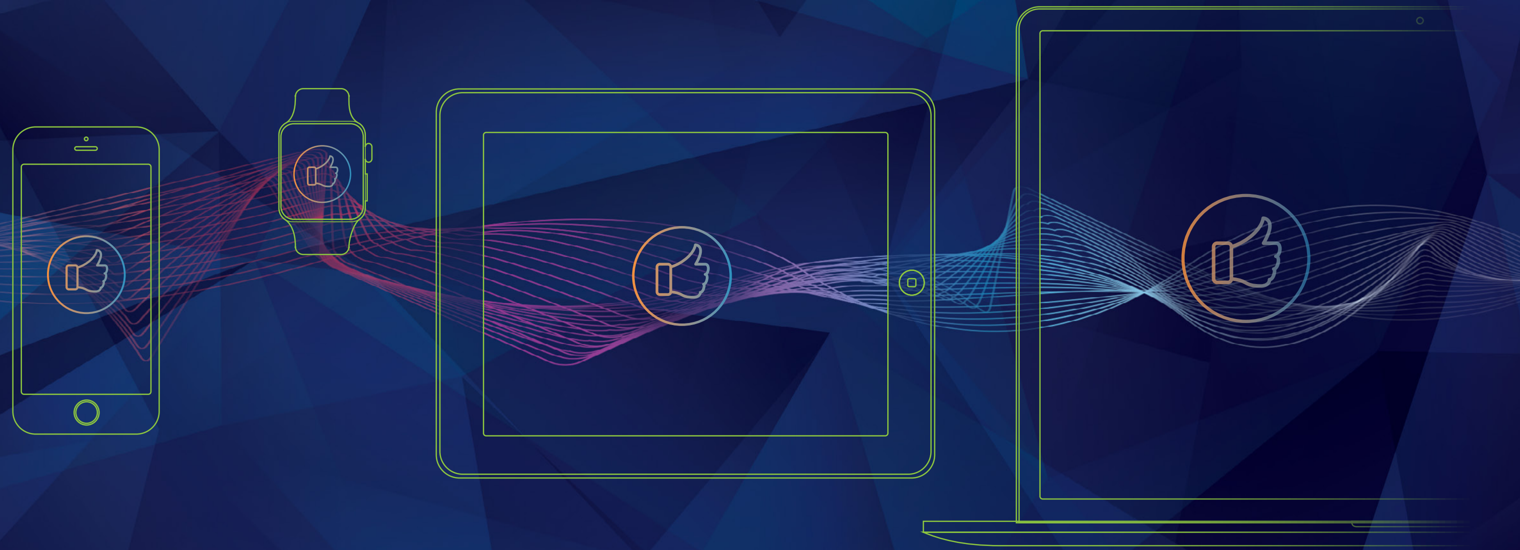
1 CEB Customer Survey, 2015
2 JD Power U.S. Retail Bank Satisfaction Study, Wave 1
3 “What Customers Want and Expect,” Forbes, August 5, 2018

customer service across digital, mobile, and face-to-face channels seamless, exceptional, and highly personalized. Luxury retailer Neiman Marcus remembers sizes and brands that customers search for online and offers up ads and emails featuring relevant products that are available on the website or in the nearest physical store. Thirty percent of sales at Starbucks now occur through its mobile app, which tracks order information, incentivizes customers for their ordering habits, and identifies songs played in-store and saves them to your Spotify app. Disney enables guests to manage park tickets, food and lodging reservations, and payment information through mobile apps and wristbands that serve as park entry, digital payment method, or even hotel room key.

These companies have raised the bar for customer experience, and customers want nothing less than personalized, always-on gratification. If they don't get it, they will leave—47 percent of customers would switch to a competitor within a day of poor customer experience.[4] Worse yet, they will tell the world. Customer complaints amplified on social media can have a negative impact on your brand.

4 "Abandon Ship: For 47% of Customers, A Poor CX Sinks Brands," Digitalist Magazine, September 22, 2017

71% OF CONSUMERS WANT A CONSISTENT EXPERIENCE ACROSS EVERY CHANNEL



Banks aren't immune. They face customer expectations set by savvy brands. They also face competition from new fintech companies and even tech giants, such as Amazon, Google, Apple, and Facebook contemplating a move into retail banking and finance. But brick and mortar still matter. Eighty-seven percent of customers still say it's important to have a local bank branch easily accessible from their home,[5] and many people still wish to talk to a person face-to-face or over the phone to complete more complex, personal transactions, such as applying for a loan or retirement planning. The challenge for banks right now is learning how to leverage both physical and digital channels to meet people where they are, and give them a consistent, trusted, personalized experience wherever and whenever that may be. Banks that excel at this challenge will be market leaders; those that fail to step up or move too slowly will be left behind.

5 American Bankers Association survey, 2017

WHAT MAKES A **MARKET LEADER?**

How are retail banks doing at providing exceptional experience for customers? At this point, no one is starting from scratch—most have some kind of online presence and mobile capabilities. Some banks stand out with innovative channels and services:

USAA is experimenting with a natural language chat experience in partnership with Amazon Alexa and Clinc, designed to feel more like intelligent human conversation than a rules-based chatbot interaction.[6]

6 "Meet 11 of the most interesting chatbots in banking", The Financial Brand, March 14, 2018

BBVA has developed the Bconomy app, which helps customers set goals, save money, and track progress. It makes suggestions about how to save money and helps compare prices on things like utilities and groceries. In the first three weeks after launch, Bconomy had 500,000 users.[7]

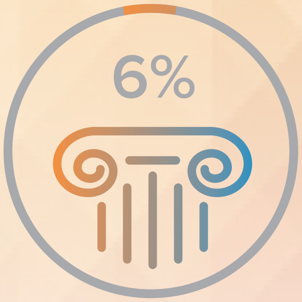
7 "10 Examples of Customer Experience Innovation in Banking," Forbes, October 11, 2018

Idea Bank in Poland gives customers branches and co-working spaces on commuter trains, where they have access to desks and conference spaces, free wireless connectivity and coffee, and bank representatives to help with transactions.[8]

8 Ibid

Still, banks struggle with providing a uniform, personal experience across all channels. Some of this is due to the fact that banks are large, established, risk-averse organizations with many information and communication silos and regulatory and privacy constraints. In a 2018 survey, only 6 percent of banks rated themselves as advanced in using personalization technology within digital applications.[9]

9 "Digital Banking Report—The Power of Personalization in 2018," Pegasystems

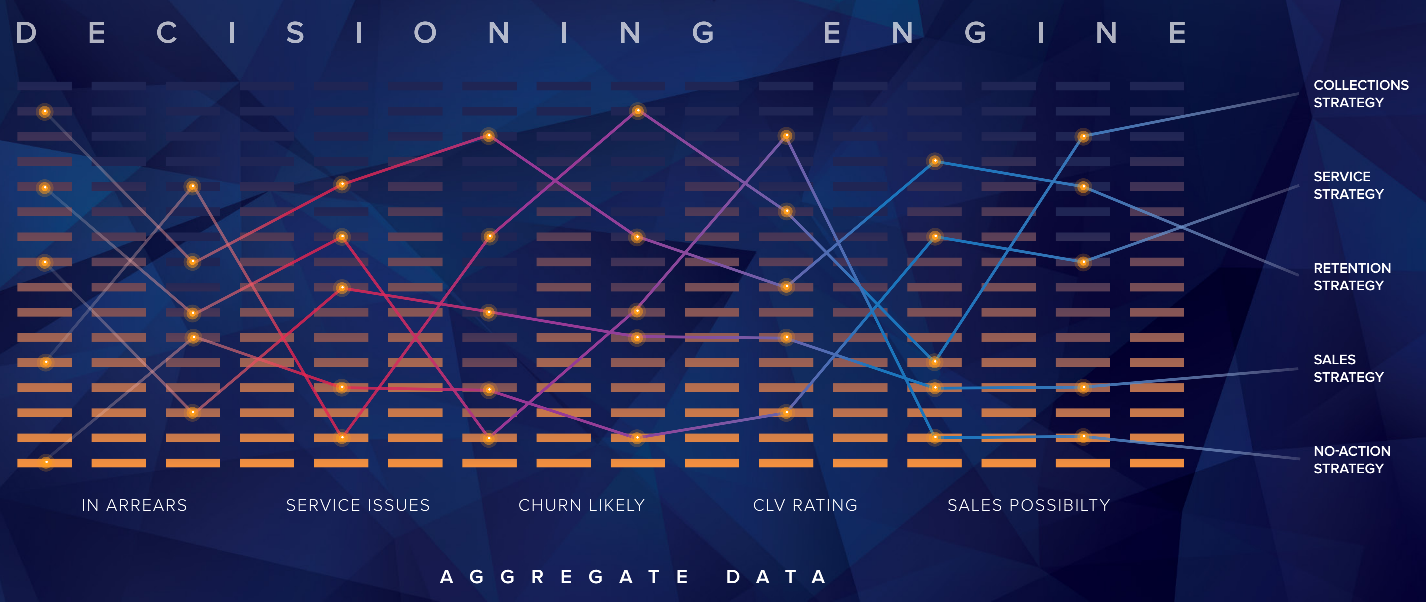


Only 6% of banks rate themselves as advanced in using personalization technology within digital applications

What makes a market-leading bank? Through apps that enable fast self-service and chatbots that help resolve common queries, the smartest financial institutions have already begun reducing the time and cost it takes to resolve issues and complete transactions. They are creating more efficient operations within and across marketing, sales, and service teams. They are collecting data and logging experiences to ensure that they are able to deliver a consistent, personalized customer experience that is proactive, not just reactive. They are taking cues from other industries who are leaders in customer experience innovation, including travel and retail.

What are these banks doing that will help propel them ahead of the competition? Here are a few key technologies and capabilities that have become critical in delivering exceptional customer experiences and moving banks into the age of personalization.

KNOWING THE NEXT BEST ACTION



Predictive models and data analytics are not new. Most companies appreciate the concept that harnessing data on customer activity and behaviors and implementing analytics to better predict outcomes can help marketing, sales, and service teams better understand customers. But smart companies understand that insight derived from analytics is only half of the equation that helps them go beyond basic customer service. Once you have that information, what do you do next with the customer, and in what order? Market leaders complement insight with a decision engine that uses information to determine the next best action to take with customers. The decision engine acts as a central brain that arbitrates between all of the possible actions and orchestrates which one is most likely to be successful based on the context and the customer's need in the moment. Note we say next best action, not next best offer. Depending on the customer's issue and his lifetime value to the business, the next best action might be to do nothing. In the pursuit of true customer engagement, not every interaction can, or should, be a sales push.

For example, analytics can predict when a banking customer is likely to churn and take her accounts elsewhere. But next-best-action technology can consider that insight and suggest what is the smartest move given the data and the customer's behavior. Perhaps that's a product bundle that is enticing and cost effective. Or maybe, if the customer has a low lifetime value to the bank, it's moving her to a self-service channel. The decision

engine determines the next best action in real time, based on customer activity up to that moment. Each move the customer makes, no matter how small or how recent, will affect the next best action.

Most banking customers interact with their banks on a weekly basis, some on a daily basis. With these frequent interactions, banks have a lot of data on customer transactional behavior. But while banks may have analytics and modeling solutions in place, centralized decisioning technology is less common. Data between product areas and between physical and digital channels may be siloed. Bank representatives may be relying on static or outdated information, marketing campaigns, or gut instinct to determine the next best action for a customer. To truly understand customers and how to best serve them, banks need to add the missing link of decisioning technology to their analytics capabilities—a fully digital and automated system that works in real time.

NEXT BEST ACTION IN BANKING

Billions of next-best-action conversations generate more leads and higher customer satisfaction

With a focus on expanding customer relationships through cross-sell and upsell opportunities, a leading Australian bank implemented a centralized customer decision hub across 19 channels. With the new system, they now have millions of "next best conversations" per day.

To help actively identify, develop, and nurture high-value relationships, the bank uses tools like "financial health checks" and other personal assessments to help determine how the bank can help customers achieve long-term goals.

THE RESULTS:

- 90 — Launched a pilot program in less than 90 days
- +10x — 10X increase in lead volume (95 percent actionable)
- +3x — 3X increase in lead conversion
- #1 in customer satisfaction for 22 consecutive months

AN OPTIMIZED OMNI-CHANNEL EXPERIENCE

Once a decisioning engine determines the next best action for a customer, the next step is being able to apply that action consistently, no matter what channel a customer is in. A true omni-channel experience occurs when a customer can interact with your organization in any channel, at any time, and have a seamless, personalized, relevant experience. For example, when researching credit cards or opening a checking account, a banking customer would get relevant information and advice based on what the decisioning engine determines is the next best action, whether that customer is engaging on the web, with a chatbot, or with a local branch banker. The customer gets the same focused attention and exceptional service, no matter how he engages, and the bank collects information from that interaction and updates the customer profile and next best actions in real time.

At least, that's the goal. While most banks today operate in multiple channels, true omni-channel connection and communication remain elusive. In a 2018 Unisys survey, 52 percent of banking practitioners surveyed said that their physical and mobile channels were not unified. Only 16 percent said that their omni-channel strategy was "optimal," where all channels present a common view of transactions and customer interactions.[10] Synergy between digital and physical channels is critical—while 80 percent of all customer banking touchpoints occur in digital channels, those channels represent just 25 percent of sales.

10 Unisys Retail Banking Insights Survey, February 18, 2018

Traditionally, most companies focus on vertical, product-based sales and marketing, not horizontal, end-to-end customer experiences. If you work for a large bank, you likely work within a series of siloed business units and systems. For example, if you work in credit, you have a view of the customer as a credit card holder, and your priorities reflect that view. But you may not have much insight into the customer's bank accounts or other cross-channel behavior that would help you know the most relevant way to next engage. Your priorities in credit may be vastly different than those of stakeholders in other banking product groups.

In addition, your bank may have gone through acquisitions that only add to the fragmented nature of the business, with disparate systems and processes that have been preserved to minimize disruption. There is no system that helps you organically share information between business units, let alone create a unified omni-channel environment for the customer. To achieve true omni-channel consistency, banks must have a consistent, horizontal view of every customer experience that can then be applied across channels, in addition to the centralized brain that accesses it all for decisioning.

OMNI-CHANNEL BANKING

Loan applications soar and customer engagements improve with omni-channel decisioning

A large global bank wanted to provide a consistent experience across all channels for all brands to help increase customer engagement and trust. The bank combined a data and analytics platform with a centralized decisioning engine that connected 19 different channels spanning digital, branch, and customer service to a central decision-making brain that kept contact and tactics consistent wherever the customer was engaging.

For example, if a customer clicked on a tab on the web site, that data would be run through a model to determine what the next best option would be. The decision engine might trigger a customer service call to kick off the mortgage application process. Or, the next time the customer is in his local branch, the bank teller might receive a prompt to recommend the bank's mobile app, and a tech specialist would help the customer set up the app on site. Within the app, the customer could receive relevant offers for loans and other banking products.

THE RESULTS:

+700%
700 percent increase in successful loan applications in just two years

-14%
14 percent decrease in the opt-out rate for offers within the mobile app

+50%
50 percent increase in mortgage conversations

PERSONALIZATION AND 1:1 CUSTOMER ENGAGEMENT

How do the most effective companies engage with customers on a deeper, more relevant level? They are people-centric companies, not product centric. Even more than that, they treat every customer as an individual with unique needs and take a personalized approach to engaging with them. People-based sales, service, and marketing are "always on," always collecting data and analyzing it to determine critical customer needs as they come up. You are always engaging in moments of need, on the customer's time, not yours. Successful companies don't cater to broad segments of customers based on demographics. They focus on every individual based on lifestyle and context. Analytics, decision-making tools, and even AI analyze customer sentiment in email, text, and calls to help companies improve visibility and notice connections that they could never see before, gaining knowledge of the whole customer. With real-time insights and informed actions, companies identify, engage, and retain customers with the highest lifetime value by understanding what is relevant to them and proactively providing it.

PERSONALIZATION IN BANKING

A more personal touch leads to dramatically improved response rates

Customers at this market-leading bank demanded personalized content each and every time they engaged, regardless of channel. The bank knew it needed to evolve from an organization that pushed products into one that leveraged customer context to deliver the right service at the right time—or to know when to leave the customer alone.

By combining internal data (customer demographics, product ownership, CLV, channel preferences, offer responses), data from real-time interactions (credit card transactions, web browsing, geolocation data, social media), and decisioning technology, the bank now provides relevant, contextual, consistent, and personalized content across all channels for nine million customers.

THE RESULTS:

+37%
37 percent improvement in offer acceptance

+1.3M
1.3 million more products sold annually

+14.3%
14.3 percent average response rate

34.7 percent response rate for mobile offers

Banks still rely on traditional marketing campaigns and sales tactics that center around a single offer sent to a broad base of demographically determined customers—a segment of many. In addition to being expensive, these efforts often produce underwhelming results. First of all, they're based on selling a product, not meeting the specific needs of a customer. If you try to sell to everyone, you end up appealing to very few. If you are sending out a huge amount of offer information and you are seeing miniscule response rates, you are training your customers to ignore you. More to the point, the world is training them to ignore you. Traditional campaigns aren't made for an omni-channel world. Your customers don't just watch television, or check email, or browse the web—they're doing all three at once. And in doing so, they are bombarded with advertising and marketing campaigns from all kinds of brands. They literally don't see your offer, or any offer, because they are too distracted, and because the human brain can only let in and process so much information. Unless your ad or offer is extremely relevant to their needs, which you can only know if you truly understand your customers and the next best action to take with them, you just become white noise. Static campaigns and sales plays targeted at a large demographic may be backed by analytic insight, but they are still largely guesswork about what channels your customers are engaging on and what might resonate with them. Customer-centric experiences and real-time decisioning can help eliminate that guesswork.

Successful customer interactions begin and end with personalization. So much so, Gartner predicted that in 2018, companies that have fully invested in personalization would outsell companies that didn't by 20 percent.[11] There's a certain amount of commoditization in banking products. Every bank has accounts, credit cards, and loans, and many customers just bank where their relatives bank, or where the rates and prices are more favorable. Exceptional, personal customer experiences are the way to differentiate a bank's brand, and you need always-on, customer-centric marketing to discover the differentiation and put it to work.

11 "Walk a Fine Line with Personal Mobile Offers," Gartner, September 14, 2015

FIVE STEPS TO TRANSFORMING CUSTOMER ENGAGEMENT

Banks are all too familiar with the challenges of trying to adapt a large, established, highly regulated business to an omni-channel, data-driven, real-time world. More marketing, automation, and digital channels have helped to transform retail banking for customers. But simply adding more marketing or digitization can't do the whole job of delivering personal service and meeting high customer expectations.

Banks need to make a transformation in customer engagement by:

Meeting customers where they are across a consistent, seamless omni-channel environment

Investing in a technology layer that combines insight from real-time customer data and analytics with a powerful decision engine that determines definitive next best actions for each moment

Making actions and messages meaningful to each customer through personalization

But how do you get started? How much time and money will this transformation take? How do you take product-based marketing, dozens of separate channels and product groups, and redundant systems from years of acquisitions and create an omni-channel, always-on, customer-centric system? It's not as hard as you might think. Here are the five steps you'll need to take to get there.

1. **Prioritize micro-journeys.** Start with the business outcomes that drive the highest ROI. In financial services, that starts with growth – or sale actions. From there, move to nurture efforts, and then from nurture to service, from service to retention, from retention to risk, and finally from risk to acquisition. While acquisition may seem like the logical starting point, the problem is data. Until you've optimized the rest of the experiences and interactions, you don't have enough high-quality data to apply a next-best-action approach to prospecting.

2. **Build from the center.** Focus on inbound before outbound. Inbound channels give you the behavioral data you need to fuel outbound programs. For financial services companies, that means starting with the web, mobile app, and online banking. From there, you should focus on extending next best action into agent-assisted channels, such as the branch and call center, and then to owned outbound, such as email, SMS, mobile push, and direct mail, and finally to paid channels like Google and Facebook.

3. **Include your customers and business partners in the process.** Take a design thinking approach— develop solutions from a customer perspective and deliver what they require, not what you are trying to sell.

4. **Consider the need to deliver solutions that work at enterprise scale.** Early engagement with your IT partners and solution providers is key to selecting the appropriate tools and identifying the necessary data sources.

5. **Establish a governance process.** Deliver early benefits and help ensure strategic success. The initial deployment of successful marketing and insight-driven customer experiences is only the beginning. New product introduction, regulatory changes, and emerging channels adoption all require an ongoing commitment to success.

BEGIN THE JOURNEY

HOW DO YOU BEGIN?

First, you need to engage a team that can help you:

- Think strategically about your business and draft a comprehensive plan of action that includes the five steps above.
- Extend and optimize technology and manage organizational change.
- Work efficiently and effectively to see positive results more quickly.

In the past decade, Merkle has helped many of the world's top retail banking clients—and more than 450 clients across industries—to transform customer experience by helping them design and implement solutions that combine data and analytics, decisioning, and marketing.

As a Merkle partner, Pegasystems is a leader in software for customer engagement and operational excellence. For more than 35 years, Pega has delivered award-winning capabilities in CRM and digital process automation (DPA), powered by artificial intelligence and robotic automation, to help the world's leading brands— including some of the world's largest banks— achieve breakthrough business results.

Contact us today to learn how we can help you become a market leader in the banking industry.

Paul Evers
EVP, Financial Services Vertical Lead, Merkle
pevers@merkleinc.com

Christine Parker
VP, Financial Services Industry Market Lead, Pegasystems
christine.parker@pega.com

Rob McLeod
VP and Financial Services Specialist, Merkle
rmcleod@merkleinc.com

www.pega.com