

Far Eastern Economic Review, 1999

Banking on Customers

International professional consultancy

Many banks in Asia urgently need to rebuild their capital base. This requires rebuilding profits, which in turn hinges on attracting and retaining the best customers. Banks that want to serve retail customers over the long term need immediately to invest money and, more importantly, management efforts to become more focused on customer needs.

Some institutions, such as HSBC and Citibank, are making progress by offering differentiated service levels and new choices in delivery channels, such as the Internet and “call centres.”

In Hong Kong, Chase Manhattan Bank is using call centres to accept and approve loan applications. But other banks seem bound by the industry’s traditional inertia.

Competition and rising customer expectations have changed the landscape. Deregulation, globalization and information technology are making it possible for new players to enter domestic retail-banking markets. Restrictions on foreign entry and ownership have been relaxed in Japan, Singapore, Thailand and Indonesia. With Internet banking, banks no longer need an extensive branch network to have local reach. Competition is coming from foreign banks and other financial-services organizations such as credit-card companies and stockbrokers. Nontraditional players such as GE Capital already are muscling in. Indeed, the recent takeover of Seoul Bank by HSBC is a foretaste of what Asia’s retail bankers can expect. To remain competitive, retail banks need to follow three key steps: know the customer; integrate and rationalize delivery channels; and create the right employee culture.

For most banks, fewer than 30% of customers can be called “profitable.” While a common misconception is that wealthy customers are more likely to prove profitable, this is not necessarily true. The key is to target potential areas of profitability. This involves anticipating customer needs and preferences for products, pricing, sales approaches, service levels and delivery channels – for example, through branches, call centres, the Internet or ATMs. While banks have traditionally targeted wealthier individuals, other

segments of the market should not be overlooked. For instance, a newly married couple operating only a simple – and for their bank, unprofitable – current account today is likely to need a mortgage, loans, investment advice and pension plans as the years go by.

Banks need to be more knowledgeable about their customers to be able to identify and segment them, track their financial habits, understand their requirements and help the relationship grow. Frequently, this information already exists in a bank, but is scattered across different branches and product databases. A service agent at the bank selling insurance products may not have access to the same customer information as the bank’s credit-card division.

Customers have many ways of banking: in person at a branch, through an ATM, over the phone or via mail. Soon, many also will have the option of on-line services and even the option of banking at the supermarket. Dao Heng Bank in Hong Kong, for example, has experimented with kiosks in nontraditional location such as department stores. (Such kiosks may be staffed or may provide more services than ATMs through more interactive technology.) Since processing a transaction at a branch can cost twice as much as through a call centre, and up to 10 times more than over the Internet, banks should encourage customers to use the most cost-effective channels. Purely transactional customers can be offered higher interest rates, for instance, if they don’t visit branches, or charged transactional fees if they do. Citibank provides higher interest rates for time deposits made over the Internet.

More than anything, a customer should “belong” to the entire bank. Instead of rewarding staff for selling a particular product, compensation needs to be based on contributing to the value of the bank’s total relationship with the customer. To achieve this, business and transaction processes need to be revamped. Employees need to be empowered to make on-the-spot decisions through, say, prompts on a computer screen that tell them what latitude they have in handling a customer’s query and, equally important, whether cross-selling opportunities exist. Such empowerment requires deep changes in attitude by management. In Asia, where service is characterized by a smile and politeness rather than flexibility and responsiveness, this is a big step. Especially for more patriarchal banks.

Some banks in Asia are tackling these three key steps. But there is still a long way to go. Progress on implementation has slowed. The economic downturn and preparations for the “Millennium Bug” all have proved a distraction. Many banks are putting “customer focus” on the back burner. This is not a good idea since it can take up to two years to implement new systems. Even more time can be needed to nurture the necessary changes in a bank’s internal culture. Thus, to pause now is to allow competitors, especially from outside the region, to ride the imminent explosion of the Internet and other technologies and position themselves to win market share just as Asia recovers.