EARNING AND SUSTAINING BANK RELEVANCE

April 2022

Strategic Advisory Consulting Group

Earning and Sustaining Relevance in Banks

Many factors contribute to organizational success and longevity, perhaps none more than *relevance* with stakeholders: employees, clients, partners, and vendors. Earning and sustaining relevance is a leader's ongoing responsibility.

Organizations that slip into irrelevance face the difficult task of re-earning their standing with stakeholders or riding out a cycle of demise

Relevance with bank clients refers to the pertinence, meaningfulness or importance ascribed to doing business with the firm. Indicators of relevance include client engagement, satisfaction, loyalty, and likeliness to recommend a firm and its services. These indicators reflect how well the firm delivers on its vision (the picture of its future state), through its mission (what specifically the company does) and its business operating model; in other words, how relevant the bank is to its clients.

A recent survey of bank leaders – CEOs, CFOs, COOs and division heads - captured their views on earning and sustaining relevance with their clients.

Key survey findings:

- Earning and sustaining relevance is most affected by service quality (client experience) and providing advice to meet expected and unexpected needs in a client's financial life
- The most effective relevance indicators with bank clients are expanding existing relationships, referrals from existing clients, and favorable, meaningful client engagement, satisfaction and retention metrics
- To sustain relevance with clients over the next three years, business operating models will undergo moderate to significant redesign

What matters most and why?

While a bank's menu of products and services, competitive rates on products, and availability of digital tools to access services matter, the Bank Relevance survey found earning and sustaining relevance is most affected by service quality (client experience) and providing advice to meet expected and unexpected needs in the client's financial life.

In a service business, where tangible products are few, the *experience* is paramount. Add the emotional element attached to money in all its forms - payments, assets, liabilities (keep in mind 53% of adults say thinking about their financial situation makes them anxious; 44% say discussing their finances is stressful) - and the end-to-end client experience defines *what* consumers get from a bank.

With this backdrop, a key success factor for banks in earning and sustaining relevance is operating from a clearly defined, formally developed, and effectively implemented client experience plan

Every team member must be clear in describing what the client gets when they choose your bank. The experience must be anchored in trust, adaptive to individual client needs, advanced or refined as conditions change, and wrapped around consistent execution of service delivered. Clients expect to be known and understood by their bank. Relationships earn and sustain relevance when client needs are uncovered or anticipated (through data analytics and banker acumen), individualized advice is delivered and products support (vs. define) the experience.

Secondary Effects

Bank executives believe over the next 12 – 18 months, most of their new business will come from word of mouth (i.e. referrals from existing clients), business development activities by their team members, introductions from centers of influence (i.e. referrals from attorneys, CPAs), and their firm's reputation in the community.

The correlation between these top sources for new business and the bank's ability to deliver a high-quality service and advisory experience is strong. Loyal, satisfied clients help a bank grow. Revenue follows relevance. Most firms track some type of loyalty, engagement, or satisfaction metrics, and many use these data to guide strategies. Sustaining relevance with clients is partially driven by using client feedback as an ingredient in continuous refinement to the bank's offering and process improvement. Business operating models have a finite shelf life and client feedback is one leading indicator of the need for change.

Survey participants recognize the need to refine their business models to meet evolving client expectations. Sixty percent of respondents said their operating model will undergo moderate change over the next three years, 40% will require significant redesign. None of the executives in the Bank Relevance survey said their business operating model would remain unchanged over the next three years.

At an industry level, banking has room for improvement in terms of loyalty and client satisfaction. Consider the NICE Satmetrix 2021 U.S. Consumer Net Promoter Score (NPS) benchmarks. The Net Promoter question: On a scale of 0-10, how likely is it that you would recommend [brand] to a friend or colleague? Ratings of 9-10 are considered Promoters, 7-8 are Passives, 6 or lower are Detractors. NPS is calculated by deducting a company's percent of Detractors from their percent of Promoters.

Overall, the banking industry earned an NPS of 32. As context, industries rating lower overall include health insurance providers at 27, cable and satellite TV services at -2; those ranking higher than banking include airlines at 45 and department and specialty stores at 56. USAA earned a 70 NPS for their banking services. Vanguard earned a 68 NPS in the brokerage and investments industry.

Missing the relevance connection jeopardizes growth and ability to sustain existing revenue. A recent PWC Consumer Banking survey found that one in five customers said non-primary banks did a better job in helping mitigate the impact of the Covid-19 crisis. Fourteen percent of these consumers, representing 36 million primary bank relationships, said they are considering switching their primary bank.

To materialize new business from word of mouth, business development activities, COI referrals, and the firm's reputation, banks must earn and sustain relevance by defining and delivering an excellent experience and provide meaningful advice to guide clients in their financial lives.

Risks and Mitigants

Bank executives said three of the top five greatest risks to their firm's success over the next 12 – 18 months are – the ability to generate additional fee revenue, client attrition, and diminishing relevance as a financial services provider. Mitigating these risks is largely within leaders' ability to impact through *relevance-earning strategies,* including proactive client engagement activities, developing and delivering advice, and addressing previously unrecognized or unaddressed needs.

Low spreads on deposits and loans, and slower than expected economic recovery from Covid-19 – both outside bank leaders' sphere of influence - complete the top five risks bank leaders anticipate in the near-term.

Many banks in the survey are well positioned to deepen, expand, and fortify existing relationships, and attract new clients. When asked - *thinking about your firm's competitors, how does your bank compare in terms of earning and sustaining relevance with clients,* the majority - fifty-seven percent of respondents - said their bank is more attuned to what matters most to clients than their competitors (i.e. what clients value, their changing needs/ preferences, evolving areas of importance in their financial lives).

Being attuned to ongoing evolution of client needs and expectations, and continually refining the firm's engagement approach is essential in sustaining relevance and being referrable.

How banks measure relevance

Executives said the best indicators of where their bank stands (in terms of relevance to its clients) are trends in expanding relationships with existing clients, referrals to new clients from existing relationships, client retention metrics, client satisfaction metrics and topline revenue growth. All strong leading indicators of relevance status.

Unfavorable movement across any of these metrics can signal early opportunities to address emerging issues. Pre-emptive adjustments are best, followed by early issue corrections. By the time lagging indicators of waning relevance surface - client attrition, decreased referrals, declining revenue – damage is deeper and re-earning relevance a bigger project.

Conclusions

Sustaining bank relevance is a result of delivering a high quality, well defined client experience that includes providing advice to meet expected and unexpected needs in the client's financial life. Bank leaders recognize the importance of refining business operating models to meet evolving client needs and expectations, and all respondents anticipate making moderate or significant changes to their approach within the next three years.

Based on results of this survey, Strategic Advisory Consulting Group recommends bank leaders consider the following actions to sustain relevance with clients:

- **Review your firm's existing client experience roadmap** - Begin with relationship onboarding. Include ongoing service, proactive engagement, developing and delivering advice, relevance measurements, relationship expansion and account closing. If your client experience is not formally documented, this is the time to do so.

- **Evaluate consistency of client experience execution** – Compare actual team member service delivery performance with your stated client experience roadmap. Ask clients how their experience compares to what you believe your bank delivers. Identify and address gaps at their root cause.

- **See your business as others do** – Being objective with ourselves and our organizations can be challenging. Look to a blend of inputs (client loyalty/engagement/satisfaction surveys, focus groups, advisory boards, social media posts) for an outside-in view of your bank, then ask your team how these perspectives can guide relevance enhancement activities. Fight the natural urge to defend, rationalize, or minimize client feedback. What you may consider uncomfortable or unfair perspectives competitors view as an opportunity.

- **Identify opportunities for Self-Disruption** – Disruption in the banking business is a matter of fact. Direct substitutes, neobanks, nonbanks, fintechs, virtual and physical retailers and others wake up every morning looking for new ways to reimagine banking. In many ways, these asymmetrical competitors offer bank leaders an opportunity to look into the mirror and ask new questions about what they see: As a prospective client, why would I want to do business with this bank? If we were starting our bank today, what would it look like? How would we engage with clients? How would we attract new clients? What feelings (emotional engagement) would our digital, virtual and in-person experience create? This line of inquiry informs reimagining your bank. By initiating self-disruption, you are positioned to write the next chapter in your bank's story instead of playing a supporting role in a different movie.

- **Process Mindset** – It's common to view technology as the answer to every question banks face. Tech and tools are important, but ineffective if business processes are not designed intentionally to optimize efficiency and the client experience. Across the bank – front, middle and back office - every activity is part of a larger process. Every process must align with a purpose (ultimately, serving clients). Intentional process design provides a connecting point between purpose and execution to assure activities produce desired outcomes. Evaluate specific activities performed in your bank in context of interconnectedness with other direct and indirect activities, then evaluate the most effective, efficient, consistently repeatable approach to perform the task relative to the broader organization ecosystem.

Strategic Advisory Consulting Group works with financial services firms to develop and implement competitive strategies that earn and sustain relevance with stakeholders. Contact Dave Coffaro, Principal, at dave@sacgusa.com.