The Risk/Reward Barometer of the Bank's Value Proposition

> *There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.*
> Sam Walton

The rewards of good customer experience are straightforward: a satisfied customer is more likely to be loyal and generate more repeat business. There are related benefits:

- Customer retention is far cheaper than customer acquisition
- A loyal customer is a strong competitive advantage
- A satisfied customer can become "part of the team," helping to sell your value proposition by word-of-mouth referrals
- Customers are also a great source of market intelligence to generate feedback on service standards.

Taken as a whole, the benefits of achieving great customer satisfaction are like a multi-tiered annuity stream. Wall Street rewards annuities because they reduce uncertainty and volatility. The risks of poor customer service are greater and more insidious because they are less visible. For every unhappy customer you hear from, there are countless more who are silent. Negative word of mouth can damage years of good reputation and ripple through countless prospects who never become customers. Ultimately, unhappy customers become lower revenues for you and higher market share for your competitors.

Customer Service is both an advocate for the customer within the bank, and an advocate for the bank with the customer. It generates unique insight into the customer experience, providing an outside view on the business value proposition.

However, many banks pay little more than lip service to customer relationships. Historically, bank customers have been more tolerant than in other industries, and despite experiencing poor service, customers find it inconvenient to change mortgages, loans, accounts, etc. In the future, with increasing competition and customer expectation, Customer Service will assume a more important role. Many banks still view Customer Service as a necessary expense, as opposed to a critical barometer of sustainable value creation, and three significant barriers must be overcome to change this view:

Barrier 1: ***Insufficient visibility of the risks to customer loyalty uncovered by Customer Service***

Customer Service can be thankless and hectic. Picture a room full of service representatives juggling calls from frustrated customers, often in outsourced and offshore call centers. In such a volume-driven environment, it is difficult to determine the context and pattern of the calls received. Banks have made major investments in customer relationship management, specifically in call center software. While these technologies make call centers more efficient, they generate vast amounts of transaction detail that can obscure meaningful patterns and root causes.

Finding patterns in problems such as service delays, information requests, complaints, and claims can lead to proactive solutions. Categorizing the types of complaints by type and seriousness of error, response time, and resolution time can reduce service costs and identify the causes of dissatisfaction. Informed banks can address problems at the source and understand the pattern and context of the calls they receive.

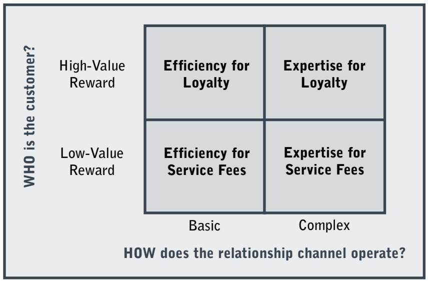
Even when you can't eliminate the root cause, better categorization of issues can speed up the time to resolve problems. Timely responsiveness can salvage many frustrated customer relationships. As one executive of a major airline said: "Customers don't expect you to be perfect. They do expect you to fix things when they go wrong." Achieving this requires that problems and their causes be grouped and studied so that effective action can be taken.

Barrier 2: ***Poor awareness of the benefits of a good customer experience, especially when grouped by who and how***

While many businesses know how much they save by reducing customer service, few can project the cost of lower service levels. In particular, you need to understand how customer service levels affect your key and most profitable customer segments. If you don't, you may understate—or overstate—the risk. Overstating the risk leads to an inefficient allocation of resources, which reinforces the view that Customer Service is an expense. Understating the risk can be even worse, leading to the loss of your most valuable customers—the ones your strategy counts on—and the marketing impact of negative word of mouth on other customers.

Good Customer Service departments take into account the absolute and relative lifetime revenue of customer segments and prioritize service efforts for high-reward customers. Beyond direct future benefits, you may also segment strategic customers that represent high-value segments or product champions. The key is to segment Customer Service issues by *who*—the customers that matter most to your current and future bottom line.

Once banks understand which customer segments are most important, they must gain insight into how the relationship works. In complex customer-bank interactions, the relationship depends on expertise (for example, offering investment advice). This is a clear market differentiator. If the customer-bank interaction is more basic (for example, payment services), then the day-to-day efficiency of the relationship becomes more important for both parties.



Segmenting customer relationship channel interaction helps to clearly define the relative value of great service. When you include the relative value of the customer, you have a useful framework to maximize the rewards of service for you and the customer. For example, if your expertise in a given service is a differentiator, you may want to offer it free to high-net-worth customers in return for expanded product commitment or greater loyalty. At the same time, you may want to charge low-value customers extra for this service. Whatever metrics you choose, you must align them with what the customer perceives as important. *Does the customer value convenience above price? Is personalized service more important than automation? What are acceptable response times? Customers may always want immediate service response, but are they willing to pay a premium?* Understanding the relative importance of such criteria will make customer service monitoring more relevant.

Barrier 3: ***The absence of a customer advocate and direct accountability***

Ideally, your entire organization has common customer service performance goals. You should back up this alignment with accountability and incentives, especially when the different drivers of those goals span different functions. Without incentives, you create a barrier to achieving better customer service.

Overcoming this barrier requires clear, credible, and aligned customer service metrics—and the political will and organizational culture to rely on them for tough decisions. *Do you incur higher costs in the short term to secure long-term customer loyalty?* Only banks that understand the risks and rewards of customer service can make informed decisions on such questions.

Customer Service has a key role in generating and sharing this information. Beyond being the handling agent, it can become an effective customer advocate to other departments, and an expert on customer performance metrics and their drivers. It has to understand the problems and the operational solutions. Most important, Customer Service must effectively communicate these metrics to the rest of the organization so that other departments can resolve the root causes of customer experience issues.

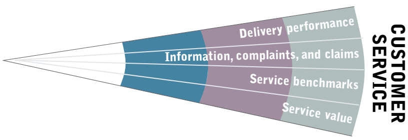
This works both ways. Not only must Customer Service bring in other functions to resolve problems, it should offer useful information in return. For example, trends in the type of complaints or problems can suggest process improvements and operational efficiencies in the back office. Forewarning the branch network about service issues will allow them to craft an approach, message, and appropriate assistance. Cooperation like this demonstrates the responsiveness of the organization and can salvage troubled relationships.

Excellence in Customer Experience

The four decision areas described below equip Customer Service with the critical risk and reward information they need to be more effective customer advocates, bringing excellence to the customer experience.

Decision areas in Customer Service:

- **Delivery performance** ➔ What is driving delivery performance?
- **Information, complaints, and claims** ➔ What is driving responsiveness?
- **Service benchmarks** ➔ What is driving service levels?
- **Service value** ➔ What is driving the service cost and benefit?



The sequence of these decision areas provides a logical flow of analysis and action, starting with understanding the primary drivers of customer risk. First and foremost, is customer service performance acceptable and competitive? Customers do not easily forget failures in this area; such mistakes, therefore, carry significant risk. Customers are not expecting complications or excuses for poor service delivery, for example, a lost loan application or account transaction errors. Beyond the fundamental product and service responses with the customer, there are many additional issues that customers expect to have resolved quickly. These include simple requests for information, complaints, and major claims on banking errors.

The next two decision areas shift the focus to the benefits of retaining key customers. You start by benchmarking your bank against internal and external standards. *What criteria are you measured against, and how good is your performance compared with the competition?* The last decision area brings everything together into a relative cost/benefit analysis of each customer segment relationship. *Are you reaping the rewards of Customer Service, what are they, and how much has it cost?*

Delivery Performance

One of the biggest obligations for a bank is to deliver its products and services on a timely basis. "Timely" is a relative benchmark linked to changing customer expectations as well as competitor alternatives. In an environment where convenience dominates purchasing behavior, the quest to be timely is a never-ending challenge. This is why it is vital to identify what, where, and why internal processes are failing or underperforming in their timeliness. Reducing time-related bottlenecks is critical in a relatively undifferentiated competitive banking market. Monitoring performance also provides sales channels with information to pre-empt potential issues before interacting with customers.

Unfulfilled expectations regarding service delivery can also be important for reconciliation purposes when checking on late payments from customers. This decision area can also uncover root causes of back-office problems. Tracking timeliness by product, service, and customer segment will highlight potential deficiencies in key hand-off steps within the internal process. With better information, you can categorize different levels of timeliness and compare them to different customer delivery performance thresholds for a more detailed view of risk and recommended action.

GOALS	METRICS	DIMENSIONS

Average Fulfillment Time (#)
Fulfillment on Target (%)
System Downtime (#)
	System Problems (#)
	Avg. Time to Service Response
	System Downtime Events (#)
		Systems
		    Application
		    System
		System Problems
		    Problem Severity
		    System Problem
		System Downtime
		    Downtime Time of Day
		Customer Transaction Accounts
		    Customer
		    System Transaction Account
		Day
		    Year
		    Quarter
		    Month
		    Day

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Sales				
	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Operations / Production				
	Executives			•
	Analysts		•	

Information, Complaints, and Claims

Every complaint is a proactive customer statement that you are not meeting expectations. It is an opportunity to listen to your customer, whether it's a simple request for information, a complaint about performance, or even a financial claim on a service error. Experience shows that each call can be the tip of an iceberg—the one frustrated customer who calls may represent many more who don't bother. By tracking and categorizing these calls, you can gauge the severity of various risks and prevent them in the future.

There are three dimensions to monitoring the customer voice: frequency, coverage across customer and product segments, and type of issue. Simply counting complaints will not adequately reflect the nature or risk of a problem. For example, you may receive many complaints about paperwork and problem resolution, but these represent lower risk than complaints about loan terms and uncompetitive offerings, as these may be an early flag for market share loss. In this example, a count of complaint frequency will not adequately reflect the underlying market loss risk. Claims are complaints that have been monetized. Perhaps through bank errors, the customer now needs compensation or related resolution. Claims are a potential direct cost to the bank, especially if they escalate to legal involvement, impacting the bank's public reputation. Poor customer handling can accelerate customer account losses and lessen customer loyalty.

GOALS	METRICS	DIMENSIONS
Open Claims ($/#)	Claim – Avg. Settlement Time	Billing Customer Industry Group Industry Category Customer Name
Paid Claims ($/#)	Claim Amount ($/#)	Claims Claim Type Claim Identification (#)
Lost Customer Count (#)	Fines (#)	Claim Status Claim Status
	Errors (#)	Claim Aging Claim Time Range
	Error Rate Index	Claim Beneficiary Beneficiary
	Investigations (#)	Claim Remitter Remitter
	Investigations – Closed	
	Investigations – Open	
	Complaint Count (#)	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Finance	Executives	•		
	Analysts	•		
Compliance	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Operations / Production	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Sales	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	

Service Benchmarks

Service benchmarks help evaluate how your customer service stacks up against internal and external standards. They measure not only response times, but also service gaps affecting customer satisfaction. Understanding the link between service benchmarks and customer/product revenue performance is a key goal. For example, we may find that excessive overdraft charges are impacting a customer's behavior and willingness to apply for personal loans, driving the customer to seek a more sympathetic alternative. An overly complex and burdensome process for mortgage applications may discourage potential new customers. A simplification and re-engineering of the bank's internal review processes may end up having the double benefit of market share gains and cost savings.

Internal metrics may include number of applications, process time, successful/rejected applications, average revenue amount, number of service calls, types of customer interactions, and correspondence. External performance metrics may include account and product comparisons, problem resolution, customer satisfaction surveys, response time, and claims. Using standard industry criteria allows managers to compare external information from third-party assessments with internally driven customer surveys. Gaps in external information can uncover risks not picked up by internal monitoring. Such information can also identify the need for better external communications.

Combined with skilled analysis, service benchmarks can be used to adjust the product and customer proposition. You can summarize customer benchmarks by region and customer segment, and thereby offer a high-level overview or drill down into Customer Service performance issues.

GOALS	METRICS	DIMENSIONS
Average Service Time (#)	Service Quality Std. (%)	Banking Industry Segment Banking Segment
Customer Satisfaction Score	Service Calls	Financial Services Area Financial Service
Service Support Score	Service Reconciliation – Avg.Time	Billing Customer Industry Group Industry Category Customer Name
	Reporting Info Accuracy (%)	Workflow Support Areas Service Support Activity
	Reporting Info Timeliness (%)	Service Benchmarking Issues Service Category Service Issue
	Rework (%)	
	Outstanding Service Issues (#)	
	Lost Customer Count (#)	
	Wait Time (#)	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Sales				
	Executives			•
	Analysts		•	
Finance				
	Executives			•
Marketing				
	Executives			•
Product Management				
	Executives			•
Purchasing				
	Executives			•

Service Value

This decision area combines costs and benefits to evaluate the value of the customer relationship. It segments customers by who they are and performance by how the bank provides the service.

Quantifying customer risk issues and the efforts required to resolve them provides the cost overview. Some issues can be financially quantified, such as the number of calls received, cost per call, and dollar value of errors processed. Others, such as poor response times or complaints, can be categorized through a service level index.

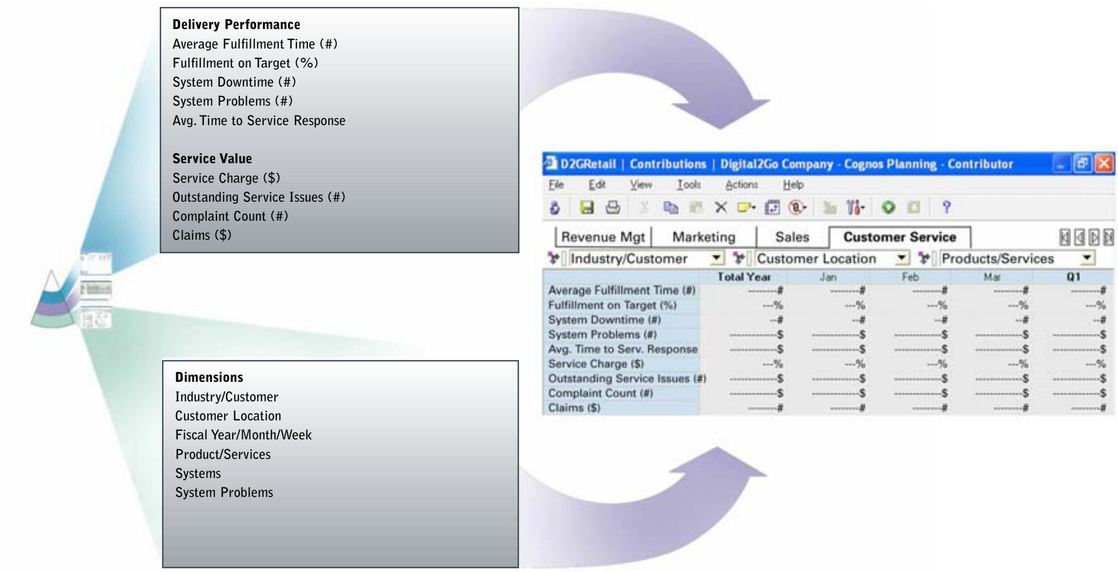
When determining cost, it is also important to understand how the relationship operates. Does the customer communicate with you through efficient electronic means and direct access to internal support systems, or use less efficient means such as phone or fax? Customer conversations that can be captured as data (i.e., electronically) tend to indicate more efficient relationships. You can define sub-categories of complexity based on customer and transaction knowledge: for instance, by tagging relationships based on how many separate steps and hand-offs are required to complete the transaction.

At the same time, you need to categorize the benefits, for example, using a lifetime revenue metric or strategic value index based on expected revenue.

When Customer Service can analyze value and cost, it can avoid trading one for the other by setting more accurate priorities for use of resources. Poor service performance in simple channels implies that Customer Service should invest more in process automation and improved efficiency. Performance issues in complex channels point to increasing investment in skills, expertise, and decision-making support when analysis shows that the investment is worth it.

GOALS	METRICS	DIMENSIONS	
Service Cost (%) Service Effectiveness Index	Service Support Score Service Efficiency Std. (%) Service Charge ($) Outstanding Service Issues (#) Customers (#) Lost Customer Count (#) Average Customer Income ($) Complaint Count (#) Claims ($) Net Income ($/%) Profitability Score	Billing Customer Industry Group Industry Category Customer Name Customer Location Region State/Province County Postal Code/Zip Code Fiscal Month Year Quarter Month Market Segments Market Segment Micro-Segment	Services Product Line Service Sales Channel Partners Sales Channel Type Sales Partner Sales Organization Sales Region Sales Territory Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Finance				
	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Sales				
	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Marketing				
	Executives			•
	Analysts		•	



The Delivery Performance and Service Value decision areas illustrate how the Customer Service function can monitor its performance, allocate resources, and set plans for future financial targets.