Profiting from Customer Demand Signals in Financial Services

By Jim Greene, Vice President, Internet Business Solutions Group

***Facilitating innovation to fuel profitable growth. Making the right bets on IT. Transforming the business with profound financial and market-position results*. These outcomes now determine the IT spending patterns of today's financial institutions, with profitable growth and enterprise productivity the overriding objectives.**

Cost reduction, though still an important goal, has become a lesser priority for global financial institutions. The quest to cut costs has reached diminishing returns the past three years, and the trend shows no signs of abating. At the same time, the revenue-growth rate of financial institutions is falling short of industry expectations—a burgeoning gap that could hit $350 billion to $500 billion by 2015.

For this reason, financial institutions are beginning to base investment decisions on strategic issues and revenue growth rather than solely on cost reduction. Important measures such as revenue per customer, customer retention, and the cross-selling ratio are stealing the spotlight from traditional benchmarks such as total cost of ownership and return on investment.

"Revenue growth [is] the single most important measure of success in our industry now and for at least the rest of this decade," said Richard Kovacevich, CEO of Wells Fargo.

Improving the customer's experience is essential to increasing revenues. As financial institutions seek new ways of increasing profits, technology-powered customer interactions will play a pivotal role in their success. The growing number of customer touch points—phone, the Web, ATMs, kiosks—gives financial institutions new opportunities to build intimacy with each customer interaction. As a result, they gain insights that facilitate effective responses to specific customer needs. Sales pitches become more successful, leading to purchases of new, highly profitable services by customers.

Technology Behind Interactions

Integrated interaction systems are designed to provide a consistent, connected customer experience across all financial-services channels. Five primary technology advances will form the foundation of interactions for the financial-services industry:

- Converged communications: By integrating data, voice, and video over IP networks, financial institutions can employ rich-media interactions to provide customers with essential information—anytime, anywhere.

- New commerce-enablement methods: Customers' use of new device types is facilitating a host of new commerce options: mobile wireless banking services (m-banking), secure online identification and credit card information (e-wallet), radio frequency identification (RFID), and biometric security, to name just a few. These methods are also helping financial institutions capture more useful customer-commerce information.

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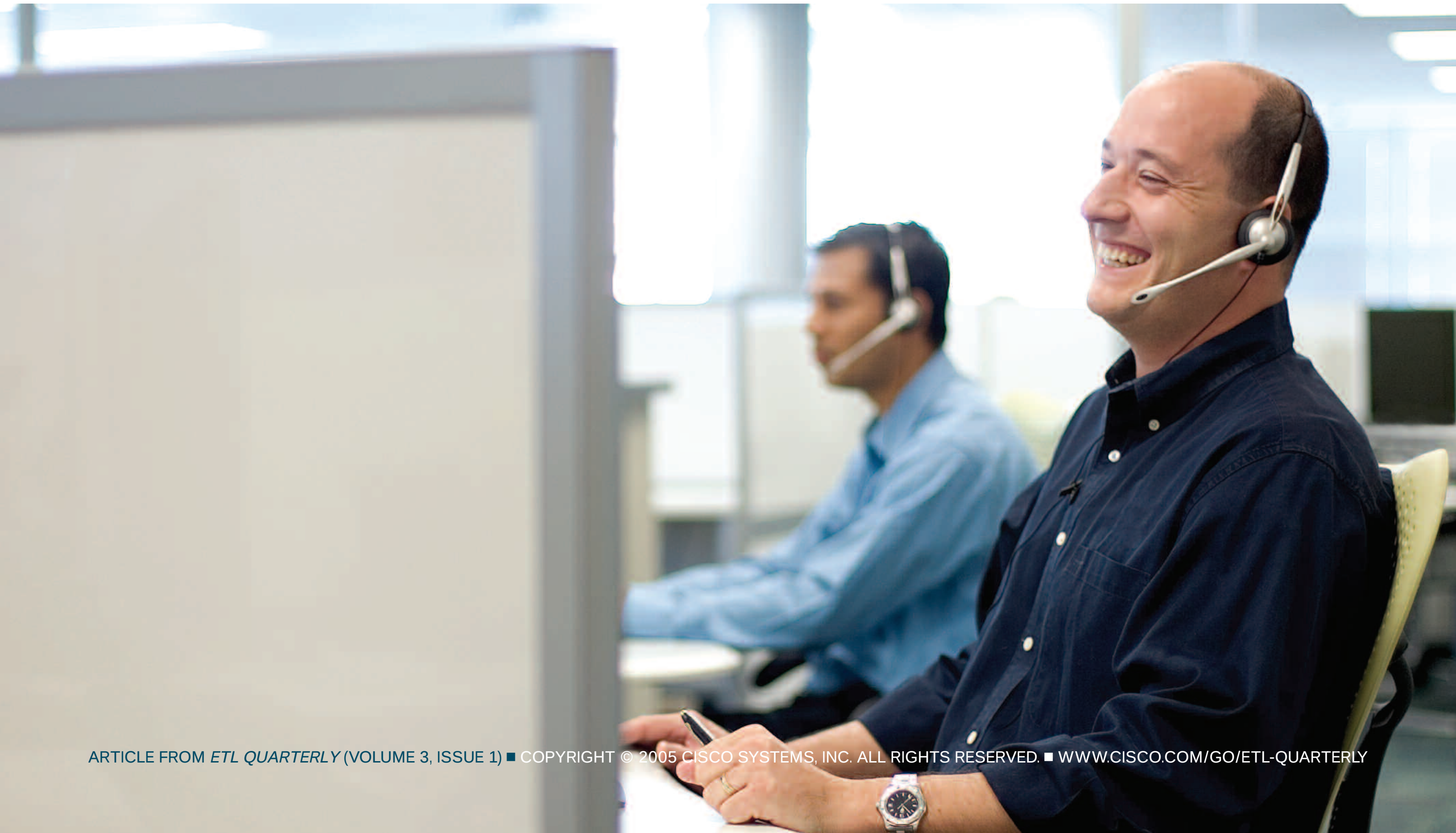
- Exponential computing advances: Significant technology improvements in areas such as storage, computing power, and bandwidth are giving financial institutions the ability to analyze, anticipate, and act on customer information more effectively.

- Broadband devices: Rapid adoption of 3G phones is radically changing the world of computing, as well as the service expectations of customers. Broadband-enabled mobile devices provide rich, new ways to interact, including direct communication with customers during various commerce activities.

- Application-oriented networking, Web services, and XML: These technologies facilitate development and sharing of custom applications within the enterprise and across Web-based partner networks, resulting in richer, more integrated, real-time customer interactions.



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Profiting from Customer Demand Signals

Banks and other financial institutions can generate significant revenue growth by investing in technologies that improve how they *capture*, *analyze*, *store*, and *act* upon (CASA) customer-demand signals and information. The CASA strategy creates a connected customer experience using real-time, "clairvoyant" interactions that fully capture customer needs and interests.

The CASA approach fulfills two vital needs:

- The extraction of business intelligence and value from customer interactions.
- The translation of this business intelligence into effective and tailored actions by the customer segment.

The CASA strategy will become increasingly important as companies focus on new opportunities for growth and differentiation through service models and as customers demand more services.

The Cisco Internet Business Solutions Group estimates that effective CASA strategies can lower customer attrition 10 percent to 20 percent; increase sales productivity and cross-selling revenue between 5 percent and 20 percent, respectively; and boost overall revenue 8 percent to 10 percent.

Conclusion

In the future, integrated interactions will greatly influence the competitive position of financial institutions. Companies that adopt interaction-enabling technologies have the potential of reaping a host of benefits, including improved customer relationships, increased differentiation, solution selling, new payment revenue, and richer, more relevant mobile customer interactions.

Banks that fail to heed the call to interactions will suffer the consequences: rising costs, as more channels need to be maintained; weakening pricing power, as mobile banking leads to "near-perfect pricing" information for customers; an eroding competitive position, as new entrants from China, India, and elsewhere crowd the market; and disintermediation ("cutting out the middle man"), as customers employ new payment alternatives.

