SunTec®

REVOLUTIONIZING RETAIL BANKING THROUGH EFFECTIVE OFFER MANAGEMENT

eBook

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THE DYNAMICS OF RETAIL BANKING ARE CHANGING

The way banks and financial services institutions engage and interact with customers today is being visibly shaped by a slew of technologies. However, it is a less visible, and a more strategic shift that will drive future growth sustainably. The future revenue and profitability of retail banks is tied to the “value” they extract from customers across multiple products and services. This is different from the traditional view where banks were happy for customers to consume a limited number of products, say a Current Account and Savings Account (CASA), along with a credit card and term deposit. Owning the customer relationship and proactive cross-selling were not seen to be as critical as they are now.

The unit economics of each product or service varies across banks, channels, and geographies, as is their pricing power and indeed, customer needs. Hence, the notion of “value” is changing for both banks and customers. In this context, the new growth mantra for banks is to not just attract new customers and retain existing ones but also to proactively incentivize all customers to consume more of the bank’s products and services. Simultaneously, banks must also work towards shifting customers to digital channels, which are not only more cost-effective but also offer greater agility and flexibility in engagement.

Most customers rely on multiple banks and other financial service providers (e.g., insurance, investments etc.). The new paradigm requires banks to successfully persuade more clients to entrust a larger chunk of their overall financial needs to their bank. This means getting customers to shift from other providers. This task is getting harder in a digital world where customers have come to expect high levels of personalization. They expect financial services institutions to deliver the kind of experience they get from fintechs and B2C/D2C companies. Customers are willing to shift their loyalty to other banks provided they get additional tangible value. Banks must differentiate themselves from competitors by offering higher value. This challenge is amplified because “customers” are not just one account holder, but includes their family, friends, and others. And while they are all prospective customers, not all of them need all the products and services offered at the same time. Both existing and new customers expect the power to choose how they engage and transact with banks - digital, physical (at a branch), or even hybrid modes.

Retail banks need to constantly manage these multiple forces to differentiate, stay relevant, and maintain profitable growth. They must view and treat each individual customer as a unique market segment of one.

DELIVERING PERSONALIZED SOLUTIONS TO EVERY CUSTOMER REQUIRES A SHIFT FROM A PRODUCT-CENTRIC VIEW

To address the above-mentioned customer expectations and competitive forces, banks are moving away from a product-centric to a customer-centric view of their business. Such a shift requires retail banks to take a holistic view of customer relationships and their monetary value that transcends product/service lines. Using customer insights gathered at the overall relationship level, banks can design and deliver “personalized offers” that are better aligned with customer needs at a given point in time. These offers are a quid pro quo: attractive for customers to accept them but also get clients to commit to consuming more of the bank’s products and services. This is like mobile service providers offering OTT bundles or airlines offering discounts on hotel tariffs.

Conceptually, this idea is simple and well understood. However, retail banks around the world find it hard to implement personalization and offer management at scale because of their conventional operating models and the legacy systems supporting them. Despite spending significant chunks of their marketing budgets to achieve this holy grail of personalized offers, converting customers consistently to pay for and consume a larger set of products and services is not easy. A Capgemini study reports that as much as 45% of banks’ marketing spends are directed at offers[1]. While there are bank-specific reasons as well, the main impediments to effective design, delivery, and management of personalized offers include limited flexibility in constructing relevant bundles, appropriate pricing, elongated time-to-market, and weak performance management.

PRODUCT-CENTRIC APPROACH

- Siloed view of customer engagement
- Product-driven offers
- Offer focuses on a particular financial product regardless of customer need
- Focuses on short-term sales goal

v/s

CUSTOMER-CENTRIC APPROACH

- Unified view of customer engagement across lines of business
- Value and behavior-driven offers
- Offers made are relevant to customer context
- Prioritizes long-term customer relationship

1. How banks can optimize offer management to drive growth-capgemini.com

THE OFFER MANAGEMENT LIFE CYCLE IS COMPLEX

In the banking industry, the term “offers” (sometimes called “campaigns”) refers to orchestrated marketing efforts designed to attract prospects or existing clients to buy/use products, features, and/or services. For existing customers, campaigns are generally run at the account level. Their main objective is to ensure that customers receive relevant information about the right products/services and preferential pricing at the right time (i.e., when the need is predicted to arise or is directly/indirectly expressed) via the right channel (physical and/or digital) and can act quickly to complete the purchase transaction. Some campaigns are designed to attract first-time customers to the bank.

Three aspects are critical to the success of campaigns:

- The offer must be attractive enough for customers to move ahead with the acceptance/purchase decision.
- Customers accepting the offer must create tangible value for the bank in the form of higher revenue/margins.
- The offers must not adversely impact customer journeys or experiences.

Banks must therefore develop the capability to structure offers that deliver “value” for both customers and the bank. This is another manifestation of the shift from product-centric to customer-centric thinking. For example, banks traditionally offered a variety of credit cards with each offering a different set of benefits. They were also priced differently (free basic cards to cards with annual fees or those tied to minimum spends each quarter/year).
The customer value paradigm is premised on how insights around customer behavior, needs, and preferences can collectively be harnessed to expand the basket of products/services they consume. The application of this thinking is best explained using an example. Say a customer uses a basic credit card that is linked to a CASA account. To encourage consumption of other products and services, the bank offers the customer an offer to upgrade to a credit card with more built-in benefits, provided the customer signs up for additional products/services. The customer sees value in the superior credit card features (e.g., free access to airport lounges, more reward points etc.) and accepts the offer. Going forward, the bank can generate revenue from the customer’s spend on those products and services that are contractually linked with the new card.
The bank’s ability to run such campaigns depends on whether its systems can provide a holistic and real-time (or near real-time) view of the customer’s relationship with the bank that transcends transactional views at the level of individual products and services. Many banks run on legacy core banking systems that make it almost impossible to achieve such holistic views. This is why the best practice is to use a specialized offer management solution that can overcome architectural limitations imposed by legacy software.

THREE KEY TYPES OF OFFERS

Banks provide a mix of services and products to their customers. Therefore, offers too must be built around specific products, services or "bundles" of products and services. They are structured as explicit quid pro quo. To be eligible for an offer that provides certain benefits (discounted pricing, free add-ons etc.), customers must satisfy certain criteria, e.g., maintain higher account balances or pay a monthly subscription fee etc.

1 SERVICE-BASED OFFERS

Service-based offers could include a certain number of free ATM transactions or banker's checks linked with the customer's obligations to maintain a minimum CASA balance or quantum of investments made. Some banks may waive the "fall below" charges for customers who satisfy certain eligibility criteria that are tied to other products/services. Essentially, these offers relate to preferential benefits around the bank's services.

2 PRODUCT-SPECIFIC OFFERS

Product-specific offers involve giving customers benefits tied to a specific product. For example, a bank could offer a one-time cashback to customers who avail of personal loans during the duration of the campaign or for a certain number of months if the interest is paid on time and other applicable conditions are satisfied. Some banks design offers that are cross-product in nature, with the aim of increasing cross-sell rates. For example, if a customer transfers his/her salary to a CASA account and meets additional criteria such as a minimum monthly spend on credit cards issued by the bank, quantum of monthly investments, loans taken etc. then those customers are eligible to earn a higher interest rate on their savings account.

3 BUNDLED OFFERS

Bundled offers refer to a "bundle" of multiple banking products/services that customers are likely to need against say, a monthly subscription fee or other obligations that create revenue streams for the bank. For example, a bank could design a "cash management value bundle" to include payments, add-ons such as wire transfers, fraud protection, and transaction/ balance reporting for a monthly fee. For these customers, individual components (such as wire transfers) will be priced at a discount to the "standard" fees charged. Or they may get one free wire transfer each month, beyond which "standard" charges apply.
Some bundles may include additional benefits such as rollover of unused "free" transactions to the next period. Other value bundles offer discounted prices, additional benefits such as accident/life insurance, reward points, and even preferential prices (lower interest rates) on home/vehicle/personal loans.
In the case of product bundles, it may include the bank's own products or even partner products. For instance, a home loan could be bundled with a CASA product (two or more liability and asset products are bundled together and packaged effectively), in turn offering customers a better interest rate on their deposits or their home loan.

As is evident from the preceding examples, banks have the flexibility to structure offers in many permutations and combinations based on product/service mix, price, time duration, one-time benefits etc. The challenge is to identify accurately and dynamically what products/services individual customers need at a certain time and construct personalized offers that are not just attractive and relevant, but also presented to them across multiple physical/digital communication channels. And do all this consistently faster and more efficiently than other banks can. This is why the right offer management solution plays a key role in how well banks can do this.

WHAT ARE CAMPAIGNS AND WHAT DETERMINES THEIR SUCCESS?

In addition to enhancing revenues and forging stronger and deeper relationships with customers, well-managed offer programs can deliver several benefits, including increased revenues and improved profitability. They can also strengthen customer relationships and enhance the brand.

Although offer management facilitates several benefits to banks, it is a complex process. Achieving the benefits needs agile orchestration across the bank's multiple offerings and accurate alignment with customer needs (both explicitly identified and predicted).
A campaign typically involves multiple steps:

OFFER DESIGN

This is when the bank's leaders agree on various offers (product, service, bundles; conditions; tiered benefits), campaign duration, eligibility criteria, approval workflows etc.).

ELIGIBILITY MANAGEMENT

This is when decisions are made around the bank's addressable market and what it currently addresses. This is also when specific eligibility criteria are defined for customers to qualify for various offers. Some criteria may be "static" (e.g., customer age or postal codes or profession); others may be behavioral attributes (e.g., those with no deposits in the past X months or joint account holders who are now primary accountholders or those who regularly use the account to pay bills etc.).

ENROLLMENT/ DE-ENROLLMENT

Once offers are rolled out, qualifying customers need to be enrolled either automatically or invited to "opt-in" after ensuring that they have read, understood, and accepted all terms and conditions. That regulations vary across geographies makes this task more challenging both from an execution and compliance management perspective. Customers have the right to opt out of offer programs. In such cases, the process of de-enrollment must be quick and painless both for the customer and the bank.

AUTOMATIC FULFILLMENT

Once customers sign up for specific offers, the bank must ensure that these customers automatically get access to the relevant products and services at the agreed terms. This needs a product-specific downstream system to be suitably triggered (data ingestion of data, eligibility criteria tracking, benefit computation, posting benefits to accounts in real time or near real time, generating statements/invoices etc.). If customers do not meet the requisite eligibility criteria, they need to be notified, so that they can take corrective actions. If customers do not keep their end of the deal, they must be de-listed and access to their benefits stopped.

ECOSYSTEM INTEGRATION

While some banks are creating their own ecosystems along with other businesses, others are members of ecosystems built by other enterprises. In either case, it is likely that some offers may involve products and services provided by entities outside the bank. For example, credit card reward points may be used to pay for third-party products such as electronics, movies, or airline tickets. In such cases, it is essential that the bank can suitably integrate its offer management engine with those of others in the ecosystem with whom it is partnering (e.g., through real-time APIs). Further, if such purchases are made using credit cards issued by the bank, then the loop needs to be closed because the customer may stand to earn additional reward points.

OFFER MONITORING AND MAINTENANCE

The performance of individual offers needs to be regularly tracked to ensure that they remain relevant to customers and are delivering value to the bank. Feedback from customers availing offers needs to be analyzed and incorporated into the design/fulfillment.

THE RIGHT OFFER MANAGEMENT SOLUTION ENABLES EFFICIENT DESIGN AND FULFILLMENT OF OFFERS

Agile, contextual personalization and offer management capabilities that seamlessly span multiple lines of business and can integrate with partners within ecosystems enable retail banks to drive customer value-based offers that improve conversion. They help banks be more customer-centric, reduce time-to-market, improve operational excellence and regulatory compliance, and enhance differentiation in the market. Together, these open more growth possibilities for the banks through both existing and new customers.

The ability to quickly design and rollout a steady stream of personalized offers for individual customers, quickly fulfill those offers that customers accept and constantly innovate new bundles will be an important enabler of growth for retail banks. Given the complexity of the offer management life cycle, automating it for scale is important for banks to realize value from this strategy. But unless the limitations of legacy architecture are overcome, banks will not be able to act with the requisite agility to respond to customer needs or competitor actions. This can erode customer trust in the bank, thereby making it harder to attract and retain customers, thus impacting growth.

Banks therefore need a robust, reliable, scalable, secure offer management solution. SunTec's offer management solution already provides dynamic, rule-based, contextual bundling, pricing, and revenue management for several banks across the globe. Designed to work as an agile, intelligent middle layer that seamlessly integrates with the legacy core, it frees banks from the limitations of legacy systems. All this makes it easy for banks to quickly design and launch offers and increase conversion rates. Successful campaigns can be easily replicated for other customer segments and geographies, while under-performing campaigns can be quickly discontinued to prevent revenue/margin leakages.

Author

Dominic Prakash
Senior Principal - Solution Architecture
SunTec Business Solutions

ABOUT SUNTEC

SunTec is the world's No. 1 pricing and billing company that creates value for enterprises through its Cloud-based products. More than 150 clients in 45+ countries rely on SunTec to provide hyper-personalized products, offers, pricing, loyalty programs, tax compliance, and billing for over 400 million end-customers. SunTec products are based on our cloud-native and cloud-agnostic, API first, micro-services-based proprietary platform, Xelerate and are delivered on-premise, on private cloud and as SaaS. SunTec has global operations including the USA, UK, Germany, UAE, Singapore, Canada, Australia, and India. For more information, please visit us at www.suntecgroup.com or email us at marketing@suntecgroup.com

If your bank or financial institution is looking for a world-class offer management solution, write to us on contactus@suntecgroup.com. Our specialists will soon get in touch with you to understand your needs and schedule a presentation/demo at your convenience.