

# Increasing Customer Retention in Financial Institutions

## THE ACCOUNT STATEMENT AS A TOOL FOR INCREASING CUSTOMER RETENTION AND REALIZING CROSS- AND UP-SELLING POTENTIALS.

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### Introduction

Over the past couple of years, German banks have once again focused their attentions on consumer banking. More and more banks are offering free checking accounts, with the aim of leveraging the customer value through secondary or tertiary products. As the current industry publication for financial institutions from Mummert & Partner shows, a particular focus area is personal consultations with almost 80% of banks wanting to invest in this area in the near future. There are various ways for banks to establish contact with customers. As well as traditional bank branches, call centers, and the Internet, documents are playing an increasing role as a communication channel. These can be divided into compulsory documents (such as account statements) and non-compulsory documents (such as direct mass mailings). In Germany, around 90 million mass mailings and 600 million account statements are sent out every year. Until now, personalizing compulsory documents has not been a priority for banks, both for security reasons and due to technical restrictions. A consolidated database and the

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related printing options often act as an Achilles heel here. As a result, many banks now insist on a consolidated asset and liability statement and in some cases also a balance overview for all accounts in Internet banking. Such options are only rarely available with paper statements. By consistently separating layout and business data, progressively implementing output management systems and increasing the use of online banking, banks are more and more able to address customers at a personal level, even with compulsory documents. This article aims to investigate whether improving the design of account statements would bring benefits in terms of banks' cost/revenue ratios.

### Documents at Financial Institutions

As mentioned previously, financial institutions distinguish between compulsory and non-compulsory documents. While putting together non-compulsory documentation can often be very time-consuming, compulsory documents, such as account statements or interest summaries, are designed to be functional. These two types of documents are

rarely combined. Take one bank as an example: Their marketing department wanted to advertise a special savings deal during the World Cup. However, such a deal would have cost more, with today's technology, than sending out two parallel documents (account statement and mass mailing).

Developments in other sectors and other countries have shown that costs can be cut and revenue increased even with compulsory documentation. In Asia, for example, advertisements are incorporated into credit card statements, while in Italy, account statements can be printed out free of charge, in return for renting out free space on the account statement.

However, financial institutions in Germany, too, are taking advantage of the opportunities the Internet offers for adopting a personalized approach. Customers of the bank HSBC Trinkaus & Burkhardt for example can set their own font size when using the website and are assigned to an individual contact person according to the products they use.

For organizations such as banks, the numbers of current and future customers, profitability per customer, length of customer retention, and expenditure necessary to acquire customers and win their loyalty are vital statistics for market success. The same applies for the relevant documents in the banking business. Research projects carried out by the E-Finance

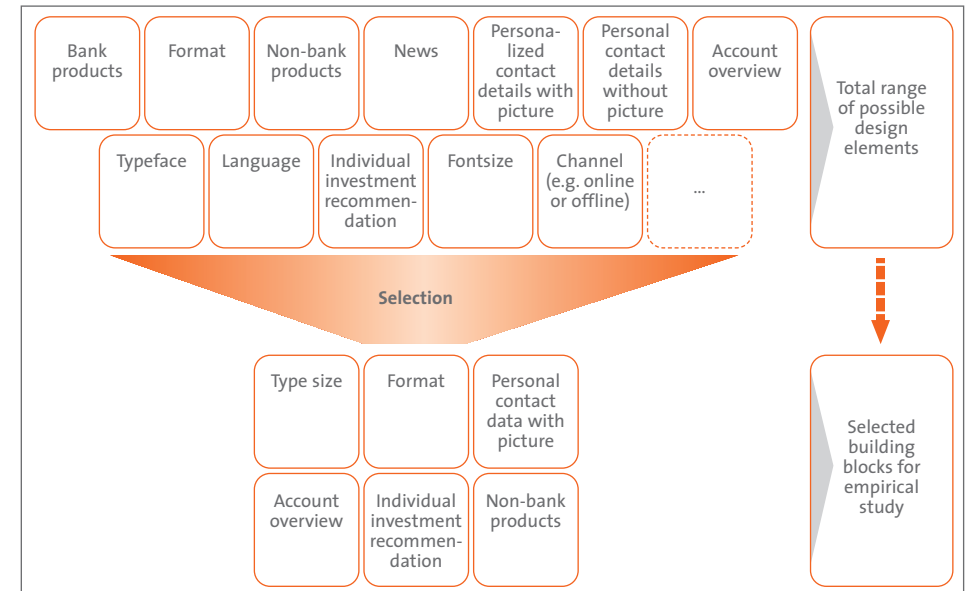


Figure 1: Selection of particular features of an account statement in our research

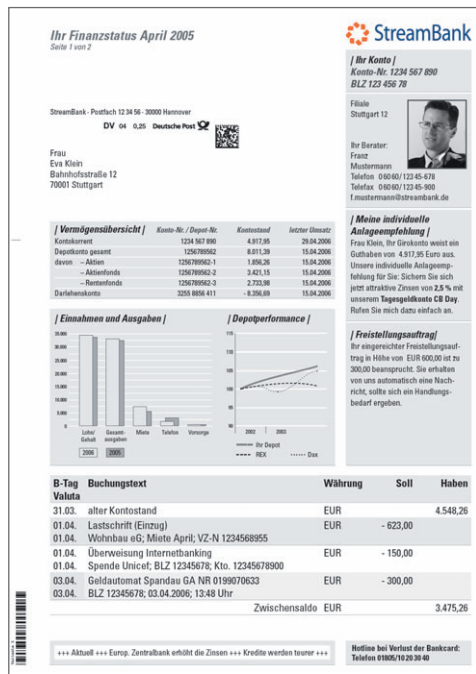


Figure 2: One version for a new account statement

Lab at Frankfurt University have included surveys of how vital statistics can be implemented to assess the customer base and organizations. The developed models show that forward-looking metrics are important, and customer retention should be a key metric to track. Changes in customer retention has a far greater effect on the value of the customer base (and thus on the value of the organization) than, for example, comparable changes in the number of customers or their profitability. To investigate the impact of account statements on profitability and customer retention, the account statement was subdivided into

various components. As well as an account overview, the statement may contain messages, contact details, or recommended investments. The different possible versions that were used in the study are shown in Figure 1. These differ in terms of content and format, as well as layout.

### Study Composition

First, we discussed and developed components and possible versions of account statements with managers of the Marketing, IT, and Legal departments from banks. The most important issue here was to achieve an “inside-out” view, i.e. a banking perspective of requirements for account statements. Besides legal requirements, it was decided that color graphics should be omitted, due to cost, among other reasons. Departments, like Marketing, requested that a larger font should be used, for example for older customers, or with integrated personalized advertisements. Another suggestion was to offer account statements in multiple languages in the future. The outcome of this phase was that six criteria were identified, namely the font size (13 vs. 10 pt), format (A4, C5), personalized contact details (with and without photo), statement of assets and liabilities (in table form, as a chart, none), personalized investment recommendation (yes, no), and one advertisement for non-banking products (yes, no). The conjoint analysis involved systematically varying the characteristics of these criteria, resulting in a total of nine new account statements. One version is shown in Figure 2. A questionnaire

has also been developed. The conclusions drawn from the “inside-out” study as a result of the survey of banking experts were then validated by means of an “outside-in” study with customers of a large international bank.

During a 12-minute analysis session in individual branches, 80 customers were questioned in total. First, the survey requested customer opinions on the existing account statements, and they were asked to identify requirements for the account statements of tomorrow, as well as give their expectations and future purchasing patterns. Then, the nine new account statements were presented to the customers, who were asked to rank them in order of preference, as part of the conjoint analysis. Afterwards, the consumers were asked again the same questions as had been posed before they had seen the new account statements. This was intended to measure any change in their assessment caused by their knowledge of the “new” account statements.

The aim of this survey was to gain an initial insight into how to increase customer retention and into cross- and up-selling potential, as well as the benefits of the account statement criteria and their characteristics.

### Results of the Study

After the first part of the survey, the results initially showed that bank customers are predominantly satisfied with their banks’ account statements. Before the customers were shown the new statements, they criticized only minor shortcomings, such as internal bank entry numbers, individual entries running over two pages, shading on the account statements (as a result of poor copying or faxing), or too little differentiation between individual entries. However, once these test subjects had seen the new statements, their attitudes to their current statements worsened significantly. By the end of the survey, 30% of customers were dissatisfied with their current account statement. The results of the study show significant potential for

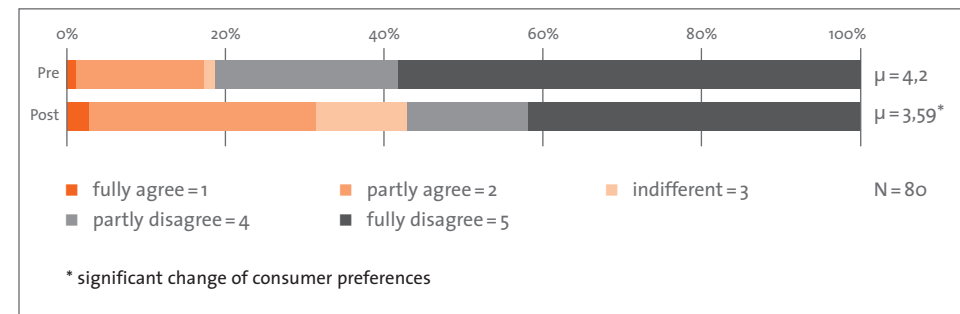


Figure 3: “I would buy more banking products if information about them was given on my account statement.” – before and after having seen the nine new statement designs

Attributes	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6
Account overview <sup>1</sup>	✗	tabular & graphical	tabular & graphical	tabular	tabular	tabular & graphical
Personal contact details with picture <sup>2</sup>	✓	✗	✗	✓	✗	✓
Investment recommendation <sup>3</sup>	✗	✗	✓	✓	✓	✓
Font size <sup>4</sup>	13	13	10	10	13	13
Non-bank products <sup>5</sup>	✗	✓	✗	✗	✓	✓
Format <sup>6</sup>	DIN C5 (small)	DIN A4 (big)	DIN A4	DIN A4	DIN A4	DIN A4

Figure 4: Characteristic criteria across the six customer segments

cross- and up-selling in banks. Fifty percent of the asked bank customers would like their account statements to contain more information on both non-banking products, such as information about sporting events, and banking products, such as savings bonds or investment funds. If such offers were included on account statements, a good 32% of customers say they would buy more banking products (see Figure 3). At the same time, at least 62% of those asked would like their bank to make more personal investment recommendations. These figures all increased

significantly between the before/after survey, which shows that customers place high value on the personalized elements incorporated in the new account statements. Similarly, if banks were to offer account statements in a revised format, this could clearly also give them a new competitive edge.

The study also shows that bank customers can be divided into various groups, which should ideally be addressed with individual forms of account statements. A total of six segments were identified for the bank

surveyed. In identifying these segments, it became clear that the types of statement preferred by each group varied greatly. One group, for example, might like to see an asset and liability statement displayed as a chart, while another prefers it in table form. Another customer segment places particular emphasis on how their customer advisor is displayed. While one group favors the “old”, small and long account statement in C5 format, to others (such as Segment 1), a larger font size is more important. The “Seniors” segment, with an average age of 67, stood out during the test since they preferred a size 13 font and an individual contact person, with a photo.

Figure 4 shows the six individual customer segments and their respective characteristics. This also illustrates that four out of the six segments would like to receive personalized investment recommendations.

It is equally apparent that, at least among the bank customers surveyed, the clear trend for German banks will be to switch their account statements to the highly popular DIN A4 format.

**Conclusion and Recommended Action**

In Germany, approximately 600 million account statements are sent out every year. These days, they are frequently designed simply to be functional. As a result, German financial institutions are wasting numerous opportunities to establish contact with their customers.

The survey carried out at one bank showed that customers of this bank can be divided into six groups, all of which are significantly different from the others. This gives rise to considerable potential to increase customer retention and the cross- and up-selling rate by addressing customers on an individual basis. By grouping documents together (e.g. personal investment recommendations) in a logical manner, banks can reduce their costs, and by taking a more individual approach and improving the layout of account statements, also increase their revenue.

As the results show, banks can win favor from the “Seniors” segment by using larger print fonts and adding an individual contact person to their account statements, for instance. This alone promises a huge growth market.

Our methodical approach for improving the account statement for financial institutions is a balanced “inside-out” and “outside-in” procedure. First of all, the various building block (elements of the account statement) have to be defined with the specific Marketing, IT, and Legal departments of the financial services provider. Afterwards, a guided customer survey assures the identification of real needs and wants of the variety seeking customer of tomorrow.

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