A MOMENT OF TRUTH?

Influencing customers' perception of a bank is crucial to the development of loyalty and good relationships. Doug Wilson looks at how this can be achieved.

In recent years, considerable focus has been given to the concept of Moments of Truth. Whilst there are different interpretations of what this means, a Moment of Truth can be described as, "an interaction with the customer that can cause a significant impact (positive or negative) on the attitudes of the customer to the bank."

If Moments of Truth are understood and managed correctly, the result will be an increase in satisfaction, loyalty and, hopefully, increased business with the customer. Equally, poor handling of the interaction is likely to lead to dissatisfaction and defection.

For many banks the concept has primarily been applied to unique interactions of high emotional impact to the customer – how the bank handles fraudulent transactions, lost or stolen cards or breavement, for example. However, a number of banks have moved the concept further.

> Whilst events such as excessive queuing for counter service are not individually significant, if it happens frequently the cumulative impact can cause an equally negative reaction as the poor handling of a single major issue.

First, the research of many banks has indicated the importance of key sales and advisory transactions in the development of the relationship with the customer. The customer feeling that her needs have been understood and met by a meeting with a bank advisor has a different perception of the bank than the one that feels the advice given has been for the purpose of increasing the bank's fees and commissions.

Secondly, it has been noted that whilst events such as excessive queuing for counter service are not individually significant, if it happens frequently the cumulative impact can cause an equally negative reaction as the poor handling of a single major issue. The last time it happens can be the straw that breaks the camel's back.

Banks have moved to recognise that for different customers many different types of interaction can have a major impact on their relationship with the bank. This leads to the problem that if any interaction may have a serious consequence for the customer, what should a bank focus on improving? Is it possible to ensure that any interaction will be dealt with effectively and will lead to increased satisfaction, or should banks play the percentage game and concentrate on certain types of interaction or, indeed, certain customer groups?

The purpose of this article is to understand the use of the Moments of Truth concept within banks today. It is based upon specific interviews with 14 banks supplemented by Finalta's ongoing work on retail management best practices with over 30 banks across Europe.

Prioritising Moments of Truth

Most banks have undertaken research to understand which interactions are of most importance to the customer and how well the bank is performing. This is the first stage in focusing attention and effort.

Finalta believes that a more sophisticated model is required than simply the degree of emotional impact on a customer of a particular event. It must include:

- The frequency of a given event.
- The times that the event is handled above, at or below customer expectation.
- The impact of these outcomes on customer satisfaction and loyalty.
- The potential for improvement in performance and the likely cost.

For instance, Bank B surveys customers that have made a complaint and asks whether it was handled well, satisfactorily or badly. It then correlates this with their level of satisfaction and intention to repurchase. It has found that if a complaint is handled well, the impact on customer loyalty is minimal. Poor complaint handling almost certainly will reduce or end the customer relationship – if not immediately then in the near future.

The main techniques used are:

- General customer satisfaction surveys.
- Specific surveys or focus groups on particular aspects of service.
- Internal measurement of performance on KPIs.
- Complaints analysis and exit interviews.
- External benchmarking against competitors.

Core Moments of Truth

Based on Finalta's survey, it is possible to identify those interactions which, across the industry, are generally perceived to have a high impact on customer satisfaction and occur with sufficient regularity to make a material impact on the overall customer base of the bank (Figure 2).

This is not to say that others may not be important to individual banks, or that these will all be important to every bank. Individual banks noted events such as fraudulent interactions, claims handling, bereavement and refusing credit as important Moments of Truth for them.

Whilst most of the core Moments of Truth relate to 'one-off' events such as a lost card, or opening an account, it is important to note the importance of 'cumulative' interactions like counter service.

It is useful to consider the nature of the interactions from a relationship perspective. What we see is that half of the events are largely around relationship development – communicating to, meeting with and selling products. This is driven by the proximity of revenue increase to the impact of the event.

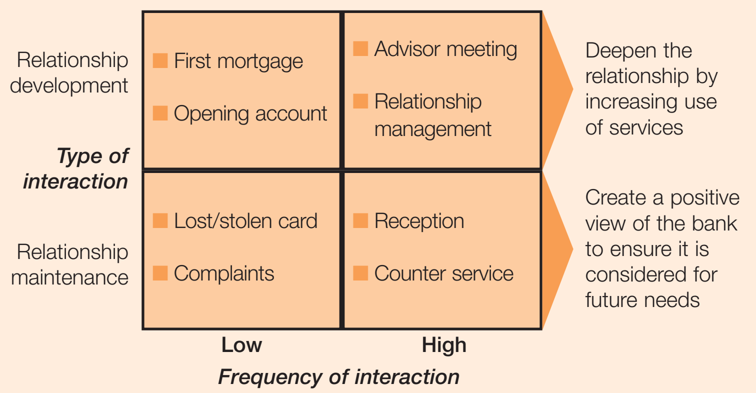
The other half can be described as relationship maintenance. The objective is not immediately to increase the customer relationship but to ensure loyalty and receptiveness to offers at a later date.

FIGURE 1: EXAMPLES OF CUSTOMER INTERATIONS

Routine events	Branch reception, counter service, internet banking log-of, telephone query
Advisory events	Advisor meeting, opening account, purchase of product, claim handling, prospecting call
Life events	Birth, marriage, divorce, retirement, bereavement
Disruptive events	Fraudulent transaction, lost/stolen card, funds shortage, complaint handling

Source: Finalta

FIGURE 2: SEGMENTATION OF CORE MOMENTS OF TRUTH



Source: Finalta

That said, one of the reasons why branch welcome and counter service are perceived as core Moments of Truth is the possibility of using these service interactions to immediately generate sales leads.

Methods of improvement

Having gone through the process of identifying core Moments of Truth and opportunities for improvement, the next step is to take action. First, one of the core messages from the group was the need to select a relatively small number of Moments of Truth and focus on these until performance meets targets. After this, move onto the next most important and so forth.

The approach that banks take will clearly be defined by those Moments of Truth identified. If the issues are around particular processes, the initiative is largely process centred – re-vamping the complaints process, reducing the time and complexity of account opening, etc. ➤

Other core interactions are around staff behaviours – welcoming advisor meetings for example. In this case the activity is based primarily on changing behaviours for all or part of the organisation, though process improvement can be an important facilitator. Finalta has identified two distinct strategies to improve the customer experience.

If any interaction may have a serious consequence for the customer, what should a bank focus on improving?

The process approach

One of the key trends across European retail banking is the adoption of total quality management ideas and practices from other industries. In part, this is a reaction to the fragmented processes typical of large banks.

For many banks key processes such as account opening or mortgages cut through many departments, have no overall owner and are difficult to measure and manage holistically. This leads to some banks requiring many minutes to open accounts, with up to 12 signatures required and several days to complete the process.

To overcome this problem, banks use techniques such as Six Sigma and ideas from lean manufacturing, or even 'Lean Sigma'. Typically starting with the most important or most problematic processes, some banks have systematically re-engineered these activities.

For many banks key processes cut through many departments, have no overall owner and are difficult to measure and manage holistically.

Bank C, strewn with process problems, identified those with the most impact and causing the greatest number of complaints. It introduced process owning teams and used Six Sigma methodologies to tackle these processes. Over a 24 month period, the volume of complaints regarding these processes were reduced by over 50%.

Some banks have now moved to certification of the quality of these processes through achieving international standards such as ISO 9001.

Bank D has taken this approach even further. Working with a local quality certification body, it defined a programme for quality excellence across the whole of the bank – a complete operating model based on quality standards.

The process started in 2004 with the support of the CEO who had identified service quality as the key differentiating strategy for the bank. This lead to an exercise to identify and fix key processes. A suite of internal applications were developed to collect, publish and monitor quality of service across the whole organisation. At the end of 2005, the bank became, it is believed, the first bank to have its whole operation certified. This is now being rolled out as a 'norm' for the rest of its market.

This holistic approach is based upon the view that a Moment of Truth is any interaction that, if done correctly, increases the trust of the customer for the bank. Nevertheless, for specific implementation, it believes that there is a maximum number of interaction types, probably five, that can be tackled at any one time.

The behavioural approach

The process approach can be spread wider than classic operational activities such as the mortage application process. The technique can be used to address counter service or advisor meetings. However, it can be characterised by a focus on the systems used to deliver a specific output.

Other banks have taken what Finalta would term a behavioural approach. This typically occurs when the customer experience issues are related to interactions with front line personnel or where there are major issues with back office customer focus – whether the customer is the consumer or front line staff.

An example of this is Bank E which traditionally had an extremely sales-oriented approach to its customer base. It had excellent customer acquisition rates and sales productivity. Over time, it recognised it had an increasing attrition and dormancy problem. Through management example, behavioural coaching and reward system adjustment, it is attempting to move to a more balanced approach to the customer. The objective of the customer interaction is not solely to 'sell' but to 'service'.

Frequent users of the behavioural approach to effective customer interaction are de-centralised banks with local branch autonomy. Without the systems and the culture to drive through 'top-down' process improvements, banks concentrate on building a service ethos amongst front line and support staff.

Bank F attempted to re-invigorate its service culture through the implementation of a major cultural change programme. It set out to change the passive behaviours of its branch staff through re-inforcing its core values – meeting customer needs and integrity –

as well as changing their understanding of and attitudes to the role. The branch hall became the 'stage', the customers were the audience and the interaction with them a form of choreography. (The implementation of branch choreography is the subject of another Finalta briefing).

As well as large scale cultural change programmes, the behavioural approach can also be used for specific issues or specific staff groups. Bank G, for example, felt that its advisors had too little customer understanding. Meetings were 'product push' rather than 'satisfying needs'.

It determined to change behaviours by implementing strict measurement of the advisor's understanding of the customer. This was achieved by analysing the inputs in the computerised interview report card to ensure that relevant information about the customer's circumstances and needs had been gathered at the advisor meeting. The degree of completeness is measured and the results impact remuneration.

The behavioural approach focuses on changing the attitude and actions of bank staff rather than defining and improving systems. It too can be measured, though this focuses on outputs. Was your greeting friendly? Did the service representative make eye contact and call you by name? Process re-design is frequently a component of the approach but is often based on removing inhibitors, or excuses, to desired behaviours. On the basis of our survey, we would classify banks into three camps.

Reactive

Whilst nearly all banks pay lip service to improving customer satisfaction and the customer experience, a few have a limited strategy in place to actually manage this. Interestingly, a number of mutuals could be characterised in this fashion. Whilst service is expounded, the delivery of effective customer interactions relies on the behaviours of front line staff, often covering for inadequate systems.

This behavioural approach can work for a long time, especially if it is built on a long tradition of service. However, it is often not supported by systematic protocols, procedures and training to ensure adherence. It relies on recruiting the right kind of staff and transplanting the culture. This relies on finding and paying for staff able and willing to do so. As service skills increase their value in the banking sector, this may prove an expensive solution.

Fragmented

The majority of banks have taken steps to identify and address what they perceive as the most important customer interactions. Depending upon their strategy these may be focused towards either relationship development or maintenance. However, they typically lack a coherent framework to prioritise actions and to ensure that process and behavioural actions are congruent.

Depending upon their service position, this may be sufficient for the present. If there are major and clear failings in particular interactions, taking these piecemeal and fixing them is probably adding value and an appropriate use of resources.

Systematic

A few banks, however, have moved to a complete quality of interaction model. Bank D has decided upon this as its key strategic thrust, systematically worked through its issues and developed a coherent, and certified, approach to the whole range of interactions that it has with the customer.

Having worked through the major interactions, systematic banks can continually improve quality in a structured, prioritised fashion – they have in place the operating model and the culture to achieve this.

> Banks typically lack a coherent framework to prioritise actions and to ensure that process and behavioural actions are congruent.

Importantly, most banks typically focus on problems and fixing issues that cause dissatisfaction and attrition. Little attention is paid to the other side of the equation – exceeding expectations. As noted earlier, banks interview leavers – few focus on what has made their customers delighted.

Banks with a systematic approach to customer interaction management should be moving into a position where they focus their resources on this aspect, create processes to delight their customers and raise customer expectations for everyone else.

To use a manufacturing analogy, Toyota started by fixing problems and, in doing so, developed the processes and behaviours to continually improve quality beyond existing customer expectations – to the detriment of its rivals. Perhaps banking will see a similar pattern. ◻

Doug Wilson is a director of Finalta.