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CUSTOMER EXPERIENCE: HOW INVESTMENT BANKS MUST
EMBRACE A NEW DIFFERENTIATOR

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1 Introduction

This new world of strict regulation is a great leveller. Restrictions on proprietary trading, significant risk and capital adequacy requirements and a general reluctance to create and sell complicated exotic instruments mean that investment banks are finding it increasingly difficult to differentiate in the market. New business models focus on simplicity and time to market. There are lower margins and as a result much higher throughput and volumes are required to establish similar profitability levels as pre-crisis periods.

As a result of this and a general convergence towards 3rd party trading systems all offering similar functionality, smaller Tier 2 banks are now able to offer similar services as the large Tier 1's. In the search for market share and without a true technological advantage, the shift of focus is now away from technical solutions and complexity and towards the Customer Experience.

This paper explores in more detail the background and general trends and considers the implication of this change in direction of the technology landscape.

2 Pre-Crisis: a tale of two tiers

The post credit crisis heydays are long gone. There was once a time when larger banks had significant advantages through their ability to invest, predominantly in technology, enabling them to attract the top talent in sales, trading, pricing, technology and risk. Many employees were lured in with the prospect of unlimited bonuses, the opportunity to work right at the cutting edge of technology and the chance to shape the market by developing technical solutions to solve business problems.

During this period banks typically built technology and analytics landscapes from scratch, pushing the envelope in every direction. These were exciting times, and the Tier 1's were a hotbed of talent drawn from theoretical physics, engineering, computer science and finance research backgrounds. New ideas were quickly implemented, and rolled out to create value for both the customer and the bank. Value at Risk (VaR) became established and High Performance Computing (HPC) became the norm. At one point investment banks were buying 1,000 computers a month just to run overnight risk calculations, using more power in a day than Manchester City Centre. Exotic instruments were all the rage, in fact the more complicated the better, and the Quantitative analysts (*who were the only ones who really understood the instruments*) and high end technologists (*who made the instruments work in the banking environment*) were at the cutting edge.

This was a time of expansion and innovation, where a proliferation of systems were each built with a single purpose. Trading desks tended to each have a dedicated technology silo and team to fulfil the need to create opportunities and technical solutions in pursuance of profit. Of course there were always attempts to consolidate and integrate, but this housekeeping was never at the top of the list. It was always difficult to carry out, and wasn't strictly necessary at the time. Though of course this has become routine for all nowadays.

Tier 2 banks, without the resource capabilities of their Tier 1 cousins, implemented one of a number of 3rd party ETRM systems which gave them access to more generic, yet configurable functionality. After all, why implement a VaR methodology when you can buy one "off the shelf"? Business models focused on trading and selling the kinds of instruments that could be supported by these systems. Anything else more specialist was at best very low volume, and at worst unavailable. The market positioning of these banks was a safer bet and focused on a particular client sector or region. As a result of over exposure to Credit Derivatives, fueled by belief in the capability of the bespoke technical and quantitative solutions, many Tier 1 banks found themselves in trouble and a number of investors and clients migrated to the safer Tier 2 options. In a reversal of fortunes, a number of these Tier 2 banks have risen to compete for services and clients in the space previously occupied by banks with much higher market capitalisation.

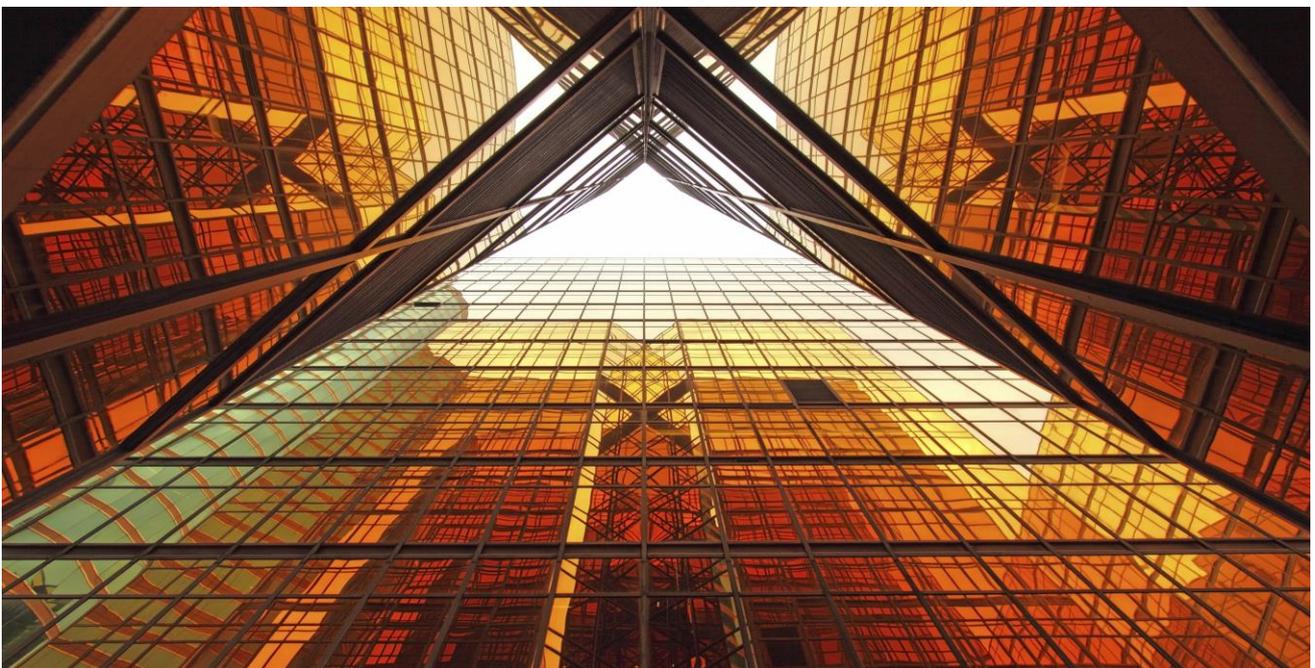
3 Post-crisis: Regulation leads to consolidation

Immediately following the credit crisis, regulators began to tighten up regulation and increase capital adequacy requirements. The Financial Services Act, Dodd Frank, Volker rule, FRTB, Basel III Liquidity, capital and leverage requirements all have huge impact on the way banks trade, manage and report their day to activities. A core and costly requirement for all banks now is risk management and regulatory reporting, the regulators strictly stipulate the methodology and frequency of such calculations and reports. There has also been a tightening on requirements around derivatives in general and while existing trades must be managed, these requirements make it increasingly difficult for banks which hold exotic instruments or use proprietary models to gain approval for continued trading and new products.

Where possible, the regulatory bodies prefer the use of standard models and methodologies and there is a distinct advantage here for the vendors of 3rd party trading systems as once validation is given by the regulator in one environment, any bank using that system are automatically compliant. Vendors are ahead of, or at least in line with regulatory requirements and they and their clients benefit from the economies of scale that having multiple clients bring.

In addition, the surviving banks have become more cautious and are increasingly removing potentially toxic assets from their books whilst increasing volumes in exchange traded 'vanilla' products. Together, caution and regulation are driving simplification across the board.

Banks are reliant on technology to solve their business problems whilst enabling and supporting business change. Equally, in the good times technology is an enabler and budgets know few limits. However, in difficult times the cost of technology and running of technology is heavily scrutinised. The sector has entered a cost control period that looks as if it will be in place for a very long time.



Technology changes post crisis are driven by three levers: **simplification, cost, and regulation**. The prevailing wind is pushing CIO's towards decisions around convergence to single front, back, middle systems, across desks and regions, on to single platforms and away from building bespoke solutions to the deep consideration of 3rd party ETRM systems.

One client, a large Tier 1 account with a strong derivatives reputation, have embarked on a process to consolidate to a single platform (Murex)¹, and other Tier 1's are considering following suit. Tier 2's are embarking on convergence programs, centralising middle office and making use of standard models and methodologies to ensure regulatory compliance and cost containment.

With convergence comes the question of differentiation. Fundamentally, if banks are now constrained to offering similar services, enabled by essentially the same technology, where is the competitive advantage? Larger banks can still benefit from volume, and as a result can make profit from low margin business or reduce client charges due to economies of scale. Sector, regional or client level specialisms can attract different customer bases but there will be little to choose between. The high street brand names and the strong Tier 2 banks now both with a good balance sheet will be able to compete early on price as they are much further along the convergence and cost saving path, having started early on with a single off the shelf ETRM platform. So where can banks now look to create the difference that brings in, and retains a continued stream of clients?

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¹ Financial Times: Trading Technology “UBS to outsource fixed income trading platform” January 19th 2014

4 CX: the difference that makes the difference

Across industry sectors there is a general recognition that Customer Experience is becoming the key strategic differentiator, and that “a focus on customers matters more than any other strategic advantage”.² Customers are more transient than ever before. With more choice available and brand switching easier, it is hard to create and maintain the sustainable differentiator that businesses require. Customer Experience strategy is designed to create and increase customer loyalty, satisfaction and to drive new customer recommendations.

The notion of Customer Experience (CX) is an extension of the UX mnemonic for User Experience. The topic of CX is quickly gaining momentum and typically manifests in the digital domain, through social media engagement models and the availability and quality of mobile applications. Banking customers are becoming increasingly demanding and want instant access to their information online. As a result, banks and trading houses are now investing heavily in these platforms for mobile devices for a number of core products. Still, much of the investment banking business is B2B (not B2C) and so is not obviously suited for these platforms, although the investment bank that manages to crack this particular problem will certainly have an edge. At least for a while.

The key to creating a sticky Customer Experience is **personalisation**. Understanding your customer, knowing their needs and ensuring that information and ideas are placed in a timely fashion for their consumption is essential.

Creating a detailed customer profile and collecting information on specific customer behavior whilst interacting with the customer tools (mobile, web, customer services, direct sales, sales managers etc.) allows companies to tailor Customer Experience in real time. This is no different to the old days of bank managers, or today’s investment managers who know their customers intimately and understand their wants, habits, requirements and desires. However the tools around data analytics and real time decision making available today can drive personalisation through mobile and web based tools in ways that were never considered before.

The focus in the digital domain is on the **customer journey** through the entire decision making process, from awareness of the product through to evaluation of options, to the purchase decision (and repurchase through building loyalty). The collection of data at each stage of the journey, creation of KPI’s, metrics, further personalisation and recommendations are key tools to making this strategy successful.

These ideas seem a far cry from traditional investment banking practice, but now that traditional differentiators separating the Tier 1’s and 2’s are diminishing, strategists are now looking towards CX for new ways of transforming business.

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² Forrester Research Inc. “Why Customer Experience? Why Now?” October 4th 2011



It is possible to extract from the gamut of Customer Experience best practices as a set of key principles that are relevant to investment banking, and provide a framework to guide the development of a program focused on the CX differentiator.

Responsiveness - Clients and customers require quick turn-around, a clear understanding of their needs, the capability to give them the information that they want and need for decision making, and the services that support their decisions. As customers become more risk averse, they need quick access to less risky products, the ability to transact quickly (striking while the iron is hot) and at volume if needs be. This means pricing, modelling, sensitivities, portfolio risks and data must be available in near real time.

Value - A key metric for banks now is “cost per trade”, which measures the trade and operations related costs in a single trade workflow. Cost reduction is possible due to commoditisation, increased simplification, the use of standardised technologies and increased volume. Quality is assured by standardisation, but the quality of Customer Experience is in the hands of the institution. Trades must be executed according to expectations, promises made and kept and the customer involved where necessary. Transparency and information are key here. Low cost, and high quality represents good value, it is this value proposition that should be the focus.

Customer Journey - At all steps along the way the customer can choose to jump to another provider. If the customer journey is not compelling, or sticky, especially in the early stages, then it is difficult to create loyalty. Especially in a market where the products (trades, financial products) are essentially converging. The second that a client suggests interest, it is essential to take them on a journey through to decision. This journey has to include a personal service and a combination of data that they can understand as well information and knowledge to help them with decision making.

Personalisation - This is about giving the customer both what they need, and what they were unaware they needed until they started their journey. Personalised recommendations and understanding the higher level customer objectives help to tailor the Customer Experience, whilst adding value. This has to be through a

combination of digital recommendation services and data driven face to face customer interaction. Clients want a personal service, and personal banking is now not just the vestige of high net worth individuals. Every customer is key in this market.

Recognising the need to focus on customer service, with a realisation that the gap is closing between institutions, and with these principles as a guide, transformational organisations and fast followers are beginning to define CX programs and strategies. Any strategy must include a number of elements:

A Digital strategy - Digital is not the only way in which Customer Experience can be improved, but it is a key one. Such strategy should include mobile and web tools for interacting with the business; from purchase, maintenance and customer service perspectives. Businesses without key investment in the digital realm are likely to be left far behind the competition.

A Customer Service strategy - Recreating the level of service previously found in banks through personal advisors or managers is difficult in a remote world. But investment banks that do this successfully will take the lead. The entire customer journey through advisory, decision making, transacting, aftercare, and even complaining, must be seamless and timely. Technology plays a huge role here in providing data, consistency and seamlessness. And as discussed, the prevalence of consistent technical platforms implies a levelling across organisations.

A Customer Data strategy - To provide a personalised experience, customer data must be captured, managed, maintained and interrogated. The volumes of data collected and stored are edging towards petabytes, and traditional analysis and cleaning tools are no longer scalable to these levels. Enter big data, data science, Machine Learning and Real Time Decision tools. Banks wishing to understand and position to their customers better must develop parallel strategies for customer data alongside customer service and digital strategies.

An IT efficiency and commoditisation strategy - In order to deliver a seamless and efficient Customer Experience, technology needs to be appropriate, resilient, scalable and easily maintainable. The backbone of transaction, data collection and analysis is a solid and simple core technology strategy. There is no justification for bespoke core technology, although there will be market edge in focusing build and customisation on the CX end of the technology workflow. To ensure that focus is in the right place, core technology must be a well understood commoditised utility. As noted the trend, even in Tier 1 investment banking, is towards simplification, Commercial off the Shelf (COTS) packages rather than bespoke build. Savings created through making IT more efficient and using scalable pay per use models, translate into investment in CX and the market edge that deeper pockets can bring.

A Metrics and KPI based approach to measuring success - Being able to measure the effectiveness of the CX strategy will help to manage it, understand the value of the investments, and direct resources to the correct places. There is no sense in defining a strategy that cannot be tested for efficiency. Key to success here is the ability to monitor and improve the strategy, both from a technical efficiency and a social-psychological interaction point of view. There is a huge amount of data to be monitored and measured, and understanding it, making sense of it, becomes part of the data strategy and is a big data and data science problem where standard tools from these disciplines can be applied.

5 In Conclusion

Technology is levelling and converging. Every bank, every Investment house and every Hedge Fund now has access to the same pool of resources and the same data. As a result of this, every entity is now the same and it has become imperative that they all find a niche way to identify themselves and set themselves apart from the competition. Today, banks are starting to wise up of the benefits of Customer Experience. Much more attention is paid to the way they treat, interact with, influence and service their customers.

In order for a bank to really set themselves apart from competition, banks must now look to move away from the technical space and start to explore the merits of the social psychological. Focusing on what can be achieved technically as a result of advances in technologies such as big data and CX strategies and implementations.

The advice now is to focus on technology resources on standardising the infrastructure and developing the customer relationship. This is the difference that makes a difference.



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