

What can the financial services industry learn from how challenger banks use loyalty?

By Thierry Reginato, General Manager, Welcome Real Time

The growing number of challenger banks entering the market pose a threat to large incumbent banks. Often, they provide customers with a service that they feel they cannot get elsewhere – one that is highly tailored to each individual, and that rewards them for their custom. If they are to succeed, large institutions each need to take cues from these challenger banks and adapt and evolve their customer offer.

This will be particularly critical as upcoming regulatory changes start to bite. Mandated decreases to interchanges are already eating into revenues. But, PSD2 poses a far more significant challenge for incumbent banks as it fundamentally alters the way in which they communicate with their customers. If banks are to avoid becoming mere financial infrastructure while their customers instead deal with more attractive, agile and useful third parties, then they must give their customers a reason to engage with them directly.

Delivering a robust and successful loyalty programme which serves the needs of banking customers, is a key solution to the challenges posed by PSD2. Yet research from Collinson Group shows that incumbent banks could be doing far more to deliver loyalty initiatives that their customers truly value and use.

Increasingly, challenger banks use loyalty to drive customer retention and acquisition. To compete against this, and navigate the choppy regulatory waters ahead, established banks must take some cues from challenger banks to revitalise their loyalty offerings.

So what can we learn from how challenger banks are using loyalty? There are four key areas to focus on: earning, redemption, non-core inventory, and data-driven personalisation.

Earning

Loyalty programmes need to be fully integrated with the everyday lives of their customers. Banks should maximise the opportunities for customers to earn loyalty points by integrating loyalty with as many purchases as possible. This helps banks remain at the forefront of customers' minds as they go about their everyday shopping.

One leading example in this area is Alpha Bank, an innovative challenger bank in Greece and the Balkans. It has been working with Welcome Real Time, part of the Collinson group, since 2006 on its loyalty programme, Bonus.

Bonus customers can earn points for money spent shopping at any business in Greece and abroad. Additional points are also available for shopping with partner companies and at specific locations. It's a great example of how banks can make sure customers are able to earn points as often as possible. The offer of additional points at partner companies also means that customers take an active consideration of Bonus while making purchasing decisions.

Alpha Bank was recognised as the best bank in Greece in 2016 by Euromoney Awards, due in large part to its successful and best-in-class loyalty programme. More recently it launched a similar programme in Romania called Alpha Shop, where customers can collect points on any purchase by using any of the credit cards offered by the bank, and on select purchases with debit cards.

Integrating earning as closely as possible with the everyday lives of customers is vital for banking loyalty programmes to engage their members and retain their customer relationships.

Redemption and non-core inventory

Redemption, too, needs to be closely integrated with the everyday lives of consumers. Banks need to offer consumers flexibility in how and when points can be redeemed.

To return to Alpha Bank's Bonus programme – card holders who have earned points with Alpha Bank can redeem these in store, online, via call centres and even through catalogues. The key point is increasing the volume and relevance of touch-points between banks and their customers. Flexibility is important to consumers: Collinson research found that 67 per cent of consumers value the flexibility to choose the rewards and benefits that they are offered by their loyalty programme.

A recent survey from Collinson Latitude of 2,250 hotel and airline loyalty programme members from around the world has some useful insights that the banking sector should draw from. More than half (58 percent of airline and 48 percent of hotel) of members want flexibility in how they redeem points and feel the value of a loyalty programme decreases if points cannot be redeemed in-store. So a multi-channel redemption strategy which incorporates in-store as well as online is key.

Redemption opportunities should not be confined to retail purchases or financial services. Instead, banks need to better provide services that meet customers' broader lifestyle needs.

Innovative brands are going beyond non-core inventory, such as offering unique or exclusive social or cultural experiences, and banks should look to these brands to learn how they can diversify and expand their loyalty offerings to drive customer engagement.

Personalisation, flexibility and choice

Consumers expect to be given the opportunity to shape the products and services they consume. From a loyalty perspective, this means giving members choice to define how a programme works for them. Collinson Group research has shown that over half (56 per cent) of affluent consumers feel more loyal to brands that know who they are and treat them differently. The financial sector is performing reasonably in this area: globally, 49 per cent of respondents agree that their bank knows and understands their needs. But there is room for improvement.

This could be in the way they earn or redeem points, so they can choose which rewards they receive, or by using data to link benefits to personal special occasions such as birthdays or anniversaries of customer relationships with the bank.

Advances in mobile technology, location-based services, opt-in services and apps all create more opportunities for loyalty programme members to earn, redeem and personalise services. Banks need to take these developments on board to reinvigorate their loyalty programmes and experiences, with a focus on the needs of individual consumers.

Using customer data to great effect will be critical for banks to understand how their customers behave, and adapt their loyalty programmes to become more relevant to those customers. In-depth data analysis allows brands to offer more diversified and personalised products and services.

Of course, upcoming GDPR regulation may pose another regulatory challenge by cutting this access to data. Banks will need to convince their customers to part with their data. Loyalty programmes can provide this incentive through earning and reward opportunities. It also enables banks to better engage their loyalty customers.

If banks get these points right, they will be offering customers a loyalty programme with a diverse range of personalised earning and redemption opportunities. By meeting customer demands in these areas and implementing a highly engaging and useful loyalty programme they will not only maintain their customer relationships, but strengthen them. And with the challenges ahead mounting, this is critical to the sector's ongoing success.

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Thierry has more than 25 years experience in software solutions and services dedicated to the financial industry. He started his career as a consultant working with Gemalto and MasterCard where he developed a solid expertise in electronic payment solutions. Passionate about technology & innovation, more particularly software and their application in the everyday life, he joined Welcome Real Time 18 years ago where he held several positions. Appointed as Product Manager and then Head of Professional Services, he led the Welcome Real Time loyalty software implementation for most of the international clients with teams deployed in France, Singapore and Brazil. Member of the Executive Committee and leading the Business and Operations activities, he contributed to major strategic changes of the company. He was appointed General Manager in May 2015.