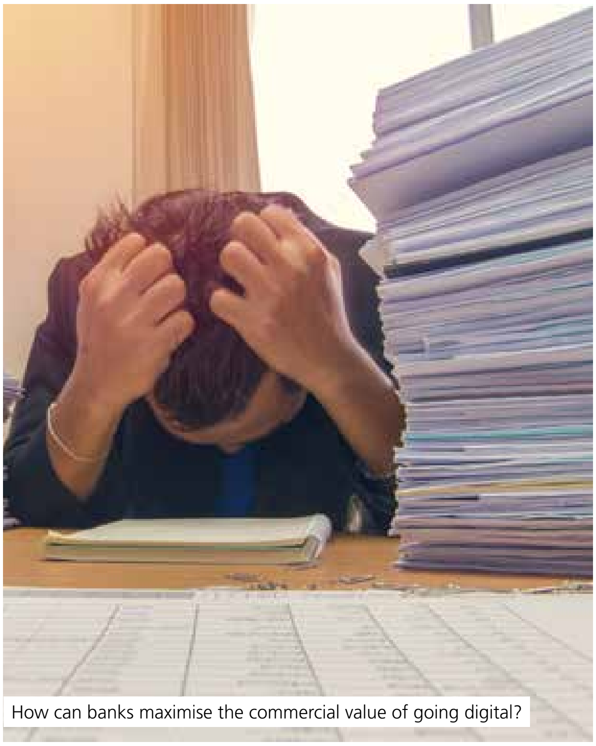
CUSTOMER LOYALTY

Local banks in Malaysia are overtaking the foreign banks on the Net Promoter Score (NPS), an index measuring the likelihood of a customer to recommend a company to a friend or colleague. Charles Lambert, partner at Bain & Company, reveals the reasons behind this trend and more:

Maybank came in as number one in terms of NPS. How long did this take and what caused this?
Indeed in other markets foreign banks tend to be market leaders in loyalty, but Malaysia is an exception. Maybank has overtaken foreign banks over the last two years by not only increasing its score but sustaining its performance from a loyalty standpoint. A few things Maybank has done really well in the last few years is introducing really interesting digital tools that not only help customers embrace the digital technology, but also enable them to become omnichannel customers.

What else does Bain's survey on loyalty show?
One of the other key insights that emerged from the survey is what we call the 'hidden defection.' The behaviour of some of the customers that are quite loyal to their primary banks have been changing and they are shifting to buy products from another bank. It's not only the use of other banks for simple products, but what's worrying for some of the banks is those product purchases have been weighted towards the higher margin products. That is something a lot of banks, not only in Malaysia, but across Asia should be worried about.

What are some examples of those? Are we talking of wealth management or more like mortgages and loans?
We've seen from our survey that customers tend to use their primary banks heavily for deposit products. But for credit and loans, a lot of customers have started using a secondary bank.



How can banks maximise the commercial value of going digital?

Banks struggle to make digital sustainable

The exponential rise of companies like Airbnb, Spotify, Netflix, Uber, and Alibaba serves as a testament to the great potential of getting digital right, but we have yet to see a success story this great in the banking sector. Even with serious investments in digital since 2011, analysts at AT Kearney say return on equity for major retail banks have stagnated at a single-digit figure. Turning the focus on digital into commercial value seems to elude even the greatest of organisations. Banks have been struggling with the rise of fintech, ever-changing consumer demands, and tougher regulatory requirements.

"The opportunities from more than 4,500 fintech companies are reinforced by venture capital investments in financial services that have driven their growth—rising from $4.1b in 2012 to an unprecedented $27b by 2016. New technologies combined with greater adoption of smartphones, growth of banking by millennials, and lost trust in big banks in the wake of the global financial crisis have all boosted the demand for new solutions and alternative ways of banking. In addition, consumers have become less loyal, and the market has become more competitive," says Andrew Steward, partner at AT Kearney.

Banks that can embed digital into their core corporate strategies could achieve a double-digit revenue uplift, 20-30% cost reduction, and a double-digit ROE in mature markets.

Whilst competition is not a new concept for banks, KPMG analysts say the type and volume of new entrants have evolved since 2015. "The first wave of entrants included largely unknown companies offering expanded connectivity and customer insights through new technologies, data and advanced analytics. Future waves included larger, more established but non-traditional banking competitors such as PayPal, Walmart and investment banks. The landscape is further evolving to include platform providers such as Amazon, mobile payment services such as Venmo, and e-commerce companies such as Alibaba."

Winners and losers
Stewart notes that to be truly digital, banks must see digital not simply as a tool but as a way of operating. "Banks that can embed digital into their core corporate strategies could achieve a double-digit revenue uplift, 20-30% cost reduction, and a double-digit ROE in mature markets."

Meanwhile, KPMG says winners will be characterised as those with a clear strategic vision, an appetite for customer analytics and technologies, and a stomach for volatile innovation returns. "Winners will recognise and actively manage the material impact digital will have on its people and culture. Winners will embrace digital not simply as a disrupter, but as an agent for change and an opportunity to better serve their clients and segments," say KPMG analysts.

Success factors leading to disruptive change

Source: KPMG International