ISSUES PAPER

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# Four Strategies for Fixing Distribution

By Dale Wolf

The Customer's Path Remains To Be Seen

Understanding Customers

Leveraging Technology

Customer Communications

Operational Efficiency

Distribution Productivity

Organizational Flexibility

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Improved Profitability

# About The Author

Dale Wolf served as President/CEO of WBK Marketing & Design from its founding in 1979 until 1999, when he joined Cincom Systems, Inc., to create its new e-Business Solutions business unit. He is a strong business strategist with a keen understanding of how to combine message and technology to create more effective 1:1 marketing and sales campaigns.

In WBK's second year in business, Wolf landed work with Procter & Gamble, WBK's longest continuous client at 19 years - working on such brands as Tide, Mr. Clean, Spic And Span, Comet, Folgers, Millstone Coffee and Duncan Hines. The firm grew to become the 45th largest promotional marketing agency in the U.S., working with some of the best-known brands in America including, Union Central Life Insurance, St. Paul Insurance, Blue Cross & Blue Shield, 3M Medical Imaging, Compaq Computers and Florida Power & Light - to name a few.

Before founding WBK, Wolf was a sports reporter, editor of an international trade magazine, an advertising agency copywriter and promotional strategist. He successfully led the marketing efforts of KDI Corporation as Director of Advertising, and NuTone Housing Products as Director of Marketing.

Early in his career, Wolf was a proponent and developer of contextual marketing principles, speaking frequently on the subject at American Marketing Association seminars. According to Wolf, *"The most difficult transition that marketers will have to make in the future is to shift from product focus to customer focus. First discover each customer's needs, wants and expectations. Once you establish the dialogue and the trusting relationship, then you can begin selling to them."*

# Our Background

Founded in 1968, Cincom started with a simple idea and blossomed into a multinational enterprise. That simple idea was selling software separately from hardware, an idea that revolutionized how computers and their components were sold. Since our inception, we have provided software solutions that help our clients create, manage and grow customers. Our software products include manufacturing control systems, databases, document management, sales knowledge systems and e-Business solutions.

Cincom has provided mission-critical software to over 1,000 firms in the banking, insurance, security and allied services industries. To help them succeed, we conducted a comprehensive analysis of the issues plaguing financial services organizations. We examined scores of analyst briefings and research documents to identify the foremost customer problems affecting financial services providers and possible solutions to those issues. To increase our knowledge, we interviewed over 40 financial services organizations and have learned much from our own customers, including:

American Bankers
American Community Mutual Insurance
AmerUS Life Insurance Company
Atlantic Mutual Insurance Company
Aurora Healthcare
Blue Cross Blue Shield of South Carolina
Cap Gemini Ernst & Young
Citibank
Dun & Bradstreet
Fannie Mae
Federal Reserve Board
Great American Insurance Company
Highmark
Ing (U.S.) Financial Holdings Corp.
Kaiser Permanente
MetLife
Morgan Stanley & Company
Nationwide
Northwestern Mutual Financial Network
Prudential Financial
Sallie Mae

The information presented in this paper is based on proprietary research conducted in the United States, the United Kingdom, Germany, Spain, France and Italy. In addition to the information gathered from research and interviews, we have also included findings from current news articles, and the expertise of Cincom staff, consultants and business partners, including BearingPoint, Doculabs and Fujitsu Consulting.

From the experiences of our own financial services customers, we know that success can be achieved by implementing technology appropriately and effectively. We hope our knowledge and insights assist you in implementing sound business strategies that enable you to maximize the potential of your organization.

# Executive Summary

Three-fourths of all financial services CEOs now say that channel productivity is the biggest issue with which they must contend.[1] The winners will be those who successfully leverage strategies to deliver customer choice, convenience and fair pricing. These strategies will require enterprise-wide changes, but some of the most challenging issues will be in the area of distribution.

Serving customers more economically was the vision that drove channel proliferation. Unfortunately, the more channels you added, the more your distribution costs increased. Greater channel availability meant customers used more because rather than selecting only the most efficient channels, customers chose to use them all. Worse yet, as your customers used more channels, their satisfaction decreased due to inconsistent customer service transactions among channels. This is the vicious cycle most financial services firms now face.

This paper concentrates on three leading issues in the decline of channel productivity and on four of the most prevalent strategies used by financial services providers to combat the problem. The goal of this paper is to help you break the vicious cycle of channel proliferation by utilizing all channels to optimize sales and services processes, while reducing customer-related costs.

## The Issues

**1. Proliferation without strategy**
- Focusing on internal operations fails to anticipate how customers will use channels.

**2. Declining customer satisfaction**
- Inability to provide consistent customer experience leads to excessive churn through all channels.

**3. Lack of process and data integration**
- Silo data systems and processes impede channel integration.

## The Strategies

**1. Improve internal processes and sales efficiencies**
- Resolve sales process, roles and support to increase proficiency of selling to current and prospective customers.
- Integrate channels with back-office staff and processes, so everything works efficiently to sales closure.

**2. Align and integrate stovepiped channel structures**
- Resolve channel conflict and enhance channel cooperation to improve customer satisfaction.
- Manage channels against business profitability requirements to achieve profitable revenue growth

**3. Deliver consistent value at every channel touch point**
- Resolve operational issues to provide a seamless, consistent experience to customers.
- Improve customer value via well-supported, trained and motivated staff in all channels.

**4. Educate and reward customers for profitable channel behavior**
- Align channel strategies around customer demand and channel usage.
- Resolve data access and integration issues arising from disparate systems.

[1] CEO Report, Tillinghast-Towers Perrin

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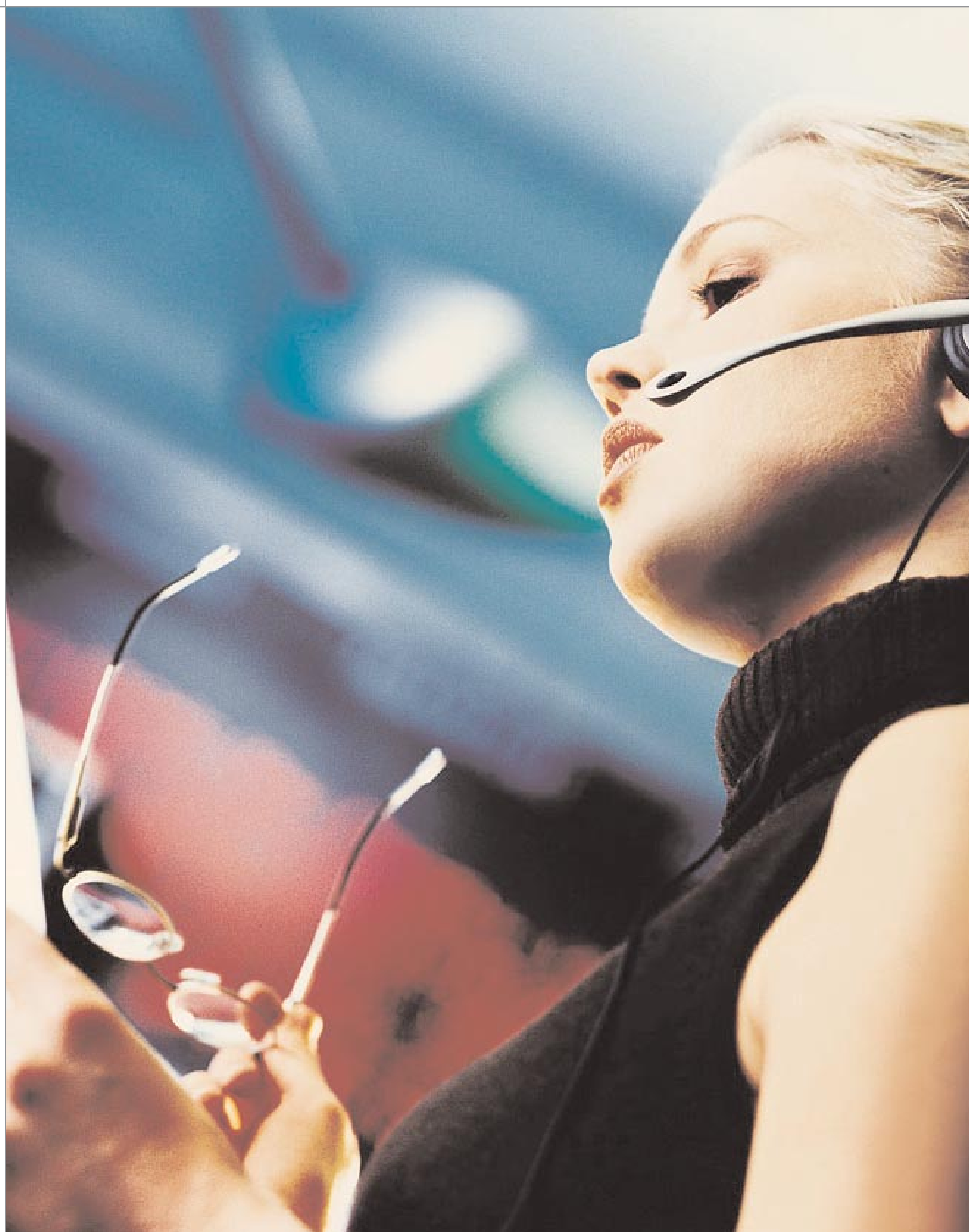


# The Vicious Cycle of Declining Channel Productivity

The economics of the financial services industry have been radically altered by deregulation and by competition from a market filled with more providers than consumers need, giving consumers more clout to demand better service. This climate forces banks and insurers to open a seemingly unending stream of new channels to serve customer bases of thousands, even millions.

With so many channels already in use, financial institutions are now caught in the vicious cycle of under-performing channel investments. This costly dilemma has elevated distribution productivity as the top operational concern among CEOs of banks, asset managers and insurance companies, with nearly 75% of all financial services CEOs citing channel productivity as their primary business concern.[2] How providers resolve this dilemma will determine customer satisfaction levels and their own success or failure.

## Customers Are Demanding More . . .

Most consumers prefer multi-channel providers over those with just a branch facility. This is true across consumer segments. As financial services providers battle waning consumer demand for their products and fierce competition from new providers, many have re-examined the effectiveness and cost of the traditional branch or agency-based channel. Rather than relying on the "one size fits all" distribution approach of the past, many companies are developing alternative sales channels that allow them to better reach market segments currently neglected by agents. This shift toward the establishment of new sales channels shows no signs of slowing. While the potential of internet sales channels remains a hot topic of discussion, institutions have also started re-exploring marketing via banks, direct-mail, telemarketing, worksite sales and independent sales.

## And the Cost Just Keeps on Growing

The financial services industry has built one of the most comprehensive distribution systems of any industry and yet it has not produced the gains everyone anticipated. Channels now account for over half the cost structure of most financial services and insurance providers. And while investments in channels are expected to escalate for the foreseeable future, the realization is clear - channel productivity is going in the opposite direction. Managers in all sectors of the financial services industry will need to seek more efficient ways to acquire customers while at the same time trying to drive cost out of their business structures with better processes. No one can afford to ignore the huge cost of channel proliferation in the distribution of financial products. But before you can identify the processes that will enable change, you must first understand the issues that led to the decline in channel productivity, and then implement the targeted strategies to induce change.

[2] Tillinghast-Towers Perrin

## Symptoms of Poor Channel Productivity

- Your primary frontline channel of distribution is increasingly expensive and not providing the return needed.
- New channels proliferate, and rather than reduce the cost of the primary frontline point of distribution, they simply add to the cost.
- Distribution channel ROI remains elusive as customers misuse how they access services from your firm, often using the most expensive channels for tasks that could be done in a more cost-effective manner.
- As customers use more of these channels, they become more dissatisfied.
- Different teams manage your channels with no cross-channel responsibility.
- Your channel managers actually compete with one another and compensation encourages success of an individual channel rather than overall customer satisfaction with all channels.
- Your channels do not share information about customer interactions.
- Your front- and back-office operations are not aligned and handoffs are slow, inconsistent and inefficient.
- Your customers use your channels inefficiently because they have not been guided to select the best tools for each task.
- You are unable to measure customer satisfaction with channel performance – if you cannot measure it, you cannot improve it.

## Types of Distribution Channels

For this discussion, channels used in the banking industry are divided into three categories:

- **Physical Channels:** Branch, In-Store Branch, Brokerage Office, Financial Center, ATM, Kiosk
- **Remote Channels:** Call Center (which is evolving into an Integrated Contact Center) and Postal Mail
- **Electronic Channels:** Internet, Automatic Voice Response, Wireless Devices, Web TV and E-mail

In the insurance industry, the traditional frontline agent is primary, with the call center, internet and wireless devices as alternative, but growing channels. Direct consumer sales of insurance (skipping around the agent/broker system) include sales reps, mail, telephone, TV and web. Where regulations permit, carrier websites can be expanded to market and sell insurance without the agent or broker middleman. The agent channel is also morphing into several different types:

- **Insurance Agents and Brokers** – Agents are either independent or captive; brokers are always independent and act in the interest of the insurance buyer rather than the provider. Six of every seven US insurance firms sell mainly through agents and brokers.

- **Intermediaries/Aggregators** – Comparison-shopping websites act as aggregators by supplying consumers with information on a variety of insurance providers in one central location (e.g., Quicken's InsureMarket, InsuranceOrder.com and Yahoo).

- **Intermediaries/Integrators** – Enable other organizations such as banks, credit unions and non-financials to sell insurance products in the same comparison fashion, only the solution sits on the desktop of the organizational worker who can query the database to assist consumers in locating insurance (e.g., ChannelPoint, HomeCom Communications).

- **Other Distribution Options** – Financial services partners, affinity marketing groups, event-related websites such as auto dealers for auto insurance and online mortgage sites for homeowner insurance.

**Note:** For more information on each of the various channel types, see "An In-depth Look at Multi-Channel Evolution" at the back of the document.

## Channel-Related Transactional Costs

**Channel cost comparisons** – A request handled by an account manager costs $18.44 to process; the same request handled by a call center agent is $1.53. Call centers cost 10 to 15 times as much as an online service response.[3]

**Internet cost advantages** – For every $100 in first-year premiums collected by the provider, $139 is spent on agent commissions and other overhead expenses. The same policy sold over the internet would cost $15 to $54 for every $100 in premiums.[4] Selling and servicing insurance products on the internet can reduce a provider's expenses between 58-71% over the lifetime of the customer.[5]

### *Total cost per banking transaction:*[6]

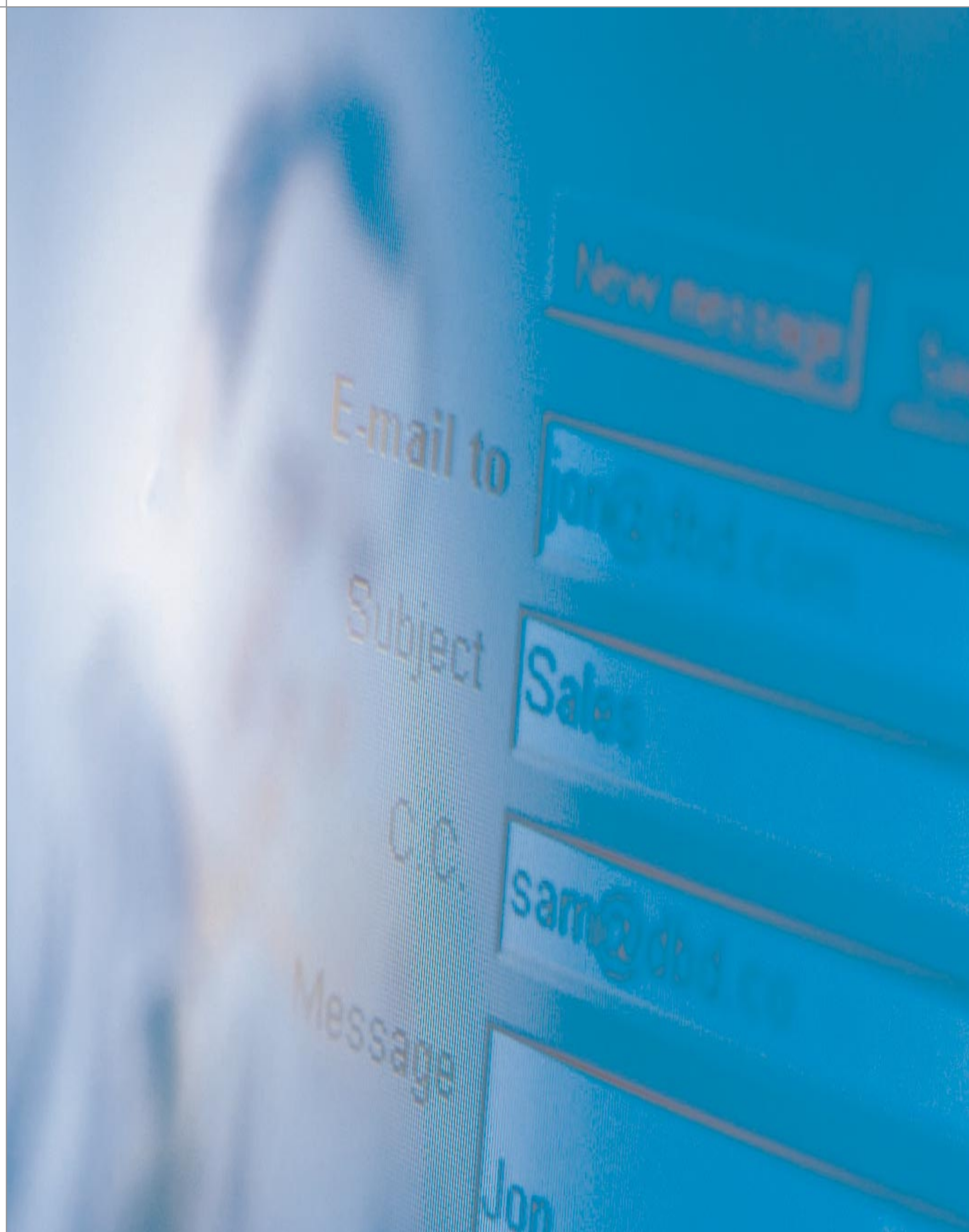
- Branch: $1.37
- Call Center: $0.84
- ATM: $0.53
- PC Banking: $0.28
- Smart Card: $0.15
- Internet Banking: $0.05

[3] FSIC Study: Engaging the Customer

[4] Gartner Group, R-11-0109

[5] Gartner Group, R-11-0109

[6] Ernst and Young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# Three Causes of Declining Channel Productivity

Not many can deny that productivity has declined. But why has it declined? It could be due to technology (too little, too late; or even too much, too soon), or maybe globalization, or increased competition. The internet has dramatically changed our way of doing business. Is it the culprit? Or maybe, just too many fickle customers? Regardless of who or what is responsible, the reality is that productivity has been declining and financial services providers must do something to get the cost of selling under control.

The intent of multiple channels was not only to attract new customers, but also to reduce the cost of frontline branches and agents by shifting customers to lower cost channels. Instead, however, customers used channels based on their own convenience and, in many cases, used *all* the channels. As a result, new channels simply added to the overall cost of distributing products to customers, with little or no increase in the ROI. A survey by Oliver Wyman & Company revealed that 87% of financial services providers have experienced an increase in cost since shifting to a multi-channel distribution offering; only 3% saw an increase in ROI while the remaining providers stayed the same.

## A Few Facts on Insurance Productivity [7]

- Productivity continues to decline as new channels prove unproductive. For instance, banks that sell insurance show a 0.3% premium growth rate compared to 5.2% for the average independent insurance agency.
- From 1998 to 2000, all insurance premiums increased just 6.9% while total cost of sales forces rose 31.7%.
- Agents now spend just 38.4% of their total time in front of customers, against an ideal achievable standard of 53.9%. Currently they spend a third of their time in administrative tasks and 28.4% in pre-sales or follow-up. A shift of 20% of the administrative time into sales time is needed to reach the ideal standard.

## A Few Facts on Banking Productivity

- Of US Consumers, 12% do not have bank accounts because the services are too costly for significant market segments.[8]
- In 1999, 68% of banks could not determine the impact of CRM investments on customer profitability.[9]
- By 1999, the percentage of customers who considered fees paid to banks for financial services as a good value for their money had dropped from 83% to 46%, putting increased pressure on the ability to generate fee-based revenue. [10]
- Adding more channels has actually increased the number of transactions in all channels. Branch teller transactions are up 1%, call center transactions are up 15%, ATM transactions are up 4%, internet transactions are up 72%.[11]

[7] FSIC: The Looming Crisis in Insurance Sales Force Efficiency

[8] McKinsey and Co.

[9] Cap Gemini Ernst and Young

[10] ABA Banking Journal

[11] AT Kearney

Our research has identified three key reasons for this decline in productivity.

1. Proliferation without strategy

2. Declining customer satisfaction

3. Lack of process and data integration

Hopefully, the findings presented here will help you better understand these issues, how they have evolved into major issues, and how they must be dealt with to get you out of the "vicious cycle."

## Issue 1: Proliferation Without Strategy

It all happened so fast. One second we were in the "Ozzie and Harriet" world, the next - the "Ozzy and Sharon" world. Change was everywhere. Technology promised new ways of distributing financial services and products at a dramatically lower cost. A few innovative providers jumped in and opened up remote and electronic channels. No one could sit back and let others pass them by. And so, the race was on. Unfortunately, strategy was left behind at the starting line. Banks and insurers rushed into multi-channel distribution before having a firm grasp on effective channel management issues and strategies. As new channels were opened up, silo management structures were created to manage them. Expectations were high everywhere.

But now, years later, we see that "the more, the better" channel approach did not work out like most managers had hoped. With perfect hindsight vision, all can see that these channels should have been developed as part of a larger, customer-focused business strategy. That would have prevented a lot of the problems the industry now faces.

Proliferation of channels is a fact of life and will continue into the future. New and innovative technology is actually creating even more channels. And with more channels coming, as engineers find new ways to deliver sales and services, management must assume more channels will be the story instead of fewer channels. According to Gartner Group, by 2005, 80% of financial services products will be sold through at least 30 different delivery models.[12] Channel proliferation will require financial services firms to optimize sales and service transactions for many different channels. If you cannot keep pace with the demands that come with multi-channel operations, you will not be able to keep your customers or grow your revenue profitably.

Channels need to be reconsidered from the customer's viewpoint. Merely having a multi-channel platform is not enough. Leading managers have recognized the need for an entirely new delivery system that serves customer needs economically, and is easy to use, flexible and available wherever and whenever the customer needs it. Strategies can only be successful if they help differentiate you from the competition, attract new customers, and grow existing customers more profitably.

[12]Peppers and Rogers Report, Inside 1:1

## Issue 2: Waning Customer Satisfaction

With more channels in which to communicate, consumers become disenchanted due to inconsistent service and transactions among channels. As consumers struggle with their financial decisions, they want to feel confident that they are getting the best advice, rates and service. Based on our research, lack of confidence and satisfaction are the leading causes of customer defection. In fact, nearly one in five customers have left their current bank in favor of another that proffered a value proposition more geared to meet their specific needs. Two out of three customers leave a provider because of unsatisfactory service, and one in five leave because of the institution's indifference or lack of attention. Every customer that defects must be replaced and the process and expense of developing that customer's potential value begins anew. When channel strategies fail to deliver customer expectations, channel productivity goes down.

### *What's on the Mind of the Financial Services Consumer?*

*"When I purchase a financial service, I am looking for smart ways to leverage my money, manage my money and to protect my money. I have the sense that all this is complex and difficult so I have to trust a company to hire skilled agents to represent my interests with the company. I always have the lingering doubt that I am being manipulated, but I don't invest my own time to discover the best solution. I want to be in control without being consumed. I want to be confident that I have made smart decisions. I want it to be easier to make smart decisions. I want peace of mind. I want information delivered with clarity and simplicity. I want personal service and the sense that my needs are important. At some point, price is no longer important … I don't want to be a loser because I fell for a low price or a high yield with hidden restrictions or inadequate service. I want answers when I need them."* [13]

The cost of churning dissatisfied customers grows when channels are not managed around a strategic customer service vision. Channels should be revamped around the firm's customer strategy, forming an integrated system with each channel supporting the same end goal. The real issue is how the consumer wants to buy: customers continue to seek different options, and often select their financial services from competitors who offer such options.

[13] A composite of comments made by Cincom employees when asked what they want from their financial services providers

## Issue 3: Lack of Process and Data Integration

Not long ago, providers could deliver complete customer service through just one or two channels. As channels proliferated, firms deployed them around their economic interests rather than around customer demand. Some providers have not been able to adapt to handling complex services, and worse yet, very few institutions have all of these channels integrated around the same complete set of customer data.

### *Internally Focused Channel Deployment Increases Channel Cost*

As remote channels emerged, the impact of channel management on overall productivity took on new proportions. Agents in the field often protected their customer data from the home office so they could keep control of the customer. Another common problem occurs when the branch is seen as the driving profit center - branches often get credit for revenue generated in other channels. And the customer service staff often lacks control over the channels serving the customers.

A major stumbling block came when management saw these new channels as stand-alone profit centers rather than as drivers to an overall corporate customer strategy. This might have worked except that consumers don't use channels in an isolated manner … they use all available channels and they do it for their convenience, without regard to costs. This resulting increase in transactions through the new channels came without relieving the expensive frontline branch office, and up went costs with no gain in incremental revenue.

Cultural issues have further complicated the ROI issue. Channels managed by separate teams use their own protocols, pricing, policies, technologies and customer data. Separate teams tend to grow their own empires and consume resources to increase usage in their channel. The lack of integrated management, process and technology has driven efficiency down and costs up. Only when organizations move to a customer-centric mode will they be able to route customers to the channel best equipped for each customer process.

Cost-effective channel deployment boils down to one strategic question: Are you truly a customer-centric organization? If not, what are the main impediments to becoming customer-centric and translating your customer strategy into improved channel performance and revenue opportunities? Your deployment strategy will impact your existing culture, processes and technology infrastructure while taking into account how you want to deliver your products and services in the future.

### *Data Locked in Disparate Systems Cannot Provide a Single View*

Channel solutions that demonstrate to customers that you value them - many call this customer relationship management (CRM) - are ineffective until you address accessing, integrating, using and protecting customer data. Once this is accomplished, you can move on to better targeting, sharper product development, personally relevant marketing campaigns and more satisfying service delivery that will lead to up-selling, cross-selling and increased customer retention. All of your distribution channels must deliver these benefits. For flawless execution across all channels, you must have consistent, accurate and timely information at every touch point.

### *The Single View of the Customer*

Once the data is accessible and can present a "single view," you can better understand customers, and then aggregate those with similar data points into clusters or segments that can be economically served. Once this segmentation analysis is complete, you can then distribute data to various touch points and more effectively target segments for different channel productivity strategies.

### *Actionable Data at Your Fingertips*

When a consumer conducts a transaction such as a deposit, withdrawal or transfer, the information is stored in one data location, while information not normally connected with the transaction such as customer demographics, credit and information on other transactions and relationships is stored elsewhere. While firms have made substantial investments in collecting and analyzing customer data over the past decade, this has had little impact on growth or profitability (i.e., the data is not "actionable").

### *Privacy Issues*

Consolidating this customer data brings with it an enormous responsibility to protect the privacy of each individual customer. Sensitivity to this concern should guide policies for access and use of the data as a "good business" philosophy. If you skip this one, be prepared for regulators to step in and address it for you. A consumer privacy policy and related processes is part of the value proposition you must always provide customers.

## Factors Affecting Channel Productivity/Profitability

- Channels Colliding – As new e-commerce channels empower customers and companies alike, many firms struggle to sift through their confusion about which channels to offer and in what proportion.
- Frontline Conflict – Many of the new channels take over functions previously done by agents and branch managers. These frontline agents fear being made obsolete by competing channels so they put up stiff resistance to change. 23% of executives cite channel conflict as a top channel management concern and 15% cite employee acceptance.[14]
- Invalid Price-based Strategies – Price was incorrectly put ahead of other considerations, when less than 20% of the market is made up of truly price-sensitive consumers.
- Improper Customer Segmentation – Most institutions chase the affluent market segment, but these customers can be service-intensive without generating needed service fees.
- Internal Data Systems – 42% of providers cite lack of database synchronization and another 40% cite a lack of integrated back-office systems as the primary barriers to achieving cost-effective channels.[15]
- Unrecoverable Costs – The cost of putting in place an internet e-commerce channel can be in the range of $100 million, with an additional 20% in annual operating expenses … a figure so large that it cannot easily be recovered by transactional cost savings.

[14]Ernst & Young. Internet Value Study

[15]Ernst & Young. Internet Value Study

# Four Strategies to Improve Channel Productivity

We can only imagine the frustration that a business manager must feel when he or she knows exactly how they want to run the business only to discover that their distribution channel will not support the strategy … or that the channel is costing so much to maintain that funds cannot be deployed to drive the total business plan forward … or that the channel simply is not providing the profitable revenue growth needed for the plan to succeed. There truly are CEOs who can't run their business because of problems within the channels in distributing products and services to customers.

Our research has identified four approaches that can help put CEOs back in charge.

**1. Improve internal processes and sales efficiencies**

- Resolve sales process, roles and support to increase proficiency of selling to prospective and current customers.
- Integrate channels with back-office staff and processes so everything works seamlessly to sales closure.

**2. Align and integrate stovepiped channel structures**

- Resolve channel conflict and enhance channel cooperation to improve management, agent and customer satisfaction.
- Manage channels against business profitability requirements to achieve profitable revenue growth.

**3. Deliver consistent value at every channel touch point**

- Resolve operational issues in providing a seamless, consistent experience for customers.
- Improve customer value via well-supported, trained and motivated people in all channels.

**4. Educate and reward customers for profitable channel behavior**

- Align channel strategies around customer demand and channel usage.
- Resolve access and integration of customer data on disparate systems.

## The Impact of Process, Culture and Technology

To adapt to any of these strategic approaches, a financial services provider will need to master three critical factors: Process, Culture and Technology. Process involves automation and departmental cooperation to improve workflow. Culture involves enhancing skills and knowledge of the people running the processes, and will require strong leadership to get staff to do things differently. Technology involves standardization, data access and integration, process automation and channel/customer communications.

Each of these four strategies addresses the process, cultural and technology considerations and any potential obstacles. Naturally, the ultimate goal is to reduce costs while increasing revenue - to provide services through channels that meet the needs of each customer, reduce the cost of customer relationship management, increase ROI and deliver a value consistent with the corporate brand positioning.

## Strategy 1: Improve Internal Processes and Sales Inefficiencies

Internal workflow processes surrounding ever-expanding channels have grown in a haphazard fashion. The task of processing a new customer sale or assisting a current customer requesting service is too complex and is different depending upon which channel is involved. There are too many people involved, too many steps, too much confusion, and too many mistakes. The end result is too much cost, lost business opportunities and unhappy customers.

A potential key to agent productivity is revealed in an analysis of sales force time allocation by the Financial Services Industry Council. Agents now spend just 38.4% of their total time in front of customers, against an ideal standard of 53.9%. Currently they spend a third of their time in administrative tasks and 28.4% in sales prep or follow-up. To improve this would require a shift of 20% of the administrative time into sales time.[16]

As companies drive more of their customer interactions from the frontline branch into automated back-office operations, there is likely to be a decrease in overall service satisfaction. Frontline people are by nature and training skilled at delivering services to customers while back-office staffs are more operational and typically not as sensitive to customer concerns. The challenge then is to push the appropriate customer interactions into automated channels, but not lose the customer in the process.

### Solution Strategies

| Process | Culture | Technology |
|---|---|---|
| Eliminate or automate inefficiencies that hinder channel success. Integrate processes to improve customer acquisition, cross-selling and up-selling. Improve customer retention with service that meets the needs of customers while optimizing sales and service efficiencies. Become world-class in processing business faster and better than the competition. | Organizational "fiefdoms" must be integrated under common management so that resources and processes are centered on delivering an enterprise commitment to customers, using the most appropriate channel mix possible. Management should guard against cultural drag or even subterfuge that can minimize success. Look for structures and rewards to overcome cultural issues and get all management working toward integrated channel programs. Only when organizations move to a customer-centric mode will they be able to route customers cost-efficiently to the channel best equipped for each customer process. | Utilize technology to improve internal processes that can impact marketing, sales and service: analytics, knowledge management, marketing automation, guided selling, process automation, multi-channel contact center automation, document automation, mobile messaging, and agent support systems. Implement standards to add to efficiency and better external connectivity, such as straight-through processing (STP) and ACORD forms. |

### *Solutions for Frontline Banking Operations*

More banks are becoming interested in branch automation technology. A recent study by Tower Group observes the growing interest coincides with a spike in banks' IT spending on retail delivery channels. The report estimates that IT spending in channel delivery is now $7.4 billion. Teller stations are typically way out of date, with many nearing 30 years old and still running on 3270 green-screen interfaces linked to mainframes. This is confirmed by an ABA survey, which indicates that nearly 20% of banks will use the internet as their primary delivery channel by 2005. The melding of

[16]FSIC The Looming Crisis in Insurance Sales Force Efficiency

these various platforms will be one of the biggest challenges over the next few years for banks. Can your tellers access a customer e-mail while working in the teller line? Can your bank's Call Center CSRs do the same?[17]

## Solutions for Insurance Broker-Agent Efficiency

Brokers have relationships with multiple carriers and their attention, their resources, and their knowledge of various products are divided among several insurers. To keep their loyalty and attract their business, companies perform many of the same conservation and relationship-building activities that they utilize with their policyholders: complaint management, product education, communication enhancement and "valued customer" recognition.

While new business is the battle cry of most sales teams, even the best salespeople will falter when inefficient processes are stacked against them. Some of the most common processes that hinder sales include:

- Lack of frontline selling time
- Inaccurate and slow quoting
- Exception processing
- Lack of product knowledge
- Difficulty in updating pricing/product information
- Lack of self-service on the web

Many of these can be fixed via relatively inexpensive technologies such as interactive selling and product configuration systems. Product configuration technology can assist both agents and call centers (and even websites) to rapidly develop/configure complex products that meet specific needs of individual customers. By making this process simpler (based on pre-determined rules) and faster, the entire sales process can be more cost-efficient and effective. Exception processing is a particularly complex concern. Because brokers have experience with several carriers, which may have different turnaround times, rules and procedures, they may have little tolerance for those standards that seem slower or less efficient. And if they are submitting a particularly large amount of business, they may expect exceptions to be made for this business.

Providing field agents with easy access to home-office information and services can strengthen existing relationships between the company and its field force and can enhance new agent recruiting efforts. Several insurers now leverage internet technology, either through their corporate websites or through private intranets and extranets, to connect with their agents and brokers. Through these sites, agents can obtain a variety of information, including forms, marketing literature, policyholder data and application status. Companies can also use these vehicles to keep the field force information about company news and procedures.

## Solutions for Developing Third-Party Referral Sources

Sources such as accountants, lawyers and associations can generate huge lines of business, but most providers are not prepared to optimize these relationships. It begins with a management position responsible for nurturing third-party relationships, backed with processes and technology. Treat these resources as "customers" and help them lead you to new business. Reward them based on the quality of the leads they provide, based on highest conversion rates. Provide personal partnering, marketing tools, education and consistent communications via newsletters and special websites. Done right, third-party referral sources can produce as much business as your frontline sales team.

[17]Bank Technology News

## Strategy 2: Align and Integrate Stovepiped Channel Structures

Channel strategies should include the ability to provide customers with personalized experiences based on individual preferences and interaction history. Providers should be able to leverage this information to provide services and products that are meaningful to the customer. Channel services can be further separated into front-end services (such as Customer Preferences, Interaction History and Advice) and back-end services (such as Funds Transfer, Account Balance and Stop Payment).

Cap Gemini Ernst & Young reported in "A Need to Change Perspective" that 89% of institutions surveyed cited "lack of integrated systems" as the leading reason for the failure to synchronize channel support systems around customer needs. Each channel was maintained as an independent silo with its own workflow, database and sales and service processes.

Consensus in our research is that it will take an integrated approach to customer acquisition and development to be successful in financial services. Such point-of-service solutions will wrap frontline, telephone, internet and mail media into a total offering. No matter which medium creates a particular touch point with the consumer, the channel will deliver the same information and experience in a highly personalized manner.

### Solution Strategies

| Process | Culture | Technology |
|---|---|---|
| When channel processes are integrated, it is possible for managers to map out transactions and channels and guide customers to the most efficient use of their own time to accomplish their particular goals, while conserving enterprise resources.<br><br>Implement processes to assure efficient channel integration and to improve quality and speed. Realign customer sales and service processes around customer preferences. Whereas in the past, customers completed an entire transaction in one channel, now they will do research on the web, get product and pricing information from the 800 service, visit the branch to get personal advice and complete the application process online or on a kiosk in the branch. Optimize the ability for channels to transfer knowledge to one another. Extend business process flow across multiple channels. Improve customer communications and agent support across channels. Accelerate quoting and policy issuance processes. | Define where customer ownership really belongs – frontline or back-office. If back-office (where service is actually delivered), then empower these people to do the job right. Make sure that operations people traditionally focused on efficiency can become relationship managers. Upgrade the call center into a customer relationship center and train them on selling as well as servicing. To minimize channel conflict, define clear roles and responsibilities for each channel and clear policy for how channels help everyone grow. Encourage knowledge sharing to replace the natural tendency to hoard knowledge to protect turf. | Data access and integration, process automation, agent and branch automation, multi-channel contact center automation and document automation are just a few of the automation technologies available. |

### *Solutions for Integrating Channels*

While the overriding concept is to become customer-centric and to focus channels on improving the customer experience, it may not be advisable to use all channels to serve all customers. Some customer segments may prefer certain channels, but if these segments are not profitable, it may be cost-prohibitive to serve them according to their preference. Consequently, financial services firms need to tailor their channels to appeal to the largest number of profitable customers to maximize earnings.

You can reduce the cost and increase the effectiveness of marketing, sales and service through a multi-channel business. Profit and growth targets can be attainable if CEOs understand the balance between channel efficiency and improving marketing, sales and service improvements through multiple distribution channels.

- **Channel Efficiency Improvement** - The incentive to create greater business efficiencies cannot be achieved without addressing customer service channels. In large part, this is because the business of customer interaction and channel management are labor-intensive, manual, face-to-face processes. When the interacting staff and agents cannot get their hands on needed customer information rapidly, delays occur and satisfaction wanes. It involves simplification, standardization, integration and automation to lower costs while improving efficiency.
- **Channel Effectiveness Improvement** - On the marketing, sales and service side of the equation, there is clearly room for improvement. Most marketing programs are incredibly inefficient. The average program aimed at customer response gets a 2% (or under) response rate, wasting 98% of the budget. The primary strategy is to increase market share via merger and acquisition *(because market leaders earn consistently higher returns due to economies of scale and the ability to out-invest competitors)* or to turn to niche-opportunity strategies (where specialized expertise is valued by customers). Improvement can be found in the increased use of database-driven marketing, conversion of call centers to contact centers, aligning channels around customer needs, delivering service that supports the business value proposition, and automation of workflow between marketing, sales and service teams.

### *Solutions for Integrated Contact Centers*

Companies are transforming from traditional phone-based service units to multi-channel contact centers that allow customers to communicate in any way they choose … phone, fax, e-mail, video interaction, live web interactions, and voice over internet. According to LOMA, although many companies are in the early stages of considering or implementing multimedia contact centers, it is considered to be the way of the future. Example: SAFECO is replacing 29 regional call centers with four national contact centers, reducing expenses per call from $10 to $6.

### *Solutions for Integrated e-Business*

Two-thirds of 45 senior-level financial services executives interviewed by KPMG responded that the internet is transforming their role within their industry, and 42% said that it is redefining their core business. These responses were very high compared to those from six other global industries. Additionally, 40% of financial services respondents made it clear that they are willing to tolerate lower short-term revenues in order to implement e-Business plans. When asked about the potential technological barriers to e-Business implementation, 62% of the financial services executives ranked security and privacy of transactions very high. The top barrier cited was the need to re-engineer business processes, at 67%, which was a high response among all industries. A higher proportion of financial services companies believe they should organize along customer lines (56%) for their e-Business strategy to succeed. This reflects the need of companies with a large base of retail customers to put greater emphasis on customer needs. With respect to e-Business customer goals, the KPMG study found that financial services executives reported that providing value-added services is a highly important e-Business goal. Additionally, the financial services industry is far ahead of other industries in terms of website capabilities. Almost 25% of financial services companies can now support limited transactions online (compared to an industry average of 15%), although payment must still be done offline. The industry expects to maintain its lead over the next 18 months, with 40% linking back-end systems with online ordering and payment capabilities (compared to an industry average of 28%).[18]

*Mini Case Studies*

## Cross-Channel Strategies That Work

Using a wide variety of outlets - including banks, financial planners, stockbrokers, life insurance professionals and broker-dealers - has helped The **Hartford's** life subsidiary become the leading seller of individual annuities in the United States. The company has also prospered by marketing property and casualty products to members of organizations and affinity groups, to bank customers and through employers to their employees.

**Charles Schwab & Co.** is another master of the multi-channel universe. Initially a telephone-based operation targeting do-it-yourself retail investors, the US discount brokerage firm has added branch offices (now in nearly every state, with more than 300 nationwide), developed an imposing internet presence, offered support services tailored to financial advisors and created One Source, its mutual fund supermarket. By leveraging its loyal customer base, Schwab has become the market-share leader in online brokerage, discount brokerage and advisor-managed assets. To date, Schwab's customer-oriented reputation and offline capabilities have helped it withstand the challenges mounted by upstart, no-frills online brokerages like Ameritrade and E*Trade.

In Spain, **Banco Santander Central Hispano** has maintained its market leadership by opening a plethora of outlets - specialist branches (for business customers only, for example), dedicated sales forces for specific products such as mortgages, call centers and alliances with other financial institutions. Similar approaches are being used by a number of other European diversified financial services leaders, including ING and Fortis in the Low Countries.

In the United Kingdom, **Prudential's** introduction of Egg, an internet-based bank, has generated considerable interest - and impressive cash flow - thanks to the higher-than-usual rates it pays depositors. This online presence complements Prudential's already aggressive expansion into selling various types of insurance via real estate brokers and over the telephone, as well as through its traditional agent force and independent financial advisors.

In Australia, **Westpac** is actively developing an internet bank and is using specialist sales forces to sell insurance, investment trusts and other non-banking financial services products.

[18] KPMG Study: The e-Business Value Chain

### *Solutions for Integrated Self-Service*

The customer self-service function can do more than simply increase the efficiencies of service delivery. By automating customer interactions, companies can create and enhance customer profiles and, in turn, increase revenue through more targeted selling. In the end, enterprises will deliver more value to their customers while reaping the benefits of increased customer insight and efficiencies. Gartner Group predicts that automation of self-service will impact 70% of all financial transactions. But as with any endeavor, a successful implementation hinges on the proper focus and strategy. Through 2003, Gartner predicts that 80% of organizations that fail to plan their self-service implementations will incur higher customer maintenance costs and not achieve the expected results.[19]

### *Solutions for Managing Channel Conflict*

Development of multiple distribution channels and the need to manage channel conflict is increasingly becoming the norm. Channel conflict is a problem today and it is getting worse. Conflict can come between channel managers within the provider company, as managers compete for resources and compensation. It also occurs outside the company between commissioned and bonused agents or branch managers who fear the new electronic channels will disfranchise them, devalue their contributions and ultimately decrease compensation.

Financial services providers will need to find a way to make channels work together and recognize that different channels may need to go after different markets. And, because so many companies have added multiple channels one at a time, they often overlooked the need to integrate the parts to work as a whole system. Integrating channels involves people and processes as well as technologies, and it is well worth doing, as it gives providers a “single view of the customer” and provides customers with the seamless experience they are truly seeking.

[19]Peppers and Rogers Report, Inside 1:1

## Strategy 3: Deliver Consistent Value Across All Touch Points

Today's customers demand more from their financial services providers, but have a difficult time distinguishing one company's offering from the next. To deliver an effective value proposition, your organization will want to start by developing an effective value proposition differentiated by exceptional customer service. Financial services providers must respond to consumers' evolving preferences for physical, remote and electronic channels. 54% seek maximum convenience and 37% want to save more time. These are basic demands that must be met. Customers will use all channels available – even those who have a marked channel preference will use other channels to complete a habitual task.[20] Customers want it their way – convenient, consistent service – whenever, wherever and however they choose.

### Solution Strategies

| Process | Culture | Technology |
|---|---|---|
| Today's multi-channel world must have processes with the ability to answer customer concerns in the most efficient manner, the ability to understand customer needs, the ability to anticipate and improve service and speed through all channels, and the ability to protect customer privacy. Processes are seldom capable of delivering the promises made in marketing slogans. Instead, processes must become the enabler of the value proposition and deliver it so well that processes actuate differentiation and create value instead of just efficiency. Workflow automation calls for increasingly sophisticated applications, both in business process management and in communications platforms for distributing messages. If this is done efficiently, operating costs will decrease and quality will improve. | To date, the industry has been one with a mass-communications culture. Customer-facing staff and channels must learn how to use personalization to deliver pertinent, high-quality and timely information through the customer's distribution channel of choice. Silos also limit the sharing of customer information. Knowledge must become a shared intellectual asset distributed across different channels. Effective management of changes to the organization and work methods requires skill and careful attention to the needs to build collaboration between all parties – marketing, sales, line of business personnel and MIS management. | Personalized communications are largely not possible without addressing existing data management technologies for improved data access and integration, and the resulting "single view" of customer data. Once this is accomplished, product and service configuration, multi-channel contact center and personalized document technologies can resolve understanding, educating and rewarding customers for using channels more wisely. |

### *Solutions for Delivering Consistent Value*

The key win-win strategy of the next decade is to deliver services exactly as you promised, and in such a way that your value propositions are apparent in every contact you have with your customer - differentiating you from your competitors. By following this strategy, customers know exactly why they should select you over your competitor.

[20]Fujitsu Consulting: Building Better Customer Relationships

The path to such solutions begins with an evaluation of current channel performance to diagnose opportunities. Compare current and desired future state metrics of each channel. Then restructure key components of the delivery system for each line of business and each customer segment. Look for solutions that guide customers into more efficient channels while actually improving customer service.

### *The strategy for delivering value to customers takes four paths:*

1. **Define and support a value proposition with clear, relevant communications** by understanding customers at the individual level and aggregating this "true view" into segments. This enables you to serve each segment in a meaningful manner. In today's competitive marketplace, customer value - a combination of product and service benefits at a fair price that creates value in the minds of customers - is the key variable for business success. But, to stand out in the current climate of decreased differentiation among product-service offerings, you have to clearly communicate what makes your offerings special - better than those provided by your competitor. Some of the more successful institutions are beginning to connect more consistently to customers through ubiquitous marketing, sales and service media.

2. **Differentiate communications and service to different customers using different channels.** No bank or insurer can afford to offer the highest level of service to all its customers. In fact, studies show that in some financial services companies, as few as 5-10% of customers account for the majority of profits and future growth potential.[21] While it's important to give all of your customers good service, your most valuable clients deserve the "star" treatment - superlative customer service. Develop your channel strategy around your customer strategy, making sure each customer (individually or by segments) is in the most appropriate channel. Some providers are sending different marketing messages to the customer who is accessing his or her account from a home computer and the customer who is accessing his or her account from a cell phone. The customer on the home computer has the time and display space for a more complex marketing message, while the customer on the cell phone would need a quicker and more concise pitch.

3. **Provide consistent service and communications across all customer touch point events.** Consumers expect the enterprise and the agent to have the same information about the customer's situation, but in real life, this is seldom true. This leads to consumer frustration and lost sales opportunities. Carriers today must rethink their processes to help customers make better financial decisions so they optimize their entire customer acquisition, qualification and activation process to make the agent channel more productive.

   Failure to deliver a consistent service across all touch points has resulted in a less than pleasant experience for the customer and an expensive proposition for the providers. Share your customer data throughout the enterprise so you can take your value proposition everywhere with service, personalization and commitment.

   Everyone, from the most astute to the most insecure customer, needs advice on how to make the most of their money. J. P. Morgan, for example, has created Morgan Online where investors pay an annual fee to access wealth management information.

[21] Baan Consulting

The financial services industry is in the midst of fundamental change, driven by increased demand for personalized products and services, changing federal and state regulatory rules and by competitors with business models that are more flexible and less expensive to operate. The winners in this transformation of the industry will be those who implement strategies that deliver convenience, simplicity, customer choice and competitive pricing.

Communications through channels should be consistent, accurate and contextually relevant and truly assist consumers who make decisions using a dynamic, real-time process. Communications must work over the life of the decision process that may include several interactions before a customer is prepared to make a decision.

4. **Automate communications and service delivery via channels to gain quality and efficiency.** Technological advances are hitting every channel - web portals, mobile communications via cell phones and PDAs, integrated contact centers and personalized documents - making it possible to reach customers wherever they can be reached … if they want to be reached. Face-to-face channels such as the insurance agent or the branch teller, or remote channels such as the contact center, or electronic channels such as ATMs, the internet or cell phones and PDA are being integrated as part of an overall channel strategy. Nearly all of us now work within dotted-line relationships as companies struggle with how to become more efficient at delivering service to customers. What role does the customer have in this structure? How often does anyone from the corporate office talk with a customer? If not, how can we automate services that will serve their needs?

*Mini Case Study*

## Personalized Communications Using Single View Data

A large international bank centralized its customer databases while simultaneously providing access to more than 2,000 branches and divisions throughout the world. Their challenge was to cut the production costs of producing more than 24 million personalized letters a year. The solution adopted introduced interactive and intelligent functions to the letter production process. Users are assisted by an array of 450 letter models where the content can be altered to suit the needs of each customer.

For example, if the letter concerns an unauthorized overdraft, content is automatically modified according to the number of notifications already sent. The wording of the letters is also amendable to take into account the size of the overdraft. This solution creates logical rules within letters, reducing both the number of decisions to be made and the amount of manual interventions. For example, a significant number of letters are produced to accompany complex loan offers, rules are associated with the loans and the system assists users to write the most pertinent letters, while restricting the choice of wording available to prevent the introduction of errors and inconsistencies.

The benefits – the cost of producing personalized letters was reduced by 50%, and every authorized user in the bank has access to all the letters produced.

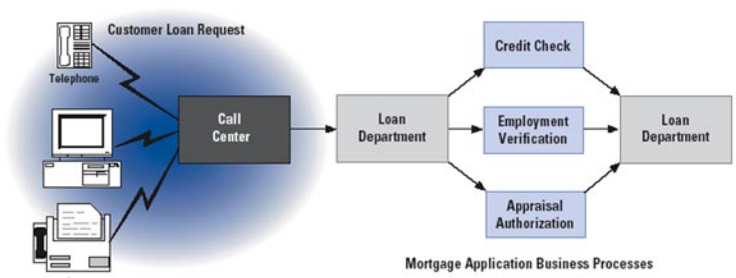
## *Solutions for Contact Center CRM*

The greatest and most difficult challenge of CRM is nurturing and maintaining a "personal" relationship with the customer. The ability for call center agents to view appropriate information about the customer can help foster a more personal and efficient interaction as can the ability to identify products and services that accurately reflect customer wants and needs.

A growing number of call centers are also considering the use of sales configurators to help automate the sales process. Properly implemented, these rules-based engines help to translate customer needs and wants into sales opportunities and, at the same time, simplify the selling of complex products and services. Using sales configuration technology, companies can rapidly roll out new campaigns and products without in-depth training for call center agents. In addition, inexperienced agents and even new hires can intelligently represent very complex products and services.

In addition, document generators are now available that call center agents can use to create personalized, "one-to-one" correspondence based upon a customer's profile coupled with information gathered during the contact. This customized correspondence can be created immediately and automatically after a call and distributed via e-mail, fax or postal services, whichever method the customer prefers.

Companies willing to invest in a CRM strategy for their call centers stand to gain huge rewards. Many are reducing the cost of sales customer service while increasing revenues through improved cross-selling and up-selling capabilities. By gathering high-quality customer information, companies can improve understanding of buying patterns and preferences as well as the targeting of their marketing efforts. More importantly, companies can improve the overall quality of customer interaction while streamlining customer requests and orders. As a result, organizations are achieving increased customer loyalty and satisfaction - and ultimately greater profitability.




*With workflow automation software, business processes necessary to satisfy customer requests can be initiated and monitored immediately and automatically from the agent's desktop application – even when multiple departments and companies are involved.*

### *Solutions for Internet Delivery*

For all providers, the web is an urgent and highly competitive issue because, done right, the internet can still be an attractive model because it can be cost-effective and profitable. Peppers & Rogers has long argued that a multi-channel, customer service strategy - one that puts forth “one face” to the customer -is vital for attracting and retaining valuable customers. The internet plays a big part in this type of customer interaction strategy.

Gartner reports that by 2005, more than 70% of customer service interactions for information and remote transactions will be automated. The customer self-service function can do more than simply increase the efficiencies of service delivery. By automating customer interactions, companies can create and enhance customer profiles and increase revenue through more targeted selling.

In the end, providers will deliver more value to their customers while reaping the benefits of increased customer insight and efficiencies. But as with any endeavor, a successful implementation hinges on the proper focus and strategy. Through 2003, Gartner predicts that 80% of organizations that fail to plan their web self-service implementations will incur higher customer maintenance costs and not achieve the expected results.[22]

Does your web strategy position your company to maximize the revenue potential brought by e-commerce? Simply put, when companies integrate their web strategies into their larger customer-based programs by aligning touch points, collecting customer data and allowing customers to serve themselves via the Web, they can build revenue, improve operating efficiency and reduce costs.

The key steps are:

1. Integrate a results-driven web strategy into your larger multi-channel platform.

2. Collect “actionable” customer data.

3. Disseminate that data to vital employees.

4. Leverage the customer-driven intelligence for maximum return.

[22]Peppers and Rogers Report, Inside 1:1

## Strategy 4: Encourage Customers Into Profitable Channel Behavior

Communications with customers has become fragmented, inconsistent and confusing. For business originators, this translates into dissatisfied customers, more non-productive administrative work and lost business opportunity. Such fundamental issues are putting renewed pressure on profits that were already in decline and now demand new answers. The solutions lie in process redesign and technology support to optimize channel productivity and guide customers into profitable behavior patterns using improved service.

For example, the internet channel offers retail banks the opportunity to shift cost out of the bank and to the customer by moving to a self-service environment. If banks don't succeed in cutting out that cost, they will become uncompetitive. Customers will not accept this shift unless they gain significant added value services that go beyond the convenience of being able to bank from home.

### Solution Strategies

| Process | Culture | Technology |
|---|---|---|
| Set your target for customers that you want to encourage to migrate to new channels. Have your customer managers identify customers who are marginally profitable. Set a corporate goal of moving, for example, a third of these customers into more profitable channel behavior. | This calls for educating customers on the added value they gain in using alternative channels and about the various channels available to them, with suggestions on how to use remote and electronic channels. Yes, customers will always prefer using the channel they find most convenient for each particular activity. But this desire for convenience can be instrumental in changing behavior if you show them how remote and electronic channels actually give them more control over their financial affairs.<br><br>Reward the managers for actively steering customers to alternative channels and reward the customers themselves – using both one-time incentives and/or long-term discounts on services to cause channel trial and to get the new behavior in place. | Building a unified view of each customer, using all the data throughout the enterprise. Apply business analytics to understand what drives channel satisfaction among customers with similar needs. Match services to deliver these drivers in each appropriate channel. Create cluster groups of customers with similar needs (i.e., low-cost segments, convenience segments, loyal segments) and develop a matrix for each, including such factors as segment characteristics, prioritized customer needs, channel objectives, product purchase patterns and ideal products and channels for each segment. This matrix helps you understand the issues you are dealing with in each channel and gives you a basis for making sure your channels are delivering the best possible service at the most profitable rate of return. |

### *Migrating Customers to Cost-Efficient Channels*

One of the most successful tools to deliver a consistent educational message with the frequency needed to cause change is a customer-centric newsletter. Package this educational effort with incentives to encourage trial and re-use of less-expensive channels. Because these channels are so much less expensive per transaction, it would be wise to use some of the savings to encourage profitable behavior - especially for customers who are heavy users of frontline branch and office facilities.

Next, evaluate the migration risks with each customer and provide the delivery team with a portfolio of relationship management tools. For example, if the customer segment is likely to perceive a contact center manager as being impersonal, then a letter of introduction outlining the team's qualifications and the program benefits can clear the path. If the risk is that the customer will become dissatisfied over time, conduct a scheduled satisfaction audit and a pre-defined relationship strategy. This is best achieved when the contact center manager can access appropriate information about each customer from all other customer touch points - a single view of the total customer relationship. For each type of risk, have a solution strategy and a set of tools to maximize the benefits of the channel migration.

Another method of rewarding customers is to provide free online financial planning tools and advice. Financial calculators, planning worksheets and other needs analysis features provide this kind of interactive, personalized service on provider sites. Visitors submit information into a calculator to learn instantly how much coverage to buy, how much they need to save for college, what their monthly mortgage payments should be and much more.

Leading banks and insurance companies now provide incentives to encourage consumers to use the lowest cost channel that is appropriate for each type of service need. This is beginning to cause the desired consumer behavior changes that will transform unprofitable customers into profitable ones. Sites that offer these financial needs analysis tools not only provide a useful service that customers return to again and again, but they also help to highlight and cross-sell the company's products.

- Prudential offers a wide range of interactive worksheets, divided by topics such as retirement planning, education funding and insurance coverage.
- MetLife takes a similar approach, plus offers family topics such as a distance calculator that computes mileage between cities, and a "new home" moving checklist, a wallpaper calculator and a paint calculator to help those who just bought a home.
- New York Life offers an estate-planning calculator for potential and future taxes, disability needs, and a two-minute insurance self-review.[23]

[23]LOMA Report "Interactive Financial Planning Tools"

## *Potential Obstacles to Success*

The main barriers to successful migration strategies are (1) the channels and products must be aligned around customer needs and (2) you will need access to customer data to segment, educate and reward customers for profitable behavior.

**First, Understand the Customers**

The customer is the one who dictates channel productivity. For starters, providers should acquire a better understanding of what customers want and then optimize their distribution channels around customer segments that gravitate toward specific kinds of products, services and channels. No one solution will be right for all segments. Take, for example, a cluster of customers who demonstrate that fee charges or interest rates are most important. Pleasing these customers is a tough call, often lost out to competitors who have a better deal. More loyal segments like the convenience of the total channel offering and therefore reward you by not switching, but negatively impact profitability by using the wrong channels for the wrong activities.

Learn what drives their purchase and channel usage behavior. Then you can alter service at touch points to optimize productivity in the channel matrix. Accurate, reliable customer data is the cornerstone of a successful channel solution. Such data can be used to make each touch point more productive while also increasing the service level delivered to the customer. Elimination of redundant data can make significant impact on decreasing operating expenses while improved targeting from more accurate data increases revenue and retention rates. These actions will all impact channel productivity.

The goal is a customer-centric corporate strategy with channels that provide consistent quality and satisfaction to customers and a profitable return to the company. If this were easy, everyone would be doing it. Instead, almost no companies are delivering on this goal. Here then lies the potential for creating customer value so that it defines your brand versus competitors.

**Next, Resolve Customer Data Access and Integration**

Most financial services managers would readily acknowledge that their most important asset is their customer data, and yet only a few have unlocked the value of this great asset. Fewer still have integrated this data across disparate technology applications. But unlocking and integrating customer data is key to improving the customer experience and achieving reduced channel costs.

A global financial service provider relies on information from multiple systems and must make it fully accessible to managers and employees. For world-class sales and customer service, your data must work harder than ever, be more accessible to a myriad of sales and marketing programs, available for customer access and updateable in real time. To access information across multiple systems, you must consider one, or a combination, of these solutions:

- Data integration between mainframes
- Data integration between the mainframe and the desktop
- Data integration across platforms
- A single data view of the customer
- Business process automation

# An In-depth Look at Multi-Channel Evolution

## THE PHYSICAL CHANNEL: BRANCH OFFICE EVOLUTION

**Branch Strategies Go Full Circle** - In a 1997 survey by Ernst & Young, 22% of banks cited that the internet allowed them to reduce the absolute number of branches. By 2003, *USA Today* reported that banks were back in a race to open branches, with overall growth at a 29% pace. Bank of America alone has plans to add 550 new branches for 13% growth by 2006. Washington Mutual will open 250 this year alone. The new branches are not just tiny kiosks. Often, they are full-service outlets sporting coffee bars and concierges. If anything, the banking industry is very likely headed into a period of overbuilding.

**Banks Reinvent the Branch** - To reduce costs and improve customer service, European banks are turning branches into networked service centers (thinly staffed collaborative centers based on open standards and connected to internal or external service networks through integration hubs), according to a new report from Forrester Research. Between 1999 and 2001, European banks invested E13bn in internet and call center technologies anticipating the demise of the physical distribution network, the report says. Banks in the UK, France and Germany closed 11% of their branches between 1995 and 2000 and brought branch technology innovation to a standstill. But the economic downturn is now forcing bankers to cut branch operating costs even further. Of the European banks Forrester surveyed, 61% believe that branches will still be the dominant channel in 2007. But nearly half of the respondents said they have started connecting their branches to online banking applications, and another 24% plan to do so. Nearly 40% believe this will cut costs by at least 15% and improve customer service. Forrester states that networked service centers will build a service level that doesn't exist today, cut costs by reducing headcount and create an open technology platform that's ready for the future. Networked service centers will create meaningful interactions by giving agents real-time customer profiles, the research firm said, empowering staff with guided sales tools, and collaborating to match human specialist advisors with customers. Broader network bandwidth will let service center staff get customer data in real time - including web usage and customer history on other channels. Networked staff will be equipped with modular, web-based advice tools and will be empowered by a superior command of those tools, the report says.[24]

**Banks Are Turning Branches Into Retail Outlets** - The good news for banks is that customers are eager to get the dialogue going. Consumers across the world seek trusted advice to navigate the ocean of available information and to compensate for their lack of financial sophistication. They also desire much greater transparency in their dealings with banks and often feel underserved. Many fear the responsibilities that come with money and are suspicious of the untailored approach often used by financial institutions. In short, there is a large, dissatisfied market that would welcome more of a retailing approach from financial institutions: targeted, relevant promotions; solicitous and helpful salespeople; timely and effective service driven by more than a desire to cut costs; and a pleasing ambience.[25]

[24] EUROPEMEDIA-24, Forrester Study

[25] Boston Consulting Group: Remember the Retail in Retail Banking

## THE REMOTE CHANNEL: CALL CENTER EVOLUTION

**For many customers, the call center is a major point of contact with financial institutions.** As such, the quality of service offered has a major impact on the strength of customer relationships. Methods to improve quality include: [26]

- *Integrate tools, processes and personnel.* Doing so enables better understanding of customer needs and directs calls to the most appropriate agents. Strategies to achieve this include defining workflow for each call, selecting appropriate software and implementing continuous training.

- *Focus on more than efficiency.* Find the correct balance between achieving quantitative goals and providing training, coaching and professional development opportunities.

**Role of Call Center in Financial Services** – Call volume per seat increased by 27% for inbound service calls and declined 26% for outbound sales calls in 2001. Most financial institutions were on target with their speed-of-answer statistics, with the exception being that large firms with over $10 billion in assets had average handling time and abandonment rates higher than standard. More banks are transitioning from financial services call centers to contact centers, but are not yet comfortable calling these operations profit centers. Across all asset categories, fewer institutions have a formal call center business plan, down from 65% in 2000 to 59% in 2001. Smaller firms were more likely to rate CRM as critically important and over half of all firms of all sizes said CRM was important.[27] Call center employees turn over at an annual rate of 33%, but firms with training of longer than one month had a turnover of 20% and those with no training were at 55%.[28]

**Insurance Provider Call Centers** – As of 1998, 80% of insurance providers had call centers in place, however, most lacked the technological resources needed to be competitive. The prime change is moving from call center to multi-channel contact center, driven mostly by the need to coordinate CSRs with the internet with such features as callback functions and live-chat, and the ability for CSR to view the most up-to-date customer information to provide better service.[29]

**Integrated Contact Centers** – Customers will not only be able to call or e-mail service representatives, but they will also be able to interact with them over the internet, using Voice Over IP (Internet Protocol). Some web-enabled contact centers may have an icon that allows a customer to submit a phone number to the website requesting a callback from the first available representative. Or, the customer may be able to click on a link that puts her in a queue to interact live with a representative over the internet. The web server can "push" product information to the customer's PC while he or she is waiting, and when the agent is available to help, he can "escort" or guide the customer through the company's website. For example, if the customer is looking for information on variable life policies, the agent can push the relevant web pages to the customer's PC. Some contact centers will also have the capability to intelligently route these requests to the best-qualified agents, using key words, customer ID numbers or other information supplied by the customer over the phone, e-mail or the web. [30]

[26] Lauren Bielski, "Get These Four Right and Run a Better Call Center," ABA Banking Journal

[27] Drive for Quality and CRM: The Evolution of Financial Services Call Centers, Volume V

[28] Train without Pain, *Call Center Magazine*

[29] Gartner, R-11-0109

[30] LOMA Report on Integrated Contact Centers

**Virtual or Networked Call Center Business Growing** - Hosted or networked call centers are call centers that use routing applications to switch calls between call centers. The routing functionality is hosted by telcos (or other service providers) on their own networks. When full automatic call distributor (ACD) integration is achieved, several sites can work in a virtual call center environment. Datamonitor concludes that the market for advanced network routing services is on the verge of booming as multi-site routing solutions are becoming extremely popular with large and medium-sized firms globally. This shift will provide lucrative revenues opportunities for telcos, technology vendors and service providers, and will also grow the number of agent positions in networked call centers. As virtual hosted solutions enable call centers to increase agent utilization and the overall efficiency of the call center, a virtual call center will use significantly more call minutes than a traditional multi-site call center.[31]

## THE ELECTRONIC CHANNEL: INTERNET E-COMMERCE EVOLUTION

**The Internet Is the Transformational Channel** - It promises to lower the cost of providing many informational and transactional services. This is global in its impact, in part, because financial services are really about information and not physical realities.[32] Within the next two years (by 2004), companies plan to implement significant changes in their use of marketing channels. While they will still rely on traditional channels, they plan to almost double the percentage of their marketing interactions taking place on the web and via e-mail.[33]

**Internet and Contact Center Technologies Coming Together** – Many insurers are still in the early stages of considering or implementing multimedia call centers. Of all customer interaction, 97% took place over the phone in 1997. By the end of 2003, this will drop to 5%. Also, e-mail, which accounted for 2% of customer contacts in 1997, will reach 30% by 2003. Other web interactions will account for 56% of customer contacts in 2003.[34]

**Insurance Distribution on the Internet** – The internet is rapidly changing the provider market because it can support the rise of new business models that provide business efficiency and revenue generation. New entrants to the insurance market, including start-ups with small staffs and new tech infrastructures that are more efficient than traditional insurance providers, can seize the internet consumer market.[35]

**E-mail Strategies Further Expand Distribution Management Issues** – Although many companies initially implemented online customer service features – e-mail, personalized e-newsletters, web chat, FAQs, etc. – to help reduce the number and cost of telephone-

[31] Datamonitor Report: Networked Call Centers

[32] Cap Gemini Ernst & Young: Global Financial Services

[33] Fujitsu Consulting: Building Better Customer Relationships

[34] Forrester Research reported in LOMA Information Center Brief: Integrated Contact Centers

[35] Gartner, R-11-0109

based and paper-based service transactions, they have found that their customer contact activity has actually increased rather than decreased. Instead of becoming a substitute for the telephone, e-mail became an additional channel for customer communication. As a result, customers have swamped call centers with a deluge of electronic messages in addition to their normal volume of telephone calls. To manage the flow of hundreds or thousands of these messages and to ensure that all messages receive appropriate and timely responses, many corporate service units have developed e-mail response management strategies. These service approaches may include the establish-ment of response turnaround time standards, the assignment or workflow distribution of e-mail responsibilities, and/or the purchase of e-mail management software packages. E-mail servicing requires different skills than telephone servicing. Customer service representatives (CSRs) must demonstrate writing proficiency and must be able to simultaneously manage the status of multiple contacts rather than managing the linear, one-by-one nature of telephone calls. Companies' strategies for selecting and hiring service staff will be affected by this shift to web-based service. [36]

## THE INSURANCE AGENT CHANNEL: GAINING LEVERAGE AS INDUSTRY EVOLVES

**Agents Are the Local Presence of the Head Office** – Customers see both captive and independent agents as "The Company." The consumer's perception of the carrier's brand is one of a thousand experiences between the enterprise and the local representatives of the enterprise. The distribution channel, however, is often responsible for breaking the chain of communi-cation from carrier to customer. This is a result of culture, trust and the lack of technology to assist seamless, alpha-to-omega communications. Cross-selling to existing customers would seem to be another logical solution since it could produce incremental revenue at little cost, increase customer loyalty and improve underwriting accuracy. However, despite strong efforts to drive cross-sales, most agents have been unable to move their cross-sales ratios significantly.[37]

**Agent Productivity Falling for Last 50 Years** - The productivity failure of new channels mandates that insurers must find ways to improve the productivity and efficiency of their existing person-to-person sales force. But this mandate will not be easy to achieve without some significant new solution. Over the past 50 years, life insurance sales conversion rates have dropped by 50%. Today it takes 15 face-to-face sales calls to get six closing interviews that result in one sale.[38]

[36] LOMA Report "E-mail Response Management"

[37] FSIC The Looming Crisis in Insurance Sales Force Efficiency

[38] FSIC The Looming Crisis in Insurance Sales Force Efficiency

**Brokers and Agents Hoard Information** – Bill Winterthur of Credit Suisse says, "One of the troubles that makes improving productivity through the agent channel so difficult is that there is still a lack of sharing across the organization, especially into the distribution channel. Agents and brokers provide very little customer information to other parts of the company and as a result, over half of the customers have only one insurance policy, mostly on their cars." [39]

**Business Support for Independent Distribution** – A growing number of carriers now offer competitive products and services to attract and retain distribution. Independent producers want ready access to carriers without a great deal of administrative hassle and for insurers who can turn business around quickly and accurately. For example, Principal Financial Group now provides agents the use of web-based Marketer Portal. Northwestern Mutual Life has developed additional functionality including a homegrown business case management system for complex and time-consuming processes associated with business sales and the use of broadcast video which transmits video programming from the home office to all PCs that are connected to the LAN. New York Life provides agents and field staff with a suite of software applications that give them all of the resources to sell and service NYL policies (customer illustrations, contact management, forms, policy and ledger views and related websites). Agents purchase their own hardware and do not conform to one standard. [40]

**Broker Consolidation Challenges the Balance of Power in Channel Relations** – Financial services brokers are becoming increasingly more powerful intermediaries, especially for enterprises seeking B2B customers. Brokers grow by acquiring smaller firms, each seeking to eliminate costs and to gain the ability to serve larger customers who are usually national or global in scope. As brokers gain size, they can place new demands on the financial services enterprise that must develop new strategies to maintain market position as value migrates down the channel. Many leading FSPs will align with those intermediaries who emerge as winners in the fragmentation-to-consolidation transition. Large business customers and national purchasing groups will find it more efficient to deal with intermediaries that can provide access to multiple solutions across multiple geographic regions.

[39] Interview with Credit Suisse Group Bill Winterthur as reported by Peppers and Rogers

[40] Compilation from various LOMA Reports

# What's Next?

This is the second in a series of six white papers that delve into the insights, strategies and solutions concerning some of the most critical issues preventing your overall success. This paper discussed how to increase sales productivity and profitability from four distinct multi-channel distribution strategies.

**The Six Most Difficult Issues Facing Financial Services Managers**
(White Paper Series)

1. **Changing customer needs** that hinder profitable business growth.
2. **Sales productivity** from multi-channel distribution strategies.
3. **Data integration** for corporate decisions and restructuring.
4. **Consistent value proposition** across all customer communications.
5. **Maintaining profitability and growth** in the face of rising cost and expenses.
6. **Managing and leveraging information** technology.

Coming soon: "Communicating With One Voice - Across All Channels." Meanwhile, for more information about common problems plaguing financial services managers, and how Cincom can help alleviate them, please visit our comprehensive Financial Services Learning Center at www.cincom.com/financial.

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