



CUSTOMER LOYALTY IN THE AGE OF DIGITAL BANK

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Customer loyalty in the age of the digital bank

Fostering and maintaining profitable customer relations is more important for banks than ever before if they are to survive in today's highly competitive market. This particularly applies in the European context, where the provisions of PSD2 and Open Banking along with the growing ecosystem of neo-banks and fintech companies have levelled the playing field for the banking industry. These developments, against the background of banks' low profitability, the strict regulatory requirements, low interest rates and the exceptional situation brought about by the corona crisis, make the job of generating customer loyalty even more difficult. Furthermore, banks must not only keep pace with rapidly developing customer experiences and expectations influenced by e-commerce, but also fulfil the technological requirements necessary to meet this growing need.

Several statistical studies carried out in the past have shown that the cost of acquiring a customer is often five times higher than the costs necessary to generate loyalty in a customer. The profitability of a customer account and the customer lifetime value also play a decisive role for a bank's long-term profitability. While the banks aggressively pursue their goal of securing new customers on today's fiercely competitive European market, this white paper is intended to highlight the growing importance of customer loyalty, which is of decisive significance in today's marketplace, perhaps even more so than acquiring new customers, and demonstrate how digital technology can be helpful in the development of an effective strategy.

Digital technologies as a factor in customer loyalty

Customer acquisition has always been high up on the agenda of banks and financial institutions. A higher number of customer accounts is directly proportional to a higher market share, and the banks have always seen this as their primary strategic objective. However, the advent of newcomers entering the market with the aid of new technology and constantly developing customer expectations have led to an intensification of competition within the banking industry and as a consequence to a high level of customer churn for both established companies and new entrants.

The preferred strategy for the containment of this migration and the maintenance of customer relationships is to use digital technology to improve the customer experience and strengthen the relationship with the bank.

However, in this context there are a few market-oriented challenges that you must take into account when developing your strategy to enable you to conduct a **long-term, profitable customer relationship**.





Interfaces for extending services

One of the biggest challenges facing banks is the development in connection with the PSD2 regulation. Because the regulation requires banks to allow third-party providers to access their customer data, they run the risk of losing direct contact with the customer and being bypassed. This risk is relevant for both conventional and challenger banks, which compete with large non-bank technology brands, including insurance groups, data aggregator and e-commerce platforms, etc., such as Check24, Amazon, Lufthansa Miles & More, Allianz X, etc., which take on the role of third-party providers and therefore mainly take over the interaction with the customer. These providers usually have not only a superior user interface (UI) and user experience (UX), but also the advantage of strong financial backing. They also have numerous customer databases, which enable them to offer unique services through comparison with the bank customer data.

However, because the provision and sale of financial services are becoming increasingly decoupled, theoretically banks can assume the role of a third-party provider themselves.



But to do this they need a technology infrastructure that operates in real time internally and is ready to interface with fintech companies and other large companies through an appropriate API. This is the only way to achieve seamless integration with internal and external systems and offer the customer a **broader range of services**.

Digital user experience as a competitive advantage

In a digital bank ecosystem featuring competition with fintechs, a large part of the customer acquisition and customer loyalty strategy depends on attractive prices and cash backs. In an environment of persistently low interest rates, banks in Europe must struggle with sinking margins and profitability, which reduces their ability to incur high expenses for customer rewards and customer loyalty programmes.

Digital banks currently still have an advantage over conventional banks in two respects: the user experience and usually also a more attractive price offer for their products and services.





However, in view of the lower interest margin in the context of difficult macroeconomic conditions, challenger banks will inevitably also have to start charging fees for some of their services so that they can maintain their business model and generate a profit. The eventual convergence of pricing means that in the long run digital banks, fintechs and conventional banks will only compete with each other through a better user experience. An outstanding user and customer experience will therefore increasingly be a competitive advantage.

However, more conventional financial institutions in particular continue to lag far behind in this area. Customers now increasingly expect a digital experience from their banks, in line with those provided by e-commerce and information service providers like Amazon and Google. But some banks have only an inadequate digital credit application pathway; others have none at all. The current situation with the corona pandemic, where small and medium-sized companies have in some cases waited eight weeks for the payment of support funds or loans, has shown how important it is to continue to do away with **manual processes and processing steps and move towards greater digitalisation**. This is the only way to maintain long-term customer relations on a basis of mutual trust even without staff presence.

Conversational banking – better communication thanks to chatbots

When analysing the most successful customer loyalty strategies one common factor is the user experience, whether it be through seamless access to the various services offered by a bank or the manner in which a bank is able to identify the consumer's needs and respond to them. While in the last decade banks have increasingly switched to a digital bank model, the next decade will probably be focused on offering customers an interactive, intuitive experience embodied in the emerging concept known as "conversational banking".

Conversational user interfaces coupled with artificial intelligence (AI) based on text or voice-based interfaces and messaging platforms are increasingly becoming, in all areas of life, a popular medium for customer interaction for both digital natives and digital sceptics.

Since bank customers are again increasingly expressing a preference for more service and personal care, while it is hardly feasible to maintain the existing branch network, conversational banking may be the solution allowing these gaps to be closed.

As digital banking business is becoming more rule than exception, an **AI-supported conversational bank experience will be the key differentiator for banks** in the acquisition of customers and the generation of customer loyalty.

Although the new digital channel does present many challenges for banks, first and foremost it brings numerous benefits. Besides increased customer satisfaction due to omni-channel presence and 24/7 availability, banks also save on resources as, for example, simple questions can be answered by a chatbot instead of by an employee.





Furthermore, defaulting debtors often experience less of a sense of shame if their initial communication obviously takes place with a bot. Depending on the status of the AI, even negotiations on credit restructuring can be handled by a bot. The psychological barrier to openly asking questions is lowered and customers work proactively and faster on eliminating the default, bringing benefits for both parties.

Also, thanks to the ability to communicate via a wide range of channels, on the basis of AI the ideal communication channel can be found for each customer for the subject in question. In addition, the tone and timing of communication can be individually adjusted, so that the **customer can be reached at a time and place and in a manner which is most suitable for him/her**. The likelihood of reaching the desired target of a message is thus increased, while customer satisfaction is also boosted, for example because digital natives no longer have to deal with communication channels they find unsuitable, like phone calls and letters.

Digital customer experience with Collenda

With the aid of our solutions you can offer your customers a better customer experience. The Loan Origination software is a part of our Open Credit platform and is based on cutting-edge technologies, is user-oriented and is operated in the cloud. Our credit application software provides complete, digital end-to-end processes that help you satisfy your customers and position yourself securely for the future. The convenient self-service portal enables your customers to submit a credit application from any location. If they have questions, chatbots can help them find a solution to the problem round the clock, making for a smoother, more efficient procedure. With our digital credit application pathway you turn the entire process into a lean, well-conceived customer journey free of snags and hitches.

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