

Customer retention key to revenue growth

Balance sheet size may no longer be enough to fend off rivals or keep retail banking customers on your books, let alone expand revenue. Banks will therefore have to keep innovating, developing new business and delivery models and anticipating customer needs to sustain revenue growth in the face of a raft of financial and non-financial regulations, says global consultancy group Accenture in a new report.

It adds that rising costs and competition from non-banking institutions such as Google, which is wading into the mobile payment space, show that banks have major forces arrayed against them.

South African bank executives admit as much, and recently said in interviews retail banking is rapidly changing as customers demand better service, lower transaction costs and convenient delivery channels such as mobile and internet banking.

Ingrid Johnson, Nedbank's group managing executive for retail and business banking, says customer retention is key to sustaining revenue growth.

Michael Jordaan, the CEO of First National Bank (FNB) believes a bank that pays lip service to innovation has no future in SA.

FNB has been the first among the big banks to launch a mobile banking application in July last year, which has so far gained 307,000 active users who have made almost 4-million transactions worth R10bn as of last Friday.

Some bankers, however, say innovation is just one plank in the battle for revenue growth and customer retention.

Johnson argues that dazzling customers with technology without dealing with basics such as rallying bank staff around a common vision, will not work.

Yet other bankers warn that growing revenue in a tepid economy is never easy. It is made even harder when customer debts - as is the case in SA - are rising, putting pressure on banks to set aside capital to finance impairments when they should allocate it for growth.

Given such challenges, Accenture says how a retail bank grows revenue is the question bankers have to answer, particularly when customer loyalty is increasingly being tested by poor service.

"Faced with a daunting array of market, regulatory, customer, cost and operational challenges, many banks are struggling to post even moderate growth."

Accenture says estimates show anaemic earnings growth for some global banks of as low as 4% in Europe and North America. Locally, analysts say the big four banks are in a better place, with all except Absa expected to post double-digit interim and full-year earnings growth.

Accenture warns meeting earnings growth targets is easier said than done. "Bankers are beginning to realise that it will be a challenge to meet these growth targets and know they have to win three critical battles: restoring customer trust and engagement, defending their payments business against progressive disintermediation from new entrants (for example, Google Wallet, PayPal) and avoiding commoditisation.

"Current branch-based distribution models are no longer sustainable in most developed countries and are unable to meet the rapidly evolving customer needs and requests for easy access and simplicity across their banking services," it says.

A clear path towards growing revenue should start with shoring up core business operations to improve efficiency, customer relevance and profitability.

This means "doing the basics right", Accenture says. While some banks may excel simply by improving on the basics, others may need completely new business and operating models to compete and grow, Accenture says.

It has come up with a new definition of banking for the future which it calls, "Banking 2016 - next generation banking," based on an innovative retail banking model.

The model assumes each bank defines its target business strategy in light of its history, market, positioning and ambitions.

It also proposes an enhanced multi-delivery channel to engage customers and effectively meet their financial needs, leveraging the opportunities being provided by social media to "increase customer intimacy" and placing the bank at the centre of an ecosystem that sells both financial and non-financial services by leveraging particularly the power of mobile technology.

Source: *Business Day*

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