BANKING BY NUMBERS

Good news!

Most of the 19 biggest US banks have passed the Federal Reserve's capital stress tests. Even those that failed saw a positive market reaction as investors took heart from the results of the extraordinarily detailed examination carried out by the Fed. Some institutions promptly announced steep increases in dividend payouts[1].

So, as the banking industry begins to emerge from the turmoil that started in 2008, forward-looking decision-makers are taking time to say "Where do we go from here?"

Some numbers spotlight developments which will help shape their thinking about the future of financial services.

Let's start in India:

- ***Population – Over 1 billion***
- ***Banked population – 240 million***
- ***Population with access to mobile phones – over 900 million***
- ***Bank branches – Fewer than 100,000***
- ***Bharti mobile phone stores – over 1 million[2]***

It doesn't take a genius to join the dots.

Certainly they have at Bharti Airtel, India's telecoms giant. Following successful tests in Delhi and Chennai, last month Bharti announced the all-India roll out of Airtel Money, a mobile wallet which will now enable merchant payments and money transfers across the sub-Continent. Plans are already being finalised for Airtel Money to replace debit and credit cards at major retail websites. Intriguingly, Bharti has a food distribution JV in India with Walmart, the world's biggest retailer, who are reported[3] to have a mobile payments play in the US with Target. Synergy, anyone?

In my note last month, I suggested that mobile phones will replace – or perhaps better put, sidestep – plastic in emerging markets. Looks like India, massive, fast-growing, may be the first big domino to fall.

The next set of figures comes from the UK:

- ***The Co-operative Bank hopes to acquire 632 ex-Lloyds TSB branches***
- ***Santander has agreed to buy 318 RBS Group branches (following its takeover of Abbey, Bradford & Bingley and Alliance & Leicester locations)***

[1] The Economist, 17 March 2012
[2] Cellular News, 23 February 2012; Dow Jones Newswires, 28 February 2012
[3] Wall Street Journal, 9 March 2012

- ***Virgin Money has bought 75 Northern Rock branches***
- ***Metro Bank is opening its 10th UK branch in High Wycombe, and plans to operate a network of more than 200 branches by 2020***

What these numbers highlight is the vexed question of channel mix: in the Internet age, why the emphasis on branches? Surely today's Web-savvy customers don't need High Street access to expensive-to-operate bricks and mortar branches?

Well, maybe quite a lot of them do. No question, many banking transactions can be managed electronically, with savings in time and convenience for customers, and, once the huge initial investment has been recovered, savings in costs for banks.

But that's not the same as having knowledgeable, accessible staff available to deal with the big issues: mortgages, pensions, investments. And how to put a value on the cashier who actually recognises you on your occasional visits to the branch, or the recognition of having that logo so very visible on the High Street? If worst comes to absolute worst, where do the queues form when there's a banking crisis?

It's also noticeable that there are no completely stand-alone electronic banking plays in the UK: First Direct (HSBC), Cahoot (Santander), Smile (Co-op Bank) all draw on the strengths of an established traditional parent and its ATM network. It's a similar pattern in other markets.

Ultimately, the proof of the pudding is in the eating: in the US, TD Bank ascribes its outstanding success in attracting retail deposits precisely to the efforts it puts into marketing its branch network (actually, it calls them stores and operates them seven days a week, but that's another story).

The best bet is that successful multi-channel institutions will pick and mix: branches for high-level sales and service, a combination of ATMs, mobile and Internet for routine transactions, with call centres for straightforward account maintenance and customer queries.

Now, here's a simple set of figures to ponder:

Santander 123

Ballyhooed as "Save when you spend, Save when you don't", this impressive current account product ingeniously combines tiered 1%, 2% and 3% cashback and interest levels. Marketers are applauding the simple positioning of what is actually a complex offering. They're also pointing out that it comes with a £2 monthly fee, together with minimum funding and direct debit requirements. It's a bold experiment in both pricing and bundling – it includes a 123 branded debit card and credit card.

It's not too much of a stretch to see in 123 the first substantial attempt in the UK to offer a pan-bank rewards product. Certainly, limited in scope today, but if it takes off, the concept could well be extended to cover other retail products.

Which leads neatly enough into another number:

Eight is Great

Long associated with Wells Fargo, the phrase sets out the bank's historic goal for cross-sell: eight retail products per consumer household. Recognised by many observers as being the pace-setter in this notoriously challenging field, Wells currently hits an enviable rate of six products per customer, and on that basis has recently upped the target to nine[4].

Up to date figures for UK banks are closely-held and hard to come by, but research suggests that it's probably safe to guesstimate a hit rate of between two and four products per customer. Now, set that outcome against an array of retail offerings conservatively numbering around 20 for most major players. There's a long way to go.

And finally:

"Card rewards programme members who redeem spend about 30% more than non-redeemers"[5]

It's widely agreed that well-managed loyalty programmes generate higher spend and retention performance. But notice the emphasis on well-managed: regrettably, not all of them are. This issuer clearly takes the time to examine in detail how its customers behave, and how that behaviour can be turned into profit. "Earn and burn" is a rewards cliché: but all too often, the burn part doesn't get the attention it deserves. That leads to disengagement, drift and falling KPIs. Experience emphasises that the real work of a rewards programme only begins after the launch.

Back in the day, lecturers in Marketing 101 used to drone on about the Four P's of the marketing mix: Price, Promotion, Product and Place. These stories suggest that maybe the academics knew something after all.

[4] Financial Times, 26 February 2012
[5] US Bank quoted in Colloquy Talk, June 2011