
CRM IN FINANCIAL SERVICES

A Practical Guide to Making Customer Relationship Management Work

Introduction

Merlin Stone and Bryan Foss

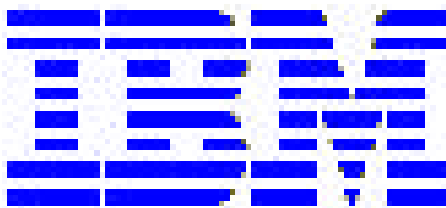
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Foreword from the industry general managers of IBM’s financial services sector

Customer Relationship Management, customer loyalty, customer centricity. These are all variations of a great idea – knowing your customers and understanding their needs. It is an idea that IBM has been working on with Financial Institutions worldwide for many years. During this time we have gained many insights into CRM: what works and what does not, what things need to work together, how long things take, and what traps we need to watch out for. One lesson learned is that there is no simple, universal recipe for managing financial services customers better, to mutual benefit. However, we have begun to assemble “best practices”, drawing on the collective experiences of our global team. This book brings together that knowledge, drawing on the breadth and depth of IBM’s own expertise and that of our clients and business partners.

We’re pleased at the storehouse of knowledge and practical advice reflected in this book, and we hope it helps you. Treat it like a resource book, not a recipe. Please give us your feedback on ways to make this material even more useful.

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Introduction

The last few years have seen an outpouring of books and articles on the subject of Customer Relationship Management (CRM). During these years, we have carried out a program of research, sponsored by IBM and other companies, examining different aspects of CRM – overall and in particular industries, especially Financial Services. The latter has become a focus for many CRM projects and providers.

In this book, we have brought all our financial services-related material together, as promised in our previous book. The authors of this book and others at IBM have led the extended research team that produced this book. QCi Ltd has also played a very important role in establishing, through the company’s Customer Management Assessment Tool, a database of current practice in CRM, strongly biased towards financial services. QCi’s directors have also made a substantial contribution to developing knowledge about implementing CRM. We have drawn extensively on this database and these ideas for many chapters in this book.

The theoretical and empirical foundations for this book are contained in three previous books of which Merlin Stone is co-author. These are *Successful Customer Relationship Marketing*, by Bryan Foss and Merlin Stone (Kogan Page 2001), *Customer Relationship Marketing*, by Merlin Stone, Neil Woodcock and Liz Machtynger (Kogan Page 2000) and *Up Close & Personal: CRM @ Work*, by Paul Gamble, Merlin Stone and Neil Woodcock (Kogan Page 1999). The most recent empirical works that our extended research team has produced are *The Customer Management Scorecard*, by Michael Starkey, Neil Woodcock and Merlin Stone (Business Intelligence 2000), and *The State of the Nation II*, by Neil Woodcock, Michael Starkey, Merlin Stone, Paul Weston and John Ozimek (Ogilvy 2001).

To this, we have added material from leading experts on implementing CRM and e-business in financial services, from all over the IBM world and from some of the extended team of colleagues outside IBM with whom we have worked over the last few years.

This book aims show the value of thinking before, during and after you act – in the world of CRM, this seems to be relatively rare. It gives companies lots of practical ideas about how they can improve their CRM strategy AND Execution, through best practices and case studies. It shows how companies can develop and implement the required competencies. It provides a well researched and carefully considered view about the role of systems in CRM. It shows how to avoid failure. It has a specific and in-depth focus on the practical deployment of CRM in financial services.

However, the book does not pretend to be a “cook-book”, “How to get CRM right in financial services”. Getting anything right in management is not easy, and it would be very arrogant of us to claim that we had THE recipe for getting CRM right in financial services. What we have done is to give readers access to a wide range of interesting and challenging views on CRM in financial services. We have also included some coverage of e-business in financial services, as the topic is so closely related to CRM. Readers should not therefore expect a completely consistent or comprehensive coverage – we preferred to present the best material available to us and not to force it into a completely consistent picture.

This book is divided into ten Parts, as follows:

- I Where are we now in CRM
- II Where are we now in e-business
- III Sector situation
- IV Understanding customers
- V Systems & data
- VI Risk and compliance
- VII Channels and value chain issues
- VIII Implementation
- IX Making the most of your (best) customers
- X Strategic implications

The detailed coverage is listed below, to help you decide which chapters are most relevant to your needs.

PART I WHERE ARE WE NOW IN CRM

Rather than start with definitions and theory, we decided to start the book with the best empirical material available to us on the state of financial services CRM.

Chapter 1 summarizes a qualitative research study by a leading executive recruitment and search firm, Hoggett Bowers. In this study, those responsible for the CRM programs of many leading financial services companies were interviewed. The chapter demonstrates the gap between theory and reality, but gives strong encouragement to companies that are taking a balanced approach to CRM, with systems, people, processes combined to drive strategy forwards.

Chapter 2 summarizes the results of a qualitative study led by IBM’s Business Innovations Services team. This one covers several countries, and covers not just CRM but some aspects of e-business. It confirms the message of Chapter 1, that implementation factors are the key to success, but has a slightly worrying message that it is precisely in this area that some companies see themselves as having significant weaknesses.

Chapter 3 ranges most widely of all, with results from all over the world of research and assessments using QCi’s Customer Management Assessment Tool (CMAT). This chapter is written by the QCi team, and provides the strongest possible confirmation that CRM in financial services is at a relatively early stage of evolution, with much scope for improvement. Once again, implementation and program management issues are singled out as those needing most attention.

PART II WHERE ARE WE NOW IN E-BUSINESS

E-business is always in the background in CRM in financial services. Rather than spread our coverage of e-business throughout the book, we decided to concentrate it into one of the first Parts, and to cover both theory and the current situation.

Chapter 4 describes IBM Business Innovations Services’ framework for analyzing the impact of e-business on the financial services sector.

Chapter 5 summarizes the implications for financial services company of a recent study, carried out by the Chartered Institute of Marketing and Bristol Business School, on the impact of e-business on marketers.

Chapter 6 describes IBM Business Innovations Services’ framework for determining overall e-business strategy for financial services companies.

Chapter 7 describes the detailed implications of e-business practice for managing marketing communications in financial services companies. It is based upon research co-operation between IBM and PriceWaterhouse Coopers.

Chapter 8 gives the results of case study work from the Bristol Business School University on e-banking.

Chapter 9 is a case study from IBM, demonstrating how a major Dutch bank is planning to implement e-business.

PART III SECTOR SITUATION

In this Part, we summarize how CRM is evolving in four major sectors of financial services. Many of the themes in these chapters derive directly from issues described in the first two Parts, and are developed in detail in subsequent parts.

In Chapter 10, the IBM team discusses the development of CRM in the life and pensions industry, against a background of rapidly changing customer needs, evolving demography and frequent regulatory intervention.

In Chapter 11 the IBM team discusses trends in general insurance CRM, where the drive towards cost-effectiveness is putting considerable strain on companies' ability to deliver improved customer service.

In Chapter 12 the IBM team discusses trends in banking CRM, where the drive to improve value per customer is often frustrated by customers' desire to spread value between different suppliers.

In Chapter 13 IBM and Mathias experts on the implementation of CRM in investment banking investigate why so many companies in this sector have had serious difficulty in achieving their CRM objectives, and provide a case study of success.

PART IV UNDERSTANDING CUSTOMERS

Understanding customer needs is a theme that runs throughout this book. For this Part, we have avoided basic analysis, and selected three studies that focus on some of the most difficult areas.

Chapter 14 explains some analytical work carried out by IBM and Statistics Applications on the difficult issue of cross-selling. It explains why many companies' strategies in this area are poorly thought-through and suggests how they can improve their performance in this area.

Chapter 15 describes some UK empirical research on customer retention carried out by Bristol Business School and the Royal Mail, with some additional work on the implications for financial services companies by the IBM team.

In Chapter 16, the IBM team discusses the application of market segmentation principles to business-to-business financial services.

PART V SYSTEMS & DATA

Chapter 17 is one of a pair with Chapter 1, but in this case the qualitative research by Hoggett Bowers was carried out with senior information systems management. The chapter shows how major companies are changing their IT plans.

Chapter 18 describes the IBM framework for implementing CRM systems and accelerating ROI. It explains the importance of having a clear systems model, and what can be achieved with today's integration products.

In Chapter 19, one of IBM's data management partners, Acxiom, explains some of the issues involved in managing customer data in an e-environment.

PART VI RISK AND COMPLIANCE

This Part covers some of the most challenging issues facing financial services companies globally, in a world where governments want financial services companies to meet customers' needs for privacy while guarding against many customer-based risks.

Chapter 20 provides an overview of risk issues, written by the IBM team together with Bi-Tech, the leading IBM storage solutions partner in Europe.

In Chapter 21, the IBM team combines with Swallow Information Systems, providers of complaints management systems in Europe and the US, to investigate the extent to which financial services companies are compliant with UK regulatory requirements for complaints management. This chapter is based on empirical research, and includes analysis of relevant CMAT scores.

Chapter 22. In this chapter, the IBM team describes research sponsored by Acxiom into how far companies comply with data protection law.

Chapter 23 is an IBM analysis of money laundering, which has become a CRM topic because of the need to focus on how customers can systematically break the law by exploiting banks' attempts to facilitate customers' financial lives.

PART VII CHANNELS AND VALUE CHAIN ISSUES

Channels of distribution and value chain issues are at the heart of many of the e-business issues covered in Part II and the sector specific issues discussed in Part III. However, we needed more in-depth coverage of this topic, because many of the barriers to obtaining good financial returns from financial services CRM lie in this area.

In Chapter 24, the IBM team describes how bank branches can be managed to improve returns from customers. This chapter establishes clearly that the banking industry has recovered from dot.com insanity and that classic good retailing and database marketing practices are the key to improved performance in this area. This chapter complements Chapter 12.

Chapter 25 describes research into the intermediation situation with life and pensions customers. This piece includes in-depth interviews with leading experts and analysis of how government intervention is affecting distribution in the industry. This chapter complements Chapter 10. The research was originally undertaken as a student dissertation at University College, Dublin.

In Chapter 26, global research carried out by Royal & Sun Alliance and IBM into the deconstruction of the value chain in general insurance is analyzed. This chapter complements Chapters 11 and 27.

In Chapter 27, the IBM team discusses the development of the global direct insurance industry. This chapter shows how often inappropriate lessons about dis-intermediation were drawn from the early successes of companies such as Direct Line. The chapter is completed by a study by Viewscast of how new technology can improve direct feedback from insurance customers.

Chapter 28 builds upon the conclusions of Chapter 27 by showing how insurers working with banking distribution can improve mutual performance. This chapter was based upon case study research done at Mummert + Partner.

Chapter 29 describes research originally funded by the Royal Mail into the use of direct mail in financial services, and shows how a relationship-stage approach can be used to increase CRM effectiveness.

PART VIII IMPLEMENTATION

This part focuses on how to make CRM a management and financial success, starting with business case development and ending with payment systems.

Chapter 30 summarizes IBM's business case methodology and gives an example from the US insurance industry.

Chapter 31 is drawn from the extensive global research and consulting work on CRM implementation done by IBM, QCi and Mummert + Partner. It describes the different factors that need to be brought together, including people, processes, systems and strategies, and how to construct an implementable CRM program.

Chapter 32, from Callidus, covers a much-neglected area of implementation, payment systems. It shows how changing the way people who manage customers are paid can assist implementation and improve CRM performance.

PART IX MAKING THE MOST OF YOUR (MOST VALUABLE?) CUSTOMERS

This Part focuses on issues related to wealth management, one of the supposedly hot-topics of CRM in financial services, but one conspicuous for the number of failures.

Chapter 33 is a challenge from the IBM team to financial services institutions that believe they are involved in managing their customers’ wealth. It suggests that most companies would not consider this to be the case.

Chapter 34 is an extensive study by IBM of wealth management practices throughout the world. It suggests that some companies are succeeding, but many have not really understood their customers’ needs in this area.

Chapter 35 is a brief study by IBM customers needs in the private banking area, and how financial services companies can meet them.

Chapter 36 is an extensive study sponsored by Close Wealth Management of the how “mid-worth” customers’ needs for managing discretionary assets are met, and includes a case study of Close Wealth Management.

PART X STRATEGIC IMPLICATIONS

Strategy is an ever-present theme of this book, but in this final Part we have included some IBM views on how companies should approach strategizing in a world of constantly changing customers’ needs, economic and social relativities and government intervention.

In Chapters 37 and 38, we present thinking by one of IBM’s leading strategic experts on how to gain competitive advantage and close service gaps.

In Chapter 39, we present IBM E-business Innovations Institute’s framework for strategic decision making in the area of customer focus.

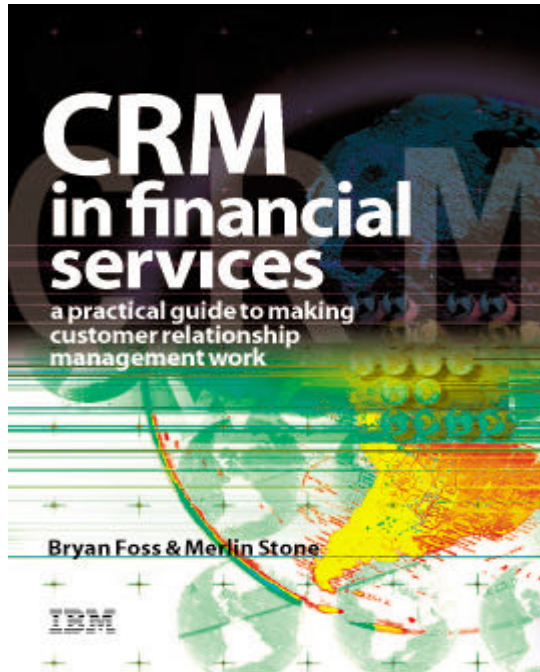
Finally, in Chapter 40, the IBM team summarizes the issues facing financial services companies and provides some senior management recommendations.

We hope that you find the contents of this book useful, and in particular that they allow you to benefit from the experience of the many companies that through their involvement with the extended research team have allowed the development of the knowledge base which this book represents.

CRM IN FINANCIAL SERVICES

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KEY POINTS

- Financial Services companies are responsible for well over a third of all IT spend and around 20% of all marketing spend
- Based on extensive consulting and research carried out or commissioned by IBM and its business partners over the last five years
- Numerous international case studies/examples
- Endorsed by IBM and many of IBM's business partners and the CIM

READERSHIP & MARKET

- Managers and directors in financial services companies in marketing, information technology and customer service, and their suppliers of marketing services and IT systems and data

DESCRIPTION

CRM has been one of the strongest areas of management focus in financial services companies all over the world in the last five years and is forecast to continue to be so for the next five years. But many companies are struggling with their CRM programmes. Typically they have rushed ahead with the purchase of new CRM systems, and have not done the work to ensure that these systems will be deployed effectively. Most financial services companies demonstrate significant weaknesses in one or more of the following areas – market analysis, marketing strategy, distribution channel management, programme planning, people, processes, data management, understanding the customer's perspective, measurement. This book gives a whole host of suggestions as to how companies can improve their CRM and achieve anticipated return on investment. Written by topic experts from all over the IBM world, this book provides many ideas about how to improve CRM, shows how to avoid the main problems, and also challenges some of the conventional wisdom about what is happening in the financial services market.

AUTHOR INFORMATION

Bryan Foss and Merlin Stone are two of IBM's leading experts on CRM in financial services. *Successful Customer Relationship Marketing* is the authors' other major work which was recently published to great acclaim. Professor Stone is also an internationally known figure in CRM, with 20 books to his name including *Up Close and Personal*. He has worked on CRM topics with Bryan for 8 years and many of IBM's strategies in this area are based at least partly on their thinking.

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