

# The banks' response to declining customer loyalty



\_AI-generated image. Prompts: server tower as skyscraper with lights and cables in urban ecosystem, digital art.

Customers' loyalty to their principal bank is waning. Yet there are ways to counter the trend. The formula? Customer-centric ecosystems, cloudification and data analytics.

## Expert article

\_Falko H. Merkel, Business Development Manager  
\_Patrick Humbel, Digital Transformation Consultant  
Ergon Informatik

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**I**t costs less to hold on to customers than it does to win them back once lost. Swiss banks are well aware of that. Meeting this challenge while generating new opportunities for value creation requires smart adjustments to their business models. Today's customers are more demanding and digitally savvy, which creates high expectations. And new competitors, such as digital-only banks and fintechs, as well as new technologies, are increasing the pressure on the banks' conventional income streams and cost base. These neobanks are driving the transformation with attractive digital offerings. Out of around 8.7 million people in Switzerland, some 800,000 have accounts with them, and numbers are rising.

### **How do you tackle declining loyalty?**

The digital transformation is impacting on consumer behaviour, and loyalty to traditional principal banks is declining. The figures are striking. While 58 per cent of Swiss people were loyal to their main bank in 2019, in 2020 it was just 31 per cent. That was one of the findings of a 2021 study by Accenture on the future of Swiss banking (Perspektiven zur Zukunft des Schweizer Banking). The study showed that almost two-thirds of the population could imagine switching to a digital-only bank. That makes it all the more important for Swiss banks to have a response to this drift.

Studies by well-respected consulting firms describe the future of the digital banking world and highlight a number of trends. One is the establishment of customer-centric ecosystems that cover the entire value chain. Another is the cloudification of processes and infrastructure, and the development and optimisation of data analytics. Alongside close customer relationships, all three of these factors help banks to react more effectively to the technical and demographic challenges they face, in addition to rising expectations.

### **Varied customer needs as the root of ecosystems**

One practical example of an ecosystem is 'Homes'. The portfolio on offer goes beyond the classic mortgage to include the right types of insurance, and advice on energy-saving renovations. Where banks use their existing closeness to their

customers to create an ecosystem or entire worlds with their partners, they tap into new growth areas. These are segments in which they had little, if any, prior presence. At the same time, they make themselves more relevant to the everyday lives of their customers, thereby increasing their loyalty to the bank. Needs relating to a particular topic can be placed front and centre.

Physical or digital? Customers of Swiss banks have a wide choice of financial and quasi-financial products to choose from. They want the best of different worlds: both digital and physical offerings that are tailored to their needs. For example, someone might like to have their current account with a low-cost neobank, get personal mortgage advice from their principal bank, and use a cryptocurrency wallet that is not affiliated with any bank. This is a typical example of where ecosystems provide a solution.

If a bank builds an ecosystem, it can maintain the customer relationship, concentrating on its core business while digitalising standard services or outsourcing them to third parties. With a good mix of its own products and services and those of its partners, the bank can offer its customers the full range in a modular and cost-efficient way. API interfaces make incorporating partners fast and easy. A future-proof core banking system should have appropriate open interfaces to allow specialist third-party solutions to be integrated seamlessly into the bank's own IT architecture and data logic. Of course, when connecting to other systems, IT security and authority over IT interfaces take on a crucial role.

### **Cloudification for a better customer experience**

'Cloudification' has been on everyone's lips just recently. A neobank being able to offer a product at lower cost than a traditional bank is usually down to the degree to which its processes are digitalised. Lower costs mean greater efficiency among other things. Customers often fixate on what they are paying for a service, and how customer-friendly access to that service is. That is especially true of standard products.

The cloud is the solution. A company's journey to the cloud is more than simply an IT project aimed at cutting costs. It is a strategic reorientation to be ready for the platform economy. The cloud is one of the technical requirements that a bank must fulfil for agile future growth. Infrastructure as a Service (IaaS), Platform as a Service (PaaS) and Software as a Service (SaaS) can all provide applications and data faster and more easily, facilitating banks' responses to changes in demand and the market. The bank benefits from the effects of automation. It also reduces its costs through productivity gains, and can minimise outages. What's more, banks can push innovation if entire business processes

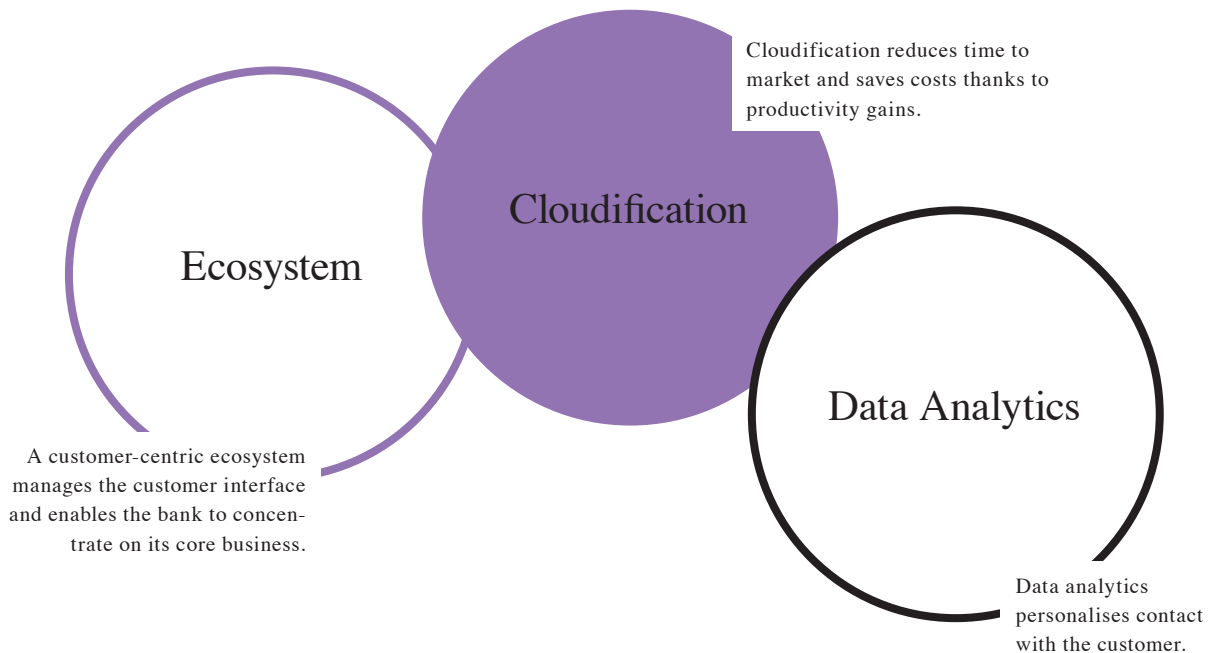
can be replicated in the cloud in future. Business as a Service (BaaS) is one example here. Banks can then stop thinking and acting in information silos. They do not need to worry as much about running, developing and providing applications, and can therefore reduce their IT operating and IT infrastructure costs.

Data security makes cloudification a particularly sensitive topic, especially for established Swiss banks. That said, reputable cloud providers have now established extremely high security standards, and offer data storage in Switzerland.

## \_Digital trends in banking



Using new technologies to strengthen customer loyalty, responding to technical and demographic challenges, reducing costs, pushing innovation and keeping business models up to date.



“The classic banking model is being transformed ever faster because of the close link between customer needs and digitalisation.”  
Falko H. Merkel, Business Development Manager, Ergon



“Customer-centric ecosystems and data science enable products and services to be tailored precisely to different needs.”  
\_Patrick Humbel, Digital Transformation Consultant, Ergon

## Personalised offers thanks to data analytics

Nobody rejects the tried, tested and trusted without good reason. Banks can turn this deeply rooted human behaviour to their advantage with data analytics. The fact is that customers will stay with their principal bank for as long as it meets their needs. However, digital channels are depersonalising contact between the banks and those customers. A click is all it takes to switch.

In many cases, the desire to move emerges only when the principal bank's product offering no longer satisfies the customer's needs. Banks know a great deal about their customers. The problem is that they are often unable to collate and use that knowledge automatically. That is where data science can help. Data analytics transforms big data into valuable information. It allows banks to better understand the behaviours and preferences of its customers, and to address them personally. Data analytics also helps to optimise data and bank processes. This takes high-quality data from internal and external sources, embedded in a robust IT architecture.

Developments in ecosystems, cloudification and data analytics are all intertwined, the three trends feeding each other. They also ensure that banks get a uniform view of data, and thus build a fully formed picture of their customers, all in the interests of a better customer experience.

## Huge potential

Just how quickly Swiss banks will implement these trends depends on the situation. They have already done much to prepare the way for ecosystems. There are functioning examples on the market, but there is still a great deal of unused potential. When introducing an ecosystem, a bank must first determine what its particular focus will be. A decision must also be made on which services the bank wants to offer itself, and which can be supported by third-party offerings. Once these questions are answered, work can begin. What is often lacking is an integrated approach.

The most challenging aspect for many Swiss banks is the transition to the cloud. Most are very conscious of cloudification, especially where it directly concerns ecosystems and data analytics. The question is less whether they should make the move, and more how it should be done.

## Digital affinity is not a question of age

Swiss banks that incorporate these three trends profitably into their business models are able to adapt faster to current customer needs. More importantly, they can do so more accurately. They can create products and services that get customers excited, and enthusiastic recommendations are the best new customer acquisition channel there is.

We are not just talking about digital natives here. Baby boomers and the post-retirement generation remain important. The banks' traditional core business is still there, and the older generation make up a particularly large proportion of its market owing to their life circumstances. Latecomers to digital socialisation though they may be, this generation now also wants to benefit from what the digital world has to offer.

At some point in life, generations X, Y and Z will also find themselves in need of personal financial advice. It therefore makes strategic sense for banks to begin investing in those relationships right now. They might offer attractive services, personalised products and straightforward onboarding for all life situations. Otherwise, they will have to win back the younger generation from the highly advanced digital worlds of the competition. />

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