PERSPECTIVE

A Fresh Look at Banking Loyalty Programs

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Consumer Loyalty in Focus

Businesses basking in the security of satisfied customers have to think again. There's a world of difference between truly loyal customers and those that are merely satisfied. A study of automobile customers conducted by a loyalty think-tank based in the UK showed that barely half of those satisfied with their purchase went back to the same dealer! With consumer inertia coming down, there's a huge premium riding on customer loyalty. Small wonder, that loyalty programs have found their way into a huge number of businesses worldwide.

Drawing inspiration from customer-focused industries such as aviation and retail, the financial services sector added the loyalty program to its armory several years ago. However, barring the odd exception, banks' loyalty programs are longer on rhetoric than ideas. Led by the cards business, loyalty programs have been designed to reward customers for transacting often – while this may work in the original airline or retail model, it doesn't fit the bill in the banking scenario.

Banking is a sophisticated business, characterized by intimate and evolving customer relationships that last years, even a lifetime. It is short-sighted to reduce that relationship to a single parameter that only reflects how often a customer transacts at the bank or the number of loans he has taken. Rather, banks must take a fresh look at their definition of customer loyalty – assuming they had one in the first place – to make sure it is comprehensive, relevant and inclusive. Only then can they arrive at a true measure of loyalty, one that is unique to them and right for their business.

There is evidence to suggest that "me-too" commoditized reward programs, such as those doing the rounds in banking, deliver little value to businesses or their customers – research into the consuming habits of American households, shows that supermarket loyalty programs have lost their novelty value and differentiation, with the result that customers regularly frequent several chains. There's no reason to believe banking customers are any different.

Ironically, most loyalty program models are designed to reward the already loyal rather than convert the fence sitters or the plainly disinterested. Where most programs follow the "one-size-fits-all" principle, it is likely that the expectations of many customer segments will not be met.

Relationship Must be King

Customer relationship, and not product or service, is the cornerstone of the banking industry – and that's what makes it unique. Therefore, a banking loyalty program that sets out to reward customers for their use of select products or frequency of interaction is inherently flawed. That being said, before going back to their drawing boards, banks must establish a definition of loyalty that encompasses all types of customer relationships throughout their life cycles. A rewards program based on this premise strives to be relevant to more customers, and hence enjoys a higher chance of success.

However, given that the banking business is full of nuances and complexity, it may not be possible to arrive at a hard-coded measure of customer loyalty. Rather, the answer may lie in a combination of factors such as share of wallet, customer lifetime value and resistance to churn.

New Approach to Loyalty

Early adopters have tried to break away from the traditional loyalty model by expanding and innovating upon their programs. Other banks that wish to go down this path can consider some of the approaches taken by their forward thinking counterparts:

Reward customers for their relationships in entirety: Although the business (and profitability) brought in by clients fluctuate during their lifetime, as long as they remain customers, they deserve consistent appreciation from their banks. Banks must demonstrate that they value their customers for engaging with them, and not just for the revenue they bring. And what better way to do so than through a truly relationship-oriented rewards program? Some banks have already shown the way – Citibank's Thank You Network which aims to reward customers for "everyday banking", acknowledges the importance of both the depth and monetary value of customer relationships. Customers earn points for just about everything – right from using their checking account to buying products and services to making purchases on their cards. Interestingly, by not automatically offering membership to the program, requiring instead that customers call up to enrol, the bank may have generated greater pull and user interest.

MasterCard's innovative program awards bonus points to customers of banks using the MasterCard platform. By rewarding the full scope of relationships ranging from checking and savings to loan applications and money markets, the program encourages customers to do more with their bank, and also with their cards. The objective is to ensure that customers stick with them – not an unreasonable expectation, going by the findings of an internal study at a prominent U.S. bank that showed that loyalty programs were four times more successful than pricing action in retaining customers.

Indeed, banks can also explore the possibility of joint-participation by other parties in their schemes. For instance, a bank distributing third party insurance can invite that firm's contribution, so that their product can be brought under the purview of the loyalty program as well.

Make loyalty programs more inclusive:
As mentioned earlier, loyalty programs tend to favour the behaviour of the most valuable clients – while this may create a "feel good" factor for this group, the more important objective of binding the loyalty of lesser customers is left unfulfilled. Stringent eligibility criteria will only serve to put the rewards out of reach of this group and perhaps compound their feeling of neglect. In stark contrast, India's ICICI Bank has shown great foresight through the recent introduction of a separate loyalty program for its rural business, catering to its Rural Retail Asset Group, Rural Business Banking and Agri-Business Banking verticals.

Reward groups and communities as a whole:
Banks are known to extend preferential terms to the employees of large corporate clients that maintain salary accounts with them. Drawing a parallel, rather than consider individual relationships, banks could base their rewards program on the aggregate engagement of all members of the same family or community. National City has already applied this principle by allowing small business owners to combine business accounts with personal accounts for calculation of rewards.

Rewarding groups and homogeneous communities creates a win-win for both – customers who might not have met the eligibility criteria on their own gain entry into the program and their banks secure the loyalty of an entire group in one stroke.

Reward "good" behaviour:
Most banks have taken the stick approach to getting their customers to migrate to self-service channels – hence, repeated in-branch transactions attract a charge, mailed account statements cost extra and so on. Not so for Barclays, which in March 2009, unveiled a unique loyalty program aimed at improving usage of electronic channels among its customers. Each time a customer uses mobile or Internet banking, subscribes to alerts via SMS or visits an ATM instead of a branch, he or she is awarded points.

Reward longevity:
The greatest value that any loyalty program can deliver is customer stickiness – ironically, this goes unrewarded most of the time. Banks invest millions in capturing and maintaining business data which can provide useful insight into customer loyalty. This information can be used to innovate upon existing programs by offering greater rewards to customers that have stayed with the bank for the longest length of time or made repeat purchases.

Offer recognition:
Sometimes, a demonstrated acknowledgement of the customers' importance means more to them than material reward. A highly successful car rental loyalty program in the United States ensures that members do not have to queue up to rent a car, and in some locations offers highend luxury models for rent, which are otherwise inaccessible to their patrons. Similarly, banks can reciprocate their customers' loyalty and advocacy with a gesture in kind – which could be by way of preferential service or shorter call-waiting time.

Make rewards meaningful:
The allure of department store vouchers and gift hampers waned long ago. With virtually every brand or store hosting a loyalty program, customers are no longer swayed by such offers. To make things worse, reward catalogues are standardized for all customers, making no attempt to cater to segment-specific needs. Once again, MasterCard decided to do things differently. Members of their program can customize their rewards to their taste, from the prosaic to the exotic.

The Making of Success

On the flip side, loyalty programs have become a necessary evil. Companies cannot afford to ignore them, even when they cannot afford them. The causes underlying the failure of such programs are many – boring, irrelevant or unachievable rewards, improper communication and poor implementation, to name a few. That being said, it is equally important that banks have reasonable expectations from their programs.

It is widely known that reward programs may not create loyalty per se – rather, they provide the sponsor organization with valuable customer insight that can be leveraged in other ways to secure loyalty. Therefore, banks must make the most of their rewards program database in order to derive real benefit.

Cost of implementation must be prudently managed. Loyalty programs are expensive to run and maintain. Analysis of credit-card programs shows that the best customers – those that are profitable to maintain - qualify for a reward within 6 months, whereas those in the bottomtier fail to do so even after 18 months. In fact, it is resource-draining to service these clients. Unfortunately, since most programs are perennial, banks may not be able to disenfranchise these customers. However, they can minimize costs by scaling down marketing activity directed at these customers, replacing full-colour promotional material with low cost alternatives and making use of electronic communication.

One of the critical success factors in loyalty program administration is the availability of strong technological support. Quite clearly, a banking loyalty program (which is based on millions of transactions) has to be supported by a robust IT backbone to prevent it from crashing.

Customer and loyalty program databases are joined at the hip with information generated at one end feeding into the other. For instance, data regarding customer transactions is required to assign reward points; on the other hand, the choice of rewards redeemed by customers indicate their preferences, which can subsequently be incorporated into their profile.

Quite clearly, in addition to powering the banks' business, the core banking engine must be capable of capturing and maintaining detailed relationship and interactions data, and implementing the program, over a long, long time. It must have the strength to support vast data repositories that provide a unified view of customers, their transaction histories and their activities with respect to the rewards program.

Moreover, in order to scale-up loyalty programs to a relationship-based model as discussed earlier, deeper visibility into customer activity is required – covering channel usage, relationship longevity and history of advocacy. Only a proven universal banking solution, that integrates data across lines of business, channels and locations, can be relied upon to deliver.

Review and Renew

Today's banking customers are spoilt for choice. With few barriers to entry, customer preferences have become increasingly mobile. Customer loyalty is a precious commodity which must be safeguarded at any cost.

Most banks offer reward programs; however these have proved inadequate as a barrier to exit. The reasons aren't hard to decipher – banking loyalty programs, for the most part, are unimaginative and undifferentiated. They also appear to favour product usage or transaction frequency, much like other businesses. Since banks' businesses are hugely relationship oriented, their loyalty programs must also be of similar persuasion, rewarding customers on every aspect of the relationship.

Some banks have taken the lead and introduced innovative relationship-based reward schemes. It is now up to the rest to follow.

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