DOING BUSINESS IN FINANCIAL SERVICES HAS CHANGED FOR GOOD

Impact of the Credit Crunch

ON CONSUMER BEHAVIOUR AND COMPETITIVE LANDSCAPE, ON BUSINESS DEVELOPMENT AND MARKETING

The key marketing insights that any financial services company needs to anticipate relate to the dramatic changes in consumer behaviour as well as competitive landscape that are currently taking place.

The credit crunch requires a two tier strategy: Obviously, the highest priority short term is damage control. But in parallel, financial services companies must start building for the future.

The future of finance is back to the roots: Consumer trust needs to be restored. Fundamentally. Marketing and business development should focus on building intrinsic added value, and think from a consumer standpoint – rather than thinking packaging and cosmetics.

Three redesign imperatives:

- Transparency, authenticity, and simplicity will form a trinity
- Ethics, necessary for doing business, but also for attracting and retaining top talent.
- Service moments are moments of truth. Truly understanding what drives customer engagement will be a crucial part of the way we do business.

VODW Marketing

Doing business in financial service has changed for good

Impact of the Credit Crunch

ON CONSUMER BEHAVIOUR AND COMPETITIVE LANDSCAPE, ON BUSINESS DEVELOPMENT AND MARKETING

White paper VODW Marketing - October 2008

In the past months the Credit Crunch has spread like a highly contagious virus. Having started with sub-prime mortgages and step-up loans in the US it now seems that the whole financial services industry across the globe is under siege. This white paper introduces VODW's view on the current turmoil, in particular from a business development and marketing perspective.

The single most important point of departure: consumers

Trust betrayed

Consumers paint not a pretty picture. From a consumer perspective the credit crunch is caused by

- Ethical blunders: selling mortgages that can get consumers into trouble is an immoral act.
- Creation of shadow banking industry of leveraged products, so complex and intransparent that the risks could not be assessed anymore. This complexity and intransparency by the way relates to the consumer experience with regard to financial products.
- This shadow banking industry was driven mainly by greed: remuneration and incentive systems and million dollar bonuses for board members and brokers.
- This complexity even made government supervision fall short.
- Time and time again, new skeletons drop out of someone's closet, reinforcing the picture of chaos and lack of control in the financial industry.
- The situation has apparently grown so bad that banks and insurers do not even trust each other any more – so why should I trust them?
- At the end of the day, the whole financial system has to be rescued by the government, with huge financial injections and nationalizations at the expense of the taxpayers, the consumers.

What is striking: although by far not all financial services companies were directly engaged in the causes of the credit crunch, the recent events impact the image of the industry as a whole, and every single player with it.

Consumer trust in financial services companies is now completely dispersed. The morality of the industry is severely questioned. The very fundament of financial services washed away.
Government interventions have restored some of the required reliability. But that reliability is related to the system and the government that backs it, not with the actual financial services brands concerned.
Reliability used to be a fundamental value of financial services. In view of the negative news flow, 'reliability' is a word that cannot be used by industry players in a credible fashion. 'Reliability' is now a perverted noun.

Never before did consumers feel so insecure about their savings and pensions

Obviously much related to the sudden absence of reliability: consumers question if their savings are secure and if they can enjoy their retirement the way they planned to.
'In the old days' saving was nothing but putting your money on an account and no necessity to bother about it. In the current turmoil this completely changed. Keeping savings is almost a full time job, allocating money across banks to minimize risks. What is changed is that consumers used to be driven by greed, looking for the highest interest. Now they are driven by fear: what is the safest place to leave my money?
With the credit crunch underway a number of months now, retirement funds start to report that they are suffering losses on their stock investments, and that they might need to adjust individual retirement schemes in time. In spite of the most probably limited effect due to the investment horizon of these funds, consumers now also feel insecure about their pensions.

On the long run, greed will become more important again (it usually works this way). But the Credit Crunch also made people realize that there are limits to interest rates and return on investment - also with regard to life insurance and pensions.

Short term priority: damage control

First thing you need to do when the house is on fire is to stop

that fire. Damage control. Problem solving – and anticipation and prevention of problems that might still arise – has to have the highest priority.
Having said that, doing what is necessary to curb the crisis should not detract from the fact that financial services providers must start building for the future. This is what we will address later.

1. Intensify communication with current customer base
In difficult times it is essential to dramatically intensify our communication with customers rather than the natural reaction to wait and let things pass.
Best practices include:

- Clearly stating the exposure of the Company with regard to bundled debts, write offs if any, expected impact of the credit crunch on Company investments.
- Elementary cordiality: answer every call, take ample time to listen to concerns, to reassure customers, to answer all questions they might have – to the extent we can actually answer these questions.
- Be honest. Acknowledge mistakes and faux pas, if any. The industry might have suffered with regard to reliability; we as a company can always remain honest.
- Address the concerns of your customers and do not focus on your own concerns.
- Secure that all our communication is supported by ample proof points and actions (in these times it is more crucial than ever to really walk the talk).

Foremost, and prerequisite for each bullet above:
Empower employees, to share the essential information. If they do not know what to tell, they will not tell anything. And that is worse. In the case of most financial services companies, touch points with customers also include independent brokers, bank branches, other distribution partners etcetera. All represent the Company in one way or another and should be provided with more than sufficient information, Q&A's, to answer questions of customers.

2. Stay away from mass media advertising. For now
In the last weeks in particular quite a few financial services companies made serious investments in mass media advertising to communicate that 'maybe the rest of the industry was not that reliable, but they were.'
This is spending money out of the window. Such communication is not credible, and is even considered insulting by consumers. In fact it even reinforces the current not-so-good image of the industry.
Also from a business case point of view this is money not well spent: advertising cannot outperform a three minute item on the eight o'clock news that says just the opposite.
In our view, these companies do not comprehend the fundamental changes that are taking place – otherwise they would not come with cosmetic solutions. If indeed a company stands out when it comes to stability, PR is the most appropriate means. However, a fundamental approach is necessary to gradually regain trust.

3. Massive opportunity to excel at this moment of truth
If there ever has been a moment of truth, this is that moment. This is the time to really demonstrate to our customers that we are there for them, especially in these difficult times. This is the moment we can show we practice what we preach.
And with people sourcing their financial services from multiple parties, this is where we can differentiate ourselves in the most relevant fashion.
We now have the opportunity to really start a dialogue. Pro-actively. Inform our customers about the impact of the crisis on their personal situation, if any.
Relate to their concerns, rather than communicating ours. Obviously, the same applies to what we can do in this particular point in time for our distribution partners.

4. Secure the current customer base through appropriate retention programs and product that are in sync with the market
The credit crunch will definitely have its impact on the economy as a whole. We already see a slow down in the sales of real estate and new cars. Inevitably this will have an effect on the market growth and for general insurances.
Furthermore, price is usually becoming more important in times of recession, however small this recession may turn out. In such times the emphasis should shift to appropriate retention programs, keeping customers in, with ample attention for cross sell and bundling.
Products offered should be selected on the basis of a different view at risk-return as well as flexibility, in sync with how consumers view life savings.

Consumer trust in financial services companies is now completely dispersed. The morality of the industry is severely questioned. The very fundament of financial services washed away.

Simultaneously: start building for the future

Back to business as usual? Forget about it.
Some companies – like the ones that still think that advertising is the resolve – think that once the dust has settled, once the banks and insurers start lending each other money again, once all essential write offs are concluded, business as usual will return.
The opposite is true. The credit crunch will leave more than just a few scars and bruises. Life in financial services will have changed, dramatically and irreversibly.
On the one hand we see changes in market dynamics – in e.g. consumer behaviour, competitive landscape, rules of the game – that are a direct consequence of the crisis. These are the kind of changes that might be of just temporary nature.
On the other hand we see that, due to the credit crunch, a

number of trends that were already out there shifted into a higher gear. These are the trends that are here to stay. These are the trends that set the stage for the future of finance.

1. Consumers become more and more self directed

Consumers have grown mature at a rapid pace and in a not so gently fashion. The credit crunch has been an important wake up call for most consumers. They have come to realize that at the end of the day they are responsible for themselves. They knew that all along, but they preferred to outsource this. They now realize that they need to act themselves. In their perception, apparently/unfortunately, they cannot fully rely on financial service providers to secure their future.
We see that more and more consumers start taking matters into their own hand. The self directedness of consumers was already growing. This is a typical trend that shifted into a higher gear. The share of self directed consumers will show accelerated growth. Irreversibly.

2. Consumers call for transparency and simplicity

The desire for transparency is a worldwide consumer trend across industries. Please note that transparency is not a band-aid for trust.
Yet this is another trend that is taking place even faster now in financial services, since so much of the credit crunch is rooted in complexity and intransparency. They lead to risks, lack of control and dwindling consumer confidence.
Transparency is therefore a must – and simplicity is the best way to achieve it.
When the need for transparency and simplicity is recognized, solutions are usually first sought by adapting products. This view is far too limited, especially if we want to look beyond the present crisis.
Consumers are also looking at the behaviour and attitude of the provider. They want to see where their money is going, what exactly the financial service provider is investing in, the nature and background of distribution partners, the independence and reward structure of intermediaries, the annual report and quarterly figures, the lack of OBS items, the remuneration schemes of top management, the way a company is organized, who one can call for what, and where one might go to sort out a dispute.
Key proof point is the extent to which consumers are truly able to buy and use services easily, at any point in the customer process.
Consumer should truly understand what they are buying. Financial services companies should walk that extra mile to secure that they do.

3. Consumers listen to the wisdom of crowds

Due to the credit crisis, people have learned that the true value of information they directly get from brands is limited. Instead they start to prefer the unbiased opinions of their fellow consumers, no matter how rough and rugged, to the beautifully wrapped messages of financial services providers. Consumers are now smart enough to estimate how much truth a story contains. And the younger they are the quicker they are to see through a commercial message.
This peer2peer information takes place among friends and family, but also in blogs and forums at the internet. The good news is that if a company is very service-driven and customer friendly, customers don't hesitate to offer praise in a blog or forum. They have in fact turned into brand advocates – and are perceived as new experts.
This type of information sharing will play an increasingly important role along the path of purchase. This is where companies should spend more of their marketing budget, and see hoe they can become part of these networks and platforms.

4. Consumers revalue values

The ethical behaviour of companies will become an increasingly important driver of choice. The Credit Crunch has caused this process to accelerate even further. The immoral step-up loans, and in the eyes of the consumer outrageous incentive systems have put financial service companies under a magnifying glass.
Consumers in a more transparent everyday world look critically at how financial service providers behave.
Corporate social responsibility got a whole different meaning. It is not about charity. It is about acting with the end purpose in mind, the role in society (neglecting this role is what caused the crisis).
Ethics will become the single most important qualifier for financial services companies, while obviously we are aware that we have to come a long way. It will be an important driver of the industry in the years to come, fuelling the innovation of products, service and marketing - no matter what happens.
Ethics relates to e.g. in company investments, remuneration schemes, the entire chain or column, but also and foremost in the way the company takes the interest of its customer as a starting point.

5. Consumers prefer 'being close' over 'global'

The pace in which the credit crunch virus spread worldwide is in the perception of many consumers enabled by the ongoing globalization. Putting your money at some remote foreign bank, or your life pensions with an exotic no-name brand was never really an issue. Until now.
The clear consumer benefits of 'global' are not so clear anymore. The result is that national (or even regional) players are becoming more attractive now. Although attractive might be the wrong word. It really has to do with the perception of reducing risk, the perception of safety.
It is easier to get your money when the financial service provider is nearby.
Does this mean that multinational players have grown obsolete? Not at all. It just means that the touch of 'local' is becoming more important, e.g. demonstrate clearly that the one truly understands consumers. HSBC's positioning 'the world's local bank' is a perfect example that should also work on the other side of the Credit Crunch.
Again so called 'glocalization' is a trend that is now being amplified. However, this used to be driven by a greater demand for authenticity, now it is the perceived safety.

6. Consumers have new drivers of choice

In the past, a company simply had to be big and get its brands well known. That was proof enough of reliable products. Modern day consumers look beyond that.
They are more critical, and they are truly choosing products on the basis of what they know about companies. Whereas reliable used to translate into "large and well known," it is now synonymous with credibility, reputation, and social responsibility.

Drivers of choice before the Credit Crunch	Drivers of choice after the Credit Crunch
• Greed • Reliability • Return • Trust (e.g. through 'global')	• Fear / search for safety • Transparent and easy • Ethics, social responsible • 'Being close' (trust is questioned)

7. Competitive playing field with many casualties of war

Already now we see that the competitive playing field looks so much different than just one year ago. Quite a number of then respected financial services companies vanished from the face of the earth. Others are nationalised or on other forms of governmental life support. Or busy to absorb a wave of consolidation, or the opposite, going through disintegration. Again others are severely hurt, and licking their wounds and trying to recover in the coming years.
And some are apparently not hurt at all – these are the ones that are going out shopping now, e.g. Grupo Santander.
Furthermore we have seen the influx of money from the Middle East and Asia: sovereign wealth funds that were welcomed as new shareholders in exchange for serious funding. At some point in time they will become more active, entrepreneurial shareholders.
Basically, there are two archetypes in the market the first few years after the crunch:
(1) those who are busy cleaning up mess (which may be of various nature)
(2) those who have, by chance or charter, perfectly survived the crunch
Please note that it is not yet clear if nationalised companies are type 1 or type 2.
In any case, the advantage of type 2 companies is that they are able to focus on the market, the revenue side of the company. Whereas type 1 companies are busy are spilling their energy internally.

For type 2 companies, there is ample opportunity to gain rapid share. Consider either going out and acquire weaker companies (basically you would be buying client bases rather than strong consumer franchise), or consider to implicitly or explicitly target customers of weaker competitors.
Furthermore, there is a great opportunity to target their distribution partners.
Type 2 companies are actually able to solve a major problem of these distribution partners, providing stability, where weaker competitors cannot.

8. Competitive playing field is an open invitation to new entrants

The loss of 'reliability' and 'solidity' as qualifying values to enter the financial services sector has opened the door for new entrants that now smell blood.
The credit crunch offers them the opportunity to move into the attractive financial industry at a time when the traditional players are vulnerable.
Usually these new entrants choose product categories where loyalty and the consumers' threshold for switch are low: savings, mortgages, car insurance, loans; and they skim the markets and focus on the most attractive segments.
Overcapitalized companies like Google, Microsoft, Apple, or Veolia may be examples of such new entrants; health insurers that look for diversification, re-insurers that look for forward integration and cutting out the middleman (in this case the traditional insurance company).
Such new entrants are able to position themselves as not carrying old luggage or legacy. Often they have a better reputation than most of the, now wounded, current players. The Credit Crunch not only impacts the balance sheet of a financial services company, but also the attractiveness as an employer. Top talent at current players can give their career a positive twist when switching to such a new entrant (rather than staying with a company that is under pressure for the coming years). The likelihood and potential power of the new entrants can not be underestimated.

9. The future of finance = back to the roots

Originally, financial service providers were about facilitating trade, offering safety, reducing insecurity, organising support in times of need, a carefree feeling and peace of mind. Those are the roots of financial services. And that is how they brought about an enormous acceleration of wealth and prosperity. For centuries. Money made the world go round.
This essence was, putting it mildly, completely lost track of over the past 20 years. And in the last year 'money' actually even made the world slow down.
At the present moment in history we are at a crossroads. The only positive side to the current misery is the opportunity it presents for financial service providers to step out from under their own shadow of those past twenty years and to take up their original role again.
Essentially we have to return to the basic function of the financial Industry: risk management. Risk management in a broader perspective: we manage not only our risks as a company but also the risks of our clients.
We envision that the financial industry will become far more involved with the real economy again. From the unreal economy, artificial, remote, non-transparent and shadowy, the industry is moving towards its original role: an active facilitator of the real economy - transparent, authentic, and simple.
They must be more than socially responsible. They must make themselves subservient to society. If they seriously take up that gauntlet, they will also regain integrity in the eyes of their customers.
The future of finance lies in going where it came from in the first place: back to the roots.

This is the time to really demonstrate to our customers that we are there for them, especially in these difficult times. This is the moment we can show we practice what we preach.

Three redesign imperatives

Marketing is about content. Again. The very foundation of financial services – reliability and consumer trust - need to be restored. In the coming years, marketing and business development should focus on building intrinsic added value, and think from a consumer standpoint – rather than putting its bets on the packaging and cosmetics. The days of clever tricks are over. More than ever, the sequence is first 'be good', then 'tell it'.

The future is transparent, authentic and easy

In the financial world, transparency, authenticity, and simplicity will form a trinity. Transparency and simplicity are a must, if the branch is going to become truly authentic in the sense of 'real' and recognizably relevant, so much is clear.
Actively involving consumers in redesign efforts is essential.

The future is about ethics

Ethics will become the long-term qualifier: a necessary condition for doing business at all, but also for attracting and retaining top talent. Financial service providers will soon distinguish themselves based on ethics and moral choices, rather than financial return. Some service providers will take pride in never having been involved in sub-prime mortgages. Others will indicate that their top investors and executives do not receive huge bonuses (thus rejecting the perceived culture of greed). Still others will truly commit to some specific world challenge, such as sustainability; or might emphasize solidarity as part of their own vision.
No matter what ethical position is chosen, it is essential to honour that promise, and ideally it must to become an integral part of the company's DNA.
Basically this requires a 360° review of all products and services. What products, services and marketing instruments have even the slightest chance of being perceived as unfair, immoral, dishonest, intransparent?
Ethics also offers a new source of inspiration for innovation, for new concepts and new added value.

The future is service

Since the weapons of mass marketing are loosing impact, the proof of the pudding is now definitely in the eating. Service moments are moments of truth. This will be even more so in a future of increased transparency.
Differentiation on customer experience is the key for financial services firms to secure and grow market share. We must truly understand what drives customer loyalty and deliver on that at every touch point. Listen – learn – respond is becoming a crucial part of the way we do business.
The distinguishing factor of any service won't just be the perfect technical excellence (like accessibility, speed or competence) – it will be the relevancy of the services for consumers.

Three keys to the future

Our overall conclusion: Financial services companies that

- truly understand what the Credit Crunch did with consumers, ...
- use that understanding to invest in fundamental innovation and service, ...
- use transparency, simplicity and ethics as guiding principles for these efforts

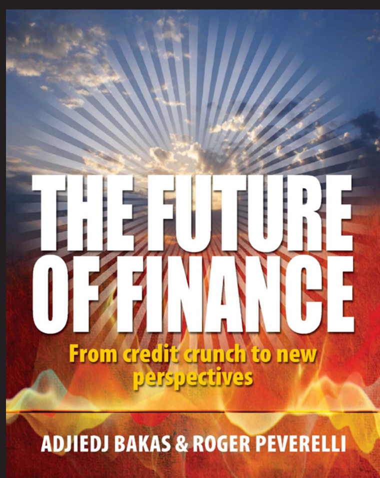
have the keys to the future.

This white paper is among others based on

The Future of Finance
From Credit Crunch to New Perspectives

A book written by VODW partner Roger Peverelli and trendwatcher Adjiedj Bakas that will be launched end of November 2008 in over 30 countries worldwide.

More info: rpeverelli@vodw.com



Marketing consultants & interim marketing professionals

VODW Marketing is one of the largest marketing consultancies in Europe. We work across the globe for a range of Fortune 500 clients, including a number of financial services companies. We team up with CMOs and marketing directors to address the issues related to their market strategy, helping them to develop and implement solutions, leading to a strong increase in their market performance.
More information? Please contact us at +31 33 4326405 or www.vodw.com