

Can Traditional Banks Use Dynamic Segmentation as an Instrument to Retain and Grow Their Customer Base?



The 'Future of Banking', an Executive Roundtable hosted by SunTec Business Solutions was held in Johannesburg, South Africa on March 9, 2023. The event brought together leaders from prominent banks in South Africa and from SunTec for a candid discussion complying to the Chatham House Rule around the various impacts on the banking industry and its outlook in the region. The delegates deliberated and shared opinions on the following key focus areas for the South African banking industry:

1. Banking-as-a-Service (BaaS)
2. Environmental, Social & Governance (ESG)
3. Dynamic Segmentation

This report summarizes the key points discussed during the session on Dynamic Segmentation moderated by Sudheer Padiyar, Senior Vice President, Regional Head – EMEA & Global Head - Ecosystem at SunTec. He started the session with a comparison of two banks – let's call them A and B. Bank A held all his primary accounts, credit cards, insurance, and so on. Whereas with Bank B, he just held a normal savings bank account. Bank A with all the data available never chose to up-sell any product or service to him. Whereas when he used his debit card issued by Bank B on a couple of foreign trips, the bank was quick to understand that he was a regular international traveler and offered him a credit card with lounge access and added benefits. This is judicious use of customer data to offer them relevant products and services.

Owning the Customer

When banks say that they 'own a customer', how exactly are they using the data that they have about their customers? A bank that is proactive understands the needs of its customers, will harness transaction data and spending patterns to recommend other products and services that are relevant to the customer. Perhaps, not every customer in business or retail banking may sign up for a new product or a service, but the fact that someone is trying to personalize products and services will work in favor of the banks. The sign-up may not be immediate, but at a latter point in time, the customer may sign up for a value-added product or service.

Changing Customer Trends in Banking in the UK

The UK is seeing a significant shift in the way that the younger generation of personal banking customers are handling their bank accounts. Most of them are highly tech-savvy and have two bank accounts. One with a traditional bank that processes their salaries and the other with a neo bank like Monzo or Revolut. Once the salary is credited, these customers transfer the bulk of the money to their accounts with Monzo or Revolut and use it for all their daily transactions. These neo banks provide them a clear dashboard of information on transactions, spending patterns, and how they can save for the future, or if they will have funds to treat themselves to an indulgent dinner at the end of the month. Revolut also supports cross-border/cross-currency payments in Europe and this is a big advantage for frequent travelers within Europe. Revolut is adding several customer-friendly features and also partnering with service providers in the travel and tourism industry to provide the best deals for its customers on air-tickets and hotel-stays. This [report from Ernst & Young](#) offers more clarity on the changing trends among banking customers and how neo banks are slowly attracting more customers towards them.

Shifting Banks is a Pain

As for banking in South Africa, an account holder with a simple savings account would typically have access to different types of debit cards like silver, gold, or platinum. Each of these cards is designed for a different income-tier and comes with relevant benefits mapped to the income of the account holder or the amount held as a deposit in the account. On one side, the customer

may look at shifting banks based on the benefits available. On the other side, they may also think how customer-friendly the bank is when an account holder wishes to move from one tier to the other within the same bank? Customers also need to be aware of the benefits that their account offers them and use these benefits.

Personalization - Why Banks Need to Up Their Game?

Another notable example that was cited was of Tesco and Sainsbury, two of the largest retail supermarket chains in the UK. Both of them send shopping vouchers/coupons by post. A Sainsbury's voucher booklet is almost always consigned to the dustbin because none of the vouchers are relevant. Whereas Tesco mines customer data to such an extent that when a customer stopped drinking alcohol, Tesco was able to examine the purchase history information, and share vouchers for the purchase of non-alcoholic beer. Traditional banks sit on a huge goldmine of customer data and need to ask themselves "Why are we not using this customer data effectively?" In a highly data-driven world where theatres, supermarkets, salons, restaurants, and even hospitals are using customer data to provide better service and personalized offers, banks must up their game and provide personalized banking services and offers. [This article by Divya VS](#) from SunTec explains why dynamic segmentation is future of retail banking.

The Apple Way - A Gold Standard for Customer Experience

Apple Pay is slowly gaining prominence as an easy solution to make money transfers and pay for a product or a service. Apple also offers co-branded credit cards with Goldman Sachs. The Apple credit card became a status symbol. Unfortunately, Goldman Sachs was not able to handle the volumes of customer data being generated and there were disputes in pricing as well. At this juncture, Apple is even mulling an exit from this partnership because customer dissatisfaction and dissent is tarnishing the Apple brand name. When banks talk about improving their customer experience, they must consider Apple as a brand to emulate. From the packaging to the actual product and the user experience, the focus is on providing the best experience possible.



Technology, Third-Party Apps, and Regulatory Challenges

Concerns were raised about how third-party apps like "Ozow" have access to 'Internet Banking' details of users to facilitate transactions. Ozow has been a big service disruptor in South Africa and is seeing a great adoption rate among customers. There are regulatory challenges associated with the implementation of such a feature across different countries. When one talks about moving banking to the 'cloud' it draws security concerns, though the fears are slowly being addressed by tech-players. Funding and valuation of fintech startups is also drawing scrutiny by regulators. Many fintech firms are providing false valuation details and this is causing 'trust' issues. In another example it was noted that Discovery Bank account numbers were mapped incorrectly to customer cell phone numbers and they were not able to use mobile banking services. Despite calling the bank multiple times, this was not resolved. Traditional banks need to get their fundamentals right. Banks must find a balance in tech-implementation, complying with regulatory laws, and then provide customers with a better banking experience using customer data effectively.

A Tectonic Shift in Banking

The session concluded with an interesting data-point on how in the UK non-traditional banking firms had lent GBP 55 billion, surpassing traditional banks in the last quarter, a significant achievement in British banking history. Everyone agreed that banks are not using the customer data that they have to personalize and offer a better service and experience to their customers. Banking leaders need to think how they can leverage technology effectively to mine customer data and provide a customer experience that is on par or better than neo banks and payment solution services.

The key outcomes from the session on Dynamic Segmentation are as follows:

- Banks are sitting on a treasure trove of customer data but not using it effectively
- Every business ranging from travel and tourism to retail and healthcare is using customer data to provide meaningful offers to customers.
- Personalized offers and services show that a business cares about its customers
- When designing a better banking experience for their customers, banks should look at Apple's approach towards customer experience
- Third-party apps are disrupting the personalized banking space in Africa
- Concerns regarding data privacy and data security are valid
- The UK is seeing a massive shift in personal banking as neo banks add more users
- Dynamic segmentation and personalized banking are key strategies for traditional banks to overcome the challenge posed by neo banks

The session ended with a word of caution about technology. Despite all the advancements in technology one must also be aware of the risks associated with it and create a secure banking experience for customers.

About SunTec

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