CRM Metrics and the Myth of Benchmarks: How Smart Banks Measure Success

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TowerGroup Take-Aways

- Most banks did not have metrics for their pre-CRM implementation status. The banks did not have a stake in the ground to start from and they failed to set realistic goals. With an ill-defined starting point and no defined end, success was elusive.
- The Research Note also addresses the difficulties that banks have had in building a CRM business case and the appropriate role of return on investment (ROI) measurements within the business case.
- This Research Note investigates the current state of CRM metrics in leading commercial banks around the globe, including the use of balanced scorecards and the challenges inherent in competitive benchmarking.
- What goes up must sooner or later come crashing down. In the past few years, trade publications have trumpeted with great fanfare the failure rates for customer relationship management (CRM) implementations in financial institutions.
- As the talk of CRM failures accelerated into 2002, it quickly became apparent that the "problem" with CRM was one of poor planning and lack of metrics. At many banks, CRM implementations derailed when it came to defining and measuring success.

Report Coverage

What goes up must sooner or later come crashing down. In the past few years, trade publications have trumpeted with great fanfare the failure rates for customer relationship management implementations in financial institutions. In some cases the Schadenfreude was so thick it could be cut with a knife. Although CRM had been considered the great salvation of the financial services industry in the late 1990s, by the middle of 2001, the concept was being dismissed by many as overblown hype that could not and did not have the ability to transform the way business was conducted. In retrospect, the inflation and subsequent deflation of CRM as a business strategy wasn't terribly surprising - overly simplistic perhaps, but not terribly surprising.

As the talk of CRM failures accelerated into 2002, it quickly became apparent that the "problem" with CRM implementations was one of poor planning and lack of metrics. There's an aphorism in business that states, "Failing to plan is planning to fail." CRM implementations at many financial institutions derailed when it came to defining and measuring success. In their eagerness to begin a project, banks often overlooked a definition of success.

Actually, the problem was even more basic. Most retail banks did not have adequate metrics regarding their pre-CRM implementation status. Consequently, the banks did not have a stake in the ground to start from and they failed to put a stake in the ground where they wanted to be. With an ill-defined starting point and no defined end point, success was understandably elusive. For many banks, a definition of success against internal and/or external benchmarks was not possible.

Thus, the appropriate metrics for a CRM business strategy are generally ill defined in the banking industry. Bankers have not yet reached a consensus as to whether the metrics should be based on internal or external benchmarks. And there is great variation among institutions when it comes to the degree of importance assigned to individual metrics. It wasn't until fairly recently that banks began to understand the multidimensional nature of CRM projects and thus the associated metrics.

This Research Note investigates the current state of CRM metrics in leading commercial banks around the globe, including the use of balanced scorecards and the challenges inherent in competitive benchmarking. Additionally, the Research Note reviews the difficulties that banks have had in building a CRM business case and the appropriate role of return on investment (ROI) measurements in the business case. The purpose of the research is to discuss some of the metrics currently in use for measuring CRM by forward-thinking institutions and to determine if there is a common set of metrics being used across regions - a superset of metrics that can be standardized for the banking industry. For more information on CRM metrics, refer to TowerGroup Research Note V23:04RC, "Customer Relationship Management (CRM): What Are the Right Metrics to Measure Success?"

Addressing the ROI Issue

When organizations across all industries started talking about CRM failures in 2000 and 2001, the headlines revolved almost exclusively around the failure to generate sufficient ROI. It quickly became clear that the disappointing ROI was due to two primary factors: a failure to create expected metrics for the organizations' desired end state and a failure to gather benchmark data on current status prior to the implementation. Thus, while the headlines trumpeted the failures of CRM, the real challenge was in knowing if the implementation succeeded. It wasn't an issue of failure; rather, *it was a failure to prove either success or failure*. And the difference between failure and complete uncertainty is fairly large.

Building the Business Case for CRM

The validity of business cases was always suspect if the bank couldn't explain what it was capable of and what it wanted to accomplish. The nature of the business cases for CRM projects was such that assumptions regarding additional sales and the associated fee revenue were the foundation. To some extent, there was also a measure of expense reduction included, but that was not believed to be the key driver. Thus, the justification for CRM projects depended on the bank's ability to sell more products and services to existing customers and to acquire new customers more cost effectively. Not surprisingly, the quality of those assumptions varied from one bank to another.

A second problem with the business cases built for CRM projects involved the unrealistic time expectations of the bank. The bank built the business case around the time required to implement the technology but failed to build in any time for culture change. As a result, CRM projects were too narrowly defined as merely technology implementations, and the bank largely ignored the longer, more time-consuming aspect of CRM projects that called for culture change. The time frames that were used in business cases were not reflective of the CRM project's total reality - they included only the technology implementation aspect. Building the business case solely on the technology implementation was problematic because the real value of the CRM project came from the melding of the new technology with culture and process changes.

A third flaw in the building of business cases involved the bank's understanding of customer profitability - or the lack thereof. Banks are notoriously poor at measuring the profitability of their customers. Not knowing the value of current customers with any degree of assurance made any assumptions as to the value of additional customers or the incremental revenue from existing customers highly questionable.

Finally, banks could legitimately be accused of behaving like lemmings. The false assumption that any bank should expect the same results as any other bank for even similar technology implementations was commonplace. In actuality, even if the technology implementations were remotely similar, the bank's existing infrastructure and culture should be expected to be wildly

different. That banks did not expect to have results with differences in time frames, revenue, and so on beggars belief. Changing a corporate culture is hard, time-consuming work. Unfortunately, banks didn't plan for it and their business cases did not reflect it. Businesses cases and ROI should have been suspect from the very beginning.

CRM Metrics

It's clear from scanning banking industry publications that there isn't a set of agreed-upon CRM metrics used consistently in reporting on CRM success. Many banks continue to define the desired CRM end state as the ability to sell more things to customers. Software vendors and bankers alike have adopted the following CRM mantra: "The ability to sell the right product or service to the right customer at the right time through the right channel and at the right price." Boil it all down and the goal is to sell more widgets effectively and efficiently. Unfortunately, that definition does not take into account the service aspect that is inherent in a CRM sales and service strategy.

As financial service institutions (FSIs) discuss CRM and their relative success or failure, the conversation typically revolves around the institutions' ability to sell and market effectively. Thus, cross-sell ratios and revenue generation are frequently cited as CRM metrics when FSIs are trying to determine implementation ROI. Additionally, banks will often discuss the improvement or "lift" in marketing campaign response rates when they try to dimensionalize an FSI's CRM success. Exhibit 1 provides an overview of the types of metrics that bankers will select for their CRM initiatives.

CRM Metrics Vary from Bank to Bank (2004)

Sales Metrics	Marketing Metrics	Customer Service Metrics	Financial Metrics	Channel Performance Metrics
Units sold	Response rate	Customer satisfaction	Customer profitability	Wait time for service
Cross-sell ratio	Conversion rate	Customer loyalty	Customer LTV	ATM uptime
Conversion rate	Campaign ROI	Relationship duration	Customer risk score	Number of phone transfers
Asset growth	Campaign size	Willingness to purchase additional products	Cost of sale	Abandon rate
Deposit growth	Campaign velocity	Willingness to refer	Fee collection ratio	Length of interaction
Market share				E-mail response time
Share of wallet				Parking availability
Same-store sales growth				

Exhibit #: 39:12R-E1
Source: TowerGroup

Exhibit 1
CRM Metrics Vary from Bank to Bank (2004)
Source: TowerGroup

The collection of metrics shown in Exhibit 1 is extensive, and banks typically use some combination of the indicators to define their CRM performance. But the critical questions are, "Why are there so many possible metrics and why aren't banks focusing on the same thing?" It could even be argued that many of the metrics shown in Exhibit 1 are not even terribly representative of CRM.

To some extent, the challenge is that CRM is still somewhat new in the banking industry and banks have not yet agreed upon a set of standard metrics. Additionally, because banks tend to define CRM differently, implementations and CRM projects demonstrate tremendous variability from one institution to another. The lack of standardized implementations with standardized components results in a lack of standardized metrics for measuring success.

Even worse, the metric categories that are somewhat agreed upon by default, such as cross-sell ratio, are never measured the same way from one FSI to the next. Competitive benchmarking is thus almost impossible for CRM issues. The lack of consistent definitions for metrics is odd given that banking financials are captured, calculated, and reported according to strict industry accounting standards. Accounting standards mandated by the government in the service of protecting shareholders have led bank results and rankings to become public knowledge. Should CRM results be treated in the same fashion?

The Role of Balanced Scorecards

Banks that are on the forefront of CRM and that aggressively try to manage the customer experience were early adopters of balanced scorecards. Balanced scorecards allow institutions to have a multivariate set of measures for performance that might include external competitive data or other nonfinancial data such as customer satisfaction. A CRM business strategy incorporates different components at different banks. Because CRM typically requires more than a single performance indicator, balanced scorecards are well positioned to help banks understand the multiple dimensions of the customer experience and to measure improvements in each of the dimensions.

Balanced scorecards are extremely well suited to CRM measurement issues because they allow the bank to combine hard financial indicators of performance with indicators that are not easily measured. Thus, financial measures such as customer profitability can be combined with operational measures such as number of units sold and attitudinal measures such as customer satisfaction to provide a broader perspective on the quality of customer relationships in an organization. Banks have struggled with finding the "right" set of indicators for performance measurement - metrics that are actionable and translate into financial value.

Multiple balanced scorecards for CRM are becoming the norm in banks. Scorecards for different areas and functions allow the institution to identify the key performance indicators for business units or work groups and to proactively manage them. Banks such as the Royal Bank of Canada (RBC) in Toronto have created scorecards for sales effectiveness, branch performance, and customer satisfaction (among other metrics) in the effort to improve institutional performance.

Benchmarking CRM Results

Most banks claim that they wish competitive benchmarking for CRM were easier to accomplish. Banks seem to be sure that if they compared themselves with others in their peer groups, they would outperform them. Unfortunately, the lack of impartially published benchmarks that conform to standard definitions makes that comparison almost impossible today. Comparing the cross-sell ratio of one bank with that of another is often a futile exercise because banks rarely include the same range of accounts and services in their universe of eligible accounts.

The importance of a level playing field should not be underestimated. Banks collect and analyze a tremendous amount of data with varying periodicity - in real time, hourly, daily, weekly, monthly, quarterly, and annually. In many institutions, there is variability in reporting definitions among the reporting periods. Thus a metric like closed accounts may be reported "raw" each week, but at the end of each quarter, the closed accounts undergo an additional level of analysis that strips out

special-purpose accounts such as escrow accounts before being reported internally. Definitions often vary within the same institution; attempting to compare results across institutions can be a nightmare of parsing data and tinkering with results. In today's environment, a true comparison of bank CRM results is a myth.

Going Public with CRM Results

Over the past few years, a small number of banks have begun to include information on their CRM-related performance when presenting results to equity analysts and investors. Interestingly, the data that banks are comfortable reporting publicly is quite limited in scope and can change materially from quarter to quarter. Thus, a bank may report on a metric such as the number of new checking accounts or its customer retention rate for any length of time and then stop - without any explanation. The inconsistency in the amount, frequency, and type of CRM-related data that banks report to investors can be attributed to a number of factors, including lack of space or deterioration in results. Exhibit 2 provides a copy of a slide used by a Wachovia executive in a presentation to equity analysts on November 18, 2003.

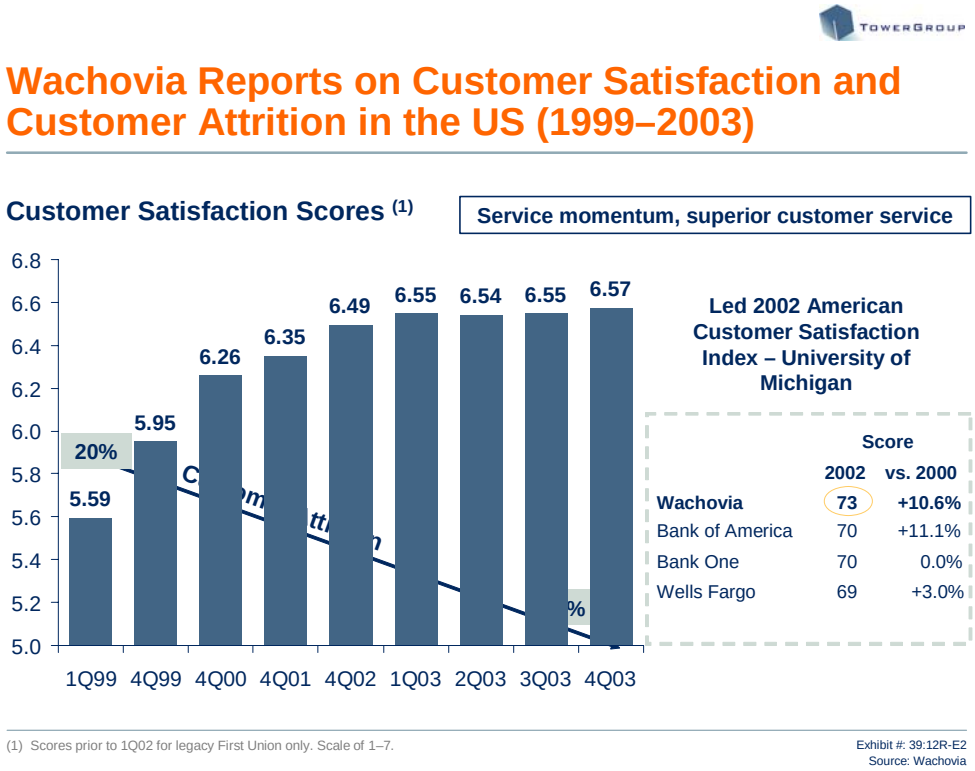


Exhibit 2
Wachovia Reports on Customer Satisfaction and Customer Attrition in the US (1999-2003)
Source: Wachovia

The exhibit provides historical data on two key measures of CRM performance: customer satisfaction and customer attrition. Customer satisfaction is reported two ways, according to the University of Michigan's American Customer Satisfaction Index and according to proprietary measures developed at Wachovia. The customer attrition measurement is also proprietary to the bank. Even with the inclusion of historical data, the use of proprietary measures renders competitive benchmarking impossible.

The opacity in CRM performance reporting hinders investors' ability to assess the general health of the bank's retail franchise. TowerGroup believes that aside from embracing standard industry definitions for key CRM performance metrics, the banks should publish a select group of CRM indicators annually for review by investors and competitors. Such a set of indicators would provide the framework for a more realistic competitive benchmarking ability.

Smart Banks/Good Data

"What gets measured gets managed." And in banking there is a corollary to this aphorism that states, "What gets into the incentive plan gets accomplished." For many banks, collecting actionable data has been an ongoing challenge because processing systems rarely present a homogenous environment and performance data requires some massaging before it can be used appropriately. As an example, a metric such as deposit balance growth may require adjustments to acknowledge one-time events such as the acquisition of branches or ongoing events that can skew results such as municipal tax collections. The challenge for banks is peeling back the layers to find the kernels of data that truly reflect performance and are actionable.

The ability and willingness to publish CRM metrics for review and dissection by analysts, shareholders, customers, and consumer advocates vary tremendously among banks. Banks that have been leaders in collecting and analyzing data are more forthcoming with their results than are banks that have data challenges and/or performance issues. Generally speaking, the more visionary banks accept that reporting on CRM performance is valuable because it distinguishes great-performing banks from those that are merely mediocre. TowerGroup believes that banks will come under increasing pressure from all their constituent stakeholder groups to improve the collection and reporting of their CRM capabilities.

The following sections are capsule summaries of some banks from around the world that have demonstrated leadership in their ability to capture CRM data and their willingness to share the information publicly. The banks included in this section have been willing to discuss their CRM experiences openly and appear to be committed to consistently reporting their results - regardless of performance. Their diligence, conscientiousness, and consistency in gathering data and reporting results make them stand out from their peers.

The common tie among the banks profiled is their focus on customer satisfaction, customer loyalty, and the ability of frontline staff to sell checking accounts. Beyond these few common indicators, individual banks can pursue very different paths regarding CRM metrics. Indeed, beyond these common issues, the variations in metrics gathered and reported are telling. What is indisputable is the dedication of these banks to gathering volumes of performance data and distributing it internally for further analysis and follow-up.

Bank of America

Based in Charlotte, North Carolina, Bank of America recently purchased FleetBoston Financial, moving Bank of America into the top position of US banks based on assets. On a combined basis, Bank of America now has 33 million consumer and small business customers, 5,700 banking centers, and 16,000 ATMs. At the end of the first quarter of 2004, the consumer and small business unit of the bank generated 54% of the bank's revenue.

Bank of America has taken a process-driven approach to managing CRM-related performance. The bank has embraced a Six Sigma approach to improving business processes, and its key process issues in 2004 have been identified as reducing associate variability, reducing costs, and improving the customer experience. Customer satisfaction is a closely watched metric at Bank of America. The critical end-to-end processes that the bank has identified for improving as part of its key 2004 initiatives include

- Banking center sales
- Quality checking fulfillment

- Quality mortgage fulfillment
- Teller service and scheduling
- Telephone service and scheduling
- Enterprise problem resolution

Although the listing of the key initiatives in 2004 is likely to have a discernible impact on the quality of customer interactions, the bank has not been ignoring customers up to this point. The bank has been successful in improving customer satisfaction in recent years as noted in the University of Michigan's American Customer Satisfaction Index (shown in Exhibit 2). Not unlike many of the other banks profiled in this Research Note, aside from overall customer satisfaction, Bank of America also actively tracks the willingness of consumers to recommend the bank to others and the willingness of customers to do more business with it.

Exhibit 3 provides another indication of the success that Bank of America has had to date in improving its customer-related performance.

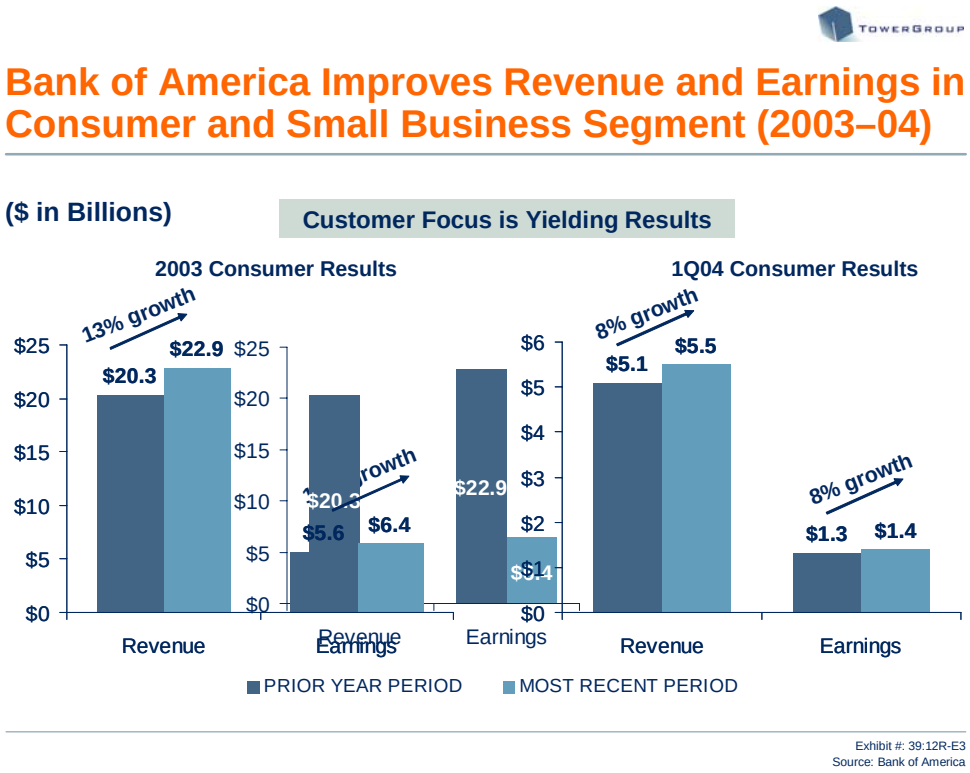


Exhibit 3
Bank of America Improves Revenue and Earnings in Consumer and Small Business Segment (2003-04)
Source: Bank of America

As the integration of the Fleet organization continues, Bank of America is keenly aware of the possible missteps that can occur. Given the high profile the integration has in the industry, the bank recently released a set of customer-oriented metrics that it believes is the basis for judging its CRM performance during the integration. Exhibit 4 lists the consumer metrics.

Bank of America's Key Consumer Metrics (2004)

Consumer Metrics to Monitor Progress

	Legacy Bank of America	Legacy Fleet Boston
Total Product Sales	39%	14%
Sales per Day per Sales Assoc. (1Q04)	6.3	2.1
Customer Satisfaction (Top 2 box score)	51%	44%
Banking Channel Delight Scores	70%	TBD
Checking Account Sales	26%	13%
Net Checking Accounts	425,000	11,000
Savings Account Sales	65%	4%
Net Savings Accounts	531,000	TBD

Exhibit #: 39:12R-E4
Source: Bank of America

Exhibit 4
Bank of Americas Key Consumer Metrics (2004)
Source: Bank of America

Clearly, the bank has decided to focus on the sales abilities of its associates, the growth in key consumer products, and overall consumer satisfaction as its indicators of CRM performance.

PNC Bank

Headquartered in Pittsburgh, the holding company for PNC Bank has $74 billion in assets. PNC Bank has spent the past several years converting its corporate culture and its metrics to a customer-centric strategy. The shift away from a predominately product orientation to a customer orientation began in 2000 and continues today. Metrics in the bank continue to evolve as the bank advances to its new paradigm.

At present, PNC Bank focuses on a few key indicators to demonstrate the success it has attained in its evolution to a customer orientation. The key performance indicators for the retail bank include

- Customer satisfaction
- New primary checking accounts
- Checking account retention
- Ratio of single service to multiservice checking accounts

Exhibit 5 provides an overview of how PNC currently reports CRM success to investors.

PNC Reports on Acquisition Success in Traditional Manner (2004)

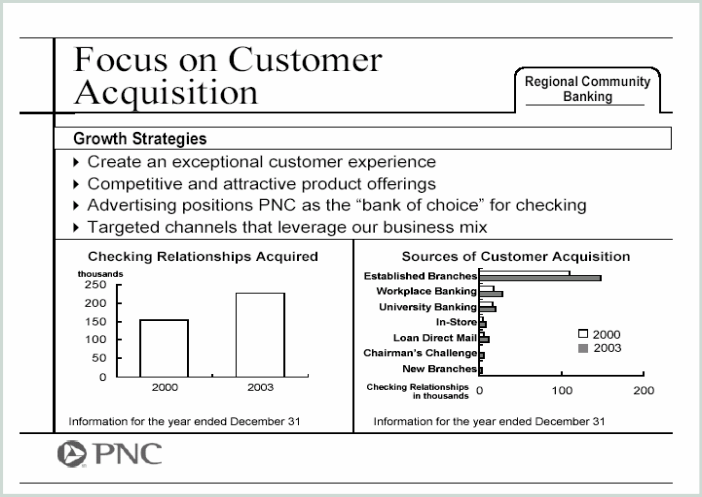


Exhibit #: 39:12R-E5
Source: PNC Bank

Exhibit 5
PNC Reports on Acquisition Success in Traditional Manner (2004)
Source: PNC Bank

It is important to note that while these are metrics the bank releases publicly to investors, the bank is working internally to move away from these traditional metrics toward a set of measures that more accurately reflect the bank's customer strategy. For example, the bank is much more heavily focused on the *quality of new relationships* than on the simple number of new units sold.

PNC Bank is committed to organic growth within its regional footprint. To accommodate its organic growth strategy, the bank recently completed a renovation of its branch platform environment. PNC believes that to be successful in growing organically, the bank must enable branch and call center personnel with richer views of customer data and provide guidance on how to be successful in deepening relationships with valued customers.

To provide proper guidance to contact personnel, PNC is deconstructing aspects of the customer experience into indicators that allow for improved alignment for its relationship sales efforts. As an example, the bank is concentrating efforts on acquiring new checking accounts that serve as the primary accounts for the customer and are the cornerstone of a multiservice relationship. To ensure success with this strategy, the bank tracks three types of indicators: input indicators, leading indicators, and results indicators. Exhibit 6 provides an overview of the deconstructed process and the roles of the indicators.

Acquiring Primary Checking Accounts in Multi-Service Households (2004)

Input Indicators	Leading Indicators	Results Indicators
Number of checking accounts opened	Account activation levels	Number of primary checking accounts opened
Cross-sell rate at initial meeting	Account balance levels	Retention rate of primary checking accounts
Follow-up calls to new customers	Cross-sell rate subsequent	Number of new customers

Exhibit #: 39:12R-E6
Source: PNC Bank, TowerGroup

Exhibit 6
Acquiring Primary Checking Accounts in Multi-Service Households (2004)
Source: PNC Bank, TowerGroup

By focusing on the process of building deeper customer relationships instead of merely keeping score, the bank is able to translate into behaviors the parts of the process that customer-facing personnel control. Customer-facing personnel have a clear process chain to follow if they wish to achieve the bank's desired end state of more primary checking accounts in multiservice households.

RBC Royal Bank

Headquartered in Toronto, RBC has long been called the "poster child" of effective CRM initiatives in the banking industry. A large part of RBC's success in defining and measuring CRM effectiveness is a result of the unprecedented focus on customers from the bank's executive suite and from the bank's willingness to invest aggressively in analytics. RBC has actively pursued the meaningful segmentation of its customers since 1997. In the intervening years, the bank has learned much about the financial needs and desires of consumers in its base. For more information on the analytical capabilities of RBC, refer to TowerGroup Research Note V26:05R, "CRM Case Study: The Analytics That Power CRM at Royal Bank [of Canada]."

RBC has developed a number of balanced scorecards to help the bank monitor progress and diagnose service issues that arise. The bank has created balanced scorecards for sales, brand, and customer, among others. The scorecards are created, reviewed, and distributed monthly, although some factors that appear on the scorecards are reviewed at more frequent intervals.

RBC's focus on customers has led to a continuous review of customer loyalty and satisfaction metrics. RBC queries customers regularly regarding their overall satisfaction with the bank, their

willingness to recommend the bank, and their willingness to do more business with the bank. These factors are tracked and distributed within the bank monthly.

Although much of the information for the scorecards is gathered from internal systems, a significant amount of the data is collected from customer surveys and interviews that the bank fields constantly. RBC fields over 150,000 phone interviews with its clients annually, generally using two formats. The first is a crisp 5-minute interview designed as a diagnostic tool that provides input to the scorecard; the second is a longer interview lasting 10-15 minutes to drill into the attitudes, needs, and perceptions of customers more fully.

For RBC, the immediate goal of analytics and customer research is to continue understanding the needs of customers and to be able to create meaningful products and services that are differentiated for their various customer segments. For example, RBC has identified "snowbirds" as a particular subsegment of its wealth preservers customer segment. Once a subsegment is identified and the profitability of the subsegment is validated, the bank is able to create meaningful product packages with appropriate pricing and service levels. Exhibit 7 provides an overview of how RBC finds meaningful subsegments within its customer base.

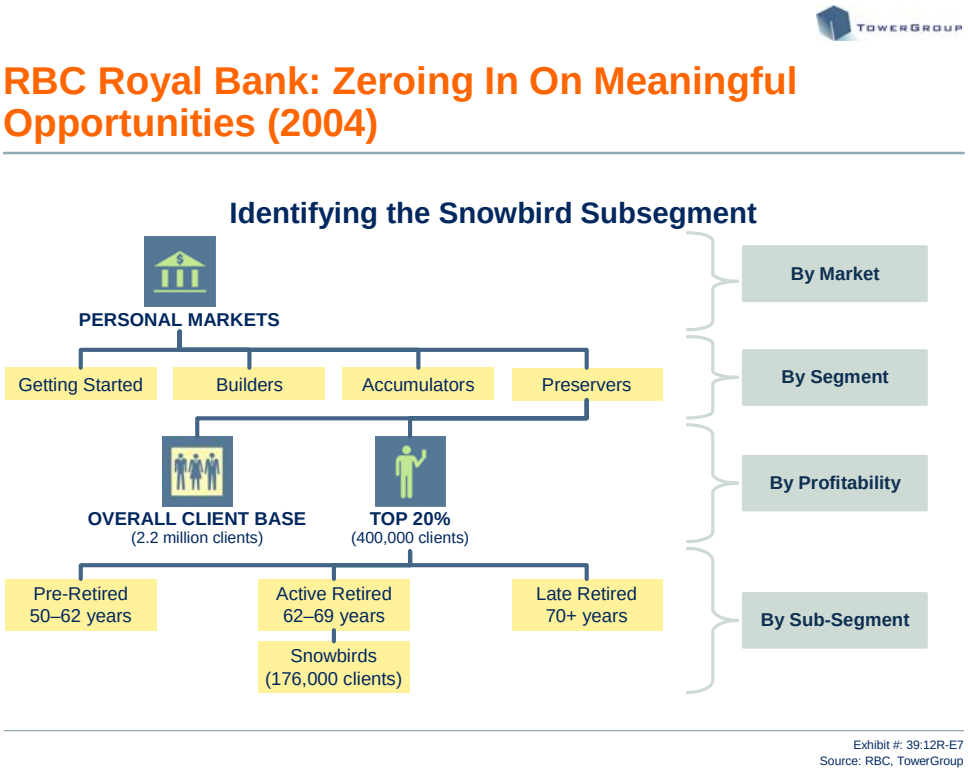


Exhibit 7
RBC Royal Bank: Zeroing In On Meaningful Opportunities (2004)
Source: RBC, TowerGroup

Aside from identifying a meaningful subsegment of customers with specific and clearly differentiated product and service needs, RBC has also been very public with its expectations for success in delivering a Snowbird snowbird package. RBC has set a goal of selling 10,000 Snowbird packages in 2004. RBC has also used internal performance metrics and customer survey research to create five additional packages that are being tested with total incremental revenue expectations of $100 million in 2004.

Standard Chartered

Although Standard Chartered Bank's global headquarters are in London, the bank's Hong Kong office manages a considerable number of consumers in a retail-banking portfolio that covers nine separate markets, including Hong Kong, the Middle East, and India. Standard Chartered began shifting its focus to consumers in the mid-1990s. As the years have passed, the bank has increased its focus on the customer experience and has proactively sought to improve its ability to provide high-quality customer service while maintaining a strong commitment to sales.

Although Standard Chartered kicked off a multiyear project to change the way it provided sales and service interactions with customers in 2001, the bank had actively sought to improve its interactions with customers through customer knowledge since 1994.

The chronology of Standard Chartered's evolution toward a renewed sales and service focus is shown in Exhibit 8.

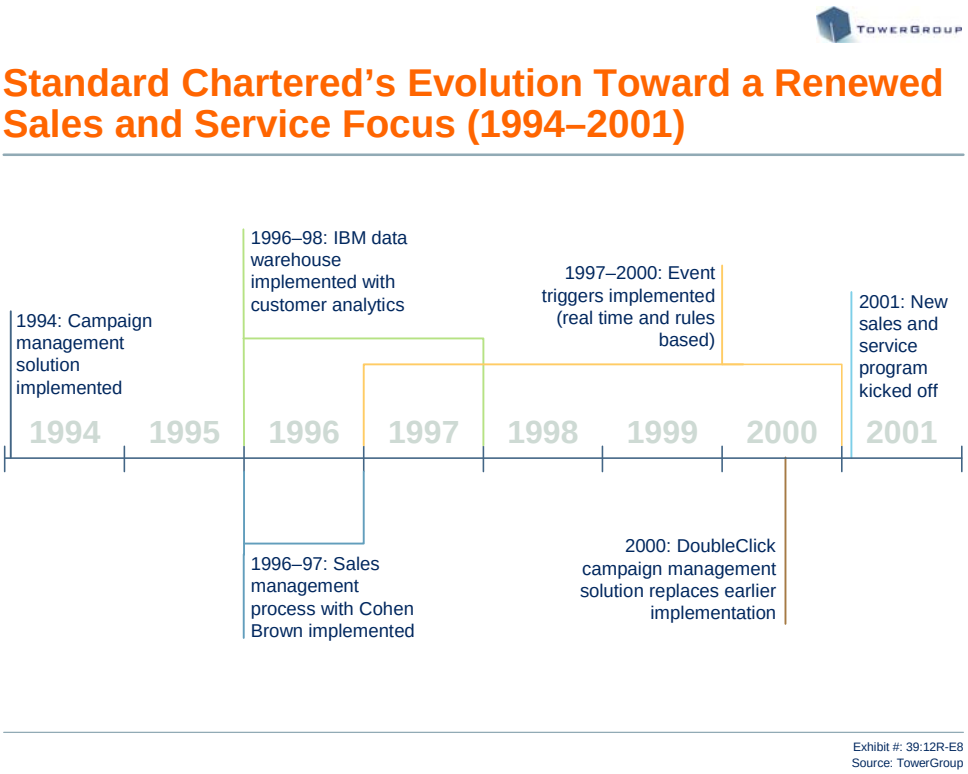


Exhibit 8
Standard Chartered's Evolution Toward a Renewed Sales and Service Focus (1994-2001)
Source: TowerGroup

Standard Chartered's sales and service program focused on a few key items: redefining the customer experience, refreshing the brand image, continuing the focus on sales management, and balancing sales by providing employee incentives for customer service. Concurrent with its new sales and service initiative, the bank implemented a balanced scorecard to provide management with a view to the bank's progress. Exhibit 9 provides a sample of the balanced scorecard implemented by the bank to measure the quality of the customer experience, channel and product performance, staff satisfaction, and financial performance.

Standard Chartered Bank's Balanced Scorecard Framework (2004)

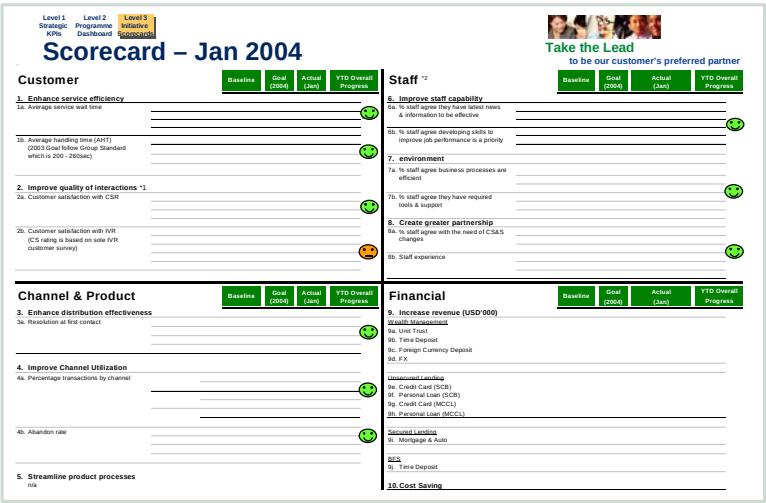
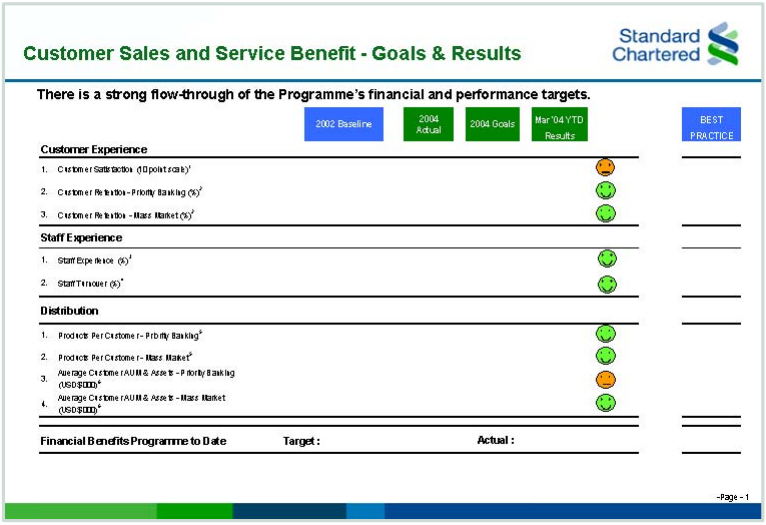


Exhibit #: 39:12R-E9
Source: Standard Chartered Bank

Exhibit 9
Standard Chartered Bank's Balanced Scorecard Framework (2004)
Source: Standard Chartered Bank

Standard Chartered consciously chose the technology strategy of being a "fast follower." The bank recognized that a sizable amount of change to corporate culture and processes would be required if the bank was to leverage its technology investments in support of its customer focus. The bank began cautiously by studying the changes desired, working with the many stakeholders inside and outside the organization, laying out a rigorous change management process, developing appropriate metrics, and deliberately prioritizing all associated sales and service initiatives. Exhibit 10 provides a snapshot view of the key performance indicators (KPIs) that are considered critical to the success of the bank.

Standard Chartered Bank's KPIs (2004)



Customer Sales and Service Benefit - Goals & Results

Standard Chartered

There is a strong flow-through of the Programme's financial and performance targets.

	2002 Baseline	2004 Actual	2004 Goals	Mar '04 YTD Results	BEST PRACTICE
Customer Experience					
1. Customer Satisfaction (10 point scale)[1]					
2. Customer Retention - Priority Banking (%)[2]					
3. Customer Retention - Mass Market (%)[2]					
Staff Experience					
1. Staff Experience (%)[4]					
2. Staff Turnover (%)[4]					
Distribution					
1. Products Per Customer - Priority Banking[5]					
2. Products Per Customer - Mass Market[5]					
3. Average Customer AUM & Assets - Priority Banking (USD $000)[6]					
4. Average Customer AUM & Assets - Mass Market (USD $000)[6]					
Financial Benefits Programme to Date	**Target :**		**Actual :**		

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Exhibit #: 39:12R-E10
Source: Standard Chartered Bank

Exhibit 10
Standard Chartered Bank's KPIs (2004)
Source: Standard Chartered Bank

To date, the bank has been pleased with the success it has enjoyed. The bank's customer retention rate continues to increase, as do its cross-sell performance and profitability metrics. Customer satisfaction has not increased; however, the bank believes the lack of improvement is due to the nature of the metrics for customer satisfaction used previously. The bank admits that in prior periods, its metrics for customer satisfaction were not adequately representative of how customers viewed the bank.

U.S. Bank

With $189 billion in assets, Minneapolis-based U.S. Bancorp, the parent company of U.S. Bank, is among the top 10 banks in the United States. As a super-regional bank serving the western states and those of the upper Midwest, U.S. Bank has competitors among the largest and the smallest institutions in the United States. To remain independent, the bank must compete effectively at both ends of the spectrum - providing a customer experience superior to that of smaller community institutions and leveraging the efficiencies of technology and scale to ensure a competitive, low-cost expense base. For more information on U.S. Bank, refer to TowerGroup Research Note V31:06R, "CRM Case Study Successes: When Good Implementations Happen at Good Banks."

U.S. Bank has adopted two critical metrics that it deems integral to its success: a sales-related balanced scorecard and its proprietary barometer of service quality. The ability to provide its Five Star Service Guarantee consistently and its ability to grow organically through focused selling at the branch level are considered to be core values of the U.S. Bank brand.

The branches are expected to focus heavily on their sales performance, and the following metrics for checking, savings, money markets, and loans are reviewed weekly in all of the regions of the bank:

- Units sold
- Account attrition
- Asset growth
- Balance growth

Exhibit 11 illustrates the bank's focus on in-branch sales productivity.

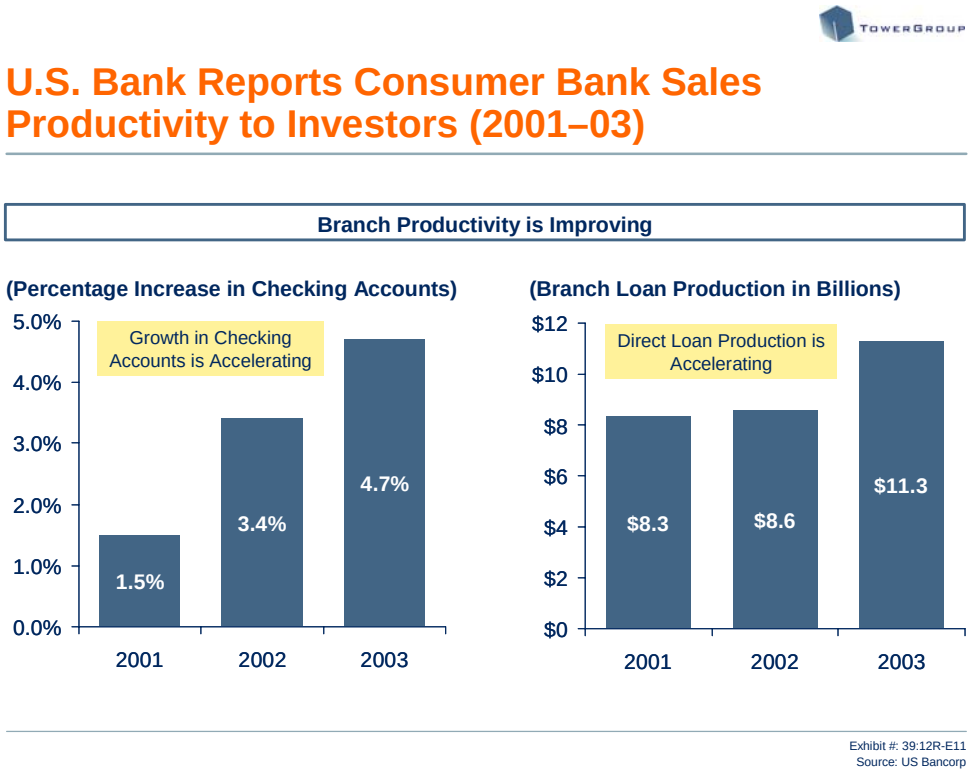


Exhibit 11
US Bank Reports Consumer Bank Sales Productivity to Investors (2001-03)
Source: US Bancorp

The bank calculates its cross-sell ratio quarterly; however, it is not viewed as having the same degree of urgency as the aforementioned sales-related metrics. Interestingly, U.S. Bank has shifted the majority of its new branches to in-store venues and has begun focusing more attention on samestore sales growth. Same-store sales growth is believed to be a leading indicator of not only of a bank's sales prowess but also of its ability to satisfy customers at the point of customer contact.

U.S. Bank's Quality Barometer is a proprietary measure that combines three metrics: the number of reported customer service failures, customer loyalty scores (based on surveys), and the overall number of customer interactions. Thus, the Quality Barometer allows the bank to track its ability to provide consistent customer service and maintain high levels of customer loyalty regardless of

volume of interactions.

Using a scale of 1 (low) to 10 (high), U.S. Bank asks three pointed questions of customers on a monthly basis to determine loyalty scores. The questions concern the customers' overall satisfaction with the bank, the willingness of the customer to purchase additional products or services, and the willingness of the customer to recommend the bank to a friend. Customers are considered to have high loyalty when they respond to all three questions with a "9" or "10." Any score less than "9" serves as an indicator of a potential quality or service issue.

To date, U.S. Bank has experienced strong growth in its Consumer Banking franchise. The metrics reported publicly by the bank tend to focus on standard industry financial measures. It will be interesting to see if the bank becomes more public with its same-store sales growth or its Quality Barometer.

Wachovia

With $411 billion in assets, Wachovia has come a long way in its ability to gather and analyze customer data for CRM purposes. What consisted of 7 full-time equivalents (FTEs) in 1995 has now grown to a marketing analytics staff of 100 for data analysis, reporting, marketing, lead generation, and business support. The marketing analytics group is responsible two primary research categories: brand equity and customer behavioral measures. Wachovia has a separate IT group of approximately 150 FTEs to support its customer analysis research and targeting (CART) database.

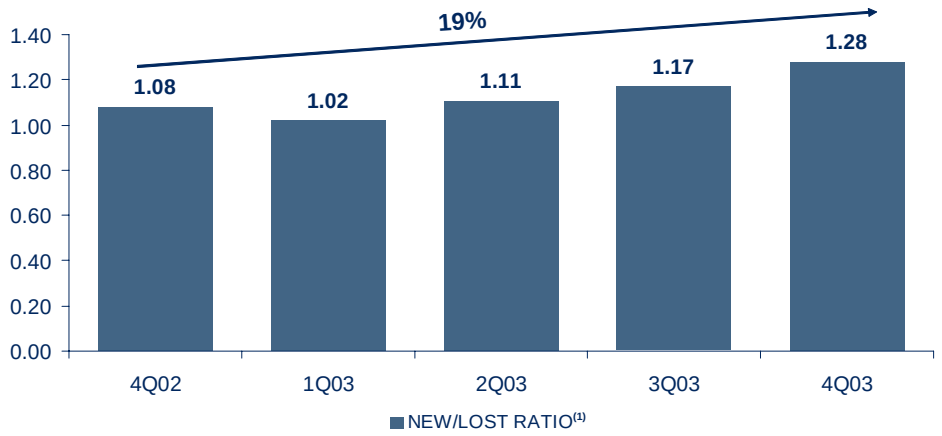
Customer satisfaction and customer loyalty are measured religiously in the bank. Wachovia uses the Gallup Organization to measure these customer metrics in short telephone interviews. The results of the interviews are circulated as the "Wachovia Is Service Excellence" (WISE) report. The retail organization receives results weekly whereas other business units may receive their results quarterly. The customer loyalty portion of the survey involves the same criteria that are used by Bank of America, RBC, and U.S. Bank (among others):

- Overall customer satisfaction
- Likelihood to recommend the bank to friend or acquaintance
- Willingness to buy additional products or services

The CART database serves as a single version of the truth for all marketing and consumer reporting in the bank. The database is used to create comprehensive balanced scorecards that are disseminated quarterly throughout the bank. One indictor that has particular significance at the bank is the new/lost ratio. The ratio divides the newly gained households by those that have been lost during the period. Performance of less than 1% (more accounts lost than gained) is considered problematic. Managers at all levels of the organization are provided with five rolling quarters of data and managers are able to drill into data. Exhibit 12 recaps recent performance of the ratio.

Wachovia Reports on US Household Gains vs. Losses in Its General Banking Group (2002–03)

GBG Revenue Growth Strategy Acquire and Retain Customers



(1) Retail, Small Business and Business Banking core households gained divided by core households lost. Core households exclude single service credit card, mortgage and trust households and out of footprint households.

Exhibit #: 39:12R-E12
Source: Wachovia

Exhibit 12
Wachovia Reports on US Household Gains vs. Losses in Its General Banking Group (2002-03)
Source: Wachovia

The new/lost ratio serves as a quick snapshot of growth in the retail franchise; a more nuanced analysis that the CART database supports involves a cluster analysis of key customer segments. Wachovia has identified three key customer clusters for analysis: borrowers, heavy transactors, and savers/investors. The intersection of the three clusters is considered to be Wachovia's sweet spot. Approximately 20% of all of Wachovia's retail customers fall into that intersection of clusters. Customer loyalty is significantly higher in the sweet spot and the breadth of customer relationships is deeper. The marketing analytics group at Wachovia analyzes the customers who fall into the sweet spot extensively as they attempt to understand the dynamics of consumer behavior and attitudes.

Not unlike PNC, Wachovia is spending considerable effort trying to move away from metrics that have a rear-view perspective and toward metrics that are more actionable. Indeed, the bank is currently working on linking consumer attitudes toward the Wachovia brand and customer behavior/financial metrics. Doing so would provide a predictive indication of future customer

Summary

As the preceding section makes clear, the overall wealth of information that forward-thinking banks collect, massage, analyze, and distribute on a monthly basis is impressive. Banks today have the ability to measure many different aspects of their relationships with their customers. Information that is directly related to designing customer strategies or managing the customer relationship is collected more assiduously, and banks are using the data more proactively. What is also clear from reviewing the individual banks is that although there are many similarities among them regarding

metrics, there are still many differences in approach and definition. Even these "smart banks" do not have global common benchmarking standards.

Unfortunately, not all banks have the same capabilities as the banks profiled here. The vast majority of banks still face significant challenges surrounding the frequent measurement and use of customer data. Operational data continues to be more readily available and used than is customer data.

TowerGroup believes that the banking industry needs a superset of customer-oriented metrics that has common definitions and that will enable competitive benchmarking. Given the challenges that many banks have in collecting and analyzing data with a reasonable degree of frequency, the superset will need to be brief. A superset of customer metrics should include

- Customer loyalty measures
- Customer satisfaction measures
- Customer profitability measures
- Cross-sell ratio
- Primary demand deposit account retention rates (as a proxy for customer retention rates)
- Primary DDA openings (as a proxy for intelligent sales processes)

In order for these customer metrics to be used for competitive benchmarking purposes, common definitions along with common measurement intervals must be established. Ideally, a neutral industry organization should draft reasonable definitions and terms for all banks to follow. If banks are indeed interested in competitive benchmarking, they will change their measurement processes to conform to a common set of definitions and terms.

TowerGroup also believes individual banks should continue to collect and measure customer relationship data to fit their proprietary measures and strategies. For example, U.S. Bank should continue to produce its Quality Barometer and PNC should continue pursuing its input, leading, and results indicators. Both organizations believe these proprietary measurements provide competitive advantages that yield tangible results.

Over time, additional metrics will emerge and become more important as banks and analysts refine their thoughts on measuring the quality and quantity of their relationship with consumers. New metrics that are related to bank performance, such as same-store sales growth, will continue to emerge; so will metrics that are directly related to CRM. The challenge for banks will be to find common definitions for the newer metrics that will enable broad use in the industry.

TowerGroup

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