

Development of Customer – Centric Banking: Case from Latvia

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ABSTRACT

The aim of this article is to study the concept of customer-centric approach and the components that comprise it.

To obtain the planned research results the authors have performed a qualitative analysis of: 1) scientific literature on par customer-centric banking and 2) the term „customer-centric”; quantitative analysis of components that comprise customer-centric aspect: 1) ten largest European banks in terms of their assets in 2012 and 2) Latvian commercial banks, the number of clients of which exceeds 10,000. A customer-centric model has been developed on the basis of the qualitative and quantitative data obtained.

The quantitative data obtained have demonstrated that banks have started to develop the strategy, which is based on clients. European banks have mainly concentrated on identifying client needs, building trust, ensuring satisfaction, and facilitating mutual relations, whereas Latvian commercial banks have concentrated on identifying client needs, creation of value and mutual relations.

Having used qualitative and quantitative methods, the authors have managed to clarify the definition of the term „customer-centric” and get it confirmed. However, in order to more effectively evaluate client-based strategies, the authors consider it necessary to conduct additional research using different approaches and instruments.

Keywords: Bank, Customer–centric, Model, Definition, Latvia.

1. INTRODUCTION

Clients are one of the most important assets not only for enterprises, but also for the entities working in the field of financial services, such as banks. In the recent years in particular the banks have refocused their business model from a narrow range of products and services to customers and their needs.

Customer-centric model comprises a range of impact factors, such as loyalty, satisfaction, and value creation. However, in order to better understand customer needs to the extent possible, banks have to use different analysis methods.

Despite the fact that recently the point of view that customers are an important intangible asset has been broadly discussed, customer-centric business model is still a relatively new and up to date not widely studied issue.

The aim of this article is to study the concept of customer-centric approach and the components that comprise it, as well as to develop a customer-centric model at the Latvian commercial banks.

To achieve the aim the following research methods have been used: quantitative and qualitative methods, including monographic and descriptive methods.

2. LITERATURE REVIEW

Banks continuously stress that the existing strategy should be replaced by a strategy that would ensure that the products and services offered are oriented on customer needs. However, the current situation in the field of financial services demonstrates the opposite tendencies: banks still focus their attention on products rather than customer needs. As stated by Tseng and Piller (2003), banks should adjust their products and services to their customer needs, not their customers to their products and services [1]. Caselli (2005) expressed a similar opinion, having stressed that banks have focused on the quality of the services provided rather than on customer needs [2].

Exactly small and medium enterprises (SME) play the major role in the economy; they increase GDP of the country. SME more than any other need banking products and services, in order to implement their business activities as efficiently as possible with the intermediation of financial institutions. In this connection, banks should be even more focused on the process of discovering customer needs [3].

Recently it has been widely discussed that enterprises should focus on customers; however, there is no agreement among scientists on the exact meaning of this term. For example, Hamilton (2004) stresses that focusing on the customers is characteristic of a business model, which is aimed at the customers, their satisfaction and efficiency, as well as customer value [4].

Entrepreneurship which is focused on the customers provides additional value to the banks (Piller and Moeslein, 2002), as well as ensures customer loyalty [5]. Also Selden and Colvin (2003) in their research discovered that focusing on the customers not only ensures profitability, but also increases customer portfolio [6]. In turn, Seybold (1998) states that loyal customers provide higher profitability [7], and in Seybold et al (2001) states that it is ensured by mutual relations [8]. But Bolton (2004) stresses that customer-centric business processes comprise also mutual relations, which ensure customer retention, satisfaction and value [3]. The enterprise Accenture (2008) has come to a similar conclusion, having discovered that financial institutions should pay attention to customer

satisfaction, loyalty, and mutual relations, otherwise there is a high risk of losing most profitable customers [9]. While Hamilton (2004) has concluded that in future the customers choosing loans or other individual financial solutions will ascribe great significance to trust [4].

At the same time, Fader (2012) discovered that focusing on customers is the strategy, which is based on reconciliation of products and services to the needs of the most valuable clients, which provide the opportunity to gain greater profit in the long term [10]. Galbraith (2011) has come to the conclusion that focusing on the customer is not an option, but a necessity, which is based on the development of mutual relations [11]. Customer-centric approach comprises not only customers and identification of their needs, but also an entire range of other strategies. For example, Fader (2012) studied also a product- and service-centric model and compared it with the customer-centric model [10]. Also Mello (2003) used the same approach as Fader (2012) demonstrating that service-centric model first creates products and only after that customer needs are considered [12, 10]. At the same time, customer-centric model creates products and services that are based on customer needs. Mello (2003) explained a market- and customer-centric strategy having identified four main stages: preparation for customer visits, customer data processing, analysis of customer requirements, and search for solutions [12].

Definition principles

In the scientific literature the issue of definitions and forms and basic principles of defining are widely discussed. According to Sower and Fair (2005) each scholar perceives and interprets a definition differently [13]. However, developing a new or clarifying the used definition should be done according to internationally defined principles of definition development, which are regulated by ISO standards – ISO 1087-1:2000(E/F). Pepper and Driscoll specified that the definition is based on a short and logical model, which consists of three parts: the term which should be defined; object class or concept, to which the term belongs; quality differentiation, which distinguishes it from other in the same class [14].

Bank System in Latvia

The development of the financial sector in Latvia started in 1988, when reorganisation of the banking sector occurred [15]. The introduction of a new two-stage financial system and reestablishment of the independence of Latvia facilitated rapid development of the banking sector. From 1991 till 1994, 67 banks in Latvia obtained a license for providing financial services. Although the total value of the assets of the banking system in the period from 1992 to 1994 tripled, only 47 out of 55 licensed banks at the end of 1994 were able to file an annual report in the prescribed period, and only 16 of them finished the year with profit, which caused a financial crisis [16].

One of the main reasons of the first crisis in the financial sector was that the banking sector was developing much more rapidly than economic environment, in which it operated. At this stage real estate and securities market was underdeveloped, thus it was unable to provide liquid backing to the issued loans. There were also banks that submitted forged annual report balance sheets [16].

Since 1991 Latvian financial sector had been oriented to customers from Russia and CIS countries, which can be explained by the fact that considerable export volume is transported to the West through Latvia. With the onset of the

financial crisis in Russia in 1998, also Latvian banks experienced the next crisis [15].

The next crisis hit the Latvian banking sector in 2008. The genesis of this financial disaster was the supreme mortgage crisis in the USA. In a period of unbridled optimism that precluded the recession, American banks, mortgage companies and saving and loan associations provided housing loans and mortgages to thousands of eager buyers, and that enabled less than stellar credit worthy individuals to purchase an ownership in homes and other long term assets of their choice [17].

The greatest part of Latvian banks are universal, they offer their customers a wide range of banking services. As testified by the Financial and Capital Market Commission (FCMC) data on the 4th quarter of 2012, in Latvia banking services are provided by 20 banks and 9 branches of foreign banks, as well as credit institutions registered in the European Economic Area or their branches, which submitted a relevant application to the FCMC. Six electronic money institutions and two money market funds are also registered in the Bank of Latvia [18].

3. METHODOLOGY

To obtain research results the authors have performed qualitative analysis of: 1) scientific literature on customer-centric banking and 2) the term „customer-centric”. Based on qualitative literature analysis and the definition of the term „customer-centric”, quantitative analysis of components comprising customer-centric aspect has been conducted: 1) ten largest European banks in terms of their assets and 2) Latvian commercial banks.

Customer-centric banking model has been developed on the basis of qualitative and quantitative analysis results.

NVivo and Tag-Cloud

Searching for an answer to the question what is customer-centric and its basic principles are, 39 designations have been discovered, including scientific articles and definitions. The obtained data have been summarised and using the qualitative research method – text analysis software NVivo – the concept of “customer-centric” has been clarified. The frequency of appearance of its characteristic features has been established. The obtained data have been summarised and represented using Tag-Cloud visualisation software.

Based on ISO standards and the obtained customer-centric qualitative data – Nvivo and Tag-Cloud, the authors have formulated the definition of “customer-centric”.

4. RESEARCH DATA

NVivo and Tag-Cloud

NVivo software is based on qualitative and mixed research methods. In turn, tagging is not only individual category process, but also social process, which is based on indexation. In order to ensure visual browsing, such social interface model as Tag-Cloud is normally used which shows most popular tags in the alphabetical order and is visually represented with different font sizes. Performing text analysis and determining tags, similar tags are also taken into consideration, which are a sort of semantic relations measured with relative compatibility ratio.

Using NVivo software, data mining was based on 25 most frequently used words and their synonyms, which consist of minimum 5 letters. The data obtained demonstrate that the most

frequently used words are customer, experience, needs, business, company, customer-centric, organization. The data obtained with NVivo software have been reflected with the help of social interface model Tag-Cloud. Its visualisation is presented in Figure 1.



Fig.1 Customer centric tags

Taking into account the definition development principles provided in the consulted sources and the results obtained applying NVivo software and Tag-Cloud visualisation, the authors have had an opportunity to adjust the meaning of the term “customer-centric”.

Definition: customer-centric business processes form a strategy, which is based on the recognition of the customer needs, thus creating additional added value.

Customer-Centric Approach at the European Banks

In order to understand how the customer-centric approach is implemented at other banks, the authors have chosen top ten European banks in terms of their total assets in 2012. The data on ten largest banks, the represented countries and the value of the total assets is provided in Table 1. The data provided in the table has been obtained from the Banker data base [19].

In order to assess the customer-centric approach efficiency, the authors of the paper have analysed the data available on the websites of the respective banks.

Table 1
Top ten European banks in terms of their total assets in 2012

No	Name of the Bank	State	Total Assets (EUR) trillion
1.	HSBC Holdings	UK	2.040
2.	Deutsche Bank	Germany	2.012
3.	Credit Agricole	France	2.008
4.	BNP Paribas	France	1.907
5.	Barclays	UK	1.834
6.	Royal Bank of Scotland	UK	1.615
7.	Santander Group	Spain	1.270
8.	Societe Generale	France	1.251
9.	ING Group	Netherlands	1.169
10.	Groupe BPCE	France	1.148

For instance, the customer-centric model implemented at the Deutsche Bank (DB) is based on four pillars, as it can be seen in Figure 2.

DB also emphasizes that this kind of approach to customers allows ensuring both sustainable development and strengthening of the mutual relationships [20].

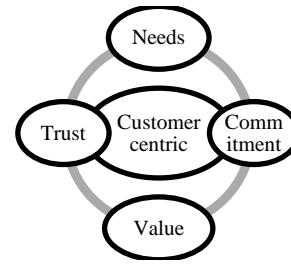


Fig.2 Customer-centric approach at Deutsche Bank
Source: Deutsche Bank, 2013

Credit Agricole (CA) together with regional and local banks promotes the customer-centric model, which comprises customer satisfaction, innovations and operational efficiency [21].

The model advocated by BNP Paribas is based on creating added value for the customers, which comprises customer satisfaction with both quantitative data and emotive factors, taking into account the needs of the customers [22].

The business strategy adopted by Barclays Bank is based on 6 basic principles, including clients, as it can be seen in Figure 3.

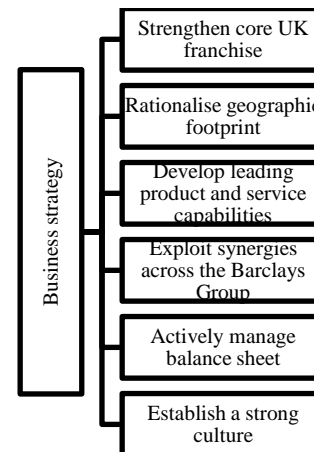


Fig.3 Barclays business strategies
Source: Barclays, 2013

As the data provided in Figure 3 has indicated, the customer-centric strategy implemented at Barclays Bank focuses on CIB client requirements and satisfaction rate increasing [23].

Royal Bank of Scotland (RBS) adopts the model, which is based on long-term relationships (see Figure 4).

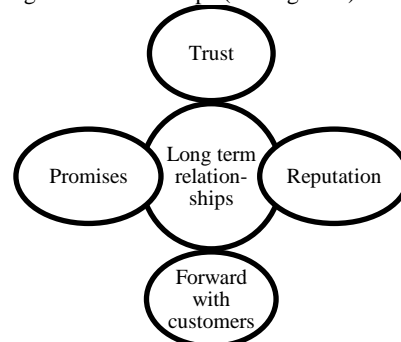


Fig.4 Customer-centric approach at RBS
Source: Royal Bank of Scotland, 2013

RBS also emphasizes that developing the mutual relationships with the customers, it is essential to understand that each

customer is unique with individual demands for the products and services [24].

The customer-centric approach implemented at Santander Group (SG) is based on three pillars: focusing on the customer needs, rather than products; business balancing based on SME; preserving good quality service provided to the customers [25]. Societe Generale, in its turn, stresses that mutual relationships are the most important, as they contribute to increasing customer loyalty [26].

Substantiating its customer-centric business practices, ING focuses on four main fundamental principles, which can be seen in Figure 5.

<u>Fair pricing</u> – lowest costs for customers for current accounts	<u>Consumer oriented brand attributes</u> – good value, reliable, transparency
<u>A loyal customer base</u>	<u>Supported by customer intelligence</u> – extensive knowledge about clients, development of multi-products

Fig.5 Customer centric approach at ING Group
Source: ING, 2012

ING strategy is also based on quality, thus promoting customer loyalty, efficiency rate, convenience, as well as transparency of products and services [27].

In 2009 Groupe BPCE reoriented its business strategy to customer-centric, including three main types of services, as it can be seen in Figure 6.

<u>Wholesale banking</u>	<u>Investment solutions</u>	<u>Specialized financial services</u>
1)Advisory 2)Capital Markets 3)Global Transaction Banking 4)Structured Finance	1)Asset Management 2)Insurance 3)Private Banking 4)Private Equity	1)Factoring 2)Securities and Financial Guarantees 3)Leasing 4)Consumer Finance 5)Film Industry Financing 6)Employee Savings Scheme 7)Payments 8)Securities Services

Fig.6 Customer-centric approach at Groupe BPCE
Source: Groupe BPCE, 2013

Taking into account information on top ten European banks, it can be concluded that banks have started to consider the introduction of the customer-centric model. However, their perceptions of what the customer-centric model is vary significantly.

Some banks, e.g. ING Group, provide detailed reports on customer-centric issue, while other banks just indicate it as a strategy.

The authors have also concluded that for the top ten European banks the customer-centric approach comprises recognizing the customer needs, loyalty, satisfaction and mutual relationships.

Customer-centric approach in Latvian commercial banks

In order to present the data on the total assets of the Latvian banks as of 31.12.2012., as well as on the number of customers, the data available on the home pages of the Association of Commercial Banks of Latvia [29] have been studied and summarised. The results obtained are provided in Table 2.

Table 2
Rating of the Latvian banks in terms of their total assets and number of clients in 2012

No	Name of the Bank	Total assets (LVL) thous.	Number of clients, thous.
1.	Swedbank	3,586,783.6	927,041
2.	SEB banka	2,851,984.9	471,355
3.	Nordea Bank Finland Latvian branch	2,292,155.7	63,136
4.	ABLV Bank	2,192,590.8	24,680
5.	DNB banka	1,782,272.2	169,763
6.	Rietumu Banka	1,699,047.7	21,410
7.	Citadele banka	1,421,184.8	271,038
8.	UniCredit Bank	605,436.0	1,852
9.	NORVIK BANKA	562,947.9	84,433
10.	PrivatBank	555,408.3	35,945
11.	Mortgage and Land Bank of Latvia	404,736.0	10,707
12.	Regional Investment Bank	350,911.0	2,794
13.	Baltikums Bank	328,929.9	3,812
14.	Trasta komercbanka	314,365.1	4,683
15.	Latvian branch of Danske Bank	287,494.5	5,050
16.	Expobank	229,948.4	1,408
17.	Baltic International Bank	229,681.9	1,419
18.	SMP Bank	190,263.0	33,669
19.	GE Money Bank	97,325.5	77,012
20.	Latvian branch of BIGBANK	62,377.9	72,000
21.	Latvian Post Bank	57,246.3	2,600
22.	Rigensis Bank	44,415.9	301
23.	Latvian branch of Svenska Handelsbanken AB	25,950.6	114
24.	Latvian branch of Eesti Krediidipank	15,916.2	6,503
25.	Latvian Business Bank	4,258.9	63
26.	Riga branch of Skandinaviska Enskilda Banken	914.4	0

The data on the implementation of the customer-centric approach has been analysed for the Latvian commercial banks with the number of customers exceeding ten thousand. Swedbank, which is the largest bank in Latvia, not only in terms of the total assets, but also in the number of customers, has shifted its approach from product-centric to customer-centric and their mutual relationships [30]. The Swedbank

strategy is based on three main pillars, as it can be seen in Figure 7.

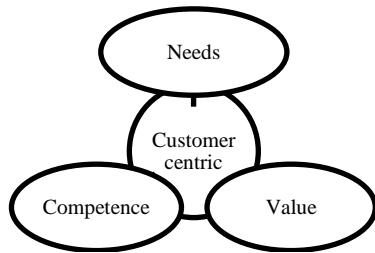


Fig.7 Customer centric approach at Swedbank
Source: Swedbank, 2013

SEB bank identifies mutual relationships and consulting its clients based on the long-term strategy, taking into account the financial situation of each customer, as some of its most important factors [31].

The customer-centric approach advocated at Nordea Bank, similarly to Swedbank, is based on three pillars: needs, values and resources [32].

However, the work of ABLV Bank is based on recognizing customer needs, in order to be able to provide them the required solutions for the issues related to investments and other services provided by a bank, as well as the bank is interested in seeing their clients succeed [33].

DNB Bank views the customer-centric model as the mutual relationships, which can create value for the clients, shareholders, employees and general public in the long-term perspective, as well as focuses on customer satisfaction and loyalty [34].

Rietumu Banka connects the customer-centric performance to cooperation and increasing the security of client deals.

Citadele Bank as its main principles states cooperation and recognition of the customer needs.

UniCredit Bank believes clients to be the basis of the banking business, whose needs should be considered in order to find the appropriate solutions, thus, ensuring customers the long-term value [35]. The customer-centric approach implemented at UniCredit Bank is based on four pillars, which are provided in Figure 8.

Satisfaction	Brand
Relationships	Solutions

Fig.8 Customer centric approach at UniCredit Bank
Source: UniCredit Bank, 2013

The pillars provided in Figure 8 are included into the bank's sustainability reports, where they are explained in detail, stressing their meanings and the activities performed.

NORVIK BANKA has focused on ensuring the products and services, which correspond to the customer needs, thus promoting customer satisfaction and loyalty [36].

PrivatBank considers the customer centric approach to focus not only on satisfaction of the customer needs, but also of the needs of the employees, shareholders, and general public as well as taking into account the environmental issues [37].

The mission of the Mortgage and Land Bank of Latvia is focused on the cooperation with customers, thus promoting both customer and bank prosperity, which, in its turn, ensures customer satisfaction, quality and efficiency [38].

SMP Bank focuses on the approach, which considers customer needs, thus ensuring their prosperity.

Similarly, GE Money bank focuses on the recognition of the customer needs as well as customer satisfaction.

At the same time, working with clients the Bigbank focuses on cooperation.

Having analysed the data on the implementation of the customer-centric models at the Latvian commercial banks, the authors of the paper have come to the conclusion that the customer-centric model comprises the recognition of the customer needs, creating the value and mutual relationships. The data obtained has also shown that foreign banks have a better developed and implemented customer-centric strategy than the Latvian commercial banks.

Customer-Centric Bank Principles

Having analysed the customer-centric approach implementation in top 14 Latvian commercial banks in terms of the number of clients, the authors have designed a customer-centric model, which is shown in Figure 9.

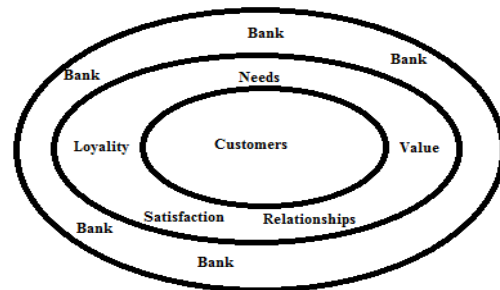


Fig.9 Customer-centric model in banks

As it can be seen in Figure 9, the customer-centric business model consists of three dimensions, with a customer in the centre, customer needs in the inner circle and with a bank in the outer circle.

5. CONCLUSIONS

Having analysed the term „customer-centric”, the authors have managed to clarify its definition, which was substantiated with the results of the research performed for top ten European and top fourteen Latvian commercial banks.

Having conducted the research the authors have come to the conclusion that definition of the customer-centric approach as well as its constituent elements vary for top ten European and top fourteen Latvian commercial banks. For instance, the European banks mainly focus on recognition of the customer needs, loyalty, customer satisfaction and mutual relationships, while the Latvian commercial banks concentrate mostly on recognition of the customer needs, creating value, and mutual relationships. The authors have also concluded that foreign banks have a better developed and implemented customer-centric strategy than the Latvian commercial banks.

The financial institutions should improve their performance as well as should ensure the integration of the best practice standards into their work on the regular basis, which would provide a long-term financial value not only to the banks, but also to the clients and general public. The banks, which will adhere to such a strategy, will acquire not only a competitive advantage, but will also increase their market share, as well as will be able to ensure the constant cash flow from their clients. The authors of the paper believe that additional research should be conducted on the customer-centric approach implementation in the banks, applying different types of analysis and assessment tools.

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