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'Customers don't want a relationship with their bank anymore'

By Christian Wuestner

When Jonathan Chocqueel-Mangan discusses the future of retail banking in Europe, he often refers to Capitec, a South African bank launched 12 years ago that now has a market share of more than 10%, in part through a bold customer strategy. Could something similar be set up in the U.K.?

Jonathan Chocqueel-Mangan
Managing director,
Tyler Mangan
Source: Tyler Mangan

The founder and managing director of consultancy Tyler Mangan doesn't see why not, he told SNL Financial in a recent interview. But much work is needed before that can happen, and that includes jettisoning old-fashioned views of what customers want from their banking relationships.

As Chocqueel-Mangan explained, since the financial crisis, Tyler Mangan has interviewed a plethora of banking customers on behalf of banks and has found a troubling gap between the reality and perception of what top-notch customer relationship management means for the sector today.

The following is an edited transcript of the discussion in which Chocqueel-Mangan discussed further research findings and what bankers really might be saying behind closed doors about where their biggest challenges lay.

SNL Financial: Do you expect the banking sector in the U.K. to be changed significantly by new entrants?

Jonathan Chocqueel-Mangan: Absolutely. I talked to a banker recently and he said he has absolutely no doubt that Google Inc. will go into banking. They have a huge amount of cash and they own the mobile platform.

And there will be a huge shakeup if Vodafone or other telecommunications companies enter the market. In Africa, [telecommunications companies] going into banking is a common idea because it is about distribution and access.

Publicly, a lot of financial institutions might be dismissive of [new U.K. entrants] Metro Bank and Virgin Money, but I think behind closed doors conversations are a bit different. One reason is the brand; the other is that they have the opportunity to build up infrastructure from scratch that is more suited to the current market. The legacy systems of the traditional banks are difficult to change.

I know that many of the retail banks are worried about Virgin now that it has a license, and because they have got a brand. I used to do some work for Virgin Media, and before being rebranded, NTL and Telewest had a very poor score for client advocacy. Rebranding it and changing nothing but the name made the customer satisfaction go up because it was a trusted brand.

Now would be a brilliant time to set up a bank because the public wants it. Once a few new entrants show us that we as customers can be respected, there will be a shakeup particularly in retail, but possibly in wholesale as well. IBM is beginning to go into working capital management solutions for their suppliers. It has already been into the field of financing the acquisition of large hardware purchases, but they may well go into SME funding. There are going to be some new entrants coming from very surprising places. Starbucks already has the network; they could put in an ATM and set up a secure network to offer banking, and they have got the cash pile.

Banks traditionally had an image of being trustworthy, serious businesses. Do you see this changing?

The power the banks used to have was that they knew best, that they could be trusted and that they were more careful than you. Banks were there to save you from yourself. What we discovered is the complete reverse. The power of the relationship between banks and us as clients and consumers has now changed. And actually, I trust Tesco more than most of the banks.

In work done a few years ago, people were asked to rank a range of brands as pension providers and Tesco was the most trusted brand, and yet it didn't do pensions. Customers don't want a relationship with their bank anymore. They just want a fair return for the money they are depositing, to get accurate information on where the money is going and when a transaction is required, to know that the money actually moves into that place.

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–– Jonathan Chocqueel-Mangan of Tyler Mangan

What can established banks do to improve their reputations?

They should take it seriously. I don't think they do. Their focus is on winning and being clever under the guise of making money for shareholders. I see a huge mismatch between the banks' interests and the clients' needs. On behalf of an investment bank, we talked to a lot of customers and they said that every bank tells them they are focused on the relationship, but the pricing model is completely the reverse. It is a very credit-driven pricing model, which means when an organization really needs to take on debt to get it through a slightly tight quarter or half year, the price of that debt goes up; whereas in good times the price comes down.

Clients criticized this pricing, saying it is putting the needs of the bank above the needs of the customers; and they said they would pay more to the bank for their debt in the good times, if the bank was there for them during the tough times. Banks are all over clients when they are doing well; they are nowhere for organizations that need help.

Do you think the Salz Review that Barclays Plc commissioned is the right step in improving its culture and therefore its reputation?

I am unsure if you can mold an organization around a predisposed set of values. If I tell you to have higher integrity, I can send you to many workshops. But if you are not predisposed to it, you just aren't predisposed to it. And if integrity, despite the workshops, is not rewarded or valued and is not the basis of promotion, it won't happen.

A lot of the work we see in culture and leadership is quite superficial, not sufficiently contextual. The Salz Review, for example, makes no attempt to define what the culture actually is. It talks about what they want it to be and that it isn't that.

Bonuses turned out to have at least exacerbated the crisis. Are deferred bonuses the right response?

It is not about the mechanisms of the bonus itself; it's about the criteria against which they are awarded. … The debate is wrong. It's all about if the bonus should be deferred, if it should be in options or in cash, or if it should be capped. It doesn't really matter until we get down to saying, for example, that the metrics are going to be for customer advocacy.

If the CEO said he is going to pay on client profitability and client advocacy, the investments in it would happen and they would move from a product focus to a solutions focus.

When banks say they want to become customer focused, they usually pull a "structural lever," they reorganize themselves around markets or sectors or solutions. But it doesn't seem to make any difference because the way they engage with clients is exactly the same.

A question we ask many senior people at banks is, if two meetings clash, one on a new product to be rolled out across the region, and the other being a meeting with the CEO of a client who just wants to have a chat, which of them they would choose? Some 70% would go to the product one when it should be the other way around. What drives the bonus is product excellence, not relationship excellence. We interview lots of clients on behalf of banks, and a client has never said to us, the trouble with banks is that they don't have enough products, and yet there are hordes of people in every bank inventing new products.