

The effect of customer service on customer equity in the South African banking industry

Summary of the dissertation

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The study

The research examined how customer service influences customer equity within the banking sector in South Africa. Customer equity, comprising brand equity, value equity, and relationship equity, was conceptualized through the framework proposed by Lemon et al. A key metric of interest was customer lifetime value, particularly significant in the banking industry, given its substantial economic impact and employment contributions in South Africa.

The study employed grounded theory methodology, which necessitated an extensive collection of qualitative data. Grounded theory stands out for its iterative process, starting with a hypothesis derived from existing literature, followed by data collection and analysis, leading to the identification of recurring themes. These themes were further explored through additional research, ultimately culminating in the development of a theoretical framework.

Data were gathered from both bank customers and employees involved in customer experience and operations. The inclusion of perspectives from these diverse stakeholders aimed to generate constructive tension in the data, facilitating a comprehensive understanding of the research.

Below is a summary of my research.

The findings

Banking explained

While banking services are generally similar, the nature of banking can vary significantly based on the array of services provided. One participant suggested that these differences could be attributed to generational factors, although this wasn't proved. This perspective aligns with the trend of banks diversifying their services to include offerings such as mobile banking and insurance products.

Although banks are increasingly transitioning to digital platforms, physical branches remain essential, particularly for elderly or impaired individuals who may face challenges with digital banking interfaces.

Multiple banks

A notable 70.21% of the surveyed banking clientele identified themselves as multi-banked, holding accounts or utilising banking services from multiple institutions within South Africa and internationally.

While perspectives vary regarding the ease of opening and transferring accounts between banks, maintaining multiple banking relationships can streamline the onboarding process, leveraging existing ties with financial institutions for account management. Additionally, some customers highlighted the simplified account-opening procedures offered by neo-banks.

For banks, acquiring new customers entails substantial expenses compared to retaining existing ones. Therefore, banks should prioritise not only customer retention but also customer acquisition, particularly in a competitive market where the quality of customer service serves as a potential distinguishing factor.

Customer service

The study explores diverse perspectives on customer service within the banking sector. Definitions vary, but it generally involves assistance provided by the bank to ensure customer satisfaction. Both employees and customers emphasise the importance of creating emotional connections and proactive digital interactions. With the rise of digital banking, there's a shift towards fulfilling needs through digital channels, reducing reliance on traditional customer service.

The study emphasises the significance of customer service in banking, despite the rise of digital channels. Customer interactions with service departments greatly influence overall satisfaction, with many customers indicating they would switch banks due to poor service. Expectations

regarding service levels vary, but most customers expect a significant portion of interactions to be satisfactory.

Fees are seen to influence service expectations, with many customers expecting improved service with higher fees. Research shows the impact of pricing on brand equity, highlighting the importance of perceived value. Premium banks are expected to provide personalised, high-quality interactions, which can influence satisfaction levels and serve as a deciding factor between banks. However, there could be a potential skew in the data due to the way data was sampled. Further research into customer service expectations across a broader range of socio-economic groups could be beneficial.

Trust is paramount

Round two of interviews with banking employees highlighted the importance of trust in customer service, particularly in the banking sector. This theme was further explored in round three of the research, revealing that customers overwhelmingly consider trust paramount in their relationship with their bank. Trust is seen as fundamental, evolving over time through interactions with the bank's customer service department.

Both customers and employees agree that while a base level of trust may be intrinsic, higher levels are built over time through professionalism, competence, and efficient resolution of queries. Customers tend to value recommendations from friends and family over marketing, indicating the significant influence of trust on their banking decisions. These findings underscore the crucial role of customer service in fostering trust and loyalty, ultimately affecting customers' perceptions of the bank's value and reliability.

The research highlights the intricate relationship between a bank's reputation, values, and customer service expectations. Customer expectations are closely linked to the bank's reputation and values, influencing their decision-making and attitudes. The alignment of a bank's values with its reputation plays a crucial role in shaping customer anticipation of service quality. App-based services from innovative banks have also shaped customer expectations for streamlined and efficient interactions.

The relationship between a bank's reputation, values, and service expectations varies, affecting how customers perceive and engage with their banks. Marketing campaigns and affordability also impact service expectations, with customers valuing consistency and credibility in bank communications.

Overall, trust is crucial in customer relationships with their bank, influencing perceptions of brand equity, value equity, and retention equity. Customer service experiences significantly impact trust and the perceived value received from the bank. Trust erosion can lead to skepticism towards

marketing efforts and weaken customer loyalty, emphasising the importance of maintaining trust in banking relationships.

Customers' expectations on technology

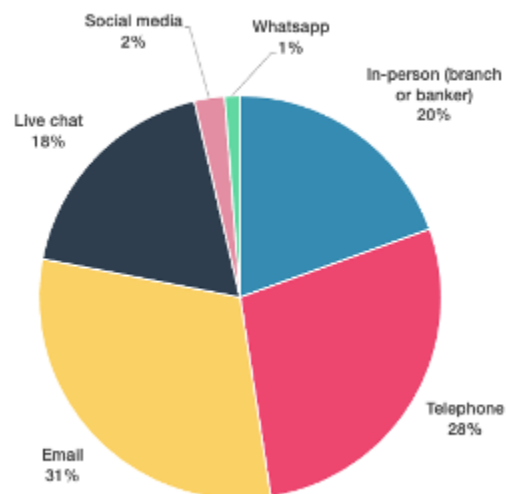
Banking technology in South Africa has advanced rapidly due to a digital-first approach, resulting in streamlined processes for both customers and banks. Customers now expect technology in banking and are willing to self-service their needs.

This has led to a growing trend towards automation, enabling customers to self-service. However, when asked about their preferences, customers showed diverse perspectives. While some prefer the convenience of digital banking, others value interaction with customer service, especially for complex issues.

The data reflects varying attitudes towards using self-service tools like FAQs and chatbots, with some prioritising efficiency while others prefer personalised interactions. This is despite the literature showing that banks are moving towards these tools to cut costs.

Customer service channels

When customers were asked which channel they prefer to interact with their bank through, most indicated that their preferred customer service channels are email and telephone. In-person engagement and live chat were also noted as important, but social media and mobile phones (WhatsApp) are less preferred by customers.



Banks now need to consider designing their service around several channels through which customers expect to be serviced. This design should aim to optimise a customer's experience and manage costs without undermining customer experience.

Metrics used

Customer service departments employ various metrics to measure satisfaction and effectiveness. In the banking sector, efficiency is crucial due to budget constraints, leading to the measurement of service cost per interaction, considering all associated overhead costs. Different channels may have varying cost measurements, such as telephone calls versus email or chatbot interactions. Smart service design aims to balance customer satisfaction with cost-effectiveness.

Common customer service metrics include Net Promoter Score (NPS) and Customer Satisfaction Score (CSAT) for gauging overall satisfaction and loyalty. Efficiency metrics like handle time and waiting time assess the bank's ability to manage inquiries effectively. First-call resolution is a measure of how many contacts are resolved immediately and is essential to minimise follow-up calls and reduce costs.

However, focusing solely on operational metrics may lead to undesirable behavior among representatives. It's crucial to strike a balance between efficiency and customer satisfaction. Metrics like first-call resolution cover both aspects, ensuring queries are resolved promptly while minimising costs. Additionally, banks should consider metrics that take employee churn and training time into account.

Role of the customer service representative

In the banking sector, customer service representatives play a pivotal role in customer satisfaction, acting as the direct link between customers and the bank. Customers expressed instances of both letdowns and positive experiences with customer service representatives.

Negative experiences included delays, unresponsiveness, contradictory information, and inadequate feedback, leading to frustration and dissatisfaction. Some customers even switched banks due to poor assistance. Conversely, positive experiences highlighted efficient problem-solving, prompt responses, professionalism, and consistency in service.

While some customers tend to remember and value good experiences more, others find bad experiences more impactful. Overall, consistent good service is crucial, as one bad experience can drive customers to seek alternatives.

Customers generally perceive customer service representatives as interested in solving problems, emphasising the importance of authentic engagement and effective solutions in enhancing the overall customer experience and satisfaction. However, there were mixed opinions regarding

whether customer service representatives are adequately equipped to handle queries, suggesting room for improvement in consistency and preparedness.

What drives good customer service

The study identifies factors influencing the quality of customer service interactions in the banking sector. Customers value articulate and engaging personnel who swiftly address their needs. Key factors include knowledgeable representatives, personalised attention, efficiency, transparency, and proactive communication.

While customers prefer quick resolutions and correct answers, they still value personalisation and positive attitudes. Automating routine queries through self-service tools allows human representatives to focus on more valuable interactions, especially for urgent and empathy-driven queries like fraud issues.

Ease of switching banks

Regarding switching banks, customers' perceptions vary based on their entrenchment with their current bank. Positive customer service experiences can influence customers to consolidate their banking to a single institution, simplifying financial management. Conversely, negative experiences can prompt customers to consider consolidating their banking elsewhere, especially if they perceive poor service quality or seek to reduce complexity and costs.

The spectrum of responses regarding willingness to switch banks for improved customer service suggests varying degrees of contentment with current banking service. This complexity underscores the intricate dynamics of customer loyalty and the factors that may trigger customers to consider switching institutions for enhanced service.

Recommendations

Meet customer expectations face on

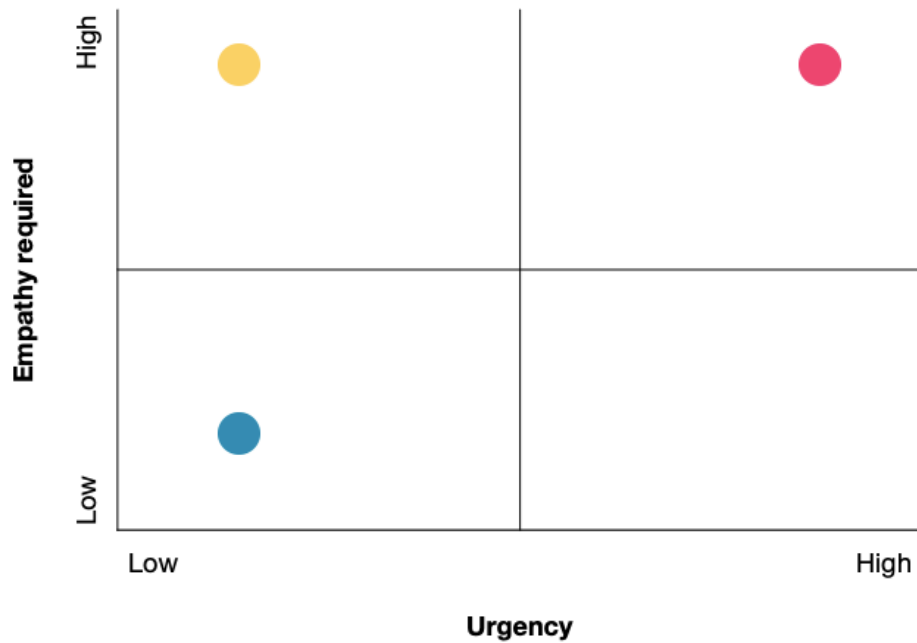
To meet evolving customer expectations, banks must prioritise personalised service, maintain a consistent level of satisfaction, and adapt to changing brand promises. Key practices identified in the South African banking industry include human interaction, personalization, flexible communication channels, rapid issue-resolution, empathy, proactive digital guidance, and automation for low-empathy interactions. Future drivers of customer satisfaction include human engagement, personalisation, satisfactory issue resolution, and managing extreme sentiments.

It's crucial for banks to recognise the importance of customer service, gather valuable feedback, and employ smart service design to meet customer needs effectively. This entails implementing robust metrics to enhance operational efficiency while measuring and guiding customer satisfaction. Additionally, banks should focus on resolving queries efficiently, leveraging customer feedback to improve products and services, and promoting self-service options to cater to customers' desire for convenience and autonomy.

To automate or not to automate

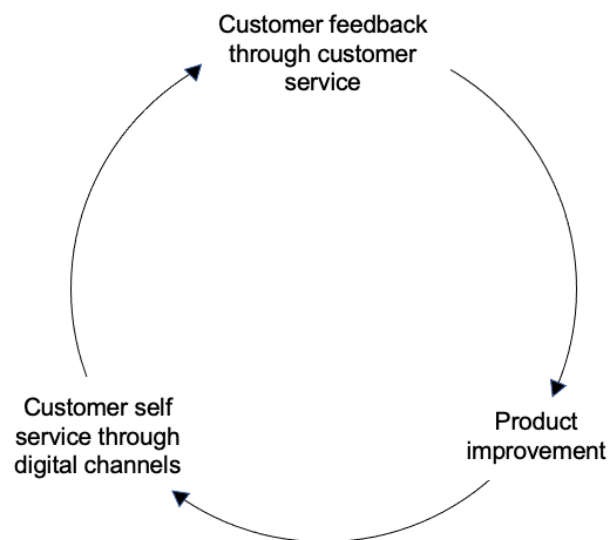
The integration of chatbots and self-service tools within banking is aimed at streamlining tasks, though it's crucial to proceed with care to maintain the overall quality of customer experience. Banks should segment inquiries based on their urgency and the level of empathy required. Urgent matters, such as family emergencies, necessitate a high degree of empathy, while issues like lost cards prioritise urgency over empathy. Routine inquiries may lend themselves to automation, promoting self-service.

Tailored strategies are imperative for addressing various situations, ensuring efficient customer interactions. For instance, in the event of possible fraud urgency may take precedence over empathy. Conversely, for scenarios where both urgency and empathy are low, such as routine document requests, banks can explore automation solutions, empowering customers to manage their needs independently. This is indicated in the blue quadrant below. These scenarios have been identified through feedback from both banking customers and employees.



Building better products

In this context, banks should offer their customers the means to conduct their own banking operations through digital channels, effectively servicing their needs without necessitating direct contact with customer service. While customer service is often seen as a cost centre, it can add value through collaborations with product and marketing teams. Prioritising work based on customer needs, keeping cost of interactions in mind, can be achieved through such collaborations. Customer service must also work closely with marketing teams to align messaging with customer experiences.



Contact

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