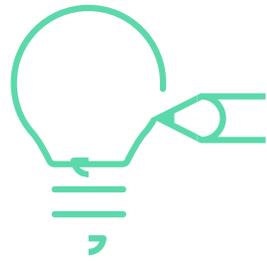


The Loyalty People - Expert Opinion

Whitepaper: Customer Loyalty Innovations in Retail Banking

June 2022



Expert Opinion

Forward by Tom Peace

The Financial Services sector is going through some massive changes currently and this is having a huge impact on the way that consumers interact with their retail banks. Generally, customer expectations on service are changing, meaning customers want instant access, seamless interactions and valuable services. We obviously still want security and trust in our banks, but we want so much more than we used to, purely because our expectation of service has been elevated by our other service providers.

We shop around for the best deals and have multiple financial partnerships. I personally have relationships with five different financial institutions for my personal finances, business, credit, mortgage and lending. Competition is fierce and the customer is king!

Elevated expectations aside, retail banks are still facing challenges with managing the cost of a large retail estate, building digital services, legislation changes, the growth of Cryptocurrency

and other new entrants creating pressure on innovation. All of which give customers more options to manage their wealth.

Despite these challenges, retail banks have the major advantage in the form of unrivalled customer data, which can be used to engage the customer with highly relevant communication and personalised offers based on their life stage, lifestyle, purchase behaviour and interests.

In this report we will hear from Deon Olivier, the Founder of Woodstock Loyalty Marketing. Deon is our Associate Consultant for Financial Services, responsible for several FS loyalty and engagement programmes, including the multi-award winning eBucks scheme in South Africa. Deon will share his views on retail banking trends and introduce three innovative partners all driving customer engagement for retail banks.

Read on for more details.

Tom Peace
Managing Director

The Loyalty People

Deon Olivier – Associate Consultant, Retail Banking at The Loyalty People

I'd like to introduce some key insights from the highly competitive and rewards-entrenched South African retail banking market

It is a well-known fact that traditional rewards programmes are table stakes in the world of retail banking. South Africa has a highly competitive banking market - recognised internationally by the banking community, dominated by six well-established incumbent banks (FNB, Standard Bank, Absa, Nedbank, Capitec, Investec) and a growing number of new players like Discovery, Bank Zero, Tyme Bank and SPOT Money. Innovation sits at the heart of the growth in the strength of these banking brands.

South African banks are relatively small when compared with global banks, but in-spite of their small size on a global scale, they often 'punch above their weight' when it comes to digital innovation, user experience and good banking practice. First National Bank and Capitec rated the absolute best in the world in banking benchmarking studies, and in the top five in brand equity benchmarking studies in recent years - making SA banks a reliable source of IP and best practice.

From a brand strength perspective, it is interesting to note that South African banks occupy the top two spots in South African brand ranking studies, bucking the insights gathered in the developed

markets globally where retail and tech brands (and not banks) dominate the upper end of the rankings. This brand strength is attributable to the role banks play in facilitating innovations for their customers:

- (i) A range of Payment services to meet the needs of a very diverse demographic
- (ii) Financial inclusion where all customers, including the previously underbanked, have access to useful and affordable financial services
- (iii) Attractive rewards and value-adds that go beyond the core banking products and services.

I will now share some interesting banking trends that are shaping the future of retail banking in South Africa, and in banking generally. As I showcase these trends I'll introduce some market-leading partners, delivering innovative solutions to these challenges. Later in this white paper you'll hear directly from Finshape, Dateio and Collinson.

Trend 1 – the definition of the 'perfect' customer and the drive towards TRB:

For many years, banking reward programmes were synonymous with credit card offerings that rewarded cardholders with a flat earn rate for card swipes. These were largely a carryover from frequent flyer programmes and still feature prominently in many markets globally where companies are looking at ways to boost the 'earn velocity.' Thankfully, the introduction of sophisticated Total Relationship Banking (TRB) propositions, aimed at utilising customer behavioural data to drive cross sell of banking products, have led to more personalised offers. In turn, driving retention and creating a barrier to exit for customers that demonstrated movement towards being a 'perfect' customer. Step-by-step 'get to platinum' matrices followed up this drive to TRB, with customers rewarded for achieving and sustaining milestones along their journey with the bank. This has also allowed for the development of honed behavioural models – supported by the abundance of data scientists, behavioural analysts and enabling technologies.

In the next section of this report Finshape, experts in data analytics for retail banks, will show how the power of customer insight can be used to drive not only Total Relationship Banking but also creating more positive customer interactions.

Trend 2 – the establishment of a broader definition of rewards

The days of only rewarding customers with JUST a redeemable loyalty currency (a buck, a bean or an airmile) are consigned to the annals of history. Hybrid propositions that appeal to both long-term needs (redemption of currency or accumulation of cashback) and short-term needs (instant gratification in the form of discounts, bonussing, boosting and surprise benefits) have a much broader appeal.

Good loyalty programmes are driven by a host of factors, including the level of customer engagement which in turn is driven through the attractiveness and frequency of relevant rewards and benefits. Banks can use the wealth of customer data available to them to create brand-aligned partnerships that drive a win-win-win for the bank, partner, and customer. Good partnerships are built on solid

foundations that define the strategic purpose, objectives, value proposition and key metrics underpinned by a strong go-to-market plan and operational execution.

Further in this white paper we will hear from Dateio, experts in providing customers with highly targeted merchant offers through their chosen bank. These offers create instant discounts, long-term rewards and ongoing engagement through gamification.

Trend 3 – the loyalty simplicity / complexity debate: and the importance of treating different customers differently:

The cluttered market within which all banks operate is divided on whether or not to pursue a simple one-size-fits-all customer proposition (that typically rewards at a flat rate and has no tier levels or statuses) or a complex TRB based structure that utilises customer insight to structure highly targeted and relevant services. The solution surely lies in making sure that when a complex solution is deployed, that the communication of how the scheme works remains succinct and uncluttered – encouraging customers to stay focussed on attaining the key milestones – and thereby reap maximum upside for their loyalty. Equally, a complex structure allows for the proposition to align with the financial maturity, life stage and needs of the specific customer. After all, a private wealth customer is vastly different from an entry level customer who is moving from cash to a transactional product and doesn't yet have the means to afford a loan or investment product. It therefore follows that a bank has the responsibility – and should strongly consider – developing aligned propositions for each market segment and avoid a one-size-fits-all proposition that alienates some by favouring others disproportionately.

Trend 4 – Global market-leaders in retail banking customer loyalty:

South Africa's loyalty market leader is eBucks from First National Bank. Launched in late 2000, eBucks is recognised as the gold standard and South African customers favourite not just in banking, but across the entire loyalty market. 20+ years of harvested transactional insights and business case refinement have provided eBucks with the opportunity to drive the right TRB behaviour, attract the optimal partner mix and innovate as both a top global app provider and e-commerce player (6.2 million customers log on to the banking app daily and 98% of all eBucks currency earned in one month is redeemed in the next).



For many years, other banks emulated the eBucks proposition with a similar TRB structure and similar key partner strategy (first in fuel and later in grocery retail). In 2021, Capitec launched a proposition (Live Better / Bank Better / Spend Better / Save Better) that breaks ranks with the tiered model and aligns with their core mission to make banking simple and transparent to their customers regardless of their level of income or assets. Every customer can access the benefits and services that are appropriate to them, and the customer attraction has been huge. Edging close to seven million

members they are now the largest bank rewards programme in the market and have captured the attention of a broad range of partners wishing to explore collaboration.

Trend 5 – the role that lifestyle benefits and value adds play:

Differentiation is, and will always be, key in the banking sector, with a sustained focus on developing additional benefits that take the playing field way beyond core financial services. This includes travel and concierge services, online gaming, online education and a whole range of peace of mind services. Collectively this array of value adding and peace of mind services is creating a deeper emotional connection by letting the customer know that you are happy to take the journey together as a trusted partner.

A look to the future:

Banks have the potential to become retailers and e-retailers, retailers to become banks

Banks are in a very strong position to not only build an engaged customer base, but more importantly, gather customer behavioural insights. This in turn enables the growth of key partnerships with non-competing 3rd parties. For some time, leading South African banks have been significant resellers, at cheaper rates than traditional retailers of digital vouchers, airtime and tech devices including mobile phones, tablets, PCs, TVs, laptops and wearables – capturing both the currency market and the redemption of loyalty points market - all seamlessly integrated into the banking ecosystem and giving customers more reasons to choose one bank over another, generating higher retention and developing non-interest revenue streams.

At the same time, grocery and supermarket retailers have made sustained and well-defined advances as financial services providers, to capitalise on their footprint, large customer bases, frequent customer engagement, brand equity, financial throughput, and supplier relationships to grow cross-sell beyond FMCG products. This has created more 'stickiness' by establishing these retailers as a one-stop 'destination' capable of addressing a much larger customer need that stretches into banking. A case in point is Shoprite (Africa's largest retailer) that elevated their very successful loyalty offering, Xtra Savings, to a transactional banking product catering for both reward accrual and bank account linked payment mechanism. It is here that incumbent banks will face their biggest challenge.



The remaining contributors to this report are all experts in developing customer engagement for their retail bank clients. Finshape harness the data to create meaningful banking moments, Dateio are experts in creating highly targeted and valuable partner programmes and Collinson provide retail banks with a range of loyalty benefits, including insurance, lounge access, travel benefits and loyalty programs.

I hope you have enjoyed reading my expert opinion on retail banking trends and I am sure you'll enjoy reading the contributions from these sector experts.

Tamas Braun – Driving customer insight at Finshape

Personalised experiences will continue to be a key influencing factor of brand loyalty

Even before COVID-19, “the 2020s were already being framed as the decade for digital bank transformation. Such changes reflected a mounting hunger for must-have innovations including seamless, hyper-personalised user experiences,” writes Temenos CEO Max Chuard for the World Economic Forum. In fact, KPMG has found banks’ ability to deliver personalised experiences to be a key, if not the most important, influencing factor of brand loyalty. Especially if such experiences “go beyond ‘skin deep’ personalisation to embed themselves into the daily lives of their customers.”

Finshape’s personalisation solutions help deliver the right experience through the right channel, at the right moment, based on customers’ needs, habits and preferences.

Understanding customers - Data analytics

Big data is no longer king. Smart data is.

In other words, data that is transformed into actionable insights – and ultimately, thousands of high-value, high-conversion interactions with your audience.

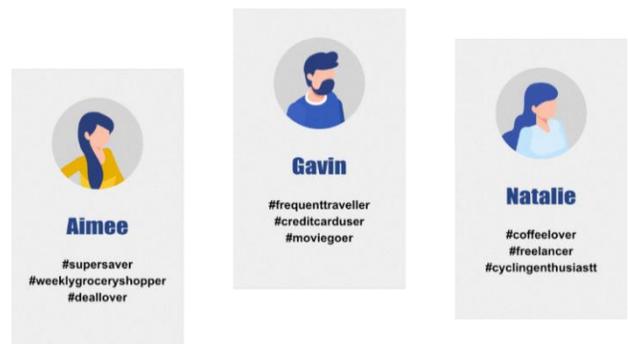
Get to know the customer behind the transactions, including how they bank, when they shop and where they eat out. Then turn that knowledge into value at each touchpoint.

The first step is to see your customers for who they really are – and what they want. Are they avid debit or credit card users? Where and how often do they do their grocery shopping? Are they into fine dining or fast food?

Finshape has developed **15+ profiles** with **300+ variables** to empower banks to segment customers based on spending habits. This is conducted with the help of machine learning clustering algorithms.

Based on pre-defined search criteria, personalisation platforms use algorithms to identify relevant groups of customers, down to micro-segments or personas, so banks can engage them with super-customised, super-relevant communication and offers.

Finding the perfect moments to reach out to customers.



In digital banking you are either hyper relevant or just noise. It is vital that financial assistance and offers meet an immediate need for the customer. Finshape’s personalisation platform helps banks to react on financial or life situations, so the interaction with the customer will be truly relevant and timely. Having access to real-time customer data helps to design communication with personalised messages and tailored to the context, situation, or life event the customer is in.

Such events can come from various sources and be the grounds for a bank-wide customer engagement experience. Imagine the combination of real-time event detection with profiling of data analytics, creating laser

targeted interactions. For example, a customer who has kids, travels frequently, has no travel insurance, and is currently at the airport, receives a discounted offer for travel insurance from their bank.

Finshape provides real-time data analytics for a leading Central European Banking Group to create a loyalty ecosystem that engages customers with advice, support and offers, such as:

- Highly targeted merchant-funded offers, based on real-time and geo-location
- Incentivising and rewarding specific behaviours such as setting up a Direct Debit or using online banking for the first time
- Introducing new banking products and services at exactly the right time in a customer's lifecycle or at a life event
- Letting a customer know that they are approaching their overdraft and they should slow their spending BEFORE they incur fees

Such services are based on non-traditional capabilities like detecting real-time transaction events or using real-time geolocation tracking to provide local solutions. Even more can be achieved by recognition of different customer lifecycle

and life stage events such as having a child, retiring, or moving house.

It is not only providing customers with a range of personalised offers but producing relevant offers at the right time. Imagine a customer who is a fast-food lover, just entering a shopping mall during the evening. Utilising the data available to the bank and geolocation from the App, this customer can receive an instant push message with a discount available from one of the restaurants nearby. It is only one click to activate the received offer and get the discount at the moment of purchase.

Finshape help retail banks to harness the power of their customer data to change the customer's engagement from distress to helpful, valuable and personal interactions. It's worth highlighting that a Central European Bank achieved **71% uplift** in credit card sales campaigns and **+39% transacted amount** at partner merchant stores when they approached their customers **with personalised, event driven sales campaigns** compared to traditionally planned CRM campaigns.

Such personalised experiences build real engagement both with the bank and partner brands

Ondrej Knot, CEO & Co-founder at Dateio

Card-linked marketing, the new way to target and engage banking customers.

People love discounts on their favourite brands. People love to feel appreciated for their long-time loyalty. But can retail banks and retailers get away with the same programs and marketing tactics they have used for many years?

The digital reality and focus on data have become something that no business can ignore.

Traditional retail banks must find new ways to keep up with challenger banks in terms of customer engagement and brand loyalty.

Neo banks have come to market with flexible and appealing customer propositions, that appeal to tech savvy customers. 21st century customers tend to have their mobile banking app next to their social media applications! They want to interact with the bank online and set up everything in one or two clicks. They want to use the same app to invest in stocks or cryptocurrencies, access credit, talk to their bank and access value adding offers. The modern banking customer doesn't want to go into branch or deal with paperwork.

Your banking app must offer a frictionless customer journey, and crucially, additional value to keep them engaged and loyal.

The retail sector is also experiencing changes. The Covid pandemic accelerated the shift from traditional brick-and-mortar stores to online shopping. The newly founded e-shops and delivery companies boomed.

The focus on data and digital marketing has increased. Retailers cannot rely solely on traditional marketing and mass discounting anymore, marketing investment needs to be targeted to the right customer.

Personalised offers are impossible for many retailers, unless they run their own loyalty program, which is a significant investment for the business.

Card-linked marketing is the right answer, for both retail banks and their merchant partners.

It is a highly targeted reward system that connects retailer offers with end consumers, based on their purchase behaviour and demographic, through their mobile banking app.

It's a Win-Win-Win for **banks, retailers, and customer!** Retail banks can serve highly relevant offers to their customers, retailers are able to drive profitable growth and customer take advantage of great offers.

✔ **Banks:** Higher client engagement with mobile banking app = more opportunities for x-sell & up-sell
Client activity increased by 10%
(measured by DAU/MAU ratio in mobile banking)



DATEIO

✔ **Retailers:** Access to highly effective & targeted tool to drive traffic to their stores
ROI of 200–300%
(typical campaign performance, measured on gross margin level)



✔ **Clients:** Access to attractive offers with frictionless redemption experience
Cash-back of EUR 130 p.a.
(average for clients using Dateio plug-in in CZ banks)



CASE STUDY - Erste Group - a path to a digital leadership

Erste Group is the largest retail banking group in CEE serving 16 Mio customers across seven markets. Erste Group launched their **new mobile banking app "George"** in all their markets,

and it soon became a "game-changer" for the bank driving the perception of Erste from a digital laggard to a digital leader. As of today, the app has got **7,5Mio** active users.

The card-linked marketing plug-in **Moneyback (powered by MAG.IC by Dateio)** fits in naturally and is a single, common solution for all Erste markets. It is currently live in the Czech Republic, Slovakia, Hungary, and Romania with launches coming up this year in Austria and Croatia.

Key Moneyback statistics (as of 04/2022)



Moneyback increases time spent using the mobile app.

Moneyback is an engaging solution driving daily visits to the Erste banking app, often exceeding 100k customers. The constant inflow of new, attractive offers ensures that banking customers want to engage with the program frequently.

Following Moneyback launch, DAU / MAU ratio increased by 10%

This is a ratio of daily active to monthly active users as a measure of how engaged the customers are with the banking app. Values above 30% are considered very good in banking and Moneyback has driven this metric from 28% to 32%!

A statement from the Erste Group "George" CEO Martin Kobza

"Moneyback is the most successful plug-in in George so far, clients feel the value, appreciate the ease of use and benefit from the attractive partners brought by Dateio"

Moneyback is an implementation of MAG.IC by Dateio, the card-linked offers proposition.

Dateio provides both the underlying technology on which Moneyback operates and "content" – offers from retail partners.



New merchant funded offers are automatically uploaded to Moneyback through an API, without any effort on Erste's side.

So in summary, the card-linked marketing platform MAG.IC by Dateio utilises the powerful data that retail banks hold to create mutually beneficial exchanges between banks, retailers and the customer. It delivers value to the end-to-end customer through precisely targeted retail offers, which engage the customer and make them more loyal to their retail bank.

It makes customers more engaged with the mobile banking app and, therefore, more active with the bank. The customer behaviour through MAG.IC by Dateio can also provide invaluable insight, so that the bank can engage the customer with relevant financial products and services.

Christopher Ross – President EMEA at Collinson Group

The changing landscape of customer loyalty in retail banking

Retail banking has seen substantial changes in recent years, presenting new challenges for customer loyalty. Pre-pandemic legislative changes, the warp speed of digital transformation during lockdowns and customer expectations post-pandemic are each making waves in their own right; combined they are a sea change demanding skilled navigation.

Open Banking sees brands battling for loyalty

Open Banking came along pre-pandemic to stir up competition, drive innovation and deliver a better experience for customers. The major players no longer had everything 'sewn up' and, with permission, data could be securely shared with incoming challengers, making an entrance with their shiny new consumer propositions and taking chunks out of the traditional big banks. The way we managed money, borrowed and made payments started to change. Entrants like Revolut didn't even need or have a UK banking licence – a sure sign of disruption. Start-ups began snapping at the heels of the bigger but slower Goliaths and banks were already having to compete for loyalty like never before.

The pandemic changes consumer expectations

Then came the global pandemic and with it wholesale changes in customer expectations. And like Pandora's Box, there's no putting them back. Customers now have a heightened need to trust brands both digitally and physically and they seek value thanks to online comparison shopping for nigh on two years. That said, we've all embraced new service models too; the pandemic didn't just educate us on price. Kerbside collections, deliveries, subscriptions, combined virtual and physical banking – none of these are going away. But if these were born out of being locked in, consumers now also want to break out the confines. They want experiential value from their relationships. Tomorrow's most successful loyalty programs will need to combine value with novel experiences.

Fast forward digital transformation

The next huge change lies in tech. Businesses have had to evolve or die during lockdown, flexing fast to be online and secure. A McKinsey Global Survey of executives as far back as summer 2020 found *'their companies have accelerated the digitization of their customer and supply-chain interactions and of their internal operations by three to four years. And the share of digital or digitally enabled products in their portfolios has accelerated by a shocking seven years.'*

<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever>

Retail banking and loyalty – what now?

Where does all this leave loyalty in retail banking? Does it mean that the neo banks will rise again, having initially launched with great fanfare and some traction but arguably failing to produce reliable, long term business models? This is uncharted territory, but we can say with certainty that there's no 'one size fits all' solution and that agility is key. To quote Jeff Bezos, CEO and President of Amazon:

"In today's era of volatility, there is no other way but to re-invent. The only sustainable advantage you can have over others is agility, that's it. Because nothing else is sustainable, everything else you create, somebody else will replicate."

We're likely to see a cluster of loyalty solutions come to the fore - high street models for retailers and customers interacting as a community, for example. Specialist services and utility loyalty for travellers and travel insurance bringing together apps, services and benefits. A neo finance model with a wallet as the first play and a race to add services and solutions to become the 'finance super app' on customers' phones. And with consumers ever more ethically and eco-conscious, there's room for a decentralised model where participants are empowered to become a force for good, using their collective value towards altruistic goals, even with potentially controversial tools such as cryptocurrencies and Non-Fungible Tokens (NFTs).

We will undoubtedly see more and more retail banking loyalty schemes which reward more than spend, reflecting the importance of multiple product holdings and broad brand engagement in the overall loyalty picture. For example, Collinson developed a unified, bank-wide loyalty experience for the UAE's biggest bank FAB which rewarded behaviours such as registering to FAB mobile and online banking channels, debit and credit card spending and salary transfers. 'FAB Rewards' (powered by our tech solutions Realtime-XLS, SmartRedeem Store and SmartRedeem Travel) has already increased card holder spending amongst active redeemers.

Behaviour profiling, segmentation tools and innovation can prove powerful when deployed together. Using these and our Realtime-XLS solution, Collinson provides a points-based, multi-partner, multi-scheme coalition loyalty programme for Alpha Bank in Greece, which combines innovative real-time earning and burning capabilities with a state-of-the-art mobile app, increasing convenience and engagement with customers. The programme has driven considerable usage of all banking products.

As ever though, the most important starting point is understanding customer needs - deeply. Only then can we create unique and sustainable value for them and in so doing, drive competitive advantage. Agility is key – for sure - but so is going to market with the right loyalty proposition, based on consumer insight. The programmes are likely to be different for every business – and if each loyalty programme is to play a part in brand differentiation – this will surely be the case. The winners will be those that quickly adapt to create new experiences and value, which is highly relevant to the customers and enriches the customer's engagement with the brand.

Partner summaries and contact details

The Loyalty People

The Loyalty People are a global strategic consultancy with a laser focus on loyalty, CRM and customer engagement. We work with our clients to build innovative loyalty strategy and differentiate existing programmes. We can also provide programme leadership, RFP management, market research, CRM optimisation and data analytics.

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Deon Olivier, Woodstock Loyalty Marketing (Associate Consultant for The Loyalty People)

An active member of the Loyalty Marketing community on both a client and agency level since 1999 with considerable experience across a broad range of market verticals including airlines, retail banking, mobile telco, retail, fashion retail, leisure & hospitality. Deon works closely with his clients to conceptualise and refine loyalty strategy, conduct market research, business planning, innovative customer value proposition design, customer experience mapping, marketing development and related strategic and operational design required to bring a loyalty programme to market.

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Finshape

In 2021, two established fintech companies, Czech-based BSC and Hungarian W.UP merged to form Finshape Group, a purely European entity with global focus and the aim of becoming a market leader in personalised digital banking. With more than 400 professionals, Finshape has an impact on over 20 million customers of 100 clients from the largest banks. For its banking customers the company group offers solutions from ready made products to tech consultancy with its innovative digital banking and data-driven personalisation capabilities.

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Dateio

Dateio is behind the technology and data-model programmes for leading European banks and operates MAG.IC by Dateio, the only well-established card-linked marketing platform in Europe.

MAG.IC by Dateio helps banks to drive higher activity among their clients and payment card usage while also supporting merchants to drive the life cycle of their customers and the revenue growth in the pay-per-performance model.

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Collinson

Collinson is a loyalty specialist helping clients acquire, retain and grow their customers by creating powerful loyalty solutions. With 35 years' multi-sector loyalty expertise, Collinson builds loyalty 500 million times a day, across financial services, retail and travel – including the world's leading airport lounge and experiences programme: Priority Pass, as well as loyalty programmes for brands such as Saudia, Radisson, FWD Insurance, Hackett, Cathey Pacific, Ikea and Eurotunnel.

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