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Interest rates are changing and so are customer strategies in financial services

→ Private and retail banks should be working on their customer strategy when interest rates rise. Here are proven ways to invest in customer retention and acquisition.

Interest rate rises increase the value of most personal banking clients to their bank [1]. This means that if banking leaders believe interest rates will rise (and most experts do [2][3][4]), then that should change your customer strategy.

Whether the relative value of high net worth and mass affluent increases over other segments does depend slightly on the structure of the balance sheet, and each bank will be different; however, most bank CEOs agree that the average "Life Time Value" (LTV) of higher-value customers grow as they make more money from cash deposits and other products that benefit from an increase in interest rates [1].

The other thing that happens when interest rates go up is that people, especially those with sizeable cash deposits, pay more attention to what their money is doing. With 50 basis points on the table, frankly it's not worth much effort to move it around even if

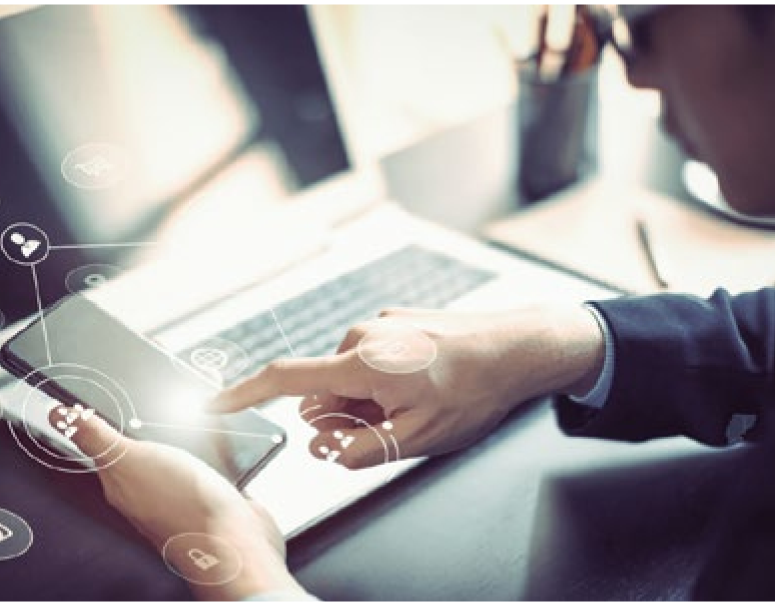
it's quite a large sum. When savings rates go up the wealthier folk tend to get a lot less passive about letting their money lie around so the big banks tend to see their relative share come under pressure. This threat to 'big bank' market share is compounded by two other factors:

1. The impending arrival of automated sweeping and switching enabled by open banking regulation.
2. The continuous stream of new market entrants looking to pick off the top-end

segment. These new entrants are not only the fintechs such as Revolut, N26, Monzo or Currensea. They also include 'big banks' from other regions (eg JP Morgan Chase coming into the UK with a digital offer that will appeal to mass affluent too, as the Goldman Sachs 'Marcus' account did a couple of years ago).

So, interest rates rising means 3 things for private and retail bank strategy:

1. You can invest more because your clients are worth more to you. If LTV has risen by 25%, it makes strategic sense to invest some of that in both customer acquisition and retention.
2. You need to invest more to defend your clients because your competition (whether new fintechs or the big giants) will be investing more.
3. You need to invest more in retention mechanics because your clients are more likely to leave you than before, because there is a more compelling reason with higher interest rates. This is compounded by open banking and fierce competition.



But what are the proven ways to invest in customer retention and acquisition? And what should you watch out for, especially in an environment where you can't guarantee that interest rates will continue to increase?

- **You don't want to build immoveable fixed costs into your operating model,** in case a geo-political trade war (or worse), another pandemic, or some other unexpected event leads to a reverse in interest rates. You want flexibility to ramp investment spend up or down, without upsetting customers or the regulator.

- **You want a future-proofed program that you can launch but without drawing on group IT spend** (it's pretty much a given that your bank CTO is already behind on the high-priority core digital banking initiatives) and you don't want to spend huge 'set-up' costs.

- **JP Morgan & Chase recently acquired a restaurant discovery and review platform,** alongside purchasing the technology platforms, travel agency, gift card and points businesses of cxLoyalty Group in December 2020 [5][6]. Why? To stay competitive: big banks are increasingly turning to unique customer experience (CX) solutions to create a holistic banking ecosystem, comprising both financial and non-financial matters. This allows them to stay relevant to consumer needs and beat out the competition. As the world's leading travel and lifestyle concierge service, at Ten we know that investing in (high-quality) lifestyle service as a CX solution gives a proven minimum of 3x ROI, alongside a crucial increase in customer retention and acquisition. For more information, visit our paper on the Value of Concierge.

Proven ways to invest in customer retention and acquisition

	Rapid speed to market	Low / no set-up cost	Flexible to budget	Agile, relevant proposition*	HNWI / mass affluent focus
Ten Concierge	Yes	Yes	Yes	Yes	Yes
Ten Content (Editorial, O&B)	Yes	Yes	Yes	Yes	Yes
Loyalty Points	No	No	No	Yes	No
Cash back	Yes	Vendor specific	No	Yes	No
Free insurance	Vendor specific	Vendor specific	No	No	No
Free Lounge Access	Vendor specific	Vendor specific	No	No	No
Build & manage through internal resource / capability	No	No	No	Yes	Yes
Partner discounts eg food delivery, hotels, cinemas etc	Vendor specific	Vendor specific	Yes	Yes	Variable

* E.g. if travel is restricted or regulations change

If you would like to discuss how we see the market progressing further or discuss any of the matters or ideas raised above, please contact us at **businessdevelopment@tengroup.com**

References

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3. Fed to raise rates three times this year to tame unruly inflation – Indradip Ghosh and Prerana Bhat, Reuters poll
4. Economists predict US interest rate rise in 2022 – Colby Smith and Christine Zhang, Financial Times
5. JPMorgan is buying restaurant review platform the Infatuation – Alexis Benveniste, CNN Business
6. JPMorgan is acquiring a major credit card rewards business in a bet that travel will rebound next year – Hugh Son, CNBC Finance

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