Investing in enjoyment delivers positive returns for financial services

As financial markets continue to test the confidence of banking customers, emotions play a central role in developing a customer's trust and commitment to the brand; so how should banks go about managing for emotional behaviours in the production and delivery of their financial services?

It's important to understand customer needs

Banks tend to promote similar services and this can limit their space for product differentiation. However, as PwC suggests, customers can be another source of differentiation. In measuring up customers, the normal route is to develop a solid understanding of customer demographics, behaviours, and preferences. In the case of banks, consumer psychology plays a particularly important role because the global economic environment continues to test the confidence of their customers. Indeed, a recent study by McKinsey's identifies two important points: (1) banks continue to be under high pressure to raise the level of perceived trust with their customers; and (2) to regain this trust, banks that are able to capture the hearts and minds of their customers will be most successful. However, as McKinsey's and also PwC point out, banks have tended to struggle in their approaches to develop close relationships with their retail customers. As a result, the ability of banks to understand customer needs and integrate them into their product development has suffered.

Put the customer at the heart of the bank's activities

Putting the customer at the heart of a bank's activities is a customer-centric strategy. Reports by PwC, McKinsey's, and KPMG echo that 'it is a call to action' for the banks. In banking, financial services customers can become involved in the co-creation of the service. As KPMG points out, understanding how services quality can be raised through enhancing customer participation is fundamental to the success of financial services providers. Indeed, research identifies that customer participation can be applied to raise service quality, and also raise the level of control and increase productivity in the provision of the service.

Are your people producing the 'spark' in the delivery of financial services?

Research by McKinsey's suggests that the 'spark', or positive moments that drive the trust and loyalty of customers in the provision of financial services is normally missing. The 'spark' that drives customer trust and loyalty is an emotionally driven behaviour. Positive moments that occur in direct interactions between services employees and customers are at the heart of developing deeper and more lasting customer relationships. Indeed, creating positive moments through connections that focus on the customer's emotional needs tends to modify customer perceptions in a way that raises their support and commitment to the brand. However, to achieve positive moments in financial services, employees need to place the emotional needs of the customers ahead of their own, and also the organisation's – including, for example, sales priorities. Why is it so important? McKinsey's finds that 85% of US banking clients surveyed raised their investments in their bank's products and assets after receiving a positive service experience. In Europe, positive service experiences delivered up to 20% more share of their customers' 'wallets'.

The key to creating the spark lies in the service co-creation process

Experts in service quality, Professor Bennett Yim and Professor Simon Lam from HKU's Faculty of Business and Economics suggest that in the application of customer participation, the key to adding value and raising customer satisfaction lies in the service co-creation or co-production process. As highlighted by Professor Yim: "it is well known that customer participation can lead to customised services and better services quality, however we find that it can also raise the level of stress that is experienced by the service employee". Following on from Professor Yim, Professor Lam explains: "in the application of customer participation, a closer look into how value can be raised across the interactions of both the customer and the service employee are therefore required".

Prior research tends to support the notion that customers desire intrinsic or psychological benefits from the service, and that such benefits may enhance the customer's motivation to participate in the co-production of the service. Among other things, psychological benefits could include the enjoyment experienced in the provision of the service, for example. However, as Professor Yim explains, "although much is known about the tangible benefits of customer participation in the provision of services, little is known about whether and how customer participation can create psychological benefits in the form of an enjoyable experience for both the customer and the service employee, and the outcomes of such positive experience". Issues relating to 'self-value', and also how the customer and service employee feel about each other's ability to perform tasks, and how such factors may influence their behaviours could also be important here.

To address these issues, Professor Yim, Professor Lam, and their colleague Associate Professor Kimmy Chan from The Hong Kong Polytechnic University developed a model to study the enjoyment derived from customer participation in services, subject to the confidence and capability the customer and service employee perceive of themselves and also of each other. As the first marketing study of this kind, they chose to test the model within the context of financial services. As Professor Lam explained: "these services offer an opportunity to study the psychological factors at play in the interactions between customers and service employees; they require teamwork by both clients and financial advisers and the perceptions of either party is likely to influence the effectiveness of their co-production of the service". Information for the study was collected from a multinational bank, and included data from 223 matched pairs of services employees and their customers, across the areas of asset/funds management, financial planning, loans, and insurance. Findings from the study are discussed below.

How to generate enjoyment in the customer participation experience

Within the financial services interactions studied, a number of conditions of positive emotions raised the enjoyment experienced by both customers and financial service employees. The enjoyment experienced within these interactions raised the level of satisfaction experienced by both the customer and the financial services employee. It also tended to raise the perceived value that customer participation adds to the co-creation of the financial services. Customers and service employees perceived more value in the co-creation of the services as they tended to feel more comfortable, and as a result more willing to put more effort into overcoming difficulties or obstacles encountered in the co-creation of the service. Conditions where positive emotions were found to raise the enjoyment experienced by the customer and the service employee, are identified below:

Condition 1 Customers and service employees derived the most enjoyment through customer participation when they both perceived that each other's levels of confidence and capability are high.

Condition 2 When the customer and financial service employee perceived that they themselves possessed a high level of capability and confidence, this tended to raise the level of enjoyment experienced by both in the co-creation of the service.

Condition 3 When customers perceived that the financial service employee possessed the capability and in particular the confidence to respond to their participation, they tended to enjoy the service process more. This condition tended to raise the customer's perceptions of their own level of confidence and also their capability to participate in the co-creation of the service.

Condition 4 Experiencing enjoyment in the co-creation of the financial services was also found to exist when both the customer and service employee hold the perception that the customer's capability and confidence is low, but they also both hold the perception that the service employee's capability and confidence is high. In financial services, the service employee is expected to deliver professional guidance and advice, and complementary perceptions in this case tended to validate the perceptions and expectations of both parties in a positive way.

The positive perceptions identified in the above conditions played a significant role in both the customer and financial services employee deriving enjoyment from the customer's participation in the co-creation of the service. As part of managing the process of matching customers with service employees, the results of the research therefore highlight the importance of identifying perceptions relating to the competence and confidence levels that the customer and financial service employee hold for themselves, and also hold for each other. Indeed, placing a focus on these perceptions should assist to enhance the enjoyment experienced in the co-creation of the services. This would appear to be important for a bank and also other financial service providers. It could hold the key in raising a bank's ability to capture the hearts and minds of their customers. As McKinsey's suggest, these banks will be the most successful in regaining the trust of their customers; customers that will raise their support and commitment to the bank's brand.

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