South China Morning Post

Friday, October 20, 2006

The battle for disaffected customers

Bruno Lannes and Oliver Stratton

The Industrial and Commercial Bank of China has convinced investors the future is bright, with a stock market listing predicted to raise as much as US$22 billion and become the world's largest initial public offering. The challenge now for ICBC and other mainland retail banks is to convince customers to adopt an equally optimistic view.

One key question is: where will affluent consumers take their nest eggs as the mainland prepares to deregulate consumer banking by the end of the year? That change will allow foreign competition for savers holding 325 million accounts, totalling nearly US$1.8 trillion.

The truth is that, except for sticky red tape, consumers have few reasons to keep their money where it is. Mainland banks offer virtually zero interest to depositors and minimal access to personal loans or lines of credit.

Customers are restless, according to a Bain & Company survey of nearly 7,500 customers at 20 Chinese domestic, state-owned and publicly traded joint-stock banks in eight major cities. And dissatisfaction is peaking just as the retail banking segment is set to take off.

Mortgage loans have been increasing by nearly 60 per cent annually since 2000. Home lending is forecast to grow to US$725 billion by 2010, with after-tax profits exceeding US$3 billion.

Asked how likely they were to recommend their bank to a friend or colleague, promoters outnumbered detractors by only 4 percentage points. That is bad news for the banks, as customer advocacy is the single most reliable predictor of organic growth.

Indeed, the "big four" state-owned giants – the Bank of China, China Construction Bank, ICBC and Agricultural Bank of China – appear to have especially poor growth prospects, all far below the study average. More promising are the city commercial banks, nine of which ranked among the top 10 in our survey.

The problem is that building customer loyalty requires reversing decades of customer neglect. The most urgent issue is how to retain the wealthiest 20 per cent of urban households – all 75 million of them – with annual incomes exceeding US$2,500. Although just 2 per cent of customers, they account for more than half of all profits.

Wealthy customers are also the most likely to switch banks. Foreign banks will initially be allowed to compete only for mainlanders' time deposits exceeding US$125,000. Thus, these customers will be the target.

Identifying those customers and appealing to them with quality service therefore becomes a key strategy for foreign banks, particularly since the biggest retention weapon of the big four is their branch networks, which foreign banks cannot easily duplicate.

One counter ploy is the approach of Standard Chartered Bank, which is concentrating on the biggest cities and introducing services such as personal financial advisers, foreign-currency products and a 24-hour customer hotline. This is standard fare in most developed markets but still a novelty in China, where most banks see themselves as deposit takers.

Recognizing this, a few banks are starting to redesign products to broaden business with customers. For example, the Bank of Shanghai, a city institution in which HSBC owns an 8 per cent stake, said it talked to customers before becoming the first to offer credit cards denominated in a foreign currency, as well as home, car and personal loans.

The expanded range of products has helped the Bank of Shanghai to the highest loyalty rating in the city. Behind such moves lies a corporate strategy that might seem radically new to a society steeped in collectivism and hierarchy: a focus on the individual.

Bruno Lannes is a partner in Bain & Company's Shanghai office. Oliver Stratton is a partner in the firm's Hong Kong office