

CHRISTINE T ENNEW AND NIGEL WAITE

FINANCIAL SERVICES MARKETING

AN INTERNATIONAL GUIDE TO PRINCIPLES AND PRACTICE

WITH A FOREWORD BY RON SANDLER



Financial Services Marketing

An International Guide to Principles and Practice

Christine T. Ennew and Nigel Waite



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Foreword

By Ron Sandler

There is an urgent need to upgrade standards of financial literacy. This was one of the principal messages arising from the Savings Review that I led recently on behalf of the UK Government. Finding ways to deliver effective financial education represents one of the most important challenges that we face if consumers are ever to become empowered to make informed financial decisions about their future. It is equally important that those involved in developing and marketing financial products and services are properly alert to the interests of their customers. This textbook represents an important step in seeking to align the interests of the financial services consumer, be that a private individual or a business customer, with those of the financial services provider.

The financial services industry across the globe has a pivotal role to play in facilitating economic development, eradicating the joint scourges of poverty and exploitation, and safeguarding the well-being of all of human kind. These aspirations will only be realized if products and services are designed such that they meet the genuine needs of customers. Amongst other things, this calls for product design that emphasizes simplicity and ease of understanding; communication that is concise and clear; and the provision of advice and information by knowledgeable and confident staff. All of these features must be bound together by a coherent marketing strategy.

This book has been conceived and written to improve the quality of financial services marketing. It is intended to have equal value as a core text in a university setting, and as a training resource in the world of the practitioner. I sincerely hope you gain personally from studying it and, as a result, are able to contribute further to the development of a financial services sector that functions well and efficiently, with all the wider societal benefits that this brings.

Ron Sandler is chairman of **pfeg**, a charity created to deliver personal finance education in schools. In 2001/02, at the request of the Chancellor, he led an independent review of the long-term savings industry in the UK. In his business career, he has been Chief Executive of Lloyd's of London and Chief Operating Officer of NatWest Group.

Preface

A formal approach to the marketing of financial services is a relatively recent phenomenon, even within the developed nations of the world. The marketing of packaged goods, such as confectionery, food, soft drinks and toiletries, has been subject to an enormous investment in classical marketing skills and capabilities since the early part of the twentieth century. A continuity of investment in marketing has enabled brands such as Coca Cola, Wrigleys, Gillette, Campbells and Cadbury to become, and remain, leading brands in their respective sectors from the 1920s and onwards into the twenty-first century. Competitive pressures have played a major role in sharpening the marketing appetites of the packaged goods sector. Additionally, the relative simplicity of the products and the transparency associated with them have also been catalysts for the development of marketing edge. Cost proximity and the need for economies of scale have added further impetus to the development of the marketing skills of this product area.

The financial services sector, on the other hand, has not been subjected to the same market pressures in order to survive and prosper. Until comparatively recently, the financial services industry in many countries has operated within a comparatively benign market environment and, in some instances, has been substantially state managed and controlled. In contrast to the packaged goods arena, rivalry amongst financial services providers has tended to be more collegiate than competitive. Diversity of supply and relatively low individual company market shares have been particular features of many sectors of financial services. For example, in spite of the received wisdom of mergers and acquisitions, there were 613 companies authorized to carry on general insurance business in the United Kingdom in 2004, compared with 627 some 11 years earlier.

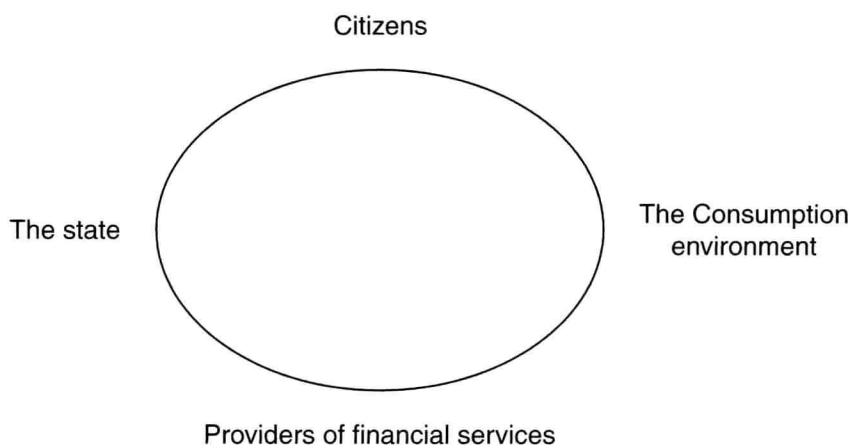
Financial services products, in general, are far more complex than their packaged goods counterparts. It is fair to say that consumers evidence low levels of knowledge and self-confidence when it comes to comparing and contrasting the range of products on offer. The issues associated with product transparency serve to further weaken consumer power, resulting in a less vigorous form of competition. The drive for economies of scale has been far less of a feature of financial services, and this too has lessened the need to be at the leading edge of marketing.

Two further factors of note that have played a part in lessening the need for state-of-the-art marketing are the influence of government, and consumers' attitudes towards financial products. In many respects, governments have played a crucial role in the development of new products and the associated promotion of those products. This is in marked contrast to the packaged goods industry. The introduction of personal pensions and tax-advantaged savings schemes has presented the industry

with major new business opportunities. It is salutary to note how, in the case of personal pensions in the UK, this government-initiated product resulted in wholesale abuse and long-term damage to the reputation of the industry. Arguably, this arose because the industry was far too sales-orientated and insufficiently customer-orientated. It certainly shows up the marketing shortcomings of the sector. Similarly, the government-induced withdrawal of products and the lessening in tax favourability have acted as highly potent sales promotions.

Turning to consumer attitudes, it is in the nature of financial services products that consumers do not gain explicit enjoyment from their consumption. On the contrary, a great many financial services products involve a reduction in current consumption pleasure, because money is diverted from such consumption as a contingency for some future event. You might even say that financial products are not only boring but also lessen the pleasure to be had from consuming other products that do offer explicit enjoyment. The absence of consumption-associated pleasure and the general level of consumer disinterest have therefore served to reduce the importance of marketing within the financial services industry.

All too often one senses that, at least for some financial services organizations, marketing is a term that applies to a department that produces promotional material. As will be seen in this book, marketing is (or should be) a broad cultural and philosophical approach to overall organizational behaviour, and not some narrow field of functional competence. This book sets out to present financial services marketing as an overarching set of processes that aim to achieve a balance between the key components of the wider environment.



For this reason, this book comprises three core parts. Part I is devoted to the strategy and planning elements associated with marketing. Here, we examine the complex inter-relationships that exist between the financial services industry, the state and the citizen. A theme that runs throughout this entire text is that a positive-sum game should be at play in which all three parties are mutually advantaged through their interactions. Across the globe, we see evidence of financial services industries that appear to be engaged in a perpetual struggle for the trust of consumers and confidence of government and regulators. The present authors argue in favour of a

marketing approach that is consumer-centric and founded upon core values of value for money, integrity, trust, security and transparency. In our view, the adoption of such values is axiomatic of good marketing practice and a prerequisite for the development of successful financial services industries throughout the world.

Additionally, Part I describes the participants that comprise the financial services marketplace. This provides the context necessary for a full understanding of how the marketplace operates in servicing the needs of customers. Included in this part are details of the product ranges that comprise the financial services domain. All too often, both students and those employed in financial services display a lack of breadth concerning financial services products and providers; this book aims to provide the necessary knowledge.

Importantly, Part I provides concrete approaches to the processes associated with developing marketing strategies and plans. These approaches will not only equip students with a solid grounding in the disciplines associated with strategy, but also be of real practical value to those actively engaged in working within financial services organizations.

Part II focuses upon the principles and practices that are associated with becoming a customer of a financial services provider. Traditionally, this has been the primary focus of general marketing textbooks; indeed, it is a key element of this present one. However, it is grounded in good practices that are in evidence both in the financial services domain as well as in other commercial marketplaces. Of particular note are the vignettes that have been sourced from organizations throughout the world.

Part III is dedicated to the principles and practices that concern the development of customer relationships over time. This is of particular importance in the context of financial services. The incidence of short-term organizational gain, to the long-term detriment of the consumer, has been far too prevalent in the past. Insufficient attention has been given to how to manage existing customer relationships in favour of new customer acquisition, and this book hopes to help redress the balance. Again, examples of good practice from a range of countries are given to make the concepts and principles more concrete.

In conclusion, this is a book that will help both the student and the practitioner to develop a firm grounding in the fundamentals of financial services strategy, customer acquisition and customer development. It draws upon both relevant conceptual and theoretical models as well as relevant practical applications. Every effort has been taken to adopt a style of English that will make this text accessible to the widest possible audience. Of course, there is a role for special marketing-related terms; however, these are used within a written context that seeks to be straightforward and free of 'corporate speak'.

Many people have helped with the development of this book, and we are grateful for their contributions. In addition to the various organizations that have provided information and insights into their marketing practices, we also wish to thank Anna Fabrizio and her colleagues at Elsevier, who provided support and enthusiasm through the process, and, last but not least, Miranda Hancock and Gerardine McCullough, who both deserve our gratitude for sterling work in the preparation of the manuscript. Thank you!

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Part **I**

Context and Strategy

The role, contribution and context of financial services

☐ Learning objectives

By the end of this chapter you will be able to:

- understand the economic and social significance of the financial services sector
- recognize the diverse ways in which financial services can impact on key aspects of everyday life.

1.1 Introduction

Product and market context exert a significant influence on the nature and practice of marketing. Marketing activities that are effective for fast-moving consumer goods may be wholly inappropriate when marketing fine art. What works in Canada may be ineffective in China. Accordingly, an appreciation of context is essential in order to understand the practice of marketing. Nowhere is this more evident than in the financial services sector. Social, political, economic and institutional factors create a complex context in which financial services organizations (FSOs) and their customers interact, and, of course, these in turn may vary considerably across countries. All too often, discussions of marketing practice fail to recognize the importance of explaining and understanding these contextual influences. The purpose of this current chapter is to provide an overview of the context in which financial services are

marketed and to explain the economic significance of the sector. Further detail on the nature of the sector itself is provided in Chapter 2.

The following sections outline aspects of social and economic activity where the financial services sector has a key role to play and where its activities have significant implications for economic and social well-being. We begin with a discussion of the potential contribution of the sector to economic development in general. The subsequent sections go on to explore the role of the financial services sector in welfare provision, in income smoothing and in the management of risk. We then explore the significance of financial exclusion and its potential impact on the welfare of the poorer groups in society, before reviewing distinctive features of the financial services industry – namely the coexistence of mutual and joint stock companies. Finally, there is an overview of the issues relating to the regulation of financial services.

1.2 Economic development

Although economic and political theorists sometimes have very different opinions on the nature and value of economic development, there is a widely accepted view that controlled, managed economic development is, on the whole, a desirable means of furthering the well-being of humankind. Moreover, economic development that combines the positive aspects of the market economy (particularly innovation and resource efficiency), with the collectivist instincts and community focus of state legislatures is, arguably, most likely to serve the common good.

Economic development is being pursued by governments throughout the world, with varying degrees of success. Access to investment capital facilitates economic development, and a vibrant banking sector has a pivotal role to play in this regard. The liberalization of financial services in the former Communist countries of Eastern Europe has enabled inward investment to occur that has allowed many of them to be successful in joining the European Union. Similarly, many of the rapidly developing economies of Asia are focusing attention on liberalization of their financial sectors as an aid to economic growth and development.

As well as the provision of investment capital through competitive banking systems, the development of stock markets has provided a further means for the raising of capital. In turn, this has broadened the classes of assets that are available in which financial organizations and individuals can invest.

In addition to its significance at the macro-level in facilitating the process of economic development, the financial services sector also plays an important role in delivering social well-being through its impact on the provision of welfare, as the next section explains.

1.3 Government welfare context

The welfare of humankind, at least for the vast majority of the world's inhabitants, is significantly influenced by financial well-being. At a macro-level, nation states, organizations and individuals all require access to the financial resources necessary