

## **Less is More**

### **The Future of Finance is Simply Easy**

Roger Peverelli and Irene van den Brink

*Currently, banks and insurance companies have only one thing at the top of their agenda: how to regain consumer trust? The credit crunch has given the consumer a serious reality check regarding their financial decisions and situation. At the same time the credit crunch has accelerated important consumer trends such as the desire for transparency, simplicity and business ethics, which have now become essential building blocks for the future.*

Not only in financial services, but in every industry consumers demand transparency. They want to know exactly what a company stands for: what is their utility company doing to protect the environment, is their favorite sports brand using child labor and from which particular plantation has their rice come from. In the financial services the demand for transparency has grown even stronger because in the perception of the consumers the cause of the credit crunch is complexity and lack of transparency, which has led to high risks and lack of control. Therefore, financial service providers must return to their roots: being the financial linking pin in society's infrastructure. To achieve this, transparency is a must. And that is best reached through simplicity in products, processes and services. Furthermore, ethics will be an important driver for the industry in the coming years. Financial companies must continuously act from a higher purpose: their role in society. Ethics should be at the basis of innovation in products, services and marketing - ranging from savings and investments, to reward programs, to process control, - but most of all in the way the company places the interest of the consumer central to its business. Honesty, openness and fairness is what consumers demand, making ethics impossible without 'simplicity'.

In itself 'simplicity' has been an important consumer trend for some time. In an increasingly complex world, consumers are looking for serenity and oversight and for things they can intuitively understand intuitively, so that they can simply find their own way in little time. Consumer research by VODW and Marketresponse shows that 8 out of 10 people find 'simplicity' important for a product or service in the orientation

process, the purchase process, in the actual use of the product or service and in the after-sales service.

More and more companies explicitly tap into the 'simplicity' trend. Think of Apple, Google, Philips with 'Sense and Simplicity', and TomTom. In the past, technological innovation seduced companies to increase the complexity of products and services. Today we are at the point that we can use technology to produce simplified products and services. At Philips, the number of successful product innovations has increased enormously since they focused on simplicity. Superior technical bells and whistles are no longer leading, but user experience is. The magazine Real Simple is targeted on 'making life easier'. Eight years after its introduction, with monthly 7.3 million readers, Real Simple is the fastest growing magazine in the United States, the jewel in Time Warner's portfolio and is published from the US to Japan. Consumers demand simplicity.

Over the last few months we have been talking nearly non-stop with executives from banks and insurance companies about the future of financial services, in financial centers in Europe, Asia and the United States. In general the number one priority on the agenda is: how to regain consumer trust? Most executives we have spoken to are convinced that transparency, simplicity and business ethics are the keys to a successful future. And they are in the middle of the process to determine how exactly to get there. The first step is generally to meticulously screen the complete product-portfolio and services, often with stunning results. A life insurance company in Germany told me that a brief analysis had shown they had no less than 150 different insurance products in their portfolio. At an international scale this would multiply tenfold. A French asset manager counted 400 different investment funds. These kinds of numbers make the offer completely nontransparent not only to consumers, but also to employees and distribution partners.

We see a clear development in the way in which financial service providers embrace 'simplicity'. Previously financial service providers translated 'simplicity' to self-service: facilitating customers to help themselves. This was in fact more a method to reduce costs for the company rather than serving the consumer. Now the focus is shifting to actually simplifying products and services themselves. The thought is that since it's the complexity of products that has resulted in problems, that is the issue we need to solve. But this scope is too restricting.

The step in the process to 'simplicity' must be a fundamental one: 'simplicity' as a key to realizing transparency and as a precondition for business ethics. This requires defining 'simplicity' from the consumer's perspective. Essential in this are the so called 'moments of truth': those critical moments where you can prove to your consumers, or distribution partners, that you really have 'simplicity' in your DNA. For consumers 'simplicity' means that a bank, but also other organizations, has got the basics under control by performing correctly on all the essential aspects of the product or service. No more, but certainly no less. 'Simplicity' means that products and services must not only be easy to understand, but also easy to buy and easy to be used by the customer, and easy to be sold by the sales organization and distribution partners.

Essential is to literally go through all the customer processes yourself as the customer does. Experience opening a new account, or change your address, and examine which bureaucratic procedures the consumer is confronted with, or how many people must sign an application, or how many forms must be (re)filled out. Recently we asked senior managers of an insurance company to fill in their own application forms. Nobody completed the task within 5 minutes. Reason: everyone from sales to the legal department had interfered with the development and design of the application forms but, which is usually the case, no customer had been asked for his opinion. Many financial products and services have been developed with the technical possibilities of the IT systems as a basis. If the customer, for example in co-creation, would be taken as the starting point, this would almost certainly always lead to simpler products and services.

The growing importance of business ethics means that consumers not only look at the quality of products and services, but also at the behavior and attitude of the company. Customers want to be able to easily trace what the destination of their money is, but also what their financial service provider invests in. The same applies to investments in social responsibility, marketing and distribution. Take for example the reward structure for distribution partners or the mutual subsidizing between products. In order to get these 'right' in the eyes of the customer, 'simplicity' needs a 360° view. 'Simplicity' clearly does not only concern the products and services, but also marketing, pricing, brands and labels, distribution, customer touch points, management, processes, systems and so on. Incorporating 'simplicity' in all these aspects will close a gap with consumers.



**Simplicity cuts two ways**

‘Simplicity’ does not only increase revenues, it also cuts costs. For example, reducing the number of products has a huge impact on the operational costs and efficiency of the company. By doing so, the financial industry copies companies like Unilever, which made the choice to reduce the number of brands by 75% years ago. This reorganization of brands had not been prompted by the customer, but in the end the customer profits from a more streamlined organization with a lower cost structure. Within the financial industry ‘simplicity’ means that banks and insurance companies must scrutinize their product range and find a way to make this more transparent, convenient and accessible for the consumer. That means making (difficult) choices! Translating ‘simplicity’ to the organization itself, it means that for instance internal report structures and processes must be simplified. In any organization, eliminating complexity results in a cost reduction and therefore an increase in the efficiency ratio.

Our experiences show that banks and insurance companies absolutely must invest in simplicity, even if the credit crunch had not taken place. Because it immediately results in structural top- and bottom line growth. Below are some facts and findings based on our experiences worldwide:

- One in four consumers is willing to pay extra for simplicity.
- The simpler the product range, the less 'purchase stress' leading to higher response and the less final disappointment.
- The more extensive the product range, the higher the organizational and IT-costs.
- The simpler the product, the higher the appreciation, customer satisfaction and recommendations to family, friends, acquaintances and colleagues (Net Promotor Score).
- The simpler the product, the more innovative the image of the supplier.
- The simpler the buying process, the higher the conversion rate (Note: a buying process that is too simple results in distrust, a buying process that is too complex results in abandonments - therefore look for the right balance).
- The simpler a product can be explained, the more the sales force prefers selling the product and the more the product becomes attractive to potential buyers.
- The simpler the product, the fewer complaints and returns leading to a lower cost to serve.
- Simplification of products and services results in 15 to 40 per cent increase in retention. Simplicity is one of the most important drivers for loyalty.

'Simplicity' delivers considerable profits, both for the customer and for the company. Obviously the focus needs to be on the right investments with maximum results, for which the before mentioned 'moments of truth' are a useful guide. Getting the 'moments of truth' right will make a lasting impression on the customer and make him an ambassador for life.

### **Simplicity is pragmatics.**

Unfortunately it takes time to get 'simplicity' into the veins of an organization and into the behavior of each employee. But keeping it pragmatic and wariness for long-term strategic 'simplicity' projects will speed things up. Map how successful departments or business units have organized their 'simplicity' and share experiences to combine all types of successes into a "best solution". Build on small successes on country or department level. These successes show that it works and then act as an example for the rest of the organization. Let yourself be inspired by successful companies outside the industry. Google, Apple, Philips. Think outside the box. Reducing the lead-time, for example of a mortgage application, contributes to the perception of simplicity. Make it happen. The major pitfall is that 'simplicity' is pretended but not actually

delivered, like with Microsoft Vista: 'Get things done and get on with life! It's easier and faster than ever before.' A promise that Microsoft could not deliver and that perfectly illustrates why 'simplicity' does not start advertising but should end with it, at best.

**Simplicity is a constant challenge.**

'Simplicity' is a powerful theme for organizations to focus their energy on. Everyone, from product development to administration should embrace this 'simple' theme and challenge whether things still can be made easier for the customer. Ultimately, 'simplicity' must be part of a company's DNA. And that makes 'simplicity' really not so easy to realize. The implementation of 'simplicity' is a process that is never finished, and requires an open mind. Cherish the challengers in your organization. In fact, life insurer Zurich, has recruited 'Challengers' under its own staff, critics, with the task of constantly challenging products, processes etc. Google allows employees one day a week, to think about new solutions. These are quickly developed, tested and, if successful, launched at large. Or install, like Philips did, a Simplicity Board, which tests new products on simplicity and user friendliness and if necessary, send developers back to the drawing board.

*Roger Peverelli is a partner at VODW Marketing, one of the largest marketing consultancies in Europe. He advises banks and insurance companies across Europe on restoring consumer trust and preparing for the future. Roger is co-author of 'The Future of Finance'.*

*Irene van den Brink is managing consultant at VODW Marketing. She advises multinational financial service providers on achieving growth through simplicity, from customer contact and sales to product range and marketing.*