1 Marketing and financial services: an overview

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Learning outcomes

By the end of this chapter, the reader will be able to:

- Understand how marketing theory underpins the marketing of financial services
- Appreciate how recent thinking in marketing and services marketing applies to financial services
- Be able to identify key issues for marketers of financial services

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Introduction

services: an offering in which the dominant part is intangible, which is the case in most financial services

value: the aim of marketing is to create/deliver an offering that allows the consumer/stakeholder to derive benefits particular to their needs/wants

Services are products that we purchase and consume in ever-growing quantities; they range from restaurant meals to university education. In business markets, services include such things as cleaning and IT. The businesses that provide these services understand that delivering **value** and customer satisfaction are key to ensuring their businesses survive and flourish. Such is the importance and pervasiveness of services provision that it is argued that services now dominate marketing (see Vargo and Lusch 2004), whereas goods used to have the upper hand.

What are financial services?

Financial services are any service or product of a financial nature that is traded in financial markets; specifically, they are financial instruments – for example, treasury bills and government bonds. There are a number of ways that financial instruments can be classified. Do they have a fixed or variable interest rate? How long to they take to mature? Are they offered by a deposit-taking or non-deposit taking intermediary? Financial services cover an extensive range of instruments and in the United Kingdom the Financial Services Authority (FSA) provides information to the consumer marketplace on bank accounts, equity release schemes and long-term care (moneymadeclear.fsa.gov.uk/products/products_explained.html). The marketplace for financial services is extensive, as banks, insurers and investment banks operate in a global marketplace and have a wide range of customers, including retail consumers, business customers of all sizes and other financial institutions. Other examples of financial services can be seen in Figure 1.1, which also shows services offered to businesses, domestic and global, for profit and not for profit.

From a marketing perspective, there are some important points to remember about financial services. Looking at Figure 1.1, it is clear that none of the products is very desirable, especially when compared with other things that money can be spent on, such as cars, designer handbags or holidays. In fact, several of the examples are downright unattractive, such as pensions and funeral plans. This lack of intrinsic desirability is key in the marketing of financial services. Marketers of these products have to be aware that customers, whether retail consumers or business customers, do not purchase these items because they are in themselves desirable or 'must have' products. What financial services generally do allow customers to do is to purchase or acquire those products and other services that *are* desired, such as holidays, or indeed the 'must have' handbag; or, for business customers, these products offer the possibility

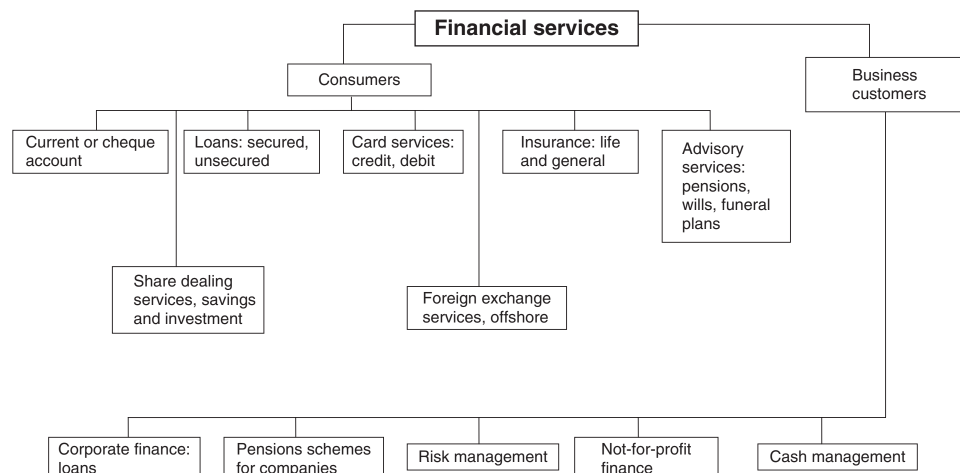

Figure 1.1 Financial services

of avoiding the 'hassle' of managing complex financial arrangements. Financial services are also acquired to avoid an undesirable state or outcome, for example, health insurance. Exhibit 1.1 illustrates some of the options for ensuring that you have beautiful teeth.

EXHIBIT 1.1

Dental insurance

Finding a dentist in the UK National Health Service (NHS) has become increasingly difficult. Dental insurance allows the customer to choose a dentist and claim the cost of the treatment, whether they use a NHS dentist or go private. The scheme usually requires the customer to pay the dentist for the treatment and then claim the money back from the insurer, but dental policies often will not pay for the full cost of the treatment. Most policies set maximum amounts that they will pay out in any 12-month period. Some insurers will only pay 75 per cent of the treatment with an annual maximum cap. Customers normally have to enrol three to six months prior to using the plan. Insurance premiums, that is, the amount that the customer pays for the insurance, are based on the age of the customer and can vary widely. Two types of dental insurance scheme exist: capitation schemes allow customers to pay on a monthly basis instead of settling a bill each time. Cash plans can include health cover and providers offer part-cover for dental treatment, typically between 50 per cent and 75 per cent, as well as other benefits, such as help with optical treatment and health screening. Although dental plans cover all major and

minor treatments, they do not cover dental implants, treatment of injuries sustained during sports, cosmetic and orthodontic treatment, oral cancer treatment, salivary gland treatments and treatment of severe dental abscesses. Most insurers will insist that that the customer has no dental work pending, and has reasonably good dental health. Some may even ask the customer to declare in writing that they visit a dentist regularly for a check-up.

Denplan is the United Kingdom's leading dental payment plan specialist, with 6,500 member dentists across the United Kingdom (approximately a third of practising dentists) treating over 1.8 million Denplan patients. The Denplan premium depends on several factors, including the customer's dental health. These plans are best suited for those who need regular treatment, and are therefore looking to spread treatment costs. The concept behind Denplan allows dentists to charge their patients a fixed monthly fee, based on the condition of their teeth and gums, which provides them with regular examinations and treatment. The stable income that this system provides means that dentists can focus on quality of care rather than the quantity of patients they see. Dentists can practise at the highest standards, whilst retaining independence and control of their business. In addition to personal dental payment plans, Denplan also provides corporate dental cover for companies and their employees and Denplan for schools, an insurance plan for pupils at independent schools. Denplan has grown substantially since its inception in 1986 and is now part of a worldwide insurance company dealing with life, health and other forms of insurance, as well as investment management.

Compiled by the authors from: www.moneysavingexpert.com/insurance/dental-insurance, www.moneysupermarket.com/dentalinsurance, www.cosmeticdentistryguide.co.uk/dental-insurance.html.

In general terms, insurance is something that consumers and businesses purchase to avoid a worse outcome than not having it. Insurance is often compulsory – for example, for car ownership or mortgages. Businesses have insurance also to meet with legal requirements such as health and safety legislation. Financial services, therefore, are enabling products; that is, they enable the ownership of a house, the booking of tickets on-line for entertainment, the availability of cash for holidays or the ability of businesses to import goods from other currency areas. They also allow both consumers and businesses to have things before they can actually pay for them, or 'credit'.

We use the term 'financial institutions' (FIs) throughout the book as it embraces the diversity of players in the business of financial services. The key activity of FIs is intermediation, which means that 'they create assets for savers and liabilities for borrowers, which are more attractive to each

than would be the case if the parties had to deal with each other directly' (Howells and Bain 2007: 6).

An example of intermediation is the building society, which takes in investments from savers, which the society then uses to lend on to people seeking to buy their own home. Building societies have been doing this since the eighteenth century and, until legislation in 1986, could only lend on what they actually had in terms of investments. Financial institutions that actually create products rather than merely distribute them are then considered to have created liquidity (Howells and Bain 2007). FIs can be divided into deposit-taking and non-deposit-taking intermediaries. A bank, for example, takes deposits, whereas an insurance company does not. Although not all FIs are intermediaries in this sense, marketing financial services is an activity that is shared by the following types of institution (Cheverton *et al.* 2005):

- Retail, corporate, investment and private banks
- Mutual funds, investment trusts
- Personal and group pensions
- Life and general insurance and reinsurance companies
- Credit card issuers
- Specialist lending companies
- Stock exchanges
- Leasing companies
- Government saving institutions
- Brokers and agents

As this list of organizations indicates, there are a great many different types of provider. Indeed, supermarkets and retailers, such as Marks & Spencer and Asda, can be added to this list. Debenhams, the department store, for example, offers a range of insurance products, including insurance for weddings and honeymoons (www.debenhams.co.uk). Some FIs have specific customers in mind – for example, the private banking sector as shown in Exhibit 1.2; for some customers, the idea of having an exclusive bank providing for their financial needs is attractive.

EXHIBIT 1.2

Private banking

Private banking is becoming close to losing the cachet that was once attached to the intensely secret dealings between a Swiss banker in Zurich and his wealthy clients. Almost every bank aspiring to the global market

provides special rates of interest to wealthier private depositors as part of private banking. The larger banks offer premium services to individuals with savings or investments of at least £50,000, with an annual income of £75,000. Clients receive premium credit cards, advice and additional services. This category or segment of client has been labelled the 'mass affluent'; the word 'mass' is significant, as these clients do not really receive a gold-plated service. They are still routed via a call centre rather than a dedicated adviser. Interest rates are not that attractive either, with some accounts attracting just 1 per cent. However, if larger amounts of money are deposited, say over £1 million, with an income of over £250,000, then the service level increases. Clients with this amount of money are known as 'high net worth' (HNW) customers; there are over 3.5 million in Europe. There is even a group known as 'ultra HNW'! Banks compete fiercely to capture the growing number of clients (until recently) with money to invest. They look to the future, aiming to increase client wealth with a view to increasing the value of that client to the bank. Banks of any description like to lend money, especially when the probability of being repaid is high. Depositing money is reward enough for the bank, whether directly into an account or through the purchase of one of its financial products. Private banking may also charge fees for its services, although banking charges and fees are often complicated and not readily apparent. Provided the sum involved is large enough to justify the fee costs, developing a relationship with a private bank or division may be worthwhile. The bank will get the benefit from time to time of being able to offer bridging finance, or of holding large amounts in transit.

Compiled by the authors from www.investorsoffshore.com, www.arbuthnot.co.uk and with assistance from Conrad Klopotek.

Building societies, mutually owned insurers, credit unions and friendly societies (see case below) do not have shareholders; ownership rests with its members, who are usually its customers. The notion of an FI being owned by a group of individuals is firmly rooted in many countries, such as in those dealing in savings and loans in the United States. There is a further distinction between these organizations, as mutual institutions aim to make a profit whereas credit unions do not. Although credit unions are non-profit organizations, it would be wrong to think that marketing is not relevant to them. Credit unions and any other not-for-profit organizations have customer/member bases whom they serve and with whom they have relationships. Credit unions have a wider range of stakeholders with whom they maintain relationships such as their voluntary staff and municipal authorities. Their marketing activities will recognize, perhaps in an informal way, that they have a range of interested parties or stakeholders to serve (Arnett *et al*. 2003).

The financial services industry

As far as the mainstream financial services sector is concerned, the British Banking Association (BBA) of the United Kingdom states that banking employs close to half a million people, with the wider financial industry employing over 1.1 million and, together with related activities (accountancy, business, computer and legal services, etc.), some 3 million people rely on the financial industry for their jobs. Additionally, banks and financial services contribute £70 billion to the United Kingdom's national output, which is equivalent to 6.8 per cent of GDP. Banks and financial services provide 25 per cent of total corporation tax (£8 billion) to the UK government. The main retail banks provide over 125 million accounts, clear 7 billion transactions a year and facilitate 2.3 billion cash withdrawals per year from its network of over 30,000 free ATMs. Banks provide cost-effective banking services to 95 per cent of the United Kingdom's population. In 2005, 24 million personal customers registered to access their bank accounts on-line, while 42 million are registered to access their accounts by telephone. The value of foreign exchange business passing through London every day is £560 billion (www.bba.org.uk).

Similarly, the UK insurance industry is the largest in Europe and now the second largest in the world, accounting for 11 per cent of total worldwide premium income. The industry employs 309,000 people, which is almost a third of all financial services jobs, and twice as many as employed in both motor vehicle manufacturing and in the electricity, gas and water supply sectors combined. The industry controlled 15 per cent of investment in the London stock market in 2006. This compares to 13 per cent held by company pension funds, 3 per cent by banks, 2 per cent by unit trusts and 10 per cent by other financial institutions. Therefore, it is a major contributor to the United Kingdom's tax take. In the 2006/7 tax year, the industry contributed £9.7 billion in taxes. The industry is a major exporter, with a fifth of its net premium income coming from overseas business. Premium income from overseas is £48 billion, of which long-term business accounts for £34 billion and general business £14 billion. In 2007, the UK insurance industry paid out £211 million per day in pension and life insurance benefits, as follows (www.abi.org.uk):

- £193 million to pensioners and long-term savers
- £18 million in death and disability benefits
- £59 million per day in general insurance claims.

A further £59 million per day is paid out in general insurance claims that include:

- £17.1 million in private motor car claims (more than one in six private car drivers make a claim each year)

- £12.4 million to householders for property damage or the loss of possessions
- £5.9 million to businesses for property damage
- £6.2 million in liability claims, such as for accidents at work, professional liability and injuries to the public on commercial premises.

The number of financial services that any consumer has tends to increase with age, so the older you are generally the more financial products you have. Therefore, in Europe, especially those countries that have formed the core of the European Union, practically everyone over the age of 14 will 'consume' some form of financial service.

Marketing

Marketing is the discipline and practice that allows both practitioners and theorists to learn more about markets and the customers in those markets and to provide companies with the knowledge that equips them to strive for competitive advantage. Approaches and interpretations to marketing vary quite dramatically, but there is agreement that marketing is not concerned with selling but with the identification and fulfilling of customer needs. The focus of any marketing activity, therefore, has long been acknowledged as the consumer or customer. It has equally been understood that the consumer/customer has to gain benefit from what is offered for satisfaction to occur. However, the notion that customer satisfaction is central to successful marketing has not proved sufficient to gain the levels of customer loyalty or retention to which many companies aspire. Marketing is an evolving discipline and views about what marketing may involve develop all the time. Accordingly, definitions of what marketing is change; the current definition provided by the American Marketing Association (in 2007) is:

> Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. (www.marketingpower.com)

The first thing to notice about this revised definition of marketing in comparison to earlier definitions and much received understanding is the absence of any mention of customer satisfaction. The concept of value has been important in marketing for some time but it now takes centre stage, with profound implications for organizations in interpreting and understanding how their customers perceive value. Satisfaction is measurable; it is often measured by organizations through the use of some form of

rating scale (very satisfied . . . very dissatisfied). The value of these ratings may be questionable in terms of organizational outcomes but value itself is more elusive. The second thing to note is that the focus extends beyond the customer to society at large. Finally, the emphasis is on the exchange of offerings that have value for that extended marketplace. In spite of the advantages of formulating robust marketing strategies in terms of revenue generation, there continue to be companies that have not adopted the **customer-centric** marketing processes and capabilities that will allow them to compete effectively (Shah *et al.* 2006). The argument for being customer-centric is irrefutable according to these authors, who cite five trends that reinforce the need for companies to undergo transformation from product- to customer-centricity, and which are as follows:

customer-centric: FIs' actions are centred on the meeting and satisfaction of the customer

- Intensifying pressures to improve marketing productivity
- Increasing market diversity
- Intensifying competition
- Demanding and well-informed customers and consumers
- Accelerating advances in **technology**.

technology: in the context of financial services, technology embraces the systems that underpin the delivery of the services, the information systems and the digital revolution driving fundamental changes in marketing, e.g., marketing communications

Financial institutions are just as exposed to these pressures as other companies and the need for them to reinvigorate their marketing and understand their customer needs more precisely is more acute than ever. Table 1.1 provides a valuable comparison between an emphasis on products and one on customers.

Comparing the two approaches is an important reminder that selling products in itself is not the objective of successful marketing, although it usually forms part of it. Notice particularly, the performance metrics for the two approaches, where the desired metric for the customer-centric view is not market share but the how much the consumer spends with one organization on a particular category. FIs have this particular metric high on their list of aims, as do other retailers. It is not a question of what you can sell to a customer but what proportion of that customer's spend on that particular category (groceries or financial services) is spent with you. The implications for this metric on a product-centric company are significant: the company will continue to gauge its success on sales, without gaining insight into how the product is used and with what other products it is used. The company will not know how many products a particular customer has and, importantly, how brand loyal they are. In a rising market, sales may well increase, but lack of knowledge means that the company is very vulnerable to competitors who have better customer knowledge and understand the interaction between the customer and the product. FIs probably know more about their customers in terms of their financial position than any other company, especially if the institution holds a customer's current account, so should be in a strong position to understand which financial products a customer may be seeking. However,

Table 1.1 Comparison of product-centric and customer-centric approaches in financial services

	Product-centric approach	**Customer-centric approach**
Basic philosophy	Sell products: we'll sell to whoever will buy	Serve customers: all decisions start with the customer and opportunities for advantage
Business orientation	Transaction-oriented	Relationship-oriented
Product positioning	Highlight product features and advantages, promoting headline rates	Highlight product benefits in terms of meeting individual customer needs
Organizational structure	Product profit centres, product managers, product sales teams, e.g. mortgages	Customer segment centres, customer relationship managers, customer segment sales team, e.g. high net worth
Organizational focus	Product profit centres, product development, new account development, market share growth, customer relations are issues for the marketing department	Externally focused, customer relationship development, profitability through customer loyalty, employees are customer advocates
Performance metrics	Number of new products, profitability per product, market share by products/sub-brands	Share of customer wallet, customer satisfaction, customer lifetime value, customer equity
Management criteria	Portfolio of products	Portfolio of customers
Selling approach	How many customers can we sell this product to?	How many products can we sell to this customer? How do we co-create value?
Customer knowledge	Customer data are a control mechanism	Customer knowledge creates a valuable asset

Sources: Adapted from Shah *et al.* 2006, and Vargo and Lusch, 2008.

there may be a rather negative response to direct mailing of information about funeral planning!

The selling approach is also highly topical, as it is this strategy that has, in part, contributed to the credit crunch where mortgages were sold to

customers who did not have the means to keep up the payments. These customers are now defaulting on their mortgage payments and banks and other lenders have run out of funds. The way in which an FI is structured (see organizational structure) in many cases is representative of their 'centricity'. One of the authors conducted research with high-street financial providers and was told by an informant that the product 'silos' in her company meant that it was very difficult to build relationships with customers. The informant was referring to the way in which the company was structured around products such as mortgages, credit cards, current accounts, which made it difficult for them to have a view of the customer across a number of product categories, thus hampering the gathering of information about an individual customer. The focus of an organization is closely linked to its structure and changing one involves re-aligning the other, hence structural changes are an indicator of a shift in focus. Customer information, the way in which it is managed and analysed and then used as part of strategic planning, is a source of competitive advantage, as demonstrated by retailers. As Table 1.1 shows, a customer-centric approach enables information to be used much more creatively in strategic planning. Very few companies would consider themselves product-centric, but an analysis of the various characteristics in Table 1.1 might tell another story.

Marketing services

In recent marketing discussions, much of the established understanding about services and the impact that the nature of services has on their marketing has been overturned and a new perspective on services is emerging. The Nordic school of services also argues that value is central to marketing, although it substitutes interactions for exchanges (Gronroos 2006), which emphasizes the consumer role in the service experience. Because the focus of this school is services, the customer is deemed to have a role in the service itself; this role has been labelled as the 'co-creator of value'. In other words, in using the service (this can also be applied to goods) the customer creates his/her own value based on the way that the service is used. The view, therefore, that emerges from the Nordic school is that marketing has to design and manage the experience to achieve 'value-in-use'; in other words, the value of the offering arises from the way in which the user/consumer uses it. Internet-only current accounts seem to meet some of the requirements of value-in-use, such as 24/7 access, easy bill payment, straightforward transactions and generally acceptable levels of security.

This new perspective argues that service has become the dominant component of any offering through the application of specialized skills and knowledge, where the customer is always the co-producer (Vargo and

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Lusch 2004). Vargo and Lusch also suggest that customers be considered as resources (in terms of co-production) rather than targets for products and sales (see Table 1.1). There are major implications for marketing from these two propositions. First, the role of the customer is not that of a passive customer but that of a participant in the process. How might this actually work in financial services? To a certain extent, it already does –consider the example of the current account given in the previous paragraph. Mortgages, savings and insurance are already available on-line, where the consumer inputs all the information and requirements. If provider and consumers are satisfied with the 'deal' then the transaction is accomplished. In this situation, the customer has acted as a resource in providing and entering the information and subsequently making a choice from the options available. Financial services do not sit in neat lines on shelves waiting for a consumer to come along to choose the preferred offering. They only exist, in any sensible interpretation of the word, when they form part of an interaction between the FI and the consumer, such as the registering and subsequent use of a credit card.

Figure 1.2 demonstrates how the firm can co-create value. The outer circle represents the marketing environment over which companies have little or limited control; the middle circle represents marketing decision variables derived loosely from the four 'Ps'; and the innermost circle is the

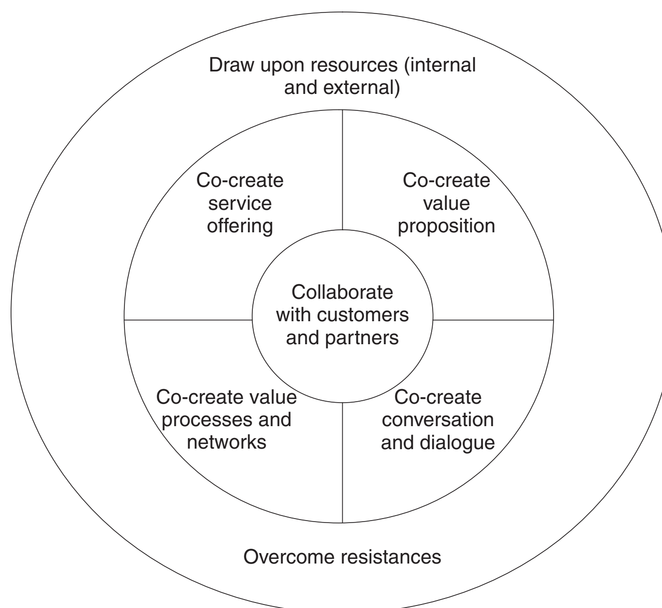

Figure 1.2 Service-dominant marketing
Source: Adapted from Lusch and Vargo (2006).

service-dominant logic: an evolving term that argues that services are now dominant in the marketing exchange

customer. The theme in the **service-dominant logic** view of marketing is that customers are resources and that marketing is achieved with the customer through co-creation of value. How might this concept translate into financial services? One enduring issue with financial services is the complexity of the offering. Consider, for example, all that fine print that accompanies the purchase of most financial services. This complexity means that the FI usually has better information or understanding about the product than the customer; this is referred to as asymmetric information. This asymmetry may have contributed to product-centric perspectives or, at worst, opportunistic behaviour on the part of FIs in the past (see Table 1.1). The service-dominant logic view of marketing would be to maximize the knowledge that the FI has, both about the customer and the product, to create a product that generates value to both parties; for example, a mortgage that meant that particular borrower would be able to keep up the repayments. Selling mortgages to consumers who will, in all likelihood, be unable to keep up repayments results in everyone losing.

The contributions of the service-dominant logic model, which continues to evolve, and the Nordic school of services management have yet to impact fully on the way that FIs understand, interpret and operationalize their marketing.

Components of services marketing

Although the view of marketing as co-creating value is considered to be a very pertinent one, this perspective is very new and may take sometime to be absorbed into the mainstream of the financial services sector. It is, therefore, practical to consider some of the more conventional approaches to services marketing. Services have been viewed as sharing a number of characteristics but customers and consumers, we would argue, are familiar enough with these characteristics for them to have been subsumed into many current marketing strategies. However, there are some considerations that still apply to the marketing of services; just as conventional marketing has been underpinned by the four 'Ps', services marketing too has a marketing mix which consists of eight 'Ps' (Lovelock 2001). The 'Ps' are listed below, with examples of financial services provided:

Product element: the features of the core offering and the bundle of supplementary service elements that surround it. The benefits of the service must be of value to the customer. It is a legal requirement that car owners have car insurance in the United Kingdom, but the core offering is extended through a number of additional benefits which the consumer can choose, depending upon his/her circumstances or particular risk perceptions. Many car insurance packages feature a

hire car in case the car is undriveable, legal cover in case of a dispute and/or breakdown cover.

Place and time: these elements represent the way in which the service is delivered to the customer. Many of the basic financial services are available 24/7 or during a working day (via automated telling machines). Other services are available through personal interaction with FIs or their representatives or intermediaries, depending upon the service.

Process: this refers to means through which the service is created and consumed (or even co-produced). The consumer plays a significant role in the process or creation of the service. In on-line mortgage brokering, the consumer, who has to be fairly confident about their financial services competence, is taken through the process of choosing a mortgage. Insurance comparison websites are a similar idea; the sums of money involved here, however, are considerably smaller. The way in which the process is designed can generate competitive advantage through transparency, ease of use and control (see www.charcolonline.co.uk).

Productivity and quality: are, it is argued, inseparable. Productivity refers to the way in which the inputs of the service are translated into outputs that are valued by the customers. In financial services where economies of scale are considered to be critical in driving down costs (not necessarily prices), efficient production has to be central. It is also essential to maintaining quality, without which customers will switch to competitors who offer better quality. However, what constitutes quality and how consumers perceive quality is complex and varied.

People: the days of the local bank manager have passed, but branch staff, call centre staff and back office staff are vital for the creation of new services, developing systems, selling the services, building and maintaining relationships; investments in training and career development, remuneration and appropriate incentives all form part of a lean but effective workforce. First Direct, the first virtual bank, has excellent front-line staff who are alert to individual customer's expectations of interaction and customization of the service.

Promotion and education: refers to marketing communications, of which retail financial services make great use of. Education informs how the service can benefit customers and ways in which they can derive additional benefits. Promotion in financial services may spell out the advantages of a particular service provider over its rivals, as the sector is highly competitive and differentiation between products and providers is difficult to establish. Regulation also influences the way in which marketing communications are developed.

Physical evidence: a traditional means of overcoming the intangibility of most services by providing some element of tangible evidence.

Bank branches have often been used to endow the providers with a sense of permanence and security, although many of them now resemble contemporary retail spaces with strong merchandising. Elsewhere branding and the use of symbols or 'spokescharacters', such as the Churchill dog, are used to create similar images.

Price and user costs: customers pay for their financial services either directly or indirectly, although pricing is highly competitive. Banks are regulated as to the way in which they can advertise the rates or charges that they make, but bank charging has become a highly contentious issue in financial services.

As the service-dominant logic (S-DL) view of marketing gathers momentum, the 'Ps' of services marketing will be less of a consideration but they still have relevance for the time being and are discussed at greater length in the ensuing chapters.

Financial services

Much of the services marketing literature attempts to classify services using such criteria as how a service may be customized for the customer or how the service is differentiated (e.g., Kasper *et al*. 2006). The value of classifying services is to enable strategies to be developed for marketing the service. When attempting to classify services, it becomes clear that financial services vary enormously, as mentioned above. For example, investment services to wealthy and financially literate customers are high in customization and differentiation, whereas automated telling machines are low in both but offer value creation for the consumer. Doyle (2002) classifies financial services as competitive but other aspects of his classification, such as customer contact, goals, ownership and type of market, vary, depending upon the nature of the service and to whom it is being supplied. What unifies financial services is that they are often hard to evaluate, they are offered through a range of delivery systems, there is opportunity for co-production and they are generally acquired as a means of achieving an end.

Of equally great interest and importance to marketers are the markets that they operate in; for example, business-to-consumer (B2C) or business-to-business (B2B). Bank websites indicate that they initially divide their markets into several categories; for example, HSBC offers premier banking, personal banking, business and corporate banking, global banking and markets and private banking (www.hsbc.com). Private banking involves the offering of special levels of financial relationships to customers who have been identified as core affluents, high net worth, ultra high net worth and also whether they are 'old' or 'new' money (Foehn

2004). AXA insurance cites three possible markets: personal, business and intermediaries (www.axa.co.uk). Insurance companies have not fared as badly as banks in the credit crunch, apart from the US company AIG.

EXHIBIT 1.3

Giant brought down

AIG (sponsor of Manchester United Football Club) has been bailed out by the US government to the sum of $150 billion. Their chief executive explained that they had strayed from their core business of general insurance, adding policies that covered financial products and transactions. AIG provides insurance to large companies and, most importantly, to banks. If an investment bank undertook a major, complex trade, for example, AIG would insure them against the deal going wrong, through instruments called 'credit default swaps'. AIG has been under financial pressure for some time after posting three quarterly losses in a row totalling $18.5 billion. The losses were related to the problems afflicting housing and credit markets, with AIG playing a key role in insuring risk for financial institutions around the world. AIG is a rich company, but its money is tied up in deals and investments that are either not easy to sell or difficult to value. To survive, the company urgently needed cash, and the US Federal Reserve was the only organization prepared to supply it. The Fed will also take over AIG's troubled credit default swaps and the mortgage-backed assets in the company's securities lending unit, which are the two divisions that caused the insurer's near-collapse in September 2008. The continued fall in the value of those assets has drained billions of dollars from AIG's balance sheet by forcing it to put up extra capital to its counter-parties.

Compiled by the authors from www.bbc.co.uk, www.ft.com.

The S-DL view emphasizes the value that the consumer/customer co-creates or produces, which has implications regarding the way products are currently grouped. The S-DL view requires organizations and FIs to review their product ranges from the perspective of value creation for the customer and to consider services as interactions and processes. What do financial services allow customers to do: they are not ends in themselves? What are the benefits of financial services? Loans, for example, involve payment of the loaned sum plus interest; credit cards have different rates of interest; the range of mortgages (whether repayment, interest-only, fixed rate, capped rate, standard variable rate, discounted etc.) is designed to meet the needs of different consumers. Although classification of financial services is an important activity for marketers, these classifications vary according to the product, which then runs counter to S-DL and customer-centricity views.

Technology

The impact of technology on financial services has been remarkable and ranges from automated telling machines (ATMs) to Internet-only banks and the information systems that track transactions and store customer information. Technology has also lowered barriers to entry (Howells and Bain, 2007), enabling supermarkets and other retailers to enter the marketplace thus, raising levels of competition. Significant changes that have occurred in financial services in the last few years include the growing use of technology in the delivery and consumption of services, the growth in customer confidence in the consumption of financial services, the globalization of financial services (though perhaps less noticeable at retail level), the increase in regulation and the profitability of the providers.

Corporate social responsibility

Momentum in concern about the way in which companies conduct themselves in a range of activities is gathering. High-profile events such as the events surrounding Enron and, of course, the credit crunch have shown that companies have not behaved in accordance with accepted business practices, industry guidelines or, indeed, what people in general consider to be ethical or sustainable. **Corporate social responsibility** (CSR) is a broad term with a number of different interpretations that can be concerned with ethical business practices, green and environmentally aware policies and social causes. Financial services have embraced the notion of CSR (see, for example, barclays.com/sustainabilityreport07), but the issue facing banks (mortgage banks in particular) is how to move on from the credit crunch with marketing strategies that demonstrate responsible and sustainable practices.

corporate social responsibility: a term indicating a company's approach to behaving in accordance with social, ethical and business norms through self-regulation

After the credit crunch

The actions that contributed to the credit crunch are endlessly debated but seem to entail both poor decision-making and weak regulation. It would appear that some of the decisions that were taken in some of the more troubled institutions were about targeting certain customer groups – generally a marketing strategy. The difference in these cases is that loans were made to consumers who would not normally have been considered owing to a high probability of defaulting on the loan. These customer groups are known as the sub-prime market. The financial and emotional hardship that these consumers are currently experiencing, such as arrears

in mortgage repayments, repossession of their homes and shattered dreams, is a severe indictment of the lending practices of some banks, which have been taken over since by the UK government and other banks. In the worsening economy in the United Kingdom, the number of households in arrears in the first half of 2009 stood at 24,100, compared with a forecast for the whole year of 65,000.The half-year total of 205,600 mortgages in arrears by 2.5% or more of the outstanding mortgage balance compares with a forecast of a total of 360,000 by the end of 2009. In June, the Council of Mortgage Lenders revised downwards its expectations for arrears and possessions for the year as a whole. (cml.org.uk). Repossessing a property is a lose/lose situation for everyone concerned; the borrower loses a roof over their head, the lender loses the repayments and, as in recent instances, acquires an even worse reputation.

Has the banking scene changed forever? Certainly, there has been consolidation among the high-street banks, with the take over of HBOS by Lloyds TSB going ahead. Foreign banks, such as Santander, have been able to grow quickly with some bargain acquisitions such as Alliance & Leicester. The UK government currently owns Northern Rock and part of Bradford & Bingley and probably, in due course, will return these banks to private hands. In the short term, banks are concerned with achieving some form of equilibrium, meeting the requirements of their customers and regaining some kind of standing in the eyes of their stakeholders. From a marketing perspective, this will involve thinking about how they can rebuild confidence, which should really involve a thorough reappraisal of the way that they do business. It may also provide opportunities for other non-bank companies to increase their presence in the financial services market. The current debates, with an emphasis on the co-creation of value, could provide some guidance on how financial institutions could look on marketing in future.

Summary

- Marketing is not concerned with products but with creating value. How can value be created in financial services?
- There is a vast range of institutions engaged in offering financial services and a very wide range of offerings.
- There is still a tendency to ‘sell’ financial services. The increasing momentum of the S-DL view has profound implications for the way in which services are viewed by financial institutions (FIs). The concept of co-creation of value will bring about changes in the way that services are classified, produced and consumed.
- Corporate social responsibility (CSR) and related activities have been taken up by FIs, but, in spite of the outward manifestations of CSR, it

is not clear how it really influences the way in which FIs conduct their business.
- The credit crunch may encourage FIs to move towards a customer-centric perspective of marketing or S-DL view of value co-creation.

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Further reading

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www.abi.org.uk
www.cml.org.uk
www.fsa.gov.uk

Exercises

1. Turn to the 'best-buy' tables of common financial services in a Sunday newspaper. Select one of the products – for example, savings. Imagine that you are saving up for a car; you already have £1,000 ready to deposit and you are going to add to that over the next nine months, after which time you will want to withdraw the money the moment you find the right car. Looking at the accounts listed, draw up a table of those which are most suitable in terms of interest rates, minimum deposit, access, penalties, how often the interest is paid, withdrawal notice and, of course, the lender. Was the decision easy? How many choices did you have?
2. How might FIs address the question of confidence from customers?
3. How does the idea of co-creating value fit into your lifestyle? What value might be obtained for you and your FI if you could co-create a financial service? Which financial service would lend itself most easily to this reinterpretation?

CASE STUDY

Long live mutuality! The friendly society

Mutually owned FIs and friendly societies are experiencing a surge of interest in their products. There is a feeling that the public is seeking alternatives to commercial profit-making institutions for financial products. Mutual FIs are organizations that are owned by their members, that is, their customers; they do not have shareholders like most banks and larger insurance companies. These organizations argue that they are in a position to offer better returns, lower charges and better service than FIs with shareholders. In spite of the de-mutualization of many FIs (e.g., Northern Rock, Abbey), it has been argued that mutuals should seek to build on their heritage and strengthen their role in economic and social life (Carbo *et al.* 2000). Their customers are usually older individuals who are financially knowledgeable and who understand what mutuality represents in financial terms. These customers also tend to be confident in choosing a product to match their lifestyle and, importantly for these FIs, ethos. Members or customers feel more comfortable that there are no shareholders to satisfy and no bonus-inflated salaries to support. The Association of Mutual Insurers has also found that younger savers are now joining the mutual societies, which is a welcome surprise. The upturn in business for mutuals may also be fuelled by a growing interest in socially responsible organizations that do not reward ill-judged behaviour by managers. Despite this renewed enthusiasm for the mutual model, the question remains whether these organizations are intrinsically safer or offer better value than other FIs or whether they just appeal when other options seem risky.

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An example of mutuality in financial services is the friendly society. These societies were established to encourage self-help and personal responsibility and to enable people with limited financial resources to improve their economic status. Friendly societies have been around for hundreds of years and may even have their origins dating back to Roman times. They grew from the simple premise that if a group of people contributed to a mutual fund, then members of the group could receive benefits at a time of need. Early meetings of these societies were often held as a social gathering, when the subscriptions would be paid. The friendly societies movement grew as new towns and industries developed in the nineteenth century and people found it difficult to rely on village communities. State provision for the poor included the threat of the workhouse. The government in the United Kingdom encouraged membership and passed the Friendly Societies Act 1875 that created a system of auditing and registration. People joined friendly societies in large numbers and, by the late 1800s, there were about 27,000 registered friendly societies. Friendly societies, as a reflection of their heritage, often have names that fall into a number of categories: for example, a place name, such as Liverpool; a product type, such as healthcare. The founders of the Shepherds Friendly Society, known originally as the Loyal Order of the Ancients Shepherds and established in 1826, chose the name because of the 'Good Shepherd' looking after his flock. The society is based in Cheshire in the United Kingdom and offers a range of tax-exempt savings, as well as an innovative mortgage-payment protection plan.

Prior to the creation of the Welfare State just after the Second World War, friendly societies were often the only source of help for a working person in times of ill health or old age. In the days when having no income normally meant a life of begging or living in the poorhouse, the importance of friendly societies to their members and the invaluable social service they provided cannot be overstated. When the Welfare State was introduced, during the last century, the staff of the friendly societies already had the expertise to run the new scheme and they were instrumental in administering it, but its creation led to a reduction in the number of members of friendly societies. However, current government policies seek to reduce their own responsibility to provide; it is likely that organizations such as friendly societies will have an opportunity to re-establish themselves as providers of essential financial products such as pensions.

There were approximately 200 friendly societies in the United Kingdom in 2008. Many have remained locally based, while others have grown into national organizations, offering sophisticated financial services products to their members. Driven by both economic and social concerns, cooperative and mutual insurers are member-owned organizations that care not only about the bottom lines of their businesses, but also about the quality of life of their members in their communities. On 13 September 2004, 13 of the United Kingdom's largest mutual insurers formed the Association of Mutual Insurers (AMI), which became the first national trade association to represent mutual insurers in the country; it represents the mutual business model.

Table C1.1 Typical friendly society products

Savings/investment	Tax exempt savings, endowments, unit trusts, ISAs, bonds, child savings, funeral expenses and the new child trust funds
Health insurances	Medical cash, sickness, permanent health/income protection, private medical, critical illness
Life insurances	Term assurance, whole of life assurance
Pensions	Personal pensions
Annuities	Compulsory purchase annuities, impaired life annuities, purchased life annuities
Other	Discretionary benefits, social and benevolent activities, general insurance and other services via subsidiary companies

Source: www.shepherdsfriendly.co.uk

Friendly societies continue to encourage savings and provide financial products, notably pensions, healthcare, insurance and banking, within an ethos of mutuality and friendliness. These products enable people to make their own decisions and to take responsibility for their own lives and those of their families. They also include tax-efficient savings plans designed to provide a head start for a child or grandchild. Many products take advantage of tax concessions available only to friendly societies and, of course, the profits go to friendly society members rather than shareholders. The Friendly Societies Act 1992 enabled friendly societies to incorporate, take on new powers and provide a larger variety of financial services through subsidiaries.

Although the history of the mutual society is not entirely without incident (the collapse of Equitable Life), the Association of Mutual Insurers believes that the collapse led to better governance within the mutual sector, ensuring better safeguards for investors. Another performance measure by which mutuals can be assessed is their ability to provide long-term value to customers. AMI figures show that investors who put aside £6,000 over the past ten years would receive an average return 14 per cent higher with a mutual than with a public company. The story is much the same with policies over 15, 20 and 25 years, with mutuals returning more money to policy-holders, therefore providing higher returns than profit-making FIs.

Questions

1. What is the significance of not having shareholders to an FI?
2. Is being friendly and having a strong mutual ethos important when purchasing financial services?

3. Looking at the products that friendly societies offer; how can value be co-created? How might friendly societies promote the value of their products? What other marketing suggestions could be made regarding the products?
4. What are the opportunities offered by the credit crunch to friendly societies? How could friendly societies make the most of these opportunities?

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