

# Customer-centricity in retail banking: Personalization



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# The new face of digital banking

Without a doubt, Covid-19 has accelerated the digital transformation in banks as digital banking emerges at the forefront of digitalization in recent years. Digital banks are hailed as forerunners within an era of rapid technological advances, propelling new competition for incumbent banks to step up their game and digitalize with agility. Globally, regulators have paved way for the entry of new digital players amongst traditional financial institutions with the introduction of digital banking licenses. In Asia, digital banks have emerged with dynamic and game changing features to address customer needs, partly encouraged by regulators coupled with industry and customer demands. In Malaysia, digital banks are expected to fuel innovation in financial services, through transformative technology to address financial inclusion and deliver products that meet customer demands.

The notion of digital banking has evolved the role of financial services within the broader economy with imperative calls to bring access, equity, and financial inclusivity for the greater good. This is echoed within BNM's latest Financial Sector Blueprint 2022-2026 ("Blueprint"), recently launched in January 2022. The Blueprint extends the nation's aspirations for the financial sector to be agile and resilient to act as the catalyst to achieve the Bank's 2026 outcome objectives which center on three broad themes: (1) Finance for all; (2) Finance for transformation; and (3) Finance for sustainability. Among the three, the carrying theme of "Financial for all" strongly resonates with the needs of Malaysians, highlighting diverse 'digital first' solutions, solid and enhanced financial safety nets, enabling confident and capable financial consumers.

As such, the rise of digital banking has brought the convergence of physical and digital channels amid soaring demand for online and mobile alternatives. Within this new normal, banks continue to reinvent customer experiences ("CX") by way of leveraging technology. On the same, digital

banking has broken barriers to target new customer segments such as the underbanked and unbanked groups, who may have been previously left behind. Customer expectations, in particular the digital-savvy millennials today, is increasing. It is no longer sufficient to offer basic products and services such as quality service and fair pricing to customers. Customers have grown increasingly demanding for better, engaging and more seamless CX (e.g., digital experience) as businesses continue to take innovative leaps. Stiff competition and various alternatives available in today's marketplace has led to the burgeoning bargaining power of consumers. This has placed immense pressure for banks to innovate and build customer-centric solutions to ensure business sustainability while staying ahead of competition.

This thought leadership takes a deeper dive into the customer centric model that allows banks to elevate their customer experiences and better serve their customers. Simultaneously, the paper highlights CX and the human connection as a critical component of digital banking, amidst the global pandemic and evolving customer needs and expectations.



# CX priorities within digital transformation

The global pandemic has unquestionably pushed the criticality of CX in digital banking to greater heights. The effects of Covid-19 are far-reaching with businesses, including banks, facing increased risk of customer churn. Traditional means of marketing outreach in B2C and B2B channels have been almost made obsolete.

**Banks need to exude an appropriate balance between people and technology to deliver a distinctive digital experience for current and future banking consumers.**

To add, the digital shift in the delivery of new services and product offerings have introduced borderless connectivity, in a similar manner to how cloud has made technology and innovation borderless. This in turn, gives customers the freedom to switch from one financial services provider to another. It is therefore becoming a challenge for retail banks to retain customer loyalty, as obtaining new banking products and services from competitor banks or digital financial services providers has also become commonplace.

Aside from driving strategic and operational advantages, digital transformation has unlocked the value of banking and connectivity with CX, functioning as a tool to enhance a bank's CX factor. Case in point, the rise of chatbots with consumers demanding to have a 24/7 digital experience. With the growing deployment and usage of chatbots, it will come to no surprise that interactive Artificial Intelligence ("AI") will soon become a fundamental technology in providing customer service. While there have been increasing reliance and focus placed on technology to scale up digital transformation efforts, it is equally important to maintain the personal, human touch to create long-term customer relationships and build customer retention and advocacy.

Banks need to exude an appropriate balance between people and technology to deliver a distinctive digital experience for current and future banking consumers. They will need to be able to adapt to every possible touchpoint, from distribution channels and tone of voice, to the customer's financial need and emotional disposition. In this regard, banks are not only expected to digitalize but also humanize their banking services.



# Breaking down the digital banking user journey

A digital banking customer may go through various touchpoints when accessing digital banking services, be it through the web browser, mobile, phone call or other channels. However, mobile phones have become one of the most actively used devices in most people's daily lives. Furthermore, banking applications are working their way or are already transitioning to becoming "super apps" to rival new digital players within the financial services landscape.

With this in mind, understanding and designing the customer's experience – from the onboarding process, engaging with the customer in their daily lives, providing relevant services, continuously improving their experience to gaining constructive feedback – becomes a critical path for banks to incorporate in their operating model.

The following digital banking CX themes are key components to deliver seamless, connected customer experience and collaboration models, at the heart of the bank's CX design process.

## Key themes in digital banking Customer Experience (CX)



Digitalization is maximized at all levels, connecting the front, middle and back offices.

### Digital Banking Ecosystem

Supports the digital banking user journey

Digital banking capabilities extending from core banking systems, lean business models, digital channels, real-time interactions, platform applications, technology architecture, AI-powered algorithms, API collaborations etc.

#### Sources:

KPMG International, [Orchestrating experiences – Global Customer Experience Excellence Research 2021](#)

KPMG International, [Future of Retail Banking](#)

# Personalization and personal financial management

## Making inroads to customer-centricity in banking

Designing meaningful customer journeys has become a blazing pursuit today as products and services from banking, retail/e-commerce to healthcare have become more intertwined in the everyday lives of customers.

Being customer-centric entails more than putting customers first or going digital. It dives deep into having a profound understanding of a customer as we walk the journey in life with them, anticipating their needs, wants, preferences and catering to them towards building long-term and sustainable relationships. Customer-centricity is at the apex of business sustainability and success as businesses including banks become increasingly dependent on customer relationships instead of transactions.

Creating engaging, exciting, and seamless customer journeys is now vital for business survival. However, it is often easier said than done.

A 2021 CX Index survey<sup>1</sup> suggested that banks in Malaysia provided only average customer experience with little differentiation among each brand – seen across the three dimensions of CX quality: emotion, effectiveness, and ease of use. It revealed the difficulties faced by Malaysian banks in building positive emotional engagement with customers.

The banking sector continues to face challenges in pursuing customer centricity efforts:

### Investments not paying off

Despite the financial commitments into CX among FIs, actual results have been lackluster (e.g., almost half of banks and financial services firm allocated at least 50% or more into their CX budgets but have displayed little progress<sup>2</sup>).

### Financial products are perceived as commodities

FIs are still working to break the barriers in shifting from a product-centric to a customer-centric focus.

### Legacy technology as a barrier

Rigid legacy systems restrict the necessary CX enhancements to drive customer relationships further.

### Rapid market dynamics

Like the fast-changing customer expectations, FIs must be able to transform and deliver CX with speed and agility. Customer engagement models are no longer static and must continue to innovate.

Personalization and personal financial management are driving forces behind customer-centricity within the financial services landscape today, elevating digital customer experiences beyond banking. While personalization is at the heart of CX, giving brands the edge to yield more effective and appealing customer

1. Forrester, [Forrester's Malaysia 2021 Customer Experience Index Shows Lack of Differentiation Among Banks, 11 October 2021](#)

2. Microsoft Dynamics 365 Survey, [Customer experience in the 2021 financial services market](#)

interactions with more desirable business results; increasing interest in financial wellness and digital money management are inflection points of growth within the digital banking space. This is coupled with the massive disruption in payments such as the rise of digital wallets, innovative lending products such as buy now pay later, digital assets such as cryptocurrencies and more, that has given consumers access to more options in financial services ever than before.

## Driving Force #1

### Personalization as the key pillar in customer relationships

**Integration between data, technology, and people for personalization.** Personalization is touted as the most important amongst KPMG's Six Pillars of Experience of Integrity, Resolution, Expectations, Empathy, Personalization, and Time and Effort.

Personalization is representative of the strength in customer relationships. As such, personalization remains the key driver of customer loyalty and advocacy, leading in 21 of the 26 markets globally<sup>3</sup>. On the same, technology including advancements in data and analytics has empowered customers to feel known, valued and in control for better informed decision-making through personalized experiences. How do we scale personalization at a more personal level? How do we ensure the right messages are communicated at the right time to the right target audience?

With the wealth of data accumulated today, consumers expect their data to be used responsibly and harnessed appropriately to support personalization efforts. Majority of consumers say banks fail to deliver personalized experiences with more than half feel that most retailers infuse a much better personalized experience. 88% of consumers expect banks to integrate all physical and digital channels including branch, website, mobile app and call center within one place, embedding a frictionless omnichannel experience. Only less than half (i.e., 45%) think that their bank is effective in delivering a seamless omnichannel banking experience in real-time<sup>4</sup>. With 9 out of 10 consumers expect businesses to anticipate their needs<sup>5</sup>, the stakes are high for retail banks. The degree of personalization will only grow greater (i.e., hyper-personalization) with the adoption of digital banking persistently forging ahead. New applications in big data and AI are already setting the next stage in digital banking.

## Driving Force #2

### Personal Financial Management (PFM) within Financial Wellness

Living in an "on-demand" era, a new wave of financial services providers (e.g., digital-only banks, Fintech service providers etc.) are challenging conventional financial services channels and customer engagement methods. The entry of Fintech firms has introduced ample growth opportunities with the latest foray into managing financial health.



3. KPMG International, [Orchestrating experiences – Global Customer Experience Excellence Research 2021](#)

4. Businesswire, 3 March 2021, [Redpoint Survey: Majority of Consumers Say Banks are Failing to Meet Expectations for Personalized Experiences](#)

5. Mastercard and Harvard Business Review, [The Age of Personalization: Crafting a Finer Edge](#)



## The hype behind financial wellness



Financial wellness has gained significant traction among retail banks in the Asia Pacific region. Regional banks are now aiming to be more involved in the financial decision-making process of its consumers through financial wellness and money management apps. A recent study showed that 64% of Malaysian retail banks will be increasing their spending on financial wellness initiatives<sup>6</sup>.

So, what is financial wellness? Financial wellness or financial wellbeing is all about being safe and secure with control of your finances. Financial wellness allows individuals to meet current and ongoing obligations while securing a sustainable financial future. It follows rethinking finance

as a form of utility given the rising impact of financial stress. Health and economic consequences of the Covid-19 outbreak have only worsened the financial situation for many, particularly the vulnerable households, in this case, the bottom 40% income group (“B40”) in Malaysia. This has led to the growing demand for financial wellness, with banks responding by incorporating financial health management offerings, with financial literacy being at the top of the agenda. This is very much in line with the financial inclusion agenda put forth by BNM.

## Disparities for consideration

Disparities within the financial wellness of Malaysians grew apparent with the onset of the pandemic. Its impact can be felt at many levels:

### Financial resilience

More than half of Malaysians (i.e., 56%) save less than RM500 monthly or are unable to save monthly. In a similar proportion, 52% are not able to sustain beyond 3 months in the event of a job loss<sup>7</sup>.

### Financial stress and its toll on mental health

Financial stress among Malaysians has increased by 35% with 41% saying financial stress has affected their mental health in 2021<sup>8</sup>.

### Absolute poverty

Latest projections by the Department of Statistics Malaysia reported a reverse to the decreasing trend on absolute poverty, i.e., 8.4% hike in 2020<sup>9</sup>.

### Unchanging financial habits

Financial habits among Malaysians remain an ongoing concern with the nation’s RM1.17 trillion household debt based on BNM’s Financial Stability Review – 1H 2021 Report<sup>10</sup>. Malaysia’s household debt level remains the highest in Southeast Asia and the second highest in Asia<sup>11</sup>. Further, 40% of millennials are spending beyond their means.

6. Backbase, [State of Banking and Financial Wellness in Asia Pacific](#)

7. RinggitPlus, [Malaysian Financial Literacy Survey 2021](#)

8. Credit Counselling and Debt Management Agency (AKPK), study titled “Money and Mental Well-Being” as reported in the [MalayMail](#)

9. Economic Planning Unit (EPU), [Malaysia Voluntary National Review \(VNR\) 2021](#)

10. Bank Negara Malaysia (BNM), [Financial Stability Review – First Half 2021](#)

11. NST, 8 October 2021, [Malaysia’s household debts, at RM1.17tril, still alarming: Economists](#)

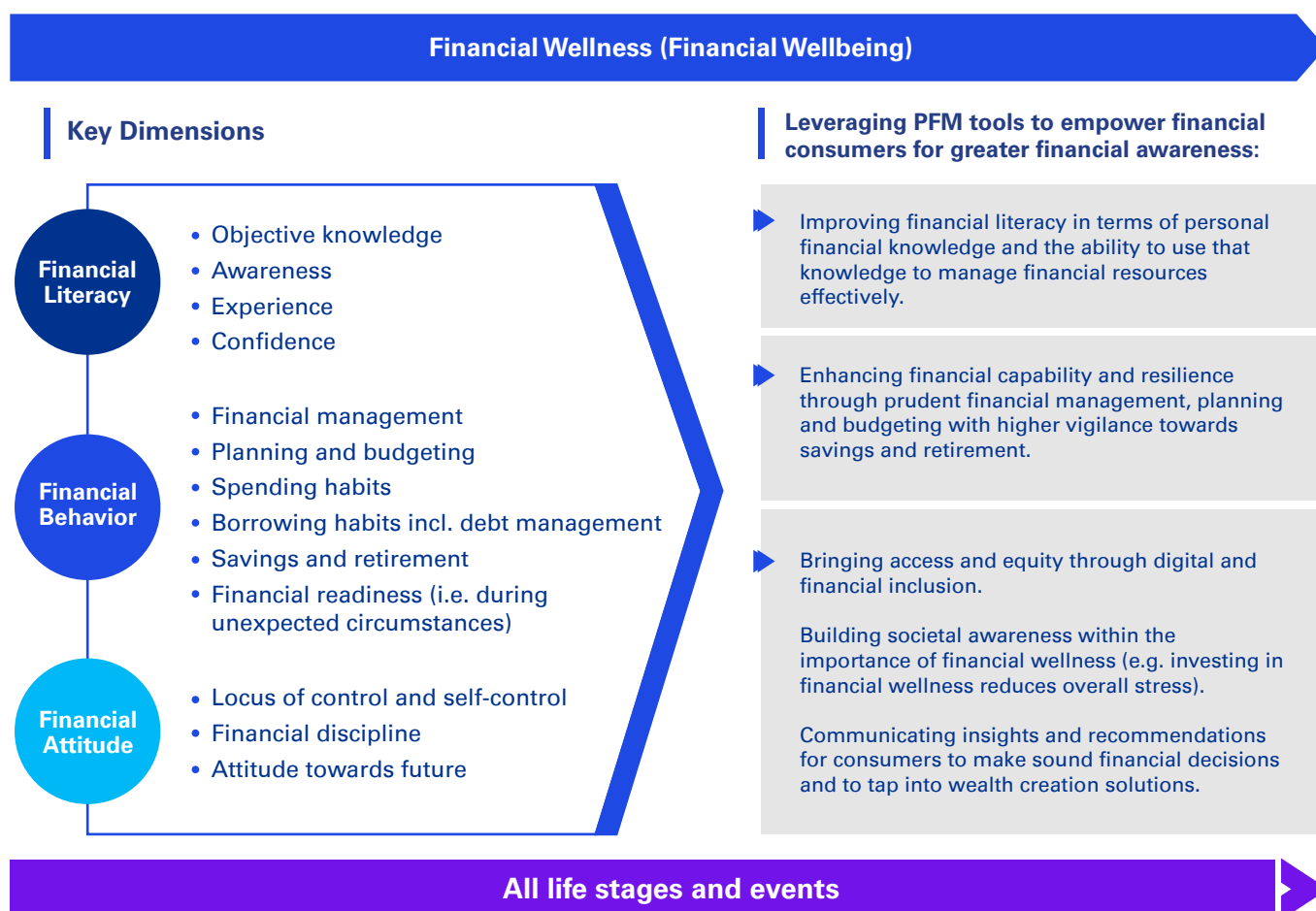
Personal finances also tend to become more complex as we move through the stages of life from having the basic savings and current accounts to having credit cards, loans, and mortgages to having retirement savings and other investment accounts. True enough, many still struggle to develop an effective long-term and sustainable budgeting plan and ensure retirement savings are sufficient when we hit retirement age.

The pandemic has starkly reminded us on the importance of emergency funds and retirement planning. Based on RinggitPlus' survey, over half of the respondents (i.e., 51%) indicated that they have made EPF withdrawals for emergency funds. This has significantly depleted the retirement savings of approximately 42% of the 14+ million EPF members. 6.1 million members are now left with less than RM10,000 in their EPF accounts<sup>12</sup>. This would mean that many can no longer rely on EPF savings alone to get by when they retire.

## Catalyst to power financial resilience

PFM has the potential to power financial resilience in Malaysia. We tie in Strategic Trust 2 of the Blueprint, that is, elevating the financial wellbeing of households and businesses with the National Strategy for Financial Literacy 2019-2023 that sets out the strategic priorities to enhance financial literacy and promote responsible financial behavior across all life stages.

Building blocks to financial wellness:



Source: Malaysia Financial Literacy and Capability (MYFLIC) Index 2018

12. EPF, 31 October 2021, [EPF focused on rebuilding members' retirement savings following exceptional withdrawal facilities](#)



## PFM as the new frontier in personalized banking services

Consumers are now demanding for ways to monitor financial health and reorganize personal finances. This demand is coupled with the financial stress accumulated from the pandemic. Consumers are expecting highly engaged money management interactions in this new normal.



PFM apps such as Mint, Personal Capital and You Need a Budget (YNAB) can act as a financial health ‘thermometer’ to provide a holistic view of one’s finances and its external environment:

1

**What is the financial standing of a consumer? And how do we improve it?**

2

**How are the savings and spending habits when placed against a budgeting plan?**

3

**What are the appropriate insights and recommendations to make better informed financial decisions?**

4

**How do consumers build financial security and resilience for long-term?**

PFM in banking is here to bring the next level of financial savviness to consumers, going a step beyond checking an individual’s current financial status. PFM apps are breaking barriers to increase access and knowledge to personalized financial plans especially for the low-income brackets. Imagine having a financial advisor at hand who can instantaneously react and take proactive action based on your financial needs and goals. Traditionally, financial advisors who curate personalized financial plans are reserved for the high-net worth individuals (“HNWIs”) or premier banking customers, and PFM apps have opened doors to this.

PFM tools generally are distributed from the bank or through a third-party app. With third-party providers and digital banks increasingly offering a variety of PFM solutions, it is crucial for banks to push forward on the implementation and expansion of PFM tools in a timely manner. Moreover, third-party apps are already vying to provide more advanced PFM features as they ingrain themselves further within a customer’s financial wellness journey. Currently, many banks do have existing PFM features, but adoption of such features has been low given the lack of awareness or engagement for consumers. It is about having that 360-degree view for customers to gain insights into their personal finances with actionable information augmented for them to build stronger financial health and financial capabilities.

## Key essentials for the uptake of PFM tools at banks:



### **Simplicity at its core.**

Be clean and keep the tool simple and easy to use.



### **All about the financial wellness journey.**

Prioritize business models within the best interests of consumers across their financial and money management journey. Selling financial products is no longer the focus, e.g., directing consumers to financial products they need and prompt them on better rates.



### **Visualization and storytelling dashboards.**

Augment information that is relevant and interactive with consumers in more ways than one. Instill and nurture good financial habits both short-term and long-term, e.g., expense tracking and spending analysis.



### **Insights and Alerts.**

Provide consumers with personalized advice via banks' analytics capabilities to better understand their finances. Integrate proactive call-to-action functions that allow consumers to make the right financial decisions, e.g., low-balance notifications or overspending alerts with relevant market and financial news that affects a customer's financial situation.



### **Appeal to demand for sustainability.**

For banks to adopt sustainable banking practices. Enhance bank loyalty by allowing conscious consumers to play a part for sustainability, e.g., banking on green by linking purchases to environmental footprints.

## Value of PFM in banking

Banks can either develop their PFM tools in-house or extend to personal finance APIs to accelerate the app-building and integration process. In addition, white-label PFM providers also serve as an alternative, allowing banks to focus on its core business strategies and goals, and develop advanced PFM features with quick go-to-market.

White-label PFM providers such as Moneythor has been powering PFM tools for many banks globally and has generated value and positive returns with highly engaged digital customers. Engagement was focused on:



**Money  
management**



**Financial literacy  
& advisory**



**Cross-selling  
& contextual  
marketing**



**Card-linked &  
merchant offers**

Some measurable outcomes of PFM were observed:

## Customer satisfaction and user experience

**30-50%**

on average engagement rates / click-through rate (CTR)<sup>a</sup>

**81%**

customer satisfaction from proactive personalization alerts

## Revenue generation and returns

For each engaged digital customer:

**1.5X**

on product uptake

**2X**

income returns<sup>b</sup>

**7X**

product conversion with precision targeting from digital cross-selling campaigns

## Cost reduction

For each engaged digital customer:

**20%**

lower cost-to-income ratio (CIR)<sup>c</sup>

**9%**

higher return-on equity (ROE)<sup>d</sup>

**22%**

reduction in call center usage<sup>e</sup>

Source: Moneythor

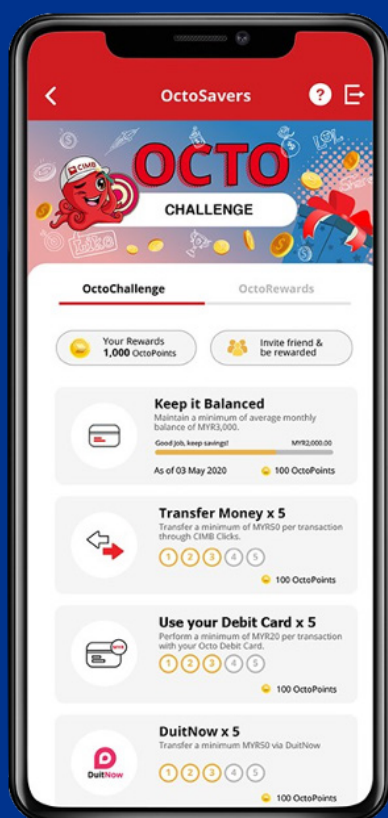
- a. CTR across all types of personalized and actionable recommendations, insights & nudges.
- b. Higher income per customer year on year, translating to faster growth income per customer.
- c. Indicating the bank is operating more effectively at a lower cost to generate revenue.
- d. Indicating higher return on profitability.
- e. Reduction in customer calls led to lower cost-to-serve customers.

**Note:** Engagement results are based on success outcomes from Moneythor's global client banks.



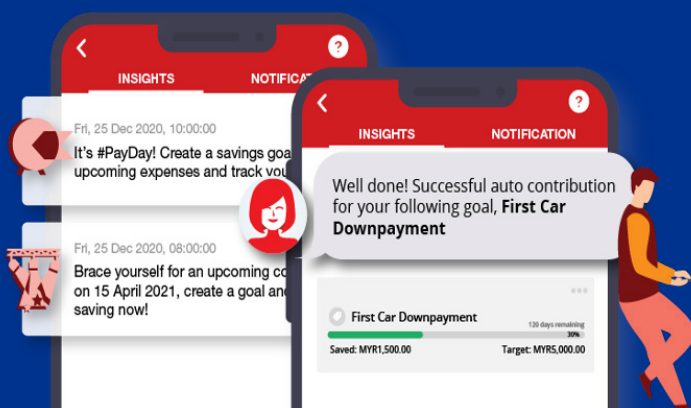
## Case study

# Moneythor powers the value of PFM at CIMB



## Digital push as a result of the pandemic

Customer onboarding is a vital step in customer's journey with a financial institution – it is the beginning of their relationship and the first impression they have of the bank. The pandemic has tested traditional methods of customer onboarding for banks. Banks globally have relied on having f2f interaction with customers – visiting a physical banking establishment and seeing a teller with documentation to open an account. However, the pandemic has rendered that method useless.



In the new normal, financial institutions have to adopt a new approach towards serving customers - that begins with a fully digital onboarding experience. Digital onboarding is beneficial for everyone involved – consumers and financial institutions alike.

## Digital onboarding as a driver of financial inclusion

Digital onboarding provides a seamless experience for customers without the need of visiting a physical branch. This development finally allows for the inclusion of the unbanked population as well globally, as consumers now need nothing more than a mobile phone to set up a digital banking account.

Digital KYC (also known as eKYC) enables financial institutions to establish the identity and credentials of customers to service providers instantly, doing away with the need of in person verification. This allows banks to onboard new customers even from remote areas, and places where there might not be a physical bank.

In Malaysia, CIMB leveraged Moneythor's data-driven personalization, digital engagement and loyalty features in the implementation of their fully digital account; OctoSavers Account-i. This account offers CIMB users a complete digital experience along with the opportunity to earn rewards and rebates instantly through challenges, as well as other benefits. It is curated for the convenience of new customers especially through this pandemic,

as the entire account opening, onboarding and day-to-day management process happens online.

Other benefits of the service CIMB provides its customers is its Goals & Savings feature that helps them manage their finances by tracking and setting goals. Customers can set up various types of savings goals to work towards with the ability to perform both automated or manual contributions.

The OctoSavers Account-i also provides customers with smart notifications to help them achieve their goals. Personalized insights and nudges are also employed to encourage them to save and congratulate them when specific milestones are

achieved. It also recommends ways to reach their objectives based on their unique spending and income patterns.

Financial wellbeing, loyalty and gamification features like the ones in the OctoSavers Account-i are especially important for digital only financial services, as they increase engagement within the application, reduce churn in the long run and creates highly Personalized experiences for users.





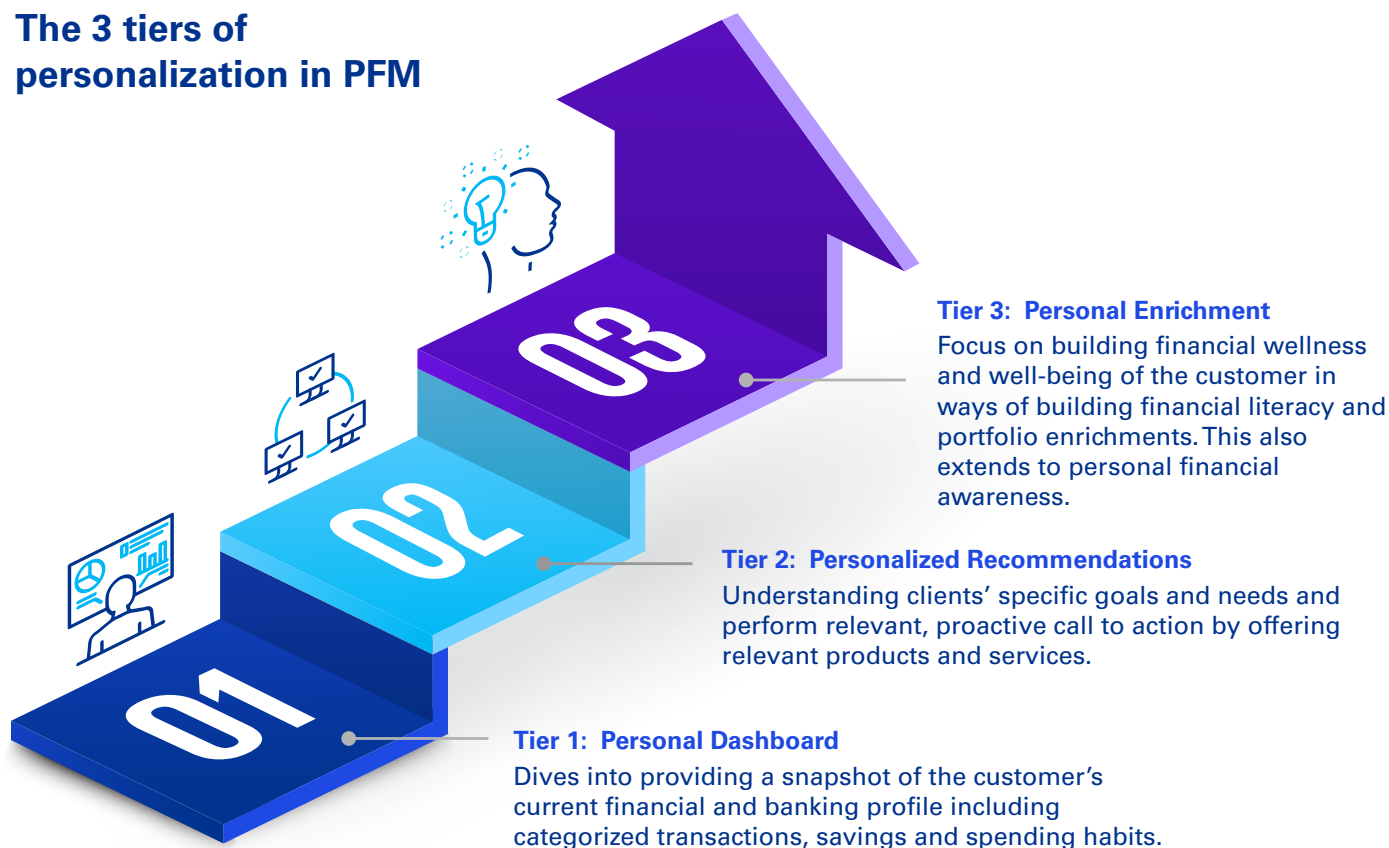
# Building a customer centric banking model with personal financial management (PFM)



13. Oracle, 10 February 2021, [Global Study: People Trust Robots More Than Themselves with Money](#)



## The 3 tiers of personalization in PFM



Customer experience contributes to loyalty intentions with the CX value accumulating over time, while digital app user experience correlates to the impact on customer experience. Digitalization has brought a significant impact to the design and development of business models and customer engagement among FIs. As banks anchor on the principles of customer centricity, FIs must reinvent all interaction points with consumers to sustain in a highly competitive climate. Personalization with PFM is a significant driver to achieving an impactful customer experience. Cognitive tools with machine learning algorithms are in play to generate accurate insights and predictions allowing banks to deliver a Personalized customer journey to support the financial wellness of an individual. Ultimately, trust and communication remain key to ensure loyalty among customers. The strategic approach a bank takes to its communication channels should follow through to its customer service, onboarding, and digital experience. Empathy goes deeper than a bank's customer representatives.

All in all, with banks readily geared to operate within a digital banking environment, it is imperative for banks to power PFM tools in the best interest of consumers. Banks need to deliver more proactive customer engagement in communicating the benefits of such PFM features in support of

financial wellness. As awareness for PFM tools increases, banks can expect consumers to spend more time using their banking app on a day-to-day basis and this will translate into higher engagement and thereby strengthening customer relationships. As some traditional banks may lack the technology capacity to build customer-centric models, banks can leverage technology and alternative data solutions through collaboration with non-banks and Fintech players. With the scale and growth of Fintech services, Fintech partnerships will be an effective avenue to scale PFM in banking in an agile manner with quick go-to-market. It is only possible to speed up innovation or risk lagging behind as technology laggards. In this case, adopting a white-label PFM enables banks to streamline the development of PFM features within a banking app with speed and agility.

With a customer centric banking model, banks will be able to deliver real-time products and services catered to each individual preference. The banking platform will offer various innovations that complement each other, allowing consumers the choice to implement based on their lifestyle needs and wants for a most meaningful experience with the bank. We look forward to seeing banks in Malaysia harnessing future customer opportunities by transforming their CX strategy with PFM.

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