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WHITE PAPER

Digital payments are essential to increase customers' value and outpace the competition: are you sure you've captured all their potential?



As competition soars in retail banking, leveraging digital payments data enables banks to differentiate themselves from competitors, listening to customer needs and creating meaningful and profitable relationships with them, through Customer Value Management (CVM) solutions. Flaminio Francisci, Head of Customer Value Management from Nexi Group explains how banks can engage with customers to grow their retail business through CVM.

Retail banking stands at a crossroads. Return on Equity in the sector halved, then remained flat between 2010 and 2020 before recovering slightly¹. Meanwhile, established retail banks around Europe face tough competition from fintechs, Non-Bank Financial Institutions and big tech players. Some consultants now predict² as many as eight in ten banks could be merged out of existence or “irrelevant” by 2030.

Despite impressive improvements brought about by new technologies over the last decade, banks have yet to capture the opportunity of engaging with their customers. In fact, Capgemini says³ 45% of customers feel no emotional connection to their bank – implying there is no loyalty and putting banks’ market share at risk. However, the rise of digital payments offers another, greater opportunity: to foster loyalty by forging meaningful and valuable relationships with existing and new customers, anticipating their needs and delivering personalized, relevant content and products which meet those needs.

Outpacing competition through more powerful customer engagement

Today’s banking landscape is complex and challenging. Traditional banks want to defend and grow their existing customer base – especially for higher-value, long-term customers – while expanding the relevance of the products

Digitalization could see up to 80% of banks become irrelevant by 2030

– Gartner Group

and services they offer beyond being purely functional. Meanwhile, digital-first insurgents (e.g., Revolut, Monzo or N26) want to attract new customers by doing things differently, positioning themselves as branchless players that offer frictionless and tech-enabled banking services or linking up with retailers in areas such as Buy Now, Pay Later (BNPL) solutions or loyalty schemes.

But how can banks make their voice heard in an increasingly overcrowded market?

The secret lies in identifying new ways to engage customers by putting them at the centre, developing a deep knowledge of them in order to be able to be on their side throughout their everyday lives, providing genuine value.

Moreover, instead of having a one-size-fits all communication strategy based mainly on banking products, financial institutions should engage customers in two-way conversations in which the latter can reveal what they need, how they need it and when. By implication, this broadens

¹ McKinsey & Co, 1 December 2022, “Global Banking Annual Review”: <https://www.mckinsey.com/industries/financial-services/our-insights/global-banking-annual-review>

² Gartner, 29 October 2018: “Digitalization to Make Heritage Firms Irrelevant by 2030”: <https://www.gartner.com/en/newsroom/press-releases/2018-10-29-gartner-says-digitalization-will-make-most-heritage-financial-firms-irrelevant-by-2030>

³ Capgemini, 2022. “World Report Series: Retail Banking. The Customer Engagement Imperative”: https://www.capgemini.com/wp-content/uploads/2023/04/WRBR-2022-Report_web.pdf

a bank's perspective on its customers beyond their mere financial needs, embracing all aspects of their everyday lives and habits.

When looking to get in touch with customers and their needs and provide valuable services, digital payments represent the perfect means banks should utilize, since they are present in our daily lives, frequently used and bi-directional, enabling contextual interactions between the bank and the end user. Within these interactions, digital payments open up the opportunity for banks to tap into tons of information about customer's behaviors, habits, desires and future plans that can be leveraged to make these relationships even more relevant and meaningful from the client's perspective – and the bank's itself.

Customer Value Management (CVM): creating in-depth, ongoing customer conversations

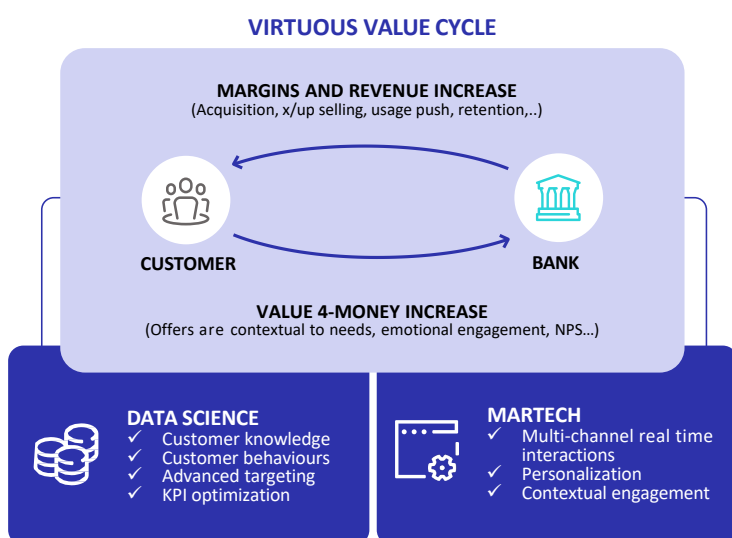
Customer Value Management (CVM) goes far beyond any technique banks have tried before. Diving deep into usage patterns for digital transactions, CVM is a set of integrated solutions and tools which identify how, why and where customers derive value from the relationship with their banks, and how this value can be enhanced building up long-term loyalty. This, in turn, increases the customer's use of those products and the value created for the bank.

“Digital transactions offer a huge opportunity to foster customer relationships through more frequent interactions and a deeper knowledge of their usage patterns and habits.”

By leveraging the interactions and data that flow from digital payments, banks can begin genuine conversations with customers and unlock growth opportunities across all aspects of a customer's life, capturing needs that can be addressed through their wider product portfolio – from pension funds and savings through to insurance, mortgages and more. Within these conversations, CVM can deliver real-time insights into customers – enabling banks to offer the right product at the right time towards the right customer.

Indeed, CVM nurtures and builds relationships with customers to increase the likelihood of product subscription and usage, allowing the bank to achieve the ultimate goal of becoming its customers' bank-of-choice with a positive impact on revenues and margins. As long ago as 2018, McKinsey & Co estimated⁴ that banks delivering personalized content and services could achieve a 15% uplift in revenues compared to those who are content to execute competently.

CVM – high-value customer conversations



CVM key drivers for banks

- Increase x-selling of key products**
- Increase card use and become “top of wallet”**
- Reduce customer churn**
- Increase use of digital channels**
- NPS improvement**
- Better use of data and analytics**

⁴ McKinsey & Co, July 2018. “Perspectives on Personalization@Scale”: <https://www.mckinsey.com/~media/McKinsey/Business%20Functions/Marketing%20and%20Sales/Our%20Insights/Perspectives%20on%20personalization%20at%20scale/Perspectives-on-personalization-at-scale.ashx>



As Europe's leading provider of payments technology, Nexi has developed a market-leading CVM practice that improves the frequency, quality, volume and value of a customer's interaction with banks based on their use of digital payments. Our CVM solutions derive insights into a customer's preferences and behaviours which can be used to incentivize actions which are key for the bank, for instance increasing digital channel usage, promoting ESG and sustainable behaviors, boosting existing product usage as well as the subscription of new ones.

The ideal CVM framework consists of three interlocking services, tailored to fit your bank's specific needs, business goals and context. These three services, composed of multiple modules, provide all-round intelligence on customer engagement, giving insights into their current and future needs, as well as the optimal approach to engage with

that customer via personalized content in both the short and long term. The three services are as follows:

Engagement program: a set of modules that creates long-term customer loyalty and increases lifetime customer value. It can be seamlessly integrated into your bank's existing digital channels and your current engagement framework.

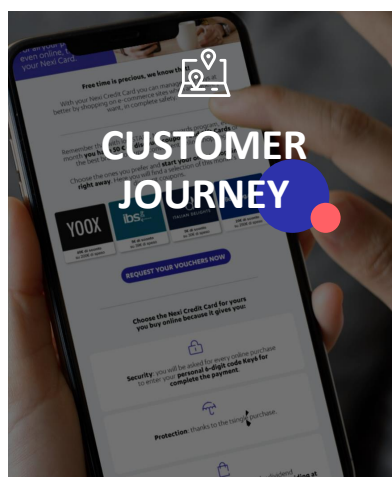
Customer journeys: targeted communications to guide users towards desired behaviors, offering meaningful interactions and personalized experiences at each touchpoint.

Data science: foundational technology and analytical capability that powers CVM, deeply rooted in payment data, driving actions with genuine insights on customers current features as well as future behaviors.

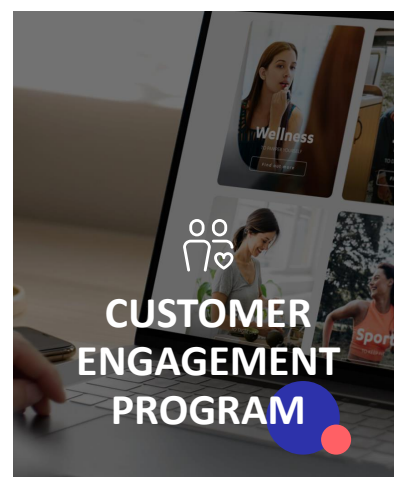
Nexi CVM: three solutions in synergy



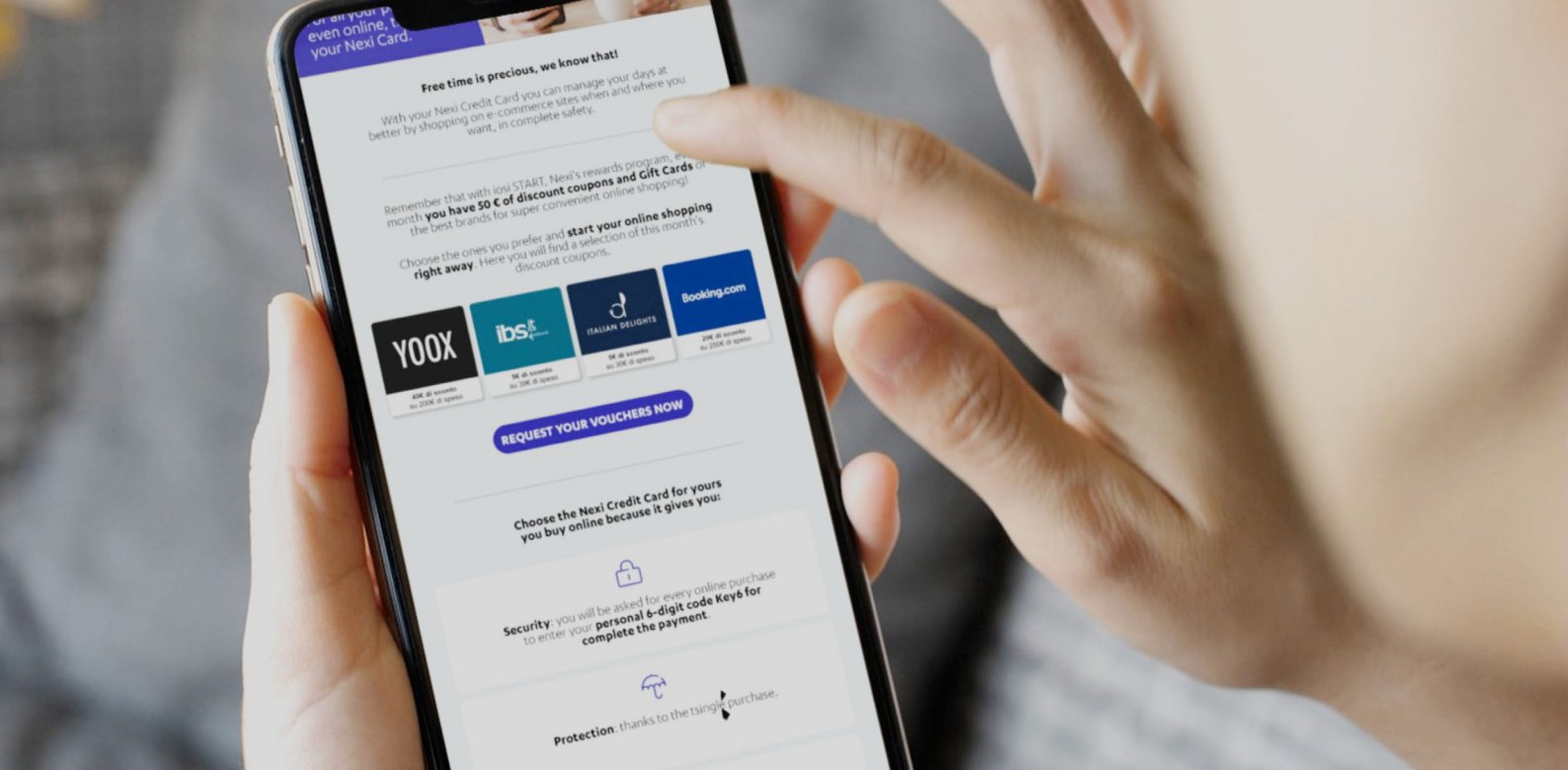
Foundational technology and analytical capability that powers CVM, deeply rooted in payment data, driving actions with genuine insights



Targeted communications to guide users towards desired behaviors, offering meaningful interactions and personalized experiences at each touchpoint



Engagement modules crafted with strategies to create long-term customer loyalty, increasing lifetime value and ensuring top-of-mind positioning

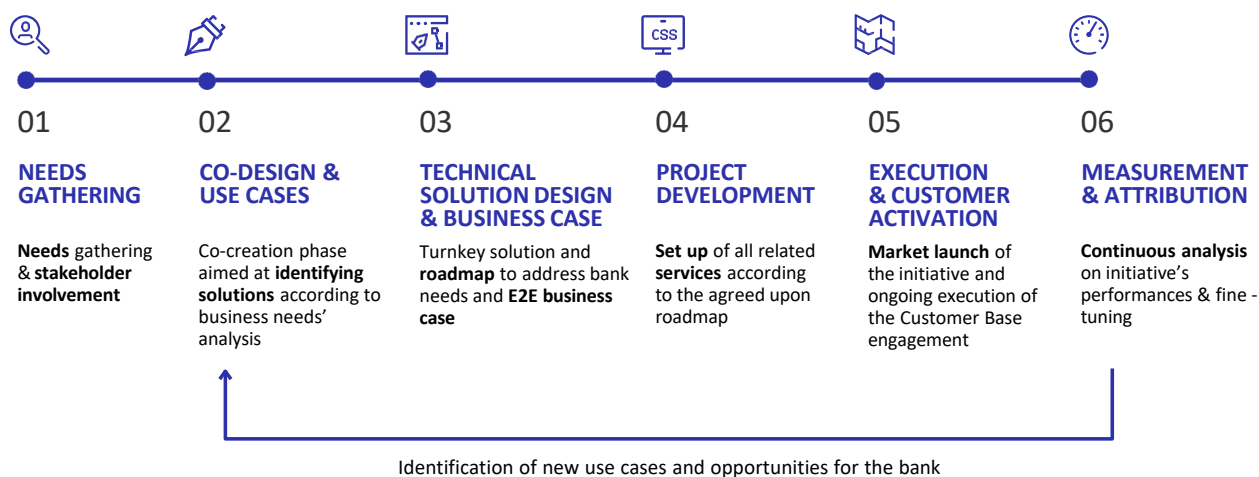


A provider of partnership over service: the Nexi edge

At Nexi, we don't position ourselves (and our CVM practice) just as a service provider. Thanks to our close grip on digital payments and CVM built around them, we can go beyond this basic approach to give banks capabilities and strategic guidelines, working in partnership at each stage in the CVM value chain to reduce the workload for our partners including service design, activation support and content provisioning. If required, we can also act as your bank's execution partner, freeing up your team to manage the daily business of running a bank.

Our approach begins by understanding your bank's business and where you want to go next with your customers, enriching this evidence with market insights from our CVM European observatory. This helps us suggest optimal solutions that meet your objectives: we then refine and tailor these solutions according to your strategic, technical and commercial imperatives, leveraging customer data as a compass to identify the correct engagement strategy. Having developed a solution tailored to your bank, we help you develop a business case and implementation roadmap. We work alongside you on the implementation of this plan, from systems integration through to launch and ongoing measurement of key performance indicators.

Nexi CVM: acting as end to end partners





How CVM delivers

Nexi has worked with more than 100 banks across Europe on their CVM programs. These programs have delivered benefits not just in payments and cards but extending across the entire banking business, from increasing customer value and cross- or up-selling to key personal banking products, to shifting usage from debit to credit cards (see box above) to increasing bank revenue from subscriptions and memberships, as well as improving the relationship quality with the bank as a whole in terms of NPS and churn reduction.

Customer conversations that mean business

The tight competition in today's retail banking market brought about by new technologies and regulatory changes will grow in intensity over the next decade. To succeed, Europe's retail banks must differentiate their services and demonstrate the value they deliver to customers. Doing so will mean banks become the preferred partner for the entire range of their customer's financial needs and become embedded in many aspects of their customers' daily lives.

Results across the entire banking business with CVM

- Customer value grew by up to 15% per year.
- Customer churn across the bank reduced between 5 and 15% per year.
- Engagement program paid membership subscribers grew between 20 and 40% per year.
- Shifted between 3 and 10% of card use from debit to credit per year.
- Reduced customer churn in cards by between 10 and 30% each year.
- Grew credit card customer base between 7 and 25% per year.

For more details on how CVM can transform your retail banking business, contact:

Flaminio Francisci, Head of Customer Value Management at Nexi:
flaminio.francisci@nexigroup.com

Silvia Vernizzi, CVM Head of Advisory>M:
silvia.vernizzi@nexigroup.com

About Nexi

Nexi is the European PayTech with scale, capabilities, and geographic reach to drive the transition to a cashless Europe. We are committed to supporting people and businesses of all sizes, transforming the way people pay and businesses accept payments. By simplifying payments and providing the most innovative and reliable solutions we enable businesses and financial institutions to better serve their customers, build closer relationships, and to grow together.

For more information please visit: www.nexigroup.com