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Influence of Non-Price Factors of Banks' Activities on their Financial Results

V.D. Smirnov
Financial University, Moscow, Russia
https://orcid.org/0000-0002-1243-5349

ABSTRACT

The **subject** of the research is the customer motivation towards certain banks regardless of the pricing policy. The **aim** of this study is to determine the significance of non-price factors for attracting customers by banks and its influence on banks' revenues and profit. The **theoretical and methodological basis** of the study included the scientific works of foreign scientists on the influence of non-price factors on customer loyalty in banking. The author used **methods** of qualitative and quantitative analysis of scientific publications, regulatory and legal sources, retrospective statistical data, and analytics of well-known consulting firms. The **results** of the study suggest areas for improvement for commercial banks in terms of the quality of values (non-price) offered to customers and approaches to understanding customer loyalty. The author **concludes** that despite the importance of banking services cost reduction and thus intensifying competition, a constant focus on cutting prices, which are relatively the same for all banks in terms of product range and basic conditions, does not necessarily contribute to expanded market share and profitability of financial institutions, while a comprehensive understanding of customer needs, timely and relevant offers, a personalized customer service, as well as a bank's shifting focus from a product to a customer problem-solving approach will help banks to attract customers, improve their loyalty, increase service sales and expand the product range, ultimately, spurring growth and better economics for banks.

Keywords: customer; bank; service; technology; loyalty; preference; personalization; quality

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INTRODUCTION

In recent years, the activities of traditional commercial banks have become more complicated with the emergence of new players in the banking sector: digital banks and high-tech companies. Rivalry with them manifested itself, first of all, in competition on prices for products offered to customers. However, such competition is difficult for traditional banks since they still have large branch networks, complex internal procedures focused on selling products, rather than meeting customers' needs by providing banking services. Regulators have significantly tightened capital requirements, credit risk assessments, customer compliance with the legality of transactions, data security while encouraging competition with non-banking institutions to improve customer service. These circumstances reduce banks' income base and increase their expenses. In these conditions, incumbent banks need to look for new sources of income, one of the categories of which are value priorities for customers.

VALUE PRIORITIES OF THE BANKING CUSTOMERS

The performance of any bank largely depends on the ability to raise funds, place them, and serve customers. These opportunities are determined by the industry focus of the operations, the chosen customer segment, the phase of the economic cycle, and the business model adopted by the bank.

The bank's ability to introduce modern technologies to simplify and speed up internal banking procedures and reduce the cost of operations, ensure their security from internal and external attacks on the bank and customer data, as well as to ensure the easiest possible access to banking services for customers, and, more recently, the provision of non-banking services to clients has a significant impact on the bank efficiency.

Enhancing the mechanism of the bank's operations is aimed at improving the profitability and meeting the expectations of the bank's shareholders regarding the returns on their investments in the bank's capital. Achieving these goals largely depends on how successfully the bank will be able to attract the target group of customers, retain them, and get the greatest return on the provision of services to them. After all, it is the customers who provide a significant part of the attracted liabilities, which allow the bank to carry out active operations, it is the customers who, by buying banking and non-banking products included in the banking ecosystem, give the bank the opportunity to make money on it.

Winning the fight for a client is not always determined by the price advantages of the service provided by the banks. Customers want to feel that the bank understands their situation and wants to help resolve it, considering their capabilities, and not to sell their product under the guise of customer care, without disclosing all the costs of purchasing a product and the risks associated with it. Despite the widespread opinion that customers choose a bank based on the lowest product price in the market, the reality is different. According to a study by the Boston Consulting Group (BCG), only 15–33% of the surveyed citizens in Europe, the USA, China, and Japan choose a bank based on its price parameter or consider it the most important (26% of clients of Russian banks do the same). At the same time, the bank's focus on meeting the needs of customers seems to customers more important, compared to the price, a characteristic that is decisive when choosing a bank for 43% of customers worldwide [1].

In this regard, it is advisable to analyze which non-price features of banks attract customers.

CORPORATE BANKING

Corporate customers appreciate that the customer service manager knows their industry and borrowing needs, has a deep understanding of the products on offer, and provide assistance beyond lending and transactional services. About 70% of commercial customers of North American banks believe that these qualities should be the main characteristics of customer service managers [2]. The customers will highly appreciate any efficient consultation of the bank on the activities of their companies, which is not directly related to the settlement and credit relations of the client with the bank, realizing that the bank collects information about their industry and business models of competitors, suppliers of raw materials and materials, as well as buyers of their finished products. The bank can help in organizing more efficient transactions of a customer with current suppliers and buyers of finished goods, not to mention expanding the range of such customer's counterparties from the bank's client base.

Therefore, the bank's significant advice related to the client's business is likely to be received with gratitude, as it will expand the customer's knowledge and capabilities in a key area for him.

An in-depth understanding of the industry and the needs of a customer working in it and his activity, which can be carried out on the basis of processing large volumes of data held by the bank and by third-party organizations, using advanced analytics, will allow the bank to predict services and banking products to meet customers' needs, to support and expand the volume of transactions with him. At the same time, a comprehensive analysis of the history of relations will most likely allow the bank to more adequately assess the risks associated with the customer, and significantly reduce provisions on them.

For example, if a bank sees that the company is actively developing, and it lacks collateral for the required loan amount for growing working capital, which is a serious obstacle for many, then instead of a temporary overdraft or an unsecured loan, a bank can offer factoring financing of receivables. It is secured by a pledge of the rights of a claim to a buyer of the company's finished products, which resolves the issue of increasing the customer's sales on favorable terms for the buyer of his products. This encourages the customer's client to buy even more goods from the bank customer and provides reliable bank risk coverage for this kind of lending that insurance companies perceive better than a risk of default on the loan if they turn to them for insurance for such risks.

Or, if the company's financial situation becomes difficult, the bank initiates a restructuring of existing debt in accordance with a reasonable business plan, then the risks of non-repayment of debt are significantly reduced by channeling the funds generated by the company during the initial period of the loan to create additional value instead of diverting them to pay off the debt. Obviously, the bank's proactive approach will help to avoid getting a bad asset and create opportunities for customer revival.

The very fact of constant and expanded business support is often more significant for the customer than the price parameters of banking services since the advantages of such cooperation is much greater appreciated by companies than the price difference of different banks for the same financial products.

With the growth of operations in any company, especially in medium and large businesses, management of their own funds, domestic and international settlements become significant tasks. A bank may propose a company to transfer a part of the functions of the corporate treasury to it in order to increase their economic efficiency, which will certainly be of customers' interest since these are not essential for him in his business in terms of generating profits. Providing cash settlement services will help strengthen relationships with these corporate clients and generate additional commission income. This service is widely accepted by many banks in developed markets.

It is important for any customer to resolve the issues with which he applied as quickly as possible, and the minimum list of documents required by the bank for consideration. To respond to these challenges, the bank needs to significantly simplify its own procedures for handling customers' requests and improve the decision-making process (positive or negative).

The very fact of constant and expanded business support is often more significant for the customer than the price parameters of banking services since the advantages of such cooperation is much greater appreciated by companies than the price difference of different banks for the same financial products. Banks demonstrating such an approach may become long-term partners for companies.

RETAIL BANKING

The retail banking market, which accounts for about half of all banking industry revenues worldwide [3], is becoming as complex as corporate banking. Banks exert their best efforts to improve stability and deepen customer relations. However, customer expectations are growing at a faster pace than the growth in investment in attracting customers and strengthening relationships with them [4].

The convenience of using the bank's services, the availability of bank services anytime, anywhere from any device, which is achieved through multichannel communication between the bank and the client, is crucial for retail banking. This is not only about digital communication using interactive voice technologies such as voice assistants, answering machines, voice bots in call centers, or various types of screen information of the online and mobile banking systems. For retail customers, it is also important to have a human response to their requests, especially if it is not about reporting an event but consultations on the advantages of choosing a particular banking service or complex banking products.

Nowadays, when information about all banking products is available to customers without visiting the bank, the main factor attracting a client to the bank is considering by the bank the individual needs of the client, adjusting the existing banking product to the requirements and capabilities of the client. At the same time, 48% of consumers who consider themselves "good" customers also count on a special treatment [5], which means exclusive access to some services, special price offers, increased transaction limits, etc.

In order to receive personal banking services, customers are ready to share their personal information on a confidential basis, using it in the interests of the client and not distributing it without the client's permission. It is important for clients that the bank is willing to meet individual needs when they arise, for what they are willing to pay more than for service on standard terms. Moreover, customers expect the bank to be proactive in its offerings, i.e. will try to anticipate the needs of the client, resolve the customer's concern in a non-intrusive and timely manner. This approach of the bank to service is very important for the customer, who may view the bank as the main financial partner in addressing his vital challenges.

The growing loyalty of a retail customer to their bank depends on the quality of the bank's services, the speed and ease of transactions, the reliability of the bank, and the ability to process transactions over the long term. At the same time, only 30% of traditional banks worldwide satisfy customers with the quality of service and time savings, about 15% with simple transaction processing, and about 10% with the latter two value priorities [6].

The reluctance of banks to meet the needs of customers, as well as the increased awareness of the availability and quality of services in different banks, dramatically increase the willingness of retail customers to change their bank or, at best, to receive services in another bank at the same time.

Bain & Company notes a paradox in competition for retail banking customers. The stronger technology firms become and the wider the range of services they offer, the more customers are willing to buy such services, including banking products, from these firms. But when banks start the digital transformation, offering customers a service that is of the same quality as of technology firms, customers' loyalty to banks increases dramatically. Thus, in Belgium, France, Switzerland, the Netherlands, where banks actively master digital technologies, only 30% of customers are open to consider buying financial products from technology firms. At the same time, in India, China, Brazil, where banks underserve digitally and lag in digital basics, there are more than 80% of such customers [7].

It is not about how good technology firms are but about the lag in the digital basics of traditional banks, the unwillingness or inability to understand current trends of customer preferences. There is only one conclusion: banks need to make every effort to provide a competitive level of service, otherwise their customers will leave. Banks that cannot provide the level of service required by modern customers will cease to exist.

In general, confidence in banks remains high: 77% of respondents in the 2019 Accenture global consumer study said they trust their bank to take long-term care of their financial health [8]. This point is especially important because trust is a deep and decisive factor in determining the behavior of retail customers, which depends on how the above value priorities are met, while some differences in the price offers of banks, taking into account the risks that customers may see when comparing offers, are considered of secondary importance.

The price of banking services is significant, of course, but it should be considered that in the retail business, all banks offer approximately the same products. Accordingly, if you compete only on the price of a banking product or, for example, on the term of a loan on a credit card without charging interest during a certain period of time or on the amount of return of a part of the payment for a product or service (cashback), then as a result of such competition, in an extreme case, the price of a banking product may be lower of its cost, or the interest-free period will last forever, or the cashback will reach the goods or service purchase price. In any case, such competition does not make economic sense, and the rivalry in these exercises damages the entire banking industry. Moreover, if such competition is due to the fact that someone sees it as a struggle for customer loyalty, then from the customer's point of view it will be unprofitable for the customer to show loyalty to his bank only on the basis of price preferences if some other bank offers more favorable price terms. Thus, the client is not against receiving benefits from the bank, however, if another bank offers more favorable conditions and this is his only advantage, then such a client will switch to another bank.

Therefore, banks are reorienting their approaches to clients. Cashback is gradually moving from a cash refund to the accrual of points, which can be converted into a limited range of real goods or services. The extended credit card interest-free period is more of a marketing ploy to attract customers in the hopes that they will use other banking products or go beyond the grace period, which will allow the bank to make a profit. Probably, the banks came to the conclusion (and the Central Bank of the Russian Federation, in particular, pushed them to this conclusion) that seducing retail customers with additional benefits so that they more use banking products is not effective in terms of generating profits. This manifested itself in January 2020 in a decrease in the number of issued credit cards. According to the Equifax Credit Bureau, for the first time in the last five years, they were issued 21.7% less, and the total limit on them decreased by 22.7%. In the fourth quarter of 2019, sales in this segment also fell — cumulatively by 11.4% in value, compared to the same period a year earlier [9].

Important non-price factors that determine the loyalty of bank customers, such as the quality of services, time savings, ease of transactions, and safety of funds, can be combined into one concept of convenience of using banking services. Customers' preference for convenience over price seems to be the driver of many successful companies not just banks. The most striking example is Apple, which sells probably the most expensive devices in its product categories (smartphones, tablets, laptops, wireless headphones). There is a massive demand for these products, which has provided this company with the highest capitalization in the world. It turned out that the high quality of products, various features added through the company's ecosystem, high-security level of hardware and software from hacking seem to consumers a sufficient added value which it is worth paying an increased price compared to similar devices for less money that do not provide such opportunities or provide them with lower quality. Hundreds of millions of people around the world have been demonstrating loyalty to Apple for years.

A similar situation is with banking services: the more convenience a bank can offer to its client with banking operations, and now with providing non-banking services, the more loyal the client will be, the more services he will buy in this bank and the more clients this bank will have, even if the cost of these services is higher than that of competitors. Just because consumers are willing to pay for convenience. Many customers choose convenience and quality over low cost and potential unexpected problems.

The bank's product range is significant, but the service for buying and using such products is of no less importance, i.e. the quality of a banking product is largely determined by the quality/convenience of its use by the customer, which indicates that banks need to ensure customer satisfaction with both the product and the process of its provision and consumption.

Thus, the commitment/loyalty of banking clients (corporate and retail) to a service provider arises largely due to the opportunity to use a banking service with the following value (non-price) characteristics:

- high quality of banking services;
- providing them when they are needed;
- predicting consumer needs for banking services;
- speed of transactions, minimum documents required, ease of communication with the bank;
- expertise outside the actual banking operations, which can help the client to improve his efficiency;
- cooperation with the client in those areas of work with funds that are not priority for the client in terms of generating profits, and the bank can increase their efficiency for him.

These characteristics are necessary but not sufficient without the customer's believe in the reliability of his bank and the possibility of long-term cooperation, which is critical when it comes to the money that the customer accumulates during his life.

DEVELOPING STRONGER RELATIONSHIPS WITH BANKING CUSTOMERS

Until recently, the function of cash settlements was performed only by banks, to which there was no alternative. Now there are technology firms, initially in non-banking sectors, that have started to use their technology to make it convenient for customers to consume not only their services but also part of traditional banking services, especially in the field of payments. Service users noticed that these firms actually perform banking operations more conveniently, efficiently, and cheaper than banks. The scale of activities of the largest technology firms is so great, they are so deeply embedded in everyday life, and cooperation with them is so convenient and effective that people began to trust them with their money. In the minds of many people, such firms are replacing traditional banks.

While the major banks today retain the trust of their customers, technology firms, such as PayPal and Amazon, are ranked by customers nearly as high as traditional banks for trust with their money. Additionally, younger customers, are more willing to buy financial products from technology firms than from banks [7].

In this regard, it is important to understand what loyalty means for banking customers. Is long-term loyalty to one bank a case of inertia, reflecting the view that there is little difference between banking providers? For instance, only 4% of SMEs in the UK switch bank each year for this reason [10].

It seems that we are now going through a period of changes in the perception of loyalty: in terms of relatively simple banking operations, which can be carried out by technology giants, FinTech players, and online banking providers, customers see the disadvantages of traditional banks, which are often slower and charge more commission. However, when it comes to complex banking products and comprehensive services, traditional banks outperform their new competitors. There are no signs that banks are willing to give some of their income to competitors. Most likely, they just need time to implement transformation to bring customers back.

One of the main problems in the banking industry for traditional banks is the problem of losing customers. However, customer migration may be hidden, as many may still have an account with their main bank and implement transactions on their accounts with other banks and technology firms at the same time. To meet this challenge, the bank needs to stop focusing only on the products it has to offer to its customers. The bank should become a customer-oriented organization with the understanding that a banking product is just a tool that helps attract customers and increase profitability. Since in most cases similar products are available from rival banks, the main competitive advantage of the bank should be quality customer service not the product itself.

The growing loyalty of a retail customer to their bank depends on the quality of the bank's services, the speed and ease of transactions, the reliability of the bank, and the ability to process transactions over the long term.

It is important to personalize banking services to meet the specific financial needs of the customer. Many banks boil it down to announcing that a "personal" manager is assigned to the customer, who in fact does not offer anything other than the standard banking programs, and only lists these programs and conditions, without having a right to amend anything in them for this customer.

Now personalization does not mean offering standard banking products but taking into account the specifics needs of the customer and his circumstances. Thus, if the offer is good and adjusted to the needs of the customer but he does not need it at the moment, it loses its relevance and the bank will not be able to sell it, i.e. bank's efforts were in vain.

The dialectic of investment in attracting new customers through investments in increasing the satisfaction of existing customers, who will then recommend their bank to their friends and acquaintances for free, becomes the most effective.

Customer expectations for a timely offer from a bank to address his needs come from customer experience with high-tech companies in the retail, travel, and hospitality industries that use advanced data, artificial intelligence, and other digital technologies to track and anticipate customer requests. They focus on the customers in real time to demonstrate they are following their specific interests.

In addition, personalization means that the bank's primary concern is to enable the customer to save money. In response to this attitude, which contrasts with the widespread feeling that the bank wants to do everything possible to ensure that the client spends as much of his money at the bank as possible, the customer will be willing to buy more different financial products.

Personalized service is necessary because, according to a study by Accenture, 71% of people believe that traditional loyalty programs, associated mainly with discounts, do not engender loyalty [11]. Customers looking for a lower price or a higher discount will immediately switch to another service provider if it makes a better offer. This does not mean that loyalty no longer matters. But today, as the correlation between customer loyalty and traditional buying behavior is weakening, it is becoming clear that the old rules of loyalty no longer work.

In the new paradigm, service providers must not only respond to customer requests but also closely monitor changes in his life, offer prompt and adequate services that a customer may need in changed circumstances. Customer information should no longer be limited to completed transactions and formal personal information that was previously provided by the customer. Using information from all available open sources, including ecosystem partners, and processing it using modern technologies, including predictive analytics, the bank will be able to offer a service that the client has not yet requested but already needs. To be relevant in its service, the bank needs as much personal information as possible, which is not always available from open sources. And more and more clients are ready to provide such information in exchange for two things: privileged personalized banking services and protection of such information from access by third parties without the consent of the information owner.

As a result, a new kind of competition is emerging between banks: for information about customers, since adequate information and the right methods of using it allow banks to make profits from it, selling their products as much and when the customer needs them.

It is clear that such cooperation is possible only if the customer trusts the bank with his personal data. In turn, the provision of truly personalized offers by the bank can lead to increased customer confidence.

Customers prefer digital channels of communication with the bank for ordinary transactions, but where problems need to be solved or complex transactions are required, the participation of bank employees is preferred. To ensure a customer-oriented approach of the bank, especially in corporate banking, it is undoubtedly important to attract and train highly qualified and motivated professionals who, actually, must do the above-mentioned work. Setting the right non-price reference points for managers, that should be converted into increased income from the customer, is a difficult task, primarily because the increase of income is an indirect result of the work of such a manager. The manager needs to be focused on satisfying the interests of the customer as much as possible, and the customer must feel it. Only with this approach, the customer agrees to buy as many financial products as possible in the maximum possible volume. Not because the bank gives the best price offers but because the bank provides customer service with a deep understanding of the customer's needs, comprehensively and even outside the banking operations, leaving the customer more time and opportunities to run his own business and make a profit on it, or just saves his time.

In this context, it is interesting to analyze the balance of the bank's communication with clients through digital and human communication channels. With all the effectiveness of digital communications in terms of accessibility, there are a lot of problems with communication between customers and bank personnel on a number of issues for which it is impossible to write a right algorithm of answer. So, in the event of reporting a possible fraud with their accounts, about 90% of customers who called the call center were unsatisfied with the service, compared to 10% of dissatisfied customers who communicated with the department's specialists. With the size of the bank commission being discussed, the share of those dissatisfied with communicating with the call center reaches 80%. It is hardly worth ignoring the ineffective work of digital channels of communication since satisfied customers are 3 to 6 times more likely to recommend their bank compared to people dissatisfied with the bank's service, who are also 2–4 times more likely to switch to competing banks compared to satisfied customers [12].

Digital communication channels are still effective in routine banking, do not generate significant income [1], and are more focused on reducing costs, which is also very important. This circumstance also emphasizes the significance of maintaining and improving the network of bank branches, not only in terms of their geographical location but also in the creation of different types of branches from, possibly, completely digital to universal or created for specific operations. Highly qualified specialists of those branches could not only quickly and efficiently provide the services required by clients but also, taking into account communication with clients and understanding their capabilities and needs, as well as using the bank's database and in-depth analytics, where digital technologies are very useful, attract the attention of customers to other banking products and sell them, improving the bank's financial performance. Certainly, the cost of an operation in which a bank specialist is involved is higher for a bank compared to digital communication. However, digital channels do not replace human channels, they only relieve banking professionals from routine work in order to focus on more complex aspects of their activity and creation of additional income.

EFFECTS OF THE INCREASED CUSTOMER LOYALTY

Thus, the combination of digital functions and personalized approach with a new level of communication with customers opens up new opportunities for banks. According to BCG analysis, this development allows the average bank to increase operating profit by about 30% in five years due to the following factors:

- reshaping distribution and network (increase in revenue by 4% and reducing network costs by 8%);
- personalized service (increase in revenue by 6%),
- improving customer satisfaction by simplifying and speeding up operations and facilitating the interaction of customers with the bank (increase in revenue by 5% and reducing operating costs by 9%) [1].

Customer loyalty resulting from a change in the bank's approach to internal operations and customer service depends on improving the quality of the bank's services, the level of personalization, and the speed and simplicity of transactions. US banks with a highest non-price reference points had net interest income growth of 13% in 2014–2017, compared with 5% for banks which did not consider those reference points as a priority [6].

At the same time, it is necessary to note the importance of the emotional satisfaction of customers with the service received, and not only as a result of buying it at the lowest price. According to a survey by McKinsey & Company, 58% of respondents demand emotional satisfaction from taking into account their interests by service providers (exclusivity of services, priority of access to services, participation in experimental events), versus 42% who prefer only rational satisfaction in the form of a monetary reward [13].

The most advanced banks see customer service personalization as a set of measures covering the following areas:

- dynamic, targeted engagement with potential customers;
- personalized pricing and product offers;
- optimized multichannel journey and delivery;
- reduced customer churn through earlier identification and intervention.

The fact of personalized service is highly appreciated by customers not only in the form of emotional satisfaction but also in practical actions: 68% of respondents in the BCG global survey of retail banking said that they had deepened ties with their existing bank –– by purchasing additional products or service –– because of the bank's personalized approach. 41% respondents said that insufficiently personalized treatment was a factor in their decision to leave their bank [3].

It is advisable to focus loyalty programs not only on attracting new customers, which requires significant marketing budgets but also on retaining existing ones, for which exclusive programs and partnerships can be offered, allowing them to earn more (not at the expense of the bank but together with the bank). Programs for attracting new customers are interesting but often do not meet banks' expectations, and at the same time diminish the importance of actions on retaining existing customers [11]. The dialectic of investment in attracting new customers through investments in increasing the satisfaction of existing customers, who will then recommend their bank to their friends and acquaintances for free, becomes the most effective.

CONCLUSIONS

The aforementioned clearly demonstrates the importance of non-price factors in assessing customer preferences when receiving banking services.

It seems that the changed circumstances and facts indicate a new understanding of the phenomenon of customer loyalty in banking, the reasons for its occurrence, and development.

A proactive approach to customer service is based on a deeper understanding of customer needs, which can only be achieved through in-depth analytics of big data about customers and their preferences, as well as an efficient digital transformation of intrabank operations and communication with customers. However, it should be considered that in the end the customer loyalty is ensured by the bank staff. The support of modern technologies is important but bank employees play a significant role in customer loyalty.

Banks, that are able to meet customers' needs by using modern technologies, gain competitive advantages, and are rewarded with improved income and increased profits.

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ABOUT THE AUTHOR

Vladimir D. Smirnov — Cand. Sci. (Econ.), Assoc. Prof., Department of World Finance, Financial University, Moscow, Russia
vdsmirnov@fa.ru

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