Redefining customer interactions in financial services:
How to use data to maximize lifetime value

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Most banking and financial services firms are swimming in customer data but don't have enough quality data to unlock insights that enable them to be truly customer-centric, our latest research indicates.

Last year brought much needed stability to the banking and financial services (BFS) sector. Larger institutions were able to boost their margins thanks to investment banking and wealth management fees. Moreover, with interest rates coming down from their peaks across major geographies, BFS firms are now under pressure to find additional sources of revenue. To overcome these challenges, BFS firms need to reimagine how they capture, manage, and act upon the wealth of customer data at their disposal. These improvements will help them create and deliver products, services, and experiences that anticipate the needs, wants, and desires of existing and prospective customers.

Getting there will require them to reinvigorate their focus on personalization and maximizing customer lifetime value. This begins by strengthening a foundational approach to data so they can do just that by, first, improving the quality of data and, more importantly, transforming this data into actionable insights that can drive strategic decisions primarily around risk, sales, marketing, service, and product innovation.

The Virtusa research center recently surveyed over 300+ U.S. companies, including 60 banks and other financial services firms, and found that, across industries, almost three-quarters are not doing enough with their greatest asset, customer data. Our research shows that companies that readily use customer data to improve product innovation, marketing and sales, as well as service, are outperforming those that don't. We categorized companies across industries and within financial services as "customer-ignorant", customer-indifferent", "customer-obsessed" and "customer clairvoyant" (See methodology in our main report). The average company was considered "customer responsive," meaning they make adequate but not exceptional use of customer data to improve how the market, sell, service and create new offerings.

Our research shows that the more customer-centric a company is, the more likely it is to have greater quantities and quality of customer data. (See Figure 1.) In fact, our study found that between 2020 and the latest fiscal year, customer-obsessed companies' revenue is 15% higher and customer-clairvoyant firms' revenue is 18% higher than it was in 2020. In contrast, the revenues of "customer ignorant" and "customer indifferent" firms grew only 4% on average since then.
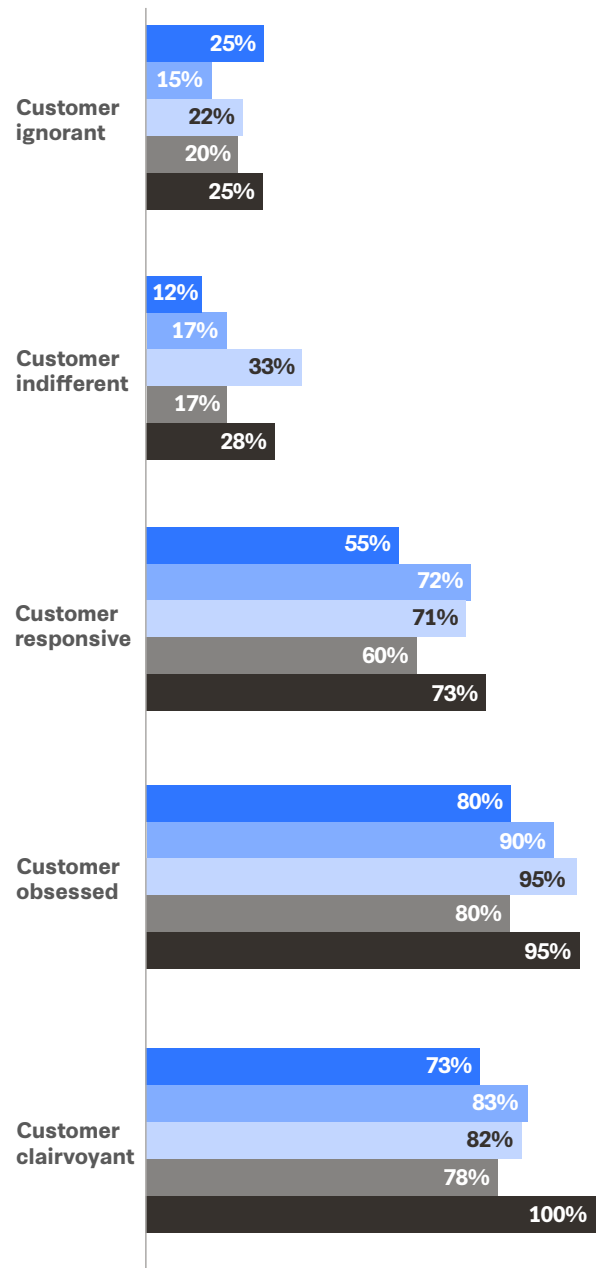
The challenge for banks is to strengthen the data foundation and use their data to create and deliver better, more timely, and relevant products.

Improving CX pivots on data mastery

Percent of companies with sufficient/highly sufficient quality in 5 types of customer data
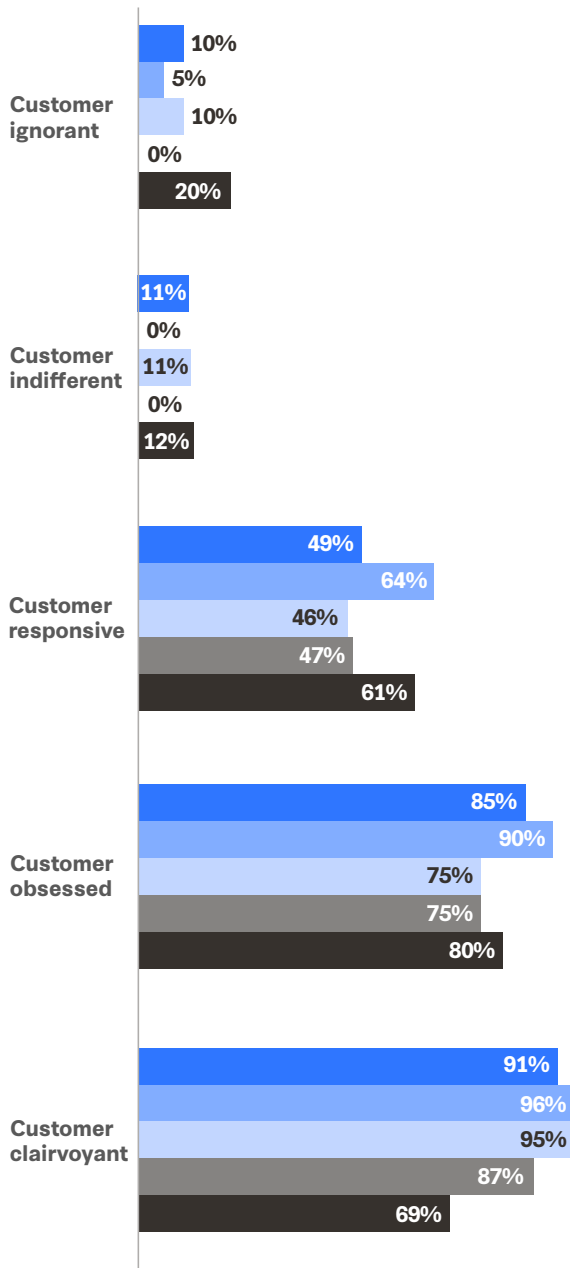
Percent of companies with sufficient/highly sufficient quantities of 5 types of customer data

Quality chart (left)

Customer ignorant
- External data: 10%
- Internal data: 5%
- Structured data: 10%
- Unstructured data: 0%
- Semi-structured data: 20%

Customer indifferent
- External data: 11%
- Internal data: 0%
- Structured data: 11%
- Unstructured data: 0%
- Semi-structured data: 12%

Customer responsive
- External data: 49%
- Internal data: 64%
- Structured data: 46%
- Unstructured data: 47%
- Semi-structured data: 61%

Customer obsessed
- External data: 85%
- Internal data: 90%
- Structured data: 75%
- Unstructured data: 75%
- Semi-structured data: 80%

Customer clairvoyant
- External data: 91%
- Internal data: 96%
- Structured data: 95%
- Unstructured data: 87%
- Semi-structured data: 69%

Quantity chart (right)

Customer ignorant
- External data: 25%
- Internal data: 15%
- Structured data: 22%
- Unstructured data: 20%
- Semi-structured data: 25%

Customer indifferent
- External data: 12%
- Internal data: 17%
- Structured data: 33%
- Unstructured data: 17%
- Semi-structured data: 28%

Customer responsive
- External data: 55%
- Internal data: 72%
- Structured data: 71%
- Unstructured data: 60%
- Semi-structured data: 73%

Customer obsessed
- External data: 80%
- Internal data: 90%
- Structured data: 95%
- Unstructured data: 80%
- Semi-structured data: 95%

Customer clairvoyant
- External data: 73%
- Internal data: 83%
- Structured data: 82%
- Unstructured data: 78%
- Semi-structured data: 100%

Legend: External data | Internal data | Structured data | Unstructured data | Semi-structured data

Figure 1

Let's take a look at the key takeaways for banks from our latest research.

Banks need to fix their data foundations to improve banking services

Competition for customers is already tough, and BFS firms need to create new, innovative solutions that deliver economic value to customers or risk getting left behind. In fact, many were left behind in implementing "buy now pay later (BNPL)," which proved to be a great competitive advantage. The delinquency rates for BNPL firms, such as Affirm, are lower than most traditional bank credit cards, suggesting that these firms are using their customer data to help borrowers repay the loans on time. Customer expectations for seamless, value-added financial services and products executed in real time, like BNPL, are pushing banks to improve their data mastery.

Across key customer data types - sales, marketing, service, and product development - banking and financial services firms reported high or very high sufficiency of data. Drilling down into various data types, 68% said this about structured data and 64% about semi-structured data. Additionally, they're adept at collecting data across customer-facing functions such as website and app (61%), sales transactions (78%), and post-sale interactions (71%) (see Figure 2).

However, the picture is less rosy regarding two critical parameters: data quality and usage. Only 50% and 55% of BFS survey respondents, respectively, said the quality of their structured and semi-structured data was sufficient or highly sufficient; 31% said this about unstructured data. Just 51% said they were highly effective or effective at using post-sale customer data, such as deposits, transfers, and withdrawals; 58% said the same about using sales data, including product details, customer demographics, and sales channel data.

Closing the usability gap

Percentage of respondents that are effective/highly effective at collecting and using 5 types of customer data

Category	% of effective and highly effective at using data	% of effective and highly effective at collecting data
Product/service data	42%	56%
Website and mobile data	56%	61%
Customer comments	53%	63%
Post-sale customer data	51%	71%
Sales data	58%	78%

■ % of effective and highly effective at using data   ■ % of effective and highly effective at collecting data
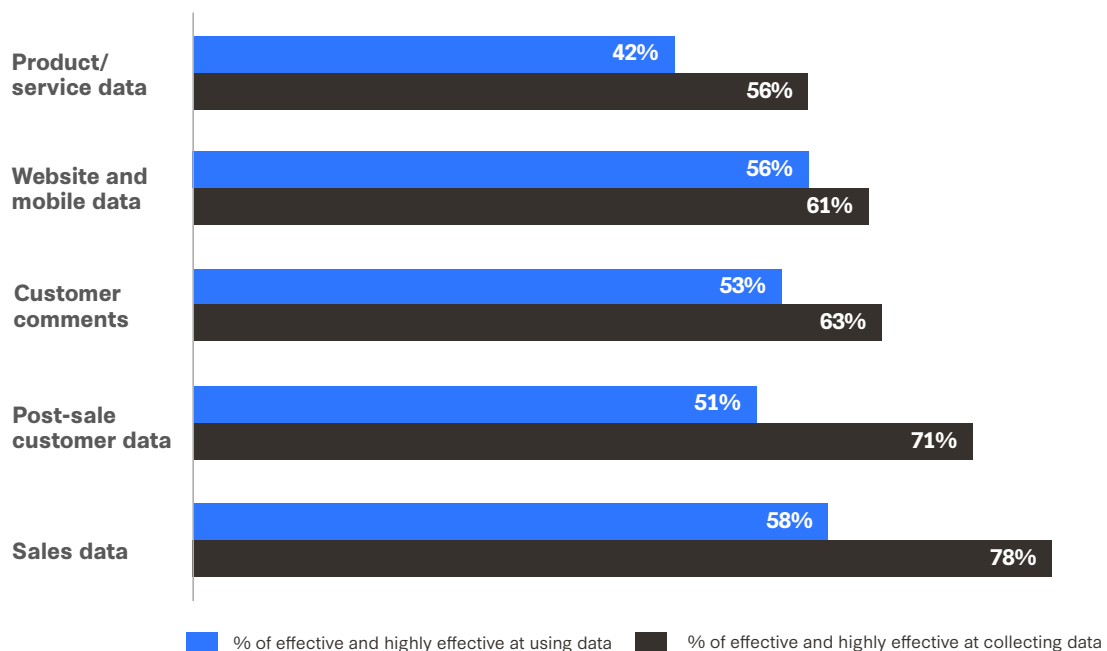
Figure 2

This imbalance between data collection and usability suggests that banks are yet to build capabilities to generate the customer insights required to improve existing service offerings and create new ones. So, what's holding them back? The challenge of upgrading legacy infrastructure (for example removing data silos), improving data product ownership within the organization and navigating new regulatory requirements, combating increased fraud, and ensuring systems interoperability in cross-border transactions all contribute to the issue.

Our research also shows that BFS firms, for the most part, are not making optimal use of metadata (properly labeled digital information that adds meaning to high-level data). We found that only 48% of the BFS firms surveyed put this data to use compared to60% for all respondents. Yet, 70% of BFS respondents believe that their firm's metadata was high quality, compared with 66% of all respondents. This disconnect also hints at their lack of means to generate insights from structured data.

Fortunately, BFS firms are investing in the foundational capabilities that will help them make better use of their data. We found that BFS firms spent 59% of their 2023 customer data management budget on building data foundations, compared with 57% for all respondents. That's a great start, but it's still not enough. They also need to build the capabilities to strengthen insight generation. The benefits of doing this are manifold. One example is Deutsche Bank building a common data platform on Google Cloud to address operational challenges caused by data silos. This foundation is now enabling the bank to add generative AI capabilities to automate processes such as software development that require low regulatory compliance but high manual interventions.

Using AI to reboot conversational banking

The mainstream use of AI in the form of generative AI signals a profound improvement in customer services, among other customer-facing activities. On the customer experience front, this technology is already paving the way for more immersive, personalized experiences. The challenge is upgrading the data-to-insights cycle from being responsive to becoming clairvoyant about customer wants, needs, and desires. Deploying AI to help employees accomplish more is a step in that direction. Some banks, for instance, have rolled out AI tools that help employees find internal policies and procedures and summarize and compare multiple documents at the same time. While others have deployed chatbots that help financial advisors in client interactions.

Our research, however, finds few banks are putting generative AI to use today on key customer-facing activities. Just 38% rank using generative AI for new product development as a top-three priority today; only 45% said the same for the next two to three years. Nevertheless, BFS firms are moving fast on deploying traditional and generative AI (exclusively or in combination) across customer-facing functions. For example, AI is being infused into existing chatbots to deliver conversational banking capabilities. (See Figure 3.)
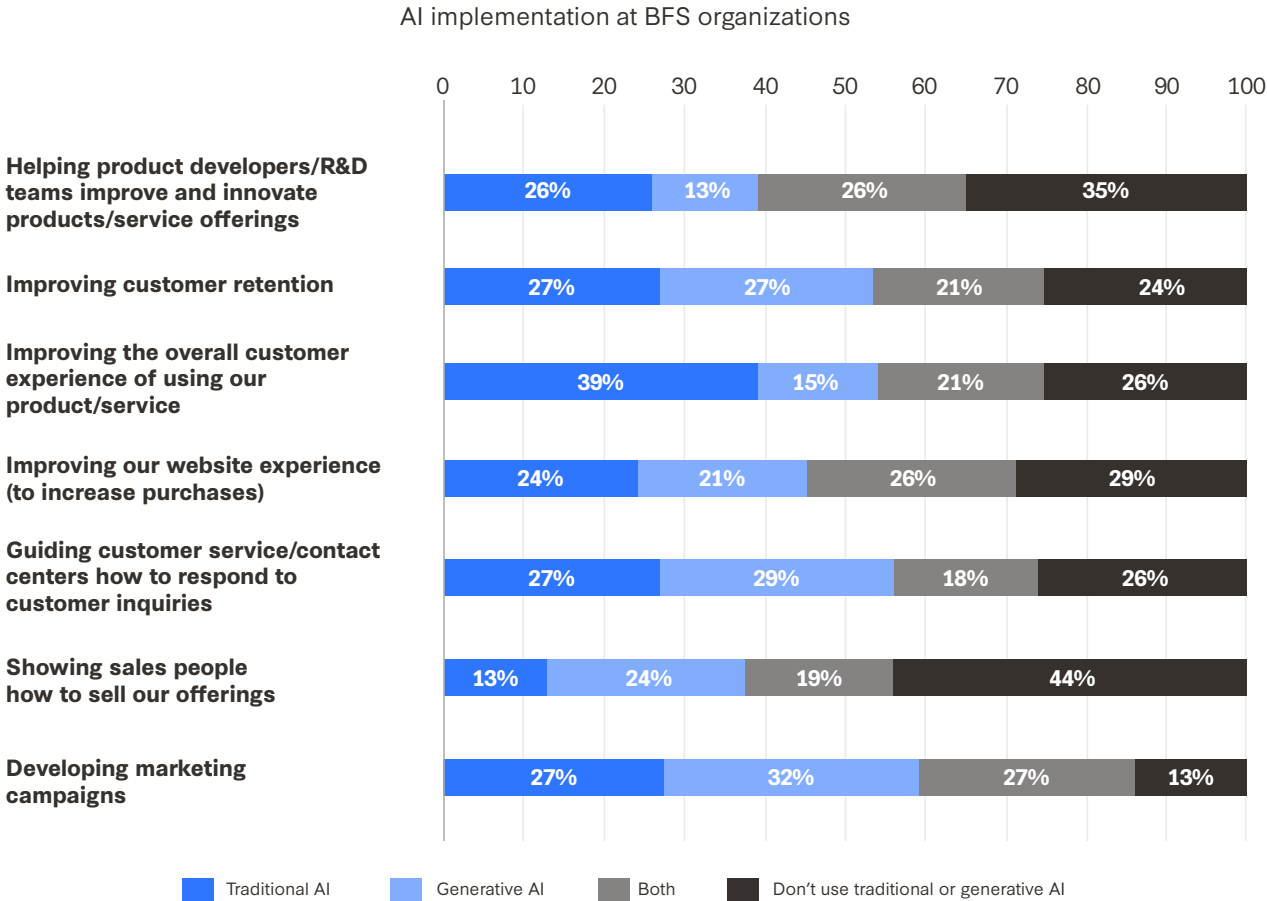
Customer-facing functions get an AI boost

AI implementation at BFS organizations

Function	Traditional AI	Generative AI	Both	Don't use traditional or generative AI
Helping product developers/R&D teams improve and innovate products/service offerings	26%	13%	26%	35%
Improving customer retention	27%	27%	21%	24%
Improving the overall customer experience of using our product/service	39%	15%	21%	26%
Improving our website experience (to increase purchases)	24%	21%	26%	29%
Guiding customer service/contact centers how to respond to customer inquiries	27%	29%	18%	26%
Showing sales people how to sell our offerings	13%	24%	19%	44%
Developing marketing campaigns	27%	32%	27%	13%

Legend: ■ Traditional AI ■ Generative AI ■ Both ■ Don't use traditional or generative AI

Figure 3

Most banks have built branded virtual assistants to power chatbots—but the results are mostly disappointing. In North America and Europe, only 1% of online adults who are banking customers say their preferred way to engage with their banks is via a chatbot.[1] But this could change as chatbots receive a major facelift through generative AI: New in-app conversational assistants now help customers navigate the app, summoning (human) assistance when needed and accessing personalized financial guidance in more meaningful and enjoyable ways. For example, Bank of America's in-app assistant, Erica, goes beyond answering basic user questions by providing savings advice based on a user's spending habits and financial goals.

1%
of online adults who are banking customers say their preferred way to engage with their banks is via a chatbot

Overall, traditional AI dominates BFS firms' efforts to improve customer experience (39%), while generative AI is deployed more often to develop marketing campaigns (32%) and guide contact centers in their handling of customer queries (29%). Given their larger IT budgets, our survey indicates that banks are also outspending most industries on generative AI. On average, they spent $10.29 million to date on generative AI compared with life sciences and healthcare, which spent $8.49 million and $9.96 million, respectively. The benefits of using generative AI are also evident. BFS respondents reported a 28% reduction in cost and a 41% reduction in time required to add new customer data. However, they are more realistic about their generative AI expectations. By 2027, they expect their ROI to be 4.48 times their investments, the lowest across all industries we surveyed (See Figure 4).

A pragmatic view of returns on genAI

Expected ROI from genAI investments (2027)

Industry	ROI
Telecommunications	5.07
Life sciences	5.62
Healthcare	5.02
Insurance	5.18
BFS	4.48
All industries	5.07
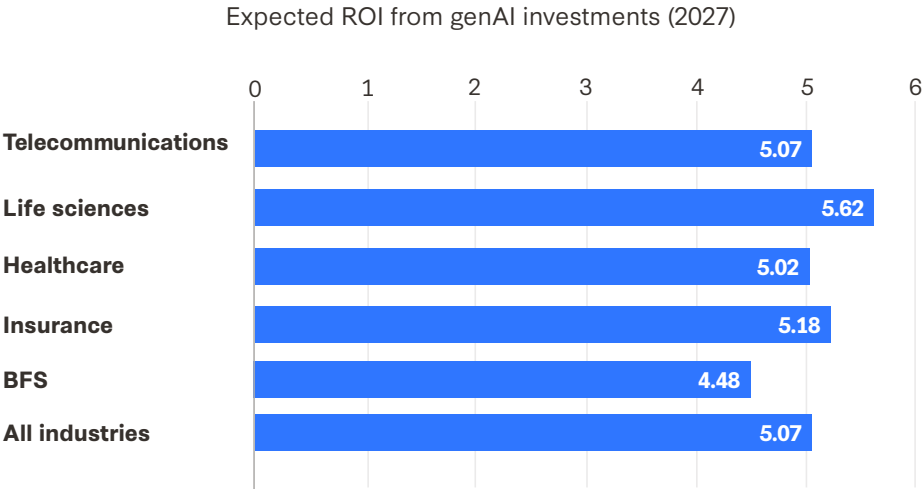
Figure 4

The types of data, its quantity and quality will be critical to the success of BFS's generative AI ambitions, and, ultimately, their customer-facing processes. Take the quality of unstructured data, which three-in-ten banks identified as an issue. It is far more abundant (and growing faster) than structured or semi-structured data. However, greater computational power and resources are required to to clean, normalize and transform it into insights. Properly labelled metadata will go a long way in making sense of this diverse pool of information. In our survey, customer-clairvoyant businesses were almost twice as likely to use metadata to identify key patterns in customer needs and behaviors than the merely responsive ones.

Fortifying the global data office

Customer-obsessed and clairvoyant companies prioritize a federated approach to customer data management and usage. A well-staffed general data office (GDO), supported by a common data strategy and processes that drive data sharing, is a potent tool to unearth insights from raw data at these companies. However, our survey provided a mixed verdict for BFS firms in this regard. Although 52% of respondents said their companies had a GDO, just 13% said they had a common data strategy across customer-facing groups; 37% said they were currently implementing one (See Figure 5). Slightly over 50% said that marketing, sales, and R&D functions share customer information with each other. BFS firms are also laggards when it comes to the number of staff employed at their GDOs, averaging 41.67 people, the lowest among all industries surveyed.

Many BFS firms lack a common data strategy

Percentage of firms with a common data strategy

We have a common data strategy in place across business functions	13%
Our company does not have a common data strategy across customer-facing business functions, and doesn't see the need	19%
Customer-facing business functions agree on the need for a common data strategy, but haven't implemented one yet	29%
We are currently implementing a common data strategy across business functions	37%

Figure 5

Interestingly, the GDO's impact on the organization is visible. Seventy-two percent of BFS respondents said their GDO was somewhat or highly effective in creating and enforcing policies for using customer data; 63% said the same about creating customized data products for business functions needs.

As evidenced by the data, BFS firms are not enjoying the potential value a fully empowered GDO can bring to the organization. Just one-third of BFS firms are benefiting from company- and function-specific data products designed to improve decision-making and collaboration by applying product management principles to data collection and usage (our main report dives deeper into this aspect); only four in ten are fostering business data ownership and increasing data literacy—a critical tool for fostering data customer obsession and/or clairvoyance.

How to move beyond customer obsession

Our study reveals the need for BFS firms to fix critical gaps in how they collect, analyze, and utilize customer data to turn the abundance of data they collect into a distinctive competitive advantage. In an era where data collection and meaning-making technologies such as data lakes and generative AI are rapidly leveling the playing field, ensuring that the data is of high quality, that it's filtered for insights, which are funneled to the right teams at the right time, provides the wherewithal for customer obsessed and customer clairvoyant firms to flourish. We believe banks need to take the following steps to do this.

1. **Prioritize customer data that matters most (and put it to use)**

   We found that customer-obsessed and -clairvoyant companies not only collected more data than the rest but also better data. They did this by focusing on the types of data being collected, particularly product usage data. While BFS firms are highly effective at collecting data around website and app usage (to view offerings) and the transactional data around the sales of these offerings, our study shows they trail when it comes to tracking product usage and customer feedback via social media and other external sources. Better use of this data can give BFS firms actionable insight into how and where customers use their products and services, the challenges they face, their likes and dislikes, and what new features and functions they desire. This information gives R&D a heads-up on where to place their products/service bets.

   Poor app navigation and usability, for instance, are common complaints from bank customers. Compare that to the rising popularity of peer-to-peer payment apps, which are much simpler to use and are preferred by 57% of U.S. consumers to make payments and send money. By collecting app usage data and analyzing it against social media comments, videos, screenshots, and other unstructured data, banks can begin to improve their customer experience and create new offerings that will appeal to prospective customers. Generative AI tools will be a big help in filtering and cleaning this data and labeling it with metadata. Putting this metadata to use, however, needs to be a priority. Our study clearly highlights that companies that achieve customer obsession and/or clairvoyance use metadata extensively.

Prioritize customer data that matters most (and put it to use)

Strengthen the global data office

Build on early generative AI forays

2. **Strengthen the global data office**

BFS firms' apparent lack of cohesion in fully utilizing the strengths of a global data office means many firms are not fully utilizing the customer data they collect that can create strategic advantages. The GDO is critical in ensuring that the data they collect is high quality and relevant for creating data products and platforms that can help them become more customer-obsessed and even clairvoyant.

Given the global data office's ability to advise on ways to convert raw data into unique insights into what customers want — now and in the future — bridging this gap is critical. By creating data products that enhance their employees' ability to access and understand customer data, global data offices can transform data product management approaches to deliver rapid improvement and boost innovation. BFS firms can begin by hiring data scientists and engineers to address the skills shortage in their global data offices. They will also need to create mechanisms to boost data literacy among business teams and, crucially, adopt a common data strategy that encourages data sharing while ensuring the privacy of customer data.

3. **Build on early generative AI forays**

BFS's pragmatic push into generative AI reaffirms the industry's willingness to embrace transformative technologies. Clearly, there is a long way to go before the industry expects the technology's long-term benefits to start flowing in. However, we believe the industry can do more to broaden the scope of generative AI tools across customer-facing processes. For instance, by rapidly analyzing real-time product usage data, generative AI can help teams deploy incremental customer experience improvements, ultimately leading to broader changes.

An example of this comes from a global, diversified financial institution with approximately $2.4 trillion in assets. It uses AI tools to improve the personal banking experience. The bank moved from fragmented systems that often left customers feeling left out to one where its web and mobile channels are integrated into a decision hub. This has allowed the bank to parse call records using AI tools to understand customer sentiments and push only the most relevant offers and services. The bank also adopted a zero-tolerance policy towards data privacy failures by encouraging collaboration across relevant teams. JPMorgan Chase, meanwhile, has deployed a suite of LLMs to understand, among other things, where to place new ATMs and branches using satellite images.

These examples have a common underlying theme: ensuring that data flows freely across teams that know how to use it. Firms that have achieved customer clairvoyance and obsession do this relentlessly. They understand that the use of generative AI tools will create vast amounts of customer data and are customer-facing teams to put this data to use.

Engineering data mastery for the next era of banking

Our survey highlights how banks and other financial services firms invest heavily in data foundations and generative AI tools to improve customer data mastery and better serve customers with new products and services. It also shows areas where BFS firms can make immediate improvements and where much groundwork is required to align reality with potential. BFS firms have the potential to build mechanisms to collect not more data and create higher quality data that can be swiftly analyzed and acted upon by customer-facing teams who need it the most. By building on their vast experience of working with new and existing technologies and adapting them to deliver new products and experiences faster, they can unlock the advantages that make them indispensable to customers and more attractive to prospects.

To read the full report click here.

To learn more about our work with banks and financial institutions, visit the BFS section of our website.

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