Chapter 3
Proposed Conceptual Model – Elements in a Personalization Strategy of the Financial Industry

3.1 Personalization in the Financial Industry

A well-executed personalization initiative relies on effective collection, analysis, and deployment of both customer and corporate information. This is especially true for the information intensive financial sector. Financial services firms are aggressively participating in the personalization evolution (Bruno, 2001; Rice, 1999). This is logical since financial services firms' products are services related to the provision and management of personal information. This is especially true when, today, one's financial wealth exists in the form of data recorded at his financial institution. When a customer needs to transfer funds, it can be done in the form of data change on his and recipient's account statement; one does not need to physically withdraw a large sum of cash and go to recipient's bank to deposit the dollars. Since personalization technologies are a form of information technology (IT), it is logical that the financial industry, which is in effect a manager of personal information, finds personalization an alluring opportunity. This reality is reflected in Walter Wriston's, head of Citibank in 1967, insight that "banking is not about money; it is about information," (Drucker, 2002). Today, competition in the financial industry is more intense than ever. Financial products have become commodities due to the lack of innovation. In an effort to better compete, financial firms are experimenting a variety of ways to create more value to customers, personalization being one of them (see, for example, Rice, 1999; Famulla, 1999; Trotsky, 1999).

There are a variety of financial institutions in the financial industry, some serve general public's needs of personal finance, some serve organizations, or a combination of both. As the focus of this research is on what *customers*, not businesses, think of different personalization tactics, the subjects for study are the customers of financial services customers. Note that this research aims at the business-to-customer (B2C) scenarios. Therefore, the "customer" in this case means the general public, who are the individual investors. The financial institutions under examination will be financial intermediaries serving the general public's needs of personal finance. Namely, banks, investment institutions, and insurance companies (Bodies et. al, 2000; TechVantage, 2002).

3.2 Taiwan's Financial Industry and Its Need for Personalization

At the time of writing this paper, there are fourteen financial holdings companies in Taiwan. In the 2002 November issue of a Taiwanese magazine TechVantage, cost saving, capital efficiency, and cross selling are listed as the three major advantages of consolidating smaller financial institutions into a big financial holdings company. To achieve effective cross selling, it is mandatory to consolidate previously fragmented customer data so that every single customer appears as a "whole person". This way, company could better know the customer on a personal level and, therefore, identify potential needs, interests, and preferences. The CEO of UWCCB, an affiliate of Cathay Financial Holdings Company, said that era in which customers are treated like fools for blind product push is over (TechVantage, 2002). To better target customer needs when your customer base is as enormous as that of many financial holdings companies, you need information technologies to achieve personalization.

3.3 Issues that should precede technologies – framework formation

Although personalization technologies are important enablers in implementing personalization, technologies alone are by no means the answer to every problem. Simply purchasing and implementing the technologies will not create any competitive advantage. The desired competitive advantage cannot be attained without an effective personalization strategy, because tools are available to every company with enough cash but strategies are not. Unfortunately, many companies today simply, “wrap the (personalization) software around old, mass-market merchandising strategies” (Kemp, 2001). Personalization strategies, like other business strategies, vary with different industries and contexts, and a good strategy is hard to develop. While many researches have discussed the promising future of personalization and applications of personalization, insightful analysis on personalization *strategy* is rarely encountered.

This research does *not* attempt to delineate different personalization strategies and their suitable circumstances, as it would be a very difficult task with scarce previous literature support. There are issues that must be resolved before going to the theorization stage of personalization strategies. This research will first examine how is personalization being implemented in the financial industry, followed by what customers consider as important for financial personalization. After all, ‘customer’ is, and should be, the center of any personalization effort. The investigation of existing financial personalization practices and related customer issues then leads to the formation of a basic framework.

Most of today's researches on personalization take on the corporate perspective. Namely, they examine how personalization should be implemented from companies' standpoint. For instance, an effective personalization strategy has to be balanced between key business variables: operational efficiency, customer intimacy, and product superiority are the three listed by Berg et. al (2001). Among the three variables, companies must decide the amount of resources allocated to each in order to achieve the optimal performance. Janowski and Sarner (2001) distinguish the personalization process and technology. Ideally, personalization providers should first understand how they want to shape the personalization process that customers will eventually experience. Then appropriate technologies for each step of the process are then selected and deployed. Of course, companies may need to consider more than these forth mentioned three variables when crafting a good personalization strategy.

However, these researches also stress the importance of understanding customers as it is the groundwork of any personalization initiatives. Therefore, the focus of this research is on what makes a personalization initiative welcome by *custo*mers, not companies.

To view the world through customers' eyes, we should start by investigating why customers would welcome a personalization initiative. The obvious reason is that customers think they can benefit from such activities. Jiang (2002) offers a way we could use to understand where in personalization may customers' perceived value be derived **– tailored products**, and the **tailoring process**. Perceived value from tailored products arise from the anticipated fulfillment of desires or preferences that are expected to result from tailoring product attributes or benefits. Another component is the tailoring process itself separated from the resulting fulfillment of product preferences.

Although financial firms are service-oriented, they still have “products”. Financial products include investment instruments, such as stocks, bonds (long term and short term), bank deposits, and lending instruments such as loans and credit cards (Bodie et. al., 2000). These investment instruments can be personalized to fit individual’s financial needs and preferences.

Personalized financial products are the product of the tailoring process. The tailoring process includes processes or services that add uniqueness to the financial products and customer experience. This may include financial advice or personalized transaction services.

Due to the information intensive nature of the financial industry, the primary component in the tailoring process is information personalization, which includes financial consultation and financial content delivery. Financial consultation is the financial advice given by financial advisor based on client’s situations, needs, and preferences. Financial content delivery has two parts. One is the delivery of financial market news; another is the information delivery on existing personal investments, including analytical reports on a client’s investment profile, such as an account analysis; and alerts that remind clients of important events, such as deposit maturity or unusually large transactions. Personalized financial consultation usually occurs in face-to-face situations or on the phones. As for content delivery, the main channel for market news is financial firms’ web sites, some of which provide personalization capabilities to help clients filter out irrelevant information. Delivery of client’s investment information can use multiple channels: mails, e-mails, company’s web site, mobile devices, etc. With personalization, both financial consultation and content delivery can be specifically targeted at individual’s needs (Middlemiss, 2003; Jensen and Xiao, 2001; Best’s Review, 2001; Wall Street & Technology, 2001).

As illustrated above, financial firms are now using a wide variety of channels to communication with clients. The traditional face-to-face, telephone, fax, and mail channels still remain, but now with the additions of newer technologies like the Internet, e-mail, and mobile devices. As the decree of personalization is providing the right product to the right customer at the right time and right place (Berg et. al., 2001; Coner, 2003), channel flexibility start to receive increasing attention from financial institutions.

Another area in the tailoring process is transaction services. Transaction services are complements to financial products. Transactions can also be personalized to improve convenience to customers. An example is preoccupied personal information fields to save customers the time filling necessary transaction forms (Landolt, 2002).

The tailored products and the tailoring process all aim at targeting and serving customers' needs with greater accuracy and precision. However, some customers are not optimistic about personalization. The main reason – personal privacy (Dalton, 1998; Kambil, 2001; Coner, 2003).

As the purpose of this research is to unearth what makes a personalization strategy appeal to customers, it would be incomplete without examining what makes a personalization strategy repulsive to customers and how to remedy the situation.

Privacy concerns seem to be the dominant hindrance to the acceptance of personalization. One aspect of the privacy issue is the revelation of personal information. The research of both Coner (2003) and Kambil et. al (2001) indicated that users are more reluctant to reveal private information on a personalized web site than on a customized web site; all because of privacy concerns. Adding to the reasons to fear, it is now feasible to monitor user behavior on the Internets without user realization.

Nonetheless, it does not mean that customers are unwilling to reveal personal information under *any* circumstances; there are conditions that must be met before customers are willing to sacrifice some of their privacy. A survey conducted by the Personalization Consortium (2000) showed that most customers are willing to provide personal information to Web marketers if that improves their online experience and there is a privacy statement to protect their rights.

However, their researches were confined to the Internet and revealing private information online. It would be of interest to know whether customers are still concerned about privacy issues when they are asked for private information offline. This is important in this research because personalization as defined in this study is not confined to the Internet; rather, it is a corporate initiative that affects both the online and offline activities. Therefore, a question to be investigated in this research is what will increase customers' willingness to use and reveal personal information on a personalization-enabled mechanism (including online and offline), in addition to a privacy statement?

Berg et. al (2001) offer a possible remedy to alleviate privacy concerns online and offline. They contend that a good personalization strategy will make customers think that what they receive is "coincidentally a very good match for their needs, rather than the result of intrusive targeting." The ultimate state of personalization is to achieve serendipity, in which customers think they are receiving fortuitous offerings of the right products at the right place and time. In short, minimizing intrusive targeting perceived by customers is what they recommend; however, what can companies do to minimize perceived intrusive targeting? Reichheld et. al. (2002) say that companies should woo customers, not stalk customers. "Try to build relationships with disinterested customers, and you will be perceived a s stalker, annoying potential customers and turning them into vociferous critics." In other words, woo customers who are interested in your products or services, and leave the uninterested ones along. However, the goal of many companies is to turn the apparently uninterested customers into interested ones. It is because some potential customers may initially appear to be uninterested but change his/her attitude after persuasive product marketing. So the question becomes: how should companies woo potential customers while minimizing perceived intrusive targeting? This will also be part of the investigation in this research.

Figure 11 depicts personalization from customer's point of view. As discussed above, privacy concerns form the basis of their decision to (or not to) adopt personalization. As we move up the triangle, values of personalization may appear in the tailoring process, channel flexibility provided by multiple channels, then, finally the personalized financial products.

Existing literature shows that, for the financial industry, most of the values of the tailoring process originate from information personalization. A smaller portion of the values arises from transaction personalization.

Flexibility provided by multiple channels is also valued by customers because it allows customers to choose the most convenient mechanism and time to communicate with the firm.

Values of personalized products originate from the matching between product features and customer's unique financial needs. A risk-adverse customer who has no immediate cash needs may choose a more conservative (lower risk) and longer-term investment. On the other hand, a customer who want to invest for a shorter period and is willing to take greater risk for a greater potential return, may be offered a short-term investment instrument that has higher risk and potential return.

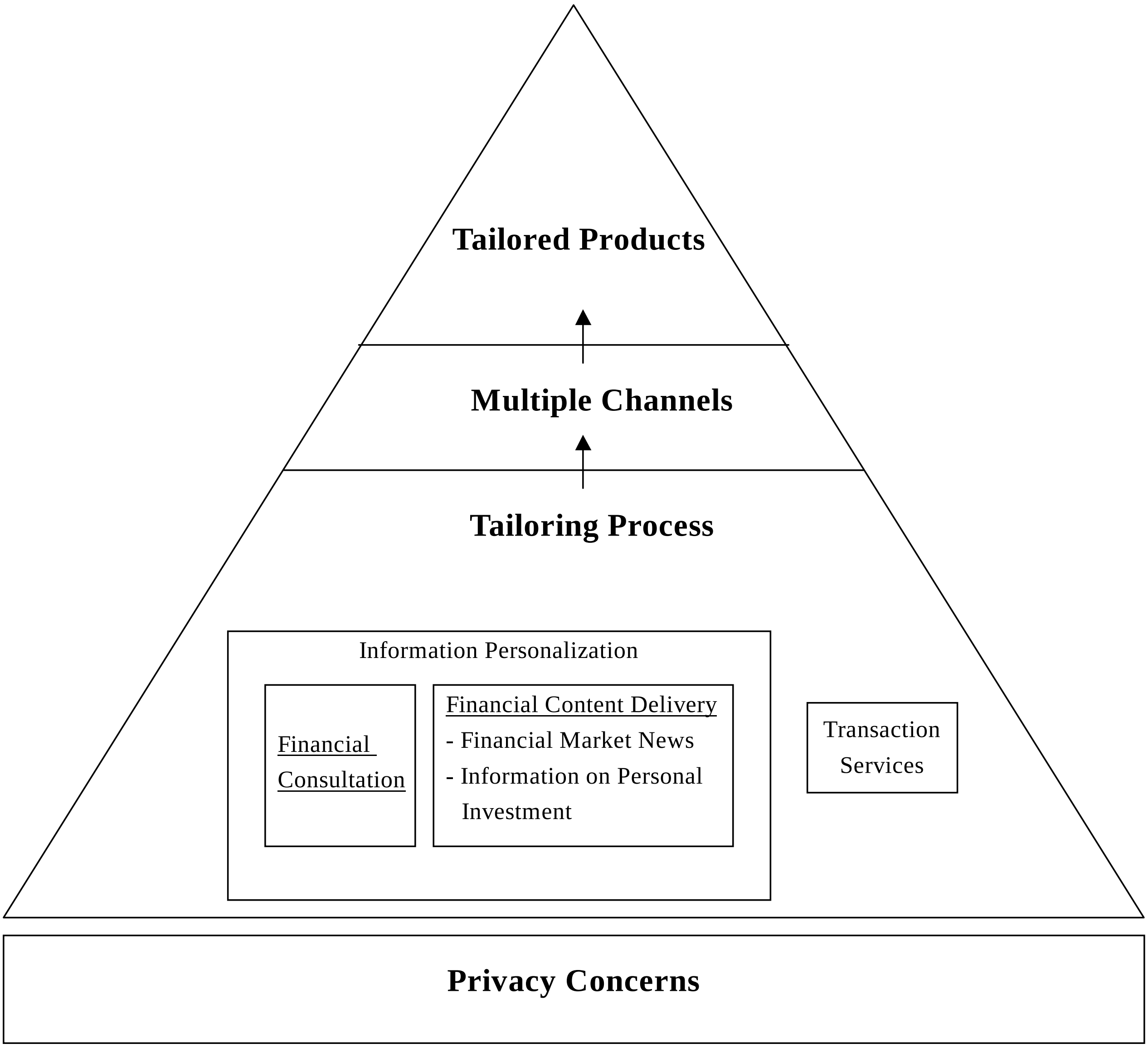

Figure 11: What do customers see in financial personalization