senteo

Who is Winning the Retail Banking Race in Russia?

The Russian Retail Banking Customer Experience Index (CEI)

Fourth Quarter 2007

KPMG

TABLE OF CONTENTS:

BACKGROUND

THE 2007 RUSSIAN RETAIL BANKING CUSTOMER EXPERIENCE INDEX

- THE VALUE OF THIS STUDY
- THE SENTEO CUSTOMER EXPERIENCE INDEX (CEI)

SUMMARY OF FINDINGS

- SENTEO RUSSIAN RETAIL BANKING CUSTOMER EXPERIENCE INDEX, 2007
- BRAND
- COMMUNICATIONS
- ENVIRONMENT
- OFFERING
- CULTURE

APPENDIX: THE 2007 RUSSIAN RETAIL BANKING CUSTOMER EXPERIENCE INDEX

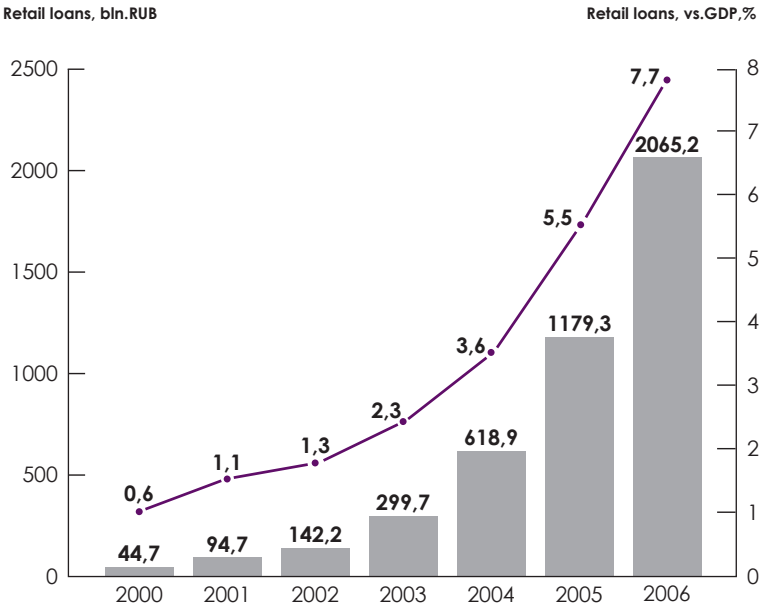
BACKGROUND

BACKGROUND

The growth of the Russian retail banking market over the past 10 years, and particularly over the past 5-7 years, has been astonishing and many are still talking about the future potential and the current dynamics of customer behavior. This has led to many questions and comparisons of the present leaders in the retail banking race along with the main question of how their positions will change over the coming years as the market continues to develop.

Over the past 5-7 years, we have seen the retail lending market skyrocket as more and more banks began to focus on retail lending. However, even though Russia is following the same basic developmental path, the market is still very young compared to Russia's counterparts in the West. Outstanding credit balances to retail customers have increased by roughly 89% per year over the past 7 years, but still represents only 7.7% of GDP (Fig.1). Figures in Central Europe average around 18% of GDP and in Eurozone around 54% of GDP proving that there is still significant room for growth in the Russian market.

Figure 1: Russian retail loans growth dynamics

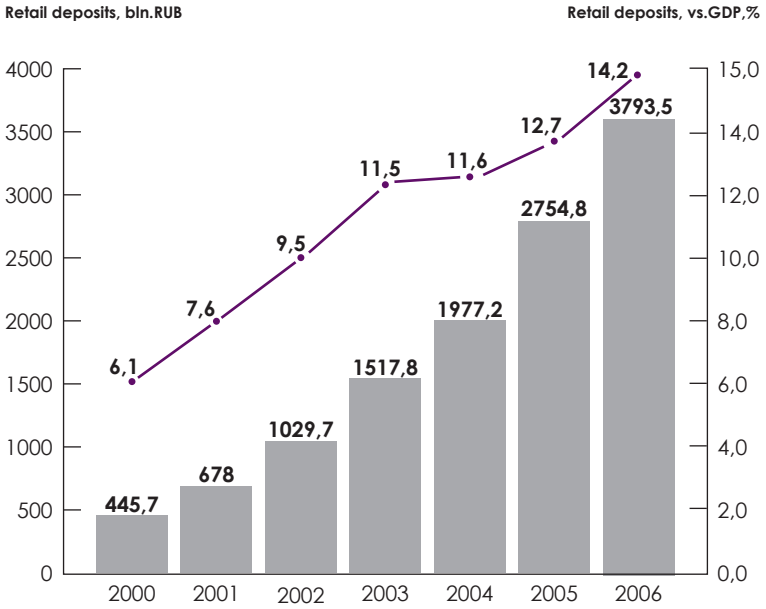


Source: CBR, MERT

The developing middle class, and consistently increasing wages across the country, will continue to fuel the boom in retail lending as people are beginning to feel more secure about their future. This security is giving consumers more confidence to make such decisions as to purchase a new home, car, vacation, etc. But lending is not the only booming area in the retail financial services market. Russian consumers have more savings than ever, and this is visible not only in the growth of deposit balances in the country but also in the increased use of investment products such as mutual funds, annuities, and even direct stock ownership.

The figure below shows that retail deposits in Russia have grown by about 43% per year over the past 7 years, but still represent only 14.2% of overall GDP (Fig.2). Again, this allows significant room for growth when compared to any of Russia's Western counterparts where deposits as a percentage of GDP are around 28% and 60% in Central Europe and in Eurozone, respectively.

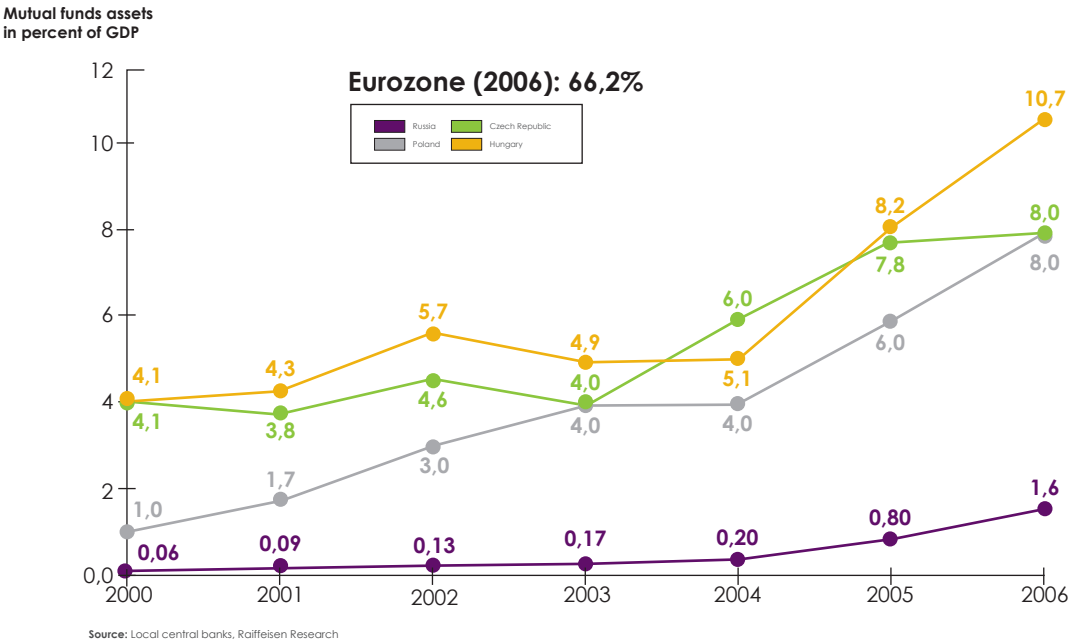
Figure 2: Growth of Retail Deposits in the Russian Market



Source CBR, MERT

As an alternative to savings, Russian consumers have started to use mutual funds which provide higher yields by investing into riskier assets. In most cases, mutual funds are much more profitable for banks than savings accounts. As a result of the banks' marketing efforts and strong customer demand, Russian mutual funds have doubled assets under management, reaching 1,6% of the GDP in 2006 (Fig. 3). However, the Russian mutual funds market is still in the early stage of its growth. This promises significant potential for growth when compared to advanced Central European and Eurozone countries where mutual funds asset volume as a percentage of GDP is around 8-10% and 66%, respectively.

Figure 3: Growth of Mutual Funds in the Russian market



Source: Local central banks, Raiffeisen Research

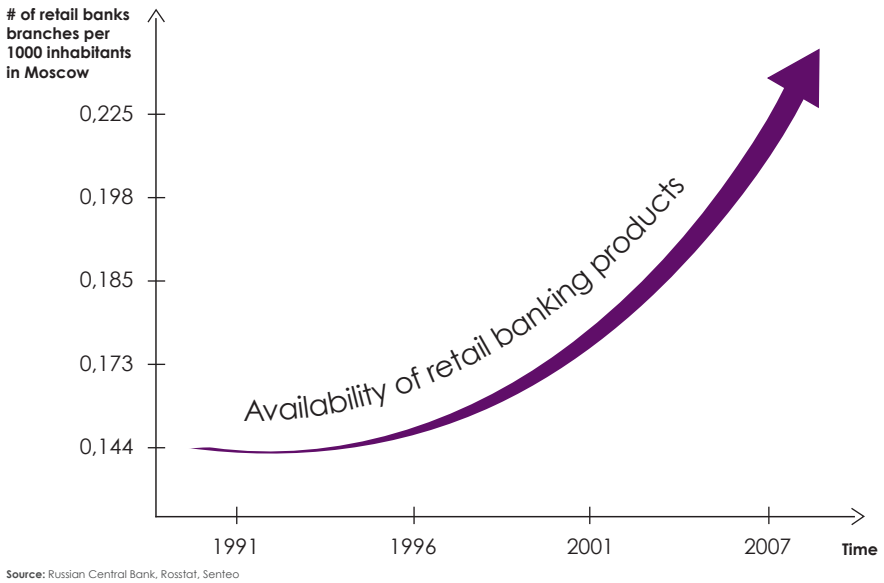
The market growth, along with the increased spending power of the Russian consumer, has created a clear vision for further development opportunities in retail banking services in Russia. Clearly, these opportunities are apparent not only to Russian banks but also to international banks that have shown increased interest in investing in Russia over the past 10 years.

The foreign banks that have moved into the Russian market, either through start-ups or large-scale acquisitions, have created a sense of urgency for the Russian banks by adding a new dimension of competition within the market. In general, foreign banks have brought with them elements of international best practices, standardized processes, experienced risk managers, global brands and marketing tactics, and more, to the playing field in Russia. However, the foreign banks clearly lack an intimate knowledge of the Russian market and a clear understanding of what Russians really want and need. Additionally, in most cases, they lack the distribution reach that their Russian counterparts enjoy.

The Russian banks who are under pressure from foreign competitors, have worked very hard over the past 5-7 years to develop their offerings, service quality, distribution channels, etc., in an effort to remain on the level playing field with the foreign banks. Often, they have been very successful at making quick adjustments, but there have also been quite a few failures along the way as a result of a poor understanding of best practices that rolled into the market with the foreign banks' arrival.

The growing competition over the past 5-7 years has proven very interesting for the consumer, largely due to increased availability of retail banking services on the market and the price wars that tend to follow every new advance in the retail banking market. The figure below indicates the level of retail financial services available to the Russian consumer over the past decade (Fig.4).

Figure 4: Increase in Availability of Retail Banking Products



Source: Russian Central Bank, Rosstat, Senteo

One very serious question for the retail financial services sector in Russia is, "Who is really winning the race?" Clearly, the availability of retail banking services has skyrocketed over the past decade, but who is really benefiting from it?

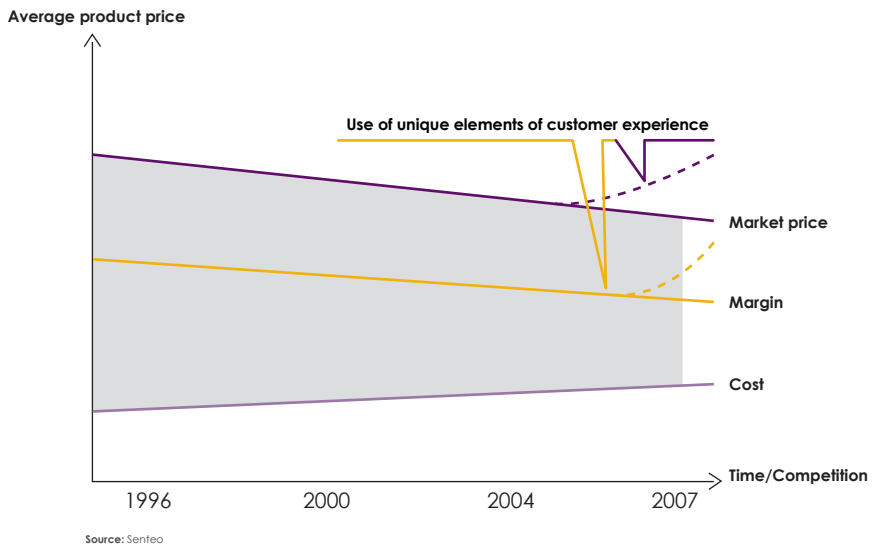
The rapid increase of availability of retail banking services has definitely given Russians more choices. However, it remains unclear whether these seemingly positive developments have been effective. Namely, has the increased availability and choice of services created new benefits for consumers or simply made it more difficult and confusing for them to make a choice? Also, has the progress over the past 5-7 years been the result of detailed analysis of the needs of customers and the desire to provide quality solutions, or has it simply been a race to see who can copy, launch, and rollout faster?

The retail banking customer in Russia is clearly struggling. In the past, customers made their choices based almost entirely on availability and price. If they could find the goods or services they desired and the price was more or less acceptable, then they made the purchase. With all of this increased availability, however, the consumer has gained a significant amount of choice. And based on the power of choice, the Russian consumers have started to look at a whole new set of characteristics that generally break down into the following areas:

- How appealing or attractive is the company (or the image of the company) that is selling the product or service?
- Is there significant and convincing motivation to initiate contact with a bank after seeing their advertisements or promotions?
- How well does the product or service meet the concrete, individual needs of the consumer?
- How is the product or service packaged and promoted?
- How accessible is the product or service during and after the sales process?
- How comfortable, intuitive, and efficient is the acquisition process?
- What is the quality of the interactions with staff during/after the sales process?

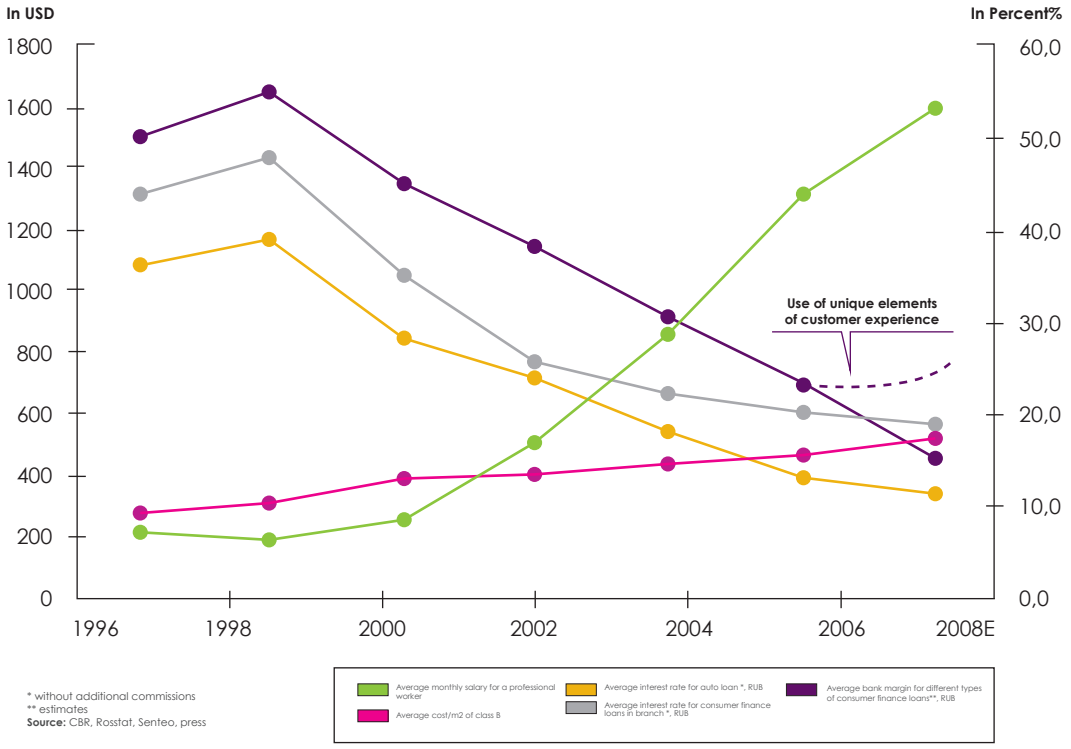
Basically, when customers are presented with more choices, they will look deeper into the offer to find the product or service that best meets their needs as an individual. If they do not find what they are looking for when they look deeper, they inevitably fall back to comparing the price of the different offers, and this is the underlying factor in price competition in any market.

Figure 5: Examples of key drivers for Margin Crunch in the Russian Retail Banking Market



Source: Senteo

Figure 6: Examples of key drivers for Margin Crunch in the Russian Retail Banking Market



As illustrated in Figures 5 and 6, normal market conditions are based on the cost for providing goods or services and their market price. The difference between cost and market price is the margin the seller enjoys. In the Russian market over the past 5-7 years, price-based competition has increased dramatically, and the result of this competition has been a significant drop in market price for almost all retail banking offerings. The response from banks has been to work to reduce funding and operating costs, which is a noble effort, but ultimately the cost reduction comes much slower than the drop in market prices, creating a consistent reduction in profit margins earned by the banks.

The solution to this problem is the use of elements of customer experience to create a unique and differentiated offering that can sustain a premium price in the market. Research proves again and again that customers will pay more for better quality, efficiency, or for a product or service that is customized to meet their individual needs. Research also proves time and time again that customers will be much more loyal to a bank that understands them and delivers a consistent experience – both through sales and service.

With this in mind, there is an opportunity to use these elements to create premium-priced offerings while still working to reduce costs of production and delivery. This will help to raise margins which can then be used to further develop the overall offering for the customers – the result being a more profitable business and a more loyal and satisfied customer base.

THE 2007 RUSSIAN RETAIL BANKING CUSTOMER EXPERIENCE INDEX:

THE VALUE OF THIS STUDY

The overall value of this unique study is owed to the creative effort and cooperation between Senteo and KPMG.

Senteo has consistently promoted the benefits of creating a unique, consistent, and memorable customer experience in an effort to create a more loyal customer base. This need is very urgent in the Russian market today, especially, as competition continues to grow.

The value of this study emphasizes two key points:

- A better understanding of how to measure and benchmark performance will help banks to improve the overall quality of the customer experience they provide for their customers
- An understanding of how to use the customer experience to create a more satisfied and loyal customer base.
- An understanding of what are the main elements of the "Stable Sales Model" which can serve as a foundation for unique, consistent, and memorable customer experience creation;
- An understanding of need to get client-oriented service across Russian banks' personnel.

These elements represent a significant benefit for banks in Russia, but one other point to consider is that there is a huge difference between creating a positive customer experience in one location and creating that experience consistently across all channels, all the time. This brings about the key uses of this study, which are to effectively measure the quality of a customer experience and to also provide a benchmark for the top players in the retail banking market to measure their performance on an ongoing basis.

In addition, this study is quite unique in the sense that this is the first occasion in which banks in Russia have been measured based on their attractiveness to the customer in terms of customer experience. We believe that if banks begin to focus on the overall quality, uniqueness and consistency of the experience they create for their customers, the overall condition of the retail banking market will continue to develop and prosper. If this new focus does not arise, then the price wars and competition will only continue to get worse. Therefore, this study represents a strong "proof of concept" for the small number of banks that have selected and embraced the approach of developing unique, consistent, and memorable customer experiences as part of their core offering.

KPMG participated in this study as an international expert in banking to confirm the effectiveness of the methodology applied to this study and to guarantee the impartial collection of data for the results. Based on KPMG's advisory experience in more then 150 countries, it is clear that the Russian Retail Banking marketplace is fast growing and very competitive and that creating a unique, consistent, and memorable customer experience can become a key point in establishing a more loyal and profitable customer base.

KPMG has worked with banks all over the world in an effort to help improve overall performance and effectiveness of their businesses. Based on that experience, it is clear that this type of study provides a new measurement tool for banks that is perfectly tuned to the needs and desires of their customers. It also provides a unique opportunity to compare performance among banks based on their overall attractiveness to their customers. KPMG takes the position that this new type of study should become one of the key benchmarks for retail banking performance over the coming years as banks begin to focus more and more on meeting the needs and fulfilling the desires of their customers.

THE SENTEO CUSTOMER EXPERIENCE INDEX (CEI)

As outlined above, Senteo has created the Customer Experience Index (CEI) as a tool to measure the quality and consistency of customer experience as well as to provide a benchmark for retail bankers in the Russian market. The main focus of the CEI scorecard has been to measure the customer experience that banks create, based on the following contributing elements:

Brand – How appealing is the brand and positioning of the bank and how well can customers identify with the "personality" and "tone of voice" used for different segments?

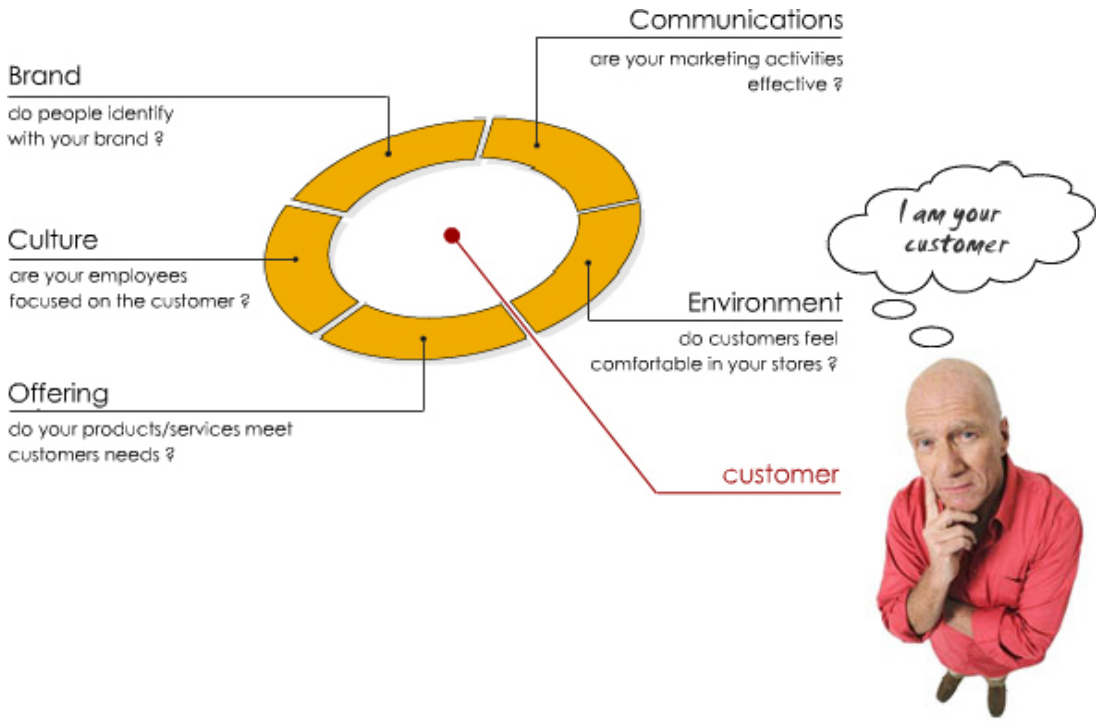
Communications – How effective are the advertising and promotional activities in generating interest and communicating clear benefits to the consumer?

Environment – How are customer touch points performing in terms of visibility, accessibility, ease-of-use, and consistency across any point of customer contact?

Offering – How well does the offering meet the needs of the customer and how well has the bank removed elements of customer sacrifice from the acquisition and service processes?

Culture – How efficient is the organization in creating a culture of customer orientation and a desire to help?

All five of these elements structure the overall customer experience, as they are the elements of any retail bank that is constantly in contact with the customer. Any and all other areas of banking (treasury, accounting, risk management, IT, etc.) are incredibly important for the efficient day-to-day functioning of any bank, but they are not understood by or important to the customer. Therefore, any study or measure of the quality of a customer experience will not consider elements other than the five elements outlined above.



To create the scorecard, Senteo relied on international experience and best practice measures to create a set of questions and a measurement scale for each of the five areas outlined above. Then, to gauge the consistency of the customer experience in any bank, it is necessary to have a number of interactions with the bank over time and through different channels. Therefore, with the scorecard filled out on many different occasions, measuring different interactions, and through multiple channels, we are able to calculate the overall quality and consistency of the customer experience.

The overall Customer Experience Index was designed to begin with mystery shopping and then to continue with management interviews to provide a holistic diagnostic of how well the objectives of management are being realized in the field. For this application of the CEI, however, we chose to focus only on the mystery shopping portion for data gathering and then analyzed the results to formulate the benchmark. Therefore, this study contains no conclusions as to the customer experience that the banks wished to create for their customers; all conclusions in this study are based on the actual experiences of the mystery shoppers during the course of the study. As well, we chose to focus mainly on the branch channel during the course of this study as this has proved to be the main point of customer interactions for retail banking customers in Russia.

The following is an outline of the concrete characteristics that we chose for measurement for each of the five elements of the customer experience in a branch environment.

Brand

- Visibility of the brand (night/day, location, signage, obstacles to see the signage, etc.).
- Positioning of the brand (clear and understandable; adapted to different client segments).
- Easily identifiable brand values and personality.
- Proper representation of the brand (in-branch design and communications).
- Brand presence (branch office, uniform, in-store communications, literature and handouts, virtual environment, stationary).
- Perceived brand value (including the presence of emotional triggers / cues and the overall value proposition for initiating a relationship).

Communications

- Consistency of communications across channels and target segments (brand positioning, messages, visual style, tone of voice).
- Proper representation of the brand and conduct of product promotion campaigns (advertising, in-store communication, merchandising, banners, posters, etc.).
- Communications placement, effectiveness, and quality.
- Zoning of communication messages in the branch (messages vary and progress when the customer proceeds through the branch environment).
- Product packaging and memorabilia

Environment

- Branch design (designed with a consistent process of customer interaction - customer journey).
- Branch zoning and layout (intuitive, easy to use, inviting, pleasing, memorable, unique, accessible, safe, recognizable).
- Proper and consistent maintenance of customer environments and merchandising system.
- Availability of supporting tools designed specifically to support the sales process for each product (sales presentations, calculators, and additional items that facilitate discussion and/or planning with the customer).
- Sensory engagement elements and comfort items.

Offering

- Product positioning / solution-based approach
- Pricing, product development and sales system effectiveness, appeal / motivation to purchase more
- Convenience of sales and service processes for customers as well as for front-office staff (effective, simple, easy to understand and intuitive).
- Post-sales follow-up, availability, and quality of interactions.

Culture

- Employee attitude toward their jobs and the customers (politeness, positive mood, genuine interest in assisting the customer and in taking extra steps to meet his/her needs).
- Approachability of employees (attention from the moment the customer walks in a branch; front office staff consider customer interactions as their primary business and other internal activities as secondary).
- Employee behavior in accordance with set standards and brand values (customer service and appearance standards).
- Operating model efficiency (staff roles designed to meet the needs of the customer and to deliver the best possible customer experience in an efficient manner).
- Efficiency of employee behavior in all situations (precision, accuracy and quickness; preparedness to answer hard and complicated questions).

Measurement

Based on the characteristics outlined above for each of the five elements of the customer experience, a questionnaire was created for use by the mystery shopping team. Scores were based on international best practices, using a 5-point scale (5 being the closest to international best practice and 1 being the farthest).

More detailed information on the specifics of this particular study can be found in the Appendix.

SUMMARY OF FINDINGS

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Throughout the course of this study, there were many interesting and enlightening moments, and if we were to summarize our findings into one overall statement, it would be as follows:

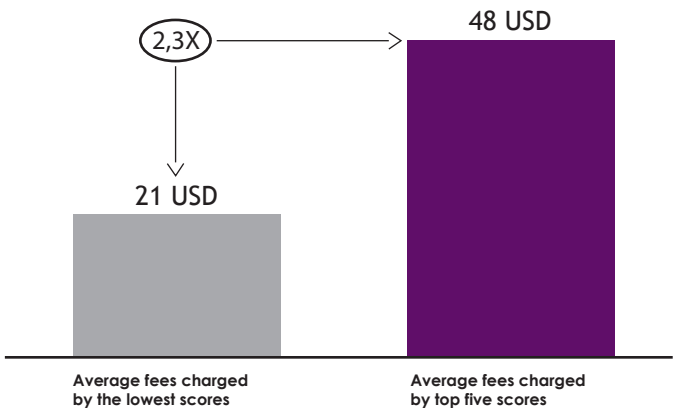
The state of the retail banking market in Russia is significantly better and more customer focused than it was 5-7 years ago, but for many of the key players in the market, there is still a lot of work to be done to reach a level of international best practice.

This overall theme extends into each of the five elements of the customer experience in a sense that there is considerable inconsistency in each area. For example, the foreign banks scored pretty well, since they have experience with international best practices and they, more or less, know what their businesses should "look" like. However, in many cases, the foreign banks underperformed in terms of consistency across different branches or customer interaction. Sometimes, for instance, customers formed a varied experience when interacting with multiple employees in the same branch. Also, the overall offerings of the foreign banks seemed to be a bit standard with very few elements that could be customized based on customer needs. The Russian banks, on the other hand, were a bit more accessible in their distribution, and their product offerings seemed to have been given a bit more thought. Nevertheless, the Russian banks scored much lower within the brand, communication, and culture categories.

One thing that has been apparent throughout this entire study is that the banks that scored high in all five elements of customer experience have also been able to maintain premium pricing in several product categories; thus, pulling themselves out of the price war to a large extent, if not completely.

For example, if we take current account / debit cards for Visa Classic or MasterCard Standard and compare the average fees charged by top five scorers in this study to the average fees charged by the five lowest scorers, there is a dramatic disparity (Fig.7). This scenario repeats itself consistently across all product categories and clearly illustrates that customers are willing to pay more for an experience that is pleasant to them as individuals.

Figure 7: Price Relation to Experience Score

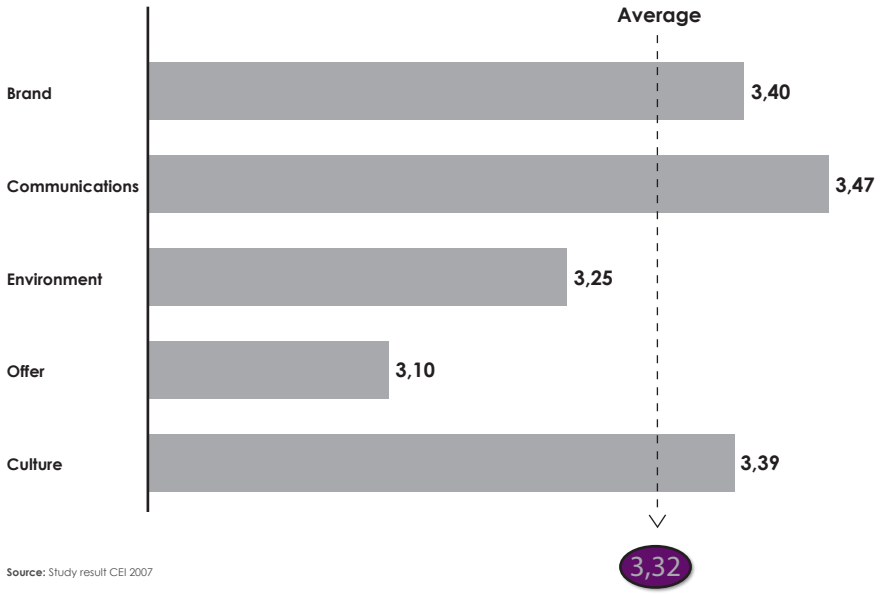


Source: Banks tariffs

Something is motivating customers to pay more for what they could purchase for less in another bank. Is this a coincidence, or is this simply a "proof of concept" that the customer experience is the key for banks wishing to extract themselves from the price wars with the competion?

If customers are willing to pay more for a better experience, then: they are more likely to go to a bank with an attractive brand that clearly communicates with a specific customer segment; they are more likely to use a bank that conducts engaging promotional campaigns and has a pleasant and comfortable customer environment, as well as an attractive and acceptable product portfolio. Last but not least, customers are more likely to choose a bank that has the kind of staff that is attuned to their needs by being polite, helpful and attentive, in addition to being genuinely willing and able to assist customers. These elements, when brought together, form a holistic customer experience for which the customer is ready to pay much more for the bank's services, and which can become the main factor influencing customer loyalty.

Figure 8: Customer Experience Scores by Element



Source: Study result CEI 2007

In Figure 8, we can see that the average index of Russian retail banking customer experience is 3.32 for the 4th quarter of 2007. Looking at the average score and comparing it with the best practices among the leading international retail banks, we can say that the current state of the customer experience among Russian banks leaves much room for improvement.

If we look at the scores for each element individually, the highest average score was obtained in the Communication category. In general, this is a common indicator that competition is rough. Banks tend to spend more money on attracting clients in a crisis situation. As such, marketers learn to make their efforts more effective with the goal of being more visible and attractive than the next bank.

The lowest score of the individual elements goes to the Offering element, which clearly illustrates why the marketers need do a better job, but also shows that not enough attention is

being paid to the needs of the customer and the ability to customize solutions. In many cases, there were simply too many products with very little differentiation, which results in confusion for potential customers.

The second lowest score was obtained in the Environment category. One key developmental goal for Russian banks related to customer environment (for example, customer touch points or channels) will be to create and consistently deliver a positive and memorable experience at all points of contact. This should also include elements of intuitive navigation, ease of use, etc., and a consistent visual representation of these customer touch points at any point of contact. Our experience during this study can best be described as "sporadic". In some places, things were good; in other places, otherwise.

We observed the highest scores within the Brand and Culture categories of this Index. Yet, the average scores still fell into the range between 3 and 4. This shows that there is still plenty of room for improvement, but we must not fail to also recognize that there has been significant progress in these particular areas over the past 5-7 years.

In our opinion, had this Index been completed 5 years ago, the overall average score would have been around 2.5. Therefore, we applaud the significant advances in all categories, and we encourage the banks to build on that momentum going forward, in order to attain a world-class level of performance in each of the five elements of customer experience.

The following chart provides the overall rankings of banks in the index for the 4th quarter of 2007 (Fig.9):



Figure 9:

SENTEO RUSSIAN RETAIL BANKING CUSTOMER EXPERIENCE INDEX, 4TH QUARTER, 2007*

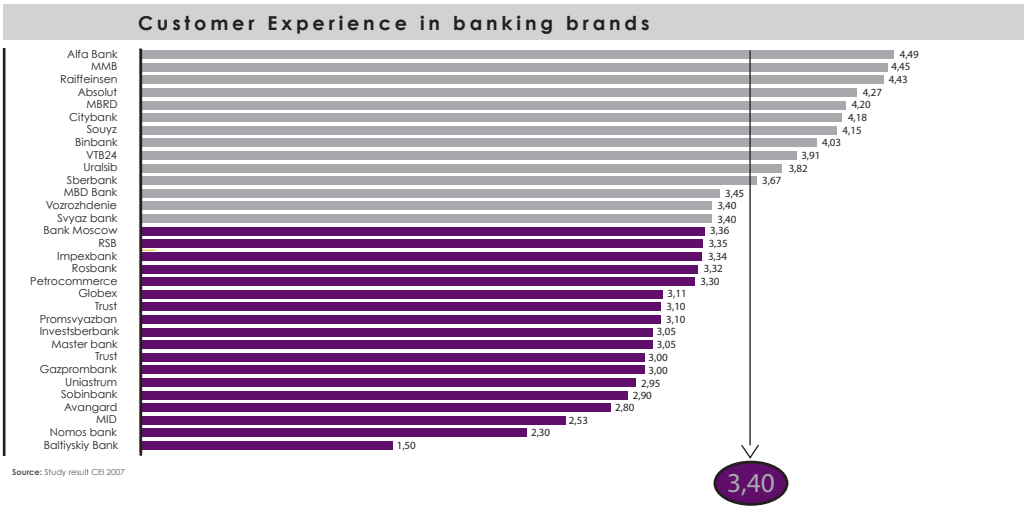
Rank	Bank name	Brand attractiveness	Communication availability	Environment attractiveness	Offering availability	Culture attractiveness	Total score
1	Alfa Bank	4.49	4.78	4.60	4.42	4.58	4.57
2	MMB (Unicredit)	4.45	4.40	4.18	4.10	4.25	4.28
3	Raiffeisen Bank	4.43	4.30	4.03	3.98	3.85	4.12
4	Citibank	4.18	4.30	4.30	3.60	3.84	4.04
5	Binbank	4.03	4.10	4.07	3.67	3.97	3.97
6	Uralsib	3.82	4.07	3.87	3.73	3.82	3.86
7	Moscow bank for Recons-truction and Development	4.20	3.73	3.73	3.27	4.20	3.83
8	Absolut Bank (KMB)	4.27	4.27	3.80	3.13	3.13	3.72
9	Bank Vozrozhdenie	3.40	3.70	3.40	3.80	4.20	3.70
10	Russian standard	3.35	3.35	3.50	3.55	3.95	3.54
11	Bank Moscow	3.36	3.42	3.40	3.51	3.71	3.48
12	Impexbank (Raiffeisen Bank)	3.34	3.77	3.71	3.14	3.43	3.48
13	VTB24	3.91	3.51	3.46	3.14	3.34	3.47
14	Sberbank	3.67	3.29	3.34	3.21	3.46	3.39
15	Bank Souz	4.15	3.50	3.15	2.95	2,95	3.34
	Average	3.40	3.47	3.25	3.10	3.39	3.32
16	Avangard	2.90	3.80	2.80	3.30	3.20	3.20
17	Promsvyazbank	3.10	2.95	3.23	3.25	3.40	3.19
18	Sobinbank	2.80	3.50	3.20	3.00	3.40	3.18
19	Bank Zenit	3.10	3.00	3.30	3.10	3.10	3.12
20	Uniastrum Bank	2.95	3.47	3.08	2.83	3.23	3.11
21	Rosbank	3.32	3.52	2.96	3.16	2.59	3.11
22	Svyaz Bank	3.40	3.60	2.40	2.40	3.40	3.04
23	Investsberbank (OTP)	3.05	3.09	2.90	3.05	2.95	3.01
24	MDM Bank	3.45	3.00	3.05	2.60	2.75	2.97
25	Master Bank	3.05	3.05	2.70	2.60	3.15	2.91
26	Bank Petrocommerce	3.30	3.10	2.50	2.70	2.70	2.86
27	National Bank Trust	3.00	3.20	2.80	2.50	2.80	2.86
28	Moscow Industrial Bank (MIB)	2.53	3.03	2.61	2.56	3.20	2.78
29	Nomos Bank	2.30	2.50	2.70	2.70	3.40	2.72
30	Gazprombank	3.00	2.53	2.47	2.27	3.27	2.71
31	Globex bank	3.11	2.66	2.91	2.23	2.60	2.70
32	Bank Baltiyskiy	1.50	2.50	2.00	1.60	2.60	2.04

* The indicators used for the rating score calculation have been developed by Senteo based on Senteo's proprietary methodology. KPMG served as an impartial and independent expert. Any questions regarding the applied methodology or ratings should be directed to Senteo.

BRAND

The study has shown (Fig.10), that there is a significant disparity in results in the Brand area: the figures vary from 1.50 (the lowest) to 4.49 (the highest). Thus, the level of Brand attractiveness differs greatly among the banks represented in Russia.

Figure 10: Brand ranking



The results show that banks have good brand visibility (proper placement, night/day, inside/outside, etc,) in only 49% of cases due to certain problem areas: lack of directional indicators; signage could not be seen well because of various obstructions (trees, other signboards etc.). Also, some bank branches were situated in unfavorable locations, thus making it rather hard for customers to find them.

The Study has also shown that in most cases the branch environment and office appearance were consistent with the brand (71%). In the other cases, the color theme and overall image of the branches were not consistent with the brand image, or the branch was featureless and did not have any distinct or memorable attributes.

However, in 54% of cases, brand presence in branches was rather poor (in 21% of cases, the branches were not associated with the bank's brand at all), the brand did not communicate any clear message to customers; the customer could not identify with the brand. In many cases, there was no clear idea behind the brands and the brand positioning was not evident to the customers.

Furthermore, the Study has revealed that many brands are very similar to each other – by name, color theme, font, etc. For example, the most commonly used brand colors are white and blue. If brand signboards are situated one after another, they literally blend in with each other, making it difficult for the customer to distinguish one bank from another on the basis of its image and external brand presence.

Only in 6% of the cases was the brand positioning clear, understandable and adapted to different target groups (using different colors, slogans, attributes for different client segments

etc). In 43% of cases, the brand, in general, was positioned properly for different client segments. In the other situations, the bank's positioning was not completely clear (whether a bank positions itself as a large and prestigious financial institution for successful people or as a small, "family" bank, etc.); the target group segmentation was absent or very vague, and many banks had the same propositions for everyone.

In 83% of the cases, the bank brands were lacking a personal brand message that would help to connect the customer with the brand at an emotional level, and in many cases the overall brand presence was undifferentiated and too abstract for customers to be able to embrace the brand as unique. Most brands were not creating any perceived value for customers. Rarely did a bank's brand establish the idea of relationship with its customers.

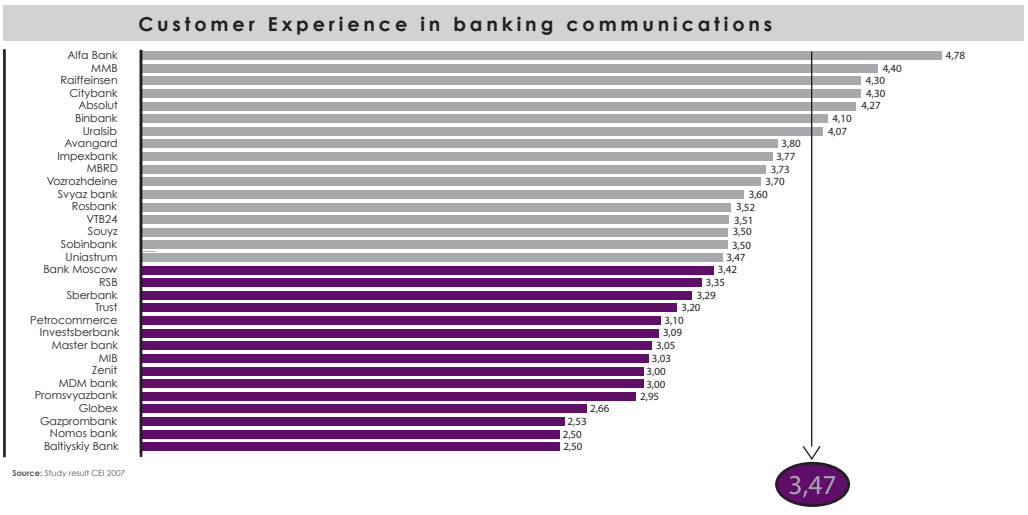
In most cases, graphic representation of the brand (the logo) did not have a clear idea behind it and was not understandable to customers, due to the lack of a clear message. The total average score for the brand category was 3.40. Thus, the study has shown that there are several well-known strong brands which have clear positioning and messages communicated properly to customers. However, many brands present in the Russian marketplace have proved to lack the basic elements that will attract customers:

- Lack of a clear and understandable idea.
- Absence of elements that help to establish an emotional relationship with customers.
- Blanket approach / lack of segmentation in brand positioning.
- Unclear and/or misleading positioning.
- Poor visibility and poor brand presence in the branches.

COMMUNICATION

The disparity of results in the communication area is rather high – the lowest score is 2.50, and the highest is 4.78 (Fig.11). This leads us to the conclusion that the effectiveness of merchandising systems and communication strategies significantly differ from bank to bank.

Figure 11: Communications ranking



For the Communication section of our study, 70% of the cases showed that bank merchandising systems were somewhat unified. Thus, most banks understand the importance of merchandising systems but use them more or less appropriately. In other cases, the logotype was consistently used correctly and there was not a single template or "look and feel" of the posters, the literature elements, or the overall color palette. In general, there were very few cases in which communication elements had a complete lack of a unified visual style (2%).

It should be noted that many of the banks in the study still lack a creative approach to in-store communications. Oftentimes, there was no holistic approach toward brand and communication, and as a result, image and message style do not correspond to brand values and identity; and, in some cases, even contradict the brand positioning. That could be the reason why the general message in communications often did not reach the target audience, and made it rather complicated for the customer to understand or to make a choice.

In general, there was a good overall display of promotional campaigns in bank branches, either as merchandising, banners, posters, etc., which were situated in the most visible locations referred to as "communication hot spots" (63%), However, in most individual cases, there was no clear division between primary and secondary promotional campaigns. Other problems, which were identified by mystery shoppers in this field, were the following: product, brand, and promotional messages were mixed in a confusing fashion and there were too many messages displayed at once (26%), lack of promotional materials (8%), and outdated materials presented in the branch (3%).

Communicational materials, in some instances, were seen by the mystery shoppers as clutter and were not placed in the most effective locations. In 63% of cases there was a clear communication placement strategy, so the customers were exposed to the right type of message throughout their whole journey in the branch (although the dominant message could not always be singled out). Yet, sometimes there were simply too many promotional campaigns at once (more than 4) – 31%, or, on the contrary, there were too few of them (6%).

In general, customer environments were not zoned for specific communications (particular for each customer segment or for appropriate messages in a specific territory of the branch) and in some cases communications in particular zones were not appropriate for the area of the branch. Thus, even though there were clear promotional and brand communications in the majority of instances (73%), they were not displayed in a systematic way in every zone of a branch. Only in 8% of cases, was a systemized zoning concept apparent. In a significant number of branches there was a complete lack or absence of communication zoning (19%).

Physical product packaging has proved to be an excellent tool for selling in the Russian market (as well as around the world). This might take the form of a small bag or a gift set containing a notepad, pen, calendar, calculator, leaflets, etc. Nevertheless, in an overwhelming majority of cases (79%), there was no apparent product packaging proposed by the banks other than a simple folder or envelope in which the contract was placed. At best, a customer may have received small, branded gifts in addition to promotional materials (23% out of 79%). Only in 8% of the branches did customers receive a nice package that made them feel important and proud to be a customer of that particular bank.

The total average score for the communication, category was 3.47. In general, merchandising systems in banks were found to be in place and used more or less properly. There was a clear and structured approach to promotional communications and campaigns. However, several areas for further necessary development have been singled out:

- Improving consistency of communications.
- Improving the creative part of communications.
- Defining proper communication zones.
- Providing appealing forms of product packaging for customers.
- Placing communications in the most effective locations.

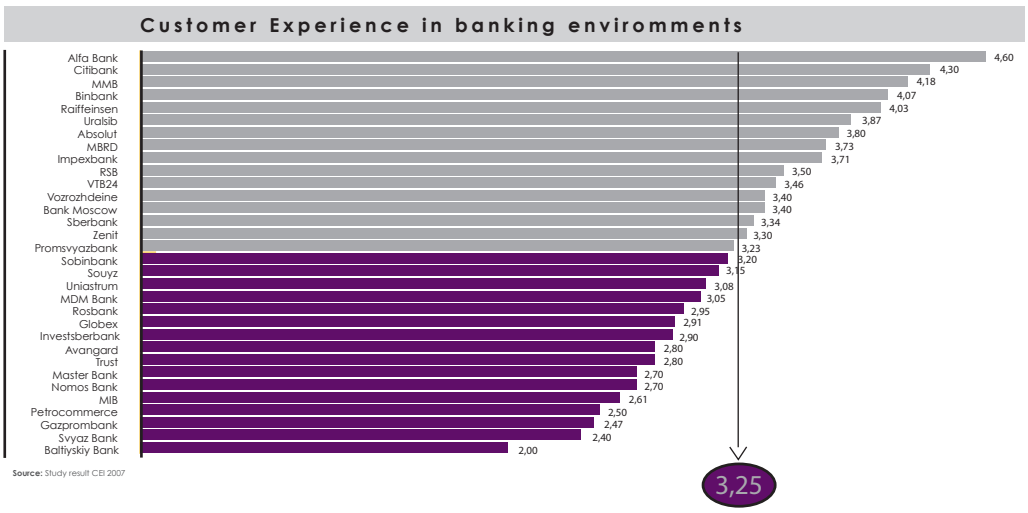
These improvements would greatly enhance the effectiveness of promotional and communicational efforts of banks in the Russian market.

ENVIRONMENT

In general, customer environments should be designed according to a consistent and intuitive process of customer interaction (customer journey) from the beginning (greeting the customer) to a specific end (sales process completed or service need completed). Zoning and layout of customer environments should be intuitive, easy to use, inviting, pleasing, memorable, unique, accessible, safe, recognizable, sensory engaging, etc. However, the study has shown (Fig.12), that the approach employed by the banks in this study for designing and maintaining customer environments differ greatly - as shown in the considerable disparity of results: the lowest score being 2.00, the highest – 4.60.

Only in 14% of the cases were customer environments totally adapted to customer needs and with the right level of privacy and comfort. In 31% of the cases, the customer environments were generally adapted to customer needs. In other cases, customer environment designs were not satisfactory, impaired the overall experience, or sometimes even prevented pleasant and effective customer interactions.

Figure 12: Environment ranking



Based on the scores in the study, the environmental zoning and layout were absolutely comfortable for a customer (pleasing, intuitive, unique, accessible, memorable, easy to use, etc.) in only 6% of cases. Only in 41% of the cases did the environment have different zones that were consistent with each other. And in 42% of the cases, there was no clear zoning in branches at all. In all other instances, the environmental zoning and layout, in general, was uninviting, unpleasant and at times even inaccessible.

The principles of progressive customer interactions and a "customer journey" were used and there was a functional separation of sales and service activities in only 12% of the cases. Mostly, service and sales activities were mixed in space, although there was a clear division between teller and consulting areas (75%), and in 13% of the cases, teller and consulting areas were mixed (i.e. tellers made sales, customers had to stand twice in the queue to perform a simple transaction, etc.).

In most cases (66%), we found proper maintenance of customer environments. In other words, they were tidy, pleasing, and all the communications were held in well-designed, well-displayed and well-maintained fixtures; although, sometimes messages lacked a planned display order. In other cases, the maintenance was unsatisfactory. For example, some leaflet holders were empty, leaflets were mixed, branches were untidy, and in 2% of the cases, there were no merchandising systems and leaflets were scattered randomly, creating clutter.

The total average score for the Environment category is 3.25, which is a rather low score. In conclusion, while in most cases customer environments are maintained properly, in general, they are not adapted to customer needs:

- There is no proper zoning of the environment.
- Sales and service activities are mixed.
- The principles of progressive customer interactions and a customer journey are not used in branch designs.

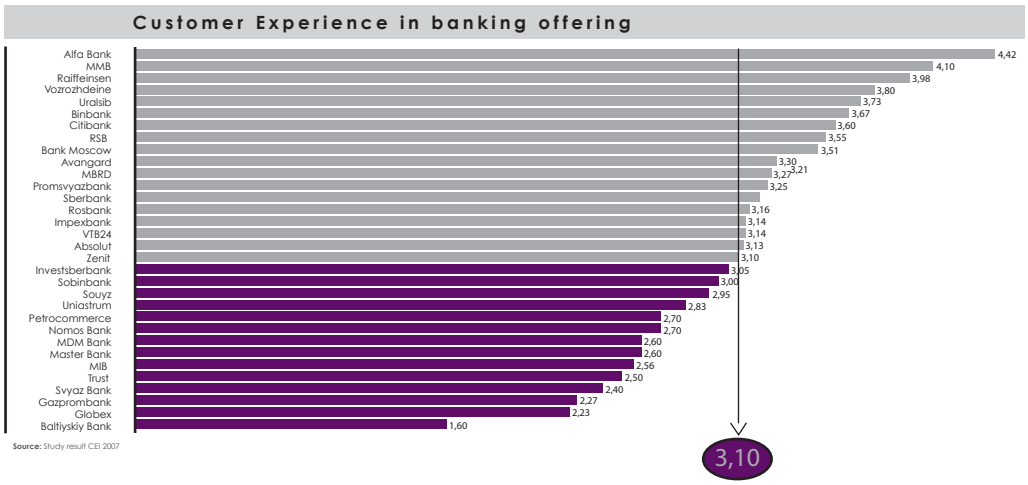
Banks will have to make several changes in branch designs and layouts to provide the most comfortable conditions for customers interacting with the bank.



OFFERING/PRODUCT

The scores in the Offering category range from 1.60 to 4.42, leading us to the conclusion that product portfolios and proposals significantly differ among the banks examined (Fig.13).

Figure 13: Offering ranking



In order to provide customers with the most suitable offering, the overall product portfolios should be designed to support the lifestyles of different target customer groups. This implies that customer groups or segments should be defined based on the different customer characteristics and the individual needs specific to customers in each group or segment.

However, this study has shown that only in 7% of the cases products were positioned as lifestyle solutions with some elements of segmentation. In most instances (74%), banks did not provide any bundling of products or solution-based approach even though the offering was somewhat adapted for different customer segments. At other times, the offering was not differentiated and there was no apparent focus on providing a solution to a customer need.

In general, the overall goal for banks when developing their offering should be to increase the depth of the customer relationship as well as customer loyalty to the bank. This will, obviously, serve to increase revenue and reduce customer attrition. We've observed only 7% of the banks clearly working in this fashion.

In most cases, process obstacles, the lack of sophisticated pricing models, and overall poor sales process design have prevented customers from deepening their relationships with banks (21%). Also, in 28% of the cases that we examined, customers had no clear incentives to buy additional products or to deepen the relationship with a bank, even though the overall product offering was acceptable. In 29% of the branches assessed in our study, sales managers played a passive role and did not make any effort to advise customers or to generate a relationship. Furthermore, in 15% of the cases, customers had to take the initial step to apply for a product and had to make their choices completely on their own.

After a close examination of the overall product portfolios of the banks in the study, only 3% of our mystery shoppers perceived the banks they visited as partners that may help resolve a

particular financial need. 32% saw the overall offering of the bank as interesting if they were in need. 33% saw the overall offering as acceptable but lacking clear and attractive incentives that would make them interested in initiating a contact. 19% decided that they would use only specific services from a bank. And, finally, 13% saw the offering as unacceptable and/or inconvenient for customers.

The sales processes in banks also appeared to have much room for improvement. Only in 6% of the visits were the shoppers presented with efficient, understandable sales processes. In other cases, they found certain shortcomings in sales and service processes: customers were served in two different places, creating the need to wait in line twice for a simple operation; there was a significant amount of work performed in front of the customer that could be performed either before or after the customer's visit, forcing customers to waste their time standing and waiting in line. Furthermore, while applying for a product, several signatures were required from several different employees, which made the processes very long and complicated. In 7% of the cases, customers had to wait more than 10 minutes to ask a simple question such as, "Who should I talk to for more information on what the bank offers?"

The average overall score for the Offering category was 3.10 – the lowest and most troublesome among the five elements used for this study. Therefore, banks have to do a better job, particularly, in the following areas:

- Making an effort to develop relationships with clients.
- Developing solutions for customers, instead of just products.
- Reducing paperwork and simplifying the acquisition process.
- Thinking of the customer beyond just a single product approach.

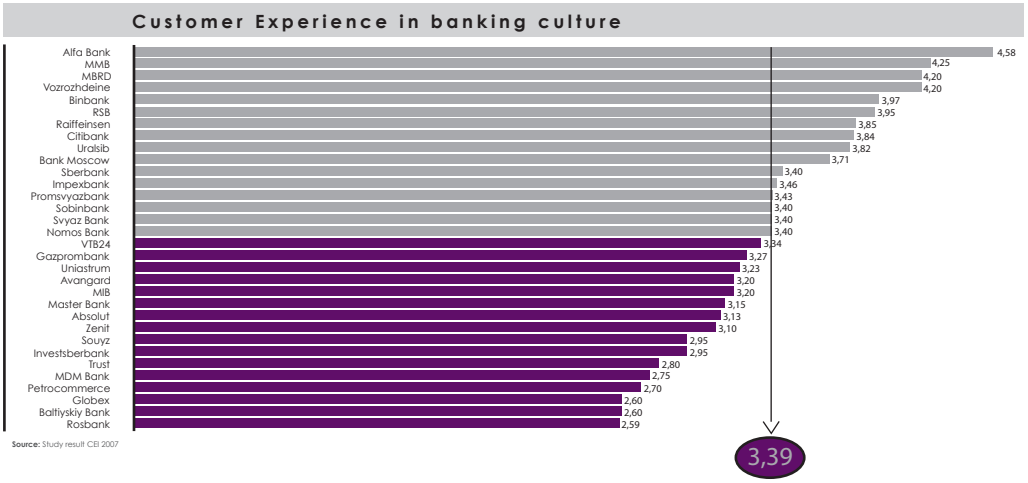
In general, the market is moving to a more advanced offering structure. Some banks have seen this already; others have not. In the future, the banks that have not yet realized the change, or that have chosen to ignore the need, will have a much harder time attracting and keeping their customers.



CULTURE

Our assessment in the Culture category also produced a wide range of results (Fig.14), with scores ranging between 2.59 and 4.58.

Figure 14: Culture ranking



During the study, we found several banks whose employees consistently showed a positive attitude toward customers, expressed a willingness to help, and showed genuine interest in the needs of customers; however, the majority of mystery shoppers reported that most bank employees failed to deliver a positive customer experience:

- Employees were not interested in customers and their needs.
- Employees did not take the "extra steps" in order to provide the best solution.
- Employees rarely exhibited a personal approach toward the customer

In some cases, mystery shoppers experienced a negative attitude toward them. For example, some bank employees regarded customers' inquiries as bothersome and customers were perceived as unwelcome interruptions, distracting them from more important tasks. In some extreme instances, bank employees explicitly demonstrated reluctance to interact with the customer.

In 42% of the responses, employee behavior clearly did not correlate with the brand values and positioning of the bank. Employees failed to translate brand values to customers or to follow these values in day-to-day activities. Employees appeared to not have a clear understanding on how the bank's mission, vision, values, and image are to be reflected in the workplace.

Furthermore, our visits showed that employees were not always accessible and approachable. With the exception of a few cases, employees did nothing to acknowledge customers that were waiting or to make their wait time more pleasant, and, in most cases, customers had to stand in long queues with nothing to help pass the time more comfortably such as reading materials, having a coffee, tea, or water, listening to music, or even receiving an acknowledgement or an apology from the staff for having to wait in line.

Even if there was no queue in a branch, bank employees were not always accessible: many were conducting their internal business activities without paying attention to clients, leaving their workplace unattended (in one case, a mystery shopper had to wait 40 minutes before employees returned from lunch); or, even refusing to serve a customer, citing the end of the work day with still a lot of tasks to perform; or, referring them to leaflets/web site/call-center where the customer could find all the necessary information. This was observed in 15% theof cases. And in 21% of the cases, employees showed reluctance to deal with customer inquiries, creating a sense that they interacted with the customer only because they had to.

As our research has shown, only in half of the branches visited did employees follow certain appearance standards and corporate dress codes (51%). Nevertheless, in a sadly large number of cases, certain shortcomings in the basic appearance of bank employees were observed:

- Ineffective dress code elements.
- Absence or poor visibility of badges.
- Absence of general hygiene rules.

In several branches, employees were dressed in casual clothes (t-shirts, jogging shoes, etc.), which reflected an obvious negative image for the bank.

Behavior standards in the branches were sometimes very poor. For example, in some observed instances, bank employees were eating or drinking in front of customers; speaking with colleagues on topics not related to their jobs or the customer; conversing on a cell phone while interacting with the customer, and having a moderately to extremely cluttered workplace.

Moreover, in a comparatively high number of branches, mystery shoppers faced a situation in which employees did not know their products well and made errors while providing a consultation (26%). At three different branches of one bank, mystery shoppers were given three different versions of information about consumer credit and interest rates. Employees rarely showed a willingness to assist the customer in completing a form or explaining how to process a transaction through the ATM.

In general, employees in many situations appeared trained to act efficiently in different situations (55%), for example, dealing with an angry customer or a customer that had a problem. Often, however, they did not act promptly and did not readily answer difficult questions. If an unexpected situation arose during the visits in this study, the majority of employees were more likely to send all inquiries to management or ask customers to write down their complaints and direct to the Head Office, rather than to try to resolve the issue on the spot.

Nevertheless, in general, the basic customer needs, such as obtaining necessary information or applying for a product were satisfied; although; the process of meeting these needs is far from ideal.

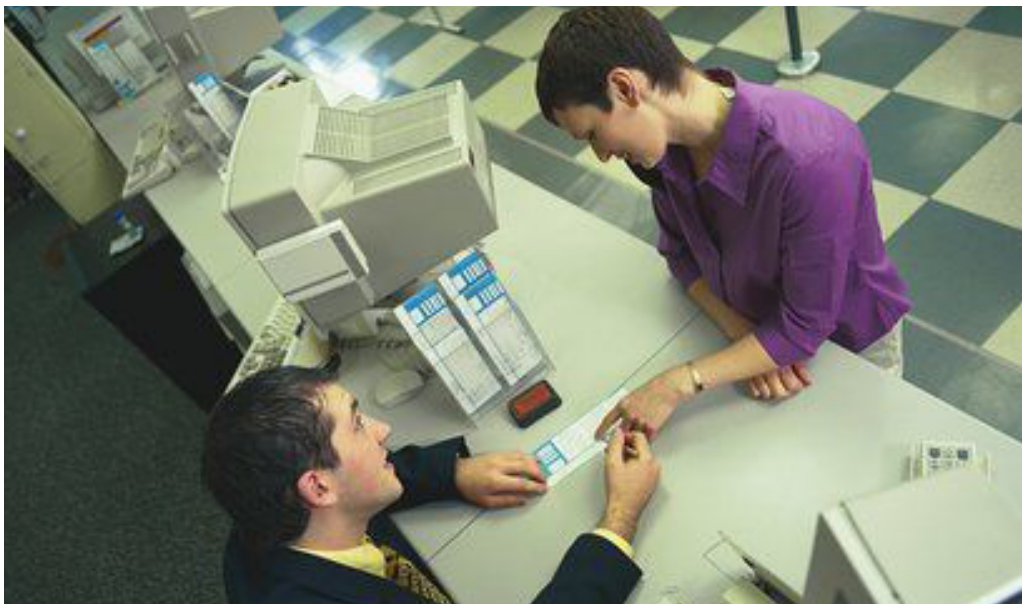
The average overall score for the Culture category was 3.39, which could be attributed to a

positive trend among the banks in developing basic, but important service culture standards, such as trained personnel who show genuine interest in their work and exhibit a personal care about the customer's needs, have adequate behavioral and appearance standards, treat customers with respect, and who act effectively to find the best solutions for their customers.

However, as with other categories, the performance results in the Culture category was also mixed. The main problem for banks in this area seems to be establishing a consistent customer-oriented culture and resolving the following issues:

- Employees are not always interested in providing customers with the best service.
- Employees are not always interested in customers and their needs.
- Employees in most cases take a passive role while interacting with customers.
- Employee behavior is not always consistent with brand promises and values.
- Employees are not always accessible and approachable to customers.
- Employees do not always follow customer service standards.

Banks, in general, are capable of meeting the basic customer needs; however, there are several areas that must be improved in order to provide the best customer experience, to attract new customers and increase loyalty of existing ones and, thus, to increase profits.



APPENDIX: THE 2007 MOSCOW RETAIL BANKING CEI

APPENDIX: THE RUSSIAN RETAIL BANKING CUSTOMER EXPERIENCE INDEX, Q4 2007

The Customer Experience Index (CEI) was developed by Senteo International to measure performance in the creation and delivery of a customer experience as well as to provide a benchmark among banks. The application of the scorecard in Russia was realized together with KPMG in Moscow.

During the course of the study, KPMG professionals verified the proposed methodology, and approved and accepted the scorecard. KPMG consultants visited branches of the targeted banks and behaved like ordinary clients, asking typical "consumer" questions from the questionnaire provided by Senteo. The KPMG specialists then filled out a detailed questionnaire on the results of his/her visit once he/she had left the bank. During the mystery shopping, KPMG specialists made their comments on the scorecards on issues beyond the questionnaire, and these comments were taken into account for the final assessment.

KPMG consultants surveyed about 300 branches of banks in the Moscow region using the Senteo CEI scorecard. Branches that had been scored as the best and worst were then surveyed once again by other KPMG consultants to verify the customer's perception and adjust the first assessment.

Selection Criteria for banks involved in this survey:

An overall list of the banks present in Moscow was formed and prioritized based on the volume of retail deposits and loans for the first half of 2007. The list of banks and branches to be included in the study was then further modified based on the following criteria:

- Significant retail focus (only retail branches were visited in this study)
- Significant retail presence in Moscow (Minimum 5 branches in Moscow).
- Both sales and operations functions present in the branches to be visited.

Moreover, in order to establish a fair sample, the number of branches to be visited in this study was determined based on the number of branches present in Moscow as follows:

- For banks with more than 100 branches – assess 5% of total number of branches.
- For banks with 50-100 branches – assess 20% of total number of branches.
- For banks with 25-50 branches – assess 25% of total number of branches.
- For banks with less than 25 branches - assess 30% of total number of branches depending on the bank's retail network number.

We believe this approach provides a fair representative sample of the physical presence of

the bank based on its size and presence in the market. Only the Savings Bank of the Russian Federation ("Sberbank") has a network that exceeds 100 locations in Moscow; all other banks have a physical presence footprint in Moscow of less than 100 branches. Unfortunately, some banks (such as URSA bank, AK Bars Bank, etc.) were not included in our survey for different reasons - corporate segment focus or no physical presence in Moscow. Other leading banks in consumer loan services, such as Home Credit Bank, do not have enough fully functioning branches that met the requirements of the selection criteria.

After the initial mystery shopping phase, KPMG aggregated and calculated the scorecard results based on their visits. Senteo specialists then analyzed the results, compared them with global best practices, and compiled this report highlighting the main conclusions of the study.

This report is based on the mystery shopping performed in retail banks in Moscow (August – September, 2007) by KPMG consultants based on the Senteo Customer Experience Index methodology. The next research phase for the Index is scheduled for March-April 2008, after which we will prepare the next issue of the Customer Experience Index (CEI).

For more information on this particular study or on the services offered by Senteo and KPMG, please contact us at any time.

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