



Branching Out: A retail banking podcast series

Season 2, Episode 4: The Future of loyalty in banking: How customers vote with their wallets

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Bill Dworsky: Hi everyone. Welcome to *Branching Out*, the podcast where we explore trends in retail banking through conversations with leaders from across the financial ecosystem and beyond. I'm your host, Bill Dworsky, and today I'm really excited about a conversation on customer loyalty, the lifeblood of retail banking. So, I'm joined by colleagues Ramya Murali and Deirdre O'Connell. Ramya, Deirdre, great to chat with you. Thanks so much for joining me. Want to do each quick introductions as we jump in?

Ramya Murali: Sure. Very excited to be here, Bill. My name is Ramya Murali. I'm a partner in our Strategy practice. I lead our consumer loyalty offering where we help companies across a range of industries from traditional travel and hospitality to retail to restaurants, and increasingly areas like banking, health care, and others, as they think about building loyalty programs, designing programs, modernizing them, enhancing them, and have really spent the last handful of years helping clients at any part of their journey, thinking about their loyalty efforts. So, really happy to be here.

Deirdre O'Connell: Hi, I'm Deirdre O'Connell, and I'm a leader in our Loyalty practice. Actually, started my career in financial services and now I look across industries looking at hotels, restaurants, travel, hospitality, and financial services. I also lead our global loyalty survey, and I'm excited to share some of the insights from that with you today.

Bill Dworsky: Let's just start with actually some of the basics, some 101 here. So, loyalty, a lot of folks talk about loyalty in different ways, but what is loyalty from your vantage point, Ramya? How do you define it?

Ramya Murali: I think at its core, loyalty is about a mutually beneficial relationship between a company, their brand, and the consumer. And I think the reason we always start with that definition is for a loyalty program to be successful, there has to be a value exchange between both the company and the customer. The customer engages in behaviors, they get rewarded for it, and the company in turn is able to see improvement in how they perform—and their top line and bottom line. But the most successful loyalty programs are one where the value exchange is clear and where the customer understands—whether they have formally or informally entered into this partnership—they understand what they're getting in return. And I think when companies are able to be really clear about what that value proposition is for the customer, it becomes a rising tide that lifts the experience for the customer and the value that loyalty's able to drive for that brand.

Bill Dworsky: And I think as part of that clarity that you were referring to, Ramya, one of the things that sometimes comes up is quantifying the value in that exchange; in some cases, the cost to a retail bank or the cost to other organizations is part of it. Do you ever put loyalty in dollars and cents terms? What's that worth or, sort of, how do you quantify that in your opinion?

Deirdre O'Connell: So, I think of the value that the loyalty program is giving in two ways. I think, first is when you think about big-L loyalty in the program. And so, often the loyalty members, and especially the ones who are active redeemers, have a lot larger customer annual or lifetime value than your general users/participants. And that loyalty helps keep those customers engaged, it helps drive frequency with better targeting and promotions, and it can help them make better purchases, which can help both increase order size and magnitude, or satisfaction, or NPS [Net Promoter Score]. And I think the other side is to think of more of little-L loyalty broader of what's not just known customer data and information that then can be critical to inform broader business decisions around offers, services, or go-to-market. And so, I think that I often find with clients that as you think about big-L and little-L loyalty and the value that they bring, there's a lot of flexibility that the loyalty at large can give you, in terms of redemptions or points or promotions, to really manage your business economics and balance some of that value to the customer and value to the business that I think Ramya was just talking about.

Bill Dworsky: Deirdre, you were starting to share a couple tidbits from the Consumer Loyalty Survey that you referred to. I know it was recently published a little bit earlier this year. What were some of the highlights, from your perspective, on that?

Deirdre O'Connell: So, I think a couple things I'm excited about with the data looking at this last year: I think first is we're starting to get larger data on Gen Z, and you can see how some of the behaviors and desires for a loyalty program from Gen Z and the type of engagement that they're looking for in relationships with brands is just different than some of the other age brackets. I think the other thing that stands out to me is just the importance of more of exclusive partner experiences and events, where normally, in past years, we found if you think about from everything from hotels to restaurants to retail, it might be 30% to 40% in past years, now it's up to 60% to 70% of customers think that's very important to them. And so, I think, as you think about the impact on retail banks, who have historically had more of those exclusive partner experiences, it's important as you think about the partner dynamic and to know that I think other areas are starting to move in there because I think the signals from customers of really desiring that are pretty clear.

Bill Dworsky: And Ramya, how do you think that has changed the way that brand leaders are thinking about loyalty strategy, whether in interregional banking or in retail, travel, hospitality, other sectors as well. If that's kind of what consumers are thinking and that preference set is shifting, how is that impacting strategy from your standpoint?

Ramya Murali: Well, I think there's two main ways, Bill, that we're seeing that impact strategy. The first is I think the legacy of a lot of loyalty programs was a little bit of "set it and forget it." You design a good

program; you introduce it to the customers, and then it can really run for a long time. And I think seeing a lot of digital-first programs, seeing just the vast array of loyalty programs evolve, has put the onus on all companies to say you have to think about your loyalty program with an agile mindset. You have to think about constantly pushing out new features, new promotions, the personalized experiences that Deirdre's describing because I think there is a realization that the time horizon in which your program can become stale and thus less impactful for your customers is shortening. So, thinking about a constant backlog of features, engagement opportunities, promotions, experiences that you can create that continue to create stickiness for your brand and your program with the customer is really important. So, then if we take it into the retail banking context, one of the things that Deirdre mentioned a few minutes ago is this idea of big-L loyalty and little-L loyalty. I think that little-L loyalty fundamentally is how do you embrace the spirit of loyalty without necessarily having a program. And I think this is so relevant in the retail banking context because you are not necessarily enrolling in a loyalty program. You are entering into, as you said, "a mutually beneficial relationship" between the customer and the retail banking organization that they're participating in. What is the value exchange that makes that relationship powerful? So, I think there are a lot of lessons that retail banking companies can take from some of the more traditional big-L loyalty to say, "How are we putting those features and experiences in to just the regular customer experience that one of our customers have? How do we infuse it with those opportunities, offers and constantly think about the way that we're making the value of staying with us be very obvious and clear?"

Deirdre O'Connell: I like that. And just to build on that, I think as you're trying to make the value really clear, I think the other word that I hear a lot of right now is just relevancy. And I think especially with retail banking and how it can be immersed in just daily lives and purchases and as you're thinking about it, how to make the brand I think relevant and top of mind in small and big interactions is especially important in retail banking where you might have a small hand in a lot of daily transactions, but it's not always going to be associated back to the retail bank. And I think there's an opportunity to think about what are some of the ways to bring back that association and really make it worth it to associate some of the benefits of everyday spending and enjoying that part of it. I think the one area if you look at—compared to, call it "industry average"—that does kind of stick out and especially this year versus the past is around missions and causes and donations. And I think that does speak to that gap that you were just raising about an example of an area that you can more emotionally connect as you think about if it's charitable donations or giving or some of the benefits there that's very unique to a relationship you might have with a financial institution than something that someone is going to desire from a hotel or a ride-share or a sports team.

Bill Dworsky: I totally agree on those fronts and, Ramya, you brought up a great point about a retail bank's involvement or enablement of a customer's daily transactions and kind of daily or periodic purchasing behavior. The value of that data when it comes to enabling a retail bank to provide back to the customer opportunities for things is particularly powerful, I think. You talked a little bit about experiences and kind of bringing to bare broader offerings and abilities for customers, which to me sparks the notion of partnerships and kind of ecosystems around loyalty for a bank. Do you feel like that's becoming more common that retail banks are kind of getting that right where they're starting down that path? Or do you feel like there's more to do for organizations, on the ecosystem front?

Ramya Murali: I think that partnerships have felt like one of the real big trends in loyalty broadly over the last handful of years, and I think there are a couple of reasons why. One is for a lot of industries there are high-frequency industries. Think retail banking, grocery, gas—those might be brands that you interact with on a weekly basis. There are a lot of other industries where you might only buy a big piece of furniture once every couple of years, you may only buy a vehicle once every couple of years. And so, the premise of partnerships with loyalty is how do you extend the life of your relationship with that customer? How do you make it so that your brand can be top of mind? The other is does it create a different amount of brand exposure? Does it help you unlock access to new customers who you may not necessarily have brand permission to access today? Does it give you access to new data that you don't necessarily have access today that'll allow you to tailor offerings, make the experience that you deliver to your customers better? And I think we find that any company when they think about partnerships typically thinks about a mix across those spectrums to really maximize the value that they're able to create. Partnerships can be a great way that you can make the experience feel very personalized for lots of customers in a way that feels very tailored to their own experience.

Bill Dworsky: I love that. And Ramya, one of the other things—and Deirdre, I think you referred to this as well—when talking about some of the specific examples of products that retail banks often build loyalty around. I think one thing that I've noticed, or that we find, is a lot of banks are very product-focused when it comes to loyalty and in generating customer relationship, especially around credit cards and loyalty programs that are built around credit card transactions, we see less, I think of organizations that are thinking about the broader customer relationship holistically and in generating loyalty across all types of banking products and going beyond just earn and burn on a credit card. Do you think there's more to do there for banks beyond just kind of single product, or what are some examples, maybe even in other sectors, where you feel companies have done a great job of thinking about the customer relationship holistically across services center for products?

Ramya Murali: It's an interesting question, Bill, and I do think that if you look across industries, you start to see a couple of different archetypes here. So, if we step outside the retail banking space for a second and then we'll come back, you have maybe one extreme, where if you think about big national grocery chains as an example, they might have multiple brands, but you tend to affiliate with the grocery chain that's in the geography that you live in and you tend to stick there. The other extreme, you look at some of the big hotel companies around the world, they have created this big portfolio of brands and part of what they want you to do is they've created these large portfolio umbrella brands because they want you to be able to experience the full breadth of that portfolio based on geography, based on price point, based on any number of factors, and their job—one of the things that the loyalty program does—is it serves as that red thread that helps to connect all of those different brand experiences together. To me, when I was listening to you talk about the opportunity around retail banking, it does feel very similar to the latter, where you have, in that instance, a multi-brand example. But in the retail banking you have any number of products within your retail banking portfolio. And the opportunity is to say how are you thinking about the right mix of those products that you are using the premise of loyalty to target customers in—and it's not necessarily bundles or what have you. It's really just saying all of those things come together to create a more integrated experience for the customer, and how do they realize that they're able to get more value by engaging with a broader suite of products within a given retail bank.

Deirdre O'Connell: I like that a lot. And I think the other dimension that you have both in retail banking but I think broader is you have both the individual and more of like the group component, or a family, and understanding those transactions that you might do personally, that you might have a family member, and just some of that transparency, how you think about benefits across, that I think you see a lot in especially hospitality or transportation. You can think about the use cases of when you're doing business travel versus leisure travel, for example, and I think you can think about your transactions and what are you doing for special occasions versus what are you doing day to day.

Bill Dworsky: Yeah, totally. I love that point about family, group, and broader; not just multi-product but multi-person loyalty strategy for banks across the board. I feel like so many times banks get caught up in a bit of a rewards arms race when thinking about single product type of relationships and just getting stuck in a cycle of trying to figure out what's the next way that we can create another half percent or percentage earn or redemption point for customers instead of stepping back and thinking more broadly about the strategy across the entire relationship or across the entire group that they may be serving as well. So, we've talked some about transactions, we've talked some about stepping beyond the transaction, we've talked some about competition across the board and loyalty's impact on differentiation here, but there's so many competing options for customers these days regardless of sector including retail banking. Do you feel like loyalty is even still alive as a concept or able to thrive? Is loyalty dead, with so many customers feeling like they have so many options and so much switching power?

Ramya Murali: I don't know that I would say that loyalty's dead. I think what you said is a 100% right: Consumers do have more options and in certain categories, their switching costs are very low. But I think that there's still a lot of evidence—and certainly some of the stats that Deirdre laid out from the survey—consumers are willing to spend more and be more loyal to brands that reward their loyalty. I mean, I think that remains very clear. Now, we may see that with younger generations they're willing to play the field a little bit more. They're maybe willing to not necessarily double down on loyalty in one place, but maybe

spread it out. But it's human nature. You want to be in relationships where your participation is rewarded and where you feel valued, and I think that is at the core of what loyalty is. It doesn't necessarily need to be an emotional interaction, it can be quite functional, but I think it's more important than ever when you have so many alternative options out there. The opportunity for every company is to say, "What are the things that drive persisting stickiness with my product, and how am I rewarding those customers who participate in that?" I think it's as important as it's ever been.

Deirdre O'Connell: I think that mindset of it's less of a loyalty bolt-on, but more a "I just expect and have a higher bar for tailored experiences that are relevant for me in the moment." I think that's something that is a pervasive need that will continue on and that people are really looking to solve for.

Bill Dworsky: How should brands really think about excellence and leading the pack when it comes to delivering on a loyalty promise? So, not necessarily just strategy up front, but full and strategy all the way through to delivery and touching the customers end to end? What are some of the key enablers to success that you think are important?

Ramya Murali: I think that loyalty is one of these true cross-disciplinary functions that you find in most organizations today. So, if I think about execution success, Bill, it really starts with how tightly linked is an organization's loyalty agenda with other very important agendas. If you think about a regular digital channel—we were talking about this with another one of our clients last week. In an app, an app might be trying to solve for any number of really important things including wayfinding and online ordering and merchandising. And so, the fight for space: How do you think about loyalty relative to the other organizational priorities you have? Where does it fit in your tech roadmap? How do you think about it versus other customer engagement priorities? To me that is critical to the success of any loyalty efforts. Just how embedded is it in the other organizational priorities you're trying to pull through. I think when it's off to an island, I think you can end up in a lot of instances where it is disconnected from the customer experience, whether that be digital or physical.

Deirdre O'Connell: Yeah, I think that's right. I do think when you look at the execution side, I think I find that people can rally around, "Ah, it's going to solve all these things." I think the execution complexity is something that is underestimated. But I think because loyalty is so cross-functional, both from an alignment but very detailed, if you think about the data systems and the analytics that are needed to look at the right propensity analysis and to look at your benefits and it's thinking about it from a financial lens and an operational to execute with digital and physical manifestation and how you get feedback and test things, test and learn, and adapt. It's an ongoing process, and I think being able to orchestrate that in a way that you know is both simple to the customer and managing its the complexity on the backend I think is a lot harder to get right than a lot of people think.

Ramya Murali: It is complicated to execute a program well in a way that a consumer finds it easy to understand, easy to engage with. There is a huge human engagement component to it in most programs. It's not just what's available through the digital channels. It is the important role that your employees play in being the first ambassador. They are the face of the program. And when we go through the change management journey that programs go through when they're either going to market or being refreshed, one of the first things that we say is, "Is one of your employees going to be able to explain the value of the program to the customer in 30 seconds or less?" Because if it takes them longer than 30 seconds to explain why the program is valuable, either it's not, the employee doesn't understand why it's valuable, but in most cases that probably means you're not going to be able to convince the consumer. And so, all of that comes into this change management piece of how do you bring the program to life and how do you acknowledge the role that your employees, associates, team members play in really being that brand ambassador for the program.

Bill Dworsky: I love that. I think those are such spot-on points. So, let's segue a little bit. One thing we like to do sometimes with guests on the show is do a little bit of a lightning round where we'll ask some quick punchy questions and just look for your first-thought, knee-jerk intuitive answer right off the bat. So, Ramya, let's start with you. What's your favorite thing that you've ever redeemed for through a loyalty program?

Ramya Murali: One of the brands that I really love the most from a loyalty program standpoint is one of the big beauty and makeup loyalty program brands, and what I really appreciate about their experience is the ongoing delivery of redemption. It's not this one big moment. It's the ability to surprise and delight myself with new products I can sample, new things that have come to market, and I'm able to redeem all the time. It is a permanent end cap of surprises for me, and I think it means that I come back and engage with the brand all the time because it means that I know I can always try and find something new.

Bill Dworsky: Yep, always-on redemption. Love it. OK, let's jump to the next one. Here's one, Deirdre, we'll start with you. Fill in the blank, you would be loyal to a single bank if it did what?

Deirdre O'Connell: I think that active perks in being there as opposed to thinking that I can switch—like give me a reason to always stay and be loyal as opposed to having to figure it out on my own.

Bill Dworsky: Love it. Ramya.

Ramya Murali: I think that the retail banking experience can feel overwhelming in the sense of once you get past the one or two core, whether it be checking or savings or things like that, I think there is just sort of an overwhelming wealth of products that a retail bank could offer you. And I think I would be loyal to a bank if they were able to help me curate the products that are most relevant for the circumstance that I'm in in a way that doesn't make me have to wade through the mass of things that may not be relevant for my circumstance or I may have solved for in a different way. But really help me get to the heart of, here are the three to four things that you uniquely need given your circumstance, income, stage of life, what have you. Help make that feel less daunting for me and I'd probably be your customer forever.

Bill Dworsky: Simplify the complexity and curate the experience. Last one here. Deirdre, this one's for you. If you are forecasting next year, what do you think a key finding of the 2025 Consumer Loyalty Survey and insights report will be? Ten words or less.

Deirdre O'Connell: Thrive exclusive engagement beyond the program. I think I made it under the word count.

Bill Dworsky: I think you did. That's great. Alright, that's a great note to end on I think. Deirdre, Ramya, thanks so much for your time, really appreciate it. And thanks to our listeners out there for tuning in to today's conversation as well as to our friends at Hangar Studios for making this episode possible.

As always, if you're looking to go deeper on some of the topics that we talked to about today, check out our podcast webpage at deloitte.com/branchingout where you'll find some short show notes and relevant links from our conversation today, including the survey report that Deirdre referred to. And if you have ideas, suggestions, or other feedback about the show, feel free to drop us a note at branchingout@deloitte.com, and we look forward to exploring the future of retail banking with you again soon.

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