The field of financial services marketing is in need of new perspectives and paradigms that can explain the financial behavior of consumers and markets today. This need has grown over the past decade and has become more pronounced since the global financial crisis.

The need for a paradigm shift in financial services marketing is further reinforced by the globally low level of trust in financial institutions and the financial system, especially following the global financial crisis.
The public’s limited ability to comprehend financial offers, the complexity of financial decisions, limited consumer education on financial matters, and unobservable product features make the task of understanding financial offerings a difficult one for most consumers.

The cognitive challenges in consumers’ financial decisions has further grown in the last few years due to the massive growth in worldwide adoption of mobile technologies and the ease by which financial information can be made available to consumers.
Contents of the course

• Marketing of financial services is regarded as a challenge in today’s rapidly changing financial markets. The course penetrates into the relationship between the financial service providers and customers, using the viewpoint of finance theory, on one hand, and the viewpoint of marketing, on the other.

• On this course you will acquire the knowledge to understand how financial services products work, together with the marketing acumen necessary to compete successfully in this highly competitive (yet low interest) sector.
Specific features of the course

• This is an intensive course. Please make sure you have enough time to prepare the cases during the next 5 weeks.
• 50% of the grade is based on cases (+ possible bonus points).
• The cases require qualitative analysis and judgment, and often do not have a single correct answer. The assignments are nevertheless graded for quality, as reflected in the clarity of writing, originality of thought, and careful execution.
• Individual work is individual, group work is group work.
What’s new in 2015?

- Schedule: no lectures on weeks 40 and 41 (time to prepare cases)
- New cases
- No book required
- Six “Recent articles” (will be cited on lectures)
Teaching

Vesa Puttonen
vesa.puttonen@aalto.fi (office hours on Mondays 14-15)

Weeks 38, 39 and 42
Location:
• Tuesdays 12:15-12 (G-111)
• Thursdays 9:15-12 (G-111)
• Fridays 9:15-12 (G-111)

Exams
• October 23, 2015 at 14-17
• December 16, 2015 at 9-12
Material

1. Lectures
2. Case “Active Fund Management” report (group 2 to 4 persons, min 1 Finn & 1 non-Finn)
3. Case “Frauds” (group work)
4. Case “Nine tricks” (individual work)
5. Written exam. The exam will be based on the
   - Lectures & handouts & case material
   - Recent articles (list of the 6 articles on a separate slide)
   - Chapters 3, 5, 6 & 7 from “The Future of Banking Services”, Aalto Service Factory, 2012
   - No book!
Grading

• Case “Active Fund Management”: 25% (minimum 15/25 points) + bonus option 10p
• Case “Frauds” 10% (no minimum)
• Case: “Nine tricks” 15% (minimum 10/15) [individual work] + bonus option 5p (best 4)
• Exam: 50% (minimum 25/50 points)

Total: 100p/%
Case deadlines

Case ”Active Fund Management” report [group]
Deadline: Friday, October 9th at 16:00 (email: vesa, not: MyCourses)
Best papers receive maximum points (25p) and will be presented on Thursday, October 15th (+bonus option 10p for the 2 best presentations)
Others may revise their presentation/paper until Friday, October 23rd (at 16:00 by email) (+max 5 points) [feedback session for groups interested on Tuesday, Oct 13th at 15:00 -> If interested, please confirm before with Vesa by email]

Case “Frauds” [group]: Deadline: Lectures on Thursday Sep 24th (bring paper copies)

Case “Nine tricks” [individual]: Deadline: Tue 13th Oct at 12:00 (MyCourses)

Separate written guidelines provided for all 3 cases
Recent articles

Lectures and course contents

15 Sep: Introduction to the course
17 Sep: Categories of financial products and services
   Financial services innovations
18 Sep: Consumer psychology/behavior
22 Sep: Customer Relationship Management (CRM)
24 Sep: Promotion + Case “Frauds”
25 Sep: Pricing
13 Oct: Distribution + Aberdeen/Pia Michelsson (Head of Business Development in Finland)
15 Oct: Case “Active Fund Management” presentations
16 Oct: Case “Nine tricks”
   Summary, exam information, feedback & discussion
Scholastic honesty and academic integrity

We expect adherence to highest standards of scholastic honesty.

Examples of scholastic dishonesty are:
- exercise answer sharing between groups
- presenting answers as own work without proper citation to the sources (plagiarism)
- sharing answers during the final exam.

All class work (exercises and reports) is to be done by the students that return the work, co-operation in preparing answers to the exercises between groups (or individuals not belonging to the same group) is strictly prohibited. However, you are allowed to discuss the exercise problems with fellow students on a principal level: the definition of terms and concepts in the questions, and what issues are central to a particular question. Every group should proceed on their own from there.

Failure to adhere to these guidelines is subject to disciplinary action, such as cancellation of class work credit, extra assignments, or removal from the course.

Turning in class assignments is considered acknowledgement of these guidelines.

Please read more in Into about the Academic Integrity and Handling Violations Thereof
Introduction to the course
Key Issues Challenging Banks and Financial Services

A. Life after the financial crisis

Deepest post-World War II recession so far, policy challenges, bank recapitalizations, de-leveraging, fiscal stimulus, euro crisis (a single market vs fragmentation?)…
Key Issues Challenging Banks and Financial Services

B. Cross-border M&A activity increasing

− E.g. ECB aims to create an integrated financial system
− Regulatory harmonization
− IT intensity (see next slide)
− Diversification effects on capital
Banking sector spends more on IT than others

C. The changing role of the bank branch

The humble branch, often overlooked in recent years in the race to create online capability, is enjoying a relative renaissance. Many Internet-only banks are struggling as customers insist on physical or voice communication with their bankers. The integrated "bricks and clicks" model is acknowledged as key in the fierce competition to deliver seamless service to customers.
Global Online and Mobile Banking Usage Statistics (%), 2010, 2011, and 2015E

Capgemini, 2013
The leading specialist insurance provider in Scandinavia

Flexible insurance setup
SIGs combination, where we operate both as an insurance company and as agent for other solid insurance companies, enables us to provide flexible insurance solutions for our partners.

Market approach
SIG develops and distributes insurance concepts to selected partners and through own brand, Vardia.

SIG targets selected private individuals and small and medium sized companies for motor and property insurance, in combination with tailored insurance solutions.

Insurance is not "bought", but must be "sold"
SIG are distribution specialists: Our employees' experience gives us strong capabilities to do proactive sales, resulting in significant increased sales and improved profitability for our partners.
Key Issues Challenging Banks and Financial Services

D. Staying close to the customer

The ultimate end game for banks is to create an organisation that can truly cultivate established, and new, customer bases. With consumer-focused retailers like supermarkets and even telecommunications companies entering financial services, this need will become even more pressing.

All banks agree that customer relationship management (CRM) is the key to future profitability and customer loyalty.
Supermarket banking – fulfilling the potential (IBM Business Consulting Services in 2003)

Are supermarket banks niche organisations that have passed their ‘sell by’ date or could they be mainstream players in the retail banking sector who have yet to unleash their true potential?

When Sainsbury’s and Tesco moved into the retail banking sector in 1997, the high street banks eyed them nervously. They saw the potential for a very real competitive threat from trusted retail brands leveraging their large, established customer bases. They have now been joined by Safeway, Morrison’s, Boots and more recently ASDA. Marks & Spencer also offers a suite of financial services products and its charge card has been available since 1985.
Nordea Shops to open at Stockmann's department stores in Finland

Monday, 22.09.2008

Nordea will expand its branch network by opening Nordea Shops at all Stockmann's department stores in Finland. The shops will serve customers on weekdays and Saturdays during Stockmann's opening hours. Nordea Shops will serve Stockmann's loyal customers in matters related to Stockmann MasterCard and provide advisory services especially for savings and investment products.

- We want to bring our advisory services closer to our customers and serve them where they are. Our new service points will serve Stockmann's customers flexibly during the opening hours of the department stores. This means customers can drop in to discuss their banking matters while shopping, says Pekka Nuuttila, Head of Banking Finland. The aim has been to locate the Nordea Shops nearby Stockmann's Loyal Customer Service. They will be open on weekdays from 9.00 to 21.00 and on Saturdays from 9.00 to 18.00.
Finland's S-Bank acquires majority stake in FIM

29 May 2013

S-Bank, a provider of retail banking services to the Finnish market, is to take a majority stake in FIM, the independent asset manager, to create a group capable of offering a broader range of products and services.

The deal will enable the businesses to jointly offer savings and investment services, through to discretionary asset management. FIM's retail banking operations will be combined with the banking operations of S-Bank by the end of 2013.
Google study heightens fund industry fears

By Madison Marriage

Google has commissioned research on how it could enter the asset management industry, adding weight to widespread fears in the fund sector that the world’s biggest internet companies could destroy the livelihoods of established fund houses.

Google asked a financial services research firm, which has a record of helping large companies tackle new markets, to assess how to enter asset management two years ago. The research firm cannot be named for confidentiality reasons.

Although Google has not made a concrete move towards asset management since the study, its interest in the sector is likely to alarm large fund groups that are already struggling to keep up with new technology.
Key Issues Challenging Banks and Financial Services

E. Many customers are neither financially literate nor very interested in financial services

Oliver Wyman (2012). The real financial crisis: Why financial intermediation is failing. (First of the “Recent articles”)
Key Issues Challenging Banks and Financial Services

F. Many customers do not trust financial institutions

EXHIBIT 10: IF YOU ARE NERVOUS ABOUT COMMITTING TO SAVINGS FOR THE LONG TERM, WHY IS THAT?

Source: Oliver Wyman Global Consumer Survey December 2011
Key Issues Challenging Banks and Financial Services

G. The Changing Consumer

- Lower barriers to switching (technology)
- Lower levels of human contact with financial services providers needed
- Younger population less loyal towards service providers
- But customers are (on average) getting older
- Increasing number of choices for consumers
  - Banks selling insurance
  - Insurance companies conducting banking operations
  - The role of non-banks in banking (e.g. alternative finance)
<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Market in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peer-to-Peer Consumer Lending</td>
<td>Debt-based transactions between individuals; most are unsecured personal loans.</td>
<td>274.62m</td>
</tr>
<tr>
<td>Reward-based Crowdfunding</td>
<td>Backers have an expectation that recipients will provide a tangible (but non-financial) reward or product in exchange for their contribution.</td>
<td>120.33m</td>
</tr>
<tr>
<td>Peer-to-Peer Business Lending</td>
<td>Debt-based transactions between individual/institutional investors and existing businesses who are mostly SMEs.</td>
<td>93.1m</td>
</tr>
<tr>
<td>Equity-based Crowdfunding</td>
<td>Sale of registered security by mostly early-stage firms to investors.</td>
<td>82.56m</td>
</tr>
<tr>
<td>Community Shares/Microfinance</td>
<td>Microfinance refers to the lending of small sums to entrepreneurs who are often economically disadvantaged and financially marginalised. There is a debt obligation incurred, but the amounts lent are very small. Community shares refer to the sale of withdrawable share capital in cooperative and community benefit societies.</td>
<td>19.91m</td>
</tr>
<tr>
<td>Donation-based Crowdfunding</td>
<td>No legally binding financial obligation incurred by recipient to donor; no financial or material returns are expected by the donor.</td>
<td>16.34m</td>
</tr>
<tr>
<td>Invoice Trading</td>
<td>Firms sell their invoices or receivables to a pool of individual or institutional investors.</td>
<td>6.63m</td>
</tr>
<tr>
<td>Debt-based Securities</td>
<td>Lenders receive a non-collateralised debt obligation, typically paid back over an extended period of time. Similar in structure to purchasing a bond, but with different rights and obligations.</td>
<td>3.61m</td>
</tr>
</tbody>
</table>

Market +144% in 2014!