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Banking relationship management – A new paradigm?

Vasile DEDU
Bucharest University of Economic Studies, Romania
vdedu03@yahoo.com
Dan Costin NIȚESCU
Bucharest University of Economic Studies, Romania
dancostinn@gmail.com

Abstract.*In this paper, we briefly present the new trends in the banking industry related to customer relationship management. In the first part we realize a brief introduction about the past and present approach related to bank customer relationship management, outlining the importance of rethinking the banking infrastructure towards developing more robust and resilient banking business models and restoring trust among customers. In the second part of the paper, we insist on the idea that crisis shall be seen as a genuine opportunity for banks to change the approach towards their traditional role and refocus on human based banking distributions channels and key means to cultivate loyalty and advocacy among customers. In the last two parts of the paper we mention about the limits of conventional approach and the manners in which behavioral economics, finance and neurosciences may help banks to reduce inefficiency, seize opportunities and manage risks.*

Keywords: banking management, banking industry, banking business models, banking distribution channels.

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A. Banking relationship management – How was it before?

Two decades ago banking products and services have been distributed mostly via networks of branches and offices populated with staff, attending personally to their customers. Banks have started to use mainly their own direct sales forces going to customers' offices but lately they have tried as well to distribute their business solutions via brokers, partner companies and other financial intermediaries. By the time internet based channels have evolved and spread to mass customers, more and more banks have diversified their distribution channels via mobile and online applications (internet banking, social media and social network pages). As a consequence of increasing products sophistication and increasing number of distribution channels, the number of direct contact "person to person" relationships has decreased.

In order to reduce operational costs, banks have focused their resources towards redesigning the global banking infrastructure. They have developed global data processing centers, regional IT support centers, nurturing the accessibility of banking solutions via online technologies. Internet based banking channels and the sharp increase in using intermediaries (others than originators) have made banks to lose direct contact with customers and cease to know everything they should know about them, triggering important systemic risks and exacerbating most the consequences of the latest global financial crisis

Financial crisis roots

During the latest crisis, the world has become increasingly unstable triggering disparities related to customer relationships, perceptions and experiences with banks. Some of the main causing roots of the global financial crisis may be found both at macro and micro-level, being both structural and cyclical factors.

Some of the common structural factors were: the confusion between free markets and deregulation of the markets, globalization, asset concentration and the lately over-regulation, the increasing role and complexity of financial markets with limited transparency and meaningful disclosure. Some other roots may be found related to the collapse of ethical behavior (predatory lending and investing), excessive leverage and opacity, defective risk models, "quick buck pocketing" approach, imbalances between savings and spending, asymmetry between performance incentives structures and sustainable banking portfolios.

Some of the main cyclical factors may be the followings: the excessive low risk free interest rates for prolong periods of time, US Subprime Crisis and Sovereign Debt Crisis, commodities prices boom, triggering global macroeconomic imbalances of the global economy. The imbalances may be due to the current account surpluses of Asian and Middle East Countries alongside with sound deficits in the Eurozone and United States, some of the global demographic imbalances triggering behavioral and social changes. More than that, the increasing worries about global economic growth sustainability (especially the stability of the Eurozone), shortage of financial skills and over regulation, have put significant pressure on banks’ complexity and profitability. Over-regulation, uncertain economic growth, debt burden and fiscal deficits remain some of the most important threats to growth after the challenges in maintaining the existing customer base.

The crisis has affected directly customers’ perceptions and behavior making bank interactions being less efficient. Crisis has enlightened banks’ role in the economy, stakeholders having enhanced demands for responsible banking industry and restoration of customer confidence (Ernst&Young, 2010). Refocusing to long-term solutions is crucial for banks as the level of threats have increased every passing decade and the world has been changing a lot more quickly in recent years. Instead of building a system to fit for all every time, banks shall build robust system able to achieve and maintain stakeholders’ satisfaction under a variety of conditions of business climate.

It is important to understand the long-term profitability impact of the new regulatory reforms rather than dealing with them in isolation. Having a better strategic vision of business model implications may help banks assure the best risk adjusted return. Over the last few years, banks had to cope with uncertainty. Coping with uncertainty means having the right approach, the right attitude about the bank process of change and reinvention, realigning the values and business models to the levels needed to assure the resilience over to unpredictable risks and shift in customer engagement and expectations.

Resilience and robust banking models

Resilience is even more important nowadays since many initial isolated risks have affected other banks and financial markets in a much higher way than in the past. Resilience helps banks to thrive amidst any threat and disorder helping them to emerge stronger than before. Banks should enhance resilience because this is precisely the one that allows banks to target and pocket the right opportunities and concentrate on customer engagement. Building robust bank models and systems may help banks operate under a variety of challenging conditions, bouncing back from any eventual disruptions. Robust models allow banks to deploy resources and reshape business models, in order to reach customer confidence and loyalty. Banks have to change and adapt accordingly, otherwise they don’t evolve and put the crisis behind.

Acknowledging the risk provides opportunities to manage weaknesses and build on strengths, allowing improving the chances of success. The crisis shall be seen as a learning experience and genuine opportunity for managing weakness, taking uncertainty as “part of the game”. Industry’s developments and the demand for financial solutions have been closely linked to economic growth.

Restoring trust

The financial crisis has led to **significant loss of trust among customers** being probably the most profound effect of the latest crisis. The collapse of ethical behavior among bankers and moral hazard implied because of multi-billions bailouts supported by taxpayers, have made customers to change their perceptions and attitudes related to the institutions they bank with.

Banks need to invest in restoring their reputation and reshaping their brand perceptions. The decline of confidence and changing behavior, have made the markets to be hardly recognizable. One of the major challenges that lie for banks ahead represents the tendency to increase the number of banks customers bank with, spreading the financial solutions accessed over different financial institutions as a perceived efficient manner to reduce exposure risks. Reducing the risks desire comes from the reduced level of trust. Although it’s a question of trust, crisis effects could be reshaped into a genuine learning experience and opportunity to redesign a robust and ethical banking image as some of the main actions to prevent attrition and address loyalty.

B. A New Banking Relationship Paradigm? What’s next?

Crisis as an opportunity to change the approach

The crisis has exacerbated the disparities among customers (both households and companies). The crisis shall be seen as a genuine opportunity to reinvent. Reinventing would allow them to improve their products, services, operations and nevertheless to foresee the shaping of industry’s future. Reinventing represents a complex and time consuming process because it comprises all aspects related to governance and operating model: board composition and qualifications, remuneration and regulatory compliance, risk management, control and financial reporting, capital allocation efficiency, people, technology and legal structure. Banks shall reconsider employee engagement (staff incentive programs) in order to deliver robust and simple superior customer service.

Investigating, understanding the trends shaping financial industry and the factors driving customers to bank elsewhere may be some consistent initial steps in strengthening customer retention, engagement and growing the customer base as the foundation for new growth (PwC, 2012). Some of the main reasons for those who have changed their banks seem to be the lack of trust, inappropriate access (proximity of branches), misleading advisors, and service failure or misprice related offerings.

Back to basics & Personal relationship management

Banks need to have a back-to basics approach in terms of employees, customers and funding suppliers. They need to reanalyze the design of banking segmentation and focus on their traditional role – raising funds, providing loans instead of developing and selling more and more sophisticated solutions especially when customers are unaware of the risk associated with many banking products and reinstall an unitary customer approach in both branches and alternative channels (call centers, online and mobile banking solutions). It makes sense to encourage customers to use cutting edge technology based alternative banking channels (internet and mobile channels) whenever needed but optimizing personal interactions in order to prevent customer base attrition, dormancy and loyalty. Human-channel distribution remains the best way to tailor banking solutions and reward customer affinity and advocacy. Competitive pricing structures and improved service levels are not enough. Banks need to focus more on brand integrity perceptions, trying to involve customers in product and service development as key differentiator and competitive advantage. Human-channel distribution has proved to be the most effective way to retain customers and improve banking experience.

It’s all about rethinking strategy, honing approaches and focusing on long term impact and sustainable growth through realignment of business model to the new realities related to markets, products and services, channels, tax and regulatory reforms. In the context of realignment the business model to the perceived realities, technology can be a key catalyst towards competitive advantage through productivity increase and reducing operating costs. The ongoing pressure for reducing costs makes financial institutions to become more creative and innovative. Banking business models as any other models are prone to be replaced with new models and ideas frequently in order to keep up with competition. That is the reason the banks have to understand all the customer drivers and educate them towards acting in their own (customers’) interest. Understanding the right usage of financial solutions helps customers to be more resilient against short term financial challenges.

Loyalty and customer advocacy

Restoring brand confidence and perceptions may be realized through dedicated brand awareness programs, tailored and cohesive solutions helping to improve brand perception and ensure customer advocacy/brand ambassadors in both online and offline environment. Increasing brand awareness and fidelity may help minimize customer attrition but that needs a deeply refocus on the product mix, by engaging employees to offer more value for money, identify and increase advocacy and loyalty among customers.

"Word of mouth" approach becomes rapidly a gaining useful influential power for banks. Financial comparison websites and dedicated "best deal" forums compete with conventional financial advisors. The increasing importance of online media, comparison sites, reports, online advertising, online communities and social networks as well magnify satisfied customers' abilities to act as influential advocates for banking solutions. More and more banks have joined social networks and cyber-branches since many people are more likely to use social media and networks for seeking information, offering feedback (comment and offer reviews) for banking solutions and other means of interactions with their banks.

Some banks consider even tailoring specific rewards programs towards enriching banking experience and nurturing advocacy through affinity groups. Although more and more customers consider more appealing (in terms of accessibility and cost) to bank via online channels, tailored solutions relies on human based customer relationships. Rewarding loyalty is more likely to boost retention and customer acquisition and cover the financial costs especially among wealthy customers.

Banks need to restore confidence over the role they play in the society in order to look beyond, maintaining close and mutually benefic relationship with their customers. Taking into consideration the latest systemic failures, close relationships have never been more necessary. Slow adjusting or reactive to change banks are less likely to thrive in the years ahead, that is the reason why financial institutions need to invest both time and financial resources to become more innovative and customer oriented. Cutting edge banking technology is not everything. Some of the most important aspects considered by customers when choosing a bank represent the service quality, the personal relationship with their liaison.

The role of banks, governments and regulators are significant in rebuilding confidence in financial markets. Shareholders require banks to deliver sustainable capital return and a better image among customers, things that may not be achieved without changing values, principles and business models, guarding trust and reputation. Rebuilding trust means clear actions and new employee value propositions, understanding the dynamics of governance framework.

Banks shall study the ways that emotions influence the way people make decisions and behave. It is important to understand the role of emotions in customer decision process in order to enhance trust among them and change their behavior (Veith and Lianu, 2013). Developing new strategies and focus on long run loyalty programs enhances customer relationships. Satisfaction varies much across markets, cultures and demographics that is the reason why banks should be mindful of the important differences when developing their products and customer services, having to address their offers in tailored ways across different markets and beneficiaries. Banks shall redesign the customer relationship management having in mind behavioral economics and finance. Studying the customers' preferences, banks may find ways to make banking more enjoyable.

Employee commitment

Engaging employees not only to sell new services and products but also to retain key customers is possible by finding and nurturing talent. It is essential to create a culture that continues to invest in its people sharing a common set of values, cultivating innovation and excellence, aligning staff with the overall business objectives and recognizing personal relationship management customers as a key pillar for a sustainable industry future. Banks need to engage human capital with the required skills to seize opportunities, adapt and overcome challenges (Ernst&Young, 2013). By far the most important stakeholders are customers because without them banks would be out of business.

Over the last decade, banks have continually changed their approach and business models, relying more and more on a behavioral science way, rather than in a conventional way. Although crisis has forced banks to reduce drastically costs, especially payrolls, cutting back costs on employees proves to be only a short term solution. Fewer people on the payroll, lower operating costs, may fit only when revenues are declining which is not necessarily the case since revenues could be raised in a different approach. Cutting off employees may not be a long term solution since one of the most powerful drivers of customer loyalty nowadays remains the customer relationship management based on branch visits and interactions with real persons.

Employee commitment is very important today, more than any time since the Great Depression. Customer retention reaches potential when some of the following emotional needs are met: pride and passion for the brand they bank with, they share the bank's values and integrity and they are confident they will be most of the times treated well and fairly. Disengaged customers are much more likely to switch banks. Equally important is the need for greater consideration on the role of financial education of companies and households. Technology alone cannot be the solution since they are not designed to work alone. Banks should rely more applying behavioral science in their business models. By the time global macroeconomic stabilization will be back banks shall quickly focus on growth.

Customer Relationship Management solutions

Analyzing vast amounts of customer data in real time and automatically manner may be realized through complex Customer Relationship Management solutions. CRMs solutions may be categorized as analytical and behavioral. The first category helps financial institutions in collecting and analyzing information regarding customer interactions with to the bank. Banks exploit such information by designing strategies uniquely targeted to consumer needs, enhancing as well loyalty as information on consumer preferences affords an enduring competitive advantage. Integrating various data (e.g. across purchases, operations, service logs, etc.), marketing analysts may obtain a more accurate view of customer behavior (Rajola, 2002). In contrast, behavioral CRM uses experiments and surveys to focus upon the psychological underpinnings of the service interaction.

CRMs solutions help banks analyze customer behavior real-time and monitor sales increases / decreases globally and / or individually, enabling banks to maximize customer profitability and improve customer retention, reaching the right customer, at the right time, through dedicated channel and appropriate manner (Delloite, 2011). Complex solutions may help also banks asses both the potential profit and risk before offering a product / service to customers, focusing more on appropriate products, distributing channels and relationships. Customers' preferences may be reached based on various observations and diaries over evidence, in-depth conversations combined with quantitative research on how people spend money (Afsar et al., 2010).

Bankers recognize that although relationships with customers have changed they are confident that information provided by complex CRM solutions may be the ingredient that could help them thrive. With their help, banks may cutoff costs without being necessary to cut value or leaving banks exposed.

Analyzing and diagnosing customer behavior (mixing knowledge from economics, finance, psychology and sociology) may help banks to understand the dynamics of customer needs, and identify incentives, biases, frames and the bestselling opportunities. CRM systems create the necessary connections between customer segments, geographies and channels, allowing banks to predict the like hood of existing and potential preferences (Foss and Stone, 2002). With their help banks may deliver solutions and provide an up-to-minute tracking and trend analysis of product and services usage including the channel preferences. Basically they offer a robust and comprehensive understanding over both present and future customer intimacy and insights helping banks to respond to market challenges, enrich customer experiences, improve brand perceptions and pocket market opportunities. CRM systems represent one of the most efficient steps that a bank may take to enhance customer.

Regulators

Regulators across all over the world have joined actions to implement financial reforms at both national and regional levels. Some of the pillars related to regulatory reform refer to the Dodd Frank Wall Street Reform in US, Basel III in the European Union, Capital Requirements Directive IV, Foreign Account Tax Compliance Act and other reforms having important effects over the bank business models. Banks need to understand the way new banking limits and regulations may affect the overall system profitability. Banks need to understand the new framework under various stress testing business scenarios. Over the last few years banks have started transforming their business models to comply with a radically different regulatory environment leveraging consistent and integrated data driving risk management.

During the crisis, central banks have injected significant amounts of liquidity into the financial systems, extending their power to more complex and contentious actions much beyond their conventional role as “lender of last resort”. Many times central banks have been perceived as being the firemen responsible for the resilience of economies and financial systems (Luca, 2013). Although before crisis, central banks have had a low profile on non-financial media, as their responsibilities have grown, central banks have gathered important exposure to media, politics and citizens. The oversight activities from regulators have increased as a result of the latest global financial crisis. Both global community of politicians and regulations are keen on ensuring the stability of the global financial system, no matter the efforts or costs. Banks need to ensure customers that the main pillars of sustainable governance framework are in well in place, understood and lived by the employees.

Due to the fundamentally and irreversibly increasing, riskier and more complex role of central banks over the last decade, central banks may have to face greater transparency and accountability towards parliaments, large public and press related to the way they respond to various challenges of monetary policy, financial stability and managing balance sheet (foreign reserves), especially on issues that are outside of their “conventional” mandate (doing whatever it takes to promote stable economic growth, within the limits of specific independence and freedom from political interferences) (Ernst&Young, 2012).

Nowadays central banks confront with a significant balance sheet hazard risk related to their investment portfolios (foreign reserves) in case some of the issuers fail to pay their debts. Regulators like any other market participants need to face various challenges. Due to their wider powers and greater restraints are prone to groupthink and shared beliefs about the rationality of markets.

This is the reason why conventional sciences (economics, business and finances) are not enough. Regulators, customers and banks should reshape their conventional understanding via behavioral knowledge, mitigating future market failures. Regulators shall develop policies that influence positive behavior among financial service providers and consumers alike, creating a robust consumer protection framework, complemented by improved financial education for customers, discouraging cheating practices (having a closer eye on details since "the devil is in the details") and fostering a sound, stable, and more competitive financial sector.

C. Limits of conventional approach

Information asymmetry deals with situations where there is imperfect knowledge among parties, the situations where one or some of them have more information compared to others – generating potential harm because one party may take advantage of the other's lack of knowledge, triggering market inefficiencies or even failures due to possible hazard risk. Although the general development of information technology over the last decades has contributed significantly in reducing impediments for information availability, information asymmetries continue to exist in various forms, including in financial markets, banking and insurance industries. There is a comprehensive literature on asymmetric information in banking sector and financial markets; probably the most common example in banking industry represents the situation where a borrowing company states its financial reports and business plan to the lender. Although the financial reports may suggest that the company may have enough financial resources and cash flow to pay back the loan, no lender may take the borrower for granted that the latter will never default. The borrower will always have a better understanding of the prospective returns and risk of the business than the lender. All those informational problems, informational asymmetries may cause adverse selection and moral hazard problems vitiating markets efficiency.

Adverse selection represents the tendency for people to avoid accessing financial products and services unless they are sure they will benefit from it. Adverse selection occurs mainly because of information asymmetries and difficulties in selecting customers. Adverse selection can be a problem when there is asymmetric information between the seller of insurance and the buyer; in particular, insurance will often not be profitable when buyers have better information about their risk of claiming than does the seller.

Adaptive expectations refer to the tendency for people to form their views about the future using past trends and the errors in their own earlier predictions – in contracts to rational expectations. Customers and banks tend to be influenced by success stories being resistant to any evidence to the contrary. Few bankers could imagine falling houses prices being deluded by the previous successes of selling various financial products backed by mortgages. Few hedge fund managers had the courage to think outside the box and bet against houses prices rise. Betting against people's benefit may trigger moral hazard problems as well.

Moral hazard situations result from asymmetric information where the more informed party misuses private information for unethical behavior. One of the latest global financial crisis roots has been the collapse of ethical behavior. Dishonest mortgage sellers did not divulge details about the contracted mortgages, and the customers may be sold for increased prices related to average market costs. Information misusage may come as well from information overload. Improved access to economic and corporate information via online environment has definitely been an important forward leap for customer financial education, but there is both a good thing and bad thing in this entire leap. The problem is too simple increase in information may harm the quality of decision customers need to take. This is the reason why regulators need to reshape their focus towards helping both customers and banks understand and manage better data they possess, being able to turn data into consistent information supporting their decisions.

D. Why do we need behavioral science in banking?

Common sense and behavioral sciences tell us that the conventional economics and finance hypothesis are not always true, business evidence showing many examples of irrational, self-defeating and even altruistic behaviors. Consumers deviate from *homo economicus* and most of the standard economic models in many ways. Because of the many cognitive and behavioral biases, they have difficulties in acting in their best interest and making complex choices. The latest endemic market failures have shown us the limits of conventional sciences.

Behavioral approaches to bank relationship management

Behavioral Economics is a fairly new field that draws insights from both psychology and economics. It has its origins in the criticism of Efficient Market Hypothesis (Fama, 1976) and study the effects study the effects of social, cognitive, and emotional factors on the economic decisions of individuals and institutions and the consequences for market prices, returns, and the allocation of resources (Malik, 2012).

Behavioral Economics helps bankers to explain the irrational customer behavior from the conventional banking and finance point of view. Applying behavioral knowledge may help bankers to reposition their products, features and prices in order to be more attractive and effective for the most customer base, providing a competitive edge (Knoll and Harmston, 2014). The risk of not doing so may arouse the customers' intention to switch from a bank to another. Switching behavior damage not only present profits but disturbs future revenues and cost since customer acquiring costs are generally higher than maintaining costs. Banks may incorporate behavioral science in the practice and business of modern banking business and marketing to improve customer satisfaction reducing the profit reducing the probability and impact of customer bank switching. Behavioral economics offers an important competitive advantage helping banks understand human behavior be more effective in everything they do, provide greater return for shareholders and reduce market inefficiency.

More and more banks invest nowadays important amounts of funds to understand what matters most for people and see it it's legally, financially and technologically possible. Behavioral sciences may help banks build and reposition their offer in a way to maximize the return for shareholders and also to arouse the behaviors that most favors banks in terms of revenues and awareness. Probably the most profitable long-term customers are not necessarily the richest ones but the customers that use products responsibly, maintain their loyalty, are charged fairly for the services and contribute to rebuilding brand pride and awareness. Instead of having customers with high base deposits but low fees banks should rather focus on investment and transaction services generating more fees.

Behavioral biases

Over the last decades, many researchers have focused their attention towards understanding the triggering factors probabilities of banking products and services acquisitions. We will briefly present some of the most common behavioral biases met in among regulators, banks and their customers.

Ambiguity aversion refers to the people's tendency to select options for which the probability of a favorable outcome is known, over an option for which the probability of a favorable outcome is unknown.

Anchoring represents a cognitive bias describing the human tendency to over rely on incomplete or irrelevant information (something that they know from the past or a social norm), basing their decisions on adjusted values, facts or events although they have no bearing in the actual evidence. In order to avoid anchoring, people shall judge their decisions based on multiple aspects, seeking multiple perspectives and opinions in order to have a more realistic perception over reality. Anchoring may be a source for investment or banking mistakes since many people anchor their investment/regulatory decisions on less relevant figures and statistics. Many people tend to buy stocks that have fallen “too much” on a limited period of time, or bankers base their decisions based on irrelevant statistics (including periods of economic boom)and then adjust the value to account for other circumstances. People give more importance to things they may remember than things they don't remember as easily (Availability Heuristics).

Confirmation bias refers to the tendency to search, select, interpret and overweight information that supports someone’s beliefs, ignoring, rejecting or undervaluing relevant evidence or information contradicting the initial beliefs. It’s all about the desire or “wishful thinking” effect on initial belief or a form of selection bias in perceiving evidence. After 2007 many customers having deposits or even investing in stocks and mutual funds have been blasted by negative reports and opinions in media related to the macroeconomic context. Although the context has changed significantly, many people had the tendency to neglect evidence and overweight information confirming their initial investment opinions. People insufficiently revise their beliefs when presented with new evidence.

Familiarity and Framing bias refers to the tendency of people to reach conclusions based on the 'framework' within which a situation was presented reaching to different conclusions from the same information, depending on how or by whom that information is presented (Framing bias).People are risk avoiders; they protect smaller gains rather than gamble in a larger gain.

Future discounting/Hindsight bias – the tendency to think that one would have known actual events were coming before they happened. Although nowadays many people admit that the rhythm of lending before the crisis was not sustainable, very few people could reach this conclusion at that time.

Hyperbolic discounting – people often make choices that are inconsistent over time – the tendency to prefer smaller payoffs now over larger payoffs later, which leads one to largely disregard the future when it requires sacrifices in the present. This is probable reason why few people tend to invest long term since they understand that they cannot enjoy their money sooner. Another mistake would be the tendency of people to use debit cards for example, for the day-to-day necessities of life. They reserve credit cards for big-ticket items, even when they are planning to pay these off at the end of the month. Finally, unsophisticated consumers pay more in interest and fees than they would if they were smarter.

Informational Cascades – people observe the actions of others and “abandon their own information in favor of inferences based on earlier people’s actions”

Loss aversion – represents the tendency of people to prefer avoiding losses than acquiring gains. Bank customers are almost always better off paying with their credit cards (avoiding losses)than their debit cards. With a credit card, they can get rewards and the free use of funds for up to 7 weeks but most of them prefer not to risk paying additional costs. Loss aversion may also explain those effects.

Mental accounting refers to the tendency to divide current and future assets into separate, portions. People would rather save money than pay off their debts on credit cards or consumer loans. Another mental accounting example represents the tendency to spend money received as bonuses, gifts and prizes on things that otherwise would never buy.

Money illusion – the tendency of people to think about currency in nominal terms, rather than in real terms. The most common examples represent the nominal interest rates presented for deposits instead of real interest rate (deducted by inflation rates).

Overconfidence bias refers to the tendency of people being more confident in their abilities taking more risks that could be justified by their abilities. Decision paralysis represents the opposite of overconfidence voiding people to make any decision at all, sometimes being just as bad in terms of outcomes.

Social proof & Herding bias– the tendency of people to mimics the crowding effect/gestures which arises when groups of agents share information. Before crisis many young people wanted to own their house, indebting themselves for two or even three decades ahead just to conform the social norms that every family needs to have their own house. This irrational herding bias has nurtured the housing prices bubble over the last decade before crisis.

Neuromarketing

Although there are many pitfalls for being biased, customers need to be educated and helped to act in their own interest. Making the right decision may reduce long term market failures and significantly reduce systemic risks. Over the last few decades, neuroscientists, marketers and bankers have joined their focus to study the brain's electrochemistry of bank customers, attempting to understand customer's behavior by examining the physiological processes in the human brain when people are exposed to financial decisions. Neuromarketing applied in banking uses the latest neuroscientific technologies and methods for understanding what stands behind the bank customer choices and behavior.

Although people differ very much with respect to concepts such as risk aversion, time preference and tastes, looking "inside the brain" with special imagistic technologies, banks may have an explanation for the wide range of individual economic behaviors and their effects translated to specific banking market segments. Tools available to neuromarketing allow banks to understand customers reactions “how and why” choices are made: what part of brain response in front of an advertisement and which one tells them what to do and.

The implications for understanding how bank customers’ brains work are huge for the potential growth of banking industry. Although could be seen a natural progress due to the medical and computer innovation era, there are voices that consider neuromarketing a privacy invasion over the customers intimacy and insights.

E. Conclusions

The latest global crisis has seriously damaged trust among customers, their perceptions and behavior related to the banks they work with. Competitive pricing structures and cutting edge technology based financial solutions are not enough to restore customers’ confidence, prevent attrition and cultivate their loyalty. Human-based distribution channel remain the best manner to offer tailored banking and reward customer affinity. In order to be more efficient banks shall study the manners in which emotions influence customers’ decisions and behaviors via dedicated customer relationship management electronic solutions (CRMs). Behavioral and neurosciences knowledge may help banks to reposition their products, features and prices in order to be more attractive and effective for the most customer base, providing a competitive edge. Much of the market inefficiency is due to the many behavioral biases. A better understanding of what stand beside anchoring, loss aversion, framing, anchoring, overconfidence, mental accounting, herding and many other customers’ biases may help both customers and banks to reduce market inefficiency, seize opportunities and manage much better risks.

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