Jens Interview Edited Transcript_

[00:00:04] **Narrator** Welcome to The Better Growth Blueprint, a new podcast series from Simon-Kucher, a global consulting firm that focuses on helping our clients grow sustainably, increasing revenue and profit. Throughout this series, we will look at key trends shaping the future of business. We will cover all major sectors, giving you a full view of what's happening in the market and what you need to do to stay ahead. Welcome back to The Better Growth Blueprint. In today's episode, Kai is joined by Jens Baumgarten, senior partner and managing partner of financial services. Jens has witnessed several shifts in the financial sector throughout his career, and he's here to discuss some of the changes we are currently seeing. Right now, many financial institutions are navigating major changes driven by rising interest rates, the rise of industry disruptors like neobanks or neo brokers, and transformative technologies like generative AI. A key challenge for many in the financial industry is engaging customers while staying competitive in this rapidly evolving landscape. Now, over to your host, Kai Bandilla, a senior partner based in Paris.

[00:01:07] **Kai Bandilla** Welcome to our new podcast series. And today, it's a real privilege for me to welcome Jens. Jens, happy to meet you today.

[00:01:16] **Jens Baumgarten** Thanks, Kai. Thanks for having me on the show today.

[00:01:19] **Kai Bandilla** Before we dive into the key trends for 2025, why don't you introduce yourself?

[00:01:24] **Jens Baumgarten** I've been observing the financial industry for many, many years. We've been partners at Simon-Kucher for quite a while. I've been active in the industry for 25 years now. And yeah, it's, it's been an interesting 2024. But 2025, I can already say it was probably going to be as exciting as 2024 was.

[00:01:43] **Kai Bandilla** We hear a lot about neobanks or neo brokers having as their D&I, a tech way of operating client relationships. Are they now really that much ahead of the game?

[00:01:57] **Jens Baumgarten** I mean, it depends on how you define success. But if I'm looking at the neo banking ecosystem over the last year, one thing is for sure, these guys have been growing very impressively. We now have, I mean, we are very closely looking at the market. We now have about 400 neobanks globally. More than one billion, 1.1 billion customers now, with with neobanks. We have about 10 or so neobanks that are really, you could almost say global giants in neo banking, interestingly enough, in various parts of the world. They are doing a lot of things right in terms of attracting new customers, specifically younger, mobile, first digitally savvy customers. Now, if you use some traditional KPI yardsticks, like, for example, profit per customer, like for example, how well they are serving customers holistically around all your financial needs. Most of those neobanks are probably not that strong yet. Can they get there? I guess so. They will. But it's still it's still a path for them to go. And the interesting part, I think, is how the traditional players actually are responding to that challenge.

[00:03:08] **Kai Bandilla** And how do they do it?

[00:03:10] **Jens Baumgarten** Many have at the beginning thought this is the way if it's going to pass. And my my customers are so close to me and so loyal, we would probably be be okay. But that that sentiment has passed long ago. So we've seen a couple of, I would say, speed boat offshoots from large banks who launched neo banks for a specific segment for a specific use case. That's a strategy that that may work in some cases. But the big changes also the big guys have to massively adapt to these new customer expectations, which is mobile first, which is a very pointed, relevant service to me at the right point of time with the right service at the right price. This more making it adequate to what a customer really needs is probably the biggest learning for the established players in the markets.

[00:04:00] **Kai Bandilla** You mentioned changing customer expectations. Could you expand on both retail and professional customer demands? How are they evolving? How are banks are trying to adapt to meet these new expectations?

[00:04:14] **Jens Baumgarten** If you look back, maybe even at your own personal relationship and how you do banking and how this has changed over the last couple of years, I think, you and I are probably of the same same age. And we still remember the old days where we went to branches and talked to advisors to get our mortgages or do our finances and talk about how we and where we should invest. And if you think about the the younger generation, the mobile first generation, as we somehow call them, they have a completely different expectation to their banks. And while this is not new, what is really astonishing for me is that a lot of banks still have to adapt to that fundamental change and how customers want to be served, how customers want to interact with their banks, what kind of products they are looking for, what their willingness to pay is for certain services, how much advice they need. So that's what I mean with customer expectations is really a broad field that yeah, should guide at every decision that it's at a at a c-level when it comes to how a bank is positioning itself, how to serve clients, what the coverage model is, what kind of products to launch and so on.

[00:05:20] **Kai Bandilla** What can banks and probably you're going to differentiate the big ones from the smaller ones, right? But what can banks gain by focusing on the customers more than they did before? What's the increment?

[00:05:34] **Jens Baumgarten** From my perspective, it's the biggest lever that a bank can can pull, and only look at, for example, some of the relatively new startups to the industry's. I don't want to mention any names here, but we all know the the big neo banking scene. And if you look at their tremendous customer growth, which is something that is really impressive, if you if you watch their development, it speaks for itself. At the end of the day, customers are judging the quality of their bank also with their feet, as far as you could say. If you look specifically how attractive these propositions are to a younger, more digital, more mobile customers, it's a clear testimony that, yeah, if you want to be attractive, you have to you have to focus on those specific requirements. I think that's one element. Let me just briefly a couple of other thoughts. But it's not only pure growth, it's also how you can actually deepen the relationship of all those customers from a service perspective, from a customer experience perspective. And obviously, the big advantage of focusing on customer expectations is that at the end of the day, you can also serve the customer very, very efficiently if you do it right.

[00:06:39] **Kai Bandilla** If I understand you well, there's a packed agenda for the beginning of 25. Tell me exactly what does this mean? What should a bank do now to be prepared so that at the end of 25 things are on track?

[00:06:54] **Jens Baumgarten** The Fed and the ECB decisions already outlined a very, very clear trend, Kai, which is interest rates are going to be very, very volatile in 2025. So the first thing that all banks have to focus on is how do you manage interest rates and interest rate margins on both sets of the balance sheet, meaning on the deposit side as well as on the lending side? Now, the complication that many banks large and small, are facing is that over the last decades, there was basically no interest rate in the market in many markets, as we all know. So a lot of banks unfortunately lost their muscle a little bit to do that. Teams left. Competency is not there anymore. And that's probably the most crucial thing. If you look at the P&L of of a classic bank, if you get that one in order, then you have already gained a lot.

[00:07:50] **Kai Bandilla** Should banks focus more on the short term agility, the sprint or the long term endurance to stay competitive? Kind of marathon? How do you see them building their muscles to succeed?

[00:08:04] **Jens Baumgarten** I think they need both at the end of the day, right, as they have lost the muscle to get relatively quickly up to speed. That's if you haven't done this already in 2024. A must have for every bank. But my personal perspective is, as we have not really fully fought inflation yet and we don't really know where this is going to end and whether it's not creeping up again. First indicators are even pointing into that direction. We will definitely also need the marathon muscles as you just describe them. Yeah, so it's both.

[00:08:36] **Kai Bandilla** And this is an interesting thought process. So it's basically rebuilding capabilities in banks that have been lost. Would you see differences across the world? Are European banks, have they been falling deeper into a sleep or into a kind of almost how would you say it permafrost, whilst, this is not the case in the US or Latin America, Asia?

[00:09:02] **Jens Baumgarten** I mean, the problem is it's a worldwide problem, because the whole world after the pandemic has massively changed from an interest rate perspective. But even after the financial crisis, if you if you want to go back to really, really long time. But it's fair to say, interest rates have been lower for longer in Europe compared to how they were in the US. So if you want to do some regional differences from a European banks even have to catch up more. But worst case, probably think about Japan, where the Bank of Japan has been basically fighting deflation for decades now. So when I'm talking to our teams in Tokyo, it's it's very apparent that now with the recent change a couple of months ago, a lot of Japanese banking managers, for example, are asking themselves, how are we getting back on track in that regard? So there are some regional differences. I guess maybe just the thoughts when you when we talk about building up these competencies, these muscles again. Right. It entails a couple of things that a bank at the end of the day has to has to build up. First of all, it's the analytics. First of all, you have to understand how customers are reacting to different interest rates, environments, different competitive moves. And then you need to turn these analytics into tools, into processes. You have to build up a pricing process. You have to build up also the technological infrastructure to manage prices and rates going forward. So it's in many cases a marathon. It's not only a one dimensional marathon, but it's a multidimensional marathon to this banks have to run.

[00:10:38] **Kai Bandilla** Does this mean, may I use a word that we hear in other industries, a lot of more dynamic pricing or wouldn't that be applicable over here?

[00:10:48] **Jens Baumgarten** Yeah. I mean, if changes in the interest rate environment and not going always in one direction or the other, but as I'm personally expecting with a different volatility and uncertainty that we have in the markets, you have to be very agile in adapting quickly and correctly in different directions.

[00:11:05] **Kai Bandilla** Jens, compliment to you. We have been chatting and you haven't yet used the word AI, right?

[00:11:11] **Jens Baumgarten** AI is part of it, but it starts earlier. When you think about managing interest rates to keep with that example, first of all, you have to understand how customers are behaving and how they are shifting funds between different accounts, between your own account as a bank and between maybe accounts that they may have at another bank. And for that, you need classic pattern recognition algorithms so that technology is not even kind of gen AI or AI. It's basically machine learning at the end of the day. So that's step number one. The other thing, as you mentioned AI, I think you're inviting me a little bit to talk about it, Kai. It's awesome.

[00:11:47] **Kai Bandilla** I'm just asking the question.

[00:11:49] **Jens Baumgarten** You know, it's a very good point. And a lot of our clients are actually asking us, how can we use AI going forward? And obviously, one of the big first use cases is service, right? We have a couple of direct banks around the world who have already switched to the classical service model where you have a hotline in the call center and you can ask questions to a to an AI enabled support model. And yeah, it's still in its infancy, but it's definitely a big lever. And in terms of your commercial, your pricing strategy, obviously there are also some applications that I would see coming in 2025 and in the years to come.

[00:12:27] **Kai Bandilla** If I'm understanding you well, it's not just about understanding the customers in terms of their needs. And probably by using our techniques to discover a hidden needs that that maybe we haven't seen that way. There must somehow then come an answer to it, right? A kind of engagement, right?

[00:12:46] **Jens Baumgarten** Exactly. And it's all about differentiating how you deal with different customers in the most meaningful way. And this might sound super simple, but at the end of the day, given how banks are operating, it's in many cases a very complicated endeavor. But think about a world where you as a customer are actively approached by your bank with the right products at the right point of time, but you really need them at the right price. And this is what good customer engagement would look like. Whenever we talk to customers in all our studies, it becomes extremely clear that this is the new reality. This is what they are expecting. And banks have to be more differentiated. And the good news, leveraging the technology that is now basically standard digital engagement models, AI tools to identify customer needs, having a more differentiated says coverage model in terms of how you reach out to customers, how you communicate with them offers a lot of opportunities, but you have to get it right, at the end of the day.

[00:13:47] **Kai Bandilla** You, I think, recently did a study, right, with some interesting findings around basically the behavior of retail investors when it comes to the price models that they're expect us to to that they expect banks to have. You want to put a bit of color on price model. Sounds pretty academic, but I guess you will explain it in a in an easy way, right?

[00:14:10] **Jens Baumgarten** Now, first of all, it's clear that you are a pricing expert yourself, Kai, because you're asking the right question. Let's talk about models first and then talk about price levels. A lot of people are probably starting from the back before they go to the first. So in terms of price models, we've seen this in many markets. You mentioned a study that we have recently done in Europe on the investment, product side, it's interesting that simplicity is key. That's probably the most important finding of that study. So if you think about traditional investment models of traditional banks, there are many price components rather complex to understand. And if again, you look at the success of neobanks or neo brokers, they have a very, very simple pricing model. And the interesting part is that not only customers like its simplicity, but they also have a higher willingness to pay for a simple pricing model and a simple offering than for a complex one. So it's not only good for the customer and also good for the bank. But it could also be economically very rewarding for a bank to strive for that it is for that simplicity.

[00:15:17] **Kai Bandilla** And maybe just very quickly for those that know, say I would like to find that study, where do we find it? Is this something that you published?

[00:15:25] **Jens Baumgarten** Absolutely. Just check out our website. Go to financial services. You can find that study, but many, many other studies as well.

[00:15:33] **Kai Bandilla** Great. Thank you. Hey, that was super interesting. If I really have to sum it up in one picture, basically, what you're selling is that rates are going down or start to get volatile. So there is a track and there are to make it simple, the the the public is there. They're ready to applaud the ones that run well on the track versus those that will lose on the track. And now comes the whole question is how much load are you to to engage the raised rate. That would be probably this kind of image for at least for the first six months of 2025. Rates are volatile and the winners will be the ones that will be both be able to start very quickly. But then of course to keep that one, to keep the rhythm. A good marathon runner is somebody who runs after the 30th kilometer quicker than he did the first 30 kilometer. Right.

[00:16:24] **Jens Baumgarten** You know more about running marathons than I do, I have to admit. But maybe to to stay with that image. I think a good marathon runner also knows the impact of nutrition, the impact of training, the impact of the weather and the surrounding and all these different elements. That's what banks, I think, have to be on the watch out for in the in the in the first half of 2025. We talked a lot about building the muscle, the technology that is needed, focusing back on customer expectations, understanding how to better serve them from a taste model, from a pricing model, from the offering. If we want to keep the image of a marathon runner, it's really about the whole package, right? This combination of these different elements. Unfortunately, there's no silver bullet one size fits all. And so I would love to give it to you if there was one. But it's really more about analyzing the situation that you as a specific bank are in understanding the market environment, understanding the dynamics when it comes to pricing, when it comes to rate environment, and then picking the right battles in your specific case.

[00:17:27] **Kai Bandilla** One question to you, Jens, on better understanding customers. I mean, this is something super important, of course, but how do you get it? How do you make sure that a bank potentially using Simon-Kucher in your teams better understand its customers? What is the recipe behind?

[00:17:46] **Jens Baumgarten** Well, the answer is probably simpler than what you might think, right. Because first of all, most most of our clients are big players in the market and they have a lot of information about their customers. So just tapping into the treasure box of customer data, analyzing how customers are behaving, how they are shifting, for example, funds from one account or the other, how their service and product sentiment is, how satisfied they are with the with what the bank is offering them. That's was always the starting point, right? And then you can obviously segment customers in different forms, leveraging a lot of the new technology that we have at our hands right now, the machine learning advanced analytics. We are starting to use AI in different and different forms as well. So that's always astonishing for me that there's so much more to learn from from those basic steps, basically.

[00:18:41] **Kai Bandilla** And I was recently talking to a telco operator here. We're talking about B2C offerings. We explained to me that they have 50 micro segments. They call it micro segments to understand different groups of behavior of their customer base. We talk about the big European country. It's this kind of magnitude that we would find in banking or would you say banking has much more or much less micro segments?

[00:19:10] **Jens Baumgarten** It really depends on the specific client. We have worked with clients who have 500 different micro segments on different product lines. But I don't want to scare anybody away here, right? So depending on where you are on your journey, even doing the first initial steps to better understand your customers and even starting with 2025 segments is already you could already solve half of the half of the issue that you might face.

[00:19:34] **Kai Bandilla** Jens was great meeting you around this idea of the marathon and the sprint, the sprint to be in the race when the race starts probably, and the marathon to to stay in the race as long as this race lasts. And of course, do you know what, who won the 1956 marathon?

[00:19:52] **Jens Baumgarten** I may look old, Kai, but I'm not that old. I don't remember that one, I have to say.

[00:19:56] **Kai Bandilla** That guy was called Zátopek.

[00:19:58] **Jens Baumgarten** Oh. I remember.

[00:19:59] **Kai Bandilla** Good. And Zátopek actually, he was called, the machine, the locomotive. He made the true noise of a steam machine when he run. And when he run and won in 56, the Helsinki, gold medal. He says after passing the line, you suffer once, you win for eternity.

[00:20:16] **Jens Baumgarten** What a great closing remark for what the banks would learn.

[00:20:20] **Kai Bandilla** And maybe maybe even by calling you in, they will suffer a little bit, right? You will shake them.

[00:20:24] **Jens Baumgarten** Them know all volatility and all changes, and we go through some massive changes. Obviously a little bit of suffering as well. But if you develop those muscles, you can actually be better off at the end of that journey. And that's what we are trying to help our clients are.

[00:20:42] **Narrator** Here are some key learnings from today's episode. Inflation and interest rates will be critical trends as we move into 2025. As Jens mentioned, we are currently experiencing a period of volatility and change. With this in mind, we discussed how banks need to strengthen their ability to navigate both short term challenges and long term shifts. Many have lost the capacity to effectively manage interest rates due to a decade of historically low rates, and now they face the challenge of rebuilding that expertise. Additionally, there's been a fundamental shift in how customers expect to be served. Over the last few years, the mobile first generation has developed new demands for their banking experience. Jens is surprised that many traditional banks aren't adapting quickly enough to the rise of neobanks, which are focused on meeting customer needs and expectations. Simplicity is key. When it comes to pricing models, customers like simple pricing. And not only that, they're willing to pay more for simple pricing models. Thank you for listening. If you enjoyed this episode, please consider leaving us a rating or review. For more insights, visit simon-kucher.com.