

Chapter 4

Service Innovation for Customer Engagement in the Italian Banking Sector: A Case Study

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ABSTRACT

The financial crisis of 2008 produced various effects on banks compelled to rethink their business models, especially for better customer relationship management following the general climate of distrust among consumers towards financial institutions. In this context, understanding how to both satisfy and engage customers has become very important. The aim of this chapter is to investigate the role of service innovation in customer engagement in the banking sector. This chapter analyzes the effects of innovative services on customer satisfaction through the study of an Italian people's bank and the application of the Kano model. The results allow identifying those services that should be improved, as they are able to increase customer satisfaction and stimulate customer engagement. For practitioners, this chapter provides evidences on how new technologies allow banks to offer high quality and personalized services through which it is possible to improve the experience of customers and their relationship with the bank.

DOI: 10.4018/978-1-5225-7856-7.ch004

INTRODUCTION

Since the global financial crisis of 2008, the world-wide banking sector generally has experienced several challenges. Italy, in particular has been impacted by the crisis more than other European countries: Italian banking incomes fell by 8% between the first quarter of 2008 and the second of 2009, while in the rest of the euro area the fall was only 5%. The Italian banks crisis reached a peak in 2015 when, according to data from the Bank of Italy (2017), 22% of loans were at risk of non-repayment; non-performing and deteriorated loans tripled as a percentage of total loans, reaching a point where they completely absorb operating results (Angelini et al., 2017; Visco, 2018). Between 2011 and 2016, Italian banks showed losses of 62 billion euros. Only the prevalence of traditional business models, strict supervision by the Supervisory Authority and the application of prudent criteria in the granting of loans prevented the collapse of the Italian banking system.

The Italian banking system is composed of 60 banking groups and 538 banks of which 147 are joint stock companies, 23 credit unions, 289 cooperative banks and 79 are branches of foreign banks. 25% of the market share is people's banks of approximately 70 institutions with more than one million members and twelve million customers, generating € 226 billion in loans, € 264 billion in funding and with total assets of € 270 billion (Assonebb, 2018). People's banks are credit institutions, usually set up as cooperative societies, aimed at sustaining the territorial development and the growth of the reference communities. Their business model is focused on building close and lasting relationships with SMEs and families. This banking model reflects the typical Italian entrepreneurial and industrial system, which is made up of 99.9% small and medium sized enterprises, 95.3% of which have less than 10 employees. In this context, people's banks are those closest to micro and small entrepreneurs and with a structure able to integrate this model of widespread entrepreneurship. During the last decade, people's banks were able to limit the effects of the crisis, especially on SMEs, thanks to the adequate level of their capitalisation, which allowed them to cope with the credit risks they assumed and the application of adequate adjustments to their loan coverage (Alessandrini & Papi, 2018). In fact, from 2007 to 2014, people's banks increased their presence in the territory and their market share by 2.1% (Stefani et al., 2016). This was also possible thanks to the ability of these banks to establish trusted and privileged relationships with their customers, which favour the reduction of information asymmetries, the prudent management of risks (Fedele, 2015; Formisano, 2015), and the discouragement of opportunistic behaviours by customers (De Young et al., 2012).

From a managerial point of view, two factors could be behind the success of people's banks in this new, post-crisis era:

- *Service innovation* affects the satisfaction of customers who are increasingly looking for innovative financial products and for a faster and easier service enabled by new technologies. In 2017, the number of households using digital channels grew by 6%, online operations amounted to 24 million (80% of the total). Hence, being able to combine the needs of technologically advanced clients together with those of clients who seek or need the physicality of traditional operations allows for both simplified communications and the maintenance of strong relationships with customers.
- *Customer engagement* has always represented the people's banks' strength. These banks, in fact, operating in a stable manner and covering a small geographical area are able to get to know their customers well and so build relationships based on trust, mutual listening and continuous interac-

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