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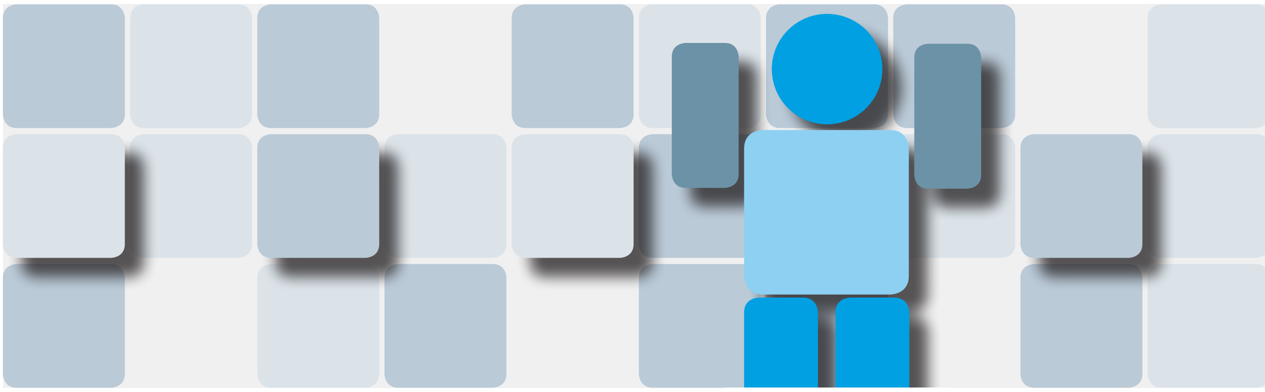

Banking on customer centricity

Transforming banks into customer-centric organizations

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Around the world, ever more banking customers are feeling discomfort. They despair at terms of contract they cannot understand, are shocked by hidden costs, and bristle at sluggish complaints handling. Demonstrations on Wall Street and elsewhere around the world accusing the industry of greed and corruption have further shaken customer confidence.

To brush off these expressions of consumer sentiment as simply outliers or overexaggerations would be mistaken. Banks should see these signals as a call to action. What is needed is a fundamentally new direction – a business model that consistently puts the customer at the heart of all activities. Companies from other industries achieve huge success using dedicated customer centricity. Banks have the chance to not just enhance their customer satisfaction but achieve sustainable growth and above-average profitability by embarking on a customer-centric transformation.

Why customer centricity matters

Most banks have never created a close relationship with their retail customers and understand little of their actual needs. Tailored products and services are rare. Instead, complaints about inadequate advice, disproportionately high interest rates for overdrafts or call center issues surface in the news with depressing regularity. Customer resentment was already running high before the financial crisis. Since then, trust in banks has plummeted even further.

At the same time customers have found a new, loud mouthpiece in online forums and consumer portals. News about negative experiences can spread through these media like wildfire. Initiatives like the "Occupy Wall Street" movement have attracted media coverage as never before.

Banks realize that they can no longer afford to develop products and services without paying close attention to customer needs. It is already clear who will come out ahead: those banks that regain the trust as well as hearts and minds of their customers with target-specific offers. The future belongs to banks that give the customer center stage in their business model.

Banks spearheading the new approach

Financial institutions around the world have promised to focus on customer centricity following the financial crisis. The three whose models are described below stand for a growing number testifying to the shape that emerging customer centricity could take, whether Itau and Bank of America, Santander or Swedbank through to Mizuho and ANZ. Though each pursues a different approach, all aim at the same goal: giving the customer pride of place in their business.

- **Leveraging social media – Danske Bank.** The Danish Danske Bank is demonstrating its commitment to be more engaging and transparent by leveraging crowdsourcing via social media to "become a better bank." The initial focus Danske Bank chose was to use Facebook to ask how they could improve their mobile banking app. Their "Idebank" received 263 ideas, 185 comments, 3,110 votes, and trebled their fan base. This enthusiastic response was followed by a second initiative on mortgages and housing asking how the bank could make the application process easier. Instead of attempting to control its image in the social media – to which so many companies limit their role – Danske Bank sees the dialog as a vital contributor to developing its strategy.

- **Redefining the branch concept – SNS Bank.** In the Netherlands, SNS Bank has reorganized its branches into a network of advisory-focused, cashless banking shops that serve as a physical extension of the Web. Branches are store-like outlets, have open spaces, tablets that customers can use, and extended opening hours. The original function of a bank branch – depositing and withdrawing cash – has disappeared. Instead, the focus is on a "consultant-style" mobile sales force specialized in selling complex products from both the bank itself and other providers.

- **Targeting a specific segment – OCBC.** OCBC (Oversea-Chinese Banking Corporation), one of Singapore's leading banks, launched its FRANK concept in May 2011 with first branches targeting "Generation Y," using the slogan "The Brand New Way to Bank." It spent a great deal of up-front effort researching what it termed ethnography: "We hung out with them at malls, ate dinner with them, went shopping and clubbing with them and spent a lot of time looking in their wallets and talking about money," David McQuillen, Group Customer Experience at OCBC explained. The brand name FRANK is inspired by the phrase "frankly speaking" and aims to convey honesty, sincerity, and simplicity. In the press, it's being called "maybe the coolest bank Gen-Y has ever seen." Customers are serviced in FRANK retail stores rather than OCBC branches. The store is modeled after a shopping experience that Gen-Y customers are familiar and comfortable with. OCBC creates FRANK debit and credit cards with individual designs that their young customers can use to express their personality and even fashion sense. It also has a tailored savings concept allowing customers to name their savings goals, with a visual record of how close they are to each goal ("My Dream iPad 3," etc.).

Models from other industries

Initiatives of the kind outlined above indicate the direction the highly competitive banking market is taking. However, these isolated examples account for only a fraction of customer interactions between a bank and its customers. Companies from other industries have implemented much more comprehensive and successful approaches. These companies often manage to delight customers, or at least to create deep trust and loyalty. Aspects of their business models could also serve as inspiration in the banking industry.

- **Putting users at the center of the product universe – Apple.** Apple Inc. is famed for the outstanding usability and customer-centric design of its products. The IT corporation transports the feeling that it can intuit customers' needs, promptly materializing them in new products. It is constantly evolving new, compelling features. The knock-on effect is that customers often become locked into the Apple ethos, far preferring their products over those of competitors. But one anchor of Apple's success is surprisingly low tech: its chain of bricks-and-mortar retail stores where they excite their customers with truly needs-based products and services. Apart from the unique but always recognizable (branded) look and feel of the stores, their checkout system is also innovative. Instead of having staff stand behind the counter, they move around the store talking to customers in an open concept. According to the statistics, the number of visitors to Apple stores over the last 10 years has exceeded the population of the US.

- **Delegating ownership of the customer experience to the front line – Disney.** The relationship between employee satisfaction and customer satisfaction goes very deep. Leaders like Disney World go via the "hearts and minds" of their front line, explicitly giving them ownership of the customer experience, design, and delivery. Disney encourages its "aggressively friendly" staff to have frequent and lengthy interactions with guests. The company trains its employees to anticipate customer needs through obsessive attention to detail, and even uses a corporate language where customers are "guests" and employees are "cast members." Their internal market research is called "Guestology:" one of the key areas it focuses on is careful listening. Managers apply strict criteria for evaluating their employees, rewarding those who interact well with guests. Top executives make frequent visits to the park, so leadership is very visible, creating an environment where staff sincerely aspire to do their best. The multiple initiatives in use at the theme park have anchored the idea of customer service deep within the mindset of employees.

An advisory interview at your bank will never be quite as pleasant as a family day at Disney World, and a new savings account is unlikely to produce the thrill of a new iPhone for a grandchild. But banks can learn a lot from the world's customer-centric leaders all the same.

The road towards a customer-centric bank

Examples from other industries suggest that marketing campaigns and selective improvements at individual customer interaction points will not suffice. Banks need to radically change their perspective, aligning their entire business model towards the nexus of their success: the customer. McKinsey research evidences that this sustainably improves performance. However, this only applies if the company weaves customer centricity into its DNA and implements it at all levels of the organization.

What does holistic customer centricity mean specifically? First it is about translating deep customer insights into tailor-made products and services. A superior research approach is required to achieve this goal, yielding deep insights on customers and their needs. These insights are then used to derive segment-specific differentiation strategies. They also allow decisions to be made along the entire value chain faster, more safely, and more efficiently. However, sustainable increases in growth and profit also demand a customer-centric organizational structure that implements customer centricity at all levels.

The change process is complex, but the effort will pay off. Transformation towards a customer-centric company needs to address four areas (Exhibit 1).

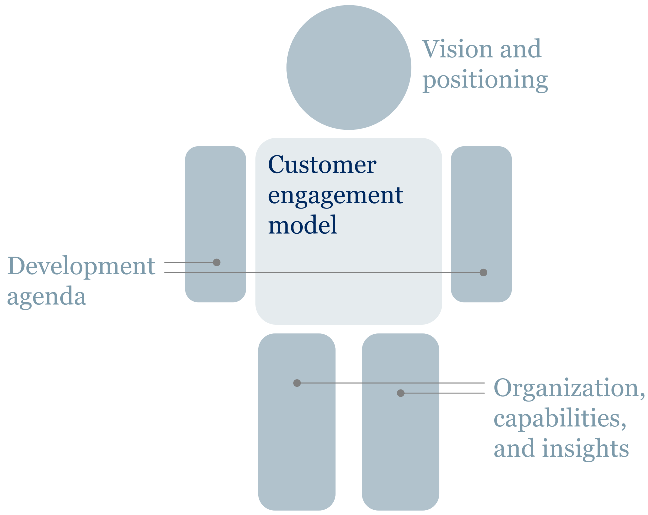
- **Vision and positioning:** "Create an institution that customers want to bank with and employees feel proud of."

- **Customer engagement model:** "Design a bank that delivers exceptional customer service where customers expect it, and excites them where they do not."

- **Development agenda:** "Define an integrated development agenda to drive short-term gains and long-term growth."

- **Organization, capabilities, and insights:** "Build the insights engine, organizational capabilities, and governance needed to sustain momentum."

Four topics need to be addressed for customer-centric transformation



SOURCE: McKinsey

Exhibit 1

The following section describes specific actions related to each of the four elements, with examples of how leading banks implement customer centricity. It also highlights questions banks should ask themselves to check their status in the transformation process.

Vision and positioning: Living and breathing the customer

The starting point of every transformation towards a customer-centric company is a clear-cut vision. It provides the strategic direction and shapes the image of the bank to third parties. However, a vision can easily become mere lip service. Staff soon forget it when submerged in day-to-day business. To counter this risk, management should install measures to ensure the vision guides employee mindset – for example, by implementing a code of behavior. Ideally, this code will be translated into a balanced scorecard and a go-to-market model. Bonus payments should be tied to the level of customer loyalty.

This ensures that the vision is not just a promise to the external world, but provides a framework for activities within the organization and gives employees a purpose they can identify with. Staff may even develop a sense of being proud to work for their employer. Such positive energy leads to better performance. Only a strong vision can motivate employees to move with the inevitable periods of change that organizations will need to navigate, and to really live the idea of customer centricity.

In the US, the bank Wells Fargo is a good example of customer centricity. Its vision statement is: "We want to satisfy all our customers' financial needs and help them succeed financially," signaling to both internal as much as external stakeholders how serious Wells Fargo is about customer centricity. This is also reflected in the hierarchy of stakeholders, where the customer comes first: "Our first job is to understand our

Test No. 1

1 Are your brand and the vision built around a specific customer promise?

- Is there a company-wide vision that can be translated into clear promises for all stakeholders?
- Do brand and vision relate to one another?
- Is the brand proposition built on insights into customer needs/behavior?

2 Are your brand and vision visible for everyone, and do they fundamentally guide behavior?

- Has the proposition been translated into visible statements to customers?
- Do internal communication instruments embed the customer-centric idea?
- Do customers and employees know and understand the vision? Do they like it?
- Is there a platform to engage employees in customer centricity?
- Are balanced scorecards clearly linked to the vision, including clear proof points and incentive mechanisms?

customers' financial objectives, and then offer them products and solutions to help satisfy those needs so they can be financially successful. If we do that right, then all sorts of good things happen for all our stakeholders including our shareholders" (from "Our vision" by Wells Fargo). The company's strategy statement reflects the same approach.

To ensure that the change within the organization also has impact outside the company, the brand needs to be repositioned via external communication. The Royal Bank of Scotland has demonstrated its dedication to customer centricity by publishing a customer charter. The charter contains specific commitments and goals towards its customers, promising (for example) to keep processes simple and to listen to its customers. In a similar way, Commerzbank started a quality campaign for its private customers aimed at underpinning the promise to deliver "performance and partnership." To do this, Commerzbank introduced multiple initiatives, such as a Customer Charter, and the new position of customer advocate.

Customer engagement model: Exciting customers yet still curbing costs

New communication strategies are vital to establish customer focus internally and surface it externally. However, communication alone will hardly convince consumers that the bank really means it. Customers will believe in the change only once the brand promise becomes tangible for them through real-life experience. Once they realize the bank thinks and acts from a customer perspective, they are likely to acknowledge it by purchasing more banking products and recommending them to others.

Customer value propositions can be very different by company or target group profile. In the US, for example, TD Bank (formerly Commerce Bank) strongly focuses on creating an outstanding customer experience. The bank continuously bolsters their customer promise "America's Most Convenient Bank" with evidence that customers can perceive day in, day out. Branches in highly frequented locations such as the Broadway are open seven days a week, sometimes until midnight. TD Bank motivates and enables its staff to solve its customers' problems and improve customer experience ("$50 to kill a stupid bank rule"). The bank uses mystery shopping to monitor branch status and staff service attitudes on a regular basis. To acknowledge outstanding performance, TD Bank honors great employees with its "WOW Awards." The success of all these initiatives has been considerable. TD Bank was nominated "America's Most Convenient Bank," and was ranked "Highest in Customer Satisfaction with Retail Banking in the Mid-Atlantic Region" for the fourth time in a row in 2009.

American Express was the first to tailor cards and rewards to customers' lifestyles rather than classical customer segments. Their reputation for superior customer service allows American Express to attract a disproportionate share of affluent consumers, especially in the US. American Express then uses its strength with affluent consumers to charge a higher merchant discount rate. This business model creates a self-reinforcing loop.

A number of European financial service firms are emerging that focus on the congruence of brand promise and business model. British Metro Bank, a new branch bank launched in

Test No. 2

3 Does the bank have a clear understanding of customer insights across lines of business?

- Is there a clear understanding of the customer experiences that matter across the customer journey in each segment?
- Is a process in place to keep customer insights fresh and up to date?
- Do these insights come synthesized in a digestible format?

4 Does the bank invest intelligently in superior customer experience in a systematic and economically viable manner?

- Is there thoughtful profit optimization of customer experiences (balancing revenues vs. cost increases)? Are investments focused on areas with the highest return on customer centricity?
- Do the specific actions at touch points dovetail with the brand proposition?
- Can customers interact with the bank across relevant channels in an engaging way?

5 Is the customer experience centered around a few key touch points of superior customer experience?

- Is there a clear understanding of both tangible and intangible levers that can be pulled in concert to create a "wow" experience for customers?
- Does the bank have a process in place to systematically generate and update these touch points?

July 2010, is a fascinating case study in what customers really want. With its slogan "Love the bank," Metro Bank brought a cultural revolution to the UK banking market via extended opening hours, convenient banking service, and fancy branch design and features. Royal Bank of Canada created a Client Experience Council of 10 top leaders to monitor customer experience progress and ensure alignment of efforts across organizations.

How can banks successfully establish a customer-centric business model? A well-proven approach is to apply a systematic process aimed at shaping customer touch points – customer service or product offerings, particularly – to ensure the brand can be experienced at each of them. Banks can apply the "Customer Journey" tool, which traces the touch points a customer has with the bank throughout the entire purchasing process. The tool leverages several methods to gather data: qualitative and quantitative customer interviews, assessment of blogs (both internal and user forums), or employee interviews. This data allows banks to identify customer archetypes and determine specific elements of the purchasing process for each archetype. This means offers can be tailored much more precisely to different target groups.

The "Customer Journey" approach reverses the way many banks design their products today. All too often, margin considerations are their main driver: they tend to neglect customer needs. Tools like this enable banks to tailor their products and services to customer behavior and preferences, as well as designing the marketing mix efficiently, ultimately resulting in a higher return on investment.

Development agenda: Increasing sales and profit by focusing on customer needs

Becoming customer centric should be a means, not an end. A customer-centric transformation needs an agenda to further develop existing clients and acquire new ones. Better serving customer needs enables a bank to increase the satisfaction and loyalty of its customers as well as strengthen the bank's economics, both in terms of growth and profitability. It is therefore essential that banks translate all their customer activities into clear actions that boost revenues. When resources are limited, banks need to give priority to customer segments with the greatest profit potential. Interestingly, it is not the case that there are just a few large segments that are attractive. The largest profit potential often resides in smaller niche segments.

McKinsey's Granularity of Growth research has shown that there are many niche segments that may be financially attractive but cannot currently be served due to their small size. McKinsey has developed an approach to tap the potential of these segments despite their small size. The approach is not about enlarging the segments or merging them, but accepting their size and creating boundary conditions to serve them profitably. This requires market segment specialists who continuously seek out new niche segments in the market, as well as modular systems that can rapidly tailor products to the needs of segments (and without additional IT capacity). Brand management is a further element that is vital for developing concepts on how to address individual customer segments at low cost. Agile sales staff are also needed who can swiftly identify and adapt to the needs of niche segments.

Clear-cut attitudinal segmentation represents the basis for identifying attractive segments. Quantitative market research derives this kind of segmentation. Banks can use this to decide which segments are particularly financially attractive or strategically rel-

Test No. 3

6 Are all your customer-oriented activities rooted in economic goals, not just satisfaction?

- Does your bank distinguish between different customer segments based on value and needs?
- Does it have a granular understanding of profit dynamics and actionable levers for different tactical customer segments?
- Do these insights translate into a development agenda that describes where future sales should come from (on a segment/product level)?

7 Does the bank target "hearts and minds" to drive attitudinal loyalty, as well as the wallet to drive share?

- Is there a structured approach that stimulates attitudinal loyalty per segment (e.g., protecting existing relationships, acquiring profitable customers)?
- Does the bank have a customer value metric along the dimensions of acquisition, attitudinal loyalty, and cross- and up-selling? Is it being applied?
- Do the staff know the metric and act on it?

8 Does the bank coordinate development initiatives across functions and leverage the full marketing and sales toolkit?

- Are there cross-functional teams focused on a single development agenda?
- Are revenue initiatives orchestrated top down?
- Does each function have assigned roles and end products?

evant for the future. Detailed knowledge about the segments allows you to determine segment profitability, and which marketing and sales concepts are most suitable for each segment.

Royal Bank of Canada (RBC) pursues this kind of a niche strategy with great success. After identifying attractive customer groups via micro-segmentation, RBC tailors products for each group. Their approach comprises three layers of segmentation. First, "basic segmentation" defines five customer groups using demographic criteria. Next, "strategic segmentation" cuts the customer base into a multitude of subsegments by factors such as profitability, risk profile, or customer life time value. Finally, "tactical segmentation" focuses primarily on product sales, drawing on parameters such as probability of purchase, risk of cancellation, or frequency with which products are used.

This micro-segmentation helped RBC detect a previously neglected customer segment: senior citizens spending the winter in Florida. The bank developed a "VIP Banking" account for this segment that includes a senior rebate for eligible clients above 60, travel discounts, easy access to Canadian funds, a consolidated account review online, ability to leverage a Canadian credit history for mortgages in the US, and a toll-free number for cross-border banking questions. As a result, over the last five years sales per customer have more than doubled, the attrition rate has dropped by nearly 50 percent, and net income has grown by 75 percent. Other examples are the Swiss Bank Coop's financial advice for women, the Dutch Rabobank's package for the divorced, or Wells Fargo's offer for soldiers. Managing all these opportunities systematically will create a sustainable development agenda.

Organization, capabilities, and insights: Anchoring customer centricity deep within the company

Customer centricity needs anchoring within the organization to last. This is vital for the paradigm shift to unfold its full impact. To achieve this, banks need to install customer-centric core functions, align their governance and adapt their incentive systems accordingly to initiate real change.

Key to a higher degree of customer centricity within a bank is having an excellent customer insights unit. Profound knowledge of customer needs and preferences is an essential input for decisions. One best-practice example is the National Australia Bank (NAB Europe), which has pursued a CRM strategy for over 10 years, and has won numerous awards for its efforts. One of the main takeaways from this long-term project has been the importance of educating the front line to drive employee buy-in. NAB considers a partnership approach crucial for driving adoption via a staged approach. This includes gaining executive buy-in by embedding the concept within the group strategy, introducing rigorous measurement and coaching/mentoring, and pursuing a carefully planned process of cultural change. NAB also understands that this cannot be a "one-off" effort: it requires continual focus and development. To drive and support this task, NAB developed a central Customer Knowledge and Analytical Marketing team that worked closely with all parts of the organization to develop and implement its strategy. This customer perspective is applied right up to senior executive level, with a scorecard that includes customer and community as well as employees

Test No. 4

9 Does the bank have an organizational structure in place that enables customer centricity in business decisions?

- Does the bank have a customer insight unit/customer insight owners in each line of business?
- Is there a well-structured process in which customer insights are required inputs for business decisions?

10 Have employees developed the mindsets and capabilities behind the customer-centric agenda?

- Is there evidence that mindsets and behavior support customer centricity?
- Are there supporting tools and processes enabling customer delivery?
- Are there reinforcing coordination practices ensuring constant customer focus?

and culture metrics. A Customer Council (chaired by the Group Chief Executive Officer) also meets on a monthly basis to ensure an ongoing focus on customer relations and service.

The core functions need to be designed to represent customer focus within the organization. It is important that they have the power to implement solutions to the customer's benefit. If this is not the case, there is a danger they will become just an appendage, which could quickly weaken the newly won trust of the customer. Besides such powerful core functions, banks also need overarching customer and product management. Only interface functions of this kind can ensure that the voice of the customer will be integrated in all core business processes. Last but not least, anchoring customer centricity in employees' hearts and minds is crucial. A transformation can only be successful if staff live and breathe this dedication to the customer. To support this, the balanced scorecard and incentive systems for each employee need to be targeted towards customer centricity.

Anchoring customer centricity deep within the company implements the transformation consistently, from the vision and operational processes through to individual targets for every employee.

More growth, better returns – check your potential now

Customer centricity, when conceived and implemented correctly, is not just a sentiment – it makes a clear difference to the bottom line. McKinsey experience and research show that a customer-centric view leads to greater loyalty, higher cross-selling, less attrition, and ultimately to higher sales and profits.

"Ten Timeless Tests": How customer centric is your bank?

Diagnosis of the status quo

Test No. 1

1 The brand and the vision are built around a specific customer "promise"

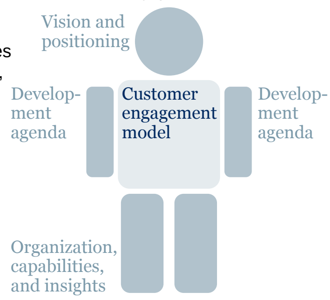
2 Brand and vision are visible for everyone and fundamentally guide behavior

Test No. 3

6 All customer-oriented activities are rooted in economic goals, not just satisfaction

7 The bank targets "hearts and minds" to drive attitudinal loyalty, as well as wallet to drive share

8 The bank coordinates revenue initiatives across functions and leverages the full marketing and sales toolkit



Test No. 2

3 The bank has a clear understanding of customer insights across lines of business

4 The bank invests intelligently in superior customer experience in a systematic and economically viable manner

5 The customer experience is centered around a few key touch points of superior customer experience

Test No. 4

9 The bank has an organizational structure in place that enables customer centricity in business decisions

10 Employees have developed the mindsets and capabilities behind the customer-centric agenda

SOURCE: McKinsey

Exhibit 2

It will come as no surprise that a lack of public and client trust is one of the biggest challenges this industry is facing, although a recent McKinsey survey conducted in 2008 shows that customer intimacy and trust are the most important loyalty drivers (77 percent), ahead of staff (though still rated extremely high, at 75 percent), service (66 percent), and price (57 percent). Related surveys also revealed that improved customer knowledge and a 360° customer perspective correlates with an increase in money in balances and accounts of 150 percent, four times the improvement in customer experience scores and almost twice the number of referrals and leads to branches/ financial advisers. In total, a customer-centric structured needs assessment leads to 30 percent higher cross-selling of nondeposit products. As a result, bank branches that use a customer-centric structured needs assessment derive profits 2.5 times above those with a minimal needs assessment. Banks can achieve sustainable growth and above-average profitability by embarking on a customer-centric transformation.

Successful transformation towards a customer-centric company starts with a diagnosis of the status quo. McKinsey's customer-centric transformation framework can provide a first grid for a thorough assessment. The "10 timeless tests of customer centricity" in Exhibit 2 can serve as an objective discussion platform for such an endeavor. The answers provide clear indications of the bank's current status on the way to its customers' hearts and minds. McKinsey has developed a short three-week diagnostic tool along these questions to determine the answers using a sound fact base. Having this diagnostic in place could be the starting shot to embarking on a both exciting and profitable journey into the future.

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The journey towards customer centricity offers banks the golden opportunity to create a new trust-based bond with their customers. Sure enough, this is about more than "just marketing." Banks that embark on this journey must be willing not just to implement multiple changes, but also to challenge the very foundations of a traditional banking organization. But those that make the effort will reap back their investment with interest, sustainably boosting profitability in a largely saturated market and achieving above-average growth.

Authors and contacts

Phil Auerbach is an Associate Principal in McKinsey's New York office.
philip_auerbach@mckinsey.com

Ramon Forn Argimon is a Director in McKinsey's Barcelona office.
ramon_forn@mckinsey.com

Fabian Hieronimus is a Principal in McKinsey's Munich office.
fabian_hieronimus@mckinsey.com

Christian Roland is an Associate Principal in McKinsey's Bangkok office.
christian_roland@mckinsey.com

Birgit Teschke is a Knowledge Specialist in McKinsey's Frankfurt office.
birgit_teschke@mckinsey.com

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www.mckinsey.com