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Breaking away from the pack in the next normal of retail banking distribution

Lessons from pre-COVID-19 crisis leaders

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Even before COVID-19, retail banking was experiencing dramatic shifts in the way customers banked. Branch usage was declining steadily, and customers were increasingly using digital channels to manage their money. COVID-19 has accelerated this shift in preference. Based on our research of consumer intentions, digital adoption is likely to grow most rapidly in markets like Italy, Spain, and the United States, which predict 15 to 20 percent increases for digital banking, with increases of 5 to 13 percent in other markets.[1]

This reinforces the imperative for banks to reimagine their channels boldly, anchored in an integrated vision for distribution. Before COVID-19, top performers from a range of markets were already breaking away from the pack with distribution strategies that both responded to and accelerated changing customer expectations.[2] The result was significant outperformance across distribution channels for leading banks relative to slower-adopting peers (Exhibit 1):

— 2.4 times greater digital activity

— 13 times greater digital sales penetration

— 6.6 times greater productivity of call-center agents

— 8.1 times the number of complex sales per branch staff

[1] Chandana Asif, Klaus Dallerup, Stephanie Hauser, Alia Parpia, and Zubin Taraporevala, “Reshaping retail banking for the next normal,” June 11, 2020, McKinsey.com; McKinsey Financial Decision Maker Pulse Survey run in mid-May 2020, which surveyed respondents in countries including China, France, Germany, Italy, Spain, Sweden, the United Kingdom, and the United States (1,000 representative consumers from each).
[2] Based on analysis of more than 100 banks in developed markets over the last five years. “Developed markets” align with Standard & Poor’s definition. Finalta’s banking benchmark sample for this article includes banks from 21 countries: Australia, Austria, Belgium, Canada, Denmark, Finland, Germany, Hong Kong, Iceland, Ireland, Italy, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Taiwan, the United Kingdom, and the United States.

Exhibit 1

Before the crisis, top performers were achieving significant results with their distribution channels.

		Bottom 10 banks in category 2019 average	*Delta*	Top 10 banks in category 2019 average
Digital service	Digital activity	33%	2.4x	80%
	Mobile activity	19%	3.3x	60%
Digital sales	Annual digital sales penetration	5%	13x	65%
Human-centered virtual channels	Annual inbound calls per agent	3,000	6.6x	20,000
Physical channel	Active customers per branch staff	300	7.3x	2,200
	Annual complex sales[1] per branch staff	31	8.1x	253

[1] Complex sales include current accounts and mortgages.

Digital service

During COVID-19, banks have supported customers in banking safely from home via digital and telephony. In doing so, they have unlocked the next wave of digital service. As of May 2020, consumers have been highly satisfied with digital channels, and as many as about 60 to 85 percent of Western European consumers, even those aged 65-plus, prefer to use digital for everyday transactions.

To capitalize on this demand, banks can learn from precrisis leaders that achieved significant growth in digital activity. They accomplished this by riding the meteoric rise in banking apps over the past five years that made mobile the go-to channel for many customers. Leading banks had 54 percent of customers active on mobile, compared with 24 percent for slower adopters (Exhibit 2).

More importantly, high mobile usage enabled top performers to grow total customer touch five times faster than slow adopters and to generate over a third of all their digital sales via the mobile app.[3] These differences in performance are driven by several factors: advanced app features, superior user experience, and innovative capabilities to proactively engage users.

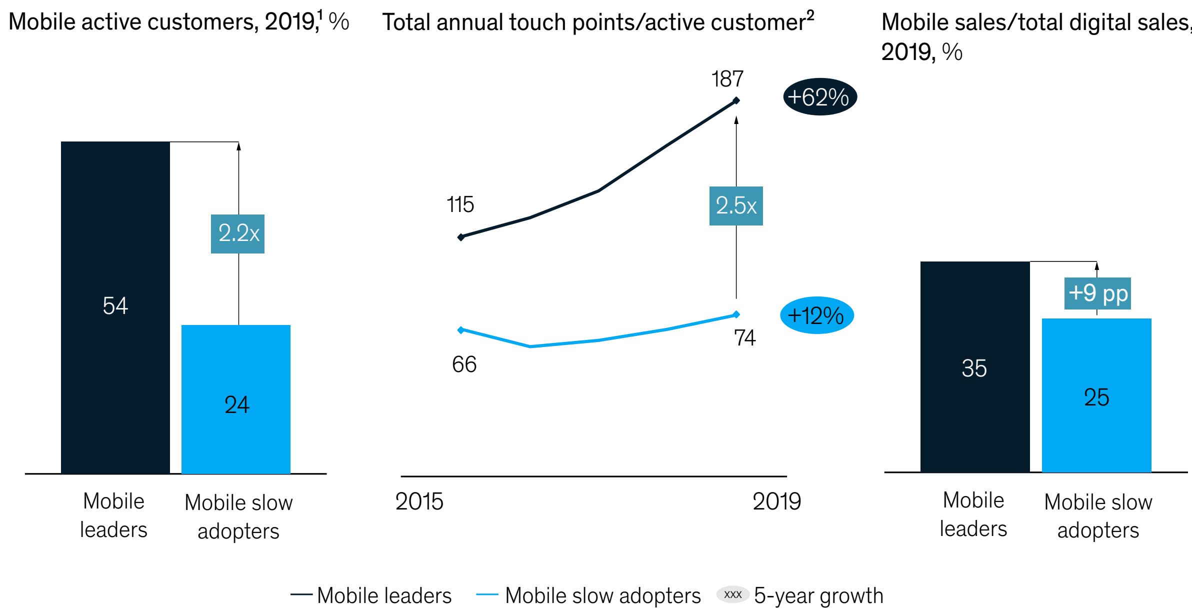
Biometric authentication, quick balance checks, and easy transfers are increasingly table stakes for banking apps. However, leaders take a customer-centric mindset to developing new features that will capture the attention of customers and be adopted rapidly. For example, in the United States, banks with remote check-deposit capability had about 40 percent of checks deposited via their apps in 2019.

[3]Finalta Digital and Multichannel Benchmark 2019.

Exhibit 2

Well-designed mobile apps improve customer engagement, enabling higher digital sales contributions.

Developed markets



[1]Mobile active customers are those who have successfully authenticated and logged into a mobile channel in the 90 days prior to June 30, 2019.
[2]Active customers are defined as customers who satisfy 1 or more of the following criteria: have an income-generating product in force, have made a customer-initiated financial transaction in the last 6 months of the study year on an account-based product, and/or have a balance of more than €250 or equivalent across current or savings accounts.

Top performers have also applied design thinking to set their user experience apart from that of competitors, especially to help customers navigate the growing number of features. Leaders enable customization of the landing page, which increases log-on frequency. Universal search is emerging as a powerful tool for navigation. The most innovative players are experimenting with a conversational-style interface where customers chat with an AI-powered bot to avoid a maze of convoluted menus and forms.

A leading Asian bank redesigned their mobile app to connect their analytical capabilities to push notifications and personalized in-app insights (e.g., credit-card payment reminders, changes in monthly subscriptions, savings tips). As a result, it more than doubled mobile users and engagement, rising to the top of their market.

Digital sales

To thrive in the next normal, banks not only need to meet customer preference for higher digital engagement but also must learn from precrisis leaders on how to meet more and higher-value needs via digital. While in many markets the crisis caused a significant drop in monthly unit sales across all channels, it also accelerated the sales mix redistribution as channels recovered at varying speeds. For example, in the United Kingdom, digital sales penetration jumped by a third between December 2019 and May 2020.[4]

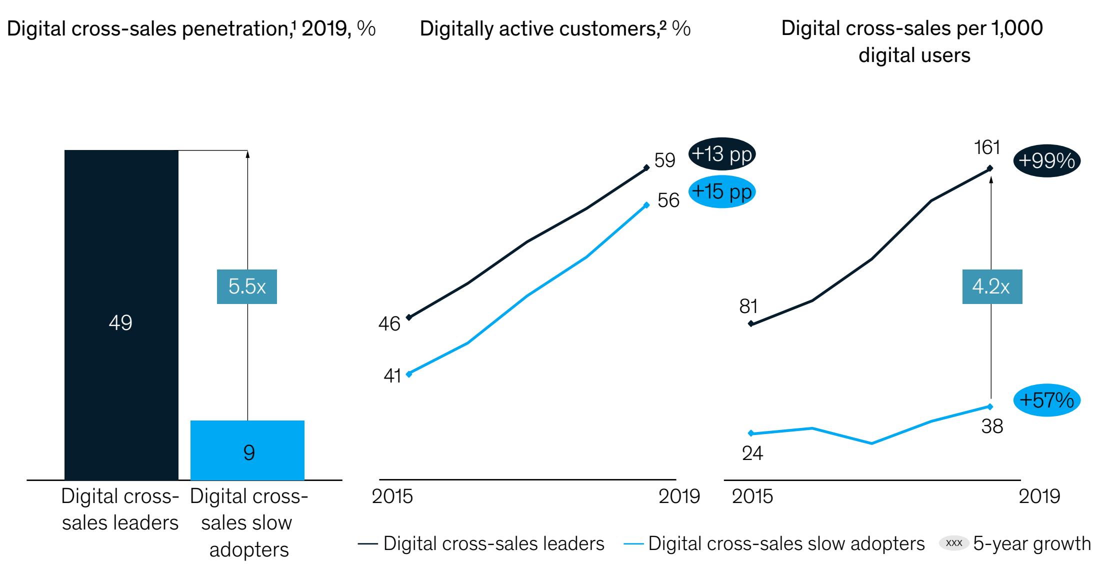
By 2019, leaders had already achieved digital cross-sales penetration of 49 percent, more than five times greater than slow adopters (Exhibit 3). They grew digital cross-sales 2.5 times, offsetting the decline in branch sales between 2015 and 2019. This took more than just growing

[4]Finalta Remote Banking Pulse Survey 2020.

Exhibit 3

Digital leaders had similar levels and growth of digital adoption but maximized sales per user.

Developed markets



[1]Digital includes online secure site or mobile app sales, excluding public site. Cross-sales refers to sales of the following products: deposit accounts, credit cards, and personal loans.
[2]Digitally active customers are those who have successfully authenticated and logged into a digital channel in the 90 days prior to June 30, 2019.

the number of digital customers. Leading up to the crisis, growth in digital activation was slowing in some mature markets, and the growth rate for leading banks was lower than for slow adopters. The true differentiator was that leaders doubled their digital cross-sell rates (digital sales per digital user) between 2015 and 2019 to 4.2 times that of slow adopters.

Leading banks achieved these results by optimizing across the customer journey and consistently innovating the digital customer experience. For example, they regularly tested and launched new capabilities, used customer-relationship-management (CRM) tools to create preapproved offers, streamlined journeys with prefilled applications, and used digital signatures for instant fulfillment. A large North American bank set up a digital "factory" that brought together hundreds of staff to build new, best-in-class digital experiences and products, which enabled the bank to rapidly digitize multiple priority customer journeys.

Leaders also invested in advanced analytics to enhance personalization. As part of a digital agile sales program, a large European bank microsegmented customers, using a mix of CRM data (e.g., socio-demographics, client and product tenure) and digital behavior (e.g., usage of tools and calculators, intensity of digital interactions). They expanded from three subsegments to 13, and for each group deployed test-and-learn techniques to tailor communications to individual customers (e.g., changing the subject text of the email, adopting a more colloquial tone, factoring in time of day) and built a multichannel contact tree to increase contact based on customer interest. Coupling these changes with fine-tuned propensity models and event triggers increased pilot product sales by nearly 25 percent while maintaining high customer satisfaction.

Human-centered virtual channels

Inbound calls to contact centers fell 29 percent from 2015 to 2019 as customers met more of their needs via digital. However, during the early days of COVID-19 (from December 2019 to April 2020), call volumes grew 29 percent, and waiting times quadrupled. Interestingly, in markets like the United Kingdom with better digital capability, the rise in call volumes was far less severe than in other markets. As countries emerge from lockdown, banks can learn from pre-COVID-19 leaders on how to bring these heightened call volumes below precrisis levels and transform the channel for the future

In North America, where call volumes are double the developed-markets average, some players reduced calls by 22 percent between 2017 and 2019, while others, despite similar levels of digital engagement, managed only a 3 percent reduction. Even among leaders, call reduction largely came from a 25 percent decline in the simplest calls that are contained within the interactive voice response (IVR)—which represented over three-quarters of all calls. By contrast, agent-assisted calls declined only 7 percent, and this gain was offset by an 8 percent increase in average handling time. This suggests digital banking principally replaced the self-service component of telephony, while high-touch agent calls were harder to displace.

Banks are turning to next-generation tools, data, and analytics to optimize the end-to-end call funnel. Chatbots are used to retain customers in digital, reducing inbound calls. IVRs are evolving to be conversational and dynamic, enhanced with contextual awareness that leverages historical interaction data to provide personalized query resolution and protect agent capacity. When calls do reach agents, new technologies like voice-to-text transcription feed data sets that can be analyzed by text analytics, sentiment analysis, and natural-language processing to generate unique post-call insights. A North American bank used these levers to reimagine their complaint-management journey, decreasing complaints per month from more than two million to fewer than 150,000; repeat calls were projected to fall by about 50 percent.

Many banks have also experimented with remote advisory models, such as branch-to-branch, branch-to-hub, or hub-to-home. These capabilities offer convenient access to complex advice and match customers to the right specialists, making conversations more efficient. Effective remote advisory leverages screen sharing to replicate the advantages of in-person interactions and integrates digital capabilities, like authentication for instant fulfillment, to create a seamless, secure, and satisfying experience. A successful remote-advisory offering at a leading European bank increased meetings per adviser by 40 percent and income per meeting by 35 percent. Customer satisfaction also improved, rising 5 percent.

Physical channels

Physical distancing has necessitated a sharp change in branch usage. In March 2020, 25 percent of branches globally were closed, and 15 percent remained shuttered by May. However, even before the crisis, branch contribution to core banking unit sales had fallen from 75 percent in 2015 to 55 percent in 2019 (although average sales value remains higher in the branch than other channels). During this same period, the number of branches declined by 18 percent, and branch staff by 16 percent. A closer analysis, however, reveals two distinct groups: banks that made bold reductions and banks that moved cautiously. A bold transformation of the branch network delivered four times higher productivity gains than incremental adjustments and produced a 23 percent leaner network.

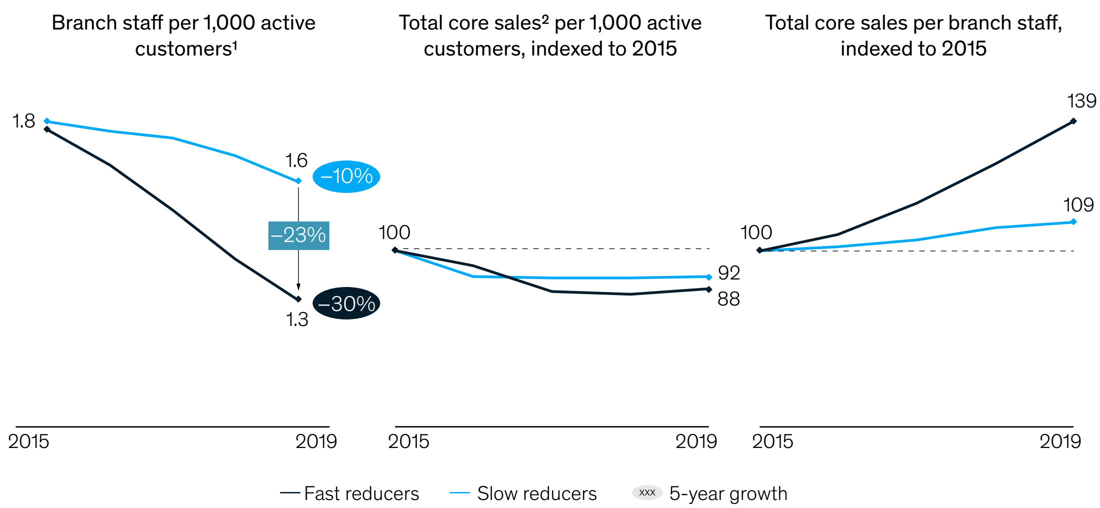
A common concern is that rapid reduction in branch footprint fuels customer attrition and hurts sales. In fact, our data indicate that thoughtful branch reductions did not disengage customers. Banks that persevered with significant branch closures (reducing footprint by 39 percent in five years) experienced 22 percent lower customer attrition than more cautious actors.

Similarly, after a short-term hit to sales, banks making bolder staff reductions (30 percent since 2015) were better positioned for future success. They retained a leaner, more productive workforce and achieved 2 percent sales growth in 2019, compared with flat sales for their more cautious counterparts (Exhibit 4), driven in part by higher and accelerating digital sales.

Exhibit 4

Leaders in branch transformation endured short-term sales pain but are already reaping rewards.

Developed markets



[1]Active customers are defined as customers who satisfy 1 or more of the following criteria: have an income-generating product in force, have made a customer-initiated financial transaction in the last 6 months of the study year on an account based product, and/or have a balance of more than €250 or equivalent across current or savings accounts.
[2]Core sales are given as sales of current accounts, deposits, credit cards, personal loans, mortgages, and non-life-insurance products.

Simply closing branches and reducing staff are insufficient. Leaders transformed, not merely reduced, their physical network. They reviewed existing customer patterns and network activities, including running detailed surveys of staff time-spend that yielded some surprising results. For example, in the United Kingdom, some advisers spent only 27 percent of their time with customers, half of teller customer time was still spent on migratable demand, and branch managers spent almost a day per week on paperwork and equipment maintenance. This insight helped leaders streamline distribution by identifying and prioritizing key journeys for digitization, accelerating migration of simpler needs to self-service, and rethinking the in-branch operating model to better match shifting customer behavior.

To shift the operating model, leaders began to reskill profiles toward universal banker roles to better respond to the lower volume but wider variety of demand coming into branches. They also equipped team members with analytically powered insights, proactive triggers, and preapproved offers to optimize in-branch sales execution in the face of lower footfall. This was coupled with sharp choices on branch formats, using a modular approach to create formats tailored to customer needs in specific areas. These ranged from large flagship branches to mini branches with a high degree of self-service, remote advice capabilities, and flexible opening time in low-traffic areas. Some even deployed machine-learning optimization to drive choices around location, format, staffing, and technology by combining internal branch-performance data with external demographic, socioeconomic, and location statistics (e.g., number of supermarkets or competitor branches) to create detailed micro-market clusters.

Addressing these priorities simultaneously across the entire network has been difficult historically. However, lockdowns have allowed banks to reset their networks with branch-by-branch reopening decisions aligned with shifts in customer behavior. In our experience, holistic branch transformations can reduce locations by 30 percent, increase sales productivity by more than 20 percent, and improve customer satisfaction by 25 percent.

COVID-19 has accelerated the shift to digital in retail banking. Our latest data show industry leaders driving digital log-in growth at five times the rate of slow adopters. It also indicates that consumers intend to sustain their new digital behaviors and visit branches less often following the pandemic. Banks should reshape their distribution models to thrive in a post-COVID-19 world, as transformation becomes an immediate imperative, not a long-term option. Due to the pace of disruption, what was previously a gap between leaders and slow adopters may become the gap between average and poor performers.

Banks should ask themselves a set of simple questions to inform their positioning for the postcrisis world:

1. Going into the crisis, where were you on the continuum of leader versus slow adopter in each channel?

2. Have you created branch and contact-center capacity to focus on complex customer needs by accelerating self-service migration?

3. What is your target role for each channel, and what bold moves can you make now, particularly considering recent shifts in customer behavior?

4. How much are you investing in remote advisory and digital journeys to facilitate a leaner physical network?

5. Are you upgrading your technology stack to enable personalized multichannel marketing campaigns to deepen relationships?

6. What scalable analytics use cases have you defined to fully leverage customer data and optimize channel performance?

7. How robust is your integrated distribution transformation road map, and how confident are you that it will maximize return on investment and effective execution?

We believe that future leaders will make bold decisions to separate from the pack, including developing a clear view on the target role and competitive differentiation of each channel, incorporating customer preferences and economics; investing and moving quickly to win on sales productivity (specifically digital); and leveraging data and analytics to boost performance in all channels.

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