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Engaging customers: The evolution of Asia–Pacific digital banking

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Consumers across the region are adopting digital banking. Our latest study finds banks must act quickly to take full advantage.

Consumer adoption of digital banking channels is growing steadily across Asia–Pacific, making digital increasingly important for driving new sales and reducing costs. Deferring the development and refinement of a digital offering leaves a bank exposed to the risk of weakened relationships and lower profitability. Now is a critical moment to draw retail-banking customers toward Internet and mobile-banking channels, regardless of the general level of network connectivity in a given market.

Our annual study, the Asia–Pacific Digital and Multichannel Banking Benchmark 2016, was led by Finalta, a McKinsey Solution, and examined digital consumer-banking data collected between July 2015 and July 2016 from 41 banks. This article focuses on our findings from Australia and New Zealand, Hong Kong, Malaysia, Singapore, and Taiwan, examining consumer digital engagement, user adoption, and traffic and sales via Internet secure sites, public sites, and mobile applications.[1] We detail three counterintuitive findings, and make suggestions for how banks should move forward.

Three counterintuitive findings

Consumer use of digital banking is growing steadily across all five markets (Exhibit 1). In the more developed markets of Australia and New Zealand, Hong Kong, and Singapore, growth in recent years has been concentrated in the mobile channel. Indeed, among some banks use of the secure-site channel has begun to shrink, as some customers enthusiastically shift most of their interactions to mobile banking. In emerging markets, growth is strong in both secure-site and mobile channels.

Three counterintuitive findings point to the need for banks to act aggressively to improve their use of digital channels to strengthen customer relationships.

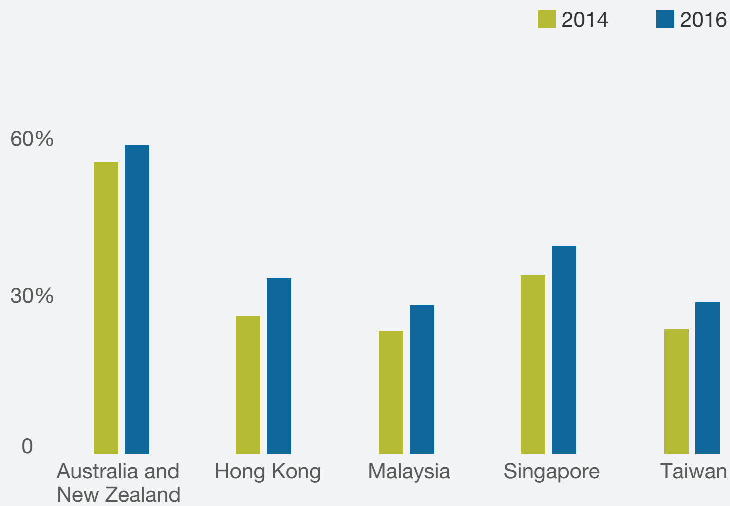
First, banks can excel in their digital offering despite limitations in the digital maturity of the markets they serve. One measure of digital maturity is the Networked Readiness Index (NRI),

[1] For the purposes of this study, “adoption” refers to the share of customers using secure-site or mobile channels, measured as the number of customers logging on at least once in a 90-day period divided by the number of nondormant retail-banking customers. Nondormant customers are those who initiate at least one transaction within six months, maintain a minimum balance equivalent to €250, or have a loan or insurance policy in force. Traffic refers to the frequency of customer digital interactions and is calculated as the number of log-ons divided by the number of customers using that channel at least once during a 90-day period. Secure site refers to the part of the bank’s website that can only be accessed by existing customers who have enrolled for digital banking. Public site refers to the part of the bank’s website that can be accessed by any user, irrespective of whether they are a customer of the bank or not. Banks’ public websites are used to promote new products, recruit new customers, and generate sales.

Exhibit 1

Consumer adoption of digital banking is growing steadily across all markets.

Digital-channel adoption, active digital retail-banking customers as % of total retail-banking customers[1]



[1]Total of retail-banking customers excludes small-business customers and inactive customers.

Source: Asia–Pacific Digital and Multichannel Banking Benchmark 2016, Finalta by McKinsey

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published annually by the World Economic Forum. This scorecard rates how well economies are using information and communication technology. It examines 139 countries using 53 indicators, including the robustness of mobile networks, international Internet bandwidth, household and business use of digital technology, and the adequacy of legal frameworks to support and regulate digital commerce. Comparison of digital-banking adoption with the level of networked readiness reveals that a country's level of digital maturity does not necessarily promote or inhibit the growth of a bank's digital channels.

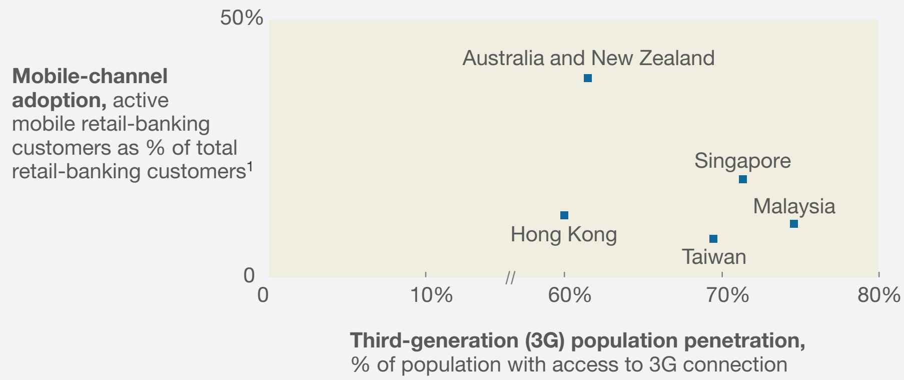
Singapore, for example, has the most highly developed infrastructure for digital commerce in the world. However, when it comes to digital banking, Singaporean banks trail their peers from the less-networked markets of Australia and New Zealand, where banks have been able to draw consumers to digital channels despite gaps or weaknesses in digital connectivity.

Some banks have also been successful in pushing mobile banking regardless of network limitations (Exhibit 2). While Australia and New Zealand have moderately high levels of third-generation (3G) and smartphone penetration (trailing both Hong Kong and Singapore), the banks surveyed have achieved much stronger consumer adoption of mobile channels than their peers in other markets.

The second key finding is that having a relatively small base of active users does not necessarily mean low traffic (Exhibit 3). Among all participating banks in our survey, banks in Malaysia report among the smallest share of customers using the secure-site channel; however, these

Exhibit 2

Mobile banking can also grow despite a market's limited mobile-network infrastructure.



[1]Mobile-banking adoption is defined as the proportion of customers who have successfully authenticated and logged on at least once into 1 of the main banking smartphone or tablet applications in the 90 days up to June 30, 2016, as a % of the bank's total active retail customer base.

Source: Asia–Pacific Digital and Multichannel Banking Benchmark 2016, Finalta by McKinsey

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customers tend to log on many times a month, and the typical secure-site customer interacts with the bank more than twice as often as the secure-site banking customers of participating banks in Hong Kong and Singapore.

Third, the survey data reveal wide variations in performance across key metrics by country. In Australia and New Zealand, for example, there is wide variation in digital-channel traffic, with customers logging on with 32 percent more frequency at participating banks in the upper quartile than those in the lower quartile. In Hong Kong, digital adoption among upper quartile peers exceeds that of the lower quartile peers by ten percentage points. Participants in Singapore observe a sixteen-percentage-point gap between the upper and lower quartile peers in the proportion of sales through digital channels.[2] The wide gap between best and worst in class in multiple markets points to a significant opportunity for banks to beat the competition with compelling digital offers.

What banks should do

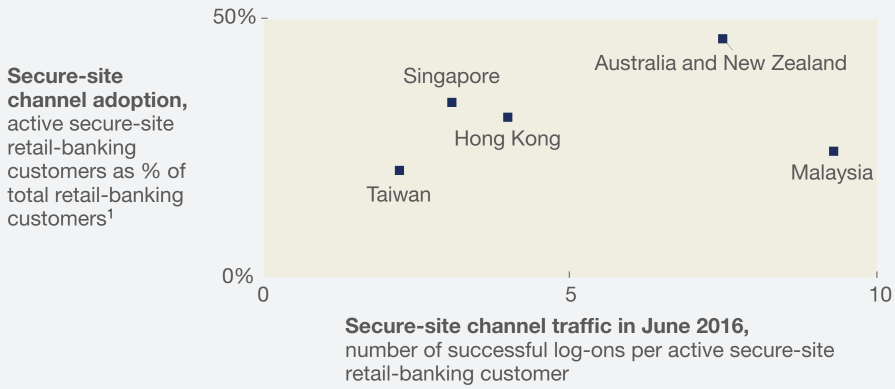
Banks in emerging markets have an opportunity to leapfrog to digital banking. Despite gaps in technology and smartphone penetration, a number of banks have tapped into consumer segments eager to adopt digital channels. Banks in emerging markets should prepare for rapid consumer adoption of digital channels. The digital evolution in emerging markets will differ considerably from the trajectory of banks in more developed markets.

Banks in highly developed markets have room to grow their active user base and digital sales. Indeed, the cost and revenue position of banks that do not act to improve their digital offering may weaken relative to peers that shift more business to digital channels. Banks in all markets should plan for this transition, especially through the integration of diverse technology platforms, the consolidation of customer data across multiple channels, and the continuous

[2] Digital sales include any product sale where a customer completes the purchase within digital channels (for instance, the customer needs to take no further action to complete the purchase) or completion only requires a physical signature or identification.

Exhibit 3

Low channel adoption does not necessarily mean inactive users.



[1]Secure-site adoption is defined as the proportion of customers who have successfully authenticated and logged on at least once into the standard secure-site banking platform in the 90 days up to June 30, 2016, as a % of the bank's total active retail customer base.

Source: Asia–Pacific Digital and Multichannel Banking Benchmark 2016, Finalta by McKinsey

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analysis of customer behavior to identify real-time needs. It is important to build services rapidly and to go live with minimally viable prototypes in order to attract early adopters—these digital enthusiasts eagerly experiment with new features and provide valuable feedback to help developers.

The significant variation of performance among countries shows great potential for banks to boost digital engagement with a dual emphasis on enrollment and cross-selling. Banks should carefully consider four best practices that often bring immediate gains by streamlining the customer's digital experience:

1. Deliver credentials instantaneously upon in-app enrollment. The global best practice shows that banks that issue credentials instantaneously through in-app enrollment see their mobile activity rise on average 1.5 times faster. Of the banks that provided data on functionality, more than 50 percent do not have in-app enrollment. This presents a significant value-creation opportunity.

2. Simplify authentication processes to make them both secure and user friendly. Approximately three in five banks surveyed lack the ability to authenticate a user's mobile device. In our experience, banks that store device information and allow users to log on simply by entering a personal identification number or fingerprint see three times more digital interaction than banks that require users to enter data via alphanumeric digits each time they log on.

3. Implement 'click to call' routing to improve response times. Instead of using a voice-response system, where customers must listen to a long list of options before selecting the relevant service choice, an increasing number of mobile apps are adopting click-to-call options for each segment, enabling customers to bypass the voice-response menus. Of

the banks that provided data on capability, only 30 percent in our Asia–Pacific survey offer authenticated click-to-call options. The improvement in customer service is significant, with global banks able to improve the speed of answering customer calls by up to 40 percent.

4. Make digital sales processes intuitive and simple. Take credit cards as an example: best-practice global banks achieve average conversion rates (the ratio of page visits to applications) some 1.6 times those of Asia–Pacific banks. They do this by presenting products and features for which a customer has been prequalified through an intuitive, easy-to-read dashboard display or via tailored messages. Application forms are prefilled automatically with customer data. With intuitive and simple applications, banks in the Asia–Pacific region could increase the rate of completed applications by 22 percent, to come up to par with global best-practice banks.

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Across the five markets we focused on, the branch-centric model is gradually but unmistakably giving way to the mobile-centric one. Looking at how digital-channel adoption and usage is evolving, along with the diversity of scenarios, banks have ample room to win in their target markets with a carefully tailored digital offering. Digital-savvy consumers warm quickly to well-designed and easy-to-use digital-banking channels, often shifting to the new channel in a matter of days. Banks need to act quickly to improve their customers' digital experience or risk being left behind. □

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