A consumer-centric approach to retail banking sales

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Scrutiny of retail banking sales practices is at a high pitch—banking leaders should also see this as an opportunity to reset and strengthen relationships with their customers.

Regulators across the world are paying increasing attention to the sales practices of retail banks. In the US, the regulatory focus is on customer complaints and employee sales practices as well as the targets and sales incentives that underpin them. In Australia, policymakers have put banking conduct, particularly incentives, at the top of the regulatory and policy agenda. In Canada, frontline targets and sales practices are under review.

As they respond to new requirements, banks should push beyond compliance to rethink the entire sales approach, including sales conversations, the management of pipelines, goal setting, identifying opportunities, and day-to-day sales processes. To achieve positive outcomes for both customers and the bottom line, banks should focus on three areas: incentives, sales practices, and change management (exhibit).

Revise incentives, carefully
Incentives are a natural place to begin revamping sales processes, but a blunt approach to incentives can have significant negative impact. Sharp shifts to incentives—for example, those relating to customer appointments—can degrade service quality even as they boost rates of activity. And if incentives are too removed from what drives value in the front line, sales will drop.

The following approaches to incentive redesign can lead to good customer outcomes and strong financial performance:

- **Tap into underlying motivations.** Banks must pay their employees commensurately with their peers at other banks, but they must also focus on the nonfinancial drivers that motivate frontline employees, such as recognition, personal growth, meaning in work, autonomy, and a sense of community. Banks must dig deeper to understand what really motivates their staff and then feed that insight into the development of a holistic incentive program that covers financial and nonfinancial elements. Recognition of strong performance, even a simple congratulatory phone call from a senior executive to a frontline team member after a successful week, can be a strong motivator.
Be clear and consistent about incentives. Banks must clearly describe good customer outcomes and build incentive structures to achieve them. A list of common outcomes could include “meeting customer needs proactively based on deep understanding of their situation”; “providing information so customers can make the right financial choices”; and “offering reliable and convenient service.” Bad customer outcomes are equally important to highlight—for example, lending a customer more than they need on a personal loan, which could lead to trouble in the event of rising interest rates—so that incentive structures do not reward them.

Balance customer and financial outcomes. Incentives should lead to positive outcomes for both the bank and its customers. A balanced scorecard is a broadly used approach and can include measures of customer experience, corporate values, and risk (for example, a percentage of the balanced scorecard tied to operational soundness and risk issues on needs and suitability). Including direct financial outcomes in the balanced scorecard is an effective way to achieve the right balance; in cases where regulation makes this approach challenging, using team-based outcome metrics may suffice.

Be careful linking financial incentives to activities. Analytics can give banks a granular view of which sales activities actually drive value. Banks can then adjust the performance management, reporting, and expectations based on those activities. On the other hand, it is important to note that financial incentives are not always the best way to improve performance. One bank found that the two most significant drivers of revenue for a branch were the number of outbound calls made and the number of quality needs-based conversations. While it was tempting to simply link these drivers to financial incentives,
the risk of employees pushing to hit target activity levels to the detriment of quality—for example, with short and ill-prepared conversations—led the bank to use performance dialogues and reporting to improve results instead.

- **Test and iterate.** New incentives structures take time to embed, so they must be well-tested before scaling. Some banks pilot new structures with a cluster of branches and the associated call centers and digital assets and measure both customer and commercial outcomes. Pilots should also be tested for how incentives might be gamed and then adjusted appropriately.

**Design customer-centric sales practices**

While incentives are a primary focus, regulators in several markets are also addressing broader sales practices (see sidebar, “A glance at global regulatory scrutiny of bank sales”). Shifts to incentives will require broader changes to make the sales and service model work, including changes to how banks set expectations, the reports that enable performance management, and the tools and playbooks available to the front line and the routines they follow. Fortunately, the actions banks take to ensure that their sales practices meet the regulatory bar can also improve customer engagement. These actions include the following:

- **Refresh frontline sales and service tools.** Sales conversations should be designed with customer interests as the starting point; only then should banks work back to the technology, collateral, and processes that enable those conversations. To prioritize, leading banks identify the most important goals and journeys for their customers and focus on redesigning them. (One European bank’s critical customer conversations, for example, were buying a home, wealth accumulation, and establishing a relationship with the bank.) Banks can use analytics to inform these conversations with personalized insights and service. One UK bank has invested significantly in providing relevant, personalized, and timely prompts that improve relationships with customers. The front line should also have access to a single view of the customer—a challenging but important capability to develop. A number of banks have invested in either building new in-house CRM platforms or working with partners to enable this 360-degree view of their customers.

- **Shore up the target-setting process.** Regulators have also been focusing on target setting as a source of poor customer outcomes. Banks must ensure that targets are both timely and achievable. They must also avoid painting with too broad a brush: targets should be tailored to a micro-geography level. Multichannel interactions can be a source of tension in setting and meeting targets; one bank decided to credit a sale to both digital and branch channels if a customer went to the branch for guidance but completed the transaction digitally. As a result, customers are steered to the channel that is best for them without bias.
A glance at global regulatory scrutiny of bank sales

In 2012 to 2013, Britain’s Financial Conduct Authority (FCA) responded to a series of mis-selling scandals by publishing regulatory guidance discouraging banks from incentivizing staff on product-based sales performance.

In 2015, the regulator followed up with refined guidance and then fined major banks for noncompliance. The regulatory guidelines highlighted specific areas of concern including unfavorable views on sales targets (particularly on high-risk products), limits on variable pay linked to sales performance, and unfavorable views on competitions, product biases, sales of add-ons, upselling, and accelerators. As a result, the large banks redesigned sales incentives and increased their emphasis on customer-centricity.

Since the FCA’s initial review in 2012, UK retail banks have seen an approximately 31 percent decline in branch-adviser sales productivity (exhibit). Depending on their interpretation of regulatory guidance, banks revised their practices in varying ways, ranging from complete removal of frontline sales incentives in favor of customer experience metrics, to implementation of balanced scorecards, including measures on service, income, new-to-bank customers, and risk outcomes.

The Australian Securities and Investments Commission (ASIC) and an independent reviewer on behalf of the Australian Bankers’ Association recently completed a comprehensive review of sales incentives of bank-owned and third-party distribution. They proposed delinking individual incentives and individual product sales and have commitments from the banks to implement these measures.

US banks are receiving heightened scrutiny, starting with industry fines and continuing with the media, customer advocates, and regulators focusing on sales practices and incentives.
Take a hard look at reporting. Banks need to ensure that their formal reporting is aligned with delivering good customer outcomes. However, they must pay equal attention to informal reporting—the ad hoc reports that frontline managers use to incent staff. For example, in many regions where individual reporting is disallowed by the regulator and hence formal reporting is done only at branch level, some branch managers create accountability by using their own Excel spreadsheets or visual management tools. To address this, banks should make branch managers aware of the regulations and teach them the skills they need to have performance dialogues based on observation rather than metrics.

Bring transparency and discipline to frontline routines. The traditional push for entrepreneurialism and proactivity in the front line should be tempered with consistency in practices. Employees should be clear about expectations, with a single routine throughout frontline networks and playbooks that make expectations explicit. One leading bank defined the perfect week for each job family, detailing best-practice daily and weekly routines to improve the consistency and quality of activities.

Listen to customers. Knowing what customers expect from the sales process is a clear first step in delivering good customer outcomes, and these insights can also serve as a fact...
base for any trade-offs between good customer outcomes and good financial outcomes. Customer expectations can be gathered quickly through analysis of complaints and social media data, or through automated customer experience measurement or voice-of-the-customer tools, which provide real-time, granular insights directly to both the front line and head office. Some banks are even conducting real-time feedback surveys after branch interactions in addition to more traditional monthly feedback tools. Still others are using methodologies like human-centered design to bring customer input into the development of new products and tools. Input is captured on a frequent basis (for instance, weekly) to deliver the best solution for the customer and banker (such as new needs assessment tools or health tip tools). One notable example is HSBC’s Nudge, a financial health tool built over eight weeks with constant customer input.

- **Scan for issues proactively.** Using analytics, banks can proactively scan sales activities across the network, identifying undesired behaviors before they affect customers. At one bank, analytics are used to identify unused accounts or products and prompt a conversation between the branch manager and the sales person about the customer. Some banks are even using bureau or regulator databases to identify events within their footprint in addition to employees and events at other institutions that might be relevant.

**Actively drive change**

Banks must be thoughtful and strategic as they implement changes in response to regulations and keep the following four imperatives in mind:

- **Iterate and improve over time.** Banks need to test the integrated sales model—including reporting, incentives, and routines—across all channels: branch, call centers, and digital. And they must pay particular attention to channel overlaps, determining, for example, how credit for a sale is shared when the customer uses multiple channels.

- **Model behaviors and expectations from the top down.** Regulators across the board have stressed the need for banks to be more customer-centric. Cultural change of this kind starts with clear communication from bank leadership about making the customer the priority and with the actions that leaders take in carrying out this new mandate.

- **Invest in leadership capabilities.** Leading banks share best practices in sales leadership by having experienced and tenured team members coach frontline managers. This ensures that accountability is maintained by line management, keeps costs manageable, and creates ownership of training, rather than a reliance on HR.

- **Take a “frontline back” approach.** We’ve described how sales practices that work back from customer insights are most effective. In a similar way, desired frontline behaviors—and, therefore, good customer outcomes—are best achieved by delivering new capabilities,
technology, process, and policy changes in a way that the front line can adopt quickly and easily. With this in mind, one bank releases cohesive “packages” of change to the front line a few times each year, supported with integrated communications, training, and coaching.

- **Engage with regulators proactively.** Banks should work with regulators to identify the practical, safe, and sustainable ways to deliver good customer outcomes, underpinned by a thoughtful assessment of risk and consideration of controls. Banks should also offer to work with regulators as they consider how their recommendations will be enacted, and help them avoid unintended consequences.

Regulatory scrutiny of retail banking sales practices is on the rise in many markets. Forward-thinking banks should look beyond compliance and consider how to build stronger connections with their customers—and a competitive advantage—with a revamped approach to sales.

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